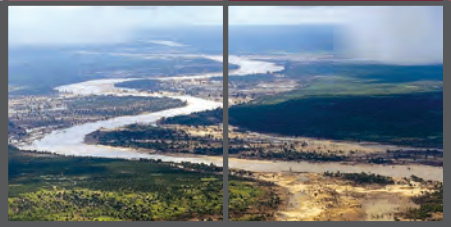
2011-12

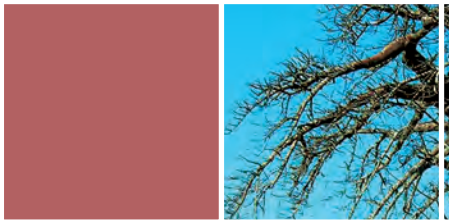
General report on the audit outcomes of local government LIMPOPO



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.



General report on the audit outcomes of Local Government **LIMPOPO** 2011-12

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

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

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

AUDITOR-GENERAL: TERENCE NOMBEMBE

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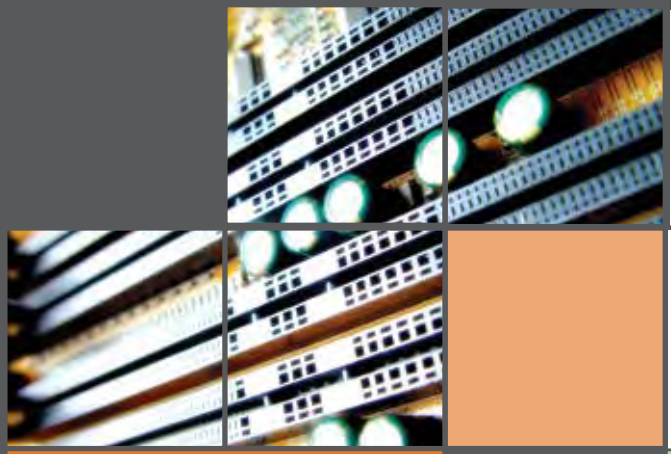

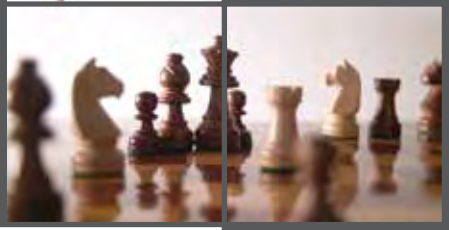

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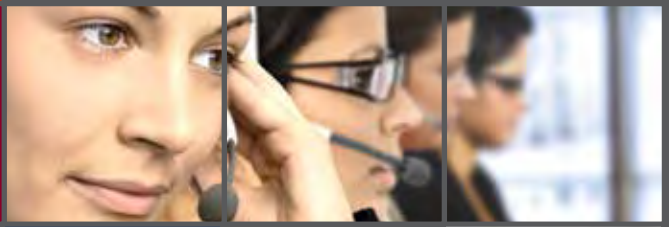

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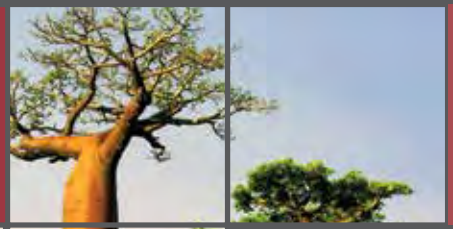

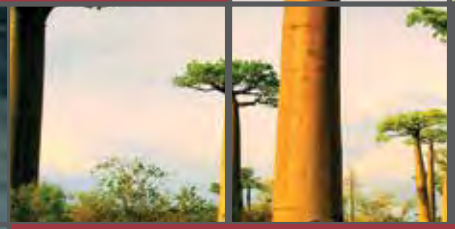

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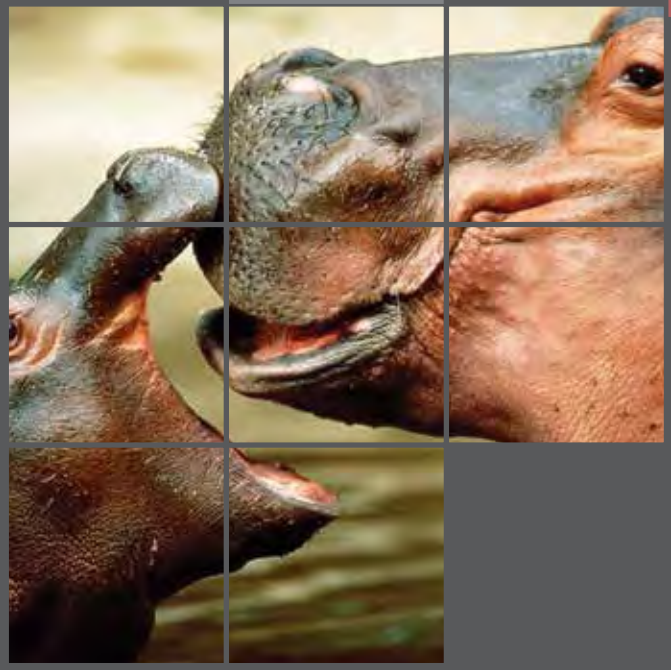

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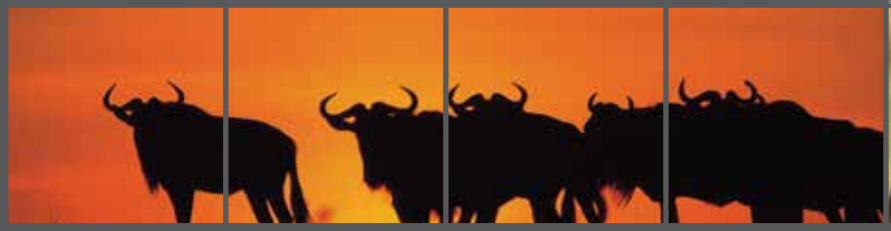
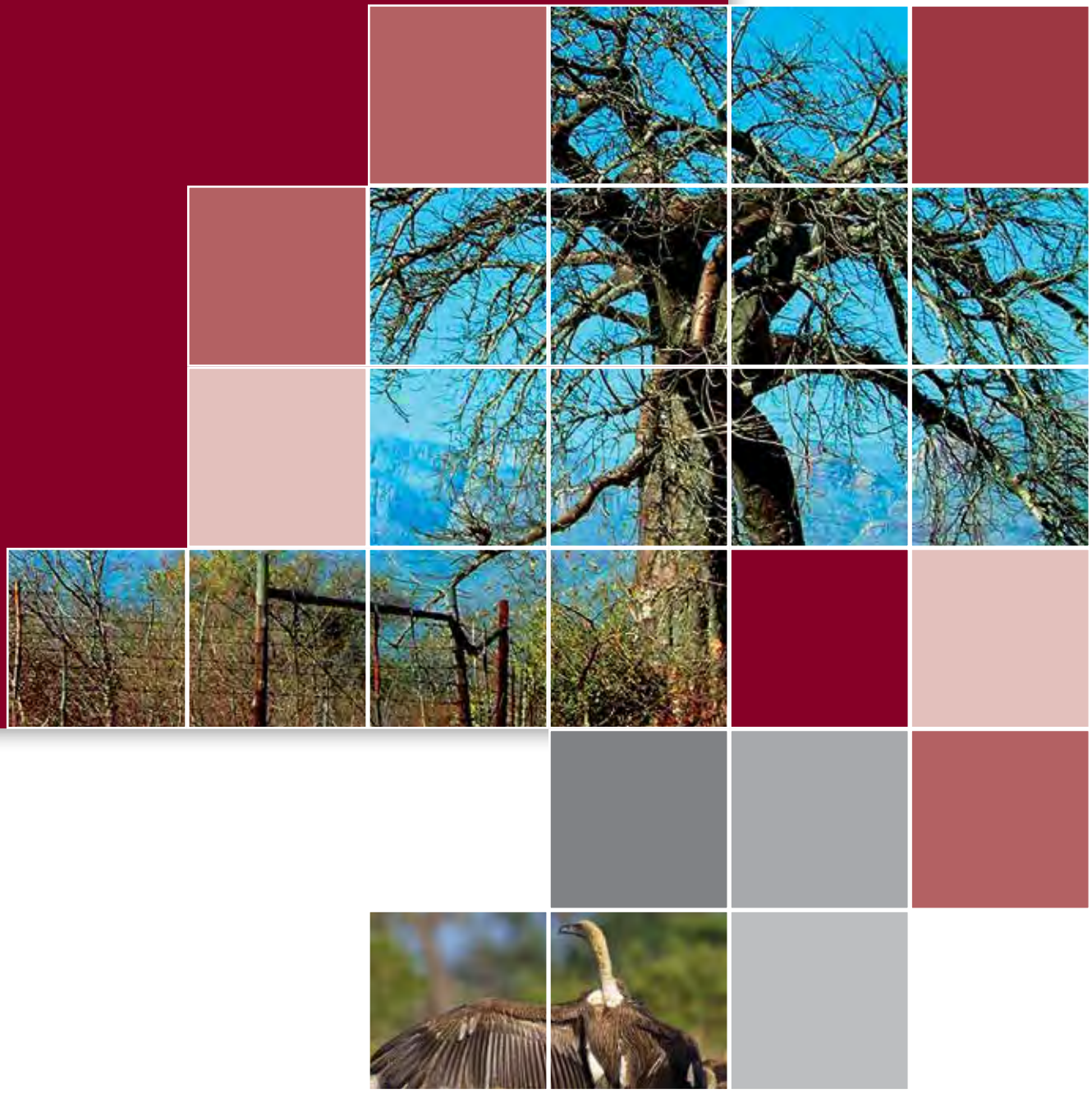


CLEAN AUDITS 2011-12

MUNICIPALITIES

Waterberg District municipality

MUNICIPAL ENTITIES



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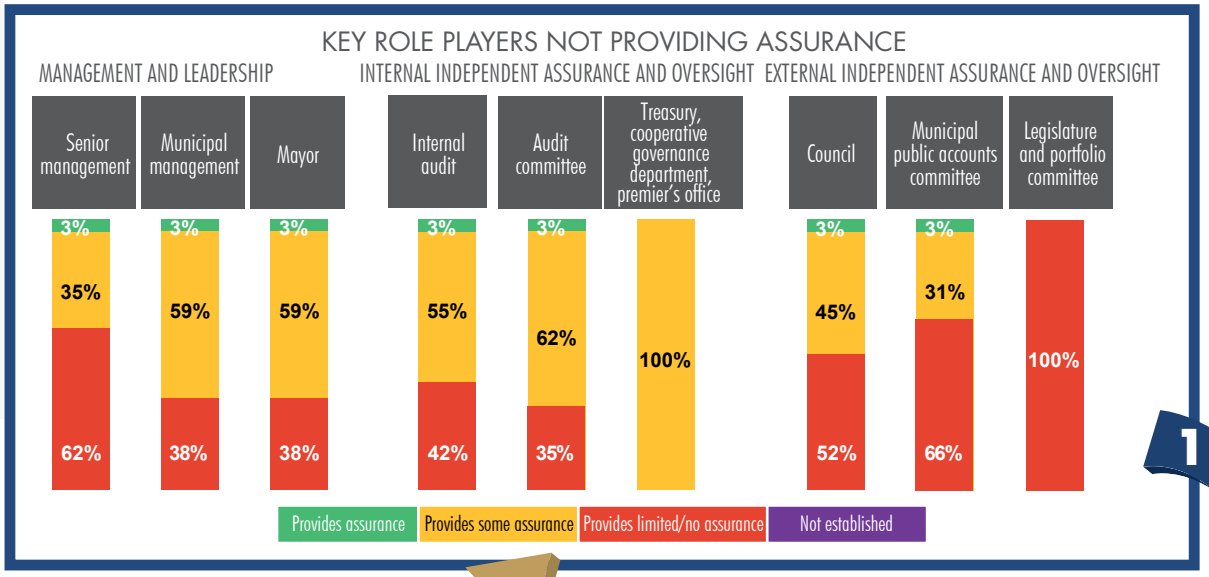

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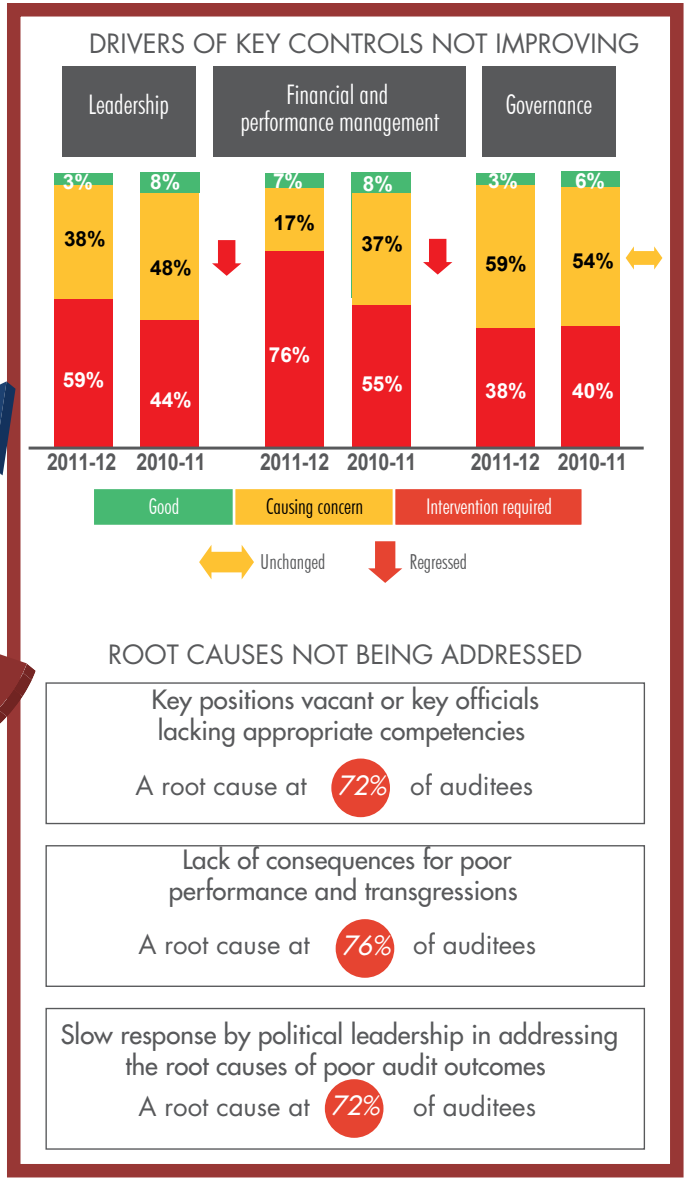

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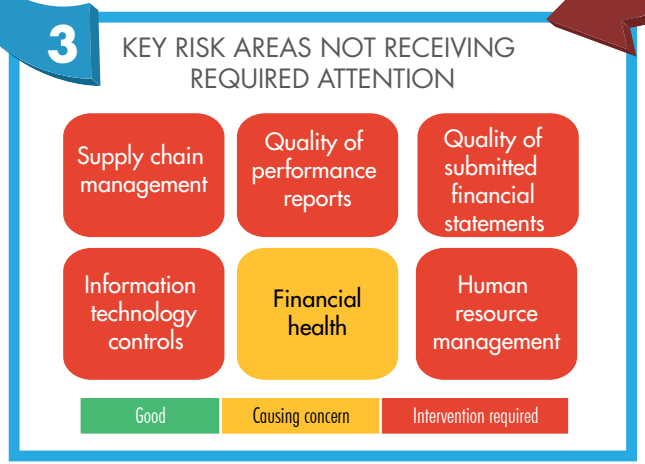
THE KEY ROLE PLAYERS NEED TO...

...TAKE SOME VITAL ACTIONS...

...IN SIX KEY AREAS...

3



...TO ENSURE IMPROVED RESULTS...

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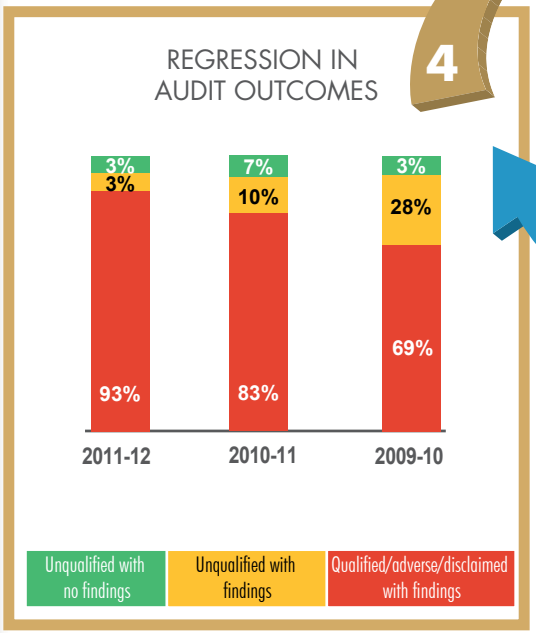


FOREWORD

I hereby present to the legislature of the Limpopo province my 2011-12 general report, analysing the results of the audit outcomes of the district and local municipalities as well as municipal entities for the financial year ended 30 June 2012.

Historically, the local government audit outcomes in Limpopo showed gradual improvement, but the 2011-12 results reflected a regression for the second year in a row with only one municipality (3%) receiving a clean audit opinion and one (3%) receiving an unqualified opinion with other matters. At the root of these outcomes is the slow response by the political leadership to address the root causes for these continued poor outcomes.

The deterioration in outcomes for provincial local government could already be anticipated on receipt of the annual financial statements on 31 August 2012 as the quality of the annual financial statements presented for audit purposes was poor. The Waterberg District municipality (which received a clean audit for three consecutive years) used the preparation of an audit file as a best practice by ensuring that the information in the financial statements is adequately supported. The initiative needed to improve the quality of financial statements is available and merely needs to be replicated by the other municipalities.

Although the province has commenced with a process to appoint competent chief financial officers, there is still a critical shortage of skills and competencies at 72% (87% in 2010-11) of the municipalities. The lack of skills resulted in significant reliance (R51 million) on the use of consultants in the preparation of financial statements at 72% of the municipalities. Some of the municipalities are responding to the requirement of having adequate skills in place and are displaying a seriousness to improve their audit outcomes. Steps taken by these municipalities include the recruitment of appropriately skilled chief financial officers or the acceptance of the appointment of resident accountants to support the finance sections that were initiated by the coordinating departments. Most of these efforts, however, came too late in the 2011-12 financial year to have a significant effect on the final results. The 31 March 2013 deadline for the skills assessment was unfortunately not achieved; nonetheless, the efforts already under way to improve the skills level are showing promise and the assessment of internal controls for the 2012-13 financial year does bring hope that improved outcomes can be achieved. There were, however, still some municipalities who did not take ownership of their outcomes, resulting in no immediate expectation of improvement.

"We reiterate for the sake of emphasis, in a Constitutional democracy such as ours, accountability is not optional, but something that needs to be done" Derrick Ngobeni – Chairperson SCOPA

The lack of implementing consequences for poor performance and transgressions at 76% of the municipalities contributed to the continuous increase in irregular expenditure as well as the deterioration in the financial health status of the municipalities. Except for the one clean audit opinion, municipalities made no attempt to ensure that service delivery objectives are transparently disclosed in the annual reports and that it accurately reflected the action or the lack of action to honour the commitments made to the communities. Furthermore, the lack of attention to the information technology control weaknesses identified continues to be an area of risk to the province. An adequate performance management system therefore needs to be high on the leadership agenda to ensure that performance is measured from an institutional level to an individual level to ensure that consequences for poor performance and /or transgressions are implemented.

As committed to in the prior year, the provincial legislature's portfolio committee on local government also started to play a greater role in the monitoring of municipalities and, although it did not have an impact on the outcomes their efforts will be enhanced to ensure that impact will be achieved.

The municipalities (100%) established the municipal public accounts committees during the year; however, they were still in the process of developing the required capacity for their members to operate effectively. As part of their commitment to capacitate the MPACs, the legislatures committed to regularly attend the MPAC hearings to address the areas of improvement. As similar initiatives are also required to ensure that councillors are able to perform their oversight functions effectively, both the Limpopo MPAC Forum and the Limpopo Speakers' Forum committed to having an increased focus on matters of ethical conduct and to improve the monitoring of the service delivery of municipalities by councillors and MPAC members. The importance of a serious tone set by the leadership to ensure that the province urgently improves its levels of transparency and accountability cannot be over-emphasised.

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

Auditor-General
Pretoria
July 2013

SECTION 1

EXECUTIVE SUMMARY

SECTION 1 Executive summary

The following table summarises the significant aspects of the 2011-12 audit outcomes of Limpopo and the root causes.

Table 1

Significant aspects of the audit outcomes and root causes

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Overall audit outcomes	**Retained clean audit status**	The Waterberg District municipality sustained its clean audit opinion in the 2011-12 financial year.			
	Net regression in the overall audit outcomes of the province	The overall audit outcomes for the province **regressed** as three (10%) auditees improved, but nine (31%) auditees regressed. The number of disclaimer/adverse opinions also increased from eight (26%) in the prior year to 14 (48%) in the year under review. The Fetakgomo Municipality, one of the two municipalities that obtained a clean opinion in 2009-10 and 2010-11, did not sustain its clean audit status in 2011-12.			
Overall audit outcomes	**Stagnated audit outcomes – material findings on predetermined objectives and/or non-compliance with laws and regulations**	No auditee managed to **improve its overall outcomes on findings on predetermined objectives and/or compliance.** In total, 27 (93%) auditees had findings on predetermined objectives and/or compliance. Only one (3%) auditee remained **unqualified with material findings on predetermined objectives and compliance with laws and regulations.** This auditee has not been able to progress to clean audit status for the past three years due to not avoiding material findings on predetermined objectives and/or compliance with laws and regulations.			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Opinions on financial statements	**Improvements from disclaimed to qualified opinion**	A total of three auditees (Elias Motsoaledi, Greater Letaba and Makhudutamaga) with disclaimed opinions in 2010-11 moved to qualified opinions. These municipalities still needed a concerted effort to move to an unqualified or clean opinion in the 2012-13 financial year.			
	Financial statements submitted without material misstatements	There were only two auditees (Waterberg and Mogalakwena Municipalities) that **submitted financial statements without material misstatements**.			
	Overall regression in quality of financial statements and audit outcomes	The overall quality of the financial statements submitted for audit purposes regressed quite significantly from the prior year based on the nature of the misstatements that were identified in the financial statements during the audit process. The financial statements of all municipalities, except two, were materially misstated and subject to corrections during the audit process. No auditee was in the position to correct its financial statements during the audit process to move to an unqualified opinion.			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Opinions on financial statements	**Overall regression in quality of financial statements and audit outcomes**	Of the three municipalities that obtained financially unqualified opinions with findings in the prior year, one remained unchanged; one regressed to a qualified opinion; and the other to a disclaimer. The Sekhukhune Development Agency also regressed from a financially unqualified opinion with findings to a disclaimer. A total of 16 (52%) auditees did not show any improvement in audit outcomes and remained with either a disclaimer/adverse or a qualified opinion, while six auditees that had a qualified opinion in the prior year obtained a disclaimer/adverse opinion. As highlighted above, the Fetakgomo Municipality that had obtained a clean audit in 2010-11 together with Waterberg District Municipality could not sustain this outcome in the year under review and regressed to a qualified opinion.			
	The **most common qualification** areas for the auditees are the completeness, valuation and existence of assets and liabilities disclosed in their financial statements. In total, 17 auditees had qualifications on the valuation and/or completeness of the disclosure of irregular expenditure in the financial statements.				

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Reporting on predetermined objectives	**Planned service delivery targets not achieved**	Based on the annual performance reports, 13 (45%) auditees **achieved 80% or fewer of their planned service delivery targets**.			
	Continued findings on usefulness and reliability of predetermined objectives	Overall, 27 (93%) auditees had findings on the usefulness and/or the reliability of reported information.			
	The **most common material finding** on the usefulness of the reported information was that the performance targets were not specific and/or measurable to ensure that the required performance can be meaningfully measured. Findings on reliability of the annual performance reports mostly related to the accuracy of the information and the validity thereof.				

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Findings on non-compliance with laws and regulations	**No reduction in high level of non-compliance with laws and regulations**	We reported **material findings on non-compliance with laws and regulations** at 28 (97%) auditees, a regression from 27 (93%) in the previous year. No auditee addressed its prior year findings on compliance and one (3%) auditee had material findings for the first time this year. All auditees that had findings on compliance with laws and regulations had findings on more than one focus area of the Auditor-General of South Africa. Furthermore, no auditee only had findings on material misstatements in submitted financial statements. Full compliance with key laws and regulations is of great concern due to an increase of auditees with findings during each financial year.			
	The **top three areas of non-compliance** related to material misstatements in submitted financial statements, prevention and addressing of unauthorised, irregular as well as fruitless and wasteful expenditure, and procurement and contract management (supply chain management), which together account for 87% of all findings on compliance with laws and regulations. The other areas of non-compliance included expenditure management; annual financial statements and annual report; asset and liability management. We also noted with concern that there has been an overall regression in all categories of non-compliance areas during the year under review. The continuous disregard for laws and regulations cannot be allowed to continue and the leadership needs to be mindful of the fact that if this area does not receive immediate attention, public confidence will be further weakened and clean administration will never materialise.			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Auditor-General of South Africa's focus area – supply chain management	**No improvement in findings on supply chain management**	We reported **findings on supply chain management** in the management reports of 28 (97%) [2010-11: 29 (93%)] auditees, while at all 28 (97%) [2010-11: 28 (90%)] auditees the findings were material enough to be reported in the audit report. At an overall level there has been no improvement, with no auditees showing an improvement.			
	Some contracts awarded could not be audited	We **could not audit** some contracts and quotations to the value of R363 million, which were selected for auditing, because auditees did not submit the required information or documentation. These limitations further impacted on the true extent of identified irregularities and supply chain management weaknesses.			
	Increase in contracts awarded to suppliers or family members where employees had an interest	A total of seven auditees awarded contracts to the value of R2,08 million **to suppliers in which close family members of employees of the auditee had an interest**, which represents an increase from no auditees identified in the previous year.			
	Many incidents of no declarations of interest	Where interest was identified, the **suppliers did not declare** such interest in 29% of instances, while the **employee did not declare** in 100% of instances. At one auditee the employees doing business with the auditee had not obtained **approval for the additional remunerative work**.			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Auditor-General of South Africa's focus area – supply chain management	**Internal control deficiencies**	We identified internal control deficiencies within the supply management environment at 79% of auditees compared to 62% in the prior year. As long as these deficiencies remain unattended, the trend in irregular expenditure will most likely continue to increase.			
	Significant increase in unfair and uncompetitive bidding	We raised findings **on unfair and uncompetitive bidding** at 97% of auditees – an increase from 72% in the previous year. The most common findings related to competitive bidding and quotation processes not followed to select suppliers and the non-submission by suppliers of their tax certificates and declarations of independence. Auditees did not always apply the preference point system in the procurement process, which resulted in irregular expenditure.			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Unauthorised, irregular as well as fruitless and wasteful expenditure	**Unauthorised, irregular as well as fruitless and wasteful expenditure remains at the same high level**	Findings on compliance relating to **unauthorised, irregular as well as fruitless and wasteful expenditure** remained at the same high level as in the previous financial year (90% of auditees). A total of 30 auditees incurred one or more types of unauthorised, irregular as well as fruitless and wasteful expenditure.			
	Significant increase in unauthorised expenditure	In total, 17 (59%) auditees incurred **unauthorised expenditure** of R733 million, an increase of R146 million from the prior year and R383 million from the 2009-10 financial year.			
	Significant increase in irregular expenditure	Overall, 30 (97%) auditees incurred **irregular expenditure** of R1,5 billion. The number of auditees incurring irregular expenditure increased by three (10%) and the value by R853 million (119%). An amount of R165 million of the irregular expenditure was incurred in prior years and only identified and reported in the current year.			
	Significant increase in fruitless and wasteful expenditure	A total of 26 (97%) auditees incurred **fruitless and wasteful expenditure** of R32 million. The number of auditees incurring fruitless and wasteful expenditure increased by eight (26%) and the value decreased by R10 million (24%).			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
AGSA focus area – Human resource management	**Regression in findings from prior year in all categories of human resource management**	Findings on human resource management showed a regression from the previous year. Findings on **competencies of key personnel** (72% in the current year) remained more or less stagnant when compared the prior year of 69%, while **management of leave, overtime and suspensions** improved to 28% as compared to 48% in the prior year. However, **management of vacancies and acting positions** increased to 72% from the prior year's 55%. Inadequate **performance management** processes remained a concern at 86% of municipalities. Management did not evaluate the performance of municipal managers and senior managers at 13 (45%) and 14 (48%) of municipalities, respectively. Although 27 (87%) auditees had **performance management systems** in place, only four (15%) auditees implemented them. By 30 June 2012 (six months from the effective date of the regulations), an assessment of the minimum competency levels was not performed on 15 (68%), nine (50%) and 18 (69%) of the **appointed municipal managers, chief financial officers (CFOs), and heads of supply chain management** in the province, respectively.			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
AGSA focus area – Human resource management	**Regression in findings from prior year in all categories of human resource management**	A total of 21 municipalities appointed consultants in the 2011-12 financial year. At 19 (90%) of these municipalities, consultants were appointed due to a lack of technical skills at the finance units. Based on the available information, the cost of consultants to auditees is estimated as having exceeded R51 million compared to R23 million in the prior year.			
Financial reporting assistance provided by consultants	**Lack of skills transfer or improvement in audit outcomes at municipalities making use of consultants**	A total of 18 auditees (58%) had recurring appointment of consultants. Of these, only one auditee managed to maintain its financially unqualified opinion with findings on predetermined objectives and/or laws and regulations. The remainder (81%) remained with qualified (qualified/ adverse/disclaimer) audit opinions. Skills were transferred at only eight of the auditees.			
Auditor-General of South Africa's focus area – information technology management	**Inadequate progress in addressing prior year findings on IT**	The majority of municipalities experienced challenges with the design of information technology controls. Auditees did not make adequate progress in addressing previous findings as risks remained in all of the focus areas. Information technology risks and controls did not receive the attention they deserved and they were, to a large extent, not prioritised by the leadership.			

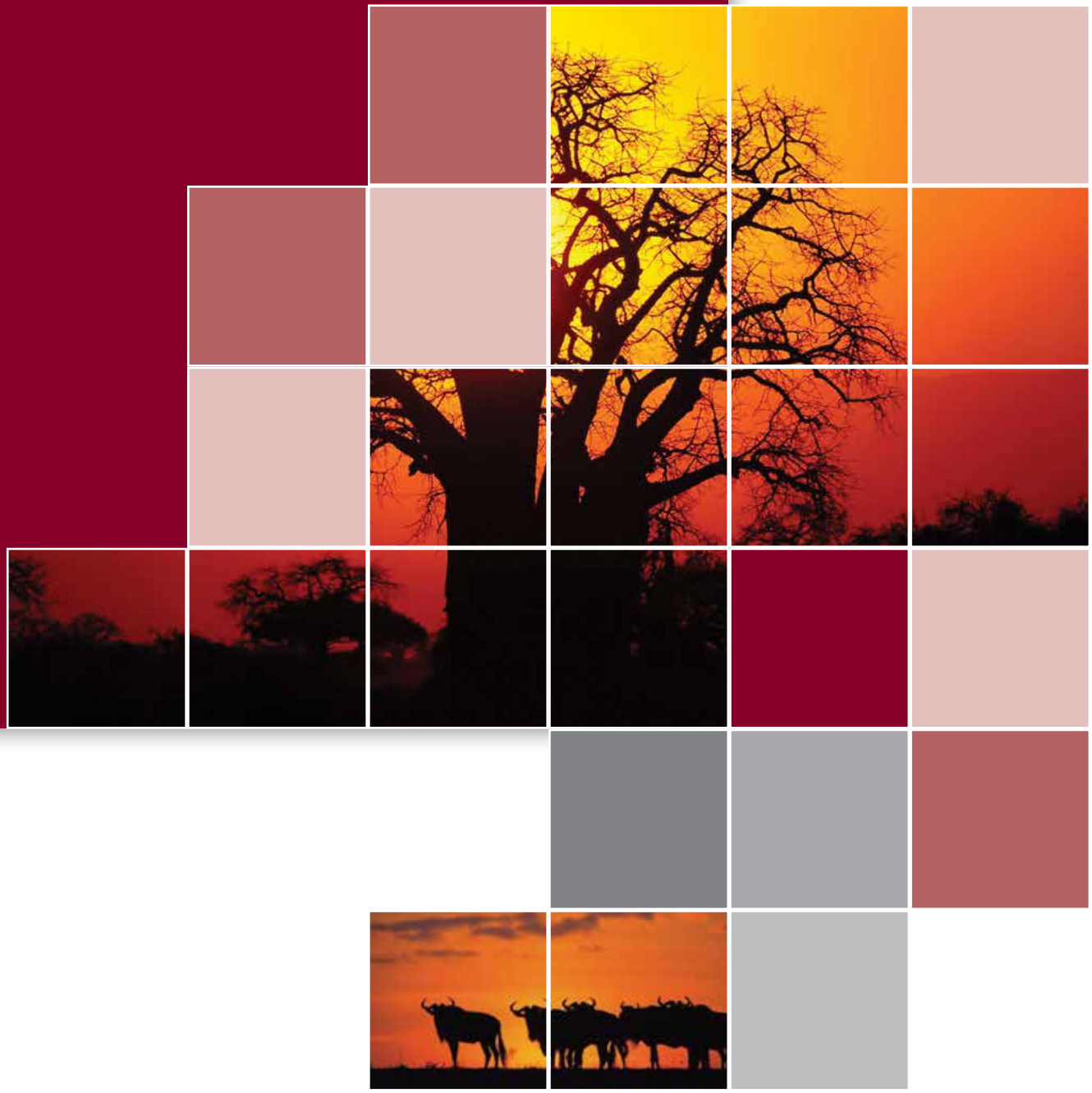
Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Auditees' systems of internal control	**Auditees' systems of internal control deteriorate**	There has been a significant regression in the overall assessment of all the drivers of internal control, i.e. leadership, financial and performance management and governance, based on significant deficiencies identified in the control environment. The identified deficiencies are directly related to the regression in the 2011-12 audit outcomes, including material misstatements in the financial statements and performance reports and findings on non-compliance with laws and regulations.			
Audit committees and internal audit units	**Audit committees and internal audit units do not make a positive impact**	**Audit committees and internal audit units** are in place at all auditees, except for one. At 66% of the auditees the audit committees did not make a positive impact on the audit outcomes. Audit committees and internal audit units were not **fully compliant with legislative requirements** at 19 and 14 auditees, respectively. The development of the capacity required for internal audit units is an area that still requires the leadership's significant attention.			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Assurance provided by key role players	**Limited assurance provided by key role players**	The role players are those directly involved with the management of the auditee (management assurance), those that perform an oversight/ governance function, either as an internal governance function or as an external monitoring function (oversight assurance), and independent assurance providers that provide an objective assessment of the auditee's reporting. At 30 (97%) auditees, the role players (management and oversight) either provided some or limited assurance that was required of them.			
Municipal public accounts committees	**Municipal public accounts committees lack maturity**	The municipal public accounts committees were in place at all municipalities in the province and only became operational during the 2011-12 financial year. Municipal public accounts committee hearings were held at the majority of the municipalities to interrogate the 2010-11 audit outcomes. The municipal public accounts committees in the province still need to reach that level of maturity to be able to effectively conduct and discharge their oversight responsibilities.			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Status of commitments from key role players	**Ineffective implementation of commitments to improve audit outcomes**	The commitments made by the leadership in addressing poor audit outcomes were not addressed or were not addressed timeously in all instances. Although the leadership did take note of our message after the prior year, the results became known and they had started working on a turnaround strategy. This effort came too late in the financial year under review to have any impact on the 2011-12 audit outcomes.			
Financial health indicators	**Financial health concerns**	**The financial health of auditees is of concern**. There was significant overspending of the operational budgets while capital budgets and conditional grants were underspent. The capital budgets of local municipalities are largely funded by grants and hence a lack of funding is not the probable cause of poor capital spending. At local municipalities the failure to spend the capital budget is more the result of poor planning, project management and project implementation. What is of concern is that local municipalities have been the beneficiaries of a number of support programmes run by various departments and yet they were still unable to plan and implement projects appropriately.			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Financial health indicators	**Financial health concerns**	A total of nine local municipalities, which are more than half of all local municipalities, underspent their capital budgets by more than 30%. Similar to the underspending on capital budgets, the prevalence and extent of underspending on specific purpose conditional grants negatively impacted on municipalities' service delivery objectives. This is evidenced by the fact that 13 (42%) of auditees achieved 80% or fewer of their service delivery targets. Debtors were also not collected on a timely basis and creditors were paid late. The continuous increase in irregular expenditure as well as the deterioration in the financial health status of the municipalities are concerning as they impact directly on the municipalities' ability to provide the necessary services. Financial health of the municipalities will continue to remain a concern unless a discipline of daily and monthly controls is implemented. This is also a significant reason that leads to a high number of municipalities receiving an adverse/disclaimer of opinion.			

Aspect	Indicator	Key outcomes and trends	Good	Concerned	Poor
Root causes of audit outcomes		We identified the following as root causes of poor audit outcomes: • Key officials lacking appropriate competencies, specifically at chief financial officer level. • Lack of consequences for poor performance and transgressions. • Slow response to Auditor-General of South Africa's messages and the leadership not taking ownership of key controls. • Lack of a shared vision regarding a clean audit across all levels of municipal officials. • Delays in the implementation of action plans to address internal and external audit findings. • Lack of proper oversight.			



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2.6 FINDINGS ARISING FROM THE AUDIT OF UNAUTHORISED, IRREGULAR AS WELL AS FRUITLESS AND WASTEFUL EXPENDITURE 58

SECTION 2 Overview of audit outcomes

This section provides the 2011-12 local government audit outcomes (section 2.1), followed by further details on findings arising from the audit of the financial statements (section 2.2), reporting by auditees on their predetermined objectives (PDOs) (section 2.3) and compliance by auditees with key laws and regulations (section 2.4), findings arising from the audit of supply chain manangement (section 2.5) and findings arising from the audit of unauthorised, irregular as well as fruitless and wasteful expenditure (section 2.6)

Section 3 presents the root causes of audit findings and recommended best practices.

2.1 SUMMARY OF AUDIT OUTCOMES

2.1.1 Summary of overall audit outcomes

Local government in the province comprises five district municipalities, 25 local municipalities and two municipal entities.

We completed the audits of 27 of the 30 auditees that had submitted financial statements by 31 August 2012, or by 30 September 2012 in the case of consolidated financial statements, within the legislated time frame of three months from receipt of the financial statements.

Arising mainly from the late submission of financial statements for audit purposes, we had not finalised the audit of one (3%) auditee as at 31 March 2013, which is the cut-off date set by the Auditor-General of South Africa (AGSA) for inclusion of their audit outcomes in this general report. Section 2.1.4 provides the status and outcomes of the outstanding audits.

The following table summarises the audit outcomes of the 2011-12 financial year for audits completed by 31 March 2013 and the audit outcomes of the previous year.

Where applicable, audit opinions relate to the consolidated financial statements of auditees. Therefore, the outcomes of municipal entities are excluded as they form part of the consolidated audit reports. The entities affected are the Polokwane Housing Fund (Polokwane Local municipality) and the Sekhukhune Development Agency (Greater Sekhukhune District municipality). 'With findings' denotes findings on PDOs and/or compliance with laws and regulations.

Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either reporting on PDOs or compliance with laws and regulations.

Table 2

Summary of audit outcomes for current and prior years

Audit outcomes	Total		District municipalities		Local municipalities	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Unqualified with no findings (clean audits)	1	2	1	1	0	1
Unqualified with findings	1	3	0	0	1	3
Unqualified financial statements	7%	17%	20%	20%	4%	16%
Qualified opinion, with findings	12	13	1	3	11	10
Adverse opinion, with findings	1	4	0	0	1	4
Disclaimer of opinion, with findings	14	8	3	1	11	7
Number of audit reports not issued by 31 March 2013	1	0	0	0	1	0
Outstanding audits and qualified financial statements	93%	83%	80%	80%	96%	84%
Total number of audits	30	30	5	5	25	25
Findings on reporting on PDOs only	0	0	0	0	0	0
Findings on compliance with laws and regulations only	1	0	0	0	1	0
Findings on both PDOs and compliance	27	28	4	4	23	24
Total number of audits "with findings"	28	28	4	4	24	24

Significant improvement

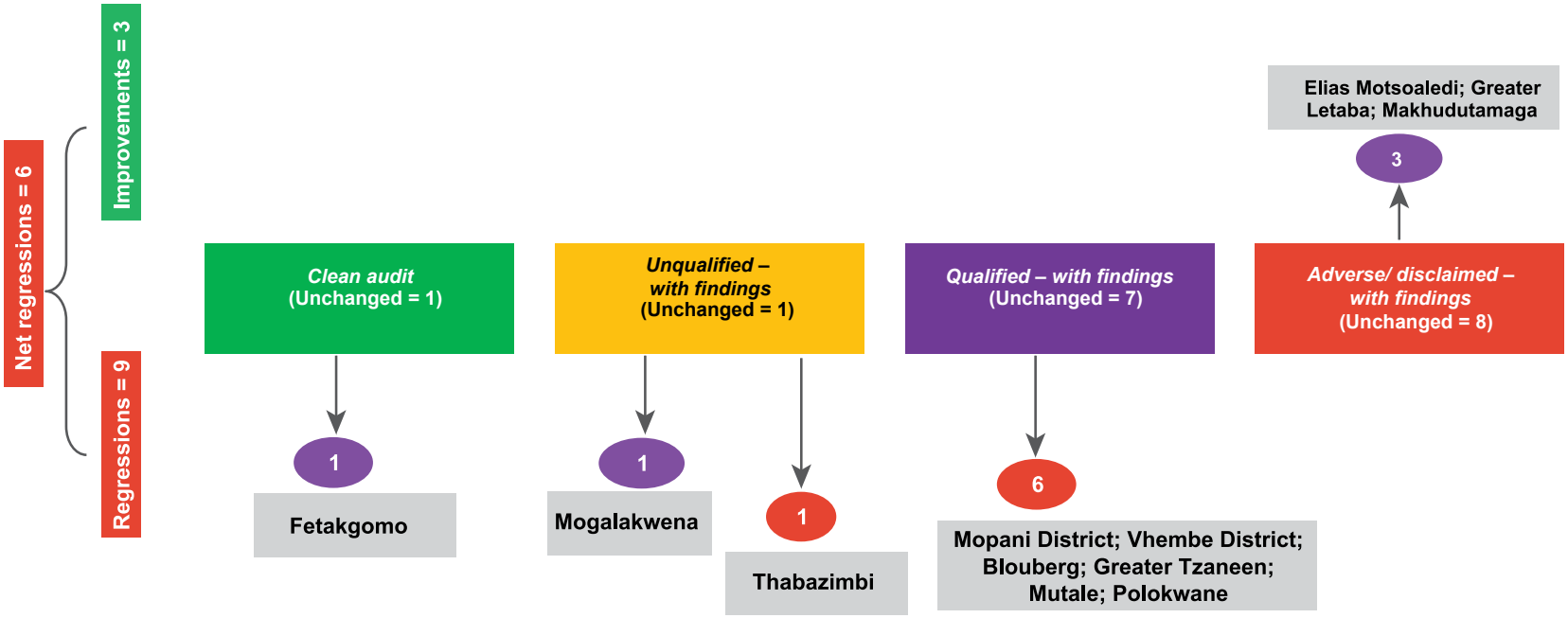
Significant improvement

None of the auditees avoided qualified financial statements by correcting material misstatements identified during the audit that resulted in an unqualified opinion. There were only two municipalities that received an unqualified opinion (one clean opinion and the other with findings). In both these cases, the financial statements submitted for audit purposes were not subject to any material adjustments during the audit process.

Annexure 1 lists all auditees with their current and prior year audit outcomes. While the preceding table shows the net change in audit outcomes from the previous year, the following figure highlights the detail of improvement and regression that caused the net change.

Figure 1

Improvement and regression in the audit opinions



It is clear that the audit outcomes of most of the auditees remained in the categories of qualified and unqualified with material findings. The following figure shows the improvements and regressions of the auditees in the areas of PDOs and compliance with laws and regulations.

Figure 2

Improvement and regression in predetermined objectives and compliance findings

The following observations are made regarding the movement in overall audit outcomes over the past year:

Table 3

Significant aspects of the 2011-12 audit outcomes

Indicator	Key outcomes and trends	Good	Concerned	Poor
Overall audit outcomes	There was an overall regression in audit outcomes for the province. A total of nine auditees regressed and of great concern is that seven of the nine auditees regressed to a disclaimer/adverse opinion.			
Progression to clean audit opinion	It is highly unlikely that the province will reach the target of a clean audit by 2014. With the overall regression in audit outcomes it will require a huge effort by all role players as the province has moved further away from this target.			
Sustaining clean audit opinions	Only the Waterberg District municipality managed to sustain its clean audit opinion for two consecutive years. This is due to the continued effort by the CFO and the municipal manager in monitoring action plans and the diligent implementation of key controls.			
Regression from clean audit opinions	The Fetakgomo Local municipality regressed from a clean audit opinion for the past two years, to a qualified opinion in the current year. Over the past three years, the municipality took advantage of the exemptions provided by the National Treasury to account for its assets in terms of the applicable accounting standard. However, in the year under review those exemptions expired and the municipality underestimated the impact that the full application of these standards would have on the preparation of its financial statements, which ultimately resulted in a qualification.			
Disclaimer of opinions	A total of seven auditees (two district municipalities and five local municipalities) regressed to adverse/disclaimer audit opinions. During the previous financial years, we informed the leadership of the consequences of waiting for the auditors to point out errors in the financial statements before attending to them. We also warned the political and administrative leadership on numerous occasions that the practice was not sustainable in the drive towards clean administration. Of great concern is that eight auditees maintained their adverse/disclaimer opinions, which indicates a lack of will by the leadership to address and improve on its financial management and governance practices.			
Improvement to qualified audit opinions	Three auditees (Elias Motsoaledi, Greater Letaba and Makhudutamaga) managed to move from a disclaimed audit opinion to a qualified audit opinion. Although still qualified, it is an improvement, since these auditees provided supporting documentation, which was not the case in the prior years.			
Regression to qualified audit opinions	Two auditees regressed to qualified audit opinions. One being the Fetakgomo Municipality that was discussed above and the other being the Maruleng Municipality. The regression at the Maruleng Municipality is also related to the incorrect implementation of accounting standard requirements on the treatment of assets.			
Lack of movement to unqualified audit opinions	No auditee managed to move to an unqualified audit opinion during the year under review. This trend also indicates the huge effort that would be required to achieve the target of clean audits by 2014.			
Unchanged qualified audit opinions for the past three years	A total of four auditees (Ephraim Mogale, Lephalale, Thulamela and Tubatse Municipalities) have been receiving qualified audit opinions for the past three years. The Thulamela Municipality received its fourth consecutive qualified opinion. The inability of these auditees to move to an unqualified opinion is due to a lack of financial capacity and oversight.			

Indicator	Key outcomes and trends	Good	Concerned	Poor
Unqualified with findings – stagnation	Only one auditee (Mogalakwena Municipality) stagnated on an unqualified with findings opinion for the past three years. Once again, this stagnation can be attributed to a lack of monitoring of key controls. If in-year monitoring takes place, the municipality has the potential to move to a clean audit opinion.			
Overall outcomes on PDOs and compliance	All auditees had findings on PDOs except for the Blouberg and Waterberg District municipalities. One auditee that had no findings in the prior year (Fetakgomo) regressed in the year under review with findings on the reliability and/or usefulness on the reporting of its performance information. All auditees submitted their performance information for audit purposes, which is an improvement from the prior year when Musina had not submitted.			
Continued regression in compliance with laws and regulations	There were no auditees that managed to clear their findings on non-compliance with laws and regulations. Only one auditee, the Fetakgomo Municipality, regressed from having no findings on non-compliance. Continued findings on non-compliance with laws and regulations are as a result of a negative attitude by officials who did not make the effort to comply with prescribed laws and regulations. The disregard for laws and regulations is expected to persist if no steps are taken against the responsible officials.			
Outstanding audits	The audit of the Molemole Municipality was still outstanding at 31 March 2013, which was the cut-off date for inclusion in this report. The municipality submitted its financial statements after the legislated date of 31 August 2012. The audit was still in progress at the time of writing this report.			

There is a need for district municipalities to lead by example and to be centres of excellence for their Local municipalities. Three of the five district municipalities in the province obtained disclaimers of opinion. The overall objective of the district municipality is to provide support to its local municipalities.

It would not be possible for a district municipality to achieve this objective if it cannot implement basic financial management practices itself.

Although the Waterberg District Municipality obtained a clean audit opinion, it could not have a positive impact due to the lack of willingness and commitment by certain local municipalities to implement the recommendations provided by the district. Below are some of the initiatives that the district municipality undertook in providing support to its local municipalities:

- Regular interaction with other CFOs to ensure that they are up to date with the reporting requirements.
- Discussions at CFO forums of issues that apply to and affect all municipalities and how these can be resolved.
- Knowledge sharing in terms of audit findings.
- Assistance with the implementation of a financial system (Munsoft) and resolving initial setup errors.

The Capricorn District municipality again obtained a qualified audit opinion in the year under review due to inadequate controls implemented by its local municipalities in the recording of and accounting for water-related transactions, which had a direct impact on the audit outcome of the district.

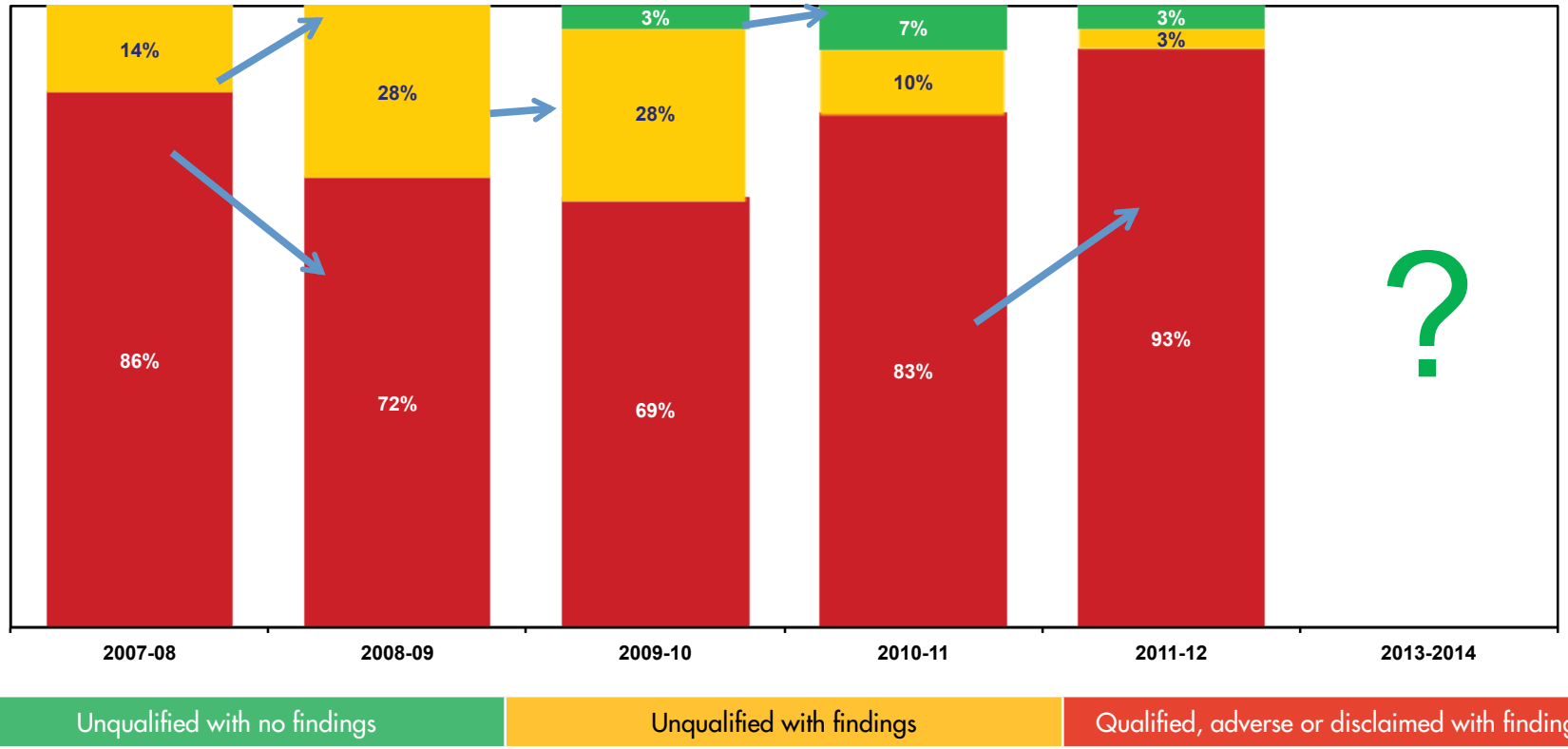
Subsequent to year-end, there was an improvement in the level of support provided to its local municipalities in indentifying and addressing these challenges.

2.1.2 Five-year progress towards clean audits

Producing unqualified financial statements is an important milestone towards clean audits – but not the ultimate objective. The following figure shows the five-year progress made by local government towards obtaining unqualified audit reports with no findings (i.e. clean audits).

Figure 3

Five-year progress towards clean audits



During the 2007-08 financial year, the province experienced its highest level of qualified/adverse/disclaimer audit opinions (86%), only to be exceeded three years later in the 2011-12 financial year (93%). Unqualified with findings and clean audit opinions have steadily decreased, from a highest level of 31% in 2009-10 to 6% in the current year. Unqualified with no findings opinions have dropped to the level of 3% in 2009-10, a regression from the 7% during the 2010-11 financial year.

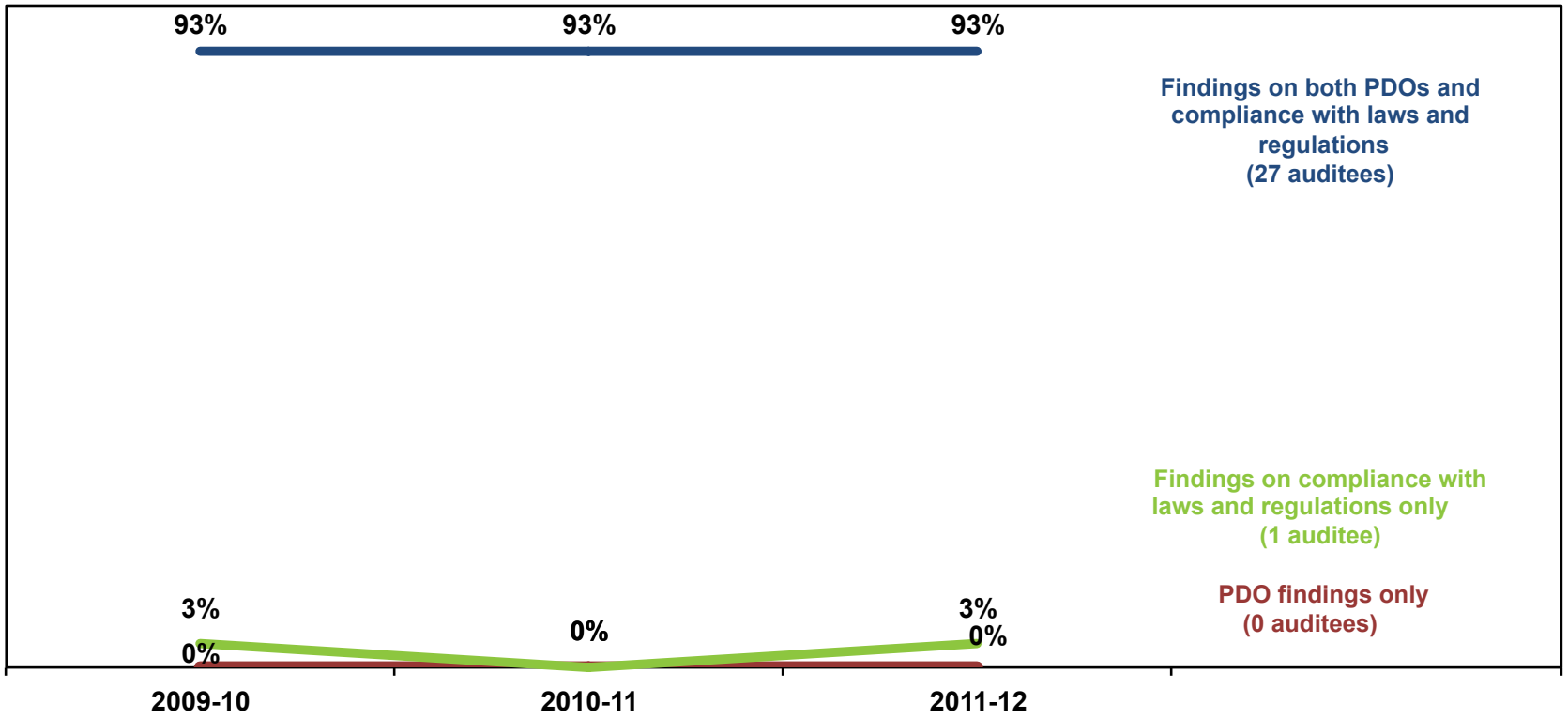
Annexure 3 analyses the five-year audit outcomes of each municipality and municipal entity in the province.

2.1.3 Useful and reliable reporting on predetermined objectives and compliance with laws and regulations – three-year progress

In order to obtain clean audit opinions, auditees should report annually on the achievement of their PDOs in a useful and reliable manner and their audit reports should not contain material findings on compliance with laws and regulations. The following figure shows the three-year progress made by local government in the province towards meeting these requirements.

Figure 4

Three-year progress in addressing findings on predetermined objectives and compliance with laws and regulations



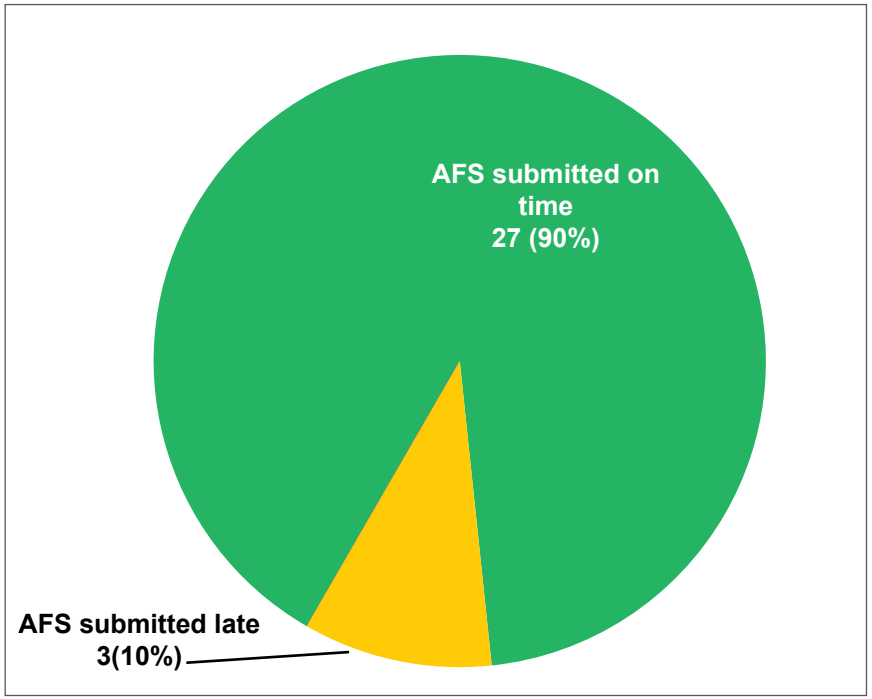
Findings on both PDOs and compliance with laws and regulations remained at the same high level of 93% from the previous year (28 out of 29 auditees). Only one auditee, Blouberg Municipality, managed to clear its prior year findings on PDOs. No auditee could address the prior year findings on non-compliance with laws and regulations. This trend indicates that the province has challenges in addressing findings on both PDOs and non-compliance with laws and regulations.

2.1.4 Status and outcomes of audits not finalised by 31 March 2013

Timely completion of audits within the legislated timelines is primarily influenced by the date on which we receive the auditees' financial statements for audit purposes and the efficiency with which the audits proceed until completed. The figure below indicates that a total of three (10%) auditees were unable to submit financial statements for audit purposes by 31 August 2012 (30 September 2012 in the case of consolidated financial statements), as required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). However, we managed to complete two audits for auditees that submitted their financial statements late, which are included in this report.

Figure 5

Timeliness of submission of annual financial statements for audit purposes



Between 1 April 2013 and the date of this general report, there was one audit which was still in progress. Details appear below:

Table 4

Outcomes of audits finalised after 31 March 2013

Auditee	2011-12 audit opinion	2010-11 audit opinion
Molemole Local municipality	Outstanding	Disclaimer

The following table shows the reasons for the outstanding audits at the date of this report with an indication of the prior year audit outcomes.

Table 5

Prior year outcomes of audits outstanding at the date of this report

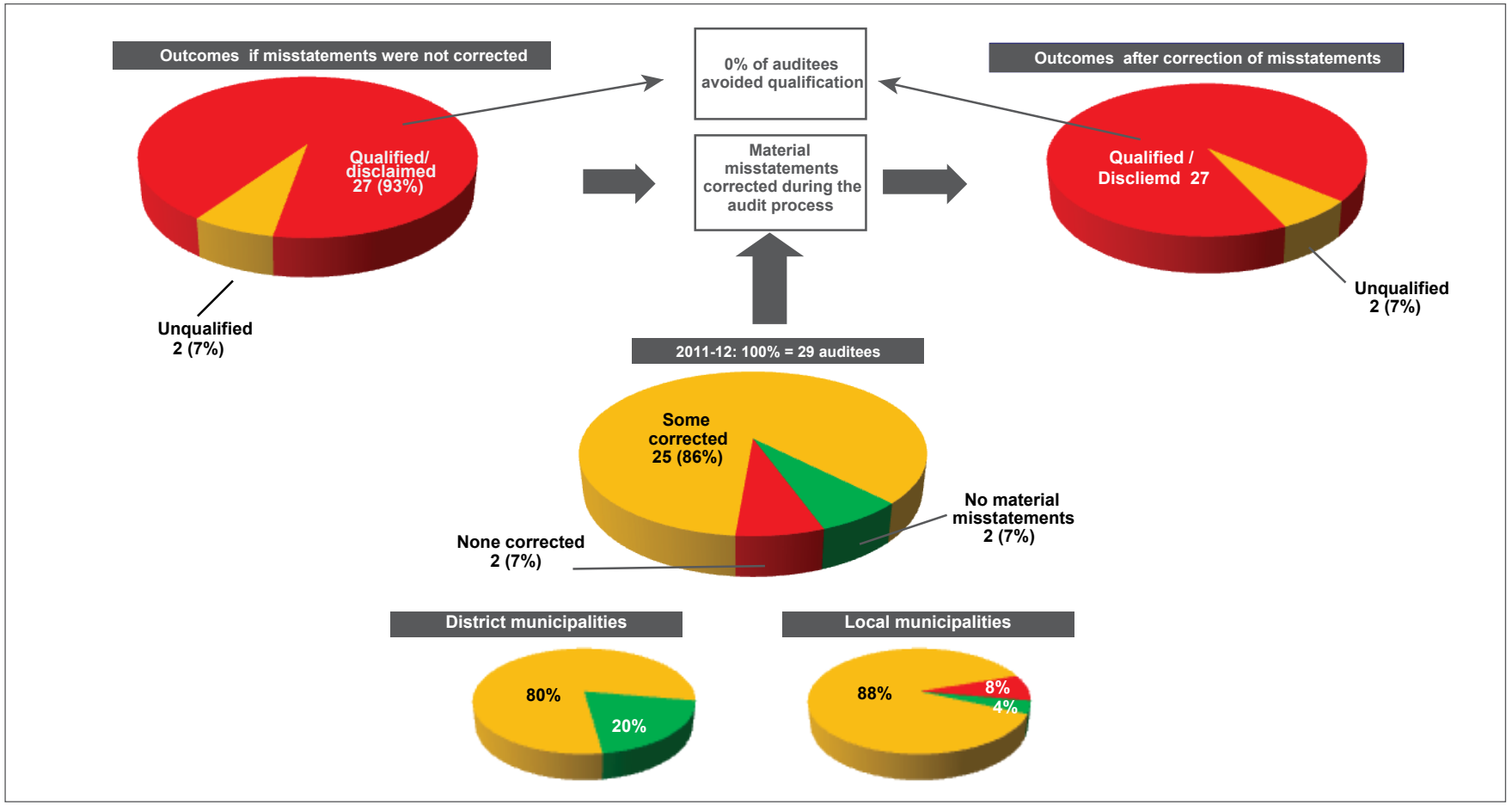
Auditee	Reason not finalised			Expected date of finalisation	Year AFS last finalised	Audit outcome of audit last finalised
	Financial statements not yet received	Late receipt of financial statements	Audit still in progress due to other reasons			
Molemole Local municipality		x	x	June 2013	2010-11	Disclaimed
Total		1	1			

The Molemole Municipality submitted its financial statements on 31 August 2012 for compliance purposes only. The quality of the financial statements submitted was extremely poor, which necessitated a withdrawal in order to allow for adequate review by senior management, the municipal manager and the audit committee prior to submission for audit purposes. The revised financial statements were subsequently submitted on 31 October 2013. The audit was still in progress at the time of writing this report.

2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS

Figure 6

Material misstatements in financial statements



Auditees with not material misstatements	Auditees that submitted financial statements for audit with material misstatements subsequently corrected	Auditees with uncorrected material misstated financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the financial position (statement of financial position) and results of an auditee's operations (statement of financial results) and cash flows for the reporting period in accordance with the applicable accounting framework and the requirements of the applicable legislation.

The audit provides the users with assurance on the degree to which the financial statements are reliable and credible on the basis that the audit procedures performed did not identify any material errors or omissions therein.

The quality of financial statements submitted for audit purposes

The majority of auditees submitted financial statements for audit purposes by the legislated deadline of 31 August 2012, but, as shown above, only two (7%) [2010-11: 2 (7%)] auditees submitted financial statements with no material misstatements.

The inability to produce credible and reliable financial statements is evident across the majority of auditees in the province. It was only at the Mogalakwena and Waterberg District municipalities where material corrections were not required to be made to the financial statements during the audit process. The continued reliance on the auditors to identify corrections to be made to the financial statements in order to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

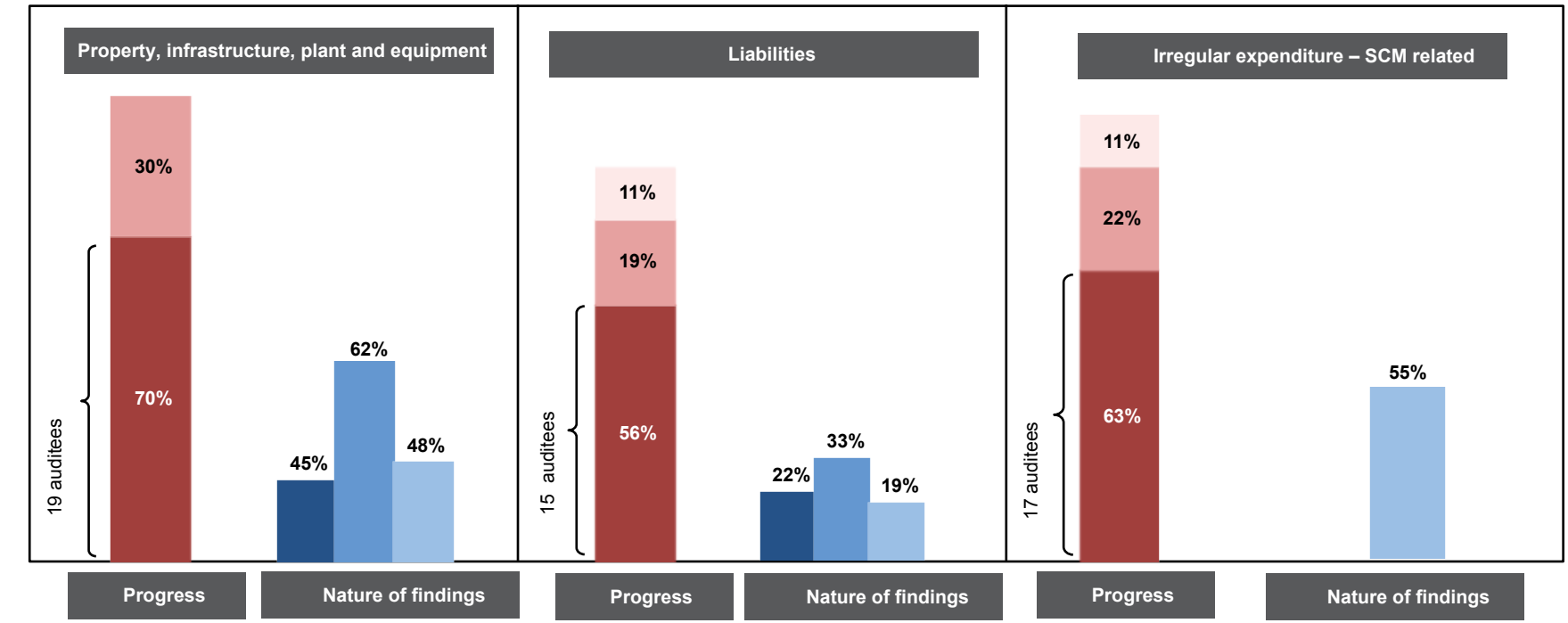
Uncorrected material misstatements in financial statements resulting in qualified, adverse or disclaimed audit opinions

Overall, 15 (52%) auditees failed to correct all the material misstatements identified during the audit process due to unavailability of information or documentation required to determine the correct amounts to be reflected in the financial statements. These auditees could therefore not avoid a qualified, adverse or disclaimed audit opinion. The following sections provide more detail on the areas in the financial statements that were misstated.

2.2.1 Financial statement qualification findings

Figure 7

Progress on and nature of most common financial statement qualifications



The three most common qualification areas are shown above with the progress made by auditees in addressing prior year qualifications and the basis of the current year qualifications. The table below provides the reasons for the qualifications.

Table 6

Common qualification areas

Qualification area	Basis for qualification	Reason for qualifications
Property, infrastructure, plant and equipment	***Completeness*** of the assets disclosed	• Asset register did not exist or was incomplete. • Asset register was not updated on timely basis. • Asset register did not reconcile with the general ledger.
	Valuation of the disclosed assets	• No/incorrect assessment of impairment (assets that have reduced in value). • Cost could not be determined. • Assets were incorrectly valued in terms of the accounting standard requirements (GRAP 17).
	Existence of the disclosed assets	• Assets were not identifiable/could not be physically verified for existence. • Duplication of assets in the asset register.
Liabilities	***Completeness*** of payables and accruals	• Inadequate systems and controls over disclosure items. • Not all payables and accruals at year-end were accounted for in the financial statements due to inadequate systems and controls. • Lack of creditor reconciliations to ensure that all reconciling items are investigated and accounted for accordingly.
	Valuation/existence of amounts disclosed	• Financial and other information was not appropriately presented and described and disclosures were not clearly expressed. • No supporting documents for commitments recorded in the financial statements. • Amounts payable by the auditees were not recognised and disclosed in accordance with the requirements of the accounting standards.
Irregular expenditure: related to supply chain management (SCM)	***Valuation and completeness –*** incurred expenditure disclosed at correct amounts or not disclosed at all	• Documentation to support the irregular expenditure disclosed in the financial statements was either inadequate or could not be produced for audit purposes. As a result, we could not determine whether the amounts disclosed were correct or complete.

The following table shows auditees' progress, or lack thereof, in addressing their prior year qualification findings. Also refer to annexure 1 for a further analysis of the audit outcomes.

Table 7

Auditees' history of financial statement qualification areas

Auditee	Audit opinion 2011-12	Movement in addressing 2010-11 qualification areas						Audit opinion 2010-11
		Non-current assets	Unauthorised, irregular as well as fruitless and wasteful expenditure	Liabilities	Other disclosure items	Revenue	Other qualification areas	
District municipalities								
Capricorn	Qualified		Repeat	Repeat		Repeat	Repeat	Qualified
Greater Sekhukhune	Disclaimer	Repeat	Repeat	Repeat	Repeat		Repeat	Disclaimer
Mopani	Disclaimer	New	Repeat	Repeat	Repeat	Repeat	Repeat	Qualified
Vhembe	Disclaimer	Repeat	Repeat	New	Repeat	Repeat	Repeat	Qualified
Waterberg	Financially unqualified with no findings							Financially unqualified with no findings
Local municipalities								
Aganang	Disclaimer	Repeat	Repeat	Repeat	Repeat	New	Repeat	Adverse
Ba-Phalaborwa	Disclaimer	Repeat	Repeat	Repeat	Addressed	New	Repeat	Disclaimer
Bela-Bela	Adverse	Repeat	Repeat	Repeat	Repeat	New	Repeat	Adverse
Blouberg	Disclaimer	New	Repeat	Repeat	New	Repeat	New	Qualified
Elias Motsoaledi	Qualified	Repeat	Repeat	Repeat	Addressed	Addressed	Repeat	Disclaimer
Ephraim Mogale	Qualified	Repeat	Repeat	Repeat	Repeat	New	New	Qualified
Fetakgomo	Qualified	New	New					Financially unqualified with no findings
Greater Giyani	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer

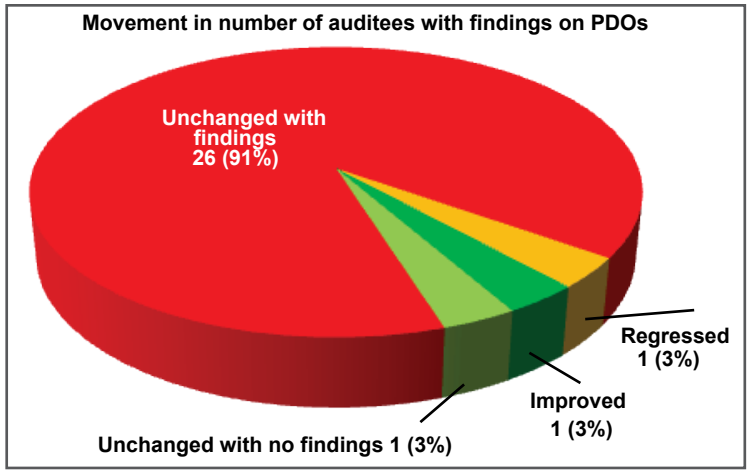
Auditee	Audit opinion 2011-12	Movement in addressing 2010-11 qualification areas						Audit opinion 2010-11
		Non-current assets	Unauthorised, irregular as well as fruitless and wasteful expenditure	Liabilities	Other disclosure items	Revenue	Other qualification areas	
Greater Letaba	Qualified	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Adverse
Greater Tzaneen	Disclaimer	Repeat	New	Repeat	Repeat	Repeat	Repeat	Qualified
Lepelle-Nkumpi	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer
Lephalale	Qualified	New	Addressed	New			Addressed	Qualified
Makhado	Disclaimer	Repeat	New	Repeat	New	Repeat	Repeat	Disclaimer
Makhudutamaga	Qualified	Repeat	Repeat	Addressed	Repeat	Addressed	Repeat	Disclaimer
Maruleng	Qualified	New						Financially unqualified with findings
Modimolle	Disclaimer	Repeat	Repeat	Repeat	Addressed	Repeat	Repeat	Adverse
Mogalakwena	Financially unqualified with findings							Financially unqualified with findings
Mookgophong	Qualified	New	Repeat	Addressed	Repeat	Repeat	Repeat	Qualified
Musina	Qualified	Repeat	Repeat	Addressed	Repeat	Addressed	Addressed	Qualified
Mutale	Disclaimer	Repeat	New	New	New	New	New	Qualified
Polokwane	Disclaimer	Repeat	New	New	New	New	Repeat	Qualified
Thabazimbi	Disclaimer	New	New	New	New	New		Financially unqualified with findings
Thulamela	Qualified	Repeat	Addressed			Repeat	Repeat	Qualified
Tubatse	Qualified	Repeat	Addressed		New	Addressed	Addressed	Qualified

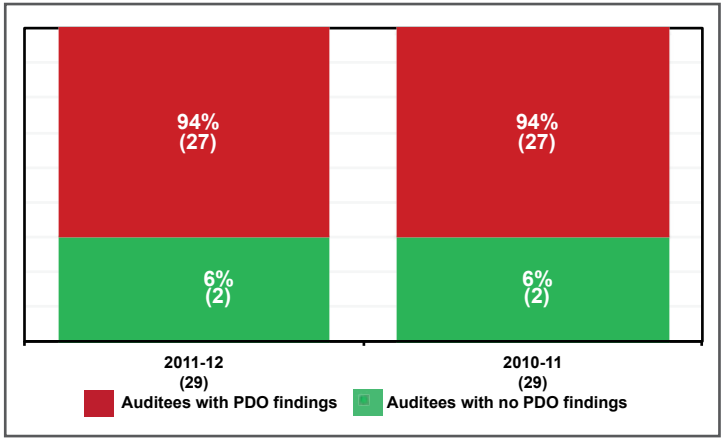
The number of repeat and new qualification areas is a cause for concern. Although municipalities had action plans in place they were not always implemented timeously, which resulted in the number of repeat qualification findings. We also noted with concern that despite the appointment of consultants at 21 municipalities in the province, it was only at the Mogalakwena Municipality where there were no repeat or new qualification findings. At certain municipalities consultants were appointed too late in the financial year to influence audit outcomes. It was also evident during the audit that certain municipalities had passed responsibility for and ownership of the financial reporting processes entirely to the consultants, who then found themselves in a position where they became ultimately responsible for the solution while those actually accountable did not provide the necessary assistance.

