SECTION 6

Need to know

6.1 OUR AUDIT PROCESS 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 further assess the root cause of any error or non-compliance, based on the internal control that has 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 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 report is published, we share the outcomes and root causes with the national and provincial leadership, Parliament and the legislatures, as well as other 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, regularly assessing these, and sharing the results of the assessment with mayors, municipal managers, chief executive officers as well as audit committees.

During the audit process, we work closely with the municipal managers, chief executive officers, senior management, audit committees and internal audit units, as they are **key role players** in providing assurance on the credibility of the auditees' financial statements and performance reports as well as on their compliance with legislation.

We also continue to strengthen our relationship with the mayors, ministers and members of the executive council responsible for cooperative governance, coordinating and monitoring departments (such as the treasuries, premier's offices and 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 governance. 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 receive a **financially unqualified opinion with no findings** are those that are 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 receive a **financially unqualified opinion with findings** are those that are able to produce financial statements without material misstatements, but are struggling to:

   - align their performance reports to the predetermined objectives to which they have 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
   - report reliably on whether they have 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 receive a **financially qualified opinion with findings** face the same challenges as those that are financially unqualified with findings in the areas of reporting on performance and compliance with key legislation. In addition, they are unable to produce credible and reliable financial statements. Their financial statements contain misstatements that they cannot correct before the financial statements are published.

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

5. Those auditees with a **disclaimed opinion with findings** cannot provide us with evidence for most of the amounts and disclosures in the financial statements. We are therefore 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 reporting 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 Municipal Finance Management Act. The finding is only reported for auditees that are subject to this act and if the financial statements we receive for auditing include 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 focus on the following areas in our compliance audits if they apply to the particular auditee: ■ the quality of 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, supply chain management) ■ human resource management and compensation.

In our audit reports, we report findings that are 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 have been followed** to ensure that all suppliers are given equal opportunity to compete and that some suppliers are not favoured above others. The principles of a fair, equitable, transparent, competitive and cost-effective supply chain management process are fundamental to the procurement practices of the public sector, as enshrined in the country's constitution and prescribed in the Municipal Finance Management Act and its regulations. The act and its 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:

- Supply chain management 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 supply chain management 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 non-compliance in the process that needs to be investigated by management to determine whether it was an unintended error, negligence or done with the intention to work against the requirements of legislation (which, for example, require that procurement should be fair, equitable, transparent, competitive and cost-effective).

Through such **investigation**, it is also determined who is responsible and what the impact of the non-compliance is. Based on the investigation, the next steps are determined. One of the steps can be condonement if the non-compliance had no impact and negligence was not proven. Alternatively, if negligence was proven, the steps can be disciplinary action, the recovery of any losses from the implicated officials or even cancelling a contract or reporting the matter to the police or an investigating authority.

The Municipal Finance Management Act is clear that **municipal managers are responsible for preventing irregular expenditure** as well as on what process to follow if it has been incurred. Irregular expenditure is reported when it is identified – even if the expenditure was incurred in a previous year.

In order to promote transparency and accountability, auditees **should disclose all irregular expenditure identified (whether by the auditee or through the audit process)** in their financial statements with detail on how it had been resolved; in other words, how much had been investigated, recovered or condoned.

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 used or goods not received.

The Municipal Finance Management Act requires municipal managers to take all **reasonable steps to prevent fruitless and wasteful expenditure**. Auditees should have processes 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 act 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 approved budget by the council or that does not meet the conditions of a grant.

The Municipal Finance Management Act requires municipal managers to take all **reasonable steps to prevent unauthorised expenditure**. Auditees should have processes to identify any unauthorised expenditure and disclose the amounts in the financial statements. The act 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 allocated 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 grant allocations are approved each year through the Division of Revenue Act. This act indicates the approved allocation per auditee for that particular year, together with a forward estimate 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 the act:

- 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 Department of Cooperative Governance introduced the **municipal infrastructure grant** in 2004-05 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.

To achieve this outcome, annual targets must be set in respect of the following expected outputs derived from the municipal infrastructure grant 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 Department of Cooperative Governance. The grant uses the registration requirements of the municipal infrastructure grant 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 **urban settlement development grant** 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 **public transport network grant** 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 that are material enough to be brought to the attention of these users.

