

MFMA 2013-14



General report on the local government audit outcomes of **KWAZULU-NATAL**



AUDITOR-GENERAL  
SOUTH AFRICA



# KWAZULU-NATAL MFMA 2013-14

## 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 are aimed at empowering oversight structures and local and provincial government 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.

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

*Auditor-General*

Kimi Makwetu  
**Auditor-General**



**AUDITOR - GENERAL  
SOUTH AFRICA**

# HIGHLIGHTS

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Increase in clean audits to 28%. Nine municipalities and three municipal entities progressed to a clean audit. (Section 1)

In total, 47% of auditees received unqualified opinions by correcting material misstatements in financial statements identified during the auditing process (Section 1)



Steady improvement in quality of annual performance reports (Section 4)

Uncompetitive and unfair procurement processes, inadequate contract management and missing tender documentation and non-compliance with SCM prescripts require urgent attention (Section 6)



Increase in unauthorised, irregular as well as fruitless and wasteful expenditure, most notably in the auditees with unqualified audit opinions with findings and those with qualified audit opinions (Section 6)

Senior management should increase the level of assurance they provide (Section 12)



Information technology controls continue to need attention (Section 11)

Auditor-general reflects on importance of sustained clean administration as a catalyst to drive service delivery

# KWAZULU-NATAL CLEAN AUDITS 2013-14



## MUNICIPALITY

iLembe district	Richmond
uMgungundlovu district	Ubuhlebezwe
uThungulu district	uMhlatuze
Zululand district	uMzimkhulu
Dannhauser	Umzumbe
eMnambithi / Ladysmith	
Ezingoleni	
Mandeni	



## MUNICIPAL ENTITY

Durban Marine Theme Park	Ugu South Coast Tourism
ICC, Durban	uThungulu Financing Partnership
iLembe Management Development Enterprise	uThungulu House Development Trust
Safe City Pietermaritzburg	

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# FOREWORD

# FOREWORD

It is with pleasure that I present to the KwaZulu-Natal Provincial Legislature and municipal councils my 2013-14 general report summarising the audit outcomes of local government for the financial year ended 30 June 2014.

This report analyses the audits of 61 municipalities and 11 municipal entities. The overall outcomes show that there has been positive and steady progress in the year under review, as 22 auditees (31%) improved their results. Twenty auditees (28%) attained clean audit opinions compared to 11 auditees (15%) in the previous year. Forty-one auditees (57%) received unqualified opinions with findings, eight (11%) received qualified opinions on their financial statements and three (4%) were disclaimed.

Where an improvement in outcomes occurred it was the product of ongoing dedicated and disciplined efforts by the leadership and management on key controls that led to robust systems for financial, performance and compliance management. Action plans and commitments were diligently monitored and attention given to basic daily and monthly disciplines. These auditees are encouraged to focus on the sustainability of their outcomes and key risk areas.

I am concerned that many municipalities still cannot submit credible and reliable financial statements for auditing, as 34 auditees (83%) would have been qualified if the financial statement errors were not corrected. This indicates that their leadership has not addressed the skills gap and significant weaknesses in internal controls, resulting in the extensive use of consultants without a positive impact on the audit outcomes. The province could, in future, experience a regression in audit outcomes should these risks remain unattended.

The quality of service delivery reporting improved, with 43 auditees (61%) having no material findings compared to 32 auditees (46%) in the previous year. This is indicative of focused attention and routine quality checks by management, oversight structures and the leadership to ensure that performance reporting is useful and reliable.

The audit results on supply chain management regressed. The main reasons were that supply chain management policies were not properly reviewed and implemented, and action was not taken in time to address the risks identified and findings reported. The increase in these findings, to 86% compared to 76% in the previous year, can be attributed to auditees not complying with supply chain management prescripts. This was the key contributor to the R2,31 billion (2012-13: R1,78 billion) of irregular expenditure incurred in the province. The high level of unauthorised expenditure (R1,06 billion) and the significant increase from the previous year (68%) also need attention.

The financial viability of many municipalities in the province is at risk due to poor debt-collection practices, extended supplier payment periods as well as underspending on capital budgets. The underspending on capital budgets leads to the failure to regularly maintain core service delivery assets, which results in excessive losses from unexpected breakdowns.

Information technology governance is critical to ensuring that the acquisition, management and use of information technology improve service delivery to the public, and productivity and cost efficiencies to the municipality.



Information technology controls have deteriorated since the previous year, as only 11% of auditees (8) (2012-13: 29% [21]) were assessed as having good information technology financial controls. Poor information technology controls have a negative effect on the productivity of municipalities and heightens the risk of fraud.

I acknowledge the role played by internal audit units, audit committees, councils and coordinating institutions through exercising their oversight responsibilities in improving governance of local government. This was further complemented by support mechanisms that were institutionalised by the provincial treasury and provincial department of cooperative governance and traditional affairs.

The committees of the legislature and the Office of the Premier still need to improve their oversight roles and the assistance provided to municipalities and entities. The South African Local Government Association can also make a valuable contribution to developing municipalities throughout the country by providing specialised services to supplement and strengthen the capacity of municipalities, facilitating shared learning between municipalities, developing human resources and training councillors. A more concerted and unified plan that includes the South African Local Government Association and coordinating departments must work to empower the municipal public accounts committees to be more effective and persuasive.

The overall outcomes are reflective of the leadership's commitment to success and transformation. With more dedication towards combined assurance and key controls that affect supply chain management, in particular, the province is destined for further improvements.

My staff and I remain committed to working with the municipal and provincial leadership to further improve governance and accountability, so as to build public confidence in the local government sector and in the province's ability to account for public resources in a transparent manner.

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

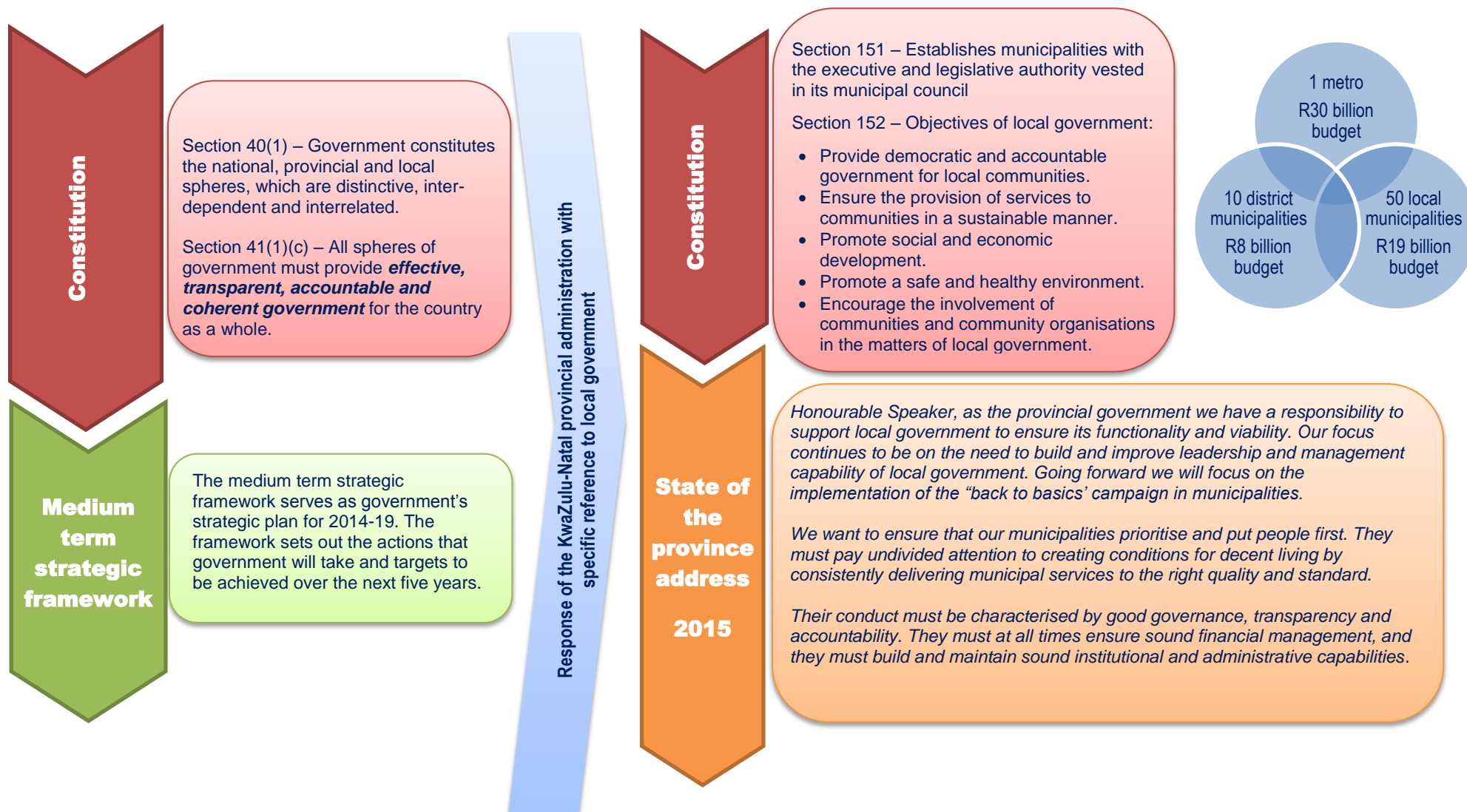
**Auditor-General  
Pretoria  
June 2015**



# INTRODUCTION

# The government and its strategies

The Constitution of South Africa is the supreme law of the country. It provides the legal foundation for the existence of the republic, sets out the rights and duties of its citizens, and defines the structure of the government. The spirit and aim of the Constitution is best summarised in the preamble, where it pronounces the ultimate goal – **Improve the quality of life of all citizens and free the potential of each person**. This foundation of our society, the Constitution, appoints government as the facilitator and enabler of this goal. The illustration below depicts the basic operations of government that give effect to the Constitution.



## Historical overview of local government initiatives

### Operation clean audit 2014

On 22 September 2009, responding to the findings of a government study into the problem areas of service delivery, leadership, financial management as well as matters of governance, the minister of Cooperative Governance and Traditional Affairs launched operation clean audit 2014.

During his address to Parliament, the minister highlighted the particular focus on local government as the closest to the coalface of service delivery. He summarised the pre-2009 status as follows:

The then Department of Provincial and Local Government did not support provincial departments. As a result, the link and support between municipalities and provinces were weak and not sustainable. Thus, service delivery, governance and financial management were severely affected. Technically, when a system of governance and financial management is poor due to lack of support, without a doubt service delivery will be negatively affected. More importantly, in some provincial departments and municipalities, there is lack of both administrative and political leadership.

The initiative aimed at ensuring that by 2014, all municipalities and provincial government departments in South Africa achieve clean audits on their financial statements and that they further **maintain systems for sustaining quality financial statements and management information**. In this address, the following milestones were set:

- By 2011, no municipality will receive adverse and disclaimed audit opinions.
- By 2012, at least 60% of municipalities must achieve unqualified audit opinions.
- By 2013, municipalities that achieve unqualified audits must increase to 75%.
- By 2014, there must be 100% of 'clean audits'.

### Back-to-basics programme 2015

President Jacob Zuma, in his state of the nation address delivered on 17 June 2014, articulated government's concerns about the improvements needed at local government level: *We would like our people's experience of local government to be a pleasant one.*

Against this background, the ministry of Cooperative Governance and Traditional Affairs is pursuing the back to basics approach to address challenges faced by local government, strengthen municipalities and instil a sense of urgency towards improving citizens' lives. At a very basic level, the following are expected of municipalities:

- Put people and their concerns first and ensure constant contact with communities through effective **public participation** platforms.
- Create conditions for decent living by consistently delivering municipal **services of the right quality and standard**. This includes planning for, delivering and maintaining infrastructure and amenities, and managing the budget. Ensure that there are no failures in services and, where these occur, urgently restore services.
- Be well governed and demonstrate **good governance and administration - cut wastage, spend public funds prudently, hire competent staff, and ensure transparency and accountability**.
- Ensure sound **financial management** and accounting, and prudently manage resources to sustainably deliver services and bring development to communities.
- Build and maintain sound institutional and administrative capabilities, administered and managed by dedicated and skilled personnel at all levels.

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, we exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

In support of operation clean audit, we intensified interactions with both the political and administrative leadership on the outcomes of their municipalities, the root causes underpinning the unfavorable outcomes and the need for a strong control environment entrenched in daily, weekly and monthly processes. The previous auditor-general also embarked on a door-to-door campaign, where he visited each municipality in the country with a message of support and where he highlighted that ***it is possible to obtain clean administration if there is true political will to change and if the leadership actively strives for quality and sustainability in executing its duties.***

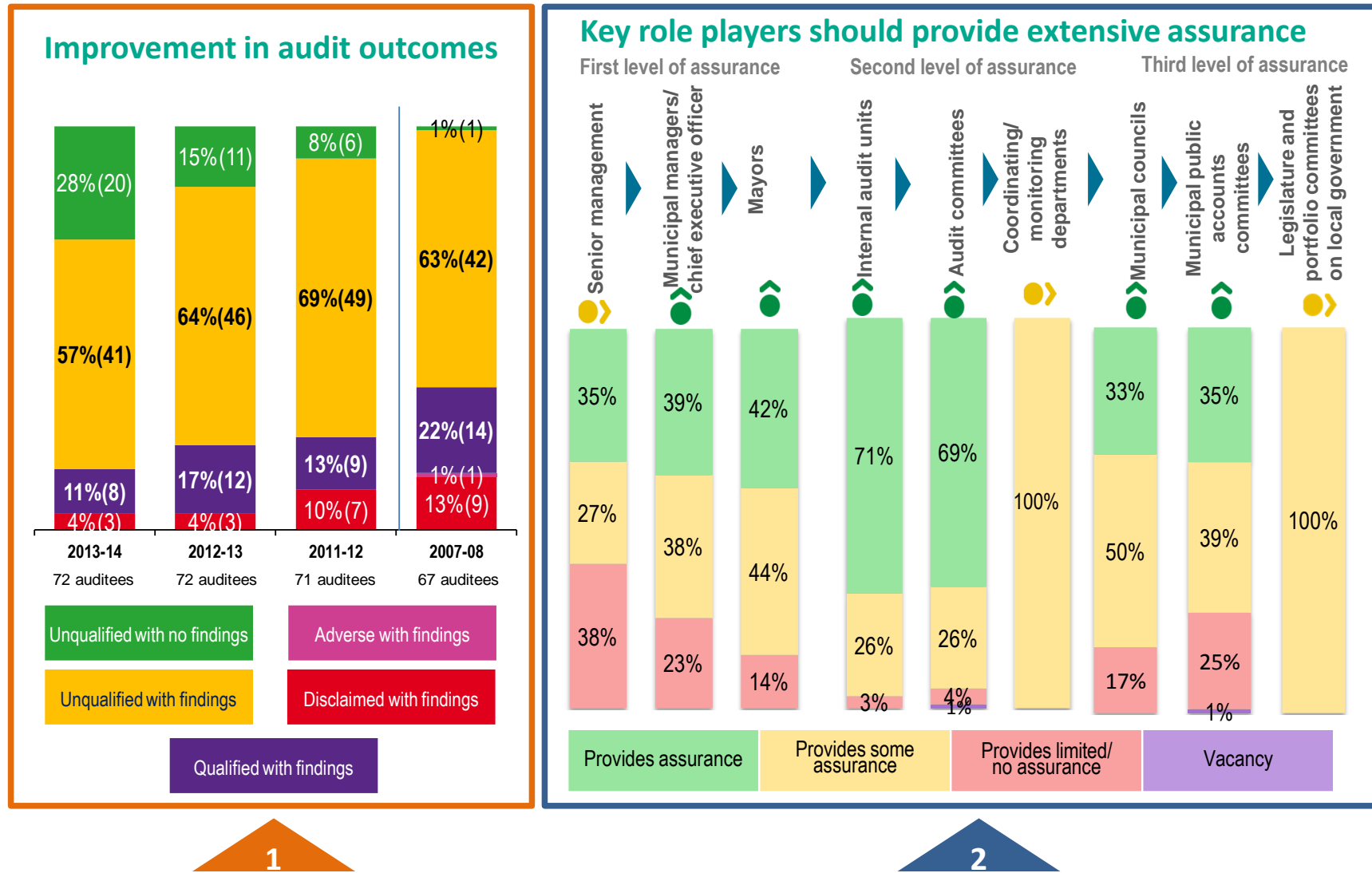
***We are also committed to being a critical supporter of the back-to-basics initiative.***



# OVERVIEW

# Summary of our message

Figure 1a: Overview of the audit message



1

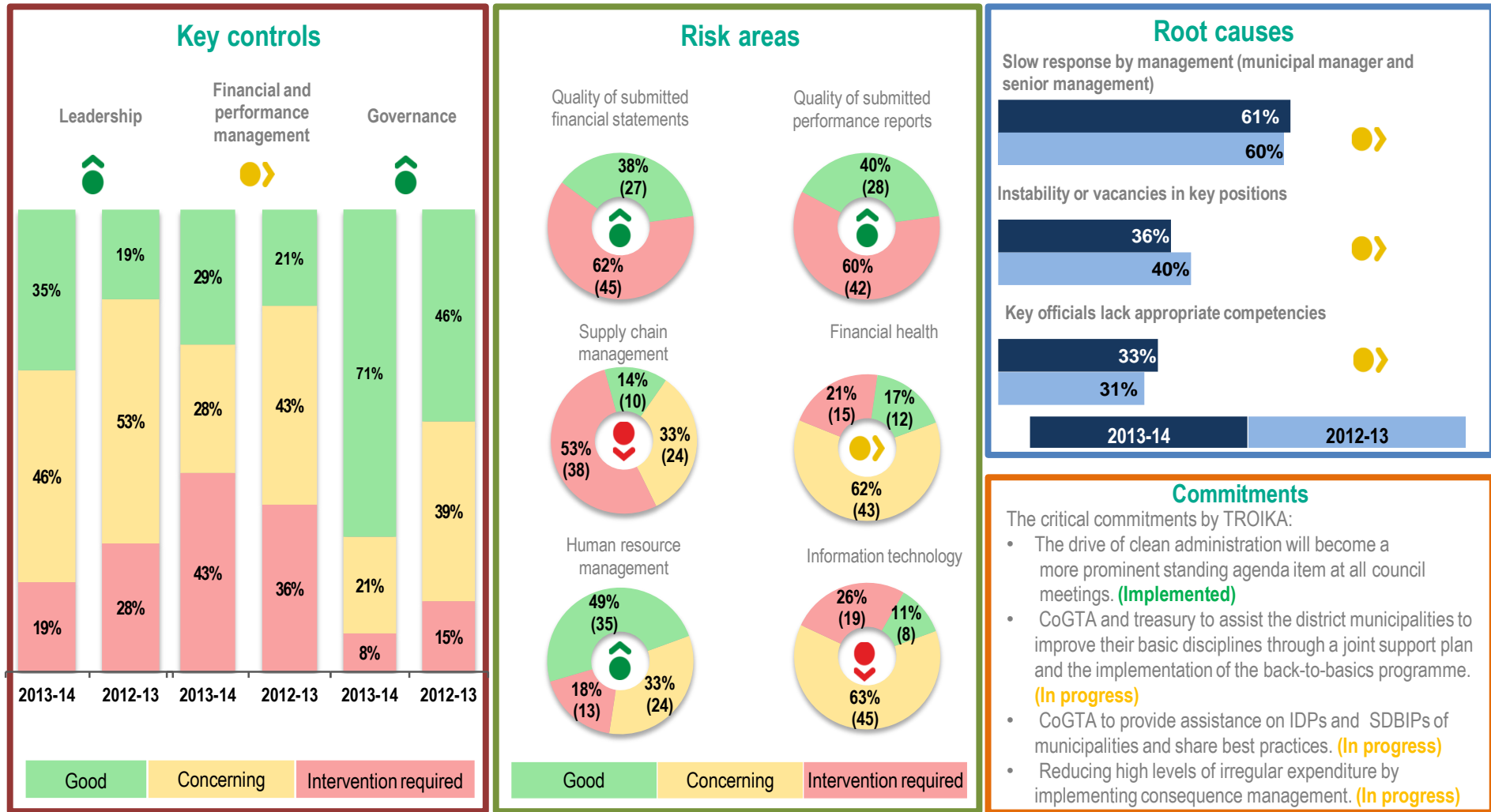
To improve/maintain the **audit outcomes**,

2

the **key role players** need to ...



Figure 1b: Overview of the audit message



3

4

5

... attend to the **key controls**, the **risk areas** and the **root causes**.

## Characteristics of each of the categories of audit outcomes

Table 1 summarises the characteristics of auditees that fall within the different categories of audit outcomes. The purpose of this summary is to:

- assist the reader to understand the different audit outcomes
- highlight the good practices of auditees with clean audit opinions
- emphasise that auditees with an unqualified audit opinion with findings still have serious weaknesses that should be dealt with
- explain why auditees with qualified, adverse and disclaimed opinions are failing.

Table 1: Characteristics of auditees within the different categories of audit outcomes

Area	Best practices for clean audits (20)	Unqualified with findings (41)	Qualified with findings (8)	Disclaimed with findings (3)
Financial statements	<p>Twenty auditees (100%) produced financial statements that are <b>free from material misstatement</b>.</p>	<p>Thirty-four (83%) of the 41 auditees produced financial statements <b>with material misstatements</b>, but <b>corrected</b> these during the auditing process.</p> <p>The most common areas in which auditees made corrections were:</p> <ul style="list-style-type: none"> <li>• property, infrastructure and equipment</li> <li>• contingent liabilities and commitments</li> <li>• irregular expenditure</li> <li>• payables, accruals and borrowings</li> </ul>	<p>Auditees in this category produced financial statements <b>with material misstatements</b>, which they <b>could not correct</b> before the financial statements were published.</p> <p>The most common areas in which they could not correct the material misstatements were:</p> <ul style="list-style-type: none"> <li>• contingent liabilities and commitments</li> <li>• payables, accruals and borrowings</li> <li>• receivables</li> </ul>	<p>Auditees in this category could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were <b>unable to conclude</b> or express an opinion on the credibility of their financial statements.</p> <p>The most common areas in which the auditees could not correct the material misstatements were:</p> <ul style="list-style-type: none"> <li>• receivables</li> <li>• contingent liabilities and commitments</li> <li>• payables, accruals and borrowings</li> </ul>

Area	Best practices for clean audits (20)	Unqualified with findings (41)	Qualified with findings (8)	Disclaimed with findings (3)
Annual performance report	<p>Auditees measured and reported on their performance (in the annual performance report) in accordance with the predetermined objectives in their integrated development plan (IDP) and/or service delivery and budget implementation plan and in a manner that was <b>useful and reliable</b>.</p>	<p>All these auditees prepared an annual performance report; however, the annual performance reports of 17 auditees (41%) were <b>not useful and/or reliable</b>.</p> <p>Ten auditees (24%) received good outcomes only because they <b>corrected the misstatements</b> identified during the audit.</p>	<p>All these auditees prepared an annual performance report; however, the annual performance reports of seven auditees (88%) were <b>not useful and/or reliable</b>.</p>	<p>All these auditees prepared an annual performance report that was <b>not useful and/or reliable</b>.</p>
Compliance with key legislation	<p><b>Complied</b> with key legislation.</p>	<p>Forty auditees (98%) <b>did not comply</b> with key legislation.</p> <p>The only material instances of non-compliance we reported for four of these auditees were the poor quality of the financial statements they had submitted for auditing. They would have received an unqualified opinion with no findings had it not been for this compliance finding.</p>	<p>Eight auditees (100%) <b>did not comply</b> with key legislation.</p>	<p>Three auditees (100%) <b>did not comply</b> with key legislation.</p>

Area	Best practices for clean audits (20)	Unqualified with findings (41)	Qualified with findings (8)	Disclaimed with findings (3)
<b>Controls</b>	<p>Auditees had good controls and/or were working on the areas that needed further attention to ensure that their clean audit status was maintained:</p> <ul style="list-style-type: none"> <li>The <b>leadership</b> created an environment conducive to internal control and oversight (100% of auditees).</li> <li>Senior management ensured that controls were in place for <b>strong financial and performance management</b> reporting systems (85%).</li> <li>They focused on <b>governance</b> through risk management activities and effective internal audit units and audit committees (100%).</li> </ul> <p>Their continued focus on these <b>basic controls</b> contributed to their success:</p> <ul style="list-style-type: none"> <li>The leadership established a culture of <b>ethical behaviour, commitment and good governance</b> (100% had good controls).</li> <li><b>Good human resource practices</b> ensured that adequate and sufficiently skilled officials were in place and that their performance was managed (95%).</li> <li>They used <b>audit action plans</b> to address internal control weaknesses (100%).</li> <li><b>Proper record keeping</b> ensured that information was accessible and available to support financial and performance reporting (100%).</li> <li><b>Basic disciplines and controls</b> were in place for daily and monthly processing and reconciling of transactions (85%).</li> <li>Mechanisms were in place to identify applicable legislation to ensure and monitor <b>compliance</b> (90%).</li> </ul>	<p>Auditees had good controls in some areas but attention should be paid to the basic controls, as the number of auditees with good controls in these areas is limited:</p> <ul style="list-style-type: none"> <li>Good human resource controls (39% had good controls).</li> <li>Good information and communication technology governance and controls (1%).</li> <li>Effective audit action plans (29%).</li> <li>Proper record keeping (39%).</li> <li>Strong daily and monthly controls (46%).</li> <li>Review and monitor compliance (10%).</li> </ul>	<p>There were no good controls in the following areas:</p> <ul style="list-style-type: none"> <li>Human resource controls (100% needed intervention).</li> <li>Audit action plans (100%).</li> <li>Daily and monthly controls (100%).</li> <li>Review and monitor compliance (100%).</li> </ul>	<p>The basic controls were weak. The following basic controls were assessed as requiring intervention at the auditees.</p> <ul style="list-style-type: none"> <li>Effective leadership (100% needed intervention).</li> <li>Human resource controls (100%).</li> <li>Audit action plans (100%).</li> <li>Proper record keeping (100%).</li> <li>Daily and monthly controls (100%).</li> <li>Review and monitor compliance (100%).</li> </ul>

