





SECTION 4: DRIVERS OF AUDIT OUTCOMES

This section of the general report identifies the drivers of audit outcomes under the following headings:

- Significant deficiencies in auditees' systems of internal control and the drivers thereof (section 4.1)
- Effective human resource management as driver of audit outcomes (section 4.2)
- Information technology management as driver of audit outcomes (section 4.3)
- The role of audit committees in promoting clean administration (section 4.4)
- Effective municipal public accounts committees (MPACs) as a key element of financial oversight at municipal level (section 4.5)
- Assessment of impact of key role players on audit outcomes (section 4.6)

4.1 Significant deficiencies in auditees' systems of internal control

4.1.1 *Responsibility for maintaining effective systems of internal control and overall status*

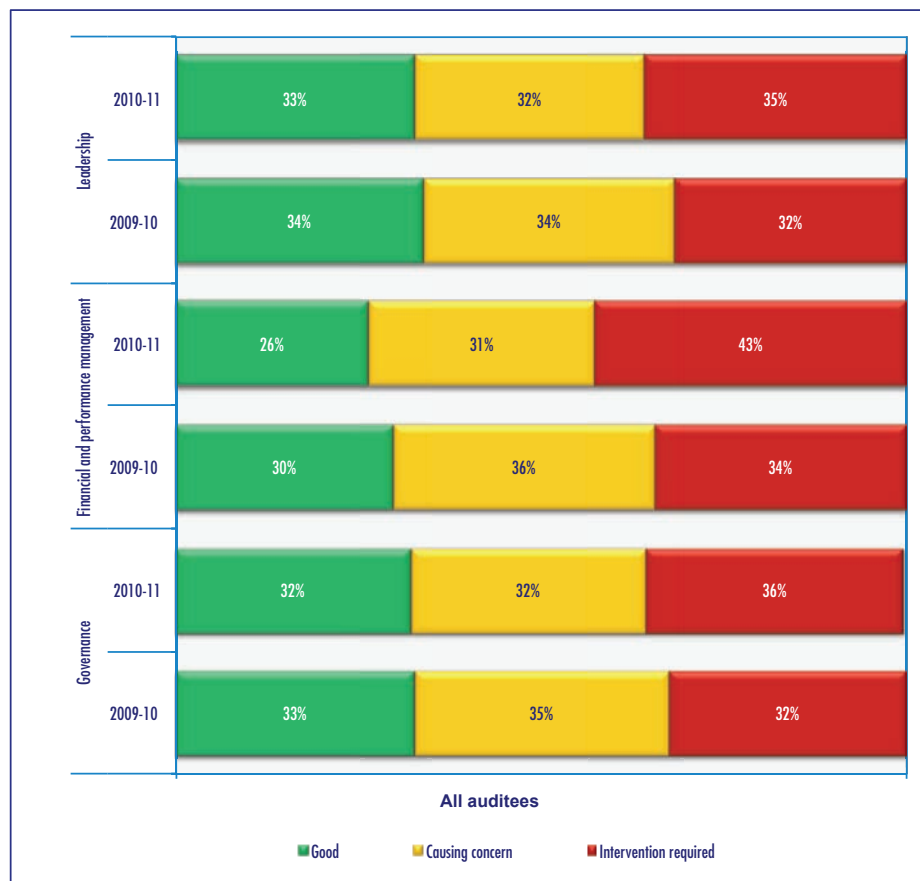
A key responsibility imposed by the MFMA on accounting officers and other municipal officials is to implement and maintain effective and efficient systems of internal control. The implementation of effective internal control enables reliable financial and performance reporting and compliance with laws and regulations and helps the auditees to achieve service delivery objectives and sustain and improve performance.

- The leadership should *set the tone from the top* regarding the importance of internal controls and expected standards of conduct. The *control environment* is the foundation for all other components of internal control and provides discipline, process and structure.
- A *risk assessment* should be conducted to establish what control activities are required to ensure achievement of the control objectives. The availability and communication of accurate and complete *information* are required to carry out day-to-day internal control activities. Ongoing *monitoring* of activities is necessary to ascertain whether internal controls are present and functioning as designed.

- As part of the audit the auditee's system of internal controls is assessed to determine its effectiveness in ensuring reliable financial and performance reporting and compliance with laws and regulations, which in turn will result in a clean audit. A limited assessment is conducted on a quarterly basis to alert the management, municipal manager and mayor to corrective actions required, while a more detailed assessment is conducted as part of the final audit to identify significant control deficiencies which impacted negatively on the audit outcomes. The assessments are provided to leadership in the format of a dashboard.
- For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, financial and performance management and governance. These are the drivers of internal control.

The overall assessment that follows is based on significant deficiencies identified in internal control which resulted in material misstatements in financial and performance reports and in findings on non-compliance with laws and regulations.

Figure 31: Overall assessment of drivers of internal control



The status of the internal control elements underlying leadership, financial and performance management and governance and movements in the implementation thereof is presented in the following section. The status of the drivers of internal control as they pertain to the financial statements, performance reporting and compliance with laws and regulations is presented and commented on in sections 2.2, 2.3 and 2.4 of this report.

4.1.2 Movement in implementation of drivers of internal control

The table that follows summarises the movements from the prior year and comments on key identified issues that impacted on the existence or effectiveness of the drivers of internal controls. The ratings used are as follows:

■ No significant control deficiency
 ■ Control deficiency being addressed
 ■ Intervention required

The combined predominance of controls that were 'in progress' and those where 'intervention' is required clearly indicates that established drivers of internal control is not yet a norm in local government. Although there has been a marginal overall improvement in some provinces, other provinces did not make any significant progress during the year under review, with the result that the overall movement showed little improvement in the status of drivers.



Table 26: Overview of drivers of internal control

Driver no. 1: Leadership									
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.	<table><tr><td>2010-11</td><td>47%</td><td>26%</td><td>27%</td></tr><tr><td>2009-10</td><td>41%</td><td>32%</td><td>27%</td></tr></table>	2010-11	47%	26%	27%	2009-10	41%	32%	27%
2010-11	47%	26%	27%						
2009-10	41%	32%	27%						
<ul style="list-style-type: none">The improvement in some provinces and deterioration/stagnation in the audit outcomes of others is a direct result of the tone set from the top and commitments made by municipal leadership comprising mayors, councillors and municipal managers. Effective leadership should be evident from their active monitoring of the performance, quality of work and outputs of key officials and their timeous action in instances of poor performance. Leadership should further set the tone through timeous action in instances of contravention of laws and regulations and municipal policies as well as failure to fulfil statutory duties.Many mayors made themselves available to meet with the AGSA on a quarterly basis to discuss the status of controls and have taken ownership of the control assessments. Although the trend has been positive since last year, mayors have to date failed to exercise the level of oversight that was committed to in response to the previous year's audit outcomes and during the door-to-door visits in some provinces. During the AGSA's interactions with mayors in the past, the respective roles and responsibilities of the mayor, the municipal manager and the chief financial officer were clearly outlined, while any remaining uncertainty was removed as to the role that mayors have to fulfil to ensure that the municipalities move towards improved audit outcomes.The awarding of contracts to councillors and senior municipal officials further eroded the control environment at some auditees.									
Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.	<table><tr><td>2010-11</td><td>28%</td><td>28%</td><td>44%</td></tr><tr><td>2009-10</td><td>22%</td><td>42%</td><td>36%</td></tr></table>	2010-11	28%	28%	44%	2009-10	22%	42%	36%
2010-11	28%	28%	44%						
2009-10	22%	42%	36%						
<ul style="list-style-type: none">Many councils, executive mayors and municipal managers have not taken full ownership of the key control document and satisfied themselves that identified areas of internal control weaknesses receive the required level of attention. Further, councils and executive mayors do not call for regular financial and performance reports and subject them to intense interrogation.Council and executive mayors do not periodically review progress made by municipal management in addressing external audit findings.Council does not periodically seek the findings and views of audit committees and internal audit on internal control and risk management and monitor the implementation of recommendations by the audit committee and internal audit with a view to remedial action.Timeous action appears not to be taken by council in instances of identified non-compliance with laws and regulations or failure by management and staff to perform statutory duties.									
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.	<table><tr><td>2010-11</td><td>29%</td><td>37%</td><td>34%</td></tr><tr><td>2009-10</td><td>39%</td><td>32%</td><td>29%</td></tr></table>	2010-11	29%	37%	34%	2009-10	39%	32%	29%
2010-11	29%	37%	34%						
2009-10	39%	32%	29%						
Section 4.2 of this general report provides an analysis of human resource management									



No significant control deficiency



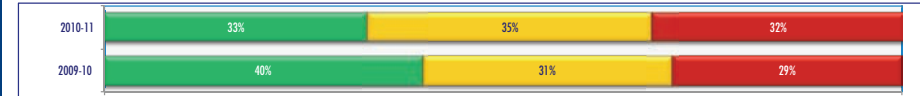
Control deficiency being addressed



Intervention required

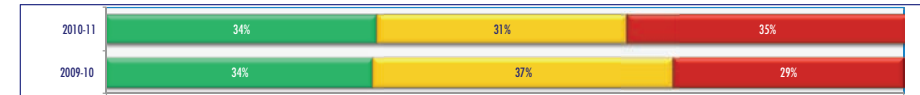
Driver no. 1: Leadership (continued)

Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.



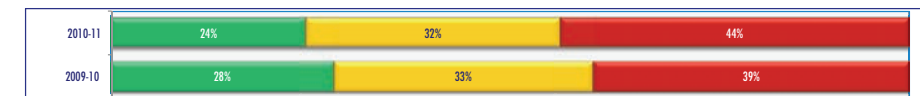
- Appropriate policies and procedures are fundamental elements of an effective internal control environment that supports good governance and produces clean administration. Policies and procedures to address areas of risk, achieve desired control objectives and guide the operations of the entity still require improvement at some 35% of auditees.
- These policies and procedures should extend to reliable reporting of performance information and enable compliance with laws and regulations.

Develop and monitor the implementation of action plans to address internal control deficiencies.



- At some 105 auditees repeat qualifications, slow progress in addressing the prior year's audit findings on predetermined objectives, and repeat instances of non-compliance with laws and regulations indicate that leadership did not adequately monitor progress in the effective implementation and follow-up of action plans to improve the audit outcomes. Action plans need to address all three facets of audit outcomes, namely qualifications, findings on reporting against predetermined objectives and findings on compliance with laws and regulations.
- Some 31% of action plans to address 2009-10 audit qualifications and other findings had only been partially implemented, which accounts for the lack of significant improvement in audit outcomes for the year under review.
- Less than 40% of action plans drafted by auditees following the 2010-11 audits are assessed as being appropriate to address audit findings to improve the audit outcomes. Their implementation, however, needs to be monitored throughout the year against set milestones.
- Audit committees, MPACs and internal audit should play an important monitoring role in this regard.

Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment. Establish an IT governance framework that supports and enables the business, delivers value and improves performance.



Section 4.3 of this general report provides a detailed analysis of identified weaknesses in the management of information technology.



No significant control deficiency



Control deficiency being addressed



Intervention required



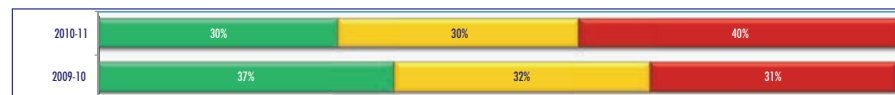
Driver no. 2: Financial and performance management

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.



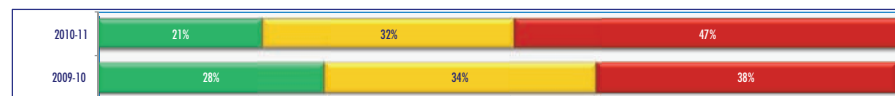
- When documents supporting the financial statements and other information are requested during the audit process, many auditees produce these only after a significant delay. There were auditees that were not able to supply documentation that supports the information in the financial statements or the report on predetermined objectives due to inadequate document management systems. This basic requirement for effective internal control systems remains an ongoing challenge at 34% of the auditees.
- At the time of the audit, some 27% of the auditees had initiated a process to address this weakness whilst 34% required leadership intervention to resolve the matter.

Implement controls over daily and monthly processing and reconciling of transactions.



Adherence to basic financial controls throughout the financial year, i.e. daily processing of transactions, monthly reconciliation of accounts, the timeous clearing of suspense accounts and continuous review thereof, should be actively monitored by management in order to achieve improved audit outcomes.

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.



- Although the number of auditees that obtained financially unqualified audit reports increased in some provinces, the quality of the financial statements submitted for auditing was still not adequate, as evidenced by the increase in the material misstatements identified and corrected during the audit. During the year under review there was a deterioration in the accuracy of the financial statements and supporting information, from 85% material corrections required in 2009-10 to 91% in the current year.
This is linked to the skills and experience of CFOs who failed to adequately monitor and review the information submitted by their support staff.
- Similarly, the production of quality information on performance against predetermined objectives is a priority and must be evaluated and monitored at appropriate leadership levels to enable quality decision-making and service delivery to meet commitments made to the communities.
These reports also need to be reviewed by internal audit and audit committees for reliability.
- The high number of auditees still needing to improve in their performance reporting is due to the failure to implement adequate systems of collecting, recording and reporting on performance information and to monitor compliance with regulations relating to predetermined objectives effectively and continuously.
- At the time of the audit, 34% of auditees had action plans to develop systems and procedures that would produce accurate, complete and reliable information, whilst 35% required intervention by leadership in order for this process to occur.



No significant control deficiency



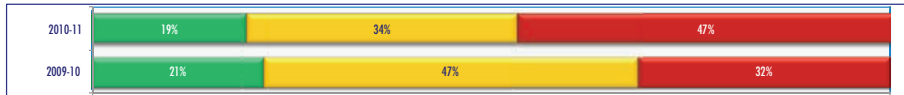
Control deficiency being addressed



Intervention required

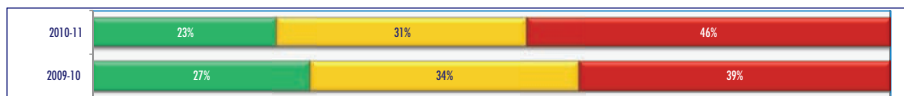
Driver no. 2: Financial and performance management (continued)

Review and monitor compliance with applicable laws and regulations.



- Internal control procedures to prevent unauthorised, irregular, and fruitless and wasteful expenditure (UIF) require significant improvement at most auditees.
- Municipal leadership (mayors, municipal managers and CFOs) need to pay urgent attention to procurement and contract management, whilst council should scrutinise the awarding of tenders.
- At the time of the audit, 34% of auditees were in the process of developing monitoring mechanisms to ensure compliance with laws pertaining to performance information, whilst 47% required intervention by leadership in order for this process to be effective.
- Although many auditees do have policies and procedures in place to monitor compliance with laws and regulations, monitoring should take place at more frequent intervals, such as on a monthly basis, by dedicated/designated staff members with a view to detecting, or preferably preventing, non-compliance. The introduction of compliance checklists will give management some assurance that controls are achieving the required level of adherence.

Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information and to address application systems susceptible to compromised data integrity (information systems).



Section 4.3 of this general report provides a detailed analysis of identified weaknesses in the management of information technology.