As part of the annual audits, we audit the **usefulness of the reported performance information** to determine whether it is presented in the annual report in the prescribed manner and is consistent with the auditee's planned objectives as defined in the integrated development plan and/or service delivery and budget implementation plan. We also assess whether the performance indicators set to measure the achievement of the objectives are:

- well defined (the indicator needs to have a clear, unambiguous definition so that data can be collected consistently, and is easy to understand and use)
- verifiable (it must be possible to validate the processes and systems that produce the indicator)
- specific (so that the nature and the required level of performance can be clearly identified)
- time bound (the time period or deadline for delivery must be specific)
- measurable (so that the required performance can be measured)
- consistent (with the objective, measures and/or targets)
- relevant (so that the required performance can be linked to the achievement of a goal).

We further audit the **reliability of the reported information** to determine whether it can be traced back to the source data or documentation and whether it is accurate, complete and valid.

WHEN IS HUMAN RESOURCE MANAGEMENT EFFECTIVE?

Human resource management refers to the **management of auditees' employees** (in other words, their human resources). Human resource management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

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

Our audits further look at vacancies and stability in key positions, the competencies of key officials, 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 assess the status of auditees' human resource management controls.

WHEN ARE INTERNAL CONTROLS EFFECTIVE AND EFFICIENT?

A key responsibility of municipal managers, chief executive officers, 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 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 auditees should focus on are outlined below.

Providing effective leadership

In order to improve and sustain audit outcomes, auditees require **effective leadership** that is based on a culture of honesty, ethical business practices and good governance to protect and enhance 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 key elements of internal control.

The Medium-Term Strategic Framework 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 Department of Cooperative Governance's back-to-basics 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:

- Establishing 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.
- Implementing policies, procedures and monitoring mechanisms to manage records, and making staff members aware of their responsibilities in this regard.

Implementing controls over daily and monthly processing and reconciling of transactions

Controls should be in place to ensure that **transactions are processed accurately, completely and timeously**, 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.

Reviewing and monitoring 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?

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

Non-complex and complex information technology environments

As per our new audit methodology, we differentiate between **non-complex** and **complex** information technology environments, as follows:

Non-complex environment – level 1 (low risk)

This is the lower end of the spectrum for information technology sophistication and relevance. The auditee uses one server associated with financial reporting and/or performance information, a limited number of workstations, no remote locations, commercial off-the-shelf applications and infrastructure, vendors to perform updates and maintenance on the system, little emerging or advanced technology, and a few or no online and e-commerce transactions.

Key controls over financial reporting and/or performance information are not overly reliant on information technology, are embedded in the commercial off-the-shelf applications, or are limited to very few manual processes and controls. Many small to medium-sized entities fall into this category.

Complex environment – levels 2 and 3 (medium and high risk)

This is the middle to high end of the spectrum. These auditees have the following characteristics:

- Use more than one server associated with financial reporting and/or performance information.
- Have remote locations.
- Employ one or more network operating system or non-standard ones.
- Have more workstations in total.
- Use some customisation of application software or have a relatively complex configuration of commercial off-the-shelf applications.
- Use enterprise resource planning systems and/or write their own custom software.
- Perform updates and maintenance on the system centrally onsite or through vendors, or perform centralised updates and maintenance on the system and distribute these to decentralised sites or through onsite vendors.
- Employ a few to moderate or a large number of emerging or advanced technologies.
- Enter into either a few or large number of online and e-commerce transactions.
- Rely heavily on information technology key controls over financial and/or performance information.

An entity running transversal systems would also fall into this category. Information systems for which certain information technology processes are managed centrally, but which are used by various auditees who have limited responsibility regarding the design and enhancement of the system, will also be classified as high risk at a national level.

Which information technology controls do we audit?

During our audits, we assess the information technology controls that focus on governance, security management, user access management and service continuity – as discussed further down. To evaluate the status of the information technology controls in the areas we audit, we group them into the following three categories, with reference to the control measures that should be in place:

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

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

3. **Where information technology controls have been embedded and are functioning effectively**, management should ensure that the controls that have been designed and implemented are functioning effectively at all times. Management should sustain these controls through disciplined and consistent daily, monthly and quarterly information technology operational practices.

