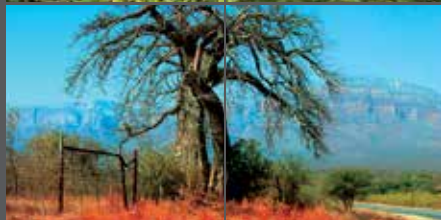
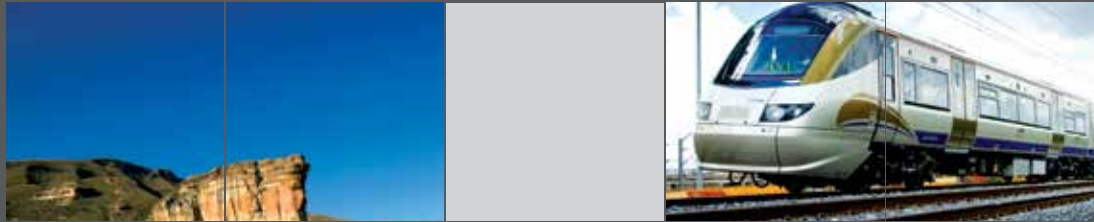
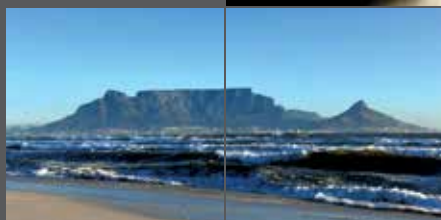


MFMA 2011-12



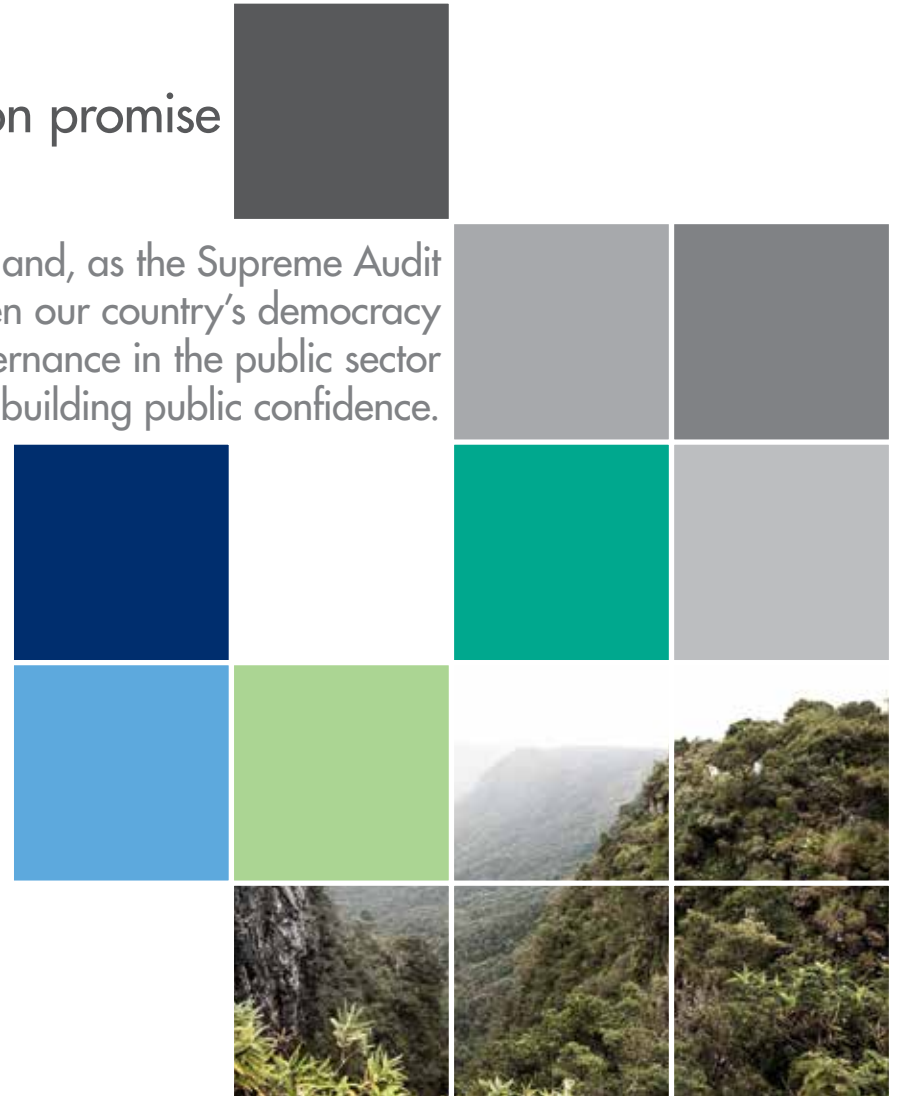
Consolidated general report on the LOCAL GOVERNMENT audit outcomes  
**SIGNIFICANT DEFICIENCIES IN AUDITEES' SYSTEMS OF  
INTERNAL CONTROL**