■ No significant control deficiency
 ■ Control deficiency being addressed
 ■ Intervention required



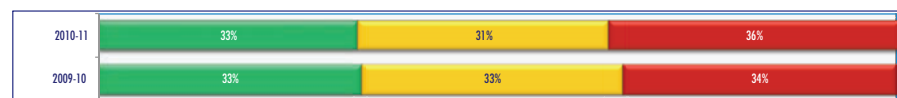
Driver no. 3: Governance

Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.



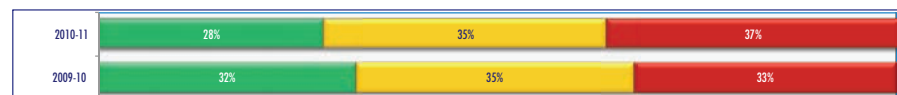
- The high level of threats to security of data and the rapid recovery of data and computer processing ability in the event of a natural or man-made disaster has remained unchanged at 98% of auditees. Performing annual risk assessments in the IT environment is a fundamental management responsibility which very few auditees adequately discharged during the year under review.
- The risk assessment processes must inform the work plans of internal audit and the agendas of audit committees, which are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability in respect of financial reporting and information on performance against predetermined objectives/service delivery.

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



- A well-functioning and resourced internal audit unit is crucial for maintaining internal control over financial reporting, reporting against predetermined objectives and adherence to laws and regulations.
- Internal audit units existed at 91% of auditees. Annual internal audit coverage plans tended to assign a low priority to confirming the integrity of performance information and auditing compliance by their organisations with applicable laws and regulations.

Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.



- To improve audit outcomes, audit committees and internal audit units need to review financial statements submitted for audit, and ensure that measures have been implemented to correct the previous year's audit findings, and also monitor the action plans to correct audit findings.
- Internal audit and audit committees should focus in particular on confirming the credibility of information and ratings in quarterly dashboard reports.

Section 4.4 of this report further analyses the role of audit committees in promoting clean administration.



4.2 Effective human resource management as a specific driver of audit outcomes

Effective human resource (HR) management is a key driver of audit outcomes. In this context, HR management is deemed effective if adequate and sufficiently skilled resources are in place and their performance and productivity are managed. Auditees often identify a lack of capacity as the root cause of audit outcomes.

The following figure depicts the three weakest areas of HR management at auditees, which should be improved to affect audit outcomes positively.

Figure 32: Summary of HR management weaknesses

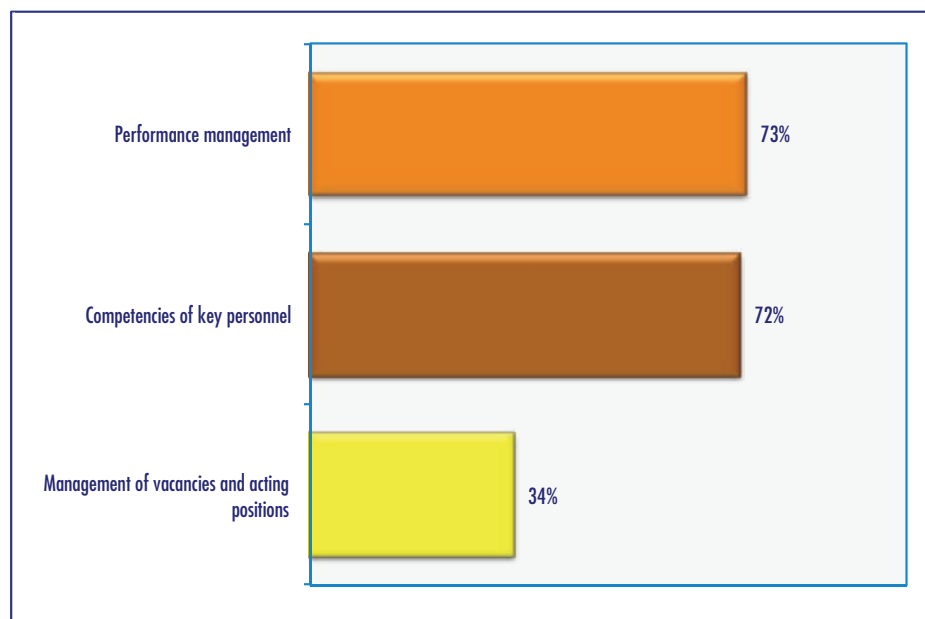


Table 27: Summary of key findings

Findings	Key findings
Management of vacancies and acting positions	<ul style="list-style-type: none"> The biggest challenge for local government is to attract and retain qualified competent persons across all areas of administration. High vacancy levels and key positions being vacant for long periods were identified at auditees across all the provinces. Municipalities are generally less favoured as a potential employer by skilled professionals as a result of the poor image of local government. The compensation is often lower than in the private sector, while the remoteness and poor working conditions, especially in rural municipalities, are obstacles in attracting these professionals needed to turn local government around. A number of initiatives have been introduced at national and provincial level to fund the appointment of financial personnel and to promote and implement a graduate internship programme, but they are not yet producing the desired results. The vacancies at the level of municipal manager and senior management have the biggest impact on the audit outcomes. Officials are directed to act in these positions until the vacancies are filled, but at 21% of the auditees it was noted that the acting periods were longer than the accepted benchmark of six months. When a person acts in a position, they tend not to take on the full responsibility, functions and powers of the post, with a lower commitment to the deliverables as a result of the temporary nature of the position. The impact of the local government elections in the past year cannot be discounted. The mayor and councillors changed, but an unfortunate reality is that it also affected the positions of the municipal manager and the senior managers. The instability before and after elections means more acting persons and vacancies that are not filled timeously, which in turn impacts negatively on the financial management and service delivery and the turnaround initiatives and commitments.



Findings	Key findings
Competencies of key personnel	<ul style="list-style-type: none"> 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 assume and fulfil their responsibilities and exercise their functions and powers. The reforms in financial and performance management have also resulted in a higher level of competency requirements than in the past for accounting officers, CFOs, senior managers, SCM officials and other financial officials. The audit outcomes, failures in service delivery and the high demand for consultants and for support from national and provincial governments, however, are indicative of an environment where the persons appointed in these posts do not have the competencies required. This has been identified as a weakness at over 70% of the auditees. The root cause of this is two-pronged — people are appointed who do not have the competencies, while current employees do not keep up with the changing local government environment through ongoing training and development. It is unfortunately a reality that too many councils have appointed managers who might belong to the right party, but have no skills and experience for the job. The inability to attract the right calibre of person also inevitably leads to positions being filled with unsuitable persons. There is, however, an opportunity to turn around the situation in the upcoming years through implementation of the municipal regulations on minimum competency levels. The regulations define the minimum competency levels of accounting officers, CFOs, senior managers, SCM officials and other financial officials. It provides for a phasing-in period for persons 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 phasing-in period ends on 1 January 2013. As from that date, these positions may not be filled by persons who do not meet the minimum competency levels. The recent amendments made to the MSA go further by declaring any such appointments at municipal manager level null and void. It also provides for a defined appointment process of municipal managers which includes monitoring and intervention by the MEC for local government. These important amendments which came into effect in July 2011 also prohibit the appointment of municipal managers or senior managers who hold political office in a political party.

Findings	Key findings
Performance management	<ul style="list-style-type: none"> Inadequate performance management of accounting officers and employees and a lack of consequences due to poor performance is at the root of many of the failures of local government and was identified in most of the provinces. The controls and performance objectives of the municipalities do not filter through to the performance contracts of municipal officials in order to direct their daily operations. Lack of discipline, an absence of commitment to serving the public interest and non-adherence to the code of conduct for municipal officials were identified as root causes by national, provincial and oversight role players and are echoed in the experiences of the public at some municipalities. When officials are not held accountable for their actions, a perception can be created that these results are acceptable and tolerated. This could make even those officials that are giving their best under trying circumstances despondent. In order to improve the performance and productivity of municipal officials, leadership should set the tone by implementing sound performance management processes, evaluating and monitoring performance and consistently demonstrating that poor performance has consequences. <p>The disciplinary regulations for senior managers effective from April 2011 provide mechanisms and procedures for managing misconduct of municipal managers and senior managers. The implementation of these regulations will provide a further opportunity for councils and municipal managers to demonstrate their commitment to accountability.</p>

Conclusion

There have been many initiatives at national and provincial level to address the human resource weaknesses in local government, but there has been limited success. A coordinated and focused approach is needed to ensure that the many programmes, commitments and action plans of different stakeholders succeed. The implementation of the latest legislative reforms will also require a new level of collaboration, especially by treasuries, SALGA and the departments of local government at national and provincial level. Without these partnerships and commitment by the auditee's political and administrative leaders, the situation will not improve.

4.3 IT management as a specific driver of audit outcomes

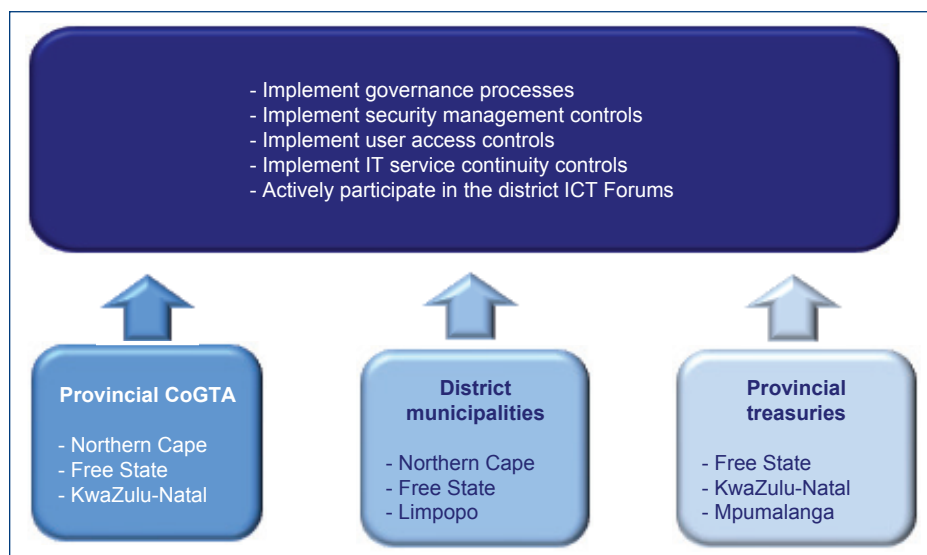
Municipalities rely on IT systems to perform their statutory financial management, reporting and administrative functions. The information processed and stored on IT systems is vital to the accuracy and reliability of the financial and performance information used by management for planning, monitoring and reporting.

4.3.1 Overview of IT systems management/information technology employed by municipalities

One hundred and ninety-one audited municipalities and municipal entities utilise 57 different financial and payroll systems. These range from off-the-shelf packages (computer packages bought) to customised systems (computer packages bought and modified). The management and support of these systems take place independently, with each municipality managing its own systems with little or no support apart from the system vendors.

The following figure illustrates how the support provided differs from one province to the next.

Figure 32: IT management roles and responsibilities (municipalities)

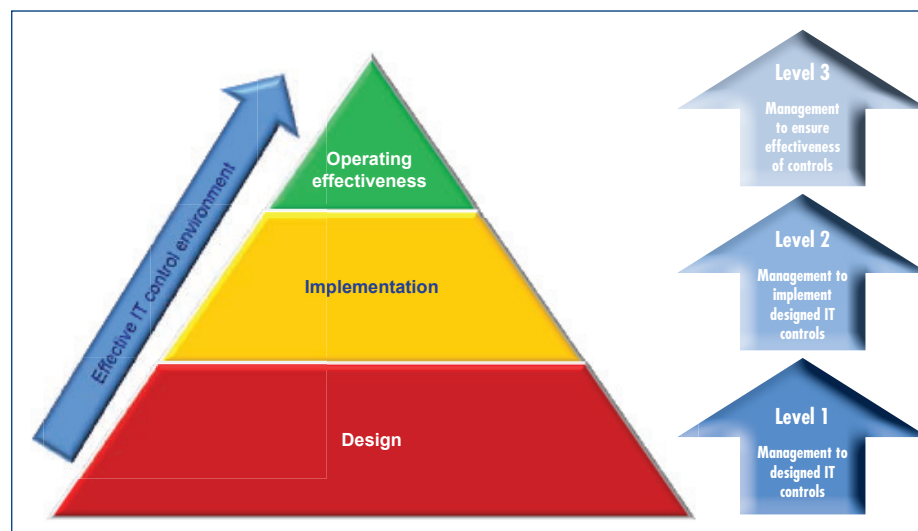


4.3.2 Analysis of identified IT control weaknesses

Due to the complexity of the IT control environment, IT control weaknesses cannot be fixed over a short period. The weaknesses were categorised into three modules, namely control design, control implementation and control operating effectiveness.

At minimum, municipalities should have controls designed by management to address risks identified in the IT environment; this is the first level towards a control environment. When adequate controls have been designed, management needs to ensure that these controls are implemented; this is the second level towards a controlled environment. The third, final and desired stage is for management to ensure that IT controls are operating effectively to mitigate risks consistently and in a sustainable manner. This is illustrated in the following figure:

Figure 33: IT control levels

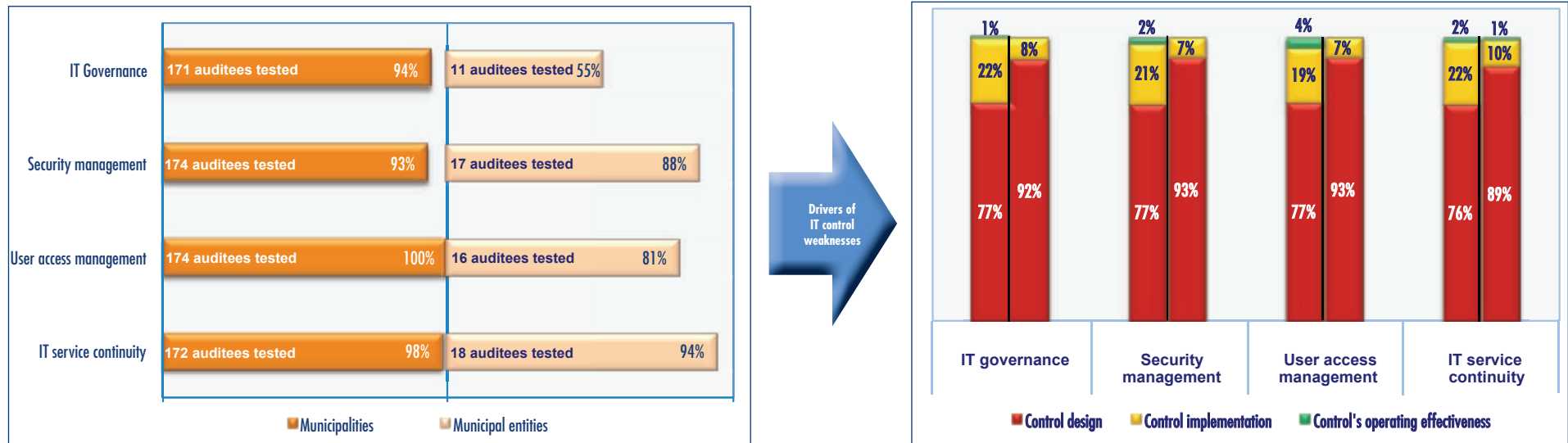


4.3.3 Summary of overall identified weaknesses in the management of information technology

IT management of financial systems was evaluated at 174 municipalities and 18 municipal entities within the provinces. Key areas in the management of IT where weaknesses were identified are summarised in the following figure.