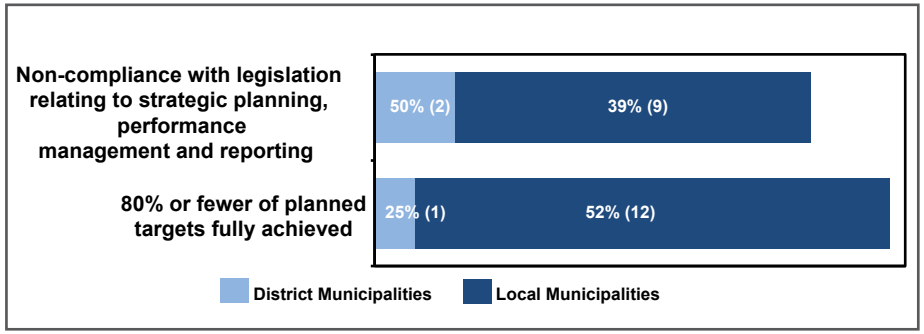
2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

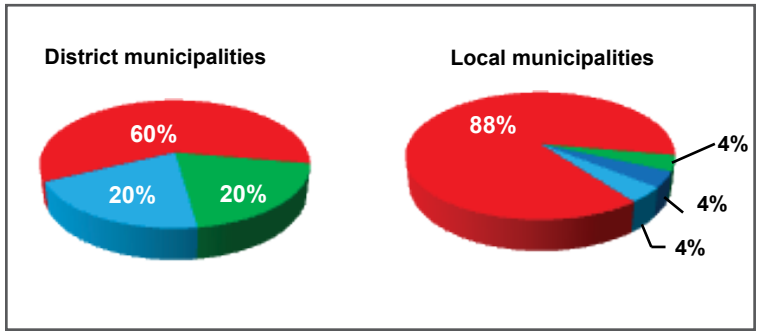
Figure 8

Overall outcomes from the audit of reporting on predetermined objectives









Findings on both usefulness and reliability | Findings on usefullness only | Findings on reliability only | No PDO findings

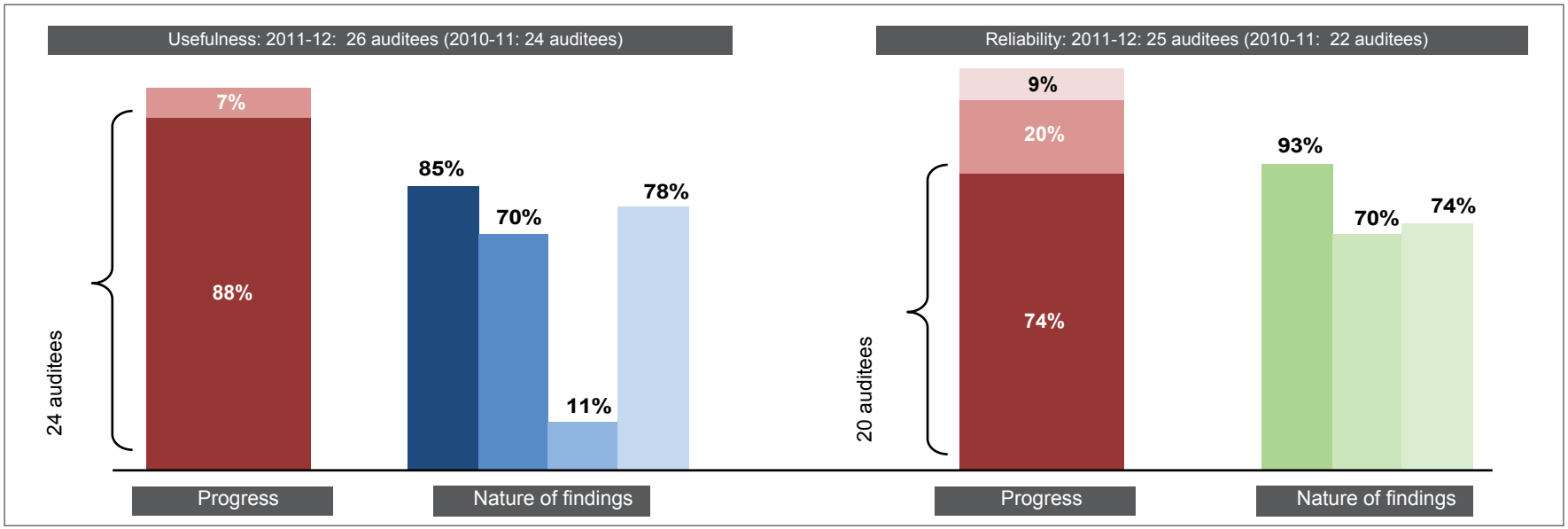
The Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) requires the AGSA to audit annually the reported information relating to the performance of the auditees against their PDOs. The previous figure shows the overall audit outcomes which indicate no improvement in the number of auditees that had no PDO findings. Notable findings are presented below.

Indicator	Key findings	Good	Concerned	Poor
Regression from no PDO findings to PDO findings	Only one auditee, Fetakgomo Municipality, regressed from no findings on PDOs to findings on both usefulness and reliability of reported information. In the year under review, the municipality could not provide adequate supporting documentation to support the targets and indicators contained in its annual performance report.			
Overall outcomes on PDOs	There was no improvement in the number of auditees that had findings on PDOs from the prior year. Out of 29 auditees, 27 (93%) again had findings on PDOs.			
Improvement in PDO findings and timely submission of performance information	Only one auditee (Blouberg Municipality) managed to address its findings on PDOs from the prior year and improved to no findings on PDOs in the current year. To a large extent, consultants drove the improvement at this municipality. All municipalities submitted their performance information for audit purposes, as compared to one municipality that had not prepared and submitted its performance information in the prior year.			
Maintained status of no PDO findings from the prior year	Although there were findings on performance information at the Waterberg District municipality, it was below the AGSA's reporting threshold which enabled the municipality to maintain its status of no findings on PDOs. The findings that we reported must receive attention in order to prevent a possible regression in the next financial year.			
Planned performance targets not achieved	Based on the annual performance reports, 13 (42%) auditees achieved 80% or fewer of their planned service delivery targets.			
Non-compliance with legislation relating to strategic planning, performance management and reporting	Overall, two District municipalities and nine Local municipalities had findings on non-compliance relating to strategic planning, performance management and reporting. These municipalities either did not establish mechanisms to monitor and review the performance management systems, set key performance indicators as a yardstick for measuring performance, including outcomes and impact with regard to the municipality's development priorities and objectives and/or set measurable performance targets with regard to each development priority and objective.			
Continuous lack of improvement or regression in PDO findings	The status of no improvement in findings on PDOs was a reflection that public service delivery was lacking, which was evidenced by the number of service delivery protests that occurred from time to time at municipalities. The lack of reporting on performance information also detracted the public and oversight bodies from determining whether municipalities were delivering the basic services. Although best practices at the Waterberg District municipality, for example, were shared at various forums, these practices were not implemented at the municipalities. Capacity constraints and skills shortage were also key drivers of repeat findings on PDOs. As recommended in the prior year's general report, municipalities must consider having resources that are exclusively dedicated to manage performance information throughout the year. The lack of focus by internal audit units on the audit of performance information also requires attention.			

2.3.1 Findings on predetermined objectives

Figure 9

Progress on and nature of findings on predetermined objectives



Progress	Prior year PDO findings addressed	New PDO findings	Repeat PDO findings
Nature of findings	Presentation	Consistency / Relevance	Measurability
	Accuracy	Validity	Completeness

Figure 7 shows the progress made by auditees in addressing prior year findings and the nature of current year audit findings.

The ***usefulness*** of reported information is measured against the criteria of presentation, consistency, measurability and relevance. The information contained in the performance reports of 26 (90%) [2010-11: 22 (76%)] auditees was not useful.

Findings on ***reliability*** relate to whether the reported information on performance against PDOs could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source data, evidence or documentation. The information contained in the performance reports of 27 (93%) [2010-11: 22 (76%)] auditees was not reliable.

The following table presents the most common types of findings.

Table 8

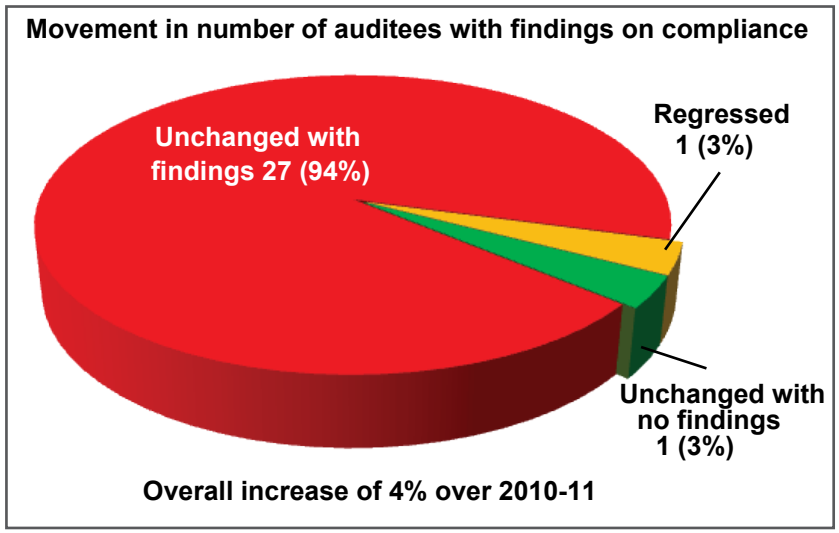
Usefulness and reliability of reported information

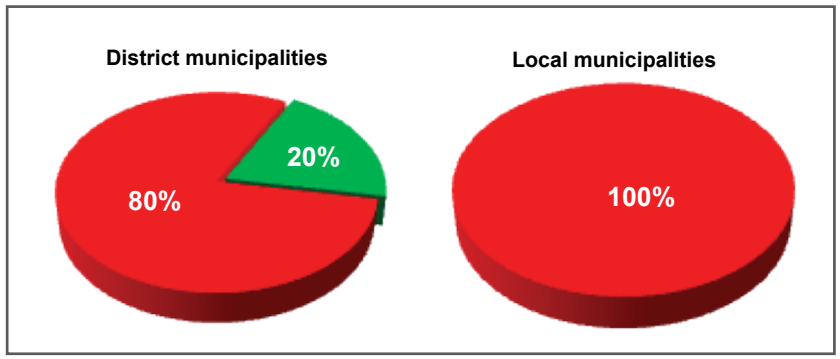
Category of PDO findings	Most common types of findings
Reported information not useful	• The indicators/measures were not well defined to ensure that performance data would be collected consistently and easy to understand and use. • Changes to planned performance information were not approved. • Performance targets were not specific and/or measurable to ensure that the required performance could be measured.
Reported information not reliable	• Supporting information for reported performance information was incomplete or inadequate. • Reported performance information was not accurate when compared to supporting information. • Reported performance information was not valid when compared to supporting information.

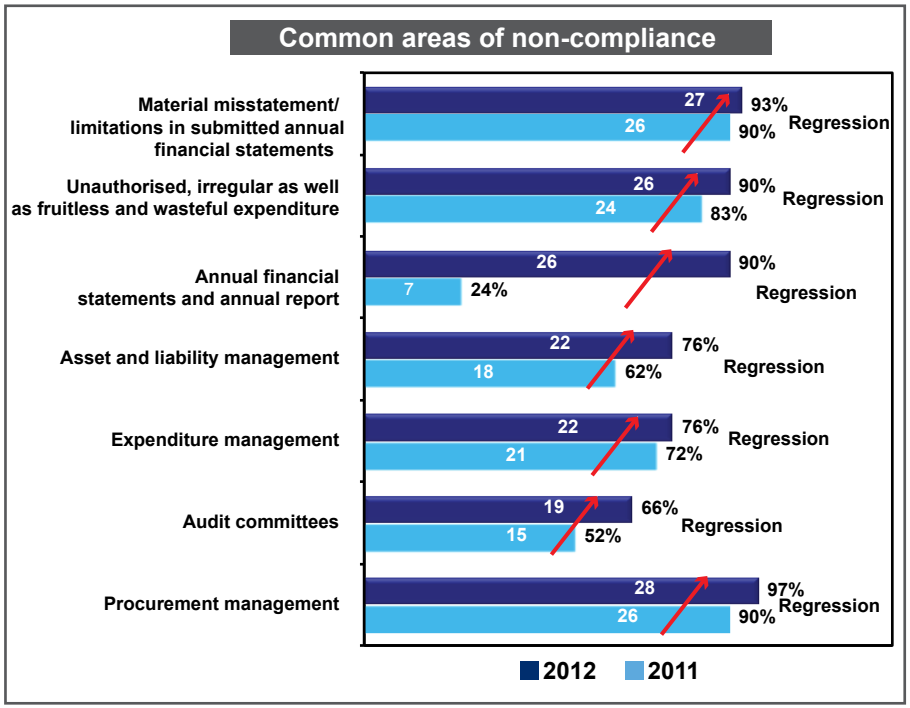
2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LAWS AND REGULATIONS

Figure 10

Overall outcomes from the audit of compliance with laws and regulations







Auditees with no compliance findings | Auditees with compliance findings

The PAA requires the AGSA to audit on an annual basis compliance with laws and regulations applicable to financial matters, financial management and other related matters. The compliance audit was limited to the following focus areas: ■ Material misstatements in submitted annual financial statements ■ Asset and liability management ■ Audit committees ■ Budget management ■ Expenditure management ■ Prevention of unauthorised, irregular as well as fruitless and wasteful expenditure ■ Financial misconduct ■ Internal audit ■ Revenue management ■ Strategic planning and performance management ■ Transfer of funds and conditional grants ■ Procurement and contract management (supply chain management) ■ Human resource management and compensation.

Annexure 1 lists all auditees where material non-compliance was reported in one or more of the AGSA's compliance focus areas.

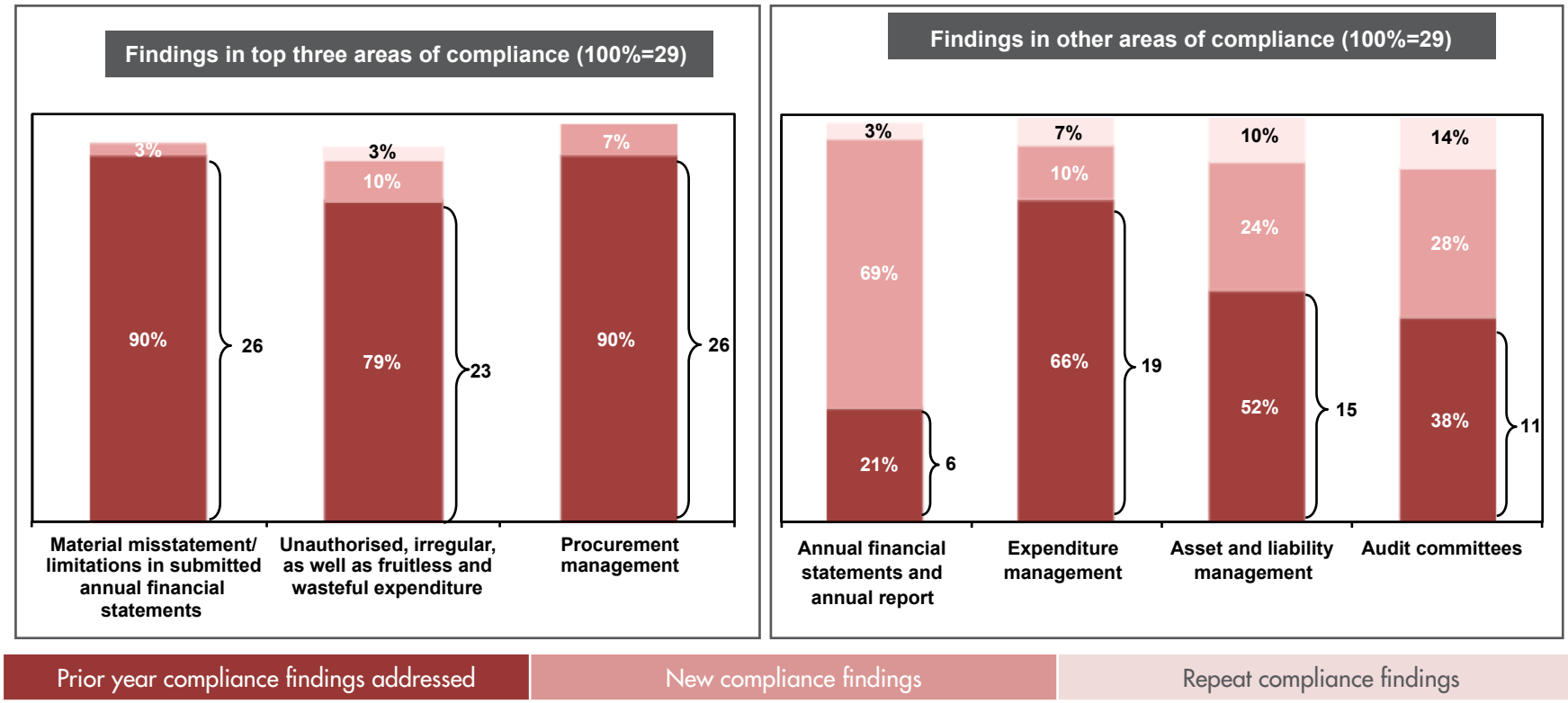
The overall outcomes from the audits which indicated an overall stagnation in the number of auditees that had findings on compliance were shown previously. Notable outcomes and trends arising from the audits are presented below.

Indicator	Key findings	Good	Concerned	Poor
Auditees regressed from no compliance findings	Only one auditee, Fetakgomo Municipality, regressed from no findings on non-compliance of laws and regulations in the prior year to findings on non-compliance. Management and the audit committee did not adequately assess risks relating to procurement and asset management (GRAP 17 requirements), which resulted in the regression.			
Continuous findings on non-compliance with laws and regulation	In total, 28 auditees remained with findings on non-compliance with laws and regulations. Officials do not know what is expected of them to ensure that they adhere to all the applicable laws and regulations. In view of this, fraudulent and corrupt activities can thrive, as evidenced by the increase in irregular expenditure due to non-adherence to SCM prescripts. In the prior year, the three highest incidences of non-compliance findings had been in the area of material corrections made to the financial statements, unauthorised, irregular as well as fruitless and wasteful expenditure and procurement. It is disappointing to note that these three non-compliance categories were once again the most common in the year under review.			
Auditees with no non-compliance findings	The Waterberg District municipality managed to maintain its status of no findings on laws and regulations. A common observation at this municipality was the involvement of the leadership in the day-to-day activities and the attendance of internal audit and the audit committee of audit steering committee meetings.			

2.4.1 Findings on compliance with laws and regulations

Figure 11

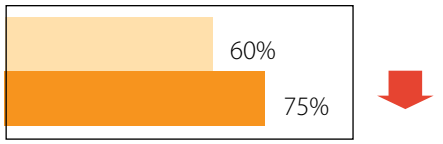
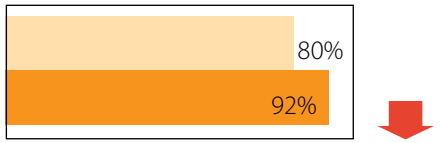
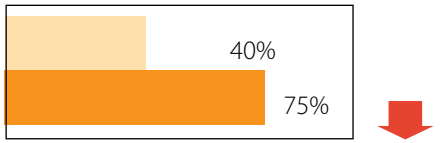
Common areas of findings on compliance with laws and regulations



The above figures show a lack of progress made by auditees towards addressing prior year findings on compliance. Section 2.2.1 analyses the extent and impact of material misstatement/limitations in annual financial statements submitted for audit purposes. Section 2.5 details the findings on procurement and section 2.6 details the extent and nature of unauthorised, irregular, as well as fruitless and wasteful expenditure. We provide details of the most common findings in other areas of non-compliance per type of auditee below.

Table 9

Summarised findings in other areas of non-compliance

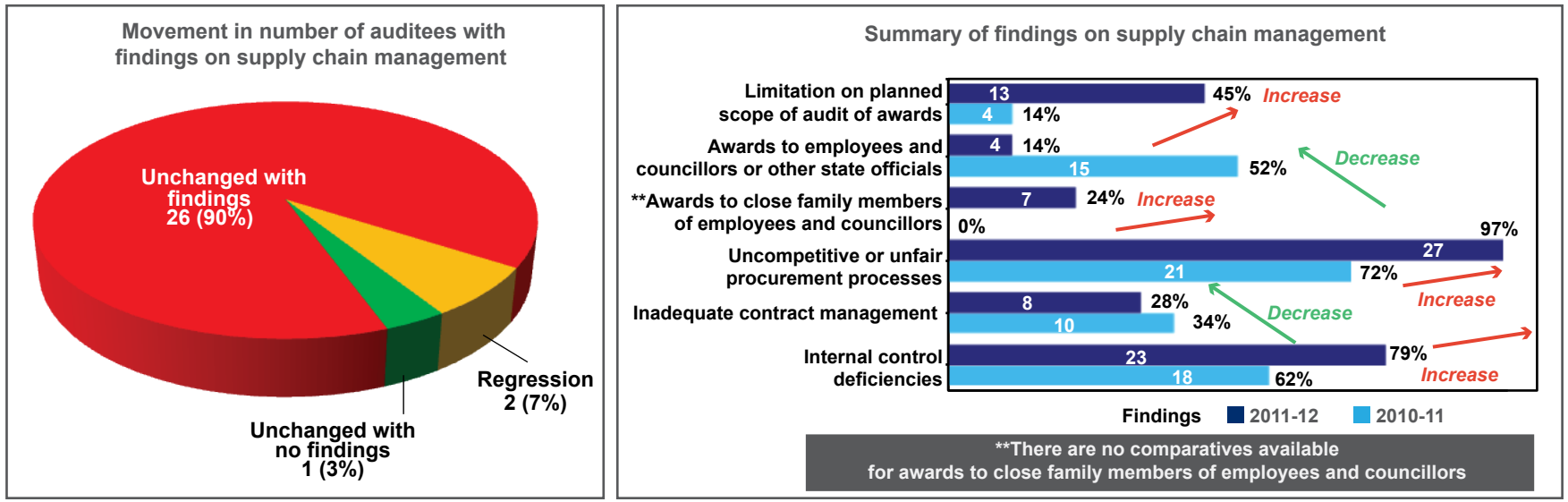
Nature of other areas of non-compliance per type of auditee	
Expenditure management: 22 auditees (76%)	**Asset and liability management: 22 auditees (76%)**
	
• Payments to creditors not made within 30 days from receipt of an invoice [21 (72%) auditees]. • Ineffective system of expenditure control and processes to recognise expenditure when it is incurred, including the lack of procedures for the approval, authorisation, withdrawal and payment of funds [nine (31%) auditees].	• No/inadequate asset and liability management processes in place to account for all assets and liabilities of the municipality [19 (66%) auditees]. • Ineffective systems of internal control [15 (52%) auditees].
Annual financial statements and annual report: 26 auditees (90%)	**Audit committees 19 auditees (66%)**
	
• Annual performance report did not include measures taken to improve performance [23 (79%) auditees]. • The annual performance report did not contain a comparison of the municipality's performance and of each external service provider with development priorities, objectives and performance indicators [nine (31%) auditees].	• No review of the adequacy, reliability and accuracy of financial and reporting information [10 (34%) auditees]. • No review of compliance with legal and regularity provisions [seven (24%) auditees].

District municipality | Local municipality

2.5 FINDINGS ARISING FROM THE AUDIT OF SUPPLY MANAGEMENT

Figure 12

Overall findings arising from the audit of supply chain management



Our audits included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. We performed the assessment at a total of 29 auditees.

We reported the findings arising from the audit in the management reports of 28 (97%) of the auditees, while in all of these cases the findings were material enough to be reported in the audit report.

The above figure presents the movement in the number of auditees with SCM findings, the prevalence of SCM findings across the district municipalities, local municipalities and municipal entities and a summary of SCM findings, with a comparison to the audit results of the 2010-11 financial year.

The table below provides key outcomes and trends as well as further analysis of the SCM findings.

Indicator	Key findings	Good	Concerned	Poor
Reduction in number of auditees with no SCM findings	A total of two municipalities (Aganang and Fetakgomo) regressed from no findings on SCM to findings on SCM.			
Auditees with no improvement in findings on SCM	In total, 26 (90%) auditees had repeat findings on SCM. Findings on SCM have a direct correlation with irregular expenditure and non-compliance with laws and regulations. No consequences for poor performance and non-compliance with SCM laws and regulations resulted in officials being negligent in adhering to legislation that underpins transparent procurement processes. The leadership did not give sufficient attention to ensuring that municipalities and municipal entities operated within the boundaries and rules set by legislation. Deviations from the required laws and regulations are a direct result of a poor internal control environment where such deviations are not detected.			
Increase in limitations on audit of awards	We could not audit the awards made to the value of R363 million at 13 municipalities (2011 – four municipalities) that were selected due to auditees not making the required information or documentation available. These limitations could further impact on the extent of identified irregularities and SCM weaknesses.			
No findings on SCM	Only Waterberg District municipality managed to maintain its no finding status.			

2.5.1 Limitations on planned scope of the audit of awards

A total of 13 (45%) auditees could not provide sufficient appropriate audit evidence that awards had been made in accordance with the requirements of SCM legislation. We could not perform alternative audit procedures to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The main reasons for these limitations were that auditees did not provide supporting documentation and lack of cooperation from the SCM staff.

The following table shows the auditees where limitations were experienced. Those auditees where limitations were also experienced in the previous year are highlighted in pink.

Table 10

Limitations experienced on planned scope of the audit of awards

Auditee	Number of awards	Value of awards
Capricorn District	2	R 4,3 million
Greater Sekhukhune District	2	R 57,6 million
Vhembe District	3	R 9,2 million
Aganang	4	R 19,5 million
Blouberg	6	R 18,6 million
Elias Motsoaledi	10	R 33,64 million
Lepelle-Nkumpi	2	R 15,6 million
Makhudutamaga	30	R 47,3 million
Modimolle	1	R 0,93 million
Mookgophong	5	R 3,2 million
Thabazimbi	48	R 73,4 million
Total	132	R 362,67 million

2.5.2 Awards to employees and councillors or other state officials

SCM regulation 44 prohibits awards to persons or entities owned/managed by them if they are in the service of the auditee (i.e. employees and councillors) or if they are in the service of any other state institution. Such expenditure is also considered irregular. The audit included the identification of such prohibited awards. We performed further testing to determine whether the legislated requirements with regard to declaration of interest were adhered to.

The table below shows the extent and nature of these awards and whether any non-compliance with legislation was identified, with an indication of the positions of the officials involved. Where prohibited awards were also identified in the previous year, the name of the auditee is highlighted in pink.

Table 11

Prohibited awards to employees and councillors or other state officials

Auditee	Awards made to employees and councillors			Awards made to officials of other state institutions		Supplier did not declare interest		Supplier did not submit declaration of interest		Employee or councillor did not declare interest	
	Number of instances	Amount	Positions	Number of instances	Amount	Number of instances	Amount	Number of instances	Amount	Number of instances	Amount
District municipalities											
Capricorn				23	R 11,3 million						
Greater Sekhukhune				12	R 29,4 million						
Mopani				16	R 5,6 million						
Vhembe				12	R 404,6 million					1	R 0,001 million
Local municipalities											
Aganang				3	R 1,2 Million						
Ba-Phalaborwa	23	R 0,2 million	Senior manager, Other employees	12	R 1 million					23	R0,3 million
Bela-Bela				6	R0,5 million			6	R 0,5 Million		
Blouberg				10	R 6 milllion					1	R 0,04 million
Ephraim Mogale						2	R 0,05 Million				
Greater Letaba				28	R 0,3 million						
Greater Tzaneen				6	R1,79 million	8	R 1,7 million				
Lepelle-Nkumpi				14	R 0,4 million	14	R 0,4 million				

Auditee	Awards made to employees and councillors			Awards made to officials of other state institutions		Supplier did not declare interest		Supplier did not submit declaration of interest		Employee or councillor did not declare interest	
	Number of instances	Amount	Positions	Number of instances	Amount	Number of instances	Amount	Number of instances	Amount	Number of instances	Amount
Lephalale				19	R 0,3 million	19	R 0,3 million				
Makhado				20	R 0,4 million			20	R 0,4 million		
Makhudutamaga				12	R 0,5 million						
Maruleng				23	R 0,1 million						
Modimolle				1	R 0,04 million						
Mookgophong				2	R 0,03 million	1	R 0,02 million	1	R 0,002 million		
Musina								9	R 0,8 million		
Polokwane	3	R0,5 million		7	R 0,1 million					3	R 0,5 million
Thabazimbi				1	R 0,02 million	1	R 0,02 million	1	R 0,02 million		
Thulamela				1	R 0,1 million					1	R 0,1 million
Total 2011-12	**26**	**R 0,76 million**		**228**	**R 463,7 million**	**45**	**R 2,49 million**	**37**	**R 1,7 million**	**29**	**R 0,94 million**
Total 2010-11	**14**	**R 0,6 million**		**78**	**R 12,6 million**	**73**	**R 12,6 million**	**73**	**R 12,6 million**	**14**	**R 0,6 million**

Improvement Regressed

A total of 20 (69%) auditees made awards to the value of R464,64 million to suppliers in which officials, councillors and officials of other state institutions had an interest. This represents a significant increase from the R1,2 million identified in the previous year.

Where interest was identified, the suppliers did not declare the interest in 41% of the instances and the employee did not declare in 23% of the instances.

2.5.3 Awards to close family members of employees and councillors

Awards to persons or entities owned/managed by persons who are close family members of persons in the service of the state, whether at the auditee or at any other state institution, are not prohibited. However, such awards of more than R2 000 must be disclosed in the financial statements of the auditee for the sake of transparency and as required by SCM regulation 45. A close family member is defined as a spouse, child or parent of a person in the service of the state.

The audit included the identification of awards to close family members. We performed further testing to determine whether the financial statement disclosure was made and whether the legislated requirements with regard to declarations of interest were adhered to.

The following table shows the audit findings raised at auditees where we identified awards made to close family members of officials of the auditee, with an indication of the positions of the officials involved. The percentage is based on the number of auditees reported on.

Table 12

Awards to close family members

Auditee	Awards made to close family members of persons in service of the auditee			No disclosure in financial statements	Official did not declare interest	Supplier did not submit declaration of interest	Supplier did not declare interest
	Number of instances	Amount	Positions	Number of instances	Number of instances	Number of instances	Number of instances
Aganang	1	R 0,02 million	SCM official, senior managers, other employees		1		
Bela-Bela	1	R 0,1 million	Senior manager, other employees	1	1		1
Greater Tzaneen	1	R 0,12 million	Senior manager, other employees		1		1
Greater Letaba	7	R 0,10 million	Senior manager, other employees		7		
Capricorn District municipality	2	R 1,60 million	Senior manager, other employees		2		
Blouberg	1	R 0,04 million	Councillors and other employees		1		
Thulamela	1	R 0,1 million	Senior manager, other employees		1		
Total 2011-12	**14**	**R 2,08 million**		**1**	**14**	**0**	**2**
Total 2010-11	**0**			**0**	**0**	**0**	**0**

Improved Unchanged Regressed

A total of seven auditees made awards to the value of R2,08 million to suppliers in which close family members of the employees of the auditee had an interest. It represents an increase from no instances identified in the previous year.

2.5.4 Uncompetitive or unfair procurement processes

The principles of contracting for goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective come from our Constitution. Legislation, most notably the MFMA and SCM regulations, prescribes the processes and rules to be followed by auditees in order to consistently and correctly apply the constitutional principles and to safeguard the process against abuse. The preferential procurement framework further gives effect to the constitutional principle of affording preference to the previously disadvantaged in the allocation of work by the public sector.

Our audits also focus on whether procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and that the process did not favour some suppliers above others.

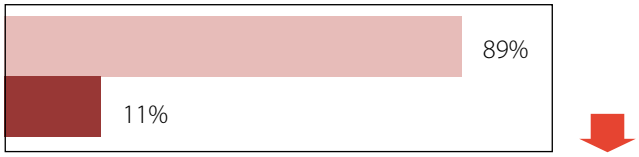
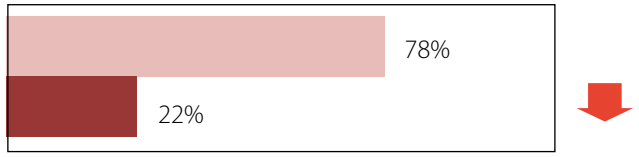
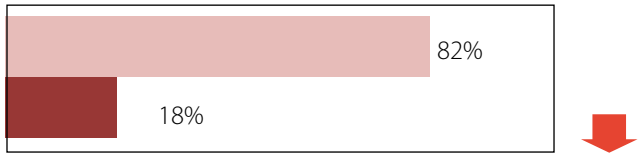
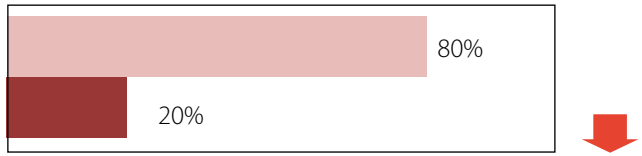
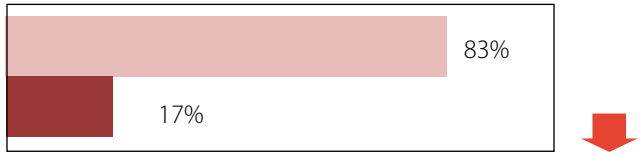
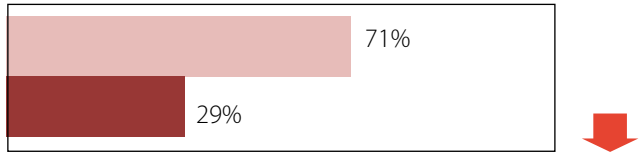
It is important that the prescribed processes be followed to ensure that the selected supplier meets the requirements and has the capacity and ability to deliver the goods and services, and that those goods and services are procured at competitive and economical prices.

We tested the procurement processes of 583 contracts (R1,6 billion) and 2 368 quotations (R226 million). Not all awards made by auditees were tested, only those selected based on risk and a statistical sampling method. The following table summarises the most common findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes.

Table 13

Summarised findings on uncompetitive or unfair procurement

Local municipalities	District municipalities

Summarised findings on uncompetitive or unfair procurement processes	
Three written quotations not invited: 18 auditees (62%)	**Construction – project not registered with CIDB within 21 working days: nine auditees (31%)**
	
A price quotation process is prescribed for the procurement of goods and services valued at between R10 000 and R500 000. Auditees did not in all instances obtain three price quotations from prospective providers and a properly delegated official or committee did not approve the deviations, as required.	Construction projects should be registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18. Construction projects were not always registered with the CIDB within 21 working days.
No declaration of interest by supplier: 11 auditees (38%)	**Preference points system not used: 10 auditees (34%)**
	
Auditees made awards to suppliers that did not submit a completed declaration of interest (SBD4 form).	Auditees did not apply the preference point system in all procurements of goods and services above R30 000, as required by the Preferential Procurement Policy Framework Act.
Procurement without SARS tax clearance certificate: 12 auditees (41%)	**Other findings: 7 auditees (24%)**
	
Auditees made awards to suppliers without proof from the South African Revenue Service (SARS) that their tax matters were in order.	Other findings included bids not adjudicated by a properly constituted adjudication committee, competitive bids not invited, points incorrectly calculated, bids advertised for a shorter period and competitive bids not invited.

Improved Unchanged Regressed

2.5.5 Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage and fruitless and wasteful expenditure, which in turn impact directly on service delivery. Inadequate contract management remained at the same level with the most noteworthy that there was no improvement at all auditees. The table below summarises the most common findings on inadequate contract management.

Table 14

Inadequate contract management

Key findings	Auditees	Percentage
Contracts amended or extended – reasons not tabled in the council	4	14%
Contracts amended or extended without approval by a delegated official	3	10%
Inadequate contract performance measures and monitoring	3	10%
Performance of contracts not monitored on a monthly basis	3	10%
No signed contract/contract not signed by delegated official	1	3%

2.5.6 Inadequate supply chain management controls

Internal control deficiencies in the SCM environment are the highest at seven (24%) auditees. The table below summarises the most common deficiencies that we identified during the audit on fundamental SCM controls.

Table 15

Inadequate internal controls

Key findings	Auditees	Percentage
Inadequate controls to ensure that interest is declared	7	24%
No/inadequate record keeping	7	24%
No controls to monitor performance of contractors	5	17%
SCM policies/procedures/fraud prevention plan did not provide measures for prevention of abuse of the SCM system	5	17%
Management did not set a tone at the top by promoting compliance with ethical standards	5	17%
Other control deficiencies included risk assessment did not address SCM, SCM officials were not adequately trained, SCM officials were not aware of SCM policies/ did not understand roles and responsibilities and no actions were taken to address SCM risk identified	3	10%

Conclusion

SCM forms a fundamental part of non-compliance with laws and regulations and irregular expenditure. Findings on SCM are increasing per auditee, which can also be evidenced by the increase in irregular expenditure, as set out in section 2.6.1.2 below.

The majority of the reported non-compliance findings and the bulk of irregular, and fruitless and wasteful expenditure stemmed from non-compliance with SCM legislation. It is also important to note that external auditors identified 79% of the irregular expenditure incurred and/or disclosed, indicating that the internal controls of the municipalities and municipal entities failed to detect these deviations. SCM is the area where the bulk of the activities are concentrated in all three spheres of government. The extent and pervasiveness of findings on unfair and uncompetitive procurement processes delay the restoration of the public's confidence in the ability of the local government to use public funds in a fair, cost-effective and transparent manner in order to deliver services.

The findings on procurement processes and contract management indicate an environment where the leadership and the oversight bodies give insufficient attention to the implementation, enablement, enforcement and monitoring of compliance with SCM legislation. Municipalities and municipal entities that continue to incur irregular expenditure suffer from a poor internal control culture with inadequate emphasis placed on the prevention and detection of deviation from SCM prescripts. The commitment by the provincial leadership in the prior year to attend and resolve findings identified by the AGSA relating to SCM was not fully implemented or adequately monitored. National Treasury Circular 62 states that "the accounting officer may at his or her discretion specifically request the internal audit function to carry out audit procedures and provide an opinion on compliance of the bidding process with the municipal supply chain management" for bids in excess of R10 million. However, this could not be implemented at the majority of the municipalities due to the reluctance by the accounting officers and shortage of staff at the internal audit units. The leadership did not take action against officials who deliberately or negligently did not comply with SCM prescripts. This set a precedent that the leadership was tolerant of poor performance, which resulted in recurring findings on SCM.

Active governance and involvement by internal audit units and audit committees can play a critical role in meeting the tender process challenges, thus helping the province move faster towards clean administration by 2014 and beyond. The system of internal control of municipalities should be enhanced to prevent or detect these matters. Audit committees should intensify their focus on compliance matters and ensure that members have sufficient knowledge of the legislation to interact meaningfully on matters of compliance. The role and scope of the risk officers should be defined sufficiently and the internal audit unit should assist with providing assurance that strategies are adequate to mitigate the risk of these matters occurring. Officials should be trained on a continuous basis, not only in compliance with policies and procedures, but also in the desired intention and outcome of legislation and the practical implementation thereof.

