

MFMA 2012-13



**AUDITOR - GENERAL
SOUTH AFRICA**

Consolidated general report
on the audit outcomes of local government

Consolidated general report on the audit outcomes of local government MFMA 2012-13

Our reputation promise/mission

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



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

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

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

Kimi Makwetu
Auditor-General



AUDITOR - GENERAL
SOUTH AFRICA

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CLEAN AUDITS 2012-13

UNQUALIFIED FINANCIAL STATEMENTS WITH
NO MATERIAL FINDINGS ON THE QUALITY OF
THE ANNUAL PERFORMANCE REPORT OR
NON-COMPLIANCE WITH LEGISLATION

EASTERN CAPE CLEAN AUDITS 2012-13

6



MUNICIPALITY

None



MUNICIPAL ENTITY

Mandela Bay Development Agency

FREE STATE CLEAN AUDITS 2012-13



MUNICIPALITY

None



MUNICIPAL ENTITY

None

GAUTENG CLEAN AUDITS 2012-13

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MUNICIPALITY

Sedibeng District



MUNICIPAL ENTITY

Johannesburg Fresh Produce Market
Johannesburg Social Housing Company

KWAZULU-NATAL CLEAN AUDITS 2012-13



MUNICIPALITY

Uthungulu District
Msinga
Ntambanana
Okhahlamba
Ubuhlebezwe
uMhlathuze
uMzimkhulu

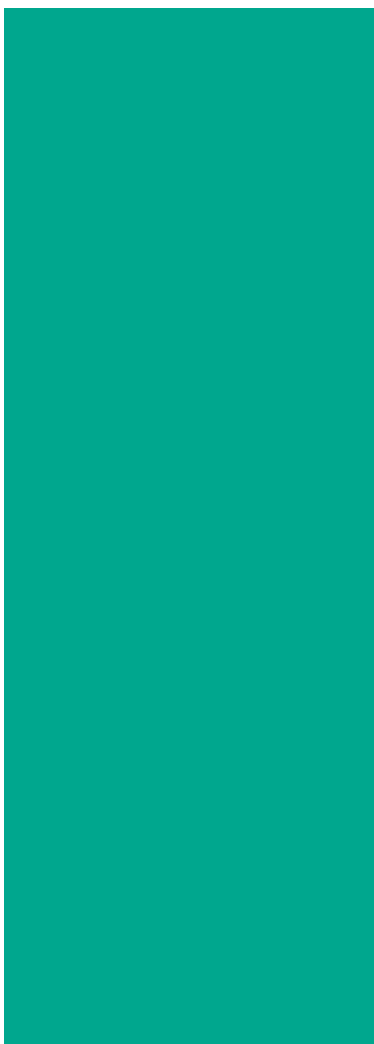


MUNICIPAL ENTITY

Durban Marine Theme Park (Pty) Ltd
Safe City Pietermaritzburg
uThungulu House Development Trust
uThungulu Financing Partnership

LIMPOPO CLEAN AUDITS 2012-13

10



MUNICIPALITY

None



MUNICIPAL ENTITY

None

MPUMALANGA CLEAN AUDITS 2012-13



MUNICIPALITY

Ehlanzeni District

Steve Tshwete

NORTHERN CAPE **CLEAN AUDITS 2012-13**

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MUNICIPALITY

ZF Mgcawu District

NORTH WEST CLEAN AUDITS 2012-13



MUNICIPALITY

None



MUNICIPAL ENTITY

None

WESTERN CAPE CLEAN AUDITS 2012-13

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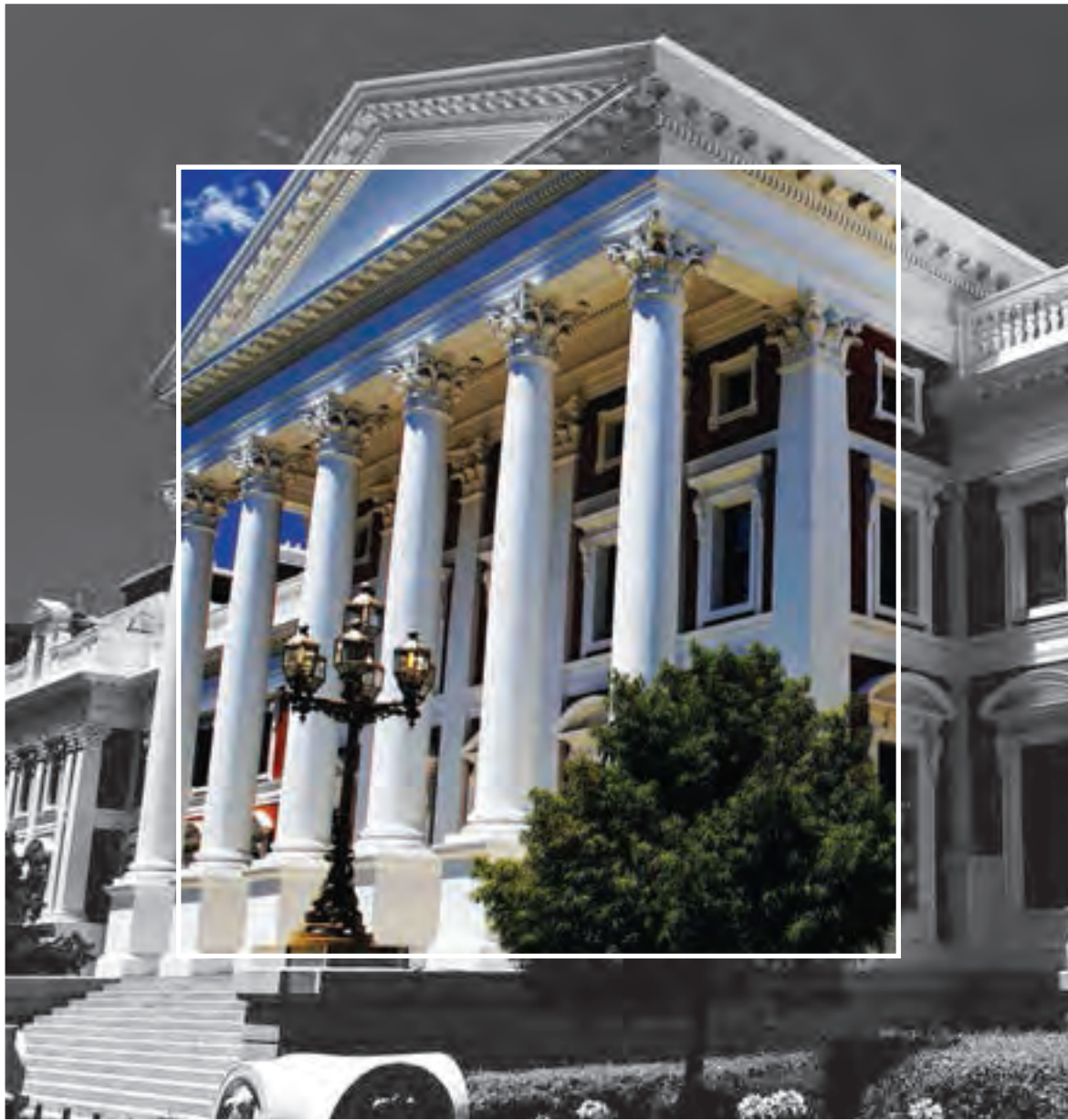
MUNICIPALITY

City of Cape Town Metropolitan	Mossel Bay
West Coast District	Overstrand
Breede Valley	Swartland
George	Theewaterskloof
Knysna	Witzenberg
Langeberg	



MUNICIPAL ENTITY

Cape Town International Convention Centre



FOREWORD

FOREWORD

I present my first report as auditor-general of the Republic of South Africa, which deals with local government audit outcomes for the year ended 30 June 2013. This report covers the audit outcomes of municipalities and municipal entities, which had a combined total expenditure of R268 billion for the 2012-13 financial year, split as follows:

- Employment cost (including councillor remuneration)	R62 billion
- Goods and services	R166 billion
- Capital expenditure	R40 billion

This also marks my first report to the fifth parliament of the Republic of South Africa.

At the onset, it is important to note that our annual audits have once again examined the following three areas:

1. Fair presentation and absence of material misstatements in financial statements.
2. Reliable and credible performance information for purposes of reporting on predetermined performance objectives.
3. Compliance with all laws and regulations governing financial matters.

Financially unqualified with no findings

Auditees that received a **financially unqualified opinion with no findings** (depicted in green in this report) are those that have passed the audit test in each of the abovementioned aspects. This is commonly referred to as a 'clean audit'. I am pleased to report that this year 30 auditees belong to this category, out of the 319 audited institutions comprising 278 municipalities (local, district and metropolitan) as well as 41 municipal entities. This constitutes an overall 9% as compared to the 5% obtained in 2012.

Amongst this year's 30 'clean audits', 13 sustained this achievement from 2011-12. Auditees in this category have demonstrated impeccable levels of discipline and oversight in their financial management and operational activities. At these auditees, the breakdown of controls is easily detected and corrected timeously. Such environments are characterised by readily available documentation. Most importantly they have accountable managers and leaders who are able to provide explanations and additional evidence in support of the transactions they are reporting on. They also have the support of strong oversight by mayors and councils that back the efforts of municipal managers and chief financial officers.



Kimi Makwetu
Auditor-General



This figure shows 30 auditees with clean audits and their provinces

Financially unqualified with findings

One hundred and thirty-eight auditees (41%) received a **financially unqualified opinion with findings** (depicted in yellow in this report). These are auditees that have passed the critical test of fair presentation of financial statements, which means that they have accounted accurately for the financial transactions they have carried out. However, the 'with findings' aspect suggests that these auditees may not have been transparent in the manner in which they carried out their activities as there were instances where they did not follow the required processes.

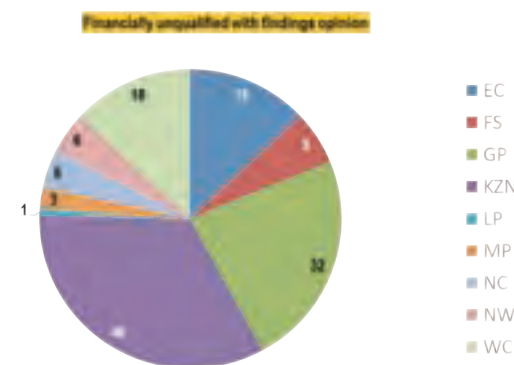
These deviations from internal controls were largely in the area of supply chain management. In this category there are a number of auditees that incurred unauthorised, irregular as well as wasteful and fruitless expenditure due to material deviations from internal controls that govern these transactions. Also, this is a category of auditees that submitted financial statements that were initially unreliable and incorrect. This was mainly due to absence of basic recording, approval, regular reporting and follow up on monitoring oversight controls.

The longer the auditees stay in this category, the more the unwanted practices settle and permeate the environment through on-going and uncorrected weaknesses in control. When these basic control deficiencies persist, they fester into the environment until there is nothing left to account for, and the funds are no longer available while there is limited or no provision of services.

When auditees start to conduct public business according to their own defined rules rather than those generally accepted and approved, poor governance becomes inevitable. This is usually prominent in environments where there is lack of transparency and consequence and subsequently no accountability.

It is our considered view that, when government business is conducted outside the controlled environment, in all likelihood it becomes a free for all where any transaction is capable of being executed without the related accountability. As a result, opportunities for realisation of service delivery objectives are lost and recovery becomes almost a nightmare.

It is desirable that the leadership of municipalities take this issue seriously as it is a condition prevalent in all categories of audit outcomes outside of the 'clean audit' environment.



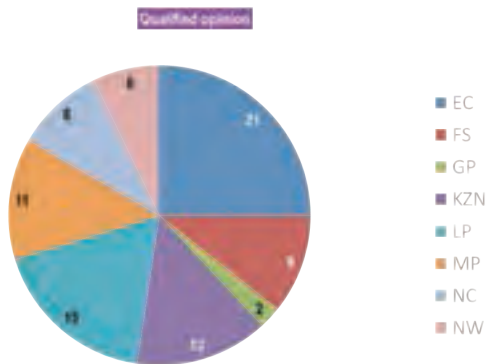
This figure shows 138 auditees that received an unqualified opinion with findings

Qualified audit opinion

Eighty-four auditees (25%) received a **qualified audit opinion** (depicted in purple in this report), which means that they were unable to adequately and accurately account for all the financial effects of the transactions and activities they conducted. In this regard, the financial statements they presented were unreliable in certain areas.

Many auditees in this category furnished us with performance information that was either not useful or was unreliable, which compromised the ability to drive effective accountability. We also found out that a number of rules and regulations that apply to financial management and reporting matters were not observed as required in specific legislation.

In this regard, there were many instances where there were deviations relating to supply chain management and inappropriate reporting on performance.

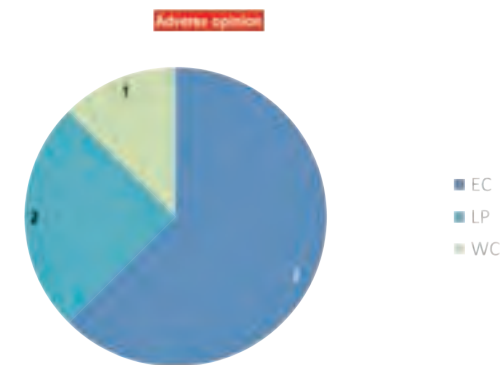


This figure shows 84 auditees that received a qualified audit opinion

Adverse opinion

The eight auditees (2%) in the **adverse audit opinion** category (depicted in red in this report) performed similarly with the ones described above (under qualified opinion) with the exception that the conditions regarding to unreliable financial statements were common in most areas of the financial statements. This is unlike the qualified opinion where this is limited to certain areas. Auditees in this category have demonstrated extreme levels of lack of accountability for financial statements.

This is a classic example of controls that are broken everywhere. Here, all business cycles of the institution have deficient controls. Without a shadow of a doubt, this state of affairs increases the levels of financial exposure and multiplies the prospects for significant losses that could result in most service delivery and programme objectives not being achieved.

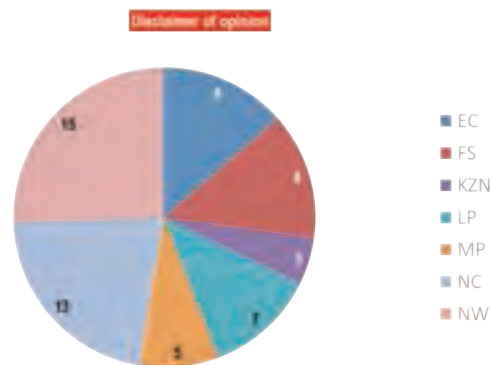


This figure shows eight auditees that received an adverse audit opinion

Disclaimer of opinion

Fifty-nine auditees (18%) received a **disclaimer of audit opinion** (also depicted in red in this report). Auditees in this category were unable to provide the required evidence to enable the auditors to perform tests to satisfy themselves in the fair presentation of the financial statements. The stewardship over the financial affairs of the auditee is not at desirable and acceptable levels. Such environments are characterised by not providing credible evidence to support amounts and disclosures in financial statements.

The auditor is, inevitably, unable to conclude on any of the assertions that are made by management on the financial statements of the auditee. Anything could have happened to the financial resources entrusted upon the auditee and the auditor has significant uncertainty about the financial statements, and thus unable to express an opinion on whether the financial statements can be relied upon.



This figure shows 59 auditees that received a disclaimer of opinion

Other significant audit observations

Non-compliance with laws and regulations

In the current year, 90% of auditees had findings on non-compliance with laws and regulations, many of which related to the area of supply chain management. Irregular expenditure was reported at 265 auditees (83%), mainly due to the lack of basic controls and inadequate implementation of appropriate consequences where there has been poor performance or transgressions. The value of these controls cannot be emphasised enough as they are an important mechanism to narrow the space for widespread abuse of the public resources that are required to provide services to citizens.

Ineffective use of consultants in financial reporting

I am concerned that 261 auditees (82%) were unable to produce financial statements that were free of material misstatements, with 110 auditees (35%) receiving financially unqualified opinions only because they corrected all the material misstatements identified during the auditing process. This is despite the fact that most municipalities used consultants (external service providers) to assist with the preparation of financial statements, with a total spend of R695 million. In many cases, this spending on external service providers was over and above the fixed cost of employment paid to those that are employed to fulfil financial

management and reporting responsibilities. It is evident that improvements in audit outcomes will be attained and sustained only if local government builds the institutional capacity required to maintain adequate internal controls, systems and processes.

Irregular expenditure

As a result of significant breakdown in controls, municipalities and entities entered into transactions that were not carried out in accordance with regulations and other prescripts. We have classified these as irregular expenditure which totalled R11,6 billion for the period under review. We have ascertained through audit test that R8 billion of this amount represents goods and services that were received despite the normal processes governing procurement not being followed. The balance of R3,6 billion is at risk due to lack of supporting documentation, and we were therefore unable to confirm whether goods and services were received or not.

Key actions by leadership

We remain hopeful that this situation can be turned around as evidenced by the efforts of those that advanced to clean audits. It is crucial to note that these auditees were commonly characterised by the following:

- Introducing basic accounting and daily control disciplines.
- Enforcing compliance with all legislation.
- Employing staff in accounting and financial management positions with the required level of technical competence and experience.
- Calling for information and reports regularly with a view to supervising implementation of financial management improvement plan.
- Allowing the chief financial officer to be in charge of the financial records and report thereon to the municipal manager.
- The council keeping the monitoring of the financial improvement plan on its quarterly meeting agenda.
- The municipal manager reviewing management accounts with the chief financial officer every month.

We are encouraged by the responses and commitments of the premiers, speakers, members of the executive council responsible for finance and local government, as well as the respective chairpersons of portfolio committees in all legislatures. All these leaders have recognised the importance of prioritising these basic but very significant actions for municipalities. Our office remains ready to intensify its effort to work closely with all of them towards achieving transparent and accountable financial management and governance.

It is for these reasons that we call upon all municipal councils across all the nine provinces to, at a minimum, adopt and follow the above examples diligently throughout the year. With these simple practical steps, the dawn of a substantially improved financial management and performance reporting in local government will be accelerated. This is a goal within reach and a key ingredient in building trust in the credibility and accountability of local government. This could add to the arsenal required to restore trust in local government's capacity to deliver services to citizens.

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We trust this report will provide some useful insights. We also take this opportunity to thank our employees and all our delivery partners for a sterling effort towards building public confidence.

A handwritten signature in blue ink that reads "Auditor-General".

Auditor-General
Pretoria
July 2014

SECTION 1: EXECUTIVE SUMMARY

Our auditing and reporting process

The Constitution of South Africa determines that local government must structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, promote the social and economic development of the community and participate in national and provincial development programmes. Legislation, such as the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and the Municipal Systems Act, 2000 (Act No. 32 of 2000) further defines the manner in which local government must function to achieve these developmental objectives through sound financial and performance management and accountability to the communities it serves.

As confirmed by the 2011 census, as illustrated in figure 1(a), significant progress has been made since 1996 in the delivery of basic services, infrastructure and economic development, but the challenge remains for local government to provide these benefits to all citizens and all communities.

The financial statements and annual performance reports of municipalities are key instruments through which account is given on how municipal finances are managed to provide the basic services and deliver on development priorities and whether the performance targets, as agreed with the communities through the integrated development plan, were achieved.

22 Our role, as determined by our constitutional mandate, is to audit all municipalities and their municipal entities, also called *auditees* in this report, so that we can report on **the quality of their financial statements and annual performance reports** and thereby give assurance to municipal councils and the community that what is reported by the municipality is credible and reliable. We are also required to audit and report on **compliance with key legislation**, to bring to the attention of the auditees any material non-compliance that affects their financial and performance management. This year we also audited key aspects of the provision of water and sanitation services and roads infrastructure by municipalities.

We assess the **root cause** of any error or non-compliance identified, based on the internal control that has failed to prevent or detect it. We do this in order to provide value-adding recommendations to prevent the re-occurrence thereof.

We report our findings, root causes and recommendations in **management reports** to the senior management, municipal managers and chief executive officers (in the case of municipal entities), which are also shared with the mayors and audit committees. Our opinion on the financial statements, material findings on the performance report and non-compliance with legislation as well as significant deficiencies in internal controls are included in an **audit report**, which is published in the auditee's annual report and dealt with by the municipal council.

Annually, we report on the audit outcomes in nine provincial **general reports and a consolidated report** (such as this one), in which we also analyse the root

causes that need to be addressed to improve audit outcomes. Before the general reports are published, we share the outcomes and root causes with national and provincial leadership, Parliament, provincial legislatures and key role players in national and provincial government.

Since 2009-10, we have intensified our efforts to assist local government to improve its audit outcomes by identifying the **key controls** that should be in place at auditees – assessing these on a quarterly basis and sharing the assessment with mayors, municipal managers, chief executive officers and audit committees.


We further identified the following **six key risk areas** that need to be addressed to improve audit outcomes and financial and performance management and we specifically audit these so that we can report on the status thereof: ■ quality of submitted financial statements ■ quality of annual performance reports ■ supply chain management ■ financial health ■ information technology controls ■ human resource management (which includes management of consultants).

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

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

Figure 1(b) gives an overview of our message on the 2012-13 audit outcomes, which is a continuation of what we had reported and recommended in our last report on the audit outcomes of local government. Please note the following about the figure and when reading the rest of the report:

- If municipalities have municipal entities under their control, the audit opinion on their financial statements is that of the consolidated financial statements, unless the audit report on consolidated financial statements was not finalised by the date of this general report.
- 'With findings' means findings on either the quality of the annual performance reports or non-compliance with legislation, or findings on both these aspects.

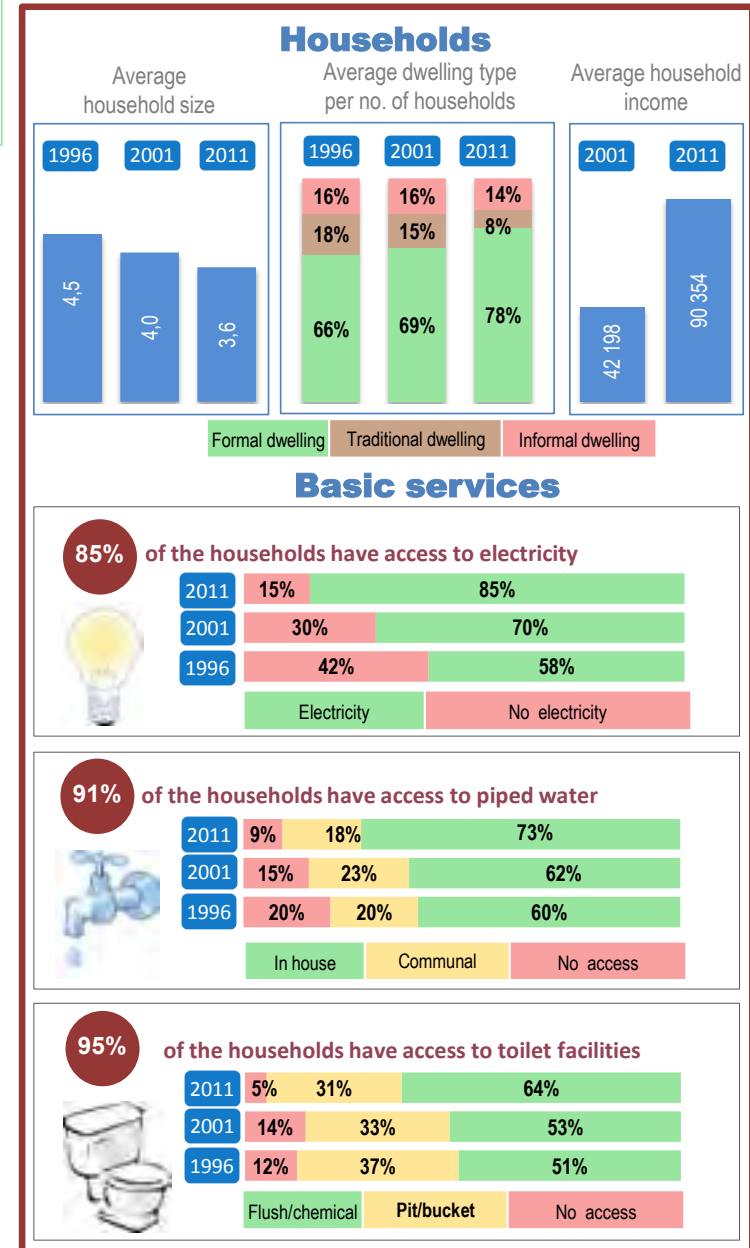
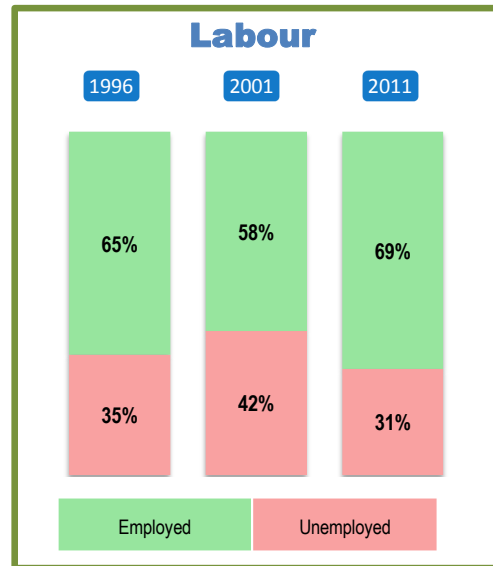
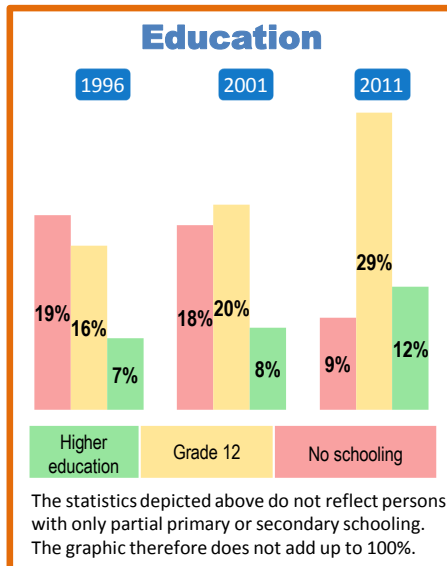
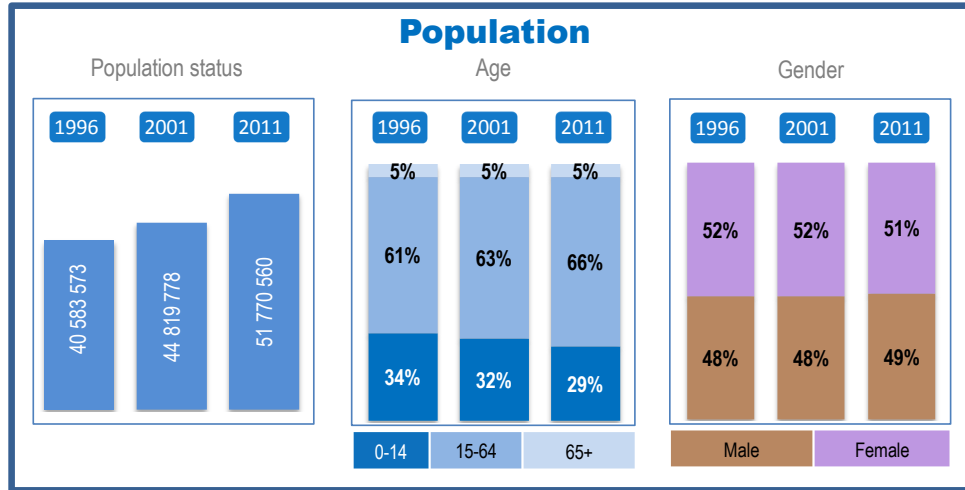
- Clean audits are achieved when the financial statements receive unqualified audit opinions and there are no findings on the quality of the annual performance reports or non-compliance with legislation.
- Movement of more than 5% is regarded as an improvement or a regression. Movement is depicted as follows:
 Improved Stagnant or little progress Regressed
- The terminology used in this report is explained in the glossary section at the end of the report.

The rest of the section summarises the audit outcomes and our key recommendations for improvement.

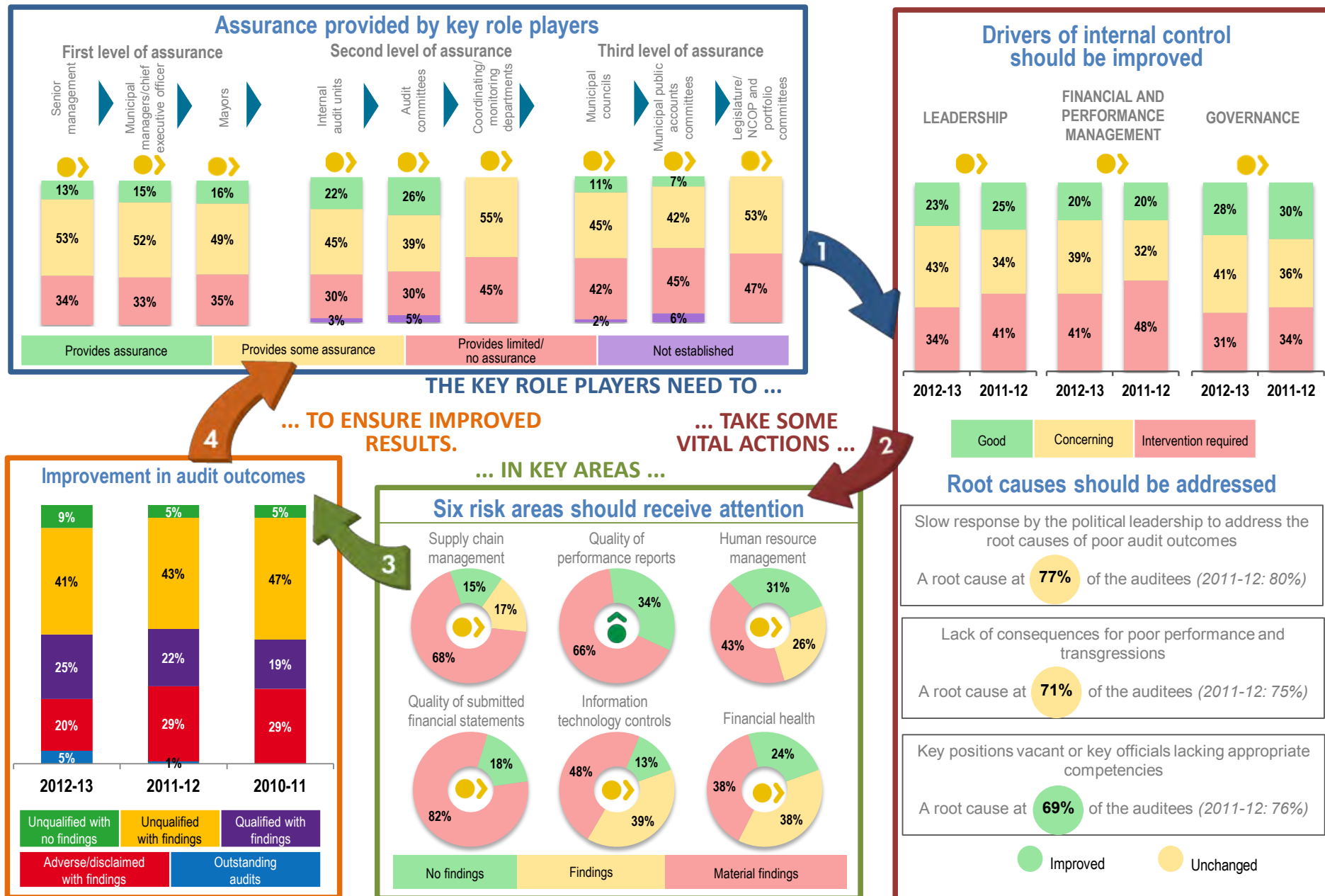
Data from census 1996, 2001 and 2011 [figure 1(a)]

SOUTH AFRICA

The statistics reflected in these graphics were sourced from the 2011 Census (STATS SA) and are not information collated or audited by the AGSA. The colours of the legends used for these census graphics do not have the same meaning as those used in the rest of this report.



Overview of audit outcomes and key recommendations for improvement [figure 1(b)]



Slight improvement in audit outcomes

While there was only a movement of 4% in the percentage of auditees that attained the clean audit status, there was a net improvement in audit outcomes with the number of improvements exceeding regressions. Significant aspects of the audit outcomes of the 319 auditees reported on as shown in figure 1(b) are listed below.

- The audit outcomes of 63 auditees improved while 25 regressed. Municipalities had a net improvement of 32 (12%) and municipal entities a net improvement of 6 (11%).
- The number of auditees with **clean audits** increased to 30 auditees, which comprised one metropolitan municipality, five district municipalities, 16 local municipalities and eight municipal entities. Of the 25 regressions, three auditees were from the clean audit category. Had these auditees retained their clean audit status this year, the number of clean audits would have been 33 (10%).
- The auditees in **most provinces improved** on audit outcomes, except those in Limpopo and Mpumalanga that regressed and Northern Cape and North West where there was only a slight improvement.
- The overall audit outcomes, however, are poor with 20% of the auditees receiving an **adverse opinion or disclaimer of opinion**, 47 of which remained in this category for the past two years. A quarter of the auditees received a **qualified opinion**.
- In total, 81% of the 138 auditees with **unqualified audit opinions with findings** had received the same opinion last year. Only 17 auditees were able to improve to clean audits.
- A total of 313 auditees (93%) submitted their financial statements for auditing by the legislated date of 31 August 2013 (or by 30 September 2013 in the case of consolidated financial statements). The rate of **timely submissions improved** from 90% in 2011-12 to 93% in the current year and is a major improvement from 2008-09 where only 78% submitted on time.
- In total, 66% of the auditees had material findings on the **quality of their annual performance reports**. It is encouraging that there has been an improvement from the 75% in the previous year, but it is of great concern that such a high number of auditees are reporting on their performance in a manner which does not adequately inform the public of planned, approved and actual levels of service delivery.
- We reported **material non-compliance with legislation** at 90% of the auditees. While there has been a slight overall reduction in the number of auditees with material non-compliance findings, the levels of non-compliance remained high.

- The most common **material non-compliance findings** identified at over 60% of the auditees were on the quality of submitted financial statements, supply chain management and the prevention of unauthorised, irregular as well as fruitless and wasteful expenditure. Over a third of the auditees also materially did not comply with legislation on payment of creditors within 30 days, strategic planning and performance management, budget control, consequence management, management of assets and revenue and the operations of audit committees and internal audit units.
- **Unauthorised expenditure** of R9,2 billion was incurred by 170 municipalities (just over half of the municipalities). The amount decreased by 10% from the previous year.
- Non-compliance by 83% of the auditees with mostly supply chain management legislation resulted in **irregular expenditure** of R11,6 billion – a 24% increase from last year.
- Almost 70% of auditees incurred **fruitless and wasteful expenditure** with an overall value of R815 million. This expenditure increased by 31% from the previous year. The Eastern Cape accounted for 41% of this increase.
- At 25% of auditees the cases of irregular, unauthorised as well as fruitless and wasteful expenditure reported in the previous years were not investigated by auditees to determine if any official was liable for the expenditure.

Our provincial general reports include **a summary of the audit outcomes and key messages for each municipality**.

Six risk areas should continue to receive attention

Our audits of the six risk areas show that our recommendations to address these risks to financial and performance management have not yet been fully implemented. Significant aspects of five of these risk areas are summarised below, while the quality of performance information has been included as part of the audit outcomes in the previous paragraph.

Quality of submitted financial statements

The quality of the financial statements submitted for auditing purposes did not improve, with only 18% of the auditees submitting financial statements that did not contain material misstatements. One hundred and ten auditees (35%) received a **financially unqualified audit opinion only because they corrected all the misstatements we had identified** during the auditing process. The auditees that could not correct the misstatements received qualified, adverse or

disclaimer of audit opinions. The most common financial statement qualification areas (uncorrected material misstatements) were property, infrastructure and equipment, irregular expenditure and receivables (debtors).

Supply chain management

We identified weaknesses in the procurement processes and contract management of 74% of the auditees, with little improvement since the previous year.

Twenty-nine per cent of the auditees (2011-12: 32%) could not provide us with evidence that all their procurement processes had complied with legislation, as the **supporting documentation either did not exist or could not be found as a result of poor document management**.

We identified contracts with a value of R95 million given to suppliers in which **employees and councillors** had an interest and contracts with a value of R445 million awarded to suppliers in which **other state officials** had an interest. Employees and councillors did not **declare their interest** in 35% of the contracts they received. For 83% of these contracts, suppliers did not declare (as required by legislation) that officials, councillors or other state officials held a financial interest in the supplier.

We found non-compliance with legislation that resulted in **uncompetitive or unfair procurement processes** at 71% of the auditees and **inadequate contract management** at 33% of the auditees.

Human resource management

We identified weaknesses in the human resource management at 69% of the auditees, which is a slight change from the prior year. However, there has been an increase in the number of auditees with material human resource management findings.

In this report we again raise concerns about the management of vacancies which resulted in prolonged acting periods. Of particular importance is that at year-end the position of **chief financial officer was vacant at 27% of auditees and 31% did not have a head of supply chain management unit**. The average time that municipal managers, chief executive officers, chief financial officers and heads of supply chain management unit occupied their positions was just under two years, which is a reflection of instability at these levels.

The **competencies of these key officials** were also not yet at the level prescribed by the municipal regulations on minimum competencies at around a third of the auditees. Some auditees did not assess the competencies, as they are required to do by the regulations.

There were still **weaknesses in the performance management** of senior management, such as performance contracts not being in place.

Effective use of consultants

In total, 79% of auditees used consultants to assist them with either financial reporting or preparation of performance information, or both. The estimated cost of the consultancy services was **R734 million**. The auditees stated a **lack of skills** to perform the work as the most common reason for using consultants.

Using consultants resulted in **varying degrees of success** as almost 60% of the assisted auditees received qualified opinions or had material findings on performance information in the areas where the consultants assisted. Poor record keeping and inadequate planning and project management by the auditees were some of the reasons for this.

