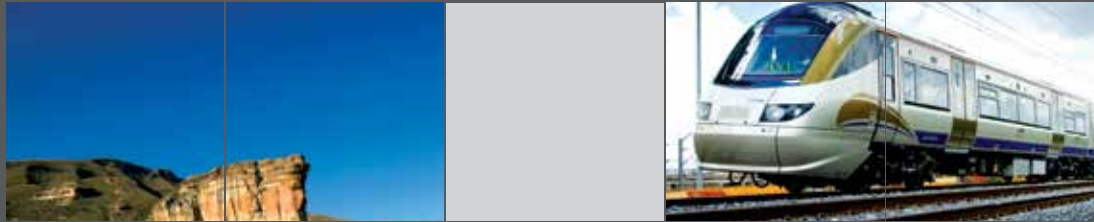
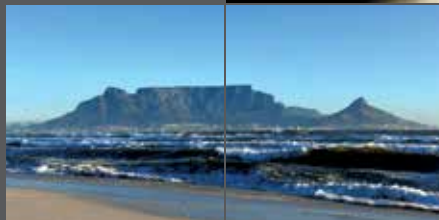


MFMA 2011-12



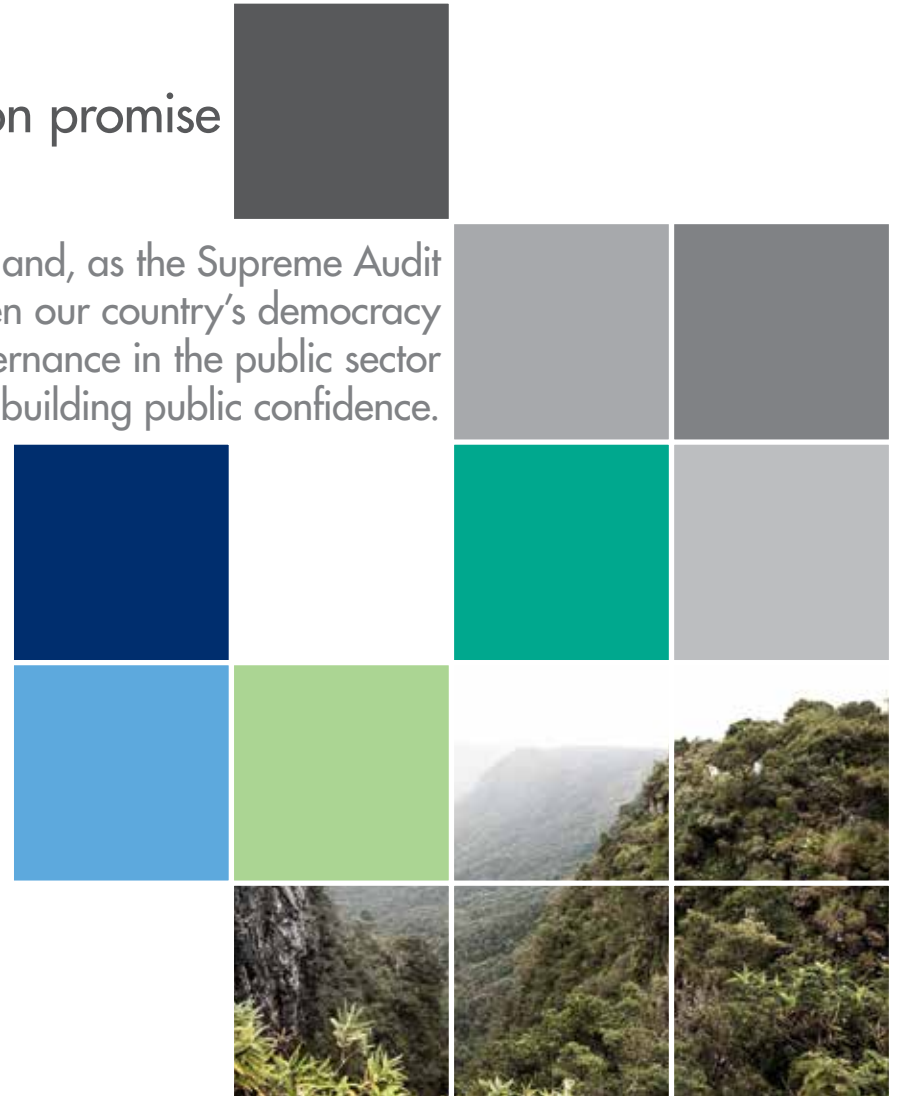
Consolidated general report on the LOCAL GOVERNMENT audit outcomes
**HUMAN RESOURCE MANAGEMENT AND THE USE
OF CONSULTANTS**



