

2011-12

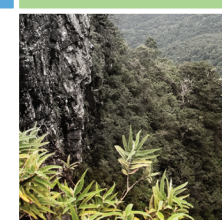
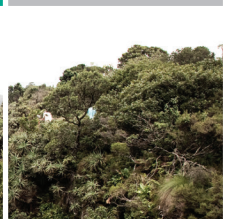
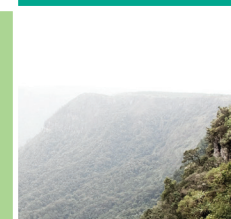
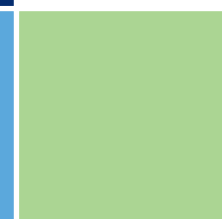
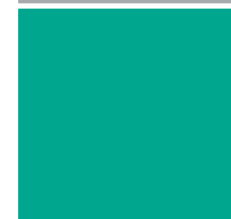
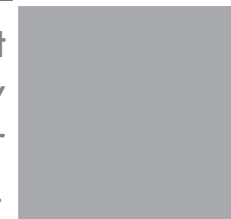
Consolidated general report on the
LOCAL GOVERNMENT audit outcomes



AUDITOR-GENERAL
SOUTH AFRICA

Our reputation promise

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



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



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

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

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

AUDITOR-GENERAL: TERENCE NOMBEMBE




Message from the auditor-general

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***Regression in audit outcomes overall
and in most provinces***

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Qualified opinions avoided by correcting
material misstatements identified
during audit process
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Material non-compliance with
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Contracts to the value
of at least R118 million
awarded to
municipal officials and
councillors
Section 2.4.3
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25% of auditees
received disclaimed or
adverse opinions and
21% qualified opinions
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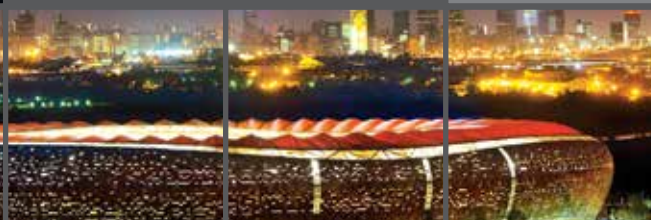
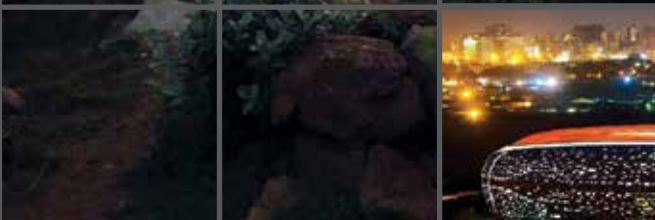
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CLEAN AUDITS 2011-12

MUNICIPALITIES

KWAZULU-NATAL

Umtshezi Local Municipality

LIMPOPO

Waterberg District Municipality

MPUMALANGA

Ehlanzeni District Municipality

Steve Tshwete Local Municipality

WESTERN CAPE

New: George Local Municipality

New: Langeberg Local Municipality

New: Mossel Bay Local Municipality

Swartland Local Municipality

West Coast District Municipality

MUNICIPAL ENTITIES

FREE STATE

Fezile Dabi District Municipality
Trust

GAUTENG

New: Johannesburg Fresh Produce Market

Johannesburg Social Housing Company

KWAZULU-NATAL

New: Durban Marine Theme Park

New: ICC, Durban

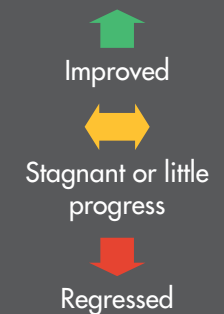
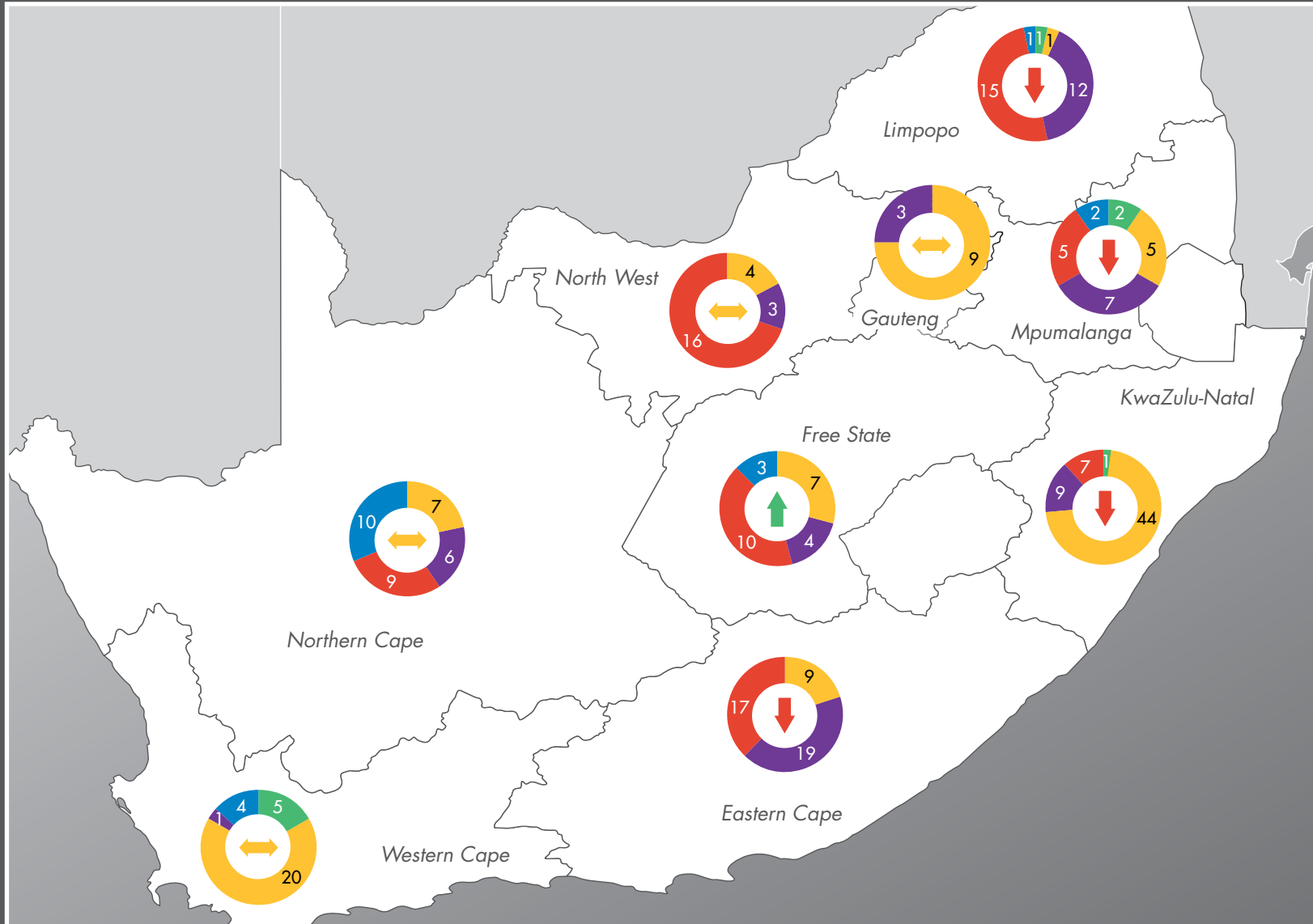
Safe City Pietermaritzburg (*new auditee*)

uThungulu Financing Partnership (*new auditee*)

uThungulu House Development Trust (*new auditee*)

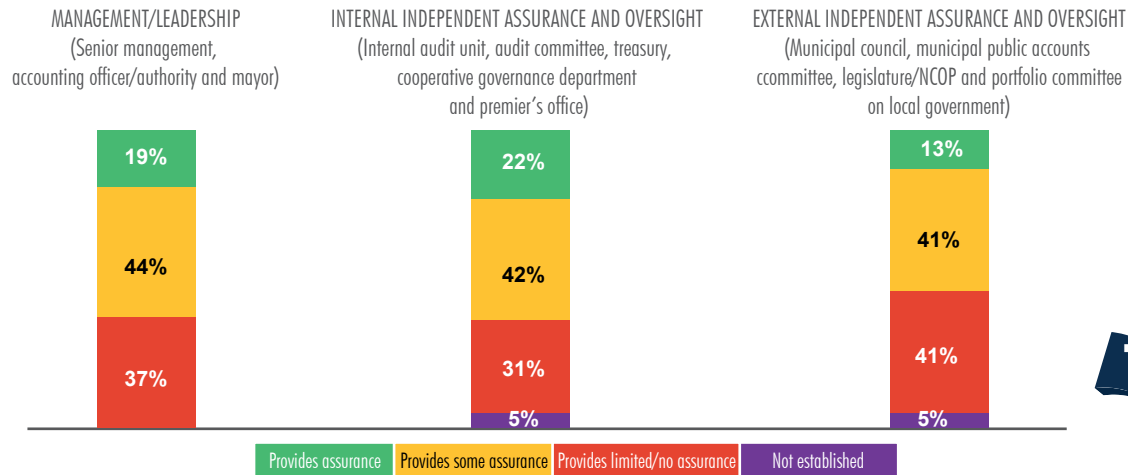


PROVINCIAL OUTCOMES - MUNICIPALITIES

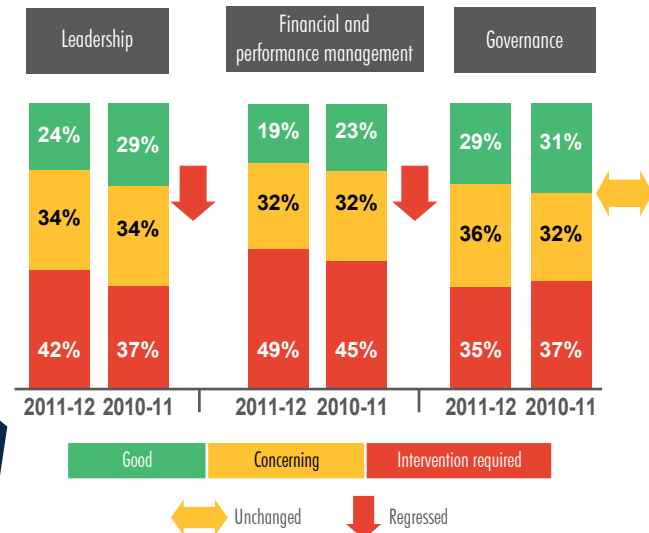


FOREWORD

KEY ROLE PLAYERS NOT PROVIDING ASSURANCE



DRIVERS OF KEY CONTROLS NOT IMPROVING



THE KEY ROLE PLAYERS NEED TO...

...TO ENSURE IMPROVED RESULTS...

...TAKE SOME VITAL ACTIONS...

...IN SIX KEY AREAS...

KEY RISK AREAS NOT RECEIVING REQUIRED ATTENTION



ROOT CAUSES NOT BEING ADDRESSED

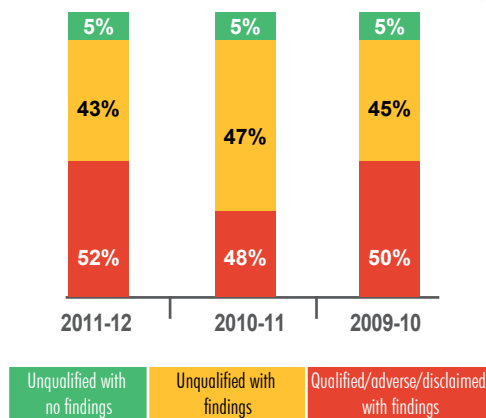
Key positions vacant or key officials lacking appropriate competencies
A root cause at **73%** of auditees (2010-11: 72%)

Lack of consequences for poor performance and transgressions
A root cause at **71%** of auditees (2010-11: 73%)

Slow response by political leadership in addressing the root causes of poor audit outcomes
A root cause at **76%** of auditees (2010-11: 57%)

Unchanged (yellow circle) Regressed (red circle)

REGRESSION IN AUDIT OUTCOMES



FOREWORD

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

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

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

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

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



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

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

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

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

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

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

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

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

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

Auditor-General

**Auditor-General
Pretoria
July 2013**

SECTION 1

EXECUTIVE SUMMARY



SECTION 1 Executive summary

Our audit and reporting process

We audit every municipality and municipal entity in local government, also called *auditees* in this report, so that we can report on the quality of their financial statements and annual performance reports and on their compliance with legislation. We also assess the root cause of any error or non-compliance, based on the internal control that failed to prevent or detect it. We include these aspects in the following three types of reports:



We report our findings, the root causes and recommendations in management reports to the senior management and accounting officers or authorities of auditees, which are also shared with the mayors and audit committees. Our opinion on the financial statements, material findings on the performance report and non-compliance with legislation as well as significant deficiencies in internal controls are included in an audit report, which is published with the municipality’s annual report and dealt with by the council.

Annually we report on the audit outcomes of all local government auditees in nine provincial reports and one consolidated general report (such as this one), in which we also analyse the root causes of poor audit outcomes. Before the general reports are published, we share the outcomes and root causes with the provincial legislatures and key role players in national and provincial government.

Our messages on key controls, risk areas and widespread root causes are shared with all role players

Over the past years, we have intensified our efforts to assist local government to improve its audit outcomes by identifying the key controls that should be in place at auditees; assessing these on a quarterly basis; and sharing the assessment with mayors, accounting officers or authorities, and audit committees.

We further identified the following six key risk areas in local government that need to be addressed, and we specifically audit these so that we can report on their status:

Quality of submitted financial statements	Quality of annual performance reports
Supply chain management	Financial health
Information technology controls	Human resource management

We identified the following three widespread root causes of the poor audit outcomes of local government in 2010-11. We said then, that if addressed, it will have a positive impact on the audit outcomes.

- Slow response by the political leadership to address the root causes of the poor audit outcomes of their municipalities.
- Vacancies in key positions, and key officials lacking the required competencies and skills.

- Lack of consequences for poor performance and transgressions by municipal officials and political leaders.

We have strengthened our relationship with mayors and councils as well as the role players in national and provincial government that support and oversee local government. We share our messages on key controls, risk areas and widespread root causes with them, and obtain and monitor their commitments for initiatives that can improve audit outcomes.

The key controls have regressed and the risk areas and widespread root causes were not fully addressed in 2011-12

The 2011-12 audits and the interactions with role players have shown that the recommendations we have made through our key messages have not yet been addressed. The following table summarises our findings.

Table 1

Summarised findings on local government

Key findings	Good	Concerning	Poor
Key controls	<p>The key controls of most auditees were not in place and the status thereof has regressed.</p> <p>The regression is most prominent in those controls that the leadership should implement to create a strong control environment and in the basic financial and performance management controls.</p> <p>The governance controls that have shown little improvement include effective audit committees and internal audit units.</p>		
Risk areas			
Quality of submitted financial statements	<p>The quality of the financial statements submitted for audit purposes did not improve, with only 14% of the auditees submitting financial statements with no material misstatements.</p>		
Quality of annual performance reports	<p>The quality of the annual performance reports remained poor, with 74% of the auditees having material weaknesses in the usefulness and reliability of the information in these reports.</p>		

Key findings	Good	Concerning	Poor
Supply chain management	<p>We identified weaknesses in the procurement processes and contract management of even more auditees than last year, bringing the percentage of auditees with findings in this regard to 84%.</p> <p>We again identified contracts (with a value of at least R118 million) to employees and councillors, as well as uncompetitive or unfair procurement processes and inadequate contract management.</p> <p>Most of the weaknesses were also instances of non-compliance with legislation, which translated into irregular expenditure of R9,2 billion.</p> <p>In total, 94 auditees (30%) could not provide us with evidence that all their procurement processes had complied with legislation, as the supporting documentation either did not exist or could not be found as a result of poor document management.</p>		
Human resource management	<p>Human resource management in local government has shown little sign of improvement. We identified weaknesses in the human resource management of 69% of the auditees. The implementation of legislated reforms to change the situation has been delayed.</p> <p>Our biggest concerns remain the management of vacancies and acting positions, the competencies of key personnel, and the management of performance.</p>		

Key findings	Good	Concerning	Poor
Information technology controls	<p>There has been minimal improvement in the information technology controls that should be ensuring the confidentiality, integrity and availability of local government information.</p> <p>Most auditees have challenges with the design of the controls and have not even begun to deal with the implementation and sustained effectiveness of the controls.</p> <p>A common reaction to such weaknesses is that the auditees' IT section or consultant should address it. However, the drivers of the weaknesses were the ineffective management and governance of information technology, which should be addressed by the municipal leadership with support from national and provincial role players.</p>		
Financial health	<p>We have always considered the financial health of auditees in our audits, as their financial statements have to disclose if they might not be able to operate in the foreseeable future (termed <i>a going concern uncertainty</i>). Our audits showed that 23% of the auditees recognised such a going concern uncertainty.</p> <p>From this year, we also analysed auditees' financial management indicators at a high level, based on their financial statements. We analysed the financial statements of the auditees that did not have adverse or disclaimed opinions, and identified significant weaknesses in their budget and grant management, debtor and creditor management, financial performance and position as well as cash management.</p>		

Key findings	Good	Concerning	Poor
Root causes			
Response by political leadership	In our interactions with councils and our regular engagements with mayors on the status of key controls, we consistently encouraged them to accept responsibility for guiding and directing the development and performance of the key controls.		
	Although almost all mayors met with us, their influence in improving the key controls was generally not evident. In many instances (68%), mayors even met with us three times or more during the year. Councils have also not been able to provide the required level of oversight to improve the controls, while the municipal public accounts committees established in 2011 to improve the oversight function did not yet operate fully or effectively.		
	Technical knowledge of financial management and reporting, performance management and legislation is not a prerequisite for elected office-bearers. Councillors might also not be familiar with the concepts of control and oversight. As a consequence, councillors often did not feel equipped and enabled to effectively deal with municipal administration, to enforce the required consequences for poor performance and transgressions, and to question the actions and decisions of municipal management and the information provided by them.		
	We determined that the slow response by the political leadership to our message had a negative impact at 76% of the auditees (83% of municipalities and 49% of municipal entities).		

Key findings	Good	Concerning	Poor
Vacancies and competencies	Last year, we reported that vacant key positions and key officials lacking appropriate competencies was a cause of poor audit outcomes at over 70% of the auditees. This root cause was not addressed in 2011-12 and continued to have a negative impact at 73% of the auditees (76% of the municipalities and 58% of the municipal entities).		
	In our audits, we gathered information on vacancies and competency levels at 30 June 2012 relating to the key positions of municipal manager, chief financial officer and head of the supply chain management unit. One or more of these positions were vacant at one in every five municipalities. Of the officials appointed in these positions, over a third did not yet have the qualifications or did not meet the competency requirements of the municipal regulations on minimum competency levels, which were to come into effect on 1 January 2013.		
	We also found that consultants were used for financial reporting assistance at approximately 71% of the auditees, at an estimated R378 million. These consultants were used in addition to the direct support provided by the treasuries and the departments of cooperative governance.		
	Consultants were almost always used to supplement the skills gap (89%), a trend similar to last year. We do expect that auditees will continue to rely on consultants, as there was limited or no transfer of skills at 61% of these auditees.		
	The ineffective use of consultants remained a concern, as the additional expertise provided by them did not always translate into financial statements of a better quality. Overall, 75% of the auditees that had material misstatements in their submitted financial statements were assisted by consultants.		

Key findings	Good	Concerning	Poor
Consequences for poor performance and transgressions	<p>We reported last year that at least 73% of the auditees showed signs of a general lack of consequences for poor performance and transgressions. We warned then that when officials and leaders are not held accountable for their actions, the perception is created that such behaviour and its results are acceptable and tolerated. Such an environment brings about low performance levels and disregard for legislation.</p> <p>This root cause remained widespread in 2011-12 at 71% of the auditees (74% of the municipalities and 58% of the municipal entities), due to performance management and evaluation processes not being well established. Auditees were also reluctant to act on transgressions, mostly because of a lack of knowledge of the steps to be taken and the remedies to be applied as well as pressure from the political and administrative leadership.</p>		

Key role players did not provide the level of assurance required to improve controls and address the risk areas and root causes

Role players across all three spheres of government should work towards improving the key controls, addressing the widespread root causes and ensuring that there is improvement in the six key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as on compliance with legislation.

Based on our assessment, these role players were not providing the necessary assurance. Mayors, accounting officers or authorities and senior management were only providing assurance at just less than a fifth of the auditees.

The contribution by senior management needs the most improvement, as municipal managers and mayors need to be able to rely on the information provided by senior managers for their monitoring and oversight function.

The assurance provided by internal audit units, audit committees, treasuries, departments of cooperative governance and offices of the premier was also not at the required level (only 22%), and these role players still did not make a positive and sustainable contribution. We further assessed that the assurance provided through oversight by councils, municipal public accounts committees and provincial legislatures needs the most improvement, with only 13% of these role players providing assurance at the required level.

Key role players not addressing inadequate controls, root causes and risk areas resulted in a regression in the audit outcomes

The overall regression in the audit outcomes was due to key role players not providing the necessary assurance, combined with the lack of improvement in key controls, root causes and key risk areas. The table below summarises the significant aspects of the 2011-12 audit outcomes of 317 auditees. Due to auditees submitting financial statements late for audit purposes or not submitting financial statements at all, we had not finalised the audits of 21 auditees (6%) by 31 March 2013, which was the cut-off date for inclusion of audit outcomes in this general report.

Table 2

Significant aspects of the audit outcomes

Key outcomes and trends	Good	Concerning	Poor
Overall audit outcomes			
Overall audit outcomes	<p>The overall audit outcomes regressed, as 41 auditees improved, but 50 auditees regressed.</p> <p>The progress towards clean audits has been slow, with the number of clean audits remaining at the same low level of 5% for the past three years.</p> <p>Almost half of the auditees that obtained a clean audit opinion were municipal entities, rather than municipalities. In the Free State, Gauteng and KwaZulu-Natal, almost all the clean audits were achieved by municipal entities, while in Limpopo, Mpumalanga and the Western Cape, all the clean audits were achieved by municipalities.</p>		
Metropolitan municipalities	<p>None of the eight metros obtained a clean audit opinion, but half of them had financially unqualified opinions. The financial statements of three were qualified and one was disclaimed.</p> <p>All the metros had findings on non-compliance with legislation, while five had material findings on the usefulness and reliability of their performance reports. The audit outcomes of one metro improved but one regressed.</p>		
Provincial audit outcomes	<p>The audit outcomes regressed in the Eastern Cape, KwaZulu-Natal, Limpopo and Mpumalanga, but improved in the Free State.</p> <p>It remained at the same level in the other provinces.</p>		

Key outcomes and trends	Good	Concerning	Poor
Clean audits	<p>Six auditees progressed to a clean audit by addressing either their performance reporting weaknesses or their findings on non-compliance with legislation, or both these aspects.</p> <p>Eight auditees could sustain their clean audit status of the previous year.</p> <p>However, nine auditees could not retain their clean audit status. Eight of these auditees regressed to financially unqualified opinions with findings and one auditee in Limpopo regressed to a qualified audit opinion.</p>		
Financial statements			
Submission of financial statements	<p>The Municipal Finance Management Act requires auditees to submit their financial statements for audit purposes by 31 August (or 30 September in the case of consolidated audits).</p> <p>In total, 10% of the auditees submitted their financial statements late or did not submit financial statements at all (five in the Eastern Cape, seven in the Free State, three in Limpopo, two in Mpumalanga, 13 in the Northern Cape and four in the Western Cape).</p> <p>However, 11% more auditees than in the previous year submitted their financial statements on time. The biggest improvement in the timely submission of financial statements was in the North West, which showed a 78% improvement.</p>		

Key outcomes and trends	Good	Concerning	Poor
<i>Note: The percentages included in the rest of this table are based on the 317 completed audits</i>			
Unqualified opinions	<p>Only 161 auditees (51%) received an unqualified audit opinion on their financial statements.</p> <p>The quality of the financial statements submitted for auditing was poor, with only 14% of the auditees submitting financial statements with no material misstatements. In total, 117 auditees (37%) avoided qualified opinions by correcting the material misstatements identified during the audit process. If the misstatements had not been corrected, the percentage auditees with unqualified financial statements would have been only 14%, instead of 51%.</p>		
Adverse or disclaimed opinions	<p>The number of auditees with adverse or disclaimed opinions remained high at 85 (27% of the auditees), with 60 auditees having the same opinion as in the previous year.</p> <p>Although 21 auditees that had adverse or disclaimed opinions in the previous year were able to improve, 25 regressed into this category.</p>		
Qualified opinions	<p>Seventy-one auditees (22%) received a qualified audit opinion; an increase from the 62 in the previous year.</p> <p>Thirty-three auditees had the same opinion in the previous year and only 14 that were qualified in the previous year were able to improve. Seventeen auditees that had an unqualified opinion in the previous year regressed to qualified.</p>		

Key outcomes and trends	Good	Concerning	Poor
Unqualified with findings	<p>In total, 144 auditees (45%) received an unqualified audit opinion on their financial statements, but could not obtain a clean audit status, as they had material findings on either the usefulness or reliability of their annual performance reports or material findings on non-compliance with legislation, or material findings on both these aspects.</p> <p>Of the 144 auditees, 121 also had this opinion in the previous year, while 95 have been in this category for three years – unable to move to a clean audit status.</p>		
Annual performance report			
Submission of annual performance reports	<p>Twenty-four auditees (8%) did not prepare annual performance reports and 13 auditees (4%) submitted their reports too late to be audited.</p>		
Overall results	<p>We reported material findings on either the usefulness or the reliability, or both the usefulness and the reliability, of the annual performance reports in the audit reports of 235 auditees (74%). There has been no overall improvement since the previous year.</p>		
Provincial results	<p>The number of auditees with material findings increased in the Eastern Cape, KwaZulu-Natal and Mpumalanga, but there was some improvement in the North West and the Western Cape.</p> <p>It remained at the same level in the other provinces.</p>		

Key outcomes and trends	Good	Concerning	Poor
Compliance with legislation			
Overall results	<p>We reported material non-compliance with legislation in the audit reports of 299 auditees (94%) (96% of the municipalities and 86% of the municipal entities). There has been no overall improvement since the previous year.</p> <p>The most common findings were on material misstatements in the financial statements submitted for auditing, supply chain management as well as the prevention and follow-up of unauthorised, irregular as well as fruitless and wasteful expenditure.</p>		
Provincial results	<p>The number of auditees with non-compliance findings increased in Gauteng, but there was some improvement in the Western Cape.</p> <p>It remained at the same level in the other provinces.</p>		

Key outcomes and trends	Good	Concerning	Poor
Unauthorised expenditure	Unauthorised expenditure of R9,78 billion was incurred by 181 municipalities. This is nearly double than in the previous year. Most of the unauthorised expenditure was caused by budget overspending, which in part can be attributed to poor budget preparation, including estimates of non-cash items.		
Irregular expenditure	Irregular expenditure of R9,82 billion was incurred by 266 auditees (84%). The amount increased by R2,8 billion (41%) from the previous year.		
Fruitless and wasteful expenditure	Fruitless and wasteful expenditure of R568 million was incurred by 202 auditees (64%). This expenditure more than doubled from the previous year.		

The effective implementation of commitments by key role players can have a positive impact on audit outcomes

The ability of some auditees to consistently improve from year to year, and even to obtain clean audits, is encouraging and demonstrates that clean audits can be obtained. My provincial general reports include accounts from across the country where the commitments of the leadership and officials have resulted in improved audit outcomes. Examples include the support initiative by the premier and the member of the executive council for finance in the North West that resulted in a 100% submission rate of financial statements by the legislated date (including 14 financial statements from previous years) and the improvement in audit outcomes in the Free State as a result of enhanced oversight by mayors who were actively involved during the audit process.

In order to influence and inspire the leadership in local government, we have shared our key message on the actions needed to improve this year's audit outcomes with every accounting officer or authority, mayor and councillor through our reports and interactions with them. Through our roadshow on local government audit outcomes earlier this year, we have also shared it countrywide with legislatures, premiers and members of the executive council for finance and for local government. We also took our message to the Cabinet, the National Council of Provinces, the Association of Public Accounts Committees and the Speakers' Forum.

As part of the interactions, all these role players shared with us the progress of the commitments made in response to the previous year's audit outcomes. Although it is encouraging that most of the initiatives committed to last year either have been completed or are in progress, it clearly did not have an impact overall on improving the 2011-12 audit outcomes. Two of the reasons for the limited impact are that the initiatives committed to were implemented too late to have an impact and that the initiatives were not appropriate or sufficient to have an impact.

The initiatives committed to last year and the new ones in response to our 2011-12 messages should have a more visible impact on the upcoming audit outcomes if fully implemented in a coordinated manner and responded to by the auditees.

SECTION 2

OVERVIEW OF AUDIT OUTCOMES

2.1	SUMMARY OF AUDIT OUTCOMES	24
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2.4	FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LEGISLATION.....	56

SECTION 2 Overview of audit outcomes

This section of the general report provides the 2011-12 local government audit outcomes (section 2.1), followed by further details on findings arising from the audit of the financial statements (section 2.2), reporting by auditees against their predetermined objectives (PDOs) (section 2.3), and compliance by auditees with key legislation (section 2.4). Section 2.4 also covers findings on supply chain management (SCM) and unauthorised, irregular as well as fruitless and wasteful expenditure.

2.1 SUMMARY OF AUDIT OUTCOMES

2.1.1 Summary of overall audit outcomes

Local government consists of eight metropolitan municipalities, 44 district municipalities and 226 local municipalities (totalling 278 municipalities) as well as 60 municipal entities. Since the 2010-11 financial year, the number of municipalities has decreased by five from 283 to 278 (two district municipalities and three local municipalities), due to the disestablishment or merger of five municipalities. During the year under review, four municipal entities were closed (two in Gauteng and one each in Limpopo and the Western Cape), while four new municipal entities were established (one in Gauteng and three in KwaZulu-Natal). The prior year comparisons in this report have been restated to exclude these nine auditees.

We completed the audits of 317 (94%) of the 338 auditees that had submitted financial statements by 31 August 2012 (or by 30 September 2012 in the case of consolidated financial statements) within the legislated time frame of three months from receipt of the financial statements. Due to auditees submitting financial statements late for audit purposes or not submitting financial statements at all, we had











not finalised the audits of 21 auditees (6%) by 31 March 2013, which was the cut-off date we set for inclusion of audit outcomes in this general report. Section 2.1.4 gives the status of these outstanding audits at the date of this report.

Table 3 summarises the audit outcomes of the 2011-12 financial year for audits completed by 31 March 2013 as well as the audit outcomes of the previous year, followed by a provincial analysis.

Please note the following when reading the rest of the report:

- If municipalities have municipal entities under their control, the audit opinion on their financial statements is that of the consolidated financial statements.
- 'With findings' denotes findings on either reporting on PDOs or non-compliance with legislation, or findings on both these aspects.
- Clean audits are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either PDOs or non-compliance with legislation.
- Movement of 5% or more is regarded as an improvement or a regression.
- The glossary of terms defines the terminology used in this report.
- The provincial general reports are available at www.agsa.co.za.

Table 3**Summary of audit outcomes for current and prior year**

Audit outcomes	Total		Metropolitan municipalities		District municipalities		Local municipalities		Municipal entities	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Unqualified with no findings (clean audits)	17	17	0	0	3	5	6	8	8	4
Unqualified with findings	144	157	4	5	26	24	76	88	38	40
Unqualified financial statements	48% 	52%	50% 	63%	66% 	66%	36% 	42%	77% 	79%
Qualified opinion, with findings	71	62	3	1	6	9	55	45	7	7
Adverse opinion, with findings	3	10	0	1	1	2	2	6	0	1
Disclaimer of opinion, with findings	82	85	1	1	8	4	67	77	6	3
Number of audit reports not issued by 31 March 2013*	21	3	0	0	0	0	20	2	1	1
Outstanding audits and qualified financial statements	52% 	48%	50% 	37%	34% 	34%	64% 	58%	23% 	21%
Total number of audits	338	334	8	8	44	44	226	226	60	56
Findings on reporting on PDOs only	1	4	0	0	1	0	0	2	0	2
Findings on non-compliance with legislation only	65	70	3	3	16	9	25	31	21	27
Findings on both PDOs and non-compliance with legislation	234	240	5	5	24	30	175	183	30	22
Total number of audits 'with findings'	300	314	8	8	41	39	200	216	51	51

* Only two of the outstanding audits were unqualified for the 2010-11 financial year

 Stagnant or little progress  Regressed

In total, 117 auditees (37%) avoided qualified financial statements by correcting the material misstatements identified during the audit process. If the misstatements had not been corrected, the percentage unqualified

financial statements would have been only 14% (as indicated below), instead of 48%.

Table 4
Percentage of unqualified financial statements before corrections

	Total	Metropolitan municipalities	District municipalities	Local municipalities	Municipal entities
Unqualified financial statements	14%	13%	18%	9%	28%

Refer to section 2.2.1 for further detail in this regard.
Annexure 1 lists all auditees with their current and prior year audit outcomes.

Table 5 summarises the progress made in the provinces towards obtaining clean audits. The legend on the following page is used in the graphics in the table.

Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse/disclaimed and outstanding audits
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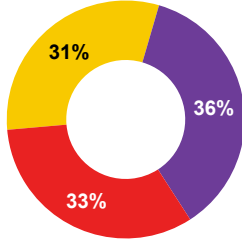




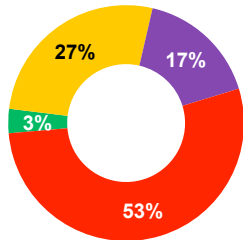



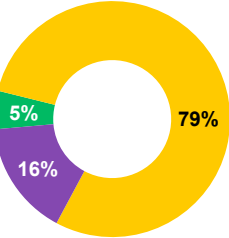




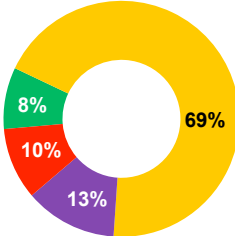




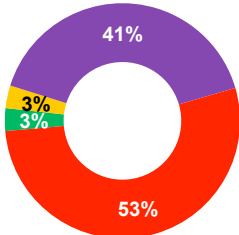


 Improved
  Stagnant or little progress
  Regressed



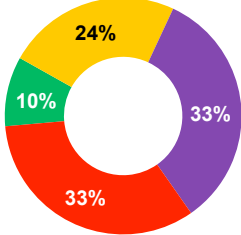




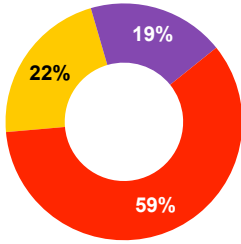


Table 5



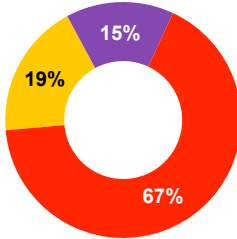




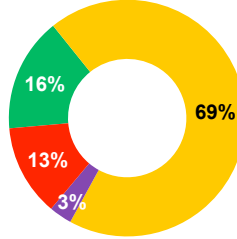


Progress made in the provinces towards obtaining clean audits

Improvements and regressions in audit opinions	Summary of movement in audit outcomes	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with non-compliance findings and direction of movement
	<p>Eastern Cape</p>  <p>No clean audits</p> <p>Six auditees improved their 2010-11 audit outcomes (four disclaimed auditees and one adverse auditee improved to qualified, and one auditee improved from qualified to unqualified with findings). The only auditee with a clean audit in the previous year regressed to unqualified with findings. Both the metropolitan municipalities in the province were qualified, while three of the six district municipalities were unqualified with findings. Of the remaining three district municipalities, one obtained an adverse audit opinion and the other two were disclaimed.</p>		<p>82%</p> 	<p>100%</p> 

Improvements and regressions in audit opinions		Summary of movement in audit outcomes	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with non-compliance findings and direction of movement
	Free State 	<p>Retained clean audit: Fezile Dabi District Municipality Trust</p> <p>Six auditees improved their 2010-11 audit outcomes (two auditees successfully dealt with their prior year qualification and moved to unqualified with findings, and four auditees moved from disclaimed to qualified). Two auditees regressed from qualified to disclaimed. The only metropolitan municipality in the province was disclaimed, while the four district municipalities were unqualified with findings. We did not finalise the audits of two auditees on time due to the late receipt of the annual financial statements (which have subsequently been finalised) and another two that did not submit annual financial statements for auditing.</p>		85% 	96% 
		<p>Retained clean audit: Johannesburg Social Housing Company</p> <p>Improved to clean audit: Johannesburg Fresh Produce Market</p> <p>Only three auditees improved and two regressed, of which one was previously unqualified with no findings. One of the three metropolitan municipalities was qualified, while two were unqualified with findings. The two district municipalities were both unqualified with findings.</p>		50% 	95% 

Improvements and regressions in audit opinions		Summary of movement in audit outcomes	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with non-compliance findings and direction of movement
	KwaZulu-Natal 	Retained clean audit: Umtshezi Local Municipality Improved to clean audits: Durban Marine Theme Park (Pty) Ltd and ICC, Durban (Pty) Ltd New auditees with clean audits: Safe City Pietermaritzburg, uThungulu Financing Partnership and uThungulu House Development Trust Five auditees improved and 15 auditees regressed, of which four regressed to unqualified with findings after receiving a clean audit report in the previous year. The metropolitan municipality and six of the 10 district municipalities were unqualified with findings. Two district municipalities were qualified and two were disclaimed.		65% 	92% 
		Retained clean audit: Waterberg District Municipality The results reflect three improvements and 10 regressions, one of which was from a clean audit opinion in the previous year. Two auditees regressed from unqualified to disclaimed. Only one of the five district municipalities received a clean audit, while one was qualified and the remaining three were disclaimed. At the time of the report, we had not finalised the audit of one auditee due to the late receipt of the annual financial statements.			
	Limpopo 	Retained clean audit: Waterberg District Municipality The results reflect three improvements and 10 regressions, one of which was from a clean audit opinion in the previous year. Two auditees regressed from unqualified to disclaimed. Only one of the five district municipalities received a clean audit, while one was qualified and the remaining three were disclaimed. At the time of the report, we had not finalised the audit of one auditee due to the late receipt of the annual financial statements.		94% 	97% 

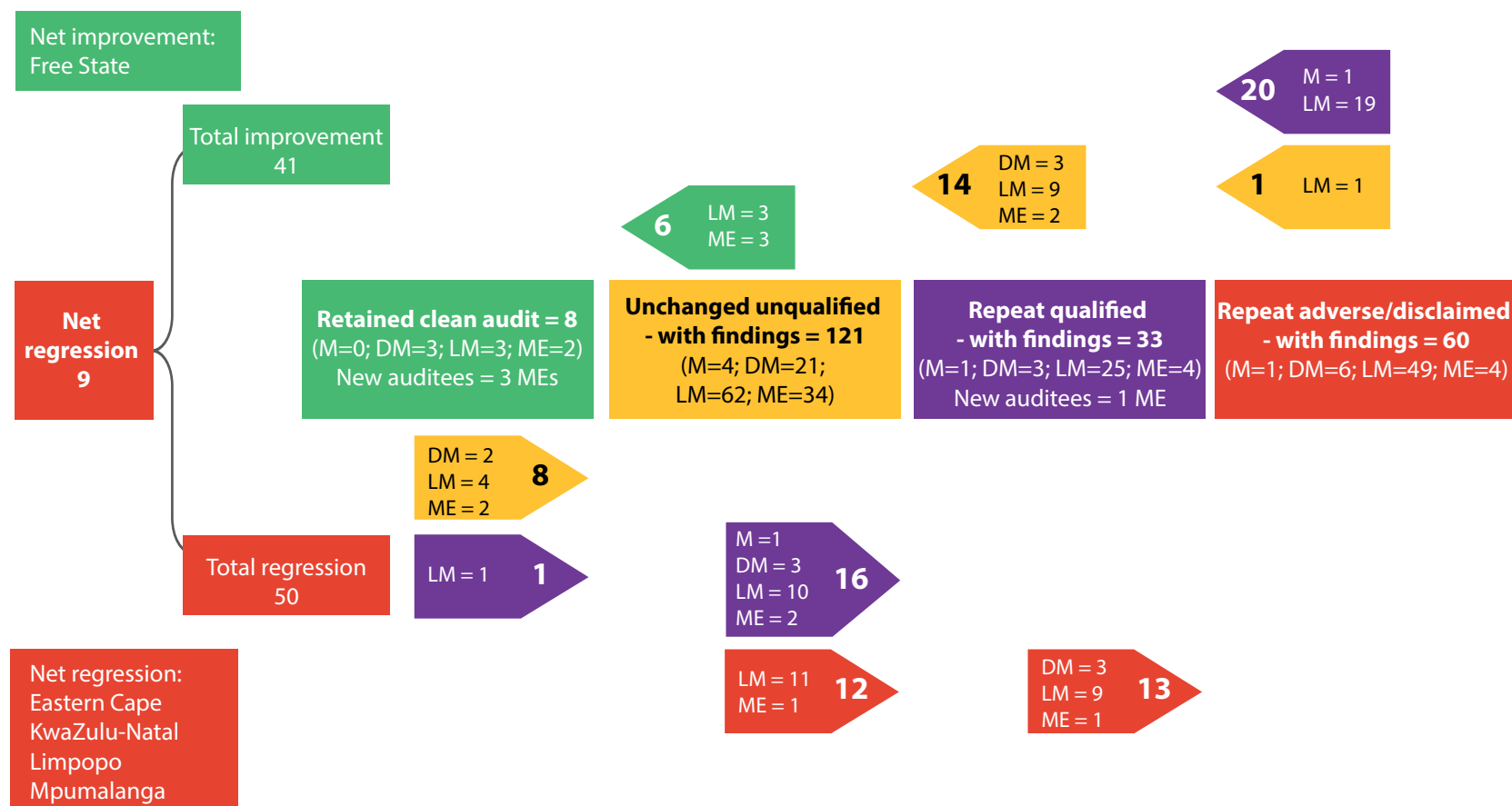
Improvements and regressions in audit opinions		Summary of movement in audit outcomes	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with non-compliance findings and direction of movement
	Mpumalanga 	<p>Retained clean audits: Ehlanzeni District Municipality and Steve Tshwete Local Municipality</p> <p>Five auditees improved, while seven regressed. Two of the auditees regressed from receiving clean audits in the previous year to being unqualified with findings in the current year. Two of the three district municipalities were unqualified with findings, while one received a clean audit. Due to the late receipt of the financial statements of two municipalities, the audits were not finalised as at 31 March 2013. The audits of these two auditees were subsequently finalised.</p>		79% 	84% 
	Northern Cape 	<p>No clean audits</p> <p>Of the three auditees that had improved, two progressed to unqualified with findings, while one progressed to a qualified opinion. Three auditees regressed: one from unqualified to qualified and two from unqualified to disclaimed. Of the five district municipalities, three were unqualified with findings and two were qualified. As at 31 March 2013, we had not finalised the audits of 10 auditees due to the late receipt of the annual financial statements. Subsequently, the audits of seven auditees were finalised.</p>		95% 	100% 

Improvements and regressions in audit opinions		Summary of movement in audit outcomes	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with non-compliance findings and direction of movement
	North West 	No clean audits Four auditees improved and two auditees regressed. Nine municipalities and one municipal entity received a disclaimer of opinion for the third consecutive year. Two of the four district municipalities were unqualified with findings, one was qualified, and one was disclaimed.		89% 	100% 
	Western Cape 	Retained clean audits: Swartland Local Municipality and West Coast District Municipality Improved to clean audits: George Local Municipality, Langeberg Local Municipality and Mossel Bay Local Municipality Three auditees progressed to clean audits, while two auditees retained their clean audit status. Only one auditee regressed from unqualified with findings to qualified. The metropolitan municipality and four of the five district municipalities were unqualified with findings, while only one district received a clean audit. Only one of the four audits outstanding at 31 March 2013 was subsequently finalised.		50% 	82% 

While table 4 shows the net change in audit outcomes from the previous year, the following figure details the improvements and regressions that had caused the net regression.

Figure 1

Improvements and regressions in the audit opinions



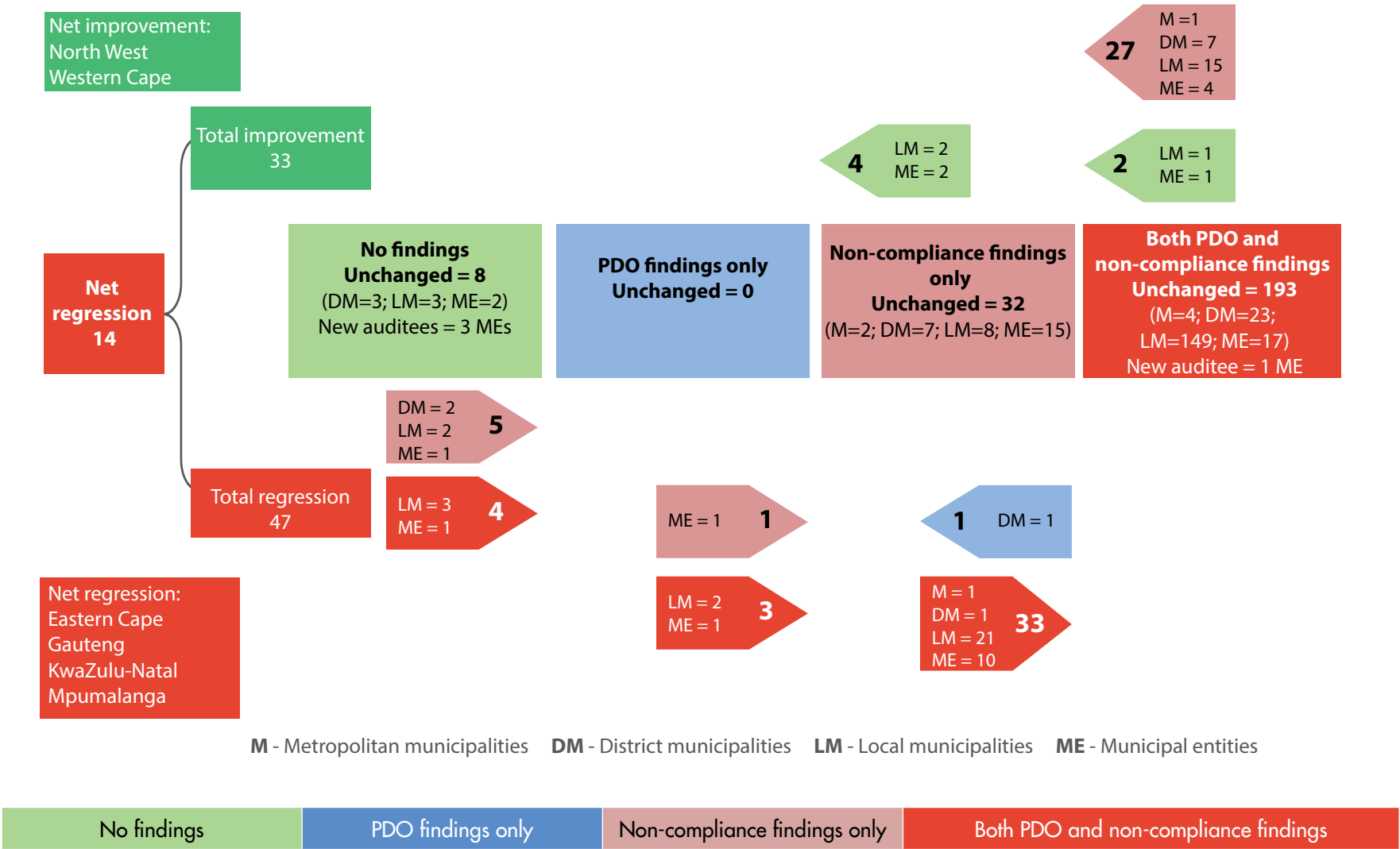
M - Metropolitan municipalities **DM** - District municipalities **LM** - Local municipalities **ME** - Municipal entities

Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse/disclaimed with findings
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As can be seen in table 4 and figure 1, the audit outcomes remained concentrated in the category of unqualified with material findings on either reporting on PDOs or non-compliance with legislation, or

both these aspects. The following figure shows the improvements and regressions that had caused the net regression in these areas.

Figure 2
Improvements and regressions in findings on predetermined objectives and non-compliance



The table below summarises the overall key outcomes and trends.

Table 6

Significant aspects of the 2011-12 audit outcomes

Key outcomes and trends	Good	Concerning	Poor
Overall audit outcomes	<ul style="list-style-type: none"> The overall audit outcomes of local government regressed, as 41 auditees improved, but 50 auditees regressed. The progress towards clean audits has been slow, with the number of clean audits remaining at the same low level of 5% for the past three years. 		
Progression to clean audit opinions	<ul style="list-style-type: none"> Six auditees [<i>Johannesburg Fresh Produce Market (GP)</i>, <i>Durban Marine Theme Park (Pty) Ltd</i> and <i>ICC, Durban (Pty) Ltd (KZN)</i>, and <i>George Local Municipality</i>, <i>Langeberg Local Municipality</i> and <i>Mossel Bay Local Municipality (WC)</i>] progressed to a clean audit by addressing their PDO weaknesses and/or findings on non-compliance with legislation. 		
Sustained clean audit opinions	<ul style="list-style-type: none"> Eight auditees sustained their clean audit status of the prior year. These were three district municipalities [<i>Waterberg District Municipality (LP)</i>, <i>Ehlanzeni District Municipality (MP)</i> and <i>West Coast District Municipality (WC)</i>]; three local municipalities [<i>Umtshezi Local Municipality (KZN)</i>, <i>Steve Tshwete Local Municipality (MP)</i> and <i>Swartland Local Municipality (WC)</i>]; and two municipal entities [<i>Fezile Dabi District Municipality Trust (FS)</i> and <i>Johannesburg Social Housing Company (GP)</i>]. 		