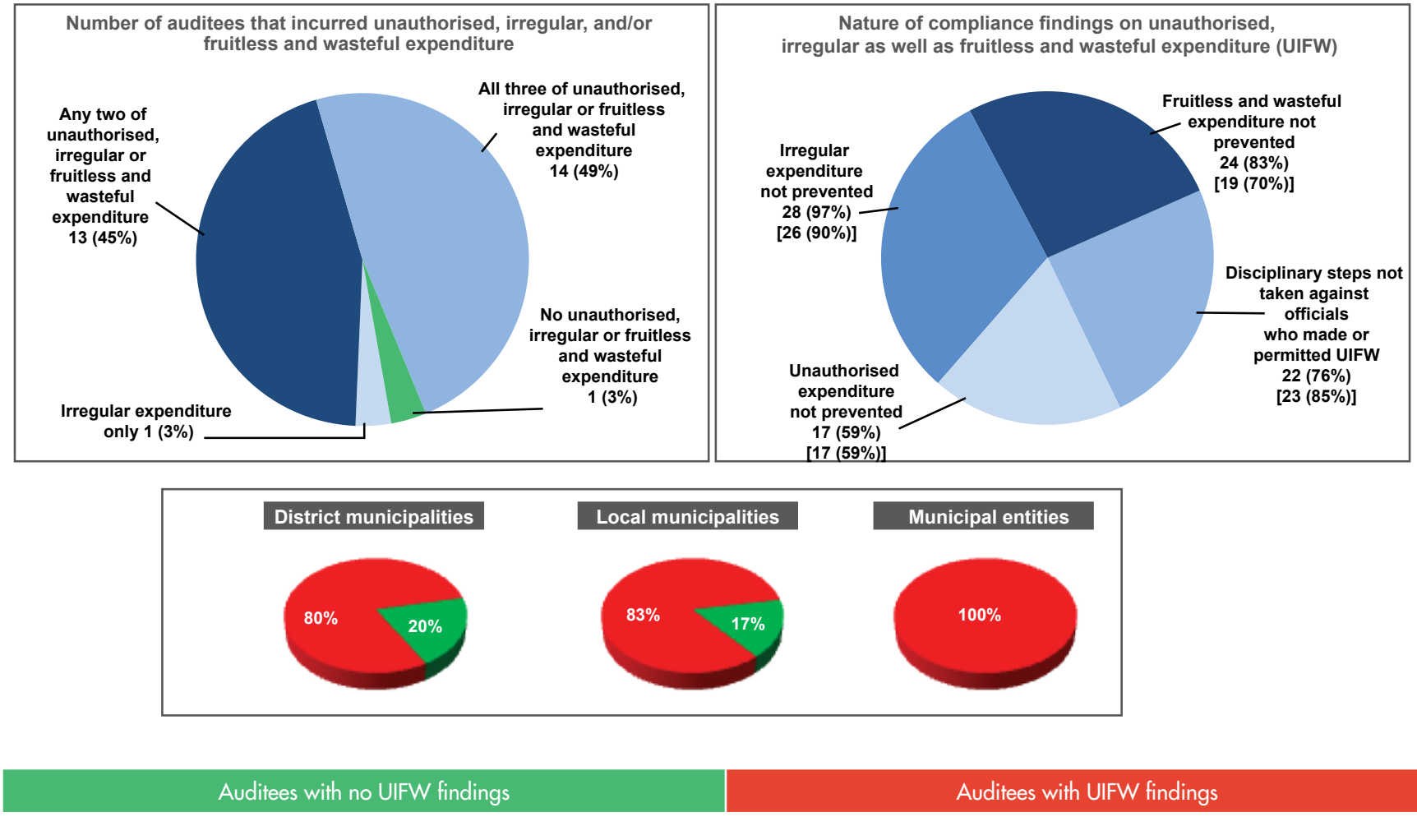
A stricter approach is required by all parties, including those charged with governance and oversight, i.e. executive, municipal public accounts committees (MPACs), audit committees and accounting officers, which will result in accountability being enforced and consequences for those who intentionally fail to comply with legislation. There must be a conscious decision by the political and administrative leadership to take action against transgressors.

To conclude, the findings on procurement processes and contract management indicated an environment where the leadership, oversight bodies and the treasury gave insufficient attention to the implementation, enablement, enforcement and monitoring of compliance with the SCM legislation.

2.6 FINDINGS ARISING FROM THE AUDIT OF UNAUTHORISED, IRREGULAR AS WELL AS FRUITLESS AND WASTEFUL EXPENDITURE

Figure 13

Unauthorised, irregular as well as fruitless and wasteful expenditure



The MFMA requires accounting officers/authorities to take effective and appropriate steps to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented. Although there is an expectation that no such expenditure should be incurred, it is not always possible for an accounting officer to prevent the occurrence thereof even if all reasonable steps had been taken. In instances where it does occur, the MFMA makes it compulsory for auditees to disclose such expenditure in their annual financial statements. The MFMA further requires that all instances of unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated. If the investigation determines that an official is liable for the expense, disciplinary steps should be taken and the expenditure should be recovered.

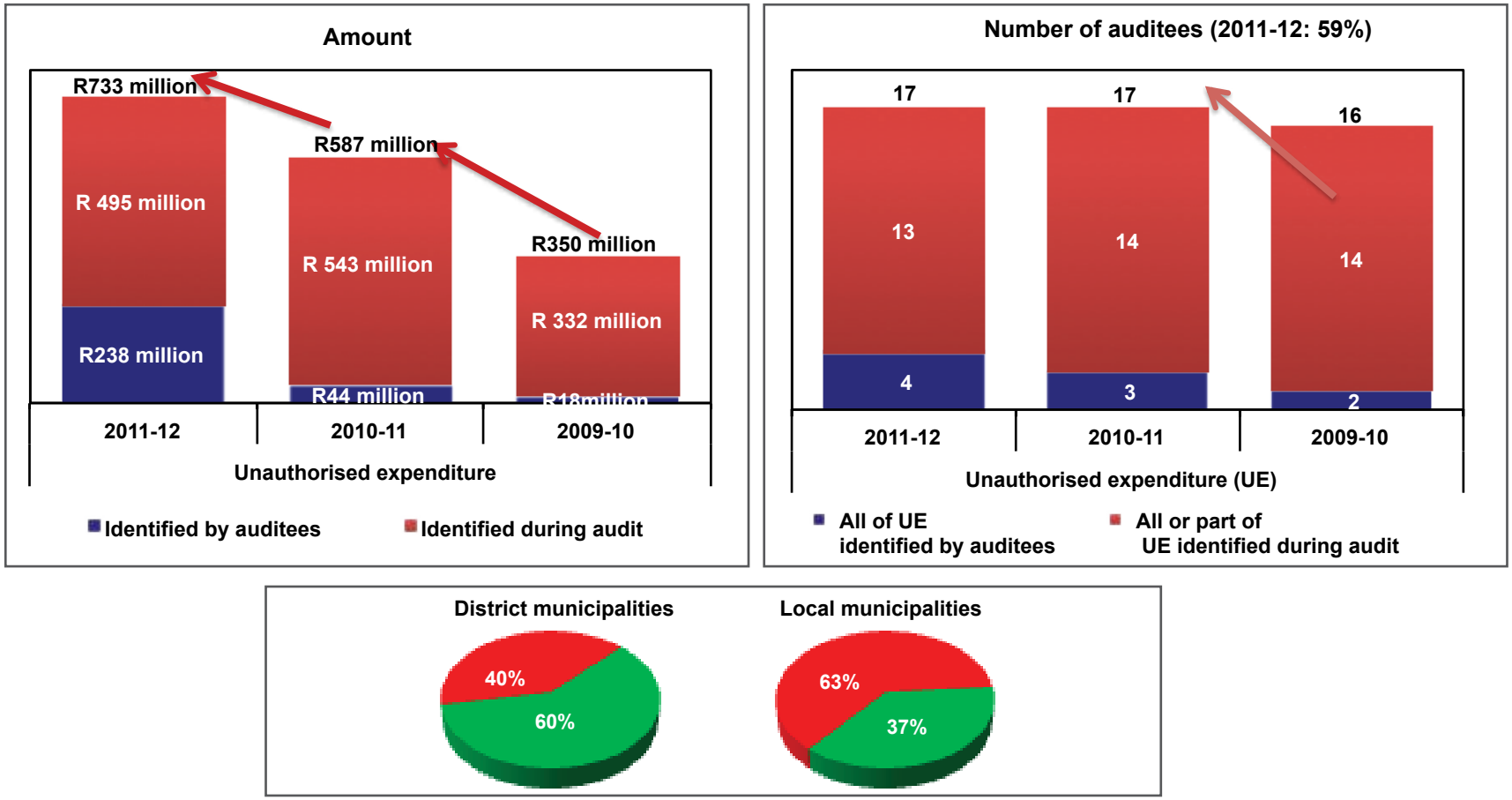
The extent of unauthorised, irregular as well as fruitless and wasteful expenditure and the pervasiveness of the related non-compliance with legislation applicable to unauthorised, irregular as well as fruitless and wasteful expenditure as **shown earlier** indicate a breakdown in auditees' internal control environment. Key trends are summarised below.

Indicator	Key findings	Good	Concerned	Poor
High rate of incurrence of unauthorised, irregular as well as fruitless and wasteful expenditure	A total of 28 (90%) auditees incurred one or more types of unauthorised, irregular as well as fruitless and wasteful expenditure.			
Increase in number of auditees with findings on unauthorised, irregular as well as fruitless and wasteful expenditure	Findings on compliance related to unauthorised, irregular as well as fruitless and wasteful expenditure remain the second highest non-compliance area across all auditees. The prevalence of these findings has regressed to 27 (87%) of the auditees from 24 (83%) in the 2010-2011 financial year.			
Increase in instances of irregular expenditure not prevented	The most common finding was irregular expenditure not prevented at 24 (77%) auditees, which is a regression from 16 (55%) in the previous year.			
No improvement in disciplinary action taken on transgression	A total of 22 auditees (75%) did not conduct investigations or take actions against officials who made or permitted unauthorised, irregular or fruitless and wasteful expenditure. This remained relatively stagnant from the prior year where no action was taken at 23 auditees (85%).			

Section 3 provides further detail on the lack of consequences for transgressions, which includes incurring unauthorised, irregular as well as fruitless and wasteful expenditure.

Figure 14

Nature of and overall trends in unauthorised expenditure



The previous figure reflects the three-year trend in unauthorised expenditure, the extent to which it was identified during the audit (and not by the auditees' internal control systems) and the type of auditee where it occured.

The unauthorised expenditure incurred was as a result of overspending of votes/main divisions within votes and expenditure not in accordance with votes.

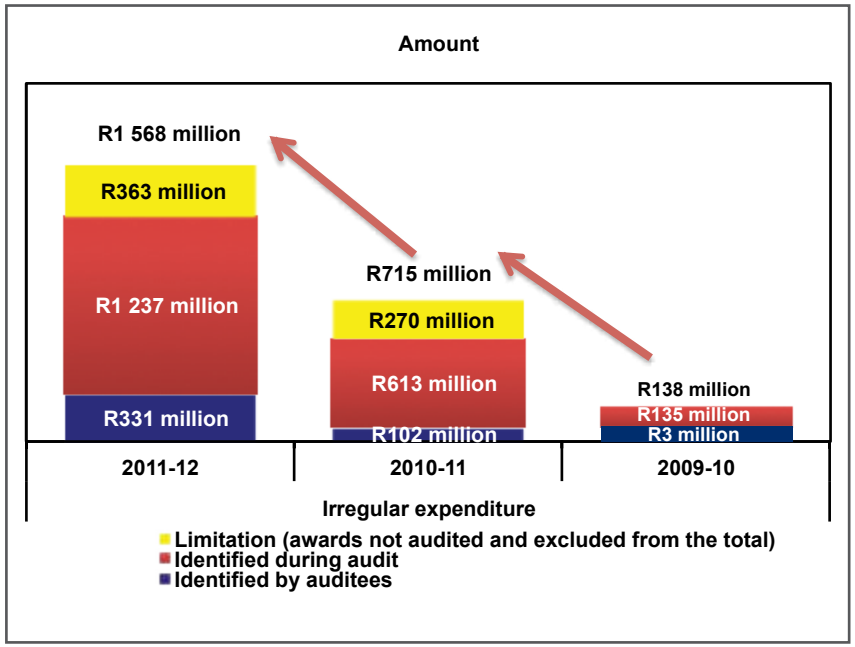
Unauthorised expenditure invariably means that money intended for other programmes was used to fund it, which in turn affects service delivery in accordance with the performance objectives set for the year.

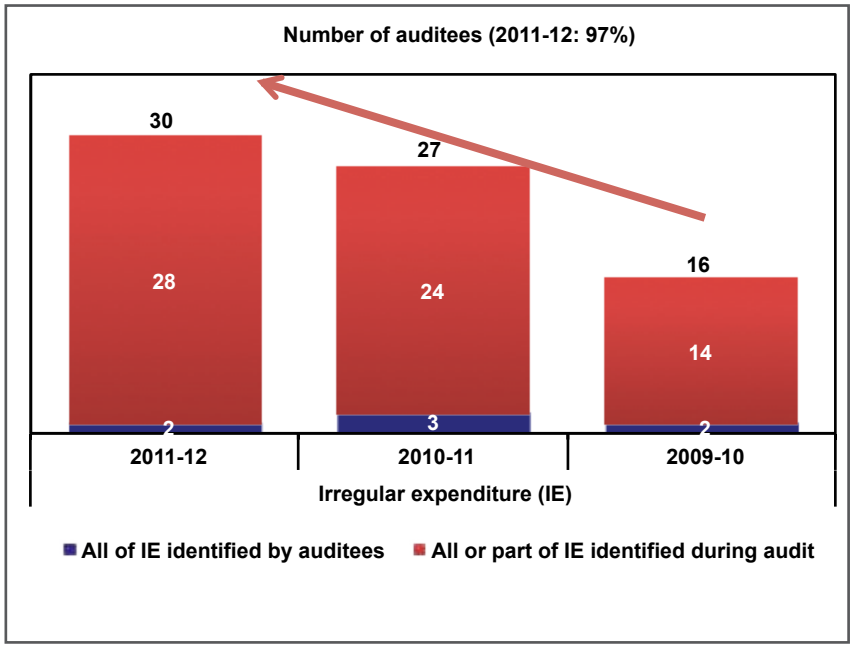
Key outcomes and trends are summarised below.

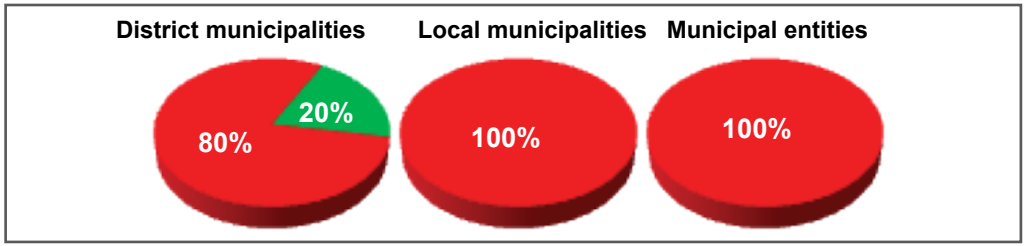
Indicator	Key findings	Good	Concerned	Poor
Increase in unauthorised expenditure	Unauthorised expenditure remained unchanged at 17 auditees, however, the amount increased by 25%. The municipalities that incurred significant unauthorised expenditure during the year are Polokwane Municipality (R140 million), Makhado Municipality (R157 million), Greater Tzaneen Municipality (R91 million) and Mopani District municipality (R75 million).			
Increase in overspending of votes	A significant reason for the increase in authorised expenditure was the R182,1 million increase in overspending of votes/main divisions within votes compared to the previous year, which was offset by a reduction in the expenditure not in accordance with the purpose of the grant by R36 million.			
Increase in the number of local municipalities with unauthorised expenditure	The number of local municipalities with unauthorised expenditure increased from 14 (58%) to 15 (63%) in the 2011-12 financial year.			
Improvement in identifying unauthorised expenditure	Municipalities are improving in identifying unauthorised expenditure in the current year. We identified 68% of unauthorised expenditure, a reduction from 93% in the 2010-11 financial year.			

Figure 15

Nature of and overall trends in irregular expenditure







Auditees with no irregular expenditure | Auditees with irregular expenditure

The previous figure reflects the three-year trend in irregular expenditure, the extent to which it was identified during the audit (and not by the auditees' internal control systems) and the type of auditee where it occurs.

Irregular expenditure does not necessarily mean that money had been wasted or that fraud had been committed. However, it is a measure of an auditee's ability to comply with laws and regulations relating to expenditure and procurement management. The nature of and current year movement in irregular expenditure are reflected in the table below.

Table 16

Nature of and current year movement in irregular expenditure

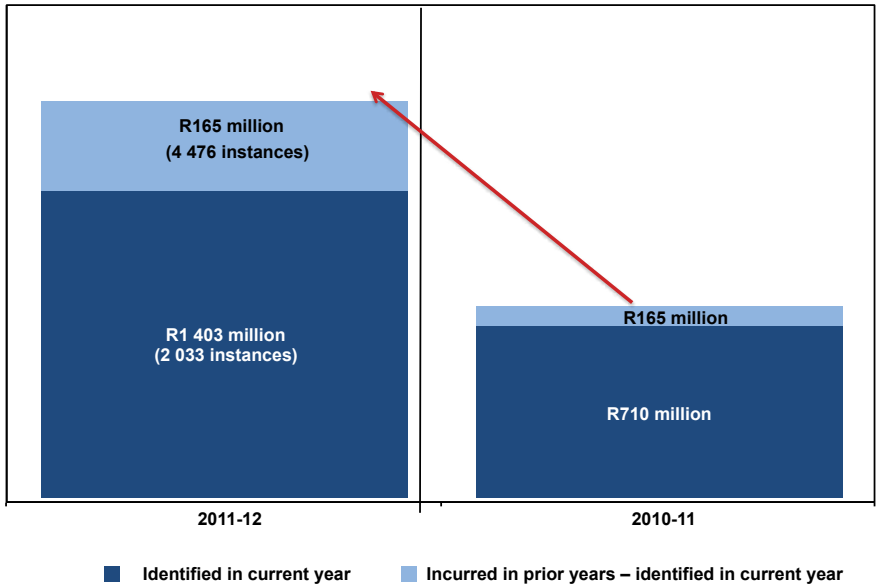
Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Related to SCM	30	11%	R1 548 million	123%
Related to compensation of employees	5	150%	R19 million	0%
Other non-compliance	1	0%	R0,54 million	96%

Improved Unchanged Regressed

The following figure shows the extent of irregular expenditure disclosed in the current year, which resulted from non-compliance with legislation in prior years.

Figure 16

Irregular expenditure incurred in prior year

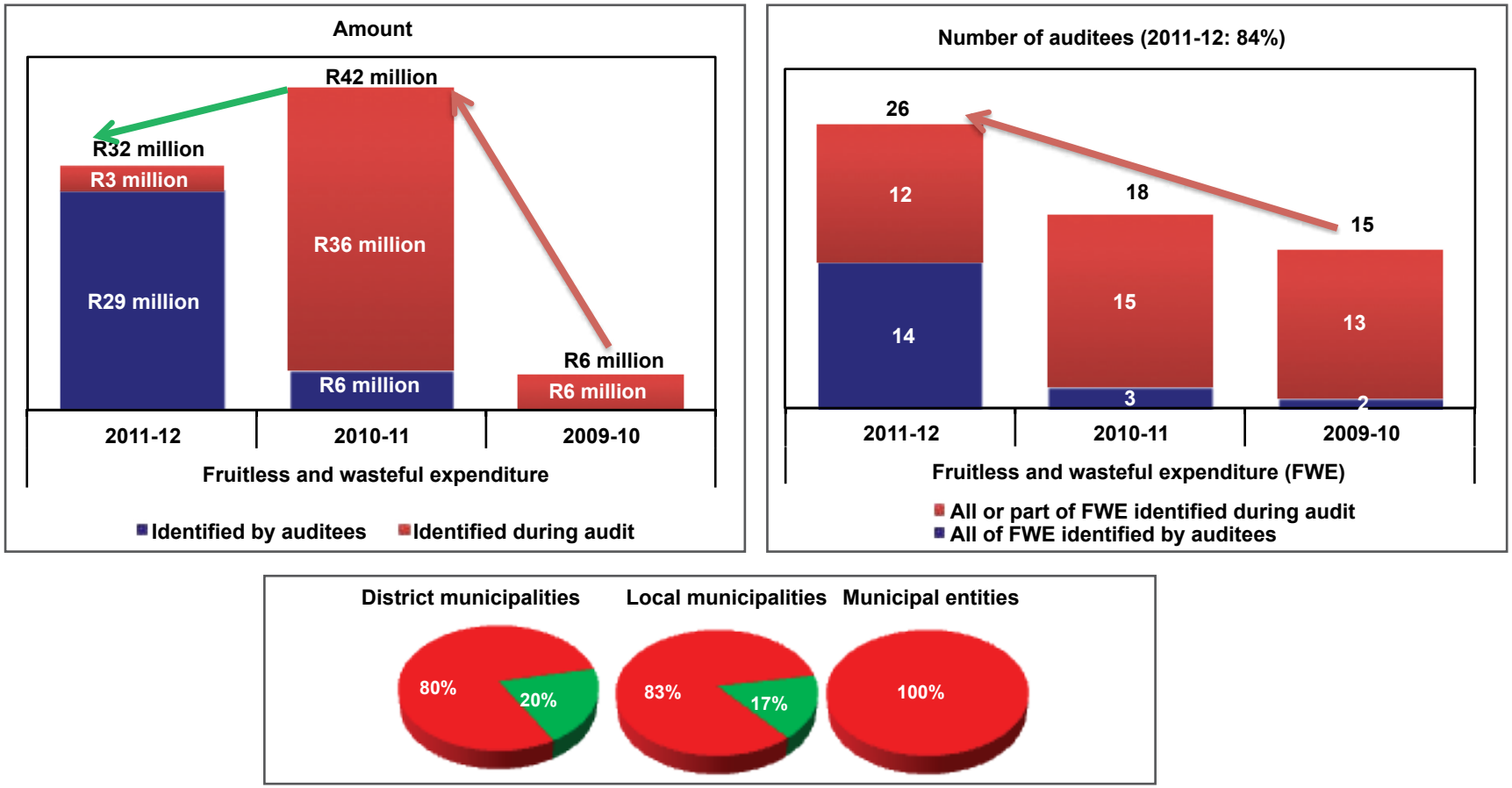


Key outcomes and trends are summarised below.

Indicator	Key findings	Good	Concerned	Poor
Internal control's failure to detect irregular expenditure	We identified a significant portion (79%) of irregular expenditure incurred by auditees during the audit, indicating that the auditees' internal controls failed to detect those deviations. The municipalities that incurred a significant amount of irregular expenditure were Greater Sekhukhune District municipality (R209 million), Polokwane Municipality (R208 million), Vhembe District municipality (R186 million), Mopani District municipality (R153 million), Elias Motsoaledi Municipality (R138 million) and Ephraim Mogale Municipality (R109 million).			
Increase in the level of irregular expenditure	Irregular expenditure increased at three auditees (10%) by R853 million (119%). The number of auditees with irregular expenditure increased by three (two local municipalities and one municipal entity) as compared to the 2010-11 financial year.			
Significant increase in amount of irregular expenditure	A notable trend is that the number of auditees increased by three (10%), but the rand value increased by R853 million.			
Irregular expenditure incurred in prior year but identified in the current year	An amount of R165 million of the irregular expenditure was incurred in prior years but was only identified and reported in the current year.			

Figure 17

Nature of and overall trends in fruitless and wasteful expenditure



Auditees with no fruitless and wasteful expenditure | Auditees with fruitless and wasteful expenditure

The previous figure reflects the three-year trend in fruitless and wasteful expenditure, the extent to which it was identified during the audit (and not by the auditees' internal control systems) and the type of auditee where it occurs. The table below shows the overall movement in the number of auditees and the movement in the amount of fruitless and wasteful expenditure incurred by these auditees.

The actual fruitless and wasteful expenditure related mostly to payments made to employees and interest incurred on late payments.

Table 17

Nature of and current year movement in fruitless and wasteful expenditure

Nature	Number of auditees	Movement in number of auditees from 2010-11	Amount	Movement in amount from 2010-11
Incurred to prevent irregular/loss/further fruitless and wasteful expenditure	8	74%	R2 million	20%
Actual fruitless and wasteful expenditure	25		R32 million	

Improved Unchanged Regressed

Key outcomes and trends are summarised below.

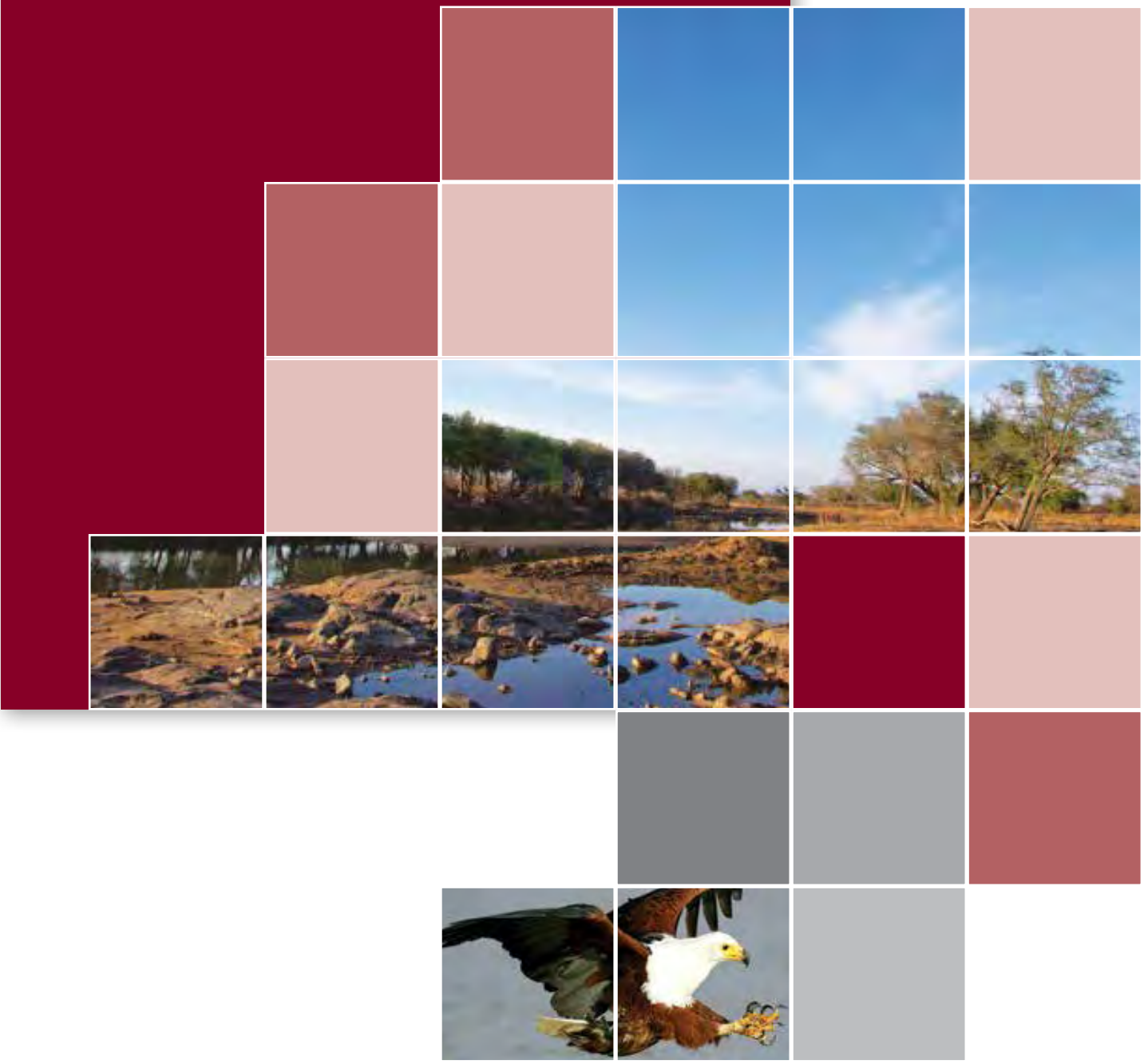
Indicator	Key findings	Good	Concerned	Poor
Increase in the auditees incurring fruitless and wasteful expenditure	The number of auditees incurring fruitless and wasteful expenditure increased by eight auditees (26%).			
Reduction in the amount of fruitless and wasteful expenditure	Although the number of auditees incurring fruitless and wasteful expenditure has increased as compared to the 2010-11 financial year, the rand value of the expenditure incurred has decreased by R10 million (24%).			

2.6.1. Conclusion on unauthorised, irregular as well as fruitless and wasteful expenditure

Overall, 30 (97%) auditees incurred unauthorised, irregular or fruitless and wasteful expenditure. The extent of this expenditure and non-compliance by accounting officers indicates an environment where unauthorised, irregular as well as fruitless and wasteful expenditure has become the norm and not the exception. The leadership did not take reasonable steps to prevent such expenditure, while auditees also did not detect the occurrence thereof but it was mostly identified through the AGSA's audit process.

A lack of monitoring and enforcement of applicable legislation and policies, coupled with an inappropriate attitude towards the enforcement of consequences for those who deliberately or negligently disobey the applicable legislation, contributes to a situation where appropriate practices are not entrenched in the daily operations of local government. Such practices erode public confidence in the local government's ability to manage the resources allocated to it and require urgent attention. Very few, if any, consequences were evident in addressing these weaknesses and contraventions of basic SCM requirements and practices.

It is also critical that the district municipalities lead by example and provide the necessary support to its local municipalities. Unfortunately, four of the five district municipalities were not in a position to provide that required level of support and guidance to their local municipalities based on their own poor audit outcomes. Of the total irregular expenditure in the province for the 2011-12 financial year, 36% was incurred by the district municipalities with the Greater Sekhukhune Municipality incurring the highest irregular expenditure, closely followed by the Vhembe and Mopani District municipalities.



SECTION 3

ROOT CAUSES OF AUDIT OUTCOMES

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SECTION 3 Root causes of audit outcomes

This section details the root causes of audit outcomes and recommendations to address these root causes. Section 3.1 provides a summary of the root causes with further detail on such root causes and areas of risk that require attention; section 3.2 discusses significant deficiencies in auditees' systems of internal control; section 3.3 details human resource management; section 3.3.3 discusses the effective use of consultants for financial reporting; section 3.4 details information technology management; and section 3.5 dwells on the effectiveness of audit committees and internal audit units.

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 the identification of the internal control which failed to prevent or detect the misstatement or non-compliance. The root causes are confirmed with the auditee's management and reported in the management report, which is issued to the accounting officer and shared with the mayor. The root causes of material findings reported in the audit reports are also included in the audit report as internal control deficiencies classified under the key drivers of (i) leadership; (ii) financial and performance management; and (iii) governance. Section 3.2 provides more information on the specific drivers of internal control.

The tables that follow summarise the most common root causes in provincial local government of the audit outcomes, provide recommendations to address the root causes and identify the role players responsible for addressing such root causes. We also reported the majority of these root causes and recommendations in the 2010-11 management, audit and general reports. The AGSA's view on the reasons for not addressing the prior year root causes is also provided.

Table 18

Prior year root causes not addressed and recommendations not implemented

Root cause number 1:	Key officials lacking minimum competencies and skills	Identified at 21 (72%) of auditees	Audit outcomes affected		
			F	P	C
			X	X	X
Detail on root cause					
Officials in key positions at more than 72% (21 out of 29) of the auditees did not have the minimum competencies and skills required to perform their jobs. We identified the need for competent and skilled staff, specifically at CFO level, to support the municipal manager as a priority to improve on the prior year audit outcomes and the production of regular and quality financial and performance information.					
Role players that should address the root cause					
Municipal manager, council					
Reason(s) why prior year root cause was not addressed					
The leadership acknowledged the magnitude of the skills and competency gap in the province and took a keen interest in addressing this issue. A skills audit that was committed to be conducted by 31 March 2013 was still in progress and was piloted at three provincial departments before it was considered to implement this process at local government. The delay in not fully addressing this root cause is also related to the scarcity of skills in the province. Subsequent to year-end there has been progress as far as developing the capacity required at the CFO level, at certain municipalities.					
Prior year AGSA recommendations not yet implemented					
Prior year recommendations not yet implemented included the following: a) Positions should be filled timeously with staff that have and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing sound internal controls. During the 2011-12 MFMA cycle, 11 municipalities had vacant CFO positions. b) The interest of one auditee should not be sacrificed in the hope of providing an advantage to another. This was again evident in the 2011-12 financial year, for example, the CFO of the Mopani District municipality was the acting municipal manager at the Greater Tzaneen Municipality during the course of the audit. The audit opinion of the district regressed from a qualified to a disclaimer in the year under review.					

Root cause number 1:	Key officials lacking minimum competencies and skills	Identified at 21 (72%) of auditees	Audit outcomes affected		
			F	P	C
Additional recommendations made at this time					
Additional recommendations made at this time include the following: a) The drive towards developing the required skills for municipalities must be intensified if clean administration is to become reality. The municipal competency regulation framework, which requires all municipalities to comply with the competency requirements with effect from 1 January 2013, requires a concerted effort from the provincial leadership, provincial treasury and the Department of Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA) to ensure that these requirements are met by each municipality in the province. b) Political interference in the appointment of suitably qualified officials is a practice that has to be eradicated if the leadership is serious about addressing the skills issue that is hampering the drive towards clean administration. c) A more effective coordination between the treasury, CoGHSTA, SALGA and the district municipalities should be established.					

Root cause number 2:	Lack of consequences for poor performance and transgressions	Identified at 22 (76%) of auditees	Audit outcomes affected		
			F	P	C
			X	X	X

Detail on root cause

Overall, 76% of the auditees showed signs of a general lack of consequences for poor performance. When officials are not held accountable for their actions, a perception is created that such behaviour and its results are tolerated, which further worsens a culture of non-compliance. This is evidenced by the fact that modified audit opinions remained the norm and by the increase in SCM-related irregular expenditure.

Role players that should address the root cause

Municipal manager, mayor, council

Reason(s) why prior year root cause was not addressed

Although municipalities had performance management systems in place, they had implemented virtually no processes to deal with non-performance, thereby rendering such systems ineffective. Also refer to section 3.3.4 below.

Prior year AGSA recommendations not yet implemented

Prior year recommendations not yet implemented included the following:

a) The lack of monitoring by the leadership to ensure that non-performers are dealt with decisively and that appropriate action is taken against non-performers is a key contributor to ineffective performance management systems and processes.

b) Performing proper background checks of incumbents prior to appointment. In the prior year it was reported that a CFO of a municipality that had obtained disclaimers for the past five years was transferred as CFO to another municipality in the province. This practice was again identified in the year under review. Such poor leadership decisions only result in shifting the problem as opposed to addressing problems and challenges facing municipalities.

Additional recommendations made at this time

Additional recommendations made at this time included the following:

Development of officials in government is extremely critical in view of the lack of skills in the province. Development of officials to ensure that they perform optimally in their roles cannot be achieved if inadequate performance management systems are in place.

Furthermore, officials cannot be held accountable for poor performance in the absence of an effective performance management system. An effective performance management system will also enable the leadership to differentiate between high and poor performers. The same incentives and recognition cannot be given to both high and poor performers. Rewards and remuneration must be linked to performance.

Root cause number 3:	Slow response to AGSA messages and not taking ownership of key controls	Identified at 21 (72%) of auditees	Audit outcomes affected		
			F	P	C
			X	X	X

Detail on root cause

In total, 72% of auditees can attribute their poor audit outcomes to mayors and councillors that were not responsive to the issues identified by the audits and did not take the AGSA's recommendations seriously. They were slow in taking up their responsibilities and did not take ownership of their role in implementing key controls.

For as long as local government continues to struggle with poorly skilled staff, the key controls will not receive the required level of attention. This in turn creates an environment in which fraud and other undesirable activities can flourish, leading to the continued increase in, amongst others, irregular expenditure. This was worsened by weak oversight from councillors who lack the knowledge to ask the right questions.

Role players that should address the root cause

Mayor, council, MEC for provincial treasury and CoGHSTA

Reason(s) why prior year root cause was not addressed

The provincial leadership (premier and MEC for provincial treasury and CoGHSTA) did take note of our message after the results for the prior year became known and started working on turning the situation around. This effort, however, came very late in the financial year under review (3½ months before year-end) and only really gained momentum with the appointment of the current MEC: CoGHSTA in mid-March 2012. In many cases this was too late to have any impact on the 2011-12 audit outcomes.

Prior year AGSA recommendations not yet implemented

Prior year recommendations not yet implemented included the following:

Basic reporting disciplines, such as proper record keeping, regular processing of transactions and reconciliations, preparation of monthly reports, and controls over compliance with fiduciary responsibilities.

The leadership needs to ensure that comprehensive risk assessments are performed that cover all critical areas to improve audit outcomes. Many of the issues which ultimately resulted in qualified audit opinions were identified as potential risks in the current and prior years and were brought to the attention of role players at various forums, including that of the leadership during the quarterly key control visits by the AGSA and yet little or no effort was made to deal with these issues.

Root cause number 3:	Slow response to AGSA messages and not taking ownership of key controls	Identified at 21 (72%) of auditees	Audit outcomes affected		
			F	P	C
Additional recommendations made at this time					
Prior year recommendations not yet implemented included the following: a) Our key control visits reviewed the auditee's controls over daily and monthly processing and reconciling of transactions. For an entity to have sound financial controls, the appropriate level of management should regularly review interim/monthly reporting and prepare regular, accurate and complete financial and performance reports that are supported by reliable sources of information. The leadership and management must also regularly review and monitor compliance by officials with applicable laws and regulations. The focus should be on measures that prevent unauthorised and irregular transactions and should enable the discharge of statutory responsibilities by management and senior officials. In this regard, a compliance checklist is recommended as a handy tool to proactively prevent deviations from laws and regulations. b) Interaction between the audit committee and the municipal leadership is a matter that requires urgent attention. The absence of such interactions prevents the leadership from obtaining a clear understanding of the status of the control environment and the full extent of any internal control deficiencies, which ultimately results in poor audit outcomes.					

Table 19

Additional root causes identified and recommendations

Root cause number 1:	Lack of a shared vision across all levels of municipal officials	Identified at 22 (76%) of auditees	Audit outcomes affected		
			F	P	C
			X	X	X
Detail on root cause					
In our interactions with staff during the audit process, it was quite evident that officials at lower levels were not fully aware of what the 2014 clean audit initiative entailed and what strategies were in place at the municipality to achieve clean administration.					
Role players that should address the root cause					
Mayor, council, municipal manager					
Recommendations					
Officials at all levels of the entity should be engaged in and kept abreast of what plans the municipality has in place to achieve clean administration. The communication around 2014 clean audit should not only be confined to senior management or leadership forums without disseminating the resolutions and objectives to all municipal officials so that clean administration and the importance thereof become a common and shared vision.					

Root cause number 2:	Delays in the implementation of action plans to address both internal and external audit findings	Identified at 24 (83%) of auditees	Audit outcomes affected		
			F	P	C
			X	X	X
Detail on root cause					
Although municipalities had action plans in place they were not always implemented timeously. The delays in the implementation thereof also resulted in a number of repeat qualification findings.					
Role players that should address the root cause					
Mayor, council, municipal manager					
Recommendations					
a) Action plans should be implemented without any delay and the progress thereof should be monitored by management with the involvement of the mayor. b) Time frames for the attainment of each action should be clearly defined and adhered to.					