Area	Best practices for clean audits (20)	Unqualified with findings (41)	Qualified with findings (8)	Disclaimed with findings (3)
<i>Assurance providers</i>	<p>Key role players worked together to provide assurance on the credibility of the financial statements and performance reports and to ensure compliance with key legislation.</p> <p>These auditees understood that assurance on the <b>credibility of the information in the financial statements and performance reports</b> came primarily from the <b>actions of management/leadership and their governance partners</b> – internal audit units and audit committees.</p> <p>Their political leadership provided a <b>strong monitoring and oversight role</b> and held the administration to account.</p> <p>The following role players provided full assurance:</p> <ul style="list-style-type: none"> <li>• Senior management (at 95% of the auditees)</li> <li>• Municipal managers/chief executive officers (at 100% of the auditees)</li> <li>• Mayors (at 95% of the auditees)</li> <li>• Internal audit units (at 100% of the auditees)</li> <li>• Audit committees (at 100% of the auditees)</li> <li>• Municipal councils (at 90% of the auditees)</li> <li>• Municipal public accounts committees (MPACs) (at 90% of the auditees)</li> </ul>	<p>All role players <b>did not provide the required level of assurance</b>. As a result, the financial statements and annual performance reports prepared, reviewed and signed off by senior management and the municipal managers/chief executive officers of these auditees were materially misstated in most instances.</p> <p>The role players did not ensure or insist on strong controls to ensure compliance with key legislation and to prevent, detect and correct material misstatements.</p> <p>The auditees where role players provided full assurance were limited:</p> <ul style="list-style-type: none"> <li>• Senior management (15% of the auditees)</li> <li>• Municipal managers/chief executive officers (20% of the auditees)</li> <li>• Mayors (24% of the auditees)</li> <li>• Internal audit units (68% of the auditees)</li> <li>• Audit committees (63% of the auditees)</li> <li>• Municipal councils (15% of the auditees)</li> <li>• MPACs (17% of the auditees)</li> </ul>	<p>Mayors, internal audit units and audit committees provided the required assurance at some of these auditees. However, there was limited or no assurance provided by the following role players and this led to unfavourable audit opinions:</p> <ul style="list-style-type: none"> <li>• Senior management (at 88% of the auditees)</li> <li>• Municipal managers/chief executive officer (at 88% of the auditees)</li> <li>• Mayors (at 50% of the auditees)</li> <li>• Municipal councils (at 50% of the auditees)</li> <li>• MPACs (at 62% of the auditees)</li> </ul>	<p><b>The contributions to assurance by the role players at these auditees were minimal.</b> The following role players provided limited or no assurance at 100% of the auditees in this category:</p> <ul style="list-style-type: none"> <li>• Senior management</li> <li>• Municipal managers/chief executive officers</li> <li>• Mayors</li> <li>• Municipal councils</li> <li>• MPACs</li> </ul>

Area	Best practices for clean audits (20)	Unqualified with findings (41)	Qualified with findings (8)	Disclaimed with findings (3)
<b>Key officials</b>	<p>There were <b>few vacancies</b> in key positions, with the following vacancy rates at year-end:</p> <ul style="list-style-type: none"> <li>• Municipal managers/chief executive officers – 10%</li> <li>• Chief financial officers – 15%</li> <li>• Heads of supply chain management (SCM) unit – 12%</li> </ul> <p>There was stability at the level of the chief financial officer as these positions had been filled for <b>more than three years on average</b>.</p> <p>The competencies of these officials were assessed and <b>most had already achieved the competency requirements</b> prescribed by the regulations – 92% of municipal managers, 88% of chief financial officers, and 87% of heads of SCM unit were assessed as competent.</p>	<p>The vacancies in key positions did not differ much from those at the auditees with unqualified with no finding opinions:</p> <ul style="list-style-type: none"> <li>• Municipal managers/chief executive officers – 15%</li> <li>• Chief financial officers – 20%</li> <li>• Heads of the SCM unit – 15%</li> </ul> <p>There was stability in the chief financial officer positions as these <b>were filled for just less than three years on average</b>.</p> <p>The competencies of these officials were assessed and <b>most had already achieved the competency requirements</b> prescribed by the regulations – 88% of municipal managers, 82% of chief financial officers and 82% of heads of SCM units.</p>	<p>The <b>vacancies</b> in key positions were <b>high</b> at these auditees, especially the levels of chief financial officer and head of SCM unit. Municipal manager and chief executive posts were not vacant, however:</p> <ul style="list-style-type: none"> <li>• chief financial officers – 25%</li> <li>• heads of SCM unit – 43%</li> </ul> <p>There was more instability at chief financial officer level – <b>chief financial officer positions, on average, were filled for just over one year</b>.</p> <p>Thirty-three per cent of chief financial officers had <u>not</u> achieved their minimum competency requirements yet or they had not been assessed.</p>	<p>The vacancies in key positions were also <b>high</b> at these auditees, except at the level of head of SCM unit, for where there were no vacancies.</p> <ul style="list-style-type: none"> <li>• Municipal managers/chief executive officers – 33%</li> <li>• Chief financial officers – 33%</li> </ul> <p>These auditees had the <b>least stability</b>, with the chief financial officers being in these positions for <b>less than one year on average</b>.</p> <p>These were also the auditees where the <b>most officials</b> had <u>not</u> achieved the minimum competency requirements or they had not been assessed – 50% of municipal managers and 50% of chief financial officers.</p>

Area	Best practices for clean audits (20)	Unqualified with findings (41)	Qualified with findings (8)	Disclaimed with findings (3)
<b>Use of consultants</b>	<p>They used consultants for financial reporting services <b>effectively</b>. Fifteen auditees (75%) were assisted by consultants at a cost of R24 million.</p> <p>They appointed the consultants in time, provided them with the required records and documents, and managed the process effectively.</p> <p>Vacancies and lack of skills at the finance department were the main reasons for the appointment of consultants.</p> <p>Consultants were also appointed to review annual financial statements before submission for auditing, as an added quality control measure.</p>	<p>They <b>widely used</b> consultants for financial reporting services, but <b>most could not produce financial statements that do not have material misstatements</b> – these material misstatements were corrected through the auditing process.</p> <p>Thirty-two auditees (78%) were assisted by consultants at a cost of R58 million.</p> <p>Their practices in <b>managing consultants (limited to financial and performance reporting) need attention in the following areas:</b></p> <ul style="list-style-type: none"> <li>• Inadequate or no transfer of skills at 36% of the auditees.</li> <li>• Poor performance management and monitoring at 44% of the auditees.</li> <li>• Inadequate planning and appointment processes at 38% of the auditees.</li> </ul>	<p>Eight auditees (100%) that received qualifications were assisted by consultants at a cost of R19 million.</p> <p>They had <b>poor audit outcomes</b> despite using consultants. The following were the main reasons for this:</p> <ul style="list-style-type: none"> <li>• The records and documents consultants needed to perform their services could not be provided at 75% of the auditees.</li> <li>• The consultants were appointed too late at 25% of the auditees.</li> </ul> <p>Bad practices in <b>managing consultants (not limited to financial reporting) were widespread</b> in the following areas:</p> <ul style="list-style-type: none"> <li>• Inadequate or no transfer of skills at 25% of the auditees.</li> <li>• Poor performance management and monitoring at 25% of the auditees.</li> <li>• Inadequate planning and appointment processes at 25% of the auditees.</li> </ul>	<p>All three auditees (100%) were assisted by consultants at a cost of R3 million.</p> <p>They had <b>poor audit outcomes</b> despite using consultants. The following were the main reasons for this:</p> <ul style="list-style-type: none"> <li>• The records and documents consultants needed to perform their services could not be provided to them at 33% of the auditees.</li> <li>• Poor project management by 34% of the auditees.</li> <li>• At 33% of the auditees, the consultants could not deliver on their contract.</li> </ul> <p><b>The worst practices in managing consultants (not limited to financial reporting) were displayed</b> in the following areas:</p> <ul style="list-style-type: none"> <li>• Inadequate or no transfer of skills at 67% of the auditees.</li> <li>• Poor performance management and monitoring at 67% of the auditees.</li> <li>• Inadequate planning and appointment processes at 67% of the auditees.</li> </ul>

Area	Best practices for clean audits (20)	Unqualified with findings (41)	Qualified with findings (8)	Disclaimed with findings (3)
<i>Use of grants</i>	<p>The municipalities <b>effectively used</b> the grants aimed at improving financial and performance management. These grants were the <b>municipal systems improvement grant (MSIG)</b> and the <b>financial management grant (FMG)</b>:</p> <ul style="list-style-type: none"> <li>• Only 1,8% (R570 000) of these grants was not spent.</li> <li>• All the targets for the grants were achieved.</li> </ul> <p>They also <b>used their municipal infrastructure grant (MIG) effectively</b>:</p> <ul style="list-style-type: none"> <li>• Only 7,2% (R84 million) of the grant was not spent.</li> <li>• Targets were achieved for 92,9% (R1 billion) of the money spent.</li> </ul>	<p>The underspending of the MSIG and FMG at these auditees was <b>slightly higher</b> than that of the auditees with clean audit opinions. The achievement of the targets at these auditees was <b>lower</b> than that of the auditees with clean audit opinions.</p> <ul style="list-style-type: none"> <li>• A total of 4,5% (R5 million) was not spent.</li> <li>• Targets were not achieved for 23,5% (R8 million) of the MSIG spent and 10,5% (R6 million) of the FMG spent.</li> </ul> <p>These municipalities <b>did not use the MIG effectively</b> due to weaknesses in their control environments:</p> <ul style="list-style-type: none"> <li>• A total of 11,2% (R146 million) of the grants was not spent.</li> <li>• Targets were not achieved for 35,8% (R416 million) of the money spent.</li> </ul>	<p>These municipalities <b>did not use the MSIG and FMG effectively</b>.</p> <ul style="list-style-type: none"> <li>• A total of 16,7% (R3 million) of MSIG and FMG was not spent.</li> </ul> <p>They <b>did not use the MIG effectively</b> due to weaknesses in their control environments:</p> <ul style="list-style-type: none"> <li>• A total of 4,5% (R28 million) of the grants was not spent.</li> <li>• Targets were not achieved for 77,8% (R464 million) of the money spent.</li> </ul>	<p>These municipalities <b>did not use the grants effectively</b>.</p> <ul style="list-style-type: none"> <li>• A total of 45,6% (R5 million) of MSIG and FMG was used.</li> </ul> <p>Targets were not achieved or the achievement of targets could not be determined for all of the money spent from the MSIG, FMG and MIG.</p>



Area	Best practices for clean audits (20)	Unqualified with findings (41)	Qualified with findings (8)	Disclaimed with findings (3)
Supply chain management and irregular expenditure	<p>They had <b>no material instances of non-compliance</b> with SCM legislation, as 45% of the auditees had good SCM practices. However, 55% still needed to improve in some of the areas of SCM.</p> <p>Their <b>irregular expenditure levels were low</b> as a result of their good SCM practices. They incurred only 2% of the irregular expenditure of all auditees, and were responsible for 14% of the municipal budget.</p>	<p>In total, <b>66% of these auditees had material non-compliance</b> with SCM legislation. Only 2% had good SCM practices.</p> <p>Their <b>irregular expenditure levels were high</b> as a result of their poor SCM practices. They contributed the most to irregular expenditure at 57% of the total incurred. In addition, these auditees were responsible for most (77%) of the municipal budget.</p> <p>At three auditees (7%), the municipal manager and council <b>did not investigate the irregular expenditure of the previous year</b> to determine if anyone was liable for the irregular expenditure.</p>	<p>In total, <b>100% of these auditees had material non-compliance</b> with SCM legislation.</p> <p>Their <b>irregular expenditure levels were high</b> as a result of their poor SCM practices. They contributed 38% to the total irregular expenditure while being responsible for only 9% of the municipal budget.</p> <p>At one auditee (13%), the municipal manager and council <b>did not investigate the irregular expenditure of the previous year</b> to determine if anyone was liable for the irregular expenditure.</p>	<p>In total, <b>100% of these auditees had material non-compliance</b> with SCM legislation.</p> <p>We experienced <b>limitations in performing the SCM audits at 67%</b> of these auditees.</p> <p>Their <b>irregular expenditure levels were high</b> as a result of their poor SCM practices and had it not been for the audit limitations, it could have been higher. They were responsible for only 1% of the municipal budget and contributed 3% to the total irregular expenditure.</p> <p>At one auditee (33%), the municipal manager and council <b>did not investigate the irregular expenditure of the previous year</b> to determine if anyone was liable for the irregular expenditure.</p>



# AUDIT OUTCOMES, RISK AREAS, ROOT CAUSES AND THE IMPACT OF ROLE PLAYERS

# 1. Overall audit outcomes

The KwaZulu-Natal (KZN) local government sphere consists of 61 municipalities and 11 municipal entities. The municipalities consist of one metropolitan municipality (metro), 10 district municipalities and 50 local municipalities. The municipalities operate on a budget of R56,7 billion (operating expenditure: R44 billion and capital expenditure: R12,7 billion). We completed the audits of all auditees and the outcomes are included in this report.

## Seven-year analysis indicates improvement (2007-08 vs. 2013-14)

Figure 2: Seven-year outlook on audit outcomes (municipalities and municipal entities)

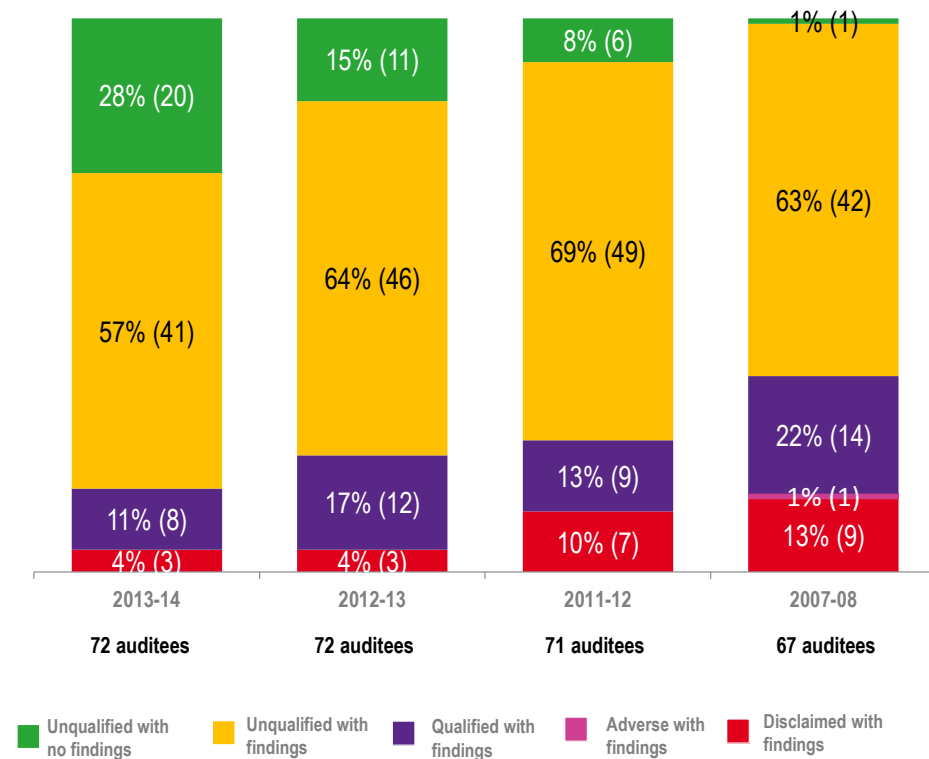


Figure 2 shows an improvement in the number of unqualified audit opinions with no material findings from 11 (15%) in the previous year to 20 (28%) in the current year. The auditees that improved are 13 municipalities and seven municipal entities. Although the operation clean audit 2014 target of 100% unqualified opinions had not been attained, the results are encouraging. Moreover, KZN has already exceeded the 2019 target of 75% for unqualified opinions, as per the medium term strategic framework (MTSF), in that 61 auditees (85%) have received this opinion.

The outcomes reflect positive gradual progress by local government as 12 auditees (17%), which comprised nine municipalities and three municipal entities, improved their results by obtaining unqualified audit opinions with no material findings and eight auditees (11%) sustained such results (four municipalities and four entities).

Forty-one auditees (57%), which include 39 municipalities (64%) and two municipal entities (18%) received unqualified opinions with findings, while six municipalities and two municipal entities received qualified opinions on their financial statements, and another three municipalities (4%) were disclaimed. Amajuba district municipality, Jozini municipality and Hlabisa municipality regressed to disclaimed audit opinions. uThukela and Ugu district municipalities as well as Vulamehlo municipality improved from disclaimed opinions to qualified opinions.

The improvements have been steady when comparing the 2013-14 outcomes to those of 2007-08, in that 33 auditees (49%), which include 29 municipalities (48%) and four municipal entities, improved their audit opinions. Eleven auditees (16%), which include nine municipalities and two municipal entities, regressed; and audit opinions of 23 municipalities (38%) remained unchanged. The number of qualified, adverse and disclaimed audit opinions decreased.

An analysis of the movement in outcomes over the seven years clearly indicates that a number of auditees addressed their weaknesses in internal controls by improving systems and processes, together with the improved leadership oversight and governance.

We held intensive interactions with the political and administrative leadership as well as oversight role players over this period. Discussions included the audit outcomes of the municipalities and municipal entities, key internal control deficiencies preventing sustainable improvement in audit outcomes, the need for effective functioning governance and oversight structures, and root causes inhibiting further progress. Our consistent messages to the leadership emphasised the need for appointing the right people and skills, institutionalising daily and monthly controls, and improving on management's ability to implement action plans in a manner that is sustainable.

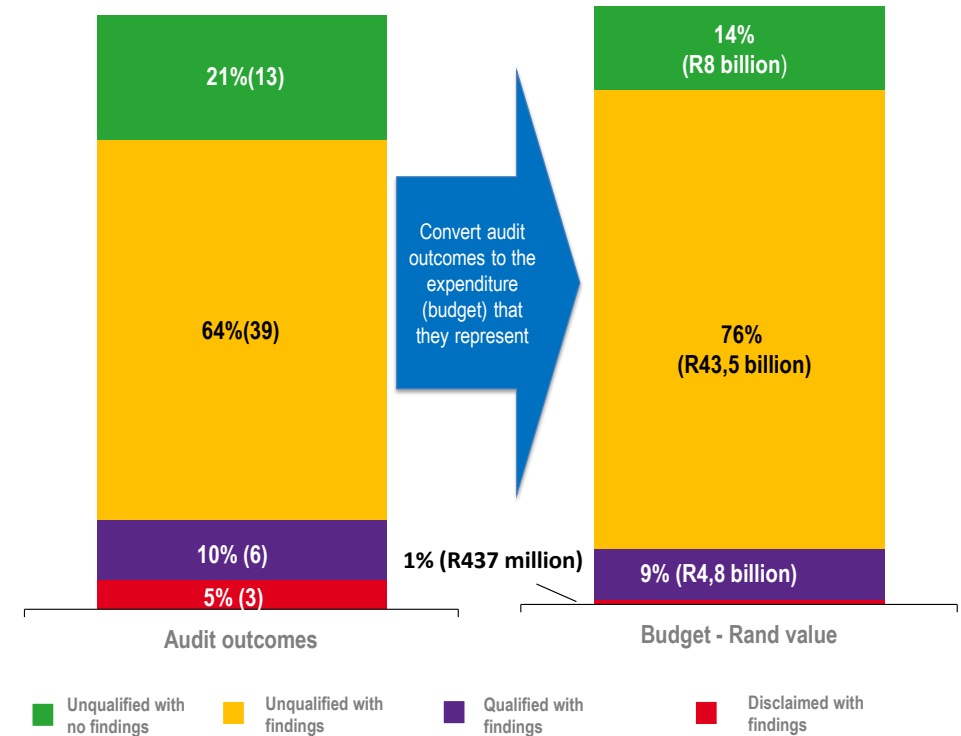
This can be achieved through the following:

- **Ownership** – political and administrative leadership must take full ownership and accountability of the internal control environment and strategic direction and community engagement.
- **Skills** – attracting and appointing skilled staff, as well as providing focused training interventions for existing staff to address deficiencies in skills.
- **Discipline** – daily disciplines must be instilled that ensure excellence in financial management, service delivery execution and compliance with legislation.
- **Credibility** – the leadership must implement processes to ensure the credibility of all the municipalities' reports, including the rigorous monitoring of action plans that address key audit findings.
- **Performance management systems** – designing performance management systems that are managed in a manner that enables the leadership to implement consequences and necessary disciplinary actions for sub-standard performance.
- **Governance** – internal audit units, audit committees and MPAC to ensure a more coordinated effort to address identified risks relating to financial and performance management and compliance with legislation.
- **Coordinating and monitoring departments, including the South African Local Government Agency (SALGA)** – support provided to municipalities and sharing of best practices within districts.

## 2. Audit outcomes for 2013-14

The 2013-14 municipal audit outcomes shown in figure 2, reflect a net improvement in 15 audit outcomes. This net improvement is made up of 22 improvements, some of which were negated by seven regressions.

Figure 3: Audit outcomes per budget (municipalities)



It is of concern that only R8 billion (14%) of the budget was managed by municipalities that had strong internal control environments that enabled them to produce credible and reliable financial statements and performance reports. The auditees that had findings on compliance and/or performance reporting were responsible for a significant expenditure budget of R48,7 billion (86%). This increases the risk that the local government purse may not be used in an economic, efficient and effective manner.

## Submission and quality of financial statements

Municipalities and municipal entities are required by the Constitution and other legislation to be transparent and accountable for the public resources that have been provided to them. They are further required to prepare financial statements according to the applicable accounting framework and relevant legislation. These financial statements must be reliable, accurate and credible and supported by underlying records.

There has been a slight regression of 1% in the timely submission of financial statements compared to the previous year. Mpofoana municipality submitted its financial statements nine days after the due date, nevertheless, the audit was completed as legislated.

Although most of the financial statements have been submitted on time over the past five years, their quality has not reached the desired levels based on material adjustments being made during the auditing process. This creates an impression of conformance with the legislated submission date rather than focusing on improving processes over in-year monitoring, coupled with reliable monthly and quarterly reporting.

Figure 4: Quality of financial statement submitted for auditing (municipalities and entities)

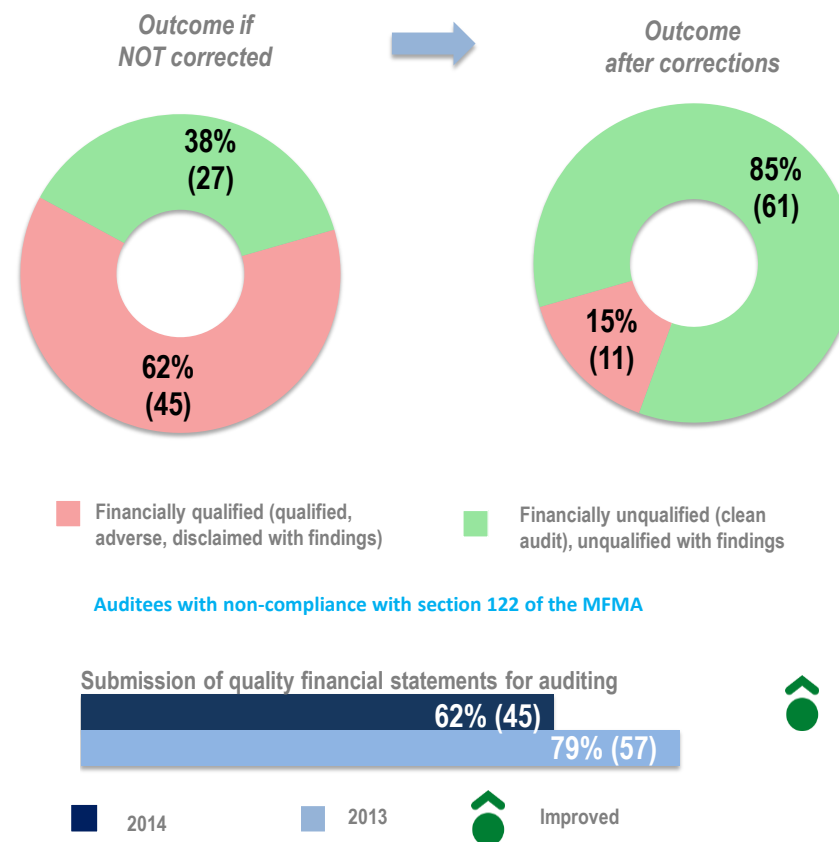
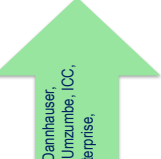


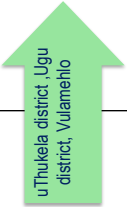


Figure 4 illustrates that 27 auditees (38%) did not need to effect material adjustments to their financial statements during the auditing process. We noted an improvement in the quality of submitted financial statements, when compared to the previous year's 15 auditees (21%).

