13 Need to know

13.1 Our audit processes and focus

What is our audit and reporting process?

We audit every municipality and municipal entity in the country to report on the quality of their financial statements and performance reports and on their compliance with key legislation.

We also assess the root cause of any error or non-compliance, based on the internal control that had failed to prevent or detect it. We report in the following three types of reports:

- We report our findings, the root causes of such findings and our recommendations in **management reports** to the senior management and municipal managers, or chief executive officers (CEOs) in the case of municipal entities, which are also shared with the mayors and audit committees.

- Our opinion on the financial statements, material findings on the performance report and compliance with key legislation, as well as significant deficiencies in internal control, are included in an **audit report**, which is published with the auditee's annual report and dealt with by the municipal council.

- Annually, we report on the audit outcomes of all auditees in a **consolidated report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes. Before the general reports are published, we share the outcomes and root causes with the national and provincial leadership, Parliament and the legislatures, as well as key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist in improving audit outcomes by identifying the **key controls** that should be in place at auditees, assessing these on a regular basis, and sharing the results of the assessment with mayors, municipal managers, CEOs and audit committees.

During the audit process, we work closely with the municipal managers, CEOs, senior management, audit committees and internal audit units, as they are **key role players** in providing assurance on the credibility of the auditee's financial statements, performance report as well as compliance with legislation.

We also continue to strengthen our relationship with the mayors, ministers and MECs responsible for cooperative governance, premiers, treasuries, departments of cooperative governance as well as Parliament and provincial legislatures, as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in the performance of local government. We share our messages on key controls, risk areas and root causes with them, and obtain and monitor their commitments to implementing initiatives that can improve audit outcomes.

The overall audit outcomes fall into five categories:

1. Auditees that received a **financially unqualified opinion with no findings** are those that were able to:

   - produce financial statements free of material misstatements (material misstatements mean errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)

   - measure and report on their performance in line with the predetermined objectives in their integrated development plans and/or service delivery and budget implementation plans in a manner that is useful and reliable

   - comply with key legislation.

   This audit outcome is also commonly referred to as a clean audit.

2. Auditees that received a **financially unqualified opinion with findings** are those that were able to produce financial statements without material misstatements, but are struggling to:

   - align their performance reports to the predetermined objectives to which they had committed in their integrated development plans and/or service delivery and budget implementation plans

   - set clear performance indicators and targets to measure their performance against their predetermined objectives

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- report reliably on whether they had achieved their performance targets
- determine which legislation they should comply with, and implement the required policies, procedures and controls to ensure that they comply.

3. Auditees that received a **financially qualified opinion with findings** face the same challenges as those that were financially unqualified with findings in the areas of reporting on performance and compliance with key legislation. In addition, they were unable to produce credible and reliable financial statements. Their financial statements contained misstatements which they could not correct before the financial statements were published.

4. The financial statements of auditees that received an **adverse opinion with findings** included so many material misstatements that we disagreed with virtually all the amounts and disclosures in the financial statements.

5. Those auditees with a **disclaimed opinion with findings** could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements.

   Auditees with adverse and disclaimed opinions are typically also:

- unable to provide sufficient supporting documentation for the achievements they report in their performance reports
- not complying with key legislation.

What is the purpose of the annual audit of the financial statements?

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

We report the poor quality of the financial statements we receive in the audit reports of some auditees as a material finding on compliance, as it also constitutes non-compliance with the MFMA. The finding is only reported for auditees that are subject to the MFMA and if the financial statements we received for auditing included material misstatements that could have been prevented or detected if the auditee had an effective internal control system. We do not report a finding if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure identified after the financial statements had been submitted.

What does compliance with key legislation mean?

We annually audit and report on compliance by auditees with key legislation applicable to financial and performance management and reporting as well as related matters. We focused on the following areas in our compliance audits if they apply to the particular auditee: ■ the quality of the financial statements submitted for auditing ■ asset and liability management ■ audit committees and internal audit units ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure ■ consequence management ■ revenue management ■ strategic planning and performance management ■ financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, SCM) ■ HR management and compensation.