Figure 34: Summary of IT control weaknesses and the rate of addressing reported weaknesses



The rate at which management addressed reported IT control weaknesses can be summarised as follows:

Design of controls

The majority of municipalities are still in the process of designing key IT controls to ensure effective and efficient IT management within the municipalities.

Implementation of controls

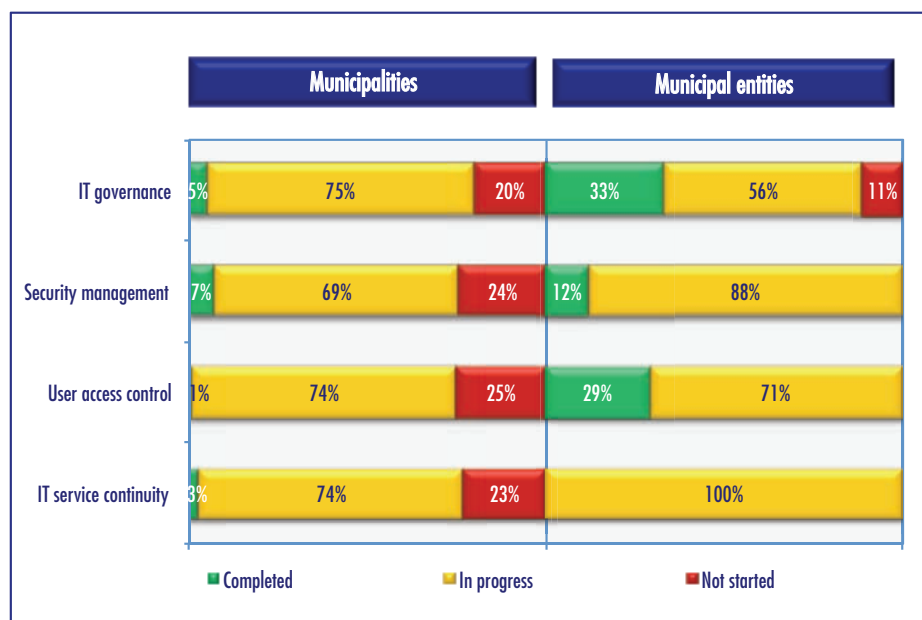
Although some of the municipalities have adequately designed key controls, they are still experiencing difficulties in implementing these IT controls effectively.

Operating effectiveness of controls

While a slight improvement was noted in user account management in that adequately designed controls were implemented, management should continue to monitor such implementation to ensure that the controls operate effectively throughout the year.

Following the 2009-10 audits, management undertook to address identified weaknesses in their IT environments. The status of honouring such commitments as determined during the 2010-11 audits is reflected in the following figure.

Figure 35: Status of management commitments implemented to address IT weaknesses



There has been some progress in addressing the previous year's findings, although the majority of municipalities did not fully address the commitments. Significant weaknesses are summarised in the table that follows.

Table 32: Summary of significant IT weaknesses of the 2010-11 financial year

IT focus areas	Significant IT weaknesses
IT governance	<ul style="list-style-type: none"> There is no IT governance framework to address the lack of IT risk management and strategic alignment of IT with business and structures to actively monitor service performance by internal and external providers. There are no service level agreements (SLAs) between the municipalities and the vendors supporting their financial systems. Municipalities do not monitor the services rendered by service providers. No memorandum of understanding between the district/ local municipalities with regard to IT services provided by the district municipalities.
Security management	<ul style="list-style-type: none"> Lack of formally documented patch management procedures. IT security policy has not been documented and approved by management. No person is assigned the responsibility for information security at the district municipality and their local municipalities.
User account management	<ul style="list-style-type: none"> User account management procedures have not been formally documented and approved. Key monitoring or review of user access profiles and review of administrators have not been performed. Formal access requests have not been used to manage user accounts.
IT service continuity	<ul style="list-style-type: none"> Backup and retention procedures have not been formally documented and approved by management. Backups have not been monitored nor have they been periodically tested and are not kept or retained at an off-site facility.



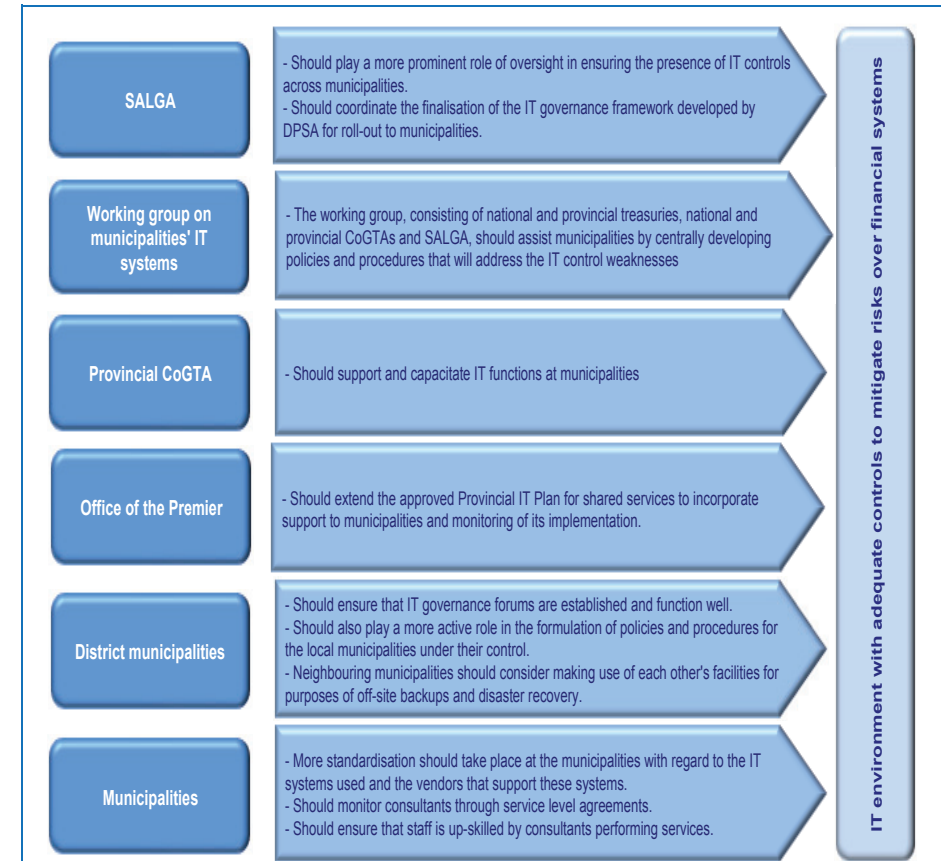
4.3.4 Root causes of deficiencies in information management and recommended way forward for key role players

Root causes of the slow pace in addressing identified and reported weakness in the management of information technology include the following:

- IT is still not recognised by management as a strategic priority. This is evident in the strategic positioning, reporting lines and oversight of IT at the municipalities, where IT staff mostly report to the Director: Corporate Services and not to the accounting officer. Furthermore, this has resulted in the lack of implementation and monitoring of commitments made by leadership.
- Overreliance on IT consultants. This is exacerbated by the lack of SLAs to manage these consultants and ensure transfer of skills.
- Lack of IT skills and experience within municipalities.
- Lack of management commitment on IT matters, as some municipalities did not provide management comments on findings raised in the previous year.
- In addition, the IT managers of the different municipalities have different qualifications and do not operate or perform at the same levels.
- Lack of funding at municipalities.

A way forward for key role players to achieve the effective and optimal use of information technology is recommended next.

Figure 37: Outline of the way forward for key role players in the management of information technology by local government.



It has been established that municipal management started to implement IT controls during the 2010-11 financial year. Fresh commitments to address the root causes of IT weaknesses have been received from most of the municipalities, and oversight structures should monitor progress as part of the *Operation clean audit* drive.

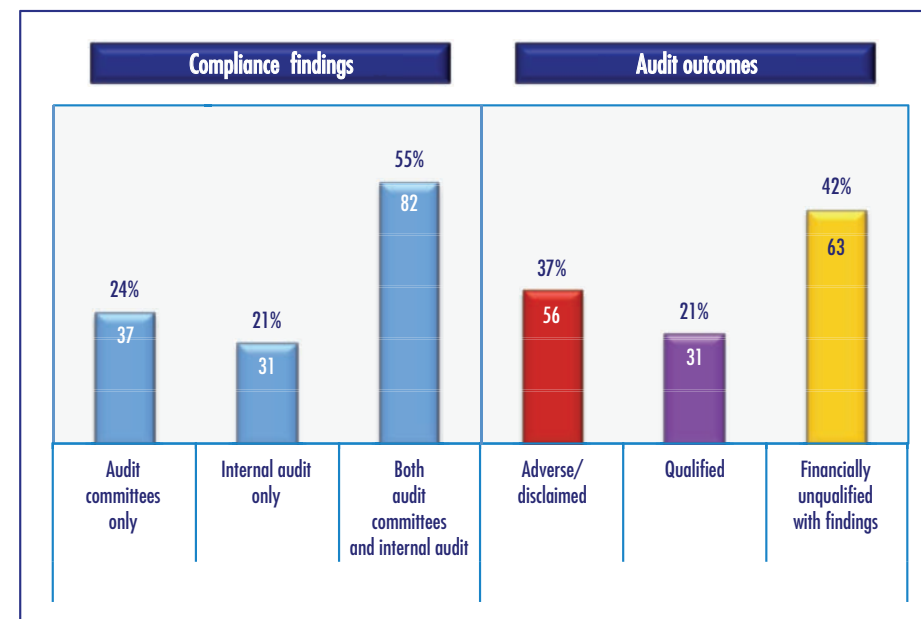
4.4 Role of audit committees in promoting clean administration

In terms of the MFMA an audit committee must be established by all auditees. Audit committees must serve as an independent governance structure whose function is to play an oversight role regarding the systems of internal control, compliance with legislation, risk management and governance. In executing its duties, the audit committee assists the accounting officer in the effective execution of his/her responsibilities, with the ultimate aim of achieving the organisation's objectives.

4.4.1 Impact of audit committees on local government audit outcomes

Effective audit committees and internal audit units with an appropriate focus on financial reporting, service delivery reporting and compliance can significantly promote the attainment of desired audit outcomes. As depicted below, there is a discernible correlation between compliance findings in respect of audit committees and/or internal audit and the 2010-11 audit outcomes in that audit committees and internal audit units that do not, at a minimum, fulfil their legislated responsibilities are in part to blame for auditees not obtaining clean audit reports.

Figure 39: Correlation between findings related to audit committees and internal audit and audit outcomes (150 auditees)

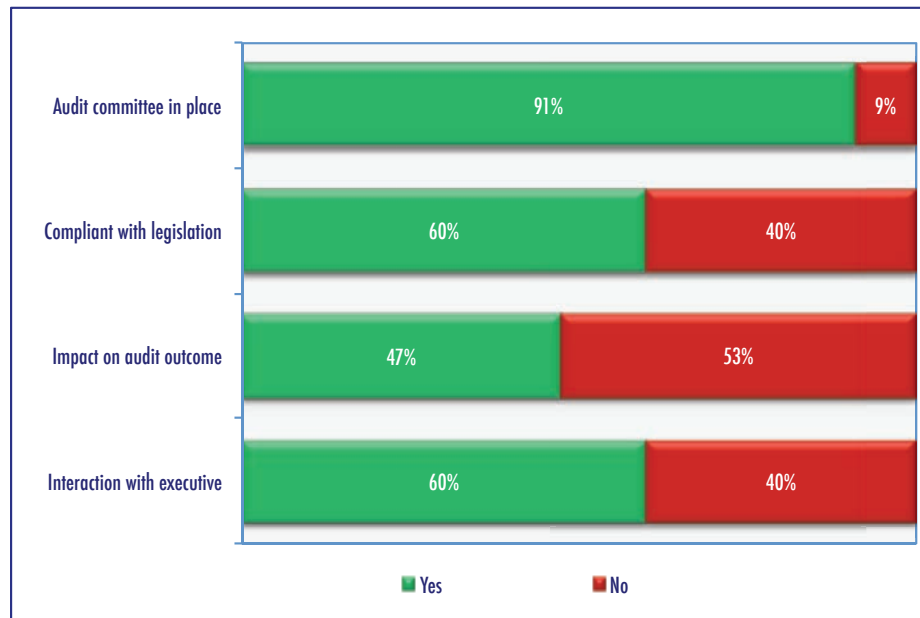


Non-compliance relating to audit committees and internal audits as reported in audit reports included the following matters: no internal auditing of performance measurements; non-existence of a performance audit committee; lack of or inadequate evaluation/advice or reporting by internal audit on internal controls, accounting, risk and loss control; failure by audit committee to meet at least four times during year; lack of review by audit committee of the adequacy, reliability and accuracy of financial reporting and information and lack of audit committee review of annual financial statements.



The figure that follows depicts the assessed effectiveness of audit committees for the period under review.

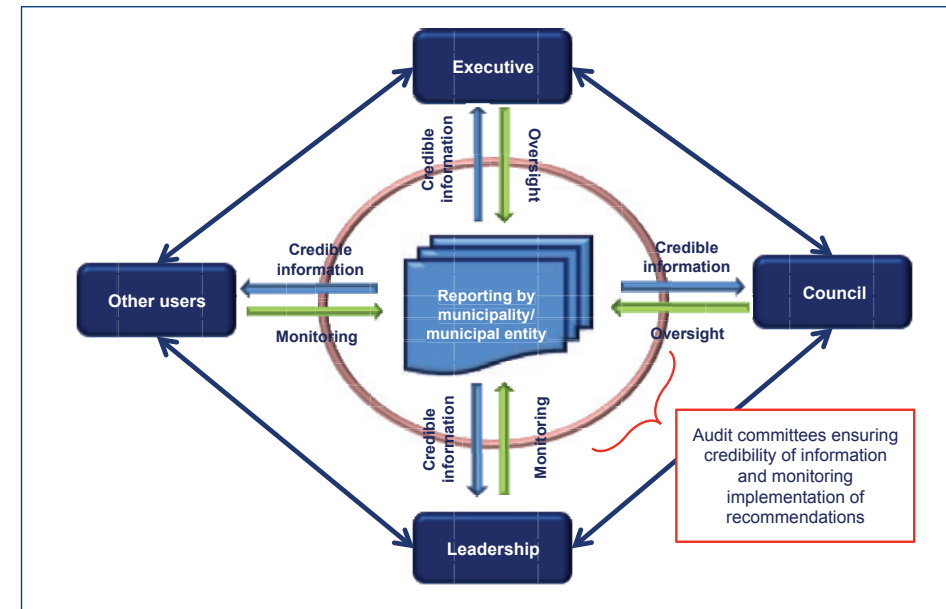
Figure 40: Assessed effectiveness of audit committees (all auditees)



4.4.2 Recommended positioning and role of audit committees in local government

It is clear from the above that audit committees in local government are not yet operating at the desired level of effectiveness. The way to promote effective interaction and exchange of reporting and internal control-related information between internal audit units (via audit committees), executive mayors and councils is recommended in the following figure.

Figure 41: Role of audit committees in assessing and reporting on governance, risk management and control at auditees



The responsibilities of the audit committee include providing assurance on the credibility of various reports produced for purposes of oversight, decision-making and accountability. Should the audit committee fail to execute this responsibility effectively, vital decisions relating to funding, accountability and service delivery will be based on information that may be inaccurate, incomplete and unreliable.

