

CONSOLIDATED GENERAL REPORT on the LOCAL GOVERNMENT audit outcomes

2009-10





Consolidated general report

on the local government audit outcomes 2009-10

RP 92/2011

ISBN: 978-0-621-40110-3



Our reputation promise/mission

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



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SECTION 1: FOREWORD

It is with pleasure that I present to national Parliament, provincial legislatures and municipal councils my 2009-10 general report summarising the results of the audit outcomes for local government for the financial year ended 30 June 2010. The purpose of this report and the briefings I held with members of provincial legislatures, Premiers, MECs for Finance and Local Government and other role players leading up to its release is to provide an overview of the audit outcomes of municipalities and municipal entities. This empowers those charged with governance and oversight, including the executive, councils, legislatures and audit committees, to work together towards achieving clean administration, characterised by financially unqualified audit reports that have no findings on either their service delivery reporting or their compliance with laws and regulations.

In their continuing efforts to encourage clean administration, AGSA senior staff conducted key control assessments on a quarterly basis which led to discussions with executive mayors, municipal managers and provincial leadership. These key controls, comprising (i) leadership, (ii) financial and performance management, and (iii) governance, have for the year under review been key drivers of the three facets of audit outcomes, namely audit opinions on financial statements, reporting on predetermined objectives (service delivery reporting) and compliance with laws and regulations.

Seven municipalities received financially unqualified audit reports with no findings on either predetermined objectives or compliance with laws and regulations (clean administration). These municipalities are in Mpumalanga, namely the Ehlanzeni district municipality and Steve Tshwete and Victor Khanye municipalities. Other municipalities with clean administration, as measured by audit reports, were the City of Cape Town consolidated (Western Cape), the district municipalities of Metsweding (Gauteng), Frances Baard (Northern Cape), and the local municipality of Fetakgomo (Limpopo). The 10 municipal entities that registered this commendable achievement are Amathole Economic Development Agency (Eastern Cape), seven entities in Gauteng (Brakpan Bus Company, Erwat, Joburg Property Company, Johannesburg Civic Theatre, Johannesburg Social Housing Company, Lethabong Housing Institute, and the Roodepoort Civic Theatre) and the Cape Town International Convention Centre and Overstrand Local Economic Development Agency in the Western Cape. None of the municipalities or municipal entities in the Free State, KwaZulu-Natal and the North West province obtained audit outcomes that fall within this category.

Other salient aspects of the audit outcomes of the 237 municipalities reported on include 57 (24%) improving on their 2008-09 audit outcomes, 15 (6%) regressing, 95 (40%) remaining financially unqualified, but with findings, and 70 (30%) again receiving disclaimed or adverse audit opinions. Key aspects of the audit outcomes of municipal entities for the year under review include 12 (26 %) improving on their 2008-09 audit outcomes, two (5%) regressing, 25 (54%) remaining financially unqualified, but with findings, and seven (15%) again receiving disclaimed or adverse audit opinions.

An overall reduction of 46% was registered in the most negative (disclaimers and adverse) audit opinion category during the year under review, namely from 121 to 65. However, this should not be viewed as the final trend in audit improvements since 51 audits were outstanding as at 31 January 2011, many of which obtained disclaimed or adverse audit opinions for the 2008-09 financial year.



The most notable overall improvements in audit outcomes occurred in KwaZulu-Natal and Gauteng. These two provinces, together with the Western Cape, lead the pursuit of financial statements that are financially unqualified. In each of these provinces, more than 80% of auditees are financially unqualified.

Disconcertingly, 110 out of the 163 (67%) municipalities failed to address all their 2008-09 qualification findings in order for their 2009-10 financial statements to be financially unqualified. This includes 38 municipalities and three municipal entities which have now received disclaimed/adverse audit reports for the past six and five years, respectively, and five municipalities which have remained qualified for three consecutive years. The Eastern Cape (17), Free State (seven), Limpopo (seven) and the Northern Cape (nine) account for 97% of such auditees.

Seventy-five municipalities (34%) and 25 (51%) municipal entities have had repeat findings on predetermined objectives and/or compliance with laws and regulations, while again having obtained financially unqualified audit reports. The audit outcomes of these municipalities have therefore stagnated as they had not progressed sufficiently towards clean administration over the past two years (i.e. financially unqualified with no findings on either reporting on predetermined objectives or compliance with laws and regulations). These municipalities, in particular, present a huge opportunity for local government to increase the number of municipalities with clean administration several-fold within the foreseeable future.

Financial statements that were disclaimed or subject to adverse or qualified audit opinions did not fairly present the financial position as at June 2010 or the financial results for the year then ended as regards matters such as the values placed on capital assets, amounts at which debtors would be realised, employee retirement benefit obligations and under-disclosure of unauthorised, irregular or fruitless and wasteful expenditure.

The high incidence of material errors and omissions in financial statements submitted for audit, which management corrected during the audit and thereby avoided their financial statements being qualified, still points to a lack of accounting discipline. The continued, extensive reliance by municipalities on consultants to assist with the preparation of financial statements and even with the correction of such errors during the audit, raises concern about the sustainability of audit outcomes for many municipalities.

While the number of auditees submitting their performance reports on predetermined objectives for audit had increased by 12% to 80%, only 18 municipalities (8%) produced performance reports that satisfied regulatory requirements and were both useful and reliable. Considering the number of findings, especially the high incidence of non-compliance with the MSA and MFMA, coupled with the non-submission of performance information for audit, it is evident that substantial work still needs to be done to prepare municipalities and municipal entities for an opinion on performance information. The high prevalence of findings can be attributed to the fact that leadership does not assign the same level of commitment to addressing findings on predetermined objectives and compliance matters as they do to addressing matters that could lead to unfavourable audit opinions.

The level of non-compliance with laws and regulations applicable to municipalities and municipal entities is an area of concern . The financial year under review saw an increase in the number of municipalities found to have contravened laws and legislation. The findings include non-adherence to supply chain management prescripts (SCM), material errors and omissions in financial statements submitted for audit, while mayors, municipal managers and senior municipal officers neglected their legislated duties. Audit committees and



internal audit units that do not fulfil their legislated functions or are under-capacitated constitute non-compliance, and also weaken governance at auditees. Key findings from the audits of SCM include awards to persons in the service of the state (including councillors), inadequate controls, as well as auditees not being able to submit for audit, documentation relating to contracts awarded. This resulted in a substantial increase in the number of municipalities incurring unauthorised, irregular as well as fruitless and wasteful expenditure. Mayors and municipal managers must set an example by consistently executing their legislated duties and then ensuring that compliance-oriented control environments exist within municipalities and municipal entities.

Municipalities and municipal entities need appropriate, reliable and secure computer systems in order to effectively manage their finances and to maintain adequate financial records for the preparation of financial statements. They also need to effectively manage information technology (IT) to ensure uninterrupted service delivery and continuity of business operations. Decisive action should be taken by the coordinating ministries (DPSA, CoGTA and National Treasury), the SITA and provincial oversight structures to address the high level of exposure and vulnerability identified during the audit of IT at municipalities and municipal entities.

Municipalities and municipal entities require action plans that are supported by the leadership, implemented by management and monitored by those charged with governance in order to improve the three facets of their audit outcomes. The AGSA's assessment at the time of the audit was that intervention was required in order to put adequate action plans in place at a significant proportion of the 120 auditees whose financial statements were disclaimed or who received adverse of qualified opinions. Equally worrying was the fact that less than half of the auditees whose financial statements were financially unqualified had specific action plans in place to address findings on predetermined objectives, while only a slightly higher proportion had action plans to address compliance findings. At the time of the audit, specific plans to improve human resource management, key to improved audit outcomes, required either intervention or close monitoring at a significant number of auditees.

The AGSA has since March 2011 engaged provincial role players as well as national key role players (including CoGTA, National Treasury, the Presidency and SALGA) on key risks and the nine specific focus areas where their contributions to improved audit outcomes in local government can be further enhanced. These focus areas include auditees with issues relating to funding of operations, financial sustainability and going concern. Coordinating ministries may need to ascertain whether their existing and planned initiatives are likely to have the desired impact on audit outcomes as, at the date of this report, the nine focus areas had not all been addressed in the initiatives identified by role players.

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

Together, we will continue to collaborate in order to accelerate the implementation of actions and contribute towards strengthening our country's democracy.

Auditor-General
June 2011

Auditor- General



SECTION 2: AUDIT OUTCOMES

Local government comprises six metros, 46 district municipalities and 231 local municipalities¹. This report provides an overview of audit outcomes-related information contained in the general reports of each province.

2.1 Highlights of audit outcomes

The table below summarises the 2009-10 audit outcomes of 237 (84%) municipalities and 49 (91%) municipal entities whose audits were finalised by 31 January 2011. The timely submission of financial statements for audit and the effect on comparisons with the previous year and on national and provincial trends are discussed under paragraph 2.1.2 of this report.

Table 1: Summary of audit outcomes

Audit outcomes	Munici	palities	Municipal entities			
Audit outcomes	2009-10	2008-09	2009-10	2008-09		
Disclaimer of opinion	53	103	5	8		
Adverse opinion	7	10	0	0		
Qualified opinion	50	50	5	4		
$Financially \ unqualified \ report \ with \ findings \ on \ predetermined \ objectives \ and/or \ compliance \ with \ laws \ and \ regulations^{\star}$	120	113	29	42		
Financially unqualified report with no findings on predetermined objectives or compliance with laws and regulations *	7	4	10	1		
Total number of audits reported on	237	280	49	55		
Number of audit reports not issued by 31 January 2011	46	3	5	1		
Total number of audits	283	283	54	56		
Total number of entities in which findings arose from the AGSA's other legal reporting responsibilities:						
Predetermined objectives	219	256	27	32		
Compliance with laws and regulations	224	231	38	47		

^{*} For the remainder of this analysis outcomes in these categories are simply referred to as "with findings" or "with no findings".

The overall position depicted above was as a result of improvements, regressions and unchanged audit outcomes compared to the 2008-09 financial year, as shown in tables 2 and 3, below.

¹ In the case of 34 municipalities that control 54 municipal entities, the audits are conducted on their consolidated financial statements.



Table 2: Movements in audit outcomes - Municipalities

	Improvement	Unchanged	Regressed	Total reported on	Prior year opinion on audit outstanding 2009-10
Disclaimer/Adverse		52	8	60	33
Qualified	26	18	•	50	
Financially unqualified with findings*	26	93	1	120	7
Financially unqualified with no findings*	5	2		7	1
Total	57	165	15	237	46

Table 3: Movements in audit outcomes - Municipal entities

	Improvement	Unchanged	Regressed	New municipality entities	Total reported on	Prior year opinion on audit outstanding 2009-10
Disclaimer/Adverse		4	1		5	1
Qualified		3		1		
Financially unqualified with findings*	1	25	1	2	29	3
Financially unqualified with no findings*	10				10	
Total	12	32	2	3	49	4 + 1 outstanding since 2004-05 = 5



Figures 1 and 2 depict the outcomes of the audits of financial statements, while figures 3 and 4 provide a provincial analysis of the audit outcomes for municipalities and municipal entities. Figures 5 and 6 present an analysis of findings arising from the audit of reporting on predetermined objectives and compliance with laws and regulations for municipalities and municipal entities, respectively.

2009-10: 100% = 237

2008-09: 100% = 280

51%

40%

25%

21%

18%

3%

2%

Disclaimer/Adverse

Qualified

Financially unqualified with findings

Financially unqualified with no findings

Figure 1: Analysis of audit outcomes – Municipalities (based on consolidated financial statements where applicable)

The figure above includes the audit outcomes of 27 out of the 34 municipalities whose financial statements have been consolidated with the financial statements of municipal entities under their control. The next figure reflects the 2009-10 audit outcomes of municipal entities.



Figure 2: Analysis of audit outcomes - Municipal entities

A provincial analysis of the 2009-10 audit outcomes of all auditees is presented below.



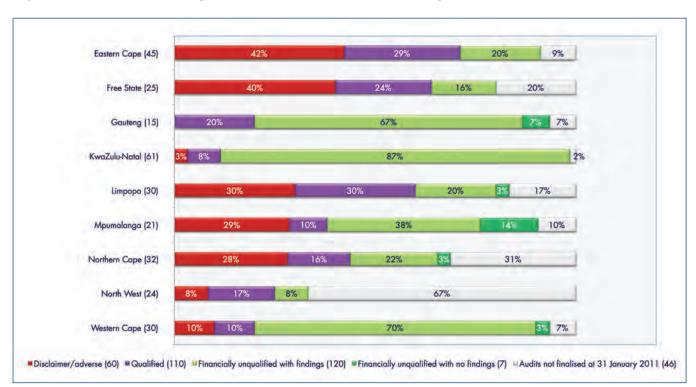
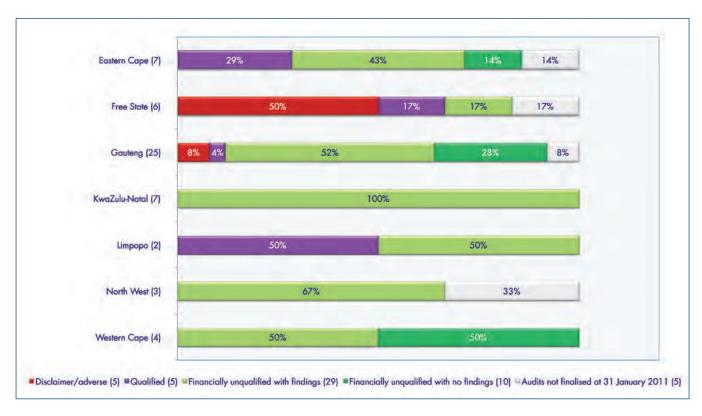


Figure 3: Provincial analysis of audit outcomes - Municipalities







The improvements, regressions and unchanged audit outcomes analysed above produced the results as reflected in Table 4 for the individual provinces.

Table 4: Salient aspects of provincial audit outcomes

Movement	Eastern Cape	Free State	Gauteng	KwaZulu- Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape	Total
Increase in number disclaimers/adverse	4		1		1	2			2	10
Repeat disclaimers/ adverse	15	13	1	2	8	4	9	2	1	55
Increase in number qualified	7	6	3	3	5	1	4	2	3	34
Repeat qualified	8	1	1	2	5	1	1	2		21
Reduction in disclaimers/adverse/ qualified	3	3	3	9	4	3	3			28
Financially unqualified with findings 2008-09	27%	10%	78%	75%	28%	43%	13%	25%	82%	46%
Financially unqualified with findings 2009-10	26%	20%	62%	90%	26%	42%	32%	40%	72%	52%
Retained/progressed to financially unqualified with no findings	1	0	8	0	1	3	1	0	3	17
Total reported on	47	25	37	67	27	19	22	10	32	286
Audits outstanding 2009-10	5	6	3	1	5	2	10	17	2	51

Further highlights of the audit outcomes are detailed under paragraph 2.1.1.

Impact of outstanding audits on comparisons and trends presented in this report

A large number of audits (51) [46 (16%) municipalities and five (9%) municipal entities] are outstanding in the current year. Many of these outstanding auditees obtained disclaimed, adverse or qualified opinions for the 2008-09 financial year. This should be borne in mind in considering all the comparative statistics and analysis presented in this report, as they could have been significantly different had most of the audits been finalised at the date of this analysis. Two provinces (Northern Cape and North West) account for 53% (i.e. 10 and 17 respectively) of the audits not finalised by 31 January 2011. Tables 5 and 6 provides details of audits finalised between 1 February 2011 and the date of this report.



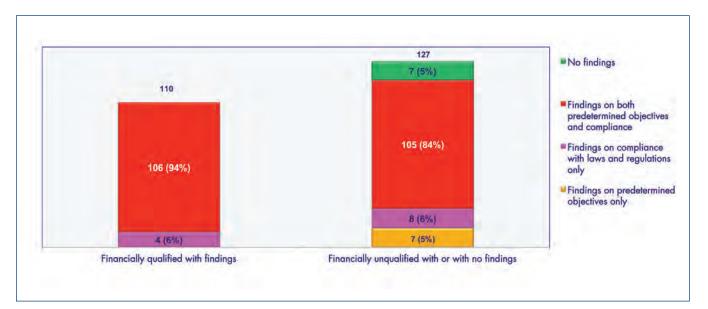
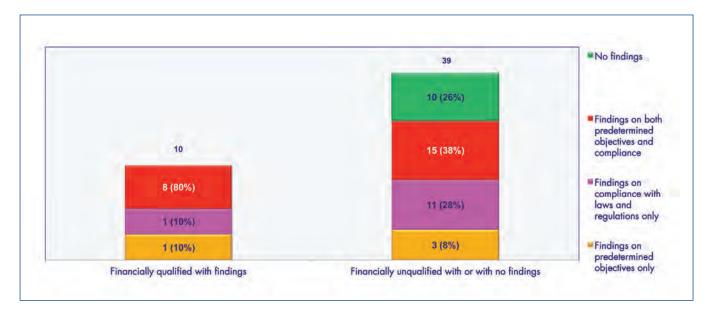


Figure 5: Analysis of municipalities with/without findings

Figure 6: Analysis of municipal entities with/without findings



Findings on predetermined objectives are broadly analysed under paragraph 2.3 while auditees' compliance with laws and regulations is overviewed under paragraph 2.4

2.1.1 Highlights of audit outcomes for the year under review

Highlights and major trends of the audit outcomes for the year under review, with comparisons to previous audit outcomes, are presented below. Annexure 1 to this report lists the auditees together with their 2009-10 audit outcomes and those of the previous financial year.



Overall trends	 Fifty-seven (24%) municipalities improved on their 2008-09 audit outcomes, 15 (6%) regressed and 165 (70%) remained unchanged. The audit outcomes of 12 (25%) municipal entities improved, two regressed (4%) and 32 (65%) remained unchanged.
Financially unqualified audit reports with no findings	 Three district municipalities, three local municipalities and 10 municipal entities (seven in Gauteng) obtained financially unqualified audit reports with no findings on either reporting against predetermined objectives or compliance with laws and regulations. None of the municipalities or municipal entities in Free State, KwaZulu-Natal and the North West province obtained audit outcomes falling within this category.
Notable overall improvements	 The most notable overall improvements in audit outcomes at municipalities and municipal entities occurred in KwaZulu-Natal and Gauteng, which registered 12 and 11 improvements respectively.
Consolidated municipalities (including metros)	 Of the 27 consolidated municipalities reported on, only the City of Cape Town improved to financially unqualified with no findings. The audit outcomes of three of the other four metros finalised remained unchanged (finacially unqualified with findings), not having fully addressed deficiencies in their reporting on predetermined objectives and/or compliance with laws and regulations. Tshwane Metro improved from qualified to financially unqualified with findings. Of the other consolidation municipalities, 19 (70%) were unchanged (three disclaimed/adverse, five qualified and 11 financially unqualified with findingds) compared to the 2008-09 financial year, while two regressed and one improved.
Disclaimer, adverse or qualified audit reports	 The number of municipalities (including consolidations) that failed to obtain financially unqualified audit opinions improved by 32% from 163 in 2008-09 to 110 in the year under review to constitute 46% of audits completed at 31 January 2011. Of the 110 municipalities that obtained disclaimed, adverse or qualified audit reports, 26 had progressed within these opinion categories, 15 had regressed from the previous year and 69 (63%) remained disclaimed, adverse or qualified. A provincial analysis of progress in audit outcomes (or lack thereof) of these 110 municipalities is depicted in figure 7, while figure 8 analyses the audit outcomes of the 10 municipal entities that received disclaimed or qualified audit opinions.
Prior year qualification findings	• The 110 municipalities qualified in 2009-10 had 129 qualification findings addressed, while attracting 111 new qualification findings. A total of 414 were repeated qualifications.
Further qualification findings	• Of the 69 out of 110 municipalities (63%) that were again disclaimed, adverse or qualified, 31 (28%) municipalities attracted further qualification findings, while 21 (19%) had not addressed any of their 2008-09 qualification findings.
Repeatedly qualified auditees	 Thirty-eight municipalities and three municipal entities have received disclaimed/adverse audit reports for the past six and five years respectively. Eastern Cape (15), Free State (six), Limpopo (five) and the Northern Cape (10) account for 88% of such auditees. Three municipalities have remained qualified for four consecutive years.
Financially unqualified, with / without findings	• In the current year, financially unqualified (i.e. with or without findings on predetermined objectives and compliance with laws and regulations) audit outcomes improved only marginally (4%) from 160 (2008-09) to 166 (2009-10).
Parent municipalities and entities under their control	 In respect of the financial statements of 14 (40%) parent municipalities, six were disclaimed and eight qualified. Of the municipal entities controlled by these parent municipalities, four were financially unqualified with findings. One municipal entity was financially unqualified with no findings.
No further progress towards clean administration	 Seventy-five municipalities had repeat findings on predetermined objectives and/or compliance with laws and regulations, while their financial statements were again financially unqualified. The audit outcomes of these municipalities have therefore stagnated because they had failed to make progress over the past two years towards clean administration. Furthermore, some of these municipalities have actually regressed during the year under review in that they attracted new findings on predetermined objectives reporting and/or compliance with laws and regulations.



Figures 7 and 8 provide a provincial analysis of auditees whose financial statements attracted disclaimers or adverse or qualified opinions.

Figure 7: Movements in audit outcomes of municipalities obtaining disclaimed/adverse or qualified opinions

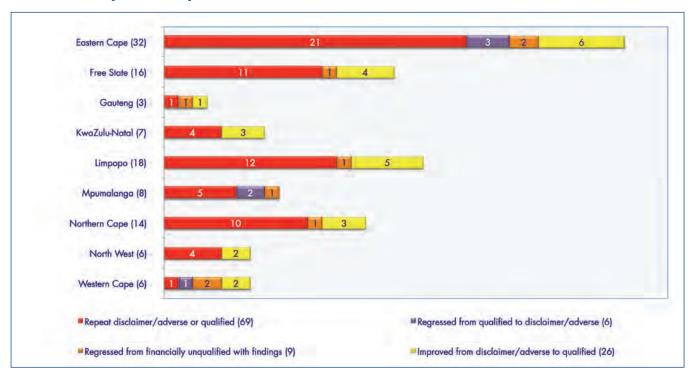
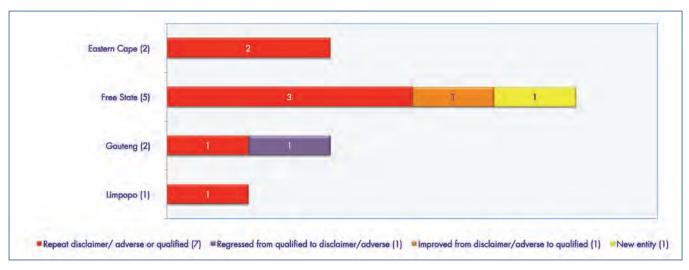


Figure 8: Movements in audit outcomes of municipal entities obtaining disclaimed/adverse or qualified opinions (applicable provinces)



Qualification findings are analysed under section 2.2.1 of this report.



2.1.2 Timeliness of submission of financial statements and the timeliness of the audit thereof

Municipalities and municipal entities are required by the MFMA to submit their financial statements for audit by 31 August and consolidated financial statements, where applicable, by 30 September.

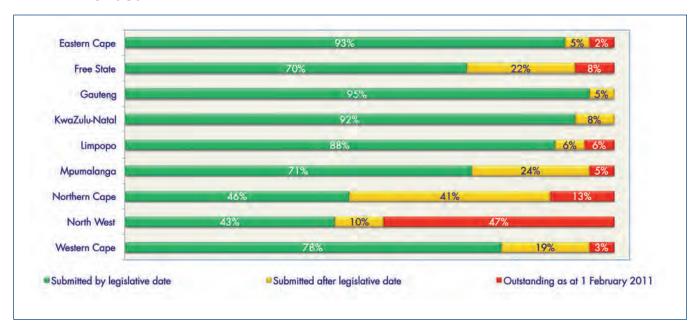
By the deadline of 31 August 2010, 227 (80%) municipalities [2008-09: 215 (76%)] and 52 (96%) municipal entities [2008-09: 46 (82%)] had submitted their financial statements for auditing. This represents only a 2% improvement (for municipalities) in timely submission compared to the 2008-09 financial year. A significant 20% of municipalities have still not been able to meet the legislative requirement of timely submission.

The AGSA is required to complete an audit within three months of receipt of financial statements. The audits of 268 (27 consolidated audits and 241 non-consolidated audits) (85%) municipalities and 49 (91%) municipal entities were completed by 31 January 2011. The reasons why 51 audits were not completed by 31 January 2011 are as follows:

1.	AGSA internal quality assurance and monitoring processes	5 (10%)
2.	Financial statements submitted after legislated deadline	24 (47%)
3.	Financial statements not yet submitted for auditing	22 (43%)

The timeliness of submission by provinces of financial statements for audit is depicted below.

Figure 9: Provincial analysis of timeliness of submission of annual financial statements for audit



In most provinces, the AGSA issued section 133 letters in terms of the MFMA. These letters informed the respective speakers of the councils, the National Treasury, the MEC for Local Government and the MEC for



Finance of each province's auditees which had not submitted their financial statements for audit. In some instances financial statements were submitted by 31 August 2010, but were subsequently withdrawn due to poor quality.

2.1.3 Outcomes of audits finalised after 31 January 2011

From 1 February 2011 to the date of this general report (GR) a further 19 (17 municipalities and two municipal entities) audits were finalised. Their outcomes are reflected in the tables below.

Table 5: Outcomes of audits finalised after 31 January 2011 - Municipalities (not included in the trends analysed in this report)

	Audits		Audit o		Total number of	Total number	
Province	outstanding as at 31 January 2011	Disclaimer/ Adverse	Qualified	Financially unqualified with findings	Financially unqualified with no findings	audits finalised since 31 January 2011	of audits outstanding at GR date
Eastern Cape	4	3	1			4	0
Free State	5	2				2	3
Gauteng	1		1			1	0
KwaZulu-Natal	1		1			1	0
Limpopo	5		2	2		4	1
Mpumalanga	2	1				1	1
Northern Cape	10	2	1			3	7
North West	16		1			1	15
Western Cape	2					0	2
Total	46	8	7	2	0	17	29
Total number of audits finalised by 31 January 2011	237	60	50	120	7	237	0
Outcomes of audits finalised at General Report date	283	68	57	122	7	254	29



Table 6: Outcomes of audits finalised after 31 January 2011 - Municipal entities (not included in the trends analysed in this report) (applicable provinces)

	Audits		Audit o	utcomes		Total number of	Total number
Province	outstanding as at 31 January 2011	Disclaimer/ Adverse	Qualified	Financially unqualified with findings	Financially unqualified with no findings	audits finalised since 31 January 2011	of audits outstanding at GR date
Eastern Cape	1					0	1
Free State	1					0	1
Gauteng	2		2			2	0
North West	1					0	1
Total	5	0	2	0	0	2	3
Total number of audits finalised by 31 January 2011	49	5	5	29	10	49	0
Outcomes of audits finalised at General Report date	54	5	7	29	10	51	3

Only provinces with outstanding audits are listed.