3.2 SIGNIFICANT DEFICIENCIES IN AUDITEES' SYSTEMS OF INTERNAL CONTROL

Figure 18

Deficiencies in internal control

A key responsibility of accounting officers and other officials is to implement and maintain effective and efficient systems of internal control. As part of the audits the auditee's system of internal control is assessed to determine its effectiveness in ensuring reliable financial and performance reporting and compliance with laws and regulations, which in turn will result in a clean audit. For purposes of focusing corrective action, the principles of the different components of internal control, termed drivers of internal control, have been categorised under leadership, finance and performance management and governance.

Table 20 provides the overall assessment of these drivers at the time of the audit, based on significant deficiencies identified in internal control which resulted in material misstatements (corrected and uncorrected), financial statements and performance reports as well as findings on compliance with laws and regulations.

The combined predominance of controls that are "causing concern" and those where 'intervention' is required clearly indicates that established drivers of internal control in the province are extremely concerning and require significant attention. The majority of municipalities did not make any significant progress during the year under review, with the result that the overall movement showed a regression across all three drivers of internal control.

The following table presents the status of the internal *control* elements as at June 2012, underlying leadership, financial and performance management and governance and movement in the implementation thereof. Annexure 2 provides the status of key controls per auditee.

In addition, our experiences during the audit can be described per municipality as follows:

- At the Aganang, Blouberg, Molemole Municipalities the disunity within the councils was visible, while at the Bela-Bela, Polokwane and Modimolle Municipalities tension existed between the councils and the provincial leadership. While such situations are to be expected from time to time at a political level, in these cases it was allowed to flow over and negatively impact on the administration.
- At the Greater Giyani, Greater Tzaneen, Lepelle-Nkumpi and Polokwane Municipalities it was clear that certain staff members were set on discrediting management by facilitating poor outcomes, in some cases going as far as outright sabotage by withholding pertinent information and/or documents.
- Despite having three years to implement GRAP 17 (relating to the recognition and measurement of assets), the Fetakgomo, Greater Letaba and Maruleng Municipalities delayed implementation until late in the third year. Consequently, there was insufficient time to deal with the complexities of the technical requirements of the standard leading to qualifications on their asset balances.
- The Ephraim Mogale, Lephalalale, Tubatse and Thulamela Municipalities have remained stagnant within the qualified opinion bracket for some time and it seems they were unable to improve further.
- Although the Mogalakwena Municipality had the capacity to move into the clean audit category, it has received an unqualified with other findings opinion for four years consecutively and did not show any chance of improving to clean.
- The Capricorn and Sekhukhune District municipalities as well as the Greater Tzaneen, Elias Motsoaledi, Ephraim Mogale, Makhado, Mookgophong, Polokwane and Thabazimbi Local Municipalities tried to address the issue of appropriately skilled staff but were hampered by the scarcity of the desired skills in the province. Where appropriately skilled staff members were employed, this happened too late to have a significant impact on the final results.

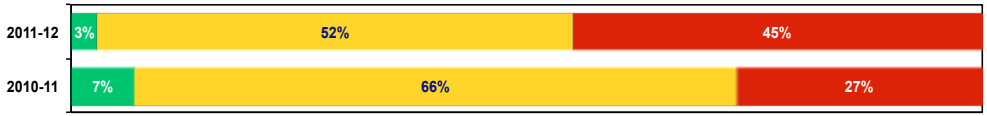
- While the Makhuduthamaga and Elias Motsoaledi Municipalities managed to improve from a disclaimer to a qualified opinion, the improvement was due to the use of consultants and may not be sustainable.
- The loss of skilled staff members at the Mopani District municipality left it very vulnerable and it may have difficulty moving out of the disclaimer category again.
- The Mopani and Vhembe District municipalities as well as the Greater Giyani, Lepelle-Nkumpi, Mutale, Thulamela and Tubatse Local municipalities did not address prior year findings, while Ba-Phalaborwa, Makhado, Mookgophong and Musina Municipalities did some work on previous findings but not yet enough to clear them.
- The Polokwane Municipality implemented a new billing system just before year-end, leaving inadequate time to resolve discrepancies before submission of their annual financial statements.

In addition, we observed municipalities where councillors were highly motivated and showed the desire to improve but seemed unable to transfer this energy to the municipal employees. At other municipalities we found staff at lower levels extremely willing to work hard and improve their audit outcomes but lacking the skills and leadership necessary to bring their efforts to fruition. The above state of affairs can only be addressed with a strong and committed leadership.

Table 20

The status of and movement in the internal control elements, underlying leadership and financial and performance management

Driver no. 1: Leadership	Movement	Assessment of driver
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.	↓	
There was an overall regression in this internal control element from the prior year. The tone set at the top and commitments made by the provincial leadership that are carried out are key factors towards achieving clean audit outcomes. Neither the administrative nor political leadership adequately addressed the matters that prevent auditees from progressing towards clean audits. The leadership should further set the tone through timeous action in instances of contravention of laws and regulations as well as failure to fulfil statutory duties.		
Exercise oversight responsibility regarding financial and performance reporting and compliance with laws and regulations and related internal controls.	↓	
The leadership and accounting officers did not take full ownership of the key controls and satisfied themselves that identified areas of non-compliance received the required level of attention. There was a significant regression in the overall quality of the financial statements and performance information that was submitted for audit purposes. The lack of periodic review of progress made by management in addressing external audit findings in a timely manner was particularly evident at almost all the municipalities, which resulted in the number of repeat qualification findings. Quarterly interaction between the audit committee and the leadership is critical to ensure that there is an understanding of the status of the control environment which provides an opportunity for the leadership to be proactive in instituting measures to address internal control deficiencies. The council, in its oversight role, should take responsibility for the financial affairs of the municipality. The council must establish that the municipality is meeting and will continue to meet its financial commitments and that it will avoid financial problems. If serious financial problems persist, the council must be active in its oversight role to identify the causes of the problem and ensure the appropriate remedies are instituted. With the regression in audit outcomes for the year under review, it is evident that councillors are not effective in exercising their oversight roles and are also taking responsibility for the financial affairs of their municipalities.		
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.	↓	

Driver no. 1: Leadership	Movement	Assessment of driver
Section 3.3 presents an assessment of findings arising from the audit of human resource management.		
Establish and communicate policies and procedures to enable and support an understanding and execution of internal control objectives, processes and responsibilities.	↓	
Appropriate policies and procedures are fundamental elements of an effective internal control environment that supports good governance and produces clean administration. Policies and procedures to address areas of risk, to achieve desired internal control objectives and to guide the operations of auditees, still require improvement at many auditees. Matters that specifically needed to be addressed included the following: • The effective implementation of documented policies and procedures which should be communicated to officials in a timely manner. • Many auditees have not put in place policies specifically providing guidelines and directives for the collection, processing and validation of performance information. • Policies and procedures were not in place to ensure compliance with the laws and regulations. • Auditees whose policies and procedures were still in draft should prioritise their finalisation and monitor compliance once approved. .		
Develop and monitor the implementation of action plans to address internal control deficiencies.	↓	
At 28 municipalities repeat qualifications, slow progress in addressing the previous year's audit findings on predetermined objectives, and repeat non-compliance with laws and regulations indicated that the leadership did not adequately monitor progress in effective implementation and follow-up of action plans to improve audit outcomes. Action plans did not specifically address external or internal audit findings in all instances, which resulted in repeat findings. Action plans need to address all three facets of audit outcomes, namely qualifications, findings on reporting against predetermined objectives and findings on compliance with laws and regulations. The plans in place should focus on addressing the specific root causes of the findings.		
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.	↓	
Section 3.4 presents an assessment of information technology (IT) controls.		

Driver no. 2: Financial and performance management	Movement	Assessment of driver
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.	⟷	
Proper record keeping is an essential step towards achieving clean audit outcomes as it ensures that the information reported can be substantiated and verified. It also empowers senior management to hold staff accountable for their actions. An adequate system of record keeping requires that senior management establish adequately developed and communicated policies to ensure that staff align their actions to the entity's objectives. A key objective of maintaining a formal and reliable system of record keeping is to have documentation readily available when requested. Most auditees' financial and performance systems have not yet reached the level of maturity where information is centrally available and evidence to support majordecisions is readily available, which contributed to the increase in the number of disclaimers from the prior year.		
Implement controls over daily and monthly processing and reconciling of transactions.	↓	
The culture of performing and implementing controls over daily and monthly processing and reconciling of transactions was still a challenge at the majority of auditees in the province. In the absence of such control mechanisms, auditees relied on year-end effort to correct their accounting records. Management should actively monitor adherence to basic financial controls throughout the financial year, i.e. daily processing of transactions, monthly reconciliation of accounts, the timeous clearing of suspense accounts and continuous review thereof, in order to achieve improved audit outcomes. Monthly reconciliations and clearing of suspense accounts provide the platform for reliable in-year financial reporting and the early detection of errors in and omissions from financial and performance reporting, e.g. assets were not verified on a quarterly basis to ensure that the asset registers are reliable, which resulted in errors being detected only when the audit is performed, which is often too late to make any adjustments to the financial records.		
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.	↓	
The quality of financial statements submitted for auditing remains a concern based on the number of financial statements that contained material misstatements during the audit. This is linked to the lack of skills and experience of CFOs and support staff at the finance units. The pervasive material misstatements identified by auditors were mainly the result of a lack of supervision and review of monthly reports used in the preparation of the financial statements by the leadership, particularly CFOs and audit committees. Furthermore, it is critical for the leadership to ensure that the required skills are transferred to officials where consultants are appointed.		

Driver no. 2: Financial and performance management	Movement	Assessment of driver
Review and monitor compliance with applicable laws and regulations.	↓	
The most prevalent findings on non-compliance with laws and regulations related to annual financial statements, procurement management and the incurrence of unauthorised, irregular, and fruitless and wasteful expenditure. Inadequate expenditure management practices at local government level are of concern and are reflected in the increase in irregular expenditure identified during the year under review. The majority of the irregular expenditure incurred was identified during the audit process, which indicates that the internal controls of the municipalities and municipal entities failed to detect these deviations. Active governance and involvement by the internal audit units and audit committees go a long way in meeting the tender process challenges, thus helping the province towards clean administration. It is also disappointing to note that there were no or very little consequences for officials who wilfully or negligently transgressed laws and regulations. Non-compliance must have consequences and accountability must be enforced.		
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).	↓	

Section 3.4 provides a further assessment of the effectiveness of IT controls.

Driver no. 3: Governance	Movement	Assessment of driver
Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.		

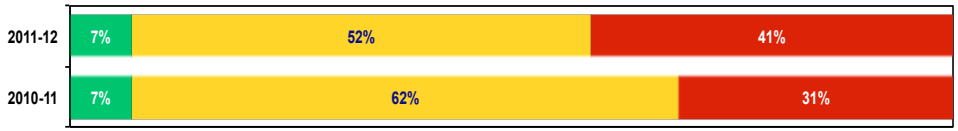
Findings on the design and implementation of formal controls over IT systems are concerning. IT systems to report on PDOs were also not in place. Risk management is the practice of identifying, assessing and prioritising risks and developing risk management plans which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability in respect of financial reporting and reporting on achievements against PDOs (service delivery).

Although risk management units were in place at municipalities, they were ineffective due to their failure to advise senior management and the council on potential risks affecting the municipality and what needed to be done to mitigate these risks. Lack of attendance by mayors and municipal managers at audit steering committee meetings is also a concern that was noted at most municipalities. We advise and encourage officials from the risk management units to attend the audit steering committee meetings to better equip themselves in responding to emerging risks.

The Bela-Bela and Thabazimbi Municipalities changed their financial reporting systems in the 2011-12 financial year. Proper system change controls were not implemented to ensure that the balances from the old system were completely and accurately carried forward to the new system. This was a particular challenge at the Thabazimbi Municipality where we noted significant unexplained differences between account balances brought forward from the old system to the new system, which also contributed to the regression in the audit outcome.

The Polokwane Municipality changed its billing system during the last month of the 2011-12 financial year and that also resulted in significant challenges in reconciling balances from the old system and the new system. The lack of adequate system change controls was an indication that no proper risk management practices were in place over IT. The risk management processes must inform the work plans of internal and external audit findings.

The IT environment, with specific reference to controls regarding access control and protection of information which were not in place, was also of concern. Manual or automated controls were not always adequately designed to ensure that transactions occurred, were authorised, and were completely and accurately processed to ensure compliance with laws and regulations. Furthermore, poor access controls continued to pose a challenge for the province. The leadership did not give the implementation of proper IT controls the attention it deserved. The importance of implementing proper controls over IT should not be undermined if clean administration is to become a reality.

Ensure that an adequately resourced and functioning internal audit unit is in place that identifies internal control deficiencies and recommends corrective action effectively.	↓	

There was a need to adequately resource the internal audit function to ensure that it operated effectively by identifying internal control deficiencies in a timely manner and by recommending and monitoring corrective action.

The council made decisions based on information and reports provided by management. These decisions had a direct impact on the communities it represented, it was therefore crucial that the reports on which decisions were based were reliable. Internal audits can play an important role in providing the required level of assurance over the credibility of such reports which are used for decision-making purposes.

Section 3.5 provides an assessment of the effectiveness of internal audit units.

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 laws and regulations.	↔	

Section 3.5 provides an assessment of the effectiveness of audit committees.

↑ Improved ↔ Unchanged ↓ Regressed

3.3 HUMAN RESOURCE MANAGEMENT

Effective human resource (HR) management is a key driver of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and their performance and productivity are properly managed.

As detailed in section 3.1, the vacancies in key positions, competencies of key officials and the lack of consequences for poor performance and transgressions were again identified as root causes of poor audit outcomes. These weaknesses are symptoms of ineffective HR management in local government.

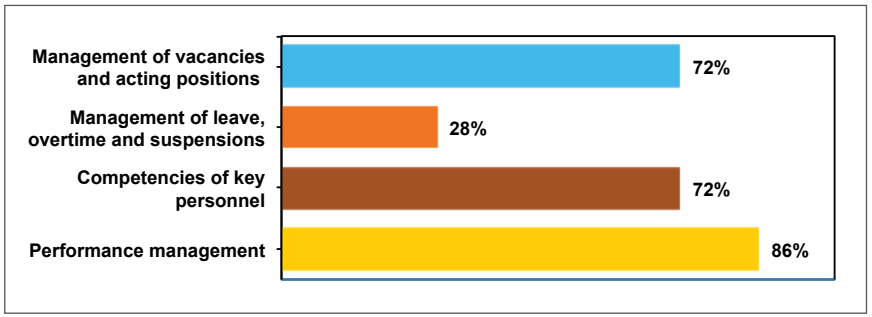
For the past two years the audits included an assessment of HR management, with specific focus on the following areas: ■ HR planning and organisation ■ Management of vacancies ■ Appointment processes ■ Performance management ■ Acting positions ■ Management of leave, overtime and suspensions

Section 3.3.3 analyses and discusses the use of consultants in providing financial reporting services and the impact on audit outcomes.

The following figure shows the three weakest areas of HR management at auditees, which should be improved to positively affect audit outcomes. Sections 3.3.1 to 3.3.5 provide further detail on the findings.

Figure 19

Summary of human resource management weaknesses



3.3.1 Management of vacancies and acting positions

The biggest challenge for local government is to attract and retain qualified competent persons across all areas of administration. Key findings from the audits are presented below.

Indicator	Key findings	Good	Concerned	Poor
High vacancy rates and the correlation with poor audit outcomes	**The average vacancy rate at senior management level** for municipalities at year-end was 23%. The highest vacancy rate was at the Ephraim Mogale, Makhudutamaga, Musina and Mookgophong Municipalities with 50% each and the lowest at the Lephalale, Thabazimbi, Aganang, Maruleng, Tubaste, Greater Giyani and Mutale Municipalities with no vacancies at senior management level as at 30 June 2012. The high vacancy rate at the Ephraim Mogale, Mookgophong and Musina Municipalities could also be directly linked to continuous qualified audit outcomes. Of concern is that, even with a zero vacancy rate at senior management level, not even one of the municipalities listed above managed to improve to an unqualified audit opinion. A total of eight of these auditees had a disclaimed opinion, while one regressed from an unqualified with findings on PDOs and/or laws and regulations to a disclaimed audit outcome. One auditee remained with a qualified audit opinion from the prior year. This situation can be linked to the high incidence of consultants deployed at municipalities where skills were not transferred as well as a lack of competence and skills at senior management level.			
Increase in vacancy rates	At 14 (48%) auditees the **senior management vacancy rate has increased** since 2010-11.			

Indicator	Key findings	Good	Concerned	Poor
Management of vacancies	**Senior management positions** at nine (31%) auditees had been **vacant for more than 12 months** and at three (10%) of these auditees the vacant positions **had not been advertised within six months** of becoming vacant. Officials were directed to act in these positions until the vacancies were filled, but at four (14%) of the auditees the **acting periods** were for longer than the accepted benchmark of six months. When a person acts in a position, they tend not to take on the full responsibility, functions and powers of the post, with a lower commitment to the deliverables as a result of the temporary nature of the position.			
	Municipal manager positions were vacant at six auditees (21%). At three (10%) of these auditees the position had been vacant for more than 12 months. At two auditees (7%) the vacant positions were n**ot advertised within six months** of becoming vacant.			
	The position of **CFO** was vacant at 11 (38%) auditees. At seven (24%) of these auditees the position had been vacant for more than 12 months. At two (7%) auditees the vacant positions were **not advertised within six months** of becoming vacant.			
	The **head of SCM** position was vacant at three auditees (10%). None of these positions were vacant for more than 12 months. The vacant positions were advertised within six months of becoming vacant.			

The following were the **reasons** for the continuing vacancies in provincial local government:

- Scarcity of skills to fill key vacant positions
- Interference by the council in the appointment process resulting in delays
- Lack of an action plan to address vacant positions by the leadership

Indicator	Key findings	Good	Concerned	Poor
High vacancy rates poses a significant threat to the control environment as well as service delivery. This also adversely impacts on audit outcomes. The entity becomes vulnerable to fraudulent transactions due to the lack of segregation of duties. As long as high vacancy rates remain unattended, the province has to rely more on the use of consultants, which is extremely costly. These funds can rather be used for the maintenance of service delivery objectives.				
The following are **recommendations** to address weaknesses in the management of vacancies and acting positions: • An action plan to address vacant positions in the province as a whole should be sanctioned and implemented by the leadership in the province with immediate effect. • Political interference in the appointment process should be eradicated. • Organisational structure of municipalities should be considered. The organisational structure must be both efficient and effective. Efficiency requires the number and type of staff to be as low as possible, while effectiveness requires that the number and type of staff are at least at the level that will be successful in accomplishing assigned responsibilities. • HR should provide the necessary support in filling key vacant positions.				

3.3.2 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 should have the skills, experience and capacity to assume and fulfil their responsibilities and exercise their functions and powers. The reforms in financial and performance management also resulted in a higher level of competency requirements than in the past for municipal managers, CFOs, senior managers, SCM officials and other financial officials.

The poor audit outcomes, service delivery failures and the high demand for consultants and for support from national and provincial governments, however, indicated an environment where the persons appointed in these posts did not have the required competencies.

The root cause of this was two-pronged – personnel who did not have the required competencies were appointed in key positions, and existing employees did not keep up with the changing local government environment through ongoing training and development.

However, the implementation of the municipal regulations on minimum competency levels and the amendments to the Municipal Systems Act (MSA) presented the opportunity to improve the situation. These regulations define the minimum competency levels of accounting officers, CFOs, senior managers, SCM officials and other financial officials, taking into account the differences in size and scope of the municipalities. They provide for a phasing-in period for staff employed 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 phasing-in period ended on 1 January 2013 and, as per the regulations, the affected positions may not continue to be filled by persons who do not meet the minimum competency levels and this impacts on the continued employment of the affected officials.

However, the National Treasury gave municipalities the opportunity to apply by September 2012 for an 18-month extension (until 1 July 2014) for enforcing the regulations as a "special merit case" based on the particular circumstances faced by the municipality.

The amendments made to the MSA (effective July 2011) declare the appointment of a municipal manager without the minimum competency levels null and void. It also provides for a defined process for appointing municipal managers, which includes monitoring and intervention by the MEC for local government.

Key findings arising from the audits are presented below.

Indicator	Key findings	Good	Concerned	Poor
Assessment of minimum competency levels not performed on appointed municipal managers	By 30 June 2012 (six months from the effective date of the regulations), minimum competency levels of 15 (68%) of the **appointed municipal manager**s in the province had not been assessed.			
Minimum competency levels not met	Of the seven appointed municipal managers in 2011-12, whose minimum competency levels had been assessed, five **did not meet the minimum competency levels**.			
Assessment of minimum competency levels not performed on appointed CFOs	By 30 June 2012 (six months from the effective date of the regulations), minimum competency levels of nine (50%) of the **appointed CFOs** in the province had not been assessed. Only one of the nine (11%) CFOs, whose minimum competency levels had been assessed, met the minimum competency levels as defined in the regulations.			
Assessment of minimum competency levels not performed on appointed heads of SCM	By 30 June 2012 (six months from the effective date of the regulations), minimum competency levels of 18 (69%) of the **appointed heads of SCM** in the province had not been assessed. Only two (25%) of the **appointed heads of SCM**, whose minimum competency levels had been assessed, met the minimum competency levels as defined in the regulations.			
Application for special merit cases	By 1 January 2013, 27 (90%) municipalities had applied to be considered **special merit cases**. At the date of this report, the National Treasury had considered and approved 11 applications for extension to comply until 1 July 2014.			

Indicator	Key findings	Good	Concerned	Poor
	The **reasons** for the inadequate competencies of key officials and poor progress towards obtaining the minimum competency levels, despite constant reminders of the looming deadline and a number of initiatives from the National Treasury over the last five years to support municipalities in complying with the regulations, were the lack of commitment by both the political and administrative leadership to ensure that these regulations were met by the deadline. Lack of monitoring by the treasury and CoGHSTA to determine the status of progress and enforcing compliance also contributed to the high number of municipalities not meeting the deadline and requesting for a further extension to comply. The poor progress by the province in complying with this regulation and the fact that this was not prioritised were extremely disappointing since the leadership has always been aware and has acknowledged that the lack of skills and competencies in the province was an area that requires attention.			
	The **impact** of the inadequate competencies resulted in poor audit outcomes and service delivery. This was one of the root causes of the regression in audit outcomes for the 2011-12 financial year, as discussed in section 3.1 above.			
	The following are **recommended** to address the weaknesses: • The leadership must embrace the support measures provided in order to ensure that they are able to respond effectively to the changes and improve on service delivery. • Closer monitoring mechanisms to be implemented by the treasury and CoGHSTA to determine the status of the progress made by each municipality in complying with this regulation. • The council must be briefed on a regular basis on the status of the progress made. • The primary aim of the regulations, and of the initiatives designed to support its implementation, is to ensure greater accountability to the citizenry and improved and sustained financial management practices. The leadership must take this capacity-building initiative seriously in view of the poor financial management practices in the province.			

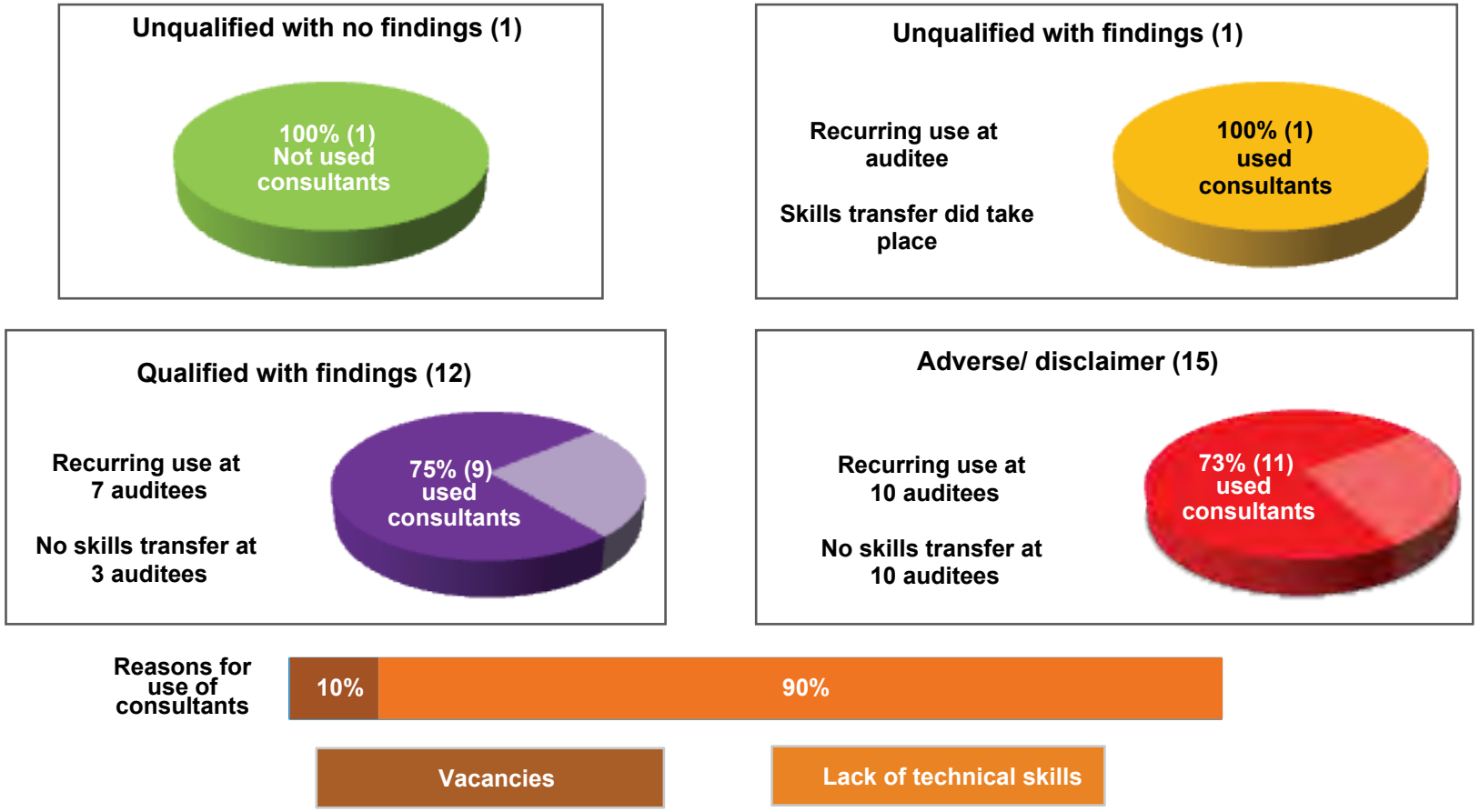
3.3.3 Financial reporting services provided by consultants

As in previous financial years, auditees continued to use consultants to assist them with accounting-related services and the preparation of year-end financial statements. Consultants assisted 21 (72%) auditees compared to 23 (79%) in 2010-11. Based on the available information, it is estimated that the cost of consultants on auditees exceeded R51 million (2010-11: R23 million) for the 2011-12 financial year, i.e. an average of more than R2 million per auditee. This excludes amounts spent by the National Treasury and provincial treasuries and CoGHSTA on consultants assigned to assist municipalities. The investment in consultants is quite significant and the return on this investment is very poor.

The following figure shows the most common reasons why consultants were engaged and the extent of use by auditees categorised per audit outcome, with an indication of whether it is a recurring use and whether skills transfer took place. Not all improvements in audit outcomes (or the lack of improvement) can be directly attributed to the use of consultants as the contracted scope of work varies from one auditee to the next.

Figure 20

Use of consultants by audit outcome



There was no movement in the use of consultants from the prior year where 21 auditees used consultants. A lack of technical skills in 19 of 21 municipalities (90%) was the main reason for the appointment of consultants, while at two of 21 (10%) municipalities vacancies were the reasons for the use of consultants. At 18 (86%) municipalities, the use of consultants was recurring. Skills were transferred at eight municipalities only, however, the audit outcomes of five municipalities, remained unchanged, three of which remained with a qualified opinion, one with a disclaimer and the other with an unqualified with findings on PDOs and/or laws and regulations. Of particular concern is that 10 municipalities, which regressed to adverse or disclaimed audit outcomes, used consultants and a total of 11 auditees had qualified audit opinions despite the appointment of consultants. However, three of these municipalities improved from a disclaimer to qualified audit opinion. Consultants did not make an impact because municipalities over-

relied on consultants without making an effort to improve their financial knowledge and skills, i.e. instead of providing assistance and guidance to officials on how to correct problem areas, the consultants almost always ended up having to do the work themselves. Consultants were also appointed very late in the financial year and sometimes even after financial year-end, which made it practically impossible for them to influence audit outcomes within the limited time frame. To ensure that skills are transferred, staff need to be identified beforehand and be available for this purpose.

The MEC of CoGHSTA launched an initiative whereby resident accountants (consultants) were appointed at municipalities to assist with clearing problem areas and challenges, including providing training and technical support to the CFO and finance staff. In some extreme cases the problems were completely passed over to the resident accountants who then found themselves responsible for the solution while those actually accountable were not providing the support. The scheme started off well but lost some momentum due to the inability of the appointed firms to provide sufficient staff with the necessary skills and competencies. The ownership of and responsibility for the financial statement process were effectively handed over to the consultants and this was noticeable at the audit steering committee meetings where consultants were the respondents to audit findings.

A significant investment is made on the use of consultants and it is critical that the work performed by consultants is evaluated regularly and the performance of consultants is monitored very closely to determine whether they are adding value. At the time of the audit, the province was in a position where it was unable to justify that the use of public funds was bearing fruit in terms of strengthening financial management practices within local government. The treasury and CoGHSTA need to be more involved in the appointment of consultants, which would add credibility to the appointment process, thereby ensuring that all appointments are based on a fair, equitable and transparent process.

It is critical that the performance of consultants is monitored and managed to ensure that contractually-agreed deliverables are achieved on time. Extensions of contracts should only be granted in exceptional cases and should be based on valid documented reasons. In some areas, internal deficiencies, such as the lack of a proper needs analysis and actions to fill vacant posts led to the extension of contracts or contract period.

The use of consultants, only as an interim solution, can have a positive impact on the audit outcomes if skills are transferred to staff and a stage is reached where officials work hand-in-hand with consultants in preparing financial statements. In so doing, staff will be capacitated, which will, in time, render the reliance on consultants unnecessary. Where consultants are employed and staff do not improve in their ability to do the work without support, an investigation should be done to determine the reason why skills have not been transferred. If skills are not transferred due to the unwillingness of staff, then appropriate action must be taken to remove such employees from the system. If the problem lies with the consultant, then his/her appointment should not be renewed.

As discussed above, the current status of managing consultants and evaluating their performance leaves much to be desired, however, consultants can play a vital role in the public sector in terms of providing knowledge and skills to help improve capability. Their contribution is also important for helping the public sector to innovate and create efficiencies. It is critical for consultants to understand the public sector and the context in which they are working, to be transparent about their costs and to set out that they will manage the risks of failure. Consultants need to also consider new ways that will meet the requirements of sustainability and transfer of skills.

3.3.4 Performance management

In the 2010-11 audit we identified inadequate management of performance of municipal managers, senior management and other officials to be at the root of many of the failures of local government. The controls and

performance objectives of the municipalities do not filter through to the performance contracts of municipal officials in order to direct their daily operations.

The national, provincial and oversight role players identified a lack of discipline, absence of commitment to serve the public interest and non-adherence to the code of conduct by municipal officials as root causes. These 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.

Key findings arising from an assessment of the performance management processes are presented below.

Indicator	Key findings	Good	Concerned	Poor
Signed performance agreements for all municipal managers and senior managers	All **municipal manager**s appointed in the province had **signed performance agreements** for 2011-12. It was only at the Mookgophong Municipality where we identified that 20% or more of the **senior managers** did not have **signed performance agreements** for 2011-12.			
No performance evaluations for senior managers	The leadership did not evaluate the performance of municipal managers and senior managers at 13 (45%) and 14 (48%) municipalities, respectively. A **performance bonus** was paid in 2011-12 to 10 municipal managers (34%) without conducting a performance evaluation and its approval by the council for the applicable year. At 11 auditees (38%) **performance bonuses** were paid to senior managers in 2011-12 without conducting a performance evaluation and its approval by the council for the applicable year.			
Ineffective performance management systems	Although 27 auditees (87%) had **performance management systems** in place, they were implemented and effective at only four auditees (15%).			

The **reasons** for the weaknesses in the performance management systems are the following:

- Lack of comprehensive job descriptions.
- Non-compliance with a performance management system.
- Lack of communication by the leadership of the performance management system and the implementation thereof.
- Poor performance record keeping.
- Capacity of HR components to provide support and assistance in driving the performance management system.
- Unwillingness from management to execute their responsibilities in terms of managing performance.

Indicator	Key findings	Good	Concerned	Poor

Poor performance management has a direct impact on productivity as well as employee morale when performance-related issues are not addressed timeously. In the absence of an effective performance management system, holding poor performers accountable for their actions becomes extremely difficult, which also adversely affects the high performers. Ineffective performance management processes create the impression that the leadership is tolerant of poor performance, which affects the costs for both government and the taxpayer, since poor performance translates into higher than necessary payroll costs and lowers productivity.

An adequate performance management system is a tool that will assist in not only dealing with poor performance, but also in identifying development gaps of officials that need to be addressed through on-the-job training. Poor audit outcomes and service delivery are directly attributed to the lack of skills and officials performing poorly.

Officials below senior management (section 57) did not have performance contracts in place, which prevented the municipalities from effectively managing them and identifying areas of improvement. The fact that performance contracts were not in place for such officials also hampered the role that senior management had to play in ensuring that officials reporting to them adequately performed their daily duties and responsibilities. Senior management would be measured and held accountable in terms of their performance but they would not be in a position to measure those below them, who also ultimately have an impact on the outcome of their performance. We also identified that most municipalities did not have formal performance management systems in place to address these staff members. Performance management is not only necessary to identify and correct inappropriate behaviour, but is also critical in identifying development areas and ensuring that staff members grow in their careers at the municipalities.

Indicator	Key findings	Good	Concerned	Poor

The following are **recommended** to address the weaknesses:

- Training and capacity-building initiatives for senior management to drive a high-performance culture and effectively manage poor performance.
- Institutionalise formal communication processes, amongst others, in respect of performance management.
- The leadership must prioritise the implementation of an effective performance management process which should be a standing item on the agenda for all management meetings.
- HR must take ownership for facilitating and monitoring the performance management process.
- Officials across all levels at the organisation should have signed performance contracts.

3.3.5 Consequences for transgressions

In terms of the MFMA, financial misconduct is committed by a municipal manager, senior manager or other official if he/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 must be made public
- contravenes a provision of the MFMA (municipal manager only).

The MFMA and the *Disciplinary regulations for senior managers* prescribe how such financial misconduct should be dealt with through an investigation and disciplinary process, with sanctions if found guilty and criminal proceedings if applicable.

The SCM regulations further provide for steps to be taken if improper conduct was 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.

The findings in this general report relating to failure to meet legislated obligations and responsibilities, instances of non-compliance with legislation, indicators of improper conduct in SCM and the occurrence of unauthorised, irregular as well as fruitless and wasteful expenditure require an appropriate response in accordance with the mentioned legislation. Such a response should clearly demonstrate that there are consequences for transgressions by officials in local government.

Key findings arising from an audit relating to steps taken to address transgressions are presented below.

Indicator	Key findings	Good	Concerned	Poor
Recorded allegations of financial misconduct	A total of 14 (48%) municipalities recorded allegations of financial misconduct. These allegations were recorded against the municipal manager, senior manager or other officials within the municipality, including improper conduct in the SCM processes. Investigations and disciplinary hearings were conducted or in progress at all except at one of these municipalities. At two of these municipalities, criminal offences were not reported to the South African Police Service (SAPS) for further investigation. Where allegations of misconduct were against the municipal manager or senior management of the municipality, allegations were tabled in the council and sanctions were imposed or actions taken against guilty officials. This process was completed at all municipalities, except one.			

Indicator	Key findings	Good	Concerned	Poor
No steps taken to recover unauthorised, irregular as well as fruitless and wasteful expenditure or approve such expenditure	A total of 22 (75%) auditees did not take the necessary steps to recover **unauthorised, irregular as well as fruitless and wasteful expenditure or approve/ certify such expenditure** as irrecoverable. No investigation was performed to determine whether the incurrence of such expenditure was deliberate and due to financial misconduct.			

The **reason for the lack of consequences for transgressions by local government officials is** primarily an inadequate performance management process. There is a significant risk that the leadership would have no grounds on which to hold poor performers accountable for failing to perform their assigned duties. MPACs, as oversight bodies, became operational in the province only during the 2011-12 financial year, which created a huge gap in the accountability cycle in local government. Where accountability is lacking and not taken seriously, this creates a perception that the leadership tolerates poor performance and non-compliance with laws and regulations.

We also noted with concern that most municipalities did not have a database which could produce accurate, complete and reliable information on instances of financial misconduct.

The lack of consequences for continued poor performance adversely impacts audit outcomes, service delivery objectives and compliance with laws and regulations. Investigations and disciplinary hearings should be conducted on all officials with reported allegations of misconduct and should not only be limited to specific cases or officials in order to achieve a particular outcome that is influenced by a political motive.

Indicator	Key findings	Good	Concerned	Poor

The following are **recommended** to address the weaknesses:

- Implement an effective and efficient performance management process as discussed above in creating a high-performance culture.
- Adequately capacitate members of MPACs to effectively discharge and carry out their oversight responsibilities.
- The leadership must be serious in setting the tone at the top that poor performance will not be tolerated and officials will be held accountable.
- Dealing expeditiously and decisively with poor performance and setting a precedent that poor performance will not be tolerated should be a norm at all municipalities and municipal entities.
- Commitments made by the leadership in dealing with poor performers must be honoured.
- Municipalities must maintain an accurate, reliable, easy-to-use electronic database (Excel format), with sufficient information to enable it to monitor and track records of a particular financial misconduct case. These reports should be submitted to the council at least on a quarterly basis and referred to MPAC for further interrogation.
- The accounting officer must be held accountable by the council for failure to report offences (theft, fraud, extortion, etc.) to the SAPS for further investigation.

3.4 INFORMATION TECHNOLOGY MANAGEMENT

3.4.1 Information technology management as a key driver of audit outcomes

Figure 21

Status of information technology across municipalities

Status of local government information	Confidentiality The necessary level of secrecy is enforced for al local government information. This was assessed by auditing the folowing focus areas: • Security management • IT governance • User access controls	Integrity All local government information is authentic, remains unaltered until authorised to change and is complete. This was assessed by performing data analytics and auditing the following focus areas: • Security management • User access controls	Availability All local government information is ready for use when expected. This was assessed by auditing the following focus areas: • Security management • IT service continuity
Status of key enabling controls	Good governance		
	Effective management		
	Secure architecture/infrastructure		

1 *No movement in the status of information technology across local government and municipal entities*

Management intervention required

IT control life cycle

Chanllenges

Level 1: Control design

At a minimum, management should design IT controls that would address the threats and weaknesses identified in vulnerability assessments. Particular attention should be given to the threats and weaknesses that would impact the confidentiality, integrity and availability of data.

Chanllenges

Level 2: Control implementation

Once the IT controls have been designed, management should ensure that they are implemented and embedded in IT processes and systems. Particular attention should be given to ensuring that staff are aware of and understand the IT controls being implemented, as well as their roles and responsibilities in this regard.

Level 3: Control effectiveness

Management should ensure that the IT controls that have been designed and implemented are functioning effectively at all times. Management should sustain these IT controls through disciplined and consistently performed daily, monthly and quarterly IT operational practices.