4.5 Municipal public accounts committees as a specific driver of audit outcomes

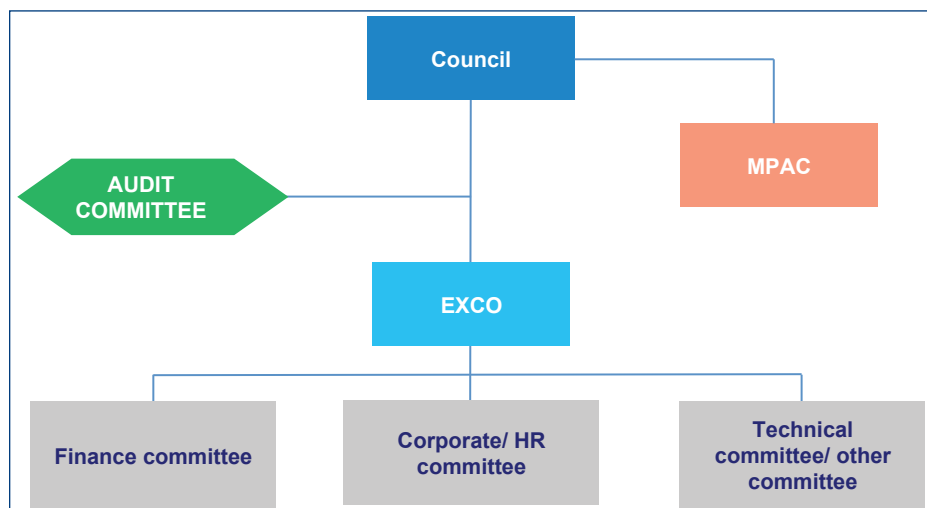
4.5.1 Overview of the legislated role of MPACs

The establishment and functioning of a municipal public accounts committee (MPAC) at each municipality, or a shared committee for smaller municipalities, is a relatively new and evolving concept. If implemented and operating as intended, the MPAC will be one of the most critical role players and success factors in municipal oversight and governance to ensure a positive impact on audit outcomes.

An MPAC, which is established in terms of section 79 of the Municipal Structures Act, performs an oversight function on behalf of council and is not a duplication of other committees of council, such as the finance committee or the audit committee. It will undertake and manage similar functions and responsibilities for municipalities as undertaken by the Standing Committee on Public Accounts (SCOPA) in the national and provincial legislatures.

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

Figure 42: Position of MPAC within the council



An MPAC is not responsible for policy formulation or prioritisation of matters and reports directly to council through the Speaker of the municipality and interfaces with the other committees of council through the Speaker, where relevant. In short, the primary functions of the MPAC include the following:

- Consider and evaluate the content of the annual report and make recommendations to council when adopting an oversight report on the annual report.
- Review information relating to past recommendations made in the annual report. This relates to current in-year reports, including the quarterly, mid-year and annual reports.
- Examine the financial statements and audit reports of the municipality and municipal entities and consider improvements on 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.

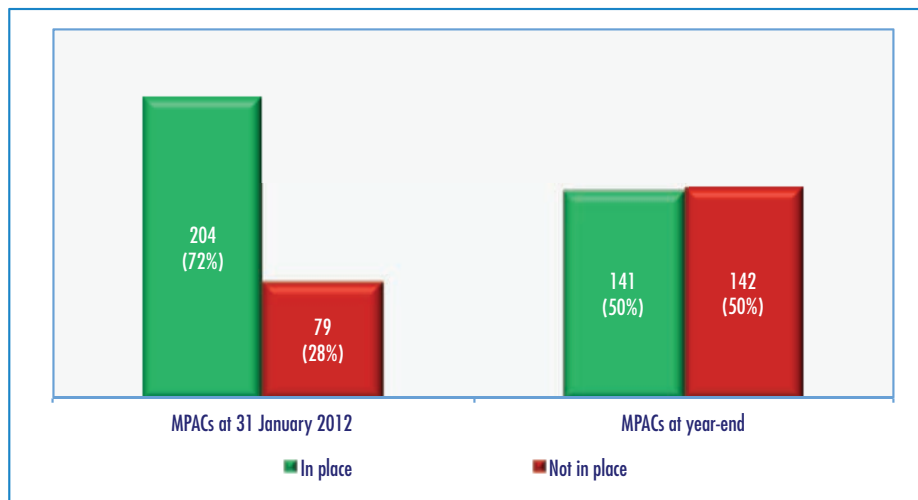
4.5.2 Status of establishment and functioning of MPACs and their impact on audit outcomes

The establishment of MPACs within the municipalities has been slow but the process has gained momentum of late, as depicted in the following figure.

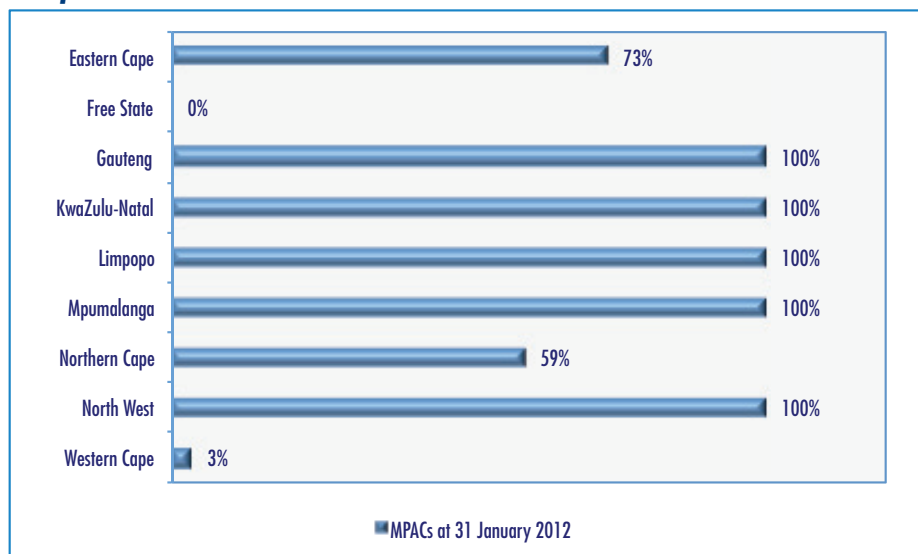


Figure 43: Status of establishment of MPACs

Overall



Per province



MPACs have not had the desired impact on audit outcomes and clean administration in local government due to their late establishment. It has, however, gained momentum subsequent to the 2010-11 audits. There is a very long way to go before MPACs will achieve their intended oversight effectiveness and impact on audit outcomes. Provincial leadership and oversight structures are encouraged to support the establishment and work of these committees.

4.5.3 Recommended way forward for effective MPACs

In order to enhance the effectiveness of MPACs, address the challenges highlighted in this report and move towards a best practice governance structure at individual municipal level, provinces should address all (not just some) of the components depicted in the following figure.

Figure 44: Key elements to improving the impact of MPACs on audit outcomes



Along with the implementation of recommended enhancements to the drivers of internal control, improvements to these elements will accelerate the rate of improvement in local government audit outcomes.

More effective monitoring by provincial executive leadership and coordinated oversight (assessed in section 4.6) of key areas where assistance is required will be important for the achievement of the targets of *Operation clean audit*.

4.6 Assessment of impact of key role players on audit outcomes

The table that follows is an assessment of the impact that key national and provincial role players had on the current year's audit outcomes. It is based on the impact of commitments, action plans and initiatives in response to the prior year's audit outcomes.

Table 29: Assessment of impact of national and provincial role players on the audit outcomes

Role players	Areas of focus where support/intervention was required																										
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures																		
National executive leadership (DCOGTA, National Treasury, DPSA, The Presidency)																											
National legislative oversight (NA-NCOP, portfolio committees)																											
SALGA																											
Provincial executive leadership (Premier, MEC Local Government, MEC Finance)	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP
	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC
Coordinated provincial oversight (Provincial standing committees and Provincial Speakers Forum)	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP	EC	FS	GP
	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP	KZN	LP	MP
	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC	NC	NW	WC
No significant identified impact on 2010-11 outcomes										Some impact on 2010-11 outcomes										Not within mandate or direct sphere of influence of role player							



As is evident from the audit outcomes presented in this general report, the activities and interventions of role players have had limited impact. The assessment of 'no significant identified impact' does not imply that no efforts were made by the role players, but illustrates that the impact on the audit outcomes is not yet evident.

Provincial role players do have a number of initiatives and interventions aimed at improving audit outcomes, some of which directly target the eight focus areas assessed above. These include the following:

- Establishing Premiers' Coordinating Forums that seek ways to address auditees' financial management issues.
- Facilitating the establishment of MPACs.
- Facilitating training for municipal officials on supply chain management.
- Assisting with the establishment of audit committees and internal audit units at auditees.
- Supporting municipalities to develop fraud prevention plans and monitoring implementation.
- Supporting the initiation of preliminary investigations and referrals of serious allegations.

National role players likewise have a number of initiatives and interventions. These include the following:

- Convening Provincial Accountant-General Operation Clean Audit Steering Committees to provide guidance on accounting matters and the implementation of the Municipal Finance Improvement Programme to make available financial and other resources to municipalities.
- Drafting key regulations such as the minimum competency requirements for municipal officials, the aim of which is to ensure that only officials with the appropriate qualifications and experience are appointed to key positions within municipalities.
- Facilitating the training of municipal officials and councillors in financial management-related matters.
- Arranging for training of municipal accounting staff on accounting matters.
- Providing funding for the filling of vacant municipal posts.
- Facilitating and participating in the establishment of various forums to discuss matters affecting the administration and financial management of municipalities.

Some plans and interventions were initiated in previous years and have since been further developed, but their impact may only be evident in future audit outcomes. Better coordination of plans and initiatives by all role players and continuous maintaining will improve their impact.

Details of specific new commitments secured and existing/prior year's commitments confirmed during February to April 2012 are outlined in section 5 of this report.





SECTION 5: COMMITMENTS BY KEY ROLE PLAYERS

This general report concludes by providing details of commitments received from national and provincial leadership and other role players in response to the 2010-11 audit outcomes. The AGSA's continuing initiatives to encourage clean administration are summarised and other important current and emerging matters relating to local government are outlined.

5.1 Commitments by key role players subsequent to the 2010-11 audits to improve audit outcomes

Between February 2012 and the date of this report the AGSA engaged national and provincial role players on all nine specific focus areas where their contributions to improve audit outcomes could be further enhanced. Responses and commitments emanating from these interactions and roadshows in the provinces are outlined below.

Table 30: Commitments and actions by national role players

Outline of national role players' commitments/ proposed action plans March 2012		Focus areas targeted by commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
The Presidency - Monitoring and Evaluation Unit										
1	The Presidency will facilitate the refinement and approval of the refined delivery agreement with national DCOG and other contributing departments, aimed inter alia at strengthening the administrative and financial capability of municipalities. The specific commitments made by these entities in the delivery agreement to improve audit outcomes will be monitored by DPME by means of the Programme of Action (PoA). The specific outputs to be monitored include the following: (i) Facilitating the appointment of municipal public accounts committees (MPACs) at municipalities (ii) Assisting with the development of action plans to address the prior year's audit outcomes, particularly policies and processes within high-risk areas such as procurement (SCM) and asset management (iii) Where practical, assisting with the establishment of internal audit functions (iv) Assisting with Improved revenue management and reduction of overspending on operational costs and underspending on capital costs (v) Developing regulations to map out competency criteria for critical management and technical posts, such as municipal manager, chief financial officer, technical services manager and human resource manager (vi) Developing a long-range human resource plan to ensure the sustainable supply of key skills required at municipal level									
2	Develop an 'Outcome 9 dashboard' to facilitate the tracking of progress and reporting and as a tool for facilitating deliberations at both the technical and ministerial implementation forums.									

Outline of national role players' commitments/ proposed action plans March 2012		Focus areas targeted by commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
<i>Department of Cooperative Governance and Traditional Affairs</i>										
1	Ten district municipalities (including local municipalities) will be supported to improve on the Municipal Infrastructure Grant non-financial performance monitoring and reporting.									
2	Provide support to 30 municipalities on credit control and debt management measures and provide support to 30 municipalities to implement the Municipal Infrastructure Grant.									
3	Develop draft document on ICT support for municipalities.									
4	1. Regulations for senior managers will be gazetted and rolled out. 2. Assess and report on the impact of fixed-term contracts of municipal managers on municipal councils. 3. Support 70 municipalities to develop and implement recruitment and retention strategies. 4. Monitor 30% of municipalities to fill vacancies in terms of the Municipal Structures Act. 5. Develop a national framework on the professionalisation of local government.									
5	1. In partnership with relevant stakeholders, remaining municipalities will be assisted to establish the MPACs, and municipalities will be assisted to improve the functionality of MPACs by way of training initiatives. 2. Roll out training of audit committees. 3. Assess and evaluate the number of existing ethics committees, and conduct training.									
6	Regulate and monitor the implementation of the Municipal Property Rates Act.									
7	With a view to combating corruption and promoting ethics and integrity, to create a number of partnerships and coordinate investigations.									



Outline of national role players' commitments/ proposed action plans March 2012		Focus areas targeted by commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
<i>National Treasury</i>										
1	Technical assistance will be provided to municipalities through the Municipal Finance Improvement Programme (MFIP) in a more structured and focused manner.									
2	The Financial Management Grant framework (FMG) was refined to augment resources of municipalities in addressing financial management reforms. More than R400 million was transferred during 2010-11. This allocation was used by municipalities to support the appointment of financial personnel, to implement the graduate internship programme covering more than 1 500 interns in various disciplines of financial management, and to support the development of plans and implement corrective measures to address financial reforms and audit findings. More than 1 150 officials were also trained in various aspects of financial management.									
3	Continue to build capacity and skills in municipalities by introducing further service providers offering the formal minimum competency courses for finance officials. Make available additional resources from the LGSETA and Skills Fund to support smaller municipalities to train municipal officials.									
4	Provide financial advisory support to at least 67 municipalities as part of the MFIP initiative. This support is conditional upon municipalities adopting a support plan, establishing a steering committee made up of the mayor or councillor for Finance, the municipal manager and CFO to ensure effective leadership monitoring and that corrective action is taken to sustain the reforms that are being supported. This support is also coupled with a skills development plan to up-skill municipal officials.									
5	A Guide for CFOs and a Guide for the Establishment and Functioning of Municipal Public Accounts Committees will be published in the third quarter of 2011 and issued to all municipalities. Training and awareness sessions, in collaboration with SALGA, were offered to all new councillors after the 2011 elections.									
6	Special training sessions were held in conjunction with Department of Cooperative Governance with municipal officials and councillors serving on Municipal Audit Committees and MPACs to improve oversight in municipalities. Further training focused on budgeting, SCM and implementation of GRAP.									

Outline of national role players' commitments/ proposed action plans March 2012		Focus areas targeted by commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
SALGA										
1	Workshops will be held on guidelines for successful ICT governance.									
2	In partnership with the INCA Capacity Building Fund, a Municipal Finance Portfolio Training Programme will be developed and rolled out to train councillors in all aspects of budgeting, financial reporting and oversight.									
3	An assessment will be conducted on the functioning of municipal internal audit units and audit committees with the aim of strengthening this important oversight structure.									
4	Adoption of municipalities: supporting municipalities with expertise in financial management. SALGA will continue the initiative of adopting struggling municipalities with the aim of developing targeted support and improving their audit outcomes.									