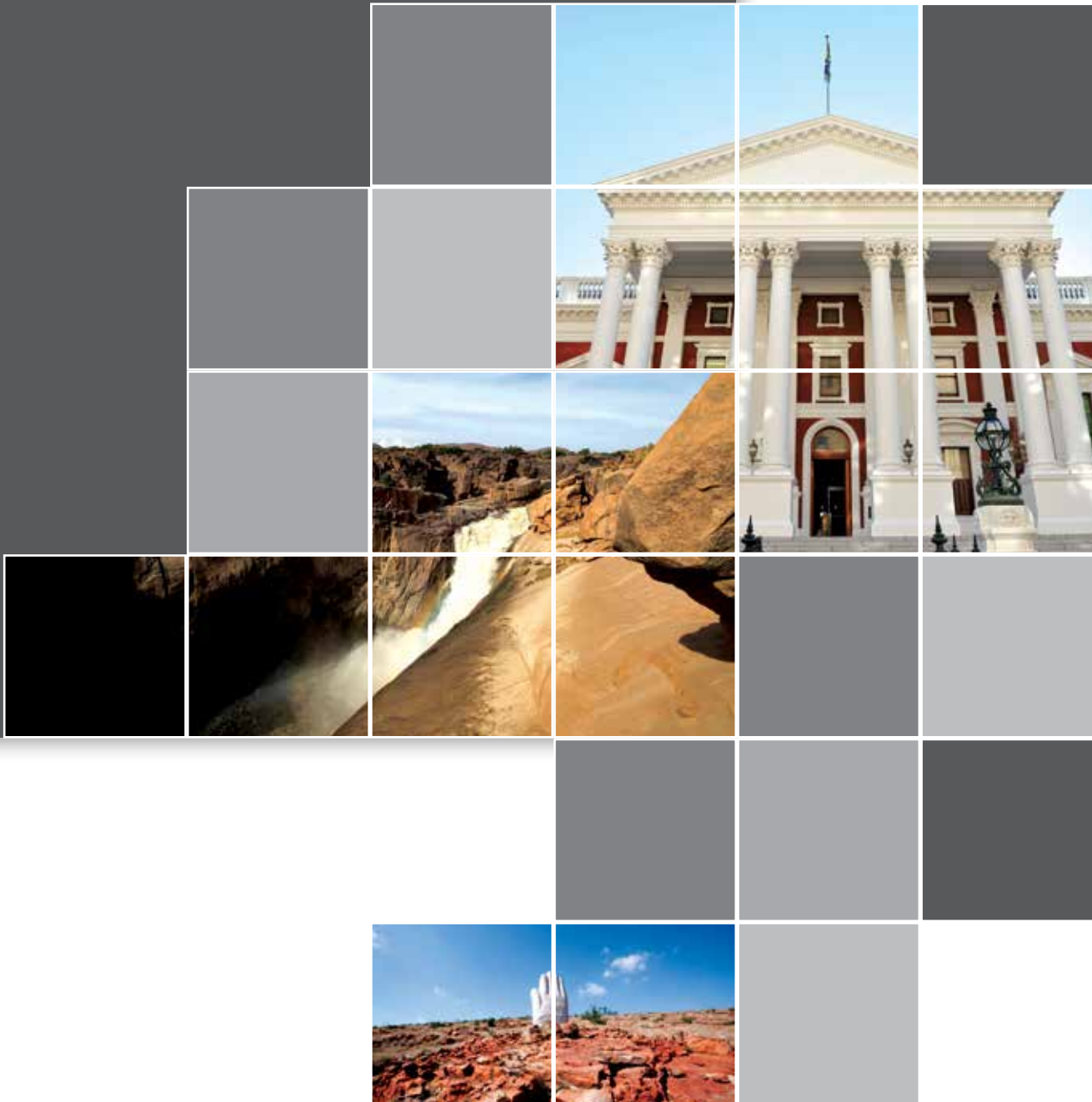
AUDITOR-GENERAL
SOUTH AFRICA

Our reputation promise

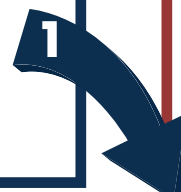
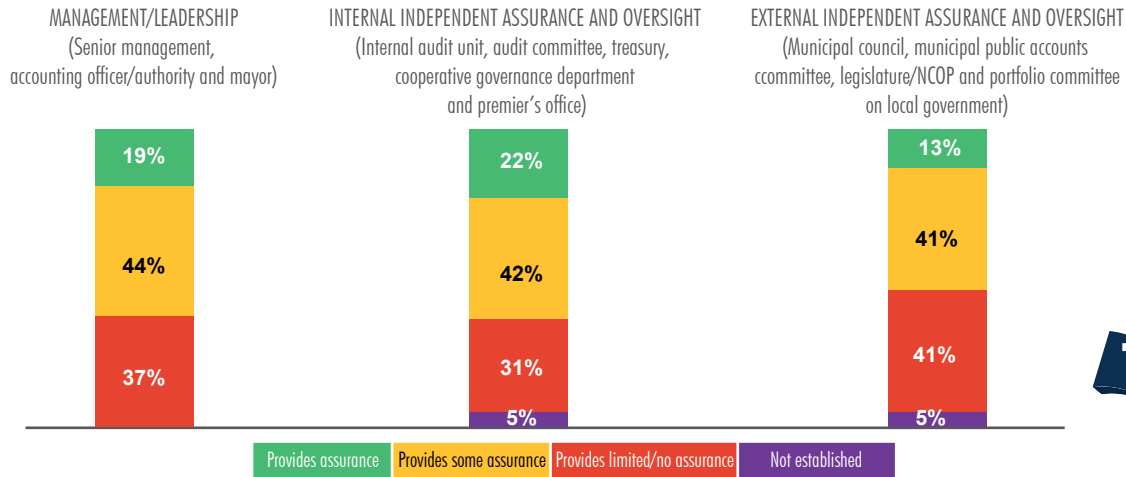
The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



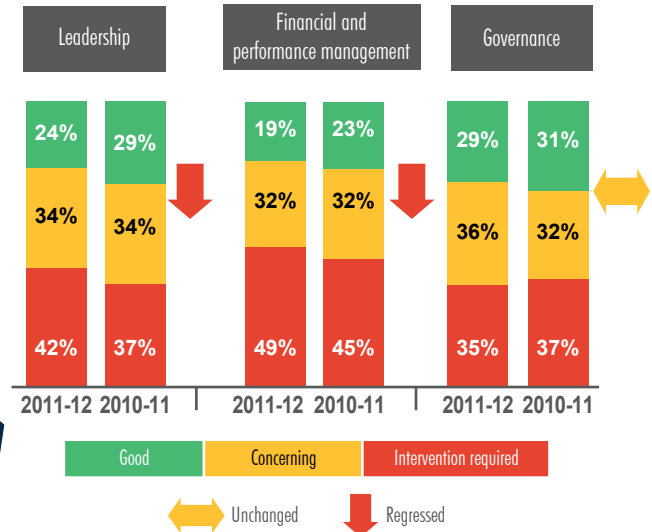
FOREWORD



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

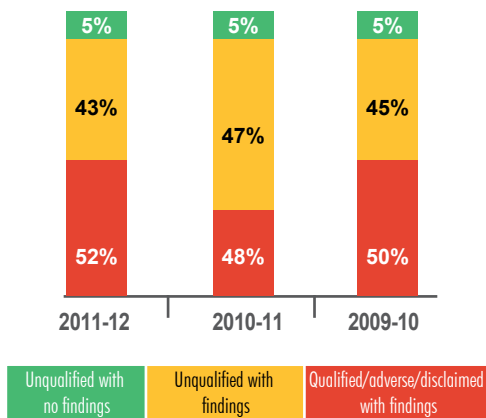
ROOT CAUSES NOT BEING ADDRESSED

- 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

HUMAN RESOURCE
MANAGEMENT
AND THE USE OF
CONSULTANTS



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>Slow response by the political leadership in addressing the root causes of poor audit outcomes</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>Detail of root cause</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>									

Reasons why prior year root cause was not addressed	
<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>
Recommendations	
<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"> • 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. • Effectively and ethically apply the leadership skills that earned them the trust of their communities. 	<ul style="list-style-type: none"> • 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. • Further strengthen the MPACs and support the important role they play (refer to section 4.2 for more information about this). • Insist, through their speakers, on sharing and reviewing regular and credible information on the status of the finances and activities of their municipalities.
Role players that should address the root cause	
<ul style="list-style-type: none"> • Councils, mayors and MPACs • Provincial legislatures, members of the executive council (MECs) for finance and for cooperative governance, and premiers 	<ul style="list-style-type: none"> • Minister of cooperative governance and the South African Local Government Association (national and provincial structures) • Forums such as the Speakers' Forum and the Association of Public Accounts Committees

<p>Key positions vacant or key officials lacking appropriate competencies</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 (%)								
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2010-11	28%	72%								
<p>Detail of root cause</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>Reasons why prior year root cause was not addressed</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>Recommendations</p>										
<p>The following recommendations made in the previous year have generally not been addressed yet:</p> <ul style="list-style-type: none"> • Implementation of the municipal regulations on minimum competency levels. • Adherence to the requirements of the MSA on the appointment processes for municipal managers and senior managers. 	<ul style="list-style-type: none"> • 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. • 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. <p>Sections 3.3.3 and 3.3.4 provide further recommendations.</p>									
<p>Role players that should address the root cause</p>										
<ul style="list-style-type: none"> • Councils, mayors and municipal managers, supported by capacity-building programmes 	<ul style="list-style-type: none"> • Monitoring by treasuries and departments of cooperative governance 									

<p>Lack of consequences for poor performance and transgressions</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Green (%)</th> <th>Red (%)</th> </tr> </thead> <tbody> <tr> <td>2011-12</td> <td>29%</td> <td>71%</td> </tr> <tr> <td>2010-11</td> <td>27%</td> <td>73%</td> </tr> </tbody> </table>	Year	Green (%)	Red (%)	2011-12	29%	71%	2010-11	27%	73%
Year	Green (%)	Red (%)								
2011-12	29%	71%								
2010-11	27%	73%								
<p>Detail of root cause</p>										
<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>									
<p>Reasons why prior year root cause was not addressed</p>										
<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>									
<p>Recommendations</p>										
<p>The following recommendations made in the previous year have not been addressed yet:</p> <ul style="list-style-type: none"> • Municipal officials should know that all non-compliance has consequences. • 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. 	<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>									
<p>Role players that should address the root cause</p>										
<ul style="list-style-type: none"> • Municipal managers and senior management • Councils and mayors 	<ul style="list-style-type: none"> • Provincial legislatures, treasuries, departments of cooperative governance, offices of the premier 									

Annexure 3 provides the status of key controls per auditee.

3.3 HUMAN RESOURCE MANAGEMENT AND THE USE OF CONSULTANTS

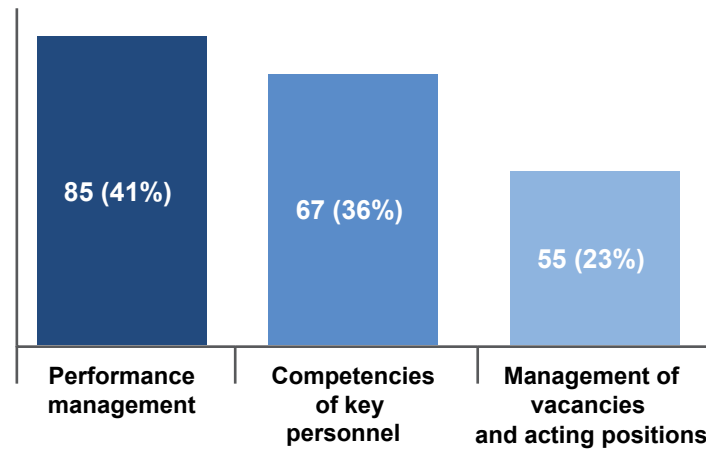
Effective HR management is a key driver of audit outcomes. In this context, HR management is effective if adequate and sufficiently skilled resources are in place and if staff performance and productivity are properly managed. As detailed in sections 3.3.1 to 3.3.4, a lack of consequences for transgressions, poor performance management, vacancies in key positions and inadequate competencies of key officials were again identified as root causes of poor audit outcomes. These weaknesses are symptoms of ineffective HR management in local government.

