



GENERAL REPORT
ON THE AUDIT OUTCOMES OF THE
WESTERN CAPE
LOCAL GOVERNMENT
2010-11

PR184/2012
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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 laws and regulations.

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

Auditor-General: Terence Nombembe



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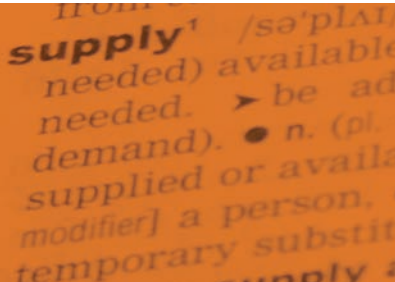


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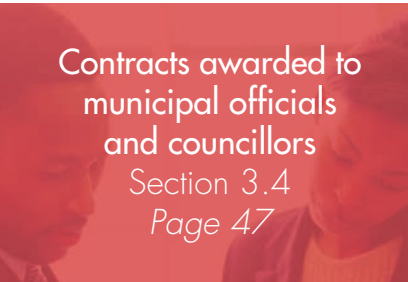
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supply¹ /sə'plai/ (needed) available needed. ▶ be ade demand). • n. (pl. -ies) supplied or availa modifier] a person, e temporary substitu supply a



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Missing contract documentation
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A close-up photograph of a silver calculator with a black display showing '2533'. The calculator is resting on a stack of papers with printed text.

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A close-up photograph of a person's hand in a dark suit jacket pointing at a document or screen. The background is slightly blurred.

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100 YEARS
1911-2011

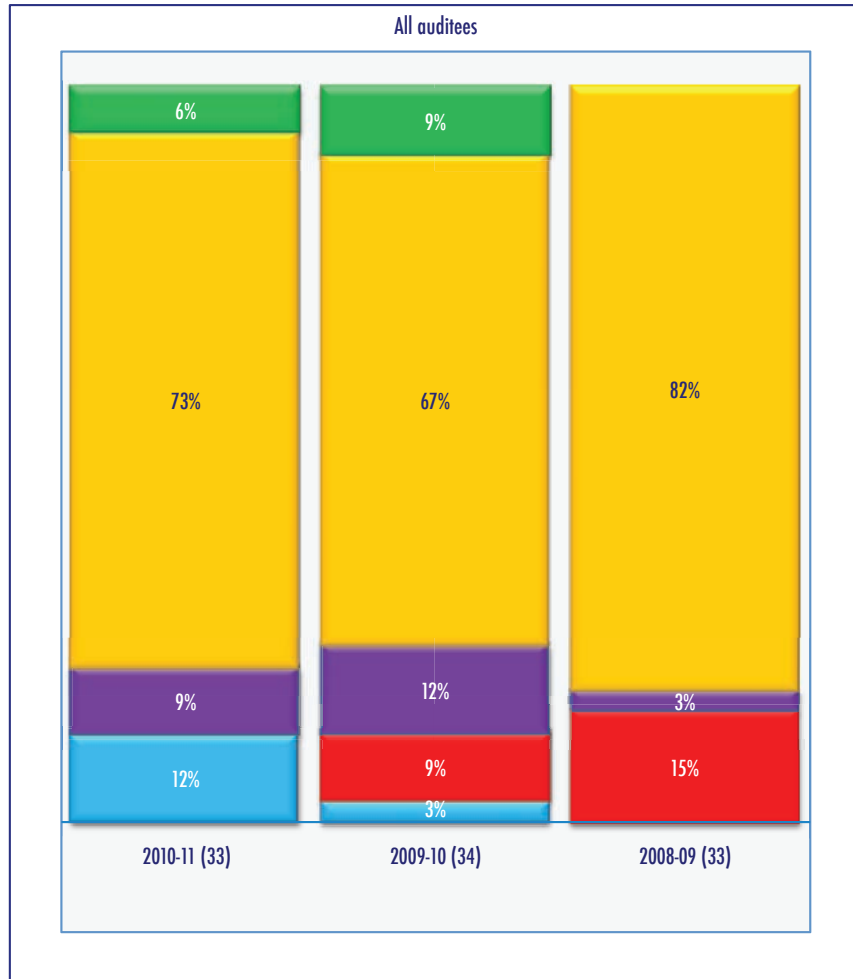


Our reputation promise/mission

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

Slow progress towards clean audits and a high proportion of financial statements remained financially unqualified with findings on both compliance and predetermined objectives.