Outline of national role players' commitments/ proposed action plans March 2012		Focus areas targeted by commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
<i>Association of Public Accounts Committees (APAC)</i>										
1	Visits to the leadership of municipalities with both good and poor 2010-11 audit outcomes.									
2	Advocate for compliance with MSA reports: (i) annual performance reports and (ii) reports by MECs on the performance of municipalities, as well as MFMA reports relating to the timeous submission for audit of annual financial statements. A report will be produced in this regard.									

Table 31: Commitments and actions by provincial executive leadership

Outline of provincial executive leadership commitments/ proposed action plans March 2012		Focus areas targeted by provincial role players' commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
<i>Provincial leadership (Premier, MEC Finance, MEC Local Government)</i>										
1	Standardise IT system for local government and implement adequate IT policies and procedures. Follow up on progress made in addressing IT findings in conjunction with its internal audit function.					GP, LP				
2	Conduct skills audits. A skills audit will be conducted with regards to incumbents of key positions.			KZN			KZN, LP			
3	CoGHSTA and provincial treasury will play greater role in supporting local government in areas of financial management, compliance and performance reporting.	LP	LP	LP	LP	LP	LP			LP
4	Improving the availability of quality supporting documentation to support financial statements and management information (guidelines and monitoring).	FS	FS, LP	FS, LP, MP	LP	FS	FS		FS	FS
5	<u>Review of status of action plans</u> Provincial leadership will review the status of the quality, implementation and monitoring of the municipalities' action plans - especially on those municipalities that have continuous disclaimer, adverse and qualified audit opinions.	FS, LP, WC	FS, LP, WC	KZN, LP, WC	FS, WC	WC	FS, LP, WC	WC	WC	LP, WC
6	Strengthening capacity to implement Operation clean audit strategy at all levels of leadership, monitoring of strategy against milestones and quarterly reporting on activities of Operation Clean Audit Committees.	GP, LP, NC, WC	GP, LP, NC, WC	GP, LP, NC, WC	GP, LP, NC, WC	GP, LP, NC, WC	GP, LP, NC, WC	GP, NC, WC	GP, NC, WC	GP, LP, NC, WC
7	<u>Compliance monitoring</u> Continuous compliance monitoring through the use of a simplified compliance checklist that covers all the critical regulatory requirements.	EC, GP, KZN	EC, KZN	EC, GP, KZN						
8	<u>Councillors and municipal staff training</u> Training of all staff and new councillors (including mayors and municipal managers), specifically on their role clarification/oversight role in so far as it pertains to finance and infrastructure.	EC, FS, KZN, NC, NW	EC, FS, KZN, NC, NW	FS, KZN, NC, NW	FS, NC	FS, NC	FS, NC, NW	FS, NC	FS, NC	FS, NC



Outline of provincial executive leadership commitments/ proposed action plans March 2012		Focus areas targeted by provincial role players' commitments and action plans							
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration
MEC Finance, MEC Local Government									
1	Perform a readiness assessment to determine what municipalities should do to manage and assist municipalities with the implementation of performance management systems.	EC, WC							
2	<u>Dashboard assessments</u> Monitoring of trends in financial and performance management through use of quarterly dashboard assessments is a proactive approach that will highlight early warnings of areas that require intervention and prevent regression.	EC, KZN	EC, FS, KZN	EC, KZN	EC, FS	EC	EC		EC, KZN

Outline of provincial executive leadership commitments/ proposed action plans March 2012		Focus areas targeted by provincial role players' commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
<i>Provincial treasuries</i>										
1	Provincial treasury will assist municipalities to establish functional internal audit units and audit committees.									MP
2	Provincial treasury will assist municipalities in determining specifications for the tender process of appointing consultants.							MP		
3	Training session on the SCM regulations and putting measures in place to adhere to SCM regulations.	GP, LP, MP		LP	LP					
4	<u>Monitoring of provincial clean audit strategy.</u> Monthly CFO forums, monitoring of provincial clean audit strategy against milestone, and hosting of monthly operation clean audit committee meetings.	KZN LP	KZN LP	KZN LP	KZN LP	KZN	KZN	KZN	KZN	KZN



Outline of provincial executive leadership commitments/ proposed action plans March 2012		Focus areas targeted by provincial role players' commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
<i>SALGA and executive mayors</i>										
1	Interaction with municipal governance structures Strengthening of governance structures and quarterly engagement with audit committees' chairpersons on the effectiveness of internal controls, quality and credibility of financial statements and internal audit.	GP, LP	GP, LP	GP, LP	GP, LP	GP, LP	GP, LP	GP	GP	GP, LP
2	All municipalities to assess capacity/competency levels of CFOs to perform to expectations of role and to strengthen capacity-building initiatives.		LP	FS, LP	LP	LP	FS, LP, NW			LP

Table 32: Commitments and actions by provincial oversight structures

Outline of coordinated provincial oversight commitments/ proposed action plans March 2012		Focus areas targeted by provincial role players' commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
<i>Speaker</i>										
1	The Municipal Finance Group Committees will assist municipalities to develop commitments which are specific, measurable, achievable, relevant and time bound, and follow up on the implementation thereof.	MP	MP	MP		MP	MP	MP	MP	MP
2	The legislature will engage the AGSA to assist with the follow-up of provincial SCOPA resolutions.	FS, NC	NC	FS, NC		NC	FS, NC	NC		NC
3	Quarterly meetings with the provincial oversight group The Speaker will convene quarterly meetings with the provincial oversight group, consisting of the chairpersons of local government-related oversight committees, to monitor areas identified which hinder the achievement of results.	KZN	KZN	KZN						KZN



Outline of coordinated provincial oversight commitments/ proposed action plans March 2012		Focus areas targeted by provincial role players' commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
<i>Portfolio committee - CoGTA</i>										
1	Portfolio committee will analyse and visit all municipalities with adverse, disclaimed and qualified audit opinions and follow up with Finance regarding SCOPA resolutions.			EC	EC					KZN
2	Provincial Speakers Forum/ Joint oversight committee to be established to monitor oversight role of councils and the legislatures. Councils will provide oversight reports on a timely basis. Oversight visits to be conducted at municipalities.	FS, KZN, MP, NC, NW, WC	EC, FS, KZN, MP, NC, NW, WC	EC, FS, KZN, MP, NC, NW, WC	EC, FS, NW, WC	FS, MP, NC, NW, WC	FS, MP, NC, NW, WC	FS, MP, NC, NW, WC	MP, NW, WC	FS, KZN, MP, NC, NW, WC

Outline of coordinated provincial oversight commitments/ proposed action plans March 2012		Focus areas targeted by provincial role players' commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
SCOPA and APAC										
1	Municipalities will be encouraged to budget appropriately so that MPACs can be established. Continuous training of MPAC members by provincial treasury and provincial CoGTA on roles and responsibilities of MPAC members.	EC, FS, MP, NC, NW, WC	EC, FS, MP, NC, NW, WC	EC, FS, MP, NC, NW, WC	EC, FS, NW, WC	EC, FS, MP, NC, NW, WC	EC, FS, MP, NC, NW, WC	EC, FS, MP, NC, NW, WC	EC, NW, WC	EC, FS, MP, NC, NW, WC
2	Will conduct quarterly public hearings at district level and promote public participation.			FS						FS



5.2 AGSA initiatives to encourage clean audits

Listed below are some of the key initiatives the AGSA has embarked on to promote public sector accountability and encourage the process of improving audit outcomes and attaining clean audits. Included are outlines of solutions already developed or currently under development for challenges highlighted in this report. These include the mitigation of IT risks, assistance with fraud risk assessment, improving oversight effectiveness and development of a municipal performance assessment tool. The AGSA offers these to national and provincial structures to co-author and implement upon the release of this report.

Nature	Outline of AGSA initiatives
Interactions with the political and administrative leadership	The AGSA leadership interacts at least on a quarterly basis with the political and administrative leadership at provincial and municipal level. These interactions are used to share insights relating to risks and controls with a view to creating a deeper understanding of the audit outcomes and messages. Interactions are also extended to provincial legislative oversight and the National Council of Provinces to share insights and enable improved oversight of local government.
Stakeholder interactions and audit outcome roadshows	The AGSA embarked on provincial stakeholder interactions with all municipalities after the 2011 election. These stakeholder interactions focused on empowering the newly elected leadership by sharing with them the roles and responsibilities of all oversight bodies and the importance of creating an environment of accountability, using only credible information for monitoring purposes. The AGSA further embarked on provincial roadshows to engage with the provincial leadership, municipalities and councils where the audit outcomes, the root causes that gave rise to the audit outcomes and the recommended way forward to improve on the audit outcomes were explained.
Quarterly interactions on status of key controls	Auditees have been sensitised to the importance of implementing and maintaining key controls around financial and performance management and compliance with laws and regulations. The key controls are assessed on a quarterly basis and their status is also shared with the mayor, council and municipal managers as part of the quarterly interactions. During the key control visits, the AGSA teams secure commitments on what would be done to improve going forward and these commitments are then monitored. The message was conveyed that leadership should now take ownership of the key controls and monitor them on a continuous basis.

Nature	Outline of AGSA initiatives
Allowing material adjustments to financial statements and annual performance reports	Auditees were again afforded the opportunity to restate and adjust their financial and performance information submitted for audit when material misstatements were detected. It is important, however, that the auditees take ownership of their financial and performance processes and not rely on the AGSA to identify errors.
Promoting understanding of PDO requirements	There have been numerous interactions with auditees in respect of requirements relating to the reporting of performance information. The awareness sessions were also extended to oversight and provincial leadership.
Involvement in forums and meetings related to local government financial affairs	The AGSA participates on a regular basis in a number of forums and committees to raise pertinent issues that may affect audit outcomes and to enable the forums in executing their oversight role. These include: <ul style="list-style-type: none"> • Provincial coordinating committee overseeing the implementation of <i>Operation clean audit</i> • Speakers' forums • Internal audit forums • Quarterly MFMA coordination forums • Provincial Accountant-General forums • Working sessions towards the conceptualisation of a municipal performance assessment tool
Collaboration with the National Treasury and Accounting Standards Board	Weekly meetings take place between the AGSA, Accounting Standards Board and National Treasury to highlight and address any emerging transversal matters that could affect the audit outcomes. On a quarterly basis, a high-level meeting, chaired by the Auditor-General personally, takes place to address significant matters affecting the audit outcomes.
Personal visits to municipalities by the Auditor-General	During the 2010-11 financial year, the Auditor-General embarked on door-to-door visits in KwaZulu-Natal and will again embark on a door-to-door visit 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. The Auditor-General also visited all the metros and municipalities with clean audit reports during the year under review.

Nature	Outline of AGSA initiatives
Promoting an understanding of IT risks and controls	<ul style="list-style-type: none"> The AGSA was involved in the TCF working committee driven by NT, SALGA and COGTA to share insights and provide guidance in respect of one of their objectives, which is to ensure the adequacy of the controls for the financial systems and business processes of local government. Insights were shared with SALGA and COGTA in the development and implementation of an IT governance framework for municipalities. The draft IT governance framework for local government has been derived from the government-wide IT governance framework developed by the DPSA. The AGSA collaborated with the NT in building internal audit capacity to conduct IT audits at municipalities.
Assisting with fraud risk assessment	<ul style="list-style-type: none"> The AGSA is developing tools to enhance auditees' ability for ongoing self-assessment and the identification of the risk of fraud, corruption and maladministration. On request the AGSA proactively identifies potential conflicts of interest, based on available data, before major contracts are awarded by auditees
Contributing to the effectiveness of oversight structures	Stakeholders involved in the oversight of local government have committed to and in some cases already embarked on more coordinated and integrated oversight interventions. The AGSA will continue to share insights that may contribute to and enable more effective oversight, as part of its supporting role to those charged with the oversight of local government, including NCOP structures, provincial legislatures, and MPACs.

5.3 Other current and emerging matters that require attention

In addition to the matters highlighted in the preceding sections of this report, the following current and emerging issues require attention from municipal leadership, provincial executive and oversight structures, as well as provincial and national role players:

- Financial sustainability of auditees
- Material losses incurred and material impairment of assets
- Continued material underspending of votes and/or conditional grants
- Accounting, legislative and other changes that may impact on future audit outcomes.

These matters are outlined in the sections that follow.

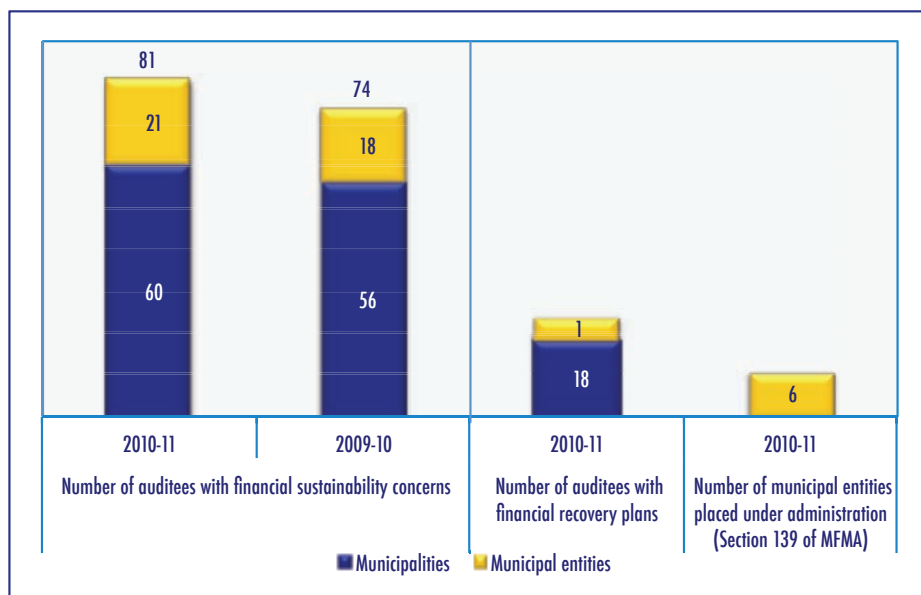
5.3.1 Financial sustainability of auditees

Many municipalities and municipal entities are experiencing difficulty in sustaining a healthy financial position. Matters giving rise to these concerns include poor debt collection, increasing liabilities due to delayed payment of creditors, and the inability to fund operations and the maintenance of infrastructure. Detailed below are some matters which are highlighted for consideration in this regard. Reporting on this area of concern will be expanded further in the general report of 2011-12.

Concerns regarding the ability to fund ongoing operations or being financially sustainable were identified at 81 (27%) auditees [2009-10: 74 (22%)]. The following figures and table depict the extent of such concerns and the main reasons for such concerns.