In our audit reports, we report findings that were material enough to be brought to the attention of auditee management, municipal councils, boards of municipal entities as well as oversight bodies and the public.

What is the scope of supply chain management audits?

We test whether the prescribed procurement processes had been followed to ensure that all suppliers were given equal opportunity to compete and that some suppliers were not favoured above others. The principles of a fair, equitable, transparent, competitive and cost-effective SCM process are fundamental to the procurement practices of the public sector and are enshrined in our country's constitution and prescribed in the MFMA and its SCM regulations. The MFMA and these regulations define what processes should be followed to adhere to the constitutional principles, the level of flexibility available, and the documentation requirements.

We also focus on contract management, as shortcomings in this area can result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assess the financial interests of employees and councillors of the auditee and their close family members in suppliers to the auditee. The requirements in this regard are as follows:

- SCM regulation 44 prohibits the awarding of contracts to, and acceptance of quotations from, employees, councillors or other state officials, or entities owned or managed by them, if they are in the service of the auditee or if they are in the service of any other state institution. Such expenditure is also considered irregular. During our audits, we identify such prohibited awards and also test whether the legislated requirements with regard to declarations of interest were adhered to.
- Awards to close family members of persons in the service of the state, whether at the auditee or another 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 a spouse, child or parent of a person in the service of the state.

What is irregular expenditure?

Irregular expenditure is expenditure that was **not incurred in the manner prescribed by legislation**; in other words, somewhere in the process that led to the expenditure, the auditee did not comply with the applicable legislation. Such expenditure does not **necessarily mean that money had been wasted or that fraud had been committed**. It is an indicator of irregularities in the processes followed in the procurement of goods and services and a measure of a municipality's ability to comply with legislation relating to expenditure and procurement management.

The MFMA requires municipal managers to take all reasonable steps to prevent irregular expenditure. If they persistently disregard the need for strengthening this control, opportunities may be inadvertently created for the commission of fraudulent transactions. Auditees should have processes in place to detect non-compliance with legislation that results in irregular expenditure and disclose the amounts in the financial statements. Irregular expenditure is reported when it is identified – even if the expenditure was incurred in a previous year.

The MFMA provides steps that municipal managers and councils should take to investigate irregular expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven. The investigation should also confirm whether fraud had been committed or money had been wasted.

What is fruitless and wasteful expenditure?

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

The MFMA requires municipal managers to take all reasonable steps to prevent fruitless and wasteful expenditure. Auditees should have processes in place to detect fruitless and wasteful expenditure and disclose the amounts in the financial statements. Fruitless and wasteful expenditure is reported when it is identified – even if the expenditure was incurred in a previous year.

The MFMA also sets out the steps that municipal managers and councils should take to investigate fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

What is unauthorised expenditure?

Unauthorised expenditure refers to expenditure that auditees incurred without provision having been made for it in the budget approved by the council or which does not meet the conditions of a grant.

The MFMA requires municipal managers to take all reasonable steps to prevent unauthorised expenditure. Auditees should have processes in place to identify any unauthorised expenditure incurred and disclose the amounts in the financial statements. The MFMA also includes the steps that municipal managers and councils should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

What are conditional grants?

Conditional grants are funds transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements. Municipalities receive two types of allocations from the national revenue fund, namely equitable share and conditional allocations. Equitable share allocations are non-conditional, based on the municipality's share of revenue raised nationally. Conditional allocations are made for a specific purpose, and include:

- allocations to municipalities to supplement the funding of functions funded from municipal budgets
- specific-purpose allocations to municipalities
- allocations-in-kind to municipalities for designated special programmes
- funds not allocated to specific municipalities that may be released to municipalities to fund immediate disaster response.

Conditional allocations are approved each year through DoRA. DoRA will indicate the approved allocation per type of allocation per institution for that particular year, together with a forward estimate of allocations for the next two years.