Key outcomes and trends	Good	Concerning	Poor
Regressions from clean audit opinions	<ul style="list-style-type: none"> The nine auditees that had regressed from a clean audit in the previous year are made up as follows: <ul style="list-style-type: none"> Two district municipalities [<i>Umkhanyakazi District Municipality (KZN)</i> and <i>Gert Sibande District Municipality (MP)</i>]. Five local municipalities [<i>eMadlangeni Local Municipality</i>, <i>Richmond Local Municipality</i> and <i>Umdoni Local Municipality (KZN)</i>, <i>Fetakgomo Local Municipality (LP)</i>, and <i>Victor Khanye Local Municipality (MP)</i>]. Two municipal entities [<i>Joe Gqabi Economic Development Agency (EC)</i> and <i>Joburg Theatre (SOC) Ltd (GP)</i>]. Eight of these lost their clean audit status due to findings on PDOs and/or non-compliance with legislation, while the <i>Fetakgomo Local Municipality (LP)</i> regressed to a qualified audit opinion. 		

Key outcomes and trends	Good	Concerning	Poor
Adverse opinions	<ul style="list-style-type: none"> The <i>Buffalo City Metropolitan Municipality</i> (EC) and the <i>Greater Letaba Local Municipality</i> (LP) were able to improve from an adverse opinion to a qualified opinion with findings on PDOs and non-compliance with legislation. Two district municipalities [<i>OR Tambo District Municipality</i> (EC) and <i>Umkhanyakude District Municipality</i> (KZN)]; three local municipalities [<i>Phumelela Local Municipality</i> (FS), and <i>Aganang Local Municipality</i> and <i>Modimolle Local Municipality</i> (LP)]; and one municipal entity [<i>Moses Kotane Development Agency</i> (NW)] showed no improvement, moving from an adverse to a disclaimed opinion. Two auditees in the Eastern Cape (<i>Chris Hani District Municipality</i> and <i>Mbizana Local Municipality</i>) had adverse opinions in the current year, moving from a disclaimer of opinion in the previous year. 		

Key outcomes and trends	Good	Concerning	Poor
Disclaimer of opinions	<ul style="list-style-type: none"> The financial statements of 51 auditees [<i>Mangaung Metropolitan Municipality</i> (FS), <i>Alfred Nzo District Municipality</i> (EC), <i>Greater Sekhukhune District Municipality</i> (LP) and <i>Ngaka Modiri Molema District Municipality</i> (NW); 44 local municipalities (14 in the North West, 10 in the Eastern Cape, seven each in the Free State and the Northern Cape, four in Limpopo and two in Mpumalanga); and three municipal entities (<i>Port St Johns Development Agency</i> – EC, <i>Centlec (Pty) Ltd</i> – FS and <i>Moretele Development Agency</i> – NW)] again received disclaimed audit opinions. Twelve auditees [11 local municipalities (one each in the Eastern Cape and Limpopo, four in KwaZulu-Natal, three in Mpumalanga, and two in the Northern Cape) and one municipal entity (<i>Sekhukhune Development Agency</i> – LP)] regressed from being financially unqualified with findings to having disclaimed audit opinions, while 13 auditees [three district municipalities (<i>Uthukela District Municipality</i> – KZN, and <i>Mopani District Municipality</i> and <i>Vhembe District Municipality</i> – LP); nine local municipalities (two in the Eastern Cape, one each in the Free State, KwaZulu-Natal and the North West, and four in Limpopo); and one municipal entity (<i>Maluti-A-Phofung Water</i> (Pty) Ltd – FS)] regressed from a qualified audit opinion to a disclaimer of opinion. Six auditees [<i>OR Tambo District Municipality</i> (EC), <i>Umkhanyakude District Municipality</i> (KZN), <i>Phumelela Local Municipality</i> (FS), <i>Aganang Local Municipality</i> and <i>Modimolle Local Municipality</i> (LP), and <i>Moses Kotane Development Agency</i> (NW)] moved from an adverse to a disclaimed opinion. 		

Key outcomes and trends	Good	Concerning	Poor
Regressions to qualified audit opinions	<ul style="list-style-type: none"> • There has been a net increase of three in the number of financial statements that received financially qualified opinions, with 17 regressions and only 14 improvements. Of the auditees that had regressed, one (<i>Fetakgomo Local Municipality</i> – LP) was clean while 16 were financially unqualified with findings in the previous year. • Included in the 16 auditees that had failed to retain their financially unqualified opinions are one metropolitan municipality [<i>Nelson Mandela Bay Metropolitan Municipality</i> (EC)]; three district municipalities [<i>Sisonke District Municipality</i> and <i>Ugu District Municipality</i> (KZN), and <i>Pixley Ka Seme District Municipality</i> (NC)]; 10 local municipalities (one each in Gauteng, Limpopo and the Western Cape, two each in the Eastern Cape and Mpumalanga, and three in KwaZulu-Natal); and two municipal entities [<i>Blue Crane Route Development Agency</i> (EC) and <i>Dr KKDM Economic Agency</i> (NW)]. 		
Movement towards unqualified audit opinions	<ul style="list-style-type: none"> • Fifteen auditees, including three district municipalities [<i>Amajuba District Municipality</i> (KZN), <i>Frances Baard District Municipality</i> (NC) and <i>Overberg District Municipality</i> (WC)]; 10 local municipalities (one each in KwaZulu-Natal, Mpumalanga, the Northern Cape and the North West, and two each in the Free State, Gauteng and the Western Cape); and two municipal entities [<i>Ntinga OR Tambo Development Agency</i> (EC) and <i>Rustenburg Water Services Trust</i> (NW)], improved the quality of their financial statements and obtained a financially unqualified opinion but did not avoid material findings on PDOs and/or non-compliance with legislation. 		

Key outcomes and trends	Good	Concerning	Poor
Unchanged qualified audit opinions for past three years	<ul style="list-style-type: none"> • In total, 110 auditees failed to obtain financially unqualified audit reports for the past three years, made up as follows: <ul style="list-style-type: none"> – Three metropolitan municipalities [<i>Buffalo City Metropolitan Municipality</i> (EC), <i>Mangaung Metropolitan Municipality</i> (FS) and <i>City of Johannesburg Metropolitan Municipality</i> (GP)]. – Ten district municipalities (three each in the Eastern Cape and Limpopo, one each in KwaZulu-Natal and the Northern Cape, and two in the North West). – Eighty-nine local municipalities (24 in the Eastern Cape, 13 in the Free State, three in KwaZulu-Natal, 16 in Limpopo, six in Mpumalanga, 10 in the Northern Cape, and 17 in the North West). – Eight municipal entities (three in the Free State, two each in Gauteng and the North West, and one in Limpopo). 		

Key outcomes and trends	Good	Concerning	Poor
Financially unqualified with findings – stagnation	<ul style="list-style-type: none"> Overall, 121 auditees remained financially unqualified with repeat material findings on PDOs and/or non-compliance with legislation. These included four metropolitan municipalities [<i>Ekurhuleni Metropolitan Municipality</i> and <i>Tshwane Metropolitan Municipality</i> (GP), <i>eThekweni Metropolitan Municipality</i> (KZN) and <i>City of Cape Town Metropolitan Municipality</i> (WC)]; 21 district municipalities (three each in the Eastern Cape and the Western Cape, four each in the Free State and KwaZulu-Natal, two each in Gauteng, the Northern Cape and the North West, and one in Mpumalanga); 62 local municipalities (six in the Eastern Cape, one each in the Free State, Limpopo, Mpumalanga and the North West, three each in Gauteng and the Northern Cape, 33 in KwaZulu-Natal, and 13 in the Western Cape); and 34 municipal entities (six in the Eastern Cape, one in the Free State, 20 in Gauteng, five in KwaZulu-Natal, and two in the Western Cape). Ninety-five of these auditees could not progress to clean audits for the past three years, failing to avoid material findings on PDOs and/or non-compliance with legislation. 		

Key outcomes and trends	Good	Concerning	Poor
Auditees with PDO findings – limited improvement	<ul style="list-style-type: none"> Thirty auditees improved to having no material findings on PDOs, while 38 regressed. Included in this group of auditees are the following: <ul style="list-style-type: none"> <i>Improvements</i>: One metropolitan municipality [<i>Ekurhuleni Metropolitan Municipality</i> (GP)]; seven district municipalities (two in the Eastern Cape, one each in Gauteng and the Western Cape, and three in KwaZulu-Natal); 16 local municipalities (two each in the Eastern Cape and the North West, one each in Gauteng, Limpopo and Mpumalanga, three in KwaZulu-Natal, and six in the Western Cape); and six municipal entities (four in Gauteng and two in KwaZulu-Natal). <i>Regressions</i>: One metropolitan municipality [<i>City of Cape Town</i> (WC)]; two district municipalities [<i>Amajuba District Municipality</i> (KZN) and <i>Nkangala District Municipality</i> (MP)]; 24 local municipalities (five in the Eastern Cape, one each in Gauteng and the Western Cape, 12 in KwaZulu-Natal, two in Limpopo, and three in Mpumalanga); and 11 municipal entities (four each in the Eastern Cape and Gauteng, two in KwaZulu-Natal, and one in the Western Cape). 		

Key outcomes and trends	Good	Concerning	Poor
Auditees with PDO findings – limited improvement	<ul style="list-style-type: none"> In total, 196 auditees did not address their prior year PDO findings; with 169 of them also having PDO findings in the preceding two years. Auditees that have had PDO findings for the past four years include the following: <ul style="list-style-type: none"> Three metropolitan municipalities [<i>Buffalo City Metropolitan Municipality</i> (EC), <i>Mangaung Metropolitan Municipality</i> (FS) and <i>Tshwane Metropolitan Municipality</i> (GP)]. Eighteen district municipalities (two each in the Eastern Cape, the Free State, KwaZulu-Natal, Limpopo and the Western Cape, one in Gauteng, three in the Northern Cape, and four in the North West). A total of 140 local municipalities (29 in the Eastern Cape, 16 each in the Free State and the Northern Cape, three in Gauteng, 26 in KwaZulu-Natal, 18 in Limpopo, 11 in Mpumalanga, 15 in the North West, and six in the Western Cape). 		

Key outcomes and trends	Good	Concerning	Poor
Continued regressions in findings on non-compliance with legislation	<ul style="list-style-type: none"> Only seven auditees addressed their prior year findings on non-compliance, while 13 regressed. Included in this group of auditees are the following: <ul style="list-style-type: none"> <i>Improvements</i>: One district municipality [<i>Nkangala District Municipality</i> (MP)]; three local municipalities in the Western Cape (<i>George Local Municipality</i>, <i>Langeberg Local Municipality</i> and <i>Mossel Bay Local Municipality</i>); and three municipal entities [<i>Johannesburg Fresh Produce Market</i> (GP), and <i>Durban Marine Theme Park (Pty) Ltd</i> and <i>ICC, Durban (Pty) Ltd</i> (KZN)]. <i>Regressions</i>: Two district municipalities [<i>Umzinyathi District Municipality</i> (KZN) and <i>Gert Sibande District Municipality</i> (MP)]; seven local municipalities (five in KwaZulu-Natal, and one each in Limpopo and Mpumalanga); and four municipal entities (one in the Eastern Cape and three in Gauteng). Only eight auditees [three district municipalities (<i>Waterberg District Municipality</i> – LP, <i>Ehlanzeni District Municipality</i> – MP and <i>West Coast District Municipality</i> – WC); three local municipalities (<i>Umtshezi Local Municipality</i> – KZN, <i>Steve Tshwete Local Municipality</i> – MP and <i>Swartland Local Municipality</i> – WC); and two municipal entities (<i>Fezile Dabi District Municipality Trust</i> – FS and <i>Johannesburg Social Housing Company</i> – GP)] were able to maintain their status of no findings on non-compliance with legislation. Overall, 285 auditees again attracted material findings on non-compliance with legislation, of which 87 had the same audit outcome (unqualified with findings) in the previous two years. 		

2.1.2 Five-year trend towards financially unqualified financial statements

Producing unqualified financial statements is an important milestone towards clean audits. Figure 3 shows the five-year trend of local government towards obtaining unqualified audit opinions at an overall

level and per type of auditee, while figure 4 indicates the five-year trend of the provinces.

Figure 3

Five-year trend towards unqualified financial statements – overall

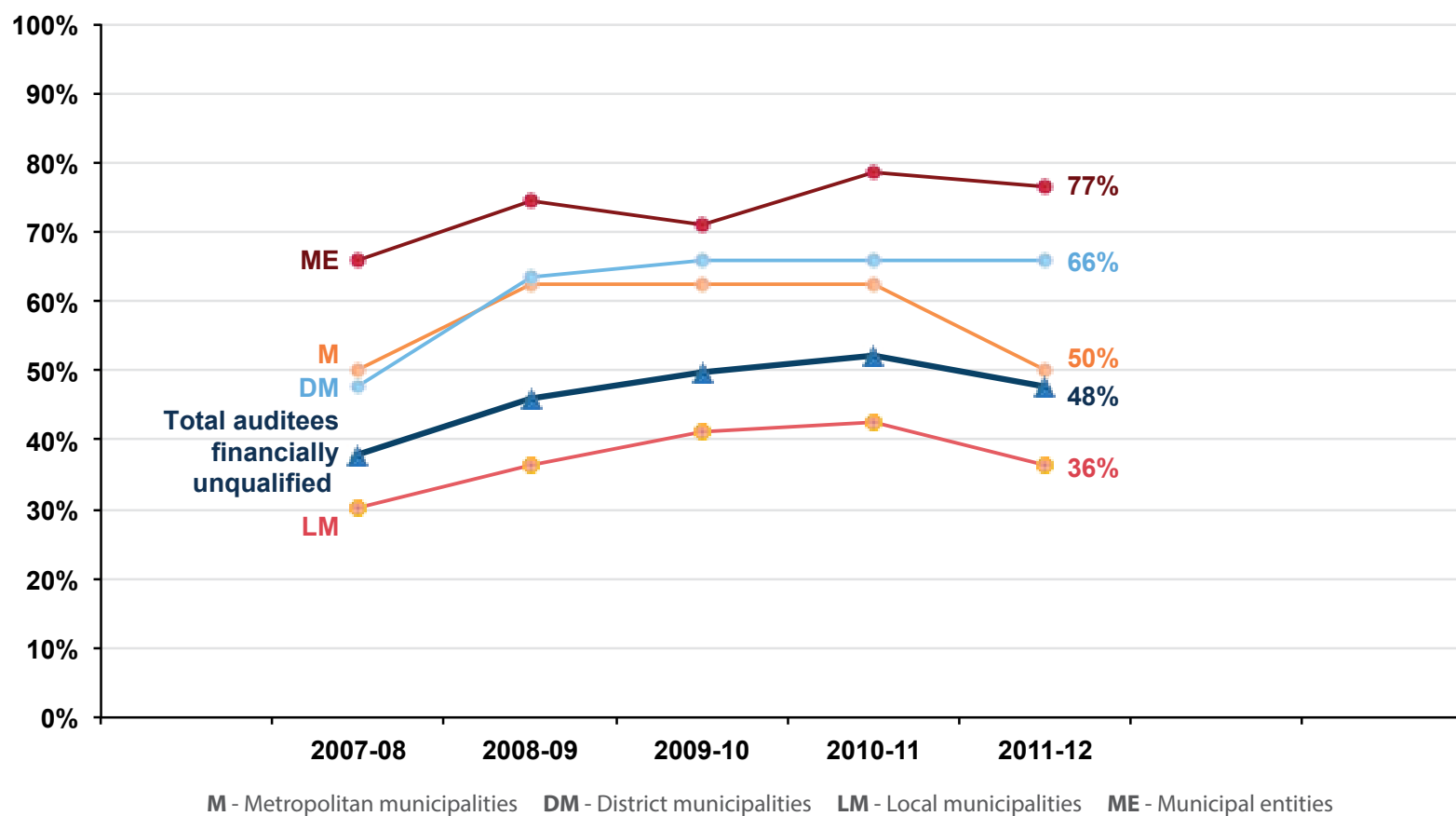
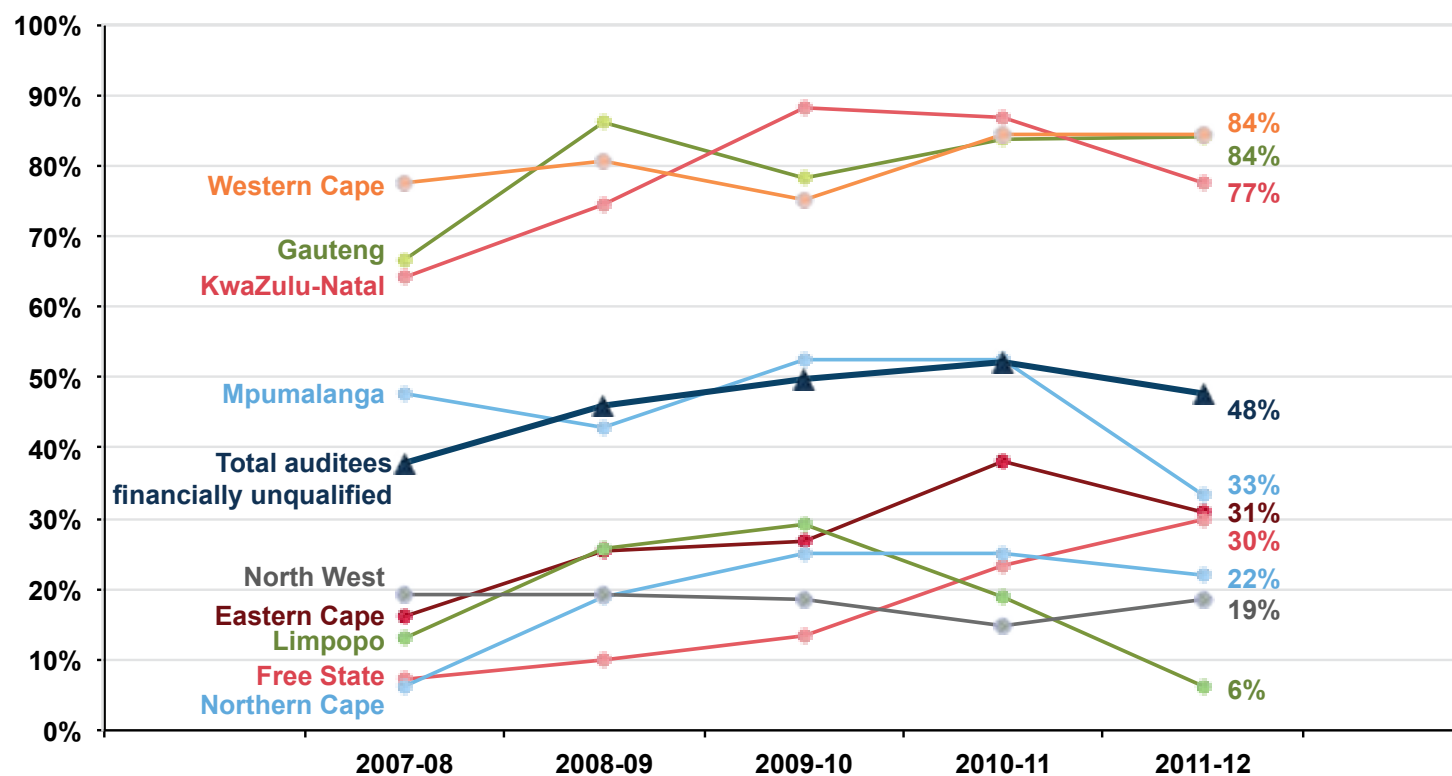


Figure 4**Five-year trend towards unqualified financial statements – provincial overview**

There was a slow, but steady increase in the number of auditees with unqualified financial statements in the previous four years – from 38% to 48%. However, the regression in 2011-12 brought the overall improvement to only 10%. Local municipalities have consistently performed below the national average, as did all provinces except the Western Cape, Gauteng and KwaZulu-Natal. The financial statements in all the provinces have improved since 2007-08, except those in

Mpumalanga, Limpopo and the North West. Only municipal entities and district municipalities have shown significant improvement as a group since 2007-08.

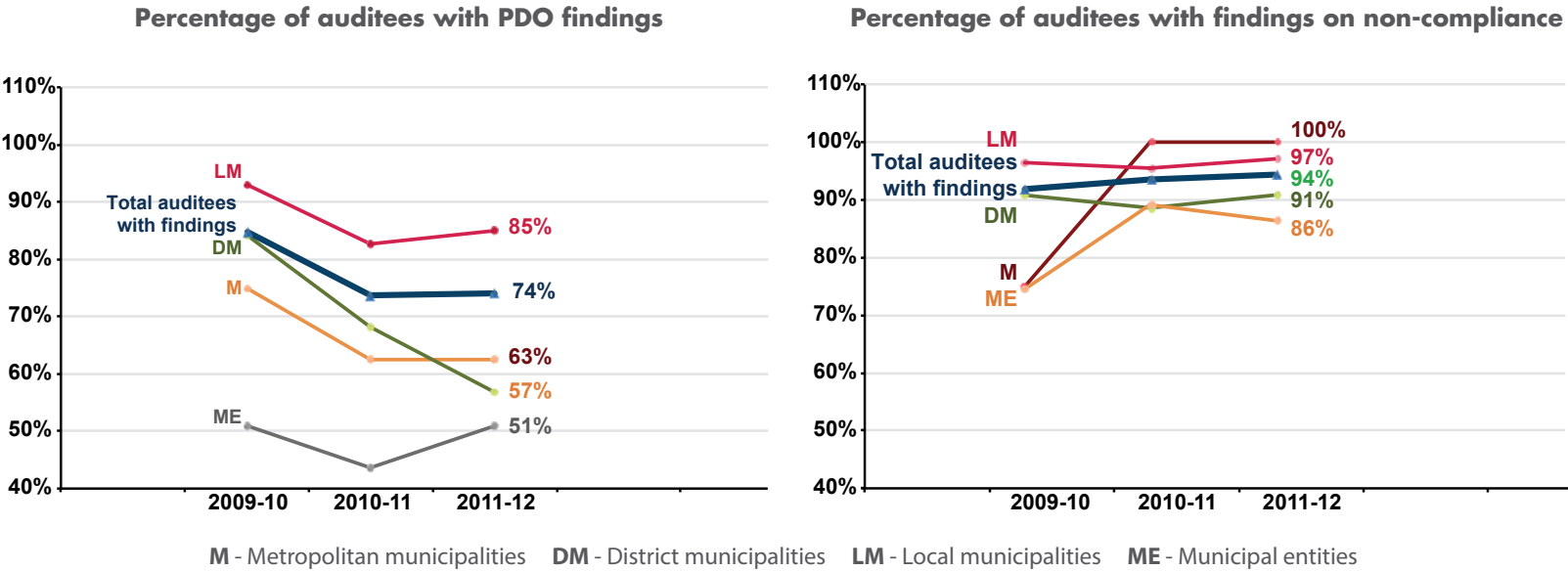
Annexure 2 lists all auditees and their audit opinions over the past five years. The provincial general reports provide more detail on the provincial trend towards unqualified financial statements.

2.1.3 Three-year trend towards useful and reliable reporting against predetermined objectives and compliance with legislation

In order to obtain clean audit opinions, auditees should report annually on the achievement of their PDOs in a useful and reliable manner, while their audit reports should also not contain material findings on non-

compliance with legislation. The following figure shows the three-year trend by local government towards meeting these requirements.

Figure 5
Three-year trend towards addressing findings on predetermined objectives and non-compliance – overall



The following table shows the three-year trend of the provinces to address these findings.

Table 7**Three-year trend towards addressing findings on predetermined objectives and non-compliance by provinces**

Province	Percentage of auditees with PDO findings			Percentage of auditees with non-compliance findings		
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
Eastern Cape	92%	73%	82%	98%	98%	100%
Free State	93%	86%	85%	90%	96%	96%
Gauteng	46%	54%	50%	78%	89%	95%
KwaZulu-Natal	94%	57%	65%	99%	90%	92%
Limpopo	77%	91%	94%	94%	94%	97%
Mpumalanga	81%	67%	79%	81%	81%	84%
Northern Cape	84%	97%	95%	97%	100%	100%
North West	100%	96%	89%	96%	100%	100%
Western Cape	88%	69%	50%	81%	94%	82%
Total auditees	85%	74%	74%	92%	94%	94%

Although the number of auditees with PDO findings remained high, there has been an improvement in the past three years. The past three years have also seen a reduction in the number of auditees that failed to prepare annual performance reports. Local municipalities have consistently performed below the national average, as did all provinces except for the Western Cape, Gauteng and KwaZulu-Natal. All the provinces have improved their reporting on PDOs since 2009-10, except for Limpopo and the Northern Cape. Only district municipalities have shown significant improvement as a group since 2009-10.

In the past three years, the number of auditees with findings on non-compliance with legislation has increased. Only district municipalities and municipal entities performed better than the national average, although

the non-compliance levels remained high, while the Western Cape, Mpumalanga and KwaZulu-Natal performed slightly better than the national average. The Free State and Gauteng have regressed the most since 2009-10.

The provincial general reports provide more detail on the provincial trend towards useful and reliable reporting against PDOs and compliance with legislation.

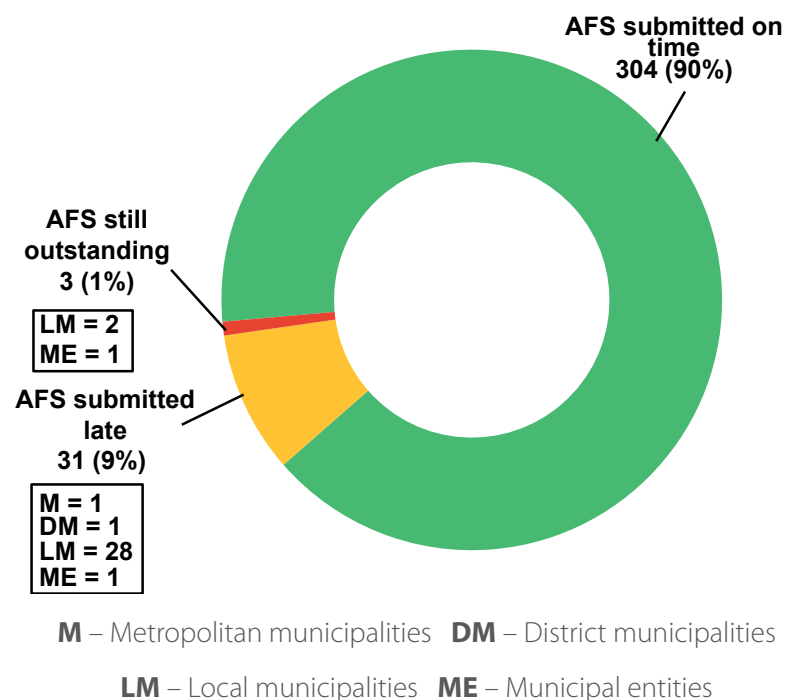
Sections 2.3 and 2.4 provide a detailed analysis of findings on PDOs and non-compliance with legislation.

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

The date on which we receive the auditees' financial statements for audit purposes and the efficiency with which the audits proceed both have a big influence on the completion of audits within the legislated timelines. Figure 6 indicates that a total of 34 auditees (10%) were unable to submit financial statements for auditing by 31 August 2012 (or 30 September 2012 in the case of consolidated financial statements), as required by the Municipal Finance Management Act (MFMA). Ten of the 27 local municipalities in the Northern Cape were not able to meet the legal requirement of the timely submission of financial statements. If financial statements are submitted late or not at all, it is not only non-compliance with legislation but it also delays the accountability process. If the financial statements are not submitted and audited, the annual report cannot be finalised, tabled in council and made public.

Figure 6

Timeliness of submission of annual financial statements



There was an overall increase of 11% in the timely submission of annual financial statements. The biggest improvements were in the North West (with an improvement of 78%) and the Western Cape (with an improvement of 22%). Only three provinces (Gauteng, KwaZulu-Natal and the North West) submitted all of their annual financial statements for auditing by the legislated date.

Between 1 April 2013 and the date of this general report, a further 12 audits were finalised, but their outcomes are not included in the analysis contained in this report. The effect of these audit outcomes is that the overall audit outcomes presented in table 3 under section 2.1.1 are even lower, with two additional qualifications and nine additional disclaimers.

The following table details these audit outcomes.

Table 8

Outcomes of audits finalised after 31 March 2013

Province	Auditee	Audit opinion 2011-12	Audit opinion 2010-11	Movement from 2010-11
Free State	Ngwathe Local Municipality	Disclaimer	Disclaimer	↔
	Setsoto Local Municipality	Qualified	Adverse	↑
Mpumalanga	Emalahleni Local Municipality	Disclaimer	Qualified	↓
	Mkhondo Local Municipality	Qualified	Disclaimer	↑
Northern Cape	Dikgatlong Local Municipality	Disclaimer	Disclaimer	↔
	Kai !Garib Local Municipality	Disclaimer	Disclaimer	↔
	Kamiesberg Garib Local Municipality	Disclaimer	Disclaimer	↔
	Kgatelopele Local Municipality	Disclaimer	Disclaimer	↔
	Nama Khoi Local Municipality	Disclaimer	Disclaimer	↔
	Renosterberg Local Municipality	Disclaimer	Disclaimer	↔
	Tsantsabane Local Municipality	Disclaimer	Disclaimer	↔
Western Cape	Oudtshoorn Local Municipality	Unqualified with findings	Unqualified with findings	↔



Improved



Unchanged



Regressed

The following table indicates why the remaining audits had not been finalised at the date of this report as well as the prior year audit outcomes of these auditees.

Table 9

Reasons for late finalisation and prior year outcomes of audits outstanding at the date of this report

Province	Reason not finalised			Audit outcome of last audit finalised		
	Total	Financial statements not yet received	Financial statements received late	Adverse/disclaimed	Qualified	Financially unqualified with findings
Free State	2	2		1	1	
Limpopo	1		1	1		
Northern Cape	3	1	2	2	1	
Western Cape	3		3	2		1
Total	9	3	6	6	2	1

Five of the outstanding audits are expected to have been finalised by 31 July 2013, one by 31 August 2013 and one by 31 October 2013. At the date of this report, we could not determine the expected date for

finalising the audit of one auditee in the Free State and one auditee in the Northern Cape that had not submitted financial statements for audit purposes.

2.2 FINDINGS ARISING FROM THE AUDIT OF FINANCIAL STATEMENTS

2.2.1 Material misstatements in the financial statements

Figure 7

Correction of material misstatements

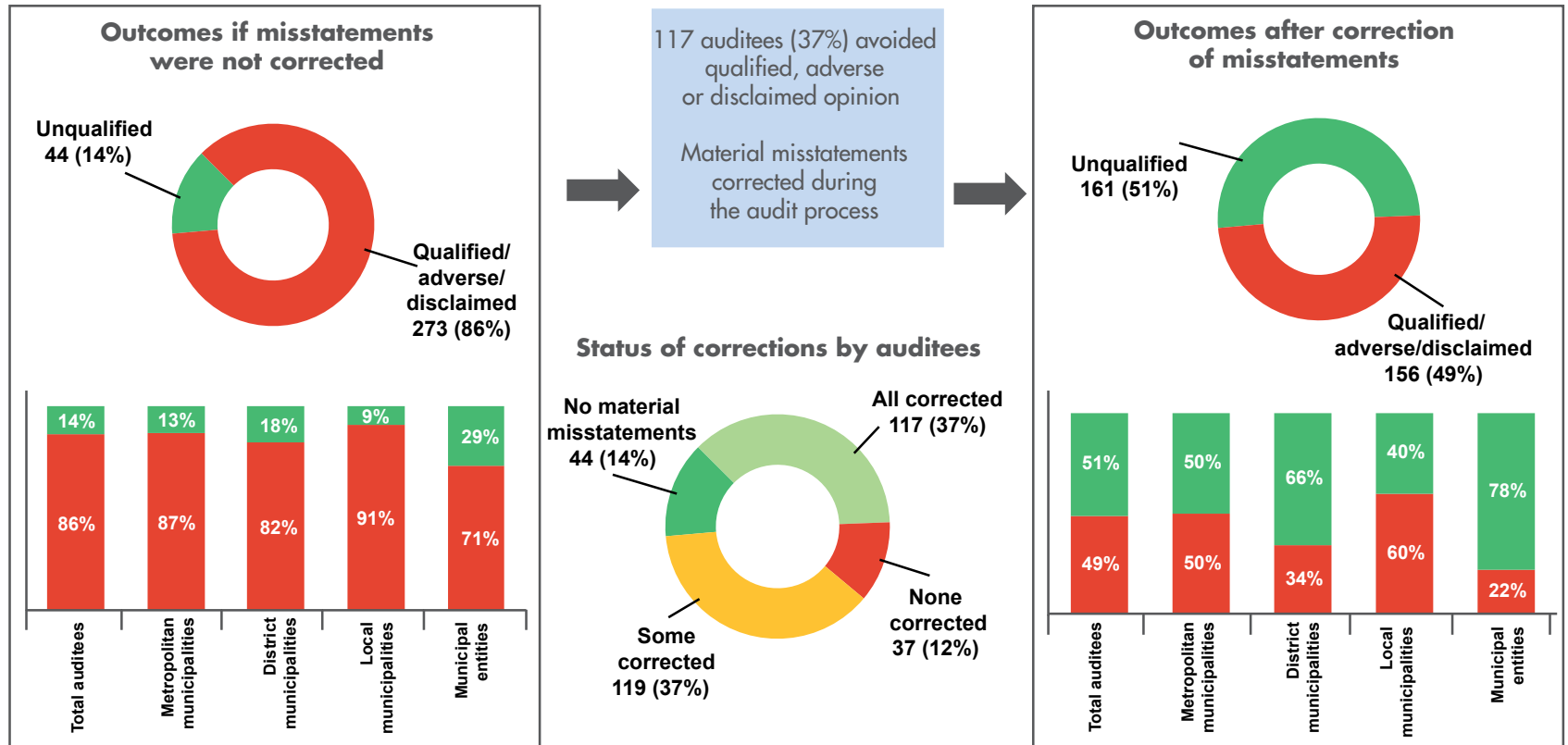
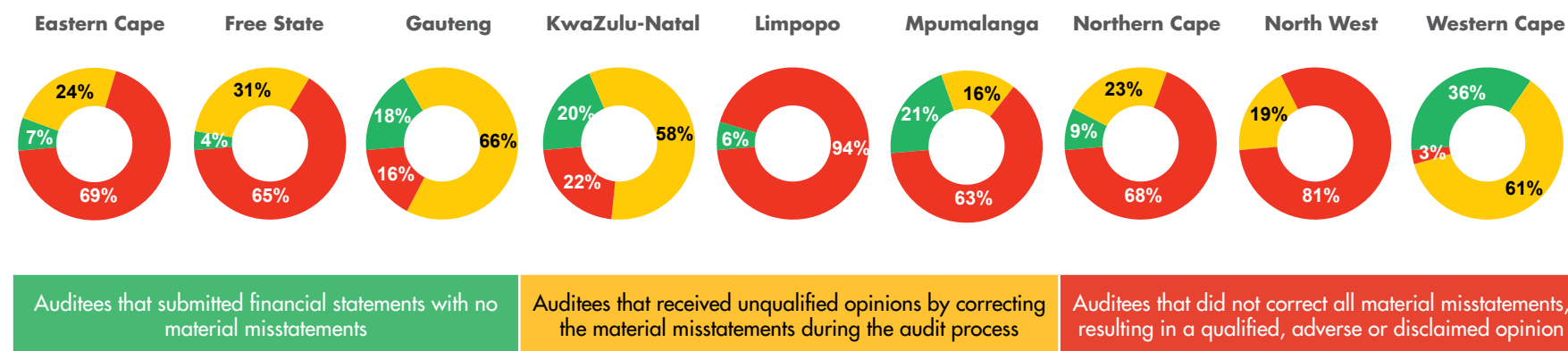


Figure 8**Provincial analysis**

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

The audit provides the users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures performed did not identify any material errors or omissions in the financial statements. We use the term *material misstatements* in the rest of the report to refer to this.

The quality of financial statements submitted for audit purposes

Most auditees submitted financial statements for auditing by the legislated deadline of 31 August 2012, but only 44 auditees (14%) (2010-11: 68 [21%]) submitted financial statements with no material misstatements. As shown in figure 7, 117 auditees (37%) (2010-11: 111 [34%]) received a financially unqualified audit opinion only because they corrected all the misstatements we had identified during the audit. There were auditees that could not produce credible and reliable financial statements in all of the provinces. Only one of the metropolitan municipalities and eight of the district municipalities submitted financial statements without material misstatements. The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

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

Even though we reported the material misstatements to management for correction, most auditees could not make these corrections. A total of 119 auditees (37%) corrected some of the misstatements, but 37 (12%) did not make any corrections. These auditees could therefore not avoid obtaining a qualified, adverse or disclaimed audit opinion. As shown in figure 8, the auditees in the Western Cape, Gauteng and Kwazulu-Natal were better able to make the required corrections. The auditees in the other provinces were not able to respond adequately to the misstatements reported by the auditors due to the unavailability of information or documentation required to determine the correct amounts to be reflected in the financial statements, with Limpopo and the North West performing the poorest in this regard.

Auditees that cannot correct the misstatements identified through the audit process show that the reason for the poor audit opinions is not limited to the inadequate preparation of financial statements, but also to inadequate accounting records, supporting documentation and financial management throughout the financial year. The basic financial disciplines and controls are not in place, which can be attributed partially to vacancies and inadequate technical skills in the finance sections. Section 3.3 provides more information on weaknesses in the management of human resources (HR).

The following section details the areas in the financial statements that were materially misstated and the reasons for such misstatements.

2.2.2 Financial statement qualification findings

Figure 9
Progress in addressing, and nature of, most common financial statement qualifications (156 auditees)

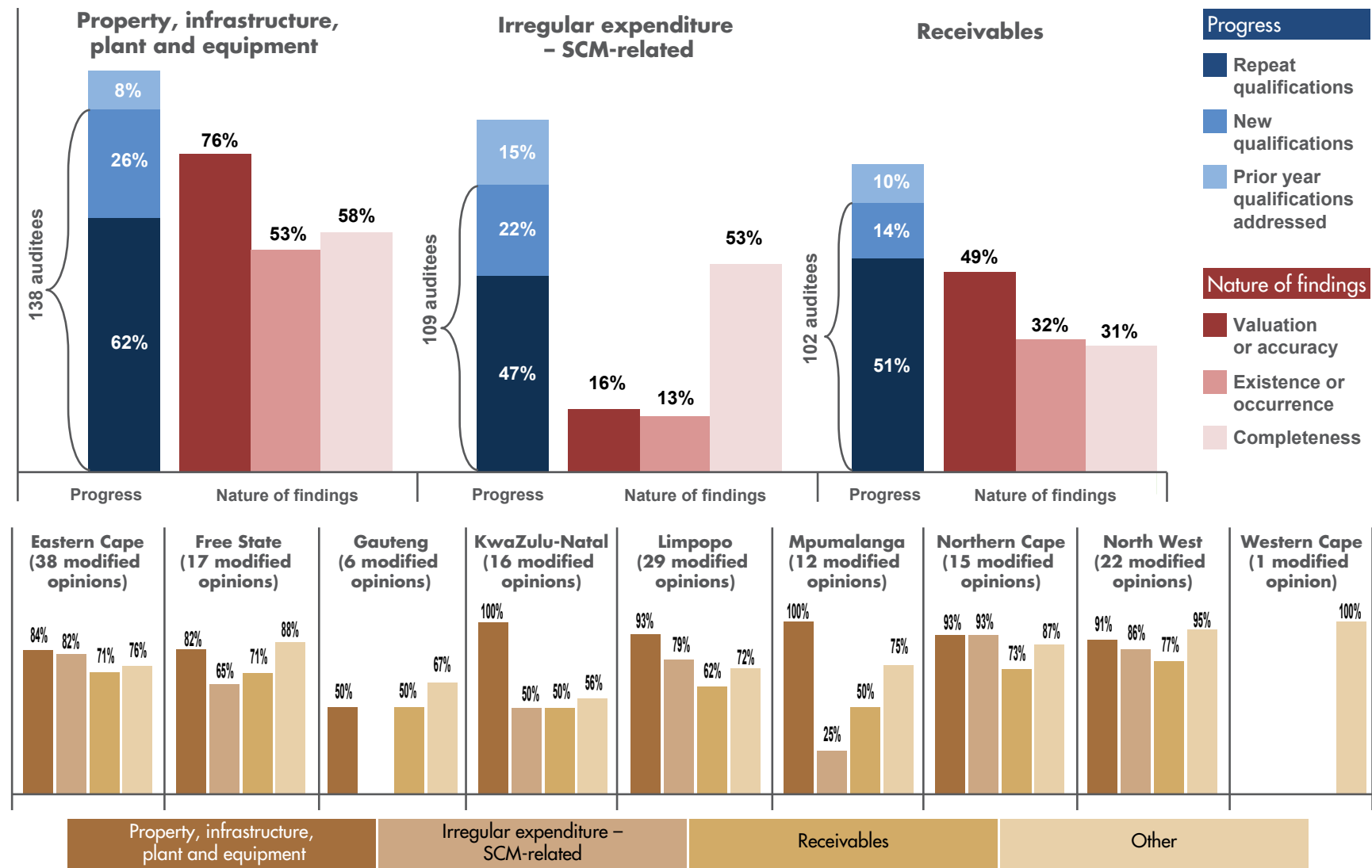


Figure 9 indicates the three most common financial statement qualification areas, auditees' progress in addressing prior year qualifications, and the nature of the current year qualifications. The table below provides the reasons for the qualifications in these three areas.

Table 10

Common qualification areas

Qualification area	Basis for qualification	Reason for qualification
Property, infrastructure, plant and equipment	Valuation of the disclosed assets	<ul style="list-style-type: none"> • Incorrect accounting for revaluation or fair value • Incorrect application of accounting policy • No, or incorrect, assessment of impairment • Cost could not be determined • Infrastructure assets not unbundled in terms of the accounting framework
	Existence of the disclosed assets	<ul style="list-style-type: none"> • Assets could not be identified or could not be physically verified for existence • Duplication of assets in the asset register
	Completeness of the disclosed assets	<ul style="list-style-type: none"> • Asset register did not exist or was incomplete • Asset register not updated timeously • Asset register did not reconcile to general ledger
Irregular expenditure – SCM-related	Completeness of disclosure of irregular expenditure resulting from non-compliance with SCM legislation	<ul style="list-style-type: none"> • Inadequate policies, procedures and controls to identify, detect and account for irregular expenditure • Procurement documentation not provided to test completeness • Incomplete disclosures
	Valuation – incurred expenditure disclosed at current amounts	<ul style="list-style-type: none"> • Supporting evidence inadequate or could not be provided
Receivables	Valuation and existence	<ul style="list-style-type: none"> • Adequate information not available to enable an assessment of the recoverability of receivables
	Valuation of amounts disclosed	<ul style="list-style-type: none"> • No, or incorrect, assessment of impairment • Debtors' age analysis did not agree to general ledger
	Existence of disclosed receivables	<ul style="list-style-type: none"> • Insufficient documentation to substantiate debtors at year-end • Corresponding figures could not be audited or were misstated

Annexure 1 presents the financial statement qualification areas of each auditee.

2.3 FINDINGS ARISING FROM THE AUDIT OF REPORTING ON PREDETERMINED OBJECTIVES

2.3.1 Overall outcomes from the audit of reporting on predetermined objectives

Figure 10

Movement in findings on predetermined objectives

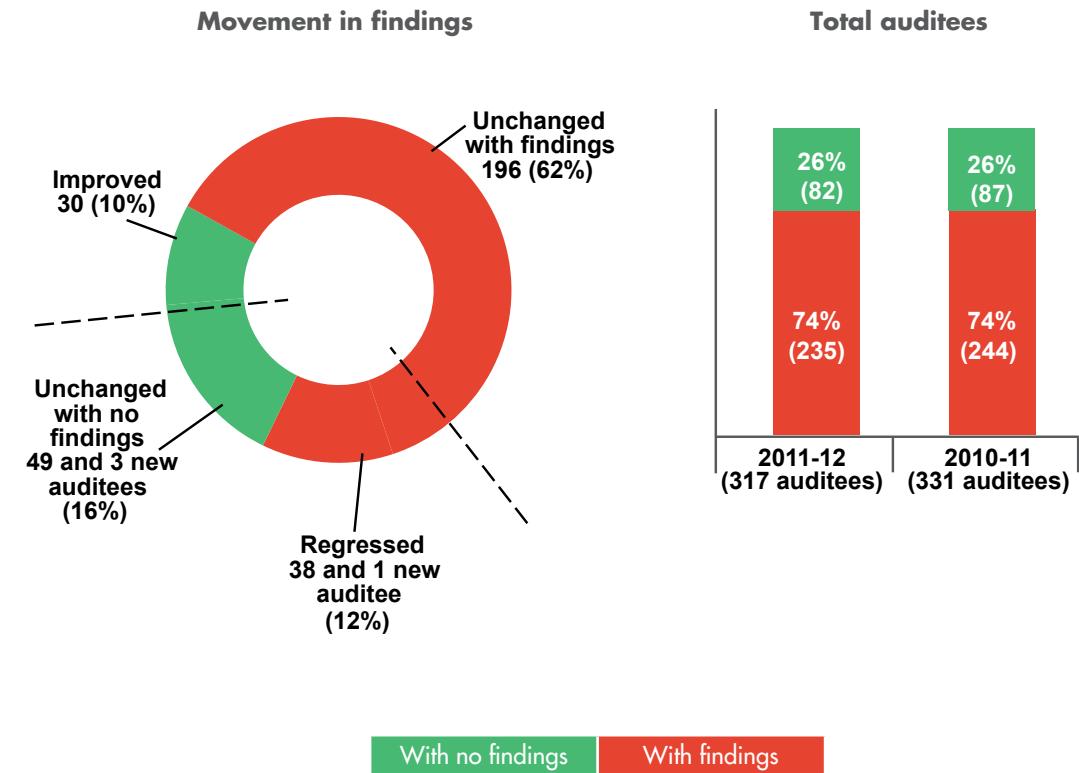


Figure 11

Other findings on predetermined objectives

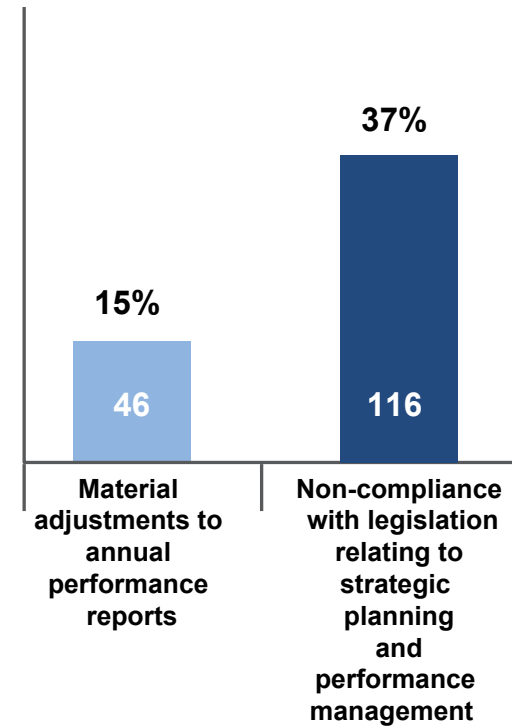
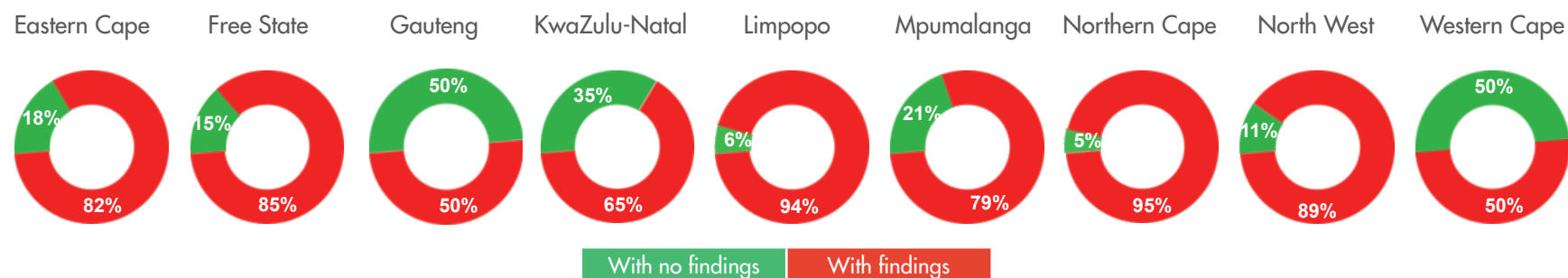


Figure 12**Provincial analysis**

Auditees annually report on their performance against PDOs. This means that they report on whether they have met their planned service delivery objectives. In the annual performance reports, auditees are required to measure their service delivery against the performance indicators and targets set for each objective.

The Public Audit Act requires us to audit the annual performance reports to determine whether the information in these reports is reliable and useful. We report findings from the audit that are material enough to be brought to the attention of the persons who read and use the annual performance report (which include the community) in the audit report.

Figures 10 and 12 show the number of auditees overall and per province with such material findings, including those auditees that did not prepare an annual performance report or submitted the report too late for auditing. We term these *PDO findings* in the rest of the report.

Figure 11 further shows the number of auditees that had material findings in their audit reports on non-compliance with the legislation that regulates strategic planning, performance management and reporting.

In the year under review, we included additional information in the audit report of auditees if they:

- made adjustments to the annual performance report submitted for audit purposes to correct material misstatements identified in the audit process
- achieved 80% or less of the planned targets reported in their annual performance reports.

Figure 11 also shows the number of auditees where information on adjustments was included.

The following table presents key findings from these audits.