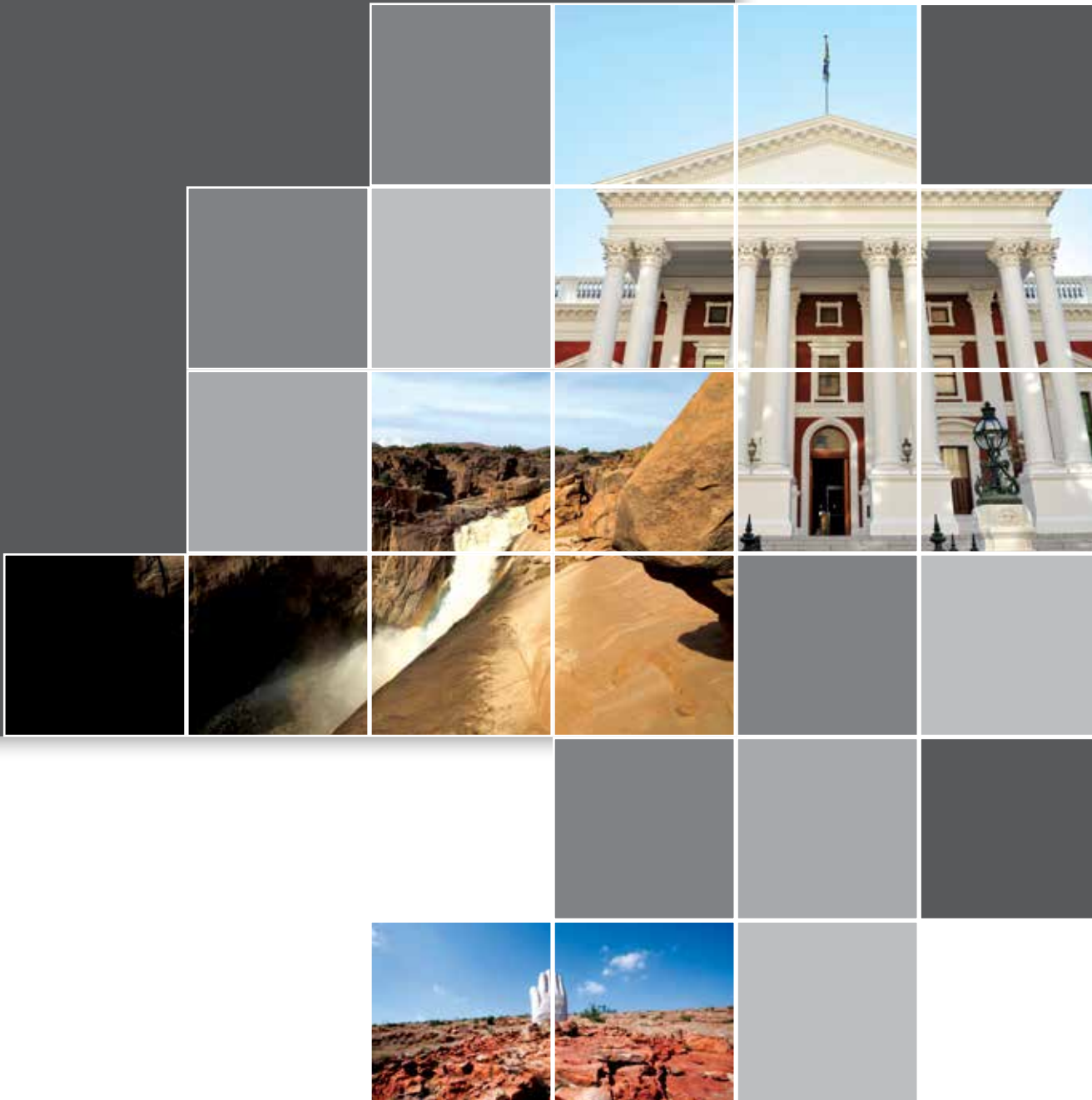
AUDITOR-GENERAL  
SOUTH AFRICA

## Our reputation promise

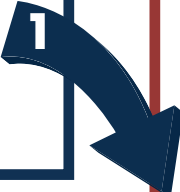
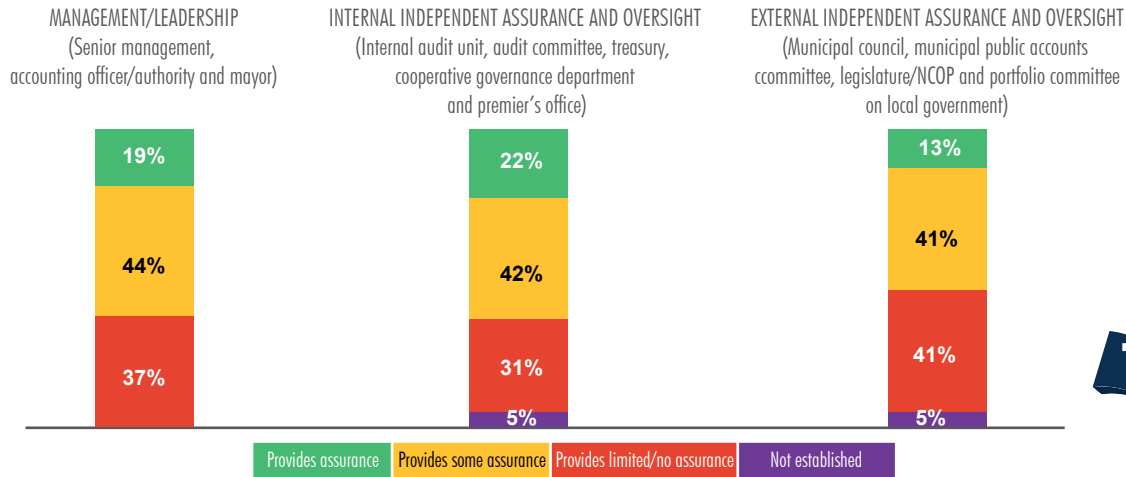
The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



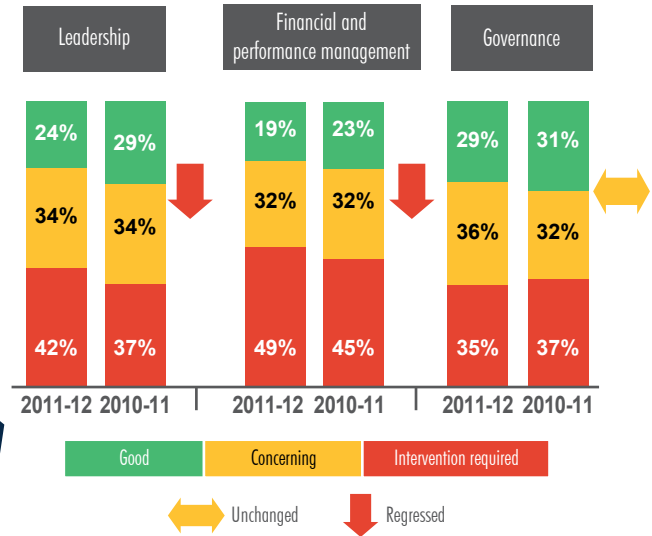
# FOREWORD



### KEY ROLE PLAYERS NOT PROVIDING ASSURANCE



### DRIVERS OF KEY CONTROLS NOT IMPROVING



### THE KEY ROLE PLAYERS NEED TO...

...TO ENSURE IMPROVED RESULTS...

...TAKE SOME VITAL ACTIONS...

### ...IN SIX KEY AREAS...

#### KEY RISK AREAS NOT RECEIVING REQUIRED ATTENTION



Concerning Intervention required

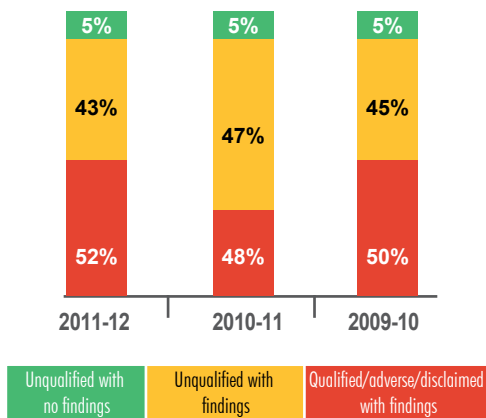
### ROOT CAUSES NOT BEING ADDRESSED

- Key positions vacant or key officials lacking appropriate competencies  
A root cause at **73%** of auditees (2010-11: 72%)
- Lack of consequences for poor performance and transgressions  
A root cause at **71%** of auditees (2010-11: 73%)
- Slow response by political leadership in addressing the root causes of poor audit outcomes  
A root cause at **76%** of auditees (2010-11: 57%)

Unchanged Regressed



### REGRESSION IN AUDIT OUTCOMES



# FOREWORD

I present my 2011-12 general report on local government audit outcomes to Parliament, the provincial legislatures and the municipal councils.

My 2010-11 general report drew attention to the root causes of poor audit outcomes and shared the commitments of oversight structures, provincial and national government as well as political leaders to support local government in a focused and cooperative manner to address these root causes.

Although the national, provincial and local spheres of government as well as oversight structures have started to implement actions to address the root causes, these initiatives have not yet had the desired effect on audit outcomes. Audit outcomes have regressed, with only 48% of the auditees being able to obtain financially unqualified audit opinions; most of which did so by correcting the mistakes identified through the audit process.

Except for the 5% that received clean audit opinions, all the auditees had material findings on either the usefulness or reliability of their annual performance reports or non-compliance with legislation, or findings on both these aspects. Even though I have consistently encouraged role players to urgently address the weaknesses in supply chain management, the quality of their annual performance reports and submitted financial statements, human resource management and information technology controls, this report shows that there has been little improvement. My report also highlights risks to the financial health of local government.

If local government attends to the key controls and addresses the risk areas and root causes I highlight in my report and sustain good practices, positive audit outcomes can be achieved and maintained. I call on municipal managers and mayors, the treasuries, the



cooperative governance departments, the offices of the premier and the South African Local Government Association to accelerate their efforts and cooperation to address the following root causes of the poor audit outcomes that I also highlighted in my 2010-11 report:

- The lack of capacity in local government is affecting its ability to account for the public resources it has to administer on behalf of society. At 73% of the auditees, vacancies in key positions and key officials without the minimum competencies and skills continued to make it difficult for these auditees to produce credible financial statements and performance reports. In order to fill this gap, 71% of the auditees depended on consultants to assist with financial reporting. Although capacity building and the professionalisation of local government is an ongoing, multi-year project, I am concerned that municipalities are not using all the opportunities available for skills development.

- Political leaders and municipal officials that deliberately or negligently ignore their duties and disobey legislation should be decisively dealt with through a formal performance management process that is complemented by the legislated consequences for transgressions. At just over 70% of the auditees, the lack of consequences for poor performance and transgressions slowed down the improvements in local government audit outcomes. Role players in local government often say that they do not know what remedies to apply to deal with transgressions. To help them, we have compiled a separate booklet on the legislation they can use, as a starting point for responsible leaders to set the correct tone.