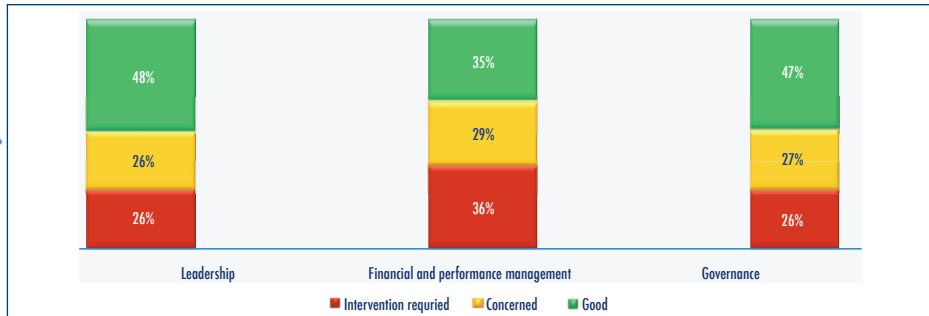
Limited progress made in addressing internal key control deficiencies, their impact on the five risk areas and the root causes thereof.



Five risk areas



Key controls



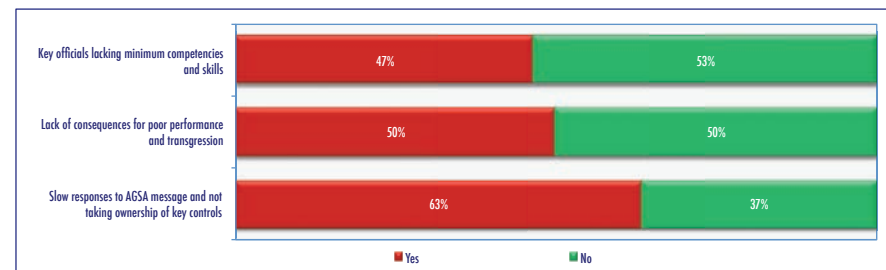
Root causes



Stagnated audit outcomes are due to high prevalence of the root causes.

Pervasive root causes

Pervasive root causes





SECTION 1: FOREWORD

It is with pleasure that I present to the legislature and municipal councils of the Western Cape my 2010-11 general report summarising the results of the audit outcomes for local government for the financial year ended 30 June 2011.

The underlying reasons for the stagnation of audit outcomes in unqualified reports included a level of leadership instability at these municipalities resulting in a lack of consequences for poor performance and transgressions, leadership not being responsive to the AGSA messages and not taking ownership to improve key controls as identified quarterly by the AGSA. The province ought to take advantage of the availability of adequately skilled staff in the majority (53%) of municipalities to eliminate the extensive use of consultants and establish decisive plans to address the shortage of key staff with the right skills and competencies in the remaining 47% of its municipalities. Municipalities with stagnant audit outcomes could learn from those that achieved clean audits, for example, through conducting study tours.

We take note of the acknowledgement by the premier and the provincial ministers of Finance and Local Government of the slow progress in implementing prior year commitments and their re-affirmation of their collective intentions to assist the municipalities to achieve clean administration. The premier further committed to have operation clean audit as a standing agenda item at the premier coordinating forums.

More specifically, the assistance for municipalities would focus on the elimination of irregular expenditure resulting from procurement. In this regard the provincial minister of Finance would facilitate collaboration with the National Treasury in enabling municipalities to address non-compliance findings arising from inadequate declarations of conflict of interests. This initiative would complement the provincial database that is already available to the municipalities, should they wish to utilise it to confirm their compliance with legislation.

The provincial legislature could also improve the frequency with which its committees monitor actions by municipalities towards achieving clean administration. This could be best achieved with greater coordination between the public accounts committee and the portfolio committees responsible for municipalities.

At a municipal level, mayors and municipal managers need to implement all the elements of key controls as outlined in the key control dashboard. Of particular importance is the need for the daily and monthly internal control disciplines to be followed up and formally monitored by the mayors, governance structures and councils. As part of our contribution towards clean administration, the leadership of the AGSA in the province will continue to enhance its visibility and thereby provide proactive insights into the root causes of the status of internal controls to the local government, provincial legislature and executive leadership.