Table 11

Key findings from the audit of reporting on predetermined objectives

Key findings	Good	Concerning	Poor
Number of auditees with PDO findings remained high	The number of auditees with material PDO findings remained at a very high 74%. Only auditees in Gauteng, KwaZulu-Natal and the Western Cape performed marginally better than local government overall. The number of auditees with PDO findings in the remaining provinces ranged from 79% in Mpumalanga to 95% in the Northern Cape.		
Improvement in two provinces	There was a reduction of 19% and 7% in the number of auditees with PDO findings in the Western Cape (from 22 to 14) and the North West (from 26 to 24), respectively.		
Some improvement for metros and district municipalities	Three of the eight metros did not have any PDO findings, while the number of district municipalities that did not have any PDO findings increased from 14 (32%) to 19 (43%). Metros and district municipalities are expected to do better than local municipalities when it comes to performance reporting, as they have access to more resources and skills. They should thus be setting an example in their districts.		
Improvement in number of auditees that prepared annual performance reports, but more submitted reports late for auditing	In total, 24 auditees (8%) (two district municipalities, 15 local municipalities and seven municipal entities) did not prepare annual performance reports. This is an improvement from the 38 in the previous year. This serious transgression of the Municipal Systems Act (MSA) was most prevalent in the Northern Cape (seven auditees) and the North West (five auditees). However, 13 auditees submitted their annual performance report too late to be audited, which is an increase from the eight in the previous year. This was most prevalent in the Free State (four auditees) and the North West (three auditees).		
Key findings	Good	Concerning	Poor
High number of auditees with non-compliance findings	<p>A total of 229 auditees (72%) had material findings on non-compliance with legislation relating to PDO findings. The most common findings related to the following:</p> <ul style="list-style-type: none"> • Content and basis for the annual performance reports: 193 auditees (61%). Examples included the lack of reporting on measures taken to improve performance (104 auditees) and the annual performance report not having been prepared based on the integrated development plan (89 auditees). • Strategic planning and performance management: 116 auditees (37%). Examples included weaknesses in the adoption and review of, and adherence to, the integrated development plan (57 auditees) and poor performance management systems (102 auditees). • Role of audit committees and internal audit units in the performance management system: 118 auditees (37%). Examples are provided in section 2.4.2. 		
Planned performance targets not achieved	Based on their annual performance reports, 169 auditees (53%) achieved 80% or less of their planned performance targets for the year.		
Material misstatements in performance reports corrected during the audit	In total, 46 auditees (15%) made material adjustments to the annual performance report submitted for auditing to correct material misstatements identified in the audit process. Of these, 27 (9%) avoided findings on the presentation and reliability of their reports only because they corrected all the misstatements identified during the audit. We discourage the practice of relying on the auditors to identify corrections to be made to the annual performance reports.		

2.3.2 Findings on the usefulness and reliability of the annual performance reports

Figure 13

Progress in addressing, and nature of, findings on predetermined objectives

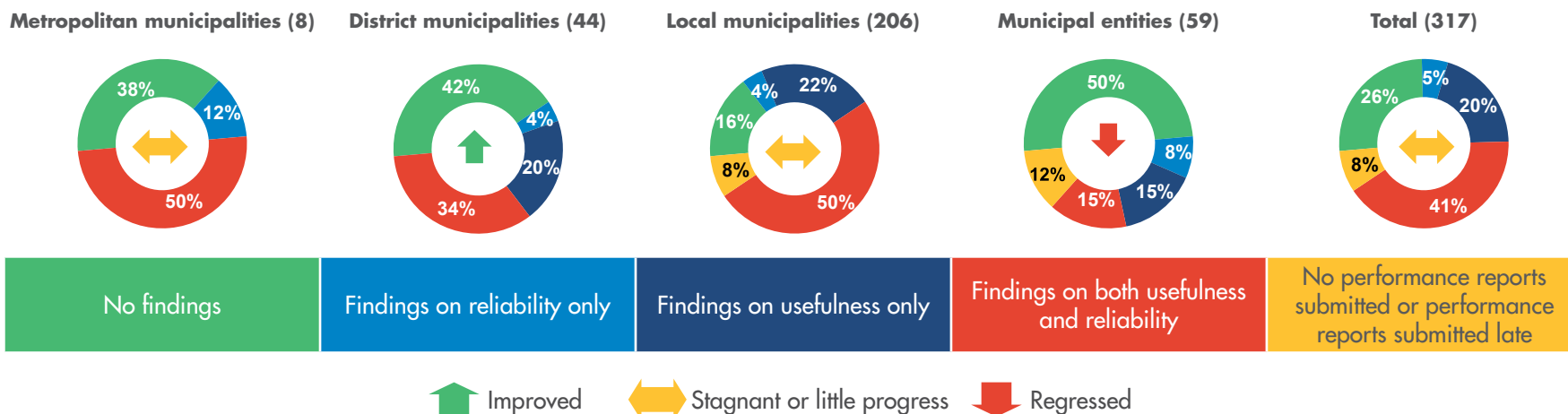
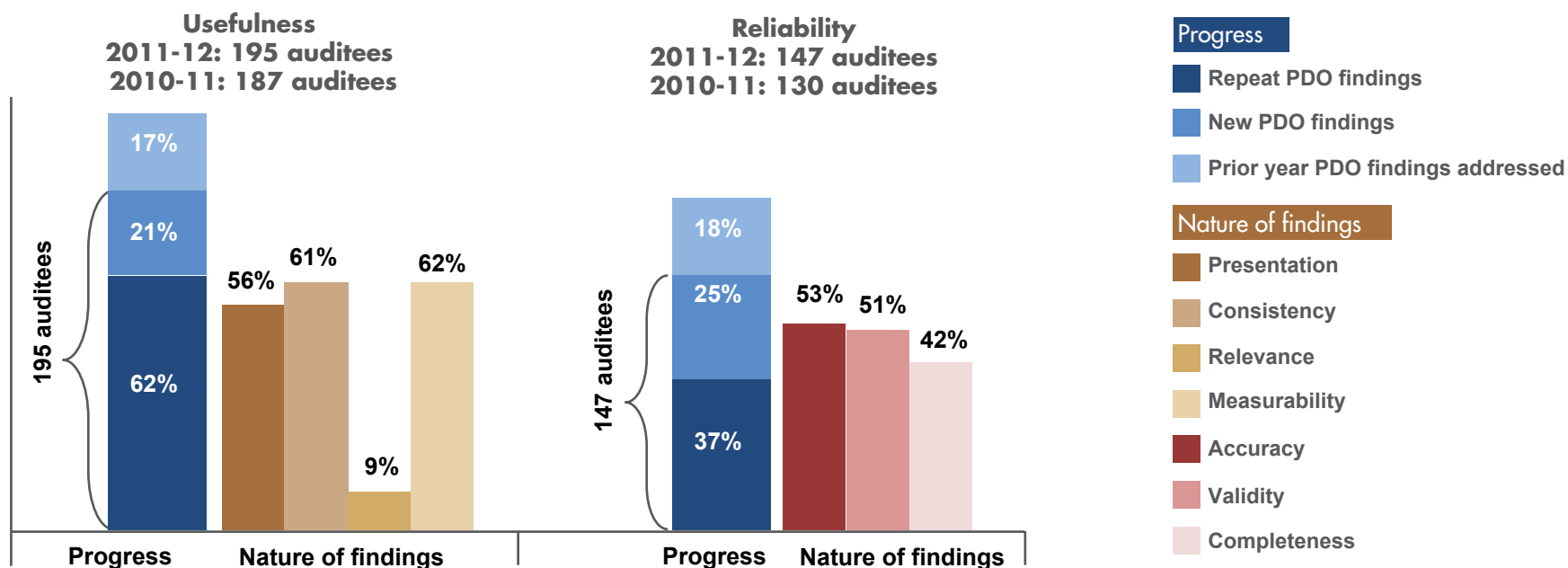


Figure 13 shows the progress of auditees in addressing prior year findings on usefulness and reliability, the nature of current year audit findings as well as the nature of findings at the different types of auditees.

The usefulness of reported information is measured against the criteria of presentation, consistency, relevance and measurability. The information contained in the performance reports of 195 (83%) of the 235 auditees with PDO findings (2010-11: 187 [76%]) was not useful.

Findings on reliability relate to whether the reported information could be traced back to the source data or documentation and whether the reported information was accurate, complete and valid when compared to the source. The information contained in the performance reports of 147 (62%) of the 235 auditees with PDO findings (2010-11: 130 [53%]) was not reliable.

A total of 131 (56%) of the 235 auditees with PDO findings (2010-11: 121 [49%]) had material findings on both the usefulness and the reliability of the information in their performance reports.

The following table lists the most common types of findings on the usefulness and reliability of reported information.

Table 12
Most common findings on the usefulness and reliability of the annual performance reports

Category of PDO findings	Most common types of findings
<i>Reported information not useful</i>	<ul style="list-style-type: none">• The annual performance report included objectives, indicators or targets that were different from those in the performance plans.• The performance indicators were not well defined and the targets were not specific enough to ensure that the required performance could be measured and reported in a useful manner.• The measures taken to improve performance were not included in the annual performance report.
<i>Reported information not reliable</i>	<ul style="list-style-type: none">• Supporting information for reported performance information was not complete.• Reported performance information was not accurate when compared to supporting information.• Reported performance information was not valid when compared to supporting information.

The prevalence of annual performance reports containing information that is not reliable or useful is a sign of serious weaknesses in the ability of local government to adequately plan, manage and report on its performance. If these weaknesses are addressed, it will improve the transparency and accountability of local government and contribute to improving the service delivery experience of citizens.

2.4 FINDINGS ARISING FROM THE AUDIT OF COMPLIANCE WITH LEGISLATION

2.4.1 Overall outcomes from the audit of compliance with legislation

Figure 14

Movement in, and nature of, findings on non-compliance with legislation

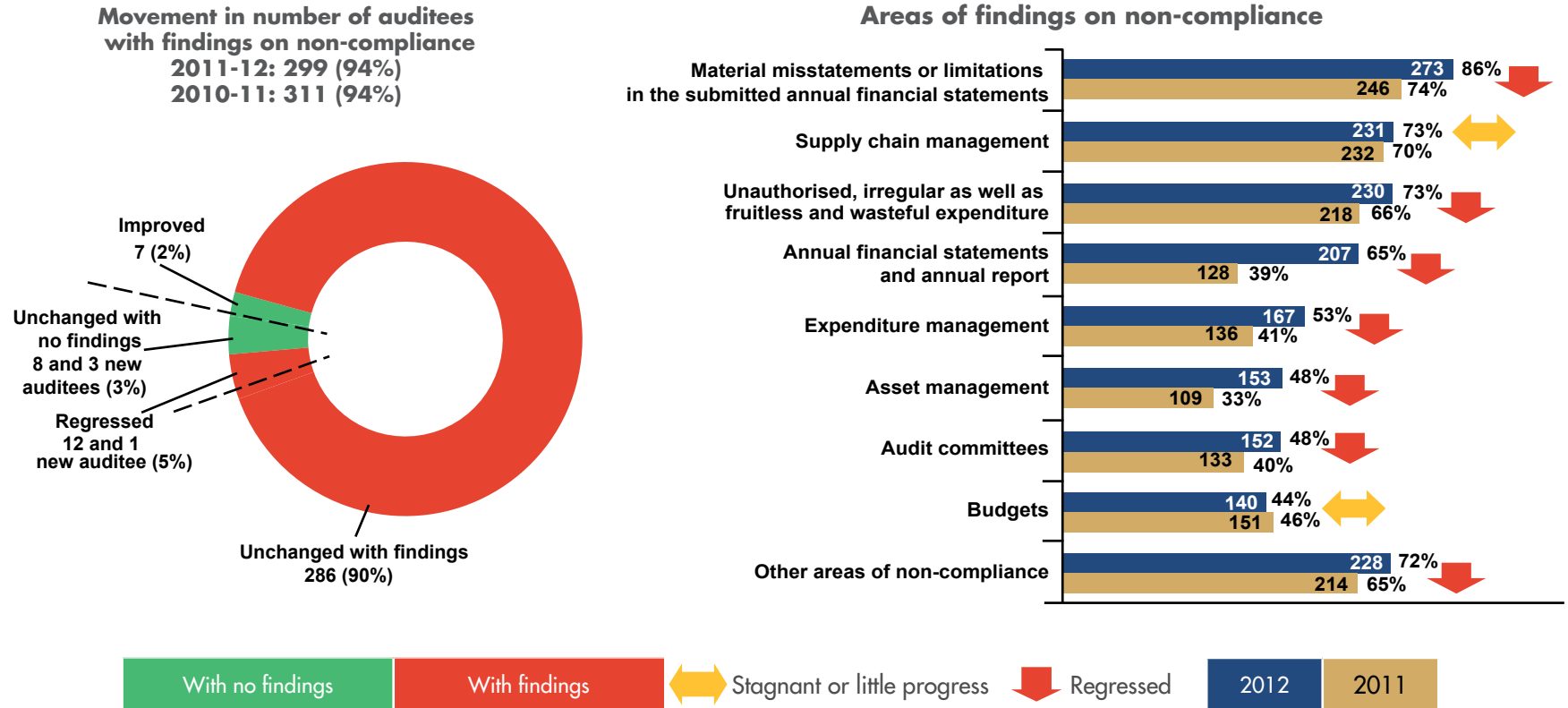
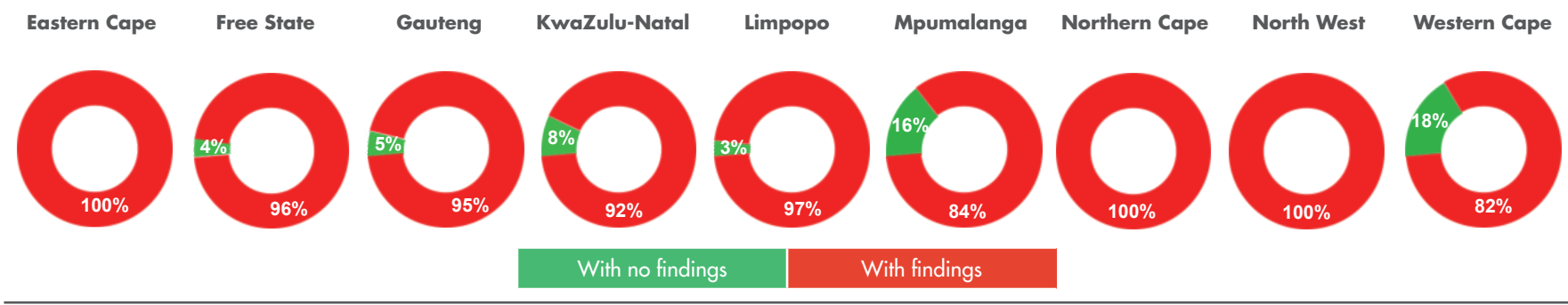


Figure 15
Provincial analysis of findings



The Public Audit Act requires us to annually audit compliance with legislation applicable to financial matters, financial management and other related matters. We focused on the following areas in our compliance audit: ■ material misstatements in submitted annual financial statements ■ asset and liability management ■ audit committees ■ budget management ■ expenditure management ■ unauthorised, irregular as well as fruitless and wasteful expenditure

■ financial misconduct ■ internal audit ■ revenue management ■ strategic planning and performance management ■ transfer of funds and conditional grants ■ procurement and contract management (SCM) ■ HR management and compensation.

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

The following table details key findings from the audits.

Table 13

Key findings from the audit of compliance with legislation

Key findings	Good	Concerning	Poor
Number of auditees with non-compliance findings remained high	<ul style="list-style-type: none"> Material findings on non-compliance with legislation were reported at 299 auditees (94%) (2010-11: 311 [94%]). All auditees (100%) in three provinces (Eastern Cape, Northern Cape and North West) had non-compliance findings, while only the Western Cape and Mpumalanga had non-compliance findings at less than 90% of their auditees. All eight metropolitan municipalities again had non-compliance findings, as did 91% of the district municipalities. 		
Increase in the number of findings reported	<ul style="list-style-type: none"> The number of non-compliance findings reported at the 299 auditees increased by 8% from 1 975 to 2 125 individual findings. 		
Regression in three provinces	<ul style="list-style-type: none"> The number of auditees with non-compliance findings increased in the Eastern Cape (one auditee), Gauteng (three auditees) and KwaZulu-Natal (four auditees). 		

Key findings	Good	Concerning	Poor
Improvement in four provinces	<ul style="list-style-type: none"> The number of auditees with non-compliance findings decreased in the Free State (from 27 to 25), Mpumalanga (from 17 to 16), the Northern Cape (from 31 to 22) and the Western Cape (from 30 to 23). 		
Some reduction in the number of focus areas with findings	<ul style="list-style-type: none"> In total, 83 auditees (26%) reduced the number of compliance focus areas with findings and, although they still had findings, 12 auditees (2%) had findings in only one focus area. These 83 auditees consist of one metropolitan municipality, 11 district municipalities, 53 local municipalities and 18 municipal entities. The 83 auditees were spread around the country in the Eastern Cape (19), the Free State (three), Gauteng (nine), KwaZulu-Natal (15), Limpopo (five), Mpumalanga (four), the Northern Cape (eight), the North West (seven) and the Western Cape (13). 		

2.4.2 Findings on non-compliance with legislation

Figure 16
Movement in common areas of findings on non-compliance with legislation (299 auditees with non-compliance findings)

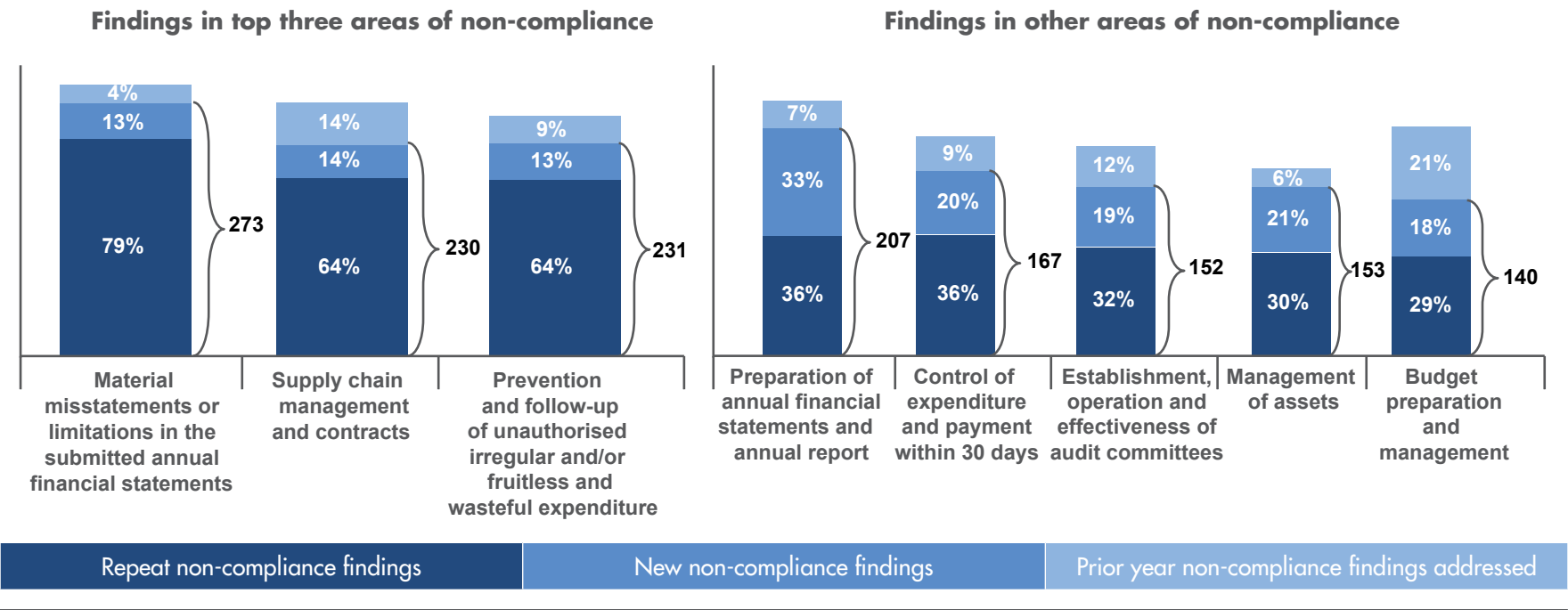


Figure 16 shows a lack of progress by auditees in addressing prior year non-compliance findings in the different focus areas.

A total of 244 auditees (95%) had findings in one or more of the top three areas of non-compliance – an increase from the previous year’s 93%. Had there been no material findings in these areas, the overall level of non-compliance in local government would have been 86%.

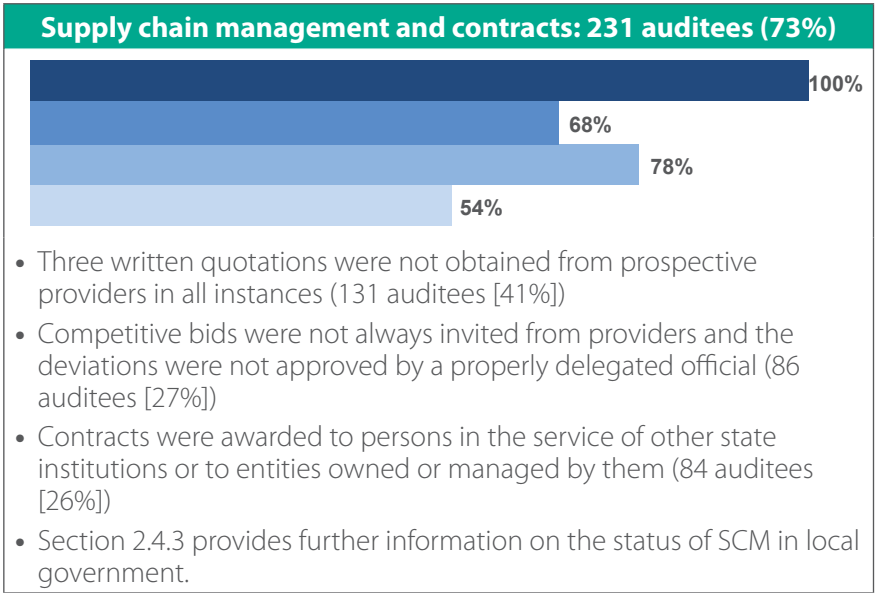
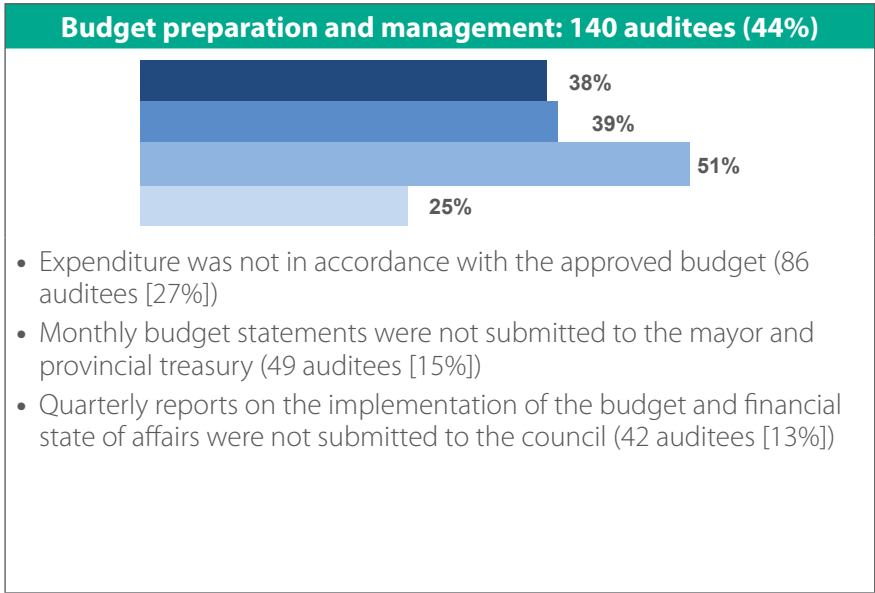
Section 2.2.1 analyses the extent and impact of material misstatements or limitations in the annual financial statements submitted for audit purposes, while section 2.4.4 looks at the extent and nature of unauthorised, irregular as well as fruitless and wasteful expenditure.

The table below details the nature of the most widespread findings in the remaining areas of non-compliance, per type of auditee.

Table 14

Summarised non-compliance findings

<div><div>Preparation of annual financial statements and annual report: 207 auditees (65%)</div><div><div><div><div></div><div>50%</div></div><div><div></div><div>52%</div></div><div><div></div><div>76%</div></div><div><div></div><div>39%</div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><div><div><div></div><div></div></div><div><div></div><div></div></div></div></div><div><d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Metropolitan municipalities	District municipalities	Local municipalities	Municipal entities
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Auditees also had many non-compliance findings in the following focus areas (the most common finding is listed next to the focus area):

Revenue management: No, or an inadequate, management, accounting and information system for revenue management (69 auditees [22%])

Strategic planning and performance management: No mechanisms to monitor and review the performance management system (48 auditees [15%])

Internal audit: Performance measurements not audited on a continuous basis (61 auditees [19%])

2.4.3 Findings arising from the audit of supply chain management

Figure 17

Movement in, and nature of, findings on supply chain management

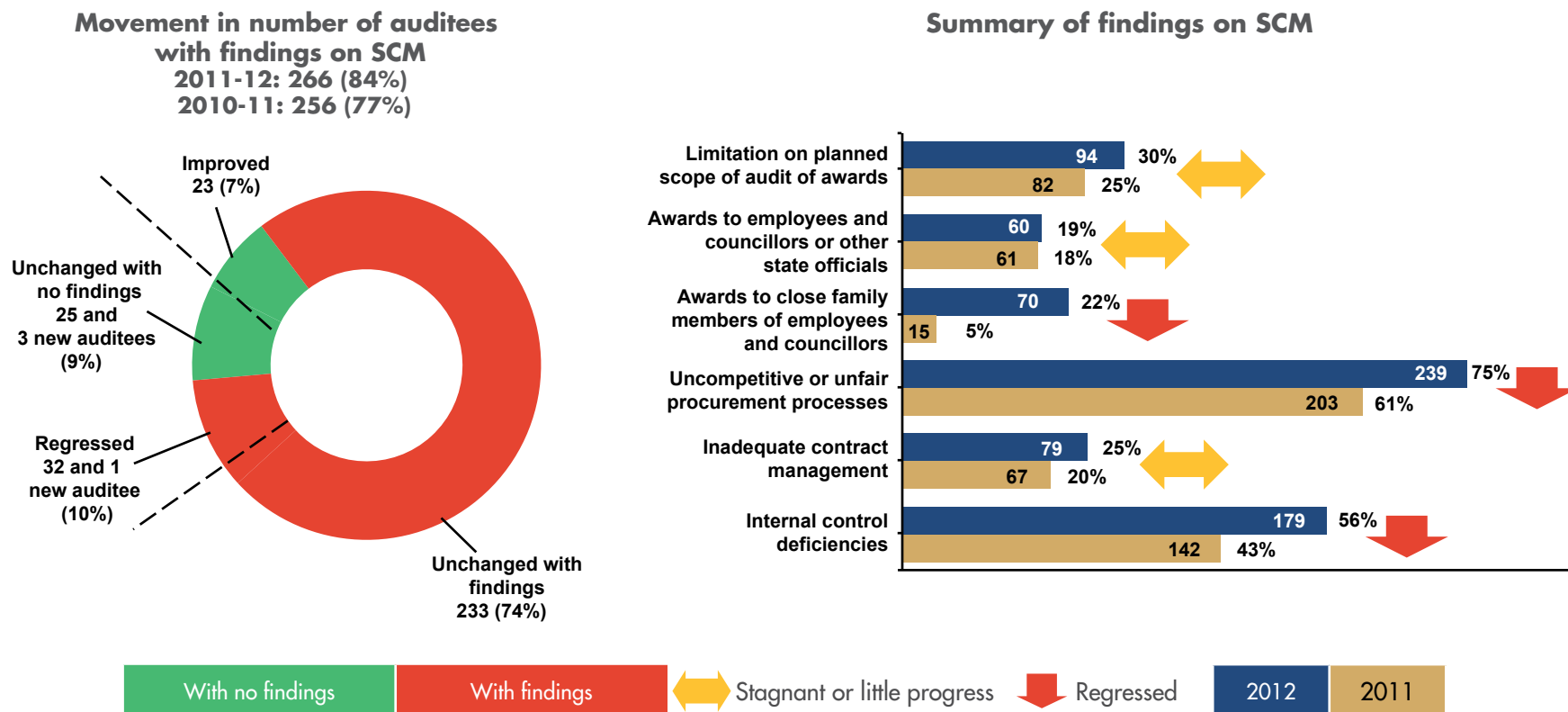
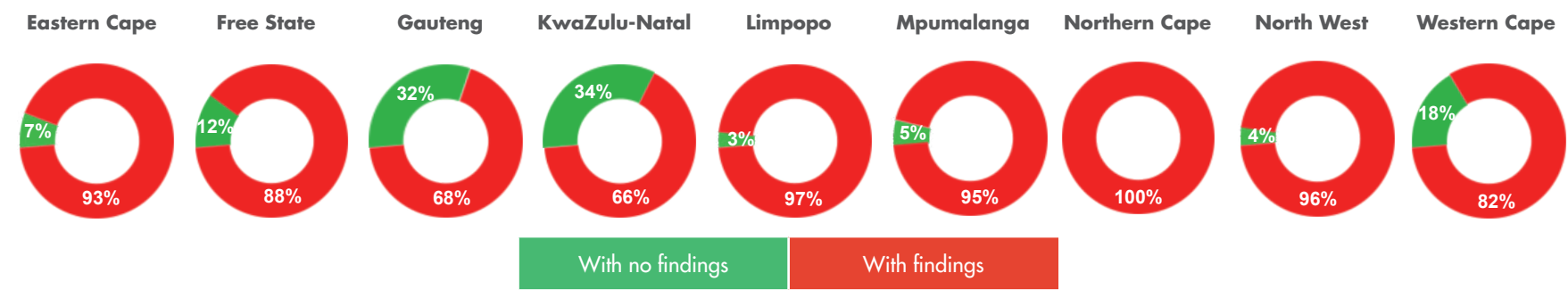


Figure 18
Provincial analysis of findings



Our audits included an assessment of procurement processes, contract management and related controls. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and must minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. We report all the findings from the audit to management in the management report of the auditee, while only the material non-compliance findings are reported in the audit report.

This section summarises the key findings that were reported to management.

Figures 17 and 18 show the movement in the number of auditees with SCM findings, the prevalence of SCM findings across all auditees with a comparison to the 2010-11 financial year, and a provincial view of auditees with SCM findings.

The following table provides key findings, followed by a further analysis of the SCM findings.

Table 15

Key findings from the audit of supply chain management

Key findings	Good	Concerning	Poor
Number of findings increased		<ul style="list-style-type: none"> Findings arising from the audits were reported in the management reports of 275 (87%) of the auditees (2010-11: 256 [77%]). In 231 (73%) of these cases (2010-11: 232 ([70%])), the findings were material enough to be reported in the audit report. At an overall level, there was an increase in the number of auditees with SCM findings. Gauteng and KwaZulu-Natal were the only provinces with findings at less than 80% of their auditees. 	
Limitations on planned audits could conceal further findings		<ul style="list-style-type: none"> Contracts awarded and price quotations accepted by auditees (referred to as <i>awards</i> in the rest of this report) to the value of R2 025 million (2010-11: R2 650 million) that were selected for audit purposes could not be audited, due to the required information or documentation not being made available by 94 auditees (2010-11: 82). These limitations could have a further impact on the extent of actual contraventions and SCM weaknesses. 	
Lack of progress in all SCM areas		<ul style="list-style-type: none"> Auditees have not made progress in any of the SCM areas audited. Findings on uncompetitive or unfair procurement processes remained the most common and the number of auditees with these findings continued to increase. 	

Limitations on planned scope of audit of awards

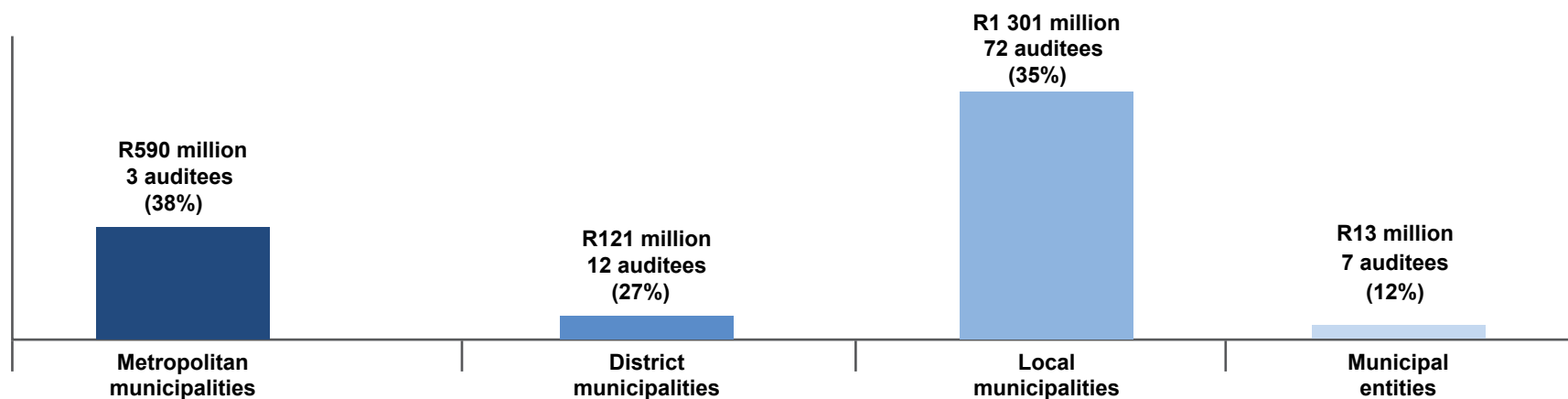
In total, 94 auditees (30%) (2010-11: 82 [25%]) did not provide sufficient, appropriate audit evidence that awards had been made in accordance with the requirements of SCM legislation. We could not perform any alternative audit procedures to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The main reason for the limitations was that supporting documentation for the award process was not made available for auditing, because the documentation either did not exist or could not be retrieved as a result of poor document management.

The following figure shows the number of auditees where limitations were experienced, per type of auditee, and the provinces where limitations were experienced.

Figure 19

Limitations on planned scope of audit of awards and provinces with limitations

Value of contracts and quotations where scope limitations were experienced



Province	Number of auditees		Number of repeat auditees	Number of awards		Value	
	2011-12	2010-11		2011-12	2010-11	2011-12	2010-11
Eastern Cape	25	15	9	321	348	R699 m	R599 m
Free State	8	9	3	86	425	R92 m	R450 m
Gauteng	2			6		R5 m	
KwaZulu-Natal	12	5	3	98	47	R100 m	R38 m
Limpopo	13	9	6	162	179	R364 m	R366 m
Mpumalanga	9	7	4	140	138	R343 m	R147 m
Northern Cape*	10	17	6	274	386	R108 m	R156 m
North West	15	14	10	437	244	R315 m	R876 m
Western Cape		6			35		R17 m
Total	94	82	41	1 524	1 802	R2 025 m	R2 650 m

*The Northern Cape trend is unclear due to 10 audits not finalised by 31 March 2013

There was a lack of evidence to support the regularity of the procurement processes in all provinces, except in the Western Cape and to a lesser degree in Gauteng. The impact of this was the following:

- The procurement processes could not be audited by us, the internal auditors or investigators.
- There was no evidence that auditees had followed a fair, transparent and competitive process for all awards. Should unsuccessful bidders request information on the process, also for possible litigation purposes, it will not be available.
- The true extent of irregular expenditure cannot be determined (also refer to section 2.4.4). As these awards cannot be proven to be irregular, the councils will not be able to investigate the irregularities through a legislated process. There will be no consequences for the irregular expenditure, except if the municipal manager ensures that these cases are determined to be SCM misconduct and possible financial misconduct.
- Our general reports, audit reports and management reports do not reflect the true extent of SCM non-compliance, irregularities and possible fraud.
- Poor record management creates an environment in which it is easy to commit fraud and corruption.

Awards to employees and councillors or other state officials

SCM Regulation 44 prohibits awards to persons (namely employees and councillors), 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 identified such prohibited awards and also tested whether the legislated requirements with regard to declarations of interest were adhered to.

The following table shows the extent and nature of these awards and whether any non-compliance with legislation was identified, with an indication of the positions of the officials involved. We also identified prohibited awards in the previous year at auditees in all of the provinces.

Table 16

Prohibited awards to employees and councillors or other state officials

Province	Awards made to employees and councillors								Awards made to officials of other state institutions			Supplier did not submit declaration of interest			Supplier did not declare interest in the declaration		
	Extent and positions of persons involved					Employee or councillor did not declare interest											
	Number of instances	Number of auditees	Number of repeat auditees	Amount	Positions	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount
Eastern Cape	115	16	9	R8 m	Councillor, employee, accounting officer	50	9	R4 m	449	33	R111 m	44	3	R1 m	412	29	R105 m
Free State	4	3	1	R335 k	Employee	4	3	R335 k	301	14	R20 m	262	7	R14 m	25	6	R4 m
Gauteng	285	4	2	R78 m	Employee, senior manager	284	3	R78 m	2 197	17	R199 m	2 049	3	R105 m	98	4	R49 m
KwaZulu-Natal	103	13	10	R19 m	Employee, senior manager	91	6	R18 m	756	40	R119 m	465	11	R66 m	236	22	R43 m
Limpopo	28	3	2	R1 m	Employee, senior manager	28	5	R1 m	229	19	R464 m	29	4	R1 m	42	6	R3 m
Mpumalanga	27	8	7	R3 m	Councillor, employee	14	4	R1 m	369	15	R36 m	59	4	R9 m	75	3	R10 m
Northern Cape	4	3	1	R21 k	Councillor, employee				38	11	R6 m	17	1	R3 m	12	7	R2 m
North West	44	7	1	R9 m	Councillor, employee	11	2	R438 k	382	15	R23 m	12	2	R4 m	131	9	R13 m
Western Cape	5	3	3	R200 k	Councillor, employee, SCM official, senior manager	3	2	R184 k	85	16	R39 m	43	8	R25 m	3	2	R130 k
Total	615	60	36	R118 m		485	34	R104 m	4 806	180	R1 016 m	2 980	43	R229 m	1 034	88	R229 m

We are very concerned about the awards to employees and councillors, as these could have been prevented or detected by implementing basic controls, such as employees, councillors and suppliers submitting declarations of interest. The lack of such controls could indicate that auditees do not take this requirement seriously. The possibility of undue influence can also not be disregarded, especially if the persons can influence the procurement processes of these awards, such as councillors, municipal managers and SCM officials, which could create opportunities for irregularities.

Auditees did not have access to information on persons employed in other state institutions, which means that they could only rely on the declarations provided by suppliers. At most of the auditees where prohibited awards were identified, the auditees did not ensure that the declaration was submitted, or the supplier did not declare the interest. We also identified this lapse in internal controls as one of the most widespread findings relating to procurement processes and the most common control weakness, which attributed to the high number of prohibited awards identified. Failure by suppliers to declare their interest constitutes a corrupt and fraudulent act and should be investigated and dealt with in accordance with legislation.

Limited action has been taken in response to similar findings in the previous year. Auditees have thus not taken the opportunity to show that they will not tolerate these irregular actions by persons in the service of the auditee or its suppliers and that such actions have consequences.

Awards to close family members of employees and councillors

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

During our audits, we identified awards to close family members and also tested whether the financial statement disclosure was made and whether the legislated requirements with regard to declarations of interest were adhered to.

The following table depicts the audit findings raised at auditees where awards to close family members of officials of the auditee were identified, with an indication of the positions of the officials involved.

Table 17

Awards to close family members

Province	Awards made to close family members of employees and councillors								Employee or councillor did not declare interest			Supplier did not submit declaration of interest			Supplier did not declare interest in the declaration		
	Extent and positions of persons involved					No disclosure in financial statements											
	Number of instances	Number of auditees	Number of repeat auditees	Amount	Positions	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount	Number of instances	Number of auditees	Amount
Eastern Cape	100	24	3	R26 m	Employee, senior manager	6	4	R301 k	60	12	R13 m	29	5	R9 m	11	5	R1 m
Free State	7	3	1	R4 m	Employee				2	1	R90 k	2	1	R90 k	2	1	R4 m
Gauteng	561	3		R8 m	Employee, senior manager				560	2	R7 m	560	2	R7 m			
KwaZulu-Natal	15	7		R5 m	Employee, senior manager				5	2	R3 m	1	1	R45 k	11	5	R4 m
Limpopo	14	4		R2 m	Employee, SCM official, senior manager	1	1	R105 k	14	7	R2 m				2	2	R222 k
Mpumalanga	17	6	1	R3 m	Employee				3	2	R67 k				4	2	R315 k
Northern Cape	29	4		R1 m	Councillor, employee, senior manager	5	1	R279 k	3	1	R1 m				6	2	R293 k
North West	28	9	1	R6 m	Councillor, mayor, employee	3	2	R148 k	23	6	R6 m				2	1	R115 k
Western Cape	132	10	1	R37 m	Councillor, employee, SCM official, senior manager	4	2	R1 m	43	4	R35 m				42	3	R35 m
Total	903	70	7	R93 m		19	10	R1 m	713	37	R67 m	592	9	R16 m	80	21	R45 m

Although awards to close family members are not prohibited, the non-disclosure of such awards in the financial statements and the failure of officials or suppliers to declare their interest could indicate that the relationships are being concealed. The possibility of undue influence cannot be ignored and all instances should be investigated.

The preceding two tables show an upward trend in the number of auditees doing business with their own employees and councillors, their close family members and other officials employed by the state. Weak controls over the declaration and monitoring of interests in contracts encourage this inappropriate behaviour.

Uncompetitive or unfair procurement processes

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

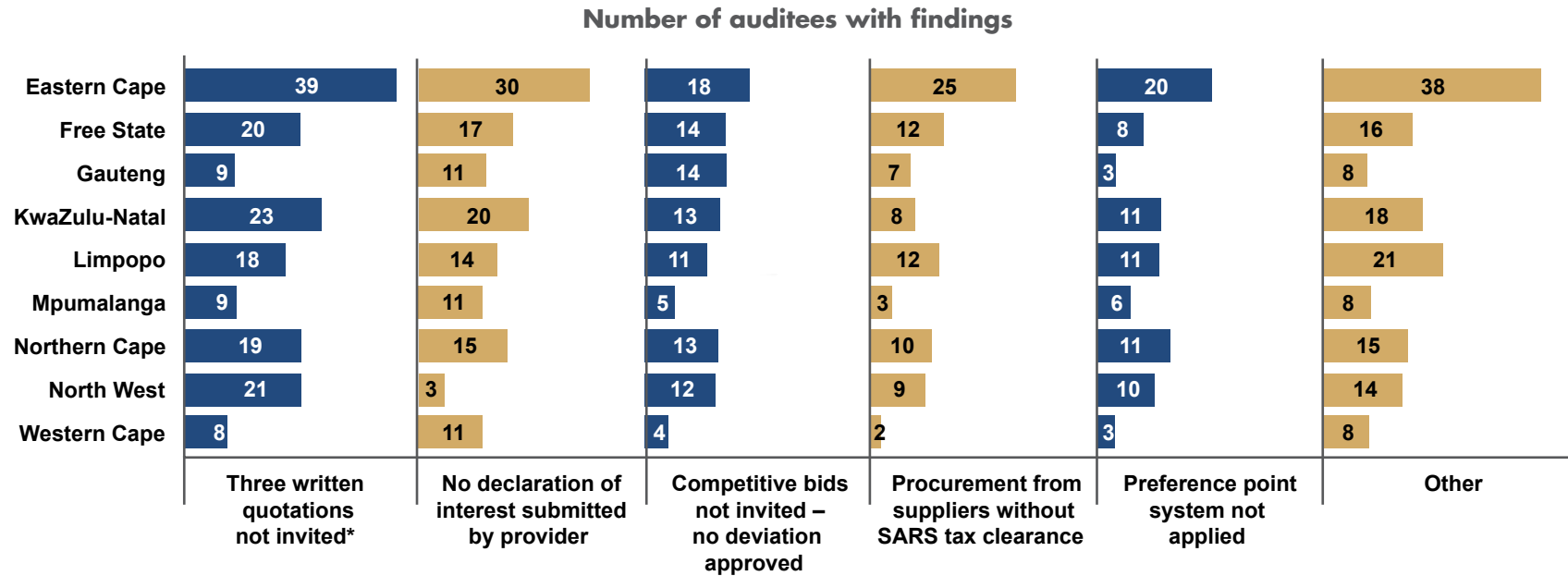
Our audits also focused on whether the procurement processes followed were fair and competitive in that they provided all suppliers equal opportunity to compete for public sector contracts and that the process did not favour some suppliers above others.

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

We tested the procurement processes of 5 525 contracts (with a value of R32,9 billion) and 16 192 quotations (with a value of R1,3 billion). We did not test all awards made by auditees, but only those selected based on risk and a statistical sampling method. The following figure presents the most common findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes per province, followed by a table that details the findings.

Figure 20

Most common findings on uncompetitive or unfair procurement processes per province



*No deviation approved, or approved deviation not reasonable or justified

Table 18**Summarised findings on uncompetitive or unfair procurement processes**

Three written quotations not invited – no deviation approved, or approved deviation not reasonable or justified: 166 auditees (52%)	No declaration of interest submitted by provider: 132 auditees (42%)
<p>A price quotation process is prescribed for the procurement of goods and services valued between R10 000 and R500 000. Three price quotations were not in all instances obtained from prospective providers and the deviations were not approved by a properly delegated official or committee.</p>	<p>Awards were made to suppliers that did not submit a completed declaration of interest. Suppliers must submit the declaration so that auditees can identify any possible conflicts of interest.</p>
Competitive bids not invited – no deviation approved: 104 auditees (33%)	Procurement from suppliers without SARS tax clearance: 88 auditees (28%)
<p>A competitive bidding process must be followed for the procurement of goods and services above R500 000. Competitive bids were not always invited and the deviations were not approved by a properly delegated official.</p>	<p>Awards were made to suppliers without proof from the South African Revenue Service that their tax matters were in order.</p>
Preference point system not applied: 83 auditees (26%)	Other: 146 auditees (46%)
<p>The preference point system was not applied in all procurement of goods and services above R30 000, as required by the Preferential Procurement Policy Framework Act.</p>	<p>Other findings included inadequate controls to ensure that persons with interests withdrew from the procurement process; register of bids received on time not published on website; SCM policy or procedures in conflict with applicable legislation, or did not include all requirements; and no controls to monitor the performance of contractors.</p>

Inadequate contract management

Shortcomings in the manner in which contracts are managed result in delays, wastage as well as fruitless and wasteful expenditure, which – in turn – have a direct impact on service delivery. Inadequate contract management remained at the same level (2011-12: 25% [2010-11: 20%]). The table below summarises the most common findings on inadequate contract management.

Table 19

Inadequate contract management

Key findings	Auditees	%
Performance of contractors not monitored on a monthly basis	45	14%
Inadequate contract performance measures and monitoring	34	11%
Contracts amended or extended without tabling the reasons in the council	23	7%
Contracts amended or extended without approval by a delegated official	19	6%
Goods and services received from, and payments made to, suppliers without a written, signed contract	10	3%
Other findings included payments in excess of the approved contract price (with further approved extensions); and total payments in quotations exceeding the original quoted amount	10	3%

Inadequate supply chain management controls

Internal control deficiencies in the SCM environment regressed (2011-12: 56% [2010-11: 43%]). The table below summarises the most common deficiencies in SCM controls.