I also call on the councillors of 76% of the auditees where I have encountered slow responses to addressing the poor audit outcomes to focus on the following:

- Prioritise their pursuit of the knowledge and skills they need to perform their oversight duties and insist on support from national and provincial government for their continuous development. If councillors do not feel equipped and enabled to effectively oversee municipal administration, they will not be able to hold municipal management to account and enforce consequences for poor performance and transgressions.
- Effectively and ethically apply the leadership skills that earned them the trust of their communities and strengthen their resolve to oversee and steer their municipalities towards achieving developmental objectives, adhering to legislation and accounting for actions in a credible and transparent manner.
- Further strengthen the municipal public accounts committees and support the important role they play.
- Insist, through their speakers, on sharing and reviewing regular and credible information on the status of the finances, service delivery and compliance activities of their municipalities.

The provincial legislatures' commitments to improve their oversight over local government in a cooperative manner have not been realised yet, but there is a renewed resolve to overcome the obstacles. I again invite legislatures to regularly cooperate with my office on local government matters.

National and provincial support and oversight for local government by treasuries and cooperative governance departments should be strengthened to improve municipalities' administrative and financial abilities. There needs to be a shift towards enabling municipalities in a practical and sustainable manner by providing operational guidelines and access to training and specialised skills. In this regard, district municipalities can play a larger part in fulfilling this role for municipalities struggling to find their own expertise. The legislation and initiatives recently announced by the ministers of public service administration and of cooperative governance should have a significant impact in strengthening local government, if supported at a municipal level and implemented in a coordinated and sustainable manner.

Although progress towards clean audits is slow, I am encouraged by examples across the country where the commitment of leaders and officials has resulted in examples of improved audit outcomes. I am confident that similar results can be achieved by the smallest local municipality to the biggest metro.

Together, we will continue to contribute towards strengthening our country's democracy.

*Auditor-General*

**Auditor-General  
Pretoria  
July 2013**

ROOT CAUSES OF AUDIT  
OUTCOMES

SIGNIFICANT  
DEFICIENCIES IN  
AUDITEES' SYSTEMS  
OF INTERNAL  
CONTROL



# SECTION 3 Root causes of audit outcomes

This section of the general report details the root causes of audit outcomes and the recommendations to address these root causes. Section 3.1 summarises the root causes, while further detail on the root causes and areas of risk that require attention is provided in the rest of the section under the following headings:

- Significant deficiencies in auditees' systems of internal control (section 3.2)
- HR management and the use of consultants (section 3.3)
- Information technology (IT) management (section 3.4)
- Audit committees and internal audit units (section 3.5)

## 3.1 SUMMARY OF ROOT CAUSES OF POOR AUDIT OUTCOMES


Our audit process includes an assessment of the root causes of audit findings, based on identifying the internal controls that failed to prevent or detect the error or non-compliance. The root causes are confirmed with municipal management and reported in the management report issued to the accounting officer and shared with the mayor. We also include the root causes of material findings reported in the audit reports as internal control deficiencies in the audit report, classified under the key drivers of leadership, financial and performance management, and governance. Section 3.2 provides more information on the specific drivers of internal control.

As reported in section 2, there has been a regression in the overall audit outcomes, characterised by financial and performance reports of a poor quality as well as continued high levels of non-compliance with legislation. The table that follows summarises the most common root causes of the audit outcomes in local government, provides recommendations to address the root causes, and identifies the role players responsible for addressing such root causes. As these root causes and recommendations were also reported in the 2010-11 management, audit and general reports, we give our view on the reasons why the previous year's root causes have not been fully addressed.

The graphics included in the table show the percentage of auditees where it is a not a root cause (green) or where it is a major root cause (red).


**Table 28**

**Summary of most common root causes of poor audit outcomes**

<p><b>Slow response by the political leadership in addressing the root causes of poor audit outcomes</b></p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Identified as Root Cause (%)</th> <th>Not Identified as Root Cause (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>24%</td> <td>76%</td> </tr> <tr> <td>2010-11</td> <td>43%</td> <td>57%</td> </tr> </tbody> </table>	Year	Identified as Root Cause (%)	Not Identified as Root Cause (%)	2011-12	24%	76%	2010-11	43%	57%
Year	Identified as Root Cause (%)	Not Identified as Root Cause (%)								
2011-12	24%	76%								
2010-11	43%	57%								
<p><b>Detail of root cause</b></p>										
<p>We identified the slow response by the political leadership to be a root cause of poor audit outcomes at 76% of the auditees, which is a significant increase from the 57% in the previous year. In 2010-11, we took into account that councils were newly established and accepted their commitments to address the poor audit outcomes through taking ownership and establishing municipal public accounts committees (MPACs) to improve their oversight function.</p> <p>Mayors and councils have significant roles and responsibilities to oversee and steer their municipalities towards achieving developmental objectives, adhering to legislation, and accounting for actions through financial and performance reporting. Over the past number of years, we have focused on key messages to the political leadership in local government and have strengthened our relationship to enable them to improve their leadership function.</p> <p>Our message to them has been that they need to embrace responsibility for guiding and directing the development and performance of the system of internal control in the auditees, to ensure credible financial and performance reporting as well as compliance with legislation. We have communicated this message through our audit and general reports as well as our regular interactions with mayors and councils.</p>	<p>In the past two years, we have simplified this message by identifying the key controls that should be in place to address the root causes of poor audit outcomes, assessing its status on a quarterly basis, sharing the results through a dashboard report, and providing recommendations to improve the controls. When the political leadership changed after the previous local government elections, we renewed our efforts to ensure that the new mayors and councillors shared a common understanding of the root causes of poor audit outcomes. The auditor-general has personally visited all municipalities in the country to talk with mayors and councillors on how they can improve audit outcomes by focusing on the key controls.</p> <p>The controls at a few municipalities have improved with a resultant improvement in audit outcomes, but overall the status of the key controls has regressed. Section 3.2 reports on the status and movement per key control, while sections 3.3 to 3.5 detail the status of the control areas that we have consistently reported as fundamental to improving the overall audit outcomes. In section 4.1, we also assess why mayors and councils are having a limited impact on improving the controls at auditees. The newly established MPACs are also not contributing yet, as discussed in section 4.2.</p>									

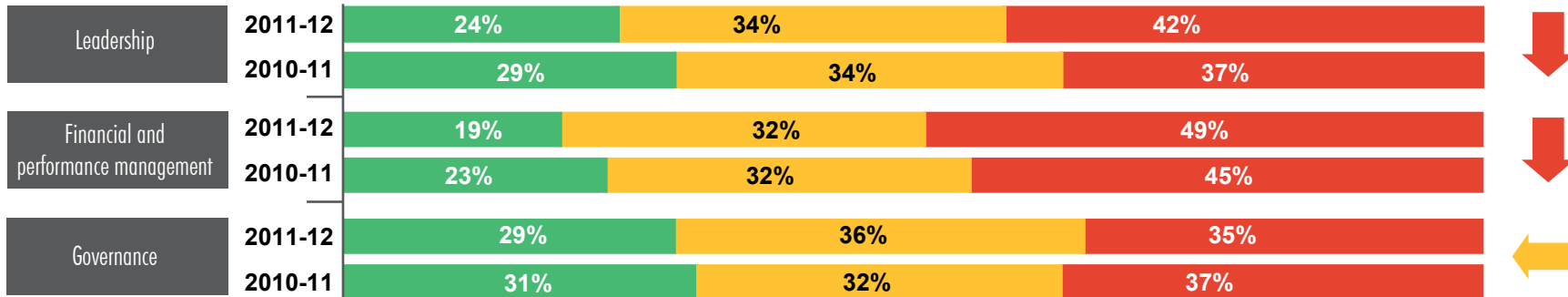
<b>Reasons why prior year root cause was not addressed</b>	
<p>Technical knowledge of financial management and reporting, performance management and legislation is not a prerequisite for elected office-bearers. They might also not be familiar with the concepts of control and oversight.</p>	<p>As a consequence, they did not feel equipped and enabled to effectively deal with municipal administration and to question the actions and decisions of municipal management and the information provided by them.</p>
<b>Recommendations</b>	
<p>Provincial and national role players should support the development of councillors and monitor the effectiveness of council oversight.</p> <p>Council members should focus on the following:</p> <ul style="list-style-type: none"> <li>• Stand firm in their pursuit of the knowledge and skills they need to perform their duties and insist on support from national and provincial government for their continuous development.</li> <li>• Effectively and ethically apply the leadership skills that earned them the trust of their communities.</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen their resolve to address the root causes of the poor audit outcomes through ensuring that the weaknesses in key controls are addressed in a sustainable manner.</li> <li>• Further strengthen the MPACs and support the important role they play (refer to section 4.2 for more information about this).</li> <li>• Insist, through their speakers, on sharing and reviewing regular and credible information on the status of the finances and activities of their municipalities.</li> </ul>
<b>Role players that should address the root cause</b>	
<ul style="list-style-type: none"> <li>• Councils, mayors and MPACs</li> <li>• Provincial legislatures, members of the executive council (MECs) for finance and for cooperative governance, and premiers</li> </ul>	<ul style="list-style-type: none"> <li>• Minister of cooperative governance and the South African Local Government Association (national and provincial structures)</li> <li>• Forums such as the Speakers' Forum and the Association of Public Accounts Committees</li> </ul>