As is evident from the tables above, there were only two cases where management was able to remedy defects in their financial statements at the cost of not meeting the legislated deadline for submission of financial statements for audit.

2.2 Findings on financial management, including defects in financial statements

Matters relating to financial management presented in this analysis include progress (or lack thereof) made by municipalities and municipal entities in addressing prior year financial statement qualification findings, material errors and omissions in financial statements submitted for audit, financial statement-related assistance provided to auditees by consultants, material losses incurred by auditees, underspending by auditees against their votes and/or conditional grants and auditees facing financial sustainability concerns.

2.2.1 Financial statement areas attracting qualifications

Financial statements that attract adverse or qualified audit opinions contain misstatements that cause them not to fairly present the financial position at year-end or the financial results for the year then ended in one or more areas. Financial statements are disclaimed when the information requested was not presented to the auditors to enable them to arrive at an opinion thereon.

Of the audits completed at 31 January 2011, 110 out of the 163 (67%) municipalities did not address all of their 2008-09 qualification findings in order for their 2009-10 financial statements to be financially unqualified. The corresponding lack of progress for municipal entities is 10 out of 12 (83%). Some of the auditees had not addressed any of their 2008-09 qualification findings.

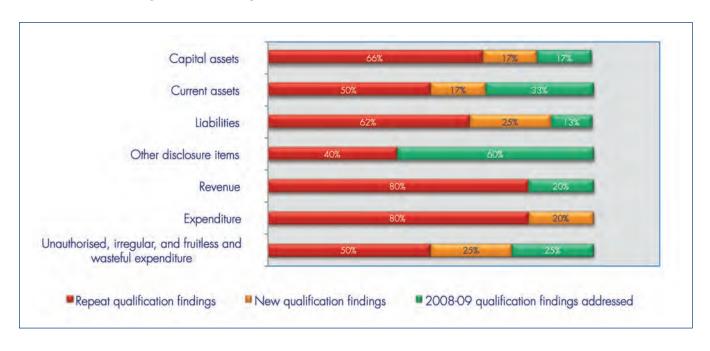


Figures 10 and 11 below depict the 2009-10 movements in the financial statement qualification areas for the municipalities and municipal entities that obtained disclaimed/adverse or qualified audit reports.

Figure 10: Progress made by auditees in addressing financial statement qualification findings (110 municipalities)



Figure 11: Progress made by auditees in addressing financial statement qualification findings (10 municipal entities)





Corrective action taken by management to address 2008-09 qualification findings

Limited progress in addressing qualification areas is depicted in the previous two figures. We have reflected on the initiatives undertaken by entities that were able to successfully address 2008-2009 audit findings with a view to highlighting good practice. This good practice can be replicated (where relevant) in entities that are beginning to address qualification areas from the current audit reports. For those municipalities and municipal entities that improved their audit outcomes, we found that improvements in audit outcomes can be attributed to corrective action taken by leadership and management, including the following:

- Leadership made themselves available and undertook to attend to audit issues and findings in a timely manner
- Consultants were appointed to address deficiencies.
- Action plans were compiled to address previously reported issues and were monitored for progress.
- Management improved its record keeping/records management.
- Reconciliations, supporting schedules and information were prepared for all balances on the balance sheet.
- The audit team interacted very closely with management and with the audit committee to obtain the required information from their financial management systems, e.g. trial balance/general ledger.
- The AGSA audit teams worked with management to resolve technical qualifications on assets, VAT and provisions.
- Leadership intervened in respect of prior year qualifications and cooperated with the audit team to resolve current year audit queries.

Key drivers of improved audit outcomes are analysed under sections 3 and 4 of this report.

2.2.2 Defects in financial statements resulting in disclaimed, adverse or qualified audit opinions

In summary, financial statements that were subject to disclaimed, adverse or qualified audit opinions do not fairly present the financial position as at June 2010 or the financial results for the year then ended in one or more of the following ways:

Capital assets

87 municipalities (78%)	Addressed = 17	Repeat = 72	New= 15
5 municipal entities (50%)	Addressed = 1	Repeat = 4	New= 1

Common matters attracting qualifications include the following:

- Landfill site valuation and rehabilitation provisions (estimates) for the cost to rehabilitate the site to its original condition were not fair or adequate.
- Fixed asset registers did not contain sufficient information to physically identify assets that had been recorded or to apply the required accounting prescripts. In some instances the asset registers were incomplete.



Current assets

82 municipalities (75%)	Addressed = 14	Repeat = 71	New= 11
4 municipal entities (40%)	Addressed = 2	Repeat = 3	New= 1

Common matters attracting qualifications include the following:

- Consumer debtors and other receivables were not properly accounted for.
- The existence and value of inventory could not be substantiated due to poor records being maintained in respect of the location and value of such inventory. Some items of stock were excluded from the physical inventory count and at some municipalities no inventory counts were performed.
- Not all bank accounts in the name of the municipality were included in the financial statements.

Liabilities

81 municipalities (74%)	Addressed = 18	Repeat = 73	New= 8
7 municipal entities (70%)	Addressed = 1	Repeat = 5	New= 2

Common matters attracting qualifications include the following:

- Post-employment benefit plan liabilities for retired and current employees were not reflected in the financial statements or were incorrectly valued.
- Inadequate management of conditional grants expenditure.
- Understatement of amounts payable.

Other disclosure items

73 municipalities (66%)	Addressed = 23	Repeat = 52	New= 21
2 municipal entities (20%)	Addressed = 3	Repeat = 2	New= 0

Common matters attracting qualifications include the following:

Mandatory disclosures

- Financial statements under-reported or failed to disclose unauthorised, irregular, and fruitless and wasteful expenditure.
- Electricity and water distribution losses for the year were not disclosed or were under-reported.

Other disclosure items

- Accumulated surplus, changes to accounting policy, accounting estimates and prior period errors not disclosed as required by GRAP.
- Contractual commitments not disclosed.
- Leases incorrectly classified as operating leases instead of financial leases.
- Related parties not disclosed.



Revenue

74 municipalities (67%)	Addressed = 17	Repeat = 57	New= 17
4 municipal entities (40%)	Addressed = 1	Repeat = 4	New= 0

Common matters attracting qualifications include the following:

- Supporting documents not provided for revenue raised for service charges reflected in the financial statements.
- Service charges not in terms of approved tariffs and/or Municipal Property Rates Act.
- Services charged understated as consumers were not billed for services rendered.
- The valuation roll not updated with the most recent values and the billing system values and valuation roll.

Expenditure

61 municipalities (55%)	Addressed = 24	Repeat = 44	New= 17
5 municipal entities (50%)	Addressed = 0	Repeat = 4	New= 1

Common matters attracting qualifications include the following:

- Employee-related costs incorrectly reported or not substantiated.
- No supporting documents for other expenditure.

Unauthorised, irregular, and fruitless and wasteful expenditure

67 municipalities (62%)	Addressed = 16	Repeat = 45	New= 22
3 municipal entities (30%)	Addressed = 2	Repeat = 2	New= 1

Qualifications regarding unauthorised expenditure related to overspending on various votes and a lack of appropriate documentation of the amounts reflected in the financial statements. The qualification audit findings relate mainly to inadequate systems to record, account for and monitor spending in terms of legislated SCM processes.

2.2.3 Material misstatements in financial statements submitted for audit

Section 122 of the MFMA requires municipalities and municipal entities to submit for audit annual financial statements that fairly present their state of affairs, their performance against budget, their management of revenue, expenditure, assets and liabilities, their business activities, financial results, and their financial position as at the end of the financial year. Financial statements submitted for audit are therefore required to be free from material misstatements (i.e. material errors or omissions).

We highlight hereunder some data relating to the quality of first-time submission of financial statements. The audit process is not a substitute for proper internal controls over the review of submitted financial statements. This data therefore serves as a key indicator of the capacity and diligence of municipalities in respect of first-

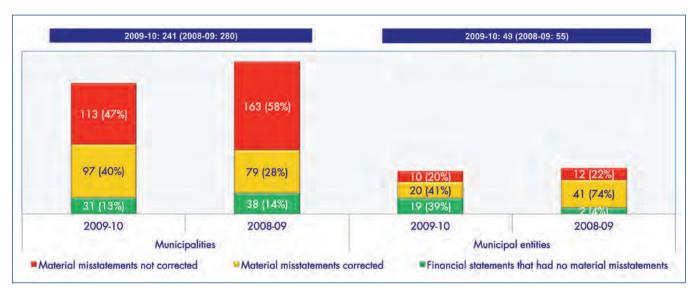


time accurate financial reporting, and the experience of municipalities in correcting material misstatements where the first-time submissions were assessed by the auditors to be deficient.

- The financial statements of only 49 municipalities (2008-09: 34) and 27 municipal entities (2008-09: 12) submitted for audit by 30 June 2010 were free from material misstatements. This implies that a significant number of municipalities require assistance in the preparation of their financial statements and a substantial proportion of these still require correction during the audit to avoid qualification.
- One hundred and eighty-eight (79%) [2008-09: 246 (88%)] municipalities and 22 (45%) [2008-09: 43 (78%)] municipal entities submitted financial statements for audit that contained material errors or omissions or did not meet the applicable accounting standards.
- Of the audits completed by 31 January 2011, only Gauteng, Mpumalanga and the Western Cape showed a reduction, compared to the previous financial year, in the number of financial statements submitted for audit containing material misstatements.
- Provinces with the highest proportion of corrected material misstatements were the Eastern Cape (100%), Free State (100%), KwaZulu-Natal (93%), Limpopo (93%) and North West (80%).
- In many instances (43%) management made the required corrections to the financial statements during the audit. In this way, 78 municipalities and 12 municipal entities avoided their financial statements being financially qualified. Material misstatements not corrected resulted in qualified audit opinions.
- Material misstatements could have been detected by auditees had the financial statements been prepared in accordance with the applicable financial reporting frameworks and had they been adequately reviewed by management and those charged with governance.

The figure below indicates the extent of material misstatements present in the financial statements submitted for audit and subsequently corrected by management as a result of audit findings. Where material misstatements were not corrected, the financial statements were qualified.

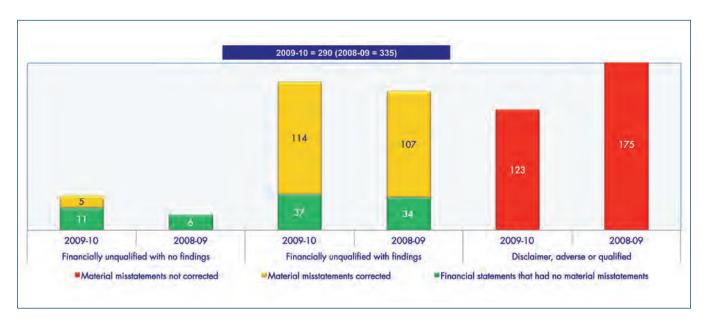
Figure 12: Material misstatements corrected by management during the audit – Municipalities and municipal entities





The effects of management being given an opportunity to correct material misstatements identified during the audit are reflected in the figure below.

Figure 13: The effects on audit outcomes of management correcting material misstatement in financial statements submitted for audit – Municipalities and municipal entities



2.2.4 Financial statement-related assistance provided by consultants to municipalities and municipal entities

As in previous financial years, municipalities and municipal entities continue to engage the services of consultants to assist them with accounting-related services and the preparation of financial statements for audit.

- Of the 286 municipalities and municipal entities analysed, close to three out of every four (206 = 72%) were assisted by consultants, indicating the high dependence on consultants.
- Based on the incomplete available information, the cost to municipalities of consultants/consultancies is
 estimated to have exceeded R237 million for the 2009-10 financial year, at an average in excess of R1
 million per municipality.
- No vacancies existed in the finance departments of 90% of the entities which enlisted the assistance of
 consultants. This indicates that although staffing is seemingly adequate in terms of filling the number of
 vacant posts, the level of skill of these incumbents needs to be addressed.
- Auditees in all nine provinces used consultants, ranging from 43% of auditees in Gauteng to 91% of auditees in the Northern Cape.

The most common reasons why consultants were engaged and the impact of their assistance, as a percentage of the municipalities and municipal entities are depicted in the figure below.



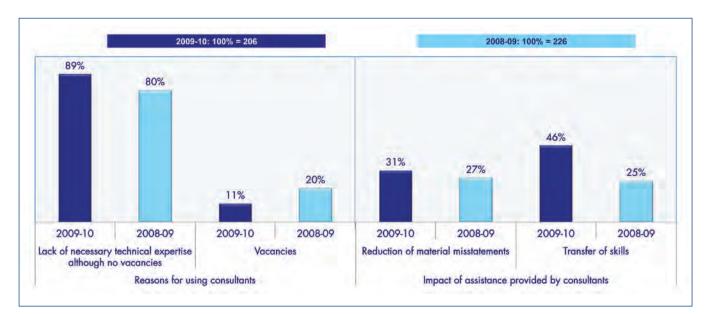


Figure 14: Assistance by consultants - Municipalities and municipal entities

Our analysis of the use of consultants and their impact on current year and future audit outcomes resulted in the following conclusions:

- The skills level and experience of staff appointed to finance departments, especially in relation to the
 compilation of financial statements that comply with Generally Recognised Accounting Practice (GRAP), are
 not adequate.
- Consultants are often appointed close to year-end and the audit of financial statements submitted identified material errors in the data used by or provided to consultants to prepare the financial statements.
- The impact of assistance provided by consultants, given the relatively small reduction in material misstatements in financial statements submitted for audit and low rate of skills transfer, raises further concerns regarding the sustainability of improved audit outcomes achieved this year.
- The transfer of skills reported in 2008-09 did not in all cases carry through to corresponding improvements in 2009-10.
- Not all improvements in audit outcomes (or the lack of improvement) can be directly attributed to the use
 of consultants as the contracted scope of work varies from one auditee to the next. However, the general
 impact on the 2009-10 audit outcomes is depicted in the following figure.



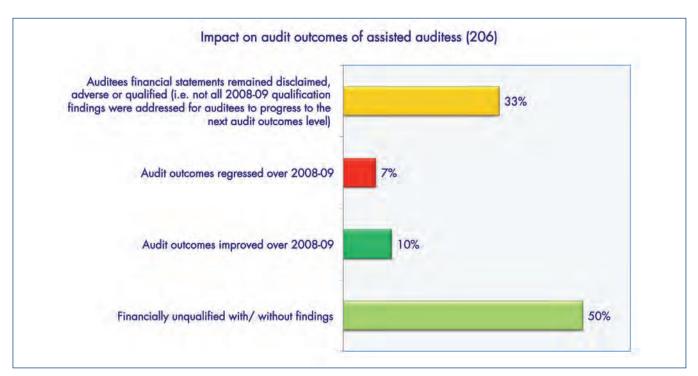


Figure 15: Analysis of audit outcomes-related aspects of auditees assisted by consultants

2.2.5 Material losses, material impairment of assets and underspending of the vote/conditional grants

Included in this analysis are matters which not relate to the fairness with which statements present the financial affairs of auditees at year-end, but which are indicative of weaknesses in the general management of the affairs of auditees and financial management in particular. These matters are material losses incurred, material impairment of assets and material underspending of the vote/conditional grants.

Material losses and material impairment of assets

The MFMA requires municipalities and municipal entities to disclose in their financial statements material financial losses incurred as well as material write-downs made to the values at which their assets were originally recorded in the financial records. For the year ended June 2010, the following details were disclosed in financial statements:

- Sixty-six (23%) of auditees across seven provinces reported having incurred material losses while 46 (16%) needed to write off significant amounts owing by debtors and assets.
- Material losses sustained by auditees for the financial year amounted to approximately R3,5 billion and primarily resulted from water and electricity reticulation and distribution losses.

Financial statements of municipalities and municipal entities reflected material impairment of assets amounting to R3,6 billion. This primarily resulted from consumer debt written off and the writing down of the value placed on assets because the realisable value was less than the recorded book value.



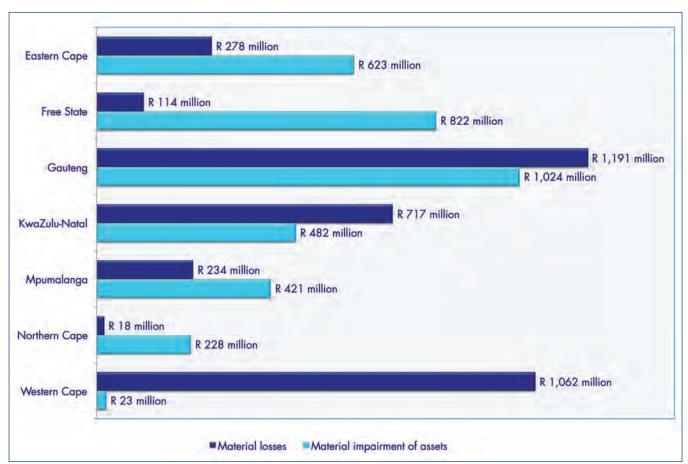


Figure 16: Material losses and material impairment of assets – Municipalities and municipal entities (applicable provinces)

Material underspending of vote and conditional grants

Underspending of a municipal budget means that operational or capital expenditure incurred by the municipality during a financial year is below the total amount appropriated in that year's budget for its operational or capital expenditure.

- Western Cape municipalities had the largest vote of all provinces. Five municipalities in that province in aggregate underspent R1,2 billion on their votes, amounting to a 6% underspend.
- Municipalities in provinces that recorded the highest underspending against their votes for the financial year were Eastern Cape (40%) and KwaZulu-Natal (28%).

The main reasons why municipalities underspend on votes include a lack of capacity to execute the relevant projects. Generally, housing projects, environment protection services, roads and transport as well as sport and recreation were impacted by such underspending.

Underspending of a government grant means that operational or capital expenditure incurred by the municipality during a financial year is below the total amount of the grant or allocation.

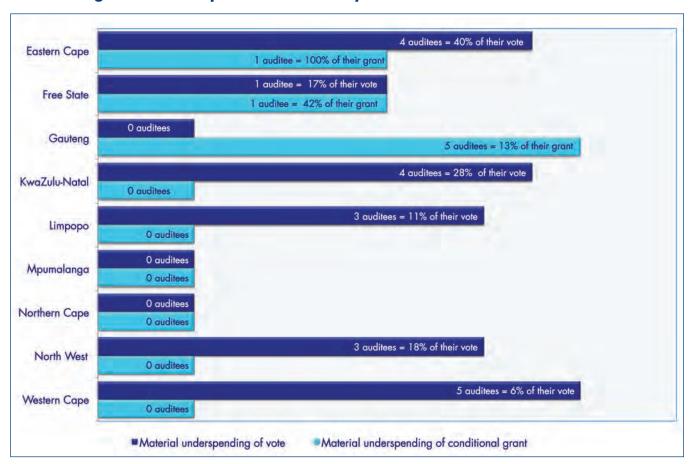


- The areas of underspending for the year ended June 2010 included infrastructure assets, repairs and maintenance, waste water management, road transport and housing projects.
- Gauteng municipalities had the largest conditional grant allocation of all provinces and underspent by R692 million (13%). Municipalities in the Eastern Cape, Free State and Gauteng also underspent on their conditional grants, primarily infrastructure grants.

Some matters that resulted in conditional grants being underspent relate to challenges faced in gaining access to townships for the implementation of various service delivery projects and infrastructure development. In some instances, land for the water project was not available to implement projects for waste water management and road transport. Civil and technical services in certain instances suffered as a result of delays in work on the emergency sewerage water recycling pipelines and in some cases no capital projects could be implemented.

The extent of underspending for the year under review is depicted below.

Figure 17: Material underspending of vote and material underspending of conditional grants - Municipalities and municipal entities



2.2.6 Municipalities and municipal entities with issues relating to funding of operations/financial sustainability/going concern

Concerns regarding the funding of operations/financial sustainability were identified at 52 (22%) municipalities and 16 (33%) municipal entities in all provinces (2008-09: 68). The provision of essential



services and maintenance of basic infrastructure will be severely disrupted in the affected communities, unless effective and timeous interventions are made at these entities.

At the time of the audit not all of these entities had financial recovery plans in place (figure 18, below) while some municipalities and municipal entities have to address more than one threat to their financial sustainability (tables 7 and 8).

- These comprise one metro (Nelson Mandela Bay), five district municipalities and 46 local municipalities. Eastern Cape (12), Free State (eight) and KwaZulu-Natal (11) account for 60% of all cases. This represents 29%, 40% and 18% of the municipalities in the respective provinces.
- Sixteen (32%) municipal entities have funding concerns, the majority of which are in the Eastern Cape (four) and Gauteng (eight).
- Ekurhuleni Metro is the parent municipality of five of the municipal entities with financial sustainability concerns while the City of Tshwane Metro is the parent municipality of two such municipal entities.
- Only 40% and 13% of these municipalities and municipal entities, respectively, have financial recovery
 plans that are being implemented with the assistance of provincial CoGTAs and monitored by the Premier's
 Joint Coordinating Forums.

Provincial departments of CoGTA and provincial treasuries are providing assistance with the implementation of turnaround plans for some of these municipalities and municipal entities.

2009-10

Number of auditees with financial sustainability concerns

Number of auditees with financial recovery plans

Municipalities

Municipal entities

Figure 18: Municipalities and municipal entities with funding/financial sustainability concerns

The broad causes of financial sustainability concerns are depicted in the following tables.



Table 7: Analysis of funding or going concern issues - Municipalities

Province	High reliance on grants/ Own revenue generated not suffient to cover operating costs	Serious challenges being experienced in the recovery of consumer debtors	No cash for unspent grants	Disestablishment/ liquidation	Current liabilities exceed current assets	Significant financial challenges	Number of auditees
Eastern Cape	4	3	1		8	5	12
Free State	2	7	1	1	4	1	8
Gauteng				3	1	3	4
KwaZulu-Natal	2	1	6		7	1	11
Limpopo			2		3	1	3
Mpumalanga	1	1	0			3	4
Northern Cape	7	8	3		6		8
North West					1	1	1
Western Cape					1		1
Total	16	20	13	4	31	15	52

Not a significant threat

Table 8: Analysis of funding or going concern issues – Municipal entities (applicable provinces)

Province	High reliance on grants/Own revenue generated not suffient to cover operating costs	Disestablishment/ liquidation	Current liabilities exceed current assets	Significant financial challenges	Number of auditees
Eastern Cape	4		2		4
Free State			2	1	2
Gauteng	5	1	6	2	8
Limpopo			1		1
North West			1	1	1
Total	9	1	12	4	16

Not a significant threat

2.2.7 Way forward on audit outcomes and financial management

Unfavourable audit outcomes and the various financial management matters should be addressed as follows:

• At the time of the audit, action plans to address qualification findings were either in progress or required intervention at 90% of auditees whose financial statements were financially qualified. The development, implementation and monitoring of such action plans should be prioritised by the council, mayors and audit committees in order to avoid repeat findings. The status of action plans for all auditees is reflected in annexure 5 to this report.



- The preparation of a full set of financial statements for every quarter of the financial year and the independent review thereof by audit committees would be required to prevent material misstatements in financial statements only being detected and corrected during the audit.
- Municipal managers need to increase their monitoring of the work of consultants to ensure that they do indeed transfer skills and knowledge to the finance staff members, with the specific objective of reducing dependency on external assistance. Further, municipal leadership should assess whether the repeated use of consultants for accounting-related services is the most cost-effective way of acquiring and retaining skills that are fundamental to financial reporting. Management should improve the effective use of consultants by introducing specific measures to ensure the accuracy, reliability and relevance of information provided to consultants with regard to the financial statement areas where they render assistance.
- Councils and mayors need to continually assess the adequacy of measures relied on by municipal management to prevent material losses and the write-off of amounts owed by debtors. Regular reviews of actual versus budgeted spending are required to reduce the level of underspending against votes and of grants.
- Section 3.3 and 3.4 outlines action planned by provincial and national role players to improve audit outcomes and financial management. Nine specific focus areas have been identified, which include monitoring of turnaround plans for those municipalities and entities facing financial sustainability challenges.

2.3 Findings on reporting on predetermined objectives

2.3.1 Overview of the AGSA's approach to the audit of predetermined objectives

All municipalities and municipal entities that receive funds for a public purpose are required to report against their predetermined objectives (service delivery) and to submit such annual performance reports for auditing, together with the annual financial statements. The objective of an audit of predetermined objectives is to enable the auditor to conclude whether the reported performance against those predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

The AGSA has since the 2005-06 financial year been gradually phasing in and explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through the auditing thereof. During the year under review a separate audit conclusion, based on the results of the audit of predetermined objectives, was included in the management reports of only metropolitan councils and their related entities. However, these conclusions have not yet been elevated to the level of the auditor's report.

2.3.2 Overall findings arising from the audit of reporting on predetermined objectives

Significant trends arising from the audit of reporting on predetermined objectives for the year under review are as follows:



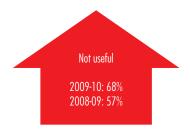
- Auditees submitting their annual performance reports on service delivery for audit increased to 77% (2008-09: 63%), an overall 14% increase over 2008-09.
- Findings on predetermined objectives were raised at 219 out of 237 (92%) municipalities [2008-09: 257 of 280 (92%)] and at 27 out of 49 (55%) municipal entities [2008-09: 30 of 55 (55%)].
- The annual performance reports of 112 (93%) municipalities whose financial statements were financially unqualified attracted findings due to such reports not meeting the regulatory requirements and/or information not being useful and/or the contents not being reliable.
- Only 18 municipalities (8%) and 22 (41%) municipal entities produced annual performance reports that satisfied regulatory requirements and were both useful and reliable. None of the municipalities in the Eastern Cape, Free State and North West produced such reports, while municipalities in KwaZulu-Natal, Northern Cape and Western Cape could each produce only one.
- Fourteen municipalities and nine municipal entities addressed all their 2008-09 findings on reporting
 against predetermined objectives, while 15 municipalities and 13 municipal entities attracted findings for
 the first time.
- A total of 204 (86%) municipalities and 14 (29%) municipal entities did not address some of the previous findings on their reports on predetermined objectives.