Thirty-four auditees (47%) received a financially unqualified audit opinion only because they corrected all the material misstatements we identified during the audit. The continued reliance on the auditors to identify corrections to be made to the financial statements to prevent modified audit opinions is not a sustainable practice.

## Movement in the 2013-14 outcomes

Figure 5: Movements in audit outcomes

Outcomes	Improved 22	Unchanged 43	Regressed 7
Unqualified with no findings 28% 20	 <p>iLembe district, uThungulu district, Zululand district, Dannhauser, eMnambithi / Ladysmith, Ezinqoleni, Mandeni, Richmond, Umzimbe, ICC, Durban (Pty) Ltd, Lembe Management Development Enterprise, Ugu South Coast Tourism</p>	<p><b>Municipalities</b> uThungulu district, Ubuhlebezwe, uMhlathuze, Umzimkhulu 8</p> <p><b>Municipal entities</b> Durban Marine Theme Park (Pty) Ltd, Safe City Pietermaritzburg, uThungulu Financing Partnership, uThungulu House Development Trust</p>	<p>Msinga, Ntambanana, Okhahlamba</p>
Unqualified with findings 57% 41 11%	 <p>iLembe district, uThungulu district, Zululand district, Dannhauser, eMnambithi / Ladysmith, Ezinqoleni, Mandeni, Richmond, Umzimbe, ICC, Durban (Pty) Ltd, Lembe Management Development Enterprise, Ugu South Coast Tourism</p>  <p>Abaqulusii, eDumbe, Misunduzi, Mtubatuba, Nongoma, Umsheshezi, uPhongolo</p>	<p><b>Municipalities</b> 31 eThekweni metropolitan, Harry Gwala district, Umzinyathi district, Emadlangeni, Endumeni Greater Kokstad, Hibiscus Coast, Imbabazane Indaka, Impendle, Ingwe, KwaSani, Kwadukuza, Maphumulo, Mfolozi, Mkhambathini, Mthonjaneni Ndwedwe, Nkandla, Nquthu, Big Five False Bay, Ulundi, Umdoni, Umhlabuyalingana, uMlalazi, uMngeni, Umshwathi, uMuziwabantu, Umvoti</p> <p><b>Municipal entities</b> Sisonke Economic Development Agency, uThukela Water (Pty) Ltd</p>	<p>Msinga, Ntambanana, Okhahlamba</p> <p>Umhlobo Development Agency</p>
Qualified with findings 4% 8	 <p>uThukela district, Ugu district, Vulamehlo</p>	<p><b>Municipalities</b> 4 uMkhanyakude district, Mpofana, Newcastle</p> <p><b>Municipal entity</b> Hibiscus Coast Development Agency</p>	<p>Hlabisa</p> <p>Amajuba district, Jozini</p>
Disclaimed with findings 3			<p>Hlabisa</p> <p>Amajuba district, Jozini</p>

## Improvements

Twelve auditees (three district municipalities, six municipalities and three municipal entities) (16%) moved from an unqualified audit opinion with compliance findings and/or findings on predetermined objectives to an unqualified audit opinion with no material findings. These improvements in audit opinions are because of the concerted effort and reaction of the political and administrative leadership and governance role players, which ensured an effective control environment.

uThukela district municipality, Ugu district municipality and Vulamehlo municipality improved from disclaimed opinions to qualified opinions due to providing source information to support reported results.

Seven municipalities resolved their previous year qualifications and progressed to unqualified audit opinions with other findings.

## Unchanged

Four municipalities and four entities (11% overall) retained their unqualified opinion without any material findings status due to administrative and political leadership's commitment in maintaining a strong control environment and having daily and monthly controls embedded in all routine processes.

Twenty-nine municipalities and two municipal entities (43% overall) maintained an unqualified audit opinion with findings on compliance and performance reporting. The basic disciplines of preparing and reviewing regular financial and performance reports did not receive due attention at these auditees.

Three municipalities and one municipal entity did not resolve their previous year's qualifications. The reasons are discussed in section 3 of this report.

## Regressions

The Msinga, Ntambanana and Okhahlamba municipalities moved from an unqualified audit opinion without any material findings to an unqualified audit opinion with material findings on compliance. This was due to the lack of properly implemented oversight and review procedures over compliance reporting.

The Amajuba district municipality and Jozini municipality regressed from an unqualified opinion with findings to a disclaimed opinion. Hlabisa municipality regressed from a qualified audit opinion to a disclaimed opinion. It was clear that these municipalities did not address the fundamental root causes as vacancies were not filled in a timely manner, record keeping was not adequately managed and skills deficits in financial and performance reporting were not addressed.

Importantly, Amajuba district municipality had not adequately planned for the transfer of the reticulation functions from uThukela Water (Pty) Ltd, resulting in uncorrected material misstatements on property, infrastructure and equipment, the related depreciation as well as the investment in its associated company.

The Umhlosinga Development Agency regressed from an unqualified opinion with findings to a qualified opinion. The chief financial officer post was vacant during the year and the finance staff members could not provide the required supporting documents.

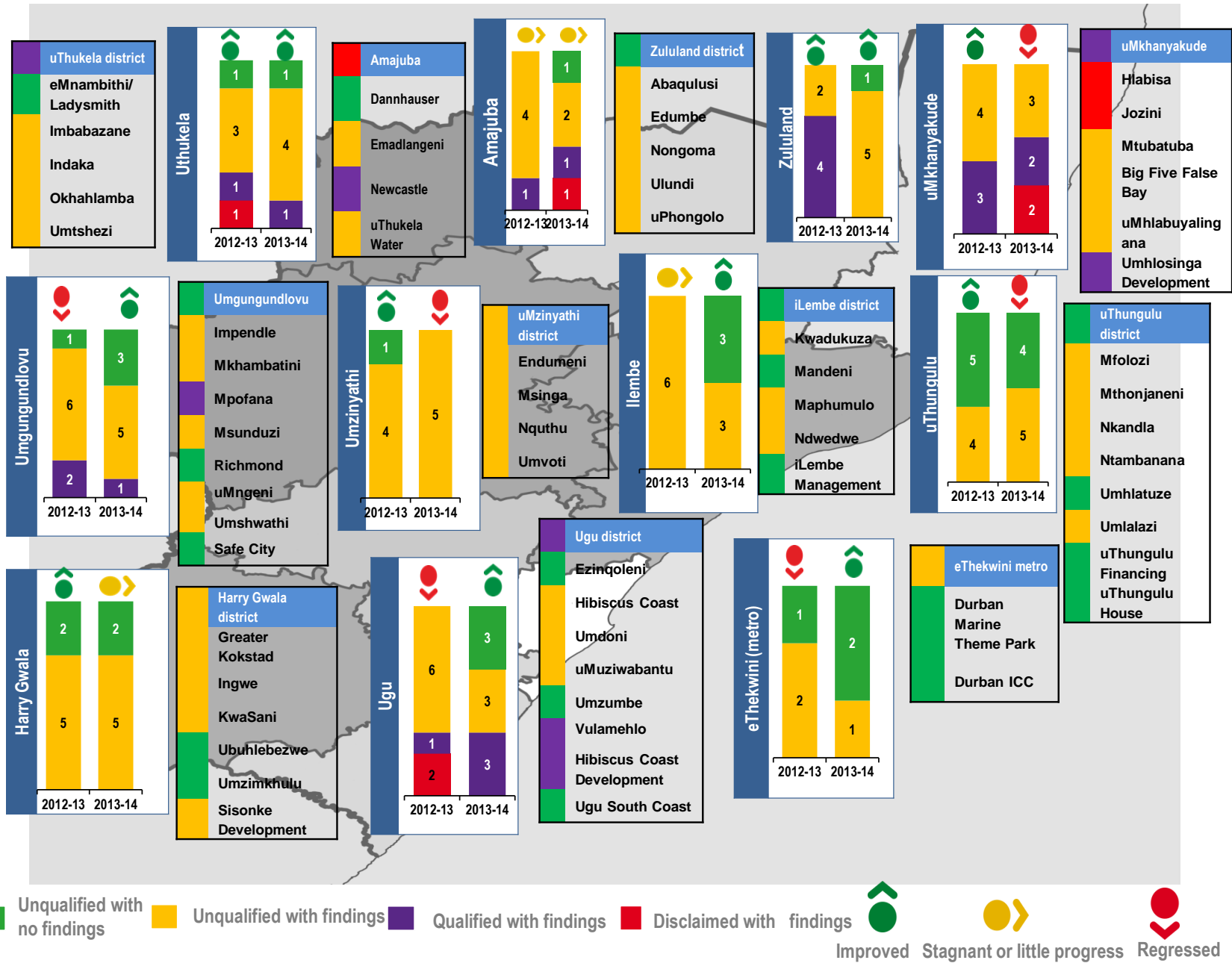
### *Municipal districts*

The province's outcomes varied from one district to the next. District municipalities not only had to coordinate development and delivery throughout the district, but also needed to play a vital supporting role in the financial management of their local municipalities. These responsibilities included the following:

- Coordinating the development of the district and service delivery.
- Playing a supporting role in financial management.
- Setting the example in accountability and reporting.
- Sharing best practices and assist to embed them in their local municipalities.
- Ensuring that daily financial and performance management practices are embedded.
- Improving internal control, governance and accountability of local government.
- Assisting local municipalities where there is a lack of skills.



Figure 6: Audit outcomes per municipal district



An analysis of the outcomes per district is shown in figure 6. Four district municipalities (iLembe, uThungulu, Umgungundlovu and Zululand) led by example by achieving unqualified audit opinions without any findings. The uThungulu district municipality provided support to the local municipalities through forums, in the spirit of cooperative governance. The forums were the district mayor's coordinating forum, a technical support forum, infrastructure forum, planning and development forum, general and social services forum, district communications forum and district area financial forum. These forums provided for joint support in the district, universal access to risks and provided a platform for connected thinking from collective role players in the financial, compliance and performance management space.

Umgungundlovu district municipality had established a district area finance forum, which provided support to the chief financial officers at the municipalities within the district. Attendees to these forums included representatives from the Department of Cooperative Governance and Traditional Affairs (CoGTA), SALGA as well as our representatives. Other districts can copy these best practices to improve control environments, build assurance levels and strengthen local government in the province.

The results of the Umkhanyakude district need the greatest attention as signalled by the least improvement and the largest number of modified audit opinions. As the district municipality was also in need of intervention, it could not provide the necessary support to the poorly performing municipalities within the district.

### 3. Financial statement areas qualified

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.

The misstatements detected during the audit were reported to management; however, 11 auditees (15%), which consisted of nine municipalities and two entities, did not make the necessary corrections to avoid receiving a modified opinion on their financial statements. The main reasons for not making the corrections were the following:

- The unavailability of supporting documentation for transactions and balances recorded in the financial statements due to poor records management.
- The requisite skills and competencies to correctly apply the requirements of the applicable reporting framework were not readily available.

Figure 7: The most common financial statement qualification areas

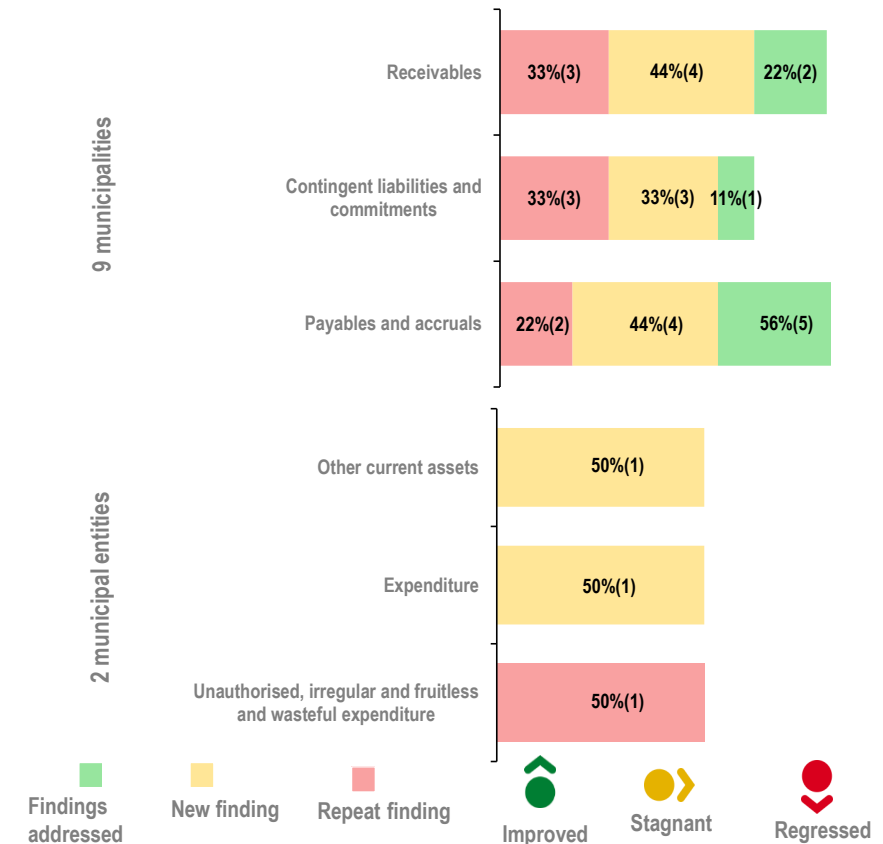


Figure 7 illustrates the areas of the financial statements that were commonly qualified. These areas have changed from the previous year, with five municipalities and one municipal entity addressing their previous year qualifications on property, infrastructure and equipment and three municipalities resolving their qualifications on irregular expenditure, although material corrections were still made in these areas during the 2013-14 financial year.

#### Municipalities

- **Receivables** – qualifications in this area were noted at seven municipalities due to inadequate systems to record meter readings and related billings, as well as a lack of proper document management systems.

- **Contingent liabilities and commitments** – qualifications were evident at six municipalities due to an inadequate document management system to account for contractual commitments.
- **Payables and accruals** – qualifications were common at six municipalities due to inadequate systems to account for receipts and accruals.

#### *Municipal entities*

- Receivables and expenditure – Umhlosinga Development Agency regressed, with a qualification on receivables and expenditure due to inadequate systems and records management.
- Irregular expenditure – Hibiscus Coast Development Agency did not resolve its previous year's qualification on irregular expenditure due to inadequate systems and processes to identify and record irregular expenditure.

### *Way forward*

To ensure that the financial statements improve, the leadership and senior management must strengthen their processes and controls to create a control environment that supports reliable reporting and should do the following:

- Address the vacancies, instability and lack of competencies at the chief financial officer level and at the finance units by appointing competent personnel.
- Engage with the provincial treasury, CoGTA and SALGA to provide support on focused training programmes to improve skills and to ensure that continuous professional training is taking place on local government matters. These support structures should provide guidance in the drafting of standardised operating procedures to improve systems and processes across municipalities and also to entrench the back-to-basics initiatives established by the national CoGTA.
- Facilitate the setting up of a dedicated registry for the safeguarding of records with the necessary access controls over the movement of source documents.
- Ensure that the control environment is strengthened by improving the oversight and governance controls, which should focus on strengthening the credibility and reliability of mandatory reports and management accounts.
- Oversee the timely implementation of recommendations of governance committees with regard to systems and processes, reviews of monthly financial information, financial statements and action plan progress.

- Ensure that reliable and credible financial reporting is linked to performance contracts of officials involved in these processes, and consequences should follow when performance is below the standard.

## 4. Annual performance reports

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives as defined in their IDPs and/or annual service delivery and budget implementation plans (SDBIPs), and to report on this in their annual performance reports.

We audit selected material objectives to determine whether the information in the annual performance reports is useful and reliable. The objectives we select are those that are important for the auditee to deliver on its mandate. In the audit report, we reported findings from the audits that were material enough to be brought to the attention of users.

Two municipal entities – uThungulu Financing Partnership and uThungulu House Development Trust – were not included in our analysis for annual performance reports, as their business operations are not complex with limited transactions, resulting in no performance indicators or targets being reported on.

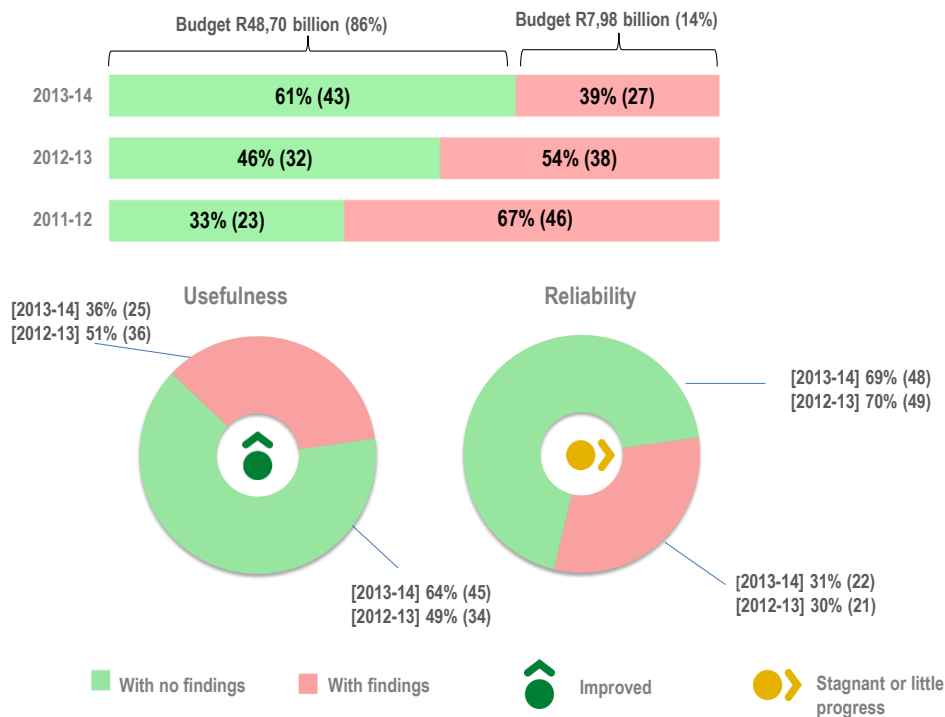
### *Submission of the annual performance report for auditing*

Consistent with the previous year, all auditees prepared and submitted their annual performance reports for auditing by the legislated deadline. The continued positive trend is indicative of leadership's commitment and support of the auditing process.

### *Movement in outcomes on the annual performance report*

Figure 8 shows the number of auditees with material findings on the quality of their annual performance reports over the past three years, together with the number of municipalities that received findings on usefulness and reliability.

Figure 8: Movement in outcomes on annual performance report and findings on usefulness and reliability



- Improved knowledge and deeper understanding of the disciplines and principles surrounding the performance information environment and its reporting.
- Early identification of challenges and quick action by management to make necessary adjustments.
- Value-adding reviews by internal audit units and audit committees on performance information and the processes of preparing performance reports.

### Findings on usefulness and reliability

**Usefulness** refers to setting objectives, indicators and targets in the planning document, and how they are reported on in the annual performance report. We measured the usefulness of the reported information against the criteria of presentation, consistency, relevance and measurability.

The information reported in the annual performance reports of 64% (45) of the auditees was useful. This includes 38 municipalities (54%) and seven municipal entities (10%) and represents an improvement of 15% from the 49% reported in the previous year.

The most common findings on usefulness were the following:

- Reported performance information not consistent with planned objectives indicators/measures and targets (18 instances).
- Performance targets not measurable (11 instances).
- Indicators/measures not well defined (10 instances).

**Reliability** refers to the accuracy, completeness and validity of the actual reported performance against the planned objectives, indicators and targets.

The information reported in the annual performance reports of 69% (48) of the auditees was reliable. This includes 41 municipalities (59%) and seven municipal entities (10%) and represents stagnation when compared to the 70% (49) reported in the previous year.

The credibility and quality of performance reports have a direct impact on the effective, efficient and economical allocation of resources to service delivery initiatives by councils. Figure 8 shows that the municipalities that were able to provide credible performance reports managed R48,7 billion (86%) of the total local government budget within the province.

### Reported non-compliance with strategic planning and performance management

The quality of reporting on predetermined objectives improved over the past two years. In the current year, 61% (43) of auditees had no material findings on annual performance reports compared to 46% (32) in the previous year. This included 36 municipalities (51%) and seven municipal entities (10%). Twenty-six auditees (37%) sustained their previous year's outcome of having no findings, while 17 auditees (24%) addressed previous year findings to such an extent that we did not report any findings for the current year. The districts with the lowest incidence of material findings on annual performance reports were Harry Gwala (14%), iLembe (17%) and uThukela (17%). It is also encouraging to note that eThekweni metro and its entities had no material findings for three consecutive years. The good practices in these districts as well as the metro and its entities that can be copied by other districts are the following:

## Compliance with legislation relating to the annual performance report

Findings on compliance relating to the management of strategic planning and performance were reported at 15 auditees (21%). This is an improvement compared to the previous year where this area was reported at 21 auditees (29%), however, the incidence of findings remains high.

### Way forward

The following should be implemented to further improve the quality of performance reports within the province:

- The municipal managers or chief executive officers should provide effective oversight and hold the responsible officials accountable for the preparation of credible performance reports.
- The political and administrative leadership should pay attention to performance planning, reporting and monitoring as per the local government back-to-basic strategy.
- Auditees need to ensure that they have adequate skills, training and resources to perform proper strategic planning, risk management, performance monitoring and reporting in line with applicable requirements.
- Management should maintain portfolios of evidence to support reported targets, which are reviewed monthly and audited by the internal auditors.
- Proper planning and project management should be prioritised to ensure that planned targets are met.
- The MPACs, audit committees and internal audit units should assist councils to make informed decisions by providing assurance that planning documents and in-year reports on actual performance are credible.
- CoGTA should support local government by developing customised indicators and targets.

## 5. Compliance

Municipalities are required to deliver services to their communities according to the legislative prescripts applicable to them. The applicable legislation is based on the principles of good governance, accountability and transparency, and regulates the stewardship of the public resources at their disposal. We annually audit and report on compliance with legislation applicable to financial matters, financial management and other related matters.

## Status of compliance with key legislation and movement

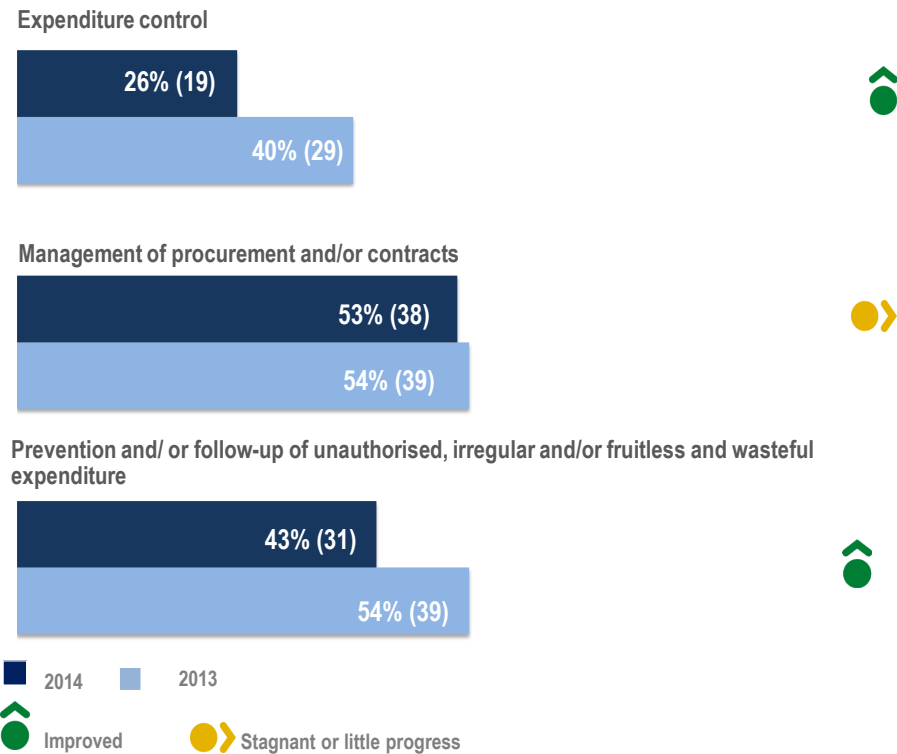
We reported material findings on compliance with laws and regulations at 51 auditees (71%). There was little progress made in addressing the previous year's compliance findings at 47 auditees (65%), as appropriate action plans were not implemented in a timely manner.

Staff were not adequately trained on the requirements of applicable laws and regulations and senior management did not undertake thorough review processes to ensure complete and accurate financial statements. Nine auditees (13%) received compliance findings in two or less than two legislative focus areas reported on. These auditees are encouraged to follow the examples and best practices set by the auditees with no material findings on compliance and make concerted efforts to address all findings on compliance to improve their outcome.

Thirteen auditees (18%), consisting of 10 municipalities and three municipal entities, addressed their previous year's compliance findings, and four municipalities (6%) and four municipal entities (6%) did not have material findings on compliance. Senior management in these instances effectively monitored adherence to key legislation through compliance checklists and implemented a system of consequence management for non-compliance.