<p><b>Key positions vacant or key officials lacking appropriate competencies</b></p>	<table border="1"> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>27%</td> <td>73%</td> </tr> <tr> <td>2010-11</td> <td>28%</td> <td>72%</td> </tr> </tbody> </table>	Year	Green (%)	Red (%)	2011-12	27%	73%	2010-11	28%	72%
Year	Green (%)	Red (%)								
2011-12	27%	73%								
2010-11	28%	72%								
<p><b>Detail of root cause</b></p>										
<p>We identified vacancies in key positions and key officials lacking appropriate competencies to be a root cause of poor audit outcomes at 73% of the auditees, which is at the same level as last year (72%). Leadership positions in the municipal administration should be filled with people that have the qualifications, experience and competency levels to fulfil their responsibilities and exercise their functions and powers effectively. As also reported in the previous year, many municipal manager, chief financial officer, head of SCM unit and other senior management positions were vacant.</p>	<p>Although these positions have been filled at some auditees, the appointed officials did not always have the appropriate competencies to ensure quality financial statements and performance reports as well as compliance with legislation. The high demand for consultants and support from national and provincial government is further evidence of the competency gap. Sections 3.3.3, 3.3.4 and 3.3.5 detail the status and impact of vacancies, competency levels and the effective use of consultants.</p>									
<p><b>Reasons why prior year root cause was not addressed</b></p>										
<p>The commitments of all role players to address the capacity gap have had a limited impact. Although capacity building and the professionalisation of local government is an ongoing, multi-year project, municipalities are not using all the opportunities available for skills development.</p>	<p>Section 3.3.3 provides some reasons for the continuing vacancies and section 3.3.4 the reasons for the slow progress towards obtaining minimum competencies.</p>									
<p><b>Recommendations</b></p>										
<p>The following recommendations made in the previous year have generally not been addressed yet:</p> <ul style="list-style-type: none"> <li>• Implementation of the municipal regulations on minimum competency levels.</li> <li>• Adherence to the requirements of the MSA on the appointment processes for municipal managers and senior managers.</li> </ul>	<ul style="list-style-type: none"> <li>• Strategies to ensure that skills are transferred from consultants to municipal staff and that consultancy contracts include specific clauses and plans for the transfer of skills.</li> <li>• A better coordinated and focused approach and new level of collaboration especially by the treasuries, the South African Local Government Association and the departments of cooperative governance to ensure that the many programmes, commitments and action plans succeed.</li> </ul> <p>Sections 3.3.3 and 3.3.4 provide further recommendations.</p>									
<p><b>Role players that should address the root cause</b></p>										
<ul style="list-style-type: none"> <li>• Councils, mayors and municipal managers, supported by capacity-building programmes</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring by treasuries and departments of cooperative governance</li> </ul>									

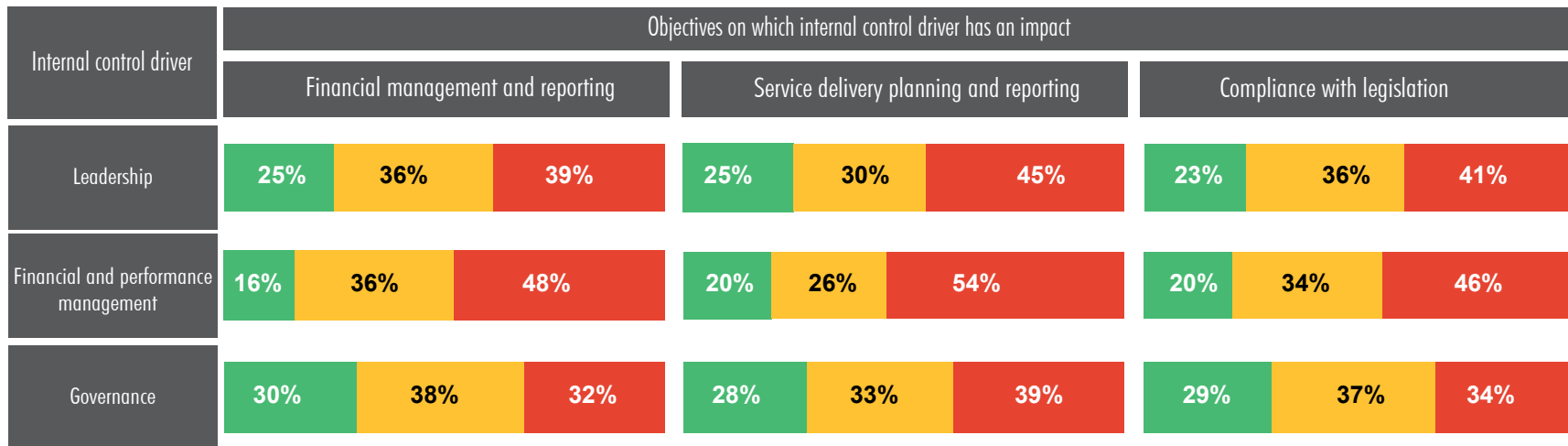
Lack of consequences for poor performance and transgressions		
<b>Detail of root cause</b>		
<p>We identified a lack of consequences for poor performance and transgressions to be a root cause of poor audit outcomes at 71% of the auditees, which is at the same level as last year (73%).</p> <p>Political leaders and municipal officials that deliberately or negligently ignore their duties and disobey legislation should be decisively dealt with through performance management and by enforcing the legislated consequences for transgressions. When officials and political leaders are not held accountable for their actions, the perception is created that such behaviour and its results are acceptable and tolerated.</p> <p>This could make even those that are giving their best under trying circumstances feel hopeless.</p>	<p>The 2011-12 audits again confirmed serious weaknesses in the performance management of municipal and senior managers (refer to section 3.3.2 for details in this regard). There were also very few recorded allegations of financial and SCM misconduct or investigations into unauthorised, irregular as well as fruitless and wasteful expenditure. The low level of action in response to the high level of non-compliance, poor audit outcomes, SCM transgressions and unauthorised, irregular as well as fruitless and wasteful expenditure clearly shows a lack of consequences for transgressions. Section 3.3.1 includes more information in this regard.</p>	
<b>Reasons why prior year root cause was not addressed</b>		
<p>The commitments of all role players to address poor performance and transgressions have not been translated into actions yet or have had a limited impact overall.</p>	<p>Section 3.3.1 details the reasons why the required steps have not been taken.</p>	
<b>Recommendations</b>		
<p>The following recommendations made in the previous year have not been addressed yet:</p> <ul style="list-style-type: none"> <li>• Municipal officials should know that all non-compliance has consequences.</li> <li>• In order to improve the performance and productivity of municipal officials, the leadership should set the tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.</li> </ul>	<p>Section 3.3.1 provides further recommendations. Role players in local government often say that they do not know what remedies to apply to deal with transgressions. To help them, we have compiled a separate booklet on the legislation they can use.</p>	
<b>Role players that should address the root cause</b>		
<ul style="list-style-type: none"> <li>• Municipal managers and senior management</li> <li>• Councils and mayors</li> </ul>	<ul style="list-style-type: none"> <li>• Provincial legislatures, treasuries, departments of cooperative governance, offices of the premier</li> </ul>	

### 3.2 SIGNIFICANT DEFICIENCIES IN AUDITEES' SYSTEMS OF INTERNAL CONTROL

**Figure 26**  
Movement of drivers of internal control



**Figure 27**  
Objectives on which the drivers of internal control have an impact



A key responsibility of accounting officers and authorities, senior managers and municipal officials is to implement and maintain effective and efficient systems of internal control. As part of our audits, we assess the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. If these controls are effective, they will result in a clean audit. 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*. We call these *the drivers of internal control*.