A summary of the regulatory requirements and/or criteria not met by auditees is provided under the figure below.

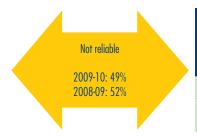
Figure 19: Overall analysis of findings on predetermined objectives – Municipalities and municipal entities



Audian aum		2009-10 Predetermined objectives findings: Non-compliance				
Auditee type	Presentation	Timelines	Existence	Applicable legislation		
Municipalities	35%	29%	63%	73%		
Municipal entities	15%	30%	65%	60%		



Auditee type	2009-10 Predetermined objectives findings: Usefulness					
	Consistency Relevance Measurability					
Municipalities	67%	5%	72%			
Municipal entities	42%	0%	58%			



Auditee type	2009-10 Predetermined objectives findings: Reliability				
	Accuracy	Validity	Completeness		
Municipalities	82%	59%	69%		
Municipal entities	89%	33%	33%		



Tables 9 and 10 provide a provincial analysis of findings raised during the audit of predetermined objectives at municipalities and municipal entities. Trends are analysed thereafter.

Table 9: Provincial analysis of findings on predetermined objectives - Municipalities

Province	Information not submitted	Non-compliance with regulatory requirements	Reported information is not useful	Reported information is not reliable
Eastern Cape	17%	85%	80%	68%
Free State	20%	95%	84%	68%
Gauteng	44%	33%	44%	44%
KwaZulu-Natal	5%	93%	75%	42%
Limpopo	26%	37%	45%	35%
Mpumalanga	38%	88%	50%	38%
Northern Cape	64%	91%	88%	50%
North West		100%	80%	84%
Western Cape	25%	96%	80%	52%

Table 10: Provincial analysis of findings on predetermined objectives – Municipal entities (applicable provinces)

Province	Information not submitted	Non-compliance with regula- tory requirements		Report informat not use	ion is Reported Information is
Eastern Cape		33%		50%	17%
Free State	40%	80'	%	40%	20%
Gauteng	20%	10%		50%	90%
KwaZulu-Natal		100	0%	50%	
Limpopo	100%	50%			
North West	50%	100	0%		
Western Cape		25%			

2.3.3 Summary of regulatory requirements and/or criteria not met by auditees as well as trends in findings

Key trends in findings related to predetermined objectives reporting are as follows:

Annual performance report was not received in time for audit purposes

Municipalities	2009-10:	54(23%)	2008-09:	95 (37%)
Municipal entities	2007-10.	6 (19%)	2000-07.	14 (44)%

An assessment could not be performed on the reliability of reported information because the information of 54 municipalities and six municipal entities was not received in time for audit purposes.



Non-compliance with regulatory requirements

Municipalities	2009-10:	193 (84%)	2008-09:	226 (88%)
Municipal entities		20 (45%)		21 (66%)

The scope of audit work and audit findings related to compliance with the MFMA, MSA and Municipal Planning and Performance Management Regulations in respect of the planning, management, monitoring, review and reporting of performance information. Findings related mainly to inadequate presentation of reported information, reported information not submitted in time for audit purposes and non-existence and/or non-functioning of a performance audit committee.

Usefulness of performance information

Municipalities	2009-10:	150 (73%)	2008-09:	150 (59%)
Municipal entities		12 (36%)		14 (44%)

In the audit assessment of usefulness we focused on the consistency, relevance and measurability of planned and reported performance information. Findings were mainly due to reported performance information not always being consistent with targets and indicators as set in the integrated development plans of the municipalities and service level agreements of municipal entities, and targets not being not specific, measurable and time bound.

Reported information not reliable

Municipalities	2009-10:	104 (52%)	2008-09:	141 (55%)
Municipal entities		9 (31%)		11 (34%)

Audit work focused on whether the reported performance information could be traced back to the source data or documentation and whether the reported information is accurate, complete and consistent in relation to the source data, evidence or documentation. Findings related to a lack of sufficient appropriate audit evidence in relation to the reported performance information and a lack of appropriate systems generating performance information, with the source information or evidence provided to support the reported performance information not adequately supporting the accuracy and completeness of the facts throughout.

2.3.4 Way forward on predetermined objectives reporting by auditees

Considering the number of findings, especially the high incidence of non-compliance with the MSA and MFMA, coupled with non-submission of performance information, it is evident that substantial work still needs to be done to prepare municipalities and municipal entities for an opinion in the auditor's report on predetermined objectives.

The high prevalence of findings can be attributed to leadership not assigning the same level of commitment to addressing findings on predetermined objectives and compliance as they do to addressing matters that could lead to favourable audit opinions. Most municipalities do not have officials specifically charged with the responsibility of collecting, verifying and regularly compiling reports on service delivery.



The initiatives taken by the AGSA in relation to predetermined objective reporting included quarterly key control review sessions with mayors, discussions with audit committees. Workshops on the requirements relating to reporting on predetermined objectives were conducted with senior management and internal audit units of municipalities and municipal entities.

At the time of the audit, action plans to address findings on predetermined objectives were either in progress or required intervention at 90% auditees whose financial statements were financially qualified and 50% whose financial statements were financially unqualified. The status of action plans to address findings on predetermined objectives for all auditees are reflected in annexure 4 to this report.

Mayors and municipal managers are required to take action to address these findings by ensuring that:

- the reported targets, goals and objectives are consistent with the planned performance information and that the implementation and progress of integrated development plans are monitored and recorded.
- reports on performance against predetermined objectives are compiled at least every six months, but preferably on a quarterly basis, and that the annual performance reports are submitted for auditing by 31 August.
- specific officials are made responsible for the collection, collation, compilation, filing, review and reporting on predetermined objectives.
- the systems used for performance reporting are appropriate to facilitate the preparation of quality reporting.
- performance audit committees are appointed or the audit committees are used to oversee performance management processes as provided for by the MSA.
- internal audit units assess the adequacy of controls relied on by management to ensure the reliability of performance information.
- the development and implementation of detailed action plans to address prior year audit outcomes relating to the reporting on predetermined objectives are monitored.

2.4 Findings on compliance with laws and regulations

For the year under review regularity audits included testing for compliance with a selection of key requirements of the MFMA, the MSA and the Municipal Structures Act. Some of the compliance matters identified at municipalities and municipal entities relate to transactions prohibited by legislation, while others relate to failure by mayors, accounting officers and other officials to meet their legislated responsibilities.

Findings are presented under the categories of (i) transversal findings on compliance with laws and regulations, (ii) unauthorised, irregular, and fruitless and wasteful expenditure, (iii) supply chain management, and (iv) submission by auditees of oversight and annual reports. Details are also provided on investigations.

2.4.1 Transversal findings on compliance with laws and regulations

Of the 237 municipalities analysed, 223 (94%) municipalities [2008-09: 231 (83%)] had reported audit findings on compliance with laws and regulation, while 38 (78%) of the 49 municipal entities analysed [2008-09: 47 (85%)] attracted similar findings.



Table 11: Analysis of top findings on compliance with laws and regulations – Municipalities (including transversal misstatements and SCM)

Province	SCM that resulted in irregular expenditure	Transversal material misstatements	SCM that did not result in irregular expenditure	Audit committee/ internal audit	Statutory responsibilities of mayors, municipal managers and senior officials	Payments not made within 30 days
Eastern Cape	85%	100%	85%	61%	76%	73%
Free State	95%	85%	65%	90%	85%	65%
Gauteng	29%	71%	14%	21%	57%	43%
KwaZulu-Natal	55%	95%	38%	48%	63%	22%
Limpopo	44%	100%	24%	80%	52%	56%
Mpumalanga	58%	37%	5%	42%	53%	26%
Northern Cape	77%	91%	77%	73%	82%	86%
North West	100%	100%	88%	100%	25%	88%
Western Cape	75%	21%	50%	50%	32%	<mark>7%</mark>

Table 12: Analysis of top findings on compliance with laws and regulations – Municipal entities (including transversal misstatements and SCM) (applicable provinces)

Province	SCM that resulted in irregular expenditure		Transversal material misstatements		SCM that did not result in irregular expenditure		Audit committee/ internal audit		Statutory responsibilities of mayors, municipal managers and senior officials		Payments not made within 30 days	
Eastern Cape	50%		50%		50%		50%		83%		50%	
Free State	40%		60%		40%		60%		80%		40%	
Gauteng	39%		30%		9%		9%		17%		52%	
KwaZulu-Natal	71%		86%		57%		71%		86%		29%	
Limpopo	50%		100	%	50%		100	1%	50%			
North West			50%									

Transversally, the most common findings are material misstatements in financial statements submitted for audit (refer to section 2.2.3 above) and non-compliance with legislation on supply chain management (refer to section 2.4.3 below).

Details of other non-compliance findings are as follows:

Audit committees and internal audit

- Audit committees were not properly established or not functioning properly.
- Audit committees did not advise the municipal councils, political office bearers, accounting officers and the
 management staff of municipalities on matters relating to the adequacy, reliability and accuracy of financial
 reporting and information.



Statutory responsibilities of mayors, accounting officers and municipal officials

Mayors failed to meet some of their legislative responsibilities, such as:

- Coordinating the annual revision of the integrated development plan and coordinating the preparation of the annual budget.
- Determining how the integrated development plan was to be taken into account or revised for the purposes of the annual budget.
- Tabling the annual budget at a council meeting at least 90 days before the start of the budget year.
- Ensuring that the council approves the municipality's service delivery and budget implementation plan within 28 days after the approval of the annual budget.
- Supervising budgetary control and early identification of financial problems.

Accounting officers/municipal managers did not fully meet their legislative responsibility in terms of managing the financial administration of the municipality by taking reasonable steps to ensure that:

- Full and proper records of the financial affairs of the municipality were kept in accordance with any prescribed norms and standards.
- The resources of the municipality were used effectively, efficiently and economically.

Furthermore, some accounting officers did not implement or maintain:

- Financial management and internal controls.
- Internal audit units that function in accordance with any prescribed norms and standards.
- A tariff policy referred to in section 74 of the MSA.
- A rates policy as required in terms of any applicable national legislation.
- A credit control and debt collection policy referred to in section 96(b) of the MSA.
- An SCM policy in accordance with chapter 11 of the MFMA.

Senior managers/officials of the municipality/municipal entity exercising financial management responsibilities did not take reasonable steps within their areas of responsibility to ensure that:

- The system of financial management and internal control established for the municipality is followed diligently.
- The financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently.
- All revenue due to the municipality is collected.
- The assets and liabilities of the municipality are managed effectively and that the assets are safeguarded and maintained to the extent necessary.
- All information required by the accounting officer for compliance with the provisions of the MFMA is submitted timeously to the accounting officer.
- The provisions of the MFMA, to the extent applicable to that senior manager or official, including any delegations in terms of section 79, are complied with.



Payments not made within 30 days

The underlying reason for the late payments relates primarily to cash flow constraints experienced by municipalities which cause them to prioritise payments to suppliers within the available funds. Many municipalities did not collect revenue billed mainly due to debt collection policies not being enforced. At most municipalities, the cost of water and electricity in excess of the subsidised amount used by indigent community members cannot be recovered. The revenue base in some municipalities is limited, as these municipalities are in rural areas with little sustainable economic activity. For most of these municipalities the grant funding is not sufficient to cover operating expenditure. Many municipalities do not have systems and processes in place to track the ageing of invoices to ensure that payments are made to suppliers within 30 days of receipt.

Other non-compliance findings

While only the most prevalent findings on compliance are highlighted above, audits also revealed other instances of non-compliance with laws and regulations. The reason for their exclusion from the top five is that these findings were not as prevalent.

These include the following:

- The accounting officer the municipality had not maintained effective, efficient and transparent systems of financial management and internal controls (61 findings).
- The internal audit unit of a municipality or municipal entity did not perform the duties assigned to it by the accounting officer (54 findings).
- The accounting officer transferred funds of the municipality to an organisation or body outside any sphere of government otherwise than in compliance with a commercial or other business transaction, without being satisfied that the organisation or body had in respect of previous similar transfers, complied with all the requirements of this section (51 findings).
- Disciplinary and criminal proceedings in instances of financial conduct were not instituted or conducted in accordance with legislation: The accounting officer/accounting authority reported the outcome of the disciplinary and criminal (50 findings).
- The municipality or municipal entity did not have or did not maintain effective, efficient and transparent systems of internal control as required by legislation to guard against fraud, theft and financial mismanagement (46 findings).

2.4.2 Unauthorised, irregular, and fruitless and wasteful expenditure incurred during the year

Section 62 of the MFMA requires accounting officers to take reasonable steps to ensure that unauthorised, irregular, and fruitless and wasteful expenditure is prevented. Similarly, in terms of section 95 of the MFMA, accounting officers of municipal entities are required to prevent irregular, and fruitless and wasteful expenditure. The MFMA makes it compulsory for municipalities and municipal entities to disclose such expenditure in their financial statements.



During the 2009-10 financial year there was an increase in both the number of auditees and the total amount incurred by them in unauthorised, irregular, and fruitless and wasteful expenditure. Many municipalities under-disclosed such expenditure in the financial statements submitted for audit. This increase is only in part due to the AGSA's extended focus and audit testing of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system at 275 municipalities and municipal entities. A summary thereof for the year under review is provided in the figure 20 and table 13.

Figure 20: Unauthorised, irregular, and fruitless and wasteful expenditure incurred by municipalities and municipal entities

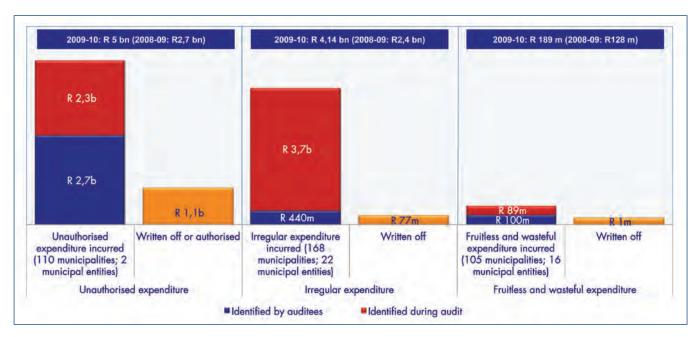


Table 13: Number auditees incurring unauthorised, irregular, and fruitless and wasteful expenditure 2009-10 vs. 2008-09

		All auditees		Provinci	al trends
Expenditure type	2009-10	2008-09	Davasatura in mana	Increase	Decrease
	Number of auditees	Number of auditees	Percentage increase	Number of provinces	Number of provinces
Unauthorised expenditure	112	101	11%	EC, GP, LP, MP, NC, WC	FS, KZN, NW
Irregular expenditure	190	147	29%	EC, GP, KZN, LP, MP, NC, WC	FS, NW
Fruitless and wasteful expenditure	120	93	29%	EC, GP, KZN, MP	FS, LP, NC, NW, WC



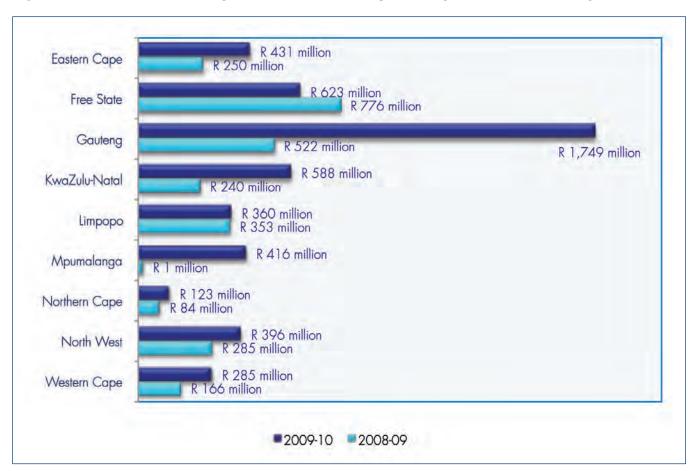
Unauthorised expenditure

Unauthorised expenditure of R5 billion (2008-09: R2,7 billion) was incurred by 112 (46%) municipalities and municipal entities (2008-09: 101) across all nine provinces. Of this amount, R2,3 billion (46%) was identified during the audit and R1,1 billion had been written off or authorised during the financial year.

- Significant increases over the prior year were observed in the Eastern Cape (61%), Gauteng (235%), North West (39%) and Western Cape (65%).
- Gauteng accounted for 33% (R1,7 billion) of unauthorised expenditure incurred by the provinces, with the City of Tshwane Metro alone incurring R1,5 billion of this amount.
- Municipalities and municipal entities in the Free State (20%) and Limpopo (21%) incurred lower amounts compared to the previous financial year.

Municipalities and municipal entities incurred unauthorised expenditure through overspending on their votes (R4,8 billion), expenditure unrelated to the functional area (R69 million) and expenditure not in accordance with the conditions of the allocation (R145 million).

Figure 21: Unauthorised expenditure incurred by municipalities and municipal entities



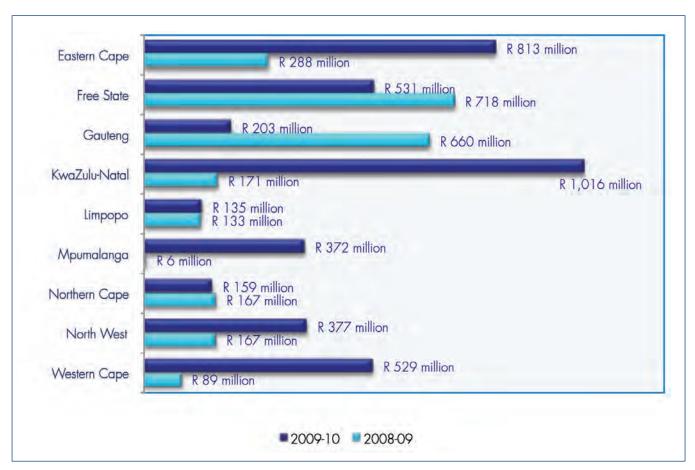


Irregular expenditure

Irregular expenditure of R4,1 billion (2008-09: R2,4 billion) was incurred by 190 (66%) municipalities and municipal entities (2008-09: 147), of which R3,7 billion (89%) was identified during the audit. The high proportion identified during the audit indicates that there is still a high reluctance to disclose and/or an inability to appropriately identify what constitutes irregular expenditure in terms of the MFMA. Irregular expenditure written off or condoned during the financial year amounted to only R77 million.

- Municipalities and municipal entities incurred irregular expenditure related to supply chain management (R3,9 billion), compensation of employees (R16 million) and for other reasons (R219 million).
- Significant increases over the prior financial year were observed in the Eastern Cape (182%), KwaZulu-Natal (493%) and Western Cape (497%), which together accounted for more than 60% of irregular expenditure incurred during the financial year.
- Significant reductions occurred in the Free State (26%) and Gauteng (69%).

Figure 22: Irregular expenditure incurred by municipalities and municipal entities





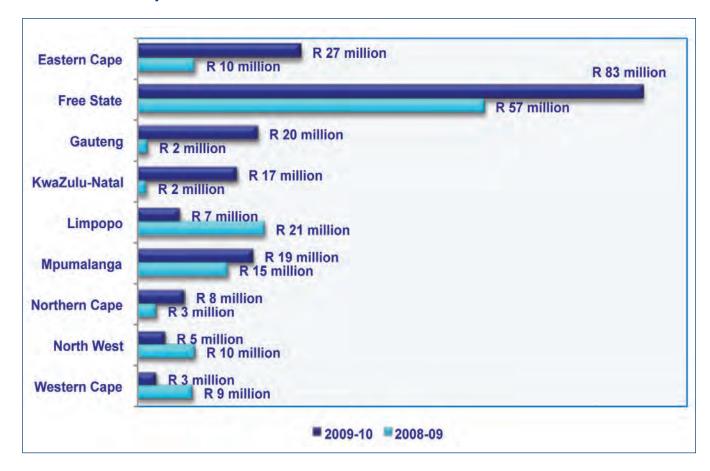
Fruitless and wasteful expenditure

Fruitless and wasteful expenditure of R189 million (2008-09: R128 million) was incurred by 120 (42%) municipalities and municipal entities (2008-09: 93). R89 million (47%) of the total amount incurred was identified during the audit, indicating that there is still a high reluctance to disclose and/or an inability to appropriately identify what constitutes irregular expenditure in terms of the MFMA. A total of only R1,3 million was written off or condoned during the financial year.

- At least 30% of auditees in each of the provinces incurred such expenditure, with 75% of auditees in the Free State incurring fruitless and wasteful expenditure.
- Significant increases over the prior year (R60 million) were observed in the Eastern Cape (181%), Free State (46%), Limpopo (28%), and Northern Cape (140%).
- Reductions in amounts occurred in Limpopo (66%), North West (51%) and Western Cape (64%).

Municipalities and municipal entities incurred fruitless and wasteful expenditure due to penalties and interest accrued, overpayment to suppliers, appointment of consultants for work already performed by service providers, settlement costs, legal costs being paid, VAT not claimed on valid tax invoices, allowances paid to staff in excess of SARS rates, duplicate payments made to suppliers, charges on termination of contracts, and other avoidable costs. These are indicators of poor financial management and inadequate internal controls.

Figure 23: Fruitless and wasteful expenditure incurred by municipalities and municipal entities





2.4.3 Findings on non-compliance with SCM legislation

The audits conducted at municipalities and municipal entities for the year included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

Findings were raised during the audits of supply chain management at 214 (74%) of the auditees for contracts and quotations (hereinafter referred to as "awards"). At 51 (18%) of the auditees documentation on procurement processes followed could not in all instances be presented for audit. The significant findings relate to the matters indicated in the following table, with key matters highlighted below.

Table 14: Summary of findings on supply chain management

Province	Awards to persons in service of the state			Uncompetitive or unfair procurement processes	Inadequate contract management	Inadequate controls
Eastern Cape	45%	33%	19%	65%	31%	67%
Free State	86%	25%	45%	91%	57%	95%
Gauteng	43%		<mark>3%</mark>	30%	16%	<mark>22%</mark>
KwaZulu-Natal	49%	16%	9%	56%	25%	63%
Limpopo	40%		31%	7%	14%	62%
Mpumalanga	44%		26%	53%	32%	58%
Northern Cape			18%	73%	14%	50%
North West	83%	33%	70%	90%	50%	100%
Western Cape	48%	42%	19%	50%	22%	47%

Irregular expenditure incurred	The irregular expenditure incurred in the provinces was mostly due to awards made to persons in the service of the state or their family members at 63 (56% of auditees) and to uncompetitive or unfair procurement processes at 159 (56% of auditees).
Awards to persons in the service of the state	Awards to the value of R138 million were made to persons in the service of the state. Awards to the value of R76 million were made to persons in the service of the particular auditee and included 19 councillors, a mayor and a municipal manager.
Awards to close family members of persons in the service of the state	A further award of R102 million was made to close family members of persons in the service of the auditee, which included five councillors, three mayors and two municipal managers.
Limitations on audit of awards	Considering that the audit of awards was only performed at 40% of the auditees and in a limited manner, these findings are of great concern. The possibility of undue influencing of the procurement processes by the identified persons cannot be discounted. The suppliers did not declare their relationship with persons at the auditee or in service at other state institutions in at least 28% of the instances. The percentage could be higher as all declarations could not be presented for audit. Such non-disclosure constitutes a corrupt and fraudulent act and should be investigated and dealt with in accordance with legislation.

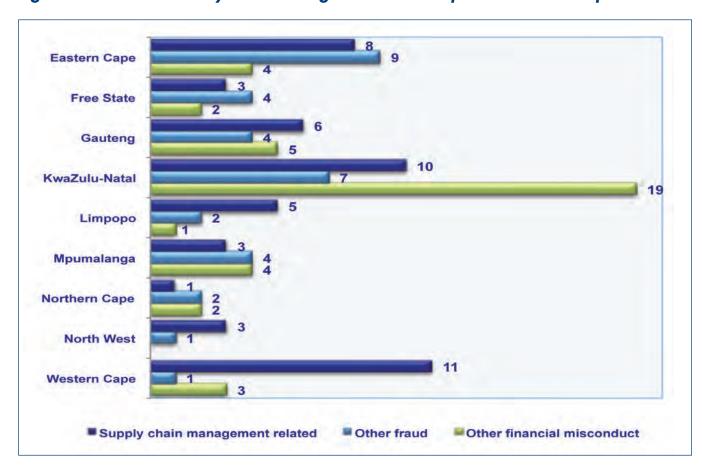




2.4.4 Investigations into SCM irregularities, fraud or financial misconduct

For the financial year ended 2010, investigations were conducted into the financial affairs of at least 87 (37%) municipalities and four (8%) municipal entities. At 32 municipalities more than one investigation was conducted. None of these investigations were performed by the AGSA but they were assessed as being material for purposes of inclusion in the auditor's report. The need for such investigations is an indicator that internal controls are either not functioning or are being overridden. Three of the entities where investigations were conducted are in Gauteng and one in KwaZulu-Natal. Such investigations related to supply chain management, fraud and/or financial misconduct.

Figure 24: Provincial analysis of investigations at municipalities and municipal entities





2.4.5 Way forward on compliance-related findings

At the time of the audit action plans to address findings on compliance with laws and regulations were either in progress or required intervention at more than 90% of auditees whose financial statements were financially qualified and 40% whose financial statements were financially unqualified. The status of action plans to address compliance findings for all auditees are reflected in annexure 4 to this report.

Mayors and municipal managers should set the example by consistently executing their legislated duties. They should further ensure that the control environments within municipalities and municipal entities are conducive to compliance and contain the required level of incentives and sanctions for officials with regard to adherence to legislation generally, and prohibited transactions, specifically.