Figure 9 shows the most common non-compliance areas other than those relating to annual financial statements and performance and strategic management already dealt with in sections 2 and 4, respectively.

Figure 9: Most common compliance areas reported on relating to unauthorised, irregular as well as fruitless and wasteful expenditure, expenditure control and procurement and contract management



The non-compliance in figure 9 represents three of the five most common compliance findings and is grouped together as it relates to preventing **unauthorised, irregular as well as fruitless and wasteful expenditure**, the main reason for irregular expenditure (non-compliance with **procurement** requirements) and is associated with **expenditure control**.

This non-compliance is analysed in detail in the sections that follow.

## Unauthorised, irregular as well as fruitless and wasteful expenditure

The Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires municipal managers to take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure. If there is persistent disregard for strengthening this control, opportunities may be unintentionally created for the commission of fraudulent transactions. Where municipalities and municipal entities are unable to prevent such expenditure, the MFMA requires disclosure of the amounts incurred in the financial statements and that such expenditure is investigated to determine liability. Where liability can be proven, the municipal managers must take disciplinary and/or criminal action against the liable employees and must institute procedures for the recovery of funds. Only after a committee of council certifies that such expenditure is not recoverable may it be written off.

Figure 10 shows the three-year trend of unauthorised, irregular as well as fruitless and wasteful expenditure incurred that should have been prevented by the auditees, while figure 11 shows that the previous year's unauthorised, irregular as well as fruitless and wasteful expenditure of R1,26 billion (27%) at 60 auditees was not investigated and dealt with as required by the MFMA. Consequently, these auditees did not determine whether any of this expenditure resulted in money being wasted or if fraud was committed.

Figure 10: Trend in unauthorised, irregular and fruitless and wasteful expenditure

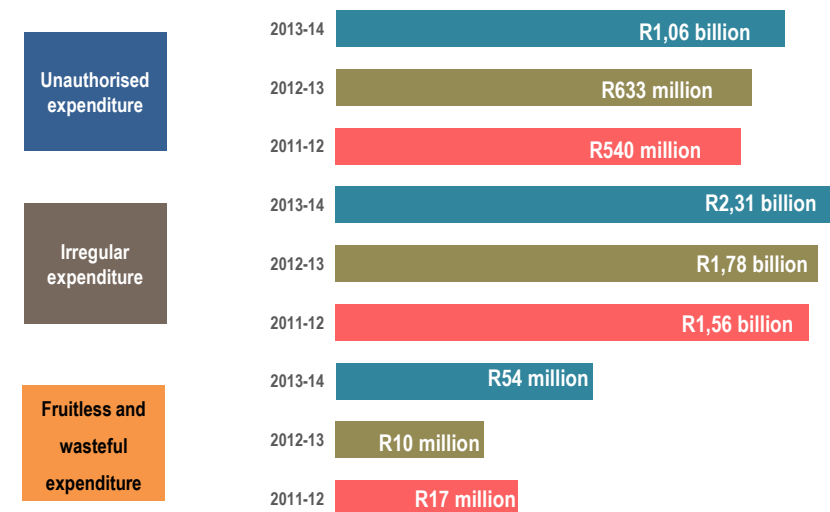
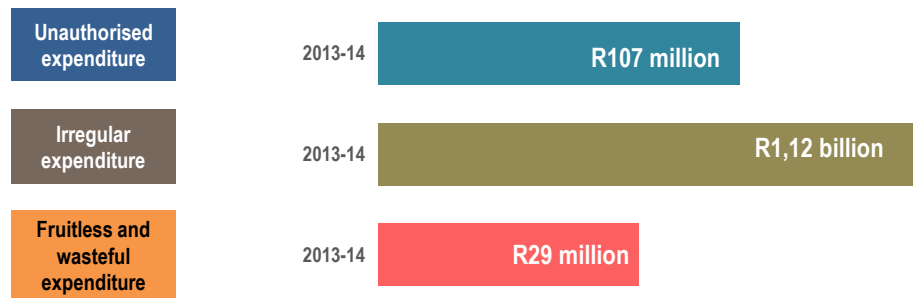


Figure 11: Previous year's unauthorised, irregular and fruitless and wasteful expenditure not dealt with



### Unauthorised expenditure

Unauthorised expenditure is expenditure that was not incurred in accordance with the approved budget.

Unauthorised expenditure increased from R633 million of the previous year by 68% to R1,06 billion in 2013-14. A total of R550 million (52%) of the total expenditure incurred was initially disclosed by the municipalities; however, a further R512 million (48%) was identified by the auditors.

Of the R1,06 billion of the unauthorised expenditure incurred in 2013-14, R571 million (54%) arose from overspending of municipal budgets, while the other R491 million (46%) was incurred due to the auditee incurring expenditure on an allocation other than for its intended purpose.

Included in the above total unauthorised expenditure is an amount of R337 million contributed by Amajuba district municipality. This district incurred the unauthorised expenditure due to an impairment loss in an investment company that was not budgeted for. The remaining balance of R725 million is spread amongst various other municipalities. It is of concern that auditees had not consistently implemented processes to identify and curb this type of expenditure and ensure the appropriate disclosure of these amounts in the financial statements.

At five municipalities (8%), the unauthorised expenditure reported on in the previous year was not investigated to determine whether any officials could be held liable.

### Irregular expenditure with a focus on supply chain management

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

Irregular expenditure increased by 30% from R1,78 billion in the previous year to R2,31 billion in 2013-14. At R2,31 billion, it amounts to 4% of the budgets of the local government sector in the province.

It is evident that systems and controls to detect irregular expenditure were either absent or not effective as R1,48 billion (64%) was identified during the auditing process while only R838 million (36%) was initially identified and disclosed by the auditees.

Umkhanyakhude, Msunduzi and Umzinyathi municipalities were main contributors to the increase in the irregular expenditure balance, making up R934 million (40%).

Ninety-nine per cent (R2,30 billion) of the irregular expenditure incurred was due to contraventions of SCM regulations which correlated with the increase in SCM findings. This arose as a result of the incorrect interpretation of SCM regulations, vacant SCM positions and the leadership's failure to implement compliance monitoring controls. During the audit of compliance with the requirements of SCM legislation, we tested 1 428 contracts with an approximate value of R13,42 billion and 3 356 quotations with an approximate value of R180,1 million, also referred to as awards in this report.

Figure 12: Status of supply chain management

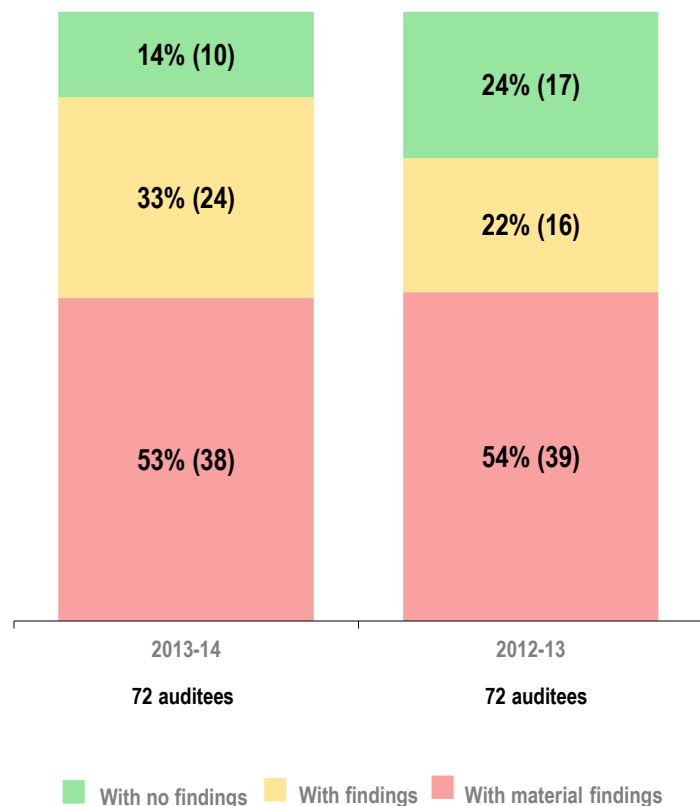


Figure 12 shows the number of auditees with SCM findings and material compliance findings in the current and previous years.

Auditees without findings indicate a regression of 14% (10 overall – five municipalities and five municipal entities) compared to 24% (17 overall – nine municipalities and eight municipal entities) of the auditees in the previous year. The high rate of findings on SCM at 62 auditees (86%) shows little progress made in this area.

Figure 13: Findings on supply chain management (municipalities and entities)

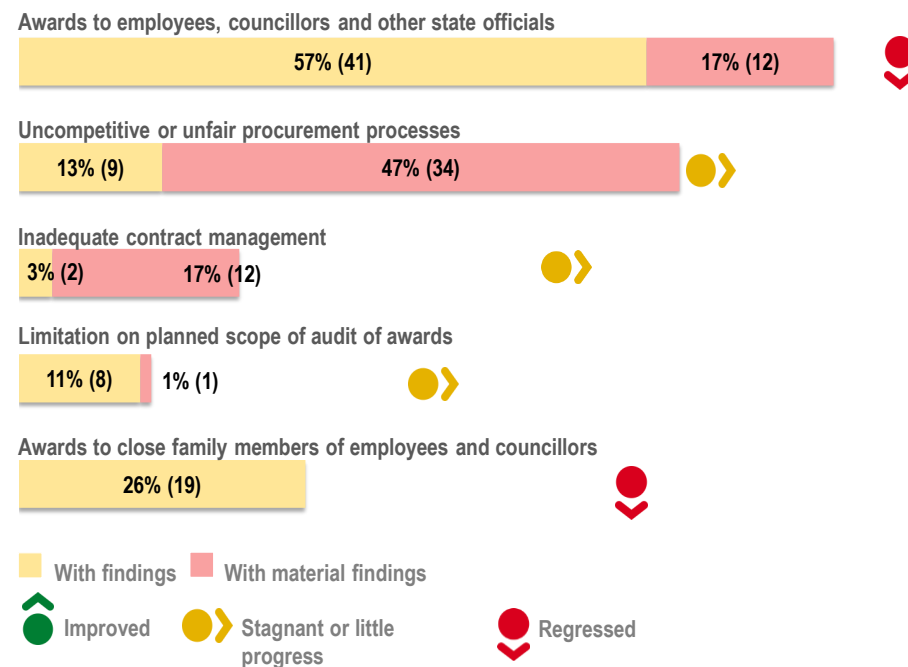


Figure 13 indicates the number of auditees with findings in the areas we report on and the movement since the previous year. The following were the most common findings:

- Awards to the value of R225,3 million were made to employees, councillors and other state officials.** The highest contributors were Umzinyathi district municipality, eThekweni metro and Ugu district municipality that contributed to 44% of the total awards. Recurring findings on awards to other state officials were reported at 39 municipalities and one municipal entity, indicating that timely actions were not taken to address risks identified and findings reported. These awards are prohibited by legislation. It is of concern that the municipal SCM processes and systems did not prevent or detect these awards before they were made, primarily due to inadequate reviews of SCM policy implementation on a regular basis.
- Findings relating to uncompetitive or unfair procurement processes –** these related to specific procurement processes that should have been followed and excluded awards to councillors, employees and their close



family members. Findings predominately relate to the lack of three quotations and the failure to follow a competitive bidding process as well as awards made to providers who did not declare that they were employed by the state.

- Awards to the value of R191,6 million requested for auditing were not submitted due to **limitations imposed by management**. As a result, the findings in this section of the report may not be complete. Umkhanyakude and uThukela district municipalities and Hlabisa municipality were the largest contributors, making up 93% of the total limitations. The possibility that these awards were deliberately withheld to conceal fraudulent transactions cannot be ruled out and requires further investigation.
- **Awards to close family members of councillors and employees** to the value of R45,1 million were made. These awards are not specifically prohibited, but legislation requires disclosure by both the supplier and employee of the interest. It also requires municipalities to have processes to ensure fair, transparent and cost-effective procurement processes that guarantee the effective, efficient and economical use of resources. All such awards are required to be disclosed in the financial statements.
- **Contract management** refers to how contracts are managed after they are awarded. The most common findings related to the failure to register construction projects with the Construction Industry Development Board within 21 days, inadequate contract performance and monitoring measures and contracts extended or amended and reasons therefore not tabled in council.

It is the municipal manager's responsibility to ensure that SCM policy implementation is reviewed on a regular basis and systems and processes are implemented to ensure compliance with ethical business practices.

The following were the main areas of SCM non-compliance during 2013-14, as disclosed by the auditees in their financial statements with corresponding values:

- Procurement without a competitive bidding or quotation process – R1,22 billion (53%).
- Non-compliance with procurement process requirements – R1,07 billion (46%).
- Non-compliance with legislation on contract management – R11,67 million (1%).

Our audits also identified five auditees (7%) where the municipal managers did not investigate the previous year's irregular expenditure to determine whether irregularities consisted of fraudulent or fruitless and wasteful expenditure. As a result, no officials were disciplined at these auditees.

The irregular expenditure was not investigated during the audit, as that is the role of the municipal manager and oversight bodies. Through the auditing process, we determined that of the R2,3 billion irregular expenditure incurred, R1,2 billion (52%) represented goods and services that were received without following the normal processes governing procurement. However, we could not confirm whether goods and services to the value of R159 million (7%) were received as there was no supporting documentation. As the balance of R954 million was not audited, we cannot confirm that goods and services had been received.

The increase in irregular expenditure over the past three years indicates that there have been inadequate controls over prevention and intervention is required to ensure sustained compliance with SCM regulations.

### *Fruitless and wasteful expenditure*

Fruitless and wasteful expenditure is expenditure that was made in vain and that could have been avoided had reasonable care been taken.

As is evident from figure 10, there has been inconsistent progress made by auditees in eliminating the fruitless and wasteful expenditure balance over the past three years. This expenditure showed a positive decrease from R17 million in 2011-12 to R10 million in the previous year. However, there was an acute 440% increase from R10 million to R54 million in 2013-14.

Auditees still did not appropriately identify this expenditure as in the current year 58% was identified through the auditing process. Almost half of the fruitless and wasteful expenditure was as a result of interest on overdue accounts, penalties, litigation and claims.

The other half arose because of poor project management by Umtshezi municipality. The municipality had to rehabilitate a hostel at a cost of R29 million. The expenditure was incurred, however, there was no value added to the municipality – the hostel was found to be in the same condition as before the commencement of the project.

At three auditees (4%), the fruitless and wasteful expenditure of the previous year was not investigated by the municipal manager and council to determine if any person was liable for the expenditure.

Accounting officers and oversight bodies (MPAC and councils) should insist on credible in-year reporting to monitor and better control this type of expenditure during the year. All fruitless and wasteful expenditure should be properly investigated and recovered from officials where possible.

## Way forward

The findings on unauthorised, irregular and fruitless and wasteful expenditure and compliance with legislation were due to weak control environments. Good governance and sound financial management will ensure that local government resources are used in an economical, effective, efficient and transparent manner for the benefit of citizens. The following recommendations should be implemented to strengthen the control environment:

- The political and administrative leadership should set a tone of zero tolerance for transgressions of legislation and conflicts of interest. Decisive action should be taken against those that breach the requirements of legislation.
- Audit committees and internal audit units should assist by timeously identifying breaches of legislation and reporting the breaches to the leadership for action to be taken against those responsible.
- Councils and their MPACs should investigate all of the unauthorised, irregular and fruitless and wasteful expenditure that has not been dealt with in order to determine liability. Once liability has been established, the actions required by section 32 of the MFMA should be enforced.
- Oversight role players (council and MPAC) must hold accounting officers and senior management accountable for providing the desired level of assurance that will result in improved audit outcomes.

## 6. Human resource management

Human resource management is effective if adequate, sufficiently skilled resources are in place, and if staff performance and productivity are properly managed. The effectiveness of human resource management is critical as it has a direct bearing on building and maintaining sound institutional and administrative capabilities.

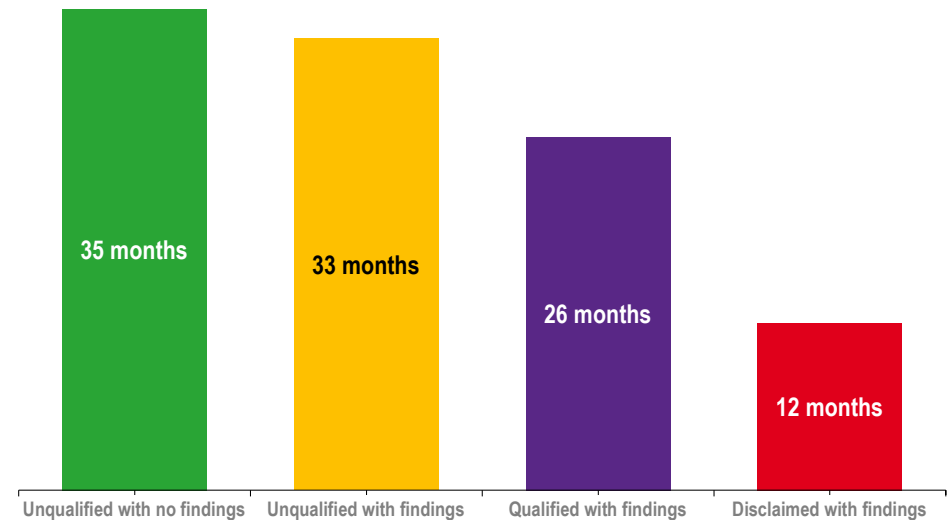
Our audits further looked at the management of vacancies and stability in key positions, the competencies of key officials, and performance management as these matters directly influence the quality of auditees' financial and performance reports and their compliance with legislation.

### Vacancies and instability

Figure 14 shows the correlation between the average number of months key officials (namely municipal managers, chief executive officers and chief financial officers) had been in their positions and their audit outcomes. It is evident that

unqualified audit outcomes are more common where key officials have been in positions for longer periods of time. This is however only the foundation required to build a sound financial and performance management control environment that is conducive to oversight and accountability. It is critical that all positions are filled with competent and skilled individuals that can adequately manage and mitigate the risks within the control environment and promote efficient and economic delivery of services.

Figure 14: Stability in key positions (chief financial officer, chief executive officer and municipal manager) per audit outcome



We considered vacancies and stability in key positions. The positions included municipal managers, chief executive officers, chief financial officers and the head of SCM unit. Overall, we found that there has been little or no improvement in vacancies and stability in these key positions.

Figure 15 shows the number of auditees where these key positions were vacant at year-end and also indicates the period for which the positions had been vacant. Figure 16 shows the average number of months municipal managers, chief executive officers, chief financial officers and the heads of the SCM unit had been in their positions.

The status of these key positions is discussed in more detail below.

Figure 15: Vacancies in key positions at year-end

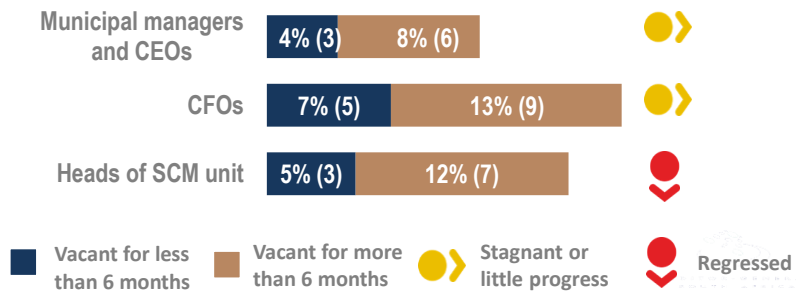
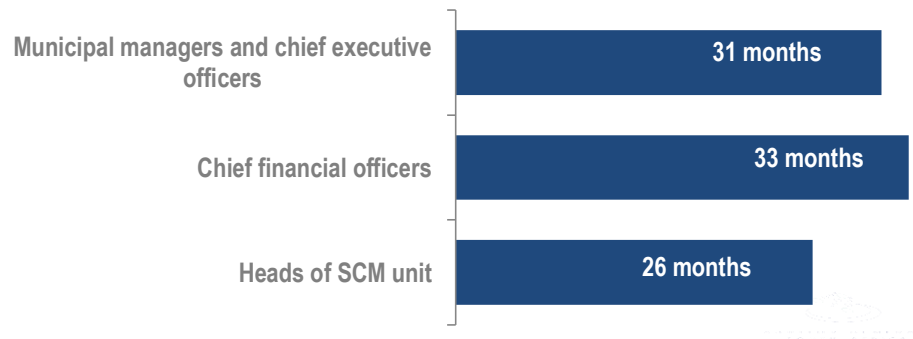


Figure 16: Average vacancy period (months)



Instability at the level of top management affects the ability of auditees to build and maintain a strong control environment for financial, compliance and performance management and weakens the accountability chain.

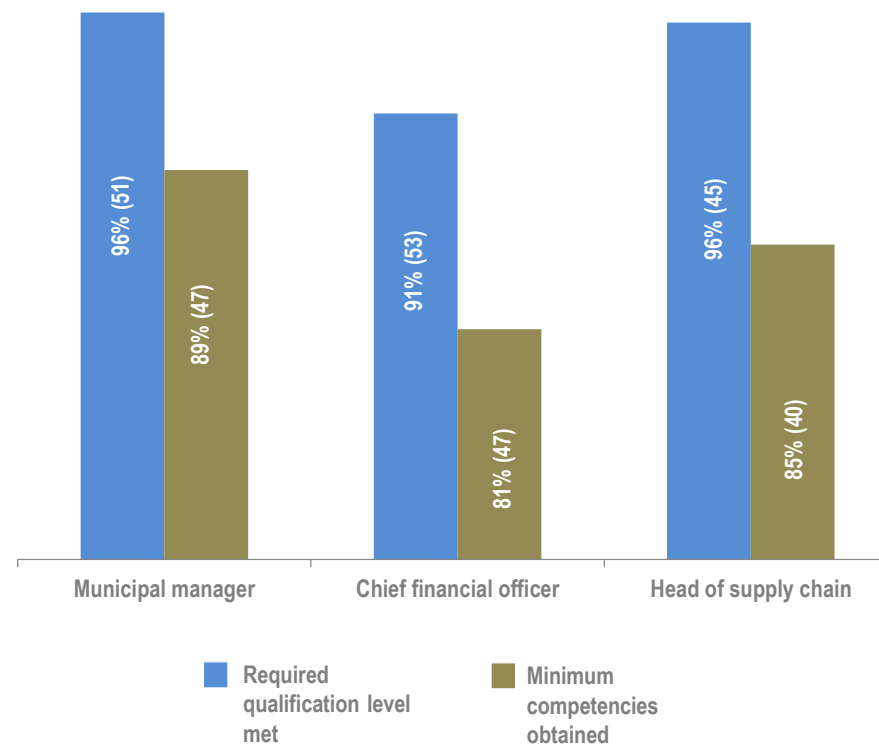
The municipal manager/chief executive officer and chief financial officer vacancy rates, and stability in these positions remained unchanged. The need for stability and competent chief financial officers and heads of SCM unit requires concerted and focused attention as continuous vacancies and instability in these positions contributed to the increase in non-compliance with SCM laws and regulations and the spiralling irregular expenditure.

### Competencies and qualifications of key positions

The MFMA requires officials to meet prescribed competency levels in financial management and SCM. This is supported by the *Municipal regulations on minimum competency levels*, which sets the required levels of competence for municipal managers, senior managers, finance officials and other officials

responsible for municipalities' SCM. The financial management and governance competencies ensure that chief financial officers are able to prepare credible and accurate financial reports on the accounts of municipalities.

Figure 17: Achievement of minimum competencies



Overall, there has been an improvement in the number of key officials obtaining the required minimum competencies and qualifications since the previous year.

However, the number of chief financial officers and heads of the SCM unit that still did not meet the minimum qualification and competency requirements is concerning. In the absence of appropriately qualified and experienced individuals, service delivery and improvement in auditees' control environments are negatively impacted.

### Impact of municipal managers on audit outcomes

The municipal managers are ultimately responsible for the audit outcomes. It is their responsibility to ensure that:

- the staff establishment is aligned to the municipal strategy

- vacant posts are filled in time with competent and skilled staff
- consequence management is enforced where staff are not performing
- the chief financial officer's performance is managed
- processes are in place to manage consultants
- reports on performance against predetermined objectives are accurate.

Although the appointed municipal managers did not possess the required minimum competencies for their positions this did not have a negative effect on the audit outcomes. The audit outcomes at these auditees were all positive as these officials had a good institutional memory on local government practices.

### Impact of head of supply chain management unit on audit outcomes

The heads of the SCM unit are responsible for ensuring that auditees comply with all prescripts of SCM. In order for them to fulfil their responsibilities, it is essential that they possess the required practical and theoretical knowledge of SCM regulations.

As illustrated in figure 17, some appointed heads of the SCM unit did not meet the required competencies and qualifications. Material compliance findings were thus reported at most of these municipalities where competencies were a problem. Furthermore, the lack of technical expertise of these managers has been cited as one of the reasons for the increase in SCM findings since the previous year.

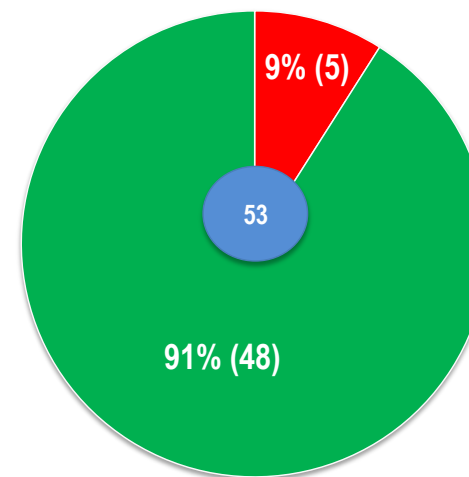
Processes should be implemented to ensure that these competencies are obtained to realise better audit outcomes.