Our audit on the management of consultants at 250 auditees identified that **skills were not transferred** at 62% of the auditees, **poor performance management and monitoring** at 52% and **inadequate planning and appointment processes** at 48% of auditees.

Information technology controls

We assessed the information technology controls at a significantly higher number of auditees compared to last year. While proportionately fewer auditees had findings considered material, only 13% of the auditees had no findings on the management of their information systems.

The status of controls in the areas of **security management, user access and information technology service continuity** still needs attention as over 60% of the auditees were still struggling with the design of these controls and had not yet begun to implement them. This poses a risk in terms of the confidentiality, integrity and availability of the information on the information technology systems concerned.

An **information technology governance framework** had been approved by cabinet for local government during 2013, which is required to be implemented in phases over the next three years. When fully implemented, the framework should have a positive impact on the functioning of the information technology control environment and service delivery in the public service domain.

Financial health

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. We also assessed whether there were any events or conditions that might cast significant doubt on an auditee's ability to continue as a going concern.

In total, 76% of the auditees displayed indicators of risk to their financial health, a slight regression when compared to the previous year's 74%. Important findings from the analyses were the following:

- Eighty auditees (25%) either disclosed in their financial statements that a **material uncertainty existed with regard to their ability to operate in the foreseeable future** (i.e. as a going concern) or received a qualified opinion because such disclosures were not included. We could not perform the financial health analysis on a further 67 (20%) auditees that received adverse or disclaimed audit opinions, due to their financial statements not being reliable.
- Seventy-one per cent of the auditees estimated that more than 10% of their **debtors would not be able to pay them**. Almost 40% of the auditees had an average debt-collection period of over 90 days.
- Almost half of the auditees underspent their **capital budgets and/or the conditional grants** they received by more than 10%; and 22% of the auditees overspent their **operating budget** by more than 10%.
- Just under a third of the auditees took **more than 90 days to pay their creditors**.
- Twenty-nine per cent of the auditees ended the year with a **deficit** (loss).

28 Significant deficiencies in internal controls should be addressed to further improve audit outcomes

As part of our auditing process, we assessed internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation.

Overall, there was no improvement in the number of auditees that have good internal controls relating to leadership, financial and performance management and governance. It is however encouraging that in all three of these areas fewer auditees had a status of "intervention required".

The **significant weaknesses in the financial and performance management controls** need urgent attention as these basic controls and disciplines will ensure that errors, omissions and non-compliance are prevented, detected and corrected timeously. The controls include:

- preparation of regular, accurate and complete financial and performance reports
- review and monitoring of compliance with legislation

- proper record keeping and document control
- controls over daily and monthly processing and reconciliation of transactions.

The rate at which the root causes are being addressed is too slow

In spite of our intensified efforts, especially in the past four years, to assist the local government leadership to improve audit outcomes through the quarterly key control assessments and regular interactions with them, there has been no significant improvement in the audit outcomes.

Since 2010-11 we have consistently reported that the main root causes of the poor audit outcomes in local government are the following:

- A **slow response by political leadership (mayors and councils)** to our message of embracing their responsibility to guide and direct the development and performance of a strong system of internal controls at the auditees. This includes improving their oversight function, demonstrating effective and ethical leadership, strengthening the municipal public accounts committees and insisting on credible and regular reports on the finances and activities of their municipalities.
- A **lack of consequences for poor performance and transgressions** in local government. This is evident from the inadequate response to the high levels of unauthorised, irregular as well as fruitless and wasteful expenditure, as detailed in the audit outcome paragraph; and the weaknesses in performance management, which include a lack of performance contracts.
- The **key positions that are vacant or key officials that do not have the appropriate competencies**. In this regard we specifically report on the municipal managers, chief executive officers of municipal entities, chief financial officers and the heads of supply chain management unit. As detailed in the paragraph on human resource management above, the vacancy levels were still too high and many key officials did not have the minimum competencies defined and regulated for their positions. Gauteng is largely responsible for the improvement in this root cause.

Although these root causes were addressed either in part or in full by some of the auditees and in some of the provinces, the overall rate at which these common root causes are being addressed across local government is generally too slow to meaningfully improve audit outcomes.

The level of assurance provided by key role players should be improved

The management and the leadership of the auditee and those that perform an oversight, coordinating, monitoring or governance function should work towards improving the key controls, addressing the root causes and ensuring that there is an improvement in the six key risk areas, thereby providing assurance on the quality of the financial statements and performance reports as well as compliance with legislation.

In our assessment, the following key role players did not provide the necessary assurance and did not show any substantial improvement from the previous year:

- **Senior management** did not provide assurance in that it did not ensure that the basic financial and performance management controls were in place.
- **Municipal managers and the chief executive officers** of municipal entities did not provide assurance in that they did not (i) create strong control environments through their leadership and oversight; (ii) establish policies, procedures and action plans; and (iii) ensure that human resource management, information technology governance, risk management, internal audit units and audit committees were effective.
- The assurance provided by **mayors** was inadequate as there were significant weaknesses in the leadership controls at the auditees. Based on the regular interactions with them and the status of the prior year commitments they had made to ensure that audit outcomes improve, we determined that over half of the mayors did not have the impact they should have on the performance of their municipalities.
- Although the assurance provided by **internal audit units and the audit committees** was higher than that of the other role players, they were not yet effective in providing internal assurance and oversight. There was insufficient focus on the reliability of performance information and evaluation of information technology controls and compliance.
- **Municipal councils** did not provide assurance through their oversight and monitoring role, which includes investigating and acting on poor performance and transgressions such as financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure.
- **Municipal public accounts committees** were not in place at all auditees and we found the impact of the established municipal public accounts committees to be minimal in promoting transparency, good governance and public accountability. This is partly as a result of a lack of support for these structures by the council and inadequate support for capacity building in provincial government.

The assurance provided by national and provincial role players likewise did not improve from that of the prior financial year and our assessment thereof is as follows:

- **National and provincial government** has a constitutional responsibility to support and strengthen municipalities and monitor compliance with the legislation that governs local government. Our assessment revealed that the departments with a direct role to play (the treasuries, departments of cooperative governance, offices of the premier and the department of performance monitoring and evaluation) were not yet providing sufficient assurance through their mandated functions.
- **Provincial legislatures** were also not providing assurance as they performed only limited oversight of local government through the portfolio committees; while the impact of the initiatives by the **National Council of Provinces** was not yet evident.

The initiatives and commitments of all role players continue to have a positive impact on audit outcomes

Notwithstanding the remaining gaps in the required assurance levels, we believe that the initiatives and commitments by the key role players contributed to improvements and, if sustained, would provide the basis for improvements in future audit outcomes.

The status of prior year commitments made by mayors and provincial role players can be found in our provincial general reports, together with details of new commitments made by them.

The initiatives and commitments of the national role players in response to our messages are included in section 5 with our recommendations on how their oversight and monitoring functions can be improved further. Their continuing and new initiatives include:

- **National Treasury** and the national Department of Cooperative Governance and Traditional Affairs support capacity building and infrastructure development through the allocation and monitoring of grants.
- These departments also provide legislation, guidance and templates to strengthen the municipal environment; and have committed to continuously improve the support and guidance provided.
- The **Department of Performance Monitoring and Evaluation** developed a municipal assessment tool to assess the performance of municipalities against key performance measurement areas and would commence with implementation thereof in 2013-14.

- The **South African Local Government Association** launched a number of initiatives to support municipalities with improving governance, oversight, funding models, compliance with legislation and audit outcomes.
- The **Association of Public Accounts Committees** continued its support for the establishment and strengthening of the municipal public accounts committees.
- The **National Council of Provinces** embarked on a number of activities in the past year aimed at enhancing local government oversight and also committed to direct their attention towards the effective use of consultants, appointment of key officials, the role of district municipalities and auditee responses to our recommendations.

audit outcomes. Section 6 presents the results of our audits of the provision of water and sanitation services and roads infrastructure.

This report also includes three annexures that detail the audit outcomes and findings per auditee, a five-year view of the audit outcomes and the status of the drivers of internal controls at the auditees.

The provision of water and sanitation services and roads infrastructure should receive urgent attention

The state of municipal infrastructure in South Africa is a crucial element to ensure service delivery to all communities. In support of this, we reviewed key aspects of the provision of water and sanitation services and roads infrastructure by municipalities.

We identified some warning signals that could seriously impact on municipalities' ability to provide clean water, proper sanitation and proper roads. The leadership must urgently pay attention to the ineffective planning for provision of water and sanitation and for the maintenance, upgrading and construction of roads.

The target setting and performance reporting on provision of water and sanitation should be improved and the lack of policies and information on road maintenance should be addressed. It is also of concern that the grants provided for infrastructure development were not used as intended. Section 6 of this report indicates the findings on the audit of the provision of water and sanitation services and roads infrastructure.

The content of the remainder of this report

In section 2 of this general report you will find an overview of the overall audit outcomes, specifically of the quality of the annual performance report and compliance with legislation. Section 3 provides the outcome of our audits of the risk areas, while section 4 provides our assessment of the status of internal controls and the root causes of poor audit outcomes. Section 5 provides our assessment of the assurance provided by the role players in local, national and provincial government and their initiatives and commitments in connection with

SECTION 2: OVERVIEW OF AUDIT OUTCOMES

Figure 1: Audit outcomes over past five years (all auditees)

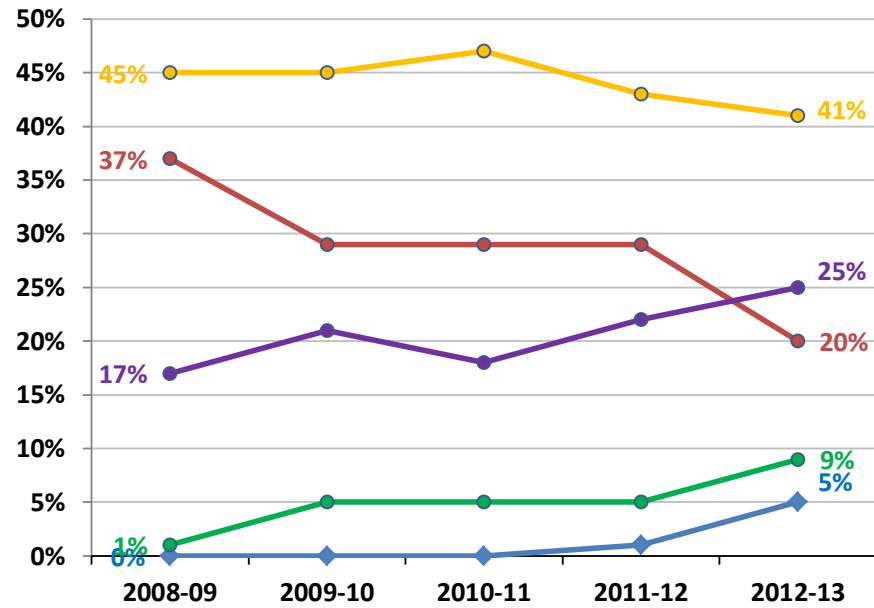


Figure 2: Three-year audit outcomes (all auditees)

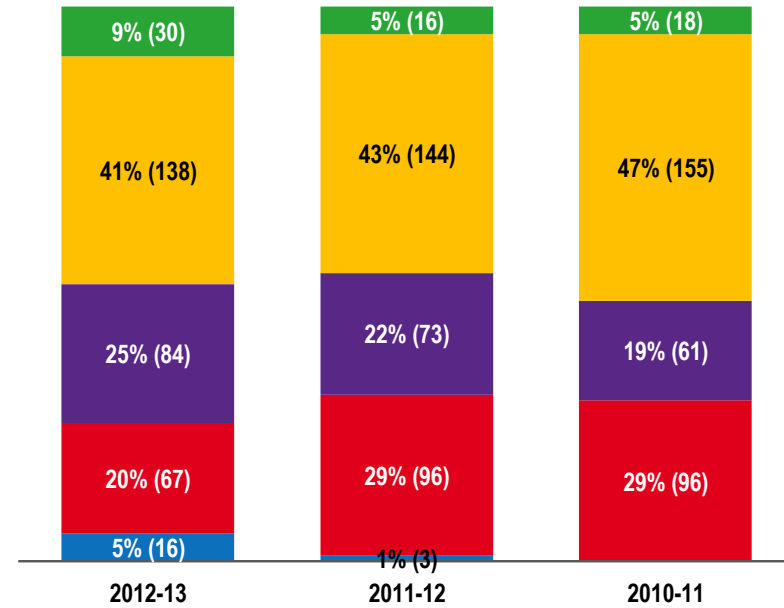
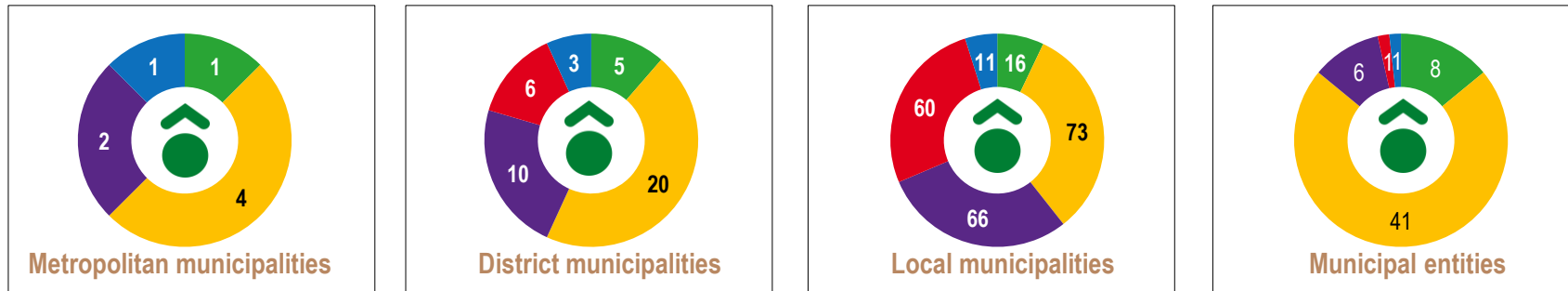












Figure 3: Net movement in 2012-13 audit outcomes per auditee type



Unqualified with no findings Unqualified with findings Qualified with findings Adverse/disclaimer with findings Outstanding audits

Table 1: Movement in 2012-13 audit outcomes reflecting more improvements than regressions

	63	228	25	3	16
Movement 	Improved	Unchanged	Regressed	New	Outstanding
Audit outcome 					
Unqualified with no findings = 30	17 	13			
Unqualified with findings = 138	19  4 	112	1 	2	1
Qualified with findings = 84		45	2  13 	1	2
Adverse or disclaimer with findings = 67		58	1  8 		13

Improved from opinion indicated by arrow 

Regressed from opinion indicated by arrow 

Of the 16 outstanding audits, three audits remain outstanding from the 2011-12 financial year.

2.1 Overall audit outcomes

Local government consists of 278 municipalities and 62 municipal entities. The number of municipal entities has increased from 61 in 2011-12 due to the establishment of three new municipal entities (one each in Eastern Cape, KwaZulu-Natal and Western Cape) and the closure of two municipal entities. The current and prior year audit outcomes of five dormant municipal entities [Krynaauwlust Farming Trust (Pty) Ltd, Fezile Dabi DM Trust, Metsimaholo Mayoral Trust, Knysna Economic Development Agency and Metsweding Economic Development Agency] are not included in this report.

Audit outcomes in the past five years

Figure 1 shows the five-year audit outcomes of local government. There has been little overall improvement in the audit outcomes since 2008-09. The number of auditees with financial statements that received an unqualified opinion over these five years increased from 46% to 50% and the adverse and disclaimed opinions decreased significantly.

However, less than 10% of the auditees progressed to clean audit opinions. Twenty-nine (one each in Eastern Cape, Limpopo and Mpumalanga, five in the Free State, 11 in the Northern Cape and 10 in North West) auditees' financial statements have received a disclaimed opinion since 2008-09.

The most significant reduction in the number of auditees that received a financially qualified audit opinion since 2008-09 was at the municipal entities (from 19% to 13%) and the local municipalities (from 62% to 59%). The metropolitan municipalities (at 29% with financially qualified audit opinions) remained at the same level as in 2008-09. Only the district municipalities regressed over the five-year period from 37% that received a financially qualified opinion to 39%.

Annexure 2 lists the audit outcomes for the past five years.

Submission of financial statements for auditing

A total of 313 auditees (93%) submitted their financial statements for auditing by the legislated date of 31 August 2013 (or by 30 September 2013 in the case of consolidated financial statements). The rate of timely submissions improved from 90% in 2011-12 and is a major improvement from 2008-09 when only 78% submitted on time.

Nineteen auditees submitted their financial statements late (four each in the Free State, Limpopo and the Northern Cape, three in the Eastern Cape and two each in North West and Western Cape). The audits of 11 of these auditees were finalised in time and their audit outcomes are included in this general report. Table 1 shows the prior year audit opinions of the 16 audits that had not been completed by 15 February 2014, the cut-off date we had set for inclusion in this report. The 2011-12 audits of three of these auditees were still outstanding at that date.

Movement in audit outcomes at national level

Figures 2 and 3 and table 1 reflect the movement in the audit outcomes overall and per auditee type since the previous year. The number of auditees that received clean audit opinions increased from 16 to 30 auditees (9%), and the number of auditees with adverse/disclaimer of opinions decreased from 29% to 20%.

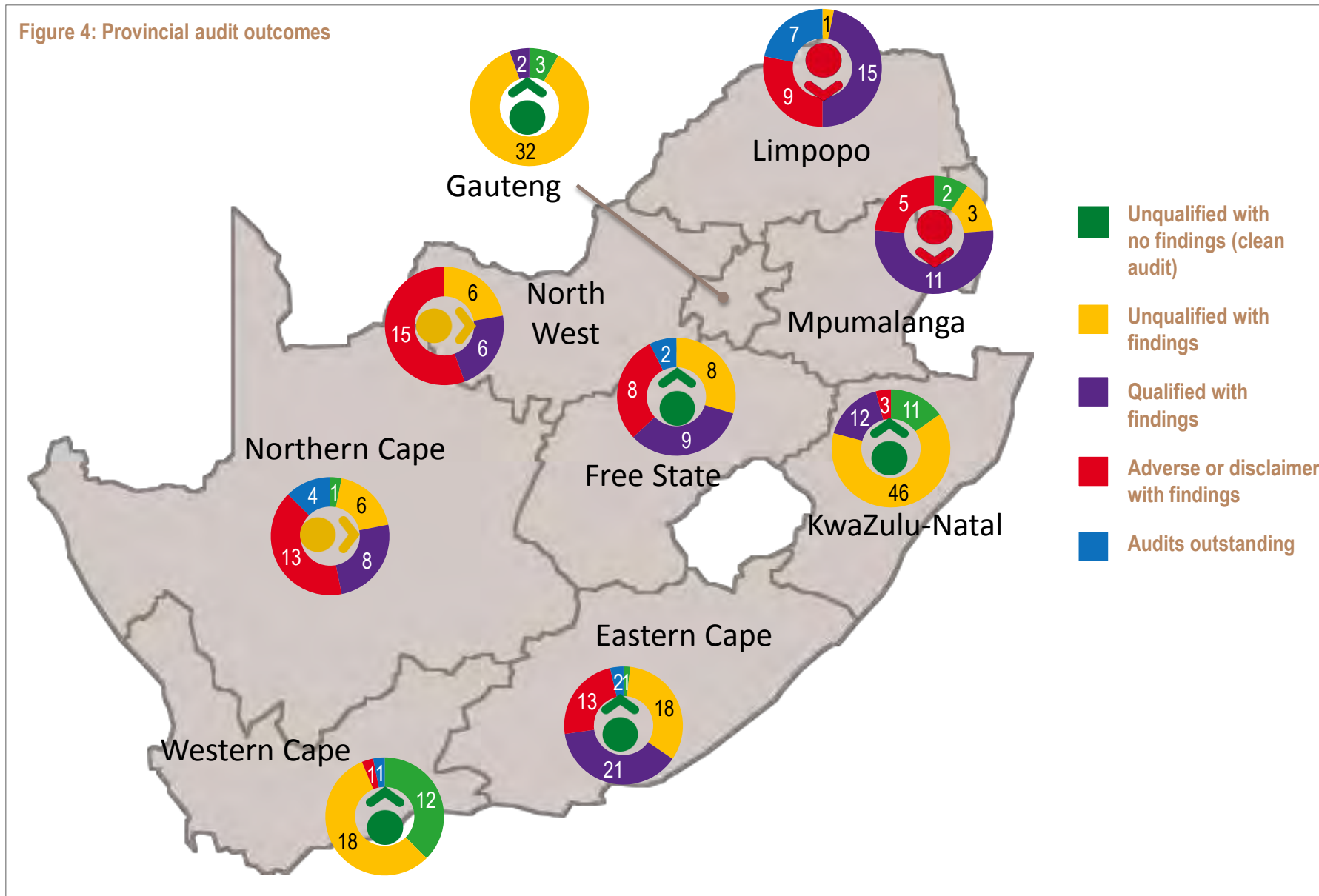
There was some improvement across every type of auditee. The improvement at metropolitan municipalities resulted from the improvement of one metropolitan municipality (City of Cape Town) to a clean audit opinion and another (City of Johannesburg) from qualified to unqualified with findings. While six district municipalities improved in their audit outcomes, five regressed. The most significant improvement was at local municipalities with 47 improvements (of which 11 obtained a clean audit opinion) and 18 regressions. Eight municipal entities improved and two regressed. The financial statements of two auditees (with adverse audit opinions in the prior year) and 21 auditees (with a disclaimer of opinion in the prior year) also improved to a qualified audit opinion with findings. Although there has been progress towards financially unqualified audit opinions, the quality of the financial statements of local government remains a major challenge. Section 3.1 provides further analyses on the results of our audits of the financial statements.

For those auditees with financial statements that received unqualified opinions, the remaining obstacles towards achieving clean audit opinions are material findings on the quality of the annual performance reports and non-compliance with legislation. The progress over the past three years and the key findings in these two areas are presented in sections 2.2 and 2.3.

Annexure 1 lists all auditees with their current and prior year audit outcomes.

Figure 4 shows the audit outcomes and progress per province, followed by a commentary on key aspects of the outcomes.

Figure 4: Provincial audit outcomes



Provincial audit outcomes

Figure 4 shows improvement in the audit outcomes in most provinces, but regression in Limpopo and Mpumalanga and little progress in Northern Cape and the North West. Forty-one out of the 67 auditees that received disclaimed and adverse opinions were in the North West, Northern Cape and Eastern Cape. Seventy-three per cent of the auditees that received financially unqualified audit

opinions (clean and unqualified with findings) were in Gauteng, Western Cape and KwaZulu-Natal, with the latter two provinces contributing to 77% of the clean audit opinions.

Table 2 below provides a summary of the movement in the audit outcomes in the provinces followed by further detail per province.

Table 2: Provincial analysis of movements in audit outcomes from 2011-12 (summary)

Province	Clean [30]		Unqualified with findings [138]				Qualified with findings [84]				Adverse/Disclaimer with findings [67]	
	Improved	Unchanged	Improved	Unchanged	New	Regressed	Improved	Unchanged	New	Regressed	Unchanged	Regressed
Eastern Cape	1		4	14			6	13	1	1	11	2
Free State			1	7			3	5		1	8	
Gauteng	1	2	3	29				2				
KwaZulu-Natal	7	4	7	37	1	1	5	2		5	1	2
Limpopo			1				4	9		2	6	3
Mpumalanga		2		3			2	7		2	4	1
Northern Cape	1		2	4			2	4		2	12	1
North West			2	4			1	3		2	15	
Western Cape	7	5	3	14	1						1	
TOTAL	17	13	23	112	2	1	23	45	1	15	58	9

Eastern Cape

Improved to clean audit (1): Mandela Bay Development Agency

Eleven auditees improved (five auditees that had received a disclaimer of opinion and one auditee that had received an adverse opinion improved to a qualified opinion while one improved from an unqualified opinion with findings to a clean opinion). Buffalo City and Nelson Mandela Bay metros again received a qualified opinion. Three district municipalities received an unqualified opinion with findings; two received a disclaimer of opinion; and one that had received an adverse opinion in the previous year, improved to a qualified opinion. Three local municipalities regressed (two from a qualified to an adverse opinion and one from an unqualified opinion with findings to a qualified opinion).

Free State

No clean audits

Four auditees improved (one auditee moved to an unqualified opinion with findings and three auditees moved from a disclaimer of opinion to a qualified opinion). The audit of the Mangaung Metro was still outstanding at the time of this report, while the audit opinion of three of the four district municipalities remained unqualified with findings and one regressed from an unqualified opinion with findings to a qualified opinion.

Gauteng

Retained clean audit (2): Johannesburg Fresh Produce Market and Johannesburg Social Housing Company

Improved to clean audit (1): Sedibeng District Municipality

Four auditees improved while 33 auditees obtained the same audit outcomes as the previous year. There were no regressions in the province. The City of Johannesburg metro improved from a qualified opinion to an unqualified opinion with findings, while the Ekurhuleni and Tshwane metros remained unqualified with findings. One district municipality received a clean audit while the other received an unqualified opinion with findings.

KwaZulu-Natal

Retained clean audit (4): Durban Marine Theme Park (Pty) Ltd, Safe City Pietermaritzburg, uThungulu House Development Trust and uThungulu Financing Partnership

Improved to clean audit (7): Msinga, Ntambanana, Okhahlamba, Ubuhlebezwe, uMhlatuze, uMzimkhulu local municipalities and Uthungulu District Municipality

Nineteen auditees improved and eight auditees regressed, of which one regressed to an unqualified opinion with findings and one regressed to a qualified opinion after receiving a clean audit report in the previous year. eThekweni metro and six of

the 10 district municipalities received an unqualified opinion with findings. One district municipality obtained a clean audit while one received a qualified opinion and two received a disclaimer of opinion.

Limpopo

No clean audits

The results reflect five improvements and five regressions, one of which was from a clean audit in the previous year to a qualified opinion. The audits of three district municipalities were finalised (two received a qualified opinion and one received a disclaimer of opinion). Seven other auditees also obtained a disclaimer of opinion.

Mpumalanga

Retained clean audits (2): Ehlanzeni District Municipality and Steve Tshwete Local Municipality

Two auditees improved, while three regressed. Two auditees regressed from an unqualified opinion with findings to a qualified opinion and one from a qualified opinion in the previous year to a disclaimer of opinion in the current year. Two of the three district municipalities received an unqualified opinion with findings, while one received a clean audit.

Northern Cape

Improved to clean audit (1): ZF Mgcawu District Municipality

Of the five auditees that improved, one obtained a clean audit; two progressed to an unqualified opinion with findings, while two progressed to a qualified opinion. Three auditees regressed: Two from an unqualified opinion with findings to a qualified opinion and one from a qualified opinion to a disclaimer of opinion. One district municipality obtained a clean audit opinion, one received an unqualified opinion with findings and three received a qualified opinion.

North West

No clean audits

Three auditees improved (one from a disclaimer of opinion to a financially unqualified opinion with findings, one from a disclaimer of opinion to a qualified opinion and one from a qualified opinion to an unqualified opinion with findings) and two auditees regressed from an unqualified opinion with findings to a qualified opinion. Ten municipalities received a disclaimer of opinion for five consecutive years. One of the four district municipalities received an unqualified opinion with findings, two received a qualified opinion and one received a disclaimer of opinion.

Western Cape

Retained clean audits (5): Swartland, Langeberg, George and Mossel Bay local municipalities and West Coast District Municipality

Improved to clean audits (7): City of Cape Town Metropolitan Municipality, Theewaterskloof, Witzenberg, Breede Valley, Knysna and Overstrand local municipalities and Cape Town International Convention Centre

Ten auditees improved on their 2011-12 audit outcomes – seven progressed to clean audits, while three auditees obtained an unqualified opinion with findings. The City of Cape Town metro was the only metro in the country with a clean audit opinion. Three of the four district municipalities received an unqualified opinion with findings, while only one district municipality improved to a clean audit.

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Figure 1: Quality of annual performance reports (all auditees)

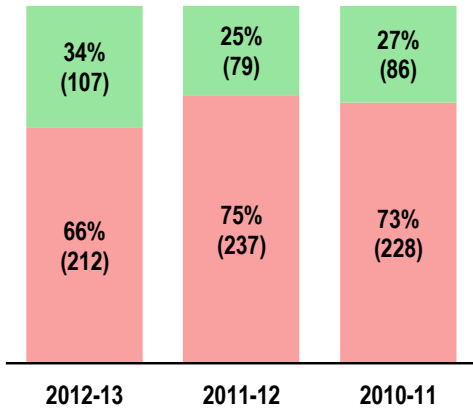


Figure 2: Analysis of findings on the quality of annual performance reports (all auditees)

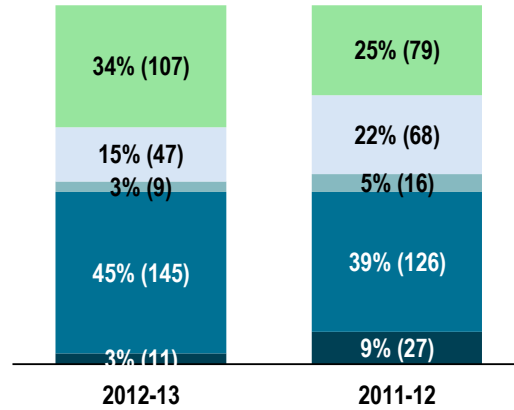


Figure 3: Other performance information-related outcomes (all auditees)

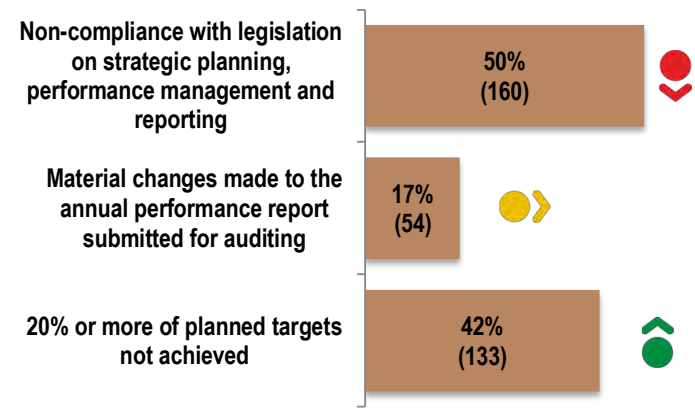


Figure 4: Auditees with no findings on the quality of annual performance reports per auditee type

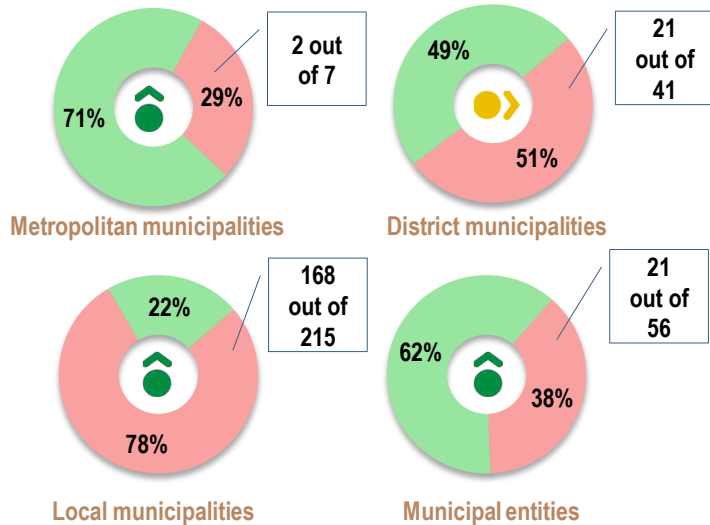


Table 1: Progress made by provinces on the quality of annual performance reports

Annual performance reports	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Auditees with no findings	23%	15%	68%	46%	12%	19%	7%	15%	56%
Movement	↑	↑	↑	↑	→	→	→	→	↑

With no findings With findings Information not useful Information not reliable Information not useful and reliable Non- or late submission

2.2 Quality of the annual performance reports

Auditees are required to measure and report on, in their annual performance reports, their service delivery against the performance indicators and targets set for each of their development objectives as defined in their integrated development plans (IDPs) and/or the annual service delivery budget implementation plans (SDBIPs). We audit the annual performance reports to determine whether the information in these reports is useful and reliable.

We audited the **usefulness of the reported performance information** by determining whether it was presented in the annual report in the prescribed manner and was consistent with the auditee's planned development objectives as defined in the IDP and/or SDBIP. We also assessed whether the performance indicators and targets that were set to measure achievement of the objectives were well defined, verifiable, specific, time bound, measurable and relevant.

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

Quality of annual performance reports and analysis of findings

Figure 1 shows the number of auditees with material findings on their annual performance reports over the past three years, including those auditees that did not prepare an annual performance report or those that submitted their reports too late for auditing. There has been an improvement in the quality of the annual performance reports since the previous year. Table 1 shows that the overall reduction in findings is due to five of the nine provinces.

Figure 2 shows the nature of the material findings in the current and previous years. Annexure 1 shows which auditees had material findings on the quality of their annual performance reports and the nature of the findings.

Only 11 auditees (3%) did not prepare annual performance reports or submitted their reports too late for auditing, an improvement from the previous year. This is a major improvement since 2008-09 when the percentage for late or non-submission was 32%. The discipline of reporting on performance on an annual basis was entrenched in local government but the usefulness and reliability of the annual performance reports needed attention.

There has been an overall improvement in the quality of the annual performance reports (i.e. an increase in the number of auditees with 'no findings'). As is evident from annexure 1, some auditees were able to address their findings from the previous year, but others had findings for the first time this year on either usefulness or reliability or both. Figure 3 further shows that 17% of the auditees

made amendments to the annual performance report submitted for auditing to correct material misstatements identified during the auditing process.

Findings on the usefulness of annual performance reports

Of the 194 auditees (61%) that had material findings on usefulness in the previous year, 43 auditees addressed these findings. Forty-one auditees had findings on usefulness for the first time this year. The most common findings on usefulness were the following:

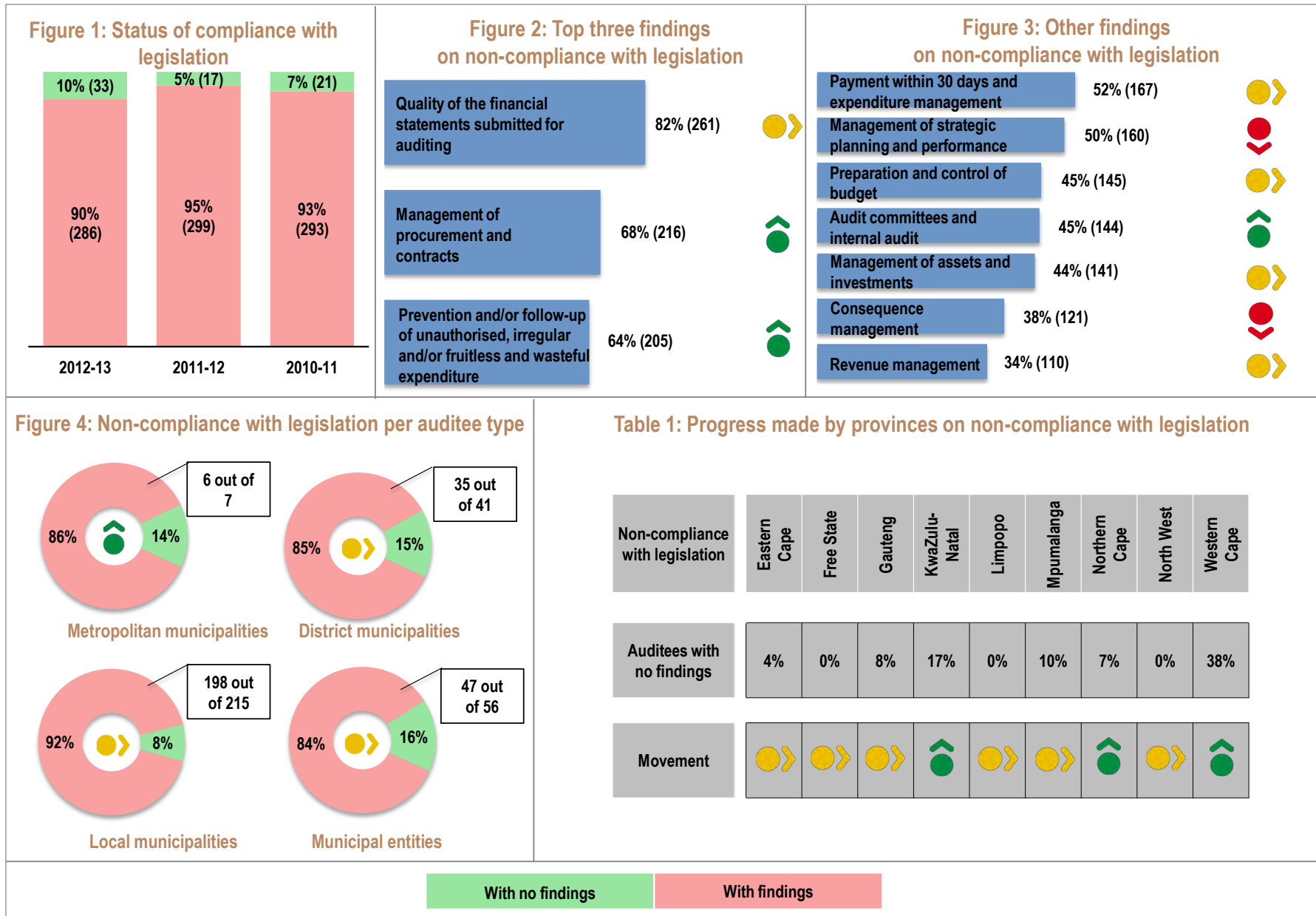
- The annual performance report included objectives, indicators or targets that were different from those in the IDP and/or the SDBIP.
- The performance indicators were not well defined and the targets were not specific enough to ensure that the required performance could be measured and reported in a useful manner.
- The measures taken to improve performance were not included in the report.