- The induction process for new mayors and councillors should be used to establish legislative compliance as a cornerstone for accountability and governance in the province.
- Newly elected mayors to be trained in their specific duties (refer section 2.4.1).
- Municipal managers to fulfill their MFMA-prescribed responsibilities (refer section 2.4.1).
- The regularisation of the overspending, irregular expenditure and fruitless and wasteful expenditure will have to happen under the supervision, oversight and powers of the incoming councils. This must be done without delay in a consistent, appropriate and transparent manner throughout all provinces.
- Introducing a checklist when transactions are initiated and processed to confirm that all legal requirements pertaining to the transaction have been satisfied.
- Training of staff to comply with SCM regulations and procedures.
- The MFMA-prescribed steps to be taken for financial misconduct and investigations must be followed through.
- Audit committees and internal audit units should provide assurance that the strategies employed to mitigate the risk of non-compliance are adequate and effective.

2.5 Findings on information technology used by municipalities and municipal entities

2.5.1 Computer systems in use and the management of information technology

Municipalities and municipal entities need appropriate, reliable and secure computer systems to effectively manage their finances and to maintain adequate financial records for the preparation of financial statements. They also need to manage information technology (IT) effectively to ensure uninterrupted service delivery and continuity of business operations. At the 162 municipalities and municipal entities audited countrywide there were 43 different systems in use. These ranged from off-the-shelf packages (computer packages bought) to systems developed in-house and customised systems (computer packages bought and modified). Transactions processed on these systems include procurement, supplier payments, payroll, asset acquisitions, disposals and location tracking, debtor accounts and billing for water and electricity consumption, rates, refuge removal, etc.

One of the challenges, particularly for smaller municipalities, is limited IT-skilled staff and budgets. Moreover, whereas assistance is provided in respect of the three systems used nationally by national and provincial departments (BAS, Persal and Logis), neither the National Treasury nor SITA provides assistance to municipalities and municipal entities to ensure that the computer systems used are adequately controlled and that IT is cost-effectively managed.



The use of so many different accounting and financial systems impacts on the cost to local government of running and maintaining them. Some systems are not able to produce GRAP-compliant financial statements and require additional financial statement software or the use of computer spreadsheets. In addition, a number of systems are not integrated with the financial accounting systems used by municipalities and municipal entities. Control and data security concerns include the following:

- unauthorised access to the systems
- systems being vulnerable to errors and unauthorised changes to data and records
- lack of segregation of functions and management oversight due to limited IT skills
- systems not able to provide adequate audit/management trails, including schedules and listings in support of account balances.

At the time of the audit there was a 36% IT vacancy rate at audited municipalities.

2.5.2 Deficiencies identified in information technology management

Key areas in the management of IT where deficiencies were identified at municipalities are depicted below. A similar level of deficiencies was identified at seven municipal entities whose IT systems were audited.

Municipalities where focus areas were audited

Number where deficiencies were identified

150 144 (96%) 153 152 (99%) 154 151 (98%) 120 (85%) 120 (85%) 120 (85%) 175 (61%) 17 Service continuity planning Facility and control environment Program change management

Figure 25: Findings arising from the AGSA's IT audit focus areas

Table 15 presents an analysis of IT focus findings in the provinces.



Table 15: Analysis of provincial audit findings raised on common IT focus areas

Province IT Governance		ance				control		Programme change management		Facilities and environmental control		Data centre management		IT service continuity						
Eastern Cape	67%	17%	17%	75%	25%		83%	17%		75%	8%	17%	58%	17%	25%	25%	8%	92%	8%	
Free State	100%			100%			100%			100%			95%	5%		74%		95%	5%	
Gauteng	100%			100%			82%	9%	9%	73%	9%	18%	64%		36%	36%	55%	82%	9 %	9%
KwaZulu-Natal	70%	20%	5%	95%	5%		75%	25%		95%	5%		40%	15%		30%	15%	85%	10%	
Limpopo	96%		4%	100%			96%		4%	93%		7%	67%		33%	48%	52%	93%	4%	4%
Mpumalanga	83%	17%		67%	33%		83%	17%		100%			67%	33%		100%		67%	33%	
Northern Cape	100%			100%			100%			100%			88%		13%	69%	31%	100%		
North West	100%			100%			75%	25%		50%	25%	25%	100%			0%	100%	100%		
Western Cape	75%	10%	10%	80%	20%		85%	15%		90%	10%		80%	10%	10%	25%	45%	80%	20%	

The above table expresses findings as a percentage of municipalities and municipal entities audited in the province. However, not all of the IT focus areas were afforded coverage at all of the auditees audited.

2.5.3 Way forward on identified information technology weaknesses

Key matters that need to be addressed to improve the state of IT at municipalities and municipal entities:

- Effective IT governance processes to ensure that IT functions are operational and capacitated.
- Business continuity and disaster recovery plans and facilities to ensure the availability/recovery of financial information in instances of data loss.
- Minimal dependency on service providers who implement and manage system security functions.
- Central coordination, guidance and specialist support to local government to enable cost-effective and efficient management of IT.

It is recommended that the following actions be taken by the coordinating ministries (DPSA, CoGTA and National Treasury), SITA and provincial oversight structures:

- In view of the large number of computer systems in use, the National Treasury should provide prescripts regarding financial systems to minimise excessive/duplicate systems and maintenance costs. National Treasury should also explore the possibility of (i) providing local government with the possibility of extending the integrated financial management system (IFMS) currently under development, or (ii) developing a transversal IT system specifically for local government.
- CoGTA should monitor and influence improvements to address system deficiencies and duplication at municipalities in collaboration with the National Treasury and DPSA.
- DPSA, in consultation with the GITO council, should extend the IT governance framework developed for national and provincial departments to incorporate local government.
- Furthermore, consideration should be given to extending SITA's mandate to provide technical support to local government.



• Provincial oversight (Premiers, MECs for finance and local government) should establish a governance process that will promote knowledge sharing and shared IT technical support per district/province.

The Minister of Public Service Administration has committed to make "service delivery through IT" a key focus of the DPSA and to convene a meeting with key role players, including SITA, the GITO Council, National Treasury, CoGTA, PALAMA and SALGA, for which the following objectives were set:

- Approving the IT governance framework that has already been drafted for application in national, provincial and local spheres of government.
- Reviewing the IT strategy of the Republic of South Africa.
- Improving information security across government.
- Reviewing the mandatory and non-mandatory functions of SITA to assess the need for amendments to the SITA Act in order for SITA to provide critical specialised support to all spheres of government.

Drivers of audit outcomes and initiatives of role players

The audit outcomes-related matters presented under this section leads to a further analysis of the drivers of audit outcomes. These are discussed in detail in the next section where the commitments and initiatives of national and provincial role players are outlined.



SECTION 3: KEY CONTROLS, INITIATIVES AND COMMITMENTS FROM KEY NATIONAL AND PROVINCIAL ROLE PLAYERS

As is evident from the analysis of the audit outcomes presented in the preceding section of this report, there are a number of areas that require focus and, in some instances, intervention for municipalities and municipal entities controlled by them to achieve clean administration by 2014. Such intensified focus and intervention are required from the following parties:

- Municipal management, which includes executive mayors, municipal managers, CFOs and senior municipal officials (analysed in paragraph 3.1).
- Provincial executive leadership, comprising provincial CoGTAs, provincial treasuries, Premiers, the MECs for Local Government and MECs for Finance. Coordinated provincial oversight is provided by provincial standing committees, the Provincial Speaker's Forum, and Municipal Public Accounts Committees (MPACs) (analysed in paragraph 3.2).
- National role players, comprising CoGTA, National Treasury, DPSA and the Presidency. Oversight is
 provided by the National Assembly and Portfolio Committees and the National Council of Provinces
 (NCO) while SALGA also has an important role to play (analysed in paragraph 3.3).

An outline of the response from the Accounting Standards Board to accounting-related aspects of the 2009-10 audit outcomes is given under paragraph 3.4. The AGSA initiatives to encourage clean administration is overviewed under section 3.5 and other emerging matters that require attention to prevent a negative impact on future audit outcomes are discussed under section 3.6.

Key controls as drivers of audit outcomes

Three categories of drivers of improved audit outcomes have been identified by the AGSA through interaction on audit outcomes with auditees over the past several years and have been used to formally document the results of quarterly key control visits by the AGSA to municipal leadership.

These drivers (key controls) are categorised into the fundamental areas of internal control, namely:

- (i) Leadership,
- (ii) Financial and performance management, and
- (iii) Governance.

Deficiencies in some or all of these controls are directly linked to:

- (i) audit opinions on the financial statements,
- (ii) findings on predetermined objectives, and
- (iii) findings on compliance with laws and regulations.



Municipalities and municipal entities that achieved improvements or maintained positive audit outcomes can attribute their improvements to the implementation and effective monitoring of the three fundamentals of internal control. Similarly, municipalities that regressed or received negative audit outcomes can attribute this to not implementing and monitoring these fundamentals of internal controls.

Annexure 4 to this report lists auditees together with an assessment of the adequacy key controls at the time of the audit.

3.1 Overall assessment of the key controls at the time of the audits

An overall assessment of the key drivers at the time of the 2009-10 audits of municipalities and municipal entities is depicted below.

Municipal entities

Figure 26: Overall assessment of key controls at time of the audit (all auditees)

3.2 Assessment of key controls at the time of the audit of auditees receiving disclaimed, adverse or qualified opinions

Good

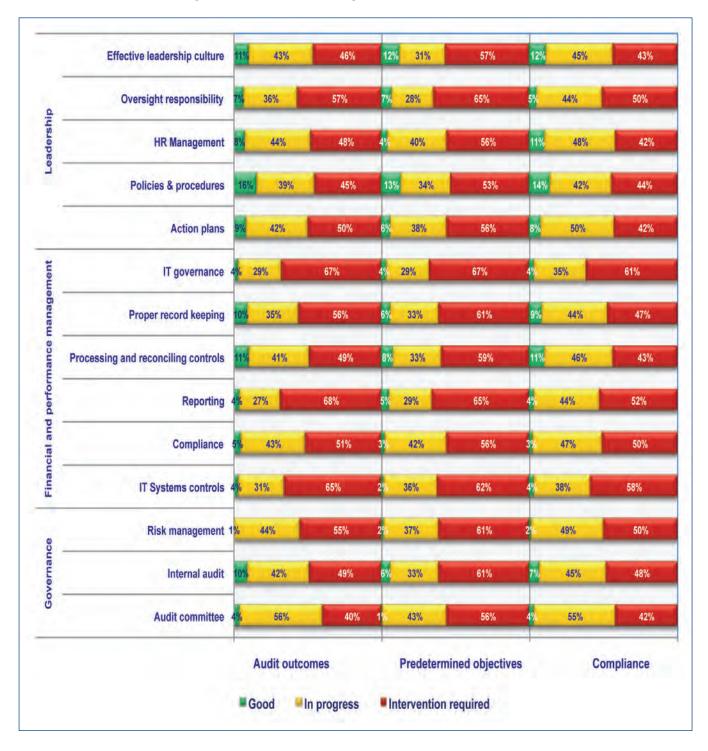
A summarised assessment at the time of the audits of the detailed elements of (i) leadership, (ii) financial and performance management, and (iii) governance for all municipalities and municipal entities is depicted below. Figures 27 and 28 which follow illustrate the correlation between outcomes of those auditees receiving disclaimed, adverse or qualified opinions, as evidenced by the low percentages assessed as "good".

In progress

Intervention required



Figure 27: Assessment of key controls at time of the audit of municipalities disclaimed, adverse or qualified (110 municipalities = 46%)





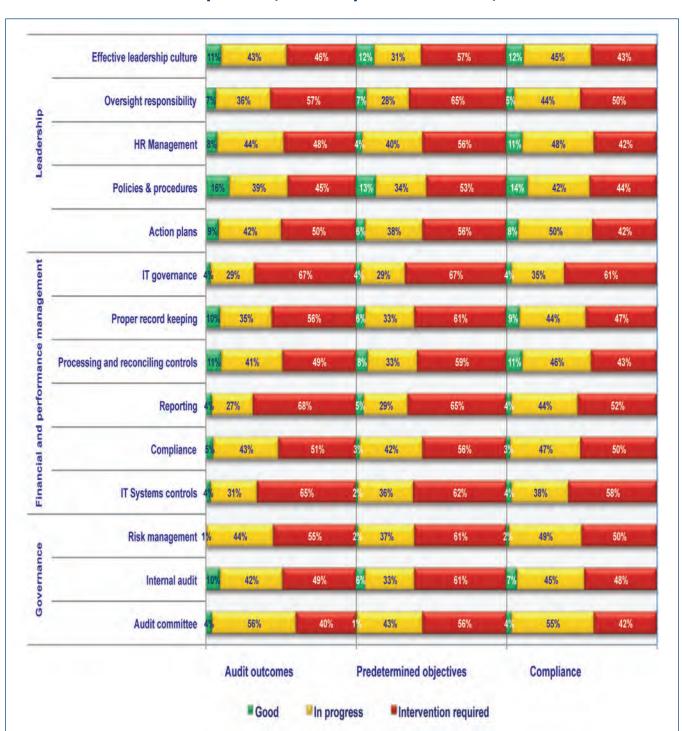


Figure 28: Assessment of key controls at time of the audit of municipal entities disclaimed, or qualified (10 municipal entities = 22%)

The assessment presented in the preceding two figures highlight the significant attention required by municipal leadership and those charged with governance to move these auditees to financially unqualified audit reports, initially, and ultimately to clean administration.



3.3 Monitoring capacity of provincial key role players to address audit outcomes at the time of the audit

Based on the 2009-10 audit outcomes the AGSA performed an assessment of the monitoring capacity of provincial key role players at the time of the audit. With reference to qualification findings, compliance with laws and regulations (including supply chain management) predetermined objectives and other matters, nine specific areas were assessed, the results of which are depicted below.

Table 16: Assessment of monitoring capacity of provincial key role players to address audit outcomes at the time of the audit

Role players	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	Human resource management	Use of consultants	Municipalities under administration (Section 139 of MFMA)	Governance structures
	EC	EC	EC	EC	EC	EC	EC	EC	EC
	FS	FS	FS	FS	FS	FS	FS	FS	FS
rovincial executive eadership (Provincial oGTA and Provincial	GP	GP	GP	GP	GP	GP	GP	GP	GP
	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN
reasury, Operation	LP	LP	LP	LP	LP	LP	LP	LP	LP
Clean Audit, Premier,	MP	MP	MP	MP	MP	MP	MP	MP	MP
IEC Local Government nd MEC Finance)	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NW	NW	NW	NW	NW	NW	NW	NW	NW
	WC	WC	WC	WC	WC	WC	WC	WC	WC
	EC	EC	EC	EC	EC	EC	EC	EC	EC
	FS	FS	FS	FS	FS	FS	FS	FS	FS
Coordinated Provincial	GP	GP	GP	GP	GP	GP	GP	GP	GP
oversight (Provincial	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN
tanding committees,	LP	LP	LP	LP	LP	LP	LP	LP	LP
rovincial Speakers	MP	MP	MP	MP	MP	MP	MP	MP	MP
orum and MPACs)	NC	NC	NC	NC	NC	NC	NC	NC	NC
	NW	NW	NW	NW	NW	NW	NW	NW	NW
	WC	WC	WC	WC	WC	WC	WC	WC	WC
		Intervention required	d		In progress				

Note: Responsibility for these nine areas varies amongst the role players.

Details of commitments given by these role players to drive improved audit outcomes in their respective provinces are provided in individual general reports of provinces.



3.4 Focus areas for national role players to improve audit outcomes

The AGSA presented the 2009-10 audit outcomes of local government to key national role players during the months of March 2011 through to May 2011. Engagements with them included an assessment of focus needed from them in the same nine areas as identified for provincial role players. An overview of these nine areas is presented under section 4.2 of this report, which should be read together the "way forward" under sections 2.2.7, 2.3.4, 2.4.5 and 2.5.3. In addition, the April 2011 trilateral meeting between National Treasury, the Accounting Standards Board and the AGSA focused on accounting-related matters that impact on the audit outcomes of municipalities and municipal entities.

Depicted below is an assessment of the nine focus areas shared with key national role players during April and May of 2011.

Table 17: Assessment of areas of focus needed from national key role players to address audit outcomes at the time of the audit

	Assessment of monitoring capacity and effectiveness												
Role players	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT Controls	Human resource management	Use of consultants	Municipalities under administration	Governance structures				
Executive leadership (CoGTA, National Treasury, DPSA, Presidency)													
Legislative oversight (NCOP, NA Portfolio Committees)													
SALGA													
		Intervention required			In progress								

Note: Responsibility for these nine areas varies amongst the role players.

3.4.1 Legislative oversight response

These nine areas of focus were recognised as requiring intervention at an AGSA-facilitated joint workshop of the Select Committee on CoGTA and the House Chairperson of Committees and Oversight (NCOP) in April 2011. The committee called for the tabling, by June 2011, of oversight action plans by CoGTA, the National Treasury and SALGA. Such action plans should respond to the 2009-10 audit outcomes generally and these nine focus areas specifically.

Initiatives in progress by some of these national role players at the time of the 2009-10 audits and details of new ones of which the AGSA was aware at the date of this general report are summarised below. While many of the initiatives described below are already in place, the outcomes described in this report provide an opportunity for the respective ministries and their partners to measure the direct impact on audit outcomes.



Coordinating ministries may need to determine whether their existing and planned initiatives are likely to have the desired impact on audit outcomes. These ministries are encouraged to also extend their plans to address all nine focus areas, so that an improvement is seen in all three facets of audit outcomes (audit opinions, predetermined objectives and compliance with laws and regulations).

3.4.2 National CoGTA initiatives

In terms of the local Government Turnaround Strategy, CoGTA reported in April 2011 that a survey and benchmarking of profile of critical posts on shortage of critical skills in smaller municipalities had been completed and that the results were communicated to the Minister.

Other initiatives reported by National CoGTA in May 2011 include the following:

Addressing past audit findings

Provincial Coordinating Committees (PCCs) have been established at a provincial level with key drivers being the provincial departments responsible for local government, treasuries, in some provinces with the participation of premiers' offices. The PCCs meet quarterly and in some provinces monthly meetings take place as well. The PCCs exchange information such as best practices and deliberate on specific matters requiring input, consider progress made in supporting municipalities. Municipalities are also invited to present on progress they are making in implementing their audit remedial plans that respond to qualification issues or matters raised by the AGSA in order to provide guidance and assistance, where required.

Initiating the establishment of MPACs

A draft framework for the establishment of MPACs was developed, workshops for the establishment of MPACs were convened in all provinces and 103 MPACs have been established. However, following the local elections all municipalities, including those that to date have established MPACs, will have to establish or reestablish them.

Providing skills support in the finance and internal audit units

The DBSA Siyenza Manje programme in partnership with provinces as at December 2010 made the following deployments: 40 individual deployees (finance experts), 28 professional service providers (finance experts) and 57 young professionals. The focus of the finance experts has been on improving audit opinions and maintaining clean audits, implementing GRAP accounting standards, debtor management, revenue enhancement and MFMA financial reporting and planning.

In total 234 municipalities were supported financially through the DCOG-administered Municipal Systems Improvement Grant (MIG) to prepare financial statements.



Other support measures undertaken

Support 80% of municipalities to develop fraud prevention plans to ensure proper risk management and systems of internal control are in place and facilitate ethics management training for senior officials in municipalities.

Additional plans for the future

Some of the plans the DCOG will be implementing for the period 1 April 2011 to 31 March 2012 are as follows:

- In association with SALGA and Association of Public Accounts Committees (APAC), provide training to the established MPACs.
- In association with relevant stakeholders, assist municipalities to establish internal audit units and audit committees where they do not exist and initiate training to strengthen the functionality of audit committees.
- Launch and coordinate ethics campaign at selected municipalities to ensure ethical conduct by officials and support provincial departments responsible for local government and municipalities to initiate preliminary investigations and referrals of serious allegations.

3.4.3 National Treasury initiatives

Initiatives reported by National Treasury in prior financial year to date include the following:

MFMA implementation support structures

The structures that have been created to support provinces and municipalities with regards MFMA implementation by the National Treasury and Accountant-General include the Quarterly MFMA coordination forum, regional municipal CFO forums attended by municipal finance officials, Provincial Accountant-General forums the Operation Clean Audit Steering Committees. These structures deal with a range of financial management reforms as well as the support programme on Operation Clean Audit. The representation at these forums includes National Treasury, provincial treasuries, national and provincial Departments of Cooperative Governance, with the Auditor-General in attendance.

Preparation by municipalities for the audit of their financial statements

An MFMA circular, issued 30 July 2009, provided further guidance to all municipalities regarding processes, procedures, actions and technical checklists required for an effective audit. Operational plans were prepared by municipalities to address all audit findings and were being monitored by the respective provincial teams on a regular basis.

Funding the appointment of qualified and skilled staff

National government has refined the Financial Management Grant framework (FMG) and allocated over R400 million (of which as at end April 2011 an estimated 75% had been spent) to allow municipalities to



utilise the grant to make appropriate qualified and skilled appointments of financial personnel, promote and implement the graduate internship programme in various disciplines of financial management, and support all municipalities develop plans and implement corrective actions to address financial reforms and audit findings.

During the period July 2009 to January 2011, some 1 200 graduates were serving their internship programmes in municipalities and National Treasury had urged all municipalities to absorb these interns into the municipal structures once they attained the minimum qualifications as per the Competency Regulations issued under the MFMA

Budget allocation for financial management and MFMA implementation monitoring

In the 2010 budget a baseline allocation of R5 million each was made to all provincial treasuries to strengthen their staffing capacity to be able to respond positively to municipal needs as they relate to financial management and monitoring of the MFMA implementation. These included the appointment of provincial officials in a wide range of areas to support municipalities in budgeting, reporting, annual financial statements, internal audits, supply chain management and monitoring of MFMA compliance generally.

Financial expertise made available to municipalities

Additional technical support was deployed to a number of municipalities country-wide. More than 27 financial advisors in municipalities as at April 2011 in addition to which more than 60 advisors were appointed to perform specific financial management tasks during 2010. The requests for financial advisors are expected to increase after the May 2011 municipal elections. It is envisaged that certain key changes will be made to the technical support programme during 2011 in order to strengthen and refocus the financial management support efforts.

Financial management and accounting tools

Further support initiatives undertaken during 2010 and plans for 2011 included training sessions held on asset management undertaken for all municipalities during November 2010 where planners, engineers and financial managers were brought together under one roof to share experiences on asset management practices and discussions were held on practical way to implement GRAP 17.

Tools were developed and made available to all municipalities on financial management issues, e.g. procedures to be followed to prepare reconciliations on bank, debtors and creditors reconciliations, computation of lease amortization schedule, etc. Further, since July 2010 detailed GRAP implementation training was conducted countrywide for all municipalities. Since March 2011 training was provided to low-capacity municipalities in different provinces on the GRAP-compliant annual financial statement template to mitigate the issue of submitting financial statements late and limit the use of consultants to compile financial statements for municipalities.



3.4.4 National SALGA initiatives

SALGA plans to focus on the following initiatives:

Financial management

SALGA will continue with the practice of annually convening a budget week in each province to discuss challenges faced by municipalities to share critical information. At these workshops, good practices on matters such as audit improvements, revenue management and fixed asset management is shared by municipalities within the provinces. This approach promotes peer-to-peer learning and support.

SALGA will continue participating in provincial-wide processes dealing with municipal financial management issues, specifically operation clean audit meetings, municipal engagements on outstanding government debtors and CFO forums convened by provincial treasuries.

Turnaround plans

Annually, following the release of audit reports, SALGA provincial offices analyse the reports and identify common challenges across municipalities. Workshops are then convened at a provincial or local/district level on these thematic areas such as workshops on supply chain, billing processes and internal audit.

IT controls

SALGA plans to explore defining municipal specific meanings and attributes of IT governance, controls and information systems risks. This will include the issuing of guidance and sharing of good practices.

Human resources management

SALGA will continue capacity development of officials and Councillors at municipalities to ensure their compliance with Treasury Regulations issued in 1 July 2007 on the competency of CFOs in terms of MFMA of 2003.

SALGA is working with speed to ensure that all section 56 and 57 employees adhere to this regulation by 2013 as required by the MFMA. SALGA partners in this initiative include the DBSA, the LGSETA, SAICA and Wits Business School.

Governance structures

SALGA convenes in most provinces District Area Finance Forums bringing together CFOs from local municipalities, audit committee members, internal audit and other stakeholders to monitor progress on audit improvement plans and discuss the annual financial roadmap in respect of the budget process, monthly and quarterly reporting and annual financial statements, including Annual Reports.



Together with CoGTA, a framework for the establishment of MPACs has been developed. At June 2011, the framework was awaiting final sign-off.

As part of the new councillors' capacity programme, SALGA, in partnership with National Treasury, CoGTA and APAC, will be rolling out training on oversight with focus on MPACs. The training will include amongst others, the role and responsibilities of MPACs and reporting mechanisms. The training will be rolled out in September and October 2011.

SALGA and National Treasury will also be conducting in July 2011 a Municipal Finance Induction for newly appointed MMCs of Finance following the general councillor induction sessions.

Adoption of municipalities

SALGA is piloting a programme of adopting and supporting municipalities who need assistance with internally and externally expertise on audit turnarounds. The main focus is responding to audit issues raised by Auditor-General.

3.5 Matters dealt with at trilateral meeting between the ASB, National Treasury and the AGSA

An effective relationship with the National Treasury and, more specifically, the Office of the Accountant-General (OAG), is critical to the responsibilities of the AGSA as auditor of government. Interaction with the OAG takes place at a number of different levels, both formally and informally. Further, the AGSA is represented on the Accounting Standards Board (ASB) and quarterly trilateral meetings are conducted with the ASB and the National Treasury. Discussions and meetings also take place between technical staff of the ASB, the OAG and the AGSA on a regular basis. The ASB assists with the interpretation and resolution of accounting matters.

The following matters were highlighted at the April 2011 trilateral meeting:

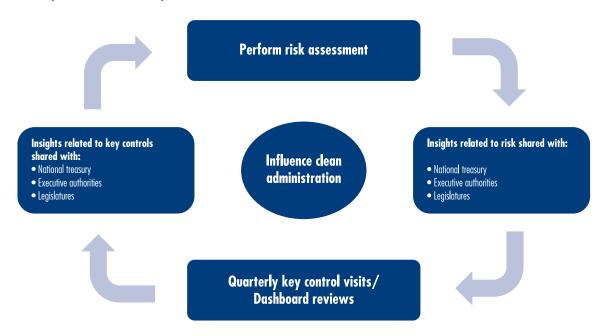
- Emerging risks entities should ensure that they aware of when the applicable transitional provisions for the implementation of GRAP expire and that they have a plan to ensure full compliance prior to that date
- A comparison has been made of GRAP with IFRS for SMEs and a decision will be made on the possibility
 of simplifying certain GRAP requirements and whether differential reporting is required, i.e. a more simple
 framework for smaller entities. Areas where additional training is required have also been identified.
 Accounting guidelines have been prepared by National Treasury which will assist in the implementation of
 GRAP.
- A CFO handbook has also been prepared and published by National Treasury. This tool can be used by municipalities in the addressing of the audit outcomes.
- National Treasury will undertake presentations on GRAP and will development a tool for assessing knowledge of GRAP.