### Impact of chief financial officers on financial statement opinions

It is expected that competent and qualified chief financial officers translate controls to produce credible financial statements. Our assessment of competencies and qualifications versus audit outcomes indicates that there is a correlation between the two. This is shown in figures 18 and 19.

Figure 18: Impact of chief financial officer's qualifications on audit opinions

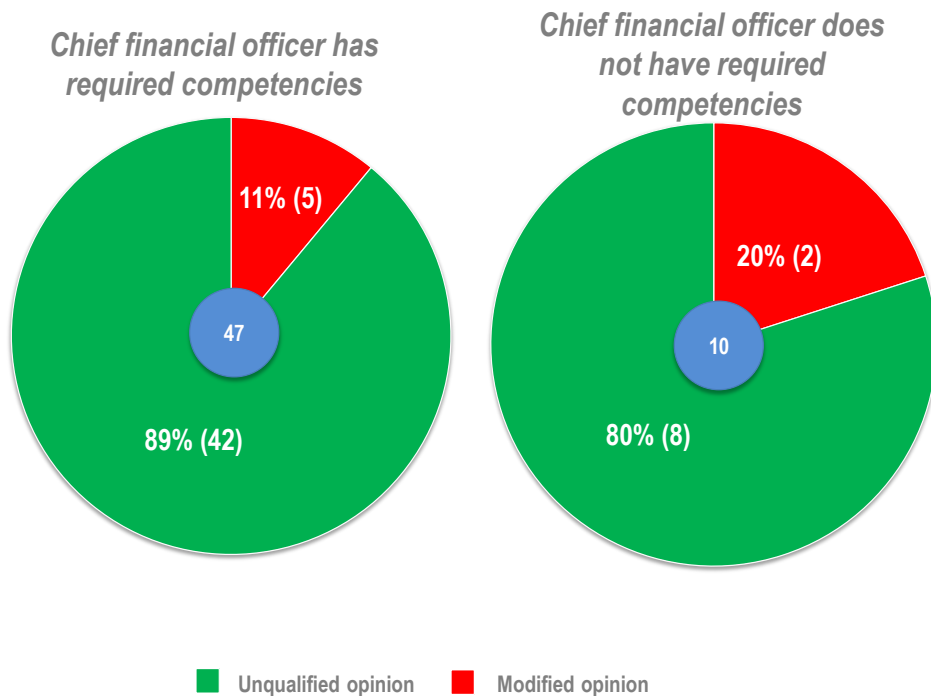
#### Chief financial officer has the required qualification



- Unqualified opinion
- Modified opinion

There has been an improvement in chief financial officers attaining qualifications and skills compared to the previous year. As shown in figure 18, 48 auditees (91%), whose chief financial officers possessed the required qualification, received unqualified opinions. This supports the view that chief financial officers with qualifications assist in the achievement of positive audit outcomes.

Figure 19: Impact of chief financial officers' competencies on audit opinions



In addition, we reviewed the assessment of competencies of the chief financial officers according to the National Treasury minimum competencies regulations.

As is evident from figure 19, 42 auditees (89%), whose chief financial officers were assessed as competent, received unqualified opinions. Based on this analysis, it is evident that the measures put in place to ensure that staff were capacitated with the skills to perform their jobs does, to an extent, translate into improved work performance. Therefore, it would appear that government is receiving some return on its effort made in capacitating and upskilling these officials.

Although some chief financial officers had the required competencies to perform their jobs, we noted that they often lack the practical ability to execute tasks, and were not hands on in terms of daily and monthly process that require exacting scrutiny and attention. Skills and competencies of chief financial officers did not always translate into expected improvements in audit outcomes at five auditees because they did not monitor compliance with key legislation relating to financial reporting as well as the performance of consultants diligently.

## Performance management

In order to improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes and by evaluating and monitoring performance. Where the leadership consistently takes action, it will further demonstrate to all officials that poor performance has consequences.

The majority of municipalities had performance contracts for senior management, which were actively and regularly monitored, or used as a tool to drive good performance.

## Way forward

It is important that the following areas relating to the management of vacancies and retaining a competent and qualified workforce are addressed.

- Municipal managers/chief executive officers should identify skills and competency gaps and implement interventions to address this.
- Municipal managers/chief executive officers should ensure that human resource policies and procedures adequately provide for succession planning and retention strategies, appointment of skilled staff as well as maintenance of adequate levels of experience and institutional memory.
- The top six posts (municipal manager/chief executive officer, chief financial officer, infrastructure corporate services manager, IDP manager and head of the SCM unit) must be filled by competent and qualified persons.
- The municipal organograms should be realistic and underpinned by a service delivery model that is affordable.

## 7. Use of consultants for financial and performance reporting

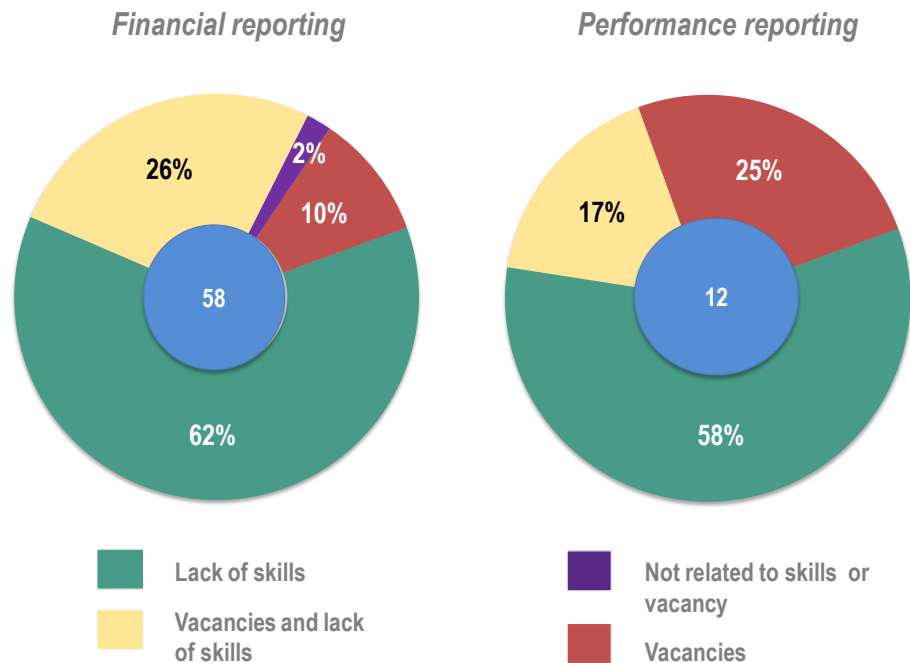
Our audit included an assessment of the work performed by consultants at municipalities and municipal entities. Although we acknowledge the need to appoint consultants to assist local government, this must be needs-driven, with an emphasis on value for money, proper planning and monitoring, and the transfer of skills.

To supplement their human resources during the year, the municipalities used consultants at a cost of R104 million (2012-13: R134 million) for financial reporting and R8 million (2012-13: R4 million) for performance reporting.

This includes the R4 million paid by the provincial CoGTA on interventions to assist municipalities with financial reporting.

The financial reporting services provided by consultants included the preparation and review of financial statements and related accounting processes. The performance reporting services included preparation and review of annual performance plans and reports.

Figure 20: Reasons for using consultants



As indicated in figure 20, the main reason for the use of consultants was a combination of vacancies and a lack of skills that existed within certain auditees for both financial and performance reporting. This is consistent with the reasons given in the previous year.

Chief financial officer positions were filled at 50 municipalities (69%) and eight municipal entities (11%) at year-end. Forty-one municipalities (57%) and four municipal entities (6%), which had chief financial officers, used consultants for financial reporting during the year. Considering that the preparation of financial statements is one of the core responsibilities of a chief financial officer, it is of concern that consultants were still used to perform the functions of the appointed chief financial officers. This does not promote the efficient and effective use of

public funds, as the finance units (including chief financial officers) and consultants are all paid for the same service.

Figure 21: Vacancies at finance units of auditees that used consultants

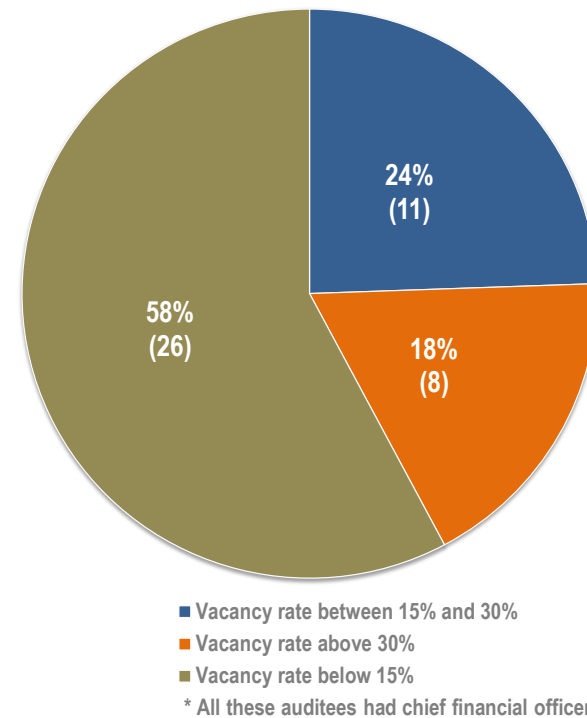


Figure 21 analyses the vacancies within the finance units of auditees where consultants were used. The finance unit vacancy rates that were above 15% at 19 auditees are of concern as they had a negative impact on the control environment and financial reporting processes. Chief financial officers should address the high vacancy rates and fill vacant posts with experienced officials.

Similarly, the finance vacancy rate below 15% is also disturbing as officials at the finance units did not possess the requisite skills and competencies to adequately perform their role even though the units were almost fully capacitated. The effective use of consultants and consequent transfer of skills to existing officials are therefore very important. The reason for the need to appoint consultants at these auditees should be investigated as 25 of the chief financial officers had the relevant competency levels and qualifications to enable them to perform their duties.

Figure 22: Impact of consultants

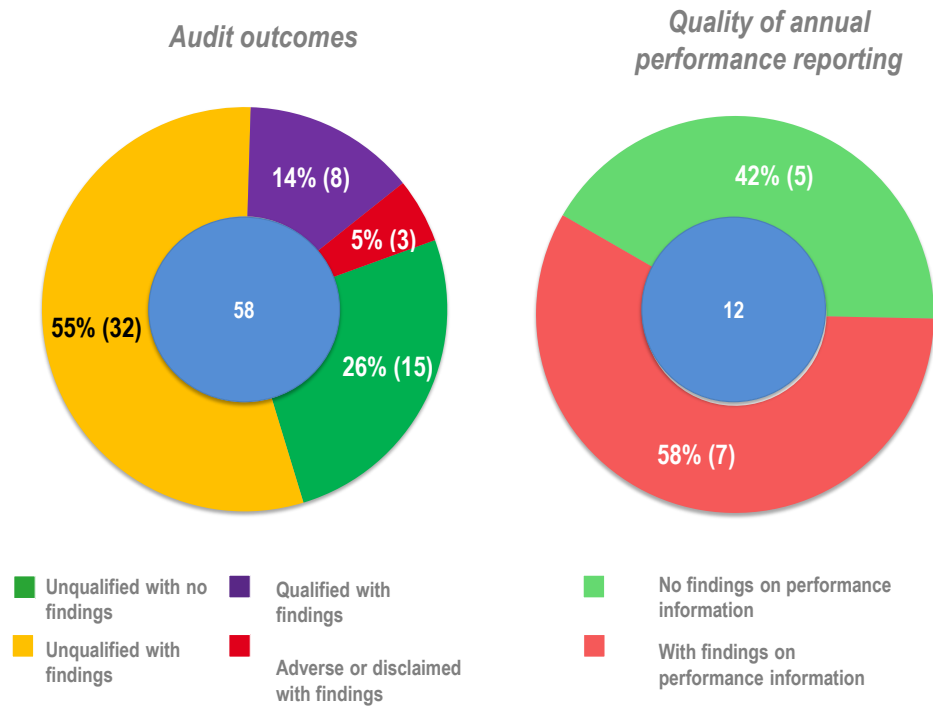


Figure 22 shows the audit outcomes of auditees that used consultants for financial and performance reporting.

### Impact on audit outcomes in comparison to previous year

Of the 58 auditees that used consultants for financial reporting, the movements were as follows:

- Twenty (34%) improved from the previous year. This was made up of 18 municipalities (31%) and two municipal entities (3%). However, 10 required material adjustments, which were identified by the auditors, to their submitted financial statements.
- Five (9%) regressed since the previous year. This included four municipalities (7%) and one municipal entity (2%).
- Thirty-three (57%) showed no improvement although consultants were used. This was composed of 29 municipalities (50%) and four municipal entities (7%).

### Quality of performance information in comparison to previous year

Of the 12 municipalities that used consultants for performance reporting:

- three municipalities (25%) – Harry Gwala district, Dannhauser and Greater Kokstad – improved their outcomes
- six municipalities (50%) showed no improvement in their outcomes as there were repeat findings on performance information even though they were assisted by consultants
- three municipalities (25%) – uThungulu, Richmond and Ntambanana – were able to retain their positive outcome.

However, the Harry Gwala district municipality's outcome only improved after material adjustments, identified by the auditors, were made to its annual performance report.

The reasons for the ineffective use of consultants at some auditees are documented in table 2:

Table 2: Reasons for the lack of impact of consultants

Reason for lack of impact	Financial reporting	Performance reporting
Lack of records and documents	33%	40%
Other auditee ineffectiveness	17%	20%
Consultants appointed too late	17%	20%
Poor project management by the auditee	17%	20%
Consultant did not deliver	16%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>

As indicated in table 2, a lack of records and documents was identified as the key factor resulting in consultants not having the desired impact on audit outcomes. It is not possible for an auditee to produce information that is credible in an environment where the elements of basic internal controls are lacking.

### Findings on the management of consultants

The audit of contracts and arrangements between auditees and consultants revealed the following deficiencies:

- At 20 (30%) of the auditees that used consultants, skills were not transferred as this was not stipulated to be a requirement. In addition, the auditees did not monitor the transferring of skills to officials.
- Measures to monitor contract performance and delivery of consultants were not defined and/or implemented at 22 auditees (33%).
- The planning and appointment process of consultants was poor at 21 auditees (31%), as they were appointed without conducting a needs assessment.

### Way forward

The following should be addressed to use consultants more effectively:

- As consultants are an expensive resource within local government, the municipal managers should perform a thorough needs analysis and risk assessment before their appointment.
- The municipal managers should pay attention to the formulation of a policy that specifically addresses the internal controls required over the procurement and the monitoring of consultants, the reduction of reliance on consultants as well as assessment of the work they perform.
- The municipal manager should oversee the implementation of proper record management systems to ensure that information is readily available to consultants to enable them to perform their mandate as planned.
- Municipal managers should focus on reducing reliance on consultants for performance reporting and recruit individuals who are able to perform this task.

## 8. Conditional grants

Municipalities receive two types of allocations (equitable share and conditional allocations) from the national revenue fund. Equitable share allocations are non-conditional based on the municipality's share of revenue raised nationally. Conditional allocations are allocated for a specific purpose.

This section provides the results of audit work performed on the:

- municipal infrastructure grant (MIG)
- municipal systems improvement grant (MSIG)
- financial management grant (FMG)

### Municipal infrastructure grant

CoGTA introduced the MIG to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Figure 23: Municipal infrastructure grant

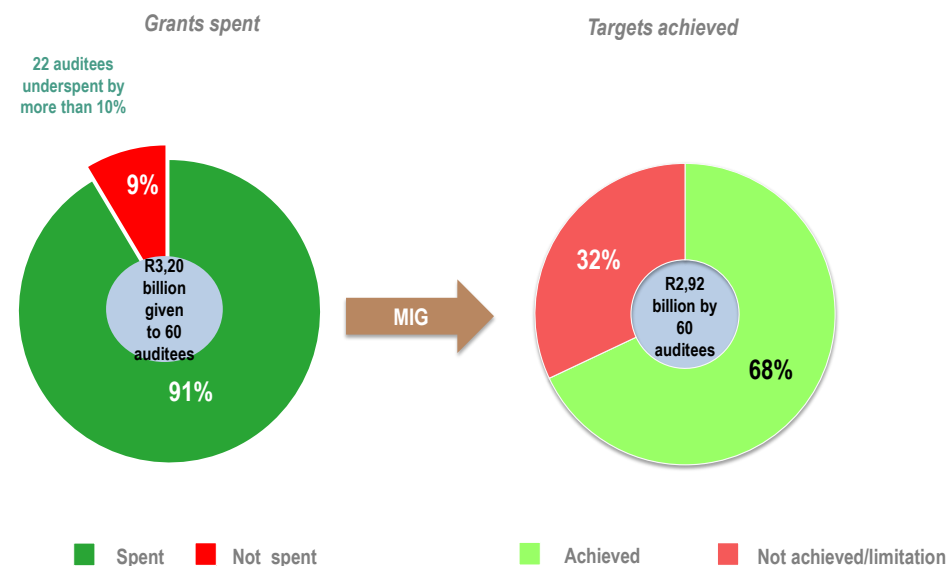


Figure 23 shows that R2,92 billion (91%) of the MIG was spent by 60 municipalities that received this allocation. The only municipality that did not receive the grant was the eThekweni metro.



Twenty-two municipalities (9%) underspent on the grant by more than 10%. The underspending was mainly due to delays in the procurement process for awarding of projects to contractors. Although 91% was spent, only 41 municipalities (68%) achieved their targets. The fact that funds were spent and targets not achieved points to the following key matters that require attention:

- Alignment of IDPs, SDBIPs and budgets for MIG spending not carefully monitored.
- Review of key performance indicators and targets not given adequate consideration, based on financial resources available to the municipality.

### Municipal systems improvement grant and financial management grant

The MSIG and the FMG are allocations aimed at capacity building for improvement of financial and performance management in local government.

The MSIG's strategic goal is to have local government as an efficient and developmental sphere of government capable of delivering services to local communities. The grant is aimed at building the capacity of municipalities to implement sound institutional and governance systems required in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

The FMG's strategic goal is to have secure, sound and sustainable management of the fiscal and financial affairs of municipalities. The grant aims to promote and support reforms in financial management by building capacity in municipalities to implement the MFMA.

Figure 24: Analysis of spending on municipal systems improvement grant and financial management grant

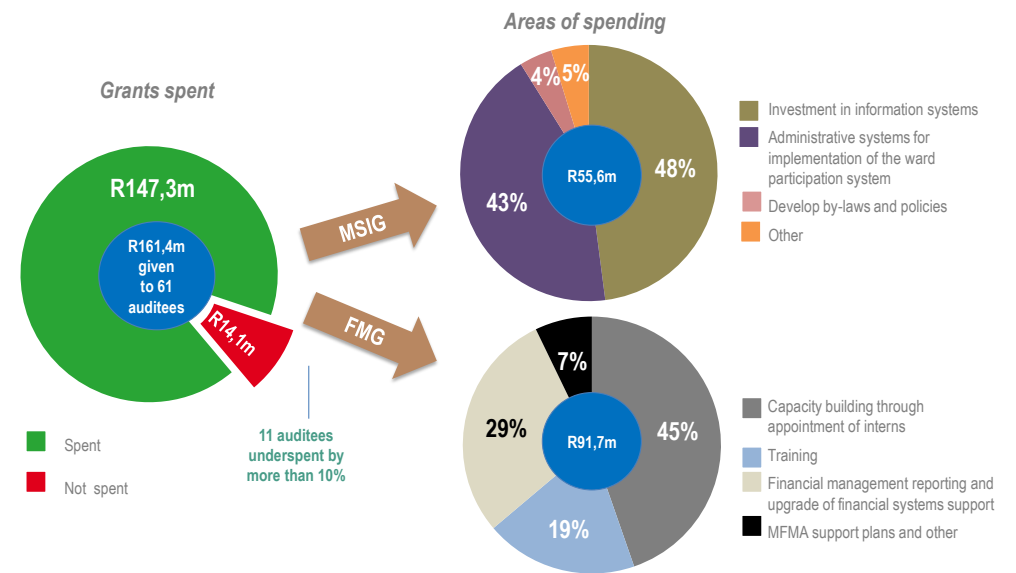


Figure 24 shows how municipalities spent these grants and the areas on which they were spent. These areas were specifically selected by the National Treasury to ensure that the municipal institutional capacity is strengthened. In total, R147,3 million (91%) was spent by 61 municipalities. Eleven municipalities (18%) underspent on these grants by more than 10%.

Figure 25: Analysis of outcomes where targets were reported as achieved by municipalities

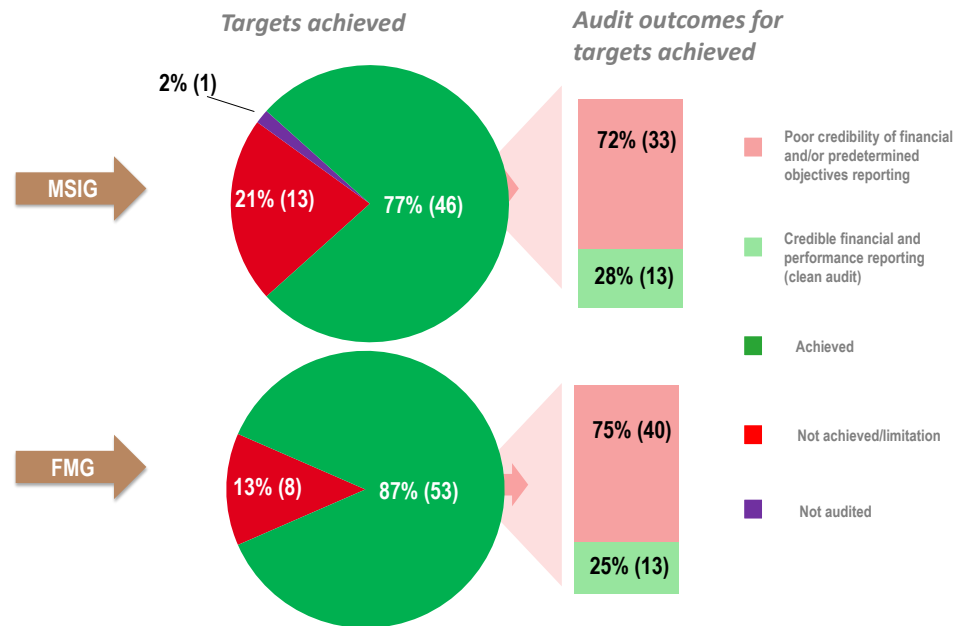


Figure 25 shows the municipalities' achievements of the targets set for the MSIG and FMG and the impact of achieving planned targets had on audit outcomes. Figure 25 also illustrates that achieving the planned targets did not always result in credible financial and performance reports. The planned indicators and targets relating to the MSIG and FMG did not adequately measure their impact on the audit outcomes of municipalities. As a result, the expected impact on financial and performance reporting did not materialise as the use of these grants was not concentrated on specific risk areas where deficiencies were common.

## 9. Financial viability

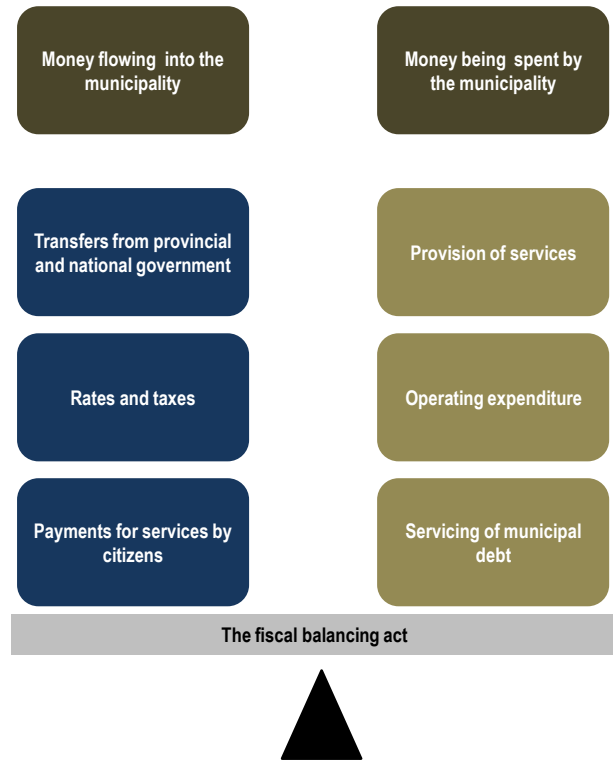
Local government is at the centre of service delivery in South Africa. Beyond ensuring that they accurately reflect their financial position in the financial statements, comply with legislation and accurately report on their performance, municipalities and municipal entities should also ensure that they remain fiscally viable. A fiscally viable municipality is one in which municipal finances are used to the full benefit of its residents and in which the continuation of service delivery is certain.