Figure 26 provides the overall assessment of these drivers and the movement from the previous year, based on significant deficiencies identified during the audits which resulted in corrected and uncorrected material misstatements in the financial statements and performance reports as well as findings on non-compliance with legislation.

Deficiencies are shortcomings in some aspect of the system of internal control.

A deficiency exists when:

- a control necessary to meet the objective of the key driver is missing
- an existing control has not been properly designed so that it does not achieve its objective even when implemented
- a properly designed control is not implemented
- a properly designed control has been implemented but is not operating effectively.

Figure 27 shows a separate assessment for financial management and reporting, performance (service delivery) planning and reporting, and compliance with legislation.

Municipal management must understand the underlying causes of deficiencies to ensure that corrective actions address the real issue, thus

preventing or reducing the deficiency in future and not just applying a one-time or short-term fix.

Based on the assessment, we highlight the following broad areas of concern:

- The many controls that were assessed as ‘causing concern’ or ‘intervention required’ clearly indicate that the fundamentals of internal control have not yet been established in local government. While there has been improvement in some provinces and by some auditees, most did not address the significant deficiencies identified and reported by us and their own internal audit units in the previous financial year. The overall regression in audit outcomes can be directly attributed to this.
- Figure 27 shows that the status of internal controls with an impact on performance planning and reporting as well as on compliance with legislation is weaker than the status of those affecting financial management. This is because auditees and coordinating departments focus on supporting and improving financial controls, while not attending to the other controls.
- The direction of movement depicted in figure 26 should concern municipal management, audit committees and councils. Unless these trends are reversed, increases in the number of qualified financial statements and findings on PDOs can be expected, while the level of non-compliance with legislation will remain unacceptably high.
- We have been consistent in our recommendations to the political and municipal leadership to address significant control deficiencies in a sustainable manner. Through our assessment of the key drivers of internal control on a quarterly basis and the sharing of these results with municipal managers, mayors and audit committees, we want to help auditees strengthen their internal controls and address the root causes of poor audit outcomes. The level of repeat

findings and the lack of improvement in controls demonstrate the leadership's slow response to our messages and them not taking responsibility to ensure the implementation of key controls.


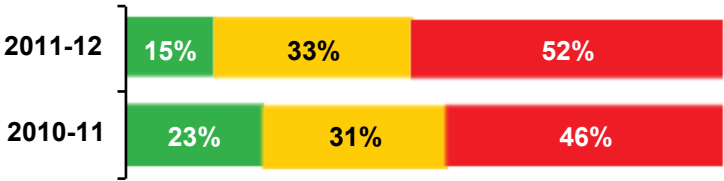

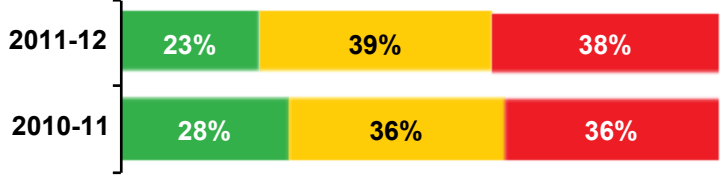
The table below details the status of the elements of internal control underlying leadership, financial and performance management as well as governance. It also shows the movement in the implementation of these internal controls. The following ratings are used in the table:


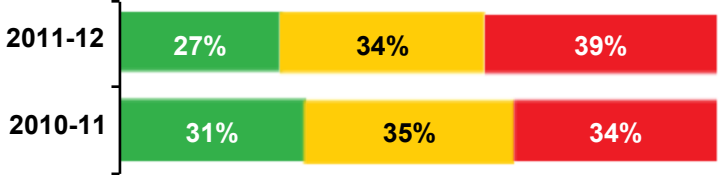

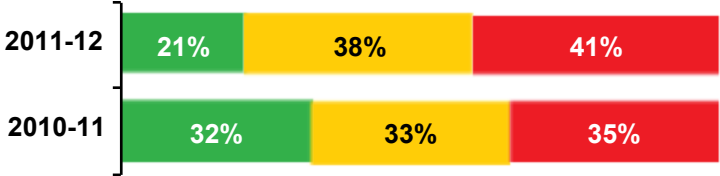

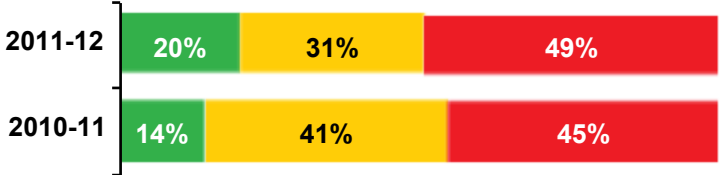



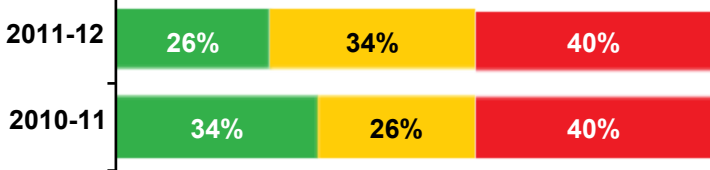

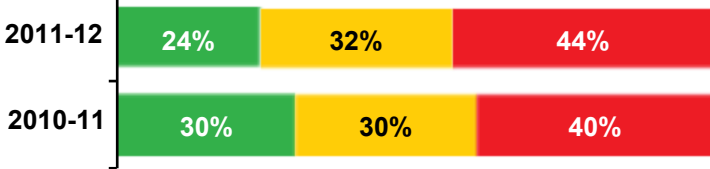
**Table 29**


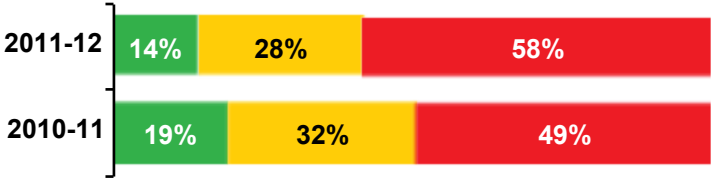

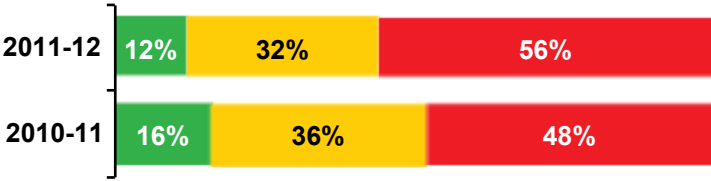
**Status of, and movement in, the elements of internal control underlying leadership, financial and performance management as well as governance**