3.6 AGSA initiatives to encourage clean administration

The key elements of the AGSA's initiatives to encourage clean administration are depicted below. Similar initiatives are being rolled out in the provinces.

Figure 29: Key elements of the AGSA's initiatives to influence audit outcomes (national front)



3.6.1 Identification of risks to audit outcomes

The auditing standards require the auditor to have a clear understanding of the audit risks associated with the sector, in this case the local government sector. In response to these standards and in order to encourage clean administration, the AGSA briefed National Treasury in August 2010 on key risks to the 2009-10 audit outcomes of local government.

Key risks identified included the probability of the following:

- Oversight bodies have not implemented remedial action as agreed at stakeholder interventions.
- Late implementation of corrective action plans due to attention to other government projects.
- Continued high levels of vacancies/lack of skills in key positions.
- Use of consultants sometimes without transfer of knowledge.
- Late or non-submission of report on predetermined objectives for audit purposes.
- Improper reporting on performance information to cover non achievement of targets set by government.
- Impact of global financial crisis going concern and financial sustainability.
- Occurrence of unauthorised, fruitless and wasteful and irregular expenditure related to budget not spent for the purposes intended.
- Fraud, corruption, collusion, theft or conflict of interest related to SCM.



While there was indeed an overall improvement in audit opinions, other aspects of financial management and findings arising from the audit of predetermined objectives and compliance with laws and regulations confirmed the accuracy of the AGSA risk assessment, an update of which was presented in March 2001 in respect of the 2010-11 audit outcomes. The AGSA will continue to engage role players identified risks may have on audit outcomes

Overall the AGSA will continue to initiate meetings and discussions with both national and provincial role players, the basis of which will be the results of quarterly key control assessments as well as the nine focus areas identified for national and provincial role players following the analysis of the drivers of the 2009-10 audit outcomes.

3.6.2 Continuing AGSA initiatives nationally

On the national front the AGSA will continue with its quarterly trilateral meetings with National Treasury and the ASB to chart the way forward on accounting and audit-related matters that affect local government. Progress with implementing commitments given by National CoGTA and SALGA will be monitored and key control-related/ focus area information shared with them throughout the financial year. Where required, further sessions will be held with national and provincial role players to promote a focus on reporting on predetermined objectives.

3.6.3 Continuing AGSA initiatives in the provinces

In the provinces the AGSA will continue quarterly discussions with the troika (Premier, MEC for Finance and MEC for Local Government) to present the status following key control discussions. We will also continue to participate in Operation Clean Audit and attend NCOP, SCOPA and portfolio committee oversight meetings.

The AGSA will maintain its visibility at municipalities by engaging in interactions on audit outcomes-related matters with provincial treasuries, municipal public accounts committees (MPACs) and municipal mayors. The AGSA has scheduled training workshops on reporting on predetermined objectives district-by-district for the municipalities. An outline of existing and envisaged interaction in provinces is as follows:

CoGTA (Operation clean audit)

Even though the AGSA is not a member of the forum, it has a standing invitation to attend meetings. AGSA representatives will attend these meetings and provide guidance where required.

Provincial leadership

The results of quarterly key control sessions held by the AGSA with municipal leadership will be shared with premiers and the MECs for local government and Finance.



Oversight (MPACs)

The MPACs are not yet fully functional in all provinces. Where established, the AGSA will attend committee meetings to brief them on findings and assist with them with the evaluation responses received from management.

Mayors

Senior AGSA staff will have formal meetings with mayors on key controls on a quarterly basis to equip them, inter alia, to ask management-relevant questions relating to the financial management of the municipalities, including progress in addressing qualification findings.

Commitments arising from these interactions are formally documented by the AGSA and followed up quarterly.

3.7 Other emerging matters that require attention to prevent a negative impact on future audit outcomes

Continuity in leadership initiatives

The change in leadership, mayors and councillors in municipalities resulting from the May 2011 local government elections poses a risk of new leadership not building on the successes of the past due to the fact that good practices are not entrenched within the municipalities.

Predetermined objectives

The majority of municipalities and municipal entities whose audits were finalised by 31 January 2011 had findings on predetermined objectives. Actions should be taken to address the significant deficiencies relating to the audit of predetermined objectives. Should actions not be taken and regularly monitored and reviewed for completeness and implementation, the audit outcomes of the municipalities might be modified once the decision is made to elevate the conclusion on predetermined objectives of the auditor's report.

Compliance with GRAP standards

All the transitional provisions on the GRAP standards will expire on 30 June 2012. Low-capacity municipalities will be expected to be fully compliant with all the standards. The municipalities are currently struggling with compliance mainly due to funding constraints and capacity especially on GRAP 17.



SECTION 4: DRIVERS OF AUDIT OUTCOMES

This section of the general report:

- Provides a provincial analysis of key controls.
- Provides an assessment of the key controls and outline of their related criteria.
- Outlines of recommended focus areas for national and provincial role players.
- Overview of needs and challenges of provincial role players at the time of the audit.

4.1 Provincial analysis of key controls

Annexure 4 to this report lists auditees together with an assessment of the adequacy key controls at the time of the audit. Tables 18 and 19 provide a provincial assessment of key controls at the time of the audit. Figures 30 through to 32 provide descriptive analysis and assessments of the leadership, financial and performance management and governance.

Table 18: Provincial analysis of drivers of audit outcomes - Municipalities

		Leadership		Financial an	d performance n	nanagement		Governance	
Province	Good	In progress	Intervention required	Good	In progress	Intervention required	Good	In progress	Intervention required
Eastern Cape	6%	36%	58%	6%	32%	62%	6%	40%	54%
Free State	11%	50%	39%	5%	52%	43%	7%	70%	23%
Gauteng	63%	22%	15%	51%	29%	20%	65%	16%	19%
KwaZulu-Natal	55%	36%	9%	45%	45%	10%	55%	39%	6%
Limpopo	22%	31%	47%	20%	41%	39%	12%	41%	47%
Mpumalanga	35%	24%	41%	31%	26%	43%	43%	19%	38%
Northern Cape	11%	34%	55%	9 %	32%	59%	9 %	33%	58%
North West	3%	64%	33%	8%	52%	40%	3%	43%	54%
Western Cape	46%	31%	23%	47%	29%	24%	55%	27%	18%



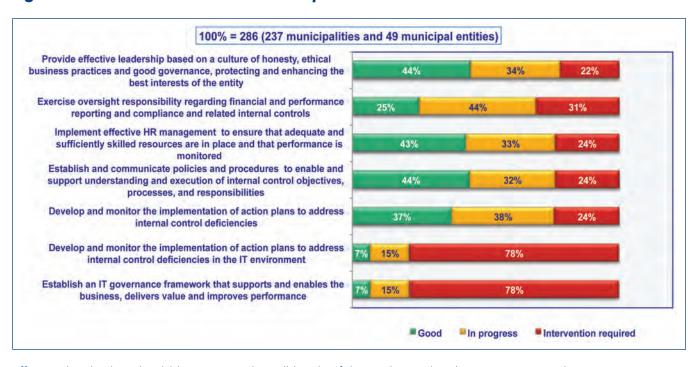
Table 19: Provincial analysis of drivers of audit outcomes – Municipal entities (applicable provinces)

		Leadership		Financial an	d performance r	nanagement		Governance	
Province	Good	In progress	Intervention required	Good	In progress	Intervention required	Good	In progress	Intervention required
Eastern Cape	47%	33%	20%	44%	29%	27%	41%	26%	33%
Free State	6%	67%	27%	2%	54%	44%	2%	65%	33%
Gauteng	81%	17%	2%	73%	20%	7%	90%	7%	3%
KwaZulu-Natal	51%	38%	11%	52%	33%	15%	49%	38%	13%
Limpopo	12%	59%	29%	31%	66%	3%	67%	33%	0%
North West	27%	73%	0%	17%	83%	0%	17%	83%	0%
Western Cape	75%	25%	0%	75%	25%	0%	75%	25%	0%

4.2 Assessment of the key controls and outline of their related criteria

An assessment of each of the three drivers at the time of the audit together with an explanation of applicable criteria is presented below.

Figure 30: Driver number 1 - Leadership



Effective leadership should be exercised at all levels of those charged with governance and management. This is in direct correlation to the level of work that is required to resolve the 110 qualified audit opinions that remain, despite a reduction of 33% (53 qualified opinions) as compared to the 163 in the prior year.



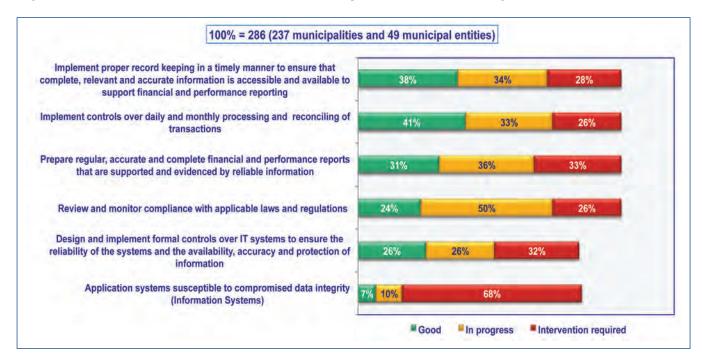


Figure 31: Driver number 2 - Financial and performance management

The basic controls to improving financial and performance management include the following:

- Regular preparation of complete and accurate financial and performance reports that are supported by reliable information.
- Review and monitoring of compliance with laws and regulations.
- Implementing proper record keeping to ensure that complete, relevant and accurate information is accessible and available in a timely manner to support financial and performance reporting.
- Implementing controls over daily and monthly processing and reconciling of transactions.
- Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Those charged with governance have a responsibility to prepare quality, reliable financial statements and management information. This responsibility should be supported by the recruitment of competent individuals who understand the financial reporting framework (including knowledge of the controls and related processes) and performance management requirements.

A high proportion of findings remain work in progress (50%) with regards to the review and monitoring of compliance with applicable laws and regulations. Therefore there is a risk of a regression of outcomes for those 120 municipalities and 29 municipal entities, that recorded a "Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations" opinion.



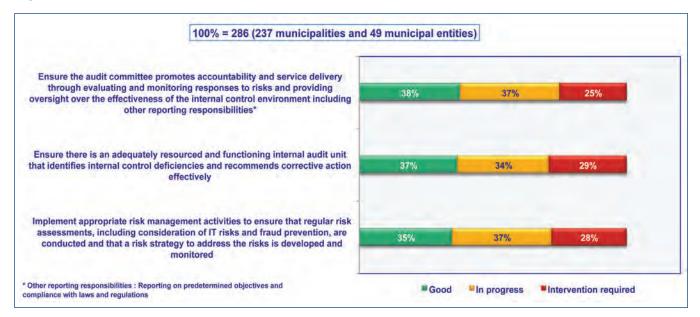


Figure 32: Driver number 3 - Governance

Good governance practices include the following:

- Implementing appropriate risk management activities to ensure that regular risk assessments, including
 consideration of IT risks and fraud prevention, are conducted and that a strategy to address the risks is
 developed and monitored.
- Ensuring that there is an adequately resourced and effectively functioning internal audit unit that identifies internal control deficiencies and recommends corrective action.
- Ensuring 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.

The overall impression of the good strides being made is distorted by the number of findings that are either in progress or require intervention. Some of the reasons are as follows:

- Risk management activities and steps to improve the effectiveness of the audit committee are in progress.
- Audit committees are in existence; however, there is room for improving the effective functioning of the audit committee.
- Lack of a close working relationship between internal audit and audit committee.
- Contracting-out of the internal audit function and instances of non-implementation of internal audit recommendations have been cited.
- Lack of capacity at internal audit.

Therefore greater emphasis is placed on audit committees playing a more active role in monitoring corrective measures on previous modifications to audit reports throughout the financial year and only internal auditors with the necessary competencies and skills should be appointed. The audit committees should monitor the activities of the internal audit function to ensure that they fulfil their roles and responsibilities.



Information technology as a specific driver of audit outcomes and service delivery

IT is a key driver of financial and performance management and compliance.

The following control objectives apply to the management of IT:

- Establish an IT governance framework that supports and enables the business, delivers value and improves performance.
- Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment.
- Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Details of IT focus areas findings are as follows:

IT governance

IT governance is the responsibility of the executive management. It is an integral part of the organisation's governance and consists of the leadership and organisational structures and processes that ensure that the organisation's IT sustains and extends the organisation's strategies and objectives. IT governance is important as it allows the organisation to manage IT risks, derive value from IT investments and support the achievement of business objectives that are dependent on IT systems. The IT control framework is integral to IT governance and provides overall guidance on the implementation of IT governance within the organisation and ensures the positioning of IT, resource requirements, risk and internal control management.

Key findings that were commonly identified during these audits:

- Lack of an approved IT strategic plan in instances where the IT strategic plan had been approved, it had not been implemented or implementation was not monitored.
- An IT steering committee had not been established to monitor IT strategic actions to ensure that they support
 business objectives. In instances where these committees had been established, they were not functioning
 effectively.
- Lack of a formal IT risk register to ensure that risks were adequately recorded and followed up.
- Lack of policies and procedures to direct and ensure an understanding of management objectives. In instances where policies and procedures were in place, they were inadequate to address IT risks.
- The functions of the information security officer had not been allocated and in instances where they had been allocated, they were inadequately performed to ensure that IT systems were protected.
- Lack of service level agreements (SLAs) to monitor the high number of consultants and vendors employed. In instances where SLAs were in place, they were not monitored.
- There is currently 36% IT vacancy rate at audited municipalities.



Security management

The IT section is responsible for ensuring that security measures are in place to prevent unauthorised access to networks and operating systems that grant access to the application systems.

Key findings that were commonly identified during these audits:

- Operating system standards and procedures had not been implemented.
- The administration and management of security controls was inadequate to detect and prevent unauthorised access to the application systems that generate financial statements.
- Operating system security parameters had not been adequately set to provide optimal security.
- Administrator access rights were allocated to a high number of users. This level of access allows users
 uncontrolled access to the organisation's network and systems. This vulnerability was exacerbated by the
 lack of periodic reviews of access and logon violation reports.

Specialist skills are needed to implement and manage these functions and the controls in place were not strong enough due to the lack of adequate skills.

User access control

User access control is the systematic process of managing the access of users to the application. The process includes the creation, review, disabling and removal of user accounts. Chief financial officers (CFOs) are responsible for these functions. These controls also serve as compensating controls where security management controls are not effective.

Key findings that were commonly identified during these audits:

- Lack of user account management procedures in instances where procedures had been designed, they
 were inadequate to ensure that sufficient controls were implemented during the creation and amendment of
 access
- Users' access was not reviewed to ensure that it remained commensurate with their job responsibilities.
- The activities of the system administrators were not monitored to ensure that their superuser access was not inappropriately used.
- Inactive or unused user IDs were not timely removed from the system or deactivated to ensure that they would not be used to gain unauthorised access to financial systems.

A good practice guide, *User account management,* had been compiled and distributed to municipalities. Presentations were also made where requested.

Program change management

Program change management ensures that any proposed changes to the existing information systems environment are coordinated, scheduled, authorised and tested to prevent unnecessary disruptions, erroneous changes and unauthorised and inappropriate access.



Key audit findings that were commonly identified:

- Change control standards and procedures were not in place. In instances where these had been developed, they had not been approved and were inadequate to address risks, or the standards and procedures were not in place/in place but not approved/inadequate/not adhered to.
- Procedures in respect of change requests, the approval of changes, the testing and closure of changes, management of the configuration, source code version control, definition of the environment (development, quality assurance/testing and production), patch management and application upgrades were not adequate.
- Programmers were allowed access to the production environment. Where such access was required due
 to reliance on vendors, management did not monitor the access of vendors to ensure that no unauthorised
 activities were performed by the programmers.

Facilities and environmental control

In terms of information systems, facilities and environmental controls are required to ensure the security, integrity, condition, performance and accessibility of the systems and the system information.

Key audit findings that were commonly identified:

- Physical access to the server rooms that support financial systems was not controlled to ensure that only authorised individuals would be able to gain access.
- Environmental controls, such as the uninterruptible power supply (UPS), generators, air-conditioning and humidity control systems and fire-suppression systems, which assist in ensuring that IT equipment functions optimally, were not maintained.

Data centre management

Data centre management relates to the management of scheduled processing, the protection of sensitive output, the monitoring of infrastructure performance and ensuring effective preventive maintenance of hardware.

Key audit findings that were commonly identified:

- Scheduled processing, which would ensure that all transactions were processed as intended, was not monitored.
- Policies and procedures relating to the operations of the network were either not in place or inadequate.
- Maintenance procedures and schedules for system software and devices were lacking.
- System performance was not monitored and reported to management.



IT service continuity

IT service continuity is the process of managing the availability of hardware, system software, application software and data to enable an organisation to recover/establish information system services in the event of a disaster. The process includes business continuity planning, disaster recovery plans and backups.

Key audit findings that were commonly identified:

- Lack of formally documented and approved or incomplete business continuity plans that incorporate IT
 disaster recovery plans where disaster recovery plans were in place, they were not regularly updated
 and tested.
- Lack of backup standards and procedures in instances where these were in place, they were inadequate.

Backups were not kept in an off-site storage location.

4.3 Outline of recommended focus areas for national and provincial role players

Nine focus areas have been identified for national and provincial role-players. An overview of the focus areas and an assessment at the time of the 2009-10 audits are outlined below.

Focus area number 1: Supply chain management

- Officials involved in bid evaluation and adjudication:
 - must receive formal training in SCM,
 - must be familiar with and instructed to adhere to all relevant SCM legislation, policy guides and National Treasury practice notes and circulars,
 - declare any financial interest they may have in any contract, and
 - satisfy the National Treasury-specified technical knowledge and skills requirements for all role players in SCM process.
- Systems of internal control must be implemented and maintained that minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices.

Focus area number 2: Promoting the reliability, usefulness and regulatory requirements of reporting against predetermined objectives

- The National Treasury Framework for Programme Performance Information should be used as a starting point to address defects in service delivery reports, as it outlines the following key matters:
 - The importance of performance information as a management tool.
 - The link between this framework and the government-wide monitoring and evaluation system.
 - The role of performance information in planning, budgeting and reporting.
 - Key concepts, including the criteria for good performance indicators.
 - An approach to developing performance indicators.
 - The capacity required to manage and use performance information.



- The roles of key government institutions in performance information management.
- The publication of performance information.
- As is the case for financial reporting, management must formally design, implement and monitor internal controls to ensure the accuracy, completeness as validity of information, as these do not naturally evolve.
- Performance audit committees and internal audit units need to evaluate and periodically test the adequacy of system for service delivery data collection and validation

Focus area number 3: Financial management

- The preparation of full sets of financial statements at least quarterly that are reviewed by management and audit committees will more timeously detect material misstatements.
- The emphasis should shift to controls to prevent unauthorised, irregular or fruitless and wasteful expenditure and full and timeous disclosure made where controls fail to prevent such occurrences.
- The cost of support by consultants need to be better managed and own systems improved to produce more reliable information for consultants to use in technically challenging areas of reporting.

Focus area number 4: Turnaround plans

- Attention needs to be given to specific financial statement qualification findings.
- Progress with the implementation of these plans must be monitored by those charged with governance and oversight.

Focus area number 5: Information technology (IT)

- Identified risks and vulnerabilities must be addressed.
- The cost to local governments of acquiring so many different computer packages and the cost of maintaining so many different systems needs to be determined and managed.

Focus area number 6: Human resource management

 Mayors and municipal managers have the specific responsibility to ensure adequate staffing levels and continuity at CFO level.

Focus area number 7: Use of consultants

- The use of consultants by municipalities and municipal entities to complement and in some cases supplement management is a temporary solution and adequate transfer of skill has not occurred to enable municipalities to sustain accounting processes.
- Service level agreements must be put in place and the performance of consultants monitored.
- Provinces need to properly co-ordinate the use of consultants at the municipalities so that the existing skills shortages are adequately addressed in a structured manner.



Focus area number 8: Municipalities under administration

• Timeous, structured intervention is required in order that an acceptable level of service delivery to communities is restored.

Focus area number 9: Governance structures

- Audit committees must be constituted as provided for by the MFMA and as a minimum must perform their legislated duties for the entire financial year.
- Internal audit units must be adequately staffed and their annual coverage plan must include compliance and performance management.
- Risk assessment must be performed and responded to by management and internal audit coverage plans.

4.4 Overview of needs and challenges of provincial role players at the time of the audit

Provincial CoGTA (Operation Clean Audit)

- In some provinces provincial OPCA is still a new concept and committee are finalising their terms of reference. Action plans on how the committee is going to work with municipalities are still being developed and will be implemented in due course.
- Constraints such as inadequate capacity within some provincial CoGTAs continue to limit the success of their interventions in assisting municipalities to improve their financial management and governance practices.

Provincial leadership and provincial treasuries

- Even though the department has arranged "predetermined objectives" training for CFOs, more intervention
 is still required, i.e. working closely with municipalities' strategy units, provide training predetermined
 objectives framework across all municipalities. Furthermore, more intervention is required to address IT
 audit findings. The challenge is that the provincial treasury might not have IT skills to help municipalities
 address IT audit findings.
- Constraints such as inadequate capacity within the provincial treasury to regularly visit municipalities and
 perform regular monitoring, as well as a lack of sufficient knowledge of the local government sphere
 continue to limit the success of their interventions in assisting municipalities to improve their financial
 management and governance practices.
- Some provincial treasuries (the owners of financial systems and accounting policies) do not have the relevant resources available to address the financial shortcomings within the municipalities. Consequently, they have had very limited interactions and did not have an impact on improving the audit outcomes within those provinces.



Speakers' forums and MPACs

- In some provinces there is little tangible evidence that these structures are effectively involved in driving positive audit outcomes in municipalities.
- The support provided to municipalities by the Departments of Finance and Local Government within the provincial sphere is very limited due to the lack of capacity within the province. In addition the provincial interventions are not co-ordinated between all the role players therefore the maximum benefit is not received by the municipalities.
- In some provinces the Provincial Speaker has set up a speaker's forum that includes all municipal speakers within the province. Most of these were set up towards the latter part of the financial year under review. This forum focused on educating the speakers on their responsibilities and setting up a formalised oversight process.
- Very few municipalities have set up a MPAC. This committee is required in terms of sections 79 and 80 of the Municipal Structures Act and is instrumental in providing an additional oversight support to the municipality in terms of its administration. With the ultimate goal of clean administration in mind the establishment of MPACs might begin to drive the results desired.
- CoGTA is in the process of training members of MPAC in their roles and responsibilities as a committee member.
- Some provinces have an MUNIMEC which monitors the actions of the municipalities per district. This forum
 has raised awareness of the importance of ensuring accountability, but the impact of their actions is not
 evident from the audit outcomes. The reasons for this is directly linked to issues such as skills shortages at
 municipalities and the fact that municipalities often operate in 'crisis mode' thus not allowing adequate time
 to address the basics required.



SECTION 5: SIGNIFICANT FINDINGS ARISING FROM THE AUDIT OF SUPPLY CHAIN MANAGEMENT

This section of the general report provides information on the following findings related to supply chain management:

- Limitations on planned scope of audit of awards.
- Awards to persons in the service of the state.
- Awards to family members of persons in the service of the state.
- Uncompetitive or unfair procurement processes.
- Inadequate contract management.
- Inadequate SCM controls.

The audits conducted at municipalities and municipal entities for the year included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and that minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. The findings presented in this section relate to the 237 municipalities and 49 municipal entities whose audit reports were issued by 31 January 2011.

As is evident from the analysis of irregular expenditure (section 2.4.2), R3,9 billion (94%) of the irregular expenditure incurred by auditees was as a result of the contravention of the SCM policy and legislation. Eightynine per cent of irregular expenditure was identified during the audit process.

In most instances, the incomplete identification of SCM irregular expenditure was as a result of the incorrect interpretation of the definition of irregular expenditure and SCM legislation as well as inadequate processes and procedures to identify such irregular expenditure.

The figure below presents a summary of findings on SCM. Details of the most prevalent findings are provided below under the headings as depicted in the figure. The percentages are based on the number of auditees where the findings were identified. The SCM findings per auditee are included in annexure 5.



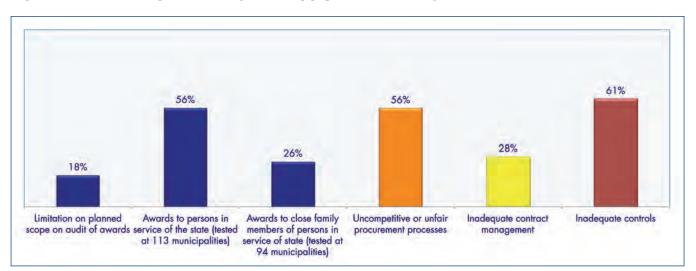


Figure 33: Summary of findings on supply chain management

5.1 Limitations on planned scope of audit of awards

Sufficient appropriate audit evidence could not be provided at all the auditees that contracts had been awarded and quotations had been accepted (hereinafter referred to as "awards") in accordance with the requirements of the SCM policy and legislation.

The reason for this limitation on the scope of the audit was inadequate documentation of the procurement processes followed or missing documentation as a result of inadequate record keeping and document management.

The limitations encountered in the provinces are depicted below.

Table 20: Limitations on scope of audit encountered – Municipalities and municipal entities

Description	New Lorent and Press	Percentage of auditees	Awards						
Province	Number of auditees	tested	Number	R′000					
Eastern Cape	10	21%	651	271 790*					
Free State	10	40%	367	328 862					
Gauteng	1	3%	1	2 685					
KwaZulu-Natal	5	7%	83*	68 966					
Limpopo	4	15%	Unknown*	15 163					
Mpumalanga	4	21%	318*	61 372					
Northern Cape	4	18%	198	31 348					
North West	7	70%	174	401 682					
Western Cape	6	19%	213*	93 576*					
Total	51	18%	2 005	1 275 444					

^{*} The value/number of awards could not be fully established at all the auditees as the information could not be obtained – the actual value/number is expected to be higher than portrayed here.