With regard to forward estimates, the following take place before a set deadline for the final allocation to be approved through DoRA:

- Each municipality must agree on the provisional allocations and the projects to be funded from those allocations. This information is sent to the national transferring officer.
- After consolidating the information for each municipality, the transferring national officer submits the final allocation list and the draft grant framework for each allocation to the National Treasury for approval.

Municipalities may only use a conditional allocation for its intended purpose in accordance with the requirements of each grant framework and for projects or programmes included in their business plans.

What is the purpose of the grants that were audited?

The DCoG introduced the **MIG** in 2004-05 with the core outcome to improve access to basic service infrastructure for poor communities by providing specific capital finance for basic municipal infrastructure backlogs for poor households, micro-enterprises and social institutions servicing poor communities.

In achieving the core outcome, annual targets must be set in respect of the following expected outputs derived from the MIG framework:

- Number of additional poor households receiving basic water and sanitation services
- Number of additional poor households serviced by sport and recreation facilities

- Number of additional kilometres of municipal roads developed
- Number of additional poor households serviced by solid waste disposal sites and transfer stations
- Number of additional poor households serviced by street or community lighting
- Number of work opportunities created using the guidelines of the expanded public works programme for the above outputs

For this purpose, municipalities must annually submit business plans to the DCoG. The grant uses the registration requirements of the MIG management information system to register, track and monitor projects as per the business plans. Such plans should include timelines regarding project designs, initiation of procurement, environmental impact assessments, and relevant permit or licence approvals in the prescribed format.

The **USDG** was introduced to assist metropolitan municipalities in improving access to basic services by households through the provision of bulk and reticulation infrastructure as well as urban land production to support broader urban development and integration, while the **PTNG** aims to provide accelerated construction and improvement of non-motorised transport infrastructure.

What is the purpose and nature of the annual audit of the performance reports?

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

On an annual basis, we audit **selected objectives** to determine whether the information in the performance reports is useful and reliable enough to enable the council, the public and other users of the reports to assess the performance of the auditee. The objectives we select are those that are important for delivery by the auditee on its mandate. In the audit report, we report findings arising from the audits that were material enough to be brought to the attention of these users.

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As part of the annual audits, we audited the **usefulness of the reported performance information** by determining whether it was presented in the annual report in the prescribed manner and was consistent with the auditees' planned objectives as defined in their integrated development plans and/or service delivery and budget implementation plans. We also assessed whether the performance indicators and targets that were set to measure the achievement of the objectives were well defined, verifiable, specific, time bound, measurable and relevant.

We further audited the **reliability of the reported information** by determining whether it could be traced back to the source data or documentation and whether it was accurate, complete and valid.

When is human resource management effective?

HR management refers to the management of an auditee's employees or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of staff performance and their productivity. HR management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

Our audits included an assessment of HR management, focusing on the following areas: ■ HR planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions.

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

Based on the results of these audits, we assessed the status of auditees' HR management controls.

When are internal controls effective and efficient?

A key responsibility of municipal managers, CEOs, senior managers and municipal officials is to implement and maintain effective and efficient systems of **internal control**.

We assess the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. This 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. To make it easier to implement corrective action, we categorise the principles of the different components of internal control under leadership, financial and performance management, or governance. We call these the drivers of internal control.

The key basic controls that should be focused on are as follows:

Providing effective leadership

To improve and sustain audit outcomes, auditees require **effective leadership** that is based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the auditee.

Audit action plans to address internal control deficiencies

Developing and monitoring the implementation of action plans to address **identified internal control deficiencies** are a key element of internal control.

The MTSF defines the implementation of audit action plans and the quarterly monitoring thereof by a coordinating structure in the province as key measures to support financial management and governance at municipalities. It is also echoed in the DCoG's B2B strategy, which tasks local government with addressing post-audit action plans and the National Treasury, provincial treasuries and departments of cooperative governance with assessing the capacity of municipalities to develop and implement such plans.

Proper record keeping and document control

Proper and timely record keeping ensures that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Sound record keeping will also enable senior management to hold staff accountable for their actions. A lack of documentation affects all areas of the audit outcomes.