I wish to thank the audit teams from my office and the audit firms that assisted for their diligent efforts in providing useful and relevant information and insights that promote oversight and accountability in government, thereby strengthening public confidence in our democracy.

Auditor-General

Auditor-General
Pretoria
June 2012



100 YEARS
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SECTION 2: OVERVIEW OF AUDIT OUTCOMES

This general report summarises key aspects of the 2010-11 local government audit outcomes of the Western Cape. A summary of the overall audit outcomes is provided in section 2.1. Details on the findings arising from the audit of the financial statements, reporting on PDOs and compliance with laws and regulations are included in sections 2.2 to 2.4 with the root causes and recommended best practices. Recommended focus areas for provincial role players to address unsatisfactory audit outcomes are outlined in section 2.5.

These should be read together with the analysis of the drivers of audit outcomes in section 4 of this general report. Section 5 summarises commitments received from the provincial executive leadership and oversight bodies in response to the audit and highlights of other current and emerging matters requiring attention.

The audit outcomes of the municipalities and municipal entities (hereafter referred to as auditees) are analysed and presented in the report based on the capacity of the municipality. The high-, medium- and low-capacity grades were awarded to municipalities for the purpose of implementing the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Standards of Generally Recognised Accounting Practice (GRAP) accounting standards. The grading is being phased out but for purposes of this report it provides some insight into the size and ability of the different municipalities.

2.1 Summary of audit outcomes for the province

Included in the summary of audit outcomes of auditees are the overall audit outcomes, details of the auditees that could not be audited, an analysis of the improvement and regressions in the current year's outcomes and a three-year history of audit outcomes.

2.1.1 Summary of overall audit outcomes

The Western Cape local government comprises 30 municipalities consisting of one metro, five district municipalities and 24 local municipalities, as well as three municipal entities. In the case of two municipalities that control three municipal entities, the audit outcomes are reported on their consolidated financial statements.

The audits of 26 municipalities (18 that had submitted financial statements by 31 August 2011, as well as another eight municipalities that had submitted their financial statements after the legislated deadline) and three municipal entities were completed within the legislated time frame of three months from receipt of the financial statements by the AGSA. The audits of four municipalities had not been finalised as at 31 January 2012, the cut-off date set by the AGSA for inclusion of their audit outcomes in this analysis. Section 2.1.3 provides further details.

The audit outcomes for the 2010-11 financial year for audits completed by 31 January 2012 and the audit outcomes of the previous year are summarised in the following table.¹

Table 1: Summary of audit outcomes for current and prior years

Audit outcomes	Municipalities		Municipal entities	
	2010-11	2009-10	2010-11	2009-10
Financially unqualified with no findings	2	1	0	2
Financially unqualified with findings	21	21	3	2
Financially unqualified financial statements	77%	73%	100%	100%
Qualified opinion, with findings	3	4	0	0
Adverse opinion, with findings	0	2	0	0
Disclaimer of opinion, with findings	0	1	0	0
Number of audit reports not issued by 31 January 2012 Prior year audit outcomes of 2010-11 audits outstanding	4	1	0	0
Outstanding audits and financially qualified financial statements	23%	27%	0%	0%
Total number of audits	30	30	3	4

¹ Eden District and Prince Albert were included in the analysis even though they were finalised after the cut-off date to ensure the presentation of more complete information on the audit outcomes. These two audits have not been included in the consolidated general report, which had a cut-off date of 31 January 2012.

2.1.2 Improvement and regression in audit outcomes for the year under review

The following table analyses the movements in audit outcomes between the current and previous years for all auditees.