IT not viewed as strategic	The executives did not view IT as of strategic importance or as an enabler of service delivery.
CoGHSTA, provincial treasury and SALGA not effective	CoGHSTA, the provincial treasury and SALGA were not actively involved in assisting and supporting municipalities in developing and rolling out IT policies.
No consequences for weak IT controls	The lack of consequences for IT control weaknesses contributed to routine tasks, such as the resolution of audit findings and the design and implementation of key controls (policies, procedures, monitoring), not being performed.
IT vacancies and skills shortage	Vacancies and shortage of key IT skills resulted in IT not being properly capacitated to ensure that the required IT control obligations would be adequately executed, as this responsibility was left to the IT vendors.
Ineffective internal assurance over IT	Internal assurance processes, such as IT management reporting, internal audit and audit committees, were not effective in supporting leadership oversight of IT.

2 *The majority of auditees had challenges with the design of controls and had not even begun to deal with implementation and sustained effectiveness.*

3 *Drivers of IT control weaknesses – many could not be addressed from within IT.*

3.4.2 Summary of the overall audit outcomes

We assessed IT controls in four key focus areas at 21 municipalities. The focus areas assessed were IT governance, security management, user access management and IT service continuity. An analysis of the audit outcomes indicated that the majority of municipalities experienced challenges with the design and implementation of IT controls that provide assurance regarding the confidentiality, integrity and availability of financial information.

Adequate progress had not been made in addressing findings as the risks previously identified remained in all of the focus areas, even though some corrective measures had been taken. The lack of progress could be attributed to inadequate oversight by those charged with governance and a lack of consequences for repeat findings not being addressed. Internal audit units and audit committees were not continuously monitoring the progress made with the implementation of management commitments.

There was a general lack of management awareness and understanding of IT matters, as well as a lack of recognition of the strategic importance of IT. These weaknesses, coupled with a lack of adequate and competent personnel and an inability to retain skilled resources, caused the municipalities to rely heavily on external IT service providers for assistance with IT issues, as well as for the maintenance and support of IT systems.

CoGHSTA and the municipalities made a coordinated effort to develop and roll out IT policies and procedures to address IT issues. The effect of these efforts will only be clear in the 2013-14 financial year.

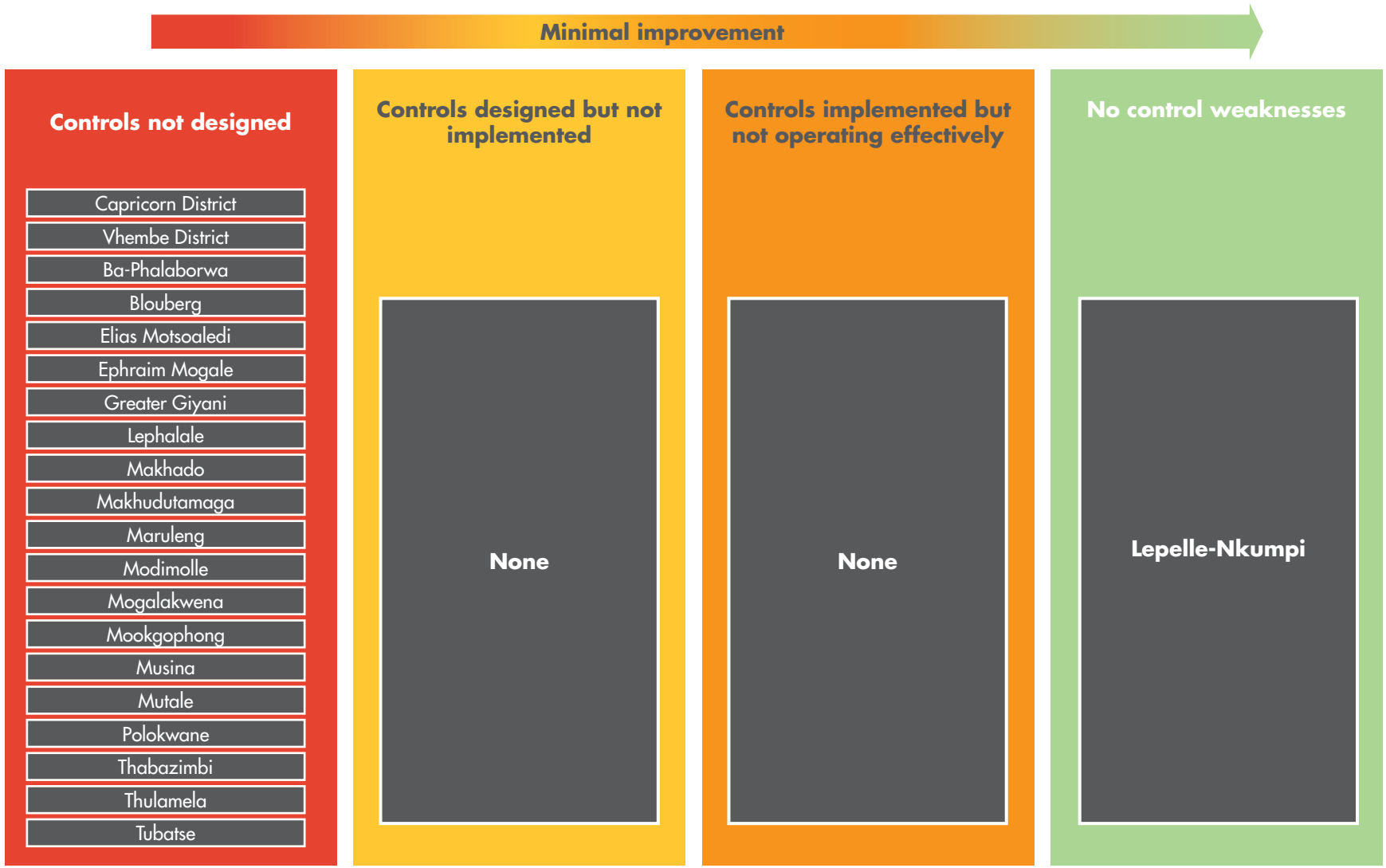
3.4.3 Information technology governance

IT governance is the responsibility of executive management. It is an integral part of organisational governance and consists of the leadership, organisational structures and processes that ensure that the organisation's IT resources would sustain its strategies and objectives. IT governance allows the organisation to manage IT risks and derive value from IT investments, and supports the achievement of business objectives that are dependent on IT systems.

We evaluated the controls at the municipalities in terms of their status in relation to the IT control life cycle, namely design, implementation and operating effectiveness. The outcomes are shown below:

Figure 22

Information technology governance audit outcomes



District and Local municipalities

The majority of the municipalities did not have IT governance frameworks in place. This contributed to the inadequate design of IT strategic plans, inadequate IT risk assessments, IT steering committees not functioning optimally and the performance of IT service providers not being monitored.

The Vhembe and Capricorn District municipalities had drafted IT governance frameworks. However, these frameworks had not been approved by the councils. The lack of an IT governance framework could result in accountability not being established, which could lead to a breakdown in control and oversight. IT might consequently not be aligned with the business objectives.

Most of the local municipalities either did not have signed service level agreements (SLAs) in place and/or did not monitor service performance in terms of the SLAs with the IT vendors and/or consultants. For example, the Tubatse, Mutale, Mogalakwena and Makhado Municipalities did not properly manage the SLAs and did not monitor IT service performance. This could result in substandard services being provided and suppliers being paid for services not rendered.

Root cause

These issues could be ascribed to accountability not being assumed by those charged with governance, a lack of consequences for non-performance and key controls relating to IT governance not being designed and implemented.

Good practices

We did not identify weaknesses with regard to IT governance at the Lepelle-Nkumpi Municipality. This could be ascribed to management taking accountability and implementing proper controls to ensure effective IT governance. These controls included an IT strategic plan, a properly functioning steering committee where IT matters were prioritised, proper IT risk management processes and proper management and monitoring of the SLAs with IT service providers.

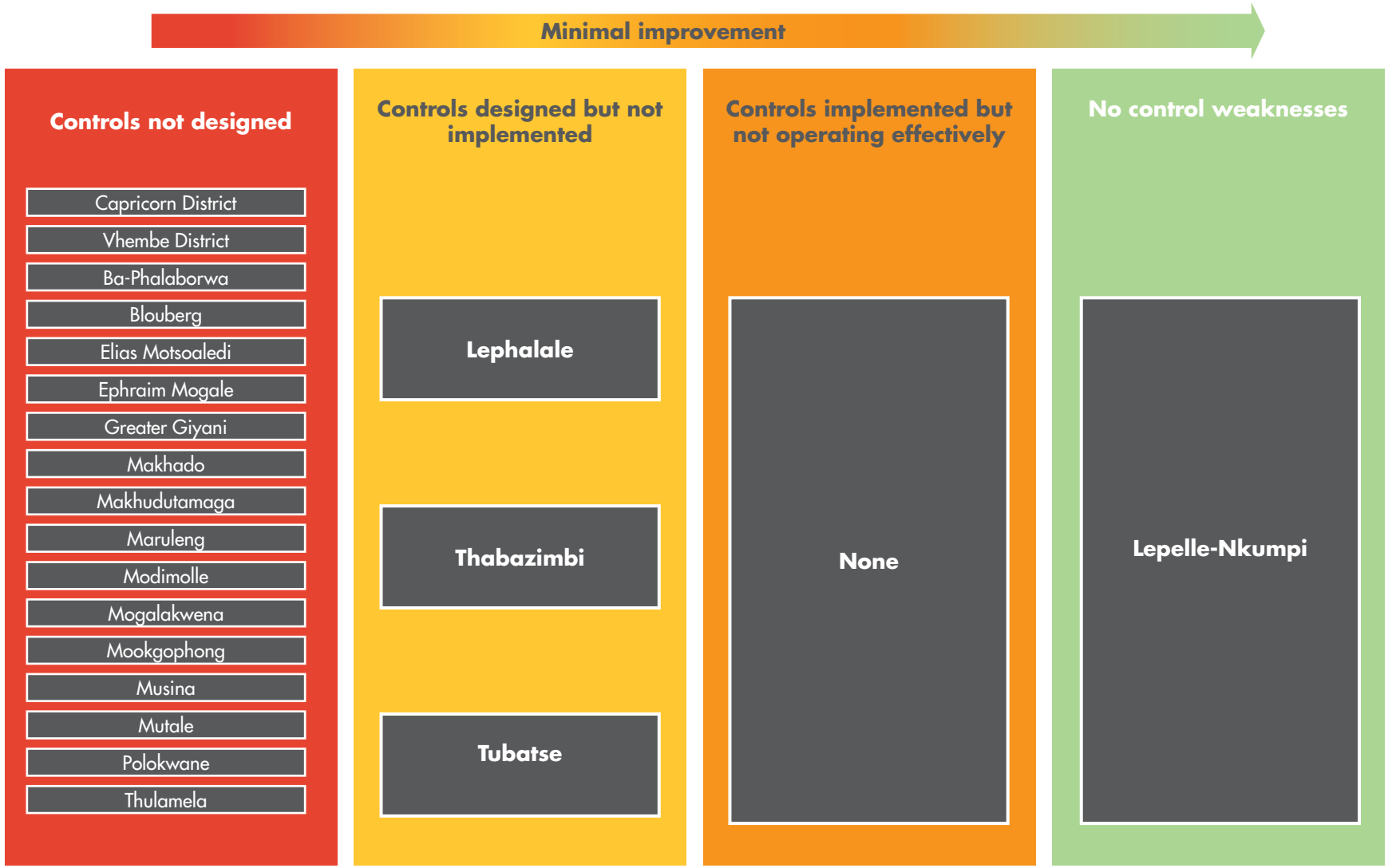
3.4.4 Security management

Security controls are measures designed by management to prevent and detect the risk of unauthorised access to IT infrastructure supporting the financial and performance application systems. This is normally the responsibility of the IT department.

We evaluated the controls at the municipalities in terms of their status in relation to the IT control life cycle, namely design, implementation and operating effectiveness. The audit outcomes are shown below:

Figure 23

Security management audit outcomes



District and Local municipalities

Most of the municipalities, including the district municipalities, had not designed and implemented information security policies to facilitate the protection of sensitive information from malicious and unauthorised access. The lack of information security policies gave rise to the following weaknesses:

- The roles and responsibility for information security were not formally delegated to information security officers.
- No operating system security (server) policies were established at the municipalities.
- No patch management policies were established.
- Password parameters were not adequately configured to prevent unauthorised access.

The inadequacy or non-existence of security policies could lead to external parties gaining unauthorised access to financial information without detection, which could compromise the confidentiality, integrity and availability of data.

The Lephalale, Thabazimbi and Tubatse Municipalities had properly designed policies in place, but were experiencing difficulties with implementing the controls specified in the policies.

At the Lephalale and Thabazimbi Municipalities, logical access security settings, such as the rights to the local administrator account, were not properly managed and implemented as management did not assume accountability for the monitoring and implementation of the IT security policies and procedures. At the Tubatse Municipality, management made a decision not to implement the approved IT security policy because of inadequate infrastructure to support the automated controls.

Root causes

- IT vacancies and shortages of key IT security skills resulted in IT units not being properly capacitated, which led to IT obligations with regard to the design and implementation of IT policies and procedures not being fulfilled.
- Budget constraints at several municipalities contributed to key controls, such as policies, procedures and monitoring activities, not being designed and implemented.
- There was no information and communication technology steering committee/or equivalent forum to play an intermediary role in the development, approval and distribution of policies at the municipality.

Good practices

We did not identify weaknesses with regard to IT security management at the Lepelle-Nkumpi Municipality. This could be ascribed to proper security policies and procedures being designed and implemented and proper monitoring of compliance with the policy. Skilled IT staff had been employed and included an IT manager and two network technicians. Furthermore, internal assurance processes were in place to monitor and track compliance with internal policies and procedures.

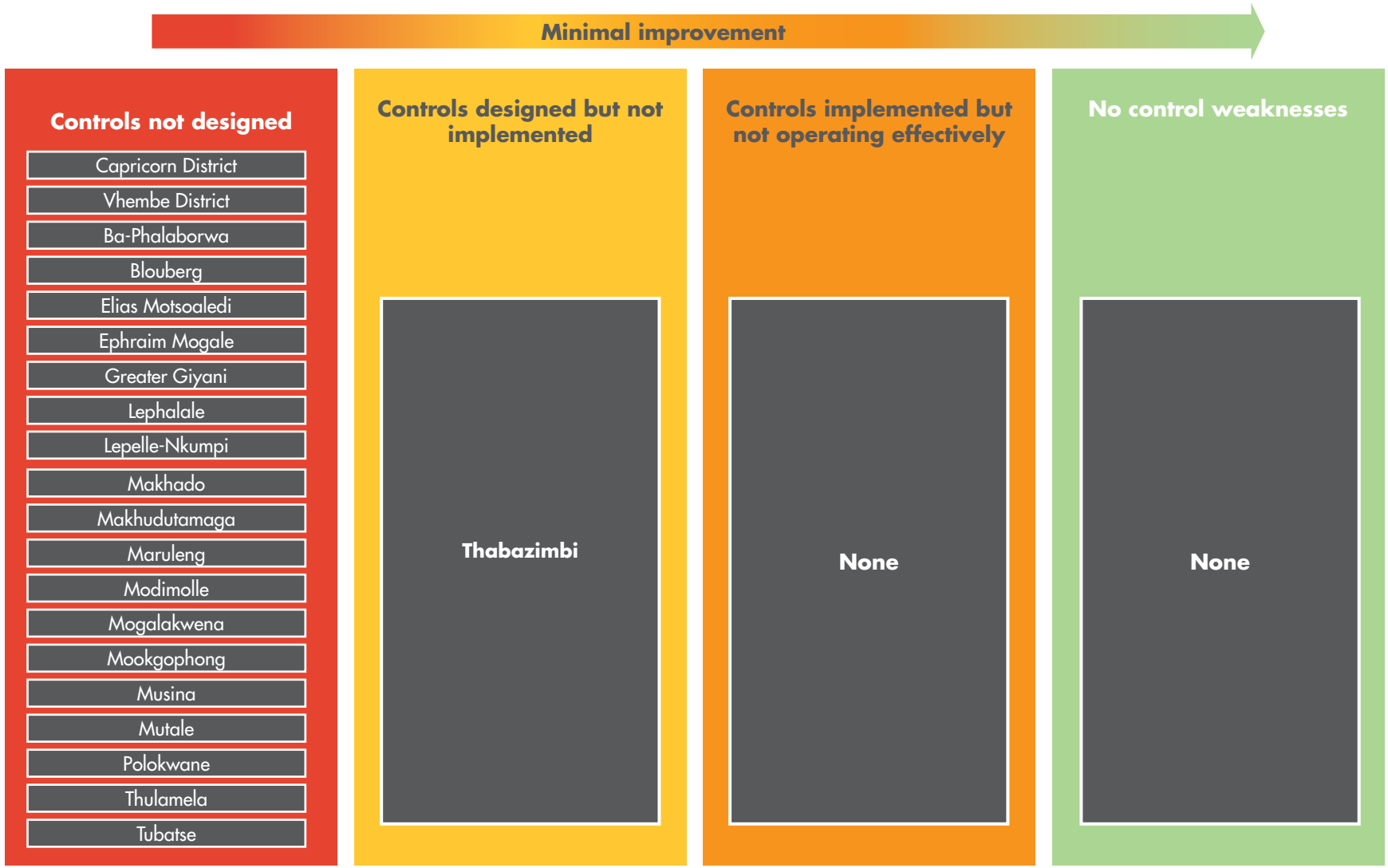
3.4.5 User access management

User access controls are measures designed by management to prevent and detect the risk of unauthorised access, creation or amendment of financial and performance information stored in the application system. The process includes the creation, review, disabling and removal of user accounts. This is normally the responsibility of the core and supporting business units.

We evaluated the controls at the municipalities in terms of their status in relation to the IT control life cycle, namely design, implementation and operating effectiveness. The outcomes are shown below:

Figure 24

User access audit outcomes



District and Local municipalities

Most municipalities either did not have user account management policies and procedures or the policies and procedures that were in place had not been adequately designed. The lack of adequate user account management policies resulted in the following key weaknesses:

- Users were created on systems without supporting documentation.
- Users' access rights were not monitored with reference to their job functions and system controllers' activities were not reviewed.
- An excessive number of users had system administrator privileges.

At the Thabazimbi Municipality user account management policies and procedures had been designed, but were not always adequately implemented. For example, users' access rights were not periodically reviewed. These weaknesses could be attributed to a lack of skills in the financial environment of the municipality.

The lack of proper user account management controls could compromise the confidentiality and integrity of the information systems.

Root causes

Lack of skilled IT resources to design and implement user access management controls, specifically regarding the monitoring and review of users' access rights and system controller activities.

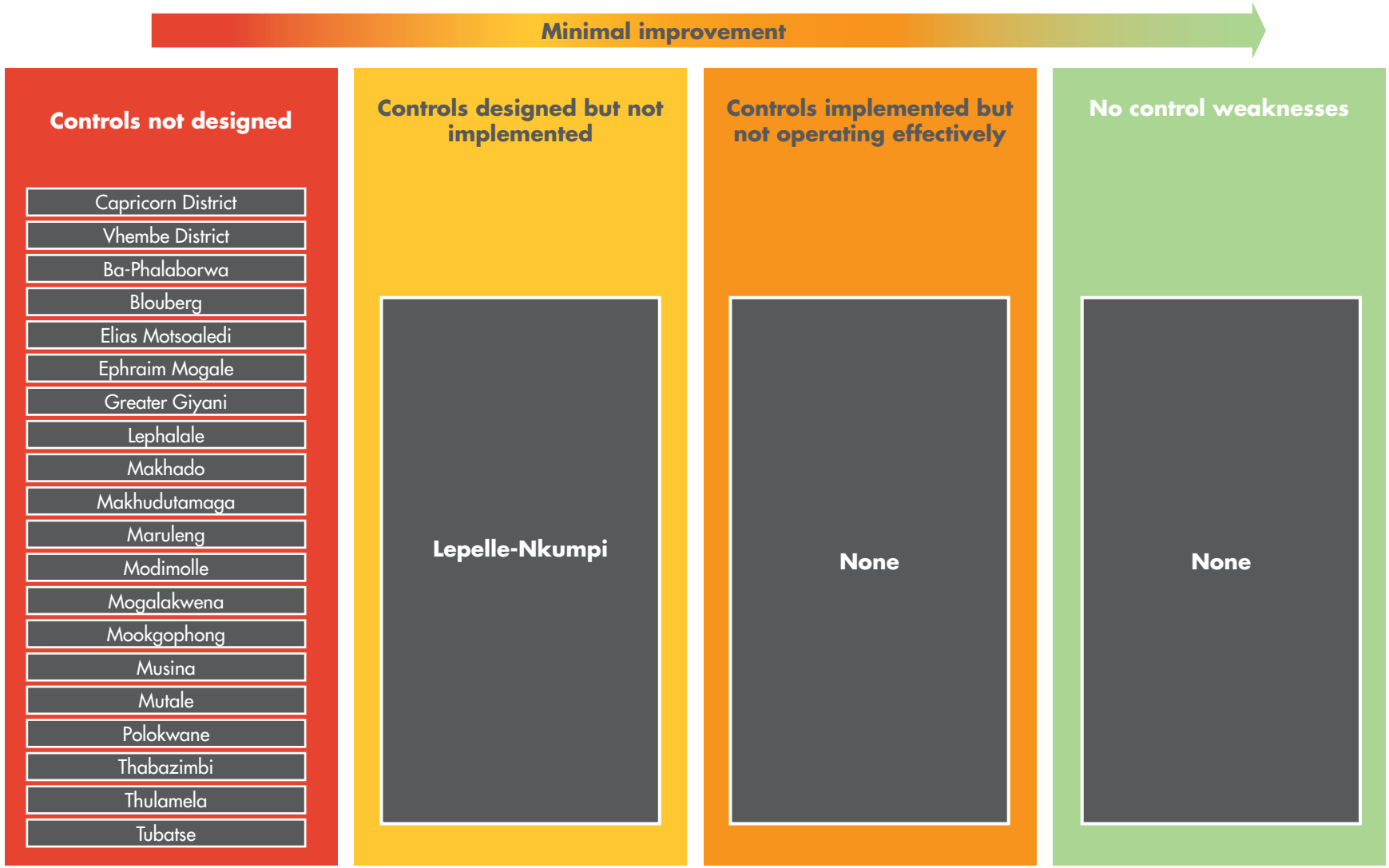
3.4.6 Information technology service continuity

IT service continuity controls are measures designed by management to ensure the availability of financial and performance information in the event of data loss or a disaster. This responsibility is normally shared between the IT department and the business.

We evaluated the controls at the municipalities in terms of their status in relation to the IT control life cycle, namely design, implementation and operating effectiveness. The outcomes are shown below:

Figure 25

Information technology service continuity



District and Local municipalities

With the exception of Lepelle-Nkumpi, none of the municipalities had designed business continuity plans to ensure that all critical business processes supported by IT systems would be identified and included in a disaster recovery plan (DRP) that could be invoked to recover IT systems to a normal operating state in the event of a disaster. The risk of data loss was further increased by the lack of formal backup procedures, the lack of monitoring and review of backups performed, backups not being tested periodically by means of restores and backups not being kept at secure off-site storage facilities. These weaknesses could result in key IT systems being unavailable for some time in the event of a disaster and could also result in data loss.

At Lepelle-Nkumpi, a DRP had been designed, but it had not yet been implemented and tested due to budget constraints.

Root causes

- Budgetary constraints impeded the development of DRPs and backup testing environments.
- There was a lack of appropriately skilled resources to design and implement DRPs.
- There was a lack of oversight and those charged with governance did not assume responsibility and accountability for the design and implementation of key controls, such as policies, procedures and monitoring activities.

3.4.7 Recommendations and quick wins

Figure 26

Quick wins (controls to be designed and implemented immediately)

Control design

- A gap analysis should be conducted and the implementation action plan developed by the DPSA should be adopted by COGHSTA for the roll-out of the approved IT governance framework, in consultation with the municipalities.
- The municipal councils should adopt and implement the policies and procedures rolled out by COGHSTA.
- IT policies and procedures should be approved by municipal councils.
- SLAs should be formalised.

Control implementation

- Audit committees should play a monitoring role in ensuring compliance with IT controls and that audit findings are addressed.
- Local and district municipalities should participate in up skilling initiatives and make use of the skills laboratory developed by the Limpopo Economic Development Agency (LEDA).
- Local and district municipalities should leverage from the guidelines and knowledge sharing forums provided by SALGA.
- Municipalities that are in close proximity to one another could share off-site backup storage facilities and act as alternative disaster recovery sites for each other.
- Municipal management should ensure that the performance of service providers is monitored to ensure adherence to SLAs.
- Municipalities with no control weaknesses should share their best practices with other municipalities.

Figure 27

Recommendations (controls to be designed, implemented and sustained over time)

Control design

- Skilled IT staff should be employed, IT vacancies should be filled and IT staff should be capacitated through training and knowledge sharing with other municipalities.
- Municipal managers should ensure that development plans are established for up skilling their IT staff.
- COGHSTA and SALGA should provide guidance and monitor the implementation of IT controls.

Control implementation

- The draft IT governance framework developed by SALGA should be finalised and implemented across all municipalities.
- Municipal councils should approve and monitor the implementation of IT policies and procedures.
- Executive management should ensure that service providers transfer skills to municipal officials to build capacity at municipalities.

Control sustainability

- The PGITO, through COGHSTA, should facilitate knowledge sharing regarding the importance of IT with municipal councils and municipal management.
- PGITO meetings should be extended to include municipalities to enhance the sharing of knowledge at IT management level.
- Internal audit at municipalities should extend their scope to include IT audits.
- Audit committees should play an oversight role to ensure that IT risks are appropriately managed.
- Lepelle-Nkumpi, in consultation with the district municipalities and COGHSTA, should share their good practices with other municipalities.
- LEDA, in consultation with COGHSTA and the vendors (Microsoft), should build skills in municipalities.
- COGHSTA should be capacitated to support the municipalities.

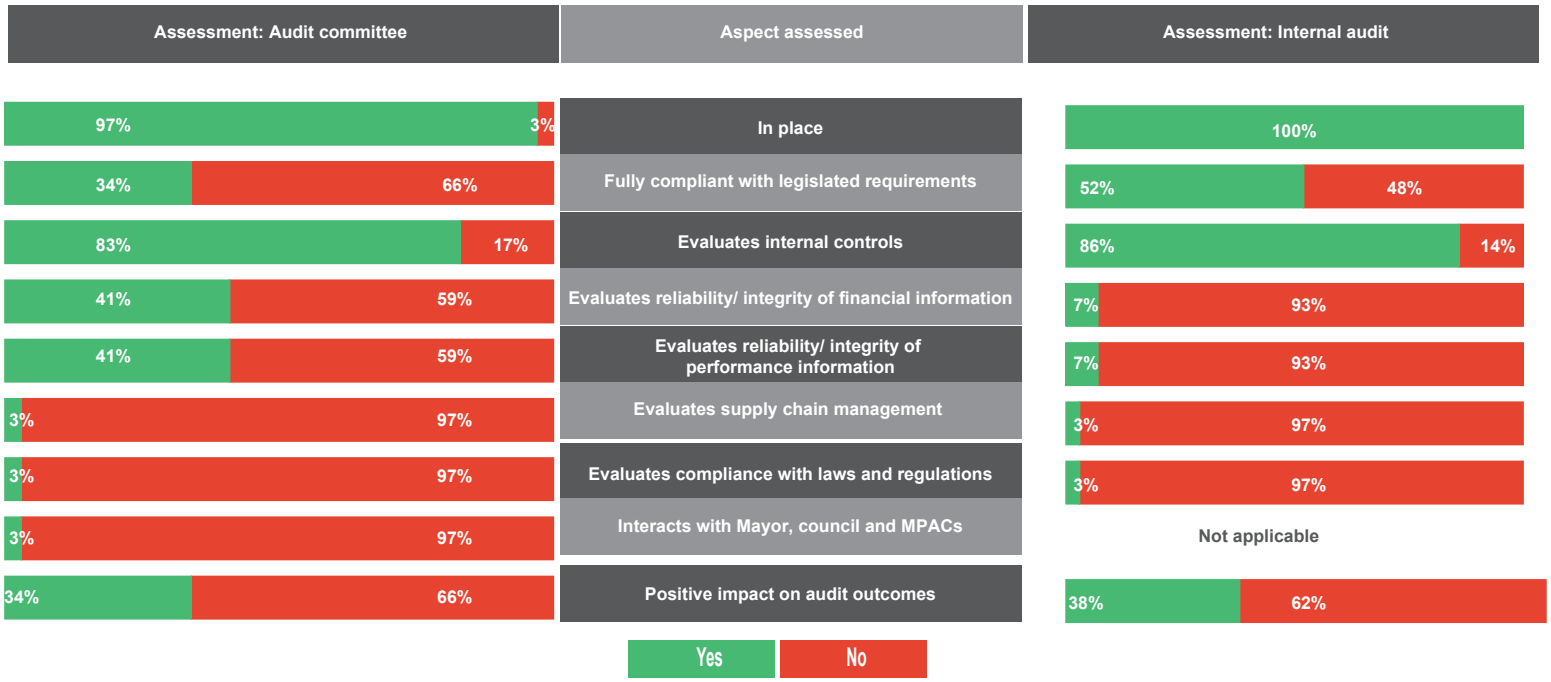
3.5 AUDIT COMMITTEES AND INTERNAL AUDIT UNITS

Effective governance is a key driver of internal control, which impacts on audit outcomes. Risk management and effective audit committees and internal audit functions are key elements of this driver of internal control. In terms of the MFMA, an audit committee and internal audit unit must be established by all auditees. Audit committees serve as independent governance structures whose function is to play an oversight role regarding the systems of internal control, compliance with legislation, risk management and all other matters of governance. In executing its duties, the audit committee assists the accounting officer in the effective execution of his/her responsibilities, with the ultimate aim of ensuring that the organisation achieves its objectives. Internal audit units form an integral part in providing assurance on governance, risk management and internal control.

The figure below shows the results of an assessment of the effectiveness of audit committees and internal audit units.

Figure 28

Assessed effectiveness of audit committees and internal audit units



A functional internal audit unit, systems of internal control and effective operation of an audit committee are crucial components for sound corporate governance at municipalities. The MFMA requires that these financial governance components exist within all municipalities and municipal entities. It is encouraging to note that all municipalities and municipal entities had audit committees and internal audit units in place during the 2011-12 financial year.

The audit committee, as part of the governance structure of the municipality, must be in a position to determine the nature and extent of a formal review of the design and implementation and effectiveness of internal controls that should be carried out by the internal audit unit. At the time of this audit, this was not possible at most municipalities due to capacity constraints at the internal audit units. The audit committee was also restricted in carrying out its oversight responsibility as an independent advisory body to the council due to it not being taken seriously by the leadership, recommendations provided were not addressed timeously, poorly capacitated internal audit units and the poor quality of information submitted. The inability to function at the required level, together with the inadequate assurance provided by senior management and the accounting officers, places undue pressure on the AGSA teams and consequently on the audit fees.

The overall regression in audit outcomes and repeat qualification audit findings highlighted serious deficiencies in governance arrangements. This indicated that there was a need to improve the internal audit function and audit committees as this would contribute to changes in financial management at the majority of municipalities.

It is expected that council oversight structures in general would derive immediate benefits through a closer interaction between the council and senior management, the internal audit unit and audit committee.The lack of interaction amongst these parties is a serious concern.

The audit of performance information was an area that was not prioritised and did not form part of the internal audit plans at a number of municipalities due to a lack of understanding of performance information and capacity constraints at the internal audit units. The AGSA was invited to the municipal internal auditor's forum during 2011-12 where discussions included the role of the internal auditors in the audit of performance information and the need to implement performance information procedures in their internal audit plans. National Treasury Circular No. 62 on SCM states that "the accounting officer may, at his or her discretion, specifically request the internal audit function to carry out audit procedures and provide an opinion on compliance of the bidding process with the Municipal Supply Chain Management" for bids in excess of R10 million. Due to capacity constraints at the internal audit units, all bids in excess of this threshold were not subject to a pre-audit or evalution prior to awarding the tender, which has also contributed to the increase in irregular expenditure in the year under review.

In order for the audit committees to be able to function effectively, it is critical that they are given access to the right information in a timely manner.

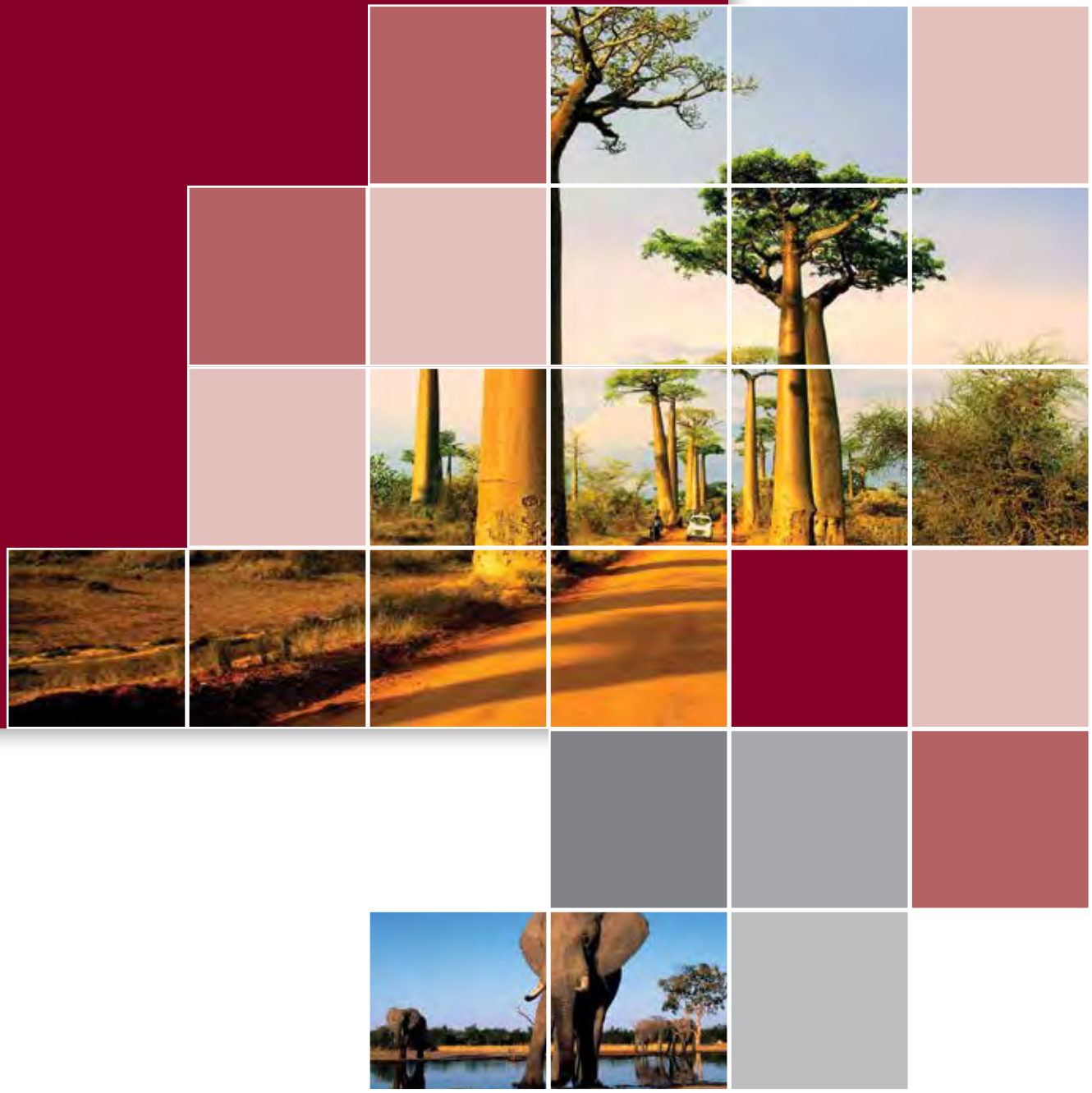
The leadership should ensure that the audit committees are afforded sufficient time, as well as financial and other resources to effectively fuflil their responsibilities. In the majority of cases the financial statements and performance information reports were not submitted to the audit committee timeously for review prior to submission for audit purposes, which restricts the audit committee from conducting a proper review and providing necessary recommendations. In most cases, the audit committees were thus rendered ineffective by the municipalities and not due to their own actions.

Effectiveness of audit committees is largely dependent on the support and respect received from the leadership of the province. An effective audit committee will, in turn, assist the province by ensuring, through appropriate interactions, that it is able to produce credible reports on performance information and financial management which will enhance oversight and transparency.

Certain municipalities also undermine the importance of the audit committees and internal audit units and exist mainly for compliance with legislation and the potential value they have in ensuring sound governance is not fully realised. Internal audit findings and recommendations by the audit committees are not responded to timeously or recommendations are rarely implemented. It is the implementation of recommendations rather than the recommendation as such that drives improved systems of internal control, monitoring and supervision and, ultimately, improved outcomes.

We strongly recommend the participation of the internal audit unit and the audit committee at MPAC hearings as well as audit steering committee meetings.

At the Waterberg District municipality, audit committee members and the internal auditors participated at the audit steering committee meetings. This hands-on approach, with a commitment to understand and resolve external audit findings and to have a good understanding of the control environment, is essential if clean adminstration is to become a reality.



SECTION 4

INITIATIVES AND IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

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SECTION 4 Initiatives and impact of key role players on audit outcomes

This section provides an overview of the impact of the key role players in local government. Section 4.1 details an assessment on these assurance providers. Section 4.2 provides the levels of oversight by municipal public accounts committees, while section 4.3 provides the interaction with mayors. Section 4.4 discusses the commitments made by key role players, the status thereof and the impact on audit outcomes, while section 4.5 outlines the AGSA's ongoing initiatives to encourage clean administration.

4.1 ASSURANCE PROVIDERS IN LOCAL GOVERNMENT

The accountability of local government for their actions, performance, financial management and compliance with legislation serves as a cornerstone of democratic governance in South Africa. The annual reports serve as a mechanism whereby the mayors and their municipal managers report on the financial position of the auditee, its performance against PDOs and overall governance. One of the most important oversight functions of the councils is the consideration of auditees' annual reports. For the council to perform its oversight function, assurance is needed that the information in the annual report is credible. To this end, the annual report also includes the audit report of the AGSA, which provides assurance on the credibility of the financial statements and annual performance report and the auditees' compliance with laws and regulations.