Legislation provides a framework and detailed guidance through which instances where political office-bearers and municipal officials perform poorly or deliberately or negligently breach or ignore rules can be addressed.

As part of our audits of SCM, financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure, we determined whether consequences had been implemented for transgressions by officials as required by legislation. Section 3.3.1 presents these findings.

As part of the audits of municipalities, we assessed HR management and focused on the following areas: ■ HR planning and organisation ■ management of vacancies and acting positions ■ appointment processes ■ performance management ■ management of leave ■ overtime ■ suspensions.

We reported findings arising from the assessment of HR management in the management reports of 177 municipalities (69%), while the findings were material enough to be reported in the audit reports of 90 municipalities (35%). The following figure shows the number of municipalities with findings in the areas of vacancies, competencies of key personnel as well as performance management. These areas should be addressed to positively influence audit outcomes. Sections 3.3.2 to 3.3.4 further detail these findings.

Figure 28**Number of auditees with human resource management weaknesses in selected areas**

Most municipalities hire consultants to assist them with accounting-related services and the preparation of financial statements, which is a further indicator of the financial skills shortage in local government. The effective use of consultants' services, which includes the transfer of skills, is essential. Section 3.3.5 analyses this further.

3.3.1 Consequences for transgressions

In terms of the MFMA, a municipal manager, senior manager or other official commits financial misconduct if he or she deliberately or negligently:

- fails to comply with a duty imposed by a provision of the MFMA or fails to perform a delegated duty

- makes or permits, or instructs another official of the municipality to make, an unauthorised, irregular or fruitless and wasteful expenditure
- provides incorrect or misleading information in any document, which in terms of a requirement of the MFMA must be submitted to the mayor or the council of the municipality, the auditor-general, the National Treasury or other organ of state; or which has to be made public
- contravenes a provision of the MFMA (applicable to municipal managers only).

The MFMA and the disciplinary regulations for senior managers prescribe how such financial misconduct should be dealt with through an investigative and disciplinary process with possible sanctions and criminal proceedings.

The SCM Regulations further provide steps to be taken if improper conduct is identified in SCM processes, while the MFMA prescribes the steps to be taken to investigate and deal with unauthorised, irregular or fruitless and wasteful expenditure.

Role players in local government should deal with the findings in this general report on the failure to comply with legislated obligations and responsibilities, non-compliance with legislation, improper conduct in SCM areas, and unauthorised, irregular as well as fruitless and wasteful expenditure in accordance with the applicable legislation. Role players should clearly demonstrate that there are consequences for transgressions by local government officials.

The table below presents the key findings and observations from the audit of the steps taken to address transgressions.

Table 30

Key findings on the steps taken to address transgressions

Key findings	Good	Concerning	Poor
<p><i>Very few recorded allegations of financial misconduct</i></p>	<p>In total, 164 municipalities (64%) did not record any allegations of financial misconduct. However, this does not correlate with the following audit results that indicate possible financial misconduct at municipalities:</p> <ul style="list-style-type: none"> • 249 municipalities (97%) with material findings on non-compliance with legislation (section 2.4.1) • 78 municipalities (30%) with adverse and disclaimed opinions (section 2.2) • 108 municipalities (42%) that incurred unauthorised, irregular as well as fruitless and wasteful expenditure (section 2.4.4) • 45 municipalities (17%) that contravened SCM legislation, awarded contracts to employees and councillors, and had unfair and uncompetitive procurement practices (section 2.4.3) • 87 municipalities (34%) that could not provide supporting evidence for the procurement processes of contracts and quotations to the value of R10,2 billion (section 2.4.3) • 121 municipalities (47%) that were not able to produce useful and reliable information on their performance (section 2.3) 		
<p><i>Very few recorded allegations of misconduct in SCM processes</i></p>	<p>A total of 156 municipalities (60%) did not record any allegations of misconduct in their SCM processes. This does not correlate with the 199 municipalities (77%) with material findings on procurement and contract management (section 2.4.3) and the SCM contraventions as listed above.</p>		
<p><i>Very little unauthorised, irregular as well as fruitless and wasteful expenditure recovered or approved and certified</i></p>	<p>Countrywide, 155 municipalities (60%) did not take the necessary steps to recover or approve and certify unauthorised, irregular as well as fruitless and wasteful expenditure as irrecoverable. This does not correlate with the 94 municipalities (36%) that incurred such expenditure.</p>		

Reasons for lack of consequences

The reasons for the lack of consequences for transgressions by local government officials include the following:

- Pressure from line managers and the political leadership of the municipality often prevented individuals from investigating and acting upon alleged transgressions.
- The lack of accountability arising from inadequate job specifications and performance contracts prevented action from being taken against transgressors.
- The departments of cooperative governance and the provincial treasuries did not effectively monitor compliance and assist municipalities in this regard.

- Councillors were not aware of, or did not understand, the steps to be taken in response to transgressions and poor performance.
- Standard policies, processes and procedures to deal with transgressions were not in place.
- Role players did not set the proper tone at municipalities that transgressions will not be tolerated.

Impact of lack of consequences

The impact of the lack of consequences includes the following:

- Continued non-performance and transgressions, due to officials realising that there are no consequences for their actions.
- Officials who previously complied with legislation and who diligently performed their duties may become disillusioned and may also start to transgress.

The ultimate effect of the lack of consequences is poor service delivery, poor financial management, and unreliable financial and service delivery reporting.

Recommendations to address the lack of consequences

We recommend the following to address the weaknesses:

- All audit findings should be investigated to determine whether there are indicators of financial misconduct or misconduct in the SCM processes, followed by disciplinary hearings where misconduct was confirmed.
- All unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated timeously to determine whether such expenditure should be recovered from the responsible official. If it cannot be recovered, the council should certify the expenditure as irrecoverable.

- Outstanding investigation reports should be a standing agenda item at council meetings to ensure that reports are finalised within a reasonable time and that accountability is enforced.
- Councils, the departments of cooperative governance and the provincial treasuries should monitor compliance.

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.

3.3.2 Performance management

In 2010-11, we identified the inadequate performance management of municipal managers, senior managers and other officials to be the root cause of many of the failures of local government. Furthermore, the controls and performance objectives of municipalities did not filter through to the performance contracts of municipal officials to direct their daily operations.

This year, we also identified a lack of discipline, no commitment to serve the public interest and non-adherence to the code of conduct for municipal officials as root causes by national, provincial and oversight

role players, which were echoed in the experiences of the public at some municipalities. 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.

Table 31 presents the key findings arising from an assessment of the performance management processes at the level of municipal manager and senior managers.

Table 31

Key findings on the performance management processes of municipal and senior managers

Key findings	
<p>A total of 36 (17%) of the appointed municipal managers did not have signed performance agreements for 2011-12. Mayors had not signed performance agreements of 36 municipal managers (21%), while the performance agreements of 37 municipal managers did not comply with the requirements of the MSA.</p> <p>At 33 (10%) municipalities, 20% or more of the senior managers did not have signed performance agreements for 2011-12. The municipal manager had not signed all the performance agreements of senior managers at 27 municipalities (10%), while at 52 (20%) not all performance agreements met the requirements of the MSA.</p>	<p>At 85 (41%) of the municipalities, no performance evaluation was performed for municipal managers. A performance bonus was paid to 41 municipal managers (20%) without a performance evaluation having been performed and approved by the council.</p> <p>Performance evaluations were not done for all senior managers at 53 municipalities (21%). At 37 (14%) of the municipalities, performance bonuses were paid to senior managers without a performance evaluation having been performed and approved by the council.</p>

Reasons for weaknesses in the performance management of senior officials

The MSA clearly defines the basic requirements of an effective performance management process for municipal managers and senior management. It is therefore not necessary for municipalities to have specialised skills and to develop frameworks and processes in this regard. We can only conclude that the following are some of the reasons for the weaknesses in performance management of senior officials:

- The mayor and the council did not oversee the performance management processes for senior managers and municipal managers and did not ensure that performance bonuses were only paid to deserving employees.