Information technology governance

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

Security management

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

User access management

These 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

These 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 to 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 include an **assessment of the root causes of audit findings**, based on the identification of internal controls that have failed to prevent or detect the error in the financial statements and performance reports or that have led to non-compliance with legislation. These root causes are confirmed with management and shared in the management report with the municipal managers or chief executive officers and the mayors. We also include 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 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:

- Those directly involved in the management of the auditee (management or leadership assurance).
- 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).
- 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 auditees' internal controls 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 chief financial officer, chief information officer and head of the supply chain management 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 information technology systems.

Municipal managers and municipal entities' chief executive officers

While we recognise that municipal managers and the chief executive officers 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 human resource 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 information technology 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 information technology 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 Municipal Finance Management Act 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 supply chain management 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 Municipal Finance Management Act and the Municipal Systems Act, 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 chief executive officers 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 chief executive officer, 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 Municipal Finance Management Act further requires national and provincial government to assist municipalities in building capacity to support efficient, effective and transparent financial management. Both the Municipal Finance Management Act and the Municipal Systems Act 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 Municipal Finance Management Act and the Municipal Systems Act 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 municipal public accounts committee 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 committee 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 cooperative governance. This executive authority includes the minister and members of the executive council for cooperative governance and other executives involved in local government, such as the minister and members of the executive council for finance. The mechanism used to conduct oversight is the portfolio committees on local government.

6.2 GLOSSARY OF KEY TERMINOLOGY USED IN THIS REPORT

Accountability (plan+do+check+act) **cycle**	The cycle, also known as the Deming cycle, is used courtesy of the International Organization for Standardization. It is a repetitive, four-stage approach for continually improving processes, products and services. The cycle encourages a commitment to continuous improvement.
Asset (in financial statements)	Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.
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	The most senior official of the auditee who is accountable for aligning information technology and business strategies, and planning, resourcing and managing the delivery of information technology services and information as well as for the deployment of associated human resources. The chief information officers 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 (information technology)	The complete technical description required to build, test, accept, install, operate, maintain and support a system.
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.
Current liability (in financial statements)	Money owed by the auditee to companies, organisations or persons who have supplied goods and services to the auditee.
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.
Governance (as one of the drivers of internal control)	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.
Information technology infrastructure	The hardware, software, computer-related communications, documentation and skills that are required to support the provision of information technology 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.
Medium-Term Strategic Framework	Government's strategic plan for the 2014-19 electoral term. It reflects the commitments made in the election manifesto of the governing party, including the commitment to implement the National Development Plan. Its aim is to ensure policy coherence, alignment and coordination across government plans as well as alignment with budgeting processes.
Misstatement (in financial statements or performance reports)	Incorrect or omitted information in the financial statements or performance report.
Municipal Standard Chart of Accounts	This provides a multi-dimensional, uniform and standardised financial transaction classification framework. Essentially this means that the framework prescribes the method (the how) and format (the look) that municipalities and their entities should use to record and classify all capital and operating expenditure, revenue, assets, liabilities, equity, policy outcomes, and legislative reporting.
Non-cash item (in financial statements)	An entry in the financial statements correlating to expenses that are essentially just accounting entries rather than actual movements of cash. Depreciation and amortisation are the two most common examples of non-cash items.
Platform (information technology)	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.
Public Audit Act (Act No. 25 of 2004)	This is the Auditor-General of South Africa's enabling legislation. The objective of the act is to give effect to the provisions of our country's constitution by establishing and assigning functions to an auditor-general and by providing for the auditing of institutions in the public sector.
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.
Status of records review	A process whereby the auditor performs basic review procedures to identify risks and areas of concern for discussion with the accounting officer or mayor. The purpose of the status of records review is to: • ensure that there is a system of early warning to the accounting officer or mayor on challenges that may compromise good financial and performance management and compliance with legislation • demonstrate to the accounting officer or mayor a deepened level of understanding of the business of the auditee and the value added by the auditor • contribute to capacitating the accounting officer or mayor and senior management in instilling good practices of regular reporting, review and oversight • identify risks early and throughout the audit cycle to respond to these timeously and correctly.
Vulnerable financial position (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.