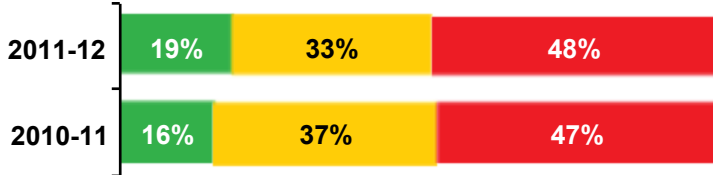

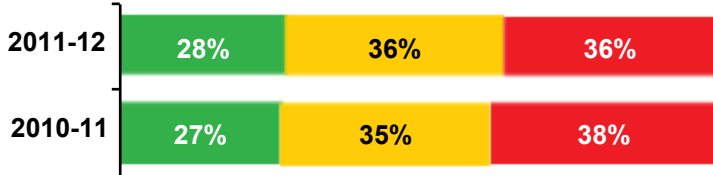

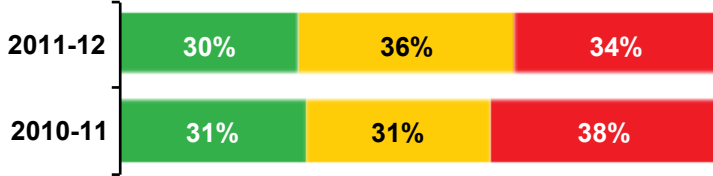
Driver no. 1: Leadership	Movement	Assessment of drivers								
<p><b>Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.</b></p>		<table border="1"> <tr> <td data-bbox="994 628 1182 692">2011-12</td> <td data-bbox="1182 628 1435 692">42%</td> <td data-bbox="1435 628 1608 692">28%</td> <td data-bbox="1608 628 1787 692">30%</td> </tr> <tr> <td data-bbox="994 692 1182 756">2010-11</td> <td data-bbox="1182 692 1435 756">42%</td> <td data-bbox="1435 692 1608 756">29%</td> <td data-bbox="1608 692 1787 756">29%</td> </tr> </table>	2011-12	42%	28%	30%	2010-11	42%	29%	29%
2011-12	42%	28%	30%							
2010-11	42%	29%	29%							
<p>Effective leaders should demonstrate the importance of integrity and ethical values through actions and behaviour, and establish expectations for standards of conduct. The leadership should also ensure that deviations from expected standards are identified and fixed in a timely manner. Accounting officers (municipal managers) and authorities establish the culture in an auditee, which is also influenced by the political leadership (mayors and councils). There has been no change from the previous year with regard to this element of internal control. Although there was effective leadership at some auditees, the tone at the top at most auditees is still concerning or intervention is required, as it is having a detrimental effect on the performance of the auditee.</p>		<p>At some auditees, the awarding of contracts to councillors, municipal managers and senior management (as discussed in section 2.4.3) and poor performance and transgressions not being dealt with firmly (as detailed in section 3.3.1) wore down the culture of integrity and ethical values. The leadership should actively monitor performance and the quality of work and outputs of key officials, and timeously take action in instances of poor performance. The leadership should further set the tone by swiftly taking action when staff members contravene legislation and municipal policies or fail to fulfil statutory duties.</p>								


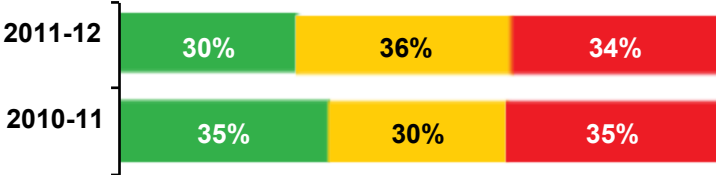
Driver no. 1: Leadership	Movement	Assessment of drivers												
<p><b>Exercise oversight responsibility regarding financial and performance reporting and compliance with legislation as well as related internal controls.</b></p>		 <table border="1"> <caption>Assessment of drivers for Driver no. 1: Leadership</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>15%</td> <td>33%</td> <td>52%</td> </tr> <tr> <td>2010-11</td> <td>23%</td> <td>31%</td> <td>46%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	15%	33%	52%	2010-11	23%	31%	46%
Year	Green (%)	Yellow (%)	Red (%)											
2011-12	15%	33%	52%											
2010-11	23%	31%	46%											
<p>Mayors and councils should accept responsibility for guiding and directing the development and performance of the system of internal control to ensure credible financial and performance reporting and compliance with legislation. Effective communication channels should exist between management and councils to enable both to fulfil their roles effectively.</p> <p>The quality of oversight provided by the councils, also through the mayors and MPACs, is poor and is regressing. Some of the reasons for this are that councils and mayors do not adequately perform the following functions:</p> <ul style="list-style-type: none"> <li>• Take full ownership of their responsibility to ensure that a strong control environment is in place. The status of key controls is shared with the mayors as part of a regular engagement but has not resulted in any significant improvements. Section 4.3 provides more detail on these interactions and the impact thereof.</li> <li>• Insist on regular financial and performance reports and subject them to an appropriate level of interrogation.</li> <li>• Periodically review progress made by municipal management in addressing external audit findings.</li> <li>• Periodically consider the findings and views of audit committees and internal audit units on internal control and risk management; and monitor the implementation of audit committee and internal audit recommendations with a view to remedial action.</li> <li>• Take timeous action in instances of identified non-compliance with legislation or failure to perform statutory duties by management and staff.</li> </ul>														
<p><b>Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.</b></p>		 <table border="1"> <caption>Assessment of drivers for Driver no. 2: HR Management</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>23%</td> <td>39%</td> <td>38%</td> </tr> <tr> <td>2010-11</td> <td>28%</td> <td>36%</td> <td>36%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	23%	39%	38%	2010-11	28%	36%	36%
Year	Green (%)	Yellow (%)	Red (%)											
2011-12	23%	39%	38%											
2010-11	28%	36%	36%											
<p>Section 3.3 presents an assessment of HR management.</p>														

Driver no. 1: Leadership	Movement	Assessment of drivers												
<p><b>Establish and communicate policies and procedures to enable and support an understanding and execution of internal control objectives, processes and responsibilities.</b></p>		 <table border="1"> <thead> <tr> <th>Year</th> <th>Green</th> <th>Yellow</th> <th>Red</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>27%</td> <td>34%</td> <td>39%</td> </tr> <tr> <td>2010-11</td> <td>31%</td> <td>35%</td> <td>34%</td> </tr> </tbody> </table>	Year	Green	Yellow	Red	2011-12	27%	34%	39%	2010-11	31%	35%	34%
Year	Green	Yellow	Red											
2011-12	27%	34%	39%											
2010-11	31%	35%	34%											
<p>Policies and procedures should be implemented to establish the necessary internal control activities to mitigate identified risk. These policies and procedures should be communicated to employees, who should be told what their responsibilities are.</p>		<p>At most auditees, policies and procedures were not in place to govern all financial and performance management processes and to ensure compliance with legislation. Policies and procedures were also not always adequate or were not consistent with the requirements of legislation.</p>												
<p><b>Develop and monitor the implementation of action plans to address internal control deficiencies.</b></p>		 <table border="1"> <thead> <tr> <th>Year</th> <th>Green</th> <th>Yellow</th> <th>Red</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>21%</td> <td>38%</td> <td>41%</td> </tr> <tr> <td>2010-11</td> <td>32%</td> <td>33%</td> <td>35%</td> </tr> </tbody> </table>	Year	Green	Yellow	Red	2011-12	21%	38%	41%	2010-11	32%	33%	35%
Year	Green	Yellow	Red											
2011-12	21%	38%	41%											
2010-11	32%	33%	35%											
<p>Our audits and those of internal audit units identify internal control deficiencies. Senior management must investigate and take corrective action regarding these deficiencies. The action plans to implement improvements must also be monitored.</p> <p>The development and monitoring of adequate action plans were not an established practice at most auditees. The repeat qualifications, slow progress in addressing prior year audit findings on PDOs, and recurring instances of non-compliance with legislation are symptoms of the following:</p>		<ul style="list-style-type: none"> <li>• A lack of action plans.</li> <li>• Action plans not addressing the root causes of audit outcomes, resulting in short-term fixes that do not prevent or reduce deficiencies in the future.</li> <li>• The leadership not adequately monitoring the progress of the effective implementation and follow-up of action plans.</li> </ul> <p>Audit committees, MPACs and internal audit units should play an important monitoring role in this regard.</p>												
<p><b>Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.</b></p>		 <table border="1"> <thead> <tr> <th>Year</th> <th>Green</th> <th>Yellow</th> <th>Red</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>20%</td> <td>31%</td> <td>49%</td> </tr> <tr> <td>2010-11</td> <td>14%</td> <td>41%</td> <td>45%</td> </tr> </tbody> </table>	Year	Green	Yellow	Red	2011-12	20%	31%	49%	2010-11	14%	41%	45%
Year	Green	Yellow	Red											
2011-12	20%	31%	49%											
2010-11	14%	41%	45%											
<p>Section 3.4 presents an assessment of IT controls.</p>														