- Municipal managers were not aware of the requirements of the MSA or did not appreciate the importance of proper performance management. The extent of the non-compliance also signals a disregard for this very fundamental process, municipal managers failing to perform their duties, and the mismanagement of municipal finances.
- There was a lack of consequences for poor performance and transgressions, which allowed municipalities to continue with these poor practices.

Impact of poor performance management

Without agreed performance contracts, the municipal manager and senior officials cannot be monitored, measured and evaluated against their job requirements and the achievement of the municipality's performance objectives. Consequences for poor performance can also not be implemented, as officials can claim that they were not aware of a specific requirement.

Without performance evaluations, municipal managers and senior managers receive salary increases and performance bonuses based purely on occupying the position. It also does not allow for areas of improvement to be identified and addressed through development and training.

Recommendations to address weaknesses in performance management

At the very least, the council, mayor and municipal manager should implement the MSA requirements relating to performance contracts, evaluations and performance bonuses. Councils and mayors should further insist on the implementation of an effective performance management system to develop staff so that they can perform their functions and exercise their powers in an economical, effective, efficient

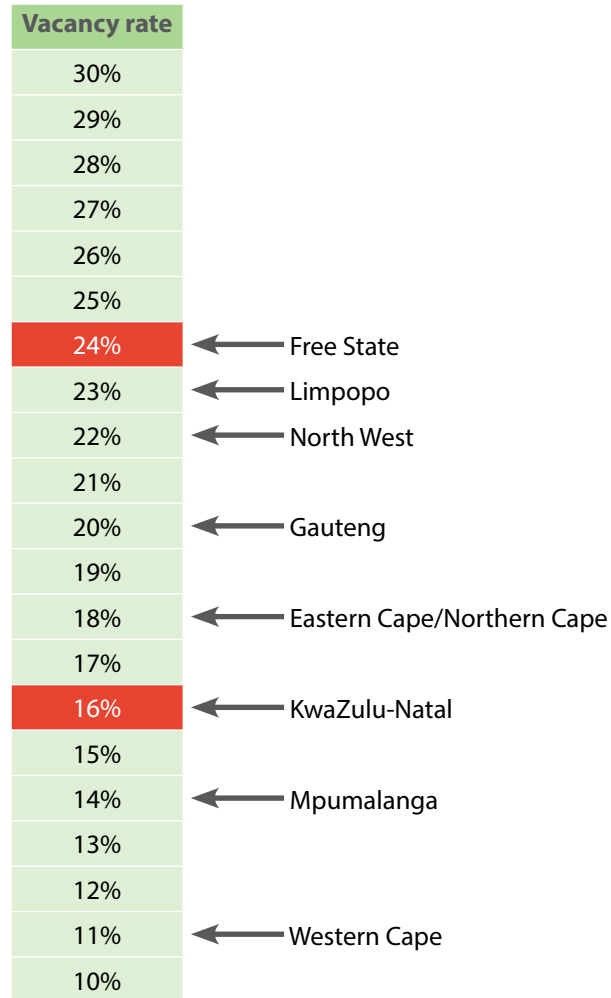
and accountable way, as required by the MSA. The system should also provide for the monitoring, measurement and evaluation of all municipal officials.

3.3.3 Management of vacancies and acting positions

One of the biggest challenges for local government is to attract and retain qualified and competent persons in all areas of administration. The following figures show the overall vacancy rates for all municipal functions and those of key officials at 30 June 2012.

Figure 29

Average overall vacancy rate per province at 30 June 2012



Further deteriorations in vacancy rate since 2010-11

Figure 30

Vacancies in key positions at 30 June 2012

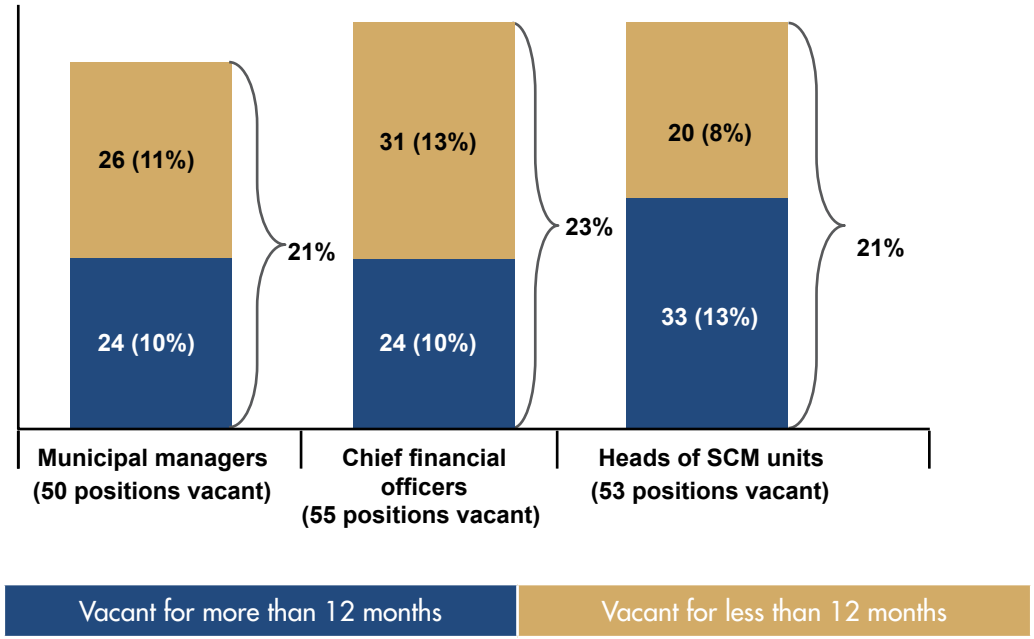


Table 32 details the key findings from the audits.

Table 32

Key findings on the management of vacancies and acting positions

	Key findings	Good	Concerning	Poor																
Overall vacancy rate increased	<p>The average overall vacancy rate for municipalities was 18% at year-end. As shown in figure 29, the average vacancy rate of municipalities ranged from 11% to 24% in the provinces.</p> <p>At 45 municipalities (17%), the overall vacancy rate had increased since 2010-11.</p>																			
High vacancy rate at senior management level	<p>The average vacancy rate at senior management level was 21% at year-end, ranging between 13% and 34% in the different provinces. The most senior manager vacancies were in the North West (34%) and the least in the Western Cape (13%).</p> <p>At 34 municipalities (13%), the senior management vacancy rate had increased since 2010-11.</p>																			
Prolonged vacancies at senior management level	<p>Senior management positions at 56 municipalities (22%) were vacant for more than 12 months. However, at 17 (7%) of these municipalities, the positions were not advertised within six months of becoming vacant.</p> <p>Officials act in these positions until the vacancies are filled, but at 46 (18%) of the municipalities, the acting periods lasted longer than the accepted norm of six months.</p>																			
Prolonged vacancies in key positions	<p>As shown in figure 30, prolonged vacancies were common in the following key positions:</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr style="background-color: #92d050;"> <th></th> <th>Municipal manager</th> <th>Chief financial officer</th> <th>Head of SCM unit</th> </tr> </thead> <tbody> <tr> <td>Number of positions vacant at 30 June 2012</td> <td>50 (21%)</td> <td>55 (23%)</td> <td>53 (21%)</td> </tr> <tr> <td>Number of positions vacant for more than 12 months</td> <td>24 (10%)</td> <td>24 (10%)</td> <td>33 (13%)</td> </tr> <tr> <td>Number of positions not advertised within six months of becoming vacant</td> <td>11 (5%)</td> <td>9 (4%)</td> <td>16 (7%)</td> </tr> </tbody> </table> <p>At 17 municipalities (7%), officials acted in the vacant municipal manager position for more than three months without the approval of the MEC for local government.</p>					Municipal manager	Chief financial officer	Head of SCM unit	Number of positions vacant at 30 June 2012	50 (21%)	55 (23%)	53 (21%)	Number of positions vacant for more than 12 months	24 (10%)	24 (10%)	33 (13%)	Number of positions not advertised within six months of becoming vacant	11 (5%)	9 (4%)	16 (7%)
	Municipal manager	Chief financial officer	Head of SCM unit																	
Number of positions vacant at 30 June 2012	50 (21%)	55 (23%)	53 (21%)																	
Number of positions vacant for more than 12 months	24 (10%)	24 (10%)	33 (13%)																	
Number of positions not advertised within six months of becoming vacant	11 (5%)	9 (4%)	16 (7%)																	