Table 20

Inadequate internal controls

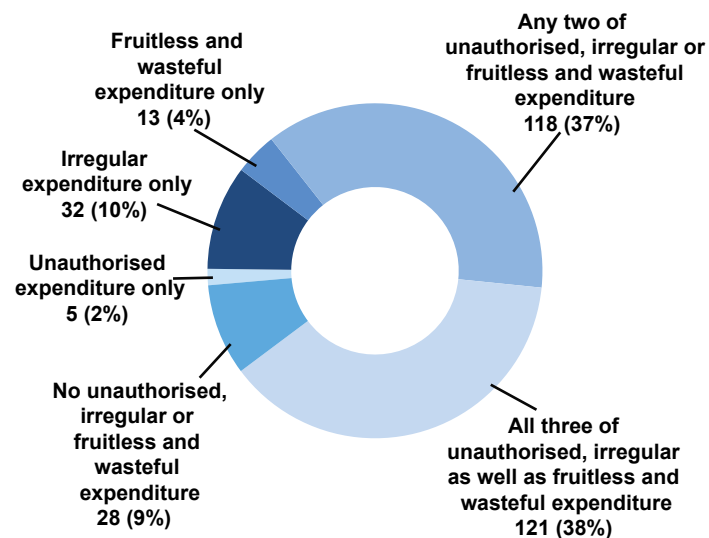
Key findings	Auditees	%
Poor record keeping, resulting in supporting documentation for award processes and contracts not being available	63	20%
Inadequate controls to ensure that interests were declared, resulting in the many findings on suppliers, employees and councillors not declaring their interests	57	18%
Risk assessments did not address SCM and, where they did, no action was taken to address the SCM risks identified	53	17%
No plans for addressing SCM findings, or adherence to the plans not monitored regularly	39	12%
Some officials who had to implement the SCM policy were not adequately trained to perform their duties	23	7%
Other findings included internal audit units not evaluating SCM controls, processes and compliance; no controls to monitor the performance of contractors; SCM officials not being aware of SCM policies or not understanding their roles and responsibilities; and SCM policies and procedures being in conflict with applicable legislation or not including all requirements	106	33%

2.4.4 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred

Figure 21

Summarised findings on unauthorised, irregular as well as fruitless and wasteful expenditure

Nature of auditees that incurred unauthorised, irregular and/or fruitless and wasteful expenditure



Nature of non-compliance findings on unauthorised, irregular and/or fruitless and wasteful expenditure

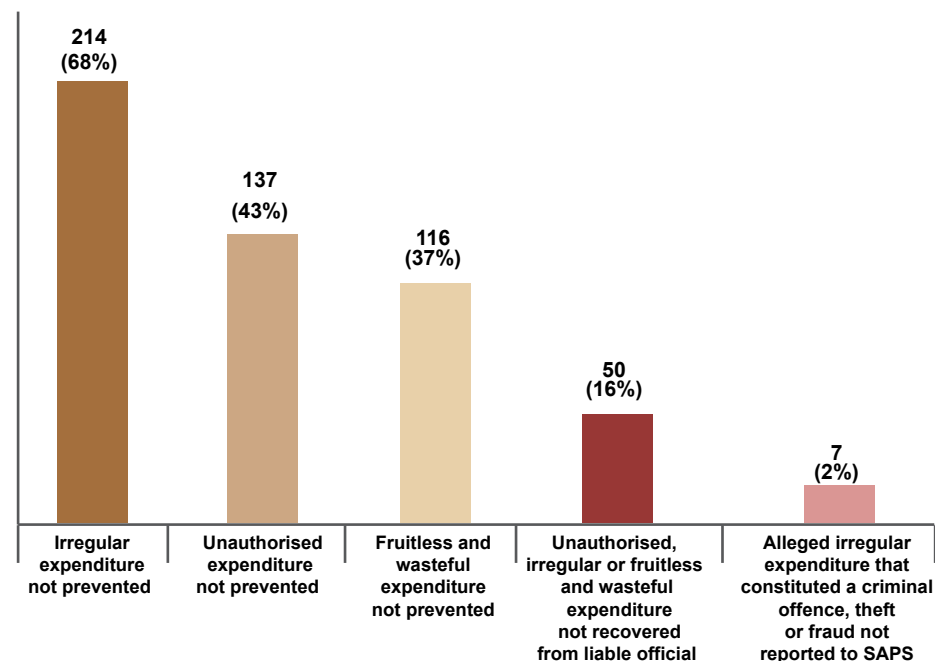
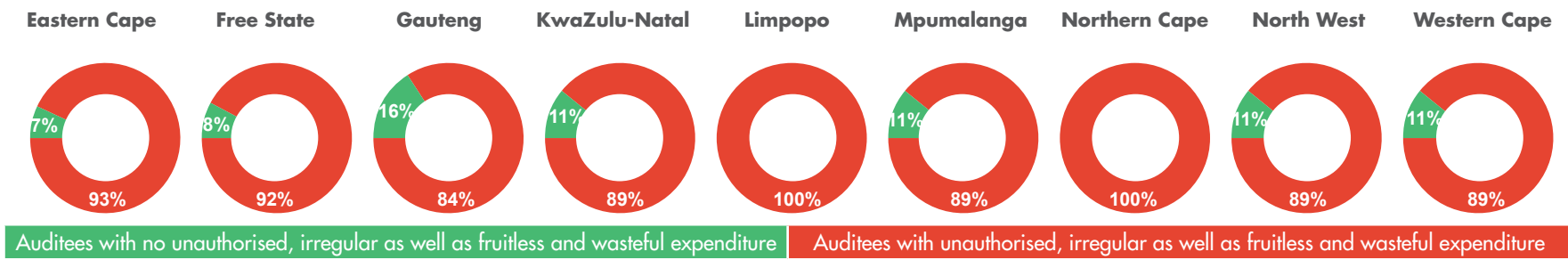


Figure 22

Provincial analysis



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

The extent of unauthorised, irregular as well as fruitless and wasteful expenditure and the pervasiveness of the related non-compliance with legislation applicable to such expenditure, as shown in figure 21, indicate a breakdown in auditees’ internal control environment. Table 21 summarises the key findings.

Table 21**Key findings on unauthorised, irregular as well as fruitless and wasteful expenditure**

Key findings	Good	Concerning	Poor	Key findings	Good	Concerning	Poor
Overall increase in number of auditees incurring unauthorised, irregular as well as fruitless and wasteful expenditure	<ul style="list-style-type: none"> In total, 289 auditees (91%) (2010-11: 265 [84%]) incurred one or more of these types of expenditure. All the auditees in Limpopo and the Northern Cape incurred one or more of these types of expenditure, while more than 80% of all auditees in the remaining provinces did so. The eight metropolitan municipalities all incurred one or more of these types of expenditure. 			Non-compliance findings related to unauthorised, irregular as well as fruitless and wasteful expenditure remained high	<ul style="list-style-type: none"> Overall, 230 auditees (73%) had non-compliance findings related to unauthorised, irregular as well as fruitless and wasteful expenditure, which is a further regression from the 218 (66%) in the previous year. The most common findings remained auditees not preventing irregular expenditure (67%), unauthorised expenditure (43%), and fruitless and wasteful expenditure (37%). 		
Some auditees incurred no unauthorised, irregular or fruitless and wasteful expenditure	<ul style="list-style-type: none"> Across all provinces, 28 auditees did not incur unauthorised, irregular or fruitless and wasteful expenditure, namely four district municipalities, seven local municipalities and 17 municipal entities. 			High number of findings relating to all types of auditees in all provinces not preventing unauthorised, irregular as well as fruitless and wasteful expenditure	<ul style="list-style-type: none"> All categories of auditees struggled to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, with metropolitan municipalities (88%) having the most findings, followed by district municipalities (75%), local municipalities (73%) and municipal entities (41%). These findings were common across all provinces, namely the Eastern Cape (91%), the Free State (85%), the North West (85%), Limpopo (81%), the Northern Cape (73%), Mpumalanga (58%), KwaZulu-Natal (54%), Gauteng (50%) and the Western Cape (36%). 		
All provinces had increases in number of auditees with unauthorised, irregular as well as fruitless and wasteful expenditure	<ul style="list-style-type: none"> The number of auditees that incurred unauthorised, irregular as well as fruitless and wasteful expenditure increased across all provinces, with the highest increases in Gauteng (23%), Limpopo (19%) and Mpumalanga (31%). 						

Section 3.3.1 provides further detail on the lack of consequences for transgressions, such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure.

The remainder of this section analyses the nature, extent and overall trends relating to unauthorised, irregular as well as fruitless and wasteful expenditure incurred or identified in the financial year under review.

Nature of, and overall trends in, unauthorised expenditure

Unauthorised expenditure is expenditure that was not spent in accordance with the budget approved by the council or the conditions of a grant. Unauthorised expenditure invariably means that money was not used for its intended purpose, which makes it difficult to achieve the service delivery objectives set for the year.

The following figure reflects the three-year trend in unauthorised expenditure and the extent to which it was identified during the audit (and not by the auditees' internal control systems).

Figure 23
Three-year trend in unauthorised expenditure

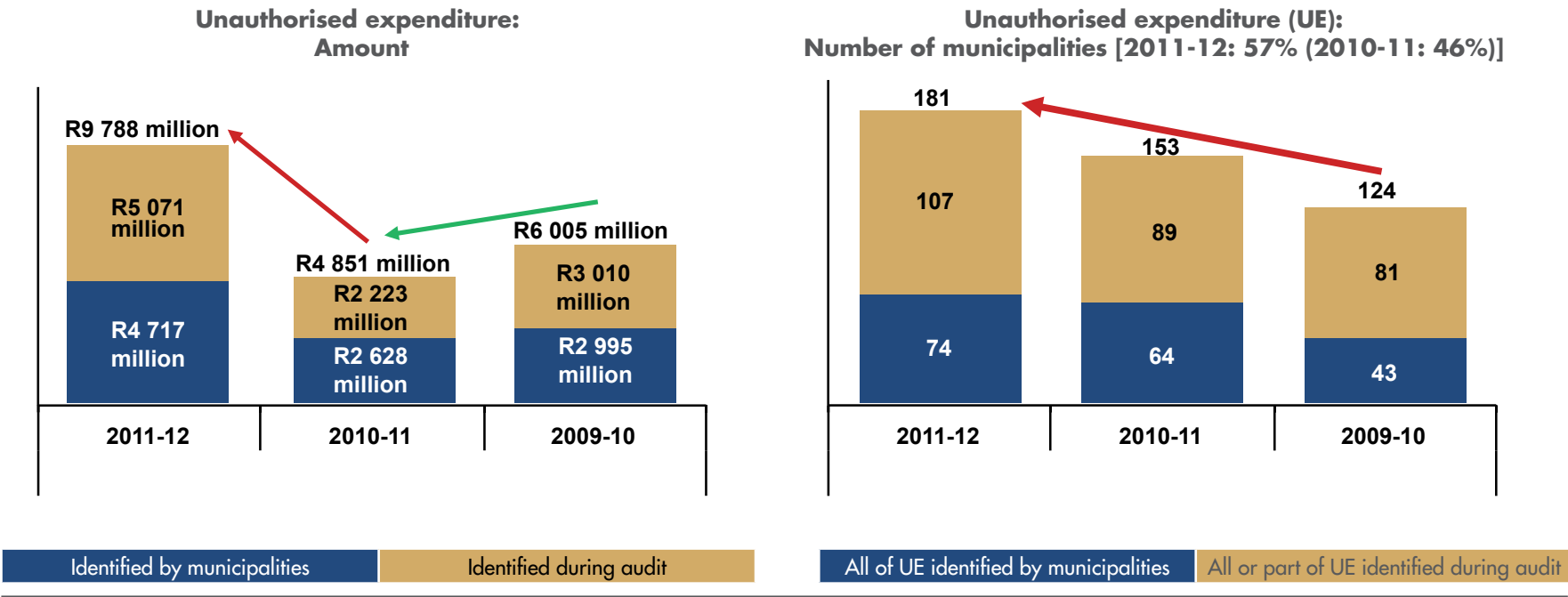


Table 22 below shows the unauthorised expenditure per province, including any movement, the percentage identified during the audit as well as the overall nature of this expenditure.

Table 22

Nature of, and current year movement in, unauthorised expenditure

Province	Unauthorised expenditure (municipalities only)													
	Extent								Nature					
	Number of municipalities	Percentage (of municipalities reported on)	Movement in number of municipalities of municipalities from 2010-11		Amount	Movement in amount from 2010-11		Identified during audit	Overspending of budget or main sections within budget		Spending not in accordance with purpose or condition of an allocation or grant received		Expenditure unrelated to functional area	
Number of municipalities	Amount	Number of municipalities	Amount	Number of municipalities	Amount									
Eastern Cape	35	78%	-9%	⬇️	R2 232 m	-291%	⬇️	73%	33	R2 199 m	4	R9 m	2	R24 m
Free State	19	90%	-6%	⬇️	R2 241 m	-67%	⬇️	70%	18	R2 241 m	2	R1 m		
Gauteng	6	50%	14%	⬆️	R740 m	-183%	⬇️	3%	4	R714 m	2	R25 m		
KwaZulu-Natal	37	61%	-68%	⬇️	R541 m	-5%	⬇️	82%	32	R447 m	6	R92 m	1	R3 m
Limpopo	17	59%	-6%	⬇️	R733 m	-31%	⬇️	68%	17	R685 m	3	R48 m	1	R3 k
Mpumalanga	10	53%	-25%	⬇️	R747 m	-107%	⬇️	60%	8	R525 m	2	R222 m		
Northern Cape	21	95%	-11%	⬇️	R517 m	-38%	⬇️	53%	21	R513 m	2	R4 m		
North West	18	78%	-6%	⬇️	R1 008 m	-72%	⬇️	17%	18	R1 005 m	1	R3 m		
Western Cape	18	69%	-29%	⬇️	R1 029 m	-272%	⬇️	2%	17	R1 001 m	3	R23 m	1	R5 m
Total	181	70%	-18%	⬇️	R9 788 m	-102%	⬇️	52%	168	R9 330 m	25	R426 m	5	R32 m



Improved



Regressed

The following table summarises the key findings.

Table 23
Key findings on unauthorised expenditure

Key findings	Good	Concerning	Poor
Significant increase in unauthorised expenditure	<ul style="list-style-type: none">Unauthorised expenditure of R9 788 million was incurred by 181 municipalities (70%). This is nearly double than in the previous financial year (R4 937 million), while the number of municipalities increased by 28 (18%).The amounts increased in all of the provinces, but the significant increase overall is mostly the result of the amount in the Eastern Cape and the Western Cape almost tripling and the high amounts incurred by municipalities in the Free State and the North West.More than half of the municipalities in all the provinces incurred unauthorised expenditure; except in Gauteng where only six municipalities (16%) incurred such expenditure.Most of the unauthorised expenditure was caused by overspending the budget or a main section in the budget. The overspending can in part can be attributed to poor budget preparation, including estimates of non-cash items.		
	Increases at all types of municipalities	<ul style="list-style-type: none">Unauthorised expenditure was again incurred by four metropolitan municipalities, but the amount increased fivefold to R1 117 million.The number of local municipalities incurring unauthorised expenditure increased from 122 to 145, with an 89% increase in the amount of R3 281 million.The number of district municipalities with unauthorised expenditure also increased from 22 to 27, with a 58% increase in the amount of R563 million.	
	Auditors continued to identify most of the unauthorised expenditure	<ul style="list-style-type: none">Although it is relatively easy to identify the overspending of budgets for reporting in the annual financial statements, the auditors (and not the auditee) identified more than half of the unauthorised expenditure.	
	Improvement in one province	<ul style="list-style-type: none">Gauteng is the only province where the number of auditees incurring unauthorised expenditure decreased, although the overall amount increased.	

Nature of, and overall trends in, irregular expenditure

Irregular expenditure is expenditure that is not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed.

However, it is a measure of an auditee’s ability to comply with legislation relating to expenditure and procurement management. Irregular expenditure is reported when it is identified – even if it is expenditure from a previous financial year.

The following figure reflects the three-year trend in irregular expenditure and the extent to which it was identified during the audit (and not by the auditees' internal control systems). The limitation was due to the value of

the procurement processes that could not be audited because of missing documentation, and that could have resulted in irregular expenditure (refer to section 2.4.3 for more information on SCM weaknesses).

Figure 24

Three-year trend in irregular expenditure

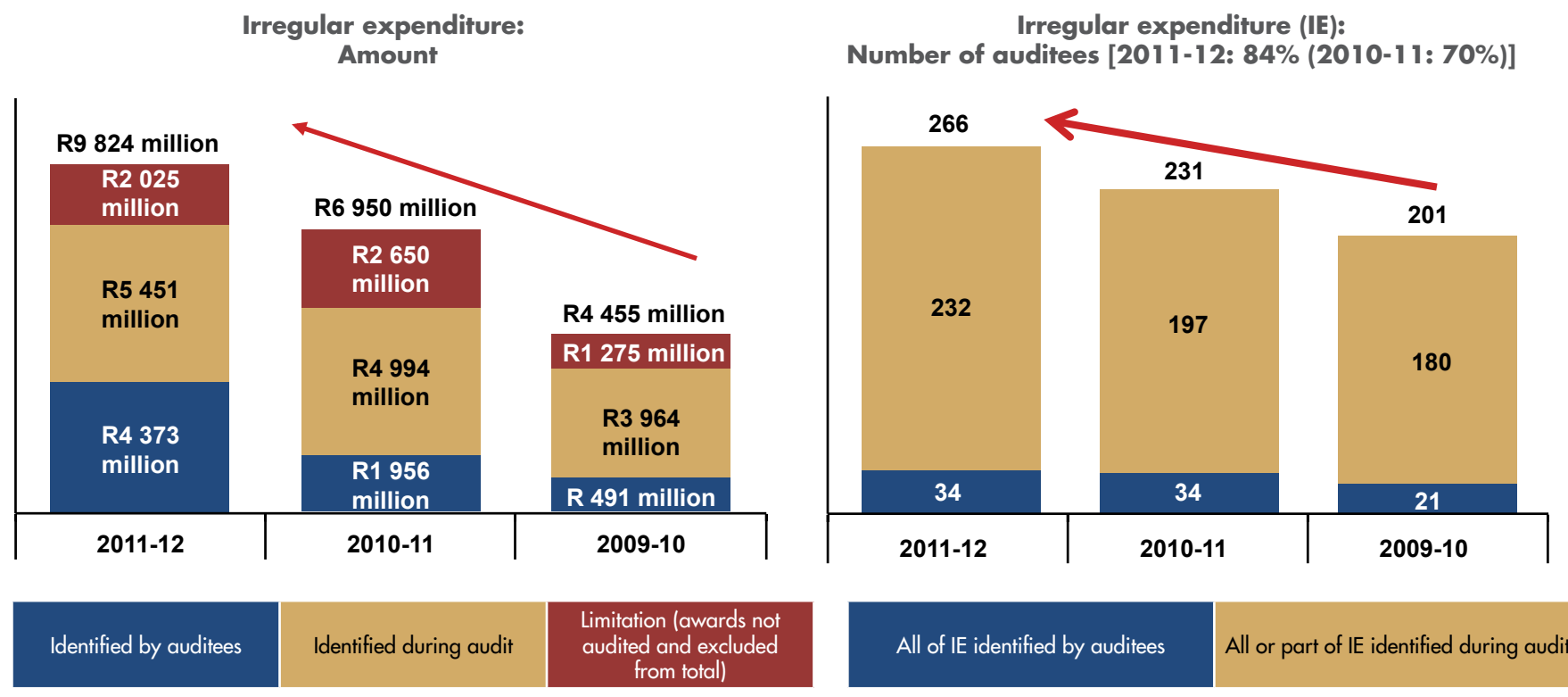


Table 24 shows the irregular expenditure per province, including any movement, the percentage identified during the audit as well as the overall nature of this expenditure. The table further shows the extent

to which the irregular expenditure identified in the current year was incurred in the current year or in prior years.

Table 24

Nature of, and current year movement in, irregular expenditure

Province	Irregular expenditure															
	Extent								Nature				Identified in current year			
	Number of auditees	Percentage (of auditees reported on)	Movement in number of auditees from 2010-11		Amount	Movement in amount from 2010-11		Identified during audit	SCM-related		Other non-compliance		Incurred in current year		Incurred in prior years	
									Number of auditees	Amount	Number of auditees	Amount	Instances	Amount	Instances	Amount
Eastern Cape	50	91%	-9%	⬇️	R2 250 m	-59%	⬇️	62%	49	R2 126 m	14	R124 m	3 692	R2 022 m	801	R228 m
Free State	23	88%	0%	↔️	R1 106 m	-42%	⬇️	60%	23	R776 m	17	R330 m	4 182	R1 106 m		
Gauteng	26	68%	-53%	⬇️	R1 833 m	-186%	⬇️	41%	26	R1 779 m	1	R52 m	3 187	R1 145 m	36	R688 m
KwaZulu-Natal	55	77%	-4%	⬇️	R1 557 m	27%	⬆️	31%	55	R1 545 m	5	R12 m	3 142	R1 556 m	32	R1 m
Limpopo	31	100%	-24%	⬇️	R1 568 m	-141%	⬇️	79%	31	R1 548 m	6	R20 m	2 033	R1 403 m	4 476	R165 m
Mpumalanga	15	79%	-50%	⬇️	R249 m	3%	↔️	34%	15	R245 m	3	R4 m	525	R183 m	226	R66 m
Northern Cape	21	95%	-5%	⬇️	R330 m	17%	⬆️	58%	20	R327 m	7	R3 m	2 257	R241 m	2 221	R89 m
North West	24	89%	-41%	⬇️	R865 m	-107%	⬇️	67%	24	R865 m	2	R516 k	1 428	R865 m		
Western Cape	21	75%	-5%	⬇️	R67 m	73%	⬆️	56%	21	R66 m	3	R275 k	1 096	R63 m	6	R4 m
Total	266	84%	-15%	⬇️	R9 824 m	-41%	⬇️	55%	264	R9 277 m	58	R545 m	21 542	R8 584 m	7 798	R1 241 m




 Improved
  Stagnant or little progress
  Regressed

Table 25 summarises the key findings.

Table 25

Key findings on irregular expenditure

Key findings	Good	Concerning	Poor
Significant increase in irregular expenditure	<ul style="list-style-type: none"> Irregular expenditure of R9 824 million was incurred by 266 auditees (84%). This amount increased by R2 874 million (41%) from the previous year, while the number of auditees increased by 34 (15%). The high increases in the amounts in the Eastern Cape, the Free State, Gauteng, Limpopo and the North West exceeded the decreases in the other provinces. Gauteng is the only province where less than three-quarters of the auditees incurred irregular expenditure. Most of the irregular expenditure was incurred as a result of non-compliance with SCM legislation. 		
Increases at all types of auditees	<ul style="list-style-type: none"> The highest increase in irregular expenditure of R1 342 million (48%) was incurred by local municipalities, with the number of auditees increasing from 177 to 187. Municipal entities incurred irregular expenditure of R1 202 million, which was five times more than the R224 million in the previous year. District municipalities incurred R402 million (29%) more than in the previous year, while metropolitan municipalities incurred R152 million (6%) more. 		
Auditors continued to identify significant portion of irregular expenditure	<ul style="list-style-type: none"> The auditors (and not the auditee) identified more than half (55%) of the irregular expenditure. Of the 266 auditees that had incurred irregular expenditure, only 13% were able to identify all their irregular expenditure without the audit process. 		
Improvement in two provinces	<ul style="list-style-type: none"> Auditees in KwaZulu-Natal incurred R590 million less irregular expenditure, while those in the Western Cape reduced their irregular expenditure by R176 million. 		

Nature of, and overall trends in, fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and that would have been avoided had reasonable care been taken. Such expenditure is also sometimes incurred to prevent further wastage or even irregular expenditure; for example, when contracts of non-performing suppliers are cancelled. Fruitless and wasteful expenditure

is reported when it is identified – even if it was incurred in a previous financial year.

The following figure reflects the three-year trend in fruitless and wasteful expenditure and the extent to which it was identified during the audit (and not by the auditees' internal control systems).

Figure 25
Three-year trend in fruitless and wasteful expenditure

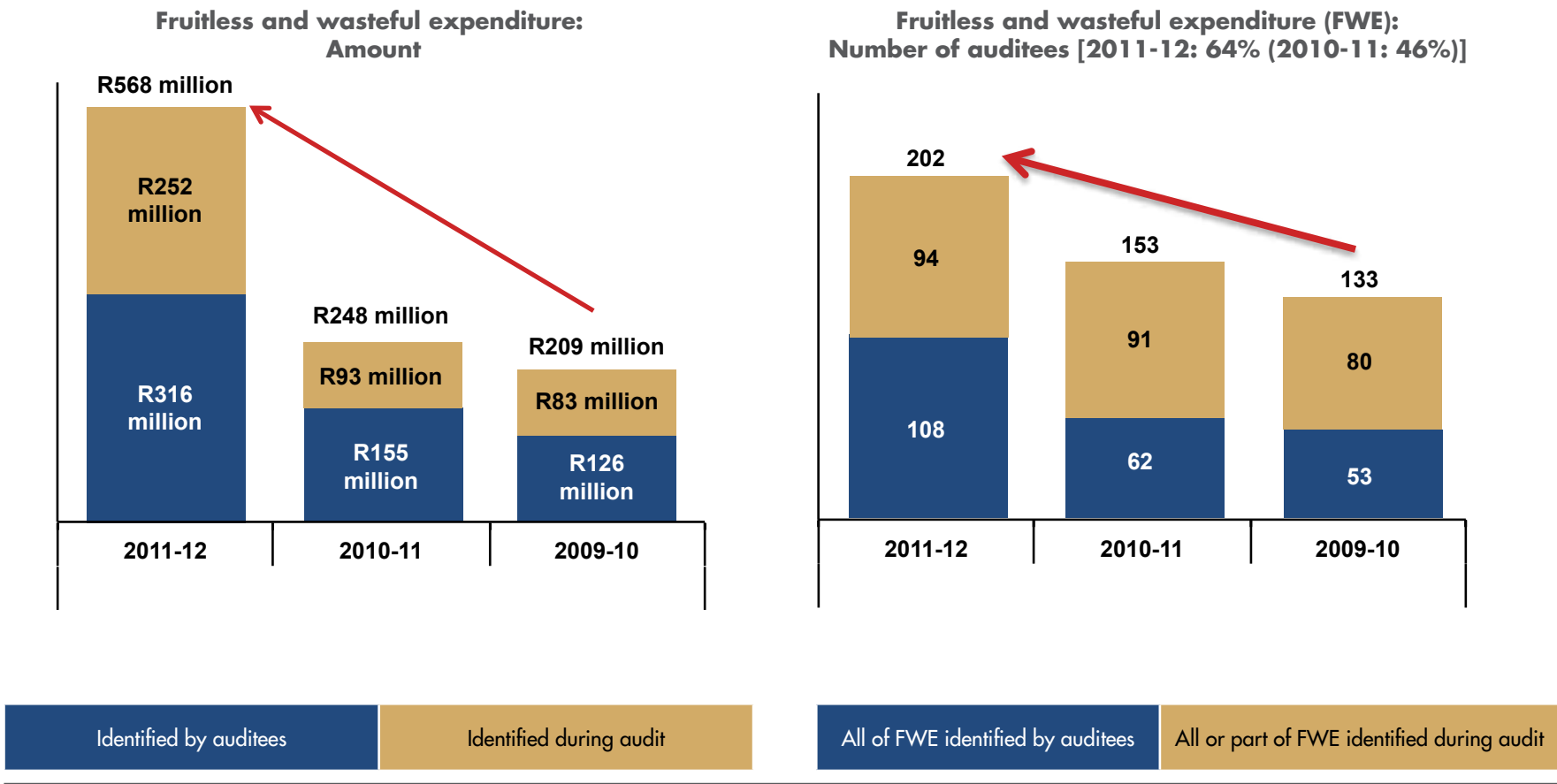


Table 26 shows the fruitless and wasteful expenditure per province, including any movement, the percentage identified during the audit as well as the overall nature of this expenditure.

The table further shows the extent to which the fruitless and wasteful expenditure identified in the current year was incurred in the current year or in prior years.

Table 26**Nature of, and current year movement in, fruitless and wasteful expenditure**

Province	Fruitless and wasteful expenditure															
	Extent								Nature				Identified in current year			
	Number of auditees	Percentage (of auditees reported on)	Movement in number of auditees from 2010-11		Amount	Movement in amount from 2010-11		Identified during audit	Incurred to prevent irregular expenditure, losses or further fruitless and wasteful expenditure		Actual fruitless and wasteful expenditure		Incurred in current year		Incurred in prior years	
									Number of auditees	Amount	Number of auditees	Amount	Instances	Amount	Instances	Amount
Eastern Cape	39	71%	0%	↔	R130 m	-251%	↓	76%	22	R26 m	20	R104 m	418	R34 m	181	R96 m
Free State	24	92%	-14%	↓	R151 m	-37%	↓	18%	4	R24 m	24	R127 m	524	R151 m	1	R14 k
Gauteng	19	50%	-19%	↓	R142 m	-2 763%	↓	49%	1	R113 m	18	R29 m	143	R91 m	10	R51 m
KwaZulu-Natal	41	58%	-52%	↓	R17 m	-40%	↓	48%	19	R6 m	23	R11 m	331	R14 m	17	R3 m
Limpopo	26	84%	-63%	↓	R33 m	18%	↑	10%	8	R2 m	19	R31 m	197	R23 m	36	R10 m
Mpumalanga	11	58%	-1 000%	↓	R27 m	-626%	↓	48%	3	R8 m	8	R19 m	54	R27 m		
Northern Cape	14	64%	-40%	↓	R4 m	-117%	↓	38%	9	R2 m	6	R2 m	224	R4 m	29	R1 m
North West	19	70%	-19%	↓	R56 m	-77%	↓	47%	1	R86 k	18	R56 m	136	R56 m		
Western Cape	9	32%	-29%	↓	R8 m	-24%	↓	32%	1	R341 k	8	R7 m	40	R8 m		
Total	202	64%	-32%	↓	R568 m	-129%	↓	44%	68	R181 m	144	R386 m	2 067	R408 m	274	R160 m



Improved



Stagnant or little progress



Regressed

Table 27 summarises the key findings.

Table 27

Key findings on fruitless and wasteful expenditure

Key findings	Good	Concerning	Poor
Significant increase in fruitless and wasteful expenditure		<ul style="list-style-type: none">• Fruitless and wasteful expenditure of R568 million was incurred by 202 auditees (64%). This expenditure more than doubled (R320 million) from the previous year, while the number of auditees increased by 49 (32%).• The amounts increased in most provinces, with significant increases in the Eastern Cape (R93 million), Gauteng (R137 million) and the Free State (R41 million).• Some fruitless and wasteful expenditure (32%) was incurred to prevent losses, irregularities or further wastage.	
Increases at all types of auditees		<ul style="list-style-type: none">• Fruitless and wasteful expenditure increased at all types of auditees. The highest increase of R199 million was incurred at metropolitan municipalities.• The number of local municipalities incurring fruitless and wasteful expenditure increased from 105 to 146.	
Auditors continued to identify significant portion of fruitless and wasteful expenditure		<ul style="list-style-type: none">• The portion of fruitless and wasteful expenditure identified by the auditors more than doubled from R93 million in the previous year to R252 million in the current year.	

Annexure 1 lists all auditees and the unauthorised, irregular as well as fruitless and wasteful expenditure incurred by them. The provincial general reports provide more detail on the nature of the expenditure and trends in each province.

SECTION 3

ROOT CAUSES OF AUDIT OUTCOMES

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SECTION 3 Root causes of audit outcomes

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

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

3.1 SUMMARY OF ROOT CAUSES OF POOR AUDIT OUTCOMES

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

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

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

Table 28

Summary of most common root causes of poor audit outcomes

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

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

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

Lack of consequences for poor performance and transgressions	<div><div>2011-12</div><div>29%71%</div></div> <div><div>2010-11</div><div>27%73%</div></div>
Detail of root cause	
<p>We identified a lack of consequences for poor performance and transgressions to be a root cause of poor audit outcomes at 71% of the auditees, which is at the same level as last year (73%).</p> <p>Political leaders and municipal officials that deliberately or negligently ignore their duties and disobey legislation should be decisively dealt with through performance management and by enforcing the legislated consequences for transgressions. When officials and political leaders are not held accountable for their actions, the perception is created that such behaviour and its results are acceptable and tolerated.</p> <p>This could make even those that are giving their best under trying circumstances feel hopeless.</p>	<p>The 2011-12 audits again confirmed serious weaknesses in the performance management of municipal and senior managers (refer to section 3.3.2 for details in this regard). There were also very few recorded allegations of financial and SCM misconduct or investigations into unauthorised, irregular as well as fruitless and wasteful expenditure. The low level of action in response to the high level of non-compliance, poor audit outcomes, SCM transgressions and unauthorised, irregular as well as fruitless and wasteful expenditure clearly shows a lack of consequences for transgressions. Section 3.3.1 includes more information in this regard.</p>
Reasons why prior year root cause was not addressed	
<p>The commitments of all role players to address poor performance and transgressions have not been translated into actions yet or have had a limited impact overall.</p>	<p>Section 3.3.1 details the reasons why the required steps have not been taken.</p>
Recommendations	
<p>The following recommendations made in the previous year have not been addressed yet:</p> <ul style="list-style-type: none">• Municipal officials should know that all non-compliance has consequences.• In order to improve the performance and productivity of municipal officials, the leadership should set the tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.	<p>Section 3.3.1 provides further recommendations. Role players in local government often say that they do not know what remedies to apply to deal with transgressions. To help them, we have compiled a separate booklet on the legislation they can use.</p>
Role players that should address the root cause	
<ul style="list-style-type: none">• Municipal managers and senior management• Councils and mayors	<ul style="list-style-type: none">• Provincial legislatures, treasuries, departments of cooperative governance, offices of the premier

3.2 SIGNIFICANT DEFICIENCIES IN AUDITEES' SYSTEMS OF INTERNAL CONTROL

Figure 26
Movement of drivers of internal control

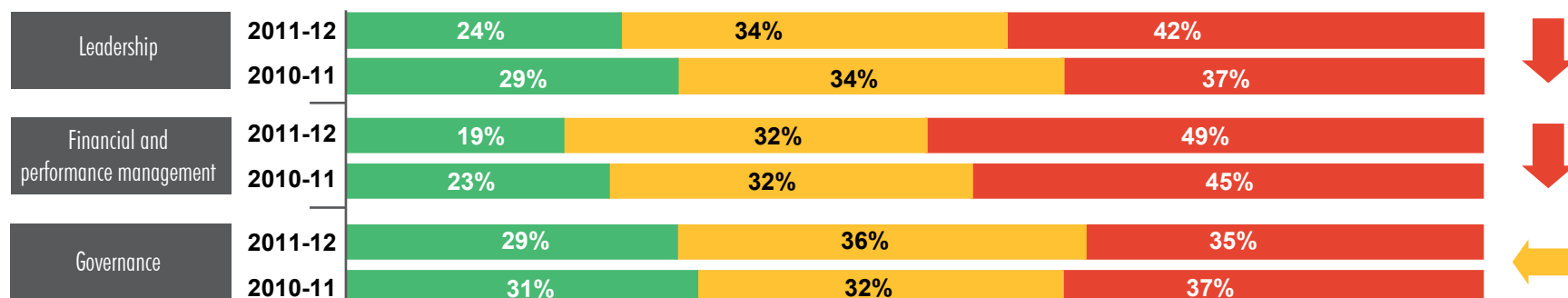
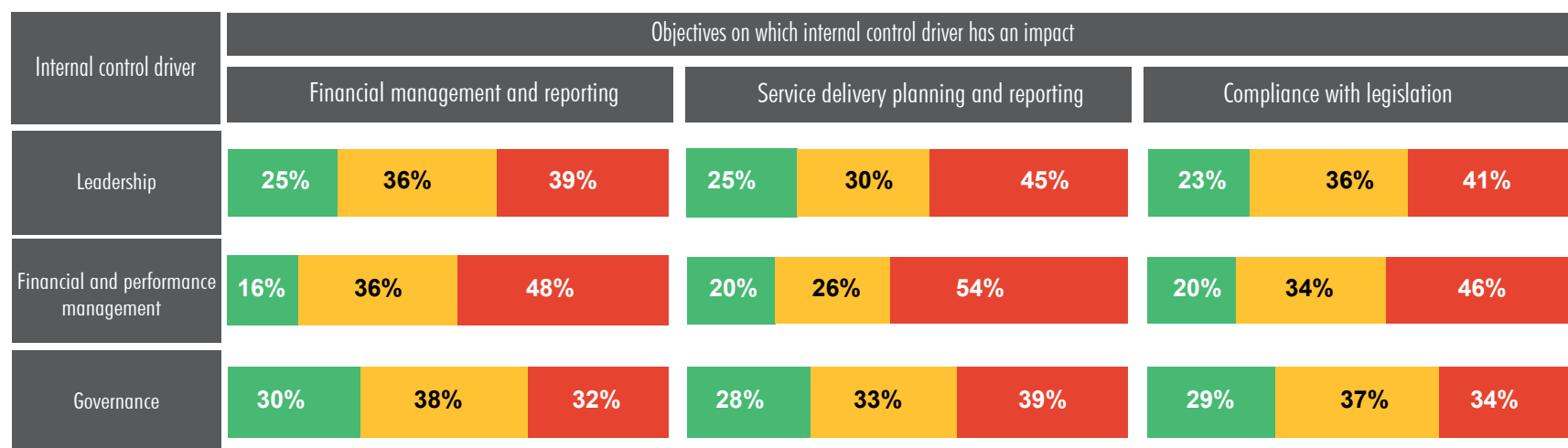


Figure 27
Objectives on which the drivers of internal control have an impact



↔ Stagnant or little progress ↓ Regressed

A key responsibility of accounting officers and authorities, senior managers and municipal officials is to implement and maintain effective and efficient systems of internal control. As part of our audits, we assess the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. If these controls are effective, they will result in a clean audit. To make it easier to implement corrective action, we have categorised the principles of the different components of internal control under *leadership, financial and performance management, and governance*. We call these *the drivers of internal control*.

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

A deficiency exists when:

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

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

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

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

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


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



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




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







Table 29
Status of, and movement in, the elements of internal control underlying leadership, financial and performance management as well as governance




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


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

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

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

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

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

Driver no. 3: Governance	Movement	Assessment of drivers
Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and provides oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.		<div><div>2011-12</div><div><div>30%</div><div>36%</div><div>34%</div></div></div> <div><div>2010-11</div><div><div>35%</div><div>30%</div><div>35%</div></div></div>
Section 3.5 provides an assessment of the effectiveness of audit committees.		

Annexure 3 provides the status of key controls per auditee.

3.3 HUMAN RESOURCE MANAGEMENT AND THE USE OF CONSULTANTS

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

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

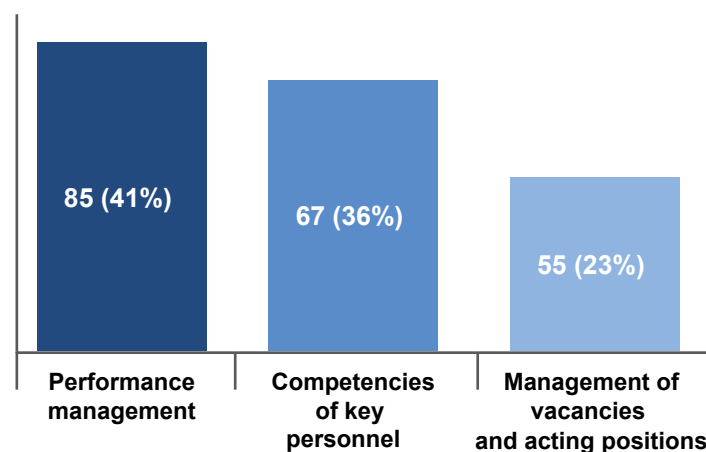
As part of our audits of SCM, financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure, we determined whether consequences had been implemented for transgressions by officials as required by legislation. Section 3.3.1 presents these findings.

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

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

Figure 28

Number of auditees with human resource management weaknesses in selected areas



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

3.3.1 Consequences for transgressions

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

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

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

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

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

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

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

Table 30

Key findings on the steps taken to address transgressions

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

Reasons for lack of consequences	
<p>The reasons for the lack of consequences for transgressions by local government officials include the following:</p> <ul style="list-style-type: none"> • Pressure from line managers and the political leadership of the municipality often prevented individuals from investigating and acting upon alleged transgressions. • The lack of accountability arising from inadequate job specifications and performance contracts prevented action from being taken against transgressors. • The departments of cooperative governance and the provincial treasuries did not effectively monitor compliance and assist municipalities in this regard. 	<ul style="list-style-type: none"> • Councillors were not aware of, or did not understand, the steps to be taken in response to transgressions and poor performance. • Standard policies, processes and procedures to deal with transgressions were not in place. • Role players did not set the proper tone at municipalities that transgressions will not be tolerated.
Impact of lack of consequences	
<p>The impact of the lack of consequences includes the following:</p> <ul style="list-style-type: none"> • Continued non-performance and transgressions, due to officials realising that there are no consequences for their actions. • Officials who previously complied with legislation and who diligently performed their duties may become disillusioned and may also start to transgress. 	<p>The ultimate effect of the lack of consequences is poor service delivery, poor financial management, and unreliable financial and service delivery reporting.</p>
Recommendations to address the lack of consequences	
<p>We recommend the following to address the weaknesses:</p> <ul style="list-style-type: none"> • All audit findings should be investigated to determine whether there are indicators of financial misconduct or misconduct in the SCM processes, followed by disciplinary hearings where misconduct was confirmed. • All unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated timeously to determine whether such expenditure should be recovered from the responsible official. If it cannot be recovered, the council should certify the expenditure as irrecoverable. 	<ul style="list-style-type: none"> • Outstanding investigation reports should be a standing agenda item at council meetings to ensure that reports are finalised within a reasonable time and that accountability is enforced. • Councils, the departments of cooperative governance and the provincial treasuries should monitor compliance. <p>Role players in local government often say that they do not know what remedies to apply to deal with transgressions. To help them, we have compiled a separate booklet on the legislation they can use.</p>

3.3.2 Performance management

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

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

role players, which were echoed in the experiences of the public at some municipalities. In order to improve the performance and productivity of municipal officials, the leadership should set the tone by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences.

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

Table 31
Key findings on the performance management processes of municipal and senior managers

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

Reasons for weaknesses in the performance management of senior officials

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

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

Impact of poor performance management

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

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

Recommendations to address weaknesses in performance management

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

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

3.3.3 Management of vacancies and acting positions

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

Figure 29

Average overall vacancy rate per province at 30 June 2012

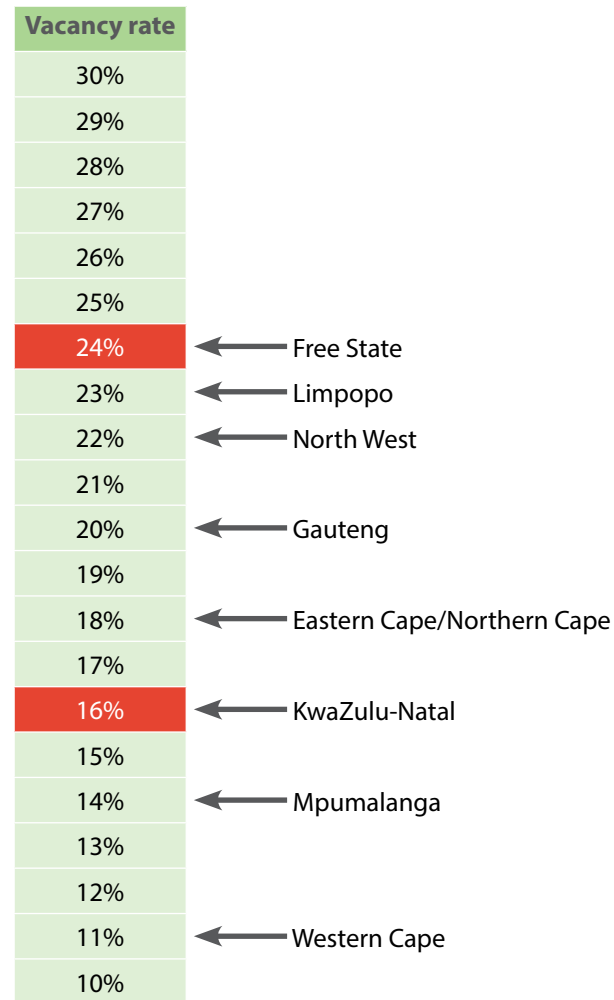


Figure 30

Vacancies in key positions at 30 June 2012

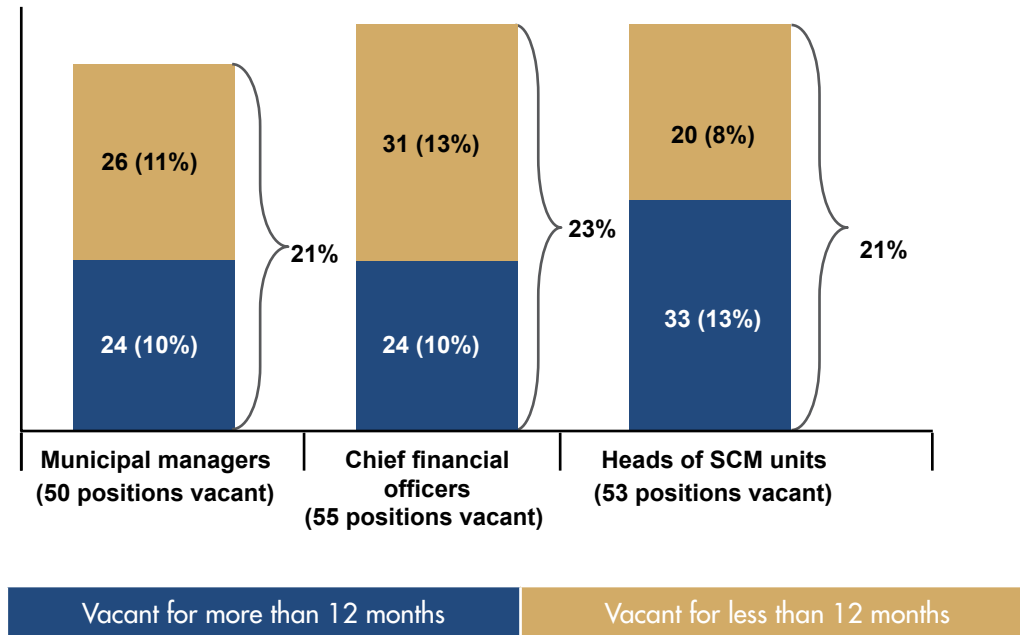


Table 32 details the key findings from the audits.