Figure 45: Number of auditees with financial sustainability concerns

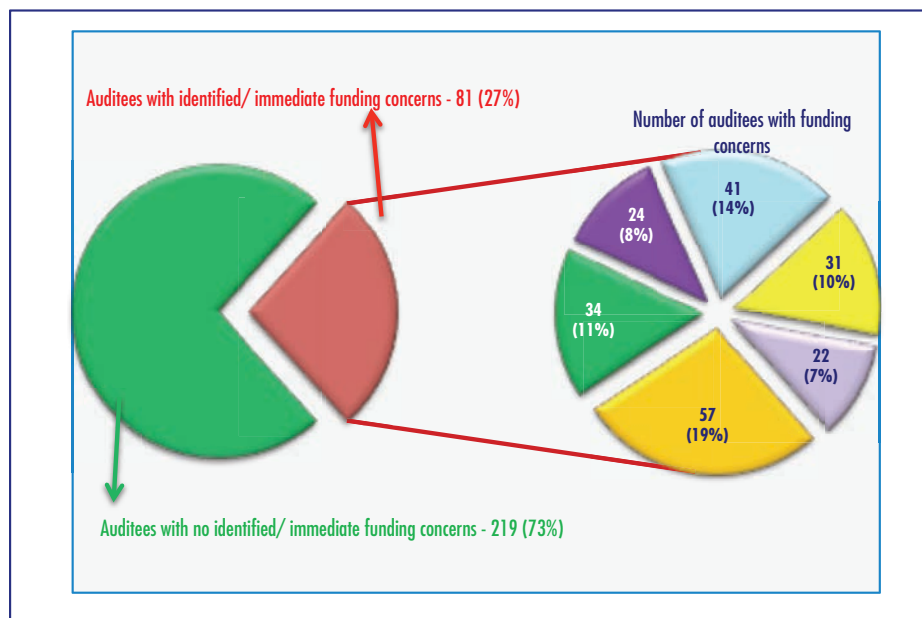


The Eastern Cape had the highest number of auditees (17) with identified immediate financial sustainability concerns, while Limpopo and the Western Cape had the lowest number of auditees (1) with such concerns.

Table 33: Auditees with concerns relating to ongoing funding of operations

Status of financial sustainability issues	High capacity municipalities (including metros)	Medium capacity municipalities	Low capacity municipalities	Municipal entities	Total auditees reported on	%
Remained with no identified/ immediate financial sustainability issues	34	61	63	33	191	64%
Prior year's financial sustainability issues addressed	6	8	11	3	28	9%
Auditees with no identified/ immediate financial sustainability issues	82%	80%	69%	63%	73%	73%
Retained identified/ immediate financial sustainability issues from prior year	5	9	17	15	46	14%
Newly identified auditees with financial sustainability issues	4	8	17	6	35	12%
Auditees with identified/ immediate financial sustainability issues	18%	20%	31%	37%	27%	27%
Total number of auditees reported on	49	86	108	57	300	100%

Figure 46: Reasons for funding and financial sustainability concerns at auditees



Number of municipalities with funding concerns relating to:

- High reliance on grants/ own revenue generated not sufficient to cover operating costs (57)
- Serious challenges being experienced in the recovery of consumer debtors (34)
- No cash for unspent grants (24)
- Debt collection problems (41)
- Current liabilities exceed current assets (31)
- Other significant financial challenges* (22)

* Other significant financial challenges include:

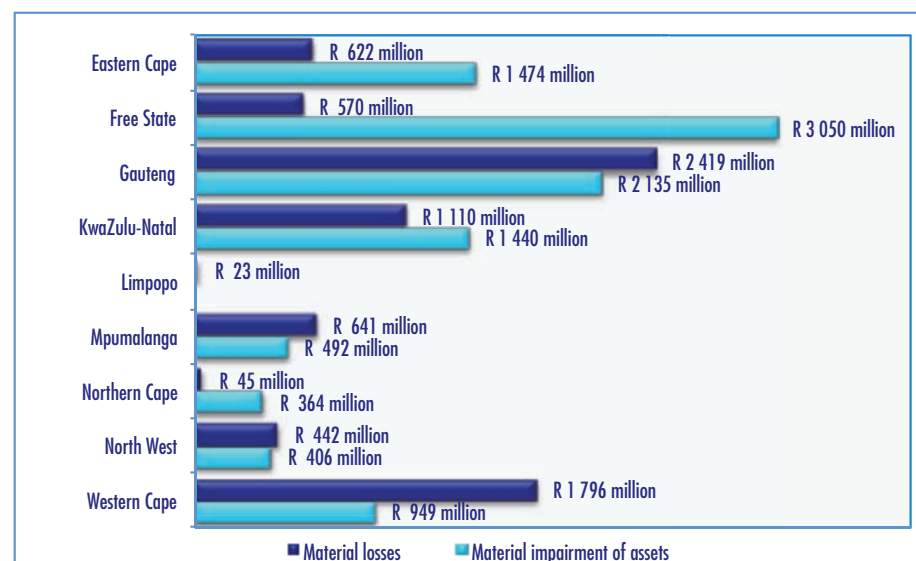
Municipalities cannot pay creditors when they are due, due to cash flow challenges; have significant net bank overdrafts; have a poor/negative ratio of assets readily convertible to cash compared to debts; and have redeemed all their investments, hence no long-term assets remain.

Of the 81 auditees with identified financial sustainability concerns, 33 (41%) obtained financially unqualified reports.

5.3.2 Material losses incurred and material impairment of assets

The details of material losses and asset impairments, as disclosed in the financial statements of auditees for the year ended 30 June 2011, are depicted below. While these types of losses are not necessarily planned, they do occur in the normal course of business. However, reasonable care should be taken to minimise and effectively manage such losses.

Figure 47: Provincial analysis of material losses incurred and impairment of assets



Further details of material losses and impairments are as follows:

Material losses

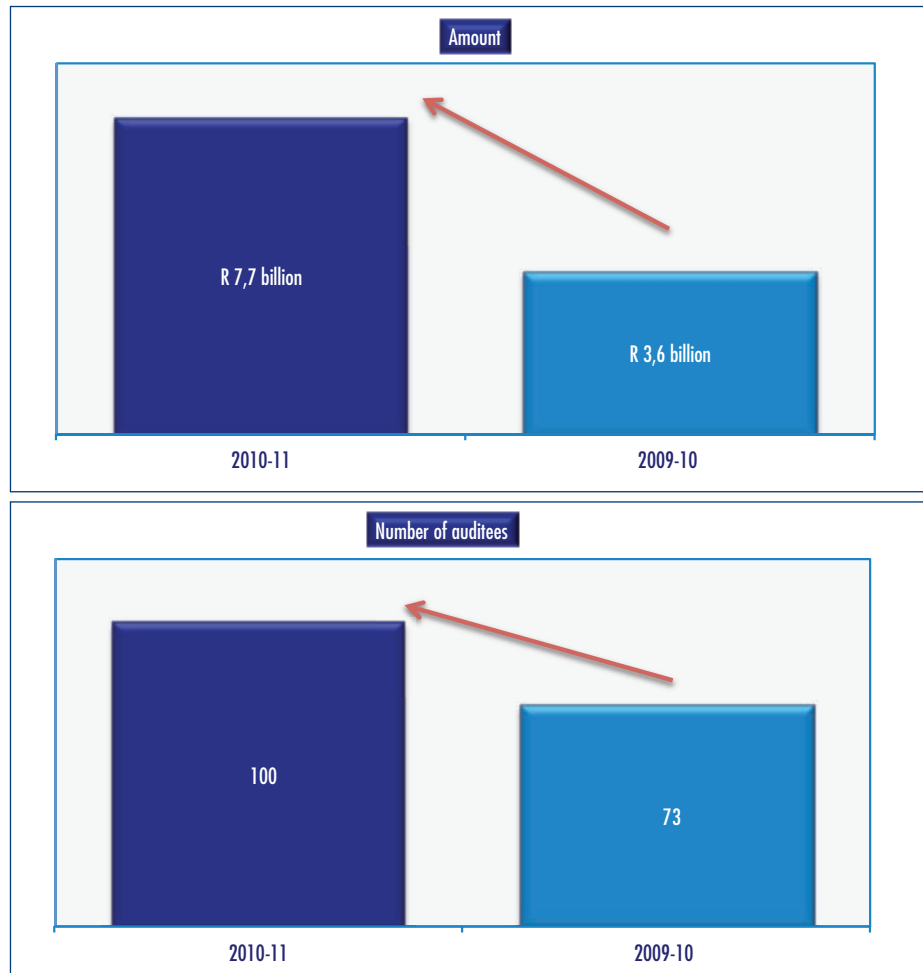
Electricity and water losses account for 94% of all material losses, with the remainder comprising bad debts written off (3%) and losses on the valuation of inventory and property, plant and equipment (3%).

- Water losses are mainly attributable to ageing infrastructure, unmetered areas in the informal settlements, storage and distribution systems.
- Electricity losses are mainly attributable to technical losses, ageing infrastructure, illegal connections and tampering with meters.



The figure that follows depicts the two-year trend in material losses incurred by auditees.

Figure 48: Material losses incurred

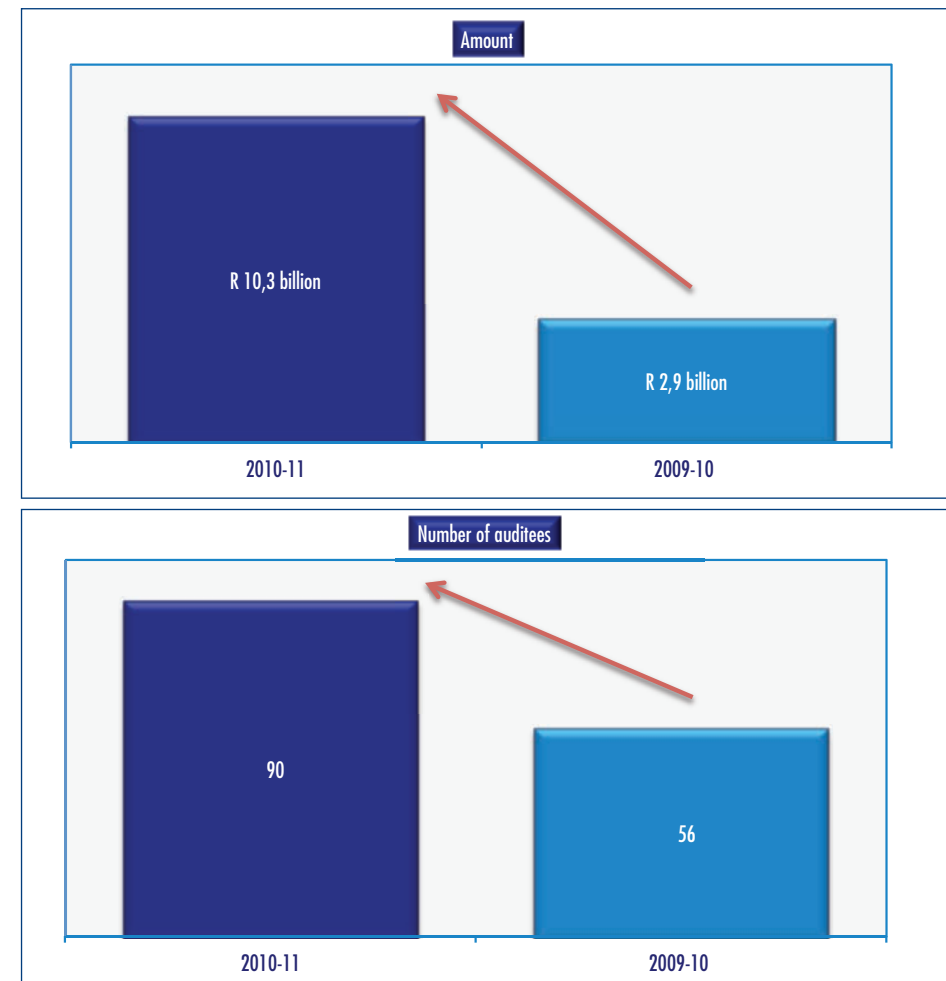


Material impairment of assets

The impairment of accounts receivable is due to poor collection of debtors and comprises a significant proportion (99%) of material impairments. The other portion is attributable to impairment of investments and plant and equipment.

The figure that follows depicts the two-year trend in material impairments incurred by auditees.

Figure 49: Material impairment of assets (write-down in value of assets)



5.3.3 Material underspending of votes and/or conditional grants

Fifty-four municipalities (22%) [2009-10: 43 (13%)] underspent their votes and/or conditional grants for the year ended 30 June 2011, as depicted in the following two figures. This underspending, which is not an economic saving, is an indicator of poor financial management, which often results in lack of service delivery and other functions such as maintenance of infrastructure. Contributing factors are lack of capacity and delays in the SCM processes.

Figure 50: Material underspending of votes or conditional grants

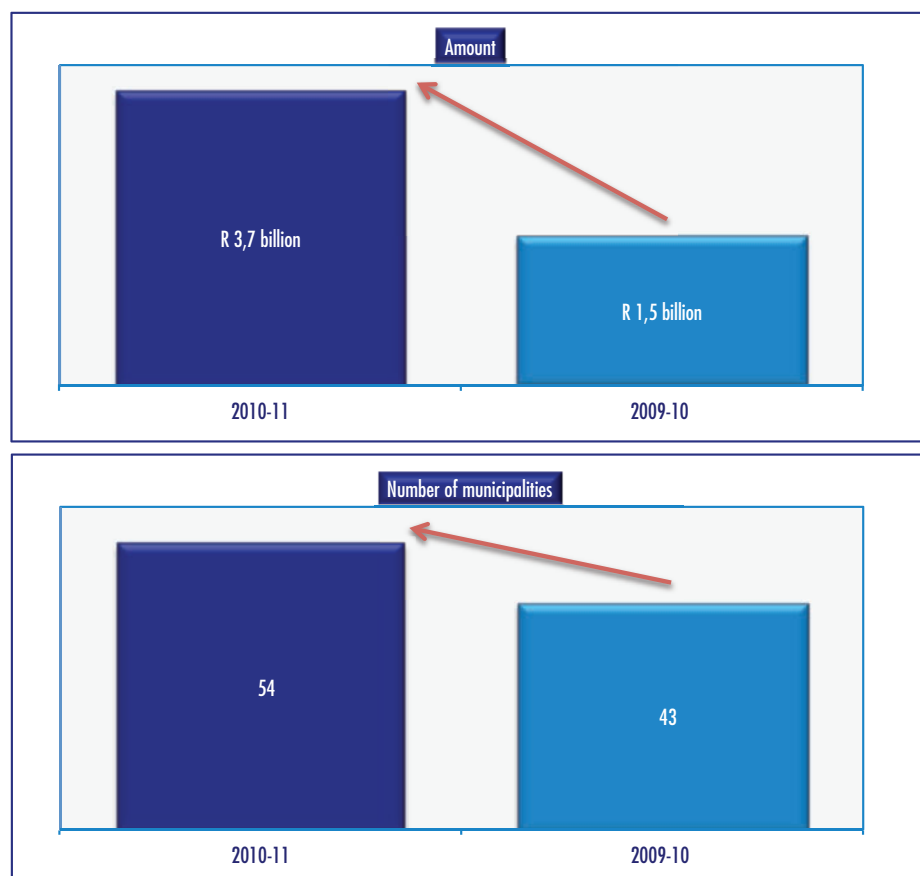
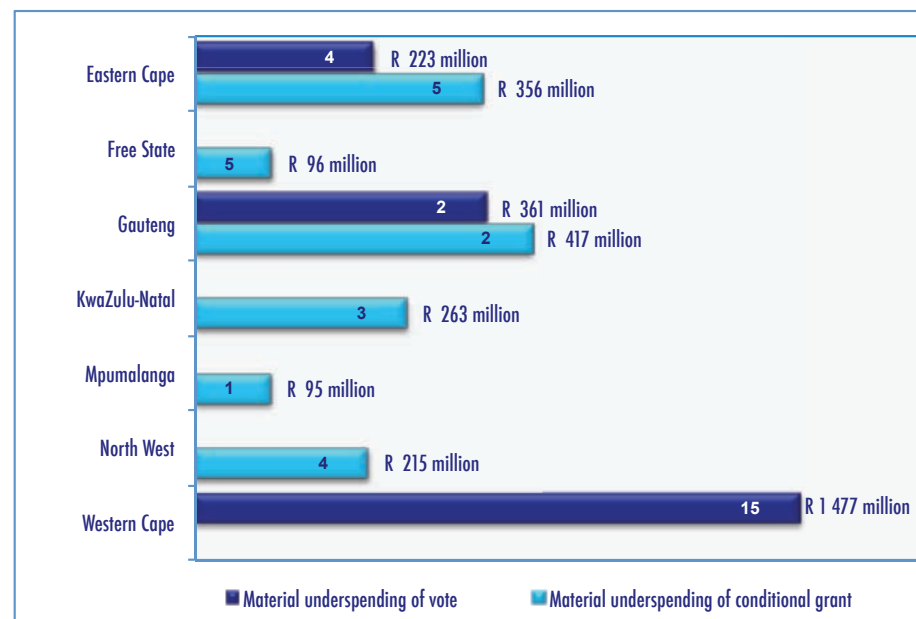


Figure 51: Provincial analysis of material underspending of votes or conditional grants



* Only amounts in excess of R50 million are depicted. The number of auditees is reflected on the bars of the graph.