Reasons for continuing vacancies	
<p>Municipalities recruit persons with skills that are in short supply in the country. Although there are municipalities that can attract the talent they need, municipalities are generally not the employer of choice for the professionals needed to turn local government around. In part this is due to the unprofessional and politicised image of some municipalities as well as the remoteness and poor working conditions of, especially, rural municipalities.</p>	<p>In the absence of standardised pay bands across local government, municipalities poach staff from each other by offering higher salaries for the same job.</p> <p>The recruitment, selection and appointment processes of municipalities are not formalised and streamlined, resulting in delays in advertising vacant positions and appointing staff.</p>
Impact of vacancies	
<p>Vacant positions at municipal manager and senior management level affect the ability of the council to hold individuals accountable for the implementation of approved policies, an effective performance management system and the approved budget. Acting positions are intended as a short-term solution, as acting individuals are likely to take on less than the full responsibility, functions and powers of the higher position and are less committed to the deliverables, due to the temporary nature of the position.</p> <p>Chief financial officer vacancies hinder the municipalities' ability to perform proper financial planning, record keeping and financial reporting, which results in financial statements of a poor quality that require many corrections.</p>	<p>Consultants are often hired at a high cost to manage the backlog of work created by vacancies to meet legislated reporting targets.</p> <p>There is a higher risk of non-compliance with legislation if key positions, such as that of the head of the SCM unit, are vacant and there are not enough staff members to monitor or enforce compliance. In general, vacancies also increase the risk of fraud and error as duties are not segregated.</p> <p>A further consequence of vacancies is that provincial and national government initiatives to promote and implement graduate internships and other support programmes do not produce the desired results, as acting senior officials at municipalities may not have the required authority, knowledge or background to drive these programmes.</p>
Recommendations to address weaknesses in the management of vacancies and acting positions	
<p>Municipalities can improve the management of their vacancies in the following ways:</p> <ul style="list-style-type: none"> • Develop and implement a recruitment plan to fill all key vacant positions. • Develop and implement policies and procedures for the recruitment, appointment and retention of staff. • Adopt a policy on acting positions that restricts the acting periods and ensures compliance with the MSA with regard to the approval of municipal and senior managers acting for longer than three months. • Create a professional, high-performance environment that will attract and retain the right people. 	<ul style="list-style-type: none"> • Support capacity-building programmes in local government and in the accounting, engineering and other professions. <p>The national and provincial departments of cooperative governance and the treasuries should accelerate their efforts towards a coordinated and focused approach to support local government with both short-term interventions and longer term capacity-building programmes. The proposed regulations on the appointment and conditions of employment of senior managers in local government will introduce improvements and consistency in appointment processes, and is a first step towards standard salary levels. Considering the current constraints in local government, such improvements will only be successful if they are supported by guidelines, training and access to specialised skills.</p>

3.3.4 Competencies of key officials

The complexities in local government, the challenges experienced and the high expectations of the public demand that key personnel at municipalities have the skills, experience and capacity to fulfil their responsibilities and exercise their functions and powers. The changes in financial and performance management have also resulted in a higher level of competency requirements for municipal managers, chief financial officers, senior managers, SCM officials and other financial officials.

However, the poor audit outcomes, service delivery failures and high demand for consultants and support from national and provincial governments demonstrate that persons appointed in these posts do not always have the required competencies.

The two root causes of this are that personnel who do not have the required competencies are appointed in key positions, and that current employees do not keep up with the changing local government environment through ongoing training and development.

The implementation of the municipal regulations on minimum competency levels issued by the National Treasury on 15 June 2007 and the amendments to the MSA are an opportunity to improve the situation. The regulations define the minimum competency levels of accounting officers, chief financial officers, senior managers, SCM officials and other financial officials, taking into account the size and scope of municipalities. It provides for a phasing-in period for staff currently in those positions to obtain the minimum competency level through academic studies and experience and by addressing any gaps in competencies through training and development.

The following figure shows the status of the competency levels as defined in the regulations of the appointed municipal managers, chief financial officers and heads of SCM units at 30 June 2012 (six months before the effective date of the regulations), while table 33 gives the reasons why the minimum competency levels had not been achieved.

Figure 31

Competency levels of people in key positions at 30 June 2012

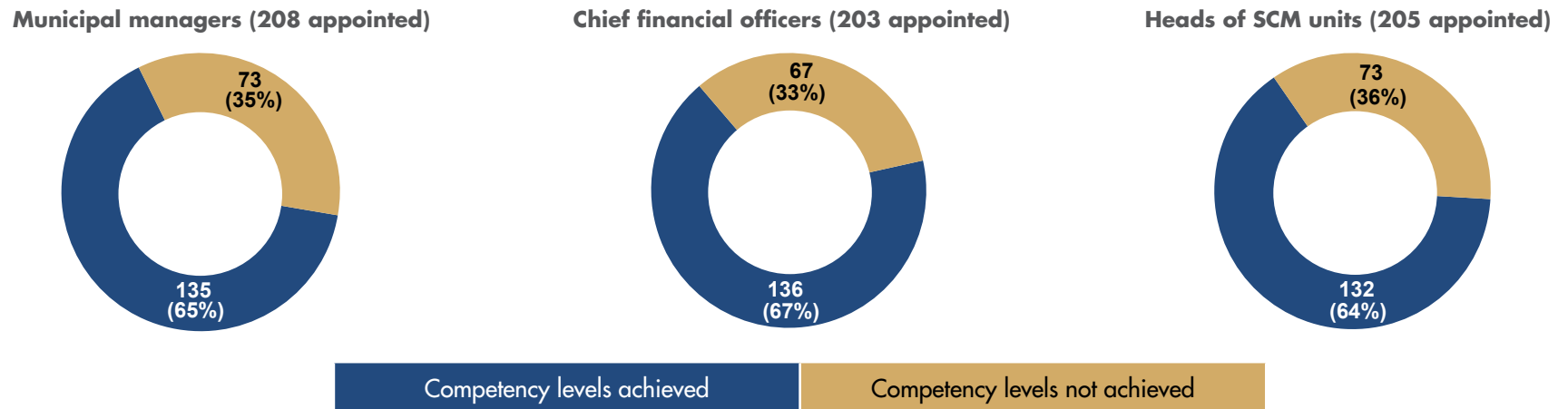


Table 33

Reasons why minimum competency levels had not been achieved

Reasons for minimum competency levels not yet achieved	Appointed officials*		
	Municipal managers (208)	Chief financial officers (203)	Heads of SCM units (205)
Officials did not have the required qualifications	10 (5%)	19 (9%)	16 (8%)
Officials did not meet any of the prescribed competency requirements	46 (22%)	41 (20%)	49 (24%)
Officials met only some of the prescribed competency requirements	21 (10%)	22 (11%)	21 (10%)