Against this background, our audits included a high-level analysis of 23 financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. We also performed procedures to assess whether there were any events or conditions that might cast significant doubt on an auditee's ability to continue its operations in the near future. Two municipal entities – uThungulu Financing Partnership and uThungulu House Development Trust – were not included in our analysis, as a majority of the indicators are not relevant to their operations because their business operations are not complex with limited transactions.

Figure 1b shows little improvement in the number of auditees that had findings on financial viability. Twenty-one per cent (15) of auditees reflect an overall assessment of 'intervention required' compared to 26% (18) in the previous year. This includes three municipalities with disclaimed audit opinions as well as 13 auditees with material going concern uncertainties. Only 17% (12) of the auditees reflect a 'good' overall assessment compared to 19% (13) in the previous year.

In order to deliver services to their residents and ensure the continuation of such services, municipalities need to carefully manage the money flowing in and the money being spent, as shown in figure 26.

Figure 26: Cash flow management



As part of our assessment, we evaluated four aspects that relate to this balancing act:

- Whether the **financial position** of auditees was sound.
- Whether revenue collection was adequate to ensure a steady stream of income to finance service delivery activities (**revenue management**).
- Whether creditors were managed effectively (**meeting financial obligations**).
- Whether the **spending patterns** of auditees were sound.

## Auditees in a poor financial position

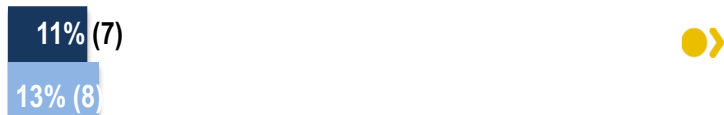
Figure 27 shows some of the typical indicators of going concern uncertainty in addition to the revenue management and creditor-payment period indicators detailed later on in this section. This figure shows the results of our analyses of financial sustainability indicators.

Figure 27: Sustainability indicators

### A net current liability position was realised



### A deficit for the year was realised



Auditees with a net current liability position regressed from 16% to 22% in the current year. Repeat findings were evident at three auditees (5%). The poor financial position of auditees was caused by non-payment or late payment by debtors; poor planning and budgeting; and inadequate budget controls and cash flow management.

In total, 11% of the auditees spent more than the resources they had and therefore a net deficit occurred. Repeat findings were evident at two auditees (3%). The slight decrease is attributable to the improvement in the debt-collection period and cash management.

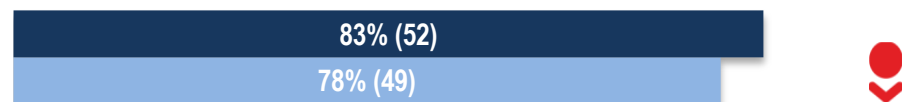
Even though most auditees would be able to continue their operations, the negative indicators raise concerns about the financial viability of some auditees, especially at municipal entities.

## Revenue management

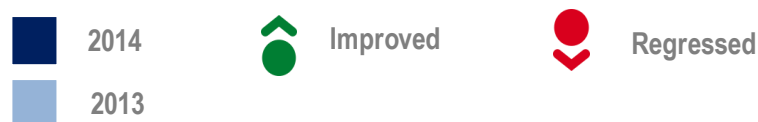
The following figure shows the results of our analyses of revenue management.

Figure 28: Revenue management

### More than 10% of debt irrecoverable



### Debt-collection period more than 90 days



Auditees with more than 10% of debt irrecoverable regressed to 83%. Repeat findings were evident at 46 auditees (73%). This is reflective of many municipalities struggling to collect debts because of the economic stress placed on citizens by high levels of debt and inflationary pressures. The collection of rates was also impacted by the affordability of municipal services, and this was most common at municipalities in the rural areas, where employment levels are low. With less cash available for spending, meeting service delivery needs becomes a challenge.

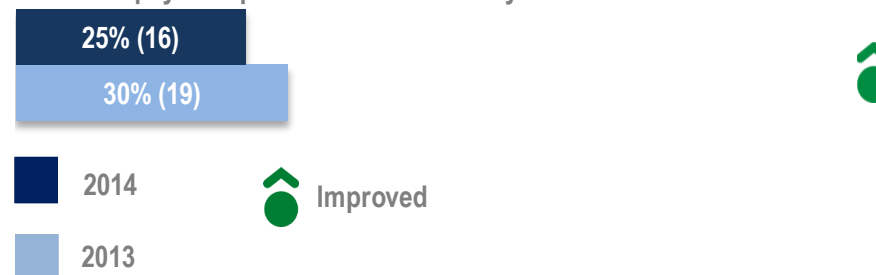
Auditees with a debt-collection period more than 90 days improved to 49%. Repeat findings were evident at 22 auditees (35%). The improvement is attributable to refining and improving debt-collection strategies. While the improvement is noted, the figures remained very high. The extended collection periods put the cash flow of the auditees under significant pressure, which in turn meant that they took longer to pay their creditors (also refer to the discussion on creditor-payment periods greater than 90 days).

## Meeting financial obligations

The MFMA states that auditees should pay their creditors within 30 days of receiving the relevant invoice or statement, unless prescribed or agreed otherwise. Figure 29 shows the results of our assessment of creditor-payment periods.

Figure 29: Creditor-payment periods

### Creditor-payment period more than 90 days



A total of 16 (25%) auditees took more than 90 days to pay their creditors, with little improvement from the previous year. Repeat findings were evident at 11 (17%) auditees. Delayed payments to creditors are an indication that some auditees were in financial difficulty and did not have the cash to honour their obligations. The late payment of creditors can be linked to the recovery of debt shown in figure 28 in that if debtors do not pay or do not pay in time, auditees have less cash and cannot pay their creditors in time. This is confirmed by the fact that all the auditees that had findings on creditor-payment periods also had findings on revenue management.

## Spending patterns

Sixty-three per cent of auditees underspent their capital budgets and 51% their grants by more than 10%. The number of auditees that underspent on capital budgets by more than 10% remained stagnant while underspending on conditional grants by more than 10% reflected an improvement. Repeat findings were evident at 27 auditees (43%) for underspending of capital budgets and 22 auditees (35%) for underspending of conditional grants.

The following are some of the reasons why auditees underspent capital budgets and conditional grants:

- Delays in appointing service providers as a result of poor planning and ineffective procurement processes.
- Poor performance by contractors, resulting in delays.

Capital budgets and conditional grants are also directly linked to service delivery; therefore, where they are significantly underspent the implication is that service delivery objectives are not achieved.

Furthermore, 15 auditees (24%) overspent their operating budget by more than 10% which represents an increase. The overspending on budgets is also evident in the high value of unauthorised expenditure, as reported in section 6.

The reasons for the overspending included the difficulties auditees faced when they had to compile credible operational budgets and their inability to manage their operational expenditure in accordance with their budgets.

### Way forward

Even though the ability of local government to report on their finances and performance is improving as demonstrated by the improved audit outcomes, municipal managers/chief executive officers and councils/boards are not paying sufficient attention to the challenge of remaining financially viable.

For local government to operate in a sustainable manner, the following should happen:

- Municipalities should consider including debt collection as part of their performance plans and cascade it down to the individual performance agreements of senior managers.
- Municipalities should develop adequate local economic development strategies to generate adequate economic activities in their areas. This will improve the standard of living of citizens and create sustainable revenue bases.
- Municipalities should limit and control costs to external service providers in order to improve their financial viability.

Municipalities should also do the following:

- Conduct campaigns against illegal connections, cable theft, manhole cover theft and damage to state assets.
- Ensure that there are realistic budgets which are supported by cash available.

## 10. Information technology controls

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

Effective **IT governance** is essential for the overall well-being of an organisation's IT function and ensures that the organisation's IT control

environment functions well and enables service delivery. An IT governance framework is being developed by a national coordinating and monitoring structure that was established by the minister of CoGTA. The framework is in draft format and currently undergoing a consultative process with the objective of achieving final approval and implementation during the 2015-16 financial year.

Our audit also included an assessment of the IT controls that focus on security management, user account management and IT service continuity. There has been little improvement in the number of auditees that had findings on IT controls. The most common findings were as follows:

### Security management

As in the previous year, security management findings were reported at 65% of the municipalities.

We noted that municipalities did not have adequate IT resources to manage information security risks. They also lacked the controls required to manage and govern IT practices effectively, such as IT security policies. The inadequacy or non-existence of security policies and controls could lead to external parties gaining unauthorised access to sensitive information without detection.

Inadequate security management could ultimately result in information being lost or altered, which would have a negative impact on municipalities' ability to provide services, accurately bill and collect revenue for the services provided and account for the revenue.

### User access management

We reported findings on user access management at 83% of the municipalities. This is 12% more than the previous year. This regression can primarily be attributed to the new policies that had not been approved.

Municipal entities had not established any user access management policies and procedures to manage inherent risks, which resulted in the following shortcomings:

- User access reviews were not performed.
- Users were granted access without authorisation from management.
- There was a breakdown in the segregation of duties.
- A lack of accountability with regard to transactions performed.

The lack of user access management policies and procedures could ultimately result in unauthorised access being gained to sensitive financial information and unauthorised transactions being performed, thus encouraging fraud and corruption and leading to avoidable financial losses.

## Information technology service continuity

As in the previous year, we reported service continuity findings at 75% of the municipalities.

Municipalities had not developed a disaster recovery plan (DRP) or a business continuity plan (BCP) to ensure that they would be able to recover timeously and adequately from a disaster.

In instances where municipalities had established a DRP, it was not adequately tested and implemented.

The lack of a formally developed and tested DRP and BCP could significantly affect a municipality's ability to recover from a disaster.

## Way forward

To address the root causes of IT findings, it is important that municipalities plan for budget and attract the required IT skills. The provincial CoGTA and provincial treasury should assist municipalities in addressing their IT findings by providing skilled personnel, grants and training. A common set of security standards should be implemented across the province. The provincial government information technology officer should also assist the municipalities by overseeing IT consultants in terms of compliance with their contracts.

SALGA should assist municipalities in improving the skills of their IT personnel by providing appropriate training.

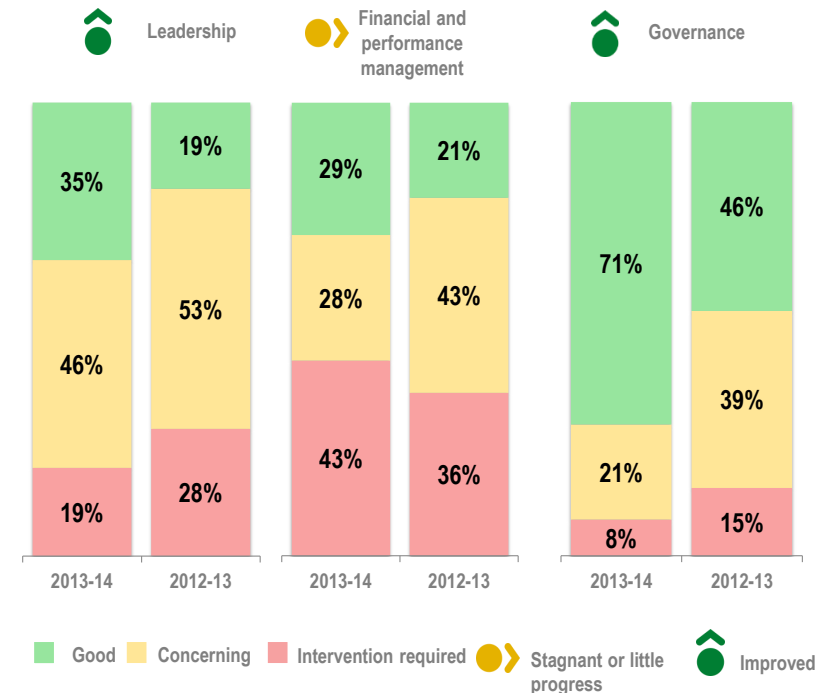
Government has realised that many of the IT systems used for financial management at municipalities do not have the functionality to support all the complex and sophisticated business environments of local government. This has been a contributing factor to weaker IT controls in the province. The standard chart of accounts project being implemented by the National Treasury is expected to improve the financial management systems of local government.

## 11. Key controls

A key legislated responsibility of municipal managers/chief executive officers, senior management and officials is to implement and maintain effective and efficient systems of internal controls. As part of our audits, we assessed

auditees' internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with key legislation. To make it easier to implement corrective action, we have categorised the principles of the different components of internal control under leadership, financial and performance management and governance.

Figure 30: Key controls



Figures 1b and 30 show the status of the different areas of control and the movement since the previous year. The overall assessment of internal controls has shown an improvement in the control environment compared to the previous year. The main areas of control contributing to this improvement were leadership and governance.

## Leadership

The key controls over leadership have improved by 16% over the year for good controls. The sustainability of this improvement and any future improvement depend on the continued drive by the leadership to entrench a culture of accountability at all auditees and ensuring that skilled employees are retained or appointed. The political and administrative leadership continued to avail themselves quarterly to engage with our leadership, took ownership of the

quarterly key control and showed a better understanding of the key control assessment process. There is still a concern that 65% of the auditees did not have good leadership controls in place. This contributed to unfavourable control environments in which implemented controls could not prevent or detect malfunctions or inappropriate actions. Many of the auditees that are struggling to make further improvements in leadership are plagued by vacancies in key positions and inadequate skills and/or competencies.

## Financial and performance management

The key controls over financial and performance management reflect little improvement. Controls over daily and monthly processing and record keeping improved because of the awareness created around an effective control environment and the need to retain documents in support of transactions. The key control deficiencies identified as limiting progress were the following:

- Compliance with legislation was not reviewed and monitored.
- Lack of regular, credible reports.

Auditees need to have mechanisms that identify applicable legislation as well as changes and implement processes to ensure and monitor compliance. It is of concern that 69% of the auditees had not yet implemented good controls over the review and monitoring of compliance with laws and regulations. Reliable reporting requires information to be systematically collected monthly and presented in a manner that is concise, credible and understandable to make informed decisions. Financial statements submitted for auditing were not always credible as 62% of them were subject to material amendments due to the lack of adequate reviews. We also found that 31% of performance reports were not reliable.

## Governance

The key controls over governance have improved by 25% over the year for good controls. Overall, governance structures have improved their reviewing process of financial statements and performance reports. The increase in interactions between MPAC and audit committees also contributed to an improvement in oversight.

Of concern is that although internal audit units and audit committees were in place at most auditees, not all these structures had a positive impact on the control environment. This originated from the lack of understanding and appreciation by management of the importance of implementing recommendations and action plans of internal audit units and audit committees. Risk assessments performed by internal audit units did not get the buy in from senior management to fill gaps in internal controls. Human resource units were

also slow to fill key vacancies, which diminishes the ability of auditees to implement internal audit recommendations.

## Way forward

A control environment can only be effective if it is properly resourced and maintained. It is critical for the leadership to address vacancies, stability in key positions and competencies to ensure a strong key control foundation. To improve the status of internal control in a sustainable manner, we recommend the following:

- Senior management should continue to set the tone by implementing sound performance management processes, evaluating and monitoring performance and consistently demonstrating that poor performance has consequences.
- Municipal managers/chief executive officers should ensure that recommendations from internal audit units and audit committees are developed into action plans, which are adequately implemented and monitored to ensure improved outcomes.
- Municipal managers/chief executive officers should intensify their efforts to produce credible, regular (at least quarterly) and accurate financial and performance reports, whose quality has been assured by internal audit units.
- Risk assessments should focus on key compliance shortcomings and a response plan should be developed to prevent repetitive findings.
- Municipal managers/chief executive officers should be swift and should request district municipalities and coordinating departments to assist on governance matters until key vacancies are filled, where these persist.

## 12. Root causes

Our audits included an assessment of the root causes of audit findings. These root causes are constantly reported to all levels of leadership. We constantly highlight that, should these root causes not be addressed, the errors will recur and sustainable improvement will not be possible. The repetitive nature of the identified root causes over the years shows that auditees do not address the root causes as highlighted in our messages and recommendations, but rather focus on the symptoms of findings. This is not a sustainable practice.

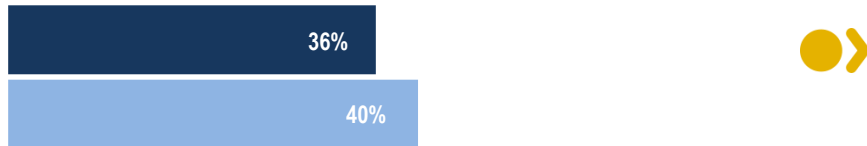
The information that follows summarises the three most common root causes of the audit outcomes, provides recommendations to address the root causes and identifies the role players responsible for addressing such root causes.

Figure 31: Root causes to be addressed

Slow response by management (municipal manager and senior management)



Instability or vacancies in key positions



Key officials lack appropriate competencies



■ 2014 ■ 2013 ●> Stagnant or limited progress

## Slow response by management

Slow response by management in addressing internal control deficiencies continues to be the main root cause preventing certain auditees from obtaining improved audit outcomes.

During our regular interactions with municipal managers/chief executive officers and senior management, we discuss the audit and management reports, audit findings, status of the key controls and the root causes that gave rise to the findings and audit status. At subsequent interactions, we follow up on these. In spite of these interactions, commitments from the leadership to address our findings as well as follow-up interactions, it was evident that management at 44 auditees (61%) had not taken our messages of improving audit outcomes seriously as previous findings had not been addressed.

The lack of progress in addressing this root cause is concerning. Senior management did not have the correct attitude in that it was not dedicated and

disciplined in ensuring that action plans were implemented and monitored, and commitments honoured.

## Recommendations

- Councils, MPACs, members of the mayoral committees, mayors and senior managers should be more involved in the monitoring of key governance matters and related internal controls and hold transgressors accountable for poor performance.
- Senior managers should take responsibility for guiding and directing the development and performance of the system of internal control.
- A committed and adequately skilled senior management team that has the requisite institutional knowledge, ethical culture and foresight, is crucial to motivate the lower levels of staff to execute their responsibilities in a manner that creates an environment of accountability.
- Mayors should hold officials accountable for not implementing the recommendations of the internal audit unit, external auditor, audit committee and MPAC.
- Municipal managers/chief executive officers need to be more involved in the supervision and review of senior management to ensure that they are discharging their responsibilities.
- Senior management must play a key role in risk assessment processes and must have a thorough understanding of the combined assurance model.
- Senior management should ensure that front office officials lead by example, take accountability and understand their contribution to credible performance reporting. The oversight of the performance management of lower staff levels should be a standardised key performance measure for senior managers.

## Instability or vacancies in key positions

Key positions at 26 auditees (36%) were vacant during the year. Instability or vacancies in key positions were also identified as preventing further improvements in the audit outcomes. It is concerning that there was little or no progress made to address this root cause since the previous year.

Instability and vacancies in key positions are of concern as they negatively affect service delivery and the improvement in key controls. Attracting and retaining staff in the public sector continues to be a challenge. A fair number of municipalities are situated in predominantly rural areas, which discourages employees to relocate to these towns.



## Recommendations

- Critical posts should be filled timeously based on merit and experience and should not be halted by political interference.
- Adequate transfer of skills and succession planning are vital to assist during prolonged periods of vacancies.
- Auditees should encourage existing staff to remain at their institutions and should attract sufficiently skilled and competent staff, through transparent performance management.

## Key officials lack appropriate competencies

We identified this root cause as one of the top three root causes that stifle further improved audit outcomes.

We identified that at 24 auditees (33%), key officials did not possess the appropriate competencies and skills to perform their required roles and responsibilities. This includes employees who were appointed without the minimum competencies or those who failed to keep up to date with ongoing training and development specifically relating to the financial reporting framework and applicable laws and regulations.

The limited number of auditees that were able to improve on this root cause is a cause for concern considering the training interventions that were provided to existing employees and the transfer of skills that took place where consultants had been used.

## Recommendations

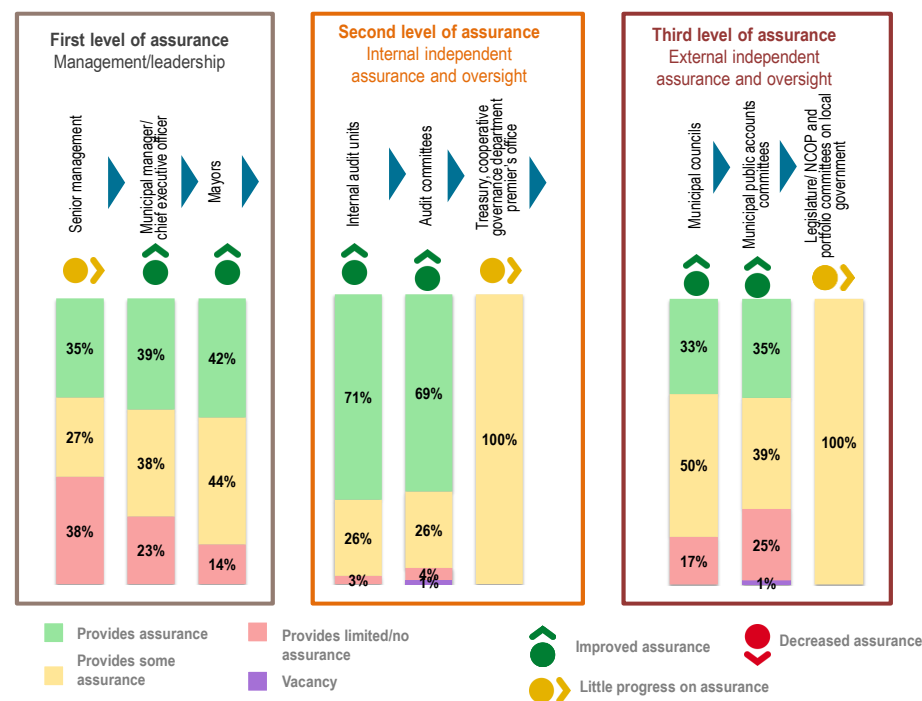
- Municipal managers/chief executive officers should ensure that new appointees undergo proper vetting processes, which include checks done on qualifications and references.
- New appointees should be appointed on a compulsory probation period and their performance and competence should be assessed quarterly.
- Interviews should be structured based on best industry practices to ensure that persons that meet the profile are appointed.
- Mayoral and municipal manager forums should focus on long-term strategies to improve skills.
- A programme for continued skills development, assessment and evaluation should be institutionalised.

- Lessons learned and best practices on skills enhancement should be shared in the province and secondment of officials from leading municipalities to poorly performing municipalities should be considered.

## 13. The level of assurance provided and the impact of role players on audit outcomes

The improved status of the drivers of internal controls highlighted above reflects the assurance provided by those role players that have a direct impact on the municipalities and municipal entities. The direct link is that if controls are in place, credible and reliable information is transferred through the assurance chain and the assurance role players are able to provide meaningful and valuable inputs in addressing key risk areas which are preventing further improvements in key controls. Those responsible for the first level of assurance are the front-runners in the assurance chain and play a crucial role in influencing the assurance provided by the second and third levels of assurance.

Figure 32: Assurance provided by key role players



## *First level of assurance*

### **Senior management**

Senior management, which includes the chief financial officer, head of SCM unit and head of strategic planning, provides assurance by implementing basic financial, compliance and performance management controls. Senior management is responsible for ensuring that funds are spent responsibly.

The overall level of assurance provided by senior management remained stagnant. The reasons for the lack of movement in assurance were vacancies in senior management, lack of standard operating procedures, weak support from lower staff levels and slow response in the implementation of action plans and recommendations by oversight and governance role players. The assurance provided can be improved by having a committed, capacitated and adequately skilled senior management team that has the requisite institutional knowledge. Senior management should be held accountable for, and should provide a high level of assurance in, the performance of their responsibilities.

### **Municipal manager or chief executive officer**

Municipal managers/chief executive officers are responsible for auditees' internal controls, including leadership, planning, risk management as well as oversight and monitoring. While they depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that assists in improving such controls.

Thirty-nine per cent (2012-13: 29%) of municipal managers/chief executive officers provided assurance. These municipal managers/chief executive officers displayed commitment in leading municipalities under their stewardship, in that they were proactive in preventing material audit findings. Rigorous monitoring of action plans also contributed to the improved assurance levels, coupled with an adequate team of senior managers to assist municipal managers/chief executive officers in discharging their responsibilities.

Some assurance was provided by 38% of the municipal managers/chief executive officers and limited or no assurance was provided by 23% of them. The assessment of providing limited or no assurance is based on commitments made at quarterly interactions not being actioned in good time, audit improvement plans not implemented in a timely manner and necessary review procedures not being undertaken.

The effectiveness of municipal managers/chief executive officers can be improved by providing regular feedback to municipal councils on oversight, monitoring, implementation of consequence management and evaluation of the effectiveness of governance committees. Furthermore, regular meetings should

be held with senior management to track and monitor progress on action plans and to hold staff accountable for poor performance.

### **Mayor**

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

The level of assurance provided by mayors in the category of providing assurance has improved from 21% in the previous year to 42% in the current year. Mayors actively participated in quarterly interactions by ensuring that commitments made were regularly followed up and reported on. Mayors were very knowledgeable about the key risk areas and supported the municipal managers in promoting a high performance culture.

Forty-four per cent of mayors provided some assurance, while 14% provided limited assurance. This was due to inadequate oversight of the monitoring of action plans, audit improvement plans and commitments made.