Findings on the reliability of annual performance reports

Of the 142 auditees (45%) that had material findings on reliability in the previous year, 44 auditees addressed these findings. Findings on reliability were identified at 56 auditees for the first time this year.

Although the number of auditees that published useful and reliable performance information increased, it remains a concern that two-thirds of auditees are reporting on their performance in a manner which does not adequately inform the public of planned, approved and actual levels of service delivery. These findings and the high level of non-compliance with the legislation on strategic planning, performance management and reporting (as shown in figure 3 and detailed further in section 2.3) are signs of continuing weaknesses in the ability of local government to adequately plan, manage and report on their performance.

Figure 3 shows that a high number of auditees reported that they did not achieve 20% or more of their planned targets. Section 6 also describes challenges in the delivery of water and sanitation and roads infrastructure, which includes target setting and performance reporting. Although there are many underlying reasons for instances of inadequate service delivery in local government, credible performance reporting is an important building block towards improving the service delivery experience of citizens and should receive urgent and continued attention from all role players.



2.3 Compliance with legislation

We annually audit and report on compliance with legislation applicable to financial matters, financial management and other related matters. We focused on the following areas in our compliance audit: ■ *Material misstatements in the submitted annual financial statements* ■ *asset and liability management* ■ *audit committees* ■ *budget management* ■ *expenditure management* ■ *unauthorised, irregular as well as fruitless and wasteful expenditure* ■ *consequence management* ■ *internal audit* ■ *revenue management* ■ *strategic planning and performance management* ■ *annual financial statements and annual report* ■ *transfer of funds and conditional grants* ■ *supply chain management (SCM)* ■ *human resource (HR) management and compensation*

In the audit report, we reported findings from the audit that were material enough to be brought to the attention of the oversight body and the public.

Status of compliance with legislation

Figure 1 shows the number of auditees with material non-compliance findings over the past three years. Non-compliance with legislation has remained at a high level since 2010-11, with only a slight improvement since the previous year. As shown in figure 4, metropolitan municipalities improved (from 7 to 6), with only slight improvements by district municipalities (from 90% to 85%), local municipalities (from 97% to 92%) and municipal entities (from 89% to 84%). Table 1 shows that there were improvements in three provinces.

Ninety-eight per cent of the auditees with material non-compliance findings also had findings in the previous year. The number of material non-compliance findings per auditee is a further cause for concern. Nineteen auditees (7%) had 50 or more material non-compliance findings and a further 103 auditees (36%) had between 20 and 50. Encouragingly, 41 auditees (14%) had only one or two compliance findings. Twenty-six of these auditees (63%) only needed to have avoided non-compliance findings to have obtained a clean audit opinion.

Findings on non-compliance with legislation

Figures 2 and 3 show the compliance areas with the most material findings in the current year and the progress made by auditees in addressing these findings. Annexure 1 lists the auditees with material non-compliance findings and indicates whether findings have been addressed or repeated.

In the past three years, material misstatements in submitted financial statements, SCM and the prevention of unauthorised, irregular as well as fruitless and wasteful expenditure have consistently been the areas with the most non-compliance findings. Section 3.1 provides more detail on material

misstatements, section 3.2 on SCM and further analyses on unauthorised, irregular as well as fruitless and wasteful expenditure is provided in sections 2.3.1 to 2.3.3.

Included in the non-compliance focus areas shown in figure 3, are the following findings:

- One hundred and sixteen auditees (36%) did not pay their creditors within 30 days or an agreed-upon period (also refer to section 3.5 which discusses financial health).
- The internal controls and processes for strategic planning and performance management and reporting of 93 auditees (26%) were not effective. The impact of the non-compliance is evident in the poor quality of the annual performance reports (section 2.2).
- The controls over assets of 102 auditees (32%) were not effective and the management, accounting and information systems that account for the assets of 88 auditees (28%) were inadequate. The impact of the non-compliance can be seen in the qualification on assets (section 3.1) and the weaknesses in the delivery of roads infrastructure (section 6).
- Eighty-seven auditees (27%) overspent in the current and previous years on their approved budgets or the spending was not within the approved limits for the different votes in the budgets. The resultant unauthorised expenditure is detailed in the rest of this section and section 3.5 provides more detail on the weaknesses in budget management.
- The internal controls for revenue were ineffective at 59 auditees (18%) and the management, accounting and information systems of 52 auditees (16%) were inadequate to account for revenue and receivables. The impact of non-compliance is clear from the qualification of debtors (section 3.1) and the weaknesses in debt management (section 3.5).

Section 4 (impact of key role players) provides more information on non-compliance with legislation by internal audit units and audit committees.

Even though the legislation is clear on the consequences for non-compliance with legislation and the steps that should be taken to deal with such transgressions, 121 auditees (38%) had material findings on not complying with these requirements. It is most evident in the way unauthorised, irregular as well as fruitless and wasteful expenditure was dealt with in terms of the lack of consequences for such expenditure. The rest of this section provides more information in this regard.

Figure 5: Auditees incurring unauthorised expenditure

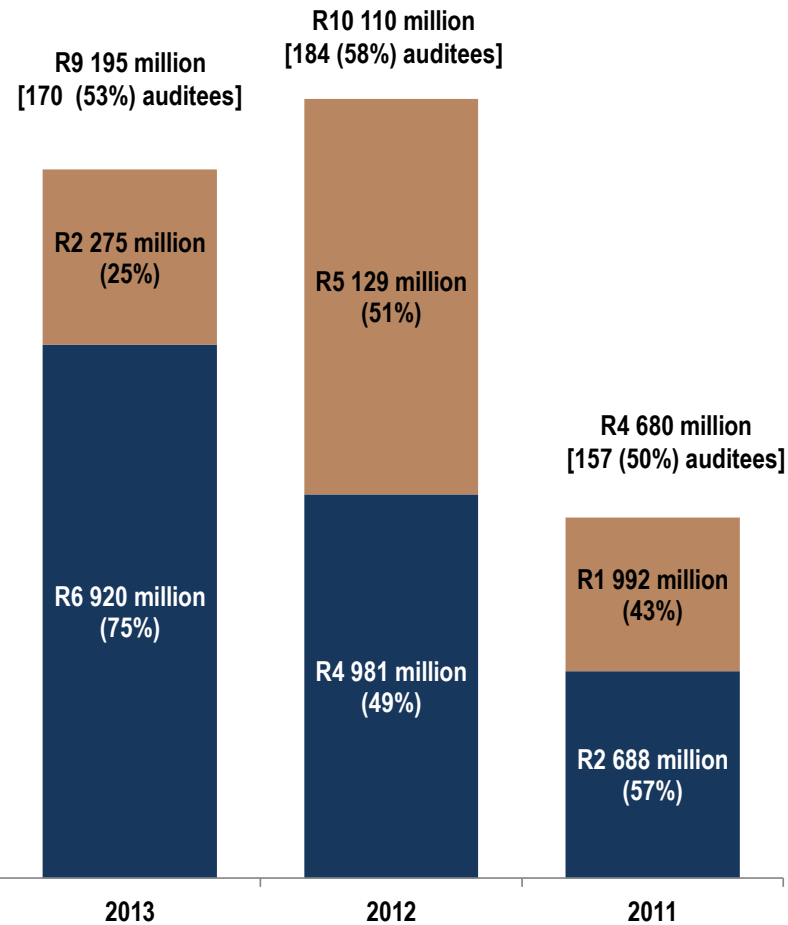
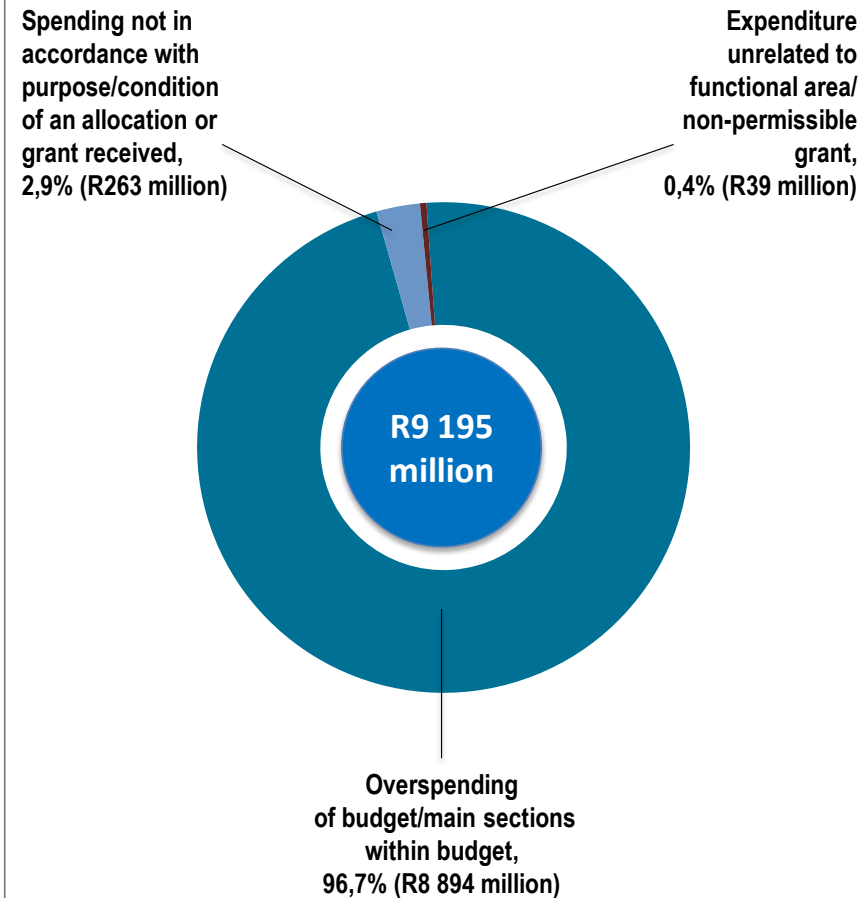


Figure 6: Nature of unauthorised expenditure



Identified by auditees

Identified during audit

2.3.1 Unauthorised expenditure

Unauthorised expenditure is expenditure by municipalities that was not spent in accordance with the budget approved by the council or the conditions of a grant.

The Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires municipal managers to take all reasonable steps to prevent unauthorised expenditure. The auditee should have processes in place to identify any unauthorised expenditure that was incurred and disclose the amounts in the financial statements. The MFMA also includes the steps that municipal managers and councils should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

Nature of, and trends in, unauthorised expenditure

As shown in figure 5, over half of the auditees incurred unauthorised expenditure. All auditee types incurred unauthorised expenditure, including four of the metropolitan municipalities and 60% of the district municipalities. The occurrence of unauthorised expenditure was common across all provinces.

The three-year trend in unauthorised expenditure shows a slight improvement with the amount decreasing by 10% this year compared to last year and the number of auditees that incurred the expenditure decreased by only 5%. The amount of unauthorised expenditure decreased in seven of the provinces and the number of auditees that incurred the unauthorised expenditure decreased in five of the provinces. One hundred and forty (82%) of the 170 auditees also incurred unauthorised expenditure in the previous year.

Figure 6 shows that the overspending on the budget or main sections within the budget was the most common reason for the R9 195 million of unauthorised expenditure. There was, however, an 8% reduction in the amount overspent since the previous year.

Continuous overspending on the budget is also one of the most common material non-compliance findings as reported in section 2.3 and section 3.5 reflects on the overspending on operating budgets in the context of financial health risks to local government. Poorly prepared budgets, inadequate budget control and a lack of monitoring and oversight were some of the reasons for the overspending. It should however be noted that the municipal budgets also include budgeting for non-cash items, such as impairments and provision, which is not actual expenditure but an accounting requirement. It means that part of the overspending that caused the

unauthorised expenditure is not actual payments made in excess of the budget, but rather these accounting estimations that were budgeted incorrectly.

As many municipalities cannot raise sufficient revenue through rates and taxes to fund infrastructure projects and improvement programmes, the national government contributes to it through conditional grants. There are conditions attached to the grants to ensure that the money is used for the intended purpose and achieves the defined outputs. An amount of R263 million of these grants was not spent in accordance with these conditions, which resulted in further unauthorised expenditure.

Prevention, detection and disclosure

As detailed in the preceding section on compliance, inadequate steps taken by municipal managers to prevent unauthorised expenditure were one of the most common material non-compliance findings reported. We reported the non-compliance as material at 129 auditees (76%), based on them having incurred the same type of unauthorised expenditure in the current and previous years and our assessment that adequate controls and processes would have prevented it.

Figure 5 shows that we identified 25% of the unauthorised expenditure amount during the auditing process, which means that some auditees did not have adequate processes to detect and quantify the unauthorised expenditure. This is an improvement from the 51% of the previous year.

Most auditees did not have difficulty in disclosing complete and accurate information on unauthorised expenditure as budget overspending was calculated and disclosed as part of the auditee's budget statements in the annual report. The disclosure of unauthorised expenditure in the financial statements was materially misstated only at 49 auditees (15%).

Lack of consequences for unauthorised expenditure

At 78 auditees (42%) the unauthorised expenditure of the previous year was not investigated by the municipal manager and council to determine if any person was liable for the expenditure.

Further details of unauthorised expenditure can be found in annexure 1 to this report.

Figure 7: Auditees incurring irregular expenditure

R11 600 million
[265 (83%) auditees]

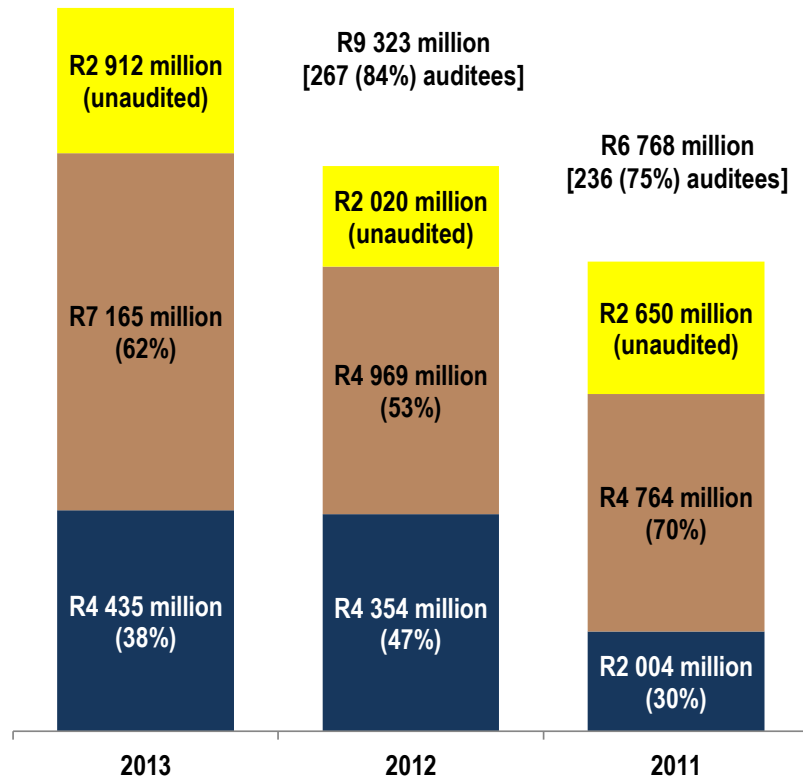
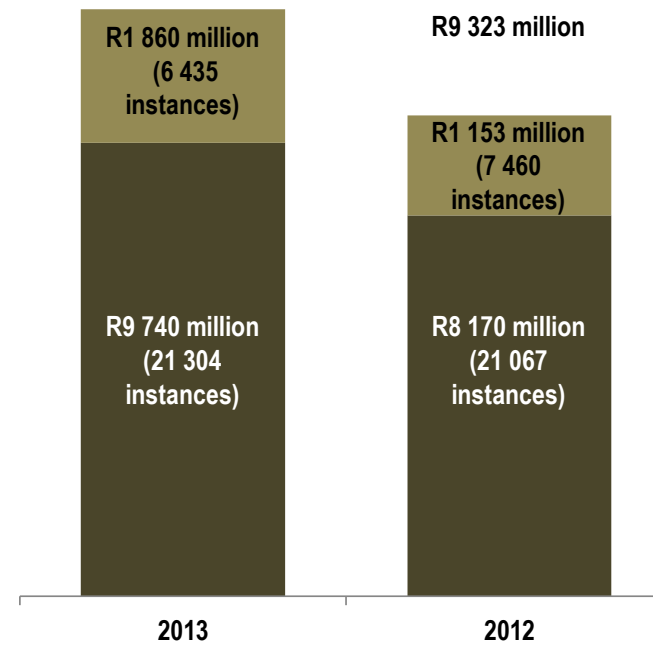


Figure 8: Prior year irregular expenditure identified in the current year

R11 600 million



Identified by auditees

Identified during audit

Limitation (awards not audited
and excluded from total)

Incurred in current year

Incurred in prior years -
identified in current year

2.3.2 Irregular expenditure

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed. However, it is a measure of an auditee's ability to comply with legislation relating to expenditure and procurement management.

The MFMA requires municipal managers to take all reasonable steps to prevent irregular expenditure. The auditee should have processes in place to detect non-compliance with legislation that results in irregular expenditure and to disclose the amounts in the financial statements. Irregular expenditure is reported when it is identified – even if the expenditure was from a previous year.

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

Extent of irregular expenditure and limitations in determining the total amount

Figure 7 shows the irregular expenditure that was identified in the current year (R11 600 million). The limitation shown relates to missing documentation at some auditees, resulting in us not being able to audit the processes followed by auditees for procurement worth R2 912 million. The irregular expenditure shown could potentially have been higher by this amount (refer to section 3.2, which discusses SCM, for more information).

As detailed in section 3.1 on the quality of the financial statements, we could not verify the completeness of the amounts disclosed in the financial statements due to inadequate processes to account for the irregular expenditure. This also means that the irregular expenditure amounts as shown in figure 7 could be significantly more, but we cannot determine what the additional amounts would have been.

Nature of, and trends in, irregular expenditure

All auditee types incurred irregular expenditure, including all the metropolitan municipalities and 83% of the district municipalities. The occurrence of irregular expenditure was common across all provinces.

The three-year trend in irregular expenditure shows an increase of 24% from the previous year in the amount incurred and hardly any reduction in the number of auditees that incurred the expenditure. The amount of irregular expenditure decreased in only three provinces and the number of auditees that incurred the irregular expenditure decreased slightly in five of the provinces.

Figure 8 indicates that there were 27 739 instances of irregular expenditure. It also shows that 16% of the irregular expenditure amount and 23% of the instances of irregular expenditure that occurred in previous years were identified during this year.

We analyse the timing of the irregularities to determine whether the continuing trend of increased irregular expenditure could be the result of prior year irregularities being identified and reported on now. Figure 8 shows that reporting transgressions in prior years had little effect as irregular expenditure continues to increase year on year.

Non-compliance with the legislation that regulates SCM is the cause of 98% of the irregular expenditure. Such non-compliance includes competitive procurement processes not followed, the preferential procurement requirements not applied and suppliers not declaring their interest or not providing proof that they were paying their taxes. Section 3.2 provides more detail on the outcome of our audits on SCM.

Prevention, detection and disclosure

As detailed in the previous section on compliance, inadequate steps taken by municipal managers to prevent irregular expenditure were one of the most common material non-compliance findings reported. We reported the non-compliance as material at 171 auditees (65%), based on them incurring irregular expenditure in the current and previous years, re-occurrence of the transgressions that caused the irregular expenditure and our assessment that adequate controls and processes would have prevented it.

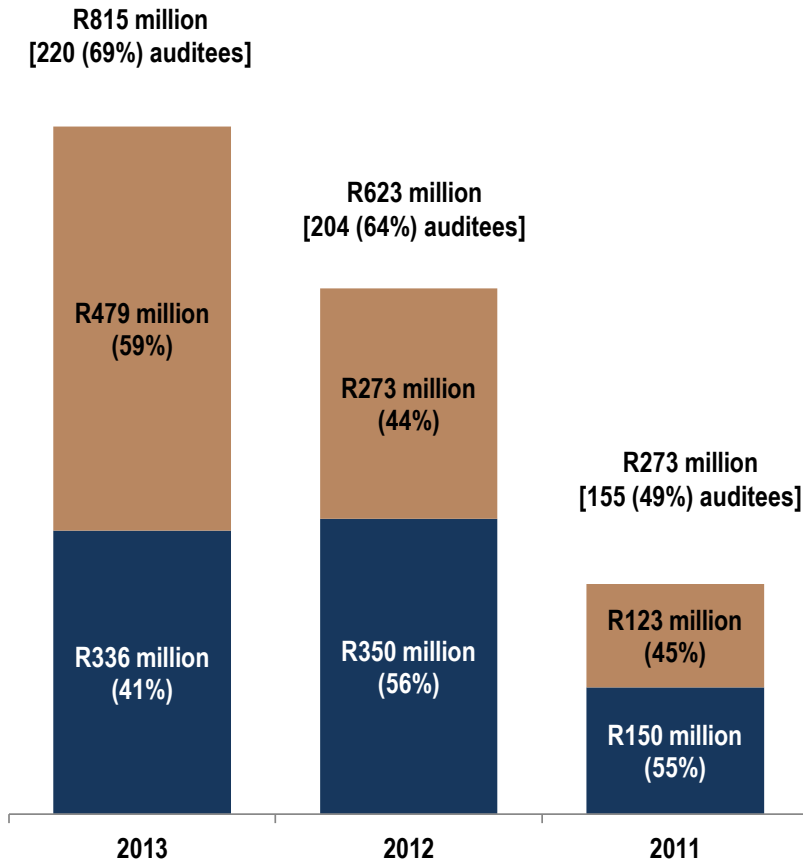
Figure 7 shows that we identified 62% of the irregular expenditure amount during the auditing process, which means that most auditees did not have adequate processes to detect and quantify the irregular expenditure. It is a regression from 53% in the previous year to 62% in the current year, but the number of auditees that identified their own irregular expenditure improved from 37 (14%) to 48 (18%). The disclosure of irregular expenditure in the financial statements was materially misstated at 115 auditees (36%).

Lack of consequences for irregular expenditure

At 92 auditees (34%) the irregular expenditure of the previous year was not investigated by the municipal manager and council to determine if any person was liable for the expenditure. Consequently, it was not determined whether the irregularities constituted fraud or whether any money was wasted.

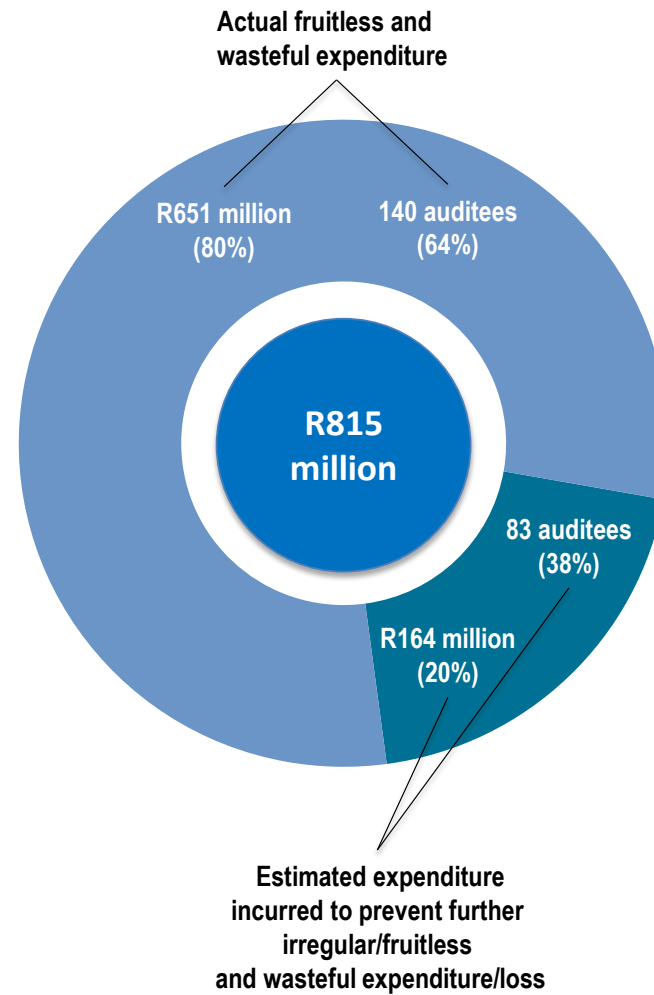
Further details of irregular expenditure can be found in annexure 1 to this report.

Figure 9: Auditees incurring fruitless and wasteful expenditure



Identified by auditees Identified during audit

Figure 10: Nature of fruitless and wasteful expenditure



2.3.3 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and that could have been avoided had reasonable care been taken.

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

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

Nature of, and trends in, fruitless and wasteful expenditure

As shown in figure 9, almost 70% of the auditees incurred fruitless and wasteful expenditure. All auditee types incurred fruitless and wasteful expenditure, including six of the metropolitan municipalities and 67% of the district municipalities. The occurrence of fruitless and wasteful expenditure was common across all provinces.

The three-year trend in fruitless and wasteful expenditure shows a consistently increasing trend with the amount increasing by 31% this year compared to last year and the number of auditees increasing by 8% for the same period. There would have been a reduction from the previous year had it not been for the major increase in fruitless and wasteful expenditure incurred by the Eastern Cape. The amount of fruitless and wasteful expenditure decreased in five provinces but the number of auditees that incurred the fruitless and wasteful expenditure decreased slightly in only one province.

Fruitless and wasteful expenditure typically includes interest, losses, penalties and payments for goods or services not received. Figure 10 shows that only 20% of the fruitless and wasteful expenditure was incurred in order to prevent further irregular expenditure, losses or fruitless and wasteful expenditure. It normally relates to the cost of cancelling irregular contracts or contracts of non-performers.

Prevention, detection and disclosure

As detailed in the preceding section on compliance, inadequate steps taken by municipal managers to prevent fruitless and wasteful expenditure were one of the most common material non-compliance findings reported. We reported the non-compliance as material at 107 auditees (49%), based on them incurring fruitless and wasteful expenditure in the current and previous years,

a re-occurrence of the action that caused the fruitless and wasteful expenditure and our assessment that adequate controls and processes would have prevented it.

Figure 9 shows that we identified 59% of the fruitless and wasteful expenditure amount during the auditing process, which means that most auditees did not have adequate processes to detect and quantify the fruitless and wasteful expenditure. It is a regression from 44% in the previous year to 59% in the current year, but the number of auditees that identified their own fruitless and wasteful expenditure improved from 109 to 124.

Lack of consequences for fruitless and wasteful expenditure

At 77 auditees (38%) the fruitless and wasteful expenditure of the previous year was not investigated by the municipal manager and council to determine if any person was liable for the expenditure.

Further details of fruitless and wasteful expenditure can be found in annexure 1 to this report.

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SECTION 3: RISK AREAS

Figure 1: Quality of submitted financial statements (all auditees)

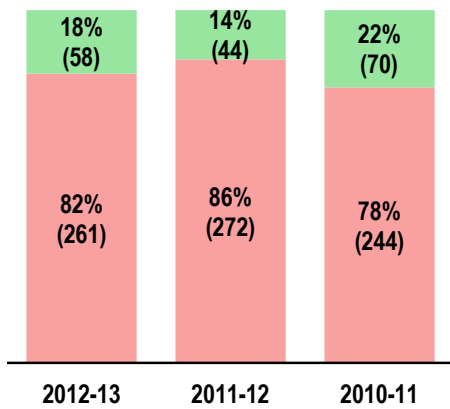


Figure 2: Quality of submitted financial statements (all auditees)

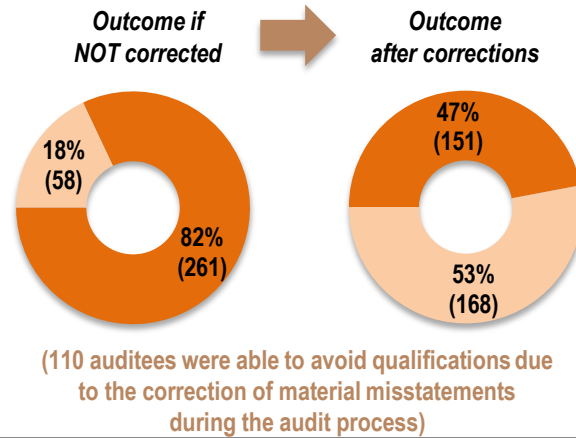


Figure 3: Top three financial statement qualification areas (all auditees)

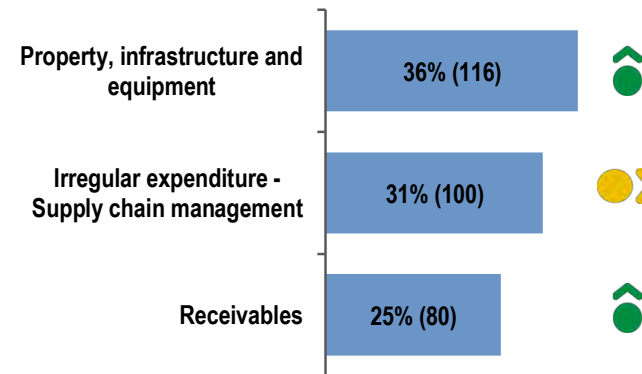


Figure 4: Quality of submitted financial statements per auditee type

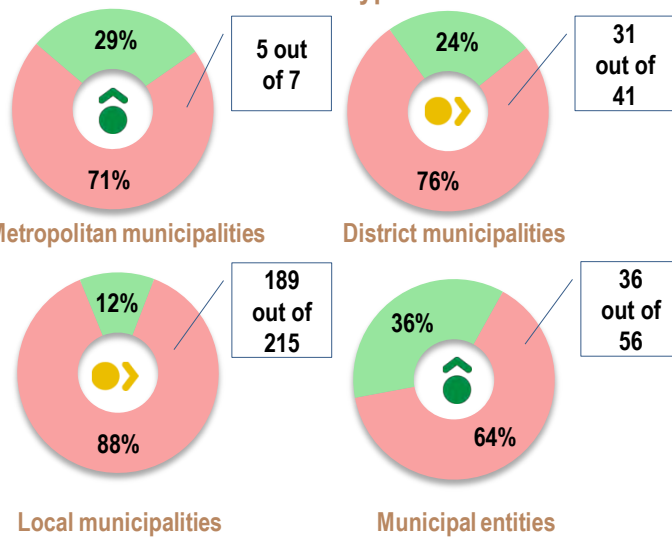


Table 1: Progress made by provinces on the quality of submitted financial statements

Quality of financial statements	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Auditees with no material misstatements	5%	0%	43%	21%	4%	19%	7%	4%	41%
Movement	Stable	Stable	Up	Stable	Stable	Stable	Stable	Stable	Up

With no material misstatements | With material misstatements | Financially unqualified (clean audit/ unqualified with findings) | Financially qualified (qualified/ adverse/ disclaimer with findings)

Our auditees face six key risk areas that need to be addressed to improve their audit outcomes (the quality of their financial statements and annual performance reports as well as compliance by them with legislation) and also their financial and performance management. Five risk areas are discussed in this section, while the quality of the annual performance reports is included in section 2.2.

3.1 Quality of financial statements

The purpose of the annual audit of the financial statements is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period, in accordance with the financial framework and applicable legislation.

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

The quality of the financial statements submitted for auditing

While most auditees submitted their financial statements for auditing by the legislated date, figures 1 and 2 show that only 58 auditees (18%) submitted financial statements that did not contain material misstatements. Overall, there has been only a slight improvement in this regard since the previous year, most notably at metropolitan municipalities and municipal entities.

Figure 2 shows that 110 auditees (35%) received a financially unqualified audit opinion only because they corrected all the material misstatements we had identified during the audit. Over 80% of the auditees would have received qualified, adverse or a disclaimer of opinion if we did not identify the misstatements for them and allowed them to make the corrections. Table 1 shows a lack of progress by most provinces in addressing the poor quality of the submitted financial statements. The continued reliance on the auditors to identify corrections to be made to the financial statements is not a sustainable practice. Furthermore, it places undue pressure on legislated deadlines and increases the audit fees.

It is not only the opportunity given to auditees during our auditing process that contributed to improvements in the final quality of financial statements, but also the use of consultants by many auditees to support financial reporting. The varying success in using consultants is detailed in section 3.3.2.

Uncorrected material misstatements

Even though we reported the material misstatements to management for correction, 151 auditees (2011-12: 157) could not make the necessary corrections to the financial statements, which resulted in qualified, adverse or a disclaimer of opinion. The major reasons for not making the corrections were the unavailability of information or documentation to determine the correct amounts to be reflected in the financial statements.

Annexure 1 details the auditees that submitted financial statements with material misstatements and financial statement areas in which auditees were qualified.

Figure 3 shows that the financial statement qualification areas that the auditees struggled most with were to account for the irregular expenditure they incurred, their assets (specifically their property, infrastructure and equipment) and their receivables. However, there has been some improvement in these areas, which shows that the reasons for the qualifications can be addressed successfully. The reasons for the qualifications were as follows:

Property, infrastructure and equipment

The financial statements included property, infrastructure and equipment that we could not physically verify or whose ownership or value we could not determine as a result of incorrect and incomplete asset registers and inadequate or missing supporting documentation.

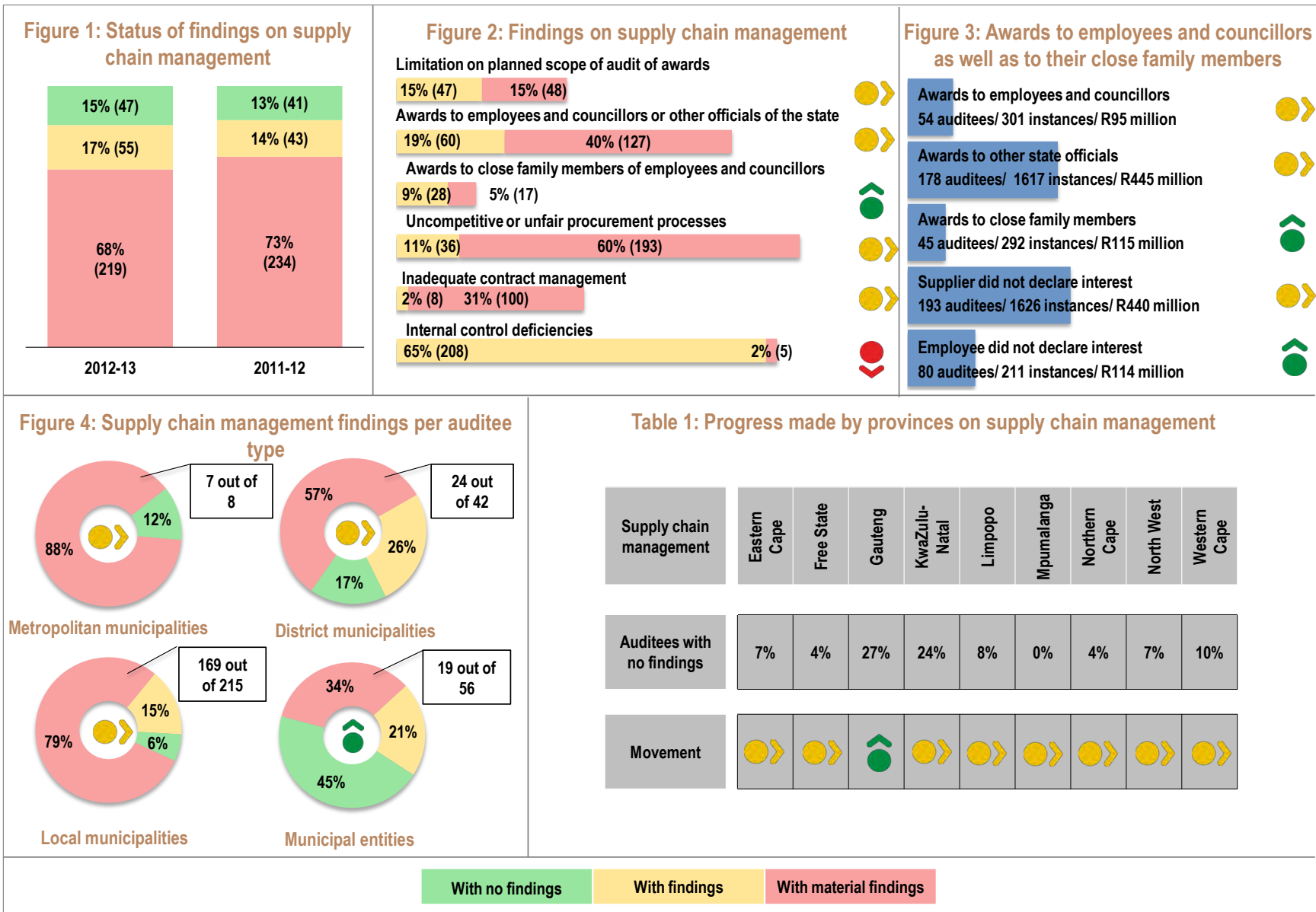
The value of some of these assets was not reviewed annually or the calculation was incorrectly performed, resulting in assets being included in the financial statements at unrealistic values.

Irregular expenditure – supply chain management-related

We could not verify the completeness of the amounts disclosed in the financial statements due to inadequate processes to account for the irregular expenditure. Section 2.3.2 provides more detail on the irregular expenditure incurred.

Receivables

Receivables mean the debtors of the auditee who, in local government, are mostly the ratepayers and receivers of municipal services such as water and electricity. We could not determine whether the financial statements showed these debtors at the correct values as a result of inadequate systems, processes and supporting documentation to account for the completeness of the debtors and whether what they owed the auditee could be recovered.



3.2 Supply chain management

We tested 6 393 contracts (with an approximate value of R39 billion) and 13 413 quotations (with an approximate value of R880 million), referred to as awards in the rest of the report. We tested whether the prescribed procurement processes had been followed that ensure that all suppliers are given equal opportunity to compete and that some suppliers are not favoured above others.

We also focused on contract management, as shortcomings in this area can result in project delays, wastage, as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery. We further assessed the financial interests of employees and councillors of the auditee and their close family members in suppliers to the auditee. We also determined whether auditees had implemented adequate internal controls to prevent, detect or correct irregularities in the SCM processes.