5.3.4 Recommended action in response to financial sustainability concerns, losses and underspending

It is recommended that the provincial treasuries, the Departments of Local Government and the Offices of the Premiers increase their efforts to jointly assist municipalities to prepare and monitor action plans in order to address their sustainability issues and infrastructure spending.

These actions plans should address:

- the timely collection of outstanding debtors, which includes billing practices and follow-up



- improvement of SCM processes to facilitate infrastructure maintenance and additions
- effective management of the spending of grants to improve and address service delivery shortcomings.

5.3.5 Accounting, legislative and other changes expected in the 2011-12 financial year

The following matters are expected to have an impact across local government in the 2011-12 financial year. Measures should be implemented to ensure that these matters do not impact negatively on audit outcomes in the provinces.

Area of change		Summary of expected changes
Accounting matters	Standards of GRAP	<p>The current standards of GRAP have been gradually implemented over a period of years and to this end, transitional provisions for full adherence were developed. In the current financial year the transitional provisions for medium-capacity municipalities came to an end. The transitional provisions for low-capacity municipalities expire in the 2011-12 financial year, with the effect that all currently applicable standards of GRAP will be fully applicable for the year-end financial statements.</p> <p>No additional GRAP standards will apply for the 2011-12 year. However, at the time of publication of this report, the 2012-13 financial year will be upon auditees and the following new GRAP standards will be applicable:</p> <ul style="list-style-type: none"> • GRAP 21: Impairment of non-cash-generating assets • GRAP 23: Revenue from non-exchange transactions (Taxes and transfers) • GRAP 24: Presentation of budget information in financial statements • GRAP 26: Impairment of cash-generating assets • GRAP 103: Heritage assets • GRAP 104: Financial instruments <p>It is especially important to note the implementation of GRAP 24, which may have an impact on the presentation and disclosure of the financial statements.</p>

Area of change		Summary of expected changes
Compliance matters	SCM legislation	The revised preferential procurement regulations came into effect on 7 December 2011. The most significant changes were the introduction of BBBEE certificates and the requirement for evaluation of functionality. Municipalities and municipal entities should ensure that their policies and procedures are in compliance with these regulations to avoid any regression in terms of compliance findings.
	Minimum competency levels for municipal officials	Minimum competency regulations were issued on 15 June 2007. As per regulations 15 and 18, all municipalities must ensure that officials comply with the competency requirements with effect from 1 January 2013. This means that the requirements are not yet applicable for the financial year 2011-12 (financial period ending 30 June 2012). However, municipalities will need to start aligning their recruitment policies to the regulations and putting measures in place to ensure that they comply with the requirements by 1 January 2013.





GLOSSARY OF KEY TERMINOLOGY USED IN THE REPORT

<i>Accounts payable/accruals/liabilities</i>	Money owed by the entity to those who have supplied goods and services. .
<i>Accounts receivable (debtor)</i>	Money owed to the entity by those who have received goods or services from the entity.
<i>Adverse audit opinion</i>	The financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.
<i>Asset</i>	Any item belonging to the entity, which may constitute property, plant, cash or debtors.
<i>Asset impairment</i>	The reduction in value of an asset below its normal realisable value
<i>Balance sheet</i>	Summary of an entity's financial status, including assets, liabilities and equity.
<i>Carrying value</i>	Also referred to as book value or carrying value; the cost of a plant asset less the accumulated depreciation since the asset was acquired and less any impairments.
<i>Cash flow</i>	The flow of monies from operations: incoming funds are revenue and outgoing funds are expenses.
<i>Commitment (financial)</i>	This represents the cost of goods and services to be received in the next year in respect of which the entity has already entered into an agreement to purchase.
<i>Comparative figures</i>	The figures recorded in the previous year which correspond to the figures for the same item in the current year
<i>Consolidated financial statements</i>	Financial statements that reflect the combined financial position and results of a municipality and those of municipal entities under its control.
<i>Contingent liability</i>	A potential liability, the amount of which will depend on a future event.
<i>Current assets</i>	Current assets comprise cash and other assets, such as inventory or debtors, which will be traded or consumed or converted to cash in a period not exceeding 12 months. All other assets are classified as non-current and typically include property, plant and equipment and long-term investments.
<i>Disclaimer of audit opinion</i>	There was insufficient appropriate evidence (documentation) on which the auditor could base an opinion concerning the items reported in the financial statements. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.
<i>Financial and performance management</i>	Management of resources in order to achieve the financial and service delivery objectives of the municipality. This is one of the three key overall drivers of internal control which should be addressed to improve audit outcomes.

<i>Fruitless and wasteful expenditure</i>	Expenditure that was made in vain and could have been avoided had reasonable care been exercised. This includes penalties and interest on late payments, as well as payments for services not utilised or goods not received.
<i>General ledger</i>	A record of all financial transactions undertaken by an entity.
<i>Governance</i>	In the context of this general report it refers to the governance structures (audit committees) and processes (internal audit and risk management) as one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
<i>Information technology (IT)</i>	Computer systems used for recording and reporting financial and non-financial transactions.
<i>IT governance</i>	The structures, policies and process whereby the auditee ensures that information technology is in line with the business requirements.
<i>IT service continuity</i>	Processes of managing the availability of hardware, system software, application software and data to enable auditees to recover/establish information system services in the event of a disaster.
<i>IT security management</i>	Controls preventing unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.
<i>IT user access management</i>	Procedures through which the auditee ensures that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.
<i>Internal control (key controls)</i>	Internal control is 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, effectiveness and efficiency of operations, and compliance with the applicable laws and regulations. Internal controls consist of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adherence to policies, safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial and service delivery information.
<i>Inventory</i>	Goods held for resale or for internal use.
<i>Irregular expenditure</i>	Expenditure incurred without complying with applicable laws and regulations.
<i>Leadership</i>	Local government leadership refers to both political (mayors and council) and administrative leaders (municipal manager and senior managers). It is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
<i>Material finding</i>	Audit findings on reporting on predetermined objectives or non-compliance with laws and regulations which are significant enough in terms of value and/or nature that they would influence the understanding of the reported information.



<i>Material misstatement</i>	Misstatements which are significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of the rand value and/or the nature and cause of the misstatement.
<i>Misstatement</i>	Incorrect or omitted information in the financial statements or annual performance report.
<i>Modified opinion</i>	Qualified, adverse or disclaimer of opinion.
<i>Payroll</i>	A list of employees and their wages.
<i>Pervasive findings</i>	Findings that are not confined to specific items in the reported information or that represent a substantial proportion of the reported information.
<i>Property, plant and equipment</i>	Includes land, buildings, leasehold improvements, equipment, furniture, fixtures, delivery trucks, vehicles, etc. that are owned by the entity.
<i>Qualified audit opinion</i>	The financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially misstated.
<i>Reconciliation</i>	The process of matching one set of data to another, i.e. the bank statement to the cheque register, the accounts payable journal to the general ledger, etc.
<i>Reporting against predetermined objectives (PDOs)</i>	Reporting by auditees on their actual service delivery achievements against their annual performance plans.
<i>Residual value</i>	The estimated scrap or salvage value at the end of the asset's useful life.
<i>Root causes</i>	The underlying causes or drivers of audit findings, i.e. 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.
<i>Supply chain management</i>	Procurement by auditees of goods and services through a tender or quotation process and monitoring the quality and timeliness of goods and services provided.
<i>Transversal findings</i>	Findings that are cross-cutting or occurring in a number of entities.
<i>Unauthorised expenditure</i>	Expenditure that was in excess of the amount budgeted or allocated by government to the entity or that was not incurred in accordance with the purpose for which it was intended.
<i>Useful lives</i>	This is the period of time that it will be economically feasible to use an asset. Useful life is used in calculating depreciation on an asset.

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

Number	Auditee	Province	Audit outcome 2010-11			Audit outcome 2009-10			2010-11 Financial statement qualification areas						2010-11 Findings on predetermined objectives				2010-11 Findings on areas of non-compliance										2010-11 Findings on unauthorised, irregular, and fruitless and wasteful expenditure incurred	2010-11 Findings on specific focus areas			2010-11 Findings on audit committees			2010-11 Findings on root causes							
			Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Other non-compliance with related legislation	AFS subject to material misstatement	Other annual financial statements and annual report findings	Asset management	Budgets	Expenditure management	Internal audit	Revenue management		Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	HR management and compensation	IT controls	Audit committee in place	Non-compliance with legislation	Impact on audit outcome	Interaction with executive	Key officials lacking minimum competencies and skills	Lack of consequences for poor performance and transgression
Metropolitan municipalities																																											
1	Buffalo City Metro	EC																																									
2	Nelson Mandela Metro	EC																																									
3	Mangaung	FS																																									
4	City of Johannesburg Metro	GP																																									
5	Ekurhuleni Metro	GP																																									
6	Tshwane Metropolitan Municipality	GP																																									
7	eThekweni	KZN																																									
8	City of Cape Town	WC																																									
District municipalities																																											
9	Alfred Nzo District	EC																																									

Legend	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Adverse
	Disclaimer	Audit not finalised at legislated date	New / closed	Finding



Number	Auditee	Province	Audit outcome 2010-11			Audit outcome 2009-10			2010-11 Financial statement qualification areas							2010-11 Findings on predetermined objectives				2010-11 Findings on areas of non-compliance													2010-11 Findings on unauthorised, irregular, and fruitless and wasteful expenditure incurred	2010-11 Findings on specific focus areas			2010-11 Findings on audit committees			2010-11 Findings on root causes				
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10	Amatole District	EC																																										
11	Cacadu District	EC																																										
12	Chris Hani District	EC																																										
13	Joe Gqabi District	EC																																										
14	OR Tambo District	EC																																										
15	Fezile Dabi District	FS																																										
16	Lejweleputswa District	FS																																										
17	Motheo District	FS																																										
18	Thabo Mofutsanyana District	FS																																										
19	Xhariep District	FS																																										
20	Metsweding District	GP																																										

Legend	Financially unqualified with no findings		Financially unqualified with findings		Qualified		Adverse	
	Disclaimer		Audit not finalised at legislated date		New / closed		Finding	

Number	Auditee	Province	Audit outcome 2010-11			Audit outcome 2009-10			2010-11 Financial statement qualification areas							2010-11 Findings on predetermined objectives				2010-11 Findings on areas of non-compliance										2010-11 Findings on unauthorised, irregular, and fruitless and wasteful expenditure incurred	2010-11 Findings on specific focus areas			2010-11 Findings on audit committees			2010-11 Findings on root causes							
			Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Other non-compliance with related legislation	AFS subject to material misstatement	Other annual financial statements and annual report findings	Asset management	Budgets	Expenditure management	Internal audit	Revenue management	Strategic planning and performance management		Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	HR management and compensation	IT controls	Audit committee in place	Non-compliance with legislation	Impact on audit outcome	Interaction with executive	Key officials lacking minimum competencies and skills	Lack of consequences for poor performance and transgression	Slow response to AGSA message and not taking ownership of key controls
21	Sedibeng District	GP																																										
22	West Rand District	GP																																										
23	Amajuba District	KZN																																										
24	Ilembe District	KZN																																										
25	Sisonke District	KZN																																										
26	Ugu District	KZN																																										
27	Umgungundlovu District	KZN																																										
28	Umkhanyakude District	KZN																																										
29	Umzinyathi District	KZN																																										
30	Uthukela District	KZN																																										
31	Uthungulu District	KZN																																										

Legend	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Adverse
	Disclaimer	Audit not finalised at legislated date	New / closed	Finding



Number	Auditee	Province	Audit outcome 2010-11			Audit outcome 2009-10			2010-11 Financial statement qualification areas							2010-11 Findings on predetermined objectives				2010-11 Findings on areas of non-compliance														2010-11 Findings on unauthorised, irregular, and fruitless and wasteful expenditure incurred	2010-11 Findings on specific focus areas			2010-11 Findings on audit committees			2010-11 Findings on root causes			
			Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Other non-compliance with related legislation	AFS subject to material misstatement	Other annual financial statements and annual report findings	Asset management	Budgets	Expenditure management	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other		Procurement and contract management	HR management and compensation	IT controls	Audit committee in place	Non-compliance with legislation	Impact on audit outcome	Interaction with executive	Key officials lacking minimum competencies and skills	Lack of consequences for poor performance and transgression	Slow response to AGSA message and not taking ownership of key controls
32	Zululand District	KZN																																										
33	Capricorn District	LP																																										
34	Greater Sekhukhune District	LP																																										
35	Mopani District	LP																																										
36	Vhembe District	LP																																										
37	Waterberg District	LP																																										
38	Ehlanzeni District	MP																																										
39	Gert Sibande District	MP																																										
40	Nkangala District	MP																																										
41	Frances Baard District	NC																																										
42	John Taolo Gaetsewe District	NC																																										

Legend	Financially unqualified with no findings		Financially unqualified with findings		Qualified		Adverse	
	Disclaimer		Audit not finalised at legislated date		New / closed		Finding	

Number	Auditee	Province	Audit outcome 2010-11		Audit outcome 2009-10		2010-11 Financial statement qualification areas							2010-11 Findings on predetermined objectives		2010-11 Findings on areas of non-compliance										2010-11 Findings on unauthorised, irregular, and fruitless and wasteful expenditure incurred	2010-11 Findings on specific focus areas			2010-11 Findings on audit committees		2010-11 Findings on root causes													
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43	Namakwa District	NC																																											
44	Pixley Ka Seme District Municipality	NC																																											
45	Siyanda District	NC																																											
46	Bojanala Platinum District	NW																																											
47	Dr. Kenneth Kaunda District	NW																																											
48	Dr. Ruth S Mompoti District	NW																																											
49	Ngaka Modiri Molema District	NW																																											
50	Cape Winelands District	WC																																											
51	Central Karoo District	WC																																											
52	Eden District	WC																																											
53	Overberg District	WC																																											