Driver no. 2: Financial and performance management	Movement	Assessment of drivers												
<p><b>Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.</b></p>		 <table border="1"> <caption>Assessment of drivers for record keeping</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>26%</td> <td>34%</td> <td>40%</td> </tr> <tr> <td>2010-11</td> <td>34%</td> <td>26%</td> <td>40%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	26%	34%	40%	2010-11	34%	26%	40%
Year	Green (%)	Yellow (%)	Red (%)											
2011-12	26%	34%	40%											
2010-11	34%	26%	40%											
<p>Auditees should establish proper record keeping so that financial and performance information as well as compliance with legislation can be substantiated and independently verified. Policies, procedures and monitoring mechanisms should be in place to manage records, while staff should be aware of their responsibilities in this regard. Sound record keeping will also enable senior management to hold staff accountable for their actions.</p> <p>There has been no improvement in record keeping in local government and some auditees have even regressed.</p>		<p>The effect of poor record keeping can be seen in the many financial statements that were disclaimed or qualified as a result of limitations experienced in finding sufficient and appropriate evidence for the amounts and information in the financial statements (as detailed in section 2.2). Similarly, we determined that performance reports were unreliable as a result of the lack of supporting information (as discussed in section 2.3) and we could not audit procurement processes because of missing or non-existent documentation (as reported in section 2.4.3). The poor management of records also resulted in records and documents requested during the audit only being made available after a significant delay, which put pressure on the audit process.</p>												
<p><b>Implement controls over daily and monthly processing and reconciling of transactions.</b></p>		 <table border="1"> <caption>Assessment of drivers for transaction controls</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>24%</td> <td>32%</td> <td>44%</td> </tr> <tr> <td>2010-11</td> <td>30%</td> <td>30%</td> <td>40%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	24%	32%	44%	2010-11	30%	30%	40%
Year	Green (%)	Yellow (%)	Red (%)											
2011-12	24%	32%	44%											
2010-11	30%	30%	40%											
<p>Controls should be in place to ensure that transactions are processed in an accurate, complete and timely manner. Such controls include the following:</p> <ul style="list-style-type: none"> <li>• The daily capturing of financial transactions, supervisory reviews of captured information, and independent monthly reconciliations of key accounts.</li> <li>• The collection of performance information at intervals that is appropriate for monitoring service delivery targets and milestones as well as the validation of recorded information.</li> </ul>		<ul style="list-style-type: none"> <li>• The management of contracts and the commitments relating to these contracts as well as confirming that legislative requirements and policies have been complied with before initiating transactions.</li> </ul> <p>Auditees that have improved or sustained their good audit outcomes have established routines and processes that include these controls. However, the poor status of these controls at most of the auditees had a negative impact on the audit outcomes and, unless they improve, future improvements are not likely.</p>												

Driver no. 2: Financial and performance management	Movement	Assessment of drivers												
<p><b>Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.</b></p>		 <table border="1"> <caption>Assessment of drivers for Driver no. 2</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>14%</td> <td>28%</td> <td>58%</td> </tr> <tr> <td>2010-11</td> <td>19%</td> <td>32%</td> <td>49%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	14%	28%	58%	2010-11	19%	32%	49%
Year	Green (%)	Yellow (%)	Red (%)											
2011-12	14%	28%	58%											
2010-11	19%	32%	49%											
<p>The responsibility of municipal management to accurately account for the municipalities' finances and performance is not limited to the annual financial statements and performance reports. Management should also submit monthly and quarterly financial and performance reports to the mayor and the council, as required by the MFMA and the MSA. Audit committees and internal audit units should furthermore provide assurance that the information in these reports is reliable.</p>		<p>This control has the lowest status of all the controls, with almost 60% of the auditees having significant deficiencies in this area that require intervention. Some auditees did not produce regular reports, while most produced reports that were not accurate, complete and supported by reliable information.</p> <p>The poor quality of the financial statements submitted for audit purposes (as discussed in section 2.2) and the unreliable annual performance reports (as detailed in section 2.3) are a direct result of auditees not ensuring accurate reporting throughout the year.</p>												
<p><b>Review and monitor compliance with applicable legislation.</b></p>		 <table border="1"> <caption>Assessment of drivers for Driver no. 3</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>12%</td> <td>32%</td> <td>56%</td> </tr> <tr> <td>2010-11</td> <td>16%</td> <td>36%</td> <td>48%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	12%	32%	56%	2010-11	16%	36%	48%
Year	Green (%)	Yellow (%)	Red (%)											
2011-12	12%	32%	56%											
2010-11	16%	36%	48%											
<p>Auditees should have mechanisms that identify applicable legislation as well as changes to legislation, assess the requirements of legislation, and implement processes to ensure and monitor compliance with legislation.</p> <p>As detailed in section 2.4, many auditees did not comply with legislation. Most of the irregular expenditure incurred was again only identified during the audit process. This indicates that the internal controls of most auditees not only failed to prevent non-compliance with legislation but also failed to detect the deviations.</p>		<p>The status of this control has regressed because of the increase in non-compliance and irregular expenditure.</p> <p>Although some auditees did have policies and procedures to monitor compliance with legislation, monitoring should take place at more frequent intervals, such as on a monthly basis, by dedicated staff members who can detect, or preferably prevent, non-compliance. Management should introduce compliance checklists to get some assurance that controls are achieving the required level of adherence.</p>												