## *Second level of assurance*

### **Internal audit unit**

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

We have noted an improvement in this category of providers of assurance, from 44% in the previous year to 71% in the current year. The reason for the improved levels of assurance was a more structured internal audit unit, fully capacitated with the appropriate skills, which worked closely with management on risk management and controls. Internal audit units were proactive in addressing key risk areas as their plans were aligned to integrated risk assessment processes and strategies. Internal audit units were able to adapt and respond to core challenges to address identified risks relating to financial and performance management and compliance with legislation, including their assistance in monitoring action plans and resolving audit findings. Thorough reviews of monthly and quarterly reports, quarterly assessment of dashboard reports and following up on reports tabled were undertaken in a timely manner. Some good practices are that internal audit units have an audit log that is presented to the audit committee on the number of findings raised as well as the status of findings regarding implementation of the recommendations.

Twenty-six per cent of internal audit units provided some assurance, indicating that gaps that require rectification still exist. Vacancies and the unavailability of officials at auditees contributed to the lower assurance levels. The political and administrative leadership need to direct more effort into building the capacity and skills of internal auditors to strengthen control environments and proactively manage risks in an ongoing manner.

### **Audit committee**

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

This category of providers improved from 43% of the previous year to 69% in the current year. The reason for the improved level of assurance was the focused approach on risk areas and recommendations made by audit committees. The audit committees were knowledgeable of the auditee's business, with a sound knowledge of the financial and performance reporting frameworks, and provided informative and relevant feedback on reports at meetings. Other contributors to the higher levels of assurance provided included frequent and robust engagements with our leadership, MPACs and councils.

Twenty-six per cent of audit committees provided some assurance, due to inadequate follow ups on action plans and the failure to review financial statements and performance information. Audit committees should rigorously follow up on action plan progress in terms of set time frames and report regularly to the municipal manager/chief executive officers, council and MPACs. The effectiveness of the audit committee and its efforts in enhancing the credibility of information should be formally assessed by the council quarterly to strengthen its effectiveness as an assurance provider.

### **Coordinating departments and their executive leadership**

The Constitution stipulates that provincial government must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their duties. The MFMA further requires provincial government to assist municipalities in building capacity to support efficient, effective and transparent financial management. The provincial departments that have a direct role to play in supporting and monitoring local government are the provincial treasury, CoGTA and Office of the Premier. Our assessment of the assurance provided by these departments is based on their initiatives to support and monitor local government and the impact they have had on improving the internal controls of auditees. The overall assurance provided by the provincial

departments has remained unchanged at providing some assurance. It is notable that assistance and support provided by these coordinating/monitoring departments has had some impact on the improvement of audit outcomes.

### **Provincial treasury**

The provincial treasury is a critical role player in local government and has responsibilities in terms of the Constitution and the MFMA to support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their duties. The provincial treasury (municipal finance, internal and infrastructure management units) had started the following initiatives to assist the municipalities – assisting in the preparation of budgets to ensure they are credible, sustainable and comply with the provisions of the MFMA and the budget and reporting regulations; monitoring of the implementation of municipal budgets; and providing training as well as technical support.

The provincial treasury's internal audit unit assists in providing assurance on the effectiveness of governance structures, risk management and compliance reviews. In this regard, it has embarked on a project of evaluating the adequacy and effectiveness of internal audit functions and audit committees of all designated municipalities with the aim of providing assistance where weaknesses exist.

The infrastructure management unit of the provincial treasury continued to provide support to municipalities in terms of the provincial infrastructure improvement plan. An infrastructure team made up of experts in infrastructure development was established and deployed to intervene where there were issues resulting in slow progress or complete failure to meet deadlines or development milestones at the municipalities. They facilitated solutions and monitored progress until the projects were completed.

The provincial treasury and provincial CoGTA formed the operation clean audit committee to assist municipalities with financial management and governance risks. The operation clean audit committee prepares a quarterly dashboard report on significant obstacles and risk areas to proactively manage risks and trigger early warnings for municipalities that are in distress. Various training interventions were conducted throughout the province on systems and controls by using a provincial back-to-basics strategy, which aimed to instil elementary financial disciplines and training at all staff levels.

The role of the provincial treasury as an assurance provider must be amplified to be more relevant and accountable for the performance, reform and outcomes of local government. The initiatives of the provincial treasury, for example the support and participation in the Thuthuka bursary programme with respect to skills development, capacity building and training, are gaining momentum.

## Department of Cooperative Governance and Traditional Affairs

CoGTA's support to municipalities to improve audit outcomes includes meetings held with audit committees and MPACs with a view to improve monitoring structures and the empowerment of councillors and officials. Further support was provided to municipalities on establishment of district area finance forums and through bi-annual chief financial officer forums. The operation clean audit programme was rolled out as a direct support to municipalities in an attempt to improve their financial management practices. Other areas of support provided included programmes on expenditure management, simplified revenue plans, anti-corruption/fraud prevention and workshops on addressing unauthorised, irregular as well as fruitless and wasteful expenditure and statutory compliance in terms of the MFMA. The unit has also supported municipalities with the implementation of the Municipal Property Rates Act, 2004 (Act No. 6 of 2004).

CoGTA has a critical role to play in the municipal demarcation process, the review of IDPs, municipal support and reform as well as the addressing of inter-governmental disputes. In this regard, the member of the executive council (MEC) for CoGTA had recognised that the collaborative efforts and knowledge of all role players can assist in risk management and business insight. The MEC for CoGTA took consequence management seriously and issued warning letters to municipal managers and officials that are in serious breach of legislated requirements. Poor audit results also impact negatively on councillor's allowances.

The MEC for CoGTA committed to:

- monitor and support municipalities in the implementation of the back-to-basics programme, and to assist with the requisite capacity-building initiatives
- ensure good governance, effective administration, and sound financial management and accounting, to prevent corruption
- assist municipalities to build and maintain sound institutional and administrative capacity
- support the improvement of political management of municipalities that is responsive to the needs and aspiration of local communities
- report quarterly to the premier on the implementation of the back-to-basics programme.

### Office of the Premier

The Office of the Premier has an important role to play within the administration of the province, which includes coordinating and supporting local government.

This is in line with the Constitution that requires this office to administer, develop and implement national and provincial policy and legislation and coordinate and support the functions of the provincial administration to assist local government. A further critical part of its mandate is to promote and enable inter-governmental relations and cooperative governance.

The monitoring and evaluation unit coordinates the premier's coordinating forum. In this forum, the premier meets with mayors to discuss the service delivery improvement plans and other matters of governance.

In terms of the MTSF and back-to-basics approach, cooperative governance must be strengthened to enable better service delivery that can improve the lives of the citizens. The MTSF further requires that this office, in collaboration with CoGTA, strengthen and support the planning and delivery of services by municipalities. The Office of the Premier therefore has a critical role to play in taking accountability and enabling all political and administrative leadership to meet the goals as set out in these documents. It is crucial that this office supports and assists in building the capacity within the province to ensure that the principles of the back-to-basics approach can be effectively implemented, monitored and, where necessary, corrective action taken. In response to the above, the office has included the MTSF deliverables in its current annual performance plan. The premier committed to work with us, not only through meetings, but also via information sharing sessions and updates. The premier's approach is one of no excuses for poor performance as the province must be fully aligned to good governance and improved outcomes.

### Provincial executive

The involvement of the premier's coordinating forum as well as TROIKA (premier, MECs for provincial treasury and CoGTA), in strengthening their monitoring roles, will have a positive impact on the audit outcomes. Consequences for poor performance have been implemented in the province to hold officials accountable. The regulations for financial misconduct have been legislated and are a further deterrent to non-compliance and transgressions. This is aligned to the premier's approach of zero tolerance to non-compliance.

A declaration of intent was signed by TROIKA and SALGA, whereby the mayors of 26 municipalities pledged to ensure that the back-to-basics programme is implemented effectively at all municipalities. Additionally, TROIKA developed a plan to address financial, compliance and service delivery issues in a proactive manner, which will serve as a blueprint for positive and strategic change. The plan will focus on how audit outcomes in the province can be improved and maintained in an effective and sustainable manner.

The critical commitments of TROIKA were the following:

- The drive towards clean administration will become more prominent on the standing agenda item at all council meetings, with the provincial treasury and CoGTA reporting on it. It will also be raised in robust conversations with the Office of the Premier.
- CoGTA and treasury to assist the district municipalities to improve their basic disciplines through a joint support plan and the implementation of the back-to-basics programmes in the districts.
- CoGTA to provide assistance on IDPs and SDBIPs of municipalities and share best practices on these plans.
- Reducing high levels of irregular expenditure by implementing consequence management.

### *Third level of assurance*

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

The council is required to provide assurance through monitoring and oversight, which includes approving or overseeing certain transactions and events as well as investigating, and acting on, poor performance and transgressions. MPAC was introduced as a committee of the council to deal specifically with improving governance, transparency and accountability.

The level of assurance provided by municipal councils and MPACs improved from 14% to 33% and 11% to 35%, respectively. Councils established sub-committees for the effective and efficient performance of their oversight role. MPACs were active during the year and actioned investigations appropriately; however, they require skills development and further training and insights to spark further improvements in the local government space.

Of concern is the 67% of councils and 65% of MPACs that still did not provide the required levels of assurance due to challenges regarding the uncertainty of their responsibilities and inadequate understanding of the financial and performance management processes. Councils did not oversee the monitoring of action plans adequately and did not review financial and performance reports on a timely basis. A further complication at smaller municipalities is that if, in implementing the MPAC guidelines, the mayor, speaker or chief whip is excluded from MPAC membership, the result is that there are only two or three councillors who can serve in MPACs, and they may not be adequately skilled.

Better-trained councillors and MPACs would directly benefit the wards and communities they represent. For example, if councillors understand the project management process they would be able to oversee, and account on, the

progress of everyday issues. Councillors could then effectively report back to their communities and possibly assist in offsetting the continually rising levels of frustration among residents that often result in violent service delivery protests. MPAC chairpersons hold vital leadership roles within each committee to attain ethical objectives and ensure effective oversight. MPACs are powerful bodies and its members must realise that municipal executives, including the mayor, are accountable to it. Initiatives are underway from SALGA, in collaboration with TROIKA, to further improve the skills of MPACs and councillors.

#### **Provincial legislature and portfolio committee on cooperative governance and traditional affairs**

In terms of the Constitution, the provincial legislature must maintain oversight of the executive authority responsible for local government. This executive authority includes the MEC for CoGTA and other executives involved in local government, such as the MEC for finance. The mechanism used to conduct oversight is the portfolio committee on local government.

The overall assurance provided by the provincial legislature and portfolio committee on local government remained unchanged. Both the portfolio committees on CoGTA and finance would hold joint hearings on some of the municipal audit outcomes, interrogating audit reports and inviting responses from the municipal leadership. Resolutions passed at these hearings would be followed up. Budgets of municipalities are analysed and trends reported on, however, more direct intervention is required by these role players to impact positively on the audit outcomes.

## **14. Conclusion**

In order for local government to position itself to achieve the goals as set out in the MTSF as well as the five key performance areas of the back-to-basics approach, it is imperative that each role player diligently executes their responsibilities. In this manner, the leadership can build a professionalised local government that embraces the concepts of transparency, accountability as well as credible and reliable financial and performance reporting. The enabling role of the municipal manager and the oversight functions of councils will play a pivotal role in creating an environment where effective, efficient and economical service delivery and a clean audit are natural products of performing the correct actions at the outset.



## **TESTIMONIES, CLEAN AUDITS AND SUCCESSFUL SERVICE-DELIVERY PROJECTS**



**Dr Sibeko**  
Municipal manager

**uMhlathuze**

'To be successful, all components of the municipality must work together in harmony and get the basics right. The key successes were due to all staff being held accountable for their actions in their day-to-day operations coupled with project management and monitoring of turnkey projects.'



**uMhlathuze**

'The achievement of a clean audit was closely related to service delivery and satisfied people in the municipal area.'

**Cllr Gumbi**  
Deputy mayor



**Cllr Bhamjee**  
Mayor

**uMgungundlovu District**

'A clean audit is the first step in providing the information and support structures necessary to overcome the actual challenges to service delivery; for example, proper backlog planning, planning infrastructure projects, and geographical challenges in bringing basic services to impoverished rural communities.'

**Zululand District**

The municipality pointed out the importance of community involvement through ward committees and keeping the community informed on a regular basis. The clean audit can be attributed to the dedicated senior management team as well as training, developing and competitively remunerating staff. All other structures of the municipality, such as the internal audit unit, audit committee, MPAC and council, were functioning well. Monitoring, evaluation and reporting are key practices in the municipality, supported by good project management. The municipality has highly skilled officials and a full capacitated workforce who understand the municipal landscape.



**Cllr Hlatshwayo**  
Mayor



**Cllr Zulu**  
Mayor

**Mandeni**

'The clean audit was the result of the implementation of a turnaround plan on key issues to address challenges. The oversight role of the council to ensure the governance of the municipality was maintained, as was the support that the municipality received from the provincial treasury and the provincial CoGTA. The governance structures assisted with obtaining a clean audit, such as internal risk management committees, the audit committee, MPAC and an effective internal audit unit.'



## Clean administration and service-delivery field visits

We conclude this report by sharing some success stories of municipalities that have both achieved clean audits and effectively delivered infrastructure projects to improve the lives of their citizens. The section firstly gives some background on the field visits of the auditor-general (AG) to these municipalities, then lists key characteristics that have had a positive impact on the audit outcomes and service delivery of these municipalities, and lastly details specific projects before touching on the way forward.

The table below shows the 2013-14, 2012-13 and 2007-08 audit outcomes of the municipalities that achieved clean audit outcomes in the current year.

Table 1: Comparison of current year, previous year and 2007-08 audit outcomes of municipalities with clean audits

Auditee	Auditee type	2013-14 audit outcomes	2012-13 audit outcomes	2007-08 audit outcomes
		Audit opinion	Audit opinion	Audit opinion
iLembe district	DM	Unqualified with no findings	Unqualified with findings	Qualified with findings
uMgungundlovu district	DM	Unqualified with no findings	Unqualified with findings	Unqualified with findings
uThungulu district	DM	Unqualified with no findings	Unqualified with findings	Unqualified with findings
Zululand district	DM	Unqualified with no findings	Unqualified with findings	Unqualified with findings
Dannhauser	LM	Unqualified with no findings	Unqualified with findings	Disclaimed with findings
eMnambithi/Ladysmith	LM	Unqualified with no findings	Unqualified with findings	Unqualified with findings
Ezinqoleni	LM	Unqualified with no findings	Unqualified with findings	Disclaimed with findings
Mandeni	LM	Unqualified with no findings	Unqualified with findings	Unqualified with findings
Richmond	LM	Unqualified with no findings	Unqualified with findings	Unqualified with findings

Auditee	Auditee type	2013-14 audit outcomes	2012-13 audit outcomes	2007-08 audit outcomes
		Audit opinion	Audit opinion	Audit opinion
Ubuhlebezwe	LM	Unqualified with no findings	Unqualified with no findings	Qualified with findings
uMhlathuze	LM	Unqualified with no findings	Unqualified with no findings	Unqualified with findings
uMzimkhulu	LM	Unqualified with no findings	Unqualified with no findings	Unqualified with findings
Umzumbe	LM	Unqualified with no findings	Unqualified with findings	Unqualified with findings

Legend (audit outcomes)	DM = district municipality LM = local municipality
Unqualified with no findings	
Unqualified with findings	
Qualified with findings	
Disclaimed with findings	

The field visits were part of our effort to put a face to the concept of a clean audit as well as demonstrate that it is all in the hands of the leadership to restore confidence in local government. It is our earnest desire that all entrusted with financial management and oversight responsibilities in local government can take some useful lessons from the better practices of these municipalities. We applaud all of them for blazing a trail in this effort towards good financial management and governance.

### Background

In the first three months of 2015, AG Kimi Makwetu and staff from our office visited different municipalities across the country that had received clean audits. As previously explained, an auditee achieves a clean audit (or an unqualified opinion with no findings) when the financial statements are unqualified and we report no findings on either reporting on predetermined objectives or compliance with key legislation.

The aim of the field visits was to observe, first hand, the correlation between clean audit outcomes and service delivery achievements as well as to identify the key characteristics of these clean audit municipalities.

The leadership of these municipalities had an opportunity to reflect on the importance of clean administration as a catalyst to drive service delivery, showcase their governance structures as a critical area in ensuring the attainment of clean audit outcomes, and accompany the AG and his team on visits to key projects.

In this regard, we are now in a better position to confirm that these clean audits do not come on the back of the non-delivery of services, as demonstrated by the projects described further on in this section. The same practices applied by these municipalities over the last few years in achieving clean audits were also evident in the management of the projects visited. These included using action plans with clear timelines; officials being assigned specific roles and responsibilities and being adequately supervised and monitored by senior management; employing skilled people in key positions, such as engineers; a healthy interface between the administrative and the political leadership; and effective oversight by governance structures, such as audit committees.

The observations made during the visits should not be regarded as an audit and the outcomes are not intended to showcase any municipality or province. However, we considered it worthwhile to share the good practices noted during the visits, as these could benefit other municipalities struggling to achieve clean administration and grappling with service delivery challenges.

## **Key characteristics that have had a positive impact on audit outcomes and service delivery**

### *Leadership*

- The roles of the council and the administration are clarified and understood, and they actively participate in forums to promote a common vision for good governance through accountable financial and performance management and compliance with legislation.
- The municipal leadership displays a great awareness and understanding of what municipalities have to achieve on a daily basis, both from a financial management and governance perspective as well as a service delivery point of view.
- They have suitably qualified officials to implement the disciplines around financial management and good governance, which are supported by

dedicated political leaders who monitor and ensure that these disciplines are implemented.

- Credible action plans are developed and implemented to correct the internal control deficiencies we had highlighted in previous years.
- The monitoring of the implementation of action plans is a standing agenda item at meetings of councils and audit committees on a quarterly basis.
- Particular attention is paid to the systems used to manage and report on their performance while corroborating their service delivery reports, apart from being able to produce credible accounts on their revenue, expenses, liabilities and assets.

### *Financial and performance management*

- Basic internal controls and systems, including performing daily, monthly and quarterly reconciliations of their financial records, are embedded in the control environment of municipalities.
- Proper record keeping is implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Regular, accurate and complete financial and performance reports are prepared and supported by reliable information.
- Measures are implemented to ensure that legislated duties are performed and that prohibited transactions are prevented to ensure compliance with regulations.

### *Governance*

- Ongoing risk identification and risk management form an integral part of the governance arrangements at these municipalities.
- Fully functional internal audit units are in place, over which audit committees provide effective oversight.
- MPACs have been established and contribute to enhanced oversight.

### *Further factors making the municipalities successful*

- Making good governance and service delivery the norm is a key element of the success of the municipalities who achieved clean audits.
- The municipalities take great pride in their work and responsibilities, as they believe they exist to provide effective services to their citizens.

- The municipal leadership creates platforms and facilities for communities to express their needs and service delivery concerns to the municipality; for example, through regular meetings in community halls and having a 24-hour hotline to report service breakdowns.
- Innovation to enhance the services provided to citizens is central to ensuring that municipal resources are applied economically, effectively and efficiently.
- Entrenched skills in engineering and project management are present at these municipalities.
- The municipalities do not see the achievement of a clean administration as a project, but rather as an outcome of the continuous implementation of governance processes and disciplines, which are key in achieving service delivery. Consequently, these municipalities achieve clean administration without compromising service delivery.
- The municipalities use their clean administration status to attract investors and donors, which then collaborate with the municipalities and provide more funding, enabling the municipalities to deliver more and better services to their communities.
- The municipalities are determined to sustain their clean audit status.
- There is no fear of being audited and the municipalities respond positively to our recommendations.

These key characteristics were evident at all the municipalities visited, as further detailed below.

## Field visits

The KwaZulu-Natal leg of the AG's visits to municipalities that had obtained a clean audit in 2013-14 included the following municipalities:

- uThungulu district (2 February 2015)
- uMhlathuze (2 February 2015)
- Zululand district (3 February 2015)
- Mandeni (3 February 2015)
- uMgungundlovu district (4 February 2015)

## uThungulu district



*The AGSA's delegation with executive mayor and council members of uThungulu district.*

Located in the north-eastern region of the province on the eastern seaboard of South Africa, this municipality covers an area of 8 000 square kilometres, from the agricultural town of Gingindlovu in the south, to the Umfolozi River in the north, and inland to the mountainous beauty of rural Nkandla. The uThungulu district has six local municipalities.

The AG was hosted by the mayor, Cllr TVB Mchunu, and was taken through detailed presentations before embarking on site visits. The mayor concluded her presentation by mentioning the following as key ingredients to achieving and sustaining a clean audit opinion:

- Effective and efficient leadership.
- A skilled, competent and strategic management team.
- Skilled, competent and capacitated staff.
- Assessing previous internal and external audit reports with a road map to address the matters raised.
- Performing routine tasks daily.
- Regularly communicating with all stakeholders.

- A sound system of internal control, monitored by a competent internal audit unit.
- Setting the goal of a clean audit as a priority for all.

The municipal manager, Bonginkosi Biyela, highlighted the following in his presentation:

- Keeping abreast of new legislation is vital for success.
- Continued accounting updates are of importance.
- The importance of effective intergovernmental forums.
- The fact that the district was rated the best-run district by the provincial premier's office and CoGTA.

## Project visited

### Regional water scheme: Greater Mthonjaneni phases 1 and 2

This scheme currently supplies about 3 000 households in Mthonjaneni, Eshowe and Ntambanana; and it is expected to supply around 10 000 households on completion. The dam is owned by the Department of Water Affairs and the water scheme is owned by uThungulu district. According to the municipal manager, Bonginkosi Biyela, about 2 000 people benefited from this project through temporary and permanent jobs. Heavy-duty pumps are used to pump water up the mountain to Mthonjaneni in Melmoth. The objective of this project is described as 'number of households with access to basic water' in the municipality's annual performance report, and the scheme is managed by a team of competent technical staff. Biyela further provided insights on how the scheme enables the reuse and recycling of water and on how the achievement of a clean audit is closely related to service delivery and satisfied people in the municipal area. The municipality emphasised that monitoring, evaluation and reporting are key practices, underpinned by good project management.



*The Greater Mthonjaneni water scheme will supply about 3 000 households in the areas of Mthonjaneni, Eshowe and Ntambanana.*



*AG Kimi Makwetu and his team with council members of uMhlathuze.*

This municipality is part of the uThungulu district, where the AG was hosted by the deputy mayor, Cllr Ntombizethu Vera Gumbi. The AG's delegation received detailed presentations by the deputy mayor, municipal manager and CFO before embarking on site visits. Cllr Gumbi attributed the success of the municipality to the interactions and commitments of various stakeholders, ranging from our leadership in the province, the provincial treasury as well as the provincial CoGTA. She stated that the municipality had programmes for community upliftment, empowerment of rural areas, economic development and attraction of investments, maintenance of community development standards in all areas, provision of affordable housing, and poverty alleviation through the creation of suitable and sustainable enabling environments within the borders of the municipality, which were driven and monitored diligently by the council.

Municipal manager, Dr Nhlanhla Sibeko, emphasised that to be successful, all components of the municipality must work together in harmony and get the basics right. 'The key successes were due to all staff being held accountable for their actions in their day-to-day operations coupled with project management and monitoring of turnkey projects,' he said.

## Projects visited

### Housing project

The AG and his delegation were taken to Dumisani Makhaye Village phases 1, 2, 3, 5, 6, 7 and 8 as well as Aquadene. The objective of this project is reflected as 'number of new low-cost houses built (Dumisani Makhaye Village and rural housing projects)' in the annual performance report of the municipality. The municipality described the project located in Empangeni, where various phases of the Dumisani Makhaye Village had been completed to improve the living conditions of people who had been living in informal dwellings since 1995. The houses were equipped with lighting and water at one point in the dwelling, with the latest technology monitoring electricity usage against the prepaid amounts purchased per house. LED street lights had been installed in the neighbourhood and the brightness of these lights could be controlled to save energy.

According to Cllr Gumbi, the achievement of a clean audit was closely related to service delivery and satisfied people in the municipal area. The municipality understood that project management, budgeting, monitoring and key milestones are essential for ensuring that activities are undertaken in the most economical, efficient, effective and value-adding manner.



*Supplying services to the people is one of the key offerings by any local government; and where you provide housing, other essential services such as electricity and water need to be part of the offering, as is the case with this low-cost housing development in Dumisani Makhaye Village.*

## Process control and telecommunications

The next stop for the AG was the technical operating centre. Some of the key deliverables of the centre are the following:

- Electricity – monitoring strategic power distribution points with alarm features and historian devices.
- Sewer – monitoring sewer plants and pumps with alarm and remote pump control.
- Water – monitoring water plants and reservoirs with alarm and remote pump control.
- Street lights – monitoring street lights with alarm features that dim functionality.
- Fleet – monitoring that vehicles follow prescribed routes with remote controlling of vehicles.
- Metering and load management – monitoring meter consumption in relation to supply and demand to correct distribution scaling, enhance protection and facilitate a smart metering migration platform.

The municipal leadership and technical staff provided feedback on the adoption of the technical operation centre and said that the benefits included decreased downtime due to improved system security, planning, tuning and utilisation, as well as an increased life cycle due to the ability to better leverage existing technology investments.

The objectives of this project are reflected in the annual performance report as 'number of households with access to electricity', 'households with access to basic water' and '% households with access to basic sanitation'. Dr Sibeko and his team also highlighted the existence of a call centre that tracks adherence of the municipal fleet to predefined and prescribed routes to ensure that vehicles are used for official business only. The municipal leadership is convinced that its flagship system will go a long way in improving service delivery by addressing the needs of the community and reducing wastage.