Legend	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Adverse
	Disclaimer	Audit not finalised at legislated date	New / closed	Finding



Number	Auditee	Province	Audit outcome 2010-11			Audit outcome 2009-10		2010-11 Financial statement qualification areas							2010-11 Findings on predetermined objectives				2010-11 Findings on areas of non-compliance													2010-11 Findings on unauthorised, irregular, and fruitless and wasteful expenditure incurred	2010-11 Findings on specific focus areas			2010-11 Findings on audit committees			2010-11 Findings on root causes						
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54	West Coast District	WC																																											
Local municipalities																																													
55	Amahlati	EC																																											
56	Baviaans	EC																																											
57	Blue Crane Route	EC																																											
58	Camdeboo	EC																																											
59	Elundini	EC																																											
60	Emalahleni	EC																																											
61	Engcobo	EC																																											
62	Gariep	EC																																											
63	Great Kei	EC																																											

Legend	Financially unqualified with no findings		Financially unqualified with findings		Qualified		Adverse	
	Disclaimer		Audit not finalised at legislated date		New / closed		Finding	

Number	Auditee	Province	Audit outcome 2010-11			Audit outcome 2009-10			2010-11 Financial statement qualification areas							2010-11 Findings on predetermined objectives				2010-11 Findings on areas of non-compliance											2010-11 Findings on unauthorised, irregular, and fruitless and wasteful expenditure incurred	2010-11 Findings on specific focus areas			2010-11 Findings on audit committees			2010-11 Findings on root causes						
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64	Ikwezi	EC																																										
65	Ingquza Hill	EC																																										
66	Inkwanca	EC																																										
67	Intsika Yethu	EC																																										
68	Inxuba Yethemba	EC																																										
69	King Sabata Dalindyebo	EC																																										
70	Kouga	EC																																										
71	Koukamma	EC																																										
72	Lukhanji	EC																																										
73	Makana	EC																																										
74	Maletswai	EC																																										

Legend	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Adverse
	Disclaimer	Audit not finalised at legislated date	New / closed	Finding



Number	Auditee	Province	Audit outcome 2010-11			Audit outcome 2009-10			2010-11 Financial statement qualification areas							2010-11 Findings on predetermined objectives				2010-11 Findings on areas of non-compliance													2010-11 Findings on unauthorised, irregular, and fruitless and wasteful expenditure incurred	2010-11 Findings on specific focus areas			2010-11 Findings on audit committees			2010-11 Findings on root causes			
			Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Other non-compliance with related legislation	AFS subject to material misstatement	Other annual financial statements and annual report findings	Asset management	Budgets	Expenditure management	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management		Other	Procurement and contract management	HR management and compensation	IT controls	Audit committee in place	Non-compliance with legislation	Impact on audit outcome	Interaction with executive	Key officials lacking minimum competencies and skills	Lack of consequences for poor performance and transgression
75	Matatiele	EC																																									
76	Mbhashe	EC																																									
77	Mbizana	EC																																									
78	Mhlontlo	EC																																									
79	Mquma	EC																																									
80	Ndlambe	EC																																									
81	Ngqushwa	EC																																									
82	Nkonkobe	EC																																									
83	Ntabankulu	EC																																									
84	Nxuba	EC																																									
85	Nyandeni	EC																																									

Legend	Financially unqualified with no findings	Financially unqualified with findings	Qualified	Adverse
	Disclaimer	Audit not finalised at legislated date	New / closed	Finding

Number	Auditee	Province	Audit outcome 2010-11			Audit outcome 2009-10			2010-11 Financial statement qualification areas							2010-11 Findings on predetermined objectives				2010-11 Findings on areas of non-compliance													2010-11 Findings on unauthorised, irregular, and fruitless and wasteful expenditure incurred	2010-11 Findings on specific focus areas			2010-11 Findings on audit committees			2010-11 Findings on root causes		
			Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Other non-compliance with related legislation	AFS subject to material misstatement	Other annual financial statements and annual report findings	Asset management	Budgets	Expenditure management	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management		Other	Procurement and contract management	HR management and compensation	IT controls	Audit committee in place	Non-compliance with legislation	Impact on audit outcome	Interaction with executive	Key officials lacking minimum competencies and skills
86	Port St Johns	EC																																								
87	Sakhisizwe	EC																																								
88	Senqu	EC																																								
89	Sundays River Valley	EC																																								
90	Tsolwana	EC																																								
91	Umkhumbi	EC																																								
92	Dhlabeng	FS																																								
93	Kopanong	FS																																								
94	Letsemeng	FS																																								
95	Mafube	FS																																								
96	Maluti - A - Phofung	FS																																								

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97	Mantsopa	FS																																										
98	Masilanyana	FS																																										
99	Matjhabeng	FS																																										
100	Metsimaholo	FS																																										
101	Mohokare	FS																																										
102	Moghaka	FS																																										
103	Nala	FS																																										
104	Naledi	FS																																										
105	Ngwathe	FS																																										
106	Nketoana	FS																																										
107	Phumelela	FS																																										

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108	Setso	FS																																													
109	Tokologo	FS																																													
110	Tswelopele	FS																																													
111	Emfuleni	GP																																													
112	Kungwini	GP																																													
113	Lesedi	GP																																													
114	Merafong City	GP																																													
115	Midvaal	GP																																													
116	Mogale City	GP																																													
117	Nokeng Tsa Taemane	GP																																													
118	Randfontein	GP																																													

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119	Westonaria	GP																																										
120	Abaqulusi	KZN																																										
121	Dannhauser	KZN																																										
122	eDumbe	KZN																																										
123	eMadlageni	KZN																																										
124	Emnambithi / Ladysmith	KZN																																										
125	Endumeni	KZN																																										
126	Ezingoleni	KZN																																										
127	Greater Kokstad	KZN																																										
128	Hibiscus Coast	KZN																																										
129	Hlabisa	KZN																																										

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130	Imbabazane	KZN																																										
131	Impendle	KZN																																										
132	Indaka	KZN																																										
133	Ingwe	KZN																																										
134	Jozini	KZN																																										
135	Kwa Sani	KZN																																										
136	Kwadukuza	KZN																																										
137	Mandeni	KZN																																										
138	Maphumulo	KZN																																										
139	Mfolozi	KZN																																										
140	Mkhambathini	KZN																																										

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141	Mpofana	KZN																																										
142	Msinga	KZN																																										
143	Msunduzi	KZN																																										
144	Mthonjaneni	KZN																																										
145	Mtubatuba	KZN																																										
146	Ndwedwe	KZN																																										
147	Newcastle	KZN																																										
148	Nkandla	KZN																																										
149	Nongoma	KZN																																										
150	Nquthu	KZN																																										
151	Ntambanana	KZN																																										

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152	Okhahlamba	KZN																																										
153	Richmond	KZN																																										
154	The Big Five False Bay	KZN																																										
155	Ubuhlebezwe	KZN																																										
156	Ulundi	KZN																																										
157	Umdoni	KZN																																										
158	Umhlabyalingana	KZN																																										
159	uMhlathuze	KZN																																										
160	Umlalazi	KZN																																										
161	Umgweni	KZN																																										
162	uMshwathi	KZN																																										

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163	Umtshezi	KZN																																										
164	Umuziwabantu	KZN																																										
165	Umvoti	KZN																																										
166	uMzimkhulu	KZN																																										
167	Umkhumbi	KZN																																										
168	uPhongolo	KZN																																										
169	Vulamehlo	KZN																																										
170	Aganang	LP																																										
171	BaPhalaborwa	LP																																										
172	Bela-Bela	LP																																										
173	Blouberg	LP																																										

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174	Elias Motsaledi (Greater Groblersdal)	LP																																								
175	Ephraim Mogale	LP																																								
176	Fetakgomo	LP																																								
177	Greater Giyani	LP																																								
178	Greater Letaba	LP																																								
179	Greater Tzaneen	LP																																								
180	Lepelle-Nkumpi	LP																																								
181	Lephalale	LP																																								
182	Makhado	LP																																								
183	Makhudutamaga	LP																																								
184	Maruleng	LP																																								

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185	Modimolle	LP																																										
186	Mogalakwena	LP																																										
187	Molemole	LP																																										
188	Mookgophong	LP																																										
189	Musina	LP																																										
190	Mutale	LP																																										
191	Polokwane	LP																																										
192	Thabazimbi	LP																																										
193	Thulamela	LP																																										
194	Tubatse	LP																																										
195	Albert Luthuli	MP																																										

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196	Bushbuckridge	MP																																									
197	Dipaliseng	MP																																									
198	Dr. JS Moroka	MP																																									
199	Emakhazeni	MP																																									
200	Emalahleni	MP																																									
201	Govan Mbeki	MP																																									
202	Lekwa	MP																																									
203	Mbombela	MP																																									
204	Mkhondo	MP																																									
205	Msukaligwa	MP																																									
206	Nkomazi	MP																																									

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207	Pixley Ka Seme (Volksrust)	MP																																										
208	Steve Tshwete	MP																																										
209	Thaba Chweu	MP																																										
210	Thembisile Hani	MP																																										
211	Umgindi Municipality	MP																																										
212	Victor Khanye	MP																																										
213	!Kheis	NC																																										
214	Dikgatlong	NC																																										
215	Emthanjeni	NC																																										
216	Gamagara	NC																																										
217	Ga-Segonyana	NC																																										

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218	Hantam	NC																																										
219	Joe Morolong	NC																																										
220	Kai! Garib	NC																																										
221	Kamiesberg	NC																																										
222	Kareeberg	NC																																										
223	Karoo Hoogland	NC																																										
224	Kgatelopele	NC																																										
225	Khai-Ma	NC																																										
226	Khara Hais	NC																																										
227	Magareng	NC																																										
228	Mier	NC																																										

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229	Nama Khoi	NC																																										
230	Phokwane	NC																																										
231	Renosterberg	NC																																										
232	Richtersveld	NC																																										
233	Siyancuma	NC																																										
234	Siyathemba	NC																																										
235	Sol Plaatjie	NC																																										
236	Thembelihle	NC																																										
237	Tsantsabane	NC																																										
238	Ubuntu	NC																																										
239	Umsobomvu	NC																																										

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			Audit opinion	Predetermined objectives	Compliance with laws and regulations	Audit opinion	Predetermined objectives	Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, and fruitless and wasteful expenditure	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Other non-compliance with related legislation	AFS subject to material misstatement	Other annual financial statements and annual report findings	Asset management	Budgets	Expenditure management	Internal audit	Revenue management	Strategic planning and performance management		Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	HR management and compensation	IT controls	Audit committee in place	Non-compliance with legislation	Impact on audit outcome	Interaction with executive	Key officials lacking minimum competencies and skills	Lack of consequences for poor performance and transgression	Slow response to AGSA message and not taking ownership of key controls
240	Ditsobotla	NW																																										
241	Greater Taung	NW																																										
242	Kagisano	NW																																										
243	Kgetleng River	NW																																										
244	Lekwa-Teemane	NW																																										
245	Madibeng	NW																																										
246	Mafikeng	NW																																										
247	Mamusa	NW																																										
248	Maquassi Hills	NW																																										
249	Matlosana	NW																																										
250	Molopo	NW																																										

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251	Moretele	NW																																											
252	Moses Kotane	NW																																											
253	Naledi	NW																																											
254	Ramotshere Moiloa	NW																																											
255	Ratlou	NW																																											
256	Rustenburg	NW																																											
257	Tlokwe	NW																																											
258	Tswaing	NW																																											
259	Ventersdorp	NW																																											
260	Beaufort West	WC																																											
261	Berg River	WC																																											

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262	Bitou	WC																																											
263	Breede Valley	WC																																											
264	Cape Agulhas	WC																																											
265	Cederberg	WC																																											
266	Drakenstein	WC																																											
267	George	WC																																											
268	Hessequa	WC																																											
269	Kannaland	WC																																											
270	Knysna	WC																																											
271	Laingsburg	WC																																											
272	Langeberg	WC																																											

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273	Matzikama	WC																																										
274	Mossel Bay	WC																																										
275	Oudtshoorn	WC																																										
276	Overstrand	WC																																										
277	Prince Albert	WC																																										
278	Saldanha Bay	WC																																										
279	Stellenbosch	WC																																										
280	Swartland	WC																																										
281	Swellendam	WC																																										
282	Theewaterskloof	WC																																										
283	Witzenberg	WC																																										

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294	Centlec (Pty) Ltd	FS																																							
295	Fezile Dabi District Municipality Trust	FS																																							
296	Krynaauwlust Farming Trust (Pty) Ltd	FS																																							
297	Lejwe Le Putswa Development Agency (Pty) Ltd	FS																																							
298	Maluti-A-Phofung Water (Pty) Ltd	FS																																							
299	Metsimaholo Mayoral Trust	FS																																							
300	Brakpan Bus Company (Pty) Ltd	GP																																							
301	City Power Johannesburg	GP																																							
302	Civirelo Water	GP																																							
303	East Rand Water Care Company	GP																																							
304	Ekurhuleni Development Company (Pty) Ltd	GP																																							

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305	Germiston Phase II Housing Company (Pty) Ltd	GP																																						
306	Housing Company Tshwane	GP																																						
307	Joburg Property Company	GP																																						
308	Johannesburg City Parks	GP																																						
309	Johannesburg Civic Theatre	GP																																						
310	Johannesburg Development Agency (Soc) Ltd	GP																																						
311	Johannesburg Fresh Produce Market	GP																																						
312	Johannesburg Metropolitan Bus Services	GP																																						
313	Johannesburg Roads Agency	GP																																						
314	Johannesburg Social Housing Company	GP																																						
315	Johannesburg Tourism Company	GP																																						

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316	Johannesburg Water	GP																																						
317	Johannesburg Zoo	GP																																						
318	Lethabong Housing Institute	GP																																						
319	Metropolitan Trading Company	GP																																						
320	Pharoe Park Housing Company (Pty) Ltd	GP																																						
321	Pikitup Johannesburg	GP																																						
322	Rodepoort Civic Theatre	GP																																						
323	Sandspruit Works	GP																																						
324	Tshwane Centre for Business Information and Support (CENBIS)	GP																																						
325	Tshwane Economic Development Agency (TEDA)	GP																																						
326	West Rand Development Agency	GP																																						

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327	Durban Marine Theme Park (Pty) Ltd	KZN																																						
328	Hibiscus Coast Development Agency	KZN																																						
329	ICC, Durban (Pty) Ltd	KZN																																						
330	Ilembe Management Development Enterprise (Pty) Ltd	KZN																																						
331	Ugu South Coast Tourism	KZN																																						
332	Umhlosinga Development Agency	KZN																																						
333	Uthukela Water (Pty) Ltd	KZN																																						
334	Polokwane Housing Association	LP																																						
335	Sekhukhune Development Agency	LP																																						
336	Zelpy 1903 (Pty) Ltd Trading as Letsema	LP																																						
337	Dr KKDM Economic Agency (Pty) Ltd	NW																																						

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338	Moretele Development Agency	NW																																							
339	Moses Kotane Development Agency	NW																																							
340	Rustenburg Water Services Trust	NW																																							
341	Cape Town International Convention Centre	WC																																							
342	Khayelitsha Community Trust	WC																																							
343	Knysna Economic Development Agency	WC																																							

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