Table 2: Improvement and regression in the audit outcomes for the year under review

Movement in overall audit outcomes from the 2009-10 financial year						
Audit opinion	Improvement	Unchanged	Regressed	New auditees	Total auditees reported on	Outstanding audits prior year opinion
Financially unqualified with no findings	↑ 2				2	0
Financially unqualified with findings	↑ 3	↔ 19	↓ 2		24	1
Qualified*	↑ 1	↔ 1	↓ 1		3	1
Adverse/Disclaimed*					0	1
Total	6	20	3	0	29	3

Movement in number of auditees with findings arising from the audit of predetermined objectives and compliance with laws and regulations from the 2009-10 financial year						
Type of findings	Improvement	Unchanged	Regressed	New auditees	Total auditees reported on	Outstanding audits prior year opinion
Reporting on predetermined objectives	↑ 5	↔ 15	↓ 7		29	Swellendam outstanding
Compliance with laws and regulations	↑ 2	↔ 12	↓ 15		29	Three "with findings"

* With or without findings arising from the audit of predetermined objectives and/or compliance with laws and regulations

Table 3: Significant aspects of the 2010-11 audit outcomes

Outcome category	Significant aspects
Overall trends	The audit outcomes have remained relatively unchanged with the majority of municipalities receiving financially unqualified opinions with findings coupled with six improvements and three regressions. A notable regression is the metro that moved from a clean audit to financially unqualified with findings for non-compliance with SCM regulations. The leadership only fully implemented SCM regulations in respect of all transactions towards the end of the 2010-11 financial year. The Cape Town International Convention Centre also regressed from clean to financially unqualified with findings due to non-compliance with SCM regulations.
Improvements	Two municipalities improved from financially unqualified with findings to clean audits, namely West Coast District and Swartland. The improvement in the audit outcomes of these municipalities resulted from the sustained efforts of the municipal leadership to effectively monitor the implementation of a credible action plan to address past audit findings. There was strict monitoring of compliance with laws and regulations, especially SCM regulations, through the effective use of compliance checklists and the assistance of the internal audit unit that regularly reviewed the internal controls around SCM to ensure compliance. Improvements at George (adverse to financially unqualified opinion with findings), Prince Albert (disclaimer of opinion to a qualified opinion) and Saldanha Bay and Cederberg (qualified to financially unqualified with findings) were due to the municipal leadership's effective monitoring of credible action plans to address the past audit qualifications, which included the daily processing of transactions, proper records management systems and regular reconciliation of control accounts. They also effectively used and monitored the consultants appointed to prepare the financial statements, with the consultants also assisting with the timely correction of material misstatements identified during the audit. The improvement in the audit opinion of Cederberg, in particular, is unlikely to be sustainable due to key leadership changes after year-end and an ineffective internal audit function. Similarly, given the dependence of George and Saldanha Bay on consultants, the inadequate capacity and skills at the finance units and the need to improve leadership monitoring, the improvements in the audit outcomes are not sustainable.
Regressions	Overberg District: The regression in audit outcomes from a financially unqualified opinion with findings to a qualified opinion was mainly due to leadership instability both at administrative and political levels, which negatively impacted on oversight and the timely implementation and monitoring of a credible action plan to address the past audit findings.
Unchanged	Laingsburg: The municipality had repeat and new qualification findings, which were largely attributable to finance staff not applying the GRAP reporting framework appropriately. Accordingly, the finance staff did not maintain the required information to enable the appointed consultants to prepare complete and accurate asset registers. This was worsened by the leadership's inadequate monitoring of the consultants, as well as the continued ineffectiveness of the internal audit unit and audit committee. Despite the improvements, it is of concern that the majority of municipalities' audit outcomes remained unchanged mainly due to inadequate internal controls over compliance with laws and regulations and predetermined objectives, which compromised the achievement of clean audits. In addition, the extent of material misstatements deteriorated from 65% to 79% thus bringing to question the sustainability of the financially unqualified opinions.

Annexure 1 to this report lists all auditees with their 2010-11 audit outcomes and those of the previous year. Annexure 2 summarises the five-year audit outcome history of the auditees.



2.1.3 Status and outcomes of audits not finalised by 31 January 2012

Since 31 January 2012, the date set by the AGSA for inclusion of audit outcomes in the general report, further audits have been finalised, but their outcomes are not included in the analysis contained in this report. Details of these audit outcomes are presented in the table that follows.

Table 4: Outcomes of audits finalised after 31 January 2012

Auditees	Audit opinion 2010-11	Audit opinion 2009-10
Matzikama	Financially unqualified with findings	Financially unqualified with findings

Actions were not taken by the leadership of Matzikama to ensure that all information for the unbundling of assets was collated to account for assets in accordance with GRAP 17: *Property, plant and equipment* despite commitments made by the leadership during the AGSA quarterly key control visits, which resulted in the late submission of the annual financial statements (AFS) and finalisation of the audit on 15 March 2012.