Table 32

Key findings on the management of vacancies and acting positions

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

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

3.3.4 Competencies of key officials

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

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

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

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

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

Figure 31

Competency levels of people in key positions at 30 June 2012

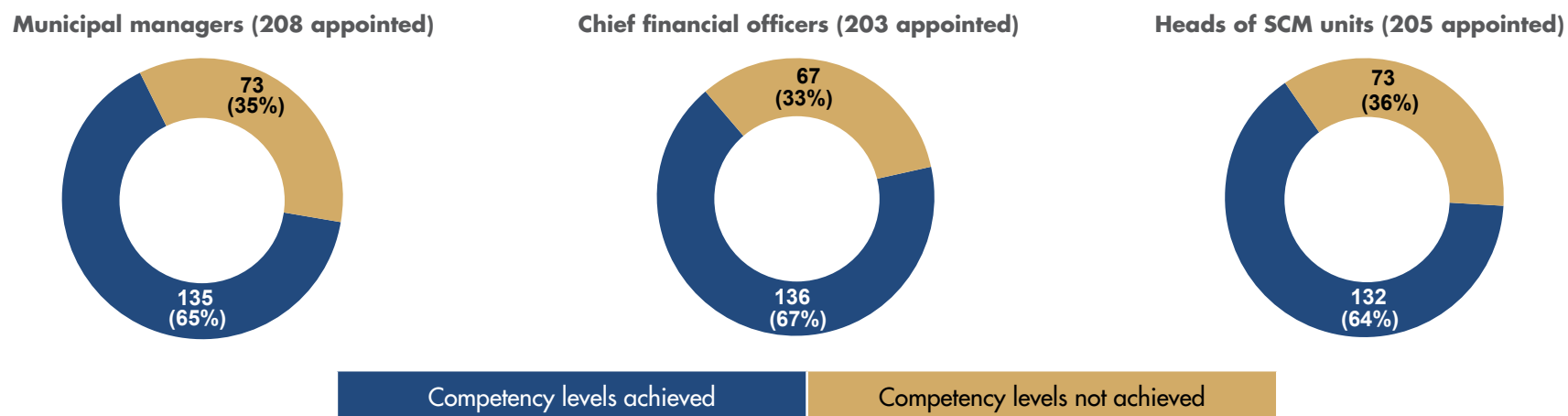


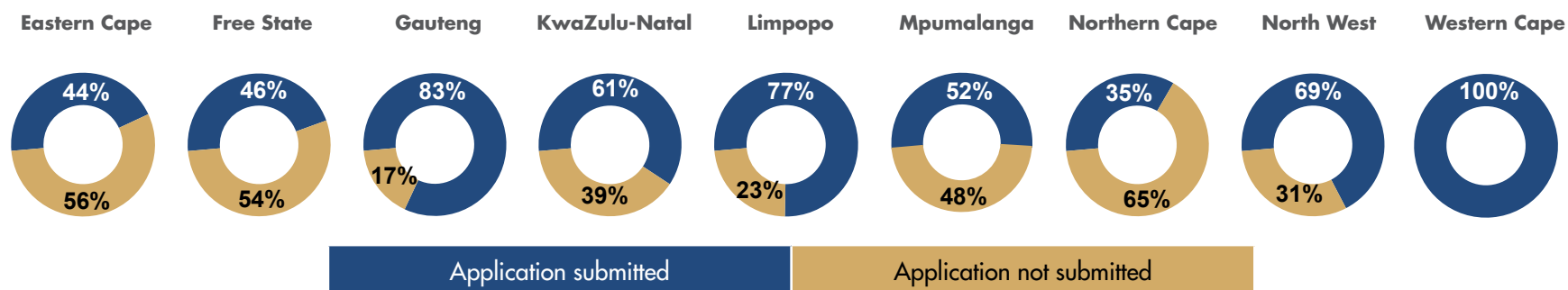
Table 33**Reasons why minimum competency levels had not been achieved**

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

* The percentage is based on the number of appointed officials

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

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

Figure 32**Rate of application for exemptions**

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

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

Table 34

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

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

Reasons for slow progress towards obtaining minimum competencies

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

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

The reasons for this are the following:

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

Impact of inadequate competencies

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

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

Recommendations to address inadequate competencies

We recommend the following:

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

3.3.5 Effective use of consultants

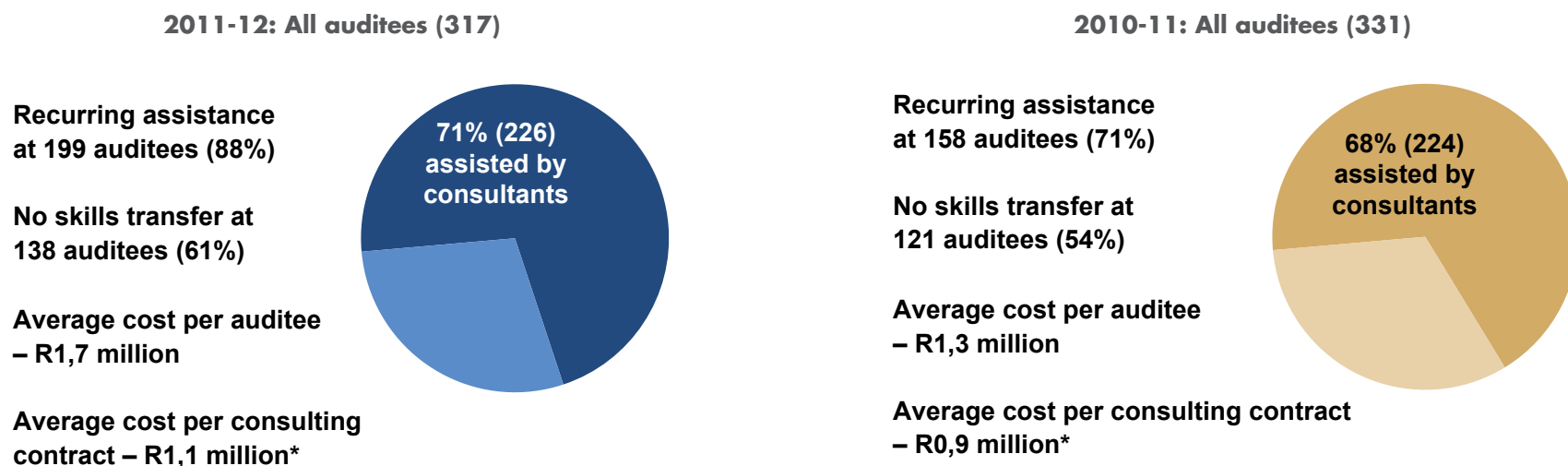
As in previous financial years, auditees continued to hire consultants to assist them with accounting-related services and the preparation of year-end financial statements. A total of 226 auditees (71%) were assisted by consultants in 2011-12, compared to 224 (68%) in 2010-11. Based on available information,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

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

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

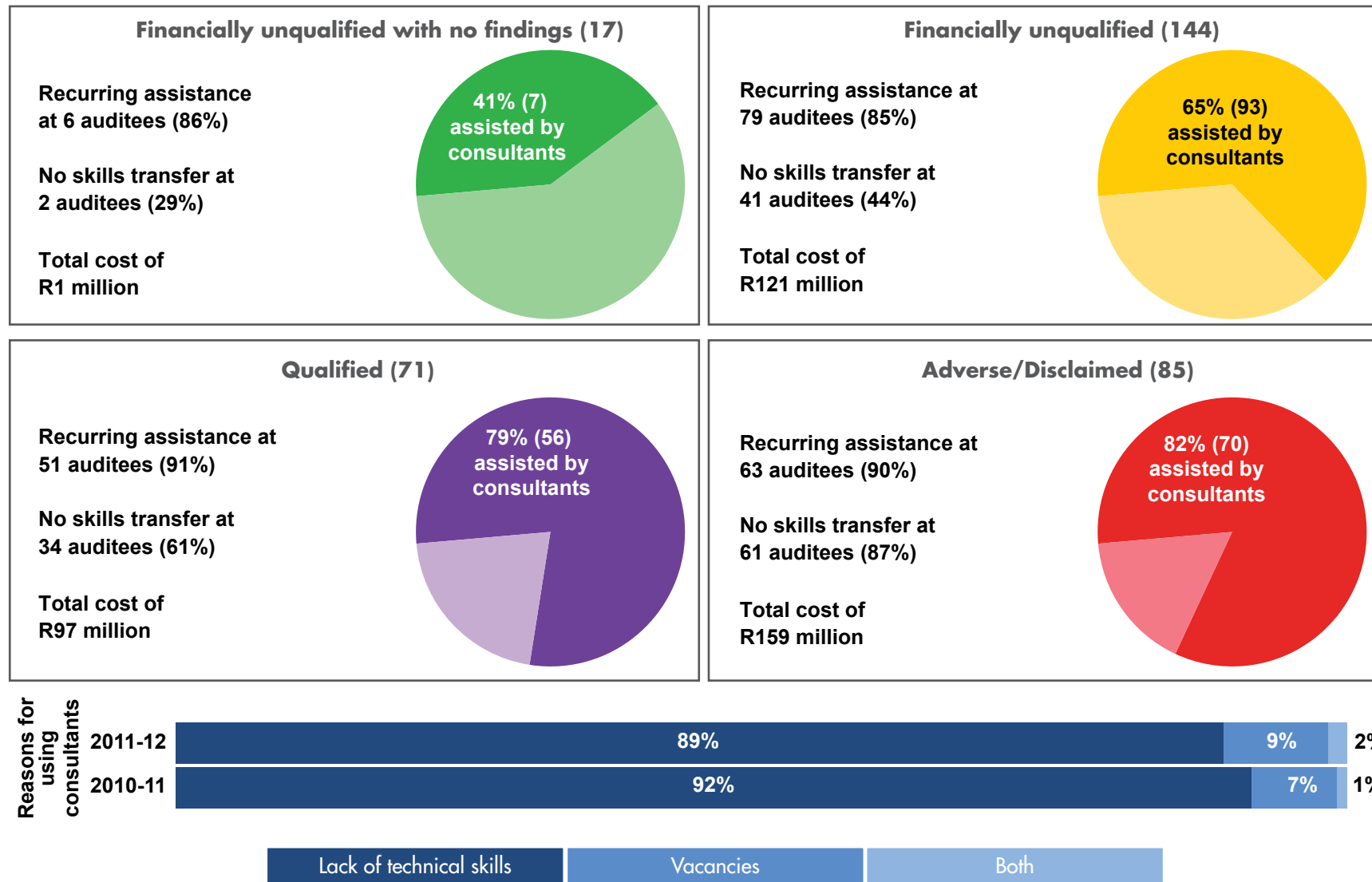
Figure 33

Continued assistance, rate of skills transfer and cost of consultants



* Some auditees were assisted by more than one consultant

Figure 34
Audit outcomes of auditees assisted by consultants



Note: Some auditees were assisted by more than one consultant

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

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

Table 35

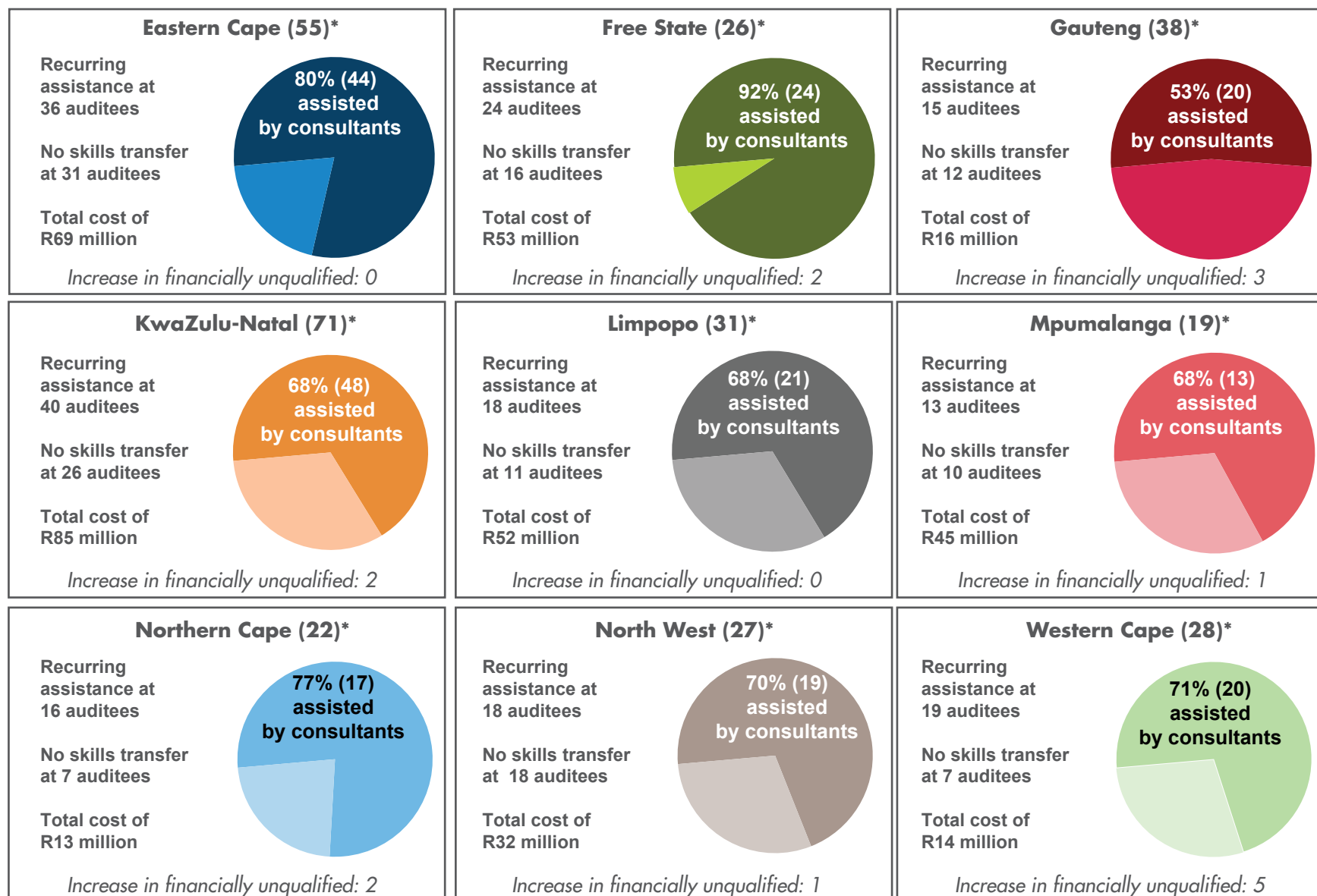
Key findings on the use of consultants

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

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

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

Figure 35
Provincial analysis of assistance provided by consultants



* Number of auditees reported on

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

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

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

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

3.4 INFORMATION TECHNOLOGY MANAGEMENT

3.4.1 Information technology management as a key driver of audit outcomes

IT controls that ensure the confidentiality, integrity and availability of data need to be properly designed and implemented and have to function effectively to maintain the operational integrity of government, enable

service delivery, and promote national security.

Auditees should therefore ensure that good IT governance, effective IT management and a secure IT architecture or infrastructure exist.

The following table provides a consolidated view of the status of IT across local government, based on our audit outcomes.

Table 36
Status of information technology across local government

1

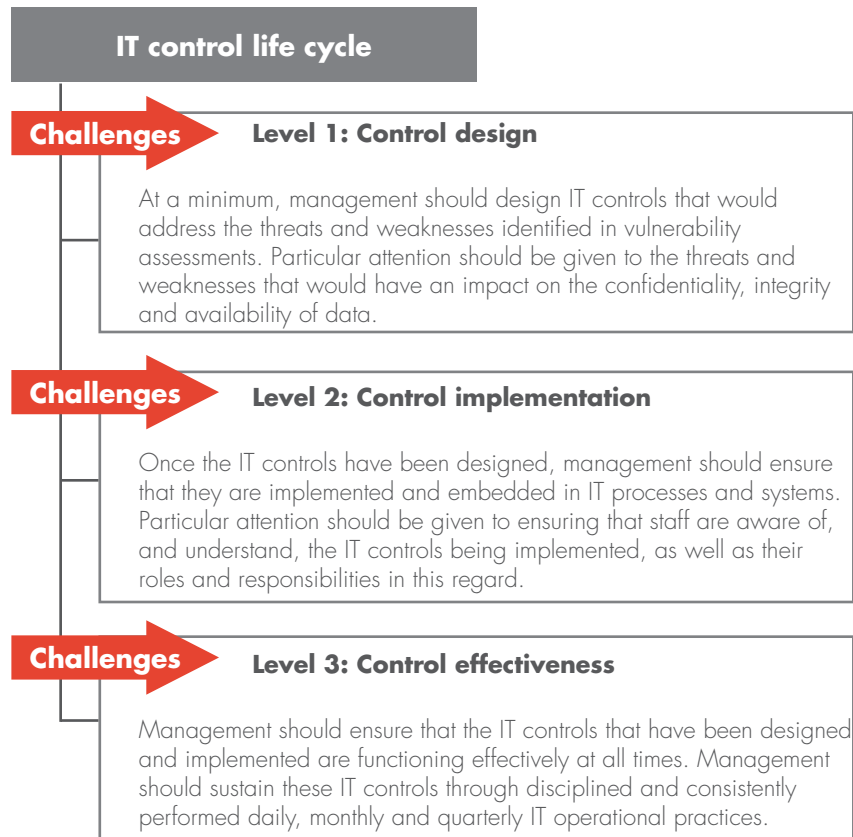
Minimal movement in the status of information technology across local government

Status of local government information	Confidentiality	Integrity	Availability
	<div>The necessary level of secrecy is enforced for all local government information. This was assessed by auditing the following focus areas:</div> <ul style="list-style-type: none">• Security management• IT governance• User access controls	<div>All local government information is authentic, remains unaltered until authorised to change, and is complete. This was assessed by performing data analytics and auditing the following focus areas:</div> <ul style="list-style-type: none">• Security management• User access controls	<div>All local government information is ready for use when expected. This was assessed by auditing the following focus areas:</div> <ul style="list-style-type: none">• Security management• IT service continuity
Status of key enabling controls	Good governance		
	Effective management		
	Secure architecture or infrastructure		

Management intervention required

2

Most auditees have challenges with the design of controls and have not even begun to deal with implementation and sustained effectiveness



3

Drivers of the lack of improvement in local government outcomes – many cannot be addressed from within the IT environment

Lack of support by coordinating departments at national level

- The Department of Cooperative Governance and Traditional Affairs did not provide municipalities with effective IT support

Lack of support by coordinating departments at provincial level

- Provincial treasuries did not provide adequate assistance to municipalities in managing financial systems
- Provincial departments of cooperative governance did not provide guidance and assistance to municipalities to improve their internal IT control environment

Ineffective management of IT

- IT vacancies were not filled
- Vendors' performance was not monitored
- Ineffective oversight
- Lack of consequences for repeat findings

Poor governance of IT

- IT risk assessments were not undertaken
- Municipal management did not ensure that key IT controls were designed and implemented
- Policies were not approved by municipal councils

3.4.2 Summary of the overall audit outcomes

We assessed IT controls in four key focus areas at 168 municipalities and 21 municipal entities across the country. In all provinces other than KwaZulu-Natal and Mpumalanga, we assessed medium- and low-risk municipalities and municipal entities through questionnaires to determine the readiness of these auditees for detailed IT audits. The results of these questionnaires are not included in the overall audit outcomes.

We assessed controls in the focus areas of IT governance, security management, user access management, and IT service continuity. An analysis of the audit outcomes indicated that most auditees experienced challenges with the design of IT controls. Adequate progress had not been made in addressing previous findings, as risks remained in all of the focus areas, even though some corrective measures had been instituted.

The following are the reasons for the lack of adequate progress:

- Inadequate oversight by those charged with governance.
- A lack of consequences for not resolving audit findings.
- Internal audit units and audit committees not consistently monitoring the progress made in implementing management commitments.

Table 37 shows the status of IT controls in the provinces.

Table 37

Provincial status of information technology controls

Number	Province	Information technology governance				Security management				User access management				Information technology service continuity			
		Controls not designed	Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses	Controls not designed	Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses	Controls not designed	Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses	Controls not designed	Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses
Municipalities																	
1	Eastern Cape	87%			13%	67%	13%		20%	80%	13%		7%	86%	7%		7%
2	Free State	100%				91%	9%			100%				100%			
3	Gauteng	83%			17%	67%	25%		8%	67%	33%			50%	33%		17%
4	KwaZulu-Natal	57%	10%		33%	52%	10%	2%	36%	69%	10%		21%	60%	15%	3%	22%
5	Limpopo	95%			5%	81%	14%		5%	95%	5%			95%	5%		
6	Mpumalanga	94%			6%	94%	6%			100%				100%			
7	North West	100%				100%				100%				100%			
8	Northern Cape	53%	27%		20%	52%	38%		10%	52%	40%	8%		52%	35%	4%	9%
9	Western Cape	95%			5%	86%			14%	95%	5%			95%	5%		
Municipal entities																	
1	Free State	100%				100%				100%				100%			
2	Gauteng	17%			83%	42%	42%		16%	50%	17%		33%	8%	17%		75%
3	KwaZulu-Natal	29%	14%		57%	43%			57%	43%			57%	29%	14%		57%
Controls not designed				Controls designed but not implemented				Controls implemented but not operating effectively				No control weaknesses					

3.4.3 Information technology governance

The chief information officer and the accounting officer are jointly responsible for IT governance, making it a responsibility at executive management level. It is an integral part of the overall governance of an auditee, and consists of the leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives. IT governance allows the auditee to manage IT risks and derive value from IT investments, and supports the achievement of business objectives that depend on IT systems. Effective IT governance also ensures that the auditee's IT environment functions well and enables service delivery.

Table 38 details the outcomes of our audits of IT governance.

Table 38

Information technology governance audit outcomes across local government

Number	Province	Information technology governance			
		Controls not designed	Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses
Municipalities					
1	Eastern Cape	87%			13%
2	Free State	100%			
3	Gauteng	83%			17%
4	KwaZulu-Natal	57%	10%		33%
5	Limpopo	95%			5%
6	Mpumalanga	94%			6%
7	North West	100%			
8	Northern Cape	53%	27%		20%
9	Western Cape	95%			5%
Municipal entities					
1	Free State	100%			
2	Gauteng	17%			83%
3	KwaZulu-Natal	29%	14%		57%
Controls not designed		Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses	

The poor governance of IT was due to required structures not being in place to ensure that the IT investment was monitored and that proper value was derived from the money spent on IT infrastructure. For instance, IT was often not recognised as essential to the delivery of services. Value that could have been derived from IT was consequently lost. At many auditees, the lack of staff with the skills to execute IT duties led to consultants being appointed. However, these consultants were not monitored, as the staff did not have the skills to do so. They could therefore also not determine whether the services of the consultants served the purposes of the auditees and allowed them to derive optimal value from the investment in these services. The lack of priority given to IT governance also led to an absence of strategic alignment between IT and the business. The absence of IT skills at auditees meant that they were not aware of the risks to which their IT environments were exposed. IT risks were therefore not managed and no assurance could be given that the IT environment was effectively protected and secured.

3.4.4 Security management

A secure IT environment ensures that the auditee's financial and performance information is processed and stored in a safe environment. Both the IT section and senior management are responsible for the security of the IT environment. IT security controls are measures designed by management to prevent and detect the risk of unauthorised access to the IT infrastructure that supports the financial and performance application systems. For instance, to protect an auditee's IT network, an IT security policy has to be compiled and procedures have to be put in place to ensure that the network can withstand both internal and external attacks. If these security measures are not in place, the auditee's information might be compromised or be used to commit fraud or process unauthorised transactions.

Table 39 indicates the outcomes of our audits of security management.

Table 39

Security management audit outcomes across local government

Number	Province	Security management			
		Controls not designed	Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses
Municipalities					
1	Eastern Cape	67%	13%		20%
2	Free State	91%	9%		
3	Gauteng	67%	25%		8%
4	KwaZulu-Natal	52%	10%	2%	36%
5	Limpopo	81%	14%		5%
6	Mpumalanga	94%	6%		
7	North West	100%			
8	Northern Cape	52%	38%		10%
9	Western Cape	86%			14%
Municipal entities					
1	Free State	100%			
2	Gauteng	42%	42%		16%
3	KwaZulu-Natal	43%			57%
Controls not designed		Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses	

Because the security controls at auditees were weak, user accounts were not adequately protected and could be exploited to commit fraud. At auditees where security controls were not strong, the electronic funds transfer systems were more often exploited through unauthorised access. Such exploitation often led to the auditees' financial statements being compromised. In more extreme cases, the auditees incurred financial losses.

3.4.5 User access management

User access controls are measures designed by business management to prevent and detect the risk of unauthorised access to, or the creation or amendment of, financial and performance information stored in the application systems. Policies and standards must be designed and implemented to ensure that users' access to the auditee's systems is limited to the level they require to execute their duties. Their access also has to be monitored, especially in the case of system administrators who have extensive privileges on a system to manage user accounts. Reviews have to be undertaken to ensure that such rights are still in line with the users' actual job responsibilities. The management of user accounts is a very important aspect of protecting the integrity of an auditee's financial statements.

Table 40 presents the outcomes of our audits of user access management.

Table 40

User access management audit outcomes across local government

Number	Province	User access management			
		Controls not designed	Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses
Municipalities					
1	Eastern Cape	80%	13%		7%
2	Free State	100%			
3	Gauteng	67%	33%		
4	KwaZulu-Natal	69%	10%		21%
5	Limpopo	95%	5%		
6	Mpumalanga	100%			
7	North West	100%			
8	Northern Cape	52%	40%	8%	
9	Western Cape	95%	5%		
Municipal entities					
1	Free State	100%			
2	Gauteng	50%	17%		33%
3	KwaZulu-Natal	43%			57%
Controls not designed		Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses	

Because of weaknesses in the access controls, users were able to share passwords, which made it almost impossible to assign accountability for the actions undertaken through an account to a specific user. If accounts are shared, they can be used to commit fraudulent acts for which the perpetrator cannot be held accountable. Another control that was often lacking was ensuring that access associated with users who had resigned or whose services had been terminated would immediately be removed. Their accounts therefore remained active on the system and could be used with little fear of detection to gain unauthorised access to the system, obtain sensitive information, or commit fraud. Moreover, the chief financial officers often had excessive rights to the systems under their control, which allowed them to both create and execute transactions. In certain instances, vendors were contracted to create users and execute transactions. The risk of this privileged level of access was increased by staff not having the skills to monitor the activities of the vendors.

3.4.6 Information technology service continuity

Information technology service continuity controls are designed to provide auditees with adequate infrastructure and processes to enable them to recover the critical business operations and application systems that would be affected by disasters or major system disruptions within a reasonable time.

Table 41 details the outcomes of our audits of IT service continuity.

Table 41

Information technology service continuity audit outcomes across local government

Number	Province	Information technology service continuity			
		Controls not designed	Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses
Municipalities					
1	Eastern Cape	86%	7%		7%
2	Free State	100%			
3	Gauteng	50%	33%		17%
4	KwaZulu-Natal	60%	15%	3%	22%
5	Limpopo	95%	5%		
6	Mpumalanga	100%			
7	North West	100%			
8	Northern Cape	52%	35%	4%	9%
9	Western Cape	95%	5%		
Municipal entities					
1	Free State	100%			
2	Gauteng	8%	17%		75%
3	KwaZulu-Natal	29%	14%		57%
Controls not designed		Controls designed but not implemented	Controls implemented but not operating effectively	No control weaknesses	

Most auditees did not have business continuity and disaster recovery plans. Although a small number of auditees had disaster recovery plans, they were either not up to date or tested. Furthermore, auditees that managed data backups themselves did not always take data backups. Some auditees did also not do restores from time to time to test whether backed-up data would be accessible when needed.

3.4.7 Coordinating departments or entities with oversight responsibility and collaboration

Legislatures mandate the national and provincial departments of cooperative governance to play a role at local government level, especially in the implementation of initiatives aimed at improving controls to ensure more effective service delivery. We assessed the effectiveness of the coordinating departments or entities in terms of their role in addressing the challenges experienced in local government.

Table 42 indicates the effectiveness of these coordinating departments or entities.

Table 42

Effectiveness of coordinating departments or entities in addressing information technology challenges in local government

Coordinating departments or entities – provincial level				
Province	District municipalities	Offices of the premier (provincial government information technology officers)	Provincial treasuries	Provincial departments of cooperative governance
Eastern Cape				
Free State				
Gauteng				
KwaZulu-Natal				
Limpopo				
Mpumalanga				
Northern Cape				
North West				
Western Cape				

Coordinating departments or entities – national level				
Department of Public Service and Administration	Department of Cooperative Governance and Traditional Affairs	South African Local Government Association	State Information Technology Agency	National Treasury

Mandated to play a role and currently providing support to auditees	Mandated to play a role but currently not providing support to auditees
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With the exception of the Eastern Cape, Limpopo and Mpumalanga, the provincial departments of cooperative governance did not provide auditees with the support that would enable them to improve the status of their IT controls, mainly due to a lack of resources at the departments. In addition, a lack of district collaboration hampered progress in the improvement of controls, the exception being the Eastern Cape and the Northern Cape where collaboration yielded significant improvement.

Nationally, the involvement of coordinating role players has improved, with the exception of the national Department of Cooperative Governance and Traditional Affairs. Several initiatives driven by the South African Local Government Association, the National Treasury and the Department of Public Service and Administration provided much-needed direction in improving controls in the IT environment. For instance, the Department of Public Service and Administration compiled an IT governance framework for implementation in local government countrywide, while the South African Local Government Association was involved in providing and rolling out guidelines to auditees to promote successful IT governance.

However, an analysis of the overall effectiveness of the coordinating role players in addressing the challenges in local government revealed that in many cases the initiatives were still in the planning phase. In some provinces, the coordinating departments had put measures in place to initiate improvements in the IT control environment, but in most cases the initiatives had not yet been implemented and would only yield results once fully functional.

3.4.8 Initiatives of coordinating departments with oversight responsibility

The following table highlights the initiatives of coordinating departments that have an oversight responsibility.

Table 43

Initiatives of coordinating departments with an oversight responsibility

Initiatives planned or in progress	
Eastern Cape	The local government council, which consists of district municipalities in the province, the provincial Department of Local Government and Traditional Affairs and the South African Local Government Association, is to share knowledge to promote greater effectiveness in local government.
Free State	None
Gauteng	None
KwaZulu-Natal	The provincial treasury has embarked on an initiative to develop a common IT control framework for the province. A range of municipalities has been selected for the project and pilot projects have commenced to analyse and understand the needs of these municipalities. The South African Local Government Association has also assisted with the roll-out of the IT governance framework in the province.
Limpopo	The provincial Department of Cooperative Governance, Human Settlements and Traditional Affairs developed an IT governance framework and was available to assist municipalities with the design and implementation of IT policies and procedures.

Initiatives planned or in progress	
Mpumalanga	In May 2013, the Office of the Premier of Mpumalanga, in conjunction with the provincial Department of Cooperative Governance and Traditional Affairs and the provincial Department of Finance, established a government information technology officer council for municipalities to achieve higher levels of governance.
North West	The local government is to revive the information and communication technology forum that was previously in place, but is currently not operational.
Northern Cape	The provincial government information technology officer council has committed to establishing policies and procedures for municipalities to adopt.
Western Cape	The Office of the Premier of the Western Cape, in conjunction with the provincial treasury, formed a municipal financial and governance review body to achieve higher levels of governance at auditees.
National Treasury	<p>The National Treasury researched various options to enable compliance with the MFMA and Generally Recognised Accounting Practice. They are currently rolling out minimum specifications for financial and related systems and will also publish minimum business process requirements based on the research.</p> <p>The National Treasury, together with the Auditor-General of South Africa (AGSA), conducted an assessment to identify application systems that are commonly used at municipalities. The top five applications identified were then assessed in terms of their embedded controls and their readiness for the introduction of the standard chart of accounts, in an effort to ensure that municipalities use similar reporting votes.</p>

3.4.9 Good practices

Where we identified no significant IT weaknesses in the focus areas audited, it could be ascribed to the good practices listed below.

Table 44

Good practices

Good practices
<ul style="list-style-type: none"> • Hands-on leadership and the efficient use of available IT resources provided a sound foundation. Through knowledge sharing, the local municipalities under the jurisdiction of district municipalities could benefit from the good example set by them. • IT managers had the support of executive management in ensuring that IT controls were implemented and monitored, based on previous audit reports. • An adequate IT governance framework had been established to meet the needs of the municipality. Effective controls had been put in place that addressed the underlying risks. • Proper policies and procedures had been designed and implemented, while compliance with the policies and procedures was effectively monitored. • The service level agreements with IT service providers were properly managed and monitored. • The Office of the Premier in Limpopo developed a disaster recovery site for all government institutions. • The Department of Cooperative Governance, Human Settlements and Traditional Affairs in Limpopo developed an IT governance framework and was available to assist municipalities with the design and implementation of IT policies and procedures.

3.4.10 Quick wins and recommendations

Table 45 details the controls that can be designed and implemented immediately to improve IT management in local government, while table 46 makes recommendations regarding controls that can be designed, implemented and sustained over time.

Table 45

Quick wins (controls to be designed and implemented immediately)

Control design
<ul style="list-style-type: none">• Municipal councils should approve IT policies and procedures.• Municipalities should develop and sign service level agreements that include penalty clauses with service consultants.• Municipalities should adopt the policies and procedures rolled out by the Department of Cooperative Governance and Traditional Affairs.
Control implementation
<ul style="list-style-type: none">• Municipal managers should ensure that policies are implemented by chief information officers and IT consultants.• Provincial government information technology officers should assist the municipalities by overseeing IT consultants in terms of compliance with their contracts.• Municipalities in close proximity to one another could share each other's skills, use the same off-site backup storage facilities, or act as alternative disaster recovery sites for one another.• Municipal management should ensure that the performance of service providers is monitored to ensure adherence to service level agreements.• Municipalities with no control weaknesses should share their best practices with other municipalities.

Table 46

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

Recommendations
<ul style="list-style-type: none">• Executives should support the adoption of the IT governance framework developed by the Department of Public Service and Administration.• Provincial government information technology officers and departments of cooperative governance should assist municipalities in compiling an implementation plan for the IT governance framework.• Municipalities should share IT knowledge and resources to reduce IT costs across municipalities.• Municipalities should establish and approve policies and procedures that regulate the use of IT.• Municipalities should fill IT vacancies, while IT management should regularly assess employee skills and insist on ongoing training to ensure that staff continually improve and enhance their skills.• Provincial government information technology officers should assist in developing plans for the transfer of skills from consultants to staff, which should be monitored.

3.5 AUDIT COMMITTEES AND INTERNAL AUDIT UNITS

Effective governance is a key driver of internal control, which in turn has an impact on the audit outcomes. Risk management and effective audit committees and internal audit functions are key elements of the governance process. In terms of the MFMA, all auditees must establish an audit committee and an internal audit unit. Audit committees provide an independent oversight function over all matters of governance, including the systems of internal control and risk management as they relate to financial and performance management, and compliance with legislation.

Audit committees and internal audit units are part of the assurance process and assist accounting officers in the effective execution of their responsibilities, with the ultimate aim of ensuring that the auditee achieves its objectives. Section 4.1 provides more information on the role of audit committees and internal audit units in the assurance process and also assesses the level of assurance provided by them.

Sections 165 and 166 of the MFMA state the legislative requirements relating to internal audit units and audit committees, respectively. The National Treasury also issued MFMA Circular No. 65 in November 2012 to assist auditees to improve the effectiveness of internal audit units and audit committees.

Figure 36 shows the results of an assessment of the effectiveness of audit committees and internal audit units as well as the extent to which auditees have met legislative requirements related to these governance structures.

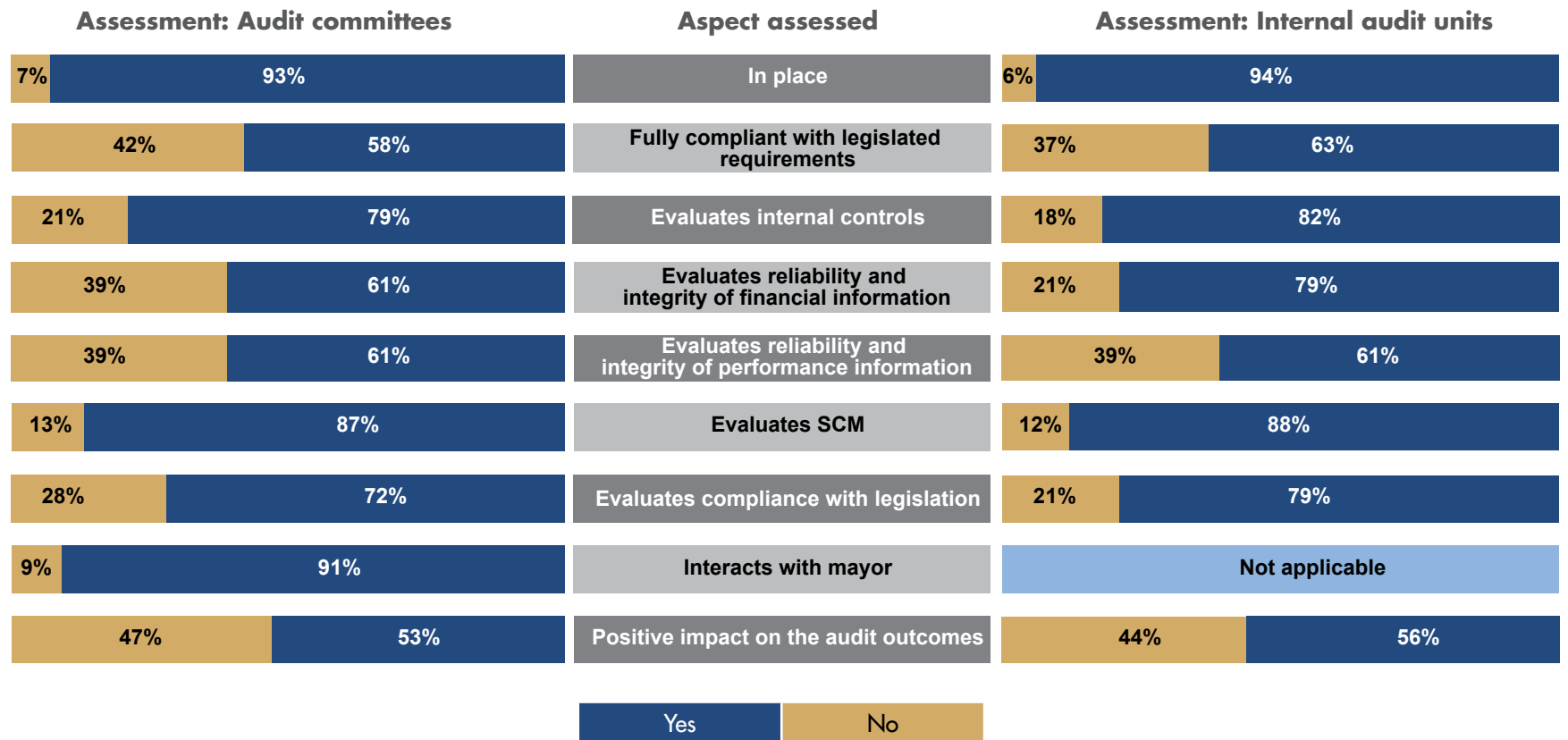
Figure 36**Assessed effectiveness of audit committees and internal audit units**

Table 47 further evaluates the effectiveness of audit committees and internal audit units in terms of the legislative requirements related to these governance structures.

Table 47
Assessment of the effectiveness of audit committees and internal audit units

Governance structure aspect assessed	Assessment results and way forward
<i>Audit committees and internal audit units in place</i>	Of the 317 auditees included in this report, only 22 (7%) and 20 (6%) had not established audit committees and internal audit units, respectively. These figures also include committees and units established late in the financial year.
<i>Audit committees and internal audit units fully compliant with legislation</i>	<p>The MFMA includes the minimum scope of work as well as key duties of audit committees and internal audit units.</p> <p>In total, 42% of the audit committees did not comply with all of the MFMA requirements. Findings related to inadequate review of auditees' compliance with legal and regulatory provisions (which are discussed below); evaluation of performance measurement; review of annual financial statements; and review of auditees' risk management, accounting policies and effectiveness of governance.</p> <p>In total, 37% of the internal audit units did not comply with all of the MFMA requirements. Findings related to three-year strategic internal audit plans not existing; and quarterly reports detailing performance against the annual internal audit plans not being submitted to the audit committee.</p>

Governance structure aspect assessed	Assessment results and way forward
<i>Audit committees and internal audit units evaluate internal control</i>	<p>The general regression in internal controls (as outlined in section 3.2) indicates that audit committees and internal audit units should broaden their scope of independent reviews to include all aspects of financial and performance management and compliance with legislation, and in so doing comply with the provisions of the MFMA and best practice to ensure that an improved control environment is established and sustained.</p> <p>Only 79% of the audit committees and 82% of the internal audit units evaluated internal control in the year under review.</p> <p>Audit committees and internal audit units should implement an effective and consistent method to follow up actions taken to address audit findings relating to internal control weaknesses. They should focus on controls that do not prevent weaknesses or that allow weaknesses to remain undetected until the annual external audit process.</p>

Governance structure aspect assessed	Assessment results and way forward
<i>Audit committees and internal audit units evaluate the reliability and integrity of financial information</i>	<p>The level of material misstatements in the financial statements submitted for auditing (as discussed in section 2.2.1), especially those that could be corrected during the audit, indicates that audit committees did not adequately review financial statements before they were submitted for audit purposes.</p> <p>It is a specific requirement of section 166 of the MFMA that audit committees should review accounting policies and the adequacy, reliability and accuracy of financial reporting and information, to provide assurance to councils on the credibility of the financial statements.</p> <p>Internal audit units should provide the platform for such a review by auditing the financial records and systems of internal control.</p> <p>Only 61% of the audit committees and 79% of the internal audit units performed an evaluation of the reliability of financial information in the year under review.</p>

Governance structure aspect assessed	Assessment results and way forward
<i>Audit committees and internal audit units evaluate the reliability and integrity of performance information</i>	<p>In total, 61% of the audit committees as well as 61% of the internal audit units performed an evaluation of the reliability of performance information in the year under review.</p> <p>The level of findings on auditees' performance information (as discussed in section 2.3) indicates that audit committees and internal audit units should conduct a more robust assessment of the controls and systems on which management relies to produce reliable performance information.</p> <p>In undertaking this assessment, the audit committee should at least:</p> <ul style="list-style-type: none"> • review the municipality's performance management system and recommend improvements to the council • review the quarterly reports submitted by the internal auditors on their audits of performance measurement • submit, at least twice during a financial year, a report on the review of the performance management system to the council.
<i>Audit committees and internal audit units evaluate SCM</i>	<p>Although 87% of the audit committees and 88% of the internal audit units performed an evaluation of the SCM systems of the auditees, the many SCM findings at most of the auditees (as detailed in section 2.4.3) indicate that the work performed is not robust enough to strengthen the system.</p>

Governance structure aspect assessed	Assessment results and way forward
<i>Audit committees and internal audit units evaluate compliance with legislation</i>	<p>The MFMA directs internal audit units to advise the accounting officer about, and report to the audit committee on, matters relating to compliance with applicable legislation. In total, 72% of the audit committees and 79% of the internal audit units evaluated compliance with legislation to some extent in the year under review.</p> <p>However, the general increase in findings on non-compliance (as analysed in section 2.4.1) clearly indicates that these governance structures should focus more on assessing the risk of non-compliance, including risks associated with irregular as well as fruitless and wasteful expenditure.</p>
<i>Audit committees interact with the mayor</i>	<p>Countrywide, 91% of the audit committees had a relationship with their mayors that allowed for regular interactions.</p> <p>Frequent and frank interactions between audit committees, mayors and councils provide a basis for progress towards clean audit outcomes, as this allows for obstacles to be addressed that audit committees may encounter in their mandate to promote sound governance, risk management and control.</p>

Governance structure aspect assessed	Assessment results and way forward
<i>Audit committees and internal audit units have a positive impact on the audit outcomes</i>	<p>To promote the effectiveness of governance structures, we assessed the impact that audit committees and internal audit units had on the 2011-12 audit outcomes. The broad assessment criteria included whether auditees with these governance structures:</p> <ul style="list-style-type: none"> • improved their audit opinions • had a reduction in material findings on the annual performance report and non-compliance with legislation • had addressed significant deficiencies in their systems of internal control identified in the previous financial year. <p>As depicted in figure 36, only a small number of audit committees and internal audit units had an impact on the 2011-12 audit outcomes.</p> <p>More than 82% of the auditees whose financial statements were disclaimed had audit committees and internal audit units. This provides the strongest evidence that merely establishing the structures is not adequate and that the effectiveness of these structures needs to be improved. Section 4.1 outlines the level of assurance that audit committees and internal audit units should be providing as important contributors to clean audits in local government.</p>

Governance structure aspect assessed	Assessment results and way forward
<i>Audit committees and internal audit units have a positive impact on the audit outcomes</i>	<p>Audit committees and internal audit units that focus on all three audit aspects, namely financial reporting, reporting against PDOs, and compliance with legislation, have a positive impact on audit outcomes, especially at auditees where management seriously considers their recommendations on risk management, governance and internal control.</p> <p>The following additional steps should be taken by audit committees and internal audit units to improve audit outcomes:</p> <ul style="list-style-type: none"> • Perform a risk assessment to ensure that the audit plan covers the most significant areas. • Arrange joint planning sessions with the external auditors to improve cooperation and coordination throughout the audit process. • Report at an appropriate level whether management has implemented measures to correct the internal and external audit findings. • Perform regular reviews of key internal controls, especially those related to daily financial and performance management and those ensuring compliance with legislation. • Review monthly or quarterly financial and performance reports during the financial year as well as those submitted for auditing at year-end. • Ensure that internal audits are conducted in compliance with internal audit standards.

Governance structure aspect assessed	Assessment results and way forward
<i>Audit committees and internal audit units have a positive impact on the audit outcomes</i>	<ul style="list-style-type: none"> • Ensure that the internal audit plan is completed. • Ensure that all actions consider independence and objectivity to achieve improved and sustainable audit outcomes. <p>Audit committees and internal audit units can only have a positive impact on audit outcomes when the auditees they serve support their efforts and respond to their advice and recommendations. Oversight structures should encourage the auditees' management to create an environment in which audit committees and internal audit units can play a constructive, value-adding role.</p> <p>Provincial role players should also assist auditees in rural areas to attract and retain suitably qualified and experienced internal auditors.</p>

SECTION 4

INITIATIVES AND IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

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

This section of the general report provides an overview of the impact of the key role players in local government and discusses their initiatives and commitments towards improved audit outcomes.

Section 4.1 assesses the assurance providers in local government, while section 4.2 focuses on the levels of oversight exercised by MPACs. Section 4.3 details our interactions with mayors. Section 4.4 looks at the commitments and initiatives of key provincial and national role players to improve audit outcomes, while section 4.5 outlines our ongoing initiatives to encourage clean audits.

4.1 ASSURANCE PROVIDED IN LOCAL GOVERNMENT

The accountability for local government's actions, performance, financial management and compliance with legislation serves as a cornerstone of democratic governance in South Africa. Mayors and their municipal managers use the annual report to report on the financial position of auditees, their performance against PDOs, and overall governance. One of the important oversight functions of councils is to consider auditees' annual reports. For councils 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 and the annual performance report as well as the auditees' compliance with legislation.

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

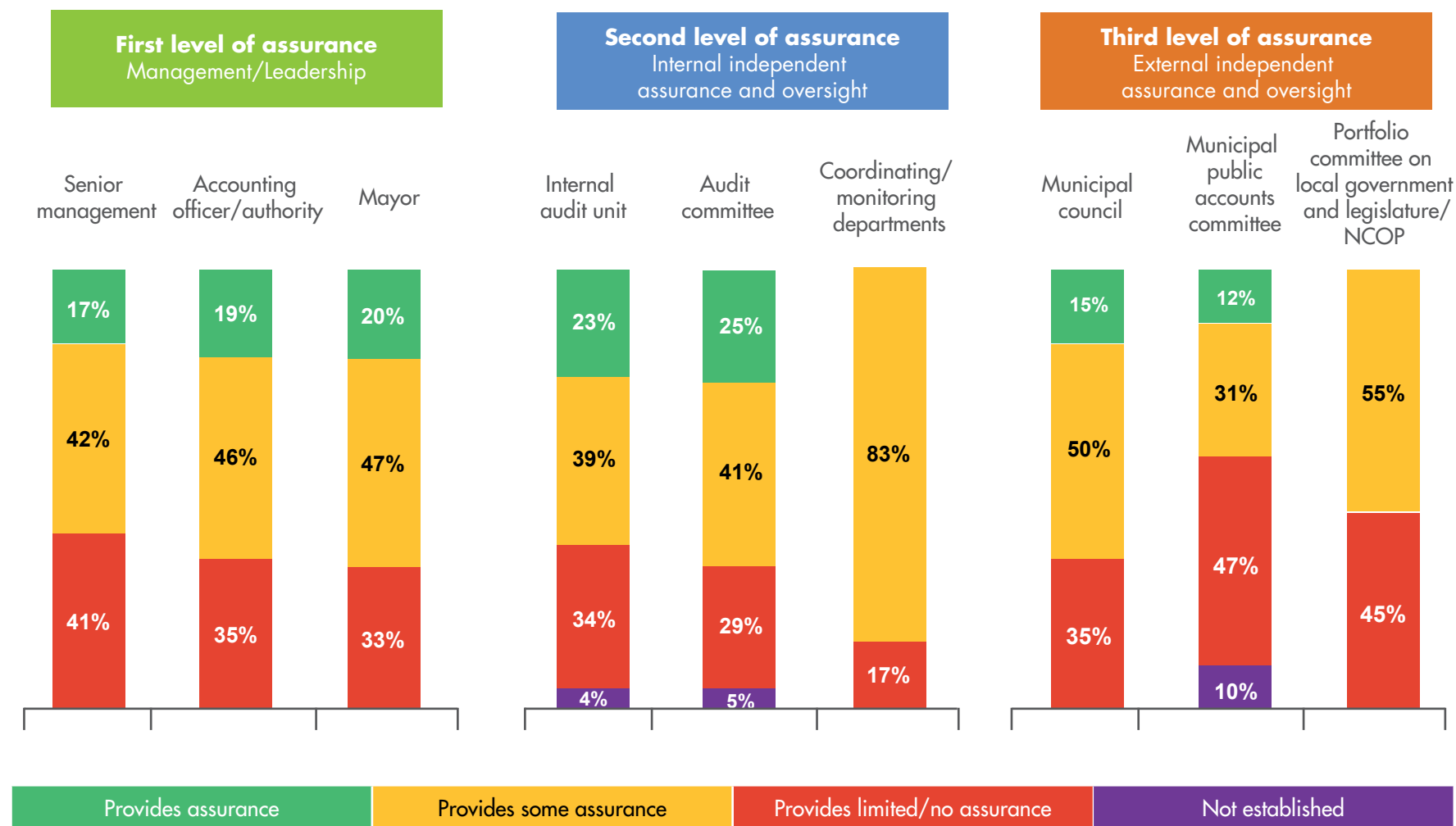
The role players discussed in this section are (1) those directly involved with the management of the auditee (management/leadership assurance); (2) those that perform an oversight or governance function, either as an internal governance function or an external monitoring function (internal independent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

We assessed the level of assurance provided by the role players based on the status of internal controls of auditees and the impact of the different role players on 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 should provide an extensive level of assurance.

Figure 37 shows the assessed level of assurance provided by provincial role players.

Figure 37

Level of assurance provided by provincial role players



Tables 48 and 49 reflect the average level of assurance provided by these role players per province.

Table 48

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

Province	Assessed level of assurance provided						
	Senior management	Accounting officer/ authority	Mayor	Internal audit unit	Audit committee	Municipal council	Municipal public accounts committee
Eastern Cape							
Free State							
Gauteng							
KwaZulu-Natal							
Limpopo							
Mpumalanga							
Northern Cape							
North West							
Western Cape							

Provides some assurance

Provides limited/no assurance

Table 49

Level of assurance provided by provincial coordinating or monitoring institutions and provincial oversight

	Assessed level of assurance provided				
	Treasury	Premier's office/ Department of Performance Monitoring and Evaluation	Cooperative governance department	Portfolio committee on local government	Legislature/NCOP
Eastern Cape					
Free State					
Gauteng					
KwaZulu-Natal					
Limpopo					
Mpumalanga					
Northern Cape					
North West					
Western Cape					
National					

Provides some assurance

Provides limited/no assurance

Table 50 below gives an overview of the assurance provided by each of the three levels of assurance providers.

Table 50
Comments on the level of assurance provided by individual provincial role players

Role player	Comment	Role player	Comment
First level of assurance: Management/Leadership		First level of assurance: Management/Leadership	
Senior management	<p>Although none of the role players at the first level of assurance are fully providing the required level of assurance yet, the senior management assurance needs the most improvement. Municipal managers and mayors are relying on senior management, which includes the chief financial officer, chief information officer and head of the SCM unit, for implementing basic financial and performance management controls. These controls include the following:</p> <ul style="list-style-type: none">• 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.	Senior management	<p>The poor status of these internal controls, as reported in section 3.2, reflects the inadequate assurance provided. These continuing deficiencies in auditees' systems of internal control account for the many repeat findings on financial statement qualifications, service delivery reporting and non-compliance with legislation.</p> <p>It is concerning that representations given by senior management to the external auditors at the start of each audit, including those relating to the quality of the financial statements submitted for auditing, continue to be unreliable. It highlights the risk that decisions taken by municipal managers, mayors and councils could be based on incomplete and incorrect information provided by municipal management.</p> <p>The HR management challenges outlined in section 3.3 should be addressed to strengthen the assurance to be provided by senior management. Vacancies need to be filled, the required competency levels should be obtained, and senior managers should be held accountable for the execution of their responsibilities through a strict system of performance management.</p>

Role player	Comment
Accounting officer/ authority	<p>The level of assurance provided by the accounting officers (municipal managers) and the accounting authorities of municipal entities is only marginally better than that of senior managers, but the impact of these accounting officers and authorities on creating an effective control environment is not evident at many auditees. As reported in section 3.2, there has been a regression in the status of those internal controls for which accounting officers and authorities are responsible, as their leadership, planning, risk management, oversight and monitoring do not result in sustainable practices that translate into improved audit outcomes.</p> <p>Although accounting officers and authorities depend on senior management for designing and implementing the required financial and performance management controls, they should create an environment that helps to improve such controls by focusing on the following:</p> <ul style="list-style-type: none"> • Provide effective and ethical leadership, and exercise oversight over financial and performance reporting as well as compliance with legislation. • Implement effective HR management to ensure that adequate and sufficiently skilled staff are employed and that performance is monitored. • Establish policies and procedures to enable sustainable internal control practices, and monitor the implementation of action plans to address internal control deficiencies. • Establish an IT governance framework that supports and enables the achievement of municipal objectives, delivers value and improves performance.