Missing and inadequate documentation is considered an indicator of fraud risk and the management of the municipalities concerned was urged to investigate the identified awards.

No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.

As a result of the limitations encountered, the findings reported in the balance of this section might not reflect the true extent of irregularities and SCM weaknesses at the auditees where the limitations were encountered.

5.2 Awards to persons in the service of the state

SCM Regulation 44 prohibits awards to persons or entities whose directors, members, principal shareholders or stakeholders are in the service of the state. Expenditure incurred in this regard is also considered to be irregular.

A provider is required by SCM Regulation 13(c)(i) and (ii) to declare whether he/she is in the service of the state or, if not a natural person, if any of its directors, members, principal shareholders or stakeholders are in the service of the state. Non-disclosure constitutes a corrupt and fraudulent act and should be investigated and dealt with in accordance with the measures outlined in the SCM policy and SCM Regulation 38, which includes cancelling the contract with the provider.

Persons in the service of the auditee must declare their interests in providers, as required by the municipal SCM code of ethics and/or through their annual declarations required by the code of conduct for councillors and municipal staff members in terms of the MSA.

Furthermore, persons with an interest in a provider are not allowed to participate in the procurement processes and/or making the award to the provider in which he/she has an interest, as it contravenes the SCM code of ethics and SCM Regulation 46(2)(f) and the person can possibly influence the awarding process.

The identification and audit of awards to persons in the service of the state were this year limited to all metropolitan and high-capacity municipalities and their entities as well as some lower capacity municipalities. The awards identified were also tested to determine whether additional irregularities identified could be an indication that decisions or recommendations were unlawfully and improperly influenced.

The following table depicts the audit findings for those auditees where the prohibited awards were identified.



Table 21: Awards to persons in the service of the state (applicable provinces)

	ses	with		Awards to	o persons in	ı service of	the state		F	urther irre	gularities r	egarding a	wards mad	е	
Province	Percentage of auditees tested	of auditees findings	Irregular expenditure		In service of In service the auditee institu			Provider did not declare interest		Person in service of the auditee did not declare interest		Person was involved in making the award		Additional irregularities identified with the award	
	Perc	Number	R′000	Number	R′000	Number	R′000	Number	R′000	Number	R′000	Number	R′000	Number	R′000
Eastern Cape	55%	6	14 921	8	12 926	11	1 995	6	7 675	2	3				
Free State	86%	6	13 360	5	1 913	21	11 447	13	8 070	2	1 463				
Gauteng	29%	2	3 851	3	233	13	3 618	14	3 639	2	212				
KwaZulu-Natal	54%	20	51 561	83	22 997	260	28 564	85*	15 334	35*	5 117	1	2	41	11 278
Limpopo	40%	2	13 650	21	13 650										
Mpumalanga	50%	5	20 912	86	13 626	36	7 286	1	32	9	769				
North West	83%	5	11 084	13	8 849	24	2 235	27*	2 443	9	825			*	
Western Cape	68%	17	9 406	12	2 293	46	7 113	41	4 319	12	1 995				
Total	56%	63	138 745	231	76 487	411	62 258	187	41 512	71	10 384	1	2	41	11 278

^{*} The declarations and bidding documentation could not be provided for audit at all the auditees.

The table below depicts number of municipalities where positions of influence were held by the identified persons in the service of the state.

Table 22: Positions of persons in the service of the municipality to whom awards were made (applicable provinces)

December		Pos	ition	
Province	Councillor	Mayor	Municipal manager	Senior manager
Eastern Cape	4			
Free State	1			
Gauteng				1
KwaZulu-Natal	4			
Limpopo	1			1
Mpumalanga	2			
North West	4		1	
Western Cape	3	1		
Total	19	1	1	2



5.3 Awards to family members of persons in the service of the state

Awards to persons or entities whose directors, members, principal shareholders or stakeholders are close family members of persons in the service of the state, whether at the auditee or any other state institution, are not prohibited, but any such awards of more than R2 000 must be disclosed in the financial statements of the auditee as required by SCM Regulation 45.

A provider is required by SCM Regulation 13(c)(iii) to declare whether he/she is a close family member of a person in the service of the state or, if not a natural person, if any of its directors, members, principal shareholders or stakeholders are a close family member. Non-disclosure constitutes a corrupt and fraudulent act and should be investigated and dealt with in accordance with the measures outlined in the SCM policy and SCM Regulation 38, which includes cancelling the contract with the provider.

SCM officials or those otherwise involved in SCM must declare any interests in providers (including family ties to the provider), as required by the municipal SCM code of ethics and SCM Regulation 46(2)(e).

Furthermore, persons with an interest in a provider are not allowed to participate in the procurement processes and/or making the award to the provider in which he/she has an interest, as it contravenes the SCM code of ethics and SCM Regulation 46(2)(f) and the person can possibly influence the awarding process.

The identification of awards to close family members of persons in the service of the state was this year limited to those auditees where information on family members could be obtained. The awards identified were also tested to determine whether additional irregularities identified are an indication that decisions or recommendations were unlawfully or improperly influenced.

The table below depicts the audit findings for the auditees where such awards were identified.

Table 23: Awards to close family members of persons in the service of the state (applicable provinces)

	tested	with	diture		ds to close fo ersons in ser			Non-compliance with regard to the awards made								
Province	Percentage of auditees	Number of auditees findings	Irregular expenditure	In servic	e of auditee		e of other tution	disclo annual	complete sure in financial ments		r did not interest	roleplaye	ficial or er did not interest	Perso involved the a	in making	
	Perce	2	R′000	Number	R′000	Number	R′000	Number	R′000	Number	R′000	Number	R′000	Number	R′000	
Eastern Cape	33%	4	2 314	5	2 261	1	53	6	2 314	2	1 939					
Free State	25%	1	798	1	798											
KwaZulu-Natal	19%	6	89 568	8	89 566	1	2	4	88 425	1	109	1	2	1	386	
North West	33%	2	2 079	1	29	1	2 050									
Western Cape	42%	11	15 618	28	8 953	5	6 665	15	6 013	2	52	1	23	1	5 200	
Total	26%	24	110 377	43	101 607	8	8 8 770		96 752	5	2 100	2	25	2	5 586	



The table below depicts the number of auditees where positions of influence were held by the identified persons in the service of the state.

Table 24: Positions of persons in the service of the auditee whose close family member received awards (applicable provinces)

Province			Position		
rrovince	Councillor or director	Mayor	Municipal manager	Senior manager	SCM official
Eastern Cape	1	1	1	2	
Free State	1				
KwaZulu-Natal		1		2	1
North West					1
Western Cape	3	1	1	1	
Total	5	3	2	5	2

5.4 Uncompetitive or unfair procurement processes

The most prevalent findings on non-compliance with legislation which resulted in uncompetitive or unfair procurement processes are summarised in the table below. Where applicable to the finding, the amount of irregular expenditure incurred is indicated.

Table 25: Findings on uncompetitive or unfair procurement processes

Province	Three price not obt		Competitive bids not invited		Deviations from processes not justifiable		te public tions		of of tax rance		ce points ot applied	Other findings	
	Number of auditees	R′000	Number of auditees	R′000	Number of auditees	R′000	Number of auditees	R′000	Number	R′000	Number	R′000	Number
Eastern Cape	20	12 130	7	27 011	4	25 794	3	8 272	12	44 886			
Free State	14	38 174	14	205 376	5	130 927					5	21 509	18
Gauteng	8	912	2	7 871	2	158 499			2	68			
KwaZulu-Natal	22	69 857	11	308 666			4	113 863			12	23 361	23
Limpopo	3	921			4	7 056	2	851			3	7 984	4
Mpumalanga	7	6 029	2	46 867	2	37 636	3	2 782					11
Northern Cape	12	7 034	8	10 145			4	3 846	6	4 546	4	12 105	
North West	5	3 811	3	35 316			6	49 872	5	6 919			7
Western Cape	11	8 678	6	14 631	6	12 148					3	922	
Total	102	147 546	53	655 883	23	372 060	22	179 486	25	56 419	27	65 881	63
Percentage of tested auditees with findings	of tested auditees 36%		19	%	8%		8%		9%		9'	22%	

Further details on the legislation not complied with are as follows:



Three price quotations not obtained

In terms of SCM Regulation 12(1)(c), formal written price quotations should be obtained for procurement of goods and services of a transaction value between R10 000 and R200 000 (VAT included). In terms of SCM Regulation 17(1), quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers or, if not on the list, from providers that meet the listing criteria. If it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the CFO or someone designated by him/her.

Competitive bids not invited

In terms of SCM Regulation 12(1)(d), a competitive bidding process should be followed for procurement of goods and services above a transaction value of R200 000 (VAT included) and a deviation from the process should be approved by the accounting officer or someone designated by him/her.

Deviations from procurement processes not justifiable

In terms of SCM Regulation 36(1), an accounting officer may dispense with the official procurement processes and procure any required goods or services through any convenient process, but only:

- (i) in an emergency
- (ii) if such goods or services are only produced or available from a single provider
- (iii) in any other exceptional case where it is impractical or impossible to follow the official procurement process

In addition, SCM Regulation 17(1) allows less than three quotations if it is not possible to obtain the required number of quotations.

Inadequate public invitations

In terms of SCM Regulation 22(2), an accounting officer may determine a closure date for the submission of bids which is less than the required 30 or 14 days, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official process.

In terms of SCM Regulation 18(a), invitations for price quotations should be advertised for at least seven days on the website and official notice board of the auditee.

No proof of tax clearance

In terms of SCM Regulation 43(1), an award should not be made to a person whose tax matters have not been declared by SARS to be in order.



Preference points system not applied

In terms of section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000), an organ of state must determine its preferential procurement policy and a preference point system must be followed. Furthermore, in terms of SCM Regulation 28(1)(a)(ii), a bid evaluation committee must evaluate bids in accordance with the points system as prescribed in terms of this act.

Other significant findings include:

- No or inadequate administration of prospective provider list.
- Incomplete disclosure of deviation from process.

5.5 Inadequate contract management

The findings on contract management are summarised in the table below.

Table 26: Findings on contract management

			Number of auditees		
Province	No written contract	Payment in excess of approved amount	Performance of contractors not monitored	Unfair or non-compliant contract amendment, extension or renewal	Other findings
Eastern Cape	8	4	4	6	
Free State	2	2	6	5	7
Gauteng	2		4	2	1
KwaZulu-Natal	4	1	4	9	3
Limpopo	3		2	3	3
Mpumalanga	2	4	1	1	1
Northern Cape	1	1	1	2	3
North West		3		3	
Western Cape	3		2	5	
Total	25	15	24	36	18
Percentage of tested auditees with findings	9%	5%	9%	13%	7%

Further details on the findings are provided below.

No written contract

In terms of section 116(1)(a)(i) of the MFMA, a contract procured through an SCM system must be in writing.



Payments made in excess of the approved amount

Irregular expenditure totalling R46,5 million was identified as a result of payments for goods and services that exceeded the approved contract or quoted amount.

Performance of contractors not monitored on a monthly basis

In terms of section 116(2)(b) of the MFMA, the accounting officer must on a monthly basis monitor the performance of the contractor in terms of the contract or agreement.

Unfair or non-compliant contract amendment, extension or renewal

In terms of section 116(3) of the MFMA, a contract or agreement procured through the SCM policy of the municipality or municipal entity may be amended by the parties, but only after:

- a) the reasons for the proposed amendment have been tabled in the council of the municipality or, in the case of a municipal entity, in the council of its parent municipality
- b) the local community:
 - i) has been given reasonable notice of the intention to amend the contract or agreement
 - ii) has been invited to submit representations to the municipality or municipal entity

At 36 auditees the above requirements were not complied with.

At 11 auditees irregular expenditure totalling R215,5 million was identified based on contracts that were extended or renewed without approval by a delegated official.

At 16 auditees irregular expenditure totalling R25,2 million was identified based on contracts that were extended or renewed to such an extent that the competitive bidding process was circumvented.

Other findings

The other findings on contract management include the following:

- Capacity not established in auditee to ensure proper enforcement and monitoring of contracts
- Contracts of longer than three years were not reviewed at least every three years
- Payment at prices/rates different from contract/ quotation



5.6 Inadequate SCM controls

Identified findings on deficiencies in fundamental SCM controls are summarised in the table below.

Table 27: Findings on SCM controls

			Number o	f auditees		
Province	Lack of proper record keeping	No risk assessment performed	Lack of monitoring of SCM	Internal audit did not evaluate SCM processes	Inadequate fraud prevention plan	Other findings
Eastern Cape	23	23	16	22	22	
Free State	16	13		13	13	17
Gauteng	4	4				
KwaZulu-Natal	18	13	16		12	22
Limpopo	6	5		6	6	
Mpumalanga		7	4	7	7	7
Northern Cape		10	6	8	6	10
North West	8	7		6	4	5
Western Cape		7	2	5	5	
Total	75	89	44	67	75	61
Percentage of tested auditees with findings	27%	32%	16%	24%	27%	22%

Further details on the findings are as follows:

Lack of proper record keeping

Records should be properly kept and managed to ensure that requested information is made available for audit purposes.

No risk assessment performed

In terms of SCM Regulation 41(1), an SCM policy must provide for an effective system of risk management for the identification, consideration and avoidance of potential risks in the SCM system.

Lack of effective internal monitoring

SCM Regulation 42 requires that an SCM policy must provide for an effective internal control monitoring system in order to determine, on the basis of retrospective analysis, whether the authorised SCM processes are being followed and whether the desired objectives are being achieved.



Internal audit did not evaluate SCM processes

Internal audit should evaluate the controls, processes and compliance with laws and regulations with regard to SCM, as procurement is generally considered a high fraud risk area.

Inadequate fraud prevention plan

The fraud prevention plan is expected to include specific measures for preventing and detecting fraud in the procurement processes, as procurement is generally considered a high fraud risk area.

Other findings

The other deficiencies in fundamental SCM controls are the following:

- SCM officials not adequately trained 32 of 141 tested (23%).
- Annual declaration of interest not made 20 of 82 tested (24%).
- Lack of control over declaration of gifts 10 of 19 tested (52%).
- SCM policy in conflict with the MFMA and the SCM Regulations eight of 43 tested (19%).
- Allegations not investigated or investigated without action being taken three of 10 tested (30%).

5.7 Overall comments on SCM findings

The irregular expenditure incurred in the provinces resulted mostly from awards made to persons in the service of the state or their family members at 63 (56% of auditees) and uncompetitive or unfair procurement processes at 159 (56% of auditees). Awards to the value of R138 million were made to persons in the service of the state. Awards valued at R76 million were made to persons in the service of the particular auditee and included 19 councillors, a mayor and a municipal manager.

A further award of R102 million was made to close family members of persons in the service of the auditee, which included five councillors, three mayors and two municipal managers.

Taking into account that the audit of awards was only performed at 40% of the auditees and in a limited manner these findings are of great concern. The possibility of undue influence of procurement processes by the identified persons cannot be discounted. The suppliers did not declare their relationship with persons at the auditee or in service at other state institutions in at least 28% of the instances. The percentage could be higher as all declarations could not be presented for audit. Such non-disclosure constitutes a corrupt and fraudulent act and should be investigated and dealt with in accordance with legislation.

The findings on uncompetitive or unfair procurement processes mostly relate to quotations not being obtained for awards below R200 000 (R148 million) and competitive bidding processes not followed for awards above R200 000 (R656 million). Deviations from competitive processes were found to be approved as some municipalities but not on justifiable grounds as outlined in legislation (R372 million).



Inadequate management of projects and contracts remain a weakness at municipalities and is characterised by findings on the lack of written contracts, payments made in excess of the contract amount, irregular extensions/amendments to contracts and inadequate monitoring of contracts.

The disregard for adherence to SCM legislation at the majority of the auditees are evidenced by these findings and are receiving attention to varying degrees at all levels of oversight. Based on the audit of fundamental SCM internal controls the findings are however showing that strong ethical leadership and monitoring, well established policies, processes and procedures for SCM and fraud prevention and detection and active governance by internal audit and audit committees can solve the problem.



DEFINITION OF AUDIT OPINIONS

Disclaimer	The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.
Adverse	The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
Qualified	 The auditor shall express a qualified opinion when: (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.



ANNEXURES TO GENERAL REPORT (LISTINGS)

Annexure 1	Auditees' audit outcomes, areas qualified and findings on predetermined objectives
Annexure 2	Auditees with findings related to compliance with laws and regulations
Annexure 3	Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses
Annexure 4	Assessment of auditees' key controls at the time of the audit
Annexure 5	Auditees with key findings on supply chain management
Annexure 6	Auditees with issues relating to funding of operations/financial sustainability/going concern



ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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43	Siyanda District	NC	Audit not finalised at legislated date			Disclaimer											
44	Bojanala Platinum District	NN	Financially unqualified with findings			Financially unqualified with findings											
45	Dr Kenneth Kaunda District	NN	Audit not finalised at legislated date			Qualified											
46	Dr Ruth S Mompati District	NN	Audit not finalised at legislated date			Financially unqualified with findings											
47	Ngaka Modiri Molema District	NN	Audit not finalised at legislated date			Disclaimer											
48	Cape Winelands District	MC	Financially unqualified with findings			Financially unqualified with findings											
49	Central Karoo District	MC	Financially unqualified with findings			Financially unqualified with findings											
20	Eden District	MC	Financially unqualified with findings			Financially unqualified with findings											
51	Overberg District	MC	Financially unqualified with findings			Financially unqualified with findings											
52	West Coast District	WC	Financially unqualified with findings			Financially unqualified with findings											
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53	Amahlati	E	Financially unqualified with findings			Qualified											



ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives



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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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	Ичтрег	137	138	139	140	141	142	143	144	145	146	147	148	149	150



ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

	Number	151	152	153	154	155	156	157	158	159	091	191	162	163
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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives



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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings on predetermined objectives

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	Number	44	45	46	47	48	49	20	51	52	53	54





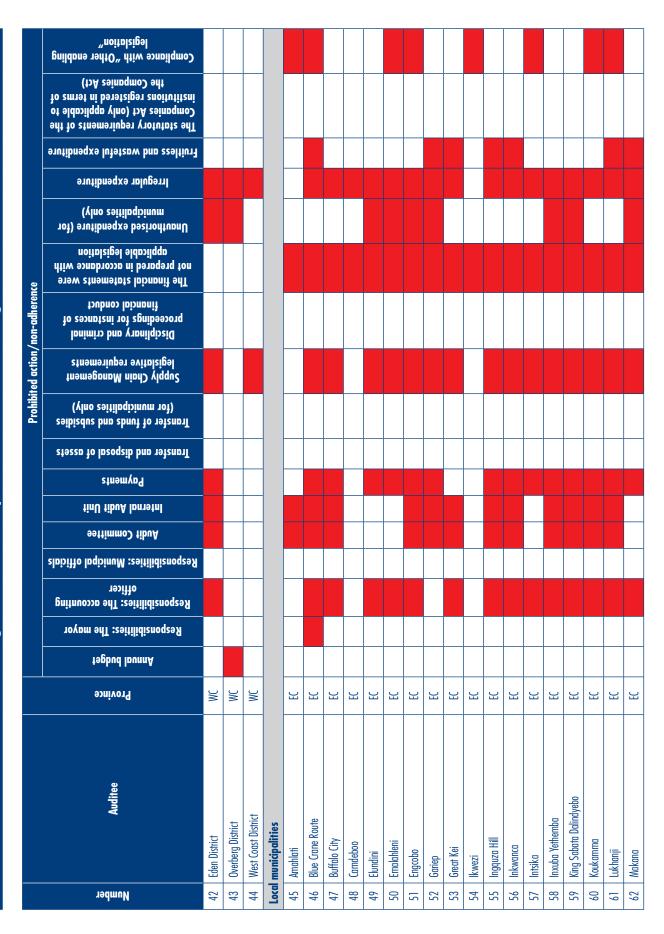
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ANNEXURE 2: Auditees with findings related to compliance with laws and regulations

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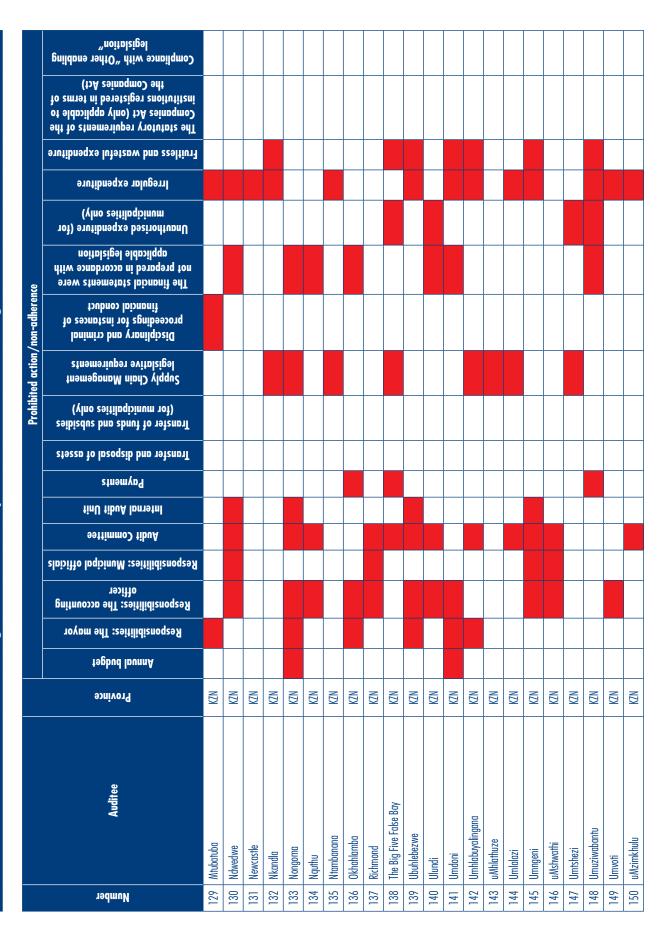


ANNEXURE 2: Auditees with findings related to compliance with laws and regulations

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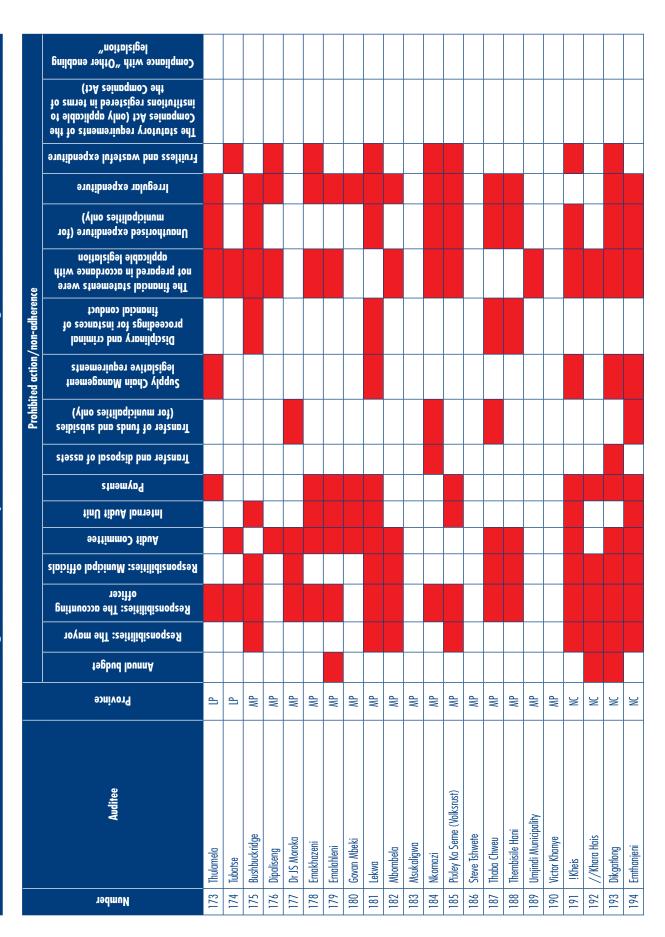


ANNEXURE 2: Auditees with findings related to compliance with laws and regulations

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ANNEXURE 2: Auditees with findings related to compliance with laws and regulations

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	93nivor¶	MC	MC	MC	MC	MC	MC	JM	JM	JM	MC	WC	JM	MC	MC	MC	MC	MC	MC	MC	WC	MC
	Auditee	Berg River	Bitou	Breede Valley	Cape Agulhas	Cederberg	Drakenstein	беогде	незгедиа	Kannaland	Knysna	Laingsburg	Langeberg	Matzikama	Mossel Bay	Overstrand	Prince Albert	Saldanha Bay	Stellenbosch	Swartland	Theewaterskloof	Witzenberg
	Number	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237