We report all the findings from the audit to management in the management report of the auditee, while only the material non-compliance findings are reported in the audit report.

Figure 1 shows the high number of auditees that had findings on SCM and those where we reported material non-compliance findings in the audit report in the current and previous years. Although the number of auditees with no findings has only slightly increased, the number of auditees that had material findings decreased by 5%, which is a sign that some auditees are paying attention to SCM. Figure 4 shows that the weaknesses are common across all auditee types with only municipal entities starting to show an improvement. Table 1 provides a view of the lack of progress in addressing SCM findings in the majority of provinces.

Figure 2 shows the SCM areas in which auditees had findings, the proportion of auditees where the findings were material enough to be reported in the audit report and the general lack of progress made in reducing audit findings. The remainder of this section provides further detail on the outcome of our audits in the different areas.

Annexure 1 lists the auditees with SCM findings and indicates whether these findings were repeated.

Limitations on our planned scope of the audit of awards

As shown in table 2, we could not audit awards with a value of R2 912 million at just under a third of the auditees (2011-12: 32%) that could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation, because the documentation either did not exist

or could not be retrieved as a result of poor document management. While we found this limitation at slightly fewer auditees this year, the estimated value increased significantly from last year's R2 020 million.

Fifty-eight auditees (61%) that presented us with these limitations also did so last year. The value of the awards we could not audit at these auditees represents 81% of this year's total estimated value.

The extent of limitations in the provinces was as follows:

Table 2: Extent of limitations on planned audits

Province	2012-13			2011-12			% movement in amount
	Auditees	% of auditees reported on	Amount	Auditees	% of auditees reported on	Amount	
Eastern Cape	15	28%	R1 182.7m	23	44%	R 696.m	-41%
Free State	13	50%	R 287.4m	12	46%	R 149.3m	-48%
Gauteng	4	11%	R 8.3m	3	8%	R 4.8m	-43%
KwaZulu-Natal	12	17%	R 273.7m	12	17%	R 99.7m	-64%
Limpopo	9	36%	R 198.9m	11	44%	R 253.6m	28%
Mpumalanga	7	33%	R 77.3m	9	43%	R 343.2m	344%
Northern Cape	16	57%	R 84.6m	15	54%	R 154.4m	82%
North West	15	56%	R 799.4m	15	56%	R 314.6m	-61%
Western Cape	1	3%	R 0.1m	3	10%	R 4.2m	5381%
Total	92	29%	R2 912.4m	103	32%	R2 019.8m	-31%

The impact of the limitations was the following:

- The procurement processes could not be audited by us, the internal auditors or investigators.

- There was no evidence that auditees had followed a fair, transparent and competitive process for all awards. Should unsuccessful bidders request information on the process, also for possible litigation purposes, it would not be available.
- We could not determine whether these awards were irregular and as a result the true extent of irregular expenditure could not be determined (also refer to section 2.3.2).
- Our general reports, audit reports and management reports did not reflect the true extent of SCM non-compliance, irregularities and possible fraud.
- Poor record management created an environment in which it was easy to commit and conceal fraud and corruption.

Awards to employees and councillors or other state officials

SCM regulation 44 prohibits awards of contracts and quotations to persons (employees and councillors, or other state officials), or entities owned or managed by them, if they are in the service of the auditee or if they are in the service of any other state institution. Such expenditure is also considered irregular. During our audits, we identified such prohibited awards and also tested whether the legislated requirements with regard to declarations of interest were adhered to.

Figure 3 shows that 301 awards were made to suppliers in which employees and councillors had an interest at 54 (17%) of the auditees to a value of R95 million. We are concerned about the awards to employees and councillors, as these could have been prevented or detected by implementing basic controls – such as employees, councillors and suppliers submitting declarations of interest. At 19 auditees employees did not declare their interest in awards with a value of R70 million and suppliers did not declare at 27 auditees (50%). The lack of such controls could indicate that auditees do not take this requirement seriously. The possibility of undue influence can also not be disregarded, especially if the persons can influence the procurement processes for these awards, such as councillors, municipal managers and SCM officials, which could create opportunities for irregularities.

Figure 3 further shows that 1 617 awards were made to suppliers in which other state officials had an interest at 178 (55%) of the auditees to a value of R445 million. Auditees did not have access to information on persons employed at other state institutions, which means that they could only rely on the declarations provided by suppliers. Suppliers did not declare the interest of state officials at 138 auditees in 1 356 instances with a value of R372 million.

Failure by suppliers to declare the interest of employees, councillors and other state officials constitutes a corrupt and fraudulent act and should be investigated and dealt with in accordance with legislation.

Limited action was taken in response to similar findings in the previous year. Auditees have thus not taken the opportunity to send a clear message that they would not tolerate such irregular actions by their officials or by suppliers, and that any such actions would have consequences.

Awards to close family members of employees and councillors

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

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

Figure 3 shows that awards were made to close family members of employees and councillors at 45 (14%) of the auditees to a value of R115 million. Nine of these auditees (20%) failed to disclose the awards in their annual financial statements.

The employees and councillors at nine auditees did not declare the interest of their close family members (R44 million) and at 19 auditees the suppliers did not declare this interest (R62 million).

Uncompetitive or unfair procurement processes

Overall, there was a small reduction from the previous year in the number of auditees with findings on uncompetitive or unfair procurement processes. However, the proportion of findings that is material (as shown in figure 2) remains high (193 auditees [60%]). As per section 2.3.2 these findings were also the main cause of the R11 390 million irregular expenditure incurred as a result of non-compliance with SCM legislation.

The most common findings were similar to last year's, namely:

- Three written quotations were not invited for procurement below R200 000 and the deviation was not approved, or the approved deviation was not reasonable or justified – reported at 176 auditees (55%).

- Procurement from suppliers who did not provide evidence that their tax affairs were in order – reported at 109 auditees (34%).
- Competitive bids were not invited for procurement above R200 000 and the deviation was either not approved, or the approved deviation was not reasonable or justified – reported at 93 auditees (29%).
- The preference point system was not applied when selecting suppliers – reported at 82 auditees (26%).
- Declarations of interest were not submitted by suppliers or the declarations were determined to be false as they did not declare the interest of state officials, employees, councillors or their close family members – reported at 55 auditees (17%).

Inadequate contract management

Overall, the findings on contract management increased from 97 auditees (31%) last year to 108 auditees (33%) this year. The proportion of findings that are material (as shown in figure 2) remains high (100 auditees [31%]).

The following were the most common findings:

- The performance of contractors was not monitored on a monthly basis – reported at 42 auditees (13%).

- No or inadequate contract performance measures and monitoring – reported at 39 auditees (12%).
- Contracts were amended or extended without approval by a delegated official – reported at 25 auditees (8%).

Internal control deficiencies

Overall, the number of auditees with inadequate controls increased from 179 auditees (56%) to 213 auditees (66%).

The following were the most common findings:

- Inadequate controls to ensure interest was declared – reported at 66 auditees (21%).
- No plan for addressing audit findings on SCM or adherence to the plan was not monitored regularly – reported at 50 auditees (16%).
- No or inadequate record keeping – reported at 49 auditees (15%).
- SCM officials were not adequately trained – reported at 45 auditees (14%).
- No or inadequate actions taken to address the identified SCM risks – reported at 35 auditees (11%).

Figure 1: Human resource management findings (all auditees)

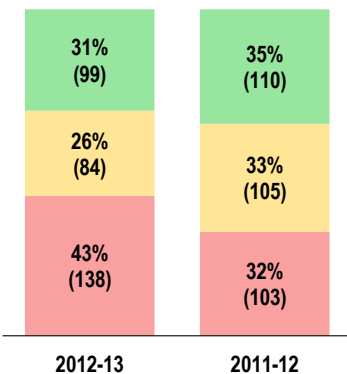


Figure 2: Weaknesses in audit focus area

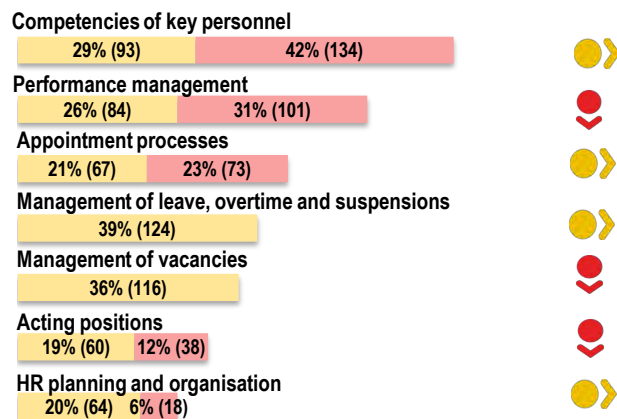


Figure 3: Vacancies, stability and competency

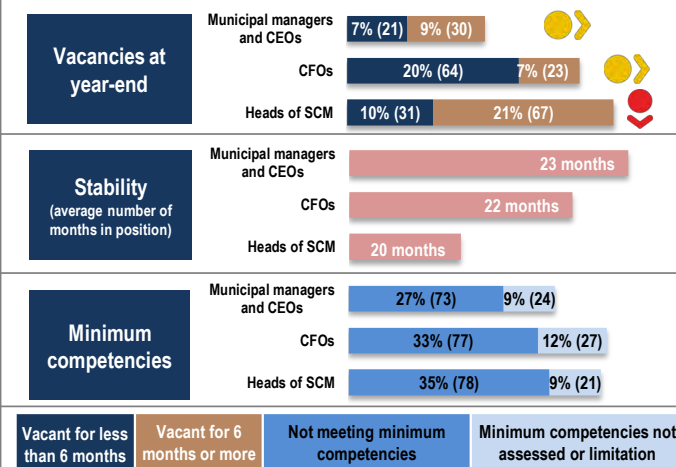


Figure 4: Findings per auditee type

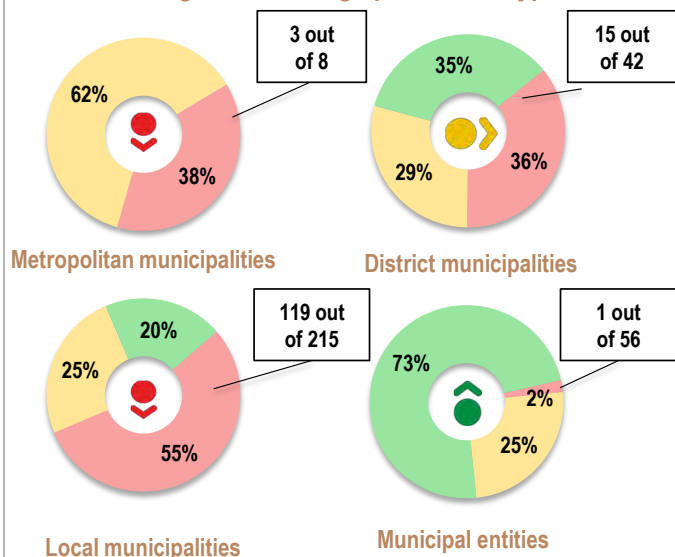


Table 1: Progress made by provinces on human resource management

Human resource management	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Auditees with no findings	21%	4%	62%	40%	12%	33%	11%	0%	53%
Movement	Yellow arrow	Red arrow	Yellow arrow	Red arrow	Yellow arrow	Green arrow	Green arrow	Yellow arrow	Yellow arrow

With no findings With findings With material findings

3.3.1 Human resource management

HR management is effective if there are adequate and sufficiently skilled staff members and if their performance and productivity are properly managed.

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

Furthermore, our audits specifically looked at the management of vacancies and stability in key positions, competencies of key officials and performance management. We reported all the findings from the audit to management in a management report, while we reported the material non-compliance with legislation that regulates HR management in the audit report.

Status of human resource management

Figure 1 shows the number of auditees that had findings on their HR management and those where we reported material non-compliance with HR management legislation. There was a significant increase in the number of auditees with material non-compliance findings. Figure 4 shows that the regressions were mostly at metropolitan and local municipalities while there was improvement at municipal entities. Table 1 shows an improvement in two provinces but a significant regression occurred in KwaZulu-Natal.

Figure 2 indicates the extent of findings in the areas that our audits focus on and the movement since the previous year. The remainder of this section provides further detail on the outcome of our audits in the three main areas of vacancies, competencies and performance management.

Management of vacancies and acting positions

One of the biggest challenges for local government is to attract and retain qualified and competent persons in all areas of administration. The average overall vacancy rate at year-end was 17%, while the vacancy rate in senior management was 18% and 16% at the finance units.

We assessed the capacity of finance units as being at an acceptable level at 156 of the auditees, while we identified vacancies and/or skills issues at 233 auditees.

Figure 3 shows the vacancy rates at the level of municipal manager or chief executive officer (CEO) (at municipal entities), chief financial officer (CFO) and head of the SCM unit at year-end and indicates the period for which the positions were vacant. Figure 3 also shows that key positions have been filled for less than two years.

The most common non-compliance findings on the management of vacancies and acting positions were that acting municipal managers, CFOs and heads of SCM unit were appointed for more than six months.

Competencies of key officials

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

However, the poor audit outcomes, service delivery failures, high demand for consultants (as detailed in section 3.3.2) and support from national and provincial governments demonstrate that persons appointed in these posts do not always have the required competencies.

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

The minimum competency levels of accounting officers, CFOs, senior managers, SCM officials and other finance officials were introduced and prescribed by the *Municipal regulations on minimum competency levels* issued by the National Treasury on 15 June 2007. This regulation defines the minimum competency levels, taking into account the size and scope of municipalities and covers proficiency in competency areas, higher education qualification and work-related experience. The prescribed competency areas, for example, involve strategic leadership and management, project management and risk and change management, which are all critical to the effective fulfilment of their job functions.

It provides for a phasing-in period for staff currently in those positions to obtain the minimum competency level through academic studies and experience and by addressing any gaps in competencies through training and development. The phasing-in period ended on 1 January 2013 and, as per the regulations, municipal managers, CFOs, heads of SCM unit, senior managers, SCM staff and other finance officials who do not meet the minimum competency levels may not continue to fill the positions, which has an impact on the continued employment of these officials. The National Treasury gave municipalities an opportunity to apply by September 2012 for an 18-month extension (until 1 July 2014) to enforce the regulations as a special merit case, based on the circumstances of the municipality.

The senior managers at 134 auditees (42%) and the finance officials at 145 auditees (45%) did not meet the minimum requirements by 30 June 2013.

Figure 2 shows the percentage and number of auditees where key officials did not meet the prescribed minimum competency requirements. It also shows the extent of auditees where the officials' competencies were not assessed by the auditee, as required by legislation, or where we could not obtain evidence of a competency assessment. At the auditees where the competencies were assessed and where these could be audited, we determined the gaps in the minimum competency requirements at June 2013 to be as follows:

- Thirty municipal managers, three CEOs, 32 CFOs and 39 heads of SCM unit did not have the required qualification.
- Thirteen municipal managers, one CEO, 12 CFOs and 22 heads of SCM unit did not meet any of the prescribed competency requirements.
- Fifty-two municipal managers, eight CEOs, 63 CFOs and 54 heads of SCM unit only met some of the prescribed competency requirements.

The most common material findings on the competencies of key personnel were that the competencies of the officials were not assessed and some auditees did not report to the National Treasury on the progress of obtaining the prescribed minimum competencies and/or did not include the information in their annual reports.

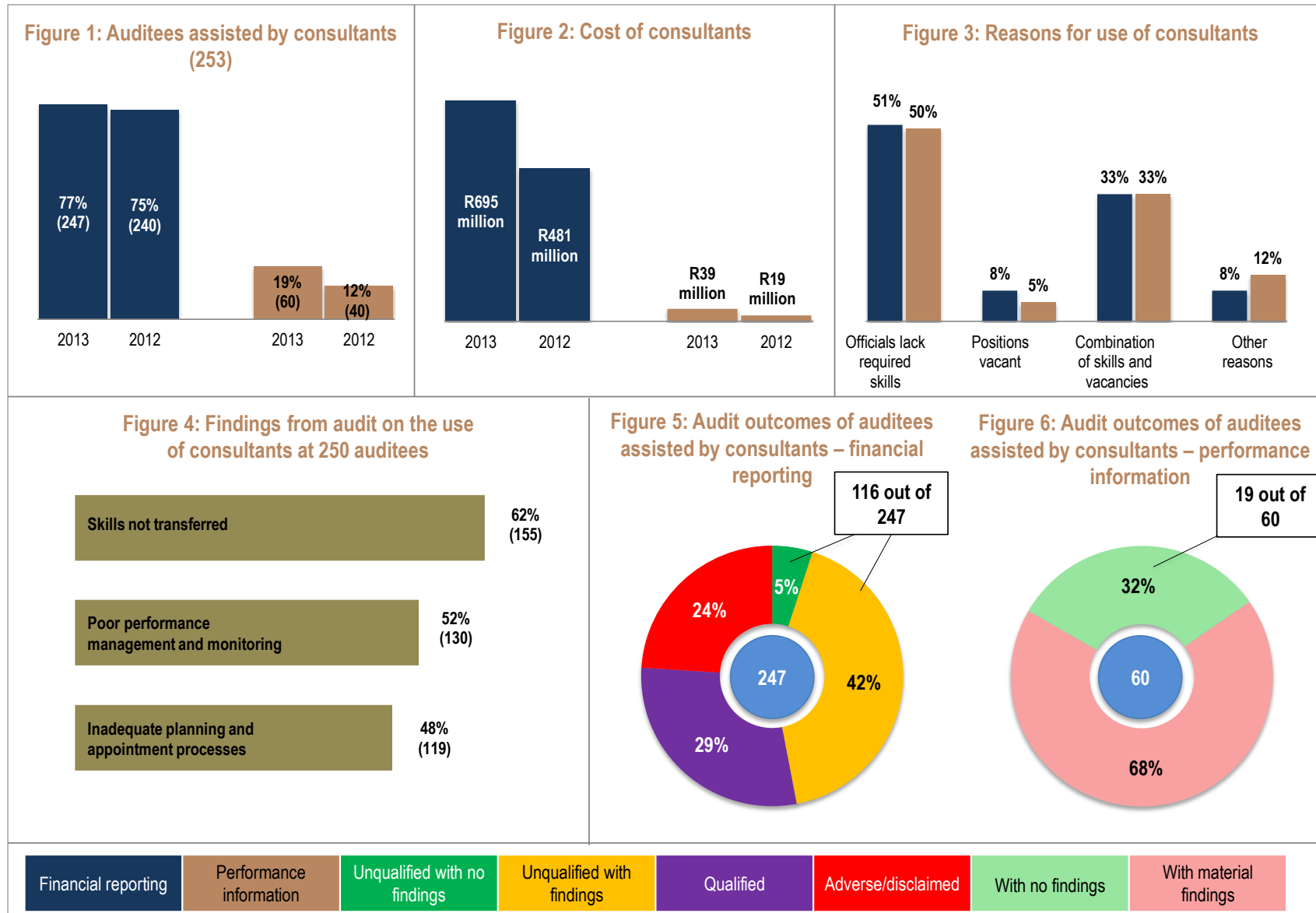
Performance management

In order to improve the performance and the productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance and consistently demonstrating that poor performance has consequences.

It is of concern that the significant increase in auditees with findings on performance management, as shown in figure 2 and the following most common findings on performance management, indicates that a culture of performance is not yet entrenched:

- At 40 auditees (12%), 20% or more of the senior managers did not have performance agreements for 2012-13.
- There were no performance agreements in place for 41 municipal managers, 43 CEOs, 74 CFOs and 118 heads of SCM unit, in particular.
- Forty-three auditees (13%) did not have a performance management system for employees other than senior managers.

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3.3.2 Effective use of consultants

Local government cannot easily do away with partnering with private sector service providers due largely to the numerous HR challenges highlighted in section 3.3.1. It is in response to these challenges that the need for consultancy services is recognised. When used correctly, consultants can benefit both local government and South Africans at large. Using consultants can also provide access to skills that are not cost-effective for an organisation to maintain itself. While recognising the above benefits, it is necessary to remain mindful of the manner in which consultants should be used by government. Section 195 of the Constitution of the Republic of South Africa notes that the efficient, economic and effective use of resources must be promoted.

Local government spent an estimated total of R1,9 billion on consultancy services in 2012-13. Our audits only included an assessment of the nature and extent of the use of consultants in the areas of financial reporting and performance information as well as the management of these consultants.

Extent of use and cost of consultants

As shown in figure 1, a total of 253 (79%) auditees (2011-12: 248 [78%]) were assisted by consultants for either financial reporting services or preparation of performance information or both. Financial reporting services included, for example, preparation of financial statements, maintaining the fixed asset register, performing bank reconciliations and preparing other monthly and annual financial reports. The preparation of performance information included the preparation of performance plans, performance reports and records.

Figure 2 shows that the estimated cost of these consultancy services was R734 million. The amount is based on available information, which includes amounts spent by the treasuries and the departments of cooperative governance.

The number of auditees using consultants remained at the same level as the previous year but the total cost increased by R236 million. R135 million of the increase can be contributed to 14 auditees whose cost increased by more than R5 million and a further R88 million to 26 auditees whose cost increased by more than R2 million.

Consultants were used across all provinces at varying degrees.

Reasons for the use of consultants

Figure 3 shows the reasons indicated by auditees for their continued use of consultants for financial reporting and preparation of performance information.

As in previous years, a lack of skills remained the most common reason but vacancies in the positions that should perform these duties were also a contributing factor.

Audit outcomes of assisted auditees

The audit outcomes of the auditees that used consultants are shown in figures 5 and 6, which show that less than half of the assisted auditees received financially unqualified audit reports (2011-12: 48%) and less than a third avoided material findings on the quality of the annual performance reports. Of the 247 auditees assisted with financial reporting, 191 (60%) also used consultants in prior year(s). Forty-eight (15%) of these auditees assisted by consultants received repeat disclaimer of opinion in 2012-13 (at a cost of R172 million).

Poor audit outcomes cannot always be attributed to the work that the consultants performed. We did, however, find that consultants at 112 auditees (45%) were performing work for the auditee in the areas that were qualified in the financial statements and at 33 auditees (55%) on the performance areas on which we reported material findings. In our assessment, poor delivery by the financial reporting consultants was the reason for this lack of impact on the audit outcomes at only 9% of these auditees and poor delivery was not evident in the area of performance information.

The following were the main reasons why consultants were not effective:

- The records and documents the consultants needed to perform their work were not available at 55% of the auditees. This included complete and accurate accounts to prepare the financial statements or supporting evidence for amounts in the financial statements or service delivery achievements in the annual performance report.
- Consultants were appointed too late to positively impact on the audit outcomes (11% financial reporting and 9% performance information).
- Poor project management by the auditee and other auditee ineffectiveness resulted in inadequate delivery by the consultants at 23% of the auditees assisted with financial reporting and 36% of the auditees assisted with preparation of performance information.

Findings on management of consultants

Our audits included an assessment of the management of the consultants at 250 of the auditees that used consultants for financial reporting and preparation of performance information. Figure 4 shows the number of these auditees that had findings in the focus areas of the audit. The following were our key findings on the **planning and appointment processes**:

- As with all other procurement, consultants should be contracted based on a needs assessment. Such assessment should consider cost, type and extent of service, the deliverables and whether internal capacity exists and/or there is an opportunity for the transfer of skills. At 59 auditees (24%) the consultants were appointed without conducting a needs assessment and at 22 auditees (9%) the needs assessment performed was inadequate.
- The procurement processes followed to appoint consultants at 44 auditees (18%) did not comply with the legislated SCM processes.
- As part of the bidding process, there should be terms of reference that clearly define what will be required from the consultant and that state the required experience and qualifications. At 20 auditees (8%) the consultants were appointed without the terms of reference.

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We identified major shortcomings in the **management and monitoring of performance** of the consultants. The measures to monitor the performance of the consultants were either not defined or implemented at 89 auditees (36%). At 46 auditees (18%) where the contract performance measures and methods were monitored, the monitoring proved to be inadequate as it failed to detect under-performance of the consultants. Of greater concern was the payment of consultants without signed contracts at 33 auditees (13%).

Although the most common reason for appointing consultants was a lack of skills, we found that the contracts at 87 auditees (35%) did not include any conditions or objective in terms of the **transfer of skills** from the consultants to the employees. At 87 auditees (35%) the transfer of skills was a requirement but we could not obtain evidence that skills were transferred. This is partly because the measures to monitor the transfer of skills were not always implemented (46 auditees [18%]).

In addition to poor project management, the root cause of these findings was the lack of policies or strategies on the use of consultants, identified at 81 auditees (32%). A policy or strategy should be in place that defines the main purpose and objectives of appointing consultants and should include measures to prevent over-reliance on consultants.

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Figure 1: Status of information technology controls

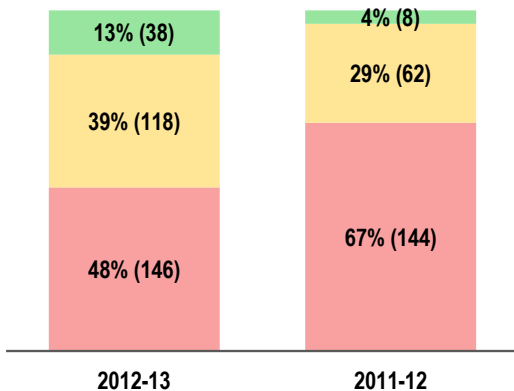


Figure 2: Findings on information technology controls

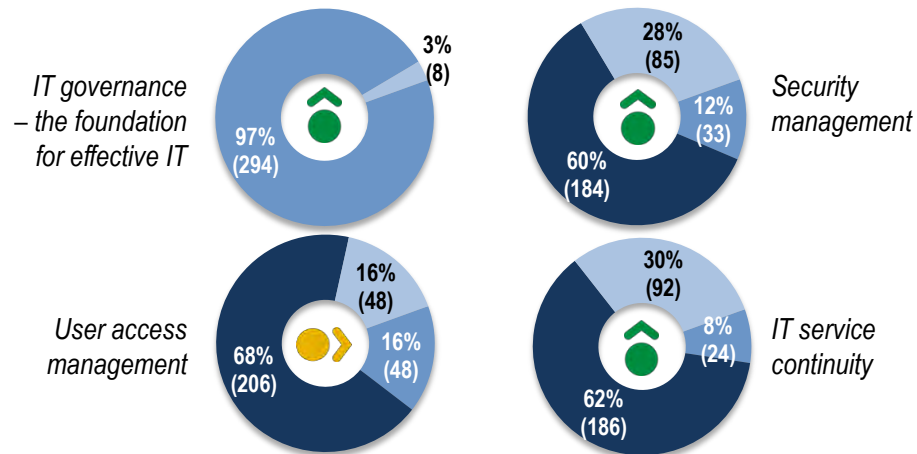
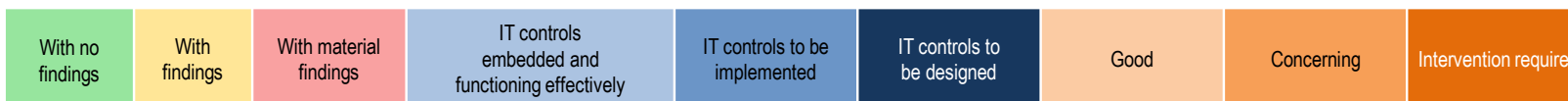


Figure 3: Status of information and controls

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



3.4 Information technology

IT controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security. It is thus essential for good IT governance, effective IT management and a secure IT infrastructure to be in place.

Our audit included an assessment of the IT controls that focus on IT governance, security management, user access management and IT service continuity.

Figure 1 shows that little improvement has been made since the previous year in the number of auditees that have audit findings on IT controls.

To evaluate the status of the IT controls in the areas we audited, we grouped the IT controls into three categories:

- **Where IT controls are being designed**, management should ensure that the controls would mitigate risks and threats to IT systems.
- **Where IT controls are being implemented**, management should ensure that the designed controls are implemented and embedded in IT processes and systems. Particular attention should be given to ensuring that staff are aware of, and understand, the IT controls being implemented, as well as their roles and responsibilities in this regard.
- **Where IT controls have been embedded and are functioning effectively**, management should ensure that the IT controls that have been designed and implemented are functioning effectively at all times. Management should sustain these IT controls through disciplined and consistently performed daily, monthly and quarterly IT operational practices.

Figure 2 indicates the status of the IT controls in the areas we audited and the movement since the previous year. It also shows the number of auditees where the IT controls are either not in place (not designed) or not implemented, as well as those where IT controls are functioning effectively.

Information technology governance

Effective IT governance ensures that the organisation's IT control environment functions well and enables service delivery. The corporate governance of information and communication technology policy framework (CGICTPF) developed for government and approved by cabinet has not yet been implemented. All auditees are, however, required to adopt and implement the CGICTPF and related guidelines for local government in phases over the next three financial years. In 2013-14 the implementation of phase 1 should be prioritised. A task team was established by the minister of Cooperative

Governance and Traditional Affairs (CoGTA) to guide municipalities, among others, in the implementation of the cabinet-approved IT governance framework.

At eight municipalities in the Western Cape, IT governance frameworks had been designed and implemented and were operating effectively prior to the approval of the CGICTPF. Although these IT governance frameworks and their supporting structures were assessed to be adequate, the municipalities concerned should prioritise the review and alignment of their IT governance frameworks to the cabinet-approved IT governance framework to ensure compliance.

Security management

A secure IT environment ensures the confidentiality, integrity and availability of critical IT systems and business processes.

While 28% of the auditees had IT controls that were embedded and functioning effectively, 60% of the auditees continued to experience challenges with design and 12% experienced challenges with the implementation of security management policies.

The most common findings were the following:

- Most municipalities still experienced challenges due to a lack of adequately designed security policies and procedures, while some municipalities that had already designed adequate security policies and procedures had not succeeded in implementing them.
- The lack of adequately designed and implemented security policies and procedures contributed to IT security parameters not being effectively configured to protect the IT infrastructure from unauthorised access.

User access management

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

While 68% of the auditees continued to experience challenges with the design of user access policies, 16% of them struggled to implement certain aspects of the policy.

The most common findings were the following:

- Administrator activities and user access rights were not reviewed.
- Formal user access request documentation was not completed for registering users, changing access rights, effecting password resets and terminating access rights.
- Users were granted access without management authorisation.
- Segregation of duties was not maintained.

Information technology service continuity

IT service continuity controls enable institutions to recover critical business operations and application systems that would be affected by disasters or major system disruptions within reasonable time frames.

While 30% of the auditees had IT controls that were embedded and functioning effectively, 62% of them continued to experience challenges with design and 8% experienced challenges with the implementation of adequate IT service continuity controls.

The most common findings were the following:

- Most of the municipalities experienced challenges with the design and implementation of appropriate business continuity plans and disaster recovery plans.
- The management of backups remained a challenge as most of the municipalities did not test their backups to ensure that they could be restored when required. Backups were also not stored at secure off-site facilities to ensure that they could be retrieved in the event of a disaster at the municipalities' premises.

Formal control over information technology systems

Most common root causes

A lack of skills to appropriately design and implement controls for IT systems to regulate security management, user access management and IT service continuity remains a challenge.

This challenge is worsened by the following inefficiencies:

- Municipalities experienced budget constraints, which limited the development of IT policies and procedures.
- Service level agreements with vendors did not include the management or development of IT policies and procedures.
- District municipalities did not provide adequate guidance and support to the local municipalities under their jurisdiction.

Initiatives to address root causes

- The minister of CoGTA has established a working group to assist the municipalities in addressing the root causes that resulted in audit findings (including repeat findings). The provincial government information technology officers form part of the working group as they are required to assist the municipalities.
- The above working group is currently drafting an IT best practice manual or guideline that specifies the controls that have to be implemented or complied with by the municipalities.

Recommendations

We recommend that the following actions be taken to address the root causes:

- Management should reallocate the budget to make funds available for the upskilling of IT staff to enable the implementation of key controls, such as the development of IT policies and procedures and the implementation of disaster recovery plans and backup procedures.
- Management should enforce consequence management for the non-resolution of repeat IT findings.
- Municipal management should ensure that service providers transfer IT skills to municipal officials to build capacity at municipalities.
- District municipalities should provide support and guidance to local municipalities with regard to IT controls and this process should be formalised and regularly tracked.
- Internal audit units and audit committees should play a more effective role in tracking the progress made in the implementation of management commitments on previously raised IT audit findings.

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Figure 1: Number of auditees with indicators of financial health risks (overall)

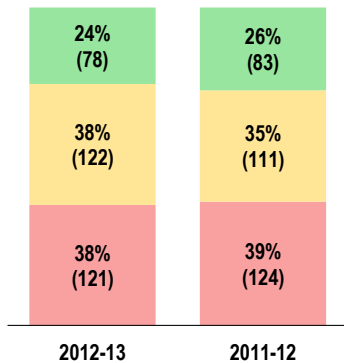


Figure 2: Areas of financial health concerns

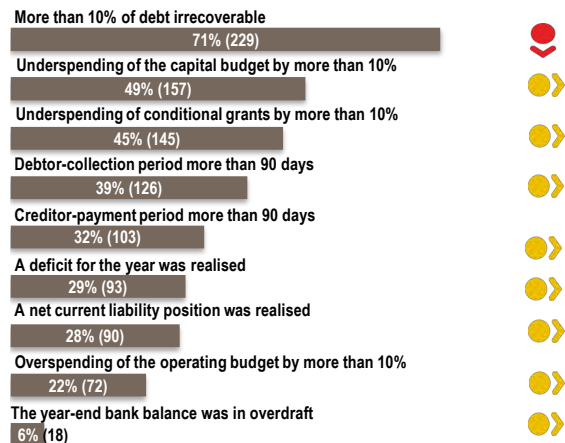


Figure 3: Main financial health risks

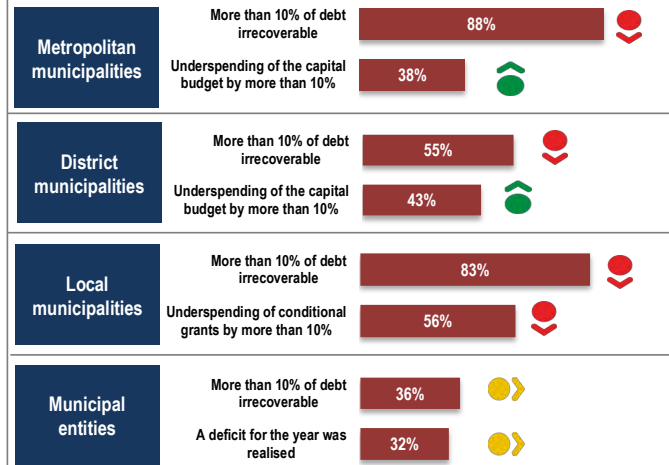


Figure 4: Financial health risks per auditee type

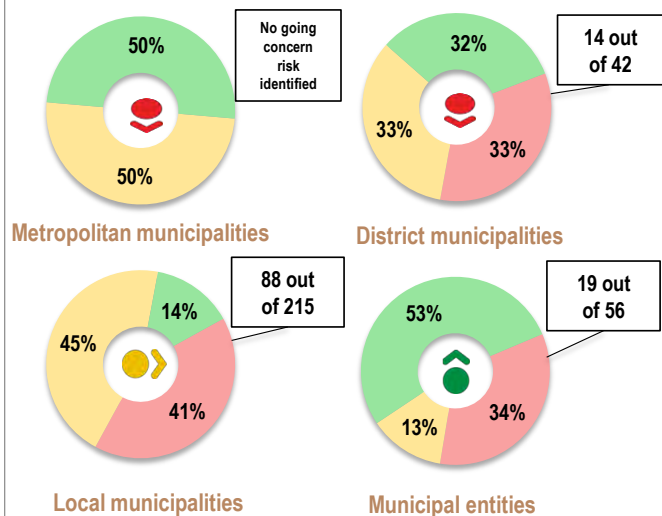


Table 1: Progress made by provinces on financial health

Financial health	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Auditees with no risk indicators	14%	19%	54%	19%	13%	10%	11%	7%	40%
Movement	Red Down Arrow	Yellow Right Arrow	Green Up Arrow	Red Down Arrow	Red Down Arrow	Yellow Right Arrow	Yellow Right Arrow	Red Down Arrow	Green Up Arrow

With no/ limited risk indicators With risk indicators With going concern risk indicators or disclaimer of opinion

3.5 Financial health

Our audits included a high-level analysis of auditees' financial indicators to provide management with an overview of selected aspects of their current financial management and to enable timely remedial action where the auditees' operations and service delivery may be at risk. We also performed procedures to assess whether there were any events or conditions that might cast significant doubt on an auditee's ability to continue as a going concern.

Figure 1 shows the number of auditees that had more than two financial risk indicators (shown as 'with risk indicators') and the number of auditees with material going concern uncertainties or adverse or a disclaimer of opinion, which resulted in their financial statements not being reliable enough for analysis (shown as 'with going concern risk indicators or disclaimer of opinion'). There has been an increase in the number of auditees with risk indicators since the previous year. Figure 4 shows that this regression was evident across all auditee types except local municipalities and municipal entities. There were improvements in the number of auditees with financial health risk indicators in two provinces but regressions in four provinces.

Annexure 1 identifies those auditees whose indicators are of concern and whether there has been an improvement or regression.

The National Treasury published a report in October 2013 entitled *The state of local government finances and financial management as at 30 June 2013*. The report provided, among others, an assessment of financial health at municipalities based on the fourth quarter reports submitted to them by municipalities and a list of the municipalities they considered to be in financial distress. Our messages and that of the National Treasury are similar on the financial risks that the local government faces and the municipalities that are most vulnerable and which should receive urgent attention from provincial and municipal leadership.

The analysis of financial health indicators, the number of auditees where these financial risks were identified and the movements from the previous year are shown in figure 2. Figure 3 shows the two most common risks identified per auditee type. The indicators and going concern risks are discussed in the rest of this section.