The following table depicts the expected dates of finalisation of the audits outstanding at the date of this report. The table further indicates the prior audit outcomes of these outstanding audits.

Table 5: Prior outcomes of audits outstanding at the date of this report

Auditees	Reason not finalised	Expected date of finalisation	Year last finalised	Audit outcome of audit last finalised			
				Disclaimer/ adverse	Qualified	Financially unqualified with findings	Financially unqualified with no findings
Municipalities							
Kannaland	Late receipt of AFS	20-May-12	2009-10				
Oudtshoorn	Late receipt of AFS	30-Jun-12	2009-10				
Swellendam	Late receipt of AFS	2-Jul-12	2008-09				
Total				2	1		

At Kannaland, Oudtshoorn and Swellendam political instability resulted in the suspension (departure in the case of Kannaland) of the municipal managers and CFOs causing administrative instability which continued to impact negatively on the internal controls. As a result, the leadership failed to adequately monitor the implementation of the financial management improvement plans and implement basic financial disciplines during the course of the financial year. At Kannaland key vacancies at the finance unit were not filled during the 2010-11 financial year.

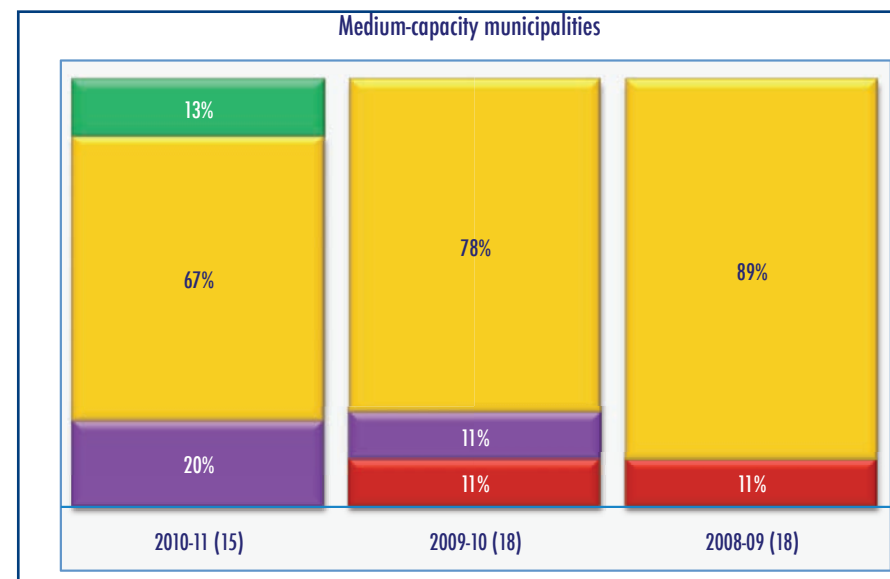
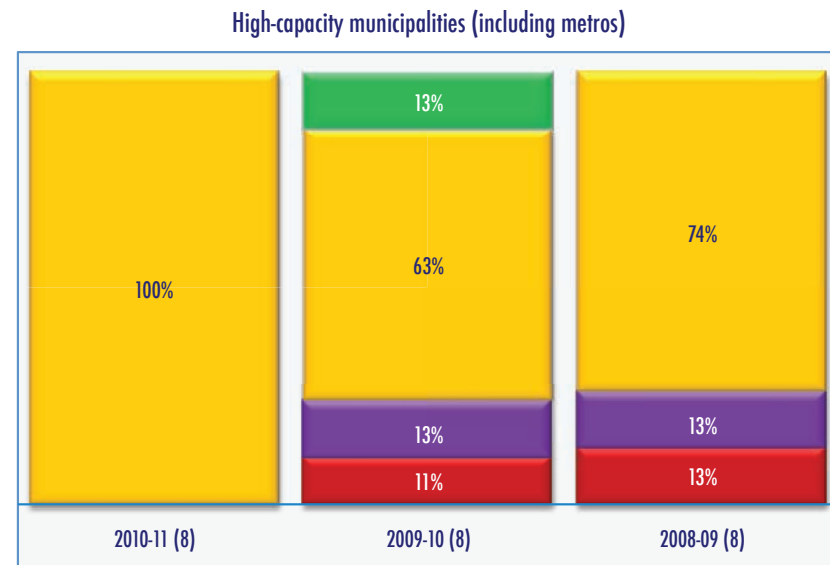
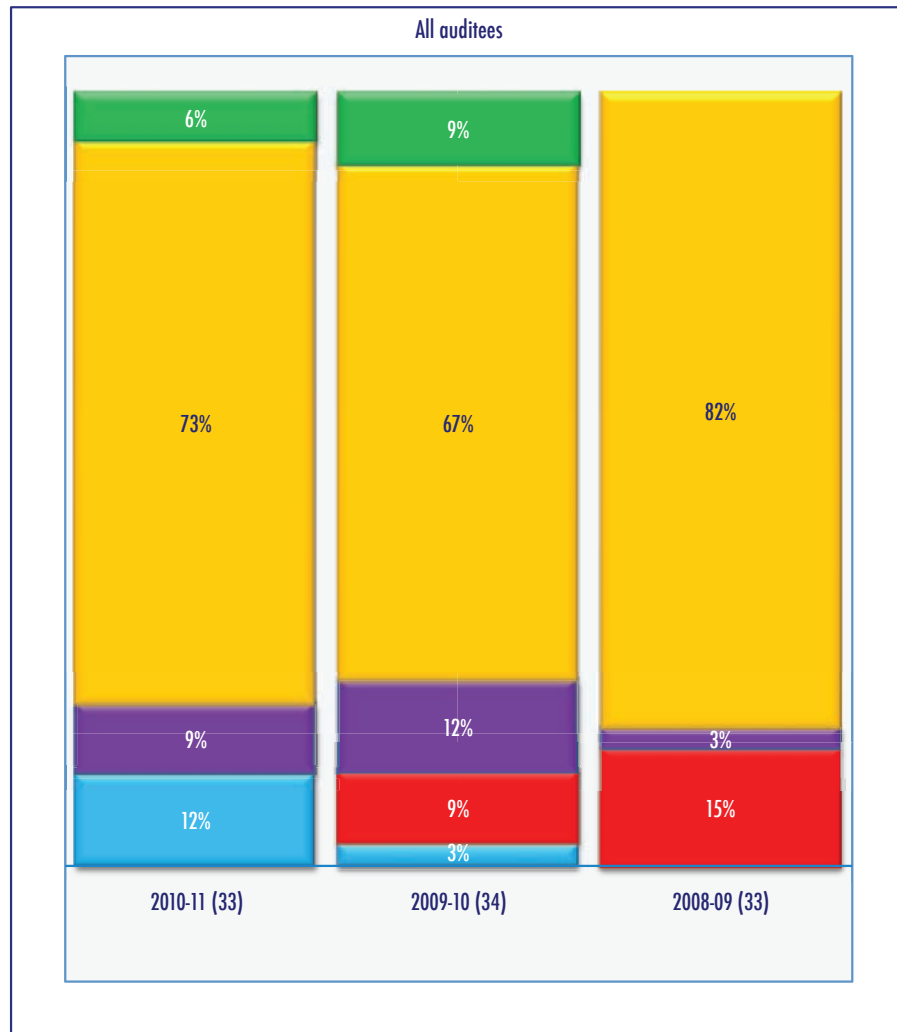
Swellendam received a disclaimer of opinion in 2008-09 due to a breakdown in internal controls. As a result, bank reconciliations were not performed, suspense accounts were not cleared and the asset register was not updated during the period of instability. This had a knock-on effect, which resulted in the late submission of the 2009-10 financial statements and the non-submission of the 2010-11 financial statements to date.