Some of the matters requiring attention include the following:

- Establish proper record keeping so that records supporting financial and performance information as well as compliance with key legislation can be made available when required for audit purposes.
- Implement policies, procedures and monitoring mechanisms to manage records, and make staff members aware of their responsibilities in this regard.

Implement controls over daily and monthly processing and reconciling of transactions

Controls should be in place to ensure that **transactions** are processed in an accurate, complete and timely manner, which in turn will reduce errors and omissions in financial and performance reports.

Some of the matters requiring attention include the following:

- Daily capturing of financial transactions, supervisory reviews of captured information, and independent monthly reconciliations of key accounts.
- Collecting performance information at intervals appropriate for monitoring, setting service delivery targets and milestones, and validating recorded information.
- Confirming that legislative requirements and policies have been complied with before initiating transactions.

Review and monitor compliance with legislation

Auditees need to have mechanisms that can identify applicable legislation as well as changes to legislation, assess the requirements of legislation, and implement processes to ensure and **monitor compliance** with legislation.

What is information technology and what are information technology controls?

IT refers to the computer systems used for recording, processing and reporting financial and non-financial transactions. IT controls ensure the **confidentiality**, **integrity** and **availability** of **state information**, enable service delivery, and promote national security. Good IT governance, effective IT management and a secure IT infrastructure are therefore essential.

During our audits, we assessed the IT controls that focus on IT governance, security management, user access management and IT service continuity.

To evaluate the status of the IT controls in the areas we audited, we grouped them into the following three categories, with reference to the control measures that should be in place:

1. Where IT controls are being designed, management should ensure that the controls would reduce risks and threats to IT systems.

2. Where IT controls are being implemented, management should ensure that the designed controls are implemented and embedded in IT processes and systems. Particular attention should be paid to ensuring that staff members are aware of, and understand, the IT controls being implemented, as well as their roles and responsibilities in this regard.

3. Where IT controls have been embedded and are functioning effectively, 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 consistent daily, monthly and quarterly IT operational practices.

Information technology governance

IT governance refers to the **leadership**, **organisational structures** and **processes** which ensure that the auditee's IT resources will sustain its business strategies and objectives. Effective IT governance is essential for the overall well-being of an auditee's IT function and ensures that the auditee's IT control environment functions well and enables service delivery.

Security management

Security management refers to the **controls preventing unauthorised access** to the computer networks, computer operating systems and application systems that generate and prepare financial information.

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User access management

User access controls are measures designed by business management to **prevent and detect the risk** of unauthorised access to, and the creation or amendment of, financial and performance information stored in the application systems.

Information technology service continuity

IT service continuity controls enable auditees to **recover**, within a reasonable time, the **critical business operations** and **application systems** that would be affected by disasters or major system disruptions.

What are root causes?

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

Our audits included an assessment of the root causes of audit findings, based on the identification of internal controls that had failed to prevent or detect the error or non-compliance. These root causes were confirmed with management and shared in the management report with the municipal managers or CEOs and the mayors. We also included the root causes of material findings reported as internal control deficiencies in the audit report, classified under the key drivers of leadership, financial and performance management, or governance.

Who provides assurance?

Mayors and their municipal managers use the annual report to report on the financial position of auditees, their performance against predetermined objectives and overall governance, while one of the important oversight functions of councils is to consider auditees' annual reports. To perform their oversight function, they need **assurance that the information in the annual report is credible**. To this end, the annual report also includes our audit report, which provides assurance on the credibility of the financial statements, the performance report and the auditee's compliance with legislation.

Our reporting and the oversight processes reflect on history, as they take place after the financial year. Many other role players in local government contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

The mandates of these role players differ from ours, and we have categorised them as follows:

1. Those directly involved in the management of the auditee (management/leadership assurance)

2. Those that perform an oversight or governance function, either as an internal governance function or as an external monitoring function (internal independent assurance and oversight)

3. The independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight)

We assess 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 these controls. In the current environment, which is characterised by inadequate internal controls, corrected and uncorrected material misstatements in financial and performance information, and widespread non-compliance with legislation, all role players need to provide an extensive level of assurance.