Irrecoverable debt and extended debt-collection period

Debtors are the persons or entities that owe money to the auditees, which in local government are mostly the rate payers and the receivers of municipal

services, e.g. water and electricity. Debtors exclude those residents identified as indigents, i.e. residents that are too poor to pay for the basic services. Figures 2 and 3 show that the inability of auditees to recover these debts was the biggest financial health risk to local government. Just over 70% of the auditees showed an estimation in their financial statements that more than 10% of the outstanding debt owed to them would not be paid. In the previous year it was 63% of the auditees.

As part of our analyses, we calculated the average number of days it took for auditees to collect the money they determined to be recoverable. Figure 2 shows that almost 40% of the auditees had an average debt-collection period of over 90 days. The number of auditees with this financial risk indicator increased in the year under review. The extended collection periods put the cash flow of the auditees under significant pressure, which in turn means they take longer to pay their creditors (refer to discussion below on extended creditor-payment periods).

According to the National Treasury's report, the debt owed to municipalities at the end of 2012-13 was R86,9 billion, an increase of R9 billion from the previous year. Municipalities are dependent on the revenue from rates and municipal services to provide services to the communities and to fund infrastructure projects and other projects to achieve the development objectives. Our view on why debts are not recovered or take a long time to recover is as follows:

- Residents are not paying for services they consider to be inadequate. If the residents perceive the municipality as being unresponsive to their concerns, non-payment worsens. Some communities resist paying for any services.
- The poor economic climate and the increasing cost of services are factors. Some residents can no longer afford to pay for the services.
- As reported in section 2.3 (compliance with legislation), many auditees have ineffective controls and processes to determine who owes money to them, to bill it correctly and to collect the money. Inadequate management, accounting and information systems that account for the revenue and debtors do not only affect the debt collection but also the ability to account correctly for the debtors in the financial statements, as reported in section 3.1 (quality of financial statements).
- There is a reluctance to hand over long-outstanding debts for collection and, according to the National Treasury's report, mayors and municipal councils do not provide the political backing for revenue enhancement and collection programmes.

Underspending of the capital budget and conditional grants

A capital budget is part of the approved annual budget set aside for developing and improving infrastructure such as roads and the water and sanitation systems or to purchase assets such as ambulances and refuse removal trucks. As many municipalities cannot raise sufficient revenue through rates and taxes to fund infrastructure projects and improvement programmes, national government contributes through conditional grants. The biggest grants included the municipal infrastructure grant (R13 882 million) to subsidise the capital costs for providing basic services to poor households; the public transport infrastructure and systems grant (R4 988 million) for provision of accessible, reliable and affordable integrated public transport services; the local government financial management grant (R403 million) to secure sound and sustainable management of the fiscal and financial affairs of municipalities; and the regional bulk infrastructure grant (R2 517 million) for provision of clean water. There are conditions attached to using the money from the grants to ensure that they are used for the intended purpose and achieve the defined outputs.

Figure 2 shows that almost half of the auditees underspent their capital budgets and/or the conditional grants they received by more than 10%. As per figure 3, these financial risks were common at all auditee types except municipal entities. The capital budget underspending remained at the same level as the previous year with some improvement at metropolitan and district municipalities, but more auditees underspent their conditional grants.

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

- A shortage of suitably skilled engineers and technicians to implement capital projects, especially at remote rural municipalities.
- Delays in appointing service providers as a result of poor planning and ineffective procurement processes.
- Inadequate reporting on key projects, the information reported not being credible and a lack of action to address delayed projects.
- Cash flow problems resulting in service providers not being paid, which in turn delayed the projects.

Overspending of the operating budget

While auditees underspent their capital budgets, figure 2 shows that auditees overspent their operating budgets. Almost a quarter of them overspent by more

than 10%. It is encouraging that all the metropolitan municipalities spent within their operating budget but 58 local municipalities (27%) overspent their operating budget. The occurrence of overspending on budgets is evident also from the high number of auditees with unauthorised expenditure and the many auditees that had material non-compliance findings on overspending, as reported in section 2.3.

The reasons for the overspending include the difficulty auditees face when they have to compile credible operational budgets and their inability to manage their operational expenditure in accordance with their budgets.

Extended creditor-payment periods

Creditors are the persons or entities that the auditees owe money to for goods and services procured from them. The MFMA states that auditees should pay their creditors within 30 days of receiving the relevant invoice or statement, unless prescribed or agreed otherwise.

Figure 2 shows that almost a third of the auditees took more than 90 days to pay their creditors, with little improvement since the previous year. As reported in section 2.3, the inability of auditees to pay within 30 days is one of the most common material non-compliance findings we reported.

The delayed payments to creditors also indicate that some auditees were in financial difficulty and did not have the cash to honour their obligations. The late payment of creditors is linked to the recovery of debt discussed above – if debtors do not pay or do not pay in time, auditees have less cash and cannot pay their creditors on time. Poor creditor management is also the result of poor planning and budgeting for current and capital expenditure and weak expenditure, cash-flow and project management.

Going concern, deficits, overdrafts and net current liability position

Eighty auditees (25%) either disclosed in their financial statements that a material uncertainty existed with regard to their ability to operate in the foreseeable future (i.e. as a going concern) or received a qualified opinion because such disclosures were not included. These auditees included nine district municipalities, 52 local municipalities and 19 municipal entities.

Figure 2 shows other indicators of financial health risk at auditees. Almost 30% of auditees either spent more than the resources they had (and therefore a net deficit occurred) or the value of their current assets was less than that of current liabilities at year-end (net current liability position). The year-end bank balance was in overdraft at a smaller number of auditees than last year.

The poor financial position of auditees is caused by the non-payment or late payment by debtors, poor planning and budgeting and inadequate budget controls and cash-flow management.

Even though the majority of the auditees would be able to continue their operations, the negative indicators raise concerns about the financial viability of some auditees (especially the municipal entities) and the pressure placed on acquiring additional funding from government.

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SECTION 4: INTERNAL CONTROLS AND ROOT CAUSES OF AUDIT OUTCOMES

Figure 1: Slight improvement of drivers of internal control

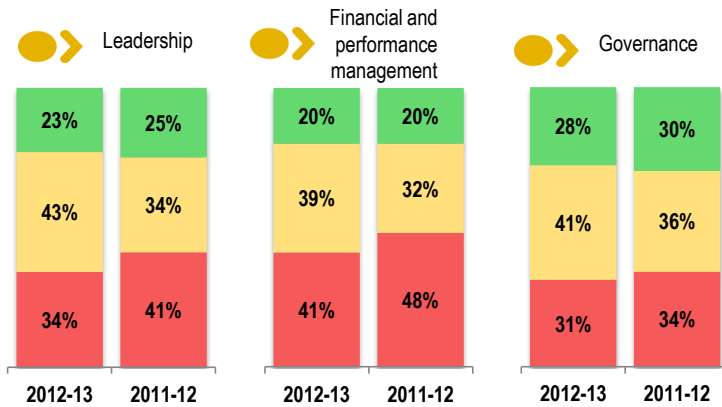


Figure 2: Objectives on which drivers of internal control have an impact

Internal control driver	Leadership			Financial and performance management			Governance			
Objectives	Financial management and reporting	22%	49%	29%	17%	45%	38%	29%	43%	28%
	Service delivery planning and reporting	24%	38%	38%	23%	32%	45%	28%	37%	35%
	Compliance with legislation	22%	43%	35%	21%	39%	40%	27%	43%	30%

Figure 3: Aspect of drivers of internal control requiring most attention

Leadership	Financial and performance management	Governance
Effective leadership	Proper record keeping	Risk management
Oversight responsibility	Processing and reconciling controls	Internal audit unit
HR management	Reporting	Audit committee
Policies and procedures	Compliance	
Action plans	IT system controls	
IT governance		

Table 1: Progress made by provinces

Internal control driver	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Leadership	Good	Concerning	Good	Intervention required	Concerning	Concerning	Concerning	Concerning	Good
Financial and performance management	Good	Concerning	Concerning	Concerning	Intervention required	Concerning	Concerning	Concerning	Good
Governance	Intervention required	Intervention required	Good	Intervention required	Good	Concerning	Good	Concerning	Good

Good
Concerning
Intervention required
 (also applies to the remainder of this section)

4.1 Significant deficiencies in internal controls

A key responsibility of accounting officers, senior managers and officials is to implement and maintain effective and efficient systems of internal control. We assessed the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and management reporting, performance planning and reporting and compliance with legislation. To make it easier to implement corrective action, we categorised the principles of the different components of internal control as either leadership, financial and performance management, or governance. We call these *the drivers of internal control*.

Status of the drivers of internal control

Figure 1 provides an overall assessment of the drivers of internal control and the movement since the previous year, based on the significant internal control shortcomings identified during the audits. Overall, there was no improvement in the number of auditees that have good internal controls relating to leadership, financial and performance management and governance. It is however encouraging that in all three of these areas fewer auditees had a status of “intervention required”. This status means that the basic controls are absent and intervention is required from the mayor, council and provincial leadership and oversight to support and influence improvements.

Figure 2 shows the assessment of each of the objectives of the auditees that relate to the areas that we audit. The controls over all three objectives were in a poor state.

Figure 3 provides a view of the status of the controls that are underlying each driver. The status of all the controls is concerning and the poor financial and performance reporting controls and inadequate review and monitoring of compliance with legislation require urgent attention.

Table 1 shows that the auditees in three provinces improved their leadership controls, with a regression in one province and the rest of the provinces remaining unchanged. The financial and performance management controls improved in only two provinces with a regression in one. The governance controls had varying results with four provinces improving and three regressing.

The remainder of this section provides more detail on the weaknesses in the financial and performance management controls which are the basic controls and disciplines that need to be strengthened to improve the quality of the financial and performance reports and prevent non-compliance with legislation. As shown in figures 1 and 2, this is also the area that needs the most attention and where there has been no improvement.

Annexure 3 details the status of auditees’ key controls and the movement since the previous year.

Prepare regular, accurate and complete financial and performance reports



The responsibility of municipal management to accurately account for the municipality’s finances and performance is not limited to the annual financial statements and performance reports. Management should also submit monthly and quarterly financial and performance reports to the mayor and the council, as required by the MFMA and the Municipal Systems Act (MSA). Audit committees and internal audit units should provide assurance that the information in these reports is reliable.

This control has the lowest status of all the controls, with almost 50% of the auditees having significant deficiencies that require intervention. This is a slight improvement from the 58% identified in the previous year. Some auditees did not produce regular reports, while most produced reports that were not accurate, complete and supported by reliable information.

The poor quality of the financial statements submitted for auditing purposes (as discussed in section 3.1), the unreliable annual performance reports (as detailed in section 2.2) and the over-reliance on consultants to prepare financial statements (as detailed in section 3.3.2) are a direct result of auditees not ensuring accurate reporting throughout the year.

Review and monitor compliance with legislation



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

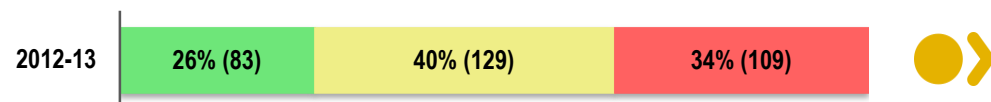
As detailed in section 2.3, many auditees did not comply with legislation. Most of the irregular expenditure incurred was again only identified during the auditing

process. This indicates that the internal controls of most auditees not only failed to prevent non-compliance with legislation, but also failed to detect the deviations.

Overall, there was no increase in the number of auditees that have good controls but the auditees that have significant deficiencies that require intervention decreased from 56% to the current 45%, which is encouraging.

Some auditees did have policies and procedures to monitor compliance with legislation. These auditees should ensure that monitoring takes place at more frequent intervals, such as on a monthly basis, by dedicated staff members who can detect, or preferably prevent, non-compliance. Management should introduce compliance checklists to get some assurance that controls are achieving the required level of adherence.

Proper record keeping and document control



Auditees should establish proper record keeping so that records supporting financial and performance information as well as compliance with legislation can be made available when required for auditing purposes. Policies, procedures and monitoring mechanisms should be in place to manage records, while staff should be aware of their responsibilities in this regard. Sound record keeping will also enable senior management to hold staff accountable for their actions.

Overall, there has been no improvement in record keeping in local government, but the auditees that have significant deficiencies that require intervention decreased slightly from the 40% of the previous year.

The effect of poor record keeping can be seen in the many financial statements that received a disclaimer of opinion or qualified opinion as a result of limitations experienced in finding sufficient and appropriate evidence for the amounts and information in the financial statements (as detailed in section 3.1). Similarly, we determined that performance reports were unreliable as a result of the lack of

supporting information (as discussed in section 2.2) and we could not audit procurement processes because of missing or non-existent documentation (as reported in section 3.2).

The poor management of records also resulted in records and documents requested during the auditing period only being made available after a significant delay, which put pressure on the auditing process. In some instances poor record keeping also limited the impact of the assistance that consultants could provide to auditees.

Implement controls over daily and monthly processing and reconciling of transactions



Controls should be in place to ensure that transactions are processed in an accurate, complete and timely manner, which will in turn reduce the errors and omissions in financial and performance reports. Such controls include (i) the daily capturing of financial transactions, supervisory reviews of captured information and independent monthly reconciliations of key accounts; (ii) the collection of performance information at intervals that is appropriate for monitoring service delivery targets and milestones as well as the validation of recorded information; and (iii) confirming that legislative requirements and policies have been complied with before initiating transactions.

Overall, there was no increase in the number of auditees that have good controls but the auditees that have significant deficiencies that require intervention decreased from 44% to the current 37%, which is encouraging.

Auditees that improved or sustained their good audit outcomes had established routines and processes that include these controls. However, the poor status of these controls at most of the auditees had a negative impact on the audit outcomes and future improvements are not likely.

4.2 Summary of root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that failed to prevent or detect the error or non-compliance. These root causes were confirmed with management and shared in the management report with the accounting officer and the executive authorities.

As reported in section 2.1 (overview of audit outcomes), many auditees did not receive a clean audit opinion as their financial and performance reports were of a poor quality and they had high levels of non-compliance with legislation. The information that follows summarises the three most common root causes of poor audit outcomes and provides recommendations to address the root causes.

Slow response by the political leadership in addressing the root causes of poor audit outcomes

Detail of root cause

Over the past years, we have focused our key messages to the political leadership in local government (mayors and councils) and have strengthened our relationship with them. Our aim was and remains to enable them to improve their leadership function which is crucial for auditees' financial management, service delivery planning and reporting and auditees' adherence to legislation. We have communicated our messages to them through our audit reports and general reports as well as our regular interactions with mayors and councils.

We identified the slow response by political leadership to our messages as a root cause of poor audit outcomes at 77% of the auditees that did not receive clean opinions, largely unchanged from the 80% of the previous year. We have evaluated this root cause based on improvements (or lack thereof) in audit outcomes in relation to the responsibilities of the political leadership to oversee and steer their municipalities towards achieving developmental objectives, adhering to legislation and accounting for actions through financial and performance reporting.

Only in KwaZulu-Natal and the Western Cape have we seen some evidence of general acceptance of our message to the political leadership to embrace their responsibility to guide and direct the administrative leadership of municipalities in the development and performance of the system of internal control, to ensure credible financial and performance reporting as well as compliance with legislation.

Historical reasons for the slow response by political leadership included (i) lack of oversight and training for new councillors; (ii) instability at council level (compounded by administrative instability at some auditees); and (iii) commitments for intervention or corrective action given, but not honoured.

The rate of responses to our messages is expected to improve due to actions that include (i) the establishment of the municipal public accounts committees (MPACs) to support council oversight and the training offered to them; (ii) continued councillor training offered by coordinating institutions, which is aimed at improving the understanding of councillors of their oversight responsibilities; and (iii) in-year monitoring by key role players of commitments given. Should this happen, it will positively impact on the other two root causes of poor audit outcomes which primarily, but not solely, should be addressed by the administrative leadership.

Recommendations

Provincial and national role players should support the development of councillors and monitor the effectiveness of council oversight. We have observed encouraging signs thereof mostly in Mpumalanga, KwaZulu-Natal and the Western Cape.

We recommend that the mayor and council members should:

- continue to equip themselves with knowledge and skills they need to perform their oversight and governance duties and avail themselves for the support offered by national and provincial government for their continuous development
- effectively and ethically apply the leadership skills that earned them the trust of their communities. This includes stopping conducting business with municipalities to which they have been appointed and insisting municipal officials do likewise
- ensure that senior municipal officials address, in a sustainable manner, the weaknesses in key controls reported by us and internal auditors
- further strengthen the MPACs, audit committees, performance committees and internal audit units and accept the important contribution they can make to council oversight
- insist, through their speakers, on sharing and reviewing regular and credible information on the status of the finances and activities of their municipalities

- monitor and support the efforts of the administrative leadership to address the other two root causes outlined below.

Lack of consequences for poor performance and transgressions

Detail of root cause

We have evaluated this root cause based on actions taken by auditees to hold officials and political leaders accountable for actions that either have led or have the potential to lead to negative audit outcomes. The 2012-13 audits again confirmed weaknesses in the performance management of municipal and senior managers (refer to section 3.3.1 for details in this regard). The lack of consequences was also evident from the findings reported in section 2.3, which reveal that investigation into unauthorised, irregular or fruitless and wasteful expenditure did not take place at a high number of auditees.

It is for this reason that we identified a lack of consequences for poor performance and transgressions to be a root cause of poor audit outcomes at 71% (75% in the previous year) of the auditees that did not receive clean audit opinions.

Political leaders and municipal officials that deliberately or negligently ignore their duties and disobey legislation should be dealt with through performance management and by enforcing the legislated consequences for transgressions. When officials and political leaders are not held accountable for their actions, the perception is created that such behaviour and its results are acceptable and tolerated. This could make even those that are giving their best under trying circumstances feel hopeless.

Recommendations

We recommend that the following actions be taken to address the root cause:

- Municipal managers should ensure that non-compliance findings are investigated to determine whether there are indicators of financial misconduct or misconduct in the SCM processes, followed by disciplinary hearings where misconduct has been confirmed.
- All unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated timeously, as required by the MFMA, to determine whether such expenditure should be recovered from the responsible official.

The council should insist on such investigations and ensure that they are conducted. It is also the responsibility of the council to determine, based on the outcome of the investigation, whether money should be recovered.

- In order to improve the performance and productivity of officials, the leadership should set the tone by implementing sound performance management processes, evaluating and monitoring officials' performance and consistently demonstrating that poor performance has consequences.
- Municipal managers, senior managers, mayors and other council members should demonstrate their commitment to integrity and ethical values through their own actions and behaviour, and clearly communicate acceptable standards of conduct. The leadership should also ensure that deviations from expected standards are identified and addressed in a timely manner.
- Auditees that do not have the required policies and procedures should put them in place as a matter of urgency. Where these exist, municipal managers and senior management should ensure that they are implemented.

Key positions vacant or key officials lacking appropriate competencies

Detail of root cause

We have evaluated this root cause based on (i) vacancies and prolonged acting in key positions; (ii) key accounting and financial reporting functions not being adequately performed; (iii) our and auditees' own assessment of the competency levels of key officials; and (iv) auditees' repeated use of consultants for assistance on financial and performance reporting.

We identified vacancies in key positions and key officials lacking appropriate competencies to be root causes of poor audit outcomes at 69% of the auditees that did not receive clean opinions. The overall improvement from the 76% of the previous year occurred mostly in Gauteng.

Leadership positions in the municipal administration should be filled with people that have the qualifications, experience and competency levels to fulfil their responsibilities and exercise their functions and powers effectively. As reported in the previous year, many positions of municipal manager, CFO, head of SCM unit and other senior management were vacant.

The vacancies and instability at municipal manager and senior management levels affect the ability of the council to hold individuals accountable for the implementation of approved policies, an effective performance management system and the approved budget. Acting positions are intended as a short-term solution. Due to the temporary nature of these positions, acting individuals are likely to take on less than the full responsibility, functions and powers of the higher position and may be less committed to the deliverables.

Vacancies at CFO level hinder the municipalities' ability to perform proper financial planning, record keeping and financial reporting, which results in financial statements of a poor quality. In order to meet the legislated deadlines, consultants are often hired at a high cost to manage the backlog of work which results from vacancies. There is a higher risk of non-compliance with legislation if key positions, such as that of the head of the SCM unit, are vacant and there are not enough staff members to monitor or enforce compliance. In general, vacancies also increase the risk of fraud and error as duties are not segregated.

A further consequence of vacancies is that provincial and national government initiatives to promote and implement graduate internships and other support programmes do not produce the desired results, as acting senior officials at municipalities may not have the required authority, knowledge or background to drive these programmes.

Although these positions were filled at some auditees, the appointed officials did not always have the appropriate competencies to ensure quality financial statements and performance reports as well as compliance with legislation. The

high demand for consultants and support from national and provincial government is the further evidence of the competency gap. Sections 3.3.1 and 3.3.2 detail the status and impact of vacancies, competency levels and the effective use of consultants.

Recommendations

We recommend that the following actions be taken to address the root cause:

- Auditees should implement the municipal regulations on minimum competency levels.
- Auditees should adhere to the requirements of the MSA on the appointment processes for municipal managers and senior managers.
- They should develop strategies to ensure that skills are transferred from consultants to municipal staff and that consultancy contracts include specific clauses and plans for the transfer of skills.
- There should be a better coordinated and focused approach and new level of collaboration, especially by the treasuries, the South African Local Government Association (SALGA) and the departments of cooperative governance to ensure that the many programmes, commitments and action plans to build capacity, succeed.

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SECTION 5: INITIATIVES AND IMPACT OF KEY ROLE PLAYERS ON AUDIT OUTCOMES

Figure 1: Assurance provided by key role players

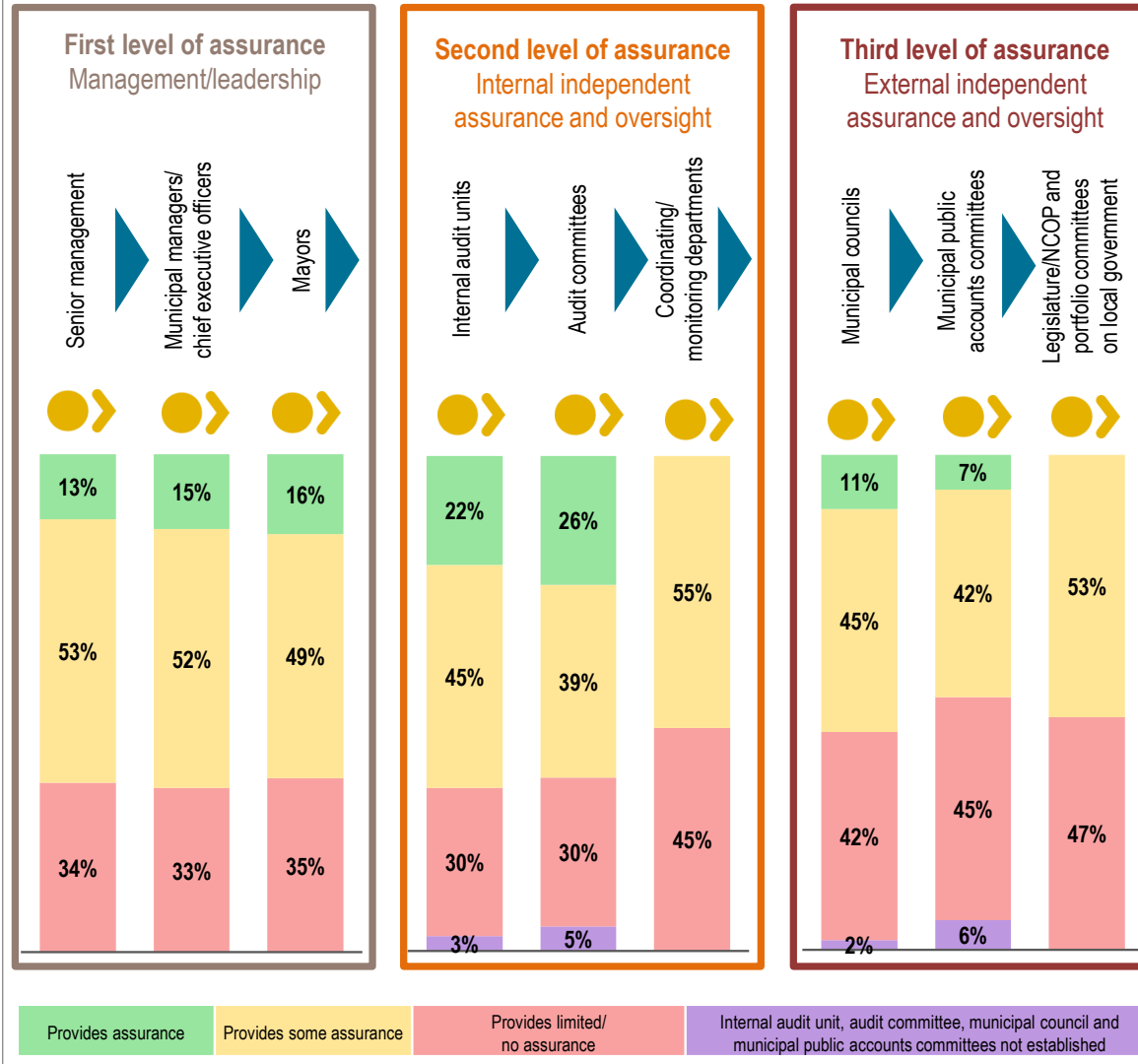
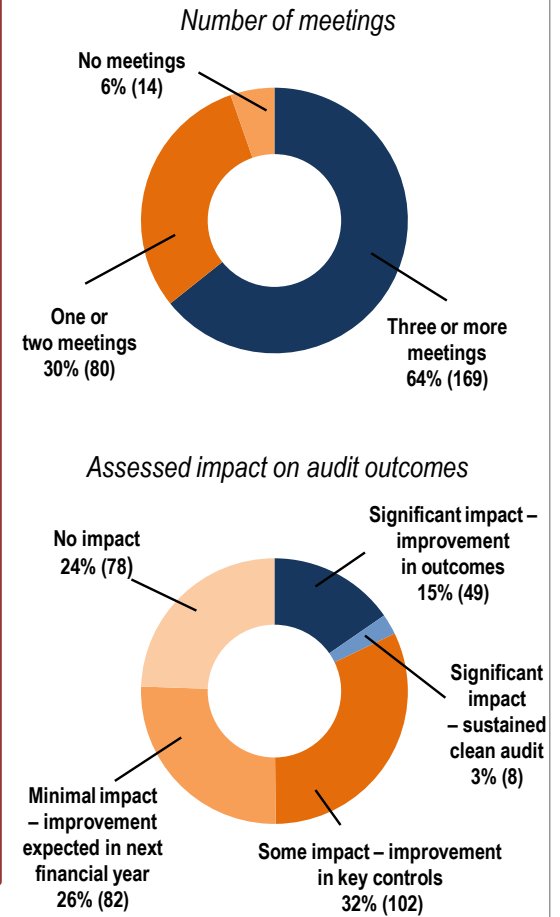


Figure 2: Interactions with mayors and assessed impact thereof



5 Initiatives and impact of key role players on audit outcomes

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

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

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

- Those directly involved in the management of the auditee (management/leadership assurance).
- Those that perform an oversight or governance function, either as an internal governance function or as an external monitoring function (internal independent assurance and oversight).
- The independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

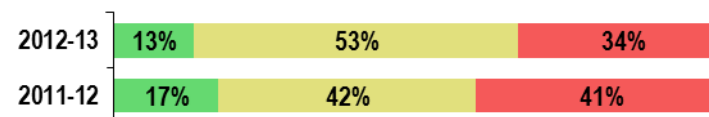
We assessed the level of assurance provided by the role players based on the status of internal controls of auditees and the impact of the different role players on these controls. In the current environment, which is characterised by inadequate internal controls; corrected and uncorrected material misstatements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

Figure 1 shows the assessed level of assurance provided by key role players and that there has not been an increase in the required level of assurance provided by these role players. An overview of the assurance provided by each of the three levels of assurance providers is provided in the remainder of the section. We also outline in this section the initiatives of national role players, together with recommendations on how they may further enhance their oversight over local government.

Our provincial general reports provide information on the initiatives and commitments of provincial role players.

First level of assurance: Management/leadership

Senior management



Senior management, which includes the CFO, chief information officer and head of the SCM unit, provides assurance by implementing the following basic financial and performance controls:

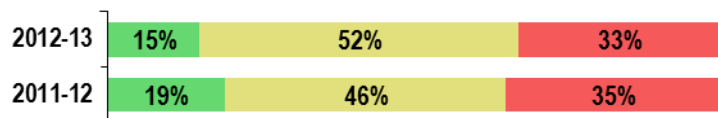
- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable legislation.
- Design and implement formal controls over IT systems.

The senior management at 87% of the auditees did not provide the required level of assurance, a slight regression when compared to the previous year. Encouragingly, the number of auditees where senior management provided limited or no assurance decreased.

This assessment is supported by the poor status of the financial and performance management controls (as reported in section 4.1) and the lack of improvement in these controls. It is also of concern that senior management's representations to us at the start of each audit, including those relating to the quality of the financial statements submitted for auditing, continue to be unreliable. It highlights the risk that decisions taken by municipal managers, mayors and councils throughout the year could be based on incomplete or incorrect information provided by senior management.

Auditees' HR management challenges, outlined in section 3.3.1, should be addressed to improve the level of assurance provided by senior management. Vacancies need to be filled, competencies improved and senior management should be held accountable for the execution of their responsibilities through an effective system of performance management.

Municipal managers and municipal entity's chief executive officers



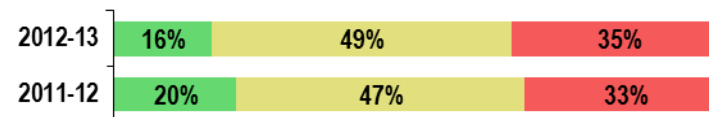
While we recognise that municipal managers and the CEOs of municipal entities depend on senior management for designing and implementing the required financial and performance management controls, they are responsible for creating an environment that helps to improve such controls by:

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

The municipal managers or CEOs at 85% of the auditees did not provide the required level of assurance, a slight regression when compared to the previous year.

This assessment is supported by the lack of improvement in the leadership and governance controls (as reported in section 4.1), the status of HR management (section 3.3.1) and IT controls (section 3.4) and a lack of consequences for non-compliance with legislation (section 2.3).

Mayors



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

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

Through our assessment, we conclude that mayors have not yet provided the required level of assurance at 84% of the auditees and as evidenced by the poor status of leadership controls (as detailed in section 4.1). It is further supported by our assessment of the impact they have on audit outcomes as observed through our regular interactions with them and the commitments they had made and honoured to improve audit outcomes.

At these interactions, we discuss the status of the key controls and commitments and share the identified risks. The meetings are aimed at improving mayors' understanding of the audit outcomes and our messages and also at addressing the progress made with interventions to ensure a positive impact on these audit outcomes.

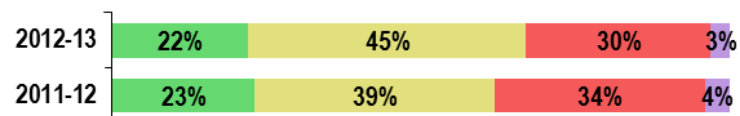
As shown in figure 2, we met with most of the mayors. The engagements were well received but the figure also shows that these interactions have not yet had a significant impact on the audit outcomes overall.

We are convinced that the oversight and monitoring role of the mayors strengthens the assurance processes significantly and have seen a positive impact on audit outcomes when mayors get involved. We therefore undertake to continue with our engagements with them but with more emphasis on quality conversations that will yield an increased impact.

The provincial general reports (available at www.agsa.co.za) provide more detail on the interactions and their outcomes at the different municipalities.

Second level of assurance: Internal independent assurance and oversight

Internal audit units



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

The assurance provided by internal audit units in local government is higher than that of other assurance providers, but it is concerning that the required level of assurance is not provided at almost 80% of the auditees. There was also very little improvement from the previous year.

This is supported by our assessment of the contribution internal audit makes to the overall controls at the auditee (section 4.1), the outcome of our audits on the compliance with legislation that regulates internal audit and our observations in working with the internal audit units.

Our key findings were as follows:

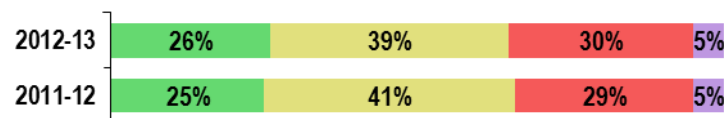
- The establishment of an internal audit unit is a requirement of legislation. Internal audit units were in place at 97% of the auditees.
- The operations of 28% of the internal audit units did not fully comply with the requirements of legislation. The most common non-compliance findings were inadequate evaluation of, or reporting on, internal controls, accounting, risk and loss control and inadequate auditing of the results of performance measurements or not auditing them on a continuous basis. All internal audit units also did not report to the audit committee on the auditees' compliance with legislation.
- The internal audit units of 47% of the auditees did not evaluate information systems (IT controls) and 34% did not evaluate the reliability of performance information.
- Our assessment revealed that the internal audit units of only 46% of auditees had a positive impact on audit outcomes. At 22% of the auditees

the lack of impact was partly due to management not addressing the internal audit findings.

Internal audit units can only be effective if they are adequately resourced; if audit committees oversee and support their operations; and if accounting officers or authorities and senior management cooperate and respond to their advice and recommendations. At some auditees, well-resourced and effective internal audit units have helped to improve internal controls and impacted positively on audit outcomes, but further improvement is needed.

We outline, under our assessment of audit committees, the specific areas where internal audit units can make significant contributions to the audit outcomes.

Audit committees



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

The audit committees provide the highest level of assurance in local government; however, improvements are needed as the required level of assurance was provided at only 26% of the auditees. There was also very little improvement from the previous year.

This is supported by our assessment of the contribution audit committees make to the overall controls at the auditees (section 4.1), the outcome of our audits on the compliance with legislation that regulates audit committees and our observations in working with them.

Our key findings were as follows:

- Audit committees were in place at 95% of the auditees and the work of most of the committees covered all the required aspects. However, 38% of the committees did not evaluate information systems and 31% did not evaluate performance information.
- Non-compliance findings relating to audit committees' insufficient review of the adequacy, reliability and accuracy of financial reporting and information and compliance with legal and regulatory provisions. The performance

management system or reports were not submitted to the council on the performance management system at least twice during the financial year.

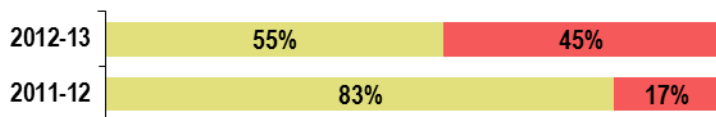
- According to our assessment, the audit committees of 54% of the auditees had a positive impact on the audit outcomes. Their assurance was also enhanced by interactions with their municipal councils in the past year to share information and risks at 61% of the municipalities and 80% of the municipal entities.

For audit committees to provide the required level of assurance as second-level assurance providers, they depend heavily on the reliability of the assurance provided by senior management and internal audit units. The lower the assurance provided by these two role players, the more difficult it is for audit committees to accurately assess the control environment of the auditee, including assurance that all significant risks are being reduced.

Specific areas where internal audit units and audit committees can jointly make significant contributions to the audit outcomes include the following:

- Encourage their auditees to submit regular financial and performance data.
- Monitor the implementation of auditees' action plans in respect of prior year audit findings.
- With a view to detecting material misstatements, thoroughly review financial statements before their submission for auditing.
- Monitor action taken in the case of known transgressions.
- Ensure that internal audit coverage plans assign appropriate resources to the six key risk areas we identified.
- Thoroughly review auditees' quarterly reports satisfying themselves that the information contained therein is credible.

Coordinating/monitoring departments



The Constitution stipulates that national and provincial government must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their duties. The MFMA further requires national and provincial government to assist municipalities in building capacity to support efficient, effective and transparent financial management. Both the

MFMA and the MSA define responsibilities to monitor financial and performance management.

The provincial departments that have a direct role to play in supporting and monitoring local government, and thereby providing a level of assurance, are the provincial treasury, the department of cooperative governance and the office of the premier.

All provincial treasuries were assessed as providing some assurance, except in the Eastern Cape and Northern Cape. These two treasuries provided little to no assurance in relation to the credibility of the provinces' financial statements and performance reports and their compliance with legislation.

We found that the departments of cooperative governance in five of the provinces provided some assurance. The departments in the Eastern Cape, Mpumalanga, Northern Cape and North West provided limited or no assurance.

Three of the offices of the premier (Gauteng, KwaZulu-Natal and Western Cape) were assessed as providing some assurance, while the others provided limited or no assurance.

Our assessment of the assurance provided by these departments is based on their initiatives to support and monitor local government and the impact they have had on improving the internal controls of auditees.

The provincial general reports provide detail on the assessments as well as the commitments and initiatives made by coordinating departments to improve audit outcomes.

The national departments that support and monitor local government and thereby provide a level of assurance are the National Treasury, the Department of Cooperative Governance and Traditional Affairs (CoGTA) and the Department of Performance Monitoring and Evaluation (DPME).

Our assessment of the assurance they provided and a summary of their initiatives to improve audit outcomes follow next.

National Treasury

The National Treasury is mandated by chapter 13 of the Constitution and its general powers are stipulated in section 6 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), while section 5 of the MFMA specifies the oversight responsibilities of the National Treasury in respect of local government finance management. The following extracts from section 6 of the PFMA stipulate the role that the National Treasury must play in the provincial and local government's financial management:

- (1) The National Treasury must –
 - (a) promote the national government’s fiscal policy framework and the co-ordination of macro-economic policy;
 - (b) coordinate inter-governmental financial and fiscal relations;
 - (c) manage the budget preparation process;
 - (d) exercise control over the implementation of the annual national budget, including any adjustments budgets;
 - (e) facilitate the implementation of the annual Division of Revenue Act;
 - (f) monitor the implementation of provincial budgets;
 - (g) perform other functions assigned to the National Treasury in terms of this act.
- (2) To the extent necessary to perform the functions mentioned in subsection (1), the National Treasury –
 - (a) must prescribe uniform treasury norms and standards;
 - (b) may do anything further that is necessary to fulfil its responsibilities effectively.