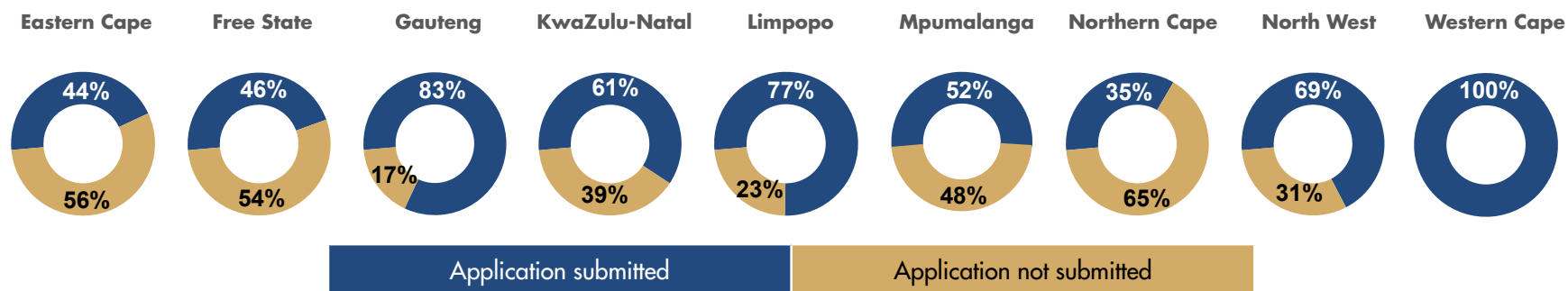
* The percentage is based on the number of appointed officials

The phasing-in period ended on 1 January 2013 and, as per the regulations, municipal managers, chief financial officers, heads of SCM units, senior managers, SCM staff and other financial officials who do not meet the minimum competency levels may not continue to fill the positions, which has an impact on the continued employment of these officials. The National Treasury gave municipalities an opportunity to

apply by September 2012 for an 18-month extension (until 1 July 2014) to enforce the regulations as a special merit case, based on the circumstances of the municipality. However, by 11 January 2012, only 172 (62%) of the municipalities had applied to be considered as special merit cases. Figure 32 shows the submission rate of the municipalities in the provinces.

Figure 32

Rate of application for exemptions



The amendments to the MSA effective from 5 July 2011 declare the appointment of a municipal manager without the minimum competency levels as invalid if the appointment was not made on the condition that the competency levels are met within an agreed period. The MEC for

local government should also approve any exception. Table 34 shows the number of persons appointed in key positions without the minimum competency levels, as well as whether these exceptions were in line with the MSA.

Table 34

Appointments to key positions without the minimum competency levels after 5 July 2011

Key findings	Municipal managers	Chief financial officers	Heads of SCM units
Appointees did not meet the minimum competency levels	14	16	16
The appointments were not made subject to the condition that the minimum competency levels must be met by 1 January 2013	4	8	3
Unconditional appointments were not approved by the MEC for local government, in contravention of the MSA	3	6	3

Reasons for slow progress towards obtaining minimum competencies

Overall, 46 of the municipal managers, chief financial officers and heads of SCM units appointed in the past year did not meet the required competencies. Local government's inability to attract the right people to key positions is one of the reasons persons with the required competencies are not appointed. However, there was also an element of disregard for the requirements of the MSA and the regulations in that a quarter of these appointments were made unconditionally without the required approvals.

Although the implementation of the regulations provided opportunities for municipalities to assess and improve the competencies of their existing staff over a five-year period, the response has been poor with a clear lack of urgency, even in applying for extensions for the implementation.

The reasons for this are the following:

- A lack of awareness and appreciation for the need to improve competencies and comply with legislation.
- Inadequate commitments by the political and administrative leadership of municipalities.
- Practical considerations, such as employees not having the time to attend training or older employees not seeing the value of obtaining the competencies and qualifications at their age.
- An expectation by municipal leaders and officials that the regulations will not be enforced, based on a general lack of enforcement in local government (as reported in section 3.3.1).
- An uncoordinated and, at times, conflicting approach between the treasuries and the departments of cooperative governance in this regard.

Impact of inadequate competencies

Municipal managers, chief financial officers, heads of SCM units, senior managers, SCM officials and other financial officials without the required competencies and skills cannot effectively perform the job they were appointed to do. Inevitably, municipalities hire consultants at a high cost to provide the skills required, while national and provincial government and district municipalities spend additional money to supplement the lack of skills.

The impact of inadequate skills is evident in the poor audit outcomes of local government, as key officials could not perform their planning, supervising and monitoring duties and were unable to direct officials under their control to perform their duties effectively. As it affected municipalities' compliance with legislation and financial and performance reporting, it also affected service delivery.

Recommendations to address inadequate competencies

We recommend the following:

- If not yet done, the municipal officials affected by the regulations should undergo a competency assessment to determine the remaining gaps.
 - Municipalities should adhere to the requirement of the National Treasury that action plans should be developed and implemented to address remaining gaps, and that the council should monitor the implementation of these plans.
 - Officials should have the opportunity to attend the required training to obtain the competencies.
 - As required by the regulations, the performance contracts of officials without the required competencies should include the achievement thereof as a key performance indicator.
- All new appointees should meet the minimum competencies or their appointment should be conditional on the achievement thereof.
 - Municipalities should provide officials with training and support to continuously develop their skills and remain up to date with changes in local government.
 - The programmes and initiatives of the national and provincial departments of cooperative governance, the treasuries and the South African Local Government Association (as detailed in the provincial general reports and section 4.4) should be supported. These national and provincial role players should ensure that they work in a coordinated and focused manner to support local government with skills development.

3.3.5 Effective use of consultants

As in previous financial years, auditees continued to hire consultants to assist them with accounting-related services and the preparation of year-end financial statements. A total of 226 auditees (71%) were assisted by consultants in 2011-12, compared to 224 (68%) in 2010-11. Based on available information, auditees spent more than R378 million (2010-11: R295 million) on consultants in the 2011-12 financial year.

This excludes the amounts spent by the treasuries and the departments of cooperative governance on consultants assigned to assist municipalities.

The following figures show the key aspects of the assistance provided by consultants. Not all improvements in audit outcomes (or the lack thereof) can be directly attributed to the assistance provided by consultants, as the contracted scope of work varies from one auditee to the next.

Figure 33
Continued assistance, rate of skills transfer and cost of consultants

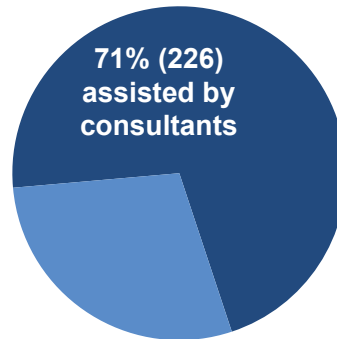
2011-12: All auditees (317)

Recurring assistance at 199 auditees (88%)

No skills transfer at 138 auditees (61%)

Average cost per auditee – R1,7 million

Average cost per consulting contract – R1,1 million*



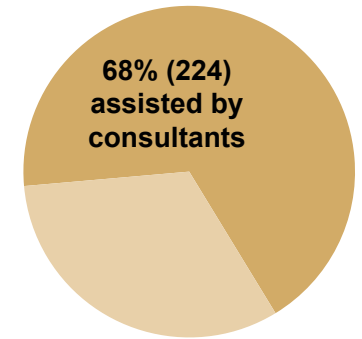
2010-11: All auditees (331)

Recurring assistance at 158 auditees (71%)

No skills transfer at 121 auditees (54%)