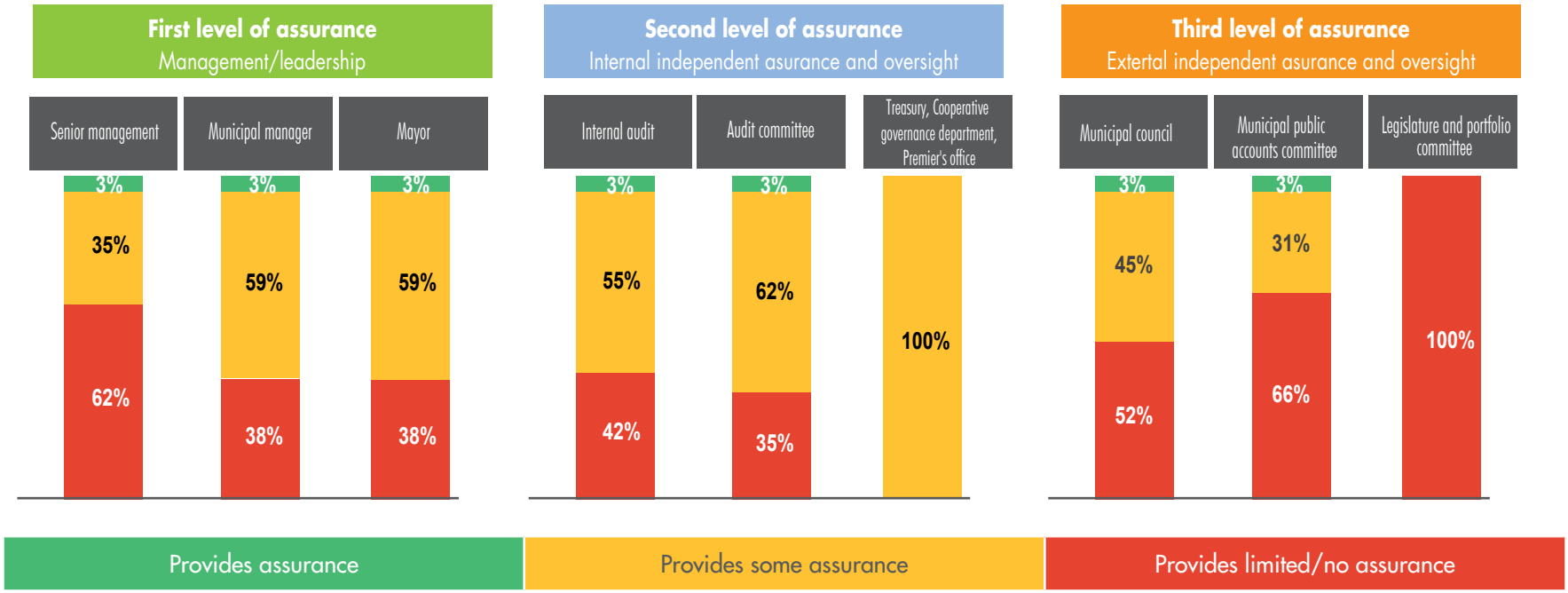
In addition to the AGSA, there are other role players in local government that contribute to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented at auditees.

The role players recorded below are (1) those directly involved with the management of the auditee (management/leadership assurance); (2) those that perform an oversight/governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) the independent assurance providers that provide an objective assessment of the auditee's reporting (external independent assurance and oversight).

We assessed the level of assurance provided by the role players based on the status of internal controls of auditees and the impact of the different role players on the controls. In the current environment, characterised by inadequate internal controls, material misstatements in financial and performance information and pervasive non-compliance with legislation, all role players are expected to provide an extensive level of assurance. The outcome of the assessment of the province is shown below.

Figure 29

Level of assurance provided by role players that form part of the auditee



The table below reflects the assessment per auditee and provincial role players.

Table 21

Level of assurance provided by role players that form part of the auditee (auditee level)

Auditee	Senior management	Accounting officer/ authority	Mayor	Audit committee	Internal audit	Municipal council	MPAC
Capricorn District							
Greater Sekhukhune District							
Mopani District							
Vhembe District							
Waterberg District							
Aganang							
Ba-Phalaborwa							
Bela-Bela							
Blouberg							
Elias Motsoaledi							
Ephriam Mogale							
Fetakgomo							
Greater Giyani							
Greater Letaba							
Greater Tzaneen							
Lepelle-Nkumpi							
Lephalale							
Makhado							
Makhudutamaga							
Maruleng							

Auditee	Senior management	Accounting officer/ authority	Mayor	Audit committee	Internal audit	Municipal council	MPAC
Modimolle							
Moglakwena							
Mookgophong							
Musina							
Mutale							
Polokwane							
Thabazimbi							
Thulamela							
Tubatse							

Provides assurance	Provides some assurance	Provides limited/no assurance	Not established

Table 22

Comments on the level of assurance provided by role players

Role player	Comment
Senior management	We noted with concern that at 18 auditees (62%), senior management provided limited or no assurance over the quality of financial and performance information. This is evidenced by the poor quality of financial statements and performance information that are submitted for auditing on an annual basis. Vacancies at senior management level, as well as the lack of skills, contribute significantly to the low level of assurance that is currrently being provided and as a result consultants have to be appointed to supplement this deficiency. There is a huge risk that decisions taken by the leadership could be based on information that is fundamentally flawed.
Accounting officer/authority	Accounting officers and authorities are assessed only marginally higher than senior management by their impact on creating an effective control environment, which is not evident at a significant number of auditees. In general, there was a regression in the status of the drivers of internal control for which accounting officers and authorities are responsible, as their leadership, planning, risk management, oversight and monitoring did not result in sustainable practices which translate into improved audit outcomes. The skills and capacity constraints at senior management level, as discussed above, also prevented accounting officers and authorities from providing the required level of assurance.

Role player	Comment
Mayor	At 11 auditees (38%), the mayors provided limited or no assurance on the financial and performance information and compliance with legislation. This is also linked to one of the root causes of the regression in audit outcomes where the leadership is slow in responding to AGSA messages and not taking ownership of key controls. Mayors should start to show a keen interest and play their part in getting involved in key operations of their municipalities to improve on the level of assurance that they currently provide.
Internal audit unit	The level of assurance provided by internal auditors is guaged by the commitment that the first level assurance provides in resolving internal audit findings in a timely manner. If internal audit findings are ignored or not taken seriously, the control environment is compromised, which ultimately reduces the level of assurance that can be placed on financial information and the control environment. The internal audit units at a number of auditees were also inadequately capacitated, which significantly impaired the level of assurance that they should provide.
Audit committee	For the audit committee to provide the required level of assurance as second level assurance providers, it is highly dependent on the level of assurance provided by senior management, the municipal manager and mayor. The lower the assurance level provided by these role players the more challenging it would be for the audit committee to make an accurate assessment of the control environment of the municipalitity, including obtaining the necessary assurance that all significant risks have been mitigated. A properly capacitated and functional internal audit unit is critical to enable the audit committee to provide the required level of assurance and to effectively discharge its governance responsibilities.
Municipal council	Municipal councils were unable to provide the level of assurance that was required of them primarily due to the lack of basic financial knowledge that is critical in order for councillors to fulfil their oversight responsibilities. The level of assurance that the municipal council provides is also dependent on the quality of officials at senior management level. Skills and competencies have a direct impact on service delivery and it is the councillor who has to ultimately account to the community for service delivery issues. The poor quality of the service delivery reports that were presented for audit purposes also raises concern over the assurance that the municipal councils are able provide on non-financial performance results. At 93% of municiplaities, there were issues over the usefuleness and/or reliability of their performance information reports. As highlighted in the sections above, the financial statements of 93% of municipalities that were submitted for audit purposes were also subject to material corrections during the audit process. The speaker must play a more active role in ensuring that information presented to the council is credible and can be relied on to make informed decisions. Before decisions are made or considered by the councils, it is critical that they obtain a high level of assurance regarding the credibility of information submitted.
MPAC	As discussed in section 4.2 below, MPACs in the province only became operational in 2011-12 and at the time of the audit they were not operating at a level where they could provide the level of assurance required of them. Continuous support from the legislature, CoGHSTA and the treasury is critical to ensure that MPACs are effective in their oversight roles so that they are able to provide the desired level of assurance.

Table 23

Level of assurance provided by role players that form part of the auditee (coordinating/monitoring institutions' level)

Auditee	Coordinating/ monitoring institutions and provincial oversight	Comment
Provincial treasury and CoGHSTA		Although both these departments provide some level of assurance, capacity constraints are preventing them from providing the required level of assurance to municipalities. As discussed in the previous year's general report, the quarterly key control assessment that had been handed over to the provincial treasury to conduct in 2010-11 was handed back to the AGSA susbequent to year-end due to capacity constraints and vacancies. In order to provide the level of support and assurance at local government, it is crticial that officals from these departments are continuously kept up to date with technical developments (accounting standards, laws and regulations, etc.) affecting municipalities. Officals from both these departments, who have been tasked with providing assistance to municipalities, unfortunately lacked the willingness to stay abreast of changes in the local government environment. In order to address this challenge, the treasury was in the process of implementing a continuous professional development (CPD) programme whereby officials would be required to meet a minimum number of CPD hours each year. Vacancies and the level of competencies at the municipalities were also a challenge that the provincial treasury faced in providing the required level of assurance. The assurance that the two departments can provide is rendered ineffective if officials of municipalities are unwilling to cooperate, e.g. section 71 reports are reviewed by the provincial treasury, however, the recommendations provided are disregarded by the municipalities and presented to the councils that make decisions based on these reports.
Office of the Premier		As an oversight institution, the the Office of the Premier currenty provides very limited assuarance. The Office of the Premier, in collaboration with the treaury and CoGHSTA, must play a role in the implementation and monitoring of key controls in order to ensure that all information produced for oversight and decision-making is accurate and reliable, thereby enhancing the credibility of financial and non-financial information and accountability.

Auditee	Coordinating/ monitoring institutions and provincial oversight	Comment
Portfolio committee on local government		The portfolio committee on local government must intensify its efforts in ensuring that commitments given by CoGHSTA to address audit outcomes are being honoured. On a quarterly basis we conduct key control assessments at each municipality. We share the overall status of the key control assessments for each municipality with the portfolio committee to enable them to understand the progress made by the municipalities in addressing significant internal control deficiencies. This also enables the porfolio committee to hold CoGHSTA accountable in terms of the level of support they are providing and commitments given in addressing the internal control environment of municipalities. Internal controls that are properly designed and implemented as intended will assist in ensuring compliance with laws and regulations and the production of credible performance reports and financial statements ensuring that decisions are based on information that is accurate and reliable.
Provincial legislature		The provincial legislature provided some assurance in terms of the support they provided to MPACs. Members of oversight committees need to be continually empowered with the necessary skills, knowledge and information needed to execute the oversight function effectively so as to enhance good governance and ultimately the performance of the municipality

Provides assurance	Provides some assurance	Provides limited/no assurance

At an overall level, all role players will have to make significant strides if the required level of assurance is to be provided for credible decision-making.

The poor and regressing status of the drivers of internal control, as reported in section 3.2, is a reflection of the inadequate assurance provided by those role players that have a direct impact on auditees. Internal controls that are properly designed and implemented as intended will assist in ensuring compliance with laws and regulations and the production of credible performance reports and financial statements ensuring that decisions are based on information that is accurate and reliable. Senior management, which includes the CFO, chief information officer and head of SCM, is responsible for implementing the detailed financial and performance management controls. The assessment demonstrates that they failed to do so adequately. As discussed above, this unsatisfactory level of assurance may also be a symptom of the vacancies, level of competencies and inadequate performance management at this level.

The assurance given by the portfolio committee and coordinating role players is impacted by the quality and credibility of information supplied to them. Currently, the quality of information is not at the required level, which impacts on the effectiveness of these monitoring and oversight bodies. It is thus imperative that all role players take ownership of the implementation and monitoring of key controls in order to ensure that all information produced for oversight and decision-making is accurate and reliable, thereby enhancing credibility and accountability.

Subsequent to year-end, the minister of CoGTA made a commitment to Parliament that those municipalities that received a disclaimed audit opinion up to more than four times in succession would be visited to assess the magnitude of the challenges they face. The assessment would provide the

national Department of CoGTA with a view of what specific support these municipalities would require. The department would also focus on the following areas:

- Looking at the functionality of oversight committees of these municipalities (MPACs, audit committees, internal audit units, etc.)
- Looking at the credibility of post-audit action plans
- Assessing the leadership (both administrative and political) of each of these municipalities to determine whether they are executing their responsibilities or not
- Assessing the suitability and qualifications of the financial staff, including staff deployed through the municipal finance improvement programme

4.2 OVERSIGHT BY MUNICIPAL PUBLIC ACCOUNTS COMMITTEES

The establishment and functioning of an MPAC at municipalities were introduced in the province in 2011. When operating as intended, the MPAC will be one of the most critical role players in municipal oversight and governance and should have a positive impact on audit outcomes. In short, the primary functions of the MPAC include the following:

- To consider and evaluate the content of the annual report and to make recommendations to the council when adopting an oversight report on the annual report.
- To review information relating to past recommendations made in the annual report. This relates to current in-year reports, including the quarterly, mid-year and annual reports.
- To examine the financial statements and audit reports of the municipality and municipal entities and consider improvements against previous statements and reports.
- To evaluate the extent to which the audit committee and the AGSA's recommendations have been implemented.
- To promote good governance, transparency and accountability in the use of municipal resources.

By the 2012 financial year-end, MPACs were implemented by all municipalities and hearings were held at 23 municipalities with regard to the 2010-11 annual reports.

As shown in section 4.1, the MPACs were not yet providing the level of assurance required to contribute to the credibility and reliability of financial and performance report, compliance with legislation and effective internal control.

The root causes of the ineffective functioning of MPAC are as follows:

MPACs in the province only became operational during the 2011-12 financial year. They have conducted oversight for the first time in Limpopo with regard to the annual reports of 2010-11. At the time of the audit, most councillors were ill-equipped and ill-prepared to deal with this responsibility effectively and to hold officials accountable for poor outcomes and consequently, councillors who were members of MPACs were therefore not adequately empowered with the skills necessary to conduct effective oversight. In such circumstances, the critical role that MPACs played in the accountability cycle was ineffective and to a large extent undermined. Poor working relationships between the MPACs, municipal manager, mayor and speaker was also evident across a number of municipalities, which further undermines the MPAC's oversight role.

The recommended way forward to strengthen the operation and functioning of MPAC is as follows:

- Efforts to capacitate the MPACs must be intensified by the key role players (CoGHSTA, provincial treasury, legislature and SALGA).
- The legislature must regularly attend MPAC hearings to determine areas for improvement during the interrogation process.

- MPAC members should be selected with due care and should represent a wide range of experience and expertise available in the council.
- The MPAC must develop its work programme annually and link such programmes to the overall planning cycle of the council and conclude with the evaluation of the annual report and the recommendations to the council when adopting the oversight report on the annual report of the municipality or municipal entity.
- Audit committees to brief MPACs on key control challenges at the municipality.
- Gaps in the current MPAC guidelines on roles and responsibilities should be addressed.

4.3 INTERACTIONS WITH MAYORS

In response to the 2010-11 audit outcomes, mayors committed an hour of their time every 90 days to meet with senior members of the AGSA. At these interactions the status of the key controls of auditees and commitments are discussed and identified risks shared. Where necessary, challenges experienced by the audit team during the audit process are also brought to the attention of the mayor for intervention.

The table below shows the number of interactions with the mayors and the assessed impact of the interactions.

Table 24

Interactions with mayors

Auditee	Total number of interactions	Evaluation of impact
Capricorn District	2	
Greater Sekhukhune District	4	
Mopani District	3	
Vhembe District	1	
Waterberg District	2	
Aganang	3	
Ba-Phalaborwa	2	
Bela-Bela	3	
Blouberg	3	
Elias Motsoaledi	4	
Ephriam Mogale	3	
Fetakgomo	1	
Greater Giyani	3	

Auditee	Total number of interactions	Evaluation of impact
Greater Letaba	2	
Greater Tzaneen	2	
Lepelle-Nkumpi	2	
Lephalale	2	
Makhado	2	
Makhudutamaga	1	
Maruleng	2	
Modimolle	1	
Moglakwena	2	
Mookgophong	2	
Musina	2	
Mutale	2	
Polokwane	2	
Thabazimbi	2	
Thulamela	3	
Tubatse	2	

Significant impact – improvement in audit outcome
Significant impact – sustained clean audit
Some impact – improvement in key controls
Minimal impact – improvement expected only in next financial year
No impact

Although the engagements were well received, it is evident from the above analysis that these engagements had limited impact on the audit outcomes of most of the auditees as mayors failed to exercise the level of oversight that was committed to in response to the previous year's audit outcomes. In most instances we identified that commitments given to address internal control deficiencies and audit findings were either not honoured at all or were not honoured within the committed time frames.

During the 2010-11 financial year we conducted councillor induction sessions across all municipalities in the province. At these sessions we clearly outlined the respective roles and responsibilities of the councillors, mayors, municipal managers and CFOs. We also cleared any remaining uncertainty regarding the role that mayors have to fulfil to ensure that the municipalities move towards improved audit outcomes. It is critical that mayors lead the movement towards the clean administration of their municipalities.

4.4 INITIATIVES AND COMMITMENTS OF KEY ROLE PLAYERS TO IMPROVE AUDIT OUTCOMES

The table that follows outlines the key initiatives of the provincial leadership and oversight to improve audit outcomes as well as further commitments made to the AGSA for actions to be taken. The commitments include those made in response to the previous year's audit outcomes and new commitments obtained through in-year interactions and engagements with them between January 2013 and the date of this report. An assessment of the impact of the initiatives and commitments is also provided.

Table 25

Commitments and initiatives of key role players in response to audit outcomes

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative / commitment	Progress made with implementing commitments	Impact of initiatives and commitments on audit outcomes
Office of the Premier	**Prior year commitments/initiatives**			
	Put measures in place to adhere to SCM regulations.	SCM	Not implemented	Not yet able to assess
	Carry out skills audit with regard to incumbents of key positions by 31 March 2013.	HR	Not implemented	Not yet able to assess
	New commitments/initiatives			
	Appoint a task team to address compliance issues reported in the AGSA's audit reports.	SCM	New	Not yet able to assess

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative / commitment	Progress made with implementing commitments	Impact of initiatives and commitments on audit outcomes
MEC finance/ provincial treasury	**Prior year commitments/initiatives**			
	CoGHSTA and provincial treasury must play a greater role in supporting local government in areas of financial management, compliance and performance reporting.	Quality of AFS, PDOs, SCM,	In progress	Not yet able to assess
	Share best practices of municipalities.	PDOs	In progress	Limited impact
	Monitor the provincial clean audit strategy against milestones.	Quality of AFS, IT, PDOs, SCM, HR	In progress	No impact
	New commitments/initiatives			
	Fight corruption, maladministration and incompetence in the public service.	SCM	New	Not yet able to assess
MEC for CoGHSTA	**Prior year commitments/initiatives**			
	Continuously monitor the performance of councillors.	Quality of AFS, HR	In progress	Not yet able to assess
	Hold mayors responsible for audit outcomes and become more visible in the audit process.	Quality of AFS, PDOs, SCM	In progress	No impact
	Municipalities that have continued disclaimers should indicate the action that would be taken to address these findings.	Quality of AFS, PDOs	Not implemented	Not yet able to assess
	Take action against councillors who fail to perform their statutory duties.	Quality of AFS, PDOs, SCM	In progress	Not yet able to assess
	Press the need for a standard IT system for local government at all appropriate forums.	IT	Not implemented	Not yet able to assess
	Improve the availability of quality supporting documentation to support financial statements and management information.	Quality of AFS	In progress	No impact
	Strengthen governance structures (audit committees, internal audit units and risk committees).	Quality of AFS, PDOs, SCM	In progress	No impact

Key role players	Outline of initiatives and commitments made	Focus area targeted by initiative / commitment	Progress made with implementing commitments	Impact of initiatives and commitments on audit outcomes
	Strengthen capacity-building initiatives.	HR	In progress	Not yet able to assess
	Strengthen capacity to implement operation clean audit strategy at all levels of leadership.	Quality of AFS, PDOs, SCM, IT, HR	In progress	No impact
	Host monthly operation clean audit committee meetings.	Quality of AFS, PDOs, SCM, IT, HR	In progress	No impact
	New commitments/initiatives			
	Deploy resident accountants to struggling municipalities to assist in improving their financial management practices and to enhance skills at the finance units.	HR, quality of AFS	New	Not yet able to assess
	Hold councillors accountable, in compliance with the Municipal Systems Act, for the appointment of section 57 managers who do not have the necessary skills and competencies.	HR	New	Not yet able to assess
	Launch a strategy, in consultation with SALGA, to re-establish effective performance management processes at municipalities.	HR	New	Not yet able to assess
SALGA	**Prior year commitments/initiatives**			
	Provide support to municipalities in strengthening financial management practices.	HR, quality of AFS	In progress	No impact
	New commitments/initiatives			
	Increase visibility at municipalities to interact with officials and identify challenges that require attention.	HR, quality of AFS, SCM	New	Not yet able to assess
	Arrange GRAP training for CFOs and municipal officials at the finance unit. SALGA have these GRAP training sessions on a quarterly basis.	HR, quality of AFS	New	Not yet able to assess

Subsequent to year-end, the minister of CoGTA made a commitment to Parliament that those municipalities that received a disclaimed audit opinion up to more than four times in succession would be visited to assess the magnitude of the challenges they face. The assessment would provide the

national Department of CoGTA with a view of what specific support these municipalities would require. The department would also focus on the following areas:

- Consider the functionality of oversight committees of these municipalities (MPACs, audit committees, internal audit units, etc.)
- Consider the credibility of post-audit action plans
- Assess the leadership (both administrative and political) of each of these municipalities to determine whether they are executing their responsibilities or not
- Assess the suitability and qualifications of the financial staff, including staff deployed through the municipal finance improvement programme

In view of these commitments, four municipalities in the province that have obtained disclaimed audit opinions for more than four years will stand to benefit from this initiative.

4.5 AUDITOR-GENERAL OF SOUTH AFRICA'S INITIATIVES TO ENCOURAGE CLEAN AUDITS

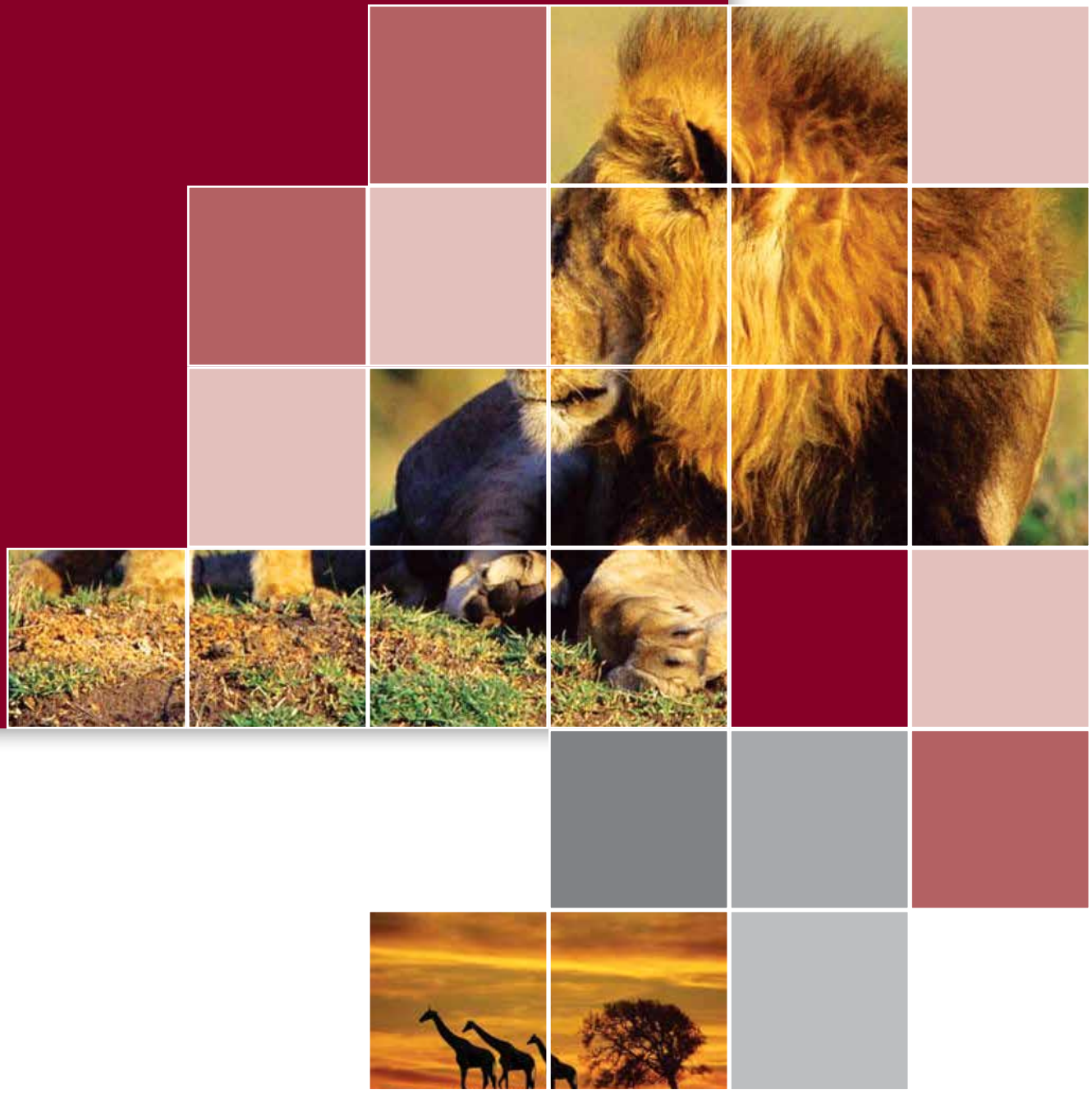
Over the past two years, we embarked on many initiatives to enhance accountability and to influence the process towards improving audit outcomes and achieving clean administration. The main initiative was to further strengthen our relationship with the political and administrative leadership to deepen their understanding of accountability, audit and governance mechanisms, thereby paving the way towards improving public confidence. This initiative included the increased visibility of the AGSA's senior leadership and continuous interactions to highlight possible challenges, audit findings and transversal risks.

Summarised below are some of the key initiatives the AGSA has undertaken to promote public sector accountability and to encourage the process of improving audit outcomes and attaining clean audits.

Table 26

Auditor-General of South Africa's key initiatives

Nature	Outline of AGSA initiatives
Interactions with political and administrative leadership	We conducted extensive engagements with the political and administrative leadership during the course of the audit. We conducted debriefing sessions and made presentations on the audit outcomes, including root causes of poor audit outcomes. These sessions were held with the political and administrative leadership. We continued with the audit report briefing programme for councillors during which the audit reports are discussed and simplified. At this programme we explain the context as well as the consequences of the findings reported on and the specific role of the council on the way forward. During the year we held several meetings with the provincial accountant-general and other officials from CoGHSTA and the provincial treasury. At these meetings we shared audit-related issues, audit outcomes, root causes and recommendations. These meetings also aim to achieve the fostering of a better working relationship between the AGSA and the provincial treasury. We were also represented at various forums arranged by SALGA to discuss audit outcomes and challenges that municipalities are facing in implementing sound financial management practices.
Quarterly interactions on the status of key controls	During the 2011-12 financial year, the provincial treasury conducted the key control assessments. We were involved in discussions with the political and administrative leadership on the results of key control assessments. These debriefing sessions included recommendations by the AGSA on the way forward, including obtaining commitments from the leadership to improve the status of its internal control environment.
Involvement at forums and meetings related to local government financial affairs	We were represented at CFO forums and at operation clean audit committee meetings hosted by CoGHSTA and/or the provincial treasury. At these interactions technical-related issues were discussed and clarified, including drawing awareness to the AGSA's audit focus areas.
Training to MPACs in the province	The AGSA, in conjunction with CoGHSTA, legislature and provincial treasury, conducted training sessions for all MPACs in the province. These training sessions focused on issues relating to the audit process and what specifically the MPACs need to focus on in effectively exercising their oversight roles and responsibilities in holding officials accountable. We were also represented at the provincial MPAC forums that were held on a quarterly basis.
Municipal internal auditor's forum	The AGSA made a presentation at the municipal internal auditor's forum that was attended by internal auditors from all municipalities in the province. The focus was on roles and responsibilities of the internal audit unit, fostering improved working relationships with the AGSA, current gaps in the internal audit process which limit the amount of reliance that the AGSA can place on their work for external audit purposes and the role of the internal audit unit around performance information.



SECTION 5

FINANCIAL HEALTH OF LOCAL GOVERNMENT

5.1 GOING CONCERN 130

5.2 FINANCIAL HEALTH INDICATORS 130

SECTION 5 Financial health of local government

This section provides the reported outcome of the assessments of the ability of municipalities to remain as going concerns (section 5.1) and of the financial health indicators for municipalities (section 5.2).

5.1 GOING CONCERN

Under the going concern assumption, an auditee is viewed as continuing to operate for the foreseeable future. As the going concern assumption is a fundamental principle in the preparation of the financial statements, management is required to assess the ability of the municipality or municipal entity to continue as a going concern and make relevant disclosures in the financial statements. As part of the audit process, we also assess whether there are any events or conditions that may cast significant doubt on the auditee's ability to continue as a going concern.

The financial statements of one (3%) of the auditees disclosed that a material uncertainty existed with regard to their ability to continue as a going concern. We also emphasised the disclosure in the audit report. The table below provides detail on the auditees and the events and conditions that resulted in the disclosure.

Table 27

Events and conditions of material uncertainty

Auditee	Events and conditions
Bela-Bela	The minister of Finance decided to halt the transfer of the equitable share and all conditional grants due to the municipality. These events indicated a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern.

5.2 FINANCIAL HEALTH INDICATORS

Management is responsible for the sound and sustainable management of the affairs of the municipality to which they are appointed and for implementing an efficient, effective and transparent financial management system for this purpose, as regulated by legislation. The annual AGSA audits now include a high-level analysis of municipalities' financial management indicators in order to provide management with an overview of selected aspects of their current financial management and enable timely remedial action where the municipality's operations and service delivery may be at risk.

The analysis is presented under the following headings:

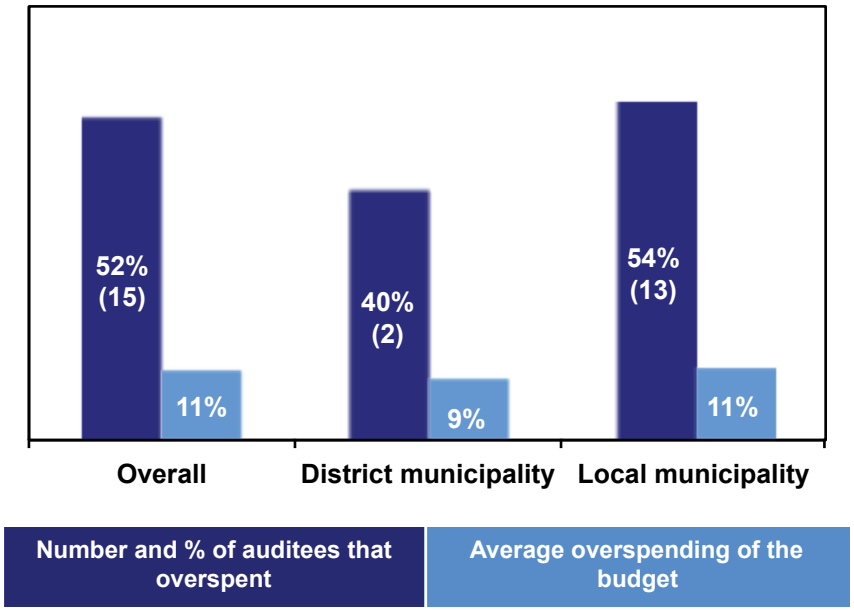
- Budget and grant management (section 5.2.1)
- Debtor management (section 5.2.2)
- Creditor management (section 5.2.3)

- Financial performance and position and cash management (section 5.2.4)
- Assessment against financial management areas (section 5.2.5)

5.2.1 Budget and grant management

Figure 30

Overspending of the operational budget



The figure above presents the overspending of final operational budgets per category of municipality, reflecting both the percentage of entities that overspent and the average percentage overspending by the province. The analysis is based on municipalities' final operational budgets, after adjusting the original budgets.

Overall, 15 (52%) municipalities overspent on their operational budgets by an average of 11%, while two district municipalities (40%) overspent their operational budgets and the average overspending was nominal 9%. A total of 13 local municipalities (54%) overspent their operational budgets by 11%.

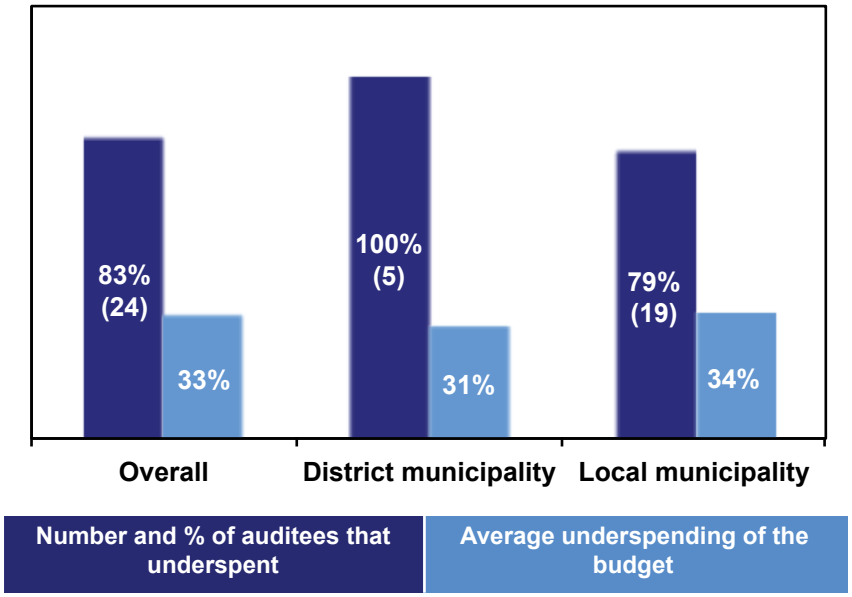
Municipalities that have difficulty compiling credible operational budgets or that are unable to manage their operational expenditure according to their budgets are at financial risk. Where either of these failures occurs within the context of limited cash resources, and poor revenue collection rates, the financial risk is magnified.

The overspending by local municipalities is of extreme concern. In total, eight of the above 13 local municipalities or 62% of all local municipalities overspent their operational budgets by more than 10%. This indicates that the quality of budgeting by local municipalities was extremely poor, with revenue and expenditure projections lacking credibility and local municipalities not demonstrating the ability to adjust expenditure in line with revised revenue estimates. This also resulted in increased unauthorised expenditure incurred at the municipalities as compared to 2011 financial year, as shown in 2.6.1.1 above.

The quality and credibility of financial information that was submitted to the council for decision-making purposes also played a critical role in the prevention of unauthorised expenditure. High quality financial information would allow the council to accurately identify anticipated overspending and act accordingly. Where financial information submitted is of poor quality, there is an increased risk of the council making incorrect decisions. The production of quality information is highly dependent on the skills of the CFO and officials at the finance units. As shown in figure 19 above, a concern was noted regarding the competency and skills of personnel at 72% of municipalities, which need to be addressed as a matter of urgency by the leadership.

Figure 31

Underspending of the capital budget



The figure above presents the underspending of final capital budgets per category of municipality, reflecting both the percentage of entities that underspent and the average percentage underspending in the province. The analysis is based on municipalities' final capital budgets, after adjusting the original budgets.

Overall, 83% of municipalities underspent their capital budgets by an average of 33%. A total of five district municipalities (100%) underspent by an average of 31% and 79% of local municipalities underspent by an average of 34%.

The underspending of capital budgets at municipalities is mainly attributed to difficulties with planning and executing capital projects. However, it could also indicate potential cash flow problems at municipalities as the municipalities overspent on operations and use amounts intended for capital budgets to sustain cash flow.

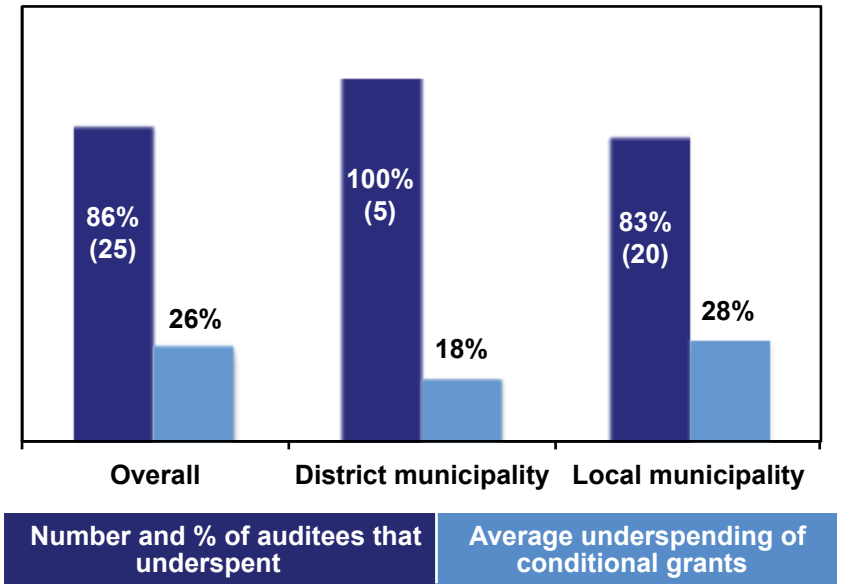
The capital budgets of local municipalities are largely funded by grants; hence, a lack of funding is not the probable cause of poor capital spending. At local municipalities, it is fair to conclude that failure to spend the capital budget is more the result of poor planning, project management and project implementation. What is of concern is that local municipalities were the beneficiaries of a number of support programmes run by various departments and yet they were still unable to plan and implement projects appropriately. A total of nine local municipalities, which is more than half of all local municipalities, underspent their capital budgets by more than 30%.

The root causes of the underspending of capital budget are as follows:

- Poor capital budgeting – capital budgets being overambitious and not adequately funded
- Poor capital expenditure planning
- Poor management of adjustments budget
- Badly managed procurement process – the widespread mismanagement of these processes means further delays to spending

Figure 32

Underspending of conditional grants



The figure above presents the underspending on conditional grants per category of municipality, reflecting both the percentage of entities that underspent and the average percentage underspending in the province.

All district municipalities (100%) underspent their conditional grants by an average of 18% and 83% of local municipalities underspent by an average of 28%. Overall, 86% of municipalities underspent their conditional grants by an average of 26%.