Chapter 2 of the MFMA specifies the general powers of the National Treasury in supervising local government finance management. According to section 5 of the MFMA:

- (1) The National Treasury must –
 - (a) fulfil its responsibilities in terms of chapter 13 of the Constitution and this act;
 - (b) promote the object of this act as stated in section 2—
 - (i) within the framework of co-operative government set out in chapter 3 of the Constitution; and
 - (ii) when coordinating intergovernmental financial and fiscal relations in terms of the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997), the annual Division of Revenue Act and the Public Finance Management Act; and
 - (c) enforce compliance with the measures established in terms of section 216 (1) of the Constitution, including those established in terms of this act.

- (2) To the extent necessary to comply with subsection (1), the National Treasury may –
 - (a) monitor the budgets of municipalities to establish whether they –
 - (i) are consistent with the national government’s fiscal and macro-economic policy; and
 - (ii) comply with chapter 4;
 - (b) promote good budget and fiscal management by municipalities, and for this purpose monitor the implementation of municipal budgets, including their expenditure, revenue collection and borrowing;
 - (c) monitor and assess compliance by municipalities and municipal entities with—
 - (i) this act; and
 - (ii) any applicable standards of generally recognised accounting practice and uniform expenditure and revenue classification systems;
 - (d) investigate any system of financial management and internal control in any municipality or municipal entity and recommend improvements;
 - (e) take appropriate steps if a municipality or municipal entity commits a breach of this act, including the stopping of funds to a municipality in terms of section 216 (2) of the Constitution if the municipality, or a municipal entity under the sole or shared control of that municipality, commits a serious or persistent material breach of any measures referred to in that section; and
 - (f) take any other appropriate steps necessary to perform its functions effectively.

Measures implemented by the National Treasury

The measures implemented by the National Treasury include the following initiatives:

To fulfil its responsibilities in terms of chapter 13 of the Constitution and the MFMA –

- the National Treasury allocates equitable share through Division of Revenue Act (DoRA) and monitors the monthly budget statements submitted in terms of section 71 of the MFMA
- the National Treasury publishes budget templates for municipalities, including budgeting instructions, evaluates provincial submissions and consolidates budgets of provinces.

To promote the objective of the MFMA, the National Treasury –

- supports the public sector financial management reforms by issuing updated circulars and guidelines aimed at reducing non-compliance and enhancing financial management in the local government sphere
- has established two grants to secure sound and sustainable management of the fiscal and financial affairs of municipalities, with a focus on building capacity to implement and comply with the MFMA, namely:
 - the local government financial management grant
 - the skills development grant.

These grants totalled R478,2 million in 2012-13, an increase of 12,9% compared to the R423,6 million appropriated in the previous period. The 2012-13 medium-term expenditure framework (MTEF) indicated that R523,3 million was earmarked for these grants.

In terms of the DoRA framework (No. 36581 of 24 June 2013), the purpose of the municipal systems improvement grant (MSIG) is – “To assist municipalities to perform their functions and stabilise institutional and governance systems as required in the MSA and related legislation”.

In addition to the above, the framework stipulates that the grant is aimed at building the capacity of municipalities to implement sound institutional and governance systems required in terms of the MSA.

- has improved the *Treasury regulations* to align such with the *King III code on corporate governance for South Africa*, strengthening the SCM framework to mitigate against incidents of fraud and corruption and regulate functions related to the office of the CFO.
- has developed financial management and reporting frameworks and the alignment of such with local and international best practices.

To enforce compliance with the measures established in terms of section 216(1) of the Constitution, including those established in terms of the MFMA, the National Treasury implemented the following measures:

- Completed the technical specifications for developing a management accounting framework to inform Standard Chart of Accounts (SCOA), as well as mapping a chart of accounts of pilot municipalities to version 2.
- Finalised version 3 of SCOA and subsequently engaged with all nine provinces, including all municipalities and other stakeholders, national departments, professional bodies and system vendors.

- Completed assessments to determine whether revenue and expenditure reported for 2012-13 complied with the medium-term revenue and expenditure framework (MTREF) at 278 municipalities.

In addition to the above, the National Treasury performs the following initiatives to fulfil the requirements of the MFMA:

- Improves public sector financial management capacity through initiatives related to the capacity building strategy. These include the provision of grants, the allocation of interns and other support.
- Monitors compliance by municipalities with SCM norms and standards.

The National Treasury relied on section 40(4) of the PFMA for in-year monitoring reports, quarterly reports and various other reports through the National Treasury which is responsible for exercising oversight. This unit consisted of 132 staff members and only 32 of the staff members focused on the local government oversight.

Impact of the measures on audit outcomes

Chapter 2 of the MFMA, specifically section 2(c), is directly linked to the audit outcomes where it stipulates that the National Treasury should “monitor and assess compliance with this act and any applicable standards of generally recognised accounting practice and uniform expenditure and revenue classification system”. This makes the oversight role of the National Treasury crucial in ensuring that the financial information submitted by municipalities to auditors is credible and free of material misstatements.

Despite the measures implemented by the National Treasury, there was limited improvement in audit outcomes in this sphere of government due to significant errors and omissions identified during the audit of the financial statements submitted by the municipalities and the municipal entities, as well as significant non-compliance findings, particularly in respect of procurement prescripts. Some of the factors below are the reasons for the lack of improvement in audit outcomes.

- The Office of the Accountant General (OAG) within the National Treasury was not adequately staffed and could not exercise oversight at any of the 278 municipalities and provide good guidance and support in the process.
- The municipal IDPs did not include an improvement in audit outcomes as one of the deliverables.
- The annual performance plan (APP) of the National Treasury also did not include an improvement in governance and audit outcomes of municipalities as one of the deliverables. The APP of the National Treasury only measured the number of municipalities that certify that they had used their conditional

grants as per the stipulated conditions instead of measuring the improvement in that municipality's financial management.

- The National Treasury's monitoring of compliance with SCM failed to address our compliance findings due to it being reliant on the municipality's ability to identify non-compliance with SCM and then reporting it to the National Treasury.

Efforts were not adequately confirmed with the provincial treasuries and CoGTA to ensure that the message was clear and consistent. Monitoring and oversight roles were not clearly communicated, resulting to a duplication of efforts and confusion.

- The oversight process was based on the evaluation of reports submitted by the municipalities and the credibility of these reports was not verified. No quality control measures were in place to ensure that the reports submitted were a true reflection of the state of the municipality. Such quality control measures may, for example, include unplanned visits to municipalities to confirm information reported.

Recommendations

The National Treasury should –

- improve the quality of targets set in the performance plans of the National Treasury and the IDPs of municipalities to reflect the desired improvement in governance and audit outcomes, in conjunction with CoGTA
- consider building internal capacity to closely monitor and analyse the reports submitted by municipalities to detect potential concerns early in the year
- consider building internal capacity required to monitor the application of the grant more effectively, with support from district municipalities and provincial treasuries
- hold a round-table discussion with the provincial treasuries, CoGTA and the municipalities to focus on possible challenges and coordinated solutions to the financial management and compliance matters preventing improvement on the audit outcomes
- use our MFMA general reports to identify areas and municipalities that require attention with a view to improving audit outcomes.

Based on the above, our assessment is that the National Treasury provided some assurance.

National Department of Cooperative Governance and Traditional Affairs

CoGTA derives its mandate from chapters 3 and 7 of the Constitution. CoGTA defines its primary mandate as follows:

- To develop and monitor the implementation of national policy and legislation seeking to transform and strengthen key institutions and mechanisms of governance to fulfil their development role.
- To develop, promote and monitor mechanisms, systems and structures to enable integrated service delivery and implementations within government.
- To promote sustainable development by providing support to provincial and local government.

Strengthening accountability, governance and oversight of provincial and local government is one of the strategic goals of CoGTA as detailed in their 2012-13 budget. From the audit perspective, one of our responses was to analyse the role and effectiveness of coordinating ministries and legislatures in exercising oversight.

Equitable share and municipal infrastructure grant allocations constitute 70% and 25% of the total budget of CoGTA respectively, while 1% is allocated for municipal systems improvement through the MSIG.

Our assessment of CoGTA on the level and adequacy of assurance provided in terms of their mandate is based on the analysis we made on the use and monitoring of the MSIG and its capacity and ability to evaluate the impact of capacity building on the use of same. Through enquiry and discussion with senior management and the executive authority, we assessed the capacity of the department to evaluate the incremental impact on the use of the grant and ensuring that capacity building at local government is sustainable and to the extent of also measuring the success of transfers of the municipal infrastructure grant (MIG) at local government level in eradicating the backlog in delivery of the infrastructure that supports service delivery.

Furthermore, the *Framework for managing programme performance information* (FMPPI) states that CoGTA is responsible for developing and implementing an integrated monitoring, reporting and evaluation system for local government, and for supporting the successful implementation of the Government-wide Monitoring and Evaluation System. The department is also responsible for the development and implementation of monitoring, reporting and evaluation of the performance of provincial departments of local government and municipalities.

Measures implemented by CoGTA

CoGTA implemented the following initiatives to ensure progress with improvements in the local government sphere (service delivery and finance):

- Established the Municipal Infrastructure Support Agent (MISA) which aims to facilitate the deployment of engineers, scientists and technicians to municipalities, as well as overseeing them.
- Refocused on the Local Government Turnaround Strategy (LGTAS) to ensure, among others, good governance and clean administration in local government.
- Developed a service delivery improvement plan aimed at improving service delivery and addressing challenges through cooperative governance, specifically supporting municipalities to implement the MIG and improve expenditure of the grant.
- Developed a local government information and communication technology (ICT) framework.
- Developed an action plan to ensure that MSIGs are expensed in line with their intended purpose with a view to effective use in accordance with the following key priorities:
 - Development and implementation of municipal turnaround strategies.
 - Strengthening administrative systems for effective implementation of ward participation systems.
 - Support interventions for municipal viability, management and improvement of municipal audit outcomes.
 - Implementation of information systems that support effective service delivery.
 - Development and implementation of by-laws, policies and/or systems that support local government legislation.
- Enhanced revenue for municipalities.
- Improved audit outcomes at municipalities through the establishment of MPACs.
- Combated corruption and promoting ethics and integrity.
- Helped municipalities to fill critical posts.
- Compiled a councillor training plan to provide councillor training.
- Implemented the community works programme (CWP) at targeted municipalities.

- Produced a report on access to basic services.
- Supported municipalities to sign a “Business adopt a municipality” memorandum of understanding.
- Policy, oversight and support: Supported provinces in the implementation of the guidelines in terms of sections 105 and 106 of the MSA.

Assessment of assurance

The level of assurance provided by CoGTA for the 2012-13 financial year was assessed as not having provided the required assurance. CoGTA provided minimal assurance as an oversight institution due to the majority of its functions being of a support nature.

There was also a lack of coordination between the branches at national CoGTA dealing with local government support and between national CoGTA and the nine provincial CoGTAs, which resulted in efforts being fragmented and thus not effective.

In addition to the above, the national CoGTA also did not have an integrated monitoring, reporting and evaluation system for local government, as required by the FMPP, nor was this requirement measured in national CoGTA’s APP for the 2012-13 financial year. This has, however, been included in the 2013-14 APP as a performance indicator with an indicated deadline for implementation of 31 March 2015.

We conclude that the national CoGTA provided no assurance. The national CoGTA states in its strategic plan that it provides oversight, intervention, monitoring and support to provincial and local government; however, the majority of its functions are of a support nature, thus providing minimal assurance as an oversight institution. CoGTA also had a number of initiatives to support local government; however, these initiatives have not been implemented to a degree that the advantages of such are leveraged and ultimately noted in the audit outcomes of municipalities.

These initiatives included the following:

- CoGTA successfully established the MISA in 2012-13; however, this entity was faced with capacity challenges and relied heavily on the systems and processes of the Development Bank of Southern Africa (DBSA) in order to perform its activities as anticipated.
- A draft document outlining current ICT challenges facing local government was also developed, but this document does not articulate a plan for the actual implementation of an ICT framework at local government level in the form of a project plan with predetermined milestones.

- The LGTAS unit lacked adequate capacity, skills and funding in 2012-13 in order to ensure visible progression towards clean administration in local government. This unit did not have a system to collect, consolidate, monitor and analyse the audit outcomes of local government to enable improved financial performance and good governance at local government.
- An MIG spending, reporting, monitoring and performance plan was developed with follow-up action of remedial actions for non-complying municipalities. It is not evident how the results of this process have been collected, collated and used to ensure that MIG spending and reporting thereon are improved in future.
- Although 96% of the MSIG was reported to have been spent, there was inadequate planning, informed by long-term sustainability, resulting in the MSIG annually being used for the same initiatives, thus limiting the impact of the grant. This grant also becomes “thin” when spread across all municipalities.
- CoGTA provided limited councillor training in 2012-13 and the level of support to be provided by CoGTA in its initiatives was not always clarified during strategic planning, resulting in a number of workshops being conducted, but with limited impact on progress towards clean administration. In terms of CoGTA’s strategic plan, no support is provided to provincial government as all initiatives are focused solely on local government. Planned oversight to support provinces in terms of the implementation of MSA guidelines was also not achieved due to delays in the SCM process.
- conduct timely collection, collation, consolidation and analysis of audit and performance outcomes of local government to enable CoGTA to develop appropriate responses through proper development and implementation of initiatives
- implement systems for the collection, collation and analysis of information in order to generate meaningful reports for analysis, which will allow the department to focus its attention appropriately.
- CoGTA also has to enhance its oversight of MISA to ensure that MISA fulfils its mandate in providing the required level of support to the infrastructure development at local government level by ensuring the availability of sufficiently skilled resources.
- CoGTA must expedite its planned efforts to develop an integrated local government ICT framework.
- Timely implementation of the training plan of councillors must be prioritised in order to equip councillors in executing their oversight responsibilities, especially in the areas of finances and good governance, as this may have a direct impact on the audit outcomes of local government.
- National CoGTA must also ensure that its strategic plans clearly articulate its activities to oversee provincial government in its strategic plan as well as monitoring of the MIG and MSIG.
- National CoGTA must ensure proper application of its oversight role in ensuring that MIG and MSIG are applied in line with their intended purposes. Monitoring of the spending must be evaluated timeously in order to allow for remedial actions to be implemented in time. CoGTA as a sector (national and provincial) should:
 - ensure that proper action plans are developed to ensure that the spending trends at these municipalities are improved
 - reinforce and effectively use initiatives already in place, such as identifying and visiting municipalities struggling to spend these grants, to ensure that these municipalities are assisted in spending these critical grants
 - have a proper system, with properly documented policies and procedures and clearly identifiable criteria to allow it to timeously identify municipalities with challenges and then intervene as necessary. The MIG MIS should be effectively used and non-utilisation of this system should be escalated to the relevant member of the executive council (MEC) for action and this process should be communicated to the minister

Recommendations

In order for the national CoGTA to enhance the level of assurance it provides as an oversight and coordinating institution, it must focus on the following areas:

- Use the legislation which allows for intervention measures at local government.
- Improve coordination within the national CoGTA and between it and the nine provincial CoGTAs. Also improve coordination between the national CoGTA and other stakeholders such as the National Treasury. Initiatives by these stakeholders must be clearly articulated in the strategic plans and these must have measurable targets, goals and adequate funding to ensure effective implementation of efforts.
- CoGTA needs to adequately capacitate its LGTAS unit with proper skills and resources in order to allow the unit to:

- properly review business plans received from municipalities to ensure that these municipalities do indeed have a sound internal control environment to effectively spend their grants in line with their intended purposes
 - consider coordinating internal audit of the sector with the internal audit functions of municipalities, where applicable, to verify the existence of effective controls at the municipalities prior to transfer of these grants. The monthly reporting processes must also be validated to ensure that the spending is monitored throughout the year and that monthly and quarterly reports submitted to CoGTA and the National Treasury are accurate, complete and reliable
 - monitor performance of the MSIG in order to ensure that there is progress with regard to implementation of initiatives to eliminate continuous funding of the same initiatives, thereby improving on the effectiveness of the grant. Allocation process of the grant should also be reconsidered to ensure effectiveness as it currently becomes “thin” when spread across all the municipalities.
- Improve national CoGTA’s capacity through consultation and bilateral agreement with the Department of Public Service and Administration (DPSA) to increase the establishment.
 - It is also important to obtain the required funding from the National Treasury in order to ensure that the planned initiatives are effectively implemented, tracked and monitored as well as adequately reported on.
 - The national department must ensure that it remains on track with the project milestones to ensure the timely and effective implementation of the local government monitoring and reporting system.

Department of Performance Monitoring and Evaluation

The mandate of the DPME is derived from section 85(2)(c) of the Constitution which states that the President exercises executive authority, together with the other members of the cabinet, by coordinating the functions of state departments and administrations. This mandate had been further elaborated by the President in his 2010 and 2011 state of the nation addresses, as reflected in various cabinet decisions, and by the minister of the DPME through the *National evaluation policy framework*.

The DPME defines its primary mandate as follows:

- To facilitate the development of plans or delivery agreements for the cross cutting priorities or implementation of these plans.

- To monitor the performance of individual national and provincial government departments and municipalities.
- To monitor frontline service delivery.
- To carry out evaluations.
- To promote good monitoring and evaluation practices in government.

The DPME executes its mandate by forming partnerships with other departments and institutions which play a monitoring role (such as the National Treasury, the DPSA, the AGSA, the Office of the Public Service Commission, and the offices of the premier).

Measures implemented by the Department of Performance Monitoring and Evaluation

The DPME was only established during 2011-12 and in its first year of existence it focused on monitoring and evaluation at national and provincial level through the management performance assessment tool.

In 2012-13, the DPME started to monitor and evaluate municipalities by:

- developing a municipal assessment tool (MAT) to assess the performance of municipalities against key performance measurement areas
- piloting the MAT at selected municipalities
- refining MAT based on the results of the pilot.

The initiative set out for 2013-14 is as follows:

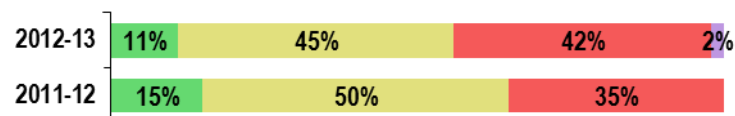
- Ten MAT assessments (inclusive of the pilots) of municipalities, with reports produced and submitted to the municipalities.

Impact of the measures on audit outcomes

For 2012-13 the DPME was assessed as not providing the required level of assurance with regard to municipalities, as the DPME had not yet started monitoring and evaluating municipalities.

Third level of assurance: External independent assurance and oversight

Municipal councils



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

The council can provide extensive assurance through this monitoring and oversight role. Although councils are becoming more aware of the important role they have in this regard, most were not functioning at the required level with only 11% of the municipal councils that provided the required level of assurance. As reported in section 4.2, the response by the councils to address the root causes of poor audit outcomes has been slow.

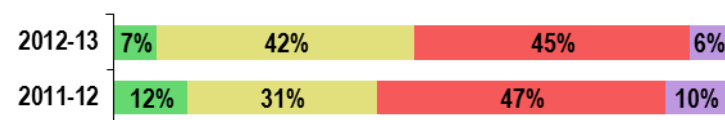
Technical knowledge of financial management and reporting, performance management and legislation is not a prerequisite for elected office-bearers. They therefore rely on information and guidance from the municipal manager and senior management. The low assurance provided by the providers of the first and second level of assurance has an impact on the credibility and quality of the information and guidance provided to councillors.

In order to improve the level of assurance provided by the councils, they should focus on the following:

- Strengthen the MPACs and audit committees, and support the important role these committees play.
- Insist, through their speakers, on receiving regular and credible information on the status of the finances and activities of their municipalities.
- Monitor the implementation of recommendations by the audit committee and internal audit units with a view to remedial action.

- Deal with transgressions, financial misconduct, fraud and other misconduct or poor performance in a consistent and decisive manner.
- Take timeous action in instances of identified weaknesses or failure by management and officials to perform statutory duties.
- Seek out opportunities to continuously develop and improve the knowledge and skills they need to perform their duties and insist on support from national and provincial government in this regard.

Municipal public accounts committees



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

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

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

By 30 June 2013, 20 municipalities did not have an MPAC in place.

The impact of established MPACs has been minimal in promoting transparency, good governance and public accountability. The transversal challenges experienced by MPAC include the following:

- The lack of proper structural arrangements and human resources dedicated to support the work of oversight.
- The limited budget allocated to the work of MPAC and capacity building as it relates to skills required to do oversight. We have noted the support of the Association of Public Accounts Committees (APAC) to ensure the establishment of MPACs and capacity building measures implemented in the Free State and Northern Cape.

The APAC Izimbizo was conducted to encourage knowledge sharing amongst MPACs and public accounts committee in all jurisdictions. The Izimbizo resulted in a formation of MPAC forums and adoption of best practice guide for MPACs.

We recommended the following to strengthen the functioning of MPACs:

- Legislation amendments to provide proper guidance and the objectivity required of MPAC through a separation of powers between the council that make decisions and members of MPAC being part of decision-making, while they are expected to oversee a decision they were part of.
- The MECs for local government should support the capacity building of MPACs as it relates to their roles and responsibilities.
- The municipal council should support the structure and allocate sufficient budget and other resources sufficient for the work of MPAC.

Provincial legislatures, portfolio committees on local government and the National Council of Provinces



In terms of the Constitution, the provincial legislature must maintain oversight of the executive authority responsible for local government. This executive authority includes the MEC for local government and other executives involved in local government, such as the MEC for finance. The mechanism used to conduct oversight is the portfolio committee on local government.

Through our assessment, we conclude that provincial legislatures provided limited oversight – through their review of reports that were submitted by portfolio committees on the departments of treasury and CoGTA. There is a

need for intensified oversight by the portfolio committees regarding these departments. In turn, the portfolio committees on local government are highly reliant on credible and timely information and with the limited assurance being provided by senior management and municipal managers, the committees as well as the coordinating departments can be rendered ineffective.

The National Council of Provinces (NCOP) executes its oversight of local government through the select committees of CoGTA, appropriations and finance. These committees further escalate aspects of local government oversight by calling for the NCOP House sitting where all NCOP delegates from provinces are also invited.

For the year under review, the NCOP undertook the following initiatives:

- The NCOP hosted a local government week, where all spheres of government were represented by members of the NCOP, ministers, SALGA, MECs and mayors of selected municipalities. The attendees discussed issues of clean governance in local government oversight and we participated in the panel discussion.

During the local government week, the following commitments were made:

- The NCOP will strengthen its oversight hand on issues pertaining to the use of consultants by municipalities.
- The NCOP will call for the appointment of officials with right qualifications in key positions such as CFOs and other positions.
- The provincial delegates further committed to assess the extent of the support provided by the district municipalities to local municipalities.
- The NCOP will assess the extent to which the municipalities have responded to the recommendations we made after the audit outcomes were shared.
- The MECs for finance and CoGTA in both the Free State and North West provided an update on the audit outcomes and interventions made to support municipalities in their respective provinces. The municipalities of these two provinces were specifically invited because of the on-going problems identified in their respective provinces.
- The Select Committee on CoGTA further requested the coordinating ministries to table action plans on how they would support municipalities, including the provincial MECs (CoGTA and provincial treasuries).
- The NCOP wrote a letter to the minister of CoGTA enquiring about support and empowerment of councillors, including the capacity of senior municipal officials. This resulted in the minister of CoGTA developing regulations on the appointment conditions of senior managers, including minimum

competency requirements, recruitment process and leave management, among others.

- The Select Committee on CoGTA visited municipalities under section 139 interventions in order to assess progress made at those municipalities since the inception of the intervention. During its visits, the committee noted a lack of standardisation in activating section 139 interventions and it influenced the development of a legislative approach that would standardise the section 139 interventions. The legislative proposal is currently in its draft form and under consideration by the cabinet.

The NCOP has provided some level of assurance in light of its limited oversight role. As explained above, the NCOP embarked on specific activities geared at enhancing local government oversight, however, the impact has been limited.

Initiatives of the South African Local Government Association

SALGA's mandate does not include monitoring and exercising oversight of local government regarding audit-related matters and, accordingly, does not provide assurances. SALGA has, however, launched initiatives aimed at supporting local government to improve its audit outcomes. Their continuing and new initiatives include the following:

- Establishing a dedicated Local Government ICT unit that supports municipalities comprehensively in IT governance.
- Adopting struggling municipalities or those with persistently poor audit outcomes to develop targeted support and improve audit outcomes by focusing on ■ political oversight ■ compliance with laws and regulations ■ reporting against predetermined objectives ■ credit control and debt collection ■ revenue enhancement and tariff setting and ■ the functioning of MPACs and audit committees.
- Coordinating a programme of support involving SALGA's internal audit unit and the provincial programme managers responsible for municipal finance to provide hands-on support to municipalities where there is no support from either the National Treasury or CoGTA. This programme will be rolled out at 25 municipalities that have had persistently poor audit outcomes over the last three years.
- Developing processes that the municipalities should follow when they encounter under-funding and unfunded mandates and assist with alternative funding proposals.

- Assessing the implications of new reforms at local government, e.g. new accounting standards or legislation and contribute to a comprehensive outcome study.
- Executing a multi-disciplinary audit outcome support to municipalities that received a disclaimer of opinion.

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SECTION 6: THE PROVISION OF WATER AND SANITATION SERVICES AND ROADS INFRASTRUCTURE

6 The provision of water and sanitation services and roads infrastructure should receive urgent attention

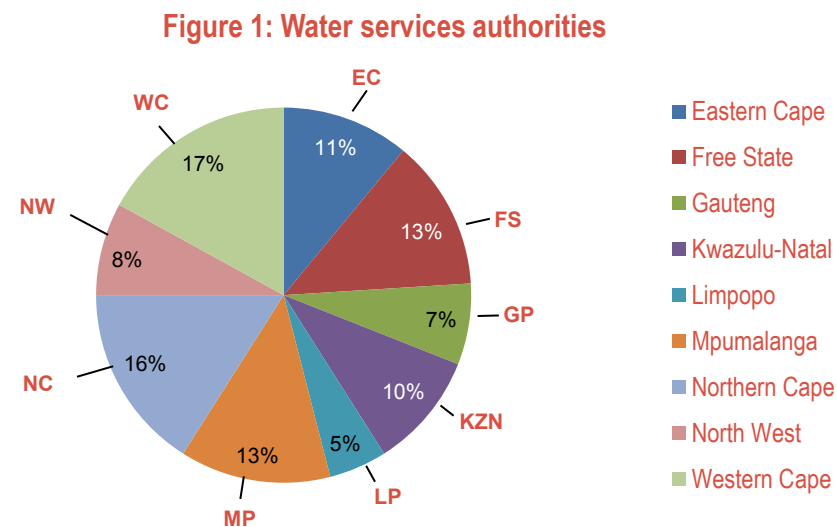
The state of municipal infrastructure is a crucial element to ensure service delivery to all communities in South Africa. In support of this, we reviewed key aspects of the provision of water and sanitation services and roads infrastructure by municipalities, and reported the findings in the management reports.

Water and sanitation services

According to the Constitution, every person has the right to clean water. Government thus set a target to provide access to basic water and sanitation to all the people in South Africa by 2014.

Five per cent¹ of people countrywide are currently still without clean water, while government must still provide sanitation services to approximately 11%² of households. In addition, at least 26%² of households within formal areas have sanitation services which do not meet the required standards. This is due to the deterioration of infrastructure caused by a lack of technical skills, timeous maintenance, refurbishment and/or upgrading, pit-emptying services and/or insufficient water resources.

As local government is responsible for providing water and sanitation services, this function lies with municipalities that have been classified as water services authorities. There are 146 water services authorities nationwide. The provincial distribution of these is indicated in figure 1.



The lack of water services increases the risk of poor health and premature deaths, while the lack of proper sanitation can pollute rivers and dams, thus negatively affecting the environment.

We identified some warning signals that could have a serious impact on municipalities' ability to provide a large portion of South Africa's population with clean water and proper sanitation. Some of these warning signals are a result of non-compliance with legislation.

The leadership must urgently pay attention to the following to ensure that government's objectives relating to water and sanitation are achieved:

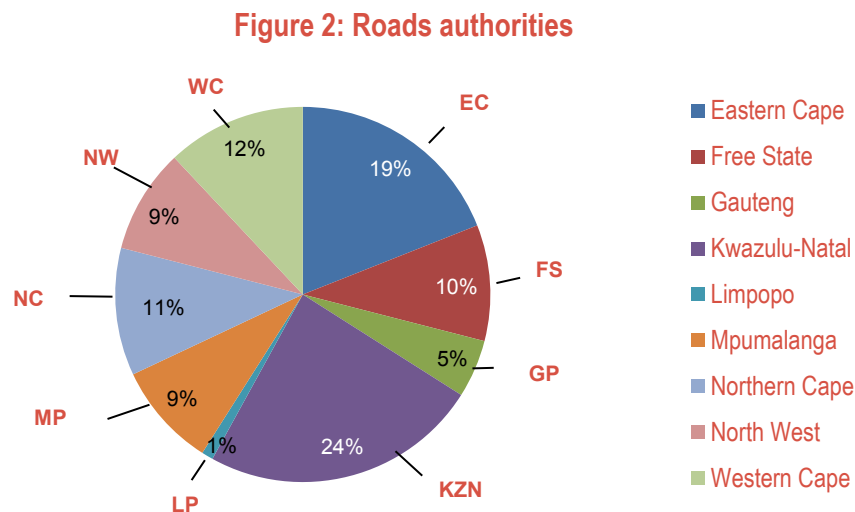
- A lack of effective planning for the provision of these services.
- The targets for providing these services are not always set.
- Municipalities do not report on their progress against the set targets.

¹ State of the Nation Address by His Excellency Jacob G Zuma, President of the Republic of South Africa on the occasion of the Joint Sitting of Parliament, Cape Town 13 February 2014

² Report of the South African Human Rights Commission on the Right to Access Sufficient Water and Decent Sanitation in South Africa: 2014

Roads infrastructure

In terms of the Constitution, the functions and powers relating to roads lie with those municipalities classified as roads authorities. There are 210 roads authorities nationwide. The provincial distribution of these is indicated in figure 2.



The condition of roads has a direct impact on road safety. It impacts on all citizens and, as such, poor road conditions create challenges for many with unnecessary time delays, increased transportation costs, and reduced access to education, health care and social services.

The most common cause of the deteriorated paved roads is neglect. If road maintenance is delayed, the cost of repairs and rehabilitation increases exponentially.

We identified some warning signals that could have a serious impact on municipalities' ability to provide people with proper roads. Some of these warning signals are a result of non-compliance with legislation.

The leadership must urgently pay attention to the following to ensure that government's objectives relating to roads are achieved:

- A lack of policy to guide the decision-making process with regard to roads.
- Ineffective planning for the maintenance, upgrading and construction of roads. Maintenance is also not always carried out in accordance with the plan.

- A lack of information about roads which hampers planning.
- Funds from the National Treasury are not always fully used for the building of roads.

Way forward

To contribute towards a better life for all, there is a need to:

- improve the planning of service delivery in respect of water, sanitation and roads at national, provincial and local government levels
- appoint more technically skilled staff at local government level, in particular qualified professionals in the fields of engineering and project management
- use and manage the available municipal funds and conditional grants for infrastructure development, more effectively.

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ANNEXURES 103

Annexure 1 Auditees' audit outcomes, areas qualified, findings on predetermined objectives, non-compliance, specific focus areas, unauthorised, irregular as well as fruitless and wasteful expenditure

Number	Auditee	Province	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance												Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure																		
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit unit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R							
Financial audits (Audit opinions before consolidation of controlled entities, where applicable)																																																			
Metropolitan municipalities																																																			
1	Buffalo City Metro	EC	R	R	R	R	R					A	A	R	A	R	R				R	R	R	R				R	R	A	A	N	R	A	R	R		R	R	R	F	14.5m	182.5m	0.93m							
2	Nelson Mandela Bay Metro	EC	R	R	R	R									R						R	R		A		N	A	N			N			R	R	R		R	R	R	F	270.8m	1844.1m	2.6m							
3	Mangaung Metro	FS	R	R	R	R	A	R	A	A	R	A	A	A	R	R	R				R	R	R	R			R		N	R	A	R	R	R	R	A		R	R	R	F	19.5m	10.3m	16m							
4	City of Johannesburg Metro	GP	R	R	R	R	A	A			A	A					A				R	A					R	A																							
5	Ekurhuleni Metro	GP	R	R	R	R															R						A	N	A						R	R			R	R	R										
6	Tshwane Metro	GP	A	R	N	R											A				R	R					R																								
7	eThekweni Metro	KZN	R	R	R	R															R	A						N																							
8	City of Cape Town Metro	WC	A	R	R																A	A																													
District municipalities																																																			
9	Alfred Nzo District	EC	R	R	R	R	R	A	R	R	N	A	R	R	R	R	R				R	R	R	A			R	R	N	A	A	A	R	N	R	A			R	R	R	M	102.6m	119.6m	0.4m						
10	Amatole District	EC	R	R	A	R															R	R																													
11	Cacadu District	EC	R	R	R																R	A																													
12	Chris Hanani District	EC	R	R	R	R	A	A	A	R	N	A	A	R	R	R	R				R	R	R	R																											
13	Joe Gqabi District	EC	R	R	R	R															R	R																													
14	OR Tambo District	EC	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R				R	R	R	R																											
15	Fezile Dabi District	FS	A	R	R	R															R		A																												
16	Lejweleputswa District	FS	R	R	R	R															R	R																													
17	Thabo Mofutsanyana District	FS	R	R	R	R															R	R																													
18	Xhariep District	FS	R	R	R	N				N											R	R		N			R	N	N																						
19	Sedibeng District	GP	A	A	R	R															A																														
20	West Rand District	GP	N	R	R	R															R																														
21	Amajuba District	KZN	R	R	N	R															R																														
22	Harry Gwala District	KZN	R	R	R	R	A														R	R																													
23	Ilembe District	KZN	R	R	A	R															R																														
24	Ugu District	KZN	R	R	R	R	R	R	R	N	N	R	A	N							R	R																													
25	Umgungundlovu District	KZN	R	R	R	R															R																														
26	uMkhanyakude District	KZN	R	R	N	R	A	A	R	R	R										R																														
27	uMzinyathi District	KZN	R	R	R	R															R																														
28	uThukela District	KZN	R	R	R	R	R	R	R	R	R	R	R	R	R	R	N				A																														

Number	Auditee	Province	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas					Findings on predetermined objectives			Findings on non-compliance													Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure																
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit unit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R					
District municipalities																																																	
29	Uthungulu District	KZN	A		A	R															R	R																											
30	Zululand District	KZN	R	R	A	R															R	R			N													R	F		-	20.1m							
31	Capricorn District	LP	R	R	R	R	N	R	R	A	N	R	R	A		A	N				R	R	A	N	N	A	N	A	A	A	N	N	R				R	F		18.1m	23.0m	0.1m							
32	Mopani District	LP				R	R																																										
33	Sekhukhune District	LP																																															
34	Vhembe District	LP	R	R	R	R	R	R	A	R	R	R	A	A		A	R				R	A	A	R		R	A	N	R	A									R	M		-	139.7m	0.69m					
35	Waterberg District	LP		N				N													N																												
36	Ehlanzeni District	MP																																															
37	Gert Sibande District	MP		R			R														A	R	N				N	N																					
38	Nkangala District	MP	R	N	N	A										R	R																																
39	Frances Baard District	NC	N	A		R																																											
40	John Taolo Gaetsewe District	NC	R	R	R	R	R	N	N		R	R	R	R	N	R	R				R	R	A	R		R	A	N	R	R	R	R	R	N	R	R													
41	Namakwa District	NC	R	R	R	R									N	R	N				R	R	R	N	N	A																							
42	Pixley Ka Seme District	NC	R	R	R	R	R	A		R	R	A	A	N	R				R		R	R	R	N			R	N	R	A	N	N	R	R															
43	ZF Mgcawu District	NC	A	A	R	R										A					A	A																											
44	Bojanala District	NW	R	R	R	R										R	R				R	R	R																										
45	Dr Kenneth Kaunda District	NW	A	R	R	R										A	A				R	R	R																										
46	Dr Ruth S Mompoti District	NW	R	R	R	R	N	N		N			N			R	R				R	R	R	N																									
47	Ngaka Modiri Molema District	NW	R	R	R	R	R	R		R	N	R	R			R	R				R	R	A	R	R	R	R	N	R	R	R	R	R	N	R	R	N												
48	Cape Winelands District	WC		R	R	R															R	N																											
49	Central Karoo District	WC		R		A	R																																										
50	Eden District	WC	R	R	R	R										N	R																																
51	Overberg District	WC	R	R	R	R																																											
52	West Coast District	WC																																															