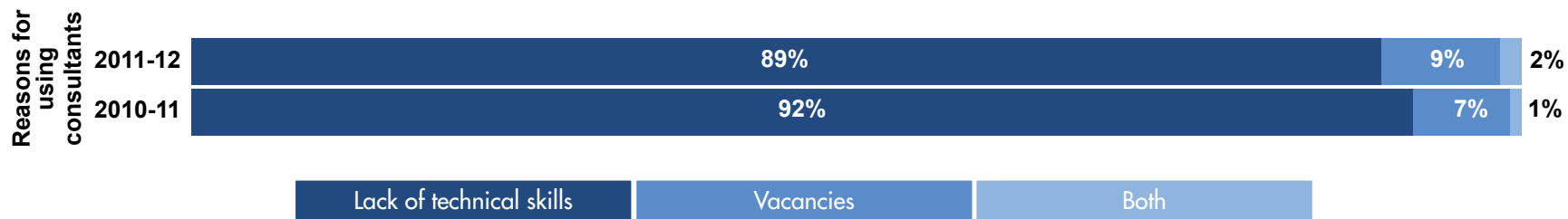
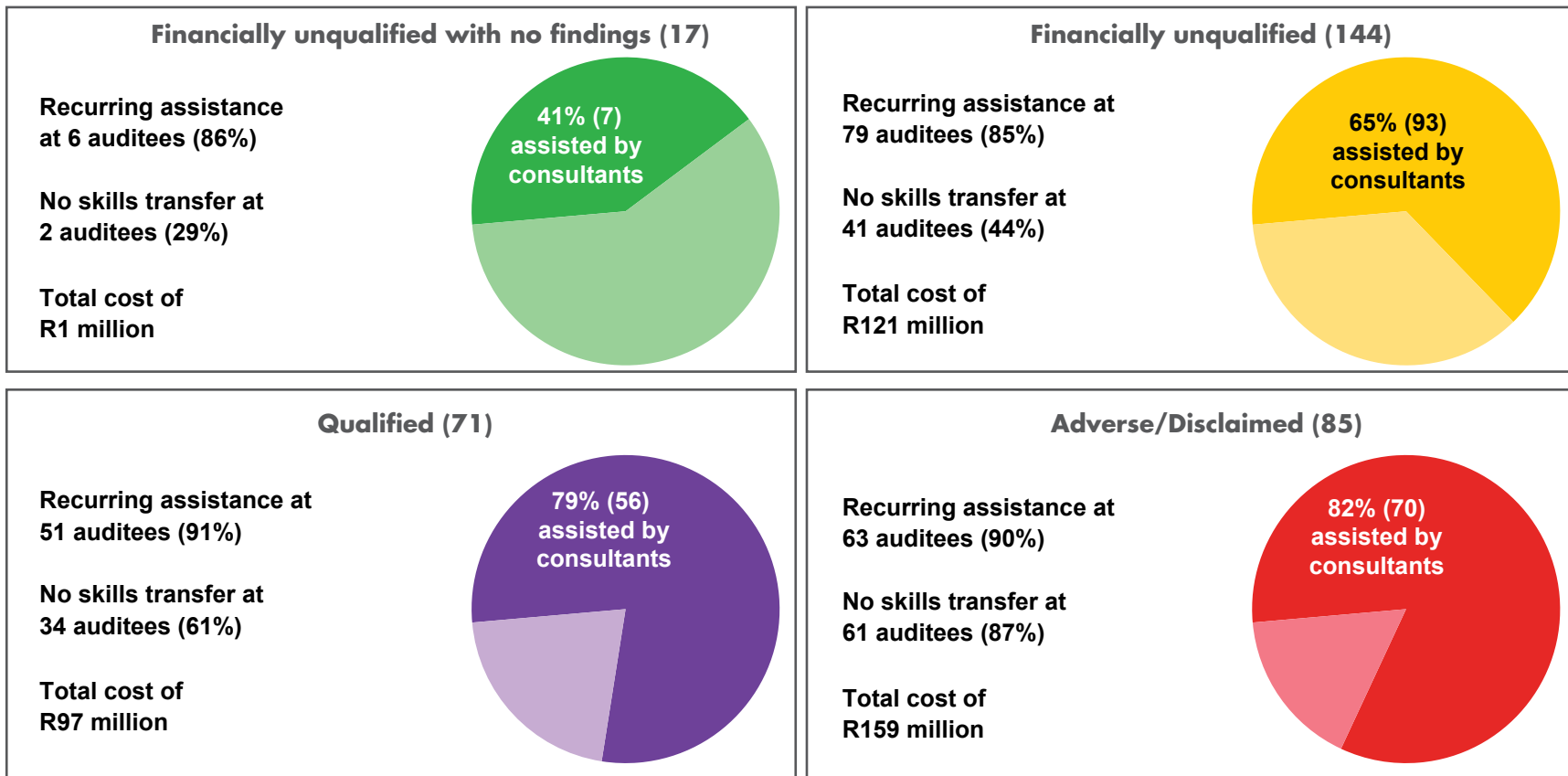
Average cost per auditee – R1,3 million

Average cost per consulting contract – R0,9 million*



* Some auditees were assisted by more than one consultant

Figure 34
Audit outcomes of auditees assisted by consultants



Note: Some auditees were assisted by more than one consultant

This excludes the amounts spent by the treasuries and the departments of cooperative governance on consultants assigned to assist municipalities

The table below presents key findings regarding the use of consultants.

Table 35

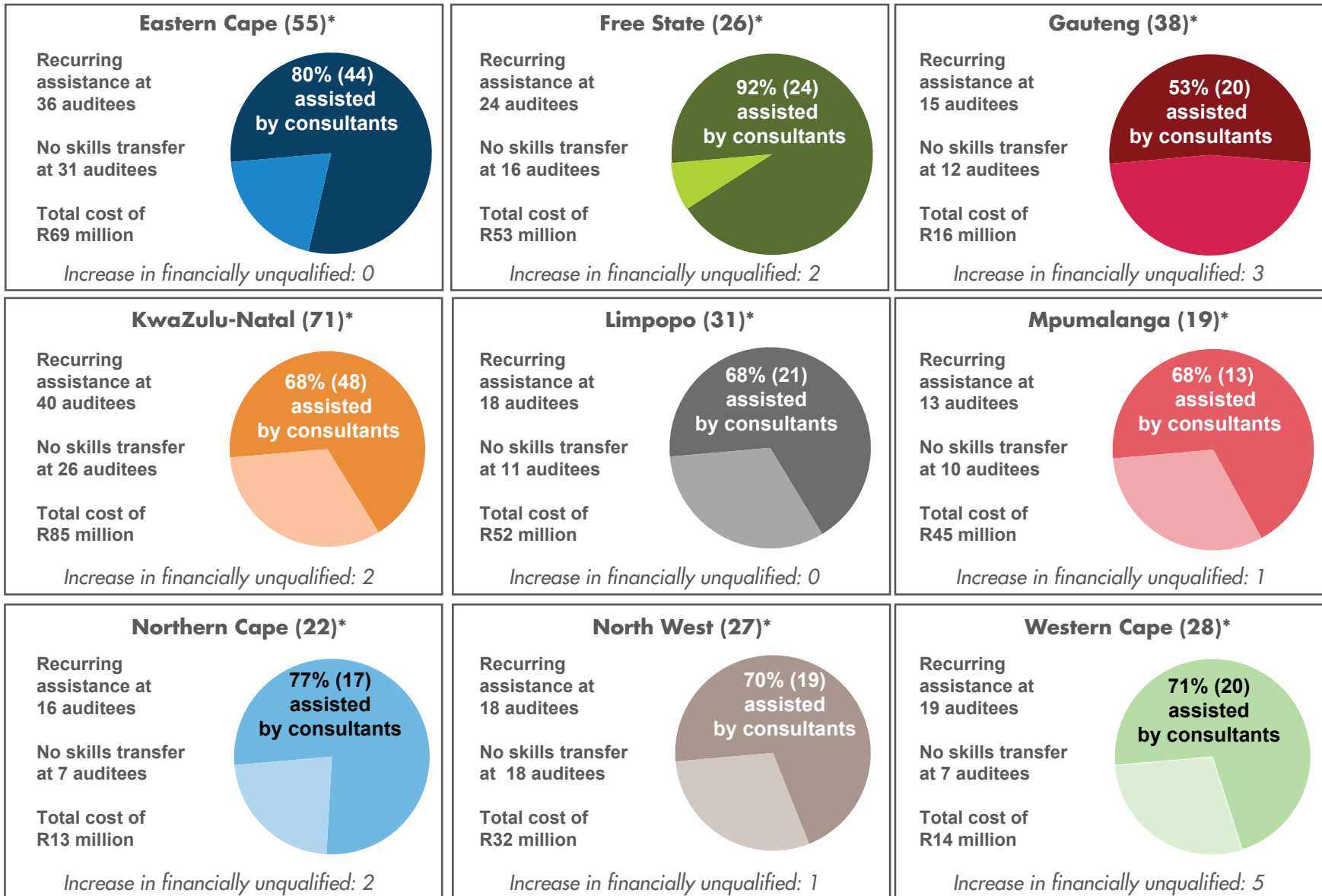
Key findings on the use of consultants

Key findings	Good	Concerning	Poor
<i>Auditees using consultants remained high, and costs increased</i>			
	<p>The extent of assistance provided by consultants remained the same as in the previous year, namely 226 in 2011-12 compared to 224 in 2010-11.</p> <p>The reported cost of consultants increased by R83 million (28%) from R295 million to R378 million.</p> <p>The average cost of consultants per auditee and the average cost per consulting contract increased by 27% and 20%, respectively.</p>		
<i>Recurring use of consultants increased</i>	<p>The recurring use of consultants occurred at 199 (88%) of the 226 auditees. The auditees that used consultants again this year increased by 41 (26%) from the previous year.</p>		