Role player	Comment
Accounting officer/ authority	<ul style="list-style-type: none"> • 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.
Mayor	<p>Mayors have a monitoring and oversight role at auditees. They have specific oversight responsibilities in terms of the MFMA and the MSA, which include reviewing the integrated development plan and budget management as well as ensuring that auditees address the issues raised in audit reports.</p> <p>Mayors can bring about improvements in the audit outcomes of the auditees by becoming more actively involved in key governance matters and managing the performance of the accounting officers and authorities. Our assessment that most of the mayors are not yet providing the required level of assurance is based on the poor status of the leadership controls (as detailed in section 3.2) and the impact of mayors on audit outcomes as observed through our regular interactions with them. Section 4.3 further discusses their level of commitment to regularly engage with our senior management members and their observed impact on audit outcomes.</p>

Role player	Comment
Second level of assurance: Internal independent assurance and oversight	
Internal audit unit	<p>Internal audit units assist accounting officers and authorities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. As reported in section 3.5, internal audit units were in place at most auditees and the work of most of the units covered all the required aspects. However, exceptions are the almost 40% of units that did not evaluate the reliability of performance information and the more than 20% that did not evaluate financial information and compliance with legislation.</p> <p>In some instances, well-resourced and effective internal audit units have helped to improve internal controls, but overall the impact of these units on audit outcomes is fairly limited. Internal audit units can only be effective if they are adequately resourced, audit committees oversee and support their operations, and municipal managers and senior management cooperate and respond to their advice and recommendations.</p>

Role player	Comment
Audit committee	<p>An audit committee is an independent body that advises the council, mayor, accounting officer or authority and senior management on matters such as internal controls, risk management, performance management as well as evaluation and compliance with legislation. The committee is further required to provide assurance to the council on the adequacy, reliability and accuracy of financial reporting and information.</p> <p>As reported in section 3.5, audit committees were in place at most auditees and the work of most of the committees covered all the required aspects. However, exceptions are the almost 40% of committees that did not evaluate the reliability of financial and performance information and the more than 25% that did not evaluate compliance with legislation. We have assessed that almost half of the audit committees are not yet having a positive impact on the audit outcomes and are not providing the required level of assurance.</p> <p>Some audit committees are not effective yet because of shortcomings in the availability and competence of people serving on the committees as well as councils, mayors, accounting officers or authorities and senior management not reacting to their reports. In addition, for audit committees to provide the required level of assurance as second-level assurance providers, they depend a lot on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance level provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the municipality, including being assured that all significant risks are being mitigated.</p>

Role player	Comment
Coordinating/ monitoring departments	<p>The 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 for national and provincial government to monitor financial and performance management in compliance with these acts.</p> <p>The national and provincial departments that have a direct role to play in supporting and monitoring local government, and thereby providing a level of assurance, are the National Treasury, the national Department of Performance Monitoring and Evaluation and the provincial treasuries, departments of cooperative governance and offices of the premier. Our assessment of the assurance provided by these departments is based on their initiatives to support and monitor local government and the impact they have on improving the internal controls of auditees.</p> <p>Most of the coordinating departments were assessed as providing some assurance. There are a number of initiatives to support local government, which include capacity building, providing resources (such as financial grants and access to specialised skills), monitoring budgets and compliance, providing guidance and tools as well as creating supportive and sharing forums within provinces and nationally. Unfortunately, these initiatives have not had a major impact on the controls and audit outcomes across all provinces.</p>

Role player	Comment
Coordinating/ monitoring departments	<p>Some of the plans, strategies and interventions will be implemented over a couple of years and will thus only produce results in the future. We are concerned that the commitments of some departments have not been translated into actions yet, while others are short-term, uncoordinated interventions that will not lead to long-term, sustainable solutions. The provincial general reports detail the status and impact of the commitments and initiatives at provincial level as well as the reasons for the assessed level of assurance.</p> <p>Nationally, the National Treasury and the Department of Cooperative Governance and Traditional Affairs often use legislation to address weaknesses in local government. Such legislative reforms are important to transform local government and often address the root causes of poor audit outcomes. However, our audits have shown that auditees did not comply with the legislation. Although there were clear signs of wilful neglect in this regard, some auditees did not have the ability or capacity to develop the policies, procedures, processes and tools necessary to comply. Auditees should be helped in a practical and sustainable manner by providing operational guidelines, frameworks, tools and access to training and information. The National Treasury has issued some templates and guides, but both the national role players should do more to improve the assurance that can be provided through such support.</p>

Role player	Comment
Coordinating/ monitoring departments	The provincial capacity to support and monitor local government should also be strengthened. The capacity constraints in provincial treasuries must be addressed, as they have been supporting provincial government in the past and have only recently started to focus on local government as well. The lack of coordination between the treasuries and the departments of cooperative governance is still evident in a number of provinces and the offices of the premier should play a more decisive role in dealing with this. Weak intergovernmental relations also slow down the success of programmes in support of local government and all parties should work towards addressing this matter. The assurance that can be provided through monitoring compliance with legislation by local government and addressing material breaches is weakened by capacity constraints, duplication of effort and focus, and poor intergovernmental relationships.

Role player	Comment
Third level of assurance: External independent assurance and oversight	
Municipal councils	<p>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.</p> <p>The council can provide extensive assurance through this monitoring and oversight role. Although councils are becoming more aware of the important role they have in this regard, most are not functioning at the required level. As reported in section 3.1, the response by councils to address the root causes of poor audit outcomes has been slow.</p> <p>Technical knowledge of financial management and reporting, performance management and legislation is not a prerequisite for elected office-bearers. They therefore rely on information and guidance from the municipal manager and senior management. The low assurance provided by the first and second level of assurance providers unavoidably has an impact on the credibility and quality of the information and guidance provided to councillors.</p>

Role player	Comment
Municipal councils	<p>In order to improve the level of assurance provided by councils, they should focus on the following:</p> <ul style="list-style-type: none"> • Strengthen the MPACs and audit committees, and support the important role these committees play. • Insist, through their speakers, on receiving regular and credible information on the status of the finances and activities of their municipalities. • Deal with transgressions, financial misconduct, fraud and other misconduct or poor performance in a consistent and decisive manner. • Seek out opportunities to continuously develop and improve the knowledge and skills they need to perform their duties and insist on support from national and provincial government in this regard.
MPACs	<p>MPACs were introduced as a committee of the council to deal specifically with the municipality's annual report, financial statements and audit outcomes, and to improve governance, transparency and accountability. The committees are an important provider of assurance, as they give assurance to the council on the credibility and reliability of the financial and performance reports, compliance with legislation as well as effective internal control.</p> <p>Some committees have not been established yet and most of those that have been established are providing limited or no assurance. Section 4.2 provides more detail on the status and impact of these committees.</p>

Role player	Comment
Portfolio committee on local government and legislature/ NCOP	<p>In terms of the Constitution, provincial legislatures must maintain oversight of the executive authority responsible for local government. This executive authority includes the minister and MECs for cooperative governance and other executives involved in local government, such as the minister and MECs for finance, as well as the ministers of water affairs, public works (infrastructure) and education. The mechanism used to conduct oversight is the portfolio committees on local government.</p> <p>The low assessment of the legislatures and portfolio committees as independent assurance providers was determined based on the limited assurance provided by the departments of cooperative governance they oversee, the commitments to improve oversight over local government not being honoured, and the limited impact of their resolutions, actions and initiatives.</p> <p>The National Council of Provinces, through the select committees on finance, appropriations as well as cooperative governance and traditional affairs, provided some assurance through specific initiatives in the past year. However, the resolutions of the National Council of Provinces and its committees were not followed up and there were delays in finalising and adopting committee reports, which affected the effectiveness of their work.</p> <p>The provincial general reports detail the status and impact of the commitments and initiatives at provincial level as well as the reasons for the assessed level of assurance.</p>

4.2 LEVEL OF OVERSIGHT PROVIDED BY THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEES

MPACs were established at municipalities in 2011. When operating as intended, the MPAC will be one of the most critical role players in municipal oversight and governance and should have a positive impact on audit outcomes.

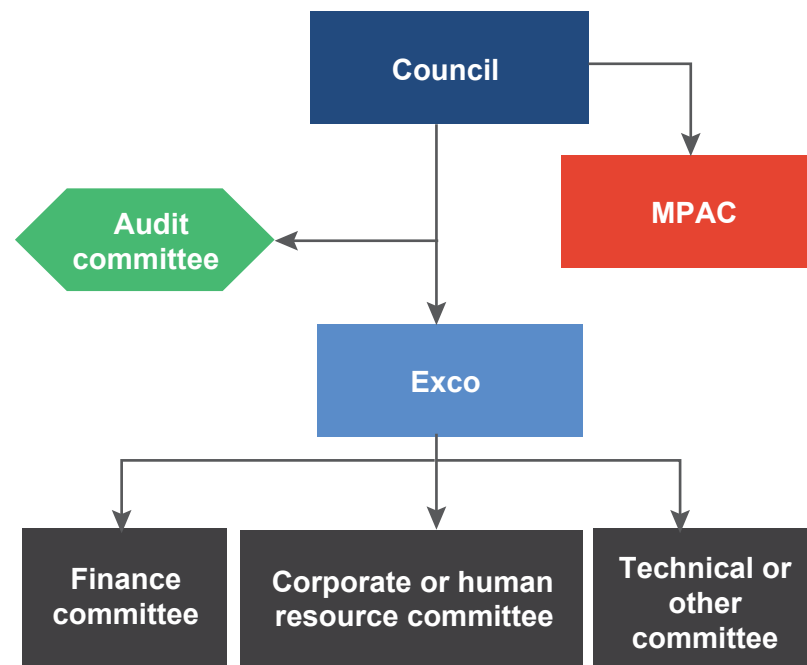
In short, the following are the primary functions of the MPAC:

- 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 the recommendations of the audit committee and the auditor-general have been implemented.
- Promote good governance, transparency and accountability in the use of municipal resources.

The figure that follows illustrates the intended role of MPACs in municipal oversight and governance.

Figure 38

Position of the municipal public accounts committee within the council



By 30 June 2012, MPACs were in place at 90% of the municipalities in the country. MPACs had not yet been established at 18 municipalities in the Western Cape and 11 municipalities in the Free State. The reasons for the late establishment of MPACs in these provinces are the following:

- Mayors not taking the initiative to drive the establishment of MPACs.
- All members of the council also being members of the MPAC at small municipalities.

- Smaller municipalities sharing an MPAC with their district municipality.
- Disagreement on the need for MPACs at municipalities that already have an audit and oversight committee.

However, as shown in section 4.1, where MPACs had been established, they were not yet providing the level of assurance required to contribute to the credibility and reliability of financial and performance reports, compliance with legislation, and effective internal controls. MPACs are newly established and the structures, processes, skills and experience required to perform an effective oversight function are not yet in place. We are concerned that despite efforts by the provincial public accounts committees and other role players to stabilise the membership of MPACs, some still experience a high turnover rate due to redeployment, which affects their continuity and effectiveness.

We recommended the following to strengthen the functioning of MPACs:

- The provincial leadership and oversight structures should support the establishment and work of these committees.
- MPAC hearings should be prioritised to ensure that monitoring and review contribute to the reporting timelines of municipalities and ensure that audit committees are quickly responded to.
- For the committee to be truly effective, resolutions should not only deal with purely financial matters, but also with financial management, performance reporting and compliance with legislation.
- The municipal administration should submit quarterly reports to the MPAC on the implementation of its resolutions.
- New MPAC members should attend a thorough induction session where all the concepts in the audit report are explained.
- All MPAC members should be trained continuously so that this oversight structure can ensure accountability within local government and remain relevant.
- Councils should commit to stabilising the committees and not redeploy members.
- The speakers of provincial legislatures should include MPACs in their speakers' forums to improve their ability to carry out oversight.

4.3 INTERACTIONS WITH MAYORS

In the past two years, we have talked frequently with mayors about how they can bring about improvements in the audit outcomes of their municipalities. In response to the 2010-11 audit outcomes, mayors committed an hour of their time every 90 days to meet with our senior management members. At these interactions, we discuss the status of the key controls and commitments and share identified risks. The meetings improve mayors' understanding of the audit outcomes and messages and also address the progress of interventions to ensure a positive impact on these audit outcomes.

As shown in figure 39, most of the mayors met with us. The engagements were well received but the figure also shows that these interactions have not yet had a significant impact on the audit outcomes. However, the building blocks are now in place for improvements in key controls, which should lead to improved outcomes.

Figure 39

Interactions with mayors and the assessed impact of these interactions – national overview

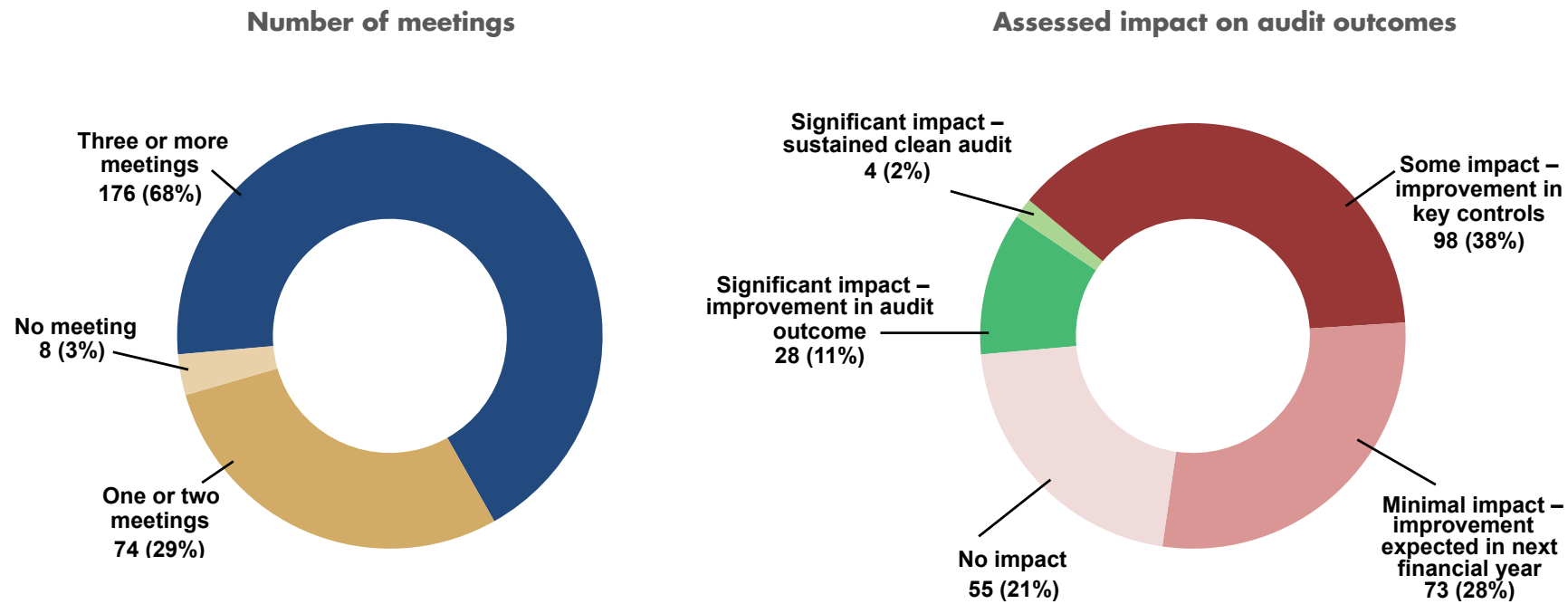
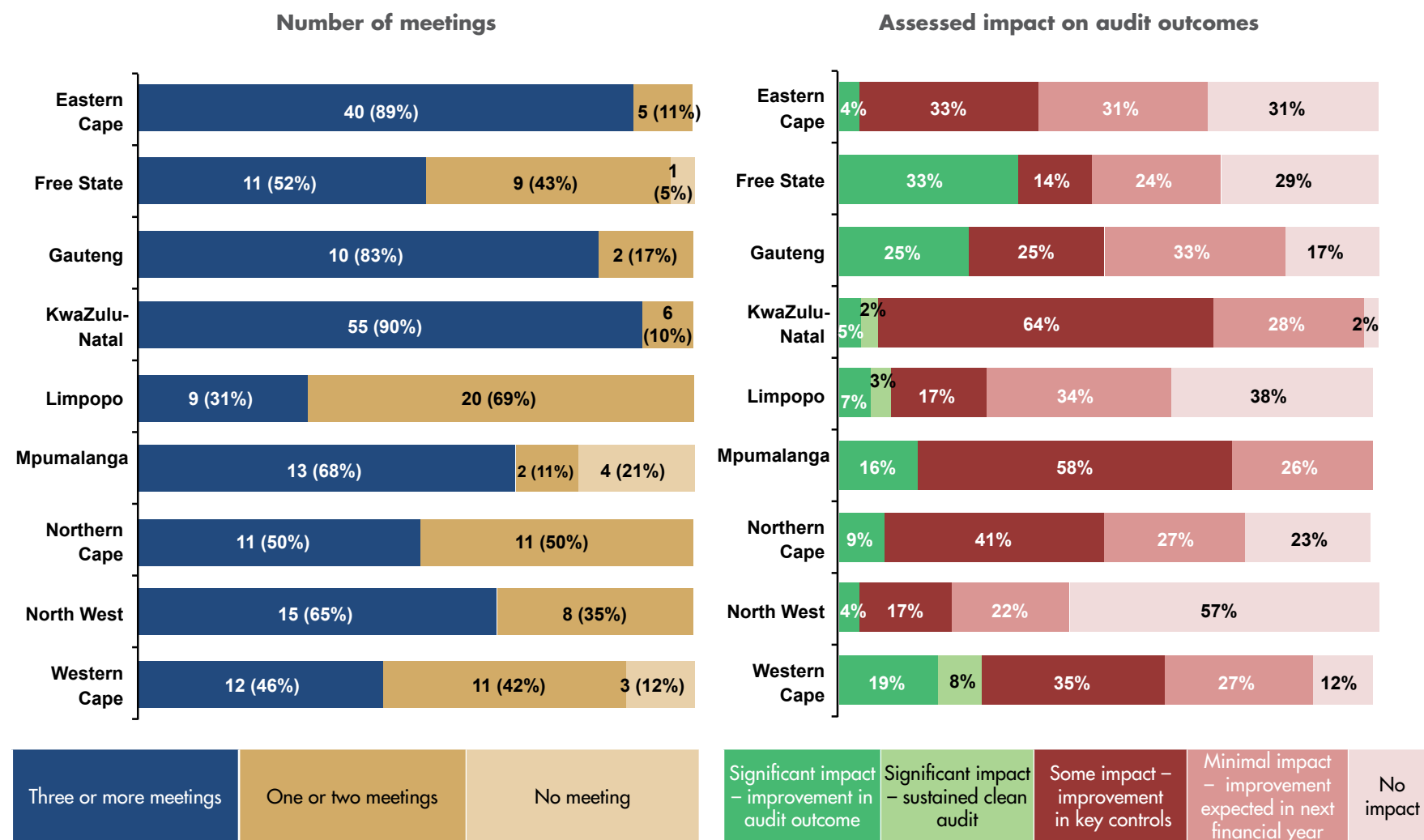


Figure 40 below gives a provincial overview of the number of interactions with mayors and the assessed impact of these interactions.

Figure 40

Interactions with mayors and the assessed impact of these interactions – provincial overview



The limited meetings we were able to secure and the low impact of our interactions in some provinces were due to frequent leadership changes, resulting in the implementation of commitments being disrupted. At some auditees, the stumbling blocks towards a clean audit require a multi-year approach while at others, our message is being ignored. It could, however, also mean that our conversation has not been compelling and persuasive enough. We therefore undertake to continue with the quarterly engagements, but with greater emphasis on quality conversations with an increased impact.

The provincial general reports provide more detail on the interactions and their outcomes at the different municipalities.

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

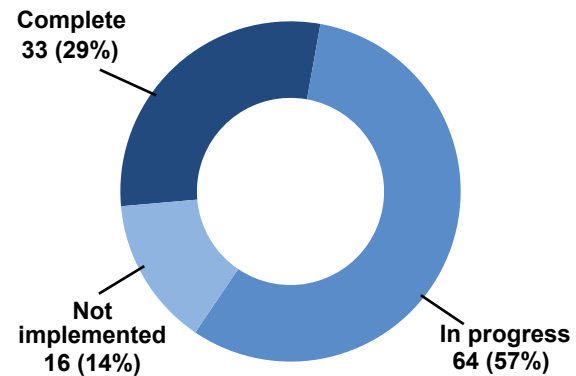
National and provincial coordinating or monitoring departments (namely the offices of the premier, provincial treasuries and provincial departments of cooperative governance), provincial oversight (specifically the provincial legislatures and portfolio committees on local government), the National Council of Provinces, the Association of Public Accounts Committees and the Speakers' Forum have a number of initiatives to support local government to improve their audit outcomes. These role players also commit to further initiatives and actions through in-year interactions and engagements on audit outcomes.

The provincial general reports include the previous year's commitments as well as those made in response to the current year's audit outcomes by the provincial coordinating or monitoring departments and provincial oversight. Figures 41 and 42 show the status of implementation of the previous year's commitments and the impact it has had on the audit outcomes of auditees in the provinces. It is followed by a table that provides the information per province.

Figure 41

Status of implementation and impact of commitments by provincial coordinating departments

**Progress of prior year commitments
by provincial coordinating departments**



**Impact of prior year commitments by provincial
coordinating departments that
have been implemented or are in progress**

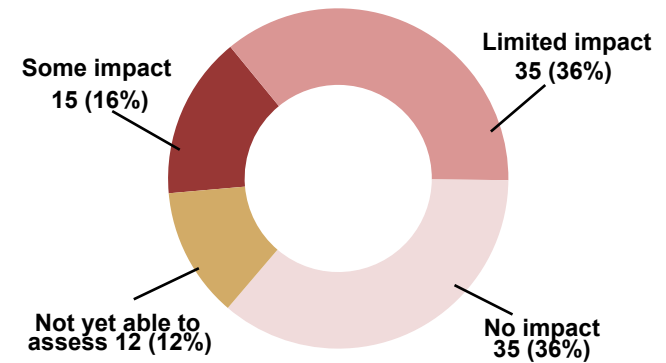
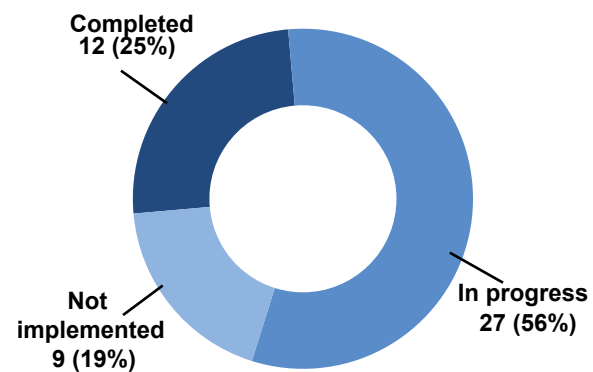


Figure 42

Status of implementation and impact of commitments by provincial oversight

**Progress of prior year commitments
by provincial oversight**



**Impact of prior year commitments
by provincial oversight that
have been implemented or are in progress**

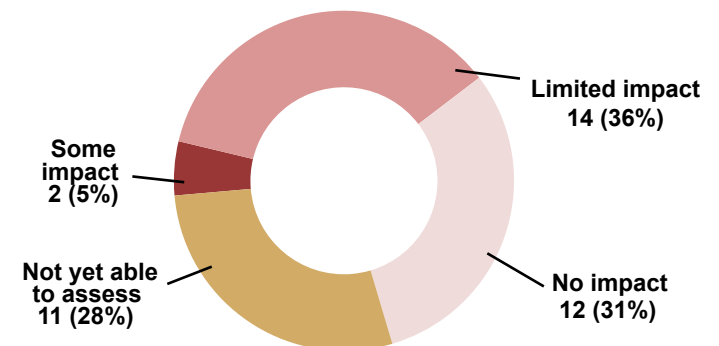


Table 51**Status of implementation and impact of commitments per province**

Province	Progress of prior year commitments by provincial coordinating departments			Impact of prior year commitments by provincial coordinating departments that have been implemented or are in progress				Progress of prior year commitments by provincial oversight			Impact of prior year commitments by provincial oversight that have been implemented or are in progress			
	Complete	In progress	Not implemented	Some impact	Limited impact	No impact	Not yet able to assess	Complete	In progress	Not implemented	Some impact	Limited impact	No impact	Not yet able to assess
Eastern Cape	2	12	1		9	5		2	5			4	3	
Free State	10	8	3		10		8	3	11	5			3	11
Gauteng		1	1			1				2				
KwaZulu-Natal		6	2		3	3		3	2			5		
Limpopo		11	4		1	6	4							
Mpumalanga	5	9	2		6	8		2	2			2	2	
Northern Cape	1	10				11		1	2	1			3	
North West		6	2		6			1	2			3		
Western Cape	15	1	1	15		1			3	1	2		1	
Total	33	64	16	15	35	35	12	12	27	9	2	14	12	11

Reasons for the limited impact include that the initiatives committed to were implemented too late to have an impact, or that initiatives were not appropriate or sufficient to have an impact.

The following is a summary of the new commitments and the initiatives from previous years that are still in progress in the provinces:

Offices of the premier, provincial treasuries and provincial departments of cooperative governance

- Provide training and workshops to municipal officials and councillors.
- Issue guidance, standard operating procedures, templates and checklists to assist municipalities.
- Provide teams or specialists to municipalities to turn around audit outcomes or to strengthen capacity.

- Monitor action plans as well as key financial, performance, capacity, compliance control and oversight matters at a provincial level.
- Address weaknesses or irregularities identified through support initiatives and ensure that these are investigated and acted upon.
- Improve coordination, support and monitoring through forums that meet regularly, such as the premier's coordinating forums, chief financial officers' forums and operation clean audit committees.

Provincial legislatures and portfolio committees on local government

- Improve oversight and coordination in legislatures to monitor the support provided by provincial government to local government.
- Monitor and provide support to councils in order to improve their oversight role.
- Improve the monitoring of the implementation of committee resolutions and support MPACs in monitoring such resolutions.
- Visit municipalities and interact with the municipal leadership.
- Provide training and workshops to councillors and MPACs.
- Interact more frequently with the senior management of the AGSA.

Table 52 outlines the key initiatives of national role players to improve audit outcomes in more detail and lists any further commitments made. Our assessment of the progress made with the implementation of commitments is based on feedback from the role players. Although there might be improvements in the controls, processes and skills at some auditees as a result of the initiatives, the audit outcomes are not yet reflecting such successes. In our assessment, the impact of the initiatives and commitments on audit outcomes has been limited for the same reasons as those of provincial role players discussed above.

Table 52

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

Department of Cooperative Governance and Traditional Affairs		
Initiatives and commitments	Focus area targeted	Progress with implementation
Previous year		
Support 10 district municipalities (and their local municipalities) to improve the non-financial performance monitoring and reporting of the municipal infrastructure grant, to increase the capacity of project management units and improve the delivery of projects funded by the municipal infrastructure grant.	PDOs	Complete
Provide support to 30 municipalities on credit-control and debt-management measures as well as municipal infrastructure grant implementation.	Turnaround plans	Complete
Develop a concept document on information and communication technology support for municipalities.	IT management	Complete
Gazette and roll out regulations on the appointment and conditions of employment of senior managers.	HR management	Complete

Department of Cooperative Governance and Traditional Affairs		
Initiatives and commitments	Focus area targeted	Progress with implementation
Assess and report on the impact of fixed-term contracts of municipal managers.	HR management	Complete
Support 70 municipalities to develop and implement recruitment and retention strategies.	HR management	Complete
Monitor 30% of the municipalities to fill vacancies in terms of the Municipal Structures Act.	HR management	Complete
Develop a national framework on the professionalisation of local government.	HR management	Complete
In partnership with relevant stakeholders, assist remaining municipalities to establish MPACs, and assist municipalities with established MPACs to improve the functionality of these committees through training.	Governance structures	Complete

Department of Cooperative Governance and Traditional Affairs		
Initiatives and commitments	Focus area targeted	Progress with implementation
Roll out training to audit committee members.	Governance structures	Complete
Assess and evaluate the number of existing ethics committees, and conduct training.	Governance structures	Complete
Regulate and monitor the implementation of the Municipal Property Rates Act.	Financial management	Complete
With a view to combat corruption and promote ethics and integrity, create partnerships and coordinate investigations.	SCM	Complete

Department of Cooperative Governance and Traditional Affairs		
Initiatives and commitments	Focus area targeted	Progress with implementation
New		
<p>Develop an accelerated programme of support, which will focus on analysing municipalities that have obtained qualified, adverse or disclaimed audit opinions over the past four financial years or that had submitted financial statements late. This accelerated intervention will include the following:</p> <ul style="list-style-type: none"> • Look at the functionality of oversight committees (MPACs, audit committees and internal audit units). • Focus on the credibility and implementation of post-audit action plans. • Assess the leadership (both administrative and political) to determine whether they are performing their responsibilities. • Evaluate the suitability and qualifications of financial staff, including staff deployed through the municipal finance improvement programme. 	<p>Municipalities with repeat modified opinions and those that submitted financial statements late</p> <p>Governance</p> <p>Leadership</p> <p>HR management</p>	New

Department of Cooperative Governance and Traditional Affairs		
Initiatives and commitments	Focus area targeted	Progress with implementation
<p>This programme will include a stabilisation package with solutions to the root causes. The stabilisation package will also be made available to potential stakeholders, such as the business community, engineers and accounting bodies for inputs, to ensure that the root causes are adequately addressed; thus utilising their skills, experience, competencies and knowledge to assist municipalities to improve their audit outcomes.</p>	<p>Municipalities with repeat modified opinions and those that submitted financial statements late</p> <p>Governance</p> <p>Leadership</p> <p>HR management</p>	New
<p>Review regulations to align them to the minister of public service and administration's pronouncement that all public servants must be barred from doing business with the state. When these initiatives are included in legislation, public servants who contravene the regulations will be dealt with according to the law.</p>	SCM	New

Department of Performance Monitoring and Evaluation in the Presidency		
Initiatives and commitments	Focus area targeted	Progress with implementation
Previous year		
Pilot an assessment tool at some municipalities to provide integrated information on the performance of municipalities against key indicators, to enable strategic leadership in the local government sector.	Planning HR management Financial management Service delivery Community engagement Governance	In progress
The department did not make any new or additional commitments.		

South African Local Government Association		
Initiatives and commitments	Focus area targeted	Progress with implementation
Previous year		
Hold workshops on guidelines for successful information and communication technology governance.	IT governance	Complete
In partnership with the capacity-building fund of the Infrastructure Finance Corporation Limited, develop and roll out a municipal finance portfolio training programme to councillors on budgeting, financial reporting and oversight.	Financial management	Not implemented Replaced by new initiative
Assess the functioning of internal audit units and audit committees to strengthen these important oversight structures.	Governance structures	Complete
Adopt 25 struggling municipalities to develop targeted support and improve audit outcomes by focusing on the following: <ul style="list-style-type: none"> • Political oversight • Compliance with legislation • Reporting against PDOs • Credit control and debt collection, revenue enhancement and tariff setting • Functioning of MPACs and audit committees 	Audit outcomes	Complete

South African Local Government Association		
Initiatives and commitments	Focus area targeted	Progress with implementation
New		
Develop training material on the oversight role of councillors. Complete pilot projects by June 2013. Refine and roll out across all provinces during remainder of 2013-14 financial year.	Governance – councillor training	New
From October 2012, monitor 75 municipalities with persistently poor audit outcomes and who have agreed to remedial action.	Audit outcomes	New
Develop a hands-on support programme to improve the financial management of the 75 adopted municipalities, focusing on the following: <ul style="list-style-type: none"> • SCM • Asset management • Governance • Financial management • PDOs 	Key aspects of audit outcomes	New

South African Local Government Association		
Initiatives and commitments	Focus area targeted	Progress with implementation
Coordinate a programme of support involving the South African Local Government Association's internal audit unit and the provincial programme managers responsible for municipal finance to provide hands-on support to municipalities where there is no support from either the National Treasury or the national Department of Cooperative Governance and Traditional Affairs. This programme will be rolled out at 75 municipalities who have had persistently poor audit outcomes over the last three years.	Key aspects of audit outcomes	New

Association of Public Accounts Committees		
Initiatives and commitments	Focus area targeted	Progress with implementation
Previous year		
Meet with the leadership of municipalities with both good and poor 2010-11 audit outcomes to obtain an understanding of their challenges.	Financial management	Complete
Promote compliance with the MSA regarding annual performance reports and reports by MECs on the performance of municipalities, as well as with the MFMA relating to the timeous submission of annual financial statements for auditing. Produce a report in this regard.	Compliance – oversight reports	Complete

Association of Public Accounts Committees		
Initiatives and commitments	Focus area targeted	Progress with implementation
New		
Conduct a nationwide skills audit to determine the level of training required by councillors, in cooperation with the South African Local Government Association. Perform a proper needs analysis before conducting phase II training to all councillors.	Governance – councillor training	New
Hold discussions with the minister of cooperative governance, the National Treasury, provincial legislatures and the South African Local Government Association to strengthen oversight at municipalities.	Coordinated oversight	New
Sustain the MPAC izimbizo and provincial forums to discuss issues and challenges relating to public accountability and good governance.	Governance – MPACs	New

National Council of Provinces		
Initiatives and commitments	Focus area targeted	Progress with implementation
No specific commitments were given in the previous financial year.		
New		
<p>Organise a session with the MECs for cooperative governance to address issues relating to the following:</p> <ul style="list-style-type: none"> • Progress of provincial cooperative governance programmes towards the attainment of <i>Operation clean audit 2014</i>. • Follow up the oversight visits to various municipalities in support of the national Department of Cooperative Governance and Traditional Affairs' initiative on <i>Operation clean audit 2014</i>. • Progress of the provincial treasuries' support programmes for municipalities. 	Support for <i>Operation clean audit 2014</i>	New

National Council of Provinces		
Initiatives and commitments	Focus area targeted	Progress with implementation
<p>Organise a local government workshop attended by various stakeholders, including the AGSA; the South African Local Government Association; MECs for cooperative governance in all provinces; chairpersons of portfolio committees on cooperative governance and public accounts committees in all provinces; the ministries of cooperative governance, finance, and performance monitoring and evaluation; as well as academics and specialists on local government issues, to focus on the following:</p> <ul style="list-style-type: none"> • Encourage a capacity-building programme that will address all capacity constraints of municipalities. • Amend various pieces of legislation that cause blockages in service delivery. • Enhance and strengthen quarterly engagements between the committees of the National Council of Provinces, the South African Local Government Association and the AGSA. <p>(The National Council of Provinces had not adopted the report of the workshop at May 2013.)</p>	Support for <i>Operation clean audit 2014</i>	New

Speakers' Forum		
Initiatives and commitments	Focus area targeted	Progress with implementation
Previous year		
<p>Made the following resolutions for implementation by legislatures and the Association of Public Accounts Committees:</p> <ul style="list-style-type: none"> • Develop a national strategy to address local government audit outcomes. • Facilitate partnerships between municipalities and institutions of higher learning to track capacity constraints and assist municipalities. • Amend the MSA to attract candidates with the necessary skills and qualifications to the local government sector. • Monitor the performance contracts of section 57 managers to take corrective measures where managers are not performing as required. • Strengthen relations with the AGSA's provincial offices to monitor the progress of municipalities to address adverse audit opinions. 	HR management – consultants	Not implemented

Speakers' Forum		
Initiatives and commitments	Focus area targeted	Progress with implementation
<ul style="list-style-type: none"> • Conduct a skills audit to assess the skills of chief financial officers and municipal managers at all municipalities. • Ensure that municipalities properly utilise consultants and facilitate the transfer of skills. <p>The legislatures have not been implementing the recommendations of the Speakers' Forum consistently, due to a lack of proper planning by legislatures, inadequate coordination with other role players, and resolutions taking long to be communicated to jurisdictions.</p>	HR management – consultants	Not implemented
No new initiatives or commitments were available at the date of this report.		

National Treasury		
Initiatives and commitments	Focus area targeted	Progress with implementation
Convene MFMA quarterly meetings with representatives from other national and provincial departments and the South African Local Government Association, to address financial management reforms in a structured and coordinated manner; while provincial treasuries convene municipal chief financial officers' forums to also assist in the implementation of financial reforms.	Financial management	In progress
Host budget benchmarking exercises with the 17 largest municipalities; while provincial treasuries undertake similar exercises at the other municipalities.	Financial management – budgets	In progress
In response to the challenges experienced by municipalities, establish a forum to address the interpretation of legislation and technical, accounting matters raised by the 17 largest municipalities.	Financial management – accounting matters	In progress

National Treasury		
Initiatives and commitments	Focus area targeted	Progress with implementation
<p>In response to the demand, provide ongoing technical advice on various financial management disciplines to municipalities, through the municipal finance improvement programme since August 2011, prioritising 76 of the small and medium municipalities. This support depends on municipalities adopting a support plan, and involves the following:</p> <ul style="list-style-type: none"> • Establishing a steering committee made up of the mayor or councillor for finance, the municipal manager and the chief financial officer for effective leadership and governance. • Promoting the appointment of staff in areas identified as weaknesses. • Implementing and monitoring policies and tracking corrective action to sustain the reforms. • Assisting with the implementation of a skills development plan to increase the capability of municipal officials. 	<p>Governance</p> <p>Financial management</p>	In progress

National Treasury		
Initiatives and commitments	Focus area targeted	Progress with implementation
<p>Refine the financial management grant framework to direct resources towards capacity building and to address gaps identified in financial management. Transferred over R400 million to municipalities during July and August 2012 to supplement municipalities' own resources towards implementing financial reforms , which involved the following:</p> <ul style="list-style-type: none"> • The allocation supported the appointment of finance personnel. • The graduate internship programme supported more than 1 500 interns. • Audit action plans and corrective measures were developed. • Further capacity-building and training support was provided through regionally based trainers registered with the Local Government Sector Education Training Authority, based on the minimum competency courses applicable to municipal finance officials. 	Financial management – capacity and training	In progress

National Treasury		
Initiatives and commitments	Focus area targeted	Progress with implementation
<ul style="list-style-type: none"> • Additional resources were made available by the national skills fund through a partnership between the South African Institute of Chartered Accountants and Deloitte, rolling out the same programme to smaller municipalities. • Further training opportunities were offered to municipal officials in smaller municipalities in the Northern Cape through an agreement between the National Treasury and the Development Bank of Southern Africa . • Additional assistance was provided to the Local Government Sector Education Training Authority to finalise the registration and certification of over 1 200 officials in financial management. <p>Also support the South African Institute of Chartered Accountants directly and continuously to fast-track the Association of Accounting Technicians level 3 accounting programme for other finance officials.</p>	Financial management – capacity and training	In progress

National Treasury		
Initiatives and commitments	Focus area targeted	Progress with implementation
Publish a guide for chief financial officers and a guide for the establishment and functioning of MPACs in the third quarter of 2011 and issue the guides to all municipalities.	Governance – MPACs	In progress
Held training and awareness sessions on financial management, in collaboration with the South African Local Government Association, with all new councillors after the 2011 elections. Individual sessions were also held with municipalities requesting such support. Provincial treasuries and departments of cooperative governance provide ongoing monitoring.	Governance – councillors	In progress
Through the provincial treasuries, request municipalities with financial challenges to prepare and implement financial recovery plans to address their financial problems in a sustainable manner.	Financial recovery plans	In progress

National Treasury		
Initiatives and commitments	Focus area targeted	Progress with implementation
Develop 30 MFMA monitoring indicator assessment instruments to assist municipalities in measuring compliance with the MFMA. The National Treasury and provincial treasuries use this tool and other monitoring reports to guide support and other intervention measures relating to financial management, as it measures 12 key strategic areas.	Compliance with legislation – key areas	In progress
<p>In consultation with other stakeholders, issue a number of MFMA circulars during 2011 and 2012 for implementation over the medium term. These are intended to improve financial management practices and procedures in municipalities, and cover the following disciplines:</p> <ul style="list-style-type: none"> • SCM, dealing with restrictions of suppliers, preferential procurement regulations, compliance, and accountability through improved disclosure requirements. • Priorities, expenditure and revenue challenges as well as tariffs in terms of the medium-term revenue and expenditure framework. 	Financial management	In progress

National Treasury		
Initiatives and commitments	Focus area targeted	Progress with implementation
<ul style="list-style-type: none"> Cash-management practices, processes and monitoring as well as reporting on banking, investments and overdrafts. Financial systems and processes. 	Financial management	In progress
Issue a new annual report template as a guide, supplemented by a circular, explaining shorter timelines, content improvements and reporting changes, to allow for financial and non-financial information to be captured in one document that will assist in streamlining the audit process and improving accountability and reporting.	Governance Oversight and annual reporting – streamlined audit process	In progress
<p>Focus on the following to address some of the other key governance and oversight challenges faced by municipalities, as previously raised by the AGSA:</p> <ul style="list-style-type: none"> Issue an MFMA circular dealing with the composition, functions and processes of audit committees and internal audit units. 	Governance – audit committees and internal audit units	In progress

National Treasury		
Initiatives and commitments	Focus area targeted	Progress with implementation
<ul style="list-style-type: none"> Conduct internal audit reviews at various municipalities to strengthen internal audit functions for increased effectiveness, compliance with legislation and best practices, including monitoring prior recommendations for implementation. Recommend improvements to accounting officers, chief audit executives and audit committees. Host a chief audit executives' forum for the 17 largest municipalities to share knowledge and best practices. Academics conduct an ongoing iKutu survey to obtain the views of accounting officers, chief audit executives and chairpersons of audit committees on the standing and demand of internal audit services, including perceptions of value-adding by internal audit units. 	Governance – audit committees and internal audit units	In progress

National Treasury		
Initiatives and commitments	Focus area targeted	Progress with implementation
New		
Finalise the development of an MFMA induction programme for both new and current municipal officials for roll-out in 2013-14. Develop a non-formal financial management programme targeted at senior management, to be run as a refresher programme on best practices annually.	HR management – induction programme	New
Develop the financial management capability maturity model to assess municipalities' level of maturity and capabilities in financial management. The results of the self-assessment tool have been used to assist national and provincial departments as well as management responsible for monitoring and support to address identified gaps. The model is being modified for municipalities and will be rolled out late in 2013 and early in 2014. The results from this tool will also be used to assist other support measures and guide municipal managers in prioritising capacity efforts.	Financial management – gaps identification	New

National Treasury		
Initiatives and commitments	Focus area targeted	Progress with implementation
Issue other circulars to help municipalities deal effectively with the requirements of the minimum competency framework. An application process for special merit cases was introduced and is currently being implemented, monitored and reported on.	HR management – minimum competencies	New
Develop and issue new MFMA circulars to assist in the interpretation, processing, reporting and decision-making regarding the treatment of unauthorised, irregular as well as fruitless and wasteful expenditure.	Compliance with legislation – unauthorised, irregular as well as fruitless and wasteful expenditure	New
In consultation with key stakeholders, finalise and issue a uniform set of financial indicators and ratios applicable to all municipalities, to further enhance financial management in municipalities.	Financial management	New
Introduce other measures relating to the enforcement of, and compliance with, the MFMA, including the following: <ul style="list-style-type: none"> Assisting with internal investigations. Returning unspent conditional grants to the fiscus. Signalling the withholding of funds for the non-submission of annual financial statements for auditing. 	Compliance with legislation – enforcement measures	New

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

Over the past years, we have undertaken many initiatives to strengthen accountability and to influence the process towards improving audit outcomes and clean administration. The main objectives of such initiatives are to deepen our understanding of our client's environment and to further strengthen our relationship with the political and the administrative leadership to deepen their understanding of the accountability, auditing and governance mechanisms, thereby paving the way towards improving public confidence. These initiatives included the increased visibility of our senior leadership and continuous interactions to highlight possible challenges, audit findings and transversal risks.

The following table summarises some of our key initiatives to promote public sector accountability and to encourage the process of improving audit outcomes and attaining clean audits.

Table 53

Summary of initiatives of the Auditor-General of South Africa to encourage clean audits

Nature	Outline of AGSA initiatives
Root cause reporting	<p>When reporting audit findings, we always highlight the root cause of the finding as it relates to the drivers of internal control. Recommendations are made as part of the audit finding on, for example, how to correct identified errors or deal with non-compliance, but also on how to address the root cause. This assists our auditees in finding sustainable solutions to prevent weaknesses from happening again.</p> <p>We also report the root causes in the audit reports to provide insight on the significant deficiencies in internal control that caused financial statement qualifications as well as material findings on PDO reporting and non-compliance with legislation.</p>
Quarterly assessment of key drivers and interactions with accounting officers or authorities, audit committees and mayors	<p>We do a basic assessment of the status of the key drivers of internal control each quarter, although we only audit this during the interim or final audit. We share the results of the assessment with the accounting officer or authority, mayor and audit committee.</p> <p>We share the assessment and the risks identified at the auditee through a defined engagement programme with these role players, and we aim to meet them at least once every three months. During these engagements, we also obtain commitments from the role players on actions that will be taken to improve audit outcomes and discuss the status of previous commitments.</p>

Nature	Outline of AGSA initiatives
Engagement with legislative oversight	Our senior management members meet with councils and portfolio committees on local government (directly or through the chairpersons or speakers) at least twice a year. They are also available to the councils, legislatures and committees if they need to be briefed or require insight on matters coming before them.
Roadshows and other interactions	Our general report is not published until the audit outcomes have been shared with all political leaders, including the President and his Cabinet. Through the MFMA roadshows, the auditor-general also personally meets with ministers, MECs, premiers, legislatures, the Association of Public Accounts Committees, the Speakers' Forum and the National Council of Provinces to share the audit outcomes and our insights on the root causes of the outcomes as well as to agree on possible solutions and gather commitments.
Personal visits to municipalities by the auditor-general	During 2012, the auditor-general undertook door-to-door visits to municipalities in the Eastern Cape to interact with the political and administrative leadership of municipalities, reconfirming their understanding of the drive towards clean administration and previous commitments made. He has now visited every municipality in the country as part of the door-to-door programme. The auditor-general also visited all the metros and those municipalities with clean audit reports during the year under review.

Nature	Outline of AGSA initiatives
Collaboration with the National Treasury and the Accounting Standards Board	A formal trilateral relationship exists between the AGSA, the National Treasury and the Accounting Standards Board to highlight and address transversal matters that have an impact on the audit outcomes. These parties meet formally at least once every three months, and more often on an informal basis. Bilateral relationships are also in place in the provinces between the AGSA and the provincial treasuries to address any specific matters in the provinces.
Collaboration with the Institute of Internal Auditors and the public sector audit committee forum	We collaborate with the Institute of Internal Auditors through its public sector working group, to equip and support internal auditors in the public sector to function effectively. We are also a founding member of the public sector audit committee forum, which has various objectives to improve the effectiveness of audit committees in the public sector.
Promoting an understanding of IT risks and controls	We regularly discuss IT issues at steering committee meetings, quarterly engagements and other stakeholder interactions to ensure an understanding of IT-related risks and controls.

SECTION 5

FINANCIAL HEALTH OF LOCAL GOVERNMENT

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SECTION 5 Financial health of local government

In section 5.1, we discuss the risks faced by auditees in being able to meet their daily financial commitments. In section 5.2, we extend this analysis to look at a wider range of indicators that can predict the financial health of auditees.

5.1 GOING CONCERN

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

The financial statements of 74 auditees (23%) either disclosed that a material uncertainty existed with regard to their ability to continue as a going concern or were qualified because the disclosure was not included. The disclosure was also emphasised in the audit reports of these auditees. Table 54 shows the provinces and types of auditees with material going concern uncertainties, while figure 43 shows the most common events and conditions that caused the material uncertainties. Table 55 then describes these events and conditions.

Table 54**Provinces and types of auditees with going concern uncertainties**

Province	Metropolitan municipality	District municipality	Local municipality	Municipal entity	Total
Eastern Cape	0	0	8	5	13
Free State	1	1	10	1	13
Gauteng	0	0	1	8	9
KwaZulu-Natal	0	3	7	4	14
Limpopo	0	1	3	2	6
Northern Cape	0	0	9	0	9
North West	0	1	5	2	8
Western Cape	0	2	0	0	2
Total	1	8	43	22	74

Note: We did not identify any auditees with going concern uncertainties in Mpumalanga

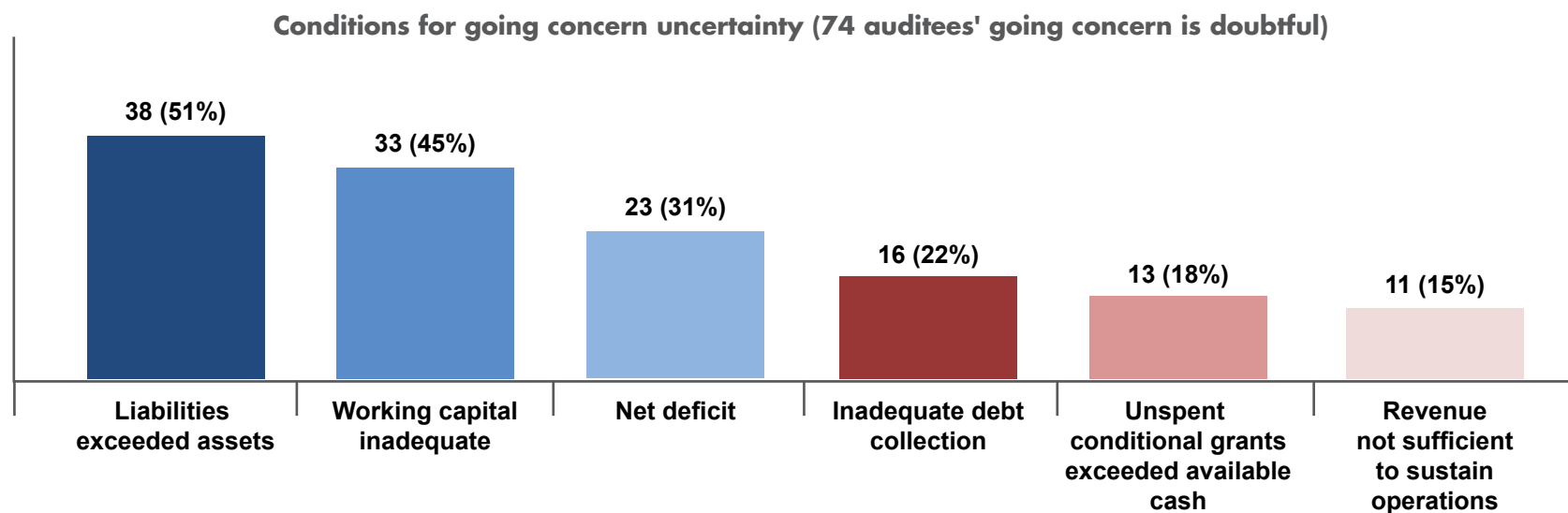
Figure 43**Common events and conditions causing material uncertainty (more than one condition may apply per auditee)**

Table 55**Description of events and conditions resulting in material uncertainty**

Events and conditions	Description	Events and conditions	Description
Liabilities exceeded assets	<p>An auditee is technically insolvent if its total liabilities exceed its total assets. This means that an auditee might not be able to fulfil its financial obligations as it does not have enough investments, cash and other assets.</p> <p>This significantly contributes to going concern uncertainty as well as severe cash-flow and operational difficulties, especially when coupled with weak expenditure and revenue management.</p>	Inadequate debt collection	<p>Auditees do not always immediately collect revenue from the community when services are rendered. The revenue receivable then becomes a potential future inflow of cash, but in many cases consumers never pay for these services.</p> <p>The inadequate collection of debt indicates that management's processes to collect all outstanding consumer debt are poorly designed or have not been implemented, which could lead to insufficient cash flow to pay creditors and other costs necessary for continued and sustained operations.</p>
Working capital inadequate	<p>Working capital consists of short-term liquid assets, such as debtors, cash, and inventories. Auditees did not have adequate working capital if they did not have sufficient cash and other resources to pay trade and other payables.</p>	Unspent conditional grants exceeded available cash	<p>Auditees must surrender some unspent conditional grants to the National Treasury at year-end. At some auditees, the unspent conditional grants were more than the available cash.</p>
Net deficit	<p>An auditee experiences a net deficit when its expenditure (such as employee costs, rent, and bulk electricity purchases) exceeds its revenue (such as the equitable share of national revenue, unconditional grants, and consumer revenue for water and electricity services).</p> <p>A net deficit indicates that the auditee is unable to reasonably contain its operating expenditure or collect its reasonably anticipated revenue.</p>	Revenue not sufficient to sustain operations	<p>In many instances the real challenge faced by auditees is a low revenue base and the tariffs are in some instances insufficient to sustain municipal functions. The demand for public services provided by municipal entities such as conference centres, parks and zoos is subject to fluctuations due to general economic conditions and also the poor marketing of such services. Some of the auditees' operating costs are fixed, meaning that costs will be incurred regardless of the level of demand or revenue.</p>
		Other reasons for going concern uncertainties	<p>Other reasons included excessive water losses; equitable shares and conditional grants due to the municipality not being transferred; the operations of a municipal entity joining the operations of its parent municipality; and doubt regarding the parent municipality's continued support of the municipal entity.</p>

The next section includes a more detailed analysis of the matters in the financial statements that could indicate a going concern uncertainty, or financial management practices that could lead to such uncertainty.