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The state of the company of the comp		Fruitless and wasteful expenditure																						
The filter of th		Irregular expenditure																						
Profite to the following the first (Phy) Led German Agency (Phy) Led German Ag		Vorised expenditure (for yellous)																						
Multi Development Agency (Pty) Ltd GP Povelopment Agency (Pty) Ltd GP Povelopment Agency (Cropony) C Cropony (Cropony) C Cropo	ıce	not prepared in accordance with																						
Multi Development Agency (Pty) Ltd GP Povelopment Agency (Pty) Ltd GP Povelopment Agency (Cropony) C Cropony (Cropony) C Cropo	/non-adhere	proceedings for instances of																						
Multi Development Agency (Pty) Ltd GP Povelopment Agency (Pty) Ltd GP Povelopment Agency (Cropony) C Cropony (Cropony) C Cropo	ted action																							
Audit ee Anuli Development Agency Responsibilities: The moyor Responsibilities: The m	Prohibi																							
Auditee Auditee Province Responsibilities: The mayor Responsibilities:		etesen to losogsib bno 19teno1																						
Auditee Auditee Auditee Auditee Auditee Auditee Auditee Annual budget Responsibilities: The mayor Beelopment Agency CE Responsibilities: The mayor Beelopment Agency CE Responsibilities: The mayor In Development Agency Annual Mancy Company Company		Payments																						
Auditee Auditee Auditee Province Annual budget Responsibilities: The mayor The desponsibilities: The accounting of		Internal Audit Unit																						
Auditee Auditee Auditee Province Responsibilities: The mayor The Development Agency The Municipality Trust The Municipa		eettimmo) tibuA																						
Auditee Auditee Auditee Auditee Auditee Auditee Annual budget Responsibilities: The mayor It Municipality Tust It Municipality Tu		Responsibilities: Municipal officials																						
Auditee Province EC Foreignment Agency Foreignment Company GP GP GP GP Gritz Planta Foreignment Company GP GP GP GP Gritz Planta Foreignment Agency GP GP Gritz Planta Foreignment Agency GP GP GP Gritz Planta Foreignment Agency GP		Responsibilities: The accounting officer																						
Auditee into Development Agency EC relopment Agency EC revelopment Agency (Pty) EC revelopment Agency (Pty) ES rich Municipality Trust ES repeals and Development Agency (Pty) Ltd ES repeals and Shwane GP repeals and Shwane GP revelopment Company GP revelopment Agency GP revelopment Age		Responsibilities: The mayor																						
Auditee omic Development Agency tre Development Agency welopment Agency ment Agency be Development Agency trd trict Municipality Trust va Development Agency (Pty) trd wa Development Agency trd ompany ompany city Parks City Parks City Parks Development Agency		tegbud launnA																						
Auditee Blue Crane Route Development Agency Buffalo City Development Agency A Kouga Development Agency A Kouga Development Agency Mandela Bay Development Agency Ninga OR Tambo Development Agency Ninga OR Tambo Development Agency Centlec (Pty) Ltd Rezile Dabi District Municipality Trust Lid Malufi-A-Phofung Water (Pty) Ltd Maksimaholo Mayoral Trust Brakpan Bus Company Scivirelo Water H Ekurhuleni Development Company (Pty) Ltd Scivirelo Water H Eurhuleni Development Company Scivirelo Water A Johannesburg City Parks Johannesburg Civic Theatre Johannesburg Civic Theatre Johannesburg Development Agency Johannesburg Fresh Produce Market		93 nivon¶		23	EC	EC	EC	EC	EC	FS	FS	Æ	S	æ	GP	GP	GP	GP	GP	GP	GP	GP	GP	GP.
Municipal entities Audicipal entities Amathole Economic De Blue Crane Route Deve Blue Crane Route Deve Mandela Bay Developme Mandela Bay Developme Minga OR Tambo Deve Minga OR Tambo Deve Minga OR Tambo Deve Minga OR Tambo Deve Leiwe Le Putswa Developme Matringa OR Tambo Developme Rezile Dabi District Mur Rezile Dabi District Mur Brakpan Bus Company Metsimaholo Mayoral I Metsimaholo Mayoral I Returhuleni Developmer Servat Loburg Property Compa Lobannesburg Civic The Johannesburg Civic The Johannesburg Developr Johannesburg Developr Johannesburg Fresh Pro Johannesburg Fresh Pro		itee		velopment Agency	lopment Agency	int Agency	ency	nent Agency	lopment Agency		nicipality Trust	opment Agency (Pty)	r (Pty) Ltd	frust			nt Company (Pty) Ltd		/ane	ny	S	atre	ment Agency	oduce Market
Number 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		Audi	tipal entities	Amathole Economic Dev	Blue Crane Route Devel	Buffalo City Developme	Kouga Development Ag	Mandela Bay Developm	Ntinga OR Tambo Deve	Centlec (Pty) Ltd	Fezile Dabi District Mun	Lejwe Le Putswa Develr Ltd	Maluti-A-Phofung Water	Metsimaholo Mayoral T	Brakpan Bus Company	Civirelo Water	Ekurhuleni Developmen	Erwat	Housing Company Tshw	Joburg Property Compa	Johannesburg City Park	Johannesburg Civic The	Johannesburg Developn	Johannesburg Fresh Pro
		Number	Muni	_	2	က	4	5	9	7	&	6	10	=	12	13	14	15	91	17	18	19	20	21





Compliance with "Other enabling legislation" (toA esinaqmo) sht aht to stnemeriuper vrotutots aht ot abdisilapping of the series of the Fruitless and wasteful expenditure Irregular expenditure municipalities only) Unauthorised expenditure (for applicable legislation not prepared in accordance with The financial statements were Prohibited action/non-adherence tinancial conduct proceedings for instances of Disciplinary and criminal legislative requirements Supply Chain Management (for municipalities only) Transfer of funds and subsidies Transfer and disposal of assets Payments Internal Audit Unit **Septime 1** Responsibilities: Municipal officials officer Responsibilities: The accounting Resbousipilities: The mayor tagbud launnA Province Z KZ KZ N KZ KZ 9 9 GР 9 9 GР GР GР 9 9 9 GР <u>G</u> Ъ <u>പ</u> llembe Management Development Enterprise Zelpy 1903 (Pty) Ltd Trading as Letsema Pharoe Park Housing Company (Pty) Ltd Johannesburg Metropolitan Bus Services Johannesburg Social Housing Company Durban Marine Theme Park (Pty) Ltd Hibuscus Coast Development Agency Phase 2 Housing Company (Pty) Umhlosinga Development Agency West Rand Development Agency Johannesburg Tourism Company Polokwane Housing Association Metropolitan Trading Company Johannesburg Roads Agency Lethabong Housing Institute Uthukela Water (Pty) Ltd Ugu South Coast Tourism Roodepoort Civic Theatre ICC, Durban (Pty) Ltd Pikitup Johannesburg Johannesburg Zoo Sandspruit Works (Pty) Ltd Иптрег 23 24 25 26 29 30 32 34 35 36 39 38



	gnildane onthe "Other enabling " "noitalzigel						
	off to statementiper ynotutate off ot general off applicable of to smret ni beretsiger snoftutitsni off to A seimpamo off						
	erutibnegxe lutetew bna ezeltiur						
	Irregular expenditure						
	Tot) ərutibnəqxə bəzirorlunul (Ylno zəitilaqisinum						
ıce	eraw etnamatat lainnants were his webaned in accordance with noitaleigal aldasilqa						
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ited action/	tnamaganaM niah) ylqqud stnamariupar avitalsigal						
Prohib	zeibisdus bna sbnut to 19tznatī (Ylno zeitilaqisinum 10t)						
	etseep to losogeib bnp 19tenp1T						
	Payments						
	tinU tibuA lanıetnI						
	eettimmo) tibuA						
	Responsibilities: Municipal officials						
	Buitnuossa The accounting ositicer						
	Responsibilities: The mayor						
	tegbud launnA						
	92 nivor¶	MN	MN	MC	MC	ЭM	MC
	Auditee	Dr KKDM Economic Agency (Pty) Ltd	Rustenburg Water Services Trust	Cape Town International Convention Centre	Khayelitsha Community Trust	Knysna Economic Development Agency	Overstrand Local Economic Development Agency
	Number	44	45	46	47	48	49



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

			Nature a	Nature and extent of una	unauthorised expenditure	diture	Nature	Nature and extent of irregular expenditure	rregular expend	diture	luta		ło t
Иотрег	Auditee	93 especial of the second of t	Overspending	Expenditure unre- lated to functional area	ni ton gnibnəq2 driw əsanbrossa to enoitibnos noitasolla	lptoT	Supply chain man- agement related	to noitaznagmo) betaler zeeyolgme	19HfO	lotoT	ətsaw bna szəltivi7 ərutibnəqxə	səszol lainətaM	nəmrioqmi loirətoM stəsso
Mon	Municipalities												
Metr	Metropolitan municipalities												
_	Nelson Mandela Bay Metro	23					23 342 612			23 342 612	3 965 561	145 500 000	
2	City of Tshwane Metro	9 9	1 502 832 586			1 502 832 586	165 430 086	150 337	1 563 135	167 143 558	2 168 654	304 160 000	1 014 557 168
က	Ekurhuleni Metro	ЭĐ					474 109			474 109	1 017 750	474 030 278	
4	eThekwini	KZN					510 299 000			510 299 000		406 200 000	456 000 000
5	City of Cape Town	MC					7 247 000			7 247 000	168 000	979 414 000	
Distr	District municipalities												
9	Amatole District	33					16 800 000			16 800 000	962 190		53 300 000
_	Cacadu District	23											
∞	Chris Hani District	23	103 505 068			103 505 068	38 061 531			38 061 531	161 505		131 988 068
6	Joe Gqabi District	EC	40 000 300			40 000 300	7 500 000			7 500 000	2 000 000		
10	OR Tambo District	EC	52 734 414			52 734 414	24 178 538			24 178 538	8 627 217	15 040 320	37 335 458
=	Fezile Dabi District	FS					970 445			970 445			
12	Lejweleputswa District	FS					11 078 114	1 068 606		12 146 720			
13	Motheo District	FS					1 090 217	1 346 899		2 437 116	6 317 076		
14	Thabo Mofutsanyana District	FS	23 833 069			23 833 069	31 696 555	1 702 667	54 413 160	87 812 382	1 091 526		
15	Xhariep District	FS	2 934 185			2 934 185	3 875 642	50 545		3 926 187	6 7 5 4		679 115
91	Metsweding District	GP											
17	Sedibeng District	GP	24 498 066			24 498 066					322 000		
18	West Rand District	GP											
19	Amajuba District	KZN					4 800 000			4 800 000			
70	llembe District	KZN	110 260 000			110 260 000	220 940 560			220 940 560		22 460 000	
21	Sisonke District	KZN	9 172 000			9 172 000	5 725 000			5 725 000	3 094 000	2 648 000	
22	Ugu District	KZN	148 552 578		3 940 513	152 493 091	37 851 581			37 851 581		33 038 656	
23	Umgungundlovu District	KZN									406 207	11 942 000	



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

ło t	nəmrioqmi loirətoM etəseo													350 000		1 773 837							
	sessol lairetaM		17 347 000		9 081 891																		
lute	eteuw bna eesltivri evutibnegxe		57 586				386 585	283 667								6 831	27 397		11 700				
diture	lptoT			238 345	8 254 809	40 746 848	1 307 959		794 134	4 558 568		868 735			312 928	4 965 711	8 447 378	33 407 913	2 726 239	802 094	74 031 817	934 989	2 170 000
rregular expen	1941O																					934 989	
Nature and extent of irregular expenditure	to noitaznegmo) betaler zeeyolgme																						
Nature	Supply chain man- agement related			238 345	8 254 809	40 746 848	1 307 959		794 134	4 558 568		868 735			312 928	4 965 711	8 447 378	33 407 913	2 726 239	802 094	74 031 817		2 170 000
nditure	lotoT		124 591 199				83 710 000			659 959				5 105 636		3 819 485				4 197 138	71 910 000	5 016 475	
unauthorised expenditure	ni ton gnibnaq2 accordance with to enoitibnos noitasolla																						
Nature and extent of un	Expenditure unrelated to functional area																						
Nature a	Overspending		124 591 199				83 710 000			659 959				5 105 636		3 819 485				4 197 138	71 910 000	5 016 475	
	92 especial de la contraction	KZN	KZN	KZN	KZN	<u>-</u>	<u>-</u>	a.	l l	WP	WP	WP	NC	NC	JN	NC	MN	MN	MC	ЭМ	ЭМ	ЭМ	JM
	Auditee	Umzinyathi District	Uthukela District	Uthungulu District	Zululand District	Capricorn District	Greater Sekhukhune District	Vhembe District	Waterberg District	Ehlanzeni District	Gert Sibande District	Nkangala District	Frances Baard District	John Taolo Gaetsewe District	Namakwa District	Pixley Ka Seme District Municipality	Bojanala Platinum District	Dr Kenneth Kaunda District	Cape Winelands District	Central Karoo District	Eden District	Overberg District	Wast Coast District
	Митрег	24	25	76	27	78	29 (30	31	32	33	34	35	36	37	38	39	40	41	42 (43	44	4 5



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

ło	nəmvinqmi loirətoM ztəzzo				347 200 000							000 005 9											4 368 081				29 491 160
	səszol lainətaM				78 000 000													19 200 000	900 002 9		3 642 710						
luì	etsaw bna sseltiuri evutibneqxe				199 703					41 752			888 325	713 499	2 269	5 936		117 426	288 092	2 507 196	63 944		1 864 577		34 538	162 597	
diture	lptoT				441 000 000	910 69	181 804	18 000 000	12 741 196	1 160 379	000 006 9		24 632	2 109 000	15 645 860	5 752 580	25 000 000	880 674	1 500 000	19 850 869		367 552	25 800 000	3 800 000	809 017		25 400 000
rregular expen	1941O						181 804		1 100 000	223 463												123 646			809 017		
Nature and extent of irregular expenditure	to noitaznegmo.) betaler zeeyolgme					910 69			141 196				24 632									243 906					
Nature	Supply chain man- agement related				441 000 000			18 000 000	11 500 000	936 916	000 006 9			2 109 000	15 645 860	5 752 580	25 000 000	880 674	1 500 000	19 850 869			25 800 000	3 800 000			25 400 000
enditure	lotoT								2 500 000	49 161 396	000 008 9			37 200		420 141	2 025 000	23 800 000		47 828 748	8 340 546				7 222 389		15 644 000
unauthorised expenditure	ni ton gnibnaq2 dtiw asnabrossa to enoitibnos noitasolla																										
of	Expenditure unrelated to force													37 200			625 000	21 400 000			4 921 801						
Nature and extent	Overspending								2 500 000	49 161 396	000 008 9					420 141	1 400 000	32 400 000		47 828 748	3 418 745				7 222 389		15 644 000
	93 nivor¶		3	EC	3	Э	EC	3	23	E	EC	E	EC	Э	EC	EC	EC	EC	EC	EC	EC	EC	EC	EC	EC	EC	23
	Auditee	Local municipalities	Amahlati	Blue Crane Route	Buffalo City	Camdeboo	Elundini	Emalahleni	Engcobo	Gariep	Great Kei	Ikwezi	Ingquza Hill	Inkwanca	Intsika	Inxuba Yethemba	King Sabata Dalindyebo	Koukamma	Lukhanji	Makana	Maletswai	Matatiele	Mbhashe	Mbizana	Mhlontlo	Mnquma	Ndlambe
	Иитрег	Local	46	47	48	49	20	51	52	53	54	55	99	27	28	59	09	19	62	63	64	99	99	<i>L</i> 9	89	69	70



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

Иотрег			Nature a	Nature and extent of un	unauthorised expenditure	enditure	Nature	Nature and extent of irregular expenditure	rregular expen	diture	luì		ło
	Auditee	esnivor¶	gnibnaqs1avO	Expenditure unre- lated to functional area	ni ton gnibnəq2 dtiw əsnabscəsə to znoitibnos noitasolla	lntoT	-nam niah ylqqu2 agement related	to noitnensqmo) betaler eseyolqme	TahtO	lntoT	etzaw bna zzeltivr7 erutibneqxe	səssol lai1ətaM	tnəmrioqmi loirətoM etəseo
71	Ngqushwa) <u>H</u>					3 527 236			3 527 236	437 046		
72	Nkonkobe	23	558 184			558 184	2 082 615			2 082 615			13 012 530
73	Ntabankulu	EC	23 026 689			23 026 689	1 731 264			1 731 264			
74	Nyandeni	EC											
75	Port St Johns	Э											
76	Sakhisizwe	ЭЭ					38 800 000			38 800 000		180 000	
77	Sengu	EC	1 900 000			1 900 000	1 568 252			1 568 252	2 775 221	2 775 221	
78	Sundays River Valley	EC											
79	Tsolwana	EC	2 935 661			2 935 661	11 682 176			11 682 176	1 166 822	484 503	
80	Umzimvubu	EC	12 739 492			12 739 492	1 600 000			1 600 000		000 006 9	
81	Dihlabeng	FS					26 210 087			26 210 087	2 021 273		100 132 551
82	Kopanong	FS	58 414 061			58 414 061	33 604 734			33 604 734	641 488	12 503 838	53 192 467
83	Letsemeng	FS					676 646			676 646		12 946 984	
84	Mafube	FS					42 442 960	1 502 010		43 944 970	7 914 155	17 009 714	38 555 473
85	Maluti - A - Phofung	FS	731 230			731 230	80 321 364	778 484		81 099 848			
98	Mangaung	FS	56 213 592			56 213 592	63 920 143			63 920 143	6 431 067		83 081 404
87	Mantsopa	FS	3 302 696			3 302 696	2 478 868			2 478 868	29 986		6 505 373
88	Matjhabeng	FS	216 155 588			216 155 588	28 140 651	2 888 042		31 028 693	14 171 466	71 400 000	208 760 412
89	Metsimaholo	FS					23 001 113	162 395		23 163 508	2 960 894		53 238 790
90	Mohokare	FS					25 788 492		1 480 066	27 268 558	834 841		45 661 073
91	Ngwathe	FS	168 885 987			168 885 987	3 773 146			3 773 146	21 660 397		132 344 941
92	Nketoana	FS	13 212 201			13 212 201	2 067 793			2 067 793	1 498		4 734 059
93	Phumelela	FS					9 953 715			9 953 715	5 342 409		19 215 711
94	Setsoto	FS	72 195 227			72 195 227	5 444 347	1 183 153	914 496	7 541 996	736 718		58 650 913
95	Tswelopele	FS	6 791 189			6 791 189							6 828 833
96	Emfuleni	GP										246 468 376	



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

ło	məmrinqmi lairəteM etəseb																										
	səszol lai1ətaM		11 399 010	16 444 328	14 785 813	70 782 306	5 492 463	25 661 828	16 858 740	18 128 000			2 695 000		6 926 000		5 370 000	1 250 000								15 900 000	
luì	ətzaw bna zzəltivri ərutibnəqxə	2 654 842				900 415			4 370 081			278 807	32 382				50 081						111 184				162 804
diture	lotoT	25 969 162		2 580 963						3 156 874		19 061 313					478 136		658 701			481 014	1 377 000	56 320	1 624 000	33 013 671	40 064 458
Nature and extent of irregular expenditure	1941O																										
and extent of	to noitaznegmo) betaler zeeyolgme											201 218															
Nature	-nom nion's ylqque agement related	25 969 162		2 580 963						3 156 874		18 860 095					478 136		102 859			481 014	1 377 000	56 320	1 624 000	33 013 671	40 064 458
enditure	lotoT			54 058 000		11 874 665						37 018 288		82 393 830		3 386 000			7 554 407			2 897 000					
unauthorised expenditure	ni ton gnibnəq2 dtiw əsnabrossa do znoitibnos noitasolla																										
Nature and extent of ur	-synenditure unre- lated to functional area																										
Nature a	Overspending			54 058 000		11 874 665						37 018 288		82 393 830		3 386 000			7 554 407			2 897 000					
	93 nivo14	GP	GP	GP	GP	GP	GP	GP	GP	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN
	Auditee	Kungwini	Lesedi	Merafong City	Midvaal	Mogale City	Nokeng Tsa Taemane	Randfontein	Westonaria	Abaqulusi	Dannhauser	eDumbe	eMadlageni	Emnambithi / Ladysmith	Endumeni	Ezinqoleni	Greater Kokstad	Hibiscus Coast	Hlabisa	Imbabazane	Impendle	Indaka	Ingwe	Jozini	Kwa Sani	Kwadukuza	Mandeni
	Иитрег	6	86	66	100	101	102	103	104	105	901	107	108	109	110	Ξ	112	113	114	115	116	117	118	119	120	121	122



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

ło t	nəmrinqmi lairətaM ztəzza				13 25 930 672		0							0						2			0		3		
	səssol lairətaM				3 436 293		129 947 740							1 061 000						4 661 105			10 578 000		10 169 273		
lute	etenw bnn eesltivri erutibnegxe		295 934				2 560 609				2 500 000	29 474	159 402					617 469	48 223			5 460 693			266 826		
liture	lotoT	2 845 883	3 440 006			15 063 005	19 326 005		928 925	394 236	22 260 000	207 250			356 883	965 427			263 000		218 027	2 828 702		465 952	2 967 296		
rregular expen	1941O								857 538																		
Nature and extent of irregular expenditure	to noitaeneqmo) betaler seeyolqme																										
Nature	-nom nion's ylqqu2 bətalər tnəməgo	2 845 883	3 440 006			15 063 005	19 326 005		71 387	394 236	22 260 000	207 250			356 883	965 427			263 000		218 027	2 828 702		465 952	2 967 296		
nditure	lotoT	15 195 688	3 440 006					6 288 761												8 010 072	12 307 945						
unauthorised expenditure	ni ton gnibneg? accordance with to enoitibnos noitasolla		3 440 006																								
Nature and extent of un	Expenditure unre- lated to functional area																										
Nature a	Overspending	15 195 688						6 288 761												8 010 072	12 307 945						
	93nivo19	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	KZN	
	Auditee	Maphumulo	Mfolozi	Mkhambathini	Mpofana	Msinga	Msunduzi	Mthonjaneni	Mtubatuba	Ndwedwe	Newcastle	Nkandla	Nongoma	Nguthu	Ntambanana	Okhahlamba	Richmond	The Big Five False Bay	Ubuhlebezwe	Ulundi	Umdoni	Umhlabuyalingana	uMhlathuze	Umlalazi	Umngeni	uMshwathi	
		123	124	125	126	127	128	129	130		132	133	134	135	136	—	—	139	140		142	143	144	145	146	147	



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

ło i	nəmrioqmi loirəteM 219220																									
	sessol laireteM	1 678 000		562 800		2 233 597																				
luì	ətsaw bna szəlfiuri ərutibnəqxə	7 849						851 19	176 329			8 449		214 417					4 304		3 311 388		1 639 001		28 534	140 385
diture	lo1oT	1 500	3 089 000	3 084 267	4 558 683		10 039 819	746 374	329 214		14 219 894	172 293		12 155 702							1 249 168	29 010 197			17 884 136	6 302 522
Nature and extent of irregular expenditure	Other							746 374			14 219 894	151 007													12 035 615	6 302 522
and extent of	to noitaengmoD betaler seeyolqme			253 267	2 881 042				51 653					339 665												
Nature	-nam man- agement related	1 500	3 089 000	2 831 000	1 677 641		10 039 819		277 561			21 286		11 816 037							1 249 168	29 010 197			5 848 521	
enditure	lotoT	430 459			2 404 681				87 420 180		5 277 517			3 669 573		21 700 000		1 202 130	2 406 070	2 783 093	9 038 658	12 030 473	14 583 131			472 563
unauthorised expenditure	ni ton gnibnaq2 dtiw asnabrossa to enoitibnos noitasolla								302 211									1 202 130								222 600
Nature and extent of un	Expenditure unre- lated to functional area								4 808 696							21 700 000			2 406 070							
Nature ar	gnibnəq219VO	430 459			2 404 681				82 309 273		5 277 517			3 669 573						2 783 093	9 038 658	12 030 473	14 583 131			249 963
	92 Surivor¶	KZN	KZN	KZN	KZN	KZN	KZN	<u>-</u>	ď	- I	- G	ď	<u>-</u>	ď	ď	- G	- I	ď	- I	ď	ď	- G	- G	- I	l l	- GI
	Auditee	Umuziwabantu	Umvoti	uMzimkhulu	Umzumbe	uPhongolo	Vulamehlo	Aganang	Ba-Phalaborwa	Bela-Bela	Blouberg	Elias Motsoaledi (Greater Groblersdal)	Fetakgomo	Greater Giyani	Greater Letaba	Greater Tzaneen	Lephalale	Makhado	Makhudutamaga	Maruleng	Modimolle	Mogalakwena	Molemole	Mookgophong	Musina	Mutale
	Иитрег	149	150	151	152	153	154	155	156	157	158	159	1 091	191	162	163	164	165	1991	191	168	169	170	171	172	173



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

ło t	nəmvinqmi loirətoM 219220										129 017 153	48 138 441	244 144 973									000 066	2 949 000	28 140 899	15 864 000		418 400
	səssol laitətaM									233 719 237															695 230		
luł	etsaw bna eseltiurl erutibneqxe			337 903	571 000						143 103	2 183 302	20 428		13 074 178	3 010 721			694 836	38 843		139 601	257 435	4 473 996		2 107 922	
diture	lofoT		9 483 581	241 309		142 327 064				17 626 615	1 984 832		153 580 292			8 871 045	1 342 503	16 745 372	20 922 975	2 978 473				2 093 163	7 287 868	638 970	1 957 041
Nature and extent of irregular expenditure	1941O												113 722 754							2 978 473							
and extent of i	to noitaenegmo) betaler eelegene																							1 083 469			92 855
Nature	Supply chain man- agement related		9 483 581	241 309		142 327 064				17 626 615	1 984 832		39 857 538			8 871 045	1 342 503	16 745 372	20 922 975					1 009 694	7 287 868	638 970	1 864 186
nditure	lptoT	30 432 297	54 822 386	30 501 022		156 934 849				111 853 622	15 689 456	2 153 326			128 464 663							965 736		32 584 323		9 320 078	225 129
unauthorised expenditure	ni ton gnibnaq2 accordance with to znoitibnos allocation			30 501 022																							
Nature and extent of un	Expenditure unre- lated to functional area	20 021 741				43 396 788																965 736		14 503 660			
Nature ar	Overspending	10 410 556	54 822 386			113 538 061				111 853 622	15 689 456	2 153 326			128 464 663									18 080 663		9 320 078	225 129
	9. Province	-II	<u>-</u>	<u>-</u>	<u>-</u>	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	WP	MP	NC	NC	NC	NC	NC	NC
	Auditee	Polokwane	Thabazimbi	Thulamela	Tubatse	Bushbuckridge	Dipaliseng	Dr JS Moroka	Emakhazeni	Emalahleni	Govan Mbeki	Lekwa	Mbombela	Msukaligwa	Nkomazi	Pixley Ka Seme (Volksrust)	Steve Tshwete	Thaba Chweu	Thembisile Hani	Umjindi Municipality	Victor Khanye	!Kheis	//Khara Hais	Dikgatlong	Emthanjeni	Gamagara	Ga-Segonyana
	Иитрег	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	961	197	198	199