Key findings	Good	Concerning	Poor
<i>Audit outcomes of some auditees improved</i>	<p>Thirty-six (16%) of the assisted auditees obtained improved opinions, four of which improved to financially unqualified with no findings.</p>		
<i>Financially unqualified audit opinions</i>	<p>Eighty-seven (38%) of the auditees that were assisted by consultants obtained financially unqualified audit opinions in 2011-12 as well as in the previous financial year.</p>		
<i>Low rate of transfer of skills</i>	<p>The low rate of skills transfer occurred at all types of auditees, namely metropolitan municipalities (33%), district municipalities (36%), local municipalities (40%) and municipal entities (39%).</p>		
<i>Lack of technical skills remained the main reason for the use of consultants</i>	<p>Overall, 89% of the auditees indicated that the main reason for using consultants was a lack of technical skills, which remained at similar levels to the previous year (92%).</p>		

The following figure gives a provincial overview of the extent of the use of consultants.

Figure 35
Provincial analysis of assistance provided by consultants



* Number of auditees reported on

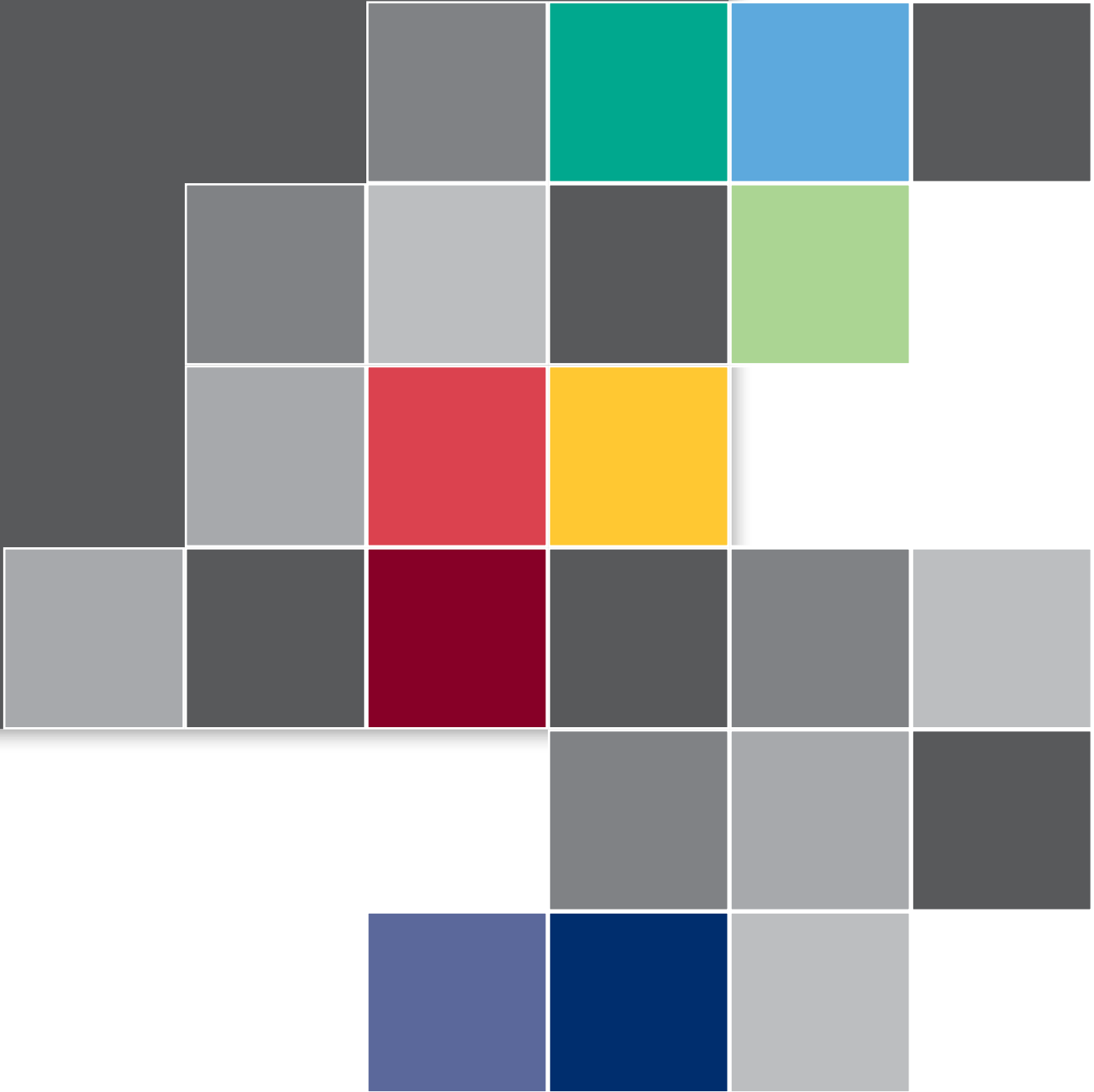
As can be seen in the above figures, most auditees in local government continued to use consultants to assist with accounting-related functions and the preparation of financial statements. Although it is expected that consultants could be used where there are vacancies in finance sections, they are predominantly used to supplement a lack of skills in local government.

Addressing the skills gap at an affordable cost is fundamental to achieving sustainable audit outcomes. Equipping financial officials with skills is an important process and it is therefore critical that consultants are appointed and managed with this objective in mind. Councils and provincial and national government should be concerned about the recurring use of consultants and the slow rate of skills transfer, as it could indicate that auditees depend too much on consultants and do not ensure that financial officials obtain the required skills and competencies. The agreements with consultants might also not include skills transfer as a deliverable or, where skills transfer is included, it is not effectively monitored and penalties are not applied.

The appointment, performance and management of consultants should contribute to the achievement of the desired audit outcomes in an economical and sustainable manner. Although consultants alone cannot get an auditee to unqualified financial statements, it is concerning that those auditees with qualified, adverse and disclaimed opinions used the most consultants at the highest cost. The reason why consultants did not have an impact at these auditees is that they are often brought in late or after the end of the financial year. They are then given little time and poor accounting information. If financial processes do not take place throughout the year, the financial statements will reflect the poor records and the opinions will be modified. However, there are also some consultants that do not deliver the required services.

Consultants should be seen as an important resource for local government to assist in areas where the shortage of staff and skills is a major barrier to achieving the desired audit outcomes. It is important, however, that councils, municipal managers and provincial and national government monitor the use of consultants to ensure that value for money is received, skills are transferred, and sustainable solutions are provided.

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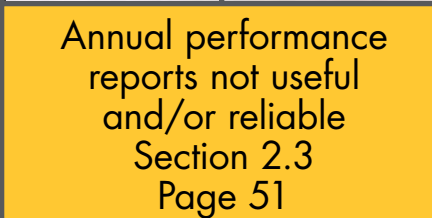
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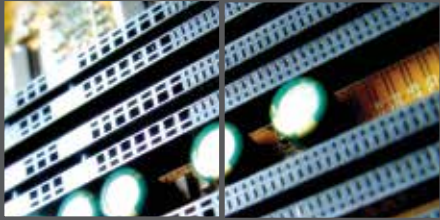


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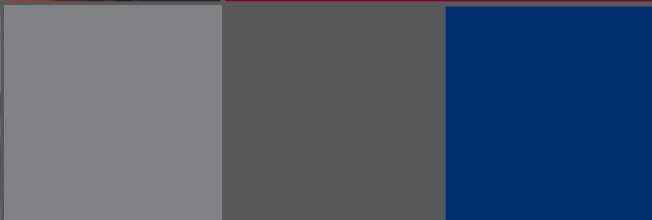


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Consolidated general report on the 2011-12 LOCAL GOVERNMENT audit outcomes

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