5.2 FINANCIAL HEALTH INDICATORS

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

The rest of this section discusses the outcomes of this analysis under the following headings:

- Budget and grant management (section 5.2.1)
- Debtor management (section 5.2.2)
- Creditor management (section 5.2.3)
- Financial performance and position as well as cash management (section 5.2.4)
- Concluding comments on the financial health of local government (section 5.2.5)

We provide a conclusion at the end of sections 5.2.1 to 5.2.4 on the reasons for the results of the assessment, the impact thereof and recommendations.

The analysis in this section does not include auditees that had adverse or disclaimed audit opinions, made up of nine district municipalities, one metropolitan municipality and 69 local municipalities.

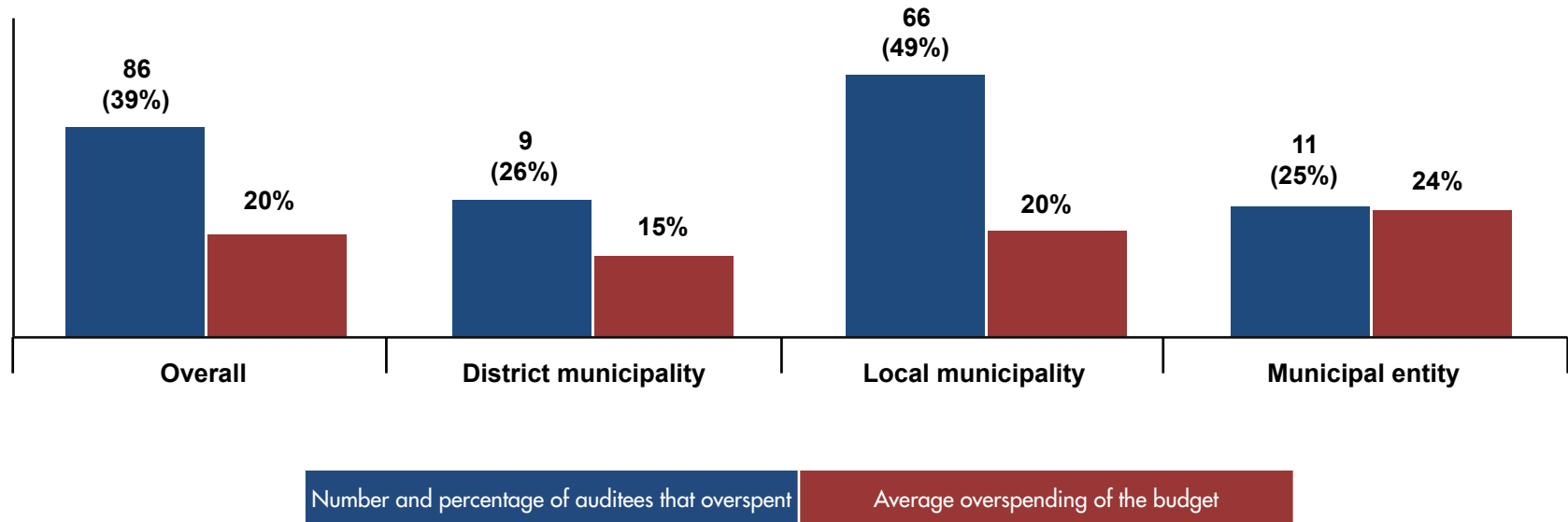
5.2.1 Budget and grant management

The council of a municipality must approve an annual budget for the municipality for each financial year. The budget must set out the realistically anticipated revenue and expenditure for the year. The municipal manager is responsible for implementing the budget, while the mayor should oversee and monitor the implementation of the budget. The mayor is ultimately accountable to the council for budget implementation. The budget should be linked to the municipality's long-term integrated development plan and the service delivery and budget implementation plan. The performance agreement of the municipal manager should be linked to the implementation of the budget. The budget and its efficient implementation should enhance oversight and accountability.

Overspending of the operational budget

Figure 44 presents the number and percentage of auditees overall (and per type of municipality) that overspent their final operational budgets (after adjustments to their original budgets). The figure also shows the average percentage by which the auditees overspent their budgets.

Figure 44
Overspending of the operational budget



Observation: Eighty-six auditees (39%) overspent their operational budgets by an average of 20%. District municipalities overspent their operational budgets by an average of 15%, local municipalities by an average of 20%, and municipal entities by an average of 24%.

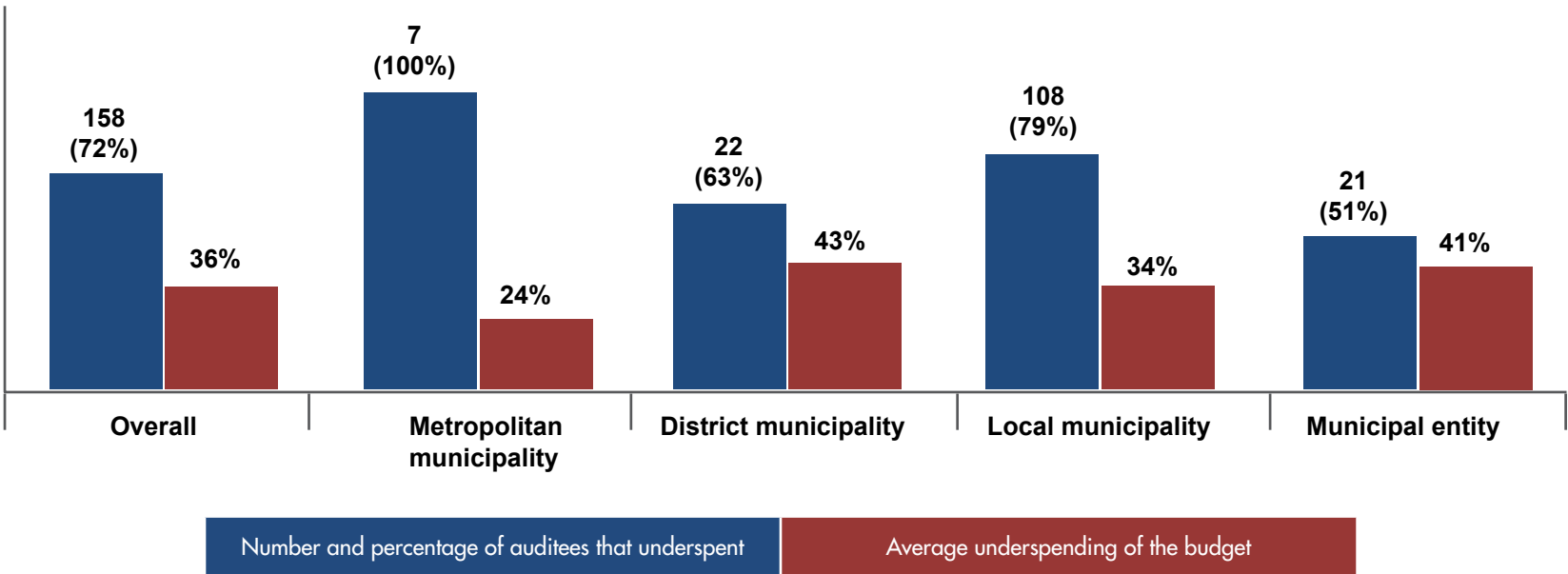
Underspending of the capital budget

A capital budget is an integral part of the annual budget of the auditees and ensures that the auditee will have the required long-term capacity to deliver on the integrated development plan. Therefore, the effective implementation of capital budgets is central to the sustainability of the auditees' service delivery initiatives and integrated development.

The figure that follows presents the underspending of final capital budgets per category of municipality, reflecting both the percentage of auditees that underspent and the average percentage of underspending in local government. The analysis is based on the auditees' final capital budgets, after adjustments to the original budgets.

Figure 45

Underspending of the capital budget



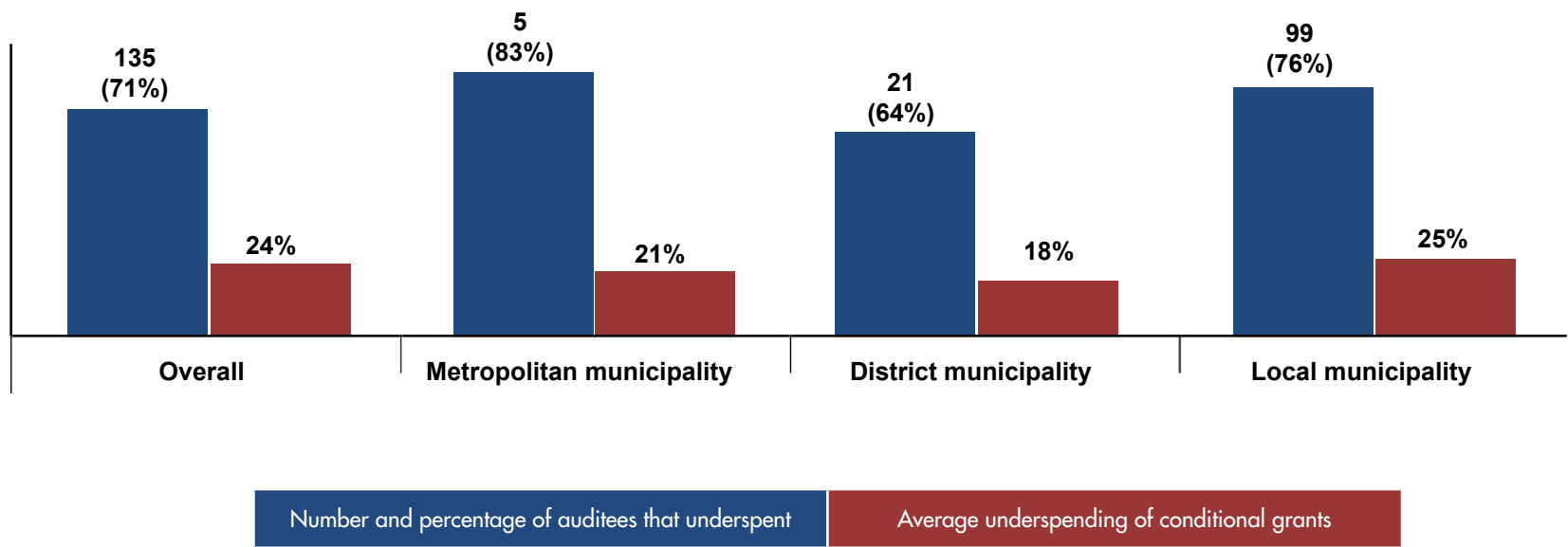
Observation: Overall, 72% of the auditees underspent their capital budgets by an average of 36%, with 100% of the metros underspending by an average of 24%. In total, 63% of the district municipalities underspent by an average of 43%, while 79% of the local municipalities underspent by an average of 34%.

Underspending of conditional grants

Municipalities receive conditional grants to achieve specific objectives, mostly related to service delivery. The following figure presents the

underspending of conditional grants per category of municipality, reflecting both the percentage of auditees that underspent and the average percentage underspending in local government.

Figure 46
Underspending of conditional grants



Observation: Five of the six metros underspent their conditional grants by an average of 21%, with 64% of the district municipalities underspending by an average of 18% and 76% of the local municipalities underspending by an average of 25%.

Overall, 71% of the municipalities underspent their conditional grants by an average of 24%.

Conclusions on the management of budgets and grants

Countrywide, 26% and 49% of the district and local municipalities, respectively, overspent their operational budgets by an average of between 15% and 20%, despite having adjusted their original budgets. This is particularly concerning, as the adjustments budget should be a close estimate of the actual expenditure for the year.

The overspending of operational budgets contributes to non-compliance with the MFMA (as detailed in section 2.4.1). It also contributes to the occurrence of unauthorised expenditure (as detailed in section 2.4.4), as 73% of the auditees that overspent their operational budgets also incurred unauthorised expenditure. The extent of overspending of budgets indicates that the budgeting process in terms of the MFMA and the planning process in terms of the MSA are not aligned. This has reduced the auditees' ability to achieve the targeted and planned level of service delivery, as the budget may only be funded by realistically projected net revenues and cash-backed accumulated funds from previous financial years.

The underspending of specific-purpose conditional grants and capital budgets has a negative impact on the auditees' service delivery objectives, as some of these service delivery projects are critical developmental priorities. The grant that was underspent the most was the municipal infrastructure grant. If this grant is spent according to its conditions, the infrastructure of municipalities will improve. This, in turn, should result in better roads, cleaner towns, and fewer service disruptions and service delivery protests.

The ineffective use of the money available for service delivery is one of the contributing factors for the low levels of planned targets achieved by auditees (as reported in section 2.3).

The following are some of the reasons why auditees underspent capital budgets and conditional grants:

- Shortage of suitably skilled engineers and technicians to implement capital projects.
- Delays in appointing service providers as a result of poor planning and ineffective SCM processes.
- Inadequate level of reporting, the information reported not being credible, and a lack of action to address delayed projects.
- Inadequate monitoring as per the requirements of the Division of Revenue Act and the MFMA.
- Allocations used for purposes other than those stipulated in schedules or in the gazetted Division of Revenue Act framework.
- Inadequate monitoring and oversight of key projects.

The following should be considered to improve the management of budgets and grants:

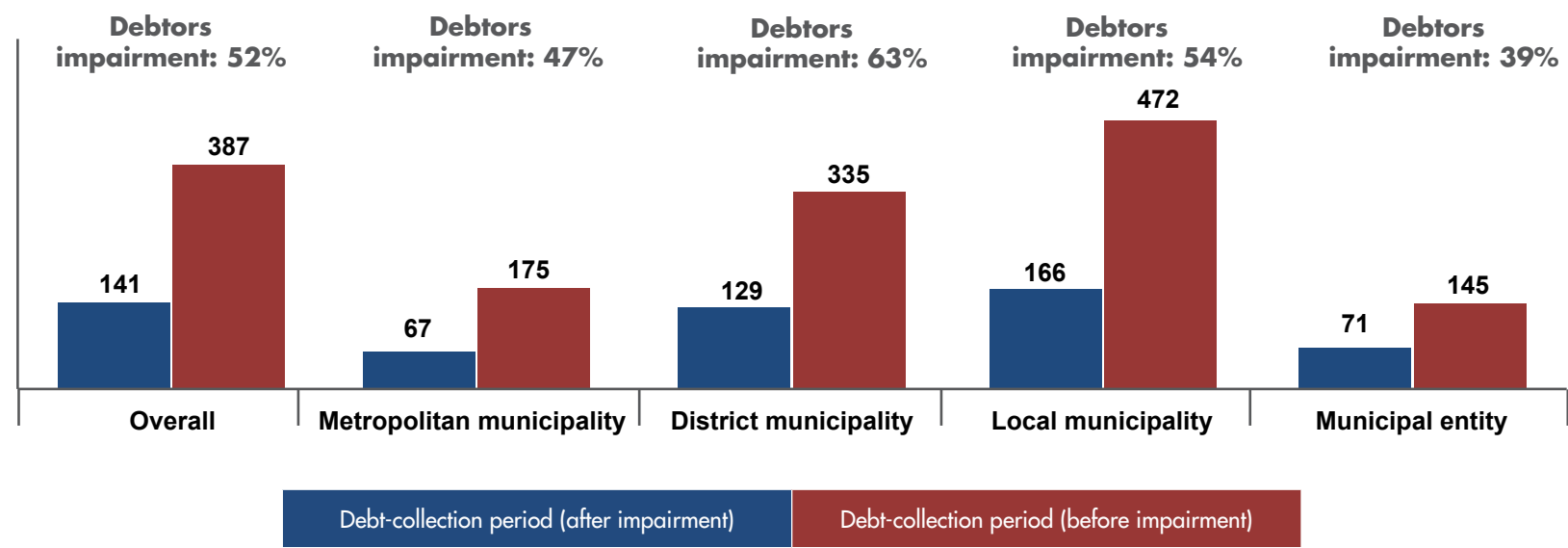
- Mayors should consistently monitor and oversee the implementation of the approved budget.
- Councils should insist that municipal managers timeously report in writing to them any impending overspending of the auditees' budget.
- Organisational reforms such as the establishment of a budget and treasury office should be prioritised.
- Chief financial officers and other financial officials should be provided with training on the effective implementation of a budget and the required financial management competencies.

- Municipal managers and chief financial officers must take joint responsibility for ensuring that funds are spent in accordance with the budget and that budgeted expenditure is reduced when the anticipated revenue is less than projected in the budget.
- The implementation of capital projects requires greater coordination within the auditee, better project management capacity as well as the use of skilled professionals such as engineers, town planners, architects, risk managers, surveyors and legal experts. These factors should all be considered in the development and approval of the auditee's capital budget.
- The planning of capital projects should also be more coordinated to ensure that payments to outsourced service providers are made timeously so that projects are not abandoned.
- The municipal and provincial leadership should insist on credible monthly reports that measure actual expenditure against budgets and service delivery. The actual expenditure (capital and current) reported should be properly reconciled and should be credible.
- Departments of cooperative governance in the provinces together with the provincial treasuries should assist the auditees to identify the staff needed to manage major capital projects. Where shortfalls in capacity are identified, more staff should be appointed and outsourcing should be considered.

5.2.2 Debtor management

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

Figure 47
Debt-collection period



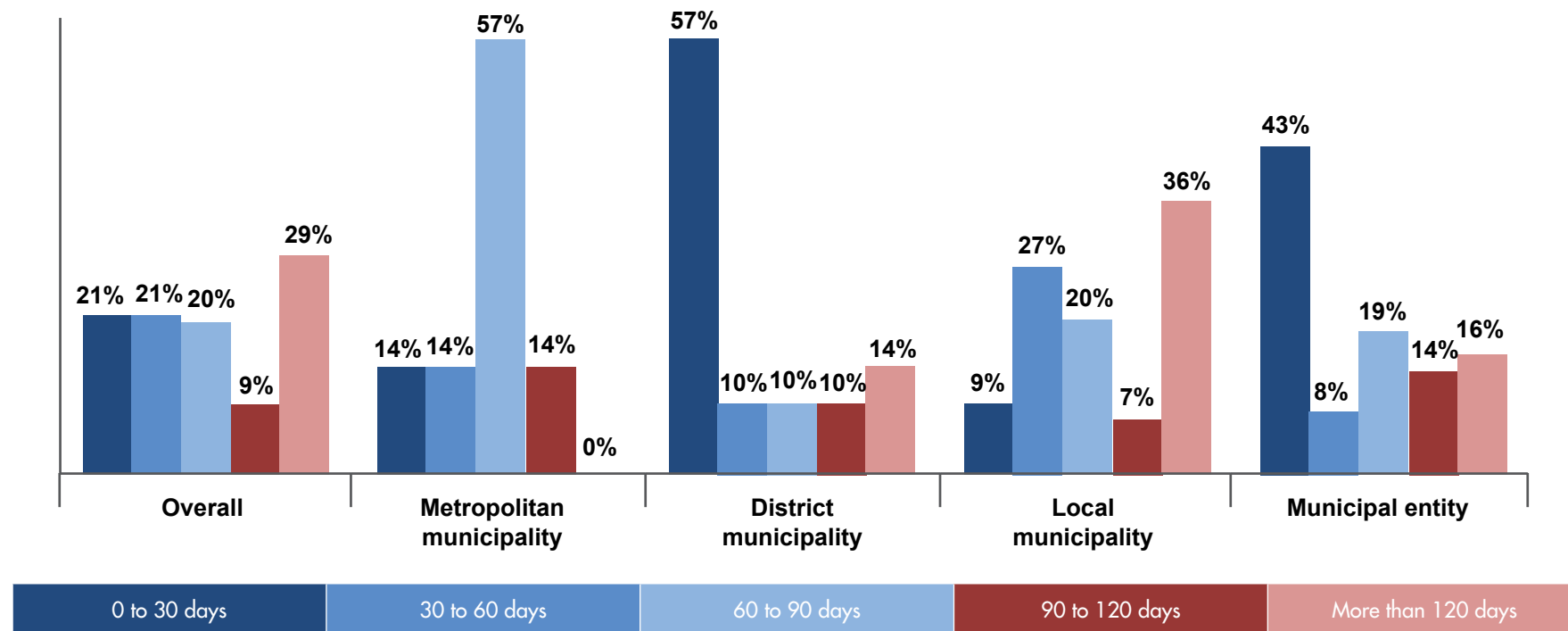
Observation: Overall it took auditees an average of 387 days (13 months) to collect outstanding amounts from consumer debtors where no provision was made for uncollectable debt. The collection period decreases to an average of 141 days (five months) if 52% of the debts are written off.

The large differences between the average debt-collection days before and after a provision for uncollectable debt are influenced by the high value of debts the auditees consider to be irrecoverable, the length of time an average debtor takes to pay for a service, and the part of the auditees’ revenue not collected as cash immediately after a service.

Metros achieved a collection rate of 67 days (two months), but on average impaired 47% of their consumer debts to do so. Local municipalities required 166 days (five months) to collect debts even after a debt write-off of 54%.

Figure 48 shows the extent of the auditees that collected their debts within the indicated debt-collection intervals, after having been adjusted for the write-off of bad debt.

Figure 48
Debt-collection intervals



Observation: Most metros (57%) collected their debts within 60 to 90 days, while 57% of the district municipalities were able to collect debts within 30 days.

Countrywide, 36% of the local municipalities required more than 120 days to collect debts, with the other local municipalities being fairly evenly spread across the remaining collection intervals.

Conclusions on debtor management

The current weak economic climate, together with the many poor communities, results in an increase in indigent debtors who are unable to pay for basic services. Non-payment by service debtors puts a lot of strain on the cash flow of a number of auditees. This often leads to auditees using money intended to fund capital and other projects to fund day-to-day expenditure. In severe instances, this slows down the progress of infrastructure projects due to the auditee's inability to pay contractors when payments become due.

Reasons for the poor debt collection include the following:

- Service delivery problems at municipalities lead to residents not paying for services, as they feel that basic services are not being provided.
- Indigent registers of impoverished people are not updated, resulting in municipalities continuing to bill consumers that are unable to pay. The equitable share allocated to these municipalities is then also insufficient to subsidise free basic services (water and electricity) to these people.
- In some areas of the country (mostly rural areas and informal settlements), Eskom provides electricity directly to consumers. This means that municipalities have little enforcement options, as electricity cannot be cut to force consumers to pay for other services, such as water, rates and refuse.
- Adequate information is not available to enable an assessment of the recoverability of receivables. This lack of information is also one of the reasons why receivables is one of the areas in the financial statements that is most often qualified.
- Inadequate management and information systems for revenue management, which constitutes non-compliance with legislation (as reported in section 2.4).
- Reluctance to hand over long-outstanding debts for collection.
- Poorly designed revenue management, indigent and debtor policies.
- Resistance among some communities to pay for certain types of services (or to being billed in a particular way).

The excessive write-off of debt highlights the widespread culture of non-payment for services among consumers. The revenue that is not collected could have been used to maintain infrastructure, resulting in a deteriorating level of consistent service delivery of a high quality. The excessive debt-collection periods may also result in cash-flow problems, adversely affecting operations.

As indicated above, poor debt-collection practices place strain on the auditees' liquidity and could lead to auditees having to borrow money to settle liabilities as they become due or having to delay payments to creditors. As budgets are prepared based on anticipated revenue, long-overdue debts that are impaired prevent auditees from operating their budgets at a surplus.

A poor collection period also has a negative impact on the auditees' budgeting and planning processes, which leads to budget deficits. The long-term independence and sustainability of auditees are compromised if collection practices do not focus on the timeliness of revenue collection.

We recommend the following to improve the management of debt collection:

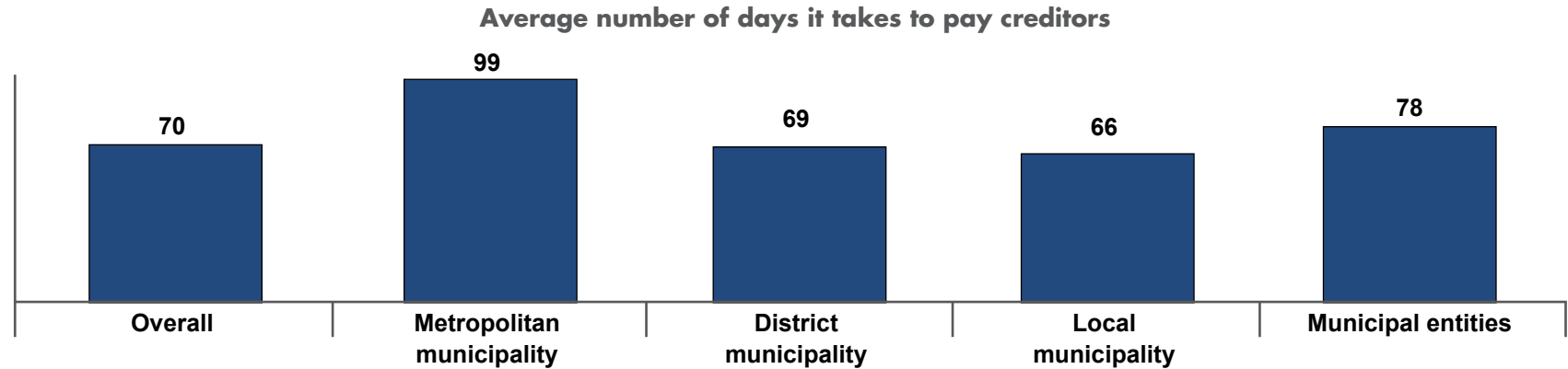
- Management should ensure that the auditee has effective revenue-collection systems consistent with the MSA and the auditee's credit-control and debt-collection policy.
- Revenue due to the auditee must be calculated monthly.
- Mayors should oversee and monitor the municipality's revenue-collection practices and take early corrective action when necessary.
- Chief financial officers should provide reliable and accurate debt-collection information to the mayor via the municipal manager. Auditees should assess their internal capacity to collect revenue timeously and effectively to identify gaps with regard to skills, systems and processes.
- Where the credit-collection function is outsourced, the auditee should insist on effective collection and regularly evaluate the performance of the service provider.

5.2.3 Creditor management

Section 65(2)(e) and section 99(2)(b) of the MFMA states that all money owing by an auditee must be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. The following figure shows the average

number of days that it took the different categories of municipalities and municipal entities to pay suppliers. This reflects how long the auditees hold onto their cash.

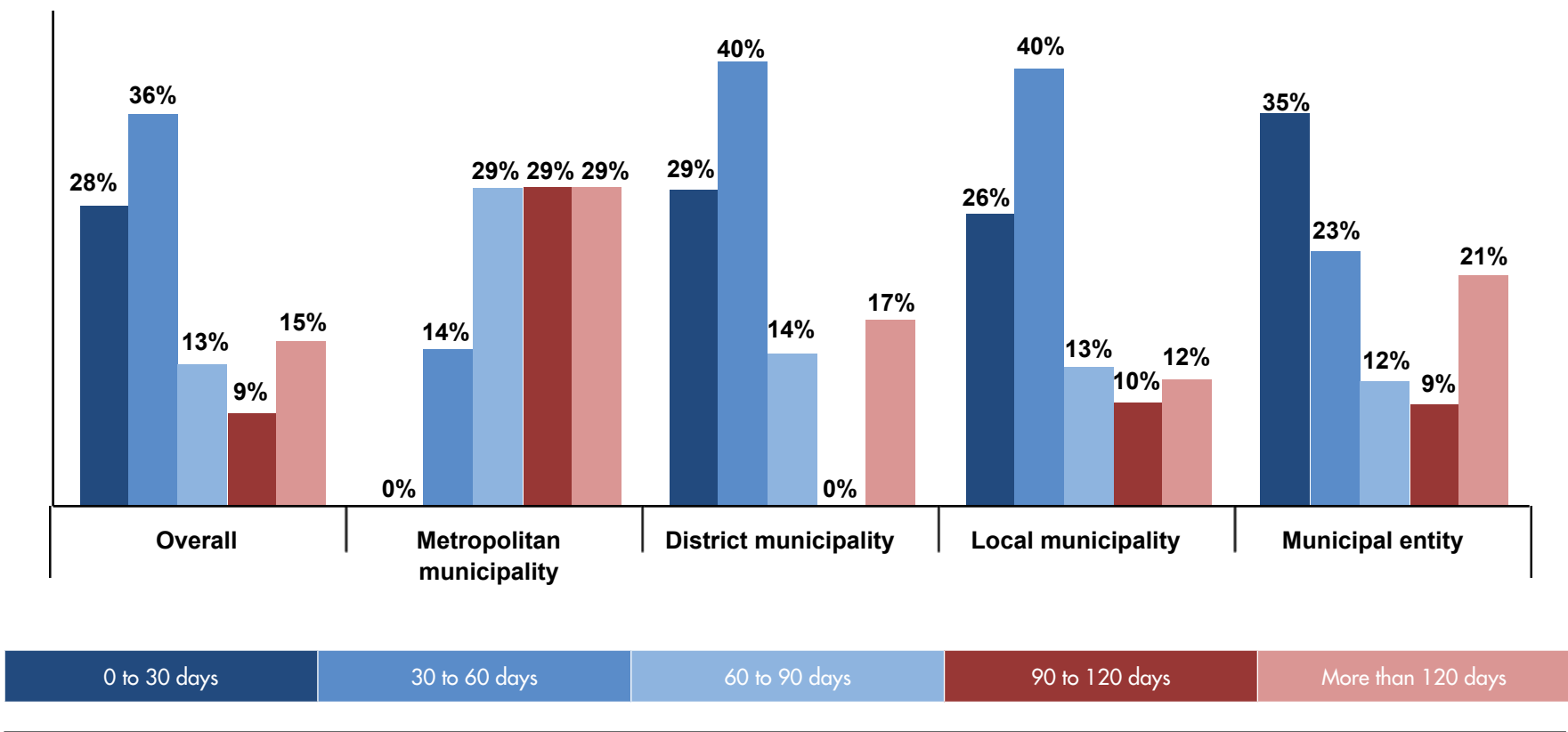
Figure 49
Creditor-payment period



Observation: Overall, it took municipalities an average of 70 days to pay creditors, while metros took an average of 99 days. The average payment period for district municipalities and local municipalities is slightly better at 69 and 66 days, respectively, while the average payment period (78 days) of municipal entities is above the overall average of 70 days.

The following figure elaborates on the creditor-payment analysis and shows the extent of auditees that pay their creditors within the indicated creditor-payment intervals.

Figure 50
Creditor-payment intervals



Observation: Seventeen per cent of district municipalities took longer than 120 days to settle outstanding amounts with suppliers. The difference between district and local municipalities can largely be attributed to districts not rendering basic services and thus not being so dependent on income from service debtors, and not having to pay the suppliers of bulk services such as water and electricity.

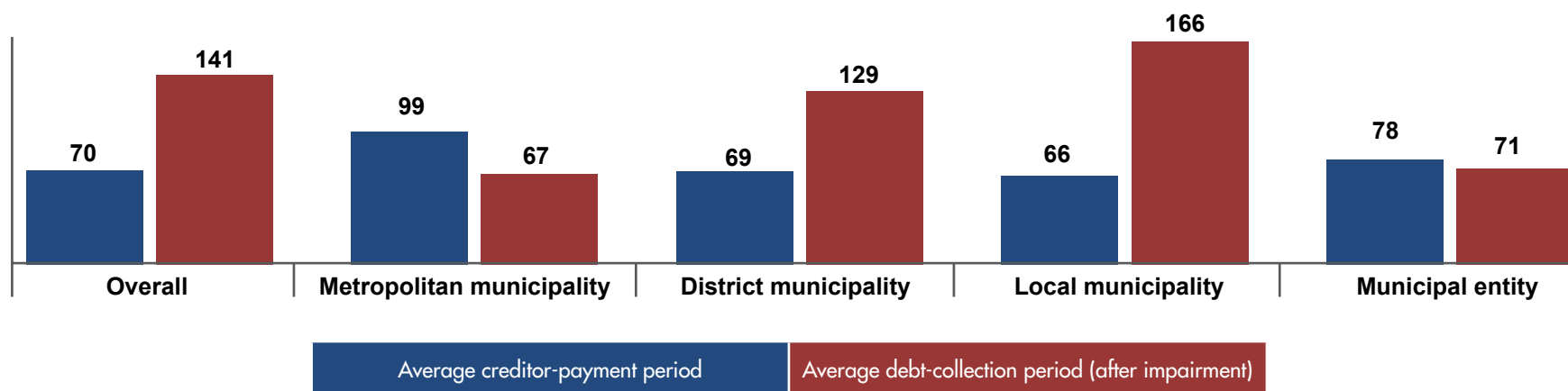
None of the metros paid their creditors within the legislated period of 30 days, and only 14% paid within 60 days. In contrast, 69% of the district municipalities and 66% of the local municipalities paid within 60 days, with 29% and 26%, respectively, settling outstanding amounts with suppliers within 30 days.

The following figure compares the debt-collection periods and the creditor-payment periods, indicating the difference in the average

number of days auditees took to collect money from consumers and to pay suppliers.

Figure 51

Debt-collection period (after impairment) compared to creditor-payment period



Observation: Overall, auditees took two months longer to collect debts than they did to pay creditors.

Conclusions on creditor management

The delayed payment of creditors indicates that auditees are in financial difficulty. If the auditees do not have cash to cover their obligations, it will have a negative impact on service delivery. Few auditees are capable of consistently meeting this requirement. The late payment of creditors is clearly linked to the recovery of debt. If debtors do not pay in time, auditees have less cash and they may face a cash-flow crunch. This means that they will have to maintain large amounts of cash reserves to meet creditors' liabilities.

Poor creditor management is also the result of poor planning and budgeting for current and capital expenditure and weak expenditure, cash-flow and project management.

The average debt-collection period should be shorter than the creditor-payment period, to ensure that auditees have extra cash and do not have to rely on an overdraft to fund operations. This is not the case at most local municipalities, as reflected in the net current liability position and the bank overdrafts at a number of auditees (as discussed in section 5.2.4).

The results also reflect the time delay between turning money from consumers into payments to suppliers, and indicate how much cash reserves auditees require to sustain their operations and to manage working capital effectively and economically, as required by the MFMA.

Auditees' finances are furthermore placed under pressure when creditors require payment before consumers pay money owed to the auditees.

The reputation of the auditees could be damaged if payments to suppliers are often delayed, leading to suppliers becoming reluctant to provide goods and services to the auditees, thereby negatively affecting the auditee's administrative and service delivery capacity. Suppliers could also unfavourably modify their credit terms to auditees, by demanding cash on delivery, which will weaken the auditees' cash-flow and liquidity management.

The long delay in paying creditors also indicates the lack of oversight and monitoring of the performance of auditees to pay creditors when due. Municipal managers, chief financial officers and other senior officials must ensure that auditees maintain a system of internal control in respect of creditors and payments.

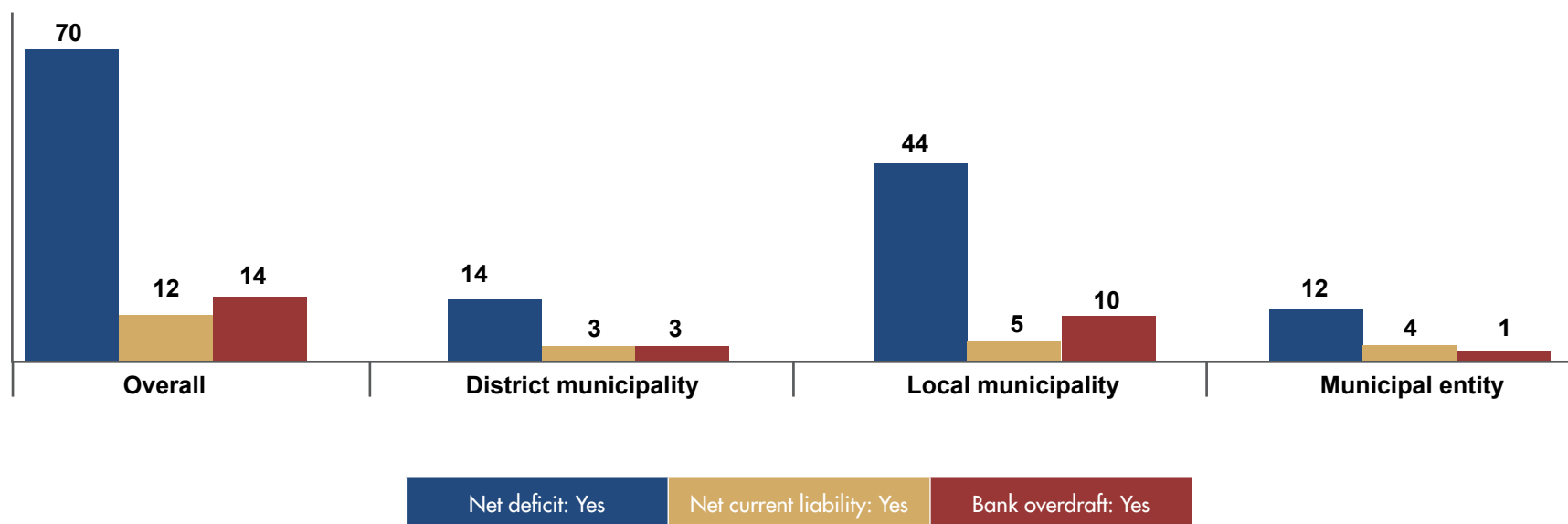
5.2.4 Financial performance and position as well as cash management

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

Section 5.1 above provides information on those auditees that disclosed going concern issues in their 2011-12 financial statements due to their financial performance, financial position or cash management.

Figure 52

Financial performance and position as well as cash management



Observation: Overall, 70 municipalities (most of which were local municipalities – 44) had a net deficit, 12 had a net current liability, while

the cash book year-end bank balances of 14 municipalities were in overdraft.

Conclusions on financial performance and position as well as cash management

The following are some of the reasons for the poor financial position of auditees:

- Poor planning and budgeting regarding current and capital expenditure.
- Revenue and expenditure not adjusted downwards to allow for the undercollection of revenue during the year.
- Expenditure not incurred in accordance with the approved budget.
- Poor cash-flow management.

Auditees whose current liabilities exceed their current assets may find it difficult to meet suppliers' demands for payment. Combined with other factors such as the negative results from operations (net deficit position) and an overdraft bank balance, it points to inefficient and ineffective operational management.

Sustained deficits have a negative impact on auditees' ability to prepare and implement future budgets, as creditors not paid at year-end will have to be paid from future budgets. Deficits also require budget preparation to be revised, especially with regard to the auditee's ability to forecast realistic revenue.

A net liability position (meaning that current liabilities exceed current assets) points to liquidity problems and has an impact on the future independence and sustainability of the auditees. In these situations, the amount received monthly from consumers is less than the amount paid to suppliers, leading to the auditee's cash balance becoming smaller and smaller. This leads to the auditees relying too much on their equitable share of national revenue.

5.2.5 Concluding comments on the financial health of local government

The financial health of auditees depends on their ability to earn income and spend money effectively and efficiently. The MFMA requires accounting officers to take all reasonable steps to ensure that revenue management and expenditure management are implemented to maximise the capacity of the auditees to deliver services to citizens in a sustainable manner.

The MFMA also requires the proper funding of expenditure and capital projects. Our financial analysis shows that the overspending of operational budgets, the underspending of capital projects and conditional grants as well as the poor management of debtors and creditors do little to guarantee service delivery to the citizens, as promised in integrated development plans.

The leadership must promote good budget and financial management by auditees, and for this purpose monitor the implementation of budgets, including expenditure, revenue collection and borrowing. The effective functioning of the budget processes will contribute significantly to developing and sustaining financial health in local government.

The national and provincial governments have a constitutional responsibility to monitor the state of financial management in local government, and to provide appropriate support. Where the auditee fails to fulfil its constitutional obligations, there is a duty on the provincial executive (in the first instance), and then on the national executive, to intervene in the auditee to set things right and to protect the interests of the public.

We are concerned that the general feeling of auditees is to disregard financial health assessments, because 'government will always be bailed out by government'. Taking into account the auditees that have been placed under administration due to poor financial management, this is not always the case. In the end, it is communities that suffer when municipal services are disrupted or discontinued as a result of poor financial management.

GLOSSARY
ACRONYMS
AND
ABBREVIATIONS
ANNEXURES

GLOSSARY of key terminology used in the report

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

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

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

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

IT user access management	The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.
Internal control (key controls)	The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable legislation. It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.
Inventory	Goods held for resale or for internal use.
Irregular expenditure	Expenditure incurred without complying with applicable legislation.
Key drivers of internal control	The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance. (These three components are also defined individually in this glossary.)

Leadership	The administrative leaders of an auditee, such as municipal managers and senior management. (This is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.) It can also refer to the political leadership (including the mayor and the council) or the leadership in the province (such as the premier).
Liability	Short-term and long-term debt owed by the auditee.
Material finding	An audit finding on reporting on predetermined objectives or non-compliance with legislation that is significant enough in terms of its value, its nature or both its value and its nature that it requires to be reported in the audit report.
Material misstatement	A misstatement that is significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of either the rand value or the nature and cause of the misstatement, or both these aspects.
Misstatement	Incorrect or omitted information in the financial statements or annual performance report.
Modified opinion	A qualified, adverse or disclaimer of opinion.
Net current liability	The amount by which the sum of all money owed by an auditee and due within one year exceeds amounts due to the auditee within the same year.
Net deficit	The amount by which an auditee's spending exceeds its income.

Operational budget	A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as administration and salaries.
Payroll	A list of employees and their wages.
Property, plant, infrastructure and equipment	Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.
Qualified audit opinion	The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.
Reconciliation	The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.
Reporting against predetermined objectives (PDOs)	Reporting by auditees in their annual performance reports on their actual achievements against the performance objectives they had set at the beginning of the period. The performance objectives mostly relate to service delivery.
Root causes	The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps ensure that the actions address the real issue or opportunity, thus preventing or reducing the incidents of recurrence, as opposed to simply providing a one-time or short-term fix.

Supply chain management (SCM)	Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.
Unauthorised expenditure	Expenditure that was in excess of the amount budgeted or allocated by government to the auditee, or that was not incurred in accordance with the purpose for which it was intended.