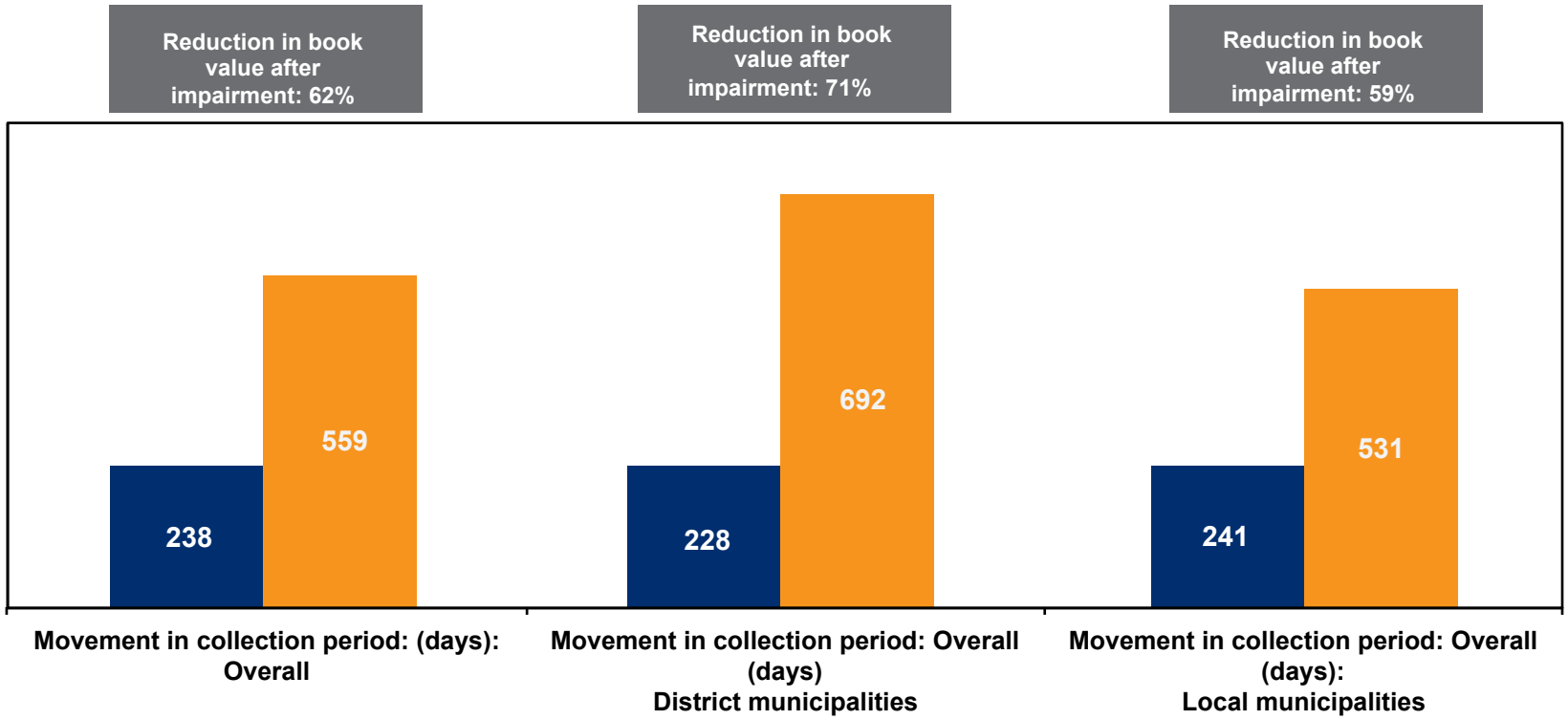
Municipalities receive conditional grants for the purpose of achieving specifically identified objectives, mostly related to service delivery. However, this money is used to fund operational expenses due to a lack of proper planning and budgeting. Similar to the underspending on capital budgets, the prevalence and extent of underspending on specific purpose conditional grants negatively impact on municipalities' service delivery objectives, which is evidenced by the fact that 13 auditees (42%) achieved 80% or less of their service delivery targets, and are therefore of concern.

5.2.2 Debtor management

The following figure indicates the average period in days that it takes the different categories of municipalities to collect outstanding consumer debtors, both before and after impairment (write-off) for uncollectable debtors. The graph also shows the extent, in percentage terms, to which debtors were written off (impaired).

Figure 33

Debt-collection period



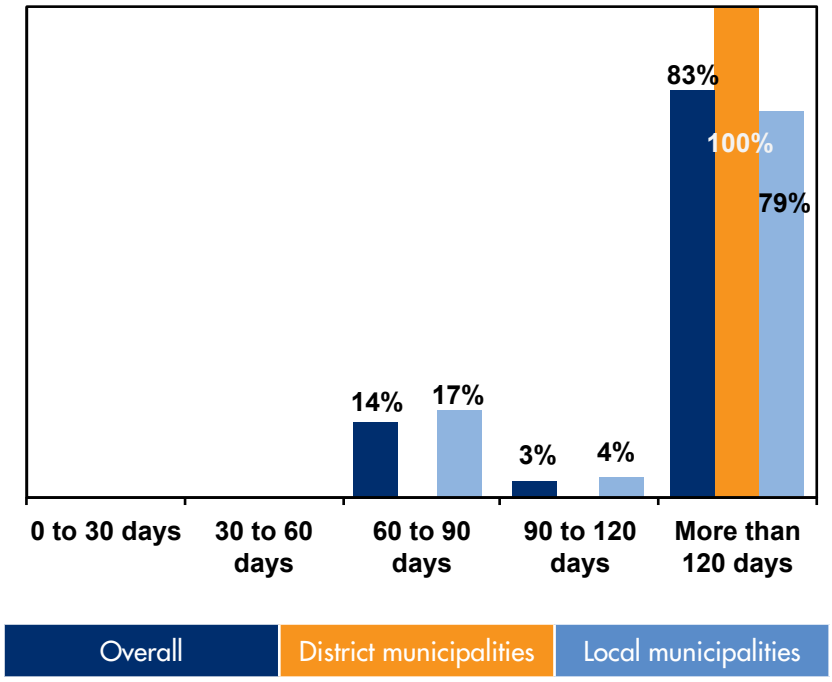
Overall, it took municipalities 559 days (18,4 months) on average to collect outstanding amounts from consumers where no provision was made for uncollectable debt. The collection period would decrease to an average of 238 days (7,8 months) if 62% of debtors were written off. The large difference between the debtor-collection periods before and after write-off and the extent of impairment of debtors may be the result of the continuing year-on-year growth in both the outstanding debtors and the provision for uncollectable debt.

Local municipalities required 241 days (7,9 months) to collect debts even after 59% write-off of debts, with the situation being worse at district municipalities with a 228-day (7,5 months) collection period after a 71% write-off of debts.

The extended collection periods may result in cash flow problems adversely affecting operational management. The excessive write-off of debts highlights the widespread culture of non-payment for services among consumers. The revenue not collected negatively impacts on the maintenance of infrastructure, resulting in a deteriorating level of consistent quality service delivery. It is imperative that the councillors play an active role in collecting these debts as they negatively impact the municipality's ability to provide basic services to the communities.

Figure 34

Debt-collection intervals



The figure above elaborates on the debt-collection analysis and shows the extent of municipalities, per category of municipality, that collect their debts within the indicated debt-collection intervals after having been adjusted for the write-off of bad debt.

It is quite notable that no municipality in the province collected its debts within 60 days. Overall, 14% of the municipalities collected their debts between 60 and 90 days; and 17% of local municipalities were able to collect debts within the same period. Furthermore, only 4% of the local municipalities collected their debts between 90 and 120 days. It is concerning to note that all five the district municipalities had a debt-collection period of more than 120 days. Seventy-nine per cent of the local municipalities also fall into this category. This indicates either a failure to implement proper debtor management processes or a breakdown of existing processes.

It is important to note that the growth in the level of consumer debts may also be attributed to the following:

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

5.2.3 Creditor management

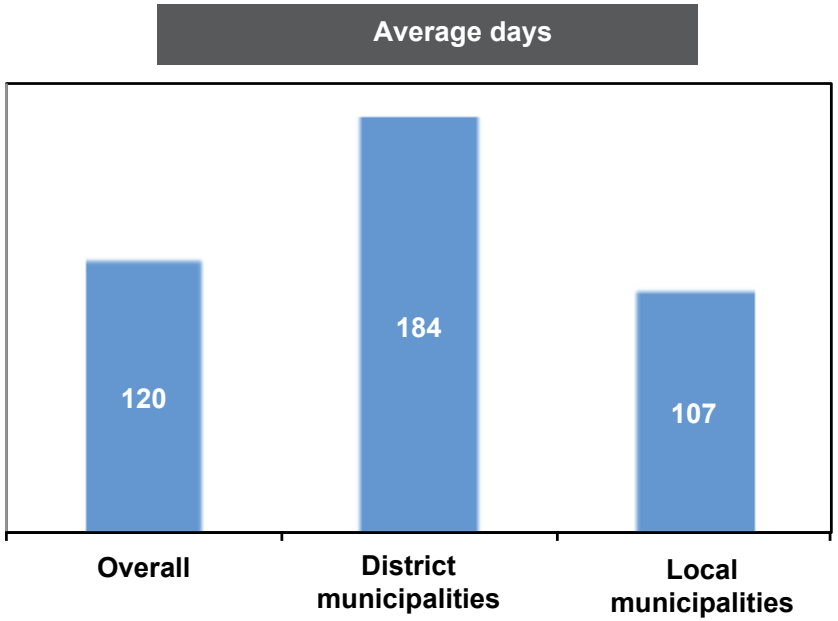
In accordance with section 65(2)(e) of the MFMA, "all money owing by the municipality must be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure".

The following figure shows the average number of days that it takes the different categories of municipalities in the province to pay suppliers.

This reflects on how long an entity holds onto its cash.

Figure 35

Creditor-payment period



Overall, it took municipalities 120 days (3,9 months) on average to pay creditors. Local municipalities took 107 days (3,5 months) to pay their creditors.

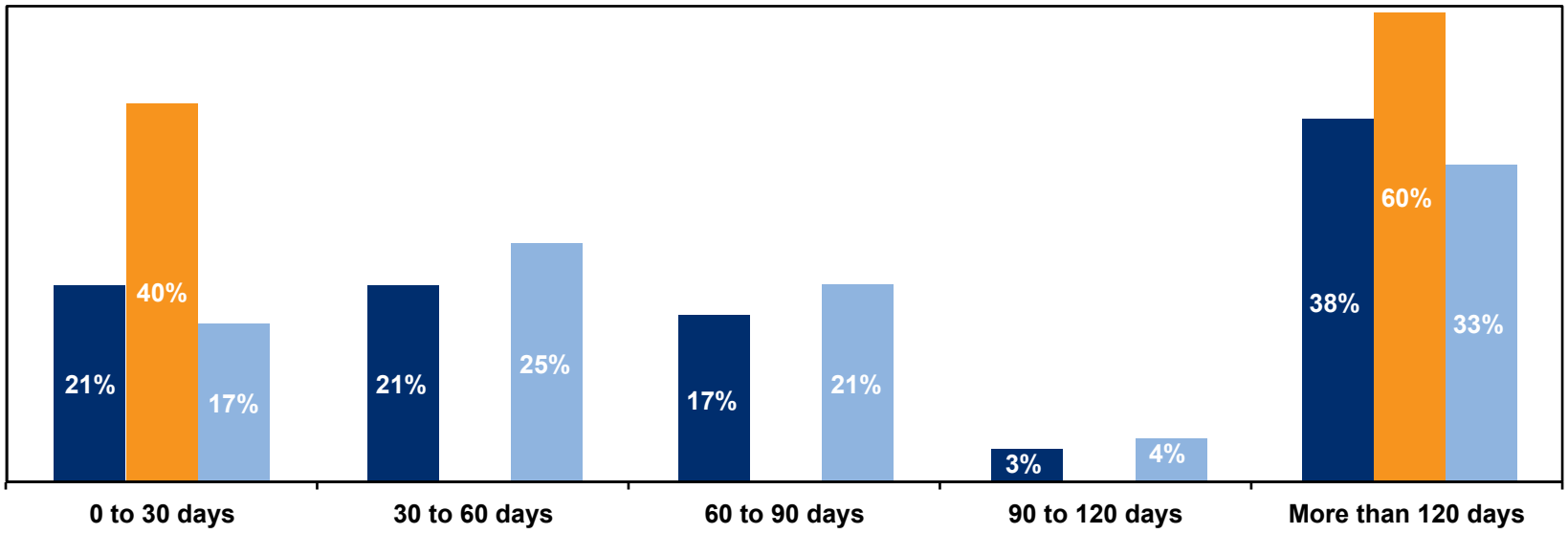
The average payment period for district municipalities was longer at 184 days (6,4 months).

The delayed receipt of payment by suppliers who provide goods and services to municipalities may also lead to reluctance on the part suppliers to do business with local government.

The following figure elaborates on the creditor-payment analysis and shows the extent of municipalities, per category of municipality, which pay their creditors within the indicated creditor-payment intervals.

Figure 36

Creditor-payment intervals



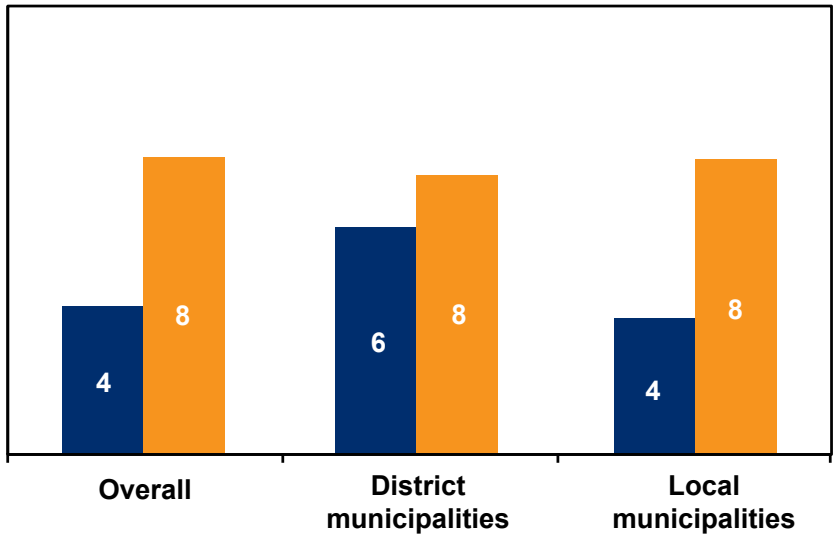
Overall, 21% of the municipalities paid their creditors within the legislated period of 30 days. Furthermore, only 40% of the district municipalities and 17% of the local municipalities paid their creditors within the legislated period of 30 days. It is notable that 60% of the district municipalities and 33% of the local municipalities paid their creditors after 120 days. Approximately 50% of the local municipalities settled their creditor payments between 30 and 120 days. As highlighted in figure 36 above, we identified a number of instances at 21 municipalities (72%) where payments to creditors were not made within 30 days of an invoice, as required by the MFMA.

The analysis of this section is indicative of a number of auditees possibly facing a cash flow problem, which potentially affects their existence on a going concern basis. The delayed payments to creditors is an indication of a deteriorating cash position among municipalities due to them depleting their cash and reserves to fund extensive and overly ambitious capital programmes and/or compiling unfunded budget. Considering the fact that these municipalities would require additional funding from the national exchequer to continue in their current form, it is imperative to ensure that a robust cash management system is effectively implemented at these municipalities.

The following figure compares the prior debt-collection periods and creditor-payment periods, indicating in number of months the difference between the average periods taken to collect from consumers and to pay suppliers.

Figure 37

Debt-collection period (after impairment) versus creditor-payment period



Overall, municipalities took four months longer to collect debts than they took to pay creditors. District municipalities took two months longer to collect debts versus paying creditors and Local municipalities took four months longer.

The results reflect the time delay between turning receipts from consumers into payments to suppliers and an indication of how much cash reserves municipalities require in order to sustain their operations and manage working capital effectively and economically, as required by the MFMA.

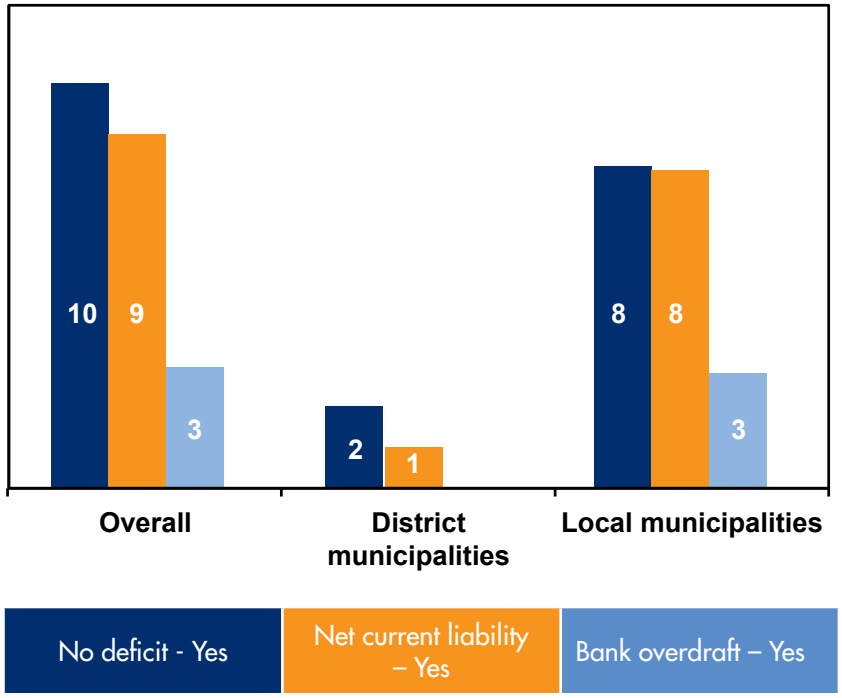
The lag in cash inflows from consumers versus cash outflows to suppliers may result in cash flow problems at district municipalities and local municipalities. This may cause these municipalities to use specific-purpose conditional grants to fund operations, which in turn may be a contributing reason why 100% of district municipalities underspent their conditional grants by an average of 18% and 83% of local municipalities underspent their conditional grants by an average of 28%.

5.2.4 Financial performance, position and cash management

The following figure reflects the number of municipalities, per category of municipality, where revenue for the year exceeded expenditure (net deficit), where current assets were less than current liabilities at year-end (net current liability position) and where the year-end bank balance was in overdraft.

Figure 38

Financial performance, position and cash management



Overall, 10 municipalities realised a net deficit and nine municipalities had a net liability position, most of which were represented by local municipalities.

A total of eight local municipalities had both net deficits for the year and current liabilities in excess of current assets, with one district municipality also being in this situation.

Furthermore, year-end bank balances of three local municipalities were in overdraft. This is in contravention of the legislated requirement that prevents municipalities from closing the financial year with any short-term debt (MFMA section 45).

Municipalities with current liabilities exceeding current assets may have difficulty to meet suppliers' demands for payment. Combined with other factors such as the negative results from operations (net deficit position) and an overdraft bank balance, it points to inefficient and ineffective operational management. These municipalities may experience cash flow problems and may find it necessary to use a portion of their conditional grant funding for payment of liabilities, thus adversely impacting on future activities and service delivery.

Any one of the following events could push the municipalities that already have very low cash coverage into a negative cash position:

- A deterioration in revenue collections due to the impact of the economic recession and the rising rates and tariffs on household budgets
- The need to pay suppliers, especially contractors responsible for capital projects (whose billings are often lumpy and come at year-end)
- The need to finance the cash-flow difference between paying for the increased cost of bulk electricity/water and the collection of revenues from customers
- Any major breakdown in service delivery resulting in non-supply (especially water and electricity), and therefore no revenue
- Boycotts by ratepayers/consumers

5.2.5 Concluding comments

The risks associated with the current state of municipal finances fall into the following categories:

(a) Service delivery risks

- Staff were not paid and therefore they refused to work.
- Bulk services were not paid for and therefore services could be cut.
- Contractors and suppliers were not paid.
- Repairs and maintenance were invariably among the first expenditure cuts, placing service delivery and future revenues at risk.
- Unhappy community as IDP promises were not fulfilled.

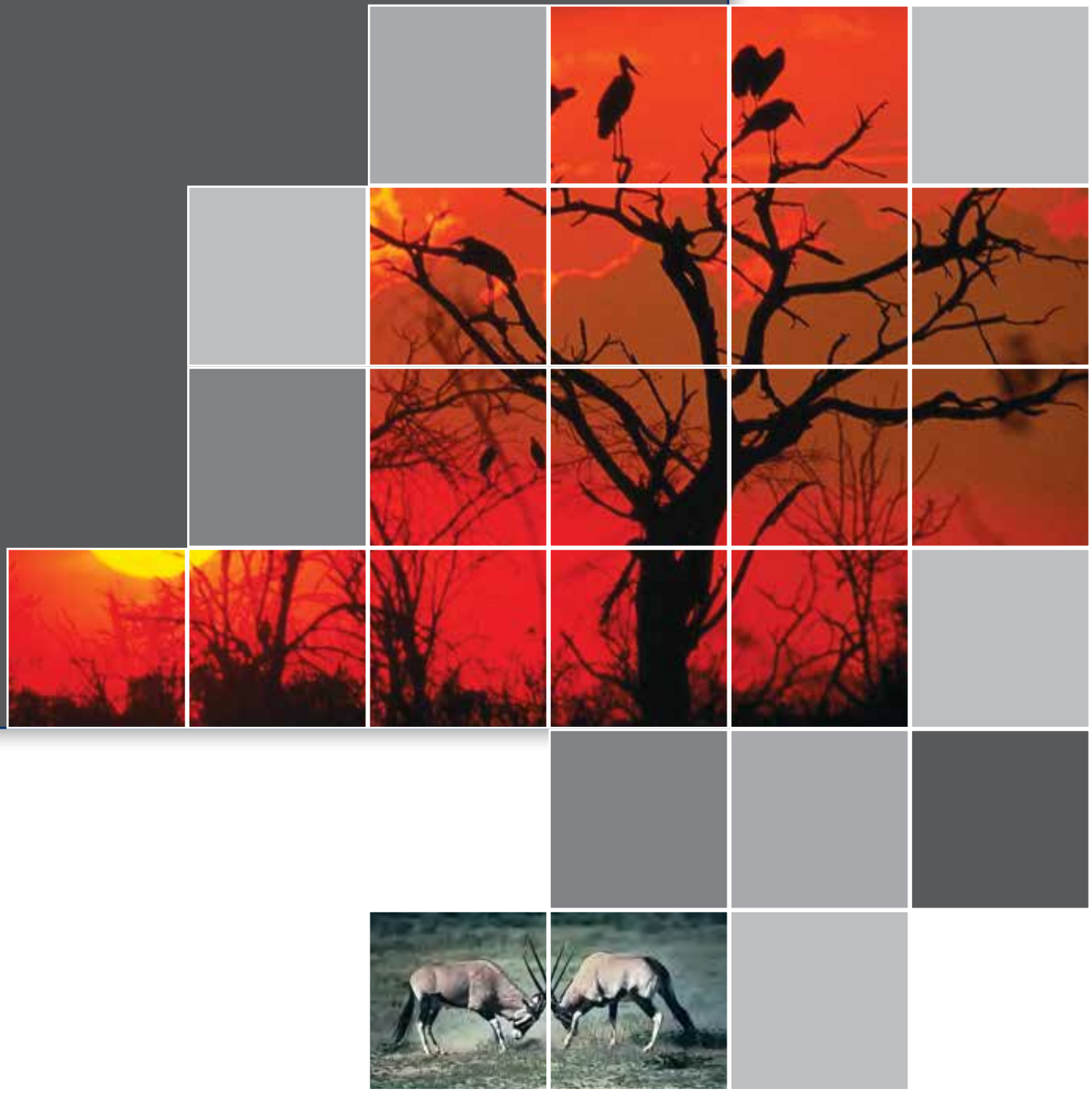
(b) Financial risks

- Poor financial management processes and systems exposed the municipality to corruption.
- The municipalities failed to properly use the resources available to them by failing to collect available resources.
- Poor financial management increased the cost of borrowing to municipalities.

(c) Reputational risk

- The inability of the municipality to deliver the promises and commitments made to the community.

Financial health of the municipalities will continue to remain a concern unless a discipline of daily and monthly controls is implemented. This was also a significant reason that led to a high number of municipalities receiving an adverse/disclaimed opinion. The national and provincial governments had a constitutional responsibility to monitor the state of the local government financial management and finances, and to provide appropriate support. Where the municipality failed to fulfil its constitutional obligations, there was an obligation on the provincial executive (in the first instance), and then the national executive, to intervene at the municipality to set things in order and protect the interests of the public.



GLOSSARY

ACRONYMS AND ABBREVIATIONS

ANNEXURES

GLOSSARY of key terminology used in the report

Accounts payable (also referred to as *creditors*)	Money owed by the auditee to companies, organisations or persons who have supplied goods and services.
Accounts receivable/ Receivables (also referred to as *debtors*)	Money owed to the auditee by companies, organisations or persons who have received goods or services from the auditee.
Adverse audit opinion	The financial statements contain material misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.
Asset	Any item belonging to the auditee, including property, plant, cash, and debt.
Asset impairment	The reduction in value of an asset below its normal value at which it can be converted into cash through sale or other means.
Assurance	A positive declaration that is intended to give confidence. Through the audit report, we provide assurance on the credibility of auditees' financial and performance information as well as auditees' compliance with legislation. Other role players in local government also contribute to assurance and confidence by ensuring that internal controls are implemented. Such assurance providers include various auditee officials, committees and internal audit units, oversight structures and coordinating or monitoring departments.

Capital budget	The estimated amount planned to be spent on capital items in a particular financial period; for example, fixed assets such as land and buildings with long expected lives and that produce income or support operations.
Cash flow	The flow of money from operations: incoming funds are revenue and outgoing funds are expenses.
Clean audit outcome	The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.
Commitments (in financial statements)	The cost of goods and services to be received in the following year, which the auditee has already agreed to purchase in the current year.
Commitments (from role players)	Initiatives communicated to us by role players in local government to improve the audit outcomes.
Conditional grants	Money transferred from one sphere of government to another, subject to certain services being delivered or on compliance with specified requirements.
Consolidated financial statements	Financial statements that reflect the combined financial position and results of a municipality and those of the municipal entities under its control.

Contingent liability	A potential liability, the amount of which will depend on a future event.
Current assets	These assets are made up of cash and other assets, such as inventory or debt, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
Disclaimer of audit opinion	The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.
Financial and performance management	The management of resources to achieve the financial and service delivery objectives of the auditee. (This is one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.)
Financially unqualified audit opinion	The financial statements contain no material misstatements. Unless we express a clean audit outcome, findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.
Fruitless and wasteful expenditure	Expenditure that was made in vain and could have been avoided had reasonable care been taken. This includes penalties and interest on late payments as well as payments for services not utilised or goods not received.
General ledger	A record of all the financial transactions of the auditee.

Going concern	The presumption that an auditee will continue to operate in the foreseeable future, and will not go out of business and liquidate its assets. For this to happen, the auditee must be able to raise enough resources to stay operational.
Governance	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee. (This is another of the three key overall drivers of internal control that should be addressed to improve audit outcomes.)
Human resource (HR) management	The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled resources as well as the adequate management of staff performance and productivity.
Information technology (IT)	The computer systems used for recording and reporting financial and non-financial transactions.
IT governance	The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.
IT security management	The controls preventing unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.
IT service continuity	The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or establish information system services in the event of a disaster.

IT user access management	The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.
Internal control (key controls)	The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable legislation. It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.
Inventory	Goods held for resale or for internal use.
Irregular expenditure	Expenditure incurred without complying with applicable legislation.
Key drivers of internal control	The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance. (These three components are also defined individually in this glossary.)
Leadership	The administrative leaders of an auditee, such as municipal managers and senior management. (This is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.) It can also refer to the political leadership (including the mayor and the council) or the leadership in the province (such as the premier).
Liability	Short-term and long-term debt owed by the auditee.
Material finding	An audit finding on reporting on predetermined objectives or non-compliance with legislation that is significant enough in terms of its value, its nature or both its value and its nature that it requires to be reported in the audit report.
Material misstatement	A misstatement that is significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of either the rand value or the nature and cause of the misstatement, or both these aspects.
Misstatement	Incorrect or omitted information in the financial statements or annual performance report.
Modified opinion	A qualified, adverse or disclaimer of opinion.
Net current liability	The amount by which the sum of all money owed by an auditee and due within one year exceeds amounts due to the auditee within the same year.

Net deficit	The amount by which an auditee's spending exceeds its income.
Operational budget	A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as administration and salaries.
Payroll	A list of employees and their wages.
Property, plant, infrastructure and equipment	Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.
Qualified audit opinion	The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.
Reconciliation	The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.
Reporting against predetermined objectives (PDOs)	Reporting by auditees in their annual performance reports on their actual achievements against the performance objectives they had set at the beginning of the period. The performance objectives mostly relate to service delivery.

Root causes	The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps ensure that the actions address the real issue or opportunity, thus preventing or reducing the incidents of recurrence, as opposed to simply providing a one-time or short-term fix.
Supply chain management (SCM)	Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.
Unauthorised expenditure	Expenditure that was in excess of the amount budgeted or allocated by government to the auditee, or that was not incurred in accordance with the purpose for which it was intended.

ACRONYMS and abbreviations

AFS	annual financial statements	*GRAP*	Generally Recognised Accounting Practice
AG	auditor-general (the person)	*HR*	human resources
AGSA	Auditor-General of South Africa (the institution)	*IDP*	integrated development plan
APAC	Association of Public Accounts Committees	*IT*	information technology
b	R'billion (rand)	*k*	R'thousand (rand)
BCP	business continuity plan	*KZN*	KwaZulu-Natal
CEO	chief executive officer	*LM*	local municipality
CFO	chief financial officer	*LP*	Limpopo
CIDB	Construction Industry Development Board	*m*	R'million (rand)
CIO	chief information officer	*ME*	municipal entity
CoGTA	Department of Cooperative Governance and Traditional Affairs	*MEC*	member of the executive council
DM	district municipality	*metro/M*	metropolitan municipality
DPSA	Department of Public Service and Administration	*MFMA*	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
DRP	disaster recovery plan	*MP*	Mpumalanga
EC	Eastern Cape	*MPAC*	municipal public accounts committee
FS	Free State	*MSA*	Municipal Systems Act, 2000 (Act No. 32 of 2000)
GITO	government information technology officer	*NC*	Northern Cape
GP	Gauteng	*NCOP*	National Council of Provinces

NT	National Treasury
NW	North West
PAA	Public Audit Act, 2004 (Act No. 25 of 2004)
PDO	predetermined objective
PPAC	provincial public accounts committee
PPPFA	Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)
SALGA	South African Local Government Association
SARS	South African Revenue Service
SCM	supply chain management
SCOPA	Standing Committee on Public Accounts
SDBIP	service delivery and budget implementation plan
SITA	State Information Technology Agency
SLA	service level agreement
VAT	value-added tax
WC	Western Cape

ANNEXURE 1:
Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas and root causes

Number	Auditee	2011-12 audit outcome			2010-11 audit outcome			Financial statement qualification areas								Findings on predetermined objectives				Findings on areas of compliance											Findings on specific focus areas			Unauthorised. irregular, as well as fruitless and wasteful expenditure						Root causes		
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Liabilities	Other disclosure items	Revenue	Other qualification areas	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Expenditure management	Procurement management	Other compliance areas	Procurement and contract management	HR management and compensation	IT controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by political leadership in addressing the root causes of poor audit outcomes
																															Movement	Amount R	Movement	Amount R	Movement	Amount R			
District municipalities																																								
1	Capricorn								R	R		R	R	R	A			R	R	R	A	R	R	R	R	R	R	↑		↑	27m	↓	13m			
2	Greater Sekhukhune							R	R	R	R		R	R	R			R	R	N	R	R	R	N	R	R	R	↓	4m	↓	209m	↑	576 000			
3	Mopani							N	R	R	R	R	R	R	R			R	R	N	N	R	R	R	R	R	R	↑	75m	↓	153m	↓	802 000			
4	Vhembe							R	R	N	R	R	R	R	N			R	N	N	R	R	R	R	R	R	R	↔		↓	186m	↓	450 000			
5	Waterberg																										R	↔		↓	7 000	↓	24 000			
Local municipalities																																								
6	Aganang							R	R	R	R	N	R	R	N			R	R	R	R	R	N	R	N	R	R	↑		↓	20m	↓	71 000			
7	Ba-Phalaborwa							R	R	R	A	N	R	R	R			R	R	N	R	R	R	R	R	R	R	↓	21m	↓	49m	↔				
8	Bela-Bela							R	R	R	R	N	R	R	R			R	R	N	N	R	R	N	N	N	R	↓	49m	↓	4m	↓	268 000			
9	Blouberg							N	R	R	N	R	N		A			R	R	N	R	R	R	R	R	R	N	↓	9m	↓	27m	↓	120 000			
10	Elias Motsoaledi							R	R	R	A	A	R	R	R			R	N	N	R	R	R	R	R	R	R	↑	50m	↓	138m	↔	9m			
11	Ephraim Mogale							R	R	R	R	N	N	R	R			R	N	N	R	R	R	N	R	R	R	↓	36m	↓	109m	↓				

Legend (Audit outcomes): Unqualified with no findings | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimer with findings | Audit not finalised at legislated date | New | Finding

Legend (Findings): Addressed (A) | New (N) | Repeat (R)

Legend (Movements): ↑ Improved ↔ Unchanged ↓ Regressed

Legend (Root causes): Good | Causing concern | Intervention required

ANNEXURE 1:
Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas and root causes

Number	Auditee	2011-12 audit outcome			2010-11 audit outcome			Financial statement qualification areas						Findings on predetermined objectives				Findings on areas of compliance								Findings on specific focus areas			Unauthorised. irregular, as well as fruitless and wasteful expenditure						Root causes		
																													Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure				
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Liabilities	Other disclosure items	Revenue	Other qualification areas	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Expenditure management	Procurement management	Other compliance areas	Procurement and contract management	HR management and compensation	IT controls	Movement	Amount R	Movement	Amount R	Movement	Amount R	Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by political leadership in addressing the root causes of poor audit outcomes
12	Fetakgomo							N	N					N	N			N			N		N		N	R	R	⟷		🡻	2m	🡻	6 000			
13	Greater Giyani							R	R	R	R	R	R	R	R			R	R	N	R	R	R	R	R	R	R	⟷		🡻	76m	⟷	1m			
14	Greater Letaba							R	R	R	R	R	R	R				R	R	N	R		R	R	R	R	R	🡹		🡻	36m	🡻	30 000			
15	Greater Tzaneen							R	N	R	R	R	R	R	R			R	R	N	N	R	R	N	R	R	R	🡻	91m	🡻	91m	⟷	169 000			
16	Lepelle-Nkumpi							R	R	R	R	R	R	R	R			R	R	R	R	R	R	R	R	N	A	🡻	14m	🡻	43m	🡹				
17	Lephalale							N	A	N			A	R	R			R	A	R			R	R	R	R	R	⟷		🡻	54m	🡻	159 000			
18	Makhado							R	N	R	N	R	R	R	R			R	R	N	R	A	R	N	R	R	R	🡻	157m	🡻	2m	🡻	170 000			
19	Makhudutamaga							R	R	A	R	A	R	R	R			R	R	N	A	R	R	N	R	R	R	🡹	904 000	🡻	14m	🡻				
20	Maruleng							N						R	R			R	R	N	N	N	R	N	R	N	R	⟷		🡹	13m	🡹				
21	Modimolle							R	R	R	A	A	R	R	R			R	R	N	N	N	R	N	R	R	R	⟷	16m	🡻	7m	🡻	655 000			
22	Mogalakwena														R				R	A			R	R	R	R	R	⟷		🡹	15m	🡻	16 000			
23	Molemole																																			
24	Mookgophong							N	N	A	R	R	R	R	R			R	R	R		A	R	R	R	R	R	🡹	4m	🡹	5m	🡹	164 000			

Legend (Audit outcomes): Unqualified with no findings | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimer with findings | Audit not finalised at legislated date | New Finding

Legend (Findings): Addressed (A) | New (N) | Repeat (R)

Legend (Movements): 🡹 Improved ⟷ Unchanged 🡻 Regressed

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																												Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure				
		Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Liabilities	Other disclosure items	Revenue	Other qualification areas	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement/limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Expenditure management	Procurement management	Other compliance areas	Procurement and contract management	HR management and compensation	IT controls	Movement	Amount R	Movement	Amount R	Movement	Amount R	Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by political leadership in addressing the root causes of poor audit outcomes
25	Musina							R	R	A	R	A	A	R	N		A	R	R	N	A	R	R	R	R	R	R	↑	3m	↑	20m	↑	19 000			
26	Mutale							R	N	N	N	N	N	R	R			R	R	N	R	R	R	R	R	R	R	↑	289 000	↑	6m	↑	2m			
27	Polokwane							R	N	N	N	N	R	N	R			R	R	R	R	R	R	R	R	R	R	↓	140m	↓	208m	↓	2m			
28	Thabazimbi							N	N	N	N	N		R	N			R	R	N	N	R	R	R	R	R	R	↓	61m	↑	2m	↓	940 000			
29	Thulamela							R	A			R	R	R	R			R	R	N	R	R	R	R	R	R	R	↔		↓	28m	↑	676 000			
30	Tubatse							R	A		N	A	A	R	R			R	R	N	R	N	R	N	R	R	R	↔		↓	24m	↓	29 000			

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Finding

Legend (Findings)	Addressed (A)	New (N)	Repeat (R)

Legend (Movements)	↑ Improved	↔ Unchanged	↓ Regressed

Legend (Root causes)	Good	Causing concern	Intervention required

ANNEXURE 2:
Five-year audit outcomes with findings comparison

No.	Auditee	Movement from prior year	Audit outcome 2011-12			Audit outcome 2010-11			Audit outcome 2009-10			Audit outcome 2008-09			Audit outcome 2007-08		
				Findings			Findings			Findings			Findings			Findings		
			Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance
Financial audits																	
District municipalities																	
1	Capricorn District	⟷															
2	Greater Sekhukhune District	⟷															
3	Mopani District	↓															
4	Vhembe District	↓															
5	Waterberg District	⟷															
Local municipalities																	
1	Aganang	⟷															
2	Ba-Phalaborwa	⟷															
3	Bela-Bela	⟷															
4	Blouberg	↓															
5	Elias Motsoaledi (Greater Groblersdal)	↑															
6	Ephraim Mogale	⟷															
7	Fetakgomo	↓															
8	Greater Giyani	⟷															

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New

Legend (Movements)	Improved	Unchanged	Regressed

Legend (Root causes)	Finding

ANNEXURE 2:
Five-year audit outcomes with findings comparison

No.	Auditee	Movement from prior year	Audit outcome 2011-12			Audit outcome 2010-11			Audit outcome 2009-10			Audit outcome 2008-09			Audit outcome 2007-08		
				Findings			Findings			Findings			Findings				Findings	
			Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance
9	Greater Letaba	↑															
10	Greater Tzaneen	↓															
11	Lepelle Nkumpi	↔															
12	Lephalale	↔															
13	Makhado	↔															
14	Makhudutamaga	↑															
15	Maruleng	↓															
16	Modimolle	↔															
17	Mogalakwena	↔															
18	Molemole																
19	Mookgophong	↔															
20	Musina	↔															
21	Mutale	↓															
22	Polokwane	↓															
23	Thabazimbi	↓															
24	Thulamela	↔															

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New

Legend (Movements)	↑ Improved	↔ Unchanged	↓ Regressed

Legend (Root causes)	Finding

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Five-year audit outcomes with findings comparison

No.	Auditee	Movement from prior year	Audit outcome 2011-12			Audit outcome 2010-11			Audit outcome 2009-10			Audit outcome 2008-09			Audit outcome 2007-08		
				Findings			Findings			Findings			Findings			Findings		
			Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance	Audit opinion	PDOs	Compliance
25	Tubatse	⟷															
Municipal entities																	
1	Polokwane Housing Association	⟷															
2	Sekhukhune Development Agency	↓															
3	Zelpy Letsema (Pty) Ltd																
Consolidation audits																	
District municipalities																	
1	Greater Sekhukhune District	⟷															
Local municipalities																	
1	Polokwane	↓															
2	Musina																

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New

Legend (Movements)	↑ Improved	⟷ Unchanged	↓ Regressed

Legend (Root causes)	Finding

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