What is the role of each key role player in providing assurance?

Senior management

Senior management, which includes the CFO, CIO and head of the SCM unit, provides assurance by implementing the following basic financial and performance controls:
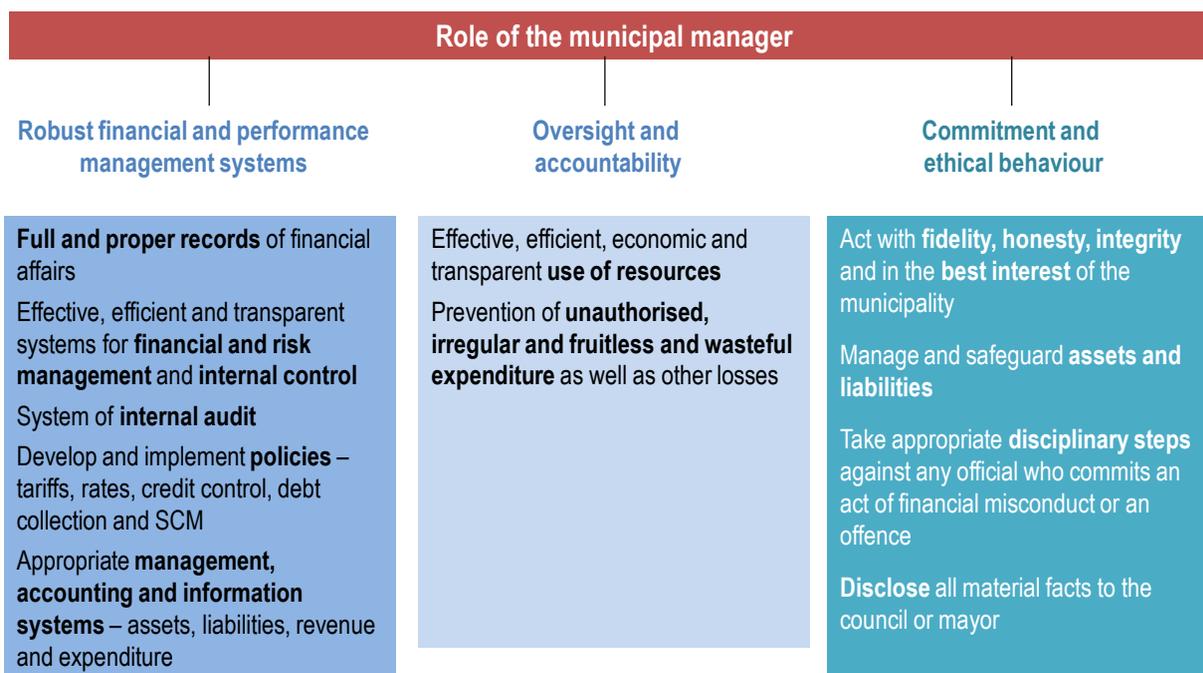
- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable legislation.
- Design and implement formal controls over IT systems.

Municipal managers and municipal entities' chief executive officers

While we recognise that municipal managers and the CEOs of municipal entities depend on senior management for designing and implementing the required financial and performance management controls, they are responsible for creating an environment that helps to improve such controls in the following ways:

- Provide effective and ethical leadership and exercise oversight of financial and performance reporting and compliance with legislation.
- Implement effective HR management to ensure that adequate and sufficiently skilled staff members are employed and their performance is monitored, and that there are proper consequences for poor performance.
- Establish policies and procedures to enable sustainable internal control practices and monitor the implementation of action plans to address internal control deficiencies and audit findings.
- Establish an IT governance framework that supports and enables the achievement of objectives, delivers value and improves performance.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

The MFMA also defines the role of the municipal manager as follows:

Role of the municipal manager		
Robust financial and performance management systems	**Oversight and accountability**	**Commitment and ethical behaviour**
Full and proper records of financial affairs Effective, efficient and transparent systems for **financial and risk management** and **internal control** System of **internal audit** Develop and implement **policies** – tariffs, rates, credit control, debt collection and SCM Appropriate **management, accounting and information systems** – assets, liabilities, revenue and expenditure	Effective, efficient, economic and transparent **use of resources** Prevention of **unauthorised, irregular and fruitless and wasteful expenditure** as well as other losses	Act with **fidelity, honesty, integrity** and in the **best interest** of the municipality Manage and safeguard **assets and liabilities** Take appropriate **disciplinary steps** against any official who commits an act of financial misconduct or an offence **Disclose** all material facts to the council or mayor

The **role of the municipal manager** is critical to ensure:
timely, credible information **+** accountability **+** transparency **+** service delivery

Mayors

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

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

Internal audit units

The internal audit units assist municipal managers and the CEOs of municipal entities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. The establishment of internal audit units is a requirement of legislation.

Audit committees

An audit committee is an independent body, created in terms of legislation, which advises the municipal manager or CEO, senior management and the council on matters such as internal controls, risk management, performance management as well as the evaluation of compliance with legislation. The committee is further required to provide assurance on the adequacy, reliability and accuracy of financial and performance information.

Coordinating or monitoring departments

Our country's constitution stipulates that national and provincial government must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their duties. The MFMA further requires national and provincial government to assist municipalities in building capacity to support efficient, effective and transparent financial management. Both the MFMA and the MSA define responsibilities to monitor financial and performance management.

Municipal councils

The council is the executive and legislative authority of the municipality. In order for the council to perform its oversight and monitoring role, the municipal manager and senior managers must provide the council with regular reports on the financial and service delivery performance of the municipality. The MFMA and the MSA also require the council to approve or oversee certain transactions and events, and to investigate and act on poor performance and transgressions, such as financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure.

Municipal public accounts committees

The MPAC was introduced as a committee of the council to deal specifically with the municipality's annual report, financial statements and audit outcomes as well as to improve governance, transparency and accountability. The committee is an important provider of assurance, as it needs to give assurance to the council on the credibility and reliability of financial and performance reports, compliance with legislation as well as internal controls.

The primary functions of the MPAC can be summarised as follows:

- Consider and evaluate the content of the annual report and make recommendations to the council when adopting an oversight report on the annual report.
- Review information relating to past recommendations in the annual report; this relates to current in-year reports, including the quarterly, mid-year and annual reports.
- Examine the financial statements and audit reports of the municipality and municipal entities and consider improvements, also taking into account previous statements and reports.
- Evaluate the extent to which our recommendations and those of the audit committee have been implemented.
- Promote good governance, transparency and accountability in the use of municipal resources.

Portfolio committees on local government

In terms of our country's constitution, the National Assembly and provincial legislatures must maintain oversight of the executive authority responsible for local government. This executive authority includes the minister and MEC responsible for cooperative governance and other executives involved in local government, such as the minister and MEC responsible for finance. The mechanism used to conduct oversight is the portfolio committee on local government.

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13.2 Glossary of key terminology used in this report

Asset (in financial statements)

Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.

Backups (IT)

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

Business continuity plan (IT)

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

Cash flow (in financial statements)

The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).

Chief information officer or government information technology officer (IT)

The most senior official of the auditee who is accountable for aligning IT and business strategies; for planning, resourcing and managing the delivery of IT services and information; and for the deployment of associated human resources. The CIOs in the South African public sector are referred to as government information technology officers. The position was established by a cabinet memorandum in 2000.

Commitments from role players

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

Configuration (IT)

The complete technical description required to build, test, accept, install, operate, maintain and support a system.

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.

Creditors

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

Current assets (in financial statements)

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

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Current liability (in financial statements)   Money owed by the auditee to companies, organisations or persons who have supplied goods and services to the auditee.