*According to the municipality, the objectives of this project are to have a connected system where the number of households with access to electricity, basic water and sanitation can be tracked to improve their offering of services to the greater public.*

## Zululand district



*The AGSA's delegation with some of the council members of Zululand District.*

This municipality, located in the northern region of the province, covers an area of approximately 14 810 square kilometres. Almost half of the area is under the jurisdiction of traditional authorities, while the remainder is divided between commercially owned farms and conservation areas. Of the 157 749 households in the district, 87 860 are headed by women and children, with an unemployment rate of 41%.

Here the AG was received by the executive mayor, Cllr MA Hlatshwayo, and the speaker, Cllr VO Mbuyisa. In attendance were members of the municipality's executive committee, senior management, representatives from the audit committee and MPAC as well as members of the council. Cllr Hlatshwayo highlighted the importance of service delivery commitments and an appreciation of the AG's visit to the district. Head of planning and water services, Mr S Landman, presented the municipality's outcomes linked to a culture that has been built over a number of years, including highly skilled employees, employee development and retention. The municipality also pointed out the importance of community involvement through ward committees and keeping the community informed on a regular basis. Cllr Hlatshwayo attributed the clean audit to the

dedicated senior management team as well as training, developing and competitively remunerating staff. He further highlighted that all other structures of the municipality, such as the internal audit unit, audit committee, MPAC and council, were functioning well.

## Project visited

### Mahlombe pump line to Lindizwe/Vuna Dam

The AG and his delegation visited the Mahlombe pump line to the Lindizwe/Vuna Dam located in Nongoma where a water project is in progress. This project will serve 29 500 households and 215 600 people in the communities of Ivuna, Mahlombe, Kwandase, Ekubuseni, Itshodo, Khalweni, Newgoli, Badleni, Esigangi, Emkhondo, KwaDenge, Gomondo, Kwasicengile, Sikhaleni, Ndikandika, and Esikhaleni. It is estimated that employment opportunities will be provided to 10 818 people as part of the project, which will help to alleviate the high unemployment rate in the area.

Cllr Hlatshwayo, once more, said that the achievement of a clean audit was closely related to service delivery and satisfied people in the municipal area, as there have been no service delivery protests in the district. 'Monitoring, evaluation and reporting are key practices in the municipality, supported by good project management,' he said. He further stated that the municipality had highly skilled officials and a fully capacitated workforce who understood the municipal landscape. At the site, he reiterated the leadership's commitment to take full accountability for performance, have a sound knowledge of community needs as well as maintain accurate financial and performance monitoring and reporting.





*The Mahlombe pump line project will serve 29 500 households and 215 600 people in the communities of Ivuna, Mahlombe, Kwandase, Ekubuseni, Itshodo, Khalweni, Newgoli, Badleni, Esigangi, Emkhondo, KwaDenge, Gomondo, Kwasicengile, Sikhaleni, Ndikandika, and Esikhaleni.*

## Mandeni



*AG Kimi Makwetu and his team with council members of Mandeni.*

This municipality is situated between Durban and Richards Bay and lies on the development corridor on the north coast between these two major port cities in the province. The mayor, Cllr SB Zulu, highlighted that the clean audit was the result of the implementation of a turnaround plan on key issues to address challenges. He said that the oversight role of the council to ensure the governance of the municipality was maintained, as was the support that the municipality received from the provincial treasury and the provincial CoGTA. He further indicated that the governance structures assisted with obtaining a clean audit, such as internal risk management committees, the audit committee, MPAC and an effective internal audit unit. ‘A full staff complement with the requisite knowledge and experience has been a key driver for success and sound internal controls,’ he pointed out.

### Projects visited

#### Central business district (CBD) secondary intersection

The CBD secondary intersection is the first part of a three-phase project. The project will ensure that the CBD becomes more functional by reducing traffic congestion, thus promoting social and economic growth. The municipal leadership explained that they had embarked on an urban renewal programme



to formalise the CBD and make it more functional from an infrastructure and planning perspective. 'The challenges faced on the project relate mainly to planning and land/legal issues, as people have settled informally and must be relocated before development can take place to clean up the CBD,' said Cllr Zulu. The municipality has qualified for various forms of grant funding to improve the town and address community needs in this regard. According to the annual performance report, the objective of this project is to provide and maintain stormwater drains and channels in the CBD.



*Mandeni plans to formalise the CBD and make it more functional from an infrastructure and planning perspective. The CBD secondary intersection will facilitate the flow of traffic to the area.*

### **Nyoni housing project**

This is a slum-clearance project that will see a fully integrated human settlement with a densification concept to increase the level of beneficiation. Cllr Zulu and his team said that the multi-year project will see approximately 3 000 houses being constructed. To date, 71 houses have been constructed and handed over to beneficiaries, while the construction of others is in progress. This is in line with the objective of 'provision of new roads, stormwater, bridges and related infrastructure' in the municipality's annual performance report.

The project is a human settlement project funded by three different funders. 'iLembe district is funding the bulk water and sanitation infrastructure, Mandeni is funding the bulk roads and stormwater and the Department of Human Settlements is funding the internal reticulations and the houses,' said Cllr Zulu. The municipality has put people and their concerns first by delivering basic

services. 'A clean audit ensures stakeholder happiness while service delivery ensures that the municipality obtains and retains the trust and affection of the community,' he said.



*The multi-year housing project seeks to construct approximately 3 000 houses.*

## uMgungundlovu district



*The AGSA's delegation led by AG Kimi Makwetu and council members of uMgungundlovu District, in front of the newly constructed water reservoir that supplies a number of villages in Impendle.*

One of 11 district municipalities in the province, the seat of this municipality is Pietermaritzburg and is home to just over 928 000 citizens. Here the AG was hosted by Cllr YS Bhamjee and municipal manager, Mr TLS Khuzwayo. In attendance was the full membership of the municipality's executive committee, senior management, representatives from the audit committee and MPAC as well as council members.

Khuzwayo presented the municipality's road map towards institutional excellence, linking the municipality's journey from a position of repeat disclaimers to a clean audit in 2013-14 with the impact on service delivery. He said that this journey was based on a turnaround strategy implemented by the current leadership, with a focus on the strategic link between a clean audit and improved service delivery. According to Cllr Bhamjee, the entire structure of the municipality should be geared towards a sustainable clean audit. He also emphasised the importance of synergy between the governance structures and management. 'A clean audit is the first step in providing the information and

support structures necessary to overcome the actual challenges to service delivery; for example, proper backlog planning, planning between organs of state for various integrated roads, water and electricity infrastructure projects, and geographical challenges in bringing basic services to impoverished rural communities,' he said.

### Project visited

#### Impendle KwaNovuka water supply scheme number two

The components of this scheme include the Ntshishini River abstraction, water treatment works, and reservoir. Cllr Bhamjee and his team said that this project demonstrates that with the correct planning and project management processes, challenges can be managed and service delivery can be improved. The executive manager of technical services demonstrated the components of the project to the AG, outlining the processes and challenges in the progress of each sub-component of the project. These included geographical location, national electrical infrastructure, and national bulk water supply challenges.

The provision of access to potable water has directly decreased diseases and other health-related issues in the area. 'The political leadership is familiar with the project and has played an oversight role by inspecting work in progress. This project is evidence of the spending of the MIG to clear backlog infrastructure service delivery and satisfy the needs of the local community,' said Cllr Bhamjee. The municipality's SDBIP and annual performance report contain a key strategic service delivery objective of 'water provision: to improve access to basic levels of water', with this project forming part of the reported performance for the year.



*The water treatment works facility in Impendle.*



*The provision of access to potable water has directly decreased diseases and other health-related issues in the area.*



*The river where the water distribution facility was constructed for supplying the reservoir – previously, communities had to fetch their daily water with buckets.*

## Conclusion

The municipalities we visited demonstrate impeccable levels of discipline and oversight in their financial management and operational activities. They have strong financial and performance management systems and governance structures, which enable them to safeguard public money and use it appropriately and transparently to improve the lives of people through service delivery within the framework of applicable laws. These systems and governance structures support the municipalities' ability to develop service delivery plans, allocate funds and utilise them within the framework of the law to deliver public services, and accurately report on their ability to deliver these services.

A key ingredient for obtaining a clean audit and delivering services is the presence of strong governance structures and systems, which would easily detect and timeously correct the breakdown of controls in municipalities. Such environments are characterised by readily available documentation. Most importantly, they have accountable managers and leaders who are able to provide explanations and additional evidence in support of the transactions they are reporting on. They also have the support of strong oversight by mayors and councils that back the efforts of municipal managers and CFOs.

Those municipalities that are struggling to improve the quality of their financial and service delivery reporting as well as to prevent non-compliance with legislation have not institutionalised these good practices, which can result in service delivery objectives not being achieved. They should implement the key disciplines entrenched at the municipalities with clean audit outcomes, as detailed earlier on in this section under the key drivers of internal control.

Municipalities are at the forefront of service delivery, as they have a direct impact on the experiences and lives of South Africans. It is therefore important for municipalities to have sound systems and governance structures that will enable them to continue to achieve high levels of efficiencies and find innovative ways to deliver services. The municipalities that achieved clean audits have demonstrated that they are better placed to continuously improve the delivery of services.



# ANNEXURES

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No.	Auditee	2013-14 audit outcomes		2012-13 audit outcomes		Financial statement qualification areas						Findings on predetermined objectives			Findings on compliance											Findings on specific risk areas			Unauthorised, irregular as well as fruitless and wasteful expenditure																		
		Audit opinion	Predetermined objectives Compliance with legislation	Audit opinion	Predetermined objectives Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for auditing	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committees	Internal audit units	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Quality of submitted performance reports	Supply chain management	Financial health	HR management	Information technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R					
Local municipalities																																															
21	Hlabisa	R	R	R	R	R	R	N	A	R	N	N	N		R	N	A		R	R	R	R	R	N	R	A	R	R	N	R	R	N	R	R	M				2,6m	0,97m	0,09m						
22	Imbabazane		A	R	R										A				N					A																		0,09m					
23	Impendle		A	R	R										A	A			R	A																						0,62m	1,1m				
24	Indaka		A	N	R	A													N								N															15,7m	2,0m				
25	Ingwe		R	R	R	R									R	A			R	A	A			A	A	A		A														5,6m	7,0m	0,06m			
26	Jozini		N	R	A	R	N	N	N		N	N	N	N	N	N			R					N	N				N	N	N	N											25,9m	93,0m	0,12m		
27	KwaSani		A	R	R	R									A				R	A				A	N			A															0,54m	4,6m	0,03m		
28	Kwadukuza		R	R	R	R									R	R			A	R				A				R	R	N	A													46,6m			
29	Mandeni		A	A	R	R									A	A			A	A	A			A				A															36,0m		0,006m		
30	Maphumulo			R		R													A	N							A		N	R	R													1,7m	3,0m	0,11m	
31	Mfolozi		R	R	R	R									R	R			R	N							A																	11,2m	17,5m		
32	Mkhambathini		R	R	R	R									R	N			R	A																								1,8m			
33	Mpofana		R	R	R	R	N	N	N		N		R		R				R	R	N			N	R		A	A	R	A															2,4m	28,5m	0,09m
34	Msinga			N	A	A																																						4,8m			
35	Msunduzi		A	R	R	R		A			A								R	R																								12,4m	269,0m	0,14m	
36	Mthonjaneni			R	A	R													R	R																								19,6m	34,8m	0,001m	
37	Mtubatuba		R	R	R	R		A							R	N			R	R	N			R	A	R	N	N																	18,3m	8,3m	0,32m
38	Ndwedwe			R		R													R	N																									3,3m	7,9m	1,2m
39	Newcastle			R	R	R	A	N	A										R	R																									57,2m		
40	Nkandla		A	R	R	R									A	A			R	N																								8,2m	30,8m	0,17m	
41	Nongoma		R	R	R	R	A								R	N			R	R	R			N	R	A		A	A	R															13,2m	1,8m	0,002m
42	Nquthu		A	R	R	R									A	A			A	N	R																									0,03m	
43	Ntambanana			N		A																																									
44	Okhahlamba			N		A													N																										6,1m	0,008m	
45	Richmond			A		R													A	A																									0,17m		
46	The Big Five False Bay		N	R		A	R								N	N			R	R	N																							5,6m	0,36m	0,47m	
47	Ubuhlebezwe					A	A																																						0,23m		
48	Ulundi			R		R													R	R																								20,5m	22,9m	9,1m	
49	Umdoni		R	R	R	R									A	N			R	R																								2,5m	16,4m		
50	uMhlabuyalingana		N	R		A	R								N	N			R	A																									30,1m	0,04m	
51	uMhlathuze					A	A																																								





## Annexure 2: Comparison of audit outcomes over five years

No.	Auditee	Audit outcome 2013-14			Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11			Audit outcome 2009-10		
		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
<b>Metropolitan municipality</b>																
1	eThekweni metro	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
<b>District municipalities</b>																
2	Amajuba district	Disclaimer			Unqualified with findings			Unqualified with findings			Qualified			Unqualified with findings		
3	Harry Gwala district	Unqualified with findings			Unqualified with findings			Qualified			Unqualified with findings			Unqualified with findings		
4	iLembe district	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
5	Ugu district	Qualified			Disclaimer			Qualified			Unqualified with findings			Unqualified with findings		
6	Umgungundlovu district	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
7	uMkhanyakude district	Qualified			Qualified			Disclaimer			Adverse			Qualified		
8	uMzinyathi district	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with no findings			Unqualified with findings		
9	uThukela district	Qualified			Disclaimer			Disclaimer			Qualified			Unqualified with findings		
10	uThungulu district	Unqualified with no findings			Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
11	Zululand district	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
<b>Local municipalities</b>																
12	Abaqulusi	Unqualified with findings			Qualified			Disclaimer			Unqualified with findings			Unqualified with findings		
13	Dannhauser	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
14	eDumbe	Unqualified with findings			Qualified			Disclaimer			Qualified			Disclaimer		
15	eMadlangeni	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with no findings			Unqualified with findings		
16	eMnambithi/Ladysmith	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
17	Endumeni	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
18	Ezinqoleni	Unqualified with no findings			Unqualified with findings			Qualified			Unqualified with findings			Unqualified with findings		
19	Greater Kokstad	Unqualified with findings			Unqualified with findings			Qualified			Unqualified with findings			Unqualified with findings		
20	Hibiscus Coast	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
21	Hlabisa	Disclaimer			Qualified			Qualified			Qualified			Unqualified with findings		
22	Imbabazane	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
23	Impendle	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
24	Indaka	Unqualified with findings			Unqualified with findings			Qualified			Disclaimer			Adverse		
25	Ingwe	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
26	Jozini	Disclaimer			Unqualified with findings			Qualified			Qualified			Unqualified with findings		
27	KwaSani	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
28	Kwadukuza	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
29	Mandeni	Unqualified with no findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		
30	Maphumulo	Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings			Unqualified with findings		

No.	Auditee	Audit outcome 2013-14		Audit outcome 2012-13		Audit outcome 2011-12		Audit outcome 2010-11		Audit outcome 2009-10			
		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings	
			PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance
<b>Local municipalities</b>													
31	Mfolozi	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Qualified			
32	Mkhambathini	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
33	Mpofana	Qualified		Qualified		Unqualified with findings		Unqualified with findings		Unqualified with findings			
34	Msinga	Unqualified with findings		Unqualified with no findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
35	Msunduzi	Unqualified with findings		Qualified		Unqualified with findings		Unqualified with findings		Qualified			
36	Mthonjaneni	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
37	Mtubatuba	Unqualified with findings		Qualified		Disclaimer		Unqualified with findings		Unqualified with findings			
38	Ndwedwe	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
39	Newcastle	Qualified		Qualified		Qualified		Qualified		Qualified			
40	Nkandla	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
41	Nongoma	Unqualified with findings		Qualified		Unqualified with findings		Unqualified with findings		Unqualified with findings			
42	Nquthu	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Qualified			
43	Ntambanana	Unqualified with findings		Unqualified with no findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
44	Okhahlamba	Unqualified with findings		Unqualified with no findings		Unqualified with findings		Unqualified with findings		Qualified			
45	Richmond	Unqualified with no findings		Unqualified with findings		Unqualified with findings		Unqualified with no findings		Unqualified with findings			
46	The Big Five False Bay	Unqualified with findings		Unqualified with findings		Qualified		Unqualified with findings		Unqualified with findings			
47	Ubuhlebezwe	Unqualified with no findings		Unqualified with no findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
48	Ulundi	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
49	Umdoni	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with no findings		Unqualified with findings			
50	uMhlabuyalingana	Unqualified with findings		Unqualified with findings		Disclaimer		Unqualified with findings		Unqualified with findings			
51	uMhlathuze	Unqualified with no findings		Unqualified with no findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
52	uMlalazi	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
53	Umngeni	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
54	uMshwathi	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
55	Umtshezi	Unqualified with findings		Qualified		Unqualified with no findings		Unqualified with no findings		Unqualified with findings			
56	uMuziwabantu	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
57	Umvoti	Unqualified with findings		Unqualified with findings		Unqualified with findings		Qualified		Unqualified with findings			
58	uMzimkhulu	Unqualified with no findings		Unqualified with no findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
59	Umzumbe	Unqualified with no findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
60	uPhongolo	Unqualified with findings		Qualified		Disclaimer		Unqualified with findings		Unqualified with findings			
61	Vulamehlo	Qualified		Disclaimer		Unqualified with findings		Unqualified with findings		Unqualified with findings			

No.	Auditee	Audit outcome 2013-14		Audit outcome 2012-13		Audit outcome 2011-12		Audit outcome 2010-11		Audit outcome 2009-10			
		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings	
			PDO	Compliance		PDO	Compliance		PDO	Compliance		PDO	Compliance
<b>Municipal entities</b>													
62	Durban Marine Theme Park (Pty) Ltd	Unqualified with no findings		Unqualified with no findings		Unqualified with no findings		Unqualified with findings		Unqualified with findings			
63	Hibiscus Coast Development Agency	Qualified		Qualified		Unqualified with findings		Unqualified with findings		Unqualified with findings			
64	ICC, Durban (Pty) Ltd	Unqualified with no findings		Unqualified with findings		Unqualified with no findings		Unqualified with findings		Unqualified with findings			
65	iLembe Management Development Enterprise (Pty) Ltd	Unqualified with no findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
66	Safe City Pietermaritzburg	Unqualified with no findings		Unqualified with no findings		Unqualified with no findings		New auditee		New auditee			
67	Sisonke Economic Development Agency	Unqualified with findings		Unqualified with findings		New auditee		New auditee		New auditee			
68	Ugu South Coast Tourism	Unqualified with no findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
69	uMhlosinga Development Agency	Qualified		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
70	Uthukela Water (Pty) Ltd	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings			
71	uThungulu Financing Partnership	Unqualified with no findings	NA	Unqualified with no findings	NA	Unqualified with no findings	NA	Unqualified with no findings	NA	New auditee	NA		
72	uThungulu House Development Trust	Unqualified with no findings	NA	Unqualified with no findings	NA	Unqualified with no findings	NA	Unqualified with no findings	NA	New auditee	NA		







# 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, and debt due to the auditee.

*Assurance / assurance provider*

As used in this report, assurance is a positive declaration that is intended to give confidence in the credibility of financial and performance reports tabled by auditees and in the extent to which auditees have adhered to applicable legislation.

Through the audit report issued to the auditees, we provide assurance on the credibility of auditees' financial and performance information as well as their compliance with key legislation.

There are role players in local government (assurance providers), 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 (see 'oversight structures as well as coordinating and monitoring departments').

*Backups*

In information technology, a backup, or the process of backing up, refers to the copying and archiving of computer data so that it may be used to restore the original after a data loss event. The primary purpose of a backup is to recover data after its loss, be it by data deletion or corruption.

*Business continuity plan (BCP)*

A business continuity plan is a plan to continue operations if a place of business is affected by different levels of disaster, which can be localised short-term disasters, to days-long building-wide problems, to a permanent loss of a building. Such a plan typically explains how the business would recover its operations or move operations to another location after damage by events like natural disasters, theft or flooding. For example, if a fire destroys an office building or data centre, the people and business or data centre operations would relocate to a recovery site.



*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 compliance with key legislation.

*Commitments from role players*

Initiatives and courses of action communicated to us by role players in local government aimed at improving the audit outcomes.

*Conditional grants*

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

*Consolidated financial statements*

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

*Contingent liability*

A potential liability, the amount of which will depend on the outcome of a future event.

*Creditors*

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

*Current assets (in financial statements)*

These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.

*Disaster recovery plan (DRP)*

A disaster recovery plan is a documented process or set of procedures to recover and protect an auditee's information technology infrastructure in the event of a disaster. Usually documented in written form, the plan specifies the procedures that an auditee should follow in the event of a disaster. It is a comprehensive statement of consistent actions to be taken before, during and after a disaster. The disaster could be natural, environmental or artificial. Artificial disasters could be intentional, such as the act of an attacker; or unintentional (in other words, accidental), such as the wall of a dam breaking).

*Disclaimed opinion (on financial statements)*

The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.

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

The performance of internal control and monitoring-related tasks by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee.

These controls include 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 key legislation.

*Financially unqualified audit opinion (on financial statements)*

The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or compliance with key legislation, or both these aspects.

*Firewall*

A security system used to prevent unauthorised access between networks (both internal/internal and internal/external). A firewall will allow only approved traffic in and/or out by filtering packets based on the source or destination. The firewall inspects the identification information associated with all communication attempts and compares it to a rule set consistent with the auditee's security policy. Its decision to accept or deny the communication is then recorded in an electronic log.

*Fruitless and wasteful expenditure*

Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on the late payment of creditors or statutory obligations as well as payments for services not utilised or goods not received.

*Going concern*

The presumption that an auditee will continue to operate in the near future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.

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

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

<i>Human resource (HR) management</i>	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.
<i>Information technology (IT)</i>	The computer systems used for recording, processing and reporting financial and non-financial transactions.
<i>IT controls</i>	Computer-related controls ensure the confidentiality, integrity and availability of state information; enable service delivery; and promote national security.
<i>IT governance</i>	The leadership, organisational structures and processes which ensure that the auditee's information technology resources will sustain its business strategies and objectives.
<i>IT security management</i>	The controls preventing unauthorised access to the computer networks, computer operating systems and application systems that generate and prepare financial information.
<i>IT service continuity</i>	The processes of managing the availability of computer hardware, system software, application software (computer programmes) and data to enable auditees to recover or establish information system services in the event of a disaster.
<i>IT user access management</i>	The procedures through which auditees ensure that only valid and authorised users are allowed segregated access to initiate and approve transactions on the information systems.
<i>Internal control / key controls</i>	<p>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 key legislation.</p> <p>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.</p>
<i>Irregular expenditure</i>	Expenditure incurred without complying with applicable legislation.
<i>Key drivers of internal control</i>	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 compliance with key 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.

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*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 premier.

<i>Password</i>	In access control, confidential authentication information, usually composed of a string of characters, may be used to control access to physical areas and data. Passwords have to comply with certain complexity rules to ensure that they are not easy to guess.
<i>Property, infrastructure and equipment</i> (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.
<i>Qualified audit opinion</i> (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.
<i>Receivables / debtors</i> (in financial statements)	Money owed to the auditee by persons, companies or organisations that have procured goods or services from the auditee.
<i>Reconciliation</i> (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.
<i>Root causes</i> (of audit outcomes being poor or not improving)	The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps to 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.
<i>Supply chain management</i> (SCM)	Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.
<i>Unauthorised expenditure</i>	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.
<i>Vulnerability</i>	In information security, a weakness or flaw (in location, physical layout, organisation, management, procedures, personnel, hardware or software) that may be exploited by an attacker to cause an unfavourable impact.

## Acronyms and abbreviations

<b>AFS</b>	<i>annual financial statements</i>
<b>AG</b>	<i>auditor-general (the person)</i>
<b>AGSA</b>	<i>Auditor-General of South Africa (the institution)</i>
<b>BCP</b>	<i>business continuity plan</i>
<b>CEO</b>	<i>chief executive officer</i>
<b>CFO</b>	<i>chief financial officer</i>
<b>CoGTA</b>	<i>Department of Cooperative Governance and Traditional Affairs</i>
<b>DM</b>	<i>district municipality</i>
<b>DRP</b>	<i>disaster recovery plan</i>
<b>FMG</b>	<i>financial management grant</i>
<b>HR</b>	<i>human resources</i>
<b>IDP</b>	<i>integrated development plan</i>
<b>IT</b>	<i>information technology</i>
<b>LM</b>	<i>local municipality</i>
<b>m</b>	<i>million</i>
<b>metro</b>	<i>metropolitan municipality</i>
<b>ME</b>	<i>municipal entity</i>
<b>MEC</b>	<i>member of the executive council</i>
<b>MFMA</b>	<i>Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</i>
<b>MIG</b>	<i>municipal infrastructure grant</i>
<b>MPAC</b>	<i>municipal public accounts committee</i>
<b>MSA</b>	<i>Municipal Systems Act, 2000 (Act No. 32 of 2000)</i>
<b>MSIG</b>	<i>municipal systems improvement grant</i>
<b>MTSF</b>	<i>medium term strategic framework</i>
<b>SALGA</b>	<i>South African Local Government Association</i>
<b>SCM</b>	<i>supply chain management</i>
<b>SDBIP</b>	<i>service delivery and budget implementation plan</i>









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