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Financial health findings	No material unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Legend (Expenditure)	Improved	Regressed
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Number	Auditee	Province	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance												Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure											
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit unit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R
Local municipalities																																												
53	Amahlali	EC	R	R	R	R	R	A	A							R	N			R	R	R	R						R	N	N	R	R		R	R	R		7.6m	3.8m	14m			
54	Baviaans	EC			R	A	R	R	A	A	A	A	A	R	N					R	A	A	R		R	R	N	A	R	R	N	R	R	R		R	N	R	M	12.0m	0.22m	16m		
55	Blue Crane Route	EC	R	R	R	R	R	R		R		A			R	R	R			R	R	R	R	R	R	A	N	R	N	A	R	R	R	R		R	R	R	M	0.36m	22.4m	0.001m		
56	Camdeboo	EC	R	R	R	R	R	A	A	A	A	A	A			A	A		N	R	N	R	N		N	N		N	R		R		N	A		N	R	R	F	15.1m	13m	-		
57	Elundini	EC	A	R		R	R									A	A				R	A			A							A			R		N	F	3.15m	13m	10m			
58	Emalahleni	EC	R	R		N	R	R	R	R		R	R	R	R	R	N		A	N	R	R	R	R	N	R	A	A	A	R	R	N	R	N		R	R	N	M	8.5m	37.3m	8.0m		
59	Engcobo	EC	R	R		R	R	A	A	A		A			A	A	R			R	R	R	R	N	R	R		R	R	R	R	R	R	R	A		R	R	R	M	60.4m	3.4m	0.01m	
60	Gariep	EC	R	R		R	R	R	A	R	N	N	N		N	N	R	R			R	A	R	N	N	R	R	N		A	A	R		N	N		R	R	R	M	-	8.6m	-	
61	Great Kei	EC	R	R		R	R	R	R	R	R	R	R	R	R	R	R			R	R	R	R	N	R	R	R	A		R	R		R	R		R	R		M	10.0m	14.0m	0.59m		
62	Ikwezi	EC	R	R		R	R	R	R	R	A	R	A	R	R	A	R		N	R	R	R	A	R	R	A	R	N	R	R	R	A	R	R	N		R	R	R	M	12.9m	3.2m	14m	
63	Inquba Hill	EC	R	R		R	R									R				R	A	A	A		A		A	A	A	A		A					N	R	F	-	-	-		
64	Inkwanca	EC	R	R		R	R	R	R	N		R	R	R	R	R	R			R	R	R	R		R	R	N	R	R	R	R	N	A	N	N		R	R	R	M	17.1m	12.5m	-	
65	Intsika Yethu	EC	R	R		R	R	R	R	R	R	R	R	R	R	R	R			R	R	R	N	N	R	R	N	N	N	R	N	N	R	N		R	N	R	M	34.5m	12.0m	0.24m		
66	Inxuba Yethemba	EC	R	R		R	R	R	R	R	R	R	R	R	R	R	R			R	A	A	R	R	R	R	N	R		R		R	R		R	R	R	M	-	15.8m	0.42m			
67	King Sabata Dalindyebo	EC	R	R		R	R	R	R	R	R	R	R	R	R	R	R			R	R	R	R		R	N	R	R	R	R	R		R	R	R	M	1205.7m	200.9m	330.5m					
68	Ko u Kamma	EC	R	R		R	R	A	A	A		A	R	A	A	A	R	N		R	R	R	A	N	R	R	N	N	R	R	R	N	R		R	A	R	M	34.2m	38.8m	0.31m			
69	Kouga	EC	R	R		R	R	A	A	R	A	A			A		N	N	A	R	R	R	A	N	R	R	N	R	R		R	A		R		R	R	R	M	32.9m	39.9m	9.2m		
70	Lukhanji	EC	R	R		R	R	R	R	R	R	R	R	R	R	N	R	A		R	R	R	A	R	R	R	R	N	R	R	R	R	R	R	R	R		R	R	R	M	60.2m	77.9m	0.2m
71	Makana	EC																																										
72	Maletswai	EC	R	R		R	R	R	A	A		R			R	R	R	N		R	R	R	A	R		R	R	N	R	R		N	R	R	R		R	R	R	M	12.2m	0.56m	14m	
73	Matatiele	EC	A	R		R	R									A	A			R	N	A												N			R	A	R	F	-	-	0.008m	
74	Mbhashe	EC	R	R		R	R	R			R			R	A	R	R			R	R	R	R		A		A	R	R	A	A	R	N		R	R	R	M	33.3m	9.0m	2.6m			
75	Mbizana	EC	R	R		R	R	R	R		R	A	R	N	R	R	A			R	R	A	R	R		A		R	R	R	R	N	N		R	N	R	M	10.6m	26.1m	12.8m			
76	Mhlonlo	EC	R	R		N	R	A	R		N	R	N	R	N	R	R			R	R	R	R	R	A	R		R	A	R	N	R	N		R	R	R	M	215m	62.8m	0.19m			
77	Mnquma	EC	N	R		A	R	N	N		N		N	N	N	N	N			R	R	N	R		R			N	N	N	R	N		R	R	R	F	45.0m	74.0m	-				
78	Ndlambe	EC	R	R		R	R	A	N	A		R	A	A	R	R	R			R	R	R	N	R	A	N	R	R		R	R	R		R	A	R	F	-	69.8m	-				
79	Ngqushwa	EC	R	R		R	R	A	R	A		R	R	R	N	R	R			R	R	R	R	A	R	R	A		A	R	R	R	R		R	R	R	M	-	16.1m	5.8m			
80	Nkonkobe	EC	R	R		R	R	N	A	R		N	A	R	R	N	R			R	R	R	N	R	R	N	N	A	R	A		R	N		R	A	A	M	-	116m	2.2m			
81	Ntabankulu	EC	R	R		N	R	R		A	N		R	R		R				R	R	R	N		R	N	N		R	N		R	N		R	N		M	13.7m	46.0m	2.8m			
82	Nxuba	EC	R	R		R	R	R	A	A		A	A	R	R	R	R			R	R	A	R		R	A		A	R	R	N	R	R	R		R	R	R	F	3.4m	17.1m	-		
83	Nyandeni	EC	A	R		N	R	A	A		A	A	A	A		A				R	R		A		A		A	A	R				R		R	A	R		5.1m	46.3m	0.15m			
84	Port St. Johns	EC	R	R		R	R	A	R	R		R		A	R	N	R	R		R	R	R	R		N	R		R	N	R	N	R	A		R	R	R	F	-	5.0m	0.89m			
85	Sakhisizwe	EC	R	R		R	R				R			R	N	R	A		N	R	R	R	R		R	R	R	R	N	R	R	R	N		R	N	R	F	116m	12.9m	-			

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Local municipalities																																																	
86	Senqu	EC	A	R	R	R	R										A					A	A	A			N								R			R		N	F	-	-	-					
87	Sundays River Valley	EC																																															
88	Tsolwana	EC	R	R	R	R	R	A	A					A	A	R	A	N			R	R	A	A	A	R	A	N	R	R			N	A	R	R		R	R	R	F	0.56m	0.5m	0.02m					
89	Umzimvubu	EC	A	R	R	R	R									A	A				R	R	A	R		R									R	A		R	A	R	F	3.5m	0.59m	0.08m					
90	Dhlabeng	FS	R	R	R	R										R	N				R	R	R	R		R								R	A		N		R	R		R	R	R	F	126.1m	48.4m	6.4m	
91	Kopanong	FS	A	R	R	R	R	R	A	A	A	R	R	N	A				A		R	R	R	R	A	R	R	R								R	R	R	A	R		R	R	R	M	54.7m	25.5m	4.8m	
92	Letsemeng	FS	R	R	R	R		A			R	A	R	N	R	N					R	A	A		A	N	N	A							R	R	N	N	R	A		R	R	R		5.4m	22.3m	0.36m	
93	Mafube	FS	R	R	R	R	R	R	R	R	R	R	R		A			N			R	R	R	R	N	R	R	R	R	R	R	R	R	R	R	R	R	R	R	A		R	R	R	M	1813m	120.1m	5.6m	
94	Maluti-A-Phofung	FS	R	R	R	R	R	R	A	R	R	R	R		R	N	A				R	R	R	R		R	N	R	R	R	R	R	R	R	R	R	R	R	R	R	R		R	R	R	M	-	3.6m	17.0m
95	Maritsopa	FS	R	R	R	R	R	R	R	R	R	N	N	R		R	N				R	R	R	R	A	R	R	A	R	A	A	R	N	R	R	A		R	R	R	M	102.5m	55.8m	0.79m					
96	Masilonyana	FS	R	R	R	R									N	N		A			R	R	R	R			R	N	R	R	R	A	R	N	R	N	R		R	R	R	M	38.2m	31.5m	0.54m				
97	Matjhabeng	FS	R	R	R	R	R	R	N	R	R	R	N		R	R					R	R	R	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	M	830.1m	96.2m	24.0m				
98	Metsimaholo	FS	R	R	R	R		A	A	A		N	A	R	N						R	R	R	A	N	A	R					N			R	N		R	R	R	F	7.2m	102.8m	12m					
99	Mohokare	FS	R	R	R	R	R	A	A	A	R	A	R	A	R	R					R	R	R	A		A	R	R							R	R	R	R		R	R	R	F	415m	20.2m	2.2m			
100	Moghaka	FS	R	R	R	R	R	R	N	R	N	N	R	R	N	N	A				R	R	N	R		R	R	R	R	R	R	R	R	A	R	R	A		R	R	R	M	166.0m	48.0m	6.2m				
101	Nala	FS				R	R																																										
102	Naledi	FS	R	R	R	R	R	R	R	R	R	R	R	N	R	R					R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	A		R	R	R	M	-	5.6m	4.9m	
103	Ngwathe	FS	R	R	R	R	R	R	A	R	R	R	R	N	N	N	A				R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R		R	R	R	M	187.2m	17.4m	210m	
104	Nketoana	FS	R	R	R	R									R	R					R	R	R		R			R	A	R					R	R		R	R	R	M	312m	17.9m	0.54m					
105	Phumelela	FS	R	R	R	R	R	R	A	R	N	A	N		R	R					R	R	R	R		R	N	N	R	R	N				N		R	R		R	R	R	M	48.1m	27.5m	0.27m			
106	Setso	FS	R	R	R	R	A	A	A		R	A	A	N	R	R	R				R	R	R	R		R	R	R	N							R	R	R	R	R	R	F	154.2m	68.0m	0.21m				
107	Tokoloko	FS	R	R	R	R	R	N	R	R	R		R	R	N	N	A				R	R	R	R		R	R	R	R	R	R	R	R	R	R	R	R	R	A		R	R	R		38.6m	13.9m	0.27m		
108	Tswelopele	FS	R	R	R	R									R	R					R	R	R	N		N	N	N	R	R	R	R	R	R	R	R		R		R	N	R	F	2.0m	17m	0.1m			
109	Emfuleni	GP	R	R	R	R									N	R					R	R	A			R										A	A		A	A	R	F	-	-	0.18m				
110	Lesedi	GP	R	R	R	R									R	R					R	A	R												A			R	R	R	F	-	2.8m	0.28m					
111	Merafong City	GP	R	R	N	R									A	R					A	R												A		N		R		R	N	R	F	-	28.4m	-			
112	Midvaal	GP	N	R	A	R									N	N					A		N																							0.05m	-	-	
113	Mogale City	GP	A	R	R	R									A	A					R	R			A												R	A	R	F	-	5.4m	8.1m						
114	Randfontein	GP	R	R	R	R	A	R							R	A					R	R	R	R		N	R		R									R	N	R	F	310m	36.0m	8.6m					

Legend (Audit outcomes): Unqualified with no findings (Green), Unqualified with findings (Yellow), Qualified with findings (Purple), Adverse with findings (Pink), Disclaimer with findings (Red), Audit not finalised at legislated date (Grey), New auditee (Blue).
 Legend (Findings): Addressed (A) (Green), New (N) (Yellow), Repeat (R) (Red).
 Financial health findings: No material unfavourable indicators (Green), Unfavourable indicators (Yellow), Material unfavourable indicators (Red).
 Legend (Expenditure): Improved (Green), Regressed (Red).

Number	Auditee	Province	2012-13 audit outcomes		2011-12 audit outcomes		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance											Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure														
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit unit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R
Local municipalities																																												
178	Makhado	LP	R	R	R	R	A	R	A		R	A		A		R	R			R	A	A	R		A		N					N		R			R	R	R	F	-	47.4m	17m	
179	Makhudatamaga	LP	R	R	R	R	A	A	N		R			R		R	R			R	R	R			A	N	R	R	A	R	N	R	R		R	R	R	M	-	14.3m	-			
180	Maruleng	LP	R	R	R	R	R	N	N		N		N		N	R	R			R	R	A	A		N	R		N		N			R	A		R	R	R	F	-	6.5m	-		
181	Modimolle	LP	R	R	R	R	R	R	R		N	A	R	R	A	R	R			R	R	R	A	N	R	R	R	A	N	N	R	N		R	N		R	R	R	M	0.52m	20.5m	0.27m	
182	Mogalakwena	LP	R	R		R	R	N			N									N	R						N	A				R	N		R	R	R	M	30.0m	39.9m	0.5m			
183	Molemole	LP				R	R																																					
184	Mookgophong	LP	R	R	R	R	R	N			R	R		R		R	R			R	R	R	N		R	N		A	R	N	A	A	R	A		R	R	R	F	6.8m	10.3m	0.22m		
185	Musina	LP	R	R	R	R	A				R			A		R	R			R	R	A			A	R	N	R	R		R		R	N		R	R	R	F	32.1m	2.4m	0.12m		
186	Mutale	LP	R	R	R	R	R	R	R		R	R		R	R	R	R			R	R	R	R		A	R	N	A	A	R	R	R	R	R		R	R	R	M	-	0.74m	0.03m		
187	Polokwane	LP																																										
188	Thabazimbi	LP	R	R	R	R	R		A	N	R	R	N	A		R	R			R	R	R	R		R	R	N	R	A	R	R	R	R	N		R	R	R	M	719m	210.2m	4.5m		
189	Thulamela	LP	R	R	R	R	R		A	N	A					R	R			R	R	A	R		A	A		A	R	N		R	R		R	R	R	F	-	0.85m	0.46m			
190	Tubatse	LP	R	R	R	R	R	N	N		R	N				N	R	R			R	R	R	N	N	R	N	N	N	R			R	N		R	R	R	M	77.7m	71.3m	0.13m		
191	Albert Luthuli	MP	R	R	R	R	R	A	A	A	A					R	N			R	R		N		N	R	N		A	N		R		R	A	R	F	9.1m	16.9m	0.22m				
192	Bushbuckridge	MP	R	R	R	R	R	R	R	R	R	R		A	N	R	R			R		R	R	N	R	R	N	N		R	R	R	R	N		R	R	R	M	14.6m	12.4m	-		
193	Dipaliseng	MP	R	R		R	R	N		N	N			N		R	R			R	R		R		N	R	N	R	N	A	R	R		R	R	R	F	47.1m	8.4m	0.94m				
194	Dr. JS Moroka	MP	R	R	R	R	R	N	R	A	R	A	R	N	A	R	R			R		R	R	N		N	A	R	N	R		R	R		R	R	R	F	-	18.6m	-			
195	Emakhazeni	MP	R	R		N	R	R	N		N	A	A			R	R			R	A	N	R		R				N	A	R		R	N	R	F	43.0m	2.1m	13m					
196	Emalahleni	MP	R	R	R	R	N	R	R	N	R	R	R	R	A	R	R			R	A	R	R		R	R	N	N	R	R	N	N	R	R		N	N	R	M	19.8m	9.3m	118m		
197	Govan Mbeki	MP	R	R	R	R	A	N	N		R	N				R	R			R	A		A		R	N	A	A	N	R		R		R	A	R	F	-	17.4m	8.1m				
198	Lekwa	MP	R	R	R	R	A	A	A	R		A	A	A	A	R	N			R	A	R	A	N	N	R	N	R	A		R	N	R	R		R	R	R	F	14.5m	30.8m	13.9m		
199	Mbombela	MP		R		A	R													N					N					N	R		R	A	R	F	0.88m	34.5m	5.5m					
200	Mkhondo	MP	R	R	R	R	R	R	N	R	R	R		N	R	R	N		A	R	R	R	R		R	N	N	A	A	R	R		R	N		N	N	N	M	43.2m	19.2m	5.8m		
201	Msukaligwa	MP	R	R	R	R	R	R	R	R	R	A	A	N	N	R	R			R	N	R	R		R	N		N	N	R	N	R	N		R	R	R	M	89.1m	33.7m	9.6m			
202	Nkomazi	MP	R	R	R	R	A	A			A		N		A	R	R			R	A	R	A		R	R		A	A	R	R	R	R		R	R	R	F	36.9m	48.3m	2.1m			
203	Pixley Ka Seme	MP	R	R	R	R	R		A	A	A					R	R			R		R	R		R	N	N	R	A		R	N	R		R	A	R	F	-	7.2m	-			
204	Steve Tshwete	MP																																										
205	Thaba Chweu	MP	R	R	R	R	R	R			R	R	R	R	R	A				R	R	R	R		R	R	N	R	R	R	N		R	R	N		R	R	R	M	42.5m	120.3m	17.8m	
206	Thembisile Hani	MP	R	R	R	R	R	R	N	N	R			A	N	R	N			R	A	A	R	N		A	R	R	R	R	R	A		R	A	N								
207	Umjindi	MP	R	R		N	R	R			R	R		N	R	R	R			R	A		R		N	R	N		A	N		R	N		R	R	R	F	6.7m	18.6m	0.14m			
208	Victor Khanye	MP	R	R		N	N	N	N			N	N	N		R	R			R	R		N		R		R	A		R		R	N		R	N	R	F	-	17.6m	0.83m			
209	Ikheis	NC																																										
210	Khara Hais	NC	A	R	R	R	R	A				A	A	A		A	A			R	R	R	R		R	R			A	A	A	R	R		R	R	R	M	113m	49.4m	0.03m			

Number	Auditee	Province	2012-13 audit outcomes		2011-12 audit outcomes		Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure												
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit unit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R	
Local municipalities																																													
211	Dikgatlong	NC	R	R	R	R	R	R	R	R	R	R	R	A	N	N		A	R	R	R	R	N	R	R	N	R	R	R	R	R	R	R	R	R	R	R	R	R	R	M	9.3m	11.6m	-	
212	Emthanjeni	NC	R	R	R	R								A	N	R			R	R	N	A		N	R	N	R	R	A	N	A	R	A		R	R	R	F	54.2m	23.1m	0.8m				
213	Gamagara	NC	R	R	R	R	R	A		R	A	A	R	R	R	R			R	R	R	R	R		N	A	N	R	R	A	R		R		R	R	N	M	7.0m	57.8m	0.17m				
214	Ga-Segonyana	NC	R	R	R	R	R	R	R	A	R	R	R	R	R	R			R	R	R	R	R	R	R	R	R	R	R	R	N	R	R		R	R	R	M	40.2m	215m	18m				
215	Hantam	NC	R	R	R	R	R	A	A	N		N	A		R	R			R	R	A	R	R	N	R	R	A	A	A	A	N		R	R	N	F	0.77m	6.1m	0.002m						
216	Joe Morolong	NC	R	R	R	R	R	R	A	R	R	R	R	R	N	N	N	A		R	R	A	R		R	R	R	R	A	R		A	R	A		R	R	R	M	13.3m	819m	0.37m			
217	Kai IGarib	NC	R	R	R	R	R	R	R	R	R	R	R	R	R	N				R	R	R	R	N	R	R		R	R	R	N	R	R	R		R	R	R	M	56.4m	6.7m	-			
218	Kamiesberg	NC	R	R	R	R	R	R	A	R	R	R	R	R	R	R			R	R	R	R	N	R	R	N	R	R	R	R	R	R	R	R	A		R	R	N	M	25.0m	14.7m	0.17m		
219	Kareeberg	NC	R	R	R	R							N		R		A	N			N	R		A		N	N		R		R	N		R	R	N	F	0.63m	18m	-					
220	Karoo Hoogland	NC																																											
221	Kgatelopele	NC	R	R	R	R	R	R	R	R	R	R	A	R	N	N			R	R	R	R	R	A	R	R	N	R	R	A	R	R	R	R	R		R	R	N	M	-	28.8m	-		
222	Khai-Ma	NC	R	R	R	R										R			R	R	R	R		R	A	N	R	R	A	R	N	R	R		R	R	N	F	2.7m	5.2m	0.07m				
223	Magareng	NC																																											
224	Mier	NC	R	R	R	R	R	R	R	N	R	R	R	N	R				R	R	R	R	R		R	R	N	R	R	R	R	N	R	R		R	R	R	M	6.4m	13.7m	0.61m			
225	Nama Khoi	NC																																											
226	Phokwane	NC	R	R	R	R	R	R	R	R	R	R	R	R		R	A	N		R	R	R	R	N	R	R		A	A	R	R	R	R	R	R		R	R	R	M	14.1m	49.7m	0.22m		
227	Renosterberg	NC	R	R	R	R	R	R	R	R	R	R	R	R	N				R	R	R	R	R	A	R	R	R	R	R	R	R	R	R	R	A		R	R	R	M	23.1m	30.5m	15m		
228	Richtersveld	NC	R	R	R	R								A	A		N		R	R	R	R		R	A	N	R	R		R		R	R		R	R	R		R	R	R	M	6.7m	9.8m	0.01m
229	Siyancuma	NC	R	R	R	R	R	R	A	R	R	R	R	N	R		N		R	R	R	R	N	R	R	N	R	R	R	R	R	A	R	R		R	R	R	M	27.9m	-	0.08m			
230	Siyathemba	NC	R	R	R	R	R	R	R	R	A	R	A						R	R	R	R	R	N	R	R	N	R	R	R	R	R	R	R	R	R		R	R	R	M	6.3m	33.7m	15m	
231	Soi Plaatje	NC	R	R	R	R	A	R		N		R	A	A		N	R		R	R		A			R			R						R	R		R	R	R		-	17.4m	-		
232	Thembehle	NC	R	R	R	R	R	R		R	R	A	R		N		N	A		R	R	R	R	N	R	R	N	R		R	R	R	A	R		R	R	R	M	8.8m	49.3m	15m			
233	Tsantsabane	NC	R	R	R	R	R	R	R	R	R	R	R	N	N				R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	A		R	R	N	M	60.1m	3.7m	32.5m		
234	Ubuntu	NC	R	R	R	R	A				A	A	A		R		R		R	R	R	R	A		R	N	R	R		R	R	R	A		R	A	N	M	9.2m	9.9m	0.25m				
235	Umsobomvu	NC	R	R	R	R									R	R			R	R	R			R								R	N		R	R	N	F	0.09m	3.6m	-				
236	Matlosana	NW		R	A	R	R	R	R	R	R	R	R	R					R	R	R		R	N	N	R	A	A				R	N	R	R	R	R	M	476.7m	398.6m	15.6m				
237	Ditsobotla	NW	R	R	R	R	R	R	R	R	R	R	R	N	N	N			A		R	R	R	R	A	R	N	R	R	R	R	R	R	R	R	R	N	M	5.5m	-	3.8m				
238	Greater Taung	NW	N	R		R	R	R	R	R	R	R	R		N	N			R	R			R	N	N	N	N	N		N	N		R	N	R	R	R	N	M	3.7m	717m	-			
239	Kagisano/Molopo	NW	R	R	R	R	R	R	R	R	R	R	R	N	N		A		R	R	R	R	R		R	A	N	R	R	R	R	R	N	N		R	R	N	M	-	62.8m	0.81m			

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Financial health findings	No material unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Legend (Expenditure)	Improved	Regressed
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Number	Auditee	Province	2012-13 audit outcomes		2011-12 audit outcomes		Financial statement qualification areas							Findings on predetermined objectives			Findings on non-compliance														Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure								
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit unit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R
Local municipalities																																										
240	Kgetlengriver	NW	R	R	R	R	R	R	R	R	R	R	R	R	R	R	A	N		R	R	R	R	R	R	N	R	R	R	R	R	R	R	R	R	R	R	R	M	16.0m	16m	0.76m
241	Lekwa-Teemane	NW	R	R	R	R	R	A	R	R	A	R	N	R	R	R	R		R	R	R	R	R		N	N	N		R	R		R	R	R	R	R	R	N	M	-	22.0m	2.6m
242	Madibeng	NW	R	R	R	R	R	A	A	A	R	R	A	R	R	R	R		R	R	R	A	A	A	R	N		R	N	N		R	N	R	R	R	R	R	F	-	9.2m	0.17m
243	Mafikeng	NW	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R		R	R	R	R	R		A	R	N	R	R	R	R	R	R	R	R	R	R	R	M	-	21.1m	0.1m
244	Mamusa	NW	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	N	A		R	R	R	R	A	R	R	N	R	R	R	R	R	R	R	R	R	R	M	78.4m	26.9m	2.0m
245	Maquassi Hills	NW	R	R	R	R	R	R	R	R	R	R	R	R	R	R	A	A		N	R	R	R	R	R	R	R	N	R	R		R	R	R	R	R	R	M	287.8m	3.2m	20.9m	
246	Moretele	NW	R	R	R	R	R	R	A	R	R	R	R	R	R	N	R	N	A		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	N	M	27.3m	15.7m	6.2m
247	Moses Kotane	NW	R	R	R	R	A	A	A	A	A	A	A	A		R	R			R	R	A	A		A	R	N	R	R	A	R		R	N	R	R	R	R	F	-	108.1m	0.28m
248	Naledi	NW	R	R	R	R	A	A	A	A	A	A	A	A		R	N	A		R	R	R	A		N	R	N	R	R	A	R	N	R	R	R	R	R	N	M	619m	22.3m	12.7m
249	Ramotshere Moiloa	NW	R	R	R	R	R	R	R	R	R	R	R	R		R	R			R	R	R	R	R	R	N	R	R	R	R	R	A	R	N	R	R	R	R	M	-	12.7m	0.92m
250	Ratlou	NW	N	R	A	R							N	N	N	N	N			R	R	R		N	N	N	R	A	A	R	R	R	A	R	R	R	N	F	12.9m	48.3m	0.02m	
251	Rustenburg	NW	R	R	R	R	A	R	R	N	R	R	R	R		R	R			R		A		N	A	N	N		R	R	A	R	R	N	R	R	R	F	614.1m	85.1m	-	
252	Tlokwe	NW	R	R	R	R										R	R			R	R	R		R	N	N	N	R		R	N	R	R	R	R	R	R	F	12m	69.4m	0.1m	
253	Tswaing	NW	R	R	R	R	R	R	R	R	R	R	R	R	A	N	N		A	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	N	M	3.3m	49.3m	10m
254	Ventersdorp	NW	R	R	R	R	R	R	R	R	R	R	R	R	N	R	R			R	R	R	R	N	R	R	N	R		R	R	R	R	R	R	R	R	R	M	24.4m	49.5m	4.1m
255	Beaufort West	WC	R	R	R	R										N	R			R	A			R		R	A	N		A			R	R	R	R	R	R	F	22.9m	-	-
256	Berg River	WC	A	R	R	R	A									A	A			R	R	A		A		A							N		R	N	N	F	14m	0.62m	-	
257	Bitou	WC	R	R	R	R										N		A		R	R	R	A		N		A	A	A	R	A	R	R		R	R	R	F	26.9m	0.14m	0.94m	
258	Breede Valley	WC		A		R															A						A									R	R	R	F	-	-	-
259	Cape Agulhas	WC	A	R	R	R										A				N	N	A	N		A		A	A			A	A		R	N	N	F	26.0m	-	-		
260	Cederberg	WC	R	R	R	R	A	A			A	A	A			R	R			R	R	R	A		R	A	R	N		A		N		N	R	N	F	4.6m	0.16m	0.29m		
261	Drakenstein	WC	N	R	A	R										N	N			R	N		A				A							R	N	R	F	16.6m	3.6m	0.05m		
262	George	WC				A																												R	A	R	F	20.5m	-	0.01m		
263	Hessequa	WC		R	A	R														R														R	R	R	F	9.9m	6.2m	13m		
264	Kannaland	WC	R	R	R	R	R	N		N	R	N	N	R	N	N			A	R	N	R	R					R		A	R	R		R	R	R	M	116m	3.5m	0.85m		
265	Knysna	WC	A	A	R	R										A	A			R		A						A		A			R		R	F	15.1m	0.006m	0.41m			
266	Laingsburg	WC	R	R	N	R										R	R			R	R			A	R	R	R	A	A		R	N		R		R	F	12.2m	7.7m	0.61m		
267	Langeberg	WC				A																											R	R	R	F	-	-	-			
268	Matzikama	WC	R	R	R	R										N	R			R	R			R	A		R	A			N		R	A	R	F	12.9m	-	-			
269	Mossel Bay	WC			A	A																											A		R	F	0.13m	0.02m	-			
270	Oudshoorn	WC	R	R	R	R										R	A	N		R	R	N	N	N	N	N	R	A				R		R	N	N	F	42.1m	2.9m	9.3m		
271	Overstrand	WC		A		R														A			A										N		R	F	-	10.6m	0.01m			
272	Prince Albert	WC		R	A	R														R	N	A					A	A	A		N		R	A	R	F	6.2m	-	0.45m			
273	Saldanha Bay	WC	N	R	A	R										N				R			A				A		N	N		R	N	R	F	-	36.4m	0.06m				

Number	Auditee	Province	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas					Findings on predetermined objectives			Findings on non-compliance													Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure																
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit unit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R					
Municipal entities																																																	
299	Johannesburg City Parks	GP			R	A	N													R					A	N								A			R	M			0.24m	0.006m							
300	Joburg City Theatres (SOC) Ltd	GP			R			N												R																													
301	Johannesburg Development Agency (Soc) Ltd	GP			R			R												R						A																	0.9m	3.1m					
302	Johannesburg Fresh Produce Market	GP					A	A																																									
303	Johannesburg Metropolitan Bus Services	GP		R	R		N	R												R																								9.7m					
304	Johannesburg Roads Agency	GP		A	R		N	R												A						A	N																	9.9m	0.13m				
305	Johannesburg Social Housing Company	GP																																															
306	Johannesburg Tourism Company	GP		A	R		N	R												A																								5.9m	0.02m				
307	Johannesburg Water	GP			R			R		A																																							
308	Johannesburg Zoo	GP			R			R																																									
309	Lethabong Housing Institute NPC	GP		A	R		R	N												A																										0.007m			
310	Metropolitan Trading Company	GP			R		A	R																																									
311	Pharoe Park Housing Company SOC Ltd	GP			R			R																																						0.25m	0.12m		
312	Pikitup Johannesburg	GP		R	R		R	R																																					0.89m	0.08m			
313	Roo de poort Civic Theatre	GP		A	R		R	R																																						19m			
314	Sandspruit Works Association	GP		A	R		R	R																																						3.2m	0.86m		
315	Tshwane Economic Development Agency (TEDA)	GP			R			R																																						12m			
316	West Rand Development Agency	GP		N	R			R																																									
317	Durban Marine Theme Park (Pty) Ltd	KZN						A																																							0.26m		
318	Hibiscus Coast Development Agency	KZN		R	R		N	R	N		N																																			0.14m	0.37m	0.05m	
319	ICC, Durban (Pty) Ltd	KZN			N			A																																									
320	Ilemba Management Development Enterprise (Pty) Ltd	KZN			R		A	R																																						0.07m	0.62m		
321	Safe City Pietermaritzburg	KZN																																															
322	Sisonke Economic Development Agency	KZN		N	N																																									2.4m	9.9m		
323	Ugu South Coast Tourism	KZN		R	R		N	R																																							0.1m	0.07m	0.001m
324	uMhosinga Development Agency	KZN			R			R																																									
325	Uthukela Water (Pty) Ltd	KZN			R		A	R																																									
326	uThungulu Financing Partnership	KZN																																															
327	uThungulu House Development Trust	KZN																																															

Number	Auditee	Province	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas						Findings on predetermined objectives		Findings on non-compliance											Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure												
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit unit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R
Municipal entities																																											
328	Polokwane Housing Association	LP	R	R	R	R	A	A			A					R	N			A	A	R	N		R	N		A				A				N	F		-	0.54m			
329	Sekhukhune Development Agency	LP																																									
330	Dr KKDM Economic Agency	NW	A	R	R	R		N				R	A	A	A	A				R	R	R		A			A	N		N		R	N		R	R		M		-	1.1m		
331	Lekwa Teemane Development Agency	NW	R	R	R	N	N												R	R		R		R			N	R		R			A	A		R		M		-	-	-	
332	Moretele Development Agency	NW	R	R	R	R	R	R	R	R	R	R	R	R	R	A				R	R	A	R	R	R	R	R	R	R			A	A		R	R		M		-	-	-	
333	Rustenburg Water Services Trust	NW	A	R	R	R	R									A				A		A					N	N				R		N						-	-	-	
334	Cape Town International Convention Centre	WC	A	A		N	R										A															A		R					-	0.2m			
335	Central Karoo Economic Development Agency	WC	N	N															N	N																	M		-	-	-		
Consolidation audits (Audit opinions on financial statements that include more than one auditee)																																											
Metropolitan municipalities																																											
1	Buffalo City Metro	EC	R	R	R	R	R					A	A	R	A	R	R			R	R	R	R			R	R	A	A	N	R	A	R	R					14.5m	182.5m	0.93m		
2	Nelson Mandela Bay Metro	EC		R		R														R			A		N	A	N			N		R	R	R					270.8m	1844.1m	2.6m		
3	Mangaung Metro	FS																																									
4	City of Johannesburg Metro	GP	R	R	R	R	A	A			A	A				R	R			R		A	R		R	R		A	A				R	A							-	-	-
5	Ekurhuleni Metro	GP		R		R															R					A	A						R	R							-	105.8m	39.1m
6	Tshwane Metro	GP	A	R		R										A	A			R	R	A		R																	-	-	-
7	eThekweni Metro	KZN		R		R															R	A																			-	325.5m	-
8	City of Cape Town Metro	WC	A	A		N	R										A				A	A																			-	1.7m	-

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Financial health findings	No material unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Legend (Expenditure)	Improved	Regressed
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Number	Auditee	Province	2012-13 audit outcomes			2011-12 audit outcomes			Financial statement qualification areas						Findings on predetermined objectives			Findings on non-compliance													Findings on specific focus areas			Unauthorised, irregular as well as fruitless and wasteful expenditure																		
			Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful	Aggregate misstatements	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted annual financial statements	Unauthorised, irregular, as well as fruitless and wasteful	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committee	Internal audit unit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Procurement and contract management	Human resource management and compensation	Information technology controls	Financial health	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R									
District municipalities																																																				
9	Alfred Nzo District	EC	R	R	R	R	R	A	R	R	N	A	R	R	R	R	R	R	R	R	A	R	R	N	A	A	A	R	N	R	A											127.2m	394.0m	15m								
10	Amatole District	EC		R	A	R														R	R		A	A				R	N													58.7m	17m	0.48m								
11	Chris Hani District	EC	N	N					N	N										N	N	N	N	N				N	N	N													2.3m	25.3m	0.27m							
12	Joe Gqabi District	EC	R			R														R			R	A						A													0.16m	5.4m	0.46m							
13	OR Tambo District	EC	N	R		R	R	R	R	R	R	R	R	R	R	N	N			R	R	R	R	R	R	R	N	R	R	R	N	N													9.2m	246.2m	15.0m					
14	Lejweleputswa District	FS	R	R	R	R										R	R			R	R	R	N	R		N	N	R	R	A		A												0.23m	20.7m	-						
15	West Rand District	GP	R	R	A	R														R	A	N	N		R				N		A													-	-	-						
16	Harry Gwala District	KZN	N	N												N	N			N	N		N		N	N	N	N	N		N														16.15m	267.2m	0.48m					
17	Ilembe District	KZN	R	R	A	R														R	R		N				N			A														0.07m	16.3m	0.07m						
18	Ugu District	KZN	R	R	R	R	R	R	N	N	R	A	N			R	R			R	R	R	R		N	R	N		N	R	N	A														8.2m	44.0m	0.81m				
19	uMkhanyakude District	KZN	R	R	R	R	A	A	R	R	R		A	A		R	N			R	R	R	A		R		N	N		N		R	N													47.6m	248.6m	0.03m				
20	Uthungulu District	KZN		A	A	R																							A																-	-	-					
21	Sekhukhune District	LP			R	R																																														
22	Dr Kenneth Kaunda District	NW	A	R	R	R						R				A	A			R	R	R					N	N		N		R	R															-	-	-		
23	Central Karoo District	WC																																																		
Local municipalities																																																				
24	Blue Crane Route	EC	R	R	R	R	R	R		A			R	R	R	R			R	R	R	R	R	A	N	R	N	A	R	R	N	R																0.36m	25.7m	0.01m		
25	Nkonkobe	EC	R	R	N	R	N	A	R		N	A	R	R	N	R	R			R	R	R	N	R	R	N	N	A	R	A		R	N																	-	116m	2.2m
26	Port St. Johns	EC	R	R	R	R	A	R	R		R		A	R	N	R	R			R	R	R		N	R		R		N	R	N	R	A																			
27	Maluti-A-Phofung	FS	R	R	R	R	R	R	R	R	R	R	R	R		R	N	A		R	R	R	R		R	R	N	R	R	R	R	R	R	R																		
28	Hibiscus Coast	KZN	A	R	R	N										A	A			N	R	A	N		R	N		R		R	N	N	N																	18.3m	20.7m	0.12m
29	Msunduzi	KZN	R	R	R	R										R	A			R	R	A			A			R	A		A	A																				
30	Polokwane	LP			R	R																																														
31	Lekwa-Teemane	NW	R	R	N	N	A	R	R		R	N	R	R		R	R			R	R	R				N	N	N		R	R		R	R																		
32	Moretele	NW	R	R	R	R	R	R	A	R	R	R	R		N	R	N	A		R	R	R	R		R	N	R	R	R	R	R	R	R																			
33	Rustenburg	NW	R	R	R	R	A	R	R	N	R	R	R		R	R			R		A				N	A	N	N		R	R	A	R	N																		

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Financial health findings	No material unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Legend (Expenditure)	Improved	Regressed
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Annexure 2 Auditees' five year audit opinions