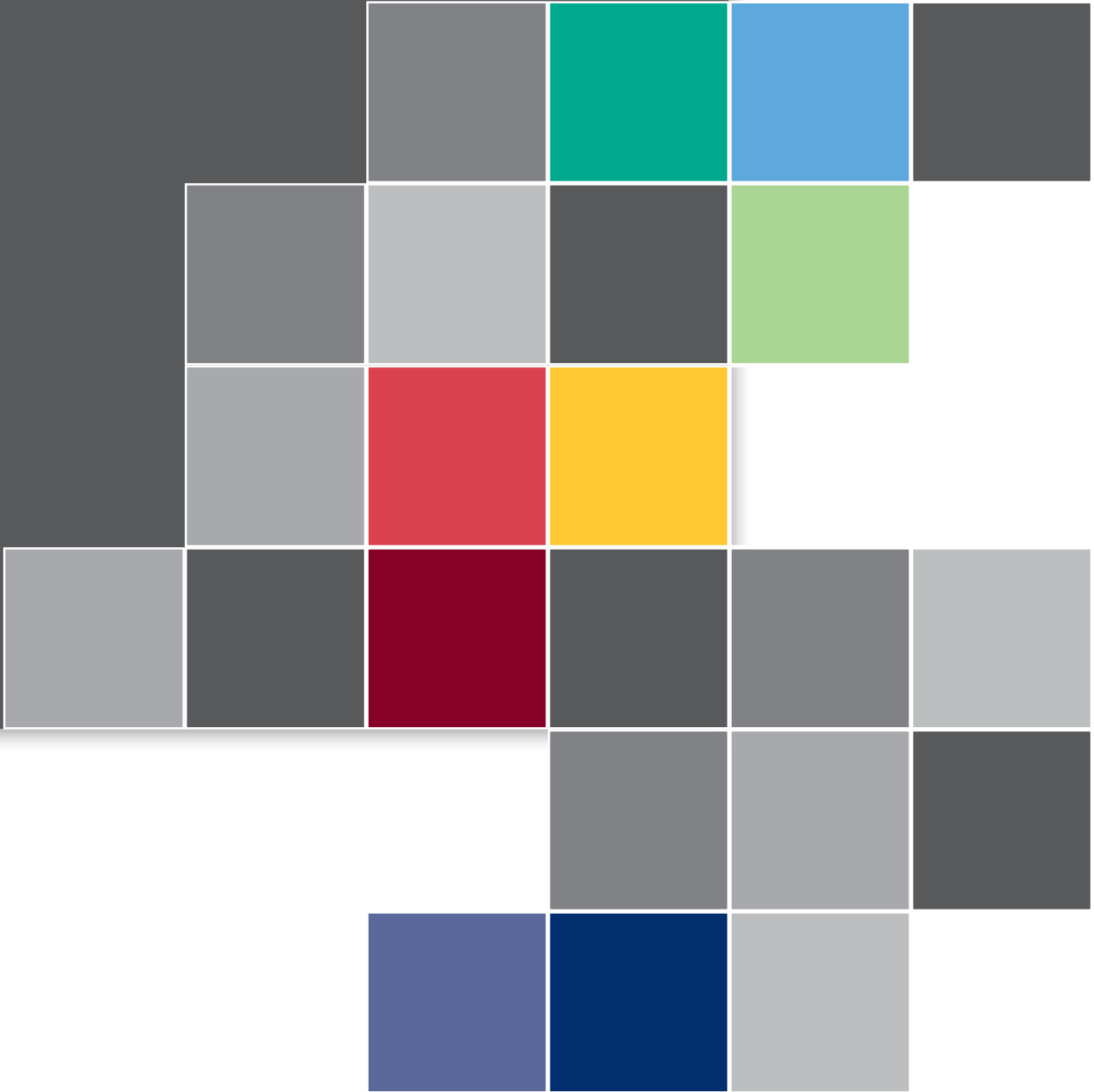
Driver no. 2: Financial and performance management	Movement	Assessment of drivers												
<p><b>Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information; and to address application systems susceptible to compromised data integrity (information systems).</b></p>		 <table border="1"> <caption>Assessment of drivers for Driver no. 2</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>19%</td> <td>33%</td> <td>48%</td> </tr> <tr> <td>2010-11</td> <td>16%</td> <td>37%</td> <td>47%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	19%	33%	48%	2010-11	16%	37%	47%
Year	Green (%)	Yellow (%)	Red (%)											
2011-12	19%	33%	48%											
2010-11	16%	37%	47%											
<p>Section 3.4 presents an assessment of IT controls.</p>														
Driver no. 3: Governance	Movement	Assessment of drivers												
<p><b>Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.</b></p>		 <table border="1"> <caption>Assessment of drivers for Driver no. 3</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>28%</td> <td>36%</td> <td>36%</td> </tr> <tr> <td>2010-11</td> <td>27%</td> <td>35%</td> <td>38%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	28%	36%	36%	2010-11	27%	35%	38%
Year	Green (%)	Yellow (%)	Red (%)											
2011-12	28%	36%	36%											
2010-11	27%	35%	38%											
<p>Effective risk management processes should be in place to identify and analyse risks to establish how they should be mitigated and managed. Auditees should consider possible asset losses, the risk of fraud and corruption as well as changes in the environment in the assessment. The risk assessment processes must inform the work plans of internal audit units and the agendas of audit committees.</p>	<p>The risk management activities at some auditees did not translate into improvements in the controls, while at others it was not an institutionalised practice to perform risk assessments and implement risk strategies. The status of this fundamental element of governance has regressed and needs to be addressed, as it is the foundation for an effective control environment and informs a combined assurance approach.</p>													
<p><b>Ensure that an adequately resourced and functioning internal audit unit is in place that identifies internal control deficiencies and recommends corrective action effectively.</b></p>		 <table border="1"> <caption>Assessment of drivers for Driver no. 3 (continued)</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>30%</td> <td>36%</td> <td>34%</td> </tr> <tr> <td>2010-11</td> <td>31%</td> <td>31%</td> <td>38%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	30%	36%	34%	2010-11	31%	31%	38%
Year	Green (%)	Yellow (%)	Red (%)											
2011-12	30%	36%	34%											
2010-11	31%	31%	38%											
<p>Section 3.5 provides an assessment of the effectiveness of internal audit units.</p>														

Driver no. 3: Governance	Movement	Assessment of drivers												
<p><b>Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and provides oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.</b></p>		 <table border="1"> <caption>Assessment of drivers data</caption> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Yellow (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>30%</td> <td>36%</td> <td>34%</td> </tr> <tr> <td>2010-11</td> <td>35%</td> <td>30%</td> <td>35%</td> </tr> </tbody> </table>	Year	Green (%)	Yellow (%)	Red (%)	2011-12	30%	36%	34%	2010-11	35%	30%	35%
Year	Green (%)	Yellow (%)	Red (%)											
2011-12	30%	36%	34%											
2010-11	35%	30%	35%											
<p>Section 3.5 provides an assessment of the effectiveness of audit committees.</p>														

Annexure 3 provides the status of key controls per auditee.



# OVERVIEW OF FULL REPORT





Qualified opinions avoided by correcting material misstatements identified during audit process  
Section 2.2  
Page 46

**Message from the auditor-general**

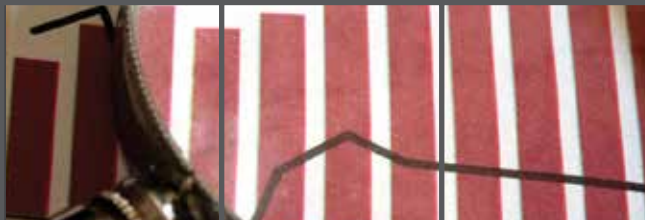
**Page 9**



*Material non-compliance with legislation by 94% of auditees*  
Section 2.4  
Page 56

*Contracts to the value of at least R118 million awarded to municipal officials and councillors*  
Section 2.4.3  
Page 62

**Regression in audit outcomes overall and in most provinces**  
Section 2.1  
Page 24



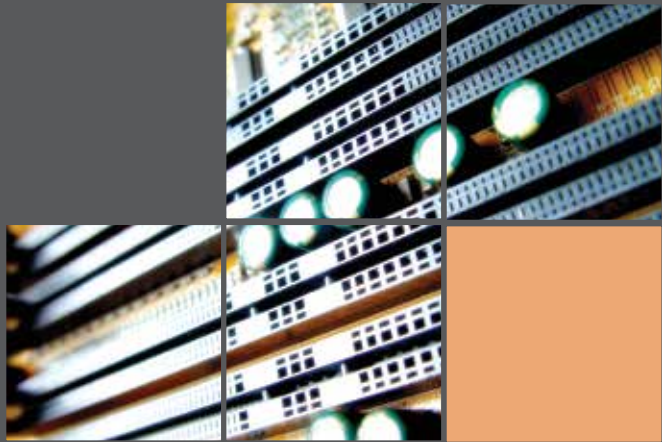
25% of auditees received disclaimed or adverse opinions and 21% qualified opinions  
Section 2.1.1  
Page 24

Annual performance reports not useful and/or reliable  
Section 2.3  
Page 51



Uncompetitive and unfair procurement processes, inadequate contract management and missing tender documentation  
Section 2.4.3  
Page 62





**Continued reliance on consultants  
and ineffective management  
of this resource**  
Section 3.3.5  
Page 114



Increase in already high levels of  
unauthorised, irregular as well  
as fruitless and wasteful expenditure  
Section 2.4.4  
Page 74



**Key role players did not provide  
assurance to improve controls and  
address risk areas and root causes**  
Section 4.1  
Page 138

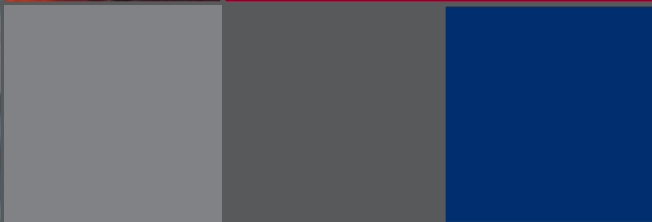


*Implementation and impact of commitments  
and initiatives of role players*  
Section 4.4  
Page 151

**Root causes of the poor  
audit outcomes**  
Sections 3.1 – 3.3  
Page 88



**Confidentiality, integrity  
and availability of  
information at risk**  
Section 3.4  
Page 119



Financial statement analyses  
show significant risks that  
affect financial health of local  
government  
Section 5  
Page 170



Visit our website

**[www.agsa.co.za](http://www.agsa.co.za)**

to view the complete

**Consolidated general report on the 2011-12 LOCAL GOVERNMENT audit outcomes**

**RP198/2013**

**ISBN: 978-0-621-42002-9**