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

ło	nəmripqmi lairətaM etəseb		4 934 000	894 000				3 674 000	11 685 026	5 130 000	104 693 453	3 542 000	42 835 414										8 974 958				
	səzzol İbirətbM					1 786 388		1 095 000	368 131		10 126 587		3 708 723									2 180 339	4 549 092	1 477 628	32 942 022		4
luì	ətsaw bna szəltivi ərutibnəqxə	24 213				273 098		949 86		342 065	57 938	140 472		977 559	2 594 323						1 126 504			1 490 971	683 641		
diture	lotoT	3 633 123	3 715 210		699 481	2 983 221	2 529 670	39 459 811	5 431 708	9 219 787	69 332 086	4 358 582	60196	56 346 354	3 771 965	7 961 710	128 846 106	18 428 491	10 581 393	14 114 807	95 235 050	33 048 263	26 132	18 973 556	11 758 217	1 248 322	
Nature and extent of irregular expenditure	Other		398 749			1 871 641	2 529 670	32 632																			
and extent of	ło noitaznegmo. betaler zeeyolgme																										
Nature	-nam niahy ylqqu2 agement related	3 633 123	3 316 461		699 481	1 111 580		39 427 179	5 431 708	9 219 787	69 332 086	4 358 582	601 96	56 346 354	3 771 965	7 961 710	128 846 106	18 428 491	10 581 393	14114807	95 235 050	33 048 263	26 132	18 973 556	11 758 217	1 248 322	
enditure	lotoT		40 284		3 771 427	2 651 419	119 351	26 730 580	23 512 551	7 622 405		6 281 701		7 416 393		324 708 853				17 674 469	45 960 910	17 255 480	23 308 068	9 809 830	7 337 828	29 438 140	
unauthorised expenditure	ni ton gnibnag2 accordance with to znoitibnos allocation								23 512 551			6 281 701															
Nature and extent of un	-syne outibnedx3 lated to the formal area																							9 809 830			
Nature a	Overspending		40 284		3 771 427	2 651 419	119 351	26 730 580		7 622 405				7 416 393		324 708 853				17 674 469	45 960 910	17 255 480	23 308 068		7 337 828	29 438 140	
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	Auditee	Hantam	Kamiesberg	Kareeberg	Karoo Hoogland	Khai-Ma	Mier	Phokwane	Richtersveld	Siyathemba	Sol Plaatjie	Ubuntu	Umsobomvu	Greater Taung	Lekwa-Teemane	Matlosana	Moses Kotane	Ramotshere Moiloa	Ratiou	Rustenburg	Tlokwe	Beaufort West	Berg River	Bitou	Breede Valley	Cape Agulhas	Cederberg
	Number	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

ło i	nəmvipqmi laivəteM stəssa				940 119									12 700 929										
	səssol lairətaM					13 107 907				3 873 170			17 684 774				6 944 335							
luì	etsaw bna sseltiuri erutibnegxe				331 460	18 759				1767			243 594	235 569		118 071					164		20 380	
diture	lptoT	1 119 921	265 984 121		609 948	29 368 874	1 810 558	1 443 035	10 340 631	54 371		3 875 603	57 931 180	1 490 489		1 365 104	758 366				46 622	118 816		5 064 923
Nature and extent of irregular expenditure	nehf0								504 712															
and extent of	to noitaensqmo) betaler eestolqme																							
Nature	Supply chain man- agement related	1 119 921	265 984 121		609 948	29 368 874	1 810 558	1 443 035	9 835 919	54 371		3 875 603	57 931 180	1 490 489		1 365 104	758 366				46 622	118 816		5 064 923
enditure	lstoT		9 281 951		25 279 512	22 500 021		12 459 543	10 225 214			6 450 000		8 367 709		8 780 520	13 192 216							
unauthorised expenditure	ni ton gnibnəq2 accordance with to enoitibnos noitasolla																							
Nature and extent of un	Expenditure unre- lated to functional area																							
Nature a	Overspending		9 281 951		25 279 512	22 500 021		12 459 543	10 225 214			6 450 000		8 367 709		8 780 520	13 192 216							
	92 Survor4	ЭМ	MC	MC	MC	MC	MC	MC	MC	MC	MC	MC	ЭМ	Ж	ЭМ	Ж	MC		EC	Э	Э	EC	Э	出
	Auditee	Drakenstein	George	Hessequa	Kannaland	Knysna	Laingsburg	Langeberg	Matzikama	Mossel Bay	Overstrand	Prince Albert	Saldanha Bay	Stellenbosch	Swartland	Theewaterskloof	Witzenberg	Municipal entities	Amathole Economic Develop- ment Agency	Blue Crane Route Develop- ment Agency	Buffalo City Development Agency	Kouga Development Agency	Mandela Bay Development Agency	Ntinga OR Tambo Develop- ment Agency
	Иотрег	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	Munic	_	2	က	4	5	9



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

			Nature an	Nature and extent of un	unauthorised expenditure	nditure	Nature	Nature and extent of irregular expenditure	rregular expen	diture	luì		ło
Иитрег	Auditee	93nivo1¶	Overspending (Expenditure unrelated	ni ton gnibnəq2 driw əsnabrossa Yo znoitibnos noitasolla	latoT	-nom niahb ylqqu2 bətalər tnəməga	to noitosnagmo) betolet seeyolgme	TelfO	lptoT	etsaw bna szeltivi7 evtibneqxe	səszol İni1ətnM	Inəmvipqmi laivətaM 219222
7	Centlec (Pty) Ltd	FS					44 470 536			44 470 536	12 688 200		10 525 297
8	Fezile Dabi District Municipal- ity Trust	FS											
6	Lejwe Le Putswa Develop- ment Agency (Pty) Ltd	FS											
10	Maluti-A-Phofung Water (Pty) Ltd	S					22 994 308			22 994 308	111 372		
=	Metsimaholo Mayoral Trust	S											
12	Brakpan Bus Company	GP											
13	Civirelo Water	GP							673 572	673 572	837 486		
14	Ekurhuleni Development Company (Pty) Ltd	GP					909 684			909 684			
15	Erwat	GP											9 840 155
16	Housing Company Tshwane	GP									181 551		
17	Joburg Property Company	GP									790 601		
18	Johannesburg City Parks	GP											
19	Johannesburg Civic Theatre	GP											
20	Johannesburg Development Agency	GP											
21	Johannesburg Fresh Produce Market	GP					515 000			515 000	130 497		
22	Johannesburg Metropolitan Bus Services	GP							24 000	24 000			
23	Johannesburg Roads Agency	GP											
24	Johannesburg Social Housing Company	GP											
25	Johannesburg Tourism Company	GP					83 300			83 300			



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

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	səssol laitətaM			4 857 810															
lute	etsaw bna eseltiurl esutibneqxe	125 805		36 118			5 229 821		1 160 156							115 732	273 093		1 651
diture	lp1oT				214 506	272 058			159 980	3 106 515	3 156 217		19 120 803	9 363 200	36 818		2 713 000	259 600	
rregular expen	1941O								159 980										
Nature and extent of irregular expenditure	to noitaensqmoD betaler seevolqme																		
Nature	Supply chain man- agement related				214 506	272 058				3 106 515	3 156 217		19 120 803	9 363 200	36 818		2 713 000	259 600	
nditure	lotoT	4 390 862					150 886 275												
unauthorised expenditure	ni ton gnibnaq2 accordance with to enoitibnos noitasolla																		
Nature and extent of un	Expenditure unre- lated to functional area																		
Nature a	Overspending 9	4 390 862					150 886 275												
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	Auditee	Johannesburg Zoo	Lethabong Housing Institute	Metropolitan Trading Company	Pharoe Park Housing Company (Pty) Ltd	Phase 2 Housing Company (Pty) Ltd	Pikitup Johannesburg	Roodepoort Civic Theatre	Sandspruit Works	West Rand Development Agency	Durban Marine Theme Park (Pty) Ltd	Hibuscus Coast Development Agency	ICC, Durban (Pty) Ltd	llembe Management Development Enterprise (Pty) Ltd	Ugu South Coast Tourism	Umhlosinga Development Agency	Uthukela Water (Pty) Ltd	Polokwane Housing Association	Zelpy 1903 (Pty) Ltd Trading as Letsema
	Иотрег	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43



ANNEXURE 3: Auditees with unauthorised, irregular, and fruitless and wasteful expenditure and material losses

			Nature an	Nature and extent of un	mauthorised expenditure	enditure	Nature	Nature and extent of irregular expenditure	irregular expen	diture	luì		ło i
Number	Auditee	93nivor¶	Overspending	-syne outibnedx3 lated to the functional area	ni ton gnibnəq2 driw əsnabrossa to enoitibnos noitasolla	lptoT	-nom nində ylqqu2 bətalər tnəməga	to noitnensqmoD betaler eesyolqme	1941O	lptoT	etsaw bna szeltivrł erutibnegxe	esecol InitetaM	Inemvinqmi lnivetnM steszn
44	Rustenburg Water Services Trust	MN											
45	SDN Economic Agency (Pty) Ltd	NN									19 469		
46	Cape Town International Convention Centre	MC											
47	Khayelitsha Community Trust	MC											
48	Knysna Economic Develop- ment Agency	MC											
49	Overstrand Local Economic Development Agency	WC											



ANNEXURE 4: Assessment of auditees' key controls at the time of the audit

ropolities ropolitan municipalities Nekon Mandela Bay Metro Thwane Metropolitan Municipality Ekurhuleni Metro Tshwane Metropolitan Municipality Elhekwini City of Cape Town Tict municipalities Amatole District Cacadu District Cocadu District Chris Hani District Lejweleputswa District Thobo Mofutsanyana District Thobo Mofutsanyana District Alanejab District Thobo Mofutsanyana District Motheo District Thobo Mofutsanyana District Alanejab District Sisonke District Ulguu District Ulguu District Ulguu District Ulguu District Ulguu District Ulguu District Ulguu District Ulguu District Ulguu District Ulguu District Ulguu District			U																												
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ANNEXURE 4: Assessment of auditees' key controls at the time of the audit

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			Uthungulu District	Zululand District	Capricorn District	arter S	Vhembe District	Waterberg District	Ehlanzeni District	Gert Sibande District	Nkangala District	Frances Baard District	n Tao	Namakwa District	Pixley Ka Seme District Municipality	anala	Dr Kenneth K Municipality	Cape Winelands District	Central Karoo District	Eden District	Overberg District	West Coast District	nicip	Amahlati	Blue Crane Route	Buffalo City	Camdeboo	Elundini	Emalahleni	Engcobo
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ANNEXURE 4: Assessment of auditees' key controls at the time of the audit

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ANNEXURE 4: Assessment of auditees' key controls at the time of the audit

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ANNEXURE 4: Assessment of auditees' key controls at the time of the audit

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ANNEXURE 4: Assessment of auditees' key controls at the time of the audit

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ANNEXURE 4: Assessment of auditees' key controls at the time of the audit

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Number	Auditee	Province	Limitation on audit of awards	Awards to persons in service of state	Awards to close family members in service of state	Uncompetitive/ unfair processes	Inadequate contract management	Inadequate controls
Muni	cipalities							
Metro	opolitan municipalities							
1	Nelson Mandela Bay Metro	EC						
2	Ekurhuleni Metro	GP						
3	Tshwane Metropolitan Municipality	GP						
4	eThekwini	KZN						
5	City of Cape Town	WC						
Distri	ict municipalities							
6	Amatole District	EC						
7	Cacadu District	EC						
8	Chris Hani District	EC						
9	Joe Gqabi District	EC						
10	OR Tambo District	EC						
11	Fezile Dabi District	FS						
12	Lejweleputswa District	FS						
13	Motheo District	FS						
14	Thabo Mofutsanyana District	FS						
15	Xhariep District	FS						
16	Metsweding District	GP						
17	Sedibeng District	GP						
18	West Rand District	GP						
19	Amajuba District	KZN						
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27	Zululand District	KZN						
28	Capricorn District	LP						
29	Greater Sekhukhune District	LP						
30	Vhembe District	LP						
31	Waterberg District	LP						
32	Ehlanzeni District	MP						
33	Gert Sibande District	MP						
34	Nkangala District	MP						
35	Frances Baard District	NC						



Number	Auditee	Province	Limitation on audit of awards	Awards to persons in service of state	Awards to close family members in service of state	Uncompetitive/ unfair processes	Inadequate contract management	Inadequate controls
36	John Taolo Gaetsewe District	NC						
37	Namakwa District	NC						
38	Pixley Ka Seme District Municipality	NC						
39	Bojanala Platinum District	NW						
40	Dr. Kenneth Kaunda District	NW						
41	Cape Winelands District	WC						
42	Central Karoo District	WC						
43	Eden District	WC						
44	Overberg District	WC						
45	West Coast District	WC						
Local	municipalities							
46	Amahlati	EC						
47	Blue Crane Route	EC						
48	Buffalo City	EC						
49	Camdeboo	EC						
50	Elundini	EC						
51	Emalahleni	EC						
52	Engcobo	EC						
53	Gariep	EC						
54	Great Kei	EC						
55	Ikwezi	EC						
56	Ingquza Hill	EC						
57	Inkwanca	EC						
58	Intsika Yethu	EC						
59	Inxuba Yethemba	EC						
60	King Sabata Dalindyebo	EC						
61	Koukamma	EC						
62	Lukhanji	EC						
63	Makana	EC						
64	Maletswai	EC						
65	Matatiele	EC						
66	Mbhashe	EC						
67	Mbizana	EC						
68	Mhlontlo	EC						
69	Mnquma	EC						
70	Ndlambe	EC						
71	Ngqushwa	EC						
72	Nkonkobe	EC						



Number	Auditee	Province	Limitation on audit of awards	Awards to persons in service of state	Awards to close family members in service of state	Uncompetitive/ unfair processes	Inadequate contract management	Inadequate controls
73	Ntabankulu	EC						
74	Nyandeni	EC						
75	Port St Johns	EC						
76	Sakhisizwe	EC						
77	Senqu	EC						
78	Sundays River Valley	EC						
79	Tsolwana	EC						
80	Umzimvubu	EC						
81	Dihlabeng	FS						
82	Kopanong	FS						
83	Letsemeng	FS						
84	Mafube	FS						
85	Maluti - A - Phofung	FS						
86	Mangaung	FS						
87	Mantsopa	FS						
88	Matjhabeng	FS						
89	Metsimaholo	FS						
90	Mohokare	FS						
91	Ngwathe	FS						
92	Nketoana	FS						
93	Phumelela	FS						
94	Setsoto	FS						
95	Tswelopele	FS						
96	Emfuleni	GP						
97	Kungwini	GP						
98	Lesedi	GP						
99	Merafong City	GP						
100	Midvaal	GP						
101	Mogale City	GP						
102	Nokeng Tsa Taemane	GP						
103	Randfontein	GP						
103	Westonaria	GP						
104	Abaqulusi	KZN						
103	Dannhauser	KZN						
107	eDumbe	KZN						
_								
108	eMadlageni	KZN						
109	Emnambithi / Ladysmith	KZN						
110	Endumeni	KZN						



Number	Auditee	Province	Limitation on audit of awards	Awards to persons in service of state	Awards to close family members in service of state	Uncompetitive/ unfair processes	Inadequate contract management	Inadequate controls
111	Ezinqoleni	KZN						
112	Greater Kokstad	KZN						
113	Hibiscus Coast	KZN						
114	Hlabisa	KZN						
115	Imbabazane	KZN						
116	Impendle	KZN						
117	Indaka	KZN						
118	Ingwe	KZN						
119	Jozini	KZN						
120	Kwa Sani	KZN						
121	Kwadukuza	KZN						
122	Mandeni	KZN						
123	Maphumulo	KZN						
124	Mfolozi	KZN						
125	Mkhambathini	KZN						
126	Mpofana	KZN						
127	Msinga	KZN						
128	Msunduzi	KZN						
129	Mthonjaneni	KZN						
130	Mtubatuba	KZN						
131	Ndwedwe	KZN						
132	Newcastle	KZN						
133	Nkandla	KZN						
134	Nongoma	KZN						
135	Nguthu	KZN						
136	· ·	KZN						
137	Okhahlamba	KZN						
138	Richmond	KZN						
139	The Big Five False Bay	KZN						
140	Ubuhlebezwe	KZN						
141	Ulundi	KZN						
142	Umdoni	KZN						
143	Umhlabuyalingana	KZN						
143	uMhlathuze	KZN						
144	Umlalazi	KZN						
145		KZN						
146	Umngeni uMshwathi	KZN						
_								
148	Umtshezi	KZN						



149 Umuziwabantu KZN 150 Umvoti KZN 151 uMzimkhulu KZN 152 Umzumbe KZN 153 uPhongolo KZN 154 Vulamehlo KZN 155 Aganang LP 156 Ba-Phalaborwa LP	
151 uMzimkhulu KZN 152 Umzumbe KZN 153 uPhongolo KZN 154 Vulamehlo KZN 155 Aganang LP 156 Ba-Phalaborwa LP	
152 Umzumbe KZN 153 uPhongolo KZN 154 Vulamehlo KZN 155 Aganang LP 156 Ba-Phalaborwa LP	
153 uPhongolo KZN 154 Vulamehlo KZN 155 Aganang LP 156 Ba-Phalaborwa LP	
154 Vulamehlo KZN 155 Aganang LP 156 Ba-Phalaborwa LP	
155 Aganang LP 156 Bα-Phalaborwa LP	
156 Ba-Phalaborwa LP	
157 Bela-Bela LP	
158 Blouberg LP	
159 Elias Motsoaledi (Greater Groblersdal)	
160 Fetakgomo LP	
161 Greater Giyani LP	
162 Greater Letaba LP	
163 Greater Tzaneen LP	
164 Lephalale LP	
165 Makhado LP	
166 Makhudutamaga LP	
167 Maruleng LP	
168 Modimolle LP	
169 Mogalakwena LP	
170 Molemole LP	
171 Mookgophong LP	
172 Mutale LP	
173 Polokwane LP	
174 Thabazimbi LP LP	
175 Thulamela LP	
176 Tubatse LP	
177 Bushbuckridge MP	
178 Dipaliseng MP	
179 Dr. JS Moroka MP	
180 Emakhazeni MP	
181 Emalahleni MP	
182 Govan Mbeki MP	
183 Lekwa MP	
184 Mbombela MP	
185 Msukaligwa MP	
186 Nkomazi MP	



Number	Auditee	Province	Limitation on audit of awards	Awards to persons in service of state	Awards to close family members in service of state	Uncompetitive/ unfair processes	Inadequate contract management	Inadequate controls
187	Pixley Ka Seme (Volksrust)	MP						
188	Steve Tshwete	MP						
189	Thaba Chweu	MP						
190	Thembisile Hani	MP						
191	Umjindi Municipality	MP						
192	Victor Khanye	MP						
193	!Kheis	NC						
194	//Khara Hais	NC						
195	Dikgatlong	NC						
196	Emthanjeni	NC						
197	Gamagara	NC						
198	Ga-Segonyana	NC						
199	Hantam	NC						
200	Kamiesberg	NC						
201	Kareeberg	NC						
202	Karoo Hoogland	NC						
203	Khai-Ma	NC						
204	Mier	NC						
205	Phokwane	NC						
206	Richtersveld	NC						
207	Siyathemba	NC						
208	Sol Plaatjie	NC						
209	Ubuntu	NC						
210	Umsobomvu	NC						
211	Greater Taung	NW						
212	Lekwa-Teemane	NW						
213	Matlosana	NW						
214	Moses Kotane	NW						
215	Ramotshere Moiloa	NW						
216	Ratlou	NW						
217	Rustenburg	NW						
218	Tlokwe	NW						
219	Beaufort West	WC						
220	Berg River	WC						
221	Bitou	WC						
222	Breede Valley	WC						
223	Cape Agulhas	WC						
224	Cederberg	WC						



Number	Auditee	Province	Limitation on audit of awards	Awards to persons in service of state	Awards to close family members in service of state	Uncompetitive/ unfair processes	Inadequate contract management	Inadequate controls
225	Drakenstein	WC						
226	George	WC						
227	Hessequa	WC						
228	Kannaland	WC						
229	Knysna	WC						
230	Laingsburg	WC						
231	Langeberg	WC						
232	Matzikama	WC						
233	Mossel Bay	WC						
234	Overstrand	WC						
235	Prince Albert	WC						
236	Saldanha Bay	WC						
237	Stellenbosch	WC						
238	Swartland	WC						
239	Theewaterskloof	WC						
240	Witzenberg	WC						
Muni	cipal entities							
1	Amathole Economic Development Agency	EC						
2	Blue Crane Route Development Agency	EC						
3	Buffalo City Development Agency	EC						
4	Kouga Development Agency	EC						
5	Mandela Bay Development Agency	EC						
6	Ntinga OR Tambo Development Agency	EC						
7	Centlec (Pty) Ltd	FS						
8	Fezile Dabi District Municipality Trust	FS						
9	Lejwe Le Putswa Development Agency (Pty) Ltd	FS						
10	Maluti-A-Phofung Water (Pty) Ltd	FS						
11	Metsimaholo Mayoral Trust	FS						
12	Brakpan Bus Company	GP						
13	Civirelo Water	GP						
14	Ekurhuleni Development Company (Pty) Ltd	GP						
15	Erwat	GP						
16	Housing Company Tshwane	GP						
17	Joburg Property Company	GP						
	Johannesburg City Parks	GP						
18								
19	Johannesburg Civic Theatre	GP						
20	Johannesburg Development Agency	GP						
21	Johannesburg Fresh Produce Market	GP						



Number	Auditee	Province	Limitation on audit of awards	Awards to persons in service of state	Awards to close family members in service of state	Uncompetitive/ unfair processes	Inadequate contract management	Inadequate controls
22	Johannesburg Metropolitan Bus Services	GP						
23	Johannesburg Roads Agency	GP						
24	Johannesburg Social Housing Company	GP						
25	Johannesburg Tourism Company	GP						
26	Johannesburg Zoo	GP						
27	Lethabong Housing Institute	GP						
28	Metropolitan Trading Company	GP						
29	Pharoe Park Housing Company (Pty) Ltd	GP						
30	Phase 2 Housing Company (Pty) Ltd	GP						
31	Pikitup Johannesburg	GP						
32	Roodepoort Civic Theatre	GP						
33	Sandspruit Works	GP						
34	West Rand Development Agency	GP						
35	Durban Marine Theme Park (Pty) Ltd	KZN						
36	Hibuscus Coast Development Agency	KZN						
37	ICC, Durban (Pty) Ltd	KZN						
38	llembe Management Development Enterprise (Pty) Ltd	KZN						
39	Ugu South Coast Tourism	KZN						
40	Umhlosinga Development Agency	KZN						
41	Uthukela Water (Pty) Ltd	KZN						
42	Polokwane Housing Association	LP						
43	Zelpy 1903 (Pty) Ltd Trading as Letsema	LP						
44	Dr KKDM Economic Agency (Pty) Ltd	NW						
45	Rustenburg Water Services Trust	NW						
46	Cape Town International Convention Centre	WC						
47	Khayelitsha Community Trust	WC						
48	Knysna Economic Development Agency	WC						
49	Overstrand Local Economic Development Agency	WC						



ANNEXURE 6: Auditees with issues relating to funding of operations/financial sustainability/going concern

Number	Auditee	Province	High reliance on grants/ Own revenue generated not sufficient to cover operating costs	Serious challenges being experienced in the recovery of consumer debtors	No cash for unspent grants	Disestablishment/ liquidation	Current liabilities exceed current assets	Significant financial challenges
Muni	cipalities							
Metr	opolitan municipalities							
1	Nelson Mandela Bay Metro	EC						
Distr	ict municipalities							
2	Motheo District	FS						
3	Metsweding District	GP						
4	Ugu District	KZN						
5	Uthukela District	KZN						
6	Overberg District	WC						
Local	municipalities							
7	Elundini	EC						
8	Gariep	EC						
9	Great Kei	EC						
10	Ingquza Hill	EC						
11	Inkwanca	EC						
12	Intsika Yethu	EC						
13	Koukamma	EC						
14	Nkonkobe	EC						
15	Ntabankulu	EC						
16	Port St Johns	EC						
17	Sundays River Valley	EC						
18	Kopanong	FS						
19	Letsemeng	FS						
20	Mafube	FS						
21	Mohokare	FS						
22	Ngwathe	FS						
23	Phumelela	FS						
24	Setsoto	FS						
25	Kungwini	GP						
26	Nokeng Tsa Taemane	GP						
27	Westonaria	GP						
28	eDumbe	KZN						
29	Hlabisa	KZN						
30	Maphumulo	KZN						
31	Mfolozi	KZN						
32	Mkhambathini	KZN						



ANNEXURE 6: Auditees with issues relating to funding of operations/financial sustainability/going concern

Number	Auditee	Province	High reliance on grants/ Own revenue generated not sufficient to cover operating costs	Serious challenges being experienced in the recovery of consumer debtors	No cash for unspent grants	Disestablishment/ liquidation	Current liabilities exceed current assets	Significant financial challenges
33	Msunduzi	KZN						
34	Okhahlamba	KZN						
35	The Big Five False Bay	KZN						
36	Ulundi	KZN						
37	Greater Tzaneen	LP						
38	Mutale	LP						
39	Polokwane	LP						
40	Dr JS Moroka	MP						
41	Lekwa	MP						
42	Thaba Chweu	MP						
43	Thembisile Hani	MP						
44	!Kheis	NC						
45	Dikgatlong	NC						
46	Emthanjeni	NC						
47	Kamiesberg	NC						
48	Khai-Ma	NC						
49	Mier	NC						
50	Phokwane	NC						
51	Siyathemba	NC						
52	Lekwa-Teemane	NW						
Muni	icipal entities							
1	Blue Crane Route Development Agency	EC						
2	Buffalo City Development Agency	EC						
3	Kouga Development Agency	EC						
4	Ntinga OR Tambo Development Agency	EC						
5	Maluti-A-Phofung Water (Pty) Ltd	FS						
6	Metsimaholo Mayoral Trust	FS						
7	Brakpan Bus Company (Pty) Ltd	GP						
8	Civirelo Water	GP						
9	Ekurhuleni Development Company (Pty) Ltd	GP						
10	Housing Company Tshwane	GP						



ANNEXURE 6: Auditees with issues relating to funding of operations/financial sustainability/going concern

Number	Auditee	Province	High reliance on grants/ Own revenue generated not sufficient to cover operating costs	Serious challenges being experienced in the recovery of consumer debtors	No cash for unspent grants	Disestablishment/ liquidation	Current liabilities exceed current assets	Significant financial challenges
11	Lethabong Housing Institute	GP						
12	Pharoe Park Housing Company (Pty) Ltd	GP						
13	Phase 2 Housing Company (Pty) Ltd	GP						
14	Pikitup Johannesburg	GP						
15	Polokwane Housing Association	LP						
16	Dr KKDM Economic Agency (Pty) Ltd	NW						