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Financial audits <i>(Audit opinions before consolidation of controlled entities, where applicable)</i>							
Metropolitan municipalities							
1	Buffalo City Metro	EC	Unqualified with findings	Unqualified with findings	Qualified with findings	Adverse with findings	Unqualified with findings
2	Nelson Mandela Bay Metro	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
3	Mangaung Metro	FS	Unqualified with findings	Unqualified with findings	Adverse with findings	Adverse with findings	Adverse with findings
4	City of Johannesburg Metro	GP	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with no findings
5	Ekurhuleni Metro	GP	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
6	Tshwane Metro	GP	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
7	eThekweni Metro	KZN	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
8	City of Cape Town Metro	WC	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
District municipalities							
9	Alfred Nzo District	EC	Adverse with findings	Adverse with findings	Adverse with findings	Adverse with findings	Qualified with findings
10	Amatole District	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
11	Cacadu District	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
12	Chris Hani District	EC	Unqualified with findings	Qualified with findings	Adverse with findings	Adverse with findings	Adverse with findings
13	Joe Gqabi District	EC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Qualified with findings
14	OR Tambo District	EC	Adverse with findings	Adverse with findings	Qualified with findings	Unqualified with findings	Unqualified with findings
15	Fezile Dabi District	FS	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
16	Lejweleputswa District	FS	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
17	Thabo Mofutsanyana District	FS	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Adverse with findings
18	Xhariep District	FS	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Adverse with findings
19	Sedibeng District	GP	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
20	West Rand District	GP	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
21	Amajuba District	KZN	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
22	Harry Gwala District	KZN	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
District municipalities							
23	Ilembe District	KZN	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
24	Ugu District	KZN	Adverse with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
25	Umgungundlovu District	KZN	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
26	uMkhanyakude District	KZN	Unqualified with findings	Adverse with findings	Qualified with findings	Unqualified with findings	Adverse with findings
27	uMzinyathi District	KZN	Unqualified with findings	Unqualified with findings	Unqualified with no findings	Unqualified with findings	Unqualified with findings
28	uThukela District	KZN	Adverse with findings	Adverse with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
29	Uthungulu District	KZN	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
30	Zululand District	KZN	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
31	Capricorn District	LP	Unqualified with findings	Unqualified with findings	Unqualified with findings	Adverse with findings	Adverse with findings
32	Sekhukhune District	LP	Unqualified with findings	Adverse with findings	Adverse with findings	Adverse with findings	Adverse with findings
33	Mopani District	LP	Unqualified with findings	Adverse with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
34	Vhembe District	LP	Adverse with findings	Adverse with findings	Unqualified with findings	Unqualified with findings	Adverse with findings
35	Waterberg District	LP	Unqualified with findings	Unqualified with no findings	Unqualified with no findings	Unqualified with findings	Unqualified with findings
36	Ehlanzeni District	MP	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with findings
37	Gert Sibande District	MP	Unqualified with findings	Unqualified with findings	Unqualified with no findings	Unqualified with findings	Unqualified with findings
38	Nkangala District	MP	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
39	Frances Baard District	NC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with no findings	Unqualified with no findings
40	John Taolo Gaetsewe District	NC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
41	Namakwa District	NC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
42	Pixley Ka Seme District	NC	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
43	ZF Mgcawu District	NC	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Adverse with findings
44	Bojanala District	NW	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
45	Dr Kenneth Kaunda District	NW	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
46	Dr Ruth S Mompoti District	NW	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings

Legend	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
District municipalities							
47	Ngaka Modiri Molema District	NW	Red	Red	Red	Purple	Red
48	Cape Winelands District	WC	Yellow	Yellow	Yellow	Yellow	Yellow
49	Central Karoo District	WC	Yellow	Yellow	Yellow	Yellow	Yellow
50	Eden District	WC	Yellow	Yellow	Yellow	Yellow	Yellow
51	Overberg District	WC	Yellow	Yellow	Purple	Yellow	Yellow
52	West Coast District	WC	Green	Green	Green	Yellow	Yellow
Local municipalities							
53	Amahlati	EC	Yellow	Purple	Purple	Yellow	Purple
54	Baviaans	EC	Purple	Red	Red	Red	Purple
55	Blue Crane Route	EC	Purple	Purple	Yellow	Purple	Yellow
56	Camdeboo	EC	Purple	Red	Yellow	Yellow	Yellow
57	Elundini	EC	Yellow	Yellow	Yellow	Purple	Purple
58	Emalahleni	EC	Red	Red	Red	Red	Red
59	Engcobo	EC	Yellow	Purple	Red	Red	Red
60	Gariep	EC	Purple	Purple	Purple	Red	Red
61	Great Kei	EC	Purple	Red	Red	Red	Purple
62	Ikwezi	EC	Red	Red	Purple	Yellow	Yellow
63	Ingquza Hill	EC	Yellow	Yellow	Yellow	Purple	Purple
64	Inkwanca	EC	Purple	Red	Red	Purple	Purple
65	Intsika Yethu	EC	Purple	Red	Red	Red	Purple
66	Inxuba Yethemba	EC	Red	Red	Purple	Purple	Purple
67	King Sabata Dalindyebo	EC	Red	Red	Red	Red	Purple
68	Kou Kamma	EC	Purple	Purple	Red	Red	Red
69	Kouga	EC	Purple	Purple	Red	Purple	Yellow
70	Lukhanji	EC	Red	Red	Red	Red	Yellow
71	Makana	EC	Grey	Red	Red	Red	Purple
72	Maletswai	EC	Purple	Purple	Purple	Red	Red

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Local municipalities							
73	Matatiele	EC	Yellow	Yellow	Yellow	Yellow	Yellow
74	Mbhashe	EC	Purple	Purple	Purple	Red	Red
75	Mbizana	EC	Purple	Purple	Red	Red	Red
76	Mhlonlo	EC	Purple	Purple	Purple	Red	Red
77	Mnquma	EC	Purple	Yellow	Yellow	Purple	Red
78	Ndlambe	EC	Purple	Purple	Purple	Purple	Purple
79	Ngqushwa	EC	Red	Red	Red	Purple	Red
80	Nkonkobe	EC	Purple	Purple	Purple	Red	Red
81	Ntabankulu	EC	Purple	Purple	Purple	Purple	Red
82	Nxuba	EC	Purple	Red	Red	Red	Red
83	Nyandeni	EC	Yellow	Purple	Red	Yellow	Purple
84	Port St. Johns	EC	Purple	Purple	Purple	Yellow	Purple
85	Sakhisizwe	EC	Purple	Purple	Purple	Purple	Red
86	Senqu	EC	Yellow	Yellow	Yellow	Yellow	Yellow
87	Sundays River Valley	EC	Grey	Purple	Purple	Red	Red
88	Tsolwana	EC	Yellow	Purple	Yellow	Purple	Purple
89	Umzimvubu	EC	Yellow	Yellow	Yellow	Purple	Purple
90	Dihlabeng	FS	Yellow	Yellow	Purple	Purple	Red
91	Kopanong	FS	Purple	Red	Red	Red	Red
92	Letsemeng	FS	Purple	Purple	Red	Purple	Red
93	Mafube	FS	Red	Red	Red	Red	Red
94	Maluti-A-Phofung	FS	Red	Red	Red	Red	Red
95	Mantsopa	FS	Red	Red	Purple	Purple	Red
96	Masilonyana	FS	Purple	Purple	Red	Red	Red
97	Matjhabeng	FS	Red	Red	Red	Red	Red
98	Metsimaholo	FS	Purple	Purple	Red	Red	Red
99	Mohokare	FS	Purple	Red	Red	Red	Purple

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Local municipalities							
100	Moqhaka	FS					
101	Nala	FS					
102	Naledi	FS					
103	Ngwathe	FS					
104	Nketoana	FS					
105	Phumelela	FS					
106	Setsoto	FS					
107	Tokologo	FS					
108	Tswelopele	FS					
109	Emfuleni	GP					
110	Lesedi	GP					
111	Merafong City	GP					
112	Midvaal	GP					
113	Mogale City	GP					
114	Randfontein	GP					
115	Westonaria	GP					
116	Abaqulusi	KZN					
117	Dannhauser	KZN					
118	eDumbe	KZN					
119	eMadlangeni	KZN					
120	eMnambithi / Ladysmith	KZN					
121	Endumeni	KZN					
122	Ezinqoleni	KZN					
123	Greater Kokstad	KZN					
124	Hibiscus Coast	KZN					

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Local municipalities							
125	Hlabisa	KZN					
126	Imbabazane	KZN					
127	Impendle	KZN					
128	Indaka	KZN					
129	Ingwe	KZN					
130	Jozini	KZN					
131	Kwa Sani	KZN					
132	Kwadukuza	KZN					
133	Mandeni	KZN					
134	Maphumulo	KZN					
135	Mfolozi	KZN					
136	Mkhambathini	KZN					
137	Mpofana	KZN					
138	Msinga	KZN					
139	Msunduzi	KZN					
140	Mthonjaneni	KZN					
141	Mtubatuba	KZN					
142	Ndwedwe	KZN					
143	Newcastle	KZN					
144	Nkandla	KZN					
145	Nongoma	KZN					
146	Nquthu	KZN					
147	Ntambanana	KZN					
148	Okhahlamba	KZN					
149	Richmond	KZN					

Legend	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Local municipalities							
150	The Big Five False Bay	KZN					
151	Ubuhlebezwe	KZN					
152	Ulundi	KZN					
153	Umdoni	KZN					
154	uMhlabuyalingana	KZN					
155	uMhlatuze	KZN					
156	Umlalazi	KZN					
157	Umngeni	KZN					
158	uMshwathi	KZN					
159	Umtshezi	KZN					
160	Umuziwabantu	KZN					
161	Umvoti	KZN					
162	uMzimkhulu	KZN					
163	Umzumbe	KZN					
164	uPhongolo	KZN					
165	Vulamehlo	KZN					
166	Aganang	LP					
167	Ba-Phalaborwa	LP					
168	Bela-Bela	LP					
169	Blouberg	LP					
170	Elias Motsoaledi	LP					
171	Ephraim Mogale	LP					
172	Fetakgomo	LP					
173	Greater Giyani	LP					
174	Greater Letaba	LP					
175	Greater Tzaneen	LP					
176	Lepelle Nkumpi	LP					

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Local municipalities							
177	Lephalale	LP					
178	Makhado	LP					
179	Makhudutamaga	LP					
180	Maruleng	LP					
181	Modimolle	LP					
182	Mogalakwena	LP					
183	Molemole	LP					
184	Mookgophong	LP					
185	Musina	LP					
186	Mutale	LP					
187	Polokwane	LP					
188	Thabazimbi	LP					
189	Thulamela	LP					
190	Tubatse	LP					
191	Albert Luthuli	MP					
192	Bushbuckridge	MP					
193	Dipaliseng	MP					
194	Dr. JS Moroka	MP					
195	Emakhazeni	MP					
196	Emalahleni	MP					
197	Govan Mbeki	MP					
198	Lekwa	MP					
199	Mbombela	MP					
200	Mkhondo	MP					
201	Msukaligwa	MP					
202	Nkomazi	MP					
203	Pixley Ka Seme	MP					

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Local municipalities							
204	Steve Tshwete	MP	Green	Green	Green	Green	Yellow
205	Thaba Chweu	MP	Red	Red	Red	Red	Red
206	Thembisile Hani	MP	Purple	Purple	Purple	Red	Red
207	Umjindi	MP	Purple	Purple	Red	Red	Purple
208	Victor Khanye	MP	Purple	Yellow	Green	Green	Purple
209	IKheis	NC	Grey	Red	Red	Red	Red
210	Dikgatlong	NC	Red	Red	Red	Red	Red
211	Emthanjeni	NC	Yellow	Purple	Purple	Red	Red
212	Gamagara	NC	Purple	Red	Yellow	Yellow	Purple
213	Ga-Segonyana	NC	Red	Red	Red	Red	Red
214	Hantam	NC	Purple	Purple	Purple	Yellow	Purple
215	Joe Morolong	NC	Red	Red	Red	Red	Red
216	Kai !Garib	NC	Red	Red	Red	Red	Red
217	Kamiesberg	NC	Red	Red	Red	Red	Red
218	Kareeberg	NC	Purple	Yellow	Yellow	Yellow	Green
219	Karoo Hoogland	NC	Grey	Grey	Purple	Purple	Red
220	Kgatelopele	NC	Red	Red	Red	Purple	Red
221	Khai-Ma	NC	Yellow	Yellow	Yellow	Yellow	Yellow
222	Khara Hais	NC	Purple	Red	Yellow	Yellow	Purple
223	Magareng	NC	Grey	Red	Red	Red	Red
224	Mier	NC	Red	Purple	Red	Red	Red
225	Nama Khoi	NC	Grey	Red	Red	Red	Red
226	Phokwane	NC	Red	Red	Red	Red	Red

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Local municipalities							
227	Renosterberg	NC	Red	Red	Red	Red	Red
228	Richtersveld	NC	Yellow	Yellow	Yellow	Yellow	Yellow
229	Siyancuma	NC	Red	Red	Red	Red	Red
230	Siyathemba	NC	Red	Red	Red	Red	Red
231	Sol Plaatje	NC	Purple	Purple	Purple	Red	Red
232	Thembelihle	NC	Red	Red	Red	Red	Red
233	Tsantsabane	NC	Red	Red	Red	Red	Red
234	Ubuntu	NC	Yellow	Purple	Red	Purple	Red
235	Umsobomvu	NC	Yellow	Yellow	Red	Red	Red
236	Ditsobotla	NW	Red	Red	Red	Red	Red
237	Greater Taung	NW	Red	Red	Purple	Purple	Red
238	Kagisano/Molopo	NW	Red	Red	Red	Red	Purple
239	Kgetlengriver	NW	Red	Red	Red	Red	Red
240	Lekwa-Teemane	NW	Red	Red	Red	Red	Red
241	Madibeng	NW	Purple	Red	Red	Red	Red
242	Mafikeng	NW	Red	Red	Red	Red	Red
243	Mamusa	NW	Red	Red	Red	Red	Red
244	Maquassi Hills	NW	Red	Red	Red	Red	Red
245	Matlosana	NW	Red	Red	Red	Red	Red
246	Moretele	NW	Red	Red	Red	Red	Red
247	Moses Kotane	NW	Yellow	Purple	Red	Red	Red
248	Naledi	NW	Yellow	Red	Red	Red	Purple
249	Ramotshere Moiloa	NW	Red	Red	Red	Purple	Purple

Legend	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Local municipalities							
250	Ratlou	NW					
251	Rustenburg	NW					
252	Tlokwe	NW					
253	Tswaing	NW					
254	Ventersdorp	NW					
255	Beaufort West	WC					
256	Berg River	WC					
257	Bitou	WC					
258	Breede Valley	WC					
259	Cape Agulhas	WC					
260	Cederberg	WC					
261	Drakenstein	WC					
262	George	WC					
263	Hessequa	WC					
264	Kannaland	WC					
265	Knysna	WC					
266	Laingsburg	WC					
267	Langeberg	WC					
268	Matzikama	WC					
269	Mossel Bay	WC					
270	Oudtshoorn	WC					
271	Overstrand	WC					
272	Prince Albert	WC					
273	Saldanha Bay	WC					
274	Stellenbosch	WC					
275	Swartland	WC					
276	Swellendam	WC					
277	Theewaterskloof	WC					
278	Witzenberg	WC					

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Municipal entities							
279	Alfred Nzo Development Agency	EC					
280	Amathole Economic Development Agency	EC					
281	Blue Crane Route Development Agency	EC					
282	Buffalo City Development Agency	EC					
283	Chris Hani Development Agency	EC					
284	Joe Gqabi Economic Development Agency	EC					
285	Mandela Bay Development Agency	EC					
286	Nkonkobe Economic Development Agency	EC					
287	Ntinga OR Tambo Development Agency	EC					
288	Port St. Johns Development Agency	EC					
289	Centlec (Soc) Ltd	FS					
290	Lejwe Le Putswa Development Agency (Pty) Ltd	FS					
291	M aluti-A-Phofung Water (Pty) Ltd	FS					
292	Brakpan Bus Company (Pty) Ltd	GP					
293	City Power Johannesburg (Soc) Ltd	GP					
294	East Rand Water Care Company NPC	GP					
295	Ekurhuleni Development Company SOC Ltd	GP					
296	Germiston Phase II Housing Company SOC Ltd	GP					
297	Housing Company Tshwane	GP					
298	Joburg City Theatres (SOC) Ltd	GP					
299	Joburg Property Company	GP					
300	Johannesburg City Parks	GP					
301	Johannesburg Development Agency (Soc) Ltd	GP					
302	Johannesburg Fresh Produce Market	GP					
303	Johannesburg Metropolitan Bus Services	GP					
304	Johannesburg Roads Agency	GP					
305	Johannesburg Social Housing Company	GP					
306	Johannesburg Tourism Company	GP					
307	Johannesburg Water	GP					

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Municipal entities							
308	Johannesburg Zoo	GP					
309	Lethabong Housing Institute NPC	GP					
310	Metropolitan Trading Company	GP					
311	Pharo e Park Housing Company SOC Ltd	GP					
312	Pikitup Johannesburg	GP					
313	Rodepoort Civic Theatre	GP					
314	Sandspruit Works Association	GP					
315	Tshwane Economic Development Agency (TEDA)	GP					
316	West Rand Development Agency	GP					
317	Durban Marine Theme Park (Pty) Ltd	KZN					
318	Hibiscus Coast Development Agency	KZN					
319	ICC, Durban (Pty) Ltd	KZN					
320	Ilembe Management Development Enterprise (Pty) Ltd	KZN					
321	Safe City Pietermaritzburg	KZN					
322	Sisonke Economic Development Agency	KZN					
323	Ugu South Coast Tourism	KZN					
324	uMhloosinga Development Agency	KZN					
325	Uthukela Water (Pty) Ltd	KZN					
326	uThungulu Financing Partnership	KZN					
327	uThungulu House Development Trust	KZN					
328	Polokwane Housing Association	LP					
329	Sekhukhune Development Agency	LP					
330	Dr KKDM Economic Agency	NW					

Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
Municipal entities							
331	Lekwa Teemane Development Agency	NW					
332	Moretele Development Agency	NW					
333	Rustenburg Water Services Trust	NW					
334	Cape Town International Convention Centre	WC					
335	Central Karoo Economic Development Agency	WC					
Consolidation audits (Audit opinions on financial statements that include more than one auditee)							
Metropolitan municipalities							
1	Buffalo City Metro	EC					
2	Nelson Mandela Bay Metro	EC					
3	Mangaung Metro	FS					
4	City of Johannesburg Metro	GP					
5	Ekurhuleni Metro	GP					
6	Tshwane Metro	GP					
7	eThekweni Metro	KZN					
8	City of Cape Town Metro	WC					
District municipalities							
9	Alfred Nzo District	EC					
10	Amatole District	EC					
11	Chris Hani District	EC					
12	Joe Gqabi District	EC					
13	OR Tambo District	EC					
14	Lejweleputswa District	FS					
15	West Rand District	GP					

Legend	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimer with findings	Audit not finalised at legislated date	New auditee
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Number	Auditee	Province	Audit opinions				
			2012-13	2011-12	2010-11	2009-10	2008-09
District municipalities							
16	Harry Gwala District	KZN					
17	Ilembe District	KZN					
18	Ugu District	KZN					
19	uMkhanyakude District	KZN					
20	Uthungulu District	KZN					
21	Sekhukhune District	LP					
22	Dr Kenneth Kaunda District	NW					
23	Central Karoo District	WC					
Local municipalities							
24	Blue Crane Route	EC					
25	Nkonkobe	EC					
26	Port St. Johns	EC					
27	Maluti-A-Phofung	FS					
28	Hibiscus Coast	KZN					
29	Msunduzi	KZN					
30	Polokwane	LP					
31	Lekwa-Teemane	NW					
32	Moretele	NW					
33	Rustenburg	NW					

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

Number	Auditee	Province	Leadership								Financial and performance								Governance																								
			Movement		Effective leadership culture		Oversight responsibility		HR management		Policies and procedures		Action plans		IT governance		Movement		Proper record keeping		Processing and reconciling controls		Reporting		Compliance		IT system controls		Movement		Risk management		Internal audit unit		Audit committee								
			F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C					
Metropolitan municipalities																																											
1	Buffalo City Metro	EC	↑	↑	↑																																	↑	↑	↑			
2	Nelson Mandela Bay Metro	EC	↑	↓	↔																																	↔	↓	↓			
3	Mangaung Metro	FS	↑	↑	↑																																		↑	↑	↑		
4	City of Johannesburg Metro	GP	↑	↑	↑																																		↔	↔	↔		
5	Ekurhuleni Metro	GP	↔	↓	↔																																		↑	↑	↑		
6	Tshwane Metro	GP	↓	↓	↓																																		↔	↔	↔		
7	eThekweni Metro	KZN	↑	↑	↑																																		↔	↔	↔		
8	City of Cape Town Metro	WC	↔	↑	↑																																		↔	↔	↔		
District municipalities																																											
9	Alfred Nzo District	EC	↑	↑	↑																																			↔	↑	↑	
10	Amatole District	EC	↔	↑	↓																																			↓	↓	↓	
11	Cacadu District	EC	↔	↔	↑																																			↑	↔	↑	
12	Chris Hani District	EC	↑	↑	↔																																			↔	↔	↔	
13	Joe Gqabi District	EC	↓	↓	↓																																			↓	↓	↓	
14	OR Tambo District	EC	↔	↔	↔																																			↔	↔	↔	
15	Fezile Dabi District	FS	↑	↑	↑																																				↑	↑	↑
16	Lejweletswa District	FS	↔	↔	↔																																			↔	↔	↔	
17	Thabo Mofutsanyana District	FS	↑	↑	↑																																				↑	↑	↑
18	Xhariep District	FS	↓	↓	↓																																			↓	↓	↓	
19	Sedibeng District	GP	↑	↑	↑																																			↔	↓	↑	
20	West Rand District	GP	↑	↔	↑																																			↑	↔	↔	
21	Amajuba District	KZN	↑	↑	↑																																			↓	↓	↓	
22	Harry Gwala District	KZN	↑	↓	↑																																			↑	↔	↔	
23	Ilembe District	KZN	↑	↑	↑																																			↓	↔	↓	
24	Ugu District	KZN	↓	↓	↓																																			↔	↔	↔	
25	Umgungundlovu District	KZN	↓	↓	↓																																			↓	↑	↓	
26	uMkhanyakude District	KZN	↑	↑	↑																																			↓	↔	↔	
27	uMzinyathi District	KZN	↓	↑	↑																																			↓	↔	↔	
28	uThukela District	KZN	↔	↔	↔																																			↔	↔	↓	
29	Uthungulu District	KZN	↑	↑	↔																																			↔	↑	↑	
30	Zululand District	KZN	↑	↔	↔																																				↔	↔	↔

Legend	Status at the time of the audit			Legend	Impact area			Legend	Movement over prior year		
	Good	In progress	Intervention required		F	P	C		↑	↔	↓

Number	Auditee	Province	Leadership																								Financial and performance																		Governance											
			Movement			Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit unit			Audit committee					
			F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C									
Local municipalities																																																								
90	Mafube	FS	↓	↔	↔																																																			
91	Maluti-A-Phofung	FS	↓	↓	↓																																																			
92	Mantsopa	FS	↔	↔	↔																																																			
93	Masilonyana	FS	↑	↔	↑																																																			
94	Matjhabeng	FS	↔	↔	↔																																																			
95	Metsimaholo	FS	↑	↑	↑																																																			
96	Mohokare	FS	↑	↑	↑																																																			
97	Moqhaka	FS	↔	↔	↔																																																			
98	Naledi	FS	↔	↔	↔																																																			
99	Ngw athe	FS	↔	↔	↔																																																			
100	Nketoana	FS	↑	↑	↔																																																			
101	Phumelela	FS	↑	↑	↑																																																			
102	Setsoto	FS	↔	↔	↔																																																			
103	Tokologo	FS	↑	↑	↔																																																			
104	Tsw elopele	FS	↔	↔	↔																																																			
105	Emfuleni	GP	↑	↑	↑																																																			
106	Lesedi	GP	↔	↔	↔																																																			
107	Merafong City	GP	↓	↓	↓																																																			
108	Midvaal	GP	↔	↔	↓																																																			
109	Mogale City	GP	↑	↑	↑																																																			
110	Randfontein	GP	↑	↑	↑																																																			
111	Westonaria	GP	↔	↔	↔																																																			
112	Abaqulusi	KZN	↔	↔	↔																																																			
113	Dannhauser	KZN	↔	↔	↔																																																			
114	eDumbe	KZN	↑	↑	↔																																																			
115	eMahlangueni	KZN	↔	↓	↑																																																			
116	eMhambithi / Ladysmith	KZN	↑	↑	↑																																																			
117	Endumeni	KZN	↓	↓	↓																																																			
118	Ezinqoleni	KZN	↑	↑	↑																																																			

Number	Auditee	Province	Leadership																								Financial and performance															Governance											
			Movement			Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit unit			Audit committee		
			F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C			
Local municipalities																																																					
151	uMhlatuze	KZN	↑	↑	↔																																																
152	Umlalazi	KZN	↑	↑	↔																																																
153	Umngeni	KZN	↑	↑	↑																																																
154	uMshwathi	KZN	↑	↓	↓																																																
155	Umtshezi	KZN	↓	↓	↓																																																
156	Umuziwabantu	KZN	↓	↑	↑																																																
157	Umvoti	KZN	↑	↑	↑																																																
158	uMzimkhulu	KZN	↑	↑	↔																																																
159	Umzumbe	KZN	↔	↔	↔																																																
160	uPhongolo	KZN	↑	↓	↑																																																
161	Vulamehlo	KZN	↓	↓	↓																																																
162	Aganang	LP	↑	↔	↑																																																
163	Ba-Phalaborwa	LP	↔	↔	↔																																																
164	Bela-Bela	LP	↑	↑	↑																																																
165	Blouberg	LP	↑	↔	↔																																																
166	Elias Motsoaledi	LP	↓	↓	↓																																																
167	Ephraim Mogale	LP	↓	↓	↓																																																
168	Fetakgomo	LP	↔	↑	↔																																																
169	Greater Letaba	LP	↓	↔	↓																																																
170	Lepelle Nkumpi	LP	↔	↔	↔																																																
171	Lephalale	LP	↓	↑	↓																																																
172	Makhado	LP	↑	↑	↑																																																
173	Makhudutamaga	LP	↔	↔	↔																																																
174	Maruleng	LP	↔	↓	↓																																																
175	Modimolle	LP	↔	↔	↔																																																
176	Mogalakwena	LP	↓	↓	↓																																																
177	Mookgophong	LP	↔	↔	↔																																																
178	Musina	LP	↑	↑	↑																																																
179	Mutale	LP	↔	↔	↔																																																
180	Polokwane	LP	↑	↑	↑																																																
181	Thabazimbi	LP	↔	↔	↔																																																
182	Thulamela	LP	↔	↔	↔																																																

Number	Auditee	Province	Leadership																								Financial and performance												Governance																	
			Movement			Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit unit			Audit committee					
			F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C			
Local municipalities																																																								
250	Breede Valley	WC	↑	↔	↑																																																			
251	Cape Agulhas	WC	↓	↔	↔																																																			
252	Cederberg	WC	↑	↑	↑																																																			
253	Drakenstein	WC	↑	↓	↑																																																			
254	George	WC	↑	↑	↑																																																			
255	Hessequa	WC	↑	↑	↑																																																			
256	Kannaland	WC	↔	↑	↔																																																			
257	Knysna	WC	↑	↑	↑																																																			
258	Laingsburg	WC	↑	↑	↑																																																			
259	Langeberg	WC	↑	↔	↔																																																			
260	Matzikama	WC	↓	↔	↑																																																			
261	Mossel Bay	WC	↑	↔	↑																																																			
262	Oudtshoorn	WC	↓	↓	↓																																																			
263	Overstrand	WC	↔	↔	↔																																																			
264	Prince Albert	WC	↓	↓	↓																																																			
265	Saldanha Bay	WC	↓	↓	↓																																																			
266	Stellenbosch	WC	↔	↔	↔																																																			
267	Swartland	WC	↔	↓	↔																																																			
268	Swellendam	WC	↔	↔	↔																																																			
269	Theewaterskloof	WC	↑	↑	↑																																																			
270	Witzenberg	WC	↑	↑	↑																																																			
Municipal entities																																																								
271	Alfred Nzo Development Agency	EC	↔	↔	↔																																																			
272	Amathole Economic Development Agency	EC	↓	↓	↓																																																			
273	Blue Crane Route Development Agency	EC	↑	↑	↑																																																			
274	Buffalo City Development Agency	EC	↔	↔	↔																																																			
275	Chris Hani Development Agency	EC	↓	↓	↓																																																			
276	Joe Gqabi Economic Development Agency	EC	↓	↓	↓																																																			
277	Mandela Bay Development Agency	EC	↔	↔	↔																																																			
278	Nkonkobe Economic Development Agency	EC	↑	↔	↑																																																			
279	Ntinga OR Tambo Development Agency	EC	↔	↔	↔																																																			

Legend	Status at the time of the audit		
	Good	In progress	Intervention required

Legend	Impact area		
	F Financial	P Performance	C Compliance

Legend	Movement over prior year		
	↑ Improved	↔ Unchanged	↓ Regressed

Number	Auditee	Province	Leadership												Financial and performance												Governance																										
			Movement			Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit unit			Audit committee		
			F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C			
Municipal entities																																																					
309	Tshwane Economic Development Agency (TEDA)	GP	↔	↔	↔																																																
310	West Rand Development Agency	GP	↑	↑	↑																																																
311	Durban Marine Theme Park (Pty) Ltd	KZN	↔	↔	↔																																																
312	Hibiscus Coast Development Agency	KZN	↓	↓	↔																																																
313	ICC, Durban (Pty) Ltd	KZN	↔	↔	↔																																																
314	Ilembe Management Development Enterprise (Pty) Ltd	KZN	↔	↔	↔																																																
315	Safe City Pietermaritzburg	KZN	↔	↔	↔																																																
316	Sisonke Economic Development Agency	KZN	↔	↔	↔																																																
317	Ugu South Coast Tourism	KZN	↑	↑	↑																																																
318	uMhlosinga Development Agency	KZN	↔	↔	↔																																																
319	Uthukela Water (Pty) Ltd	KZN	↔	↔	↑																																																
320	uThungulu Financing Partnership	KZN	↔	↔	↔																																																
321	uThungulu House Development Trust	KZN	↔	↔	↔																																																
322	Polokwane Housing Association	LP	↑	↑	↑																																																
323	Dr KKDM Economic Agency	NW	↔	↔	↔																																																
324	Lekwa Teemane Development Agency	NW	↑	↔	↔																																																
325	Moretele Development Agency	NW	↔	↔	↔																																																
326	Rustenburg Water Services Trust	NW	↔	↔	↔																																																
327	Cape Town International Convention Centre	WC	↔	↔	↑																																																
328	Central Karoo Economic Development Agency	WC																																																			
329	Knysna Economic Development Agency	WC	↑	↑	↑																																																

Legend	Status at the time of the audit		
	Good	In progress	Intervention required

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Legend	Movement over prior year		
	↑ Improved	↔ Unchanged	↓ Regressed

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GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

Glossary of key terminology used in this report

Adverse audit opinion (on financial statements)

(Overall audit outcomes, section 2.1)

The financial statements contain misstatements (*see 'misstatement'*) that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

Asset (in financial statements)

(Uncorrected material misstatements in financial statements, section 3.1)

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

Assurance / assurance provider

(Initiatives and impact of key role players on audit outcomes, section 5)

As used in this report, a positive declaration that is intended to give confidence in the credibility of financial and performance reports tabled by auditees as well as confidence in the extent to which auditees have adhered to applicable legislation.

Through the audit report, we provide assurance on the credibility of auditees' financial and performance information as well as their compliance with legislation.

There are role players in local government, other than the external auditors, that are also required to contribute to assurance and confidence by ensuring that adequate internal controls are implemented to achieve auditees' financial, service delivery and compliance objectives. Such assurance providers include senior auditee officials, various committees (for example, municipal public accounts committees, performance committees and audit committees) and internal audit units.

Other role players that should provide assurance further include oversight structures and coordinating or monitoring departments (which are defined elsewhere in this glossary).

Capital budget

(Key risk area, financial health, section 3.5)

The estimated amount planned to be spent by auditees on capital items in a particular financial period; for example, fixed assets such as property, infrastructure and equipment with long expected lives and that are required to provide services, produce income or support operations.

Cash flow (in financial statements)

(Key risk area, financial health, section 3.5)

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

Clean audit (on financial statements)

(Overall audit outcomes, section 2.1)

The financial statements receive a financially unqualified audit opinion and there are no material findings on the quality of the annual performance report or non-compliance with legislation.

Commitments from role players

(Initiatives and impact of key role players on audit outcomes, section 5)

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

Conditional grants

(Key risk area, financial health, section 3.5)

Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.

Consolidated financial statements

(Overall audit outcomes, section 2.1)

Financial statements that reflect the combined financial position and results of a municipality and those of the municipal entities under its control.

Creditors

(Compliance with legislation, section 2.3)

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

Current assets (in financial statements)

(Key risk area, financial health, section 3.5)

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

Disclaimer of opinion (on financial statements)

(Overall audit outcomes, section 2.1)

The auditee provided insufficient evidence in the form of documentation on which we could base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.

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

(Significant deficiencies in internal controls, section 4.1)

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

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

Financially unqualified audit opinion (on financial statements)

(Overall audit outcomes, section 2.1)

The financial statements contain no material misstatements (see 'material misstatement'). Unless we express a clean audit opinion, findings have been raised on either the annual performance report or non-compliance with legislation, or both these aspects.

Fruitless and wasteful expenditure

(Compliance with legislation, section 2.3.3)

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

Going concern

(Key risk area, financial health, section 3.5)

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

Governance (as one of the drivers of internal control)

(Significant deficiencies in internal controls, section 4.1)

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

Human resource (HR) management

(Key risk area, HR, section 3.3.1)

The management of an auditee's employees, or human resources, which involves adequate and sufficiently skilled people as well as the adequate management of their performance and productivity.

Information technology (IT)

(Key risk area, IT, section 3.4)

The computer systems used for capturing and reporting financial and non-financial transactions.

IT controls

(Key risk area, IT, section 3.4)

Computer-related controls ensure the confidentiality, integrity and availability of state information, enable service delivery and promote national security.

IT governance

(Key risk area, IT, section 3.4)

The leadership, organisational structures and processes which ensure that the auditee's IT resources will sustain its strategies and objectives.

IT security management

(Key risk area, IT, section 3.4)

The controls preventing unauthorised access to auditee networks, operating systems and application systems that generate financial information.

IT service continuity

(Key risk area, IT, section 3.4)

The processes managing the availability of hardware, system software, application software and data to enable auditees to recover or re-establish information system services in the event of a disaster.

IT user access management

(Key risk area, IT, section 3.4)

The procedures through which auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the information systems.

Internal control/key controls

(Significant deficiencies in internal controls, section 4.1)

The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable legislation.

It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.

Irregular expenditure

(Compliance with legislation, section 2.3.2)

Key drivers of internal control

(Significant deficiencies in internal controls, section 4.1)

Leadership (as one of the drivers of internal control)

(Significant deficiencies in internal controls, section 4.1)

Material finding (from the audit)

(SCM, HR management, IT controls)

Material misstatement (in financial statements or annual performance reports)

(Key risk area, quality of the annual performance reports, section 2.2; Key risk area, quality of the financial statements, section 3.1)

Misstatement (in financial statements or annual performance reports)

(Key risk area, quality of the annual performance reports, section 2.2; Key risk area, quality of the financial statements, section 3.1)

Net current liability

(Key risk area, financial health, section 3.5)

Net deficit (incurred by auditee)

(Key risk area, financial health, section 3.5)

Operational budget/operating budget

(Key risk area, financial health, section 3.5)

Oversight structures as well as coordinating and monitoring departments

(Initiatives and impact of key role players on audit outcomes, section 5)

Expenditure incurred without complying with applicable legislation.

The three components of internal control that should be addressed to improve audit outcomes, namely *leadership*, *financial and performance management*, and *governance* (which are defined elsewhere in this glossary.)

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

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

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

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

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

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

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

A short-term budget, usually prepared annually, based on estimates of income and expenses associated with the auditee's operations, such as service delivery costs, administration and salaries.

Oversight structures consist of the provincial legislatures, the portfolio committees on local government and the National Council of Provinces.

Coordinating or monitoring departments include the Department of Performance Monitoring and Evaluation, the National Treasury and provincial treasuries, the national and provincial departments of cooperative governance as well as the offices of the premier.

Property, infrastructure and equipment (in financial statements)

(Uncorrected material misstatements in financial statements, section 3.1)

Qualified audit opinion (on financial statements)

(Overall audit outcomes, section 2.1)

Receivables/debtors (in financial statements)

(Uncorrected material misstatements in financial statements, section 3.1)

Reconciliation (of accounting records)

(Significant deficiencies in internal controls, section 4.1)

Root causes (of audit outcomes)

(Summary of root causes, section 4.2)

Supply chain management (SCM)

(Compliance with legislation, section 3.2)

Unauthorised expenditure

(Compliance with legislation, section 2.3.1)

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

The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.

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

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

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

Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.

Expenditure that was in excess of the amount budgeted or allocated by government to the auditee, or that was not incurred in accordance with the purpose for which it was intended.

Acronyms and abbreviations

AFS	annual financial statements
AG	auditor-general (the person)
AGSA	Auditor-General of South Africa (the institution)
APAC	Association of Public Accounts Committees
APP	annual performance plan
BCP	business continuity plan
CEO	chief executive officer
CFO	chief financial officer
CGICTPF	corporate governance of information and communication technology policy framework
CoGTA	Department of Cooperative Governance and Traditional Affairs
CWP	community works programme
DBSA	Development Bank of Southern Africa
DM	district municipality
DoRA	Division of Revenue Act
DPME	Department of Performance Monitoring and Evaluation
DPSA	Department of Public Service and Administration
DRP	disaster recovery plan
FMPPI	framework for managing programme performance information
GITO	government information technology officer
GRAP	Generally Recognised Accounting Practice
HR	human resources
ICT	information and communication technology

IDP	integrated development plan
IT	information technology
LGTAS	local government turnaround strategy
LM	local municipality
MAT	municipal assessment tool
ME	municipal entity
MEC	member of the executive council
metro	metropolitan municipality
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MIG	municipal infrastructure grant
MIS	management information system
MISA	Municipal Infrastructure Support Agent
MPAC	municipal public accounts committee
MPAT	management performance assessment tool
MSA	Municipal Systems Act, 2000 (Act No. 32 of 2000)
MSIG	municipal systems improvement grant
MTEF	medium-term expenditure framework
MTREF	medium-term revenue and expenditure framework
NCOP	National Council of Provinces
OCA	Operation clean audit
PAC	public accounts committee
PDO	predetermined objective
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)

PMS	performance management system
Rxx b	billions of rand
Rxx k	thousands of rand
Rxx m	millions of rand
SALGA	South African Local Government Association
SCM	supply chain management
SCOA	standard chart of accounts
SDBIP	service delivery and budget implementation plan
SLA	service level agreement



AUDITOR - GENERAL
SOUTH AFRICA

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