ACRONYMS and abbreviations

AFS	annual financial statements
AG	auditor-general (the person)
AGSA	Auditor-General of South Africa (the institution)
APAC	Association of Public Accounts Committees
b	R'billion (rand)
BCP	business continuity plan
CEO	chief executive officer
CFO	chief financial officer
CIDB	Construction Industry Development Board
CIO	chief information officer
CoGTA	Department of Cooperative Governance and Traditional Affairs
DM	district municipality
DPSA	Department of Public Service and Administration
DRP	disaster recovery plan
EC	Eastern Cape
FS	Free State
GITO	government information technology officer
GP	Gauteng

GRAP	Generally Recognised Accounting Practice
HR	human resources
IDP	integrated development plan
IT	information technology
k	R'thousand (rand)
KZN	KwaZulu-Natal
LM	local municipality
LP	Limpopo
m	R'million (rand)
ME	municipal entity
MEC	member of the executive council
metro/M	metropolitan municipality
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MP	Mpumalanga
MPAC	municipal public accounts committee
MSA	Municipal Systems Act, 2000 (Act No. 32 of 2000)
NC	Northern Cape
NCOP	National Council of Provinces

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

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

Legend (Movements): Improved, Unchanged, Regressed

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

Legend (Root causes): Finding

Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance															Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes								
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor audit outcome
																																								Movement	Amount R	Movement	Amount R	Movement	Amount R			
21	Amajuba District	KZN	N	R	A	R	A						A		N		R				R	R	R	N	A	R		R	N			R		R		R	↑	32.9m	↑	17.2m	↓	0.03m						
22	Ilembe District	KZN	A	R		R	R							A			R				R	R							A				R	N	R	↑	10.1m	↓	30.9m	↑	-							
23	Sisonke District	KZN	R	R		R	R	N					N		R	R		R			R	R	N		A	R		N	R			R	N	A	R		N	↑	35.3m	↑	200.2m	↑	-					
24	Ugu District	KZN	R	R		R	R	N	N	N		N	N			R	R				R	R	N	N		R				R		R		R		R	↑	45.2m	↑	18.6m	↓	1.0m						
25	Umgungundlovu District	KZN		R		A	R										R				R	A	A	N									A				↑	0.2m	↑	0.1m								
26	Umkhanyakude District	KZN	N	R		A	R	R	R	R	N	R	A	R	R		R	A			R	R	N	R	A	N		A	A			R		R	A	N	↓	30.2m	↓	27.9m	↑	0.2m						
27	Umkhanyathi District	KZN		N		A	A														N							N					N		A		↓	2.0m	↓	0.4m								
28	Uthukela District	KZN	R	R		R	R	N	N	N	N	R	N	N	N	N	R	A		N		R	N	N	N	R	R		R	R	N	N			R	N	R	↓	62.1m	↓	14.6m	↓	2.1m					
29	Uthungulu District	KZN	A	R		R	N								A	A					A									R		A		R														
30	Zululand District	KZN	A	R		N	R								A	A				R	N									N		N		N		R	↓	7.0m	↓	11.4m	↑	-						
31	Capricorn District	LP	R	R		R	R		R	R	N		R	R	R		R	A			R	R	R	A	A	R		R	N	N			R		R	R	R	↑	-	↑	26.8m	↓	13.0m					

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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[illegible]

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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance																	Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes									
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor audit outcomes			
																																								Movement	Amount R	Movement	Amount R	Movement	Amount R						
Local municipalities																																																			
53	Amahlati	EC		R	R		R	R	N	R				A	A	R			R	A				R	N	N	N	A			A	A	N	A		R	N		R	R	R				↓	18.1m	↓	0.01m			
54	Baviaans	EC		A	R		R	R	R	R	R	R	R	R	R			A	A				R	R	R	R	R	R		R	N	R	A		R	N		R	A	R	↓	9.9m	↑	4.5m	↓	0.4m					
55	Blue Crane Route	EC		R	R		R	R	N		N				N	N	R	R				R	N	R	R	N	N		N		N		R	R	N		R	R	N	↓	13.0m	↓	2.6m	↑	-						
56	Camdeboo	EC		R	R		R	R	N	N	N	N	N	N	N			R	R				R	A	N	A	A	A		R		R		A	R		A	R	N	↑	-	↑	-								
57	Elundini	EC		R	R		R	R									R	R					R	N		R								R		N	A	A	↓	35.3m	↓	0.7m	↓	0.7m							
58	Emalahleni	EC		N	R		A	R	R	R	A	R	R	R	R	N			N				R	R	R	R	R	R	R	N	R	R		R		R	A	↓	78.9m	↑	5.5m	↓	0.5m								
59	Engcobo	EC		R	R		R	R	N	R	R		N	A		R	N	R	R				R	R	R	R	R	R	R	R	R	R	R	A		R	R	R	↓	36.6m	↓	44.4m	↓	2.8m							
60	Gariep	EC		R	R		R	R	N	R	R	A			A	A		R	N				R	R	R	A	R	R		A	R	N	R		A		R	R	N	↓	75.1m	↓	10.1m	↓	1.6m						
61	Great Kei	EC		R	R		R	R	R	R	R	R	R	R	R	N	R	R				R	R	R	R	R	R		R	A	R	R	A	R	R		R	R	A	↓	4.6m	↑	6.3m	↑	0.8m						
62	Ikwezi	EC		R	R		R	R	N	N	R	N	N	N	R	N	N	R					R	R	N	R	R	R		R	R	R	N	R	R		R	R	N	↑	-	↑	11.3m	↑	-						

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance																Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes				
			Audit opinion	Predetermined objectives Compliance with legislation	Audit opinion	Predetermined objectives Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor audit outcomes
																																						Movement	Amount R	Movement	Amount R	Movement	Amount R			
63	Ingquza Hill	EC	R	R	R	R								R	A			R	R	R	N	A	N		R	R	R	R		R		R	A	N				↓	107.9m	↓	0.3m					
64	Inkwanca	EC	R	R	R	R	R	R	A		R	R	R	R	N	R	R		R	N	N	N	R	N		R	R	N	A	N		R	N	N	↓	31.6m	↓	2.6m								
65	Intsika Yethu	EC	R	R	R	R	R	R	R	R	R	R	R		R	R		R	N	R	A	R	R		A	A	R	A		R		R		R	↓	117.3m	↓	31.7m	↑	-						
66	Inxuba Yethemba	EC	R	R		R	R	R	R	R	N	R	N	N	R	N	R	R	R	R	R	N		R	R		N		N	N	N	R	R	N	↑	-	↓	10.0m	↓	0.04m						
67	King Sabata Dalindyebo	EC	R	R	R	R	R	R	R	R	R	R	R	R	N	R	R		R	R	N	R	A	N		R	A	R	R		R	R	R	R	↓	179.8m	↓	119.4m	↑	0.9m						
68	Kou-Kamma	EC		R	R	R	R	R	R	A	R	R	R	R	N	N		A		R	R	R	R		A	R	R	N		R	A		R	R	R	↑	9.3m	↓	9.6m	↓	1.2m					
69	Kouga	EC		R	R	N	R	R	R	R	N	A	A	R			R		R	R	R	R	R		R	R	A	N	N	A	R		R	R	R	↓	123.2m	↑	47.7m	↓	9.8m					
70	Lukhanji	EC		R	R	R	R	R	R	N	N	R	R	R		R	R		R	N	R	R	R		R	R	R	N	R	R	R		R	R	R	↓	17.4m	↑	19.5m	↓	1.2m					
71	Makana	EC		R	R	R	R	R	R	R	N	R	N	N	N	R	N		R	R	R	R	R		N	R	R		N	R	N		R	R	R	↓	48.3m	↓	39.5m	↑	-					
72	Maletswai	EC		R	R		R	R	R	N	N	A	N		N	N	R		R	R	R	R	N	N		N	R			N	R	N		R	N	N	↓	27.8m	↓	16.2m	↓	0.3m				
73	Matatiele	EC		R	R	R	R								R	N		R	A	N			A					A			N	N	R			↓	0.5m	↓	0.2m							

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↔ Unchanged	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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Legend (Audit outcomes)
Unqualified with no findings
Unqualified with findings
Qualified with findings
Adverse with findings
Disclaimer with findings
Audit not finalised at legislated date
New
Legend (Movements)
↑ Improved
↔ Unchanged
↓ Regressed
Legend (Findings)
Addressed (A)
New (N)
Repeat (R)
Legend (Root causes)
Finding

Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes										
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor	
																																								Movement	Amount R	Movement	Amount R	Movement	Amount R				
85	Sakhisizwe	EC	R	R	R	R	R		A	R			R			R	R				R	R	R		R	R	R	N		R	N	R			R	A	R	↓	6.4m	↓	24.9m	↓	0.7m						
86	Senqu	EC		R	R		R	R								R	A				R	R	R	A	A			A	A	N		R			R			↑	-	↓	1.5m	↑	-						
87	Sundays River Valley	EC	R	R	R	R	R		R			A			R	N					R	R	N	N	R	R		N	N	N		N	N	N		R	R		↑	11.9m	↓	17.2m	↓	3.1m					
88	Tsolwana	EC	R	R		R	R	N	N				N	N	R	R				N	N	N	N	N	R		R	N			N	N	N		R	R	N	↓	8.0m	↑	6.9m	↑	0.3m						
89	Umkhizvubu	EC		R	R		R	R								R	N				R	R	N	R	A	N			R	A			R	N		R	R	R	↑	-	↑	23.9m	↓	0.1m					
90	Dhlabeng	FS		R	R	R	R	A								R	A				R	R	N	R	A	R		R	N					R	N		R	R	R	↑	-	↓	60.4m	↓	9.9m				
91	Kopanong	FS	R	R		R	R	R	R	R	R	R	A	N	A	A		N			R	R	R	R	R	N	A	R	R	R	R	R	R	R		R	R	R	↓	65.7m	↓	59.8m	↑	3.3m					
92	Letsemeng	FS	R	R		R	R	A	A	R		A	R	R	N			R	A			R	R	N	N	A	A	N	A	A	N	R		A	N	N	R	R	R	↓	33.1m	↑	9.5m	↓	1.1m				
93	Mafube	FS	R	R		R	R	R	R	R	R	R	R	R		N		A			R	R	R	R	N	R	N	R	R	R	N	N	R	N	N	R	R	R	↑	17.9m	↓	56.1m	↓	7.2m					
94	Maluti-A-Phofung	FS		R	R		R	R	R	R	R	N	R	R	R	R			R	A	N				R	R	R	R	N	N	R	N	N	N	R	N		R	R	R	↑	29.6m	↑	7.2m	↓	3.9m			
95	Mantsopa	FS	R	R		R	R	R	R	R	N	N			N			R	A					R	R	N	N	R	R	N	N	N	N		R	N	N	R	R	R	↑	18.6m	↓	11.6m	↓	0.3m			

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Findings
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes							
			Audit opinion	Predetermined objectives Compliance with legislation	Audit opinion	Predetermined objectives Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor audit outcomes
																																						Movement	Amount R	Movement	Amount R	Movement	Amount R			
96	Masilonyana	FS	R	R	R	R	R	A	A	A	A	A	A			A	N	R	R	R	R	R	R		R	R	R	N	A	R	A	N	R	R	R	↓	519.7m	↓	54.8m	↓	0.8m					
97	Matjhabeng	FS	R	R	R	R	R	R		R	R	R	A		R	R		R	R	R	R	R	R		R	R	R	R		R	R		R	R	R	↓	1 075.8m	↑	160.4m	↓	76.4m					
98	Metsimaholo	FS	R	R	R	R		A	R		R	R	A	A	N	N	A		R	R	R	N	R	R		A	A	A			R	A		R	R	R	↑	6.2m	↓	66.7m	↓	1.0m				
99	Mohokare	FS	R	R	R	R	R	R	N	R	R	R	R	N	R	R		R	R	R	R	R	R	N	A	R	R	R	R	R	R	R		R	R	R	↑	2.5m	↑	13.6m	↑	0.3m				
100	Moqhaka	FS	R	R	R	R	R	N		N	A	A	R	N		N	A	R	R	A	N	R	R	N	R	R	N	R	N	R	R	N	R	R	R	↓	52.6m	↓	111.7m	↓	13.0m					
101	Nala	FS																																												
102	Naledi	FS	R	R	R	R	R	R	R	R	R	R	R		N	N	A	R	R	R	R	R	R	N	R	R	R	R	R	R	R	N	R	R	R	↓	29.9m	↑	0.1m	↑	-					
103	Ngwathe	FS			R	R																																								
104	Nketoana	FS		R	R	R	R								R	R		R	R	R		R	A		R	R	R	N		R	R		R	R	R	↑	21.4m	↓	8.6m	↓	0.1m					
105	Phumelela	FS	R	R	R	R	R	R	R	R	A	R	A		R	R		R	R	R	R	R	A		R	R	A	A		R	N		R	R	R	↓	20.8m	↓	40.0m	↓	0.5m					
106	Setso	FS			R	R																																								

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					Movement																																				Amount R	Movement	Amount R	Movement	Amount R			
107	Tokologo	FS	R	R	R	R	R	A	R	R	R	A	R	N			N	A	R	R	R	R	R	R	R	R	N	R	R	N	R	R	R	↓	36.2m	↑	5.2m	↑	0.6m									
108	Tswelopele	FS	R	R	R	R	A	A	A				A			R	R	R	R	R	R		A			R	N	N	N	A	R	A	R	↓	1.9m	↓	2.1m	↓	0.001m									
109	Emfuleni	GP	R	R	R	R	A				A				A	R			R	N	N	A	R			N	A		R	N	R	N			↓	4.1m	↓	2.4m										
110	Lesedi	GP	R	R		R	R								R	N			R	N	N		A		N				N		N	R	R			↓	7.1m	↓	0.1m									
111	Merafong City	GP	N	R		R									N	N			R	R					N				N		N		R	↓	16.4m	↓	14.0m											
112	Midvaal	GP	A	R		N	R												R				A					A		R	N	R					↑	–										
113	Mogale City	GP	R	R	R	R	A								N	R			R	R		N						N		N	N	R	↓	49.4m	↓	72.6m	↑	–										
114	Randfontein	GP	R	R	N	R	R	N	A	A					R	R			R	R	N	N	A	R		N			R	R		N		R	↑	21.9m	↑	17.5m	↓	4.2m								
115	Westonaria	GP	R	R	R	R	N	N		N					R	N			R	N	N		N			N		N		N		N	N	R		↓	2.4m	↓	0.02m									
116	Abaqulusi	KZN	R	R	R	R	N	N	N	N	N		N		A	A		N	R	R	N	N	A					N	R		R		R		N	↓	19.2m	↓	10.9m	↑	0.1m							
117	Dannhauser	KZN	N	R	A	R									N				R		R					N												↓	0.02m									

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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance													Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes									
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor performance
																																								Movement	Amount R	Movement	Amount R	Movement	Amount R			
129	Ingwe	KZN	R	R		R	R									R	A				R	N	N		N		N	R				R		N			↓	3.3m	↑	0.001m								
130	Jozini	KZN		N	R		A	R	R	A	A	A	A				N	N			R	R	R								A		R	A	A	↓	1.3M	↓	44.9									
131	Kwa Sani	KZN	R	R		R	R									R	N				N	R	R		A	N				A		R		N		↑	0.9m	↓	7.6m	↓	0.1m							
132	Kwadukuza	KZN	R	R		R	R									R	A				N	R	N					A		A		A		R		R		↓	16.8m	↑	-							
133	Mandeni	KZN	R	R		R	R									R					R	R	N	N				A	A			A		R		N		↑	5.5m									
134	Maphumulo	KZN			R		A	R													R	R			N	R					R		R		N	R	↑	-	↑	14.9m	↓	0.01m						
135	Mfolozi	KZN	R	R		R	R									A		N			R	N			N		N					N		A	↓	3.9m	↓	9.8m	↓	2.8m								
136	Mkhambathini	KZN	R	R		R	R									R					R	R		N	A						R		R		N		↓	1.2m										
137	Mpofana	KZN		N	R		A	R								N					A		N			N			N			N		N						↓	0.04m							
138	Msinga	KZN	R	R		R	R									R					R		N		R		R	R			R		R		N	↓	8.5m	↑	0.05m									
139	Msunduzi	KZN	R	R		R	R									R	R				R	R	N			R		A	A	R	R		R	R	R	↑	21.1m	↑	27.5m	↓	0.9m							

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																																								Movement	Amount R	Movement	Amount R	Movement	Amount R			
140	Mthonjaneni	KZN	R	R		R	R									R					R		N							N		A				↓	1.2m											
141	Mtubatuba	KZN	R	R		R	R	N	N	N	N	N	N			R	N				R	R	R	N	N	R		R	N	N	N	R			R	A		↓	13.9m	↓	15.3m	↓	0.5m					
142	Ndwedwe	KZN		R		A	R														R	N										R		R	N	R	↑	-	↑	3.1m								
143	Newcastle	KZN		R		A	R	R			A	N									R	R		N			N					N		R				↑	14.6m	↓	1.2m							
144	Nkandla	KZN		R	R		R	R								R	N				R		N									R		R		A		↓	29.8m	↓	0.02m							
145	Nongoma	KZN		N	R		A	R								N	A				R	R			R	N		R	A		R		R		A		↓	12.7m	↓	38.9m	↑	-						
146	Nquthu	KZN		R	R		R	R								A		N			R		N			R	N		N		R		R			N	↓	0.4m	↓	3.1m	↑	0.03m						
147	Ntambanana	KZN		A	R		R	R								A					R											A		A														
148	Okhahlamba	KZN		A	R		R	R								A	A					R	A		A	N		A	A		A		R				↑	0.4m	↓	22.7m	↓	0.03m						
149	Richmond	KZN			N		A	A													N		N									A			N	↓	0.01m		↓	0.02m								
150	The Big Five False Bay	KZN		R	R		R	R	N			N				R	N				R	R	R			R	R			N					N	A		↓	5.1m	↓	0.9m	↓	0.5m					

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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes									
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor audit outcomes
																																								Movement	Amount R	Movement	Amount R	Movement	Amount R			
151	Ubuhlebezwe	KZN	R	R		R	R										R	R			R	R	N	N	A	A							R		R		N				↑	6.9m	↓	0.2m				
152	Ulundi	KZN			R		A	R									A				R		N			N	N				N			A		R	↑	3.1m	↑	-	↓	0.9m						
153	Umdoni	KZN	N	N		A	A										N	N			N		N	N		N						N		N	N	R	↑	9.6m	↑	0.4m								
154	Umhlabuyalingana	KZN	N	R		A	R	N	N	N		N	N				R	A			R		N	N	N	N			A			N		R	A	R	↓	1.6m	↓	4.3m	↓	0.3m						
155	uMhlathuze	KZN	N	R		A	R										N						N		N							A		R		R												
156	Umlalazi	KZN	R	R		R	R										R				R		N		N	N		R	R		A		R		R		A	↓	2.6m	↑	0.5m	↓	0.3m					
157	Umgengi	KZN	R	R		R	R										R	R			R		N	N	N	N		N					N		N		↑	-	↓	3.6m		0.3m						
158	uMshwathi	KZN	R	N		R	A										A	R			N								N	N						N			↓	0.4m								
159	Umtshezi	KZN				A	A																											N					↓	0.04m								
160	Umuziwabantu	KZN	A	R		R	R										A				R	R		N		N							R		R		N	↓	8.7m	↓	2.2m							
161	Umvoti	KZN	N	R		A	R	A									N						A		A					R								↑	-									

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes								
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor audit outcomes
																																								Movement	Amount R	Movement	Amount R	Movement	Amount R			
162	uMzimkhulu	KZN	R	R		R	R										R	A			R	R	N	N								R	N	R	N	↓	33.2m	↑	0.7m	↑	-							
163	Umzumbe	KZN		R	R		R	R									R				N	A	N			A						R		R	A	N		↓		7.4m	↓	0.01m						
164	uPhongolo	KZN		R	R		R	R	N	N	N	N	N	N	N		R	R			R	N	N	N			N	N				N		R	N	N	↓	10.8m	↓	7.7m	↓	1.3m						
165	Vulamehlo	KZN		R	R		R	R									R	N			R	R	N						N		R		R	N	N		↓		10.7m									
166	Aganang	LP		R	R		N	R	R	R	R	N	R	N	N	R		R	N			R	R	R	A	R		N		R	A		N		N	R	R	↑	-	↓	20.1m	↓	0.1m					
167	Ba-Phalaborwa	LP		R	R		N	N	R	R	R	R	A	N	R	R	N	R	R			R	R	N	R	N	R		R	R	R		R		R	R	R	↓	20.6m	↓	48.9m							
168	Bela-Bela	LP		R	R		R	R	R	R	R	N	R	N	R	R		R	R			R	R	N	N	R		N				R	N	N	R	↓	49.5m	↓	3.6m	↓	0.3m							
169	Blouberg	LP		A	R		N	R	N	N	R	N	N	R		R		A				R	R	N	R	A	R		A	A	R		R		R	R	N	↑	8.9m	↓	26.7m	↓	0.1m					
170	Elias Motsoaledi (Greater Groblersdal)	LP		R	R		R	R	R	A	R		A	A	R	R		R	R			R	N	N	R	A	R		R	R	R		A	R	N		R	R	R	↑	50.2m	↓	138.1m	↓	8.9m			
171	Ephraim Mogale	LP		R	R		R	R	R		R		R	N	N	R		R	R			R	N	N	R	A	R		N	N		N		R		R	R	R	↓	35.6m	↓	108.6m	↑	-				

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome	Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance													Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes										
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																																								Movement	Amount R	Movement	Amount R	Movement	Amount R			
172	Fetakgomo	LP	N	N			N							N		N	N				N			N							N		N	R	R				↓	2.4m	↓	0.006m						
173	Greater Giyani	LP	R	R		R	R	R	R	R	N	R	R	A	R		R	R			R	R	N	R		R		R	R	R			R	N		R	R	R			↓	75.9m	↑	1.2m				
174	Greater Letaba	LP	R	R		R	R	R	R	R	A	R	R		R		R				R	R	N	R	N			R	R	N			R			R	R	R	↑	-	↓	36.1m	↓	0.03m				
175	Greater Tzaneen	LP	R	R		R	R	R	R	R	N	R	R		N		R	R			R	R	N	N	N	R		N		N	N	R			R	R	A	↓	91.0m	↓	90.6m	↓	0.2m					
176	Lepelle Nkumpi	LP	N	R		A	R	R	R	R	N	R	R	A	R	A	N	N			N	N	R	R	N	R	N	A	N	R	N		R			R	N	R	↓	13.9m	↓	42.5m						
177	Lephalale	LP	R	R		R	R	N	A	N					A		R	R			R	A	R		A			R	A				R			R	R	R			↓	53.9m	↓	0.2m				
178	Makhado	LP	R	R		R	R	R	R	R		N	R		N		R	R			R	R	N	R	N	A		A				R			R	R	R	↓	157.4m	↓	1.6m	↓	0.2m					
179	Makhudutamaga	LP	R	R		R	R	R	R	A		R	A		R		R	R			R	R	N	A	A	R		N	N	N	N		R	N		R	R	R	↑	0.9m	↓	14.2m						
180	Maruleng	LP	R	R		N	R	N									R	R			R	R	N	N	N		A					R	N		R	N	R			↑	12.5m	↑	-					
181	Modimolle	LP	R	R		R	R	R	R	R		A	R	R	R	N	R	R			R	R	N	N	R	N		N	N	N	A		R			R	R	R	↓	16.4m	↓	6.8m	↓	0.7m				
182	Mogalakwena	LP	R	R		R	R										R					R	A		A			R					R			R	R	R			↑	15.1m	↓	0.02m				

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Findings
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
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183	Molemole	LP				R	R																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			</

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance																Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes						
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor
																																								Movement	Amount R	Movement	Amount R	Movement	Amount R			
194	Dr JS Moroka	MP		R	R		R	R	R	A	R	N	R	N	A	N	R	N			R		R	N	A	N	R		N		N	R	N		R	R	R					↓	0.3m					
195	Emakhazeni	MP		N	R		A	R	N				N	N			N	N			R	R		N	R						N	R			R		R	↑	2.9m		↓	1.0m						
196	Emalahleni	MP					R	R																																								
197	Govan Mbeki	MP		R	R		R	R	N				N				R	R			N	N		R	R		N	N		N		N		N	R	R	↓	122.0m	↓	24.4m	↓	11.0m						
198	Lekwa	MP		R	R		R	R	R	R	N	A	R	R	R	N	R	A			R	R	R	R	A	N		N	R	A	R	A	R	R		R	R	R	↓	196.3m	↓	6.0m	↓	4.2m				
199	Mbombela	MP		A	R		R	R									A				A			A							R			R	R	R	↑	6.2m	↓	1.3m	↓	4.4m						
200	Mkhondo	MP					R	R																																								
201	Msukaligwa	MP		R	R		R	N	N	N	N	N	N	N	N			R	R			R	A	N	N	N	A		A	A		N		R		R	R	R	↑	-								
202	Nkomazi	MP		R	R		R	R	N	N		N				N	R	R			R	R	N	R	N	N		N	N	N	R	R	N		R	R	R	↓	100.9m	↑	11.4m	↑	0.7m					
203	Pixley Ka Seme (Volksrust)	MP		R	R		R	R	R	A	R	R	R	A	A		R	N			R		R	N	R			N	R		R	A	R	A		R	R	R	↓	2.8m	↑	2.8m						
204	Steve Tshwete	MP																															R		R			↓	0.01m	↓	0.3m							

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																																								Movement	Amount R	Movement	Amount R	Movement	Amount R			
205	Thaba Chweu	MP	R	R		R	R	R	R	R	A	R	R	R	R	N	N	N		A	N	N	R	R	N	N	R	R	N	A	N	R		A	R	N	N	↓	5.7m	↓	44.4m	↓	3.7m					
206	Thembisile Hani	MP	R	R		R	R	R	R	R	A	A	R		R		R				R	R	R	R	A	N		N	R	R	N	N	R	A		R	R	A		↓	71.7m							
207	Umjindi	MP	N	R		A	R	R	A	R	N	R	A	A		N	N	N			R	N		N	R			N				R			R	R	R		↓	0.9m	↓	0.2m						
208	Victor Khanye	MP	N	N						R						N	N				N	N			N	N	N		N			N		N		N		↓	0.3m									
209	Ditsobotla	NW	R	R		R	R	R	R	R	R	R	R	R						R	R	R	R	R	N	R		N	N	N	N	R	R	N	N	R	R	A	↓	30.3m	↓	2.5m						
210	Greater Taung	NW		R		A	R	R	R	R	R	R	N	R	R						R	R		R	A							R	N	R	R	A	↓	3.8m	↓	36.9m	↓	1.0m						
211	Kagisano	NW	R	R		R	R	R	R	R	R	R	R	R	R				R	R	R	R	R	N	N	R		N	N	N	N	N	R			R	R	A	↑	-	↓	5.4m						
212	Kgetlengriver	NW	R	R		R	R	R	R	R	N	R	R	R	R		N	R			R	R	R	R	R	N		N	N	R	R	N	N	N	R	R		↓	17.3m	↓	5.6m	↓	0.04m					
213	Lekwa-Teemane	NW	R	R		R	R	R	R	R	R	N		N	N		R	R			R	R	R	N	A	A			N	R		R	N	N	R	R		↓	33.7m	↓	18.1m	↓	4.3m					
214	Madibeng	NW	R	R		R	R	R	R	R	N	R	R	R	R		R	R			R	N	N	R	N	R			R			R		R	R	R	R	↓	7.5m	↓	71.3m	↓	2.1m					
215	Mafikeng	NW	R	R		R	R	R	R	R	R	R	R	R	N	A	R	R			R	R	R	N	N	R		R	R	R	R		R	N	R	R	R	↑	24.4m	↑	24.1m	↓	4.4m					

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																																						Movement	Amount R	Movement	Amount R	Movement	Amount R			
216	Mamusa	NW	R	R	R	R	R	R	R	R	R	R	R	N	N	A	R	R	R	R	N	R	N	N	N	N	R	R	N	N	R	R	N			↑	2.0m	↓	1.1m							
217	Maquassi Hills	NW	R	R	R	R	R	R	N	R	R	R	R	N	N	A	R	R	R	R	R	R	R	R	R	R	R	A	R	N	N	R	R	A	↓	8.6m	↓	5.7m	↑	5.6m						
218	Matlosana	NW	A	R	R	R	R	R	R	R	R	R	R		A		R	R	A	R	A	R	R	R	R	A	N	A		R	A	N	R	R	R	↑	-	↑	25.3m	↓	9.7m					
219	Moretele	NW	R	R	R	R	R	R	R	R	R	R	R	N		N	A	R	R	R	R	N	R		R	R	N	N	R	R	N	N	R	R	A	↑	9.9m	↓	25.2m	↑	0.1m					
220	Moses Kotane	NW	R	R	R	R	R	A	R		A	R	A	A	R	R		R	N	R	R	R	R		R	R	R	N		R		N	R	R	R	↓	13.4m	↑	71.3m	↓	3.4m					
221	Naledi	NW	R	R	R	R	R	R	R	R	R	R	R	R	A	N		R	R	R	R	A	R		R	R	R	A	R	R	N	R	R	A	↓	55.8m	↑	14.2m	↓	9.3m						
222	Ramotshere Moiloa	NW	R	R	R	R	R	R	N	R	R	R	R	R	R			R	R	R	R	N	R		R	R	R	N	R		N	R	R	N			↓	2.2m								
223	Ratlou	NW	A	R	R	R								A	A		R	R	N					R	R	R	R	N	R	N	N	R	R		↓	8.1m	↓	23.0m	↓	0.02m						
224	Rustenburg	NW	R	R	R	R	R	R	A	R	R	R	R	R	R			R	A	R	A	A	R		A		R	R	N	R	N		R	R	R	↓	449.8m	↓	73.5m	↑	-					
225	Tlokwe	NW	R	R	R	R	A	A				A		R	R		R	R	R	A	R		A	A	R		R	N	N	R	R	R		↓	152.5m	↓	142.7m	↓	2.8m							
226	Tswaing	NW	R	R	R	R	R	R	N	R	R	N	R	N			R	R	R	R	R	R	R	N	R	R	R	R	R	R	N	R	R	A	↓	13.4m	↓	16.5m	↓	1.0m						

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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[illegible]

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes									
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants management	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competences	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor audit outcomes
																																								Movement	Amount R	Movement	Amount R	Movement	Amount R			
249	Siyathemba	NC	R	R		R	R	R	R	R	N	R	R	R	R		A			N	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	↑	20.7m	↓	13.4m	↓	0.2m					
250	Sol Plaatje	NC	R	R		R	R	R	R				R	R	R		A	R			R	R	A	R	A	R			R	A		R	R	R		R	R	R	↑	0.4m	↓	47.4m	↑	0.6m				
251	Thembelihle	NC	R	R		R	R	R	R	R	A	R	R	R	R				A	N	R	R	R	R	R	R		R	A	R	R	R	R	R	A	R	R	R	↑	3.6m	↓	39.1m	↓	0.4m				
252	Tsantsabane	NC				R	R																																									
253	Ubuntu	NC	R	R		R	R	R	A	A		A	R	R	R		N			R	R	R	R	R	R	R	R	R	N	A	R	N	R	N		R	R	A	↑	5.8m	↓	10.4m	↑	0.2m				
254	Umsobomvu	NC		R	R	R	R	A		A	A	A	A		A		N	N	A	R	A	R	A	R			A			A		R	A		R	R		↓	33.4m	↓	6.5m	↓	0.001m					
255	Beaufort West	WC		R	R	R	R										A	R			N	N			R		N	N				R		R	R	R	↑	15.9m	↓	0.02m								
256	Berg River	WC	R	R		R	R		N								R	R			R	R	R	R		N			A	A		R		A	↓	27.6m	↓	1.2m										
257	Bitou	WC		R	R	R	R										A		N		R	R	R	N			N	R	N	N	R	R	N		R	N	R	↑	43.0m	↑	0.5m	↓	4.5m					
258	Breede Valley	WC			R	A	R															R			A			A	R			A		R	R	R	↑	-	↑	3.9m								
259	Cape Agulhas	WC		R	R	R	R										A	R				A	R	R		R	R					N	N		N	A	↓	10.4m	↓	2.0m								

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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[illegible]

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas					Findings on predetermined objectives			Findings on non-compliance												Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes														
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor audit outcomes		
																																								Movement	Amount R	Movement	Amount R	Movement	Amount R					
271	Overstrand	WC			R		A	R													N	A		N								A		R				↓	0.3m	↓	0.1m									
272	Prince Albert	WC		A	R			R	R		A			A			A				R	A	R		A			R	R		R		R		R	↑	2.2m	↑	-	↑	0.3m									
273	Saldanha Bay	WC		A	R			R	R							A	A				R	A	A	N	A			N	A		A		A		R		R			↑	0.2m	↓	2.6m							
274	Stellenbosch	WC		R	R			N	R							A	A		N		R	A	N	N					A		N		A		R		R		↑	-										
275	Swartland	WC						A	A																									R	↓	8.3m				↓	0.01m									
276	Swellendam	WC																																																
277	Theewaterskloof	WC		A	R			R	R						A						R	R	A	R	N								R		R		R	↓	71.2m	↓	5.3m									
278	Witzenberg	WC		R	R			R	R							R	R				R	R	N	R				A			N		A		R	A	A	↑	13.7m	↑	-									
Municipal entities																																																		
279	Alfred Nzo Development Agency	EC		R	R			R	R							A	R				R	R					R	R		R	R	R			N	A		R		R	N			↓	2.5m	↓	0.3m			

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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[illegible]

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Findings
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes									
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor audit outcomes	
																																								Movement	Amount R	Movement	Amount R	Movement	Amount R				
288	Port St Johns Development Agency	EC	N	R		N		R	R	N	N	R	R		N	A				R	R	R	R	A	R		A				R	A		R	N				↓	0.2m	↑	0.1m							
289	Centlec (Pty) Ltd	FS	R	R		R	R	R	R	N	R	R	R	R		R	R			R	R	N	R	N	R		R		R	A		R		R	R	R			↓	344.5m	↓	32.1m							
290	Fezile Dabi District Municipality Trust	FS					A																																										
291	Krynaauwlust Farming Trust (Pty) Ltd	FS																																															
292	Lejwe Le Putswa Development Agency (Pty) Ltd	FS		R	R		R	N								R	R			R		N		A	N		R	R													↓	0.02m							
293	Maluti-A-Phofung Water (Pty) Ltd	FS	R	R		R	R	R	R	R	N	R	N	N	R		R	A	N		R	R	N	R	N	N	N	N			R	N		R	R	R			↑	4.2m	↓	0.3m							
294	Metsimaholo Mayoral Trust	FS		R			N			R	R									R																													
295	Brakpan Bus Company (Pty) Ltd	GP		R			N													A	R											R	N		R	N	A			↓	0.8m								

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Findings
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Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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[illegible]

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Findings
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure						Root causes									
			Audit opinion	Predetermined objectives Compliance with legislation	Audit opinion	Predetermined objectives Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset and liability management	Budgets	Expenditure management	Financial misconduct	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfers and conditional grants	Procurement management	Human resource management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Unauthorised expenditure		Irregular expenditure		Fruitless and wasteful expenditure		Key positions vacant or key officials lacking appropriate competencies	Consequences for poor performance and transgressions	Response by the political leadership in addressing the root causes of poor audit outcomes		
																																						Movement	Amount R	Movement	Amount R	Movement	Amount R					
336	Rustenburg Water Services Trust	NW	R	R	R	R	A							N			A	R		R										N			N															
337	Cape Town International Convention Centre	WC	N	R			N									N														A	N		R															
338	Knysna Economic Development Agency	WC	R	R	R	R											R			R		A																										

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New
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Legend (Movements)	↑ Improved	↓ Regressed
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Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Legend (Root causes)	Finding
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[illegible]

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↔ Unchanged	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)
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Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↔ Unchanged	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance													Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure													
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																																								Movement	Amount R	Movement	Amount R	Movement	Amount R
19	Umkhanyakude District	KZN	R	R		R	R	R	R	R	N	R	A	R	R		R				R	R	N	R	A	N		A	A				R					↓	30.2m	↓	27.9m	↑	0.2m		
20	Uthungulu District	KZN	A	R		R	N									A														N															
21	Greater Sekhukhune District	LP	R	R		N	N	R	A	R	A	R		R	R		R	R			R	R	N	R	A	R				N			R					↑	4.3m	↓	2 090.3m	↑	0.6m		
22	Dr Kenneth Kaunda District	NW	R	R		R	R						R	A		R	R			R	R	R		A	A							R	R												
Local municipalities																																													
23	Blue Crane Route	EC	R	R		R	R	N		N				N	N	R	R			R		N	R	R	N	N		N		N	R	R	A	N					↓	13.0m	↑	2.6m	↑	-	
24	Kouga	EC	R	R		N	R	R	R	R	N	R	A	A	R			R		R	R	R	R	R	R		R	R	A	N		R	A	R					↓	123.2m	↑	47.7m	↓	9.8m	
25	Nkonkobe	EC	N	R			N		R	R		A	N	N	N		R	N			R	R	R	N	R	N		A	R	N		N		N						↓	19.0m	↑	4.7m	↓	0.2m
26	Port St Johns	EC	R	R		N	N	N	R	R		R		N	R		R	R			R	R	N	N	A	N		R			R		A	R	N					↓	32.7m	↓	11.9m	↓	3.3m
27	Maluti-A-Phofung	FS	R	R		R	R	R	R	R	N	R	R	R	R		R	A	N		R	R	R	R	R	R		N	N	R		N	N	R	N					↑	29.6m	↑	11.5m	↓	4.1m
28	Metsimaholo	FS	R	R		R	R		A	R		R	R	A	A	N	N	A			R	R	R	N	R	R		A	A	A			R	A					↓	6.2m	↓	66.7m	↓	1.0m	

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New	Legend (Movements)	↑ Improved	↔ Unchanged	↓ Regressed	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)
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Number	Auditee	Province	2011-12 audit outcome		2010-11 audit outcome		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance												Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure													
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																																						Movement	Amount R	Movement	Amount R	Movement	Amount R	
29	Hibiscus Coast	KZN	R	N	R	A								R	N			A	R	R		R				N		N		A							↓	50.9m	↓	7.2m	↓	0.02m		
30	Msunduzi	KZN	R	R		R	R							R	R			R	R	N			R		A	A	R	R		R	R							↑	21.1m	↑	27.5m	↓	0.9m	
31	Polokwane	LP	R	R		R	R	R	R	N		N	N	N	R		N	R		R	R	R	R	R		A	R		R		R								↓	140.4m	↓	208.4m	↓	1.8m
32	Moretele	NW	R	R		R	R	R	R	R	R	R	R	R		N		N	A	R	R	R	R	N	R		R	R	N	N	R	R	N	N										
33	Rustenburg	NW	R	R		R	R	R	R	R	A	R	R	R	R		R	R		R	A	R	A	A	R		A		R	R	N	R	N											
34	Knysna	WC	R	R		R	R								N	R		N	N	A	N	A	A					N		R							↑	-	↑	-	↑	-		

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

↓ Regressed

Legend (Findings)	Addressed (A)	New (N)	Repeat (R)
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ANNEXURE 2: Auditees' five-year audit opinions

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
Financial audits							
Metropolitan municipalities							
1	Buffalo City Metro	EC					
2	Nelson Mandela Bay Metro	EC					
3	Mangaung Metro	FS					
4	City of Johannesburg Metro	GP					
5	Ekurhuleni Metro	GP					
6	Tshwane Metropolitan Municipality	GP					
7	eThekwini	KZN					
8	City of Cape Town	WC					
District municipalities							
9	Alfred Nzo District	EC					
10	Amatole District	EC					
11	Cacadu District	EC					
12	Chris Hani District	EC					
13	Joe Gqabi District	EC					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
14	OR Tambo District	EC					
15	Fezile Dabi District	FS					
16	Lejweleputswa District	FS					
17	Thabo Mofutsanyana District	FS					
18	Xhariep District	FS					
19	Sedibeng District	GP					
20	West Rand District	GP					
21	Amajuba District	KZN					
22	Ilembe District	KZN					
23	Sisonke District	KZN					
24	Ugu District	KZN					
25	Umgungundlovu District	KZN					
26	Umkhanyakude District	KZN					
27	Umzinyathi District	KZN					
28	Uthukela District	KZN					
29	Uthungulu District	KZN					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
30	Zululand District	KZN					
31	Capricorn District	LP					
32	Greater Sekhukhune District	LP					
33	Mopani District	LP					
34	Vhembe District	LP					
35	Waterberg District	LP					
36	Ehlanzeni District	MP					
37	Gert Sibande District	MP					
38	Nkangala District	MP					
39	Bojanala District	NW					
40	Dr Kenneth Kaunda District	NW					
41	Dr Ruth S Mompoti District	NW					
42	Ngaka Modiri Molema District	NW					
43	Frances Baard District	NC					
44	John Taolo Gaetsewe District	NC					
45	Namakwa District	NC					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
46	Pixley Ka Seme District	NC					
47	Siyanda District	NC					
48	Cape Winelands District	WC					
49	Central Karoo District	WC					
50	Eden District	WC					
51	Overberg District	WC					
52	West Coast District	WC					
Local municipalities							
53	Amahlati	EC					
54	Baviaans	EC					
55	Blue Crane Route	EC					
56	Camdeboo	EC					
57	Elundini	EC					
58	Emalahleni	EC					
59	Engcobo	EC					
60	Gariep	EC					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
61	Great Kei	EC					
62	Ikwezi	EC					
63	Ingquza Hill	EC					
64	Inkwanca	EC					
65	Intsika Yethu	EC					
66	Inxuba Yethemba	EC					
67	King Sabata Dalindyebo	EC					
68	Kou-Kamma	EC					
69	Kouga	EC					
70	Lukhanji	EC					
71	Makana	EC					
72	Maletswai	EC					
73	Matatiele	EC					
74	Mbhashe	EC					
75	Mbizana	EC					
76	Mhlontlo	EC					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
77	Mnquma	EC					
78	Ndlambe	EC					
79	Ngqushwa	EC					
80	Nkonkobe	EC					
81	Ntabankulu	EC					
82	Nxuba	EC					
83	Nyandeni	EC					
84	Port St Johns	EC					
85	Sakhisizwe	EC					
86	Senqu	EC					
87	Sundays River Valley	EC					
88	Tsolwana	EC					
89	Umzimvubu	EC					
90	Dihlabeng	FS					
91	Kopanong	FS					
92	Letsemeng	FS					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
93	Mafube	FS					
94	Maluti-A-Phofung	FS					
95	Mantsopa	FS					
96	Masilonyana	FS					
97	Matjhabeng	FS					
98	Metsimaholo	FS					
99	Mohokare	FS					
100	Moqhaka	FS					
101	Nala	FS					
102	Naledi	FS					
103	Ngwathe	FS					
104	Nketoana	FS					
105	Phumelela	FS					
106	Setsoto	FS					
107	Tokologo	FS					
108	Tswelopele	FS					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
109	Emfuleni	GP					
110	Lesedi	GP					
111	Merafong City	GP					
112	Midvaal	GP					
113	Mogale City	GP					
114	Randfontein	GP					
115	Westonaria	GP					
116	Abaqulusi	KZN					
117	Dannhauser	KZN					
118	eDumbe	KZN					
119	eMadlangeni	KZN					
120	Emnambithi / Ladysmith	KZN					
121	Endumeni	KZN					
122	Ezingoleni	KZN					
123	Greater Kokstad	KZN					
124	Hibiscus Coast	KZN					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
125	Hlabisa	KZN					
126	Imbabazane	KZN					
127	Impendle	KZN					
128	Indaka	KZN					
129	Ingwe	KZN					
130	Jozini	KZN					
131	Kwa Sani	KZN					
132	Kwadukuza	KZN					
133	Mandeni	KZN					
134	Maphumulo	KZN					
135	Mfolozi	KZN					
136	Mkhambathini	KZN					
137	Mpofana	KZN					
138	Msinga	KZN					
139	Msunduzi	KZN					
140	Mthonjaneni	KZN					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
141	Mtubatuba	KZN					
142	Ndwedwe	KZN					
143	Newcastle	KZN					
144	Nkandla	KZN					
145	Nongoma	KZN					
146	Nquthu	KZN					
147	Ntambanana	KZN					
148	Okhahlamba	KZN					
149	Richmond	KZN					
150	The Big Five False Bay	KZN					
151	Ubuhlebezwe	KZN					
152	Ulundi	KZN					
153	Umdoni	KZN					
154	Umhlabuyalingana	KZN					
155	uMhlathuze	KZN					
156	Umlalazi	KZN					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
157	Umngeni	KZN					
158	uMshwathi	KZN					
159	Umtshezi	KZN					
160	Umuziwabantu	KZN					
161	Umvoti	KZN					
162	uMzimkhulu	KZN					
163	Umzumbe	KZN					
164	uPhongolo	KZN					
165	Vulamehlo	KZN					
166	Aganang	LP					
167	Ba-Phalaborwa	LP					
168	Bela-Bela	LP					
169	Blouberg	LP					
170	Elias Motsoaledi (Greater Groblersdal)	LP					
171	Ephraim Mogale	LP					
172	Fetakgomo	LP					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
173	Greater Giyani	LP					
174	Greater Letaba	LP					
175	Greater Tzaneen	LP					
176	Lepelle Nkumpi	LP					
177	Lephalale	LP					
178	Makhado	LP					
179	Makhudutamaga	LP					
180	Maruleng	LP					
181	Modimolle	LP					
182	Mogalakwena	LP					
183	Molemole	LP					
184	Mookgophong	LP					
185	Musina	LP					
186	Mutale	LP					
187	Polokwane	LP					
188	Thabazimbi	LP					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
189	Thulamela	LP					
190	Tubatse	LP					
191	Albert Luthuli	MP					
192	Bushbuckridge	MP					
193	Dipaliseng	MP					
194	Dr JS Moroka	MP					
195	Emakhazeni	MP					
196	Emalahleni	MP					
197	Govan Mbeki	MP					
198	Lekwa	MP					
199	Mbombela	MP					
200	Mkhondo	MP					
201	Msukaligwa	MP					
202	Nkomazi	MP					
203	Pixley Ka Seme (Volksrust)	MP					
204	Steve Tshwete	MP					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
205	Thaba Chweu	MP					
206	Thembisile Hani	MP					
207	Umjindi	MP					
208	Victor Khanye	MP					
209	Ditsobotla	NW					
210	Greater Taung	NW					
211	Kagisano	NW					
212	Kgetlengriver	NW					
213	Lekwa-Teemane	NW					
214	Madibeng	NW					
215	Mafikeng	NW					
216	Mamusa	NW					
217	Maquassi Hills	NW					
218	Matlosana	NW					
219	Moretele	NW					
220	Moses Kotane	NW					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
221	Naledi	NW					
222	Ramotshere Moiloa	NW					
223	Ratlou	NW					
224	Rustenburg	NW					
225	Tlokwe	NW					
226	Tswaing	NW					
227	Ventersdorp	NW					
228	!Kheis	NC					
229	Dikgatlong	NC					
230	Emthanjeni	NC					
231	Gamagara	NC					
232	Ga-Segonyana	NC					
233	Hantam	NC					
234	Joe Morolong	NC					
235	Kai !Garib	NC					
236	Kamiesberg	NC					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
237	Kareeberg	NC					
238	Karoo Hoogland	NC					
239	Kgatelopele	NC					
240	Khai-Ma	NC					
241	Khara Hais	NC					
242	Magareng	NC					
243	Mier	NC					
244	Nama Khoi	NC					
245	Phokwane	NC					
246	Renosterberg	NC					
247	Richtersveld	NC					
248	Siyancuma	NC					
249	Siyathemba	NC					
250	Sol Plaatje	NC					
251	Thembelihle	NC					
252	Tsantsabane	NC					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
253	Ubuntu	NC					
254	Umsobomvu	NC					
255	Beaufort West	WC					
256	Berg River	WC					
257	Bitou	WC					
258	Breede Valley	WC					
259	Cape Agulhas	WC					
260	Cederberg	WC					
261	Drakenstein	WC					
262	George	WC					
263	Hessequa	WC					
264	Kannaland	WC					
265	Knysna	WC					
266	Laingsburg	WC					
267	Langeberg	WC					
268	Matzikama	WC					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
269	Mossel Bay	WC					
270	Oudtshoorn	WC					
271	Overstrand	WC					
272	Prince Albert	WC					
273	Saldanha Bay	WC					
274	Stellenbosch	WC					
275	Swartland	WC					
276	Swellendam	WC					
277	Theewaterskloof	WC					
278	Witzenberg	WC					
Municipal entities							
279	Alfred Nzo Development Agency	EC					
280	Amathole Economic Development Agency	EC					
281	Blue Crane Route Development Agency	EC					
282	Buffalo City Development Agency	EC					
283	Joe Gqabi Economic Development Agency	EC					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
284	Kouga Development Agency	EC					
285	Mandela Bay Development Agency	EC					
286	Nkonkobe Economic Development Agency	EC					
287	Ntinga OR Tambo Development Agency	EC					
288	Port St Johns Development Agency	EC					
289	Centlec (Pty) Ltd	FS					
290	Fezile Dabi District Municipality Trust	FS					
291	Krynaauwlust Farming Trust (Pty) Ltd	FS					
292	Lejwe Le Putswa Development Agency (Pty) Ltd	FS					
293	Maluti-A-Phofung Water (Pty) Ltd	FS					
294	Metsimaholo Mayoral Trust	FS					
295	Brakpan Bus Company (Pty) Ltd	GP					
296	City Power Johannesburg	GP					
297	East Rand Water Care Company	GP					
298	Ekurhuleni Development Company SOC (Pty) Ltd	GP					
299	Germiston Phase II Housing Company SOC (Pty) Ltd	GP					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
300	Housing Company Tshwane	GP					
301	Joburg Property Company	GP					
302	Joburg Theatre (SOC) Ltd	GP					
303	Johannesburg City Parks	GP					
304	Johannesburg Development Agency (SOC) Ltd	GP					
305	Johannesburg Fresh Produce Market	GP					
306	Johannesburg Metropolitan Bus Services	GP					
307	Johannesburg Roads Agency	GP					
308	Johannesburg Social Housing Company	GP					
309	Johannesburg Tourism Company	GP					
310	Johannesburg Water	GP					
311	Johannesburg Zoo	GP					
312	Lethabong Housing Institute SOC NPC	GP					
313	Metropolitan Trading Company	GP					
314	Metsweding Economic Development Agency	GP					
315	Pharoe Park Housing Company SOC (Pty) Ltd	GP					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
316	Pikitup Johannesburg	GP					
317	Roodepoort Civic Theatre	GP					
318	Sandspruit Works Association	GP					
319	Tshwane Economic Development Agency	GP					
320	West Rand Development Agency	GP					
321	Durban Marine Theme Park (Pty) Ltd	KZN					
322	Hibiscus Coast Development Agency	KZN					
323	ICC, Durban (Pty) Ltd	KZN					
324	Ilembe Management Development Enterprise (Pty) Ltd	KZN					
325	Safe City Pietermaritzburg	KZN					
326	Ugu South Coast Tourism	KZN					
327	Umhlosinga Development Agency	KZN					
328	Uthukela Water (Pty) Ltd	KZN					
329	uThungulu Financing Partnership	KZN					
330	uThungulu House Development Trust	KZN					
331	Polokwane Housing Association	LP					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
332	Sekhukhune Development Agency	LP					
333	Dr KKDM Economic Agency	NW					
334	Moretele Development Agency	NW					
335	Moses Kotane Development Agency	NW					
336	Rustenburg Water Services Trust	NW					
337	Cape Town International Convention Centre	WC					
338	Knysna Economic Development Agency	WC					
Consolidated audits							
Metropolitan municipalities							
1	Buffalo City Metro	EC					
2	Nelson Mandela Bay Metro	EC					
3	Mangaung Metro	FS					
4	City of Johannesburg Metro	GP					
5	Ekurhuleni Metro	GP					
6	Tshwane Metropolitan Municipality	GP					
7	eThekweni	KZN					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
8	City of Cape Town	WC					
District municipalities							
9	Alfred Nzo District	EC					
10	Amatole District	EC					
11	Cacadu District	EC					
12	Joe Gqabi District	EC					
13	OR Tambo District	EC					
14	Fezile Dabi District	FS					
15	Lejweleputswa District	FS					
16	West Rand District	GP					
17	Ilembe District	KZN					
18	Ugu District	KZN					
19	Umkhanyakude District	KZN					
20	Uthungulu District	KZN					
21	Greater Sekhukhune District	LP					
22	Dr Kenneth Kaunda District	NW					

No.	Auditee	Province	Audit opinions				
			2011-12	2010-11	2009-10	2008-09	2007-08
Local municipalities							
23	Blue Crane Route	EC					
24	Kouga	EC					
25	Nkonkobe	EC					
26	Port St Johns	EC					
27	Maluti-A-Phofung	FS					
28	Metsimaholo	FS					
29	Hibiscus Coast	KZN					
30	Msunduzi	KZN					
31	Polokwane	LP					
32	Moretele	NW					
33	Rustenburg	NW					
34	Knysna	WC					

Legend (Audit opinions)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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ANNEXURE 3: Assessment of auditees' key controls at the time of the audit

Number	Auditee	Province	Leadership															Financial and performance management															Governance																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																							
			Movement			Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit			Audit committee																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
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Legend (Root causes)	Good	Concerning	Intervention required	Not assessed	Legend (Movements)	↑ Improved	↔ Unchanged	↓ Regressed	F = Financial	P = Performance	C = Compliance
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253Consolidated general report on the audit outcomes of LOCAL GOVERNMENT | 2011-12

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163	Vulamehlo	KZN	↓	↓	↓																																																
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165	Ba-Phalaborwa	LP	↔	↔	↔																																																
166	Bela-Bela	LP	↔	↔	↔																																																
167	Blouberg	LP	↓	↔	↔																																																
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Legend (Root causes) Good Concerning Intervention required Not assessed Legend (Movements) ↑ Improved ↔ Unchanged ↓ Regressed F = Financial P = Performance C = Compliance

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268	Theewaterskloof	WC	↑	↑	↔																																																
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273	Buffalo City Development Agency	EC	↔	↔	↔																																																
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279	Port St Johns Development Agency	EC	↔	↔	↔																																																
280	Centlec (Pty) Ltd	FS	↓	↓	↓																																																
281	Fezile Dabi District Municipality Trust	FS	↔	↔	↔																																																
282	Lejwe Le Putswa Development Agency (Pty) Ltd	FS	↔	↔	↔																																																
283	Maluti-A-Phofung Water (Pty) Ltd	FS	↔	↔	↔																																																
284	Metsimaholo Mayoral Trust	FS	↓	↔	↓																																																

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285	Brakpan Bus Company (Pty) Ltd	GP	↓	↓	↓																																																				
286	City Power Johannesburg	GP	↔	↔	↔																																																				
287	East Rand Water Care Company	GP	↓	↔	↓																																																				
288	Ekurhuleni Development Company SOC (Pty) Ltd	GP	↔	↓	↔																																																				
289	Germiston Phase II Housing Company SOC (Pty) Ltd	GP	↔	↔	↔																																																				
290	Housing Company Tshwane	GP	↔	↔	↔																																																				
291	Joburg Property Company	GP	↑	↓	↓																																																				
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293	Johannesburg City Parks	GP	↓	↓	↓																																																				
294	Johannesburg Development Agency (Soc) Ltd	GP	↓	↓	↓																																																				
295	Johannesburg Fresh Produce Market	GP	↔	↔	↔																																																				
296	Johannesburg Metropolitan Bus Services	GP	↔	↔	↔																																																				
297	Johannesburg Roads Agency	GP	↔	↔	↔																																																				
298	Johannesburg Social Housing Company	GP	↓	↔	↔																																																				
299	Johannesburg Tourism Company	GP	↑	↑	↑																																																				
300	Johannesburg Water	GP	↓	↓	↔																																																				
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Legend (Root causes)	Good	Concerning	Intervention required	Not assessed
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Legend (Movements)

↑	Improved	↔	Unchanged	↓	Regressed
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RP198/2013
ISBN: 978-0-621-42002-9

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