Disaster recovery plan (IT)   A disaster recovery plan is a documented process or set of procedures to recover and protect an auditee's IT infrastructure in the event of a disaster. Usually documented in written form, the plan specifies the procedures that an auditee is to follow in the event of a disaster. It is a comprehensive statement of consistent actions to be taken before, during and after a disaster. The disaster could be natural, environmental or man-made. Man-made disasters could be intentional (e.g. the act of an attacker) or unintentional (i.e. accidental, such as the wall of a man-made dam breaking).

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

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

These controls include the basic daily and monthly controls for processing and reconciling transactions, the preparation of regular and credible financial and performance reports as well as the review and monitoring of compliance with key legislation.

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

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

Governance (as one of the drivers of internal control)

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

Implementing agent   Government institutions (e.g. the Independent Development Trust), non-governmental organisations or private sector entities appointed by the auditee to manage, implement and deliver on projects.

IT infrastructure (IT)

The hardware, software, computer-related communications, documentation and skills that are required to support the provision of IT services, together with the environmental infrastructure on which it is built.

Leadership (as one of the drivers of internal control)

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

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

Material finding (from the audit)

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

Material misstatement (in financial statements or performance reports)

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

Misstatement (in financial statements or performance reports)

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

Net current liability

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

Net deficit (incurred by auditee)

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

Oversight structures as well as coordinating and monitoring departments

Oversight structures consist of the provincial legislatures, the portfolio committees on local government and the NCoP.

Coordinating or monitoring departments include the DPME, the National Treasury and provincial treasuries, the DCoG and provincial Cogtas as well as the offices of the premier.

Refers to role players (1) that are directly involved with the management of the auditee (management/leadership assurance) – in other words, the first line of defence; (2) that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent assurance and oversight); and (3) that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

Password (IT)

In access control, confidential authentication information, usually composed of a string of characters, may be used to control access to physical areas and to data. Passwords have to comply with certain complexity rules to ensure that they are not easy to guess.

Patch management (IT)

A piece of programming code that is added to an existing program to repair a deficiency in the functionality of the existing routine or program. It is generally provided in response to an unforeseen need or set of circumstances. Patching is also a common means of adding a new feature or function to a program until the next major version of the software is released.

Platform (IT)

A platform consists of an operating system, the computer system's coordinating program, which in turn is built on the instruction set for a processor or microprocessor, and the hardware that performs logical operations and manages data movement in the computer.

Property, infrastructure and equipment (in financial statements)

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

Reconciliation (of accounting records)

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

Receivables or debtors (in financial statements)

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

Vulnerability (IT)

In information security, a weakness or flaw (in location, physical layout, organisation, management, procedures, personnel, hardware or software) that may be exploited by an attacker to cause an adverse impact.

13.3 Acronyms and abbreviations used in this report

AGSA	Auditor-General of South Africa
APAC	Association of Public Accounts Committees
B2B	back-to-basics
bn	billion
CEO	chief executive officer
CFO	chief financial officer
CIO	chief information officer
DCoG	Department of Cooperative Governance
DM	district municipality
DoRA	Division of Revenue Act
DPME	Department of Planning, Monitoring and Evaluation
DWS	Department of Water and Sanitation
EC	Eastern Cape
FS	Free State
GP	Gauteng
HR	human resources
IMFO	Institute of Municipal Finance Officers
IT	information technology
KZN	KwaZulu-Natal
LM	local municipality
LP	Limpopo
m	million
ME	municipal entity

MEC	member of the executive council
MET/metro	metropolitan municipality
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MIG	municipal infrastructure grant
Misa	Municipal Infrastructure Support Agent
MP	Mpumalanga
MPAC	municipal public accounts committee
MSA	Municipal Systems Act, 2000 (Act No. 32 of 2000)
mSCOA	Municipal Regulations on a Standard Chart of Accounts
MTSF	Medium-Term Strategic Framework
NC	Northern Cape
NCoP	National Council of Provinces
NW	North West
provincial Cogta	provincial department responsible for cooperative governance
PTNG	public transport network grant
Salga	South African Local Government Association
SCM	supply chain management
USDG	urban settlement development grant
WC	Western Cape

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