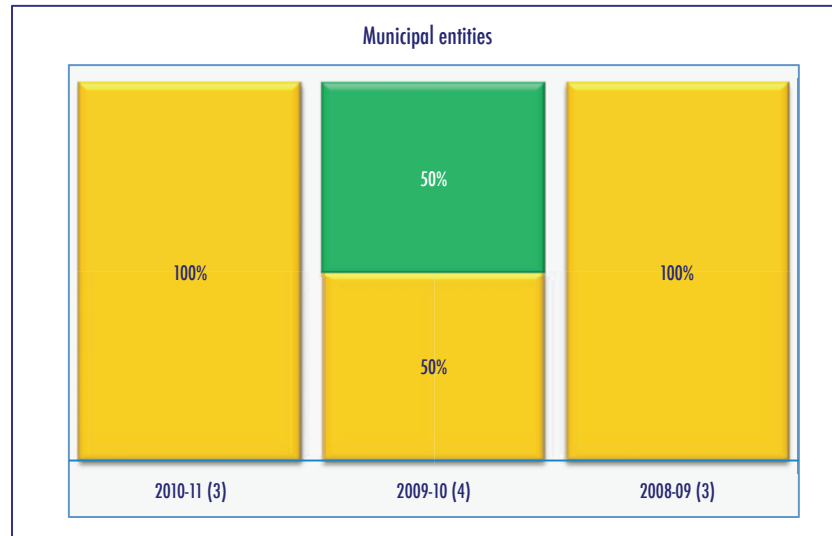
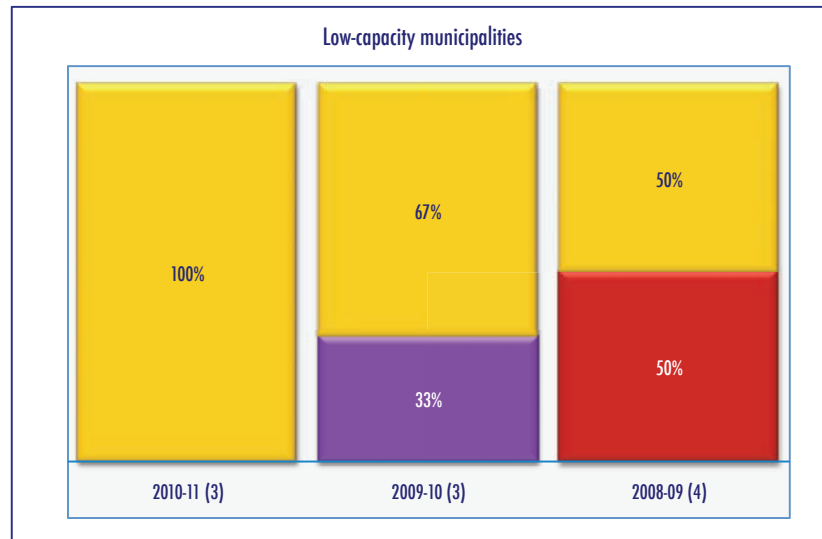
We had identified these risks during our quarterly key controls and in spite of assurances given to our staff during the key control evaluations and discussions, the municipal leadership failed to develop and monitor the implementation of key controls, including the development and monitoring of credible action plans to address past audit findings. The continued ineffectiveness of the governance structures (internal audit unit and audit committee) also contributed to failure of the municipal leadership to submit AFS within the legislated deadline.

2.1.4 Three-year history of audit outcomes for the province

The audit outcomes over the past three financial years are depicted in figure 1.

Figure 1: Summarised three-year audit outcomes of provincial auditees





■ Financially unqualified with no findings
 ■ Financially unqualified with findings
 ■ Qualified with/without findings
 ■ Disclaimed/ Adverse with/without findings

The move to clean administration over the last three years has been slow, despite continued commitments from the municipal leadership to address qualification findings and findings arising from the audit of compliance with laws and regulations and predetermined objectives. We have not yet seen the desired impact of the operation clean audit programme and the local government financial management improvement plans and turnaround strategy.

The three-year history depicted in figure 1 shows that for all local government auditees, the 2009-10 audit outcomes regressed slightly with a different mix in the area of audit qualifications between disclaimer, adverse and qualified reports compared to 2008-09, while 2010-11 reflects a slight improvement compared to 2009-10. However, this positive trend could reverse once the four outstanding audits have been finalised.

The ability of the municipalities to achieve clean administrations will continue to be compromised unless internal control deficiencies resulting in qualifications and findings arising from the audit of compliance with laws and regulations and predetermined objectives are effectively addressed by the leadership of the municipalities, with the assistance of the internal audit units and audit committees.

While we are satisfied with the provincial leadership’s commitments to driving improvements in audit outcomes, there is a need to further strengthen oversight and monitoring of municipal results by the provincial parliamentary committees under the leadership of the speaker and the provincial coordinating ministries (provincial treasury and local government) under the leadership of the premier.

2.2 Findings arising from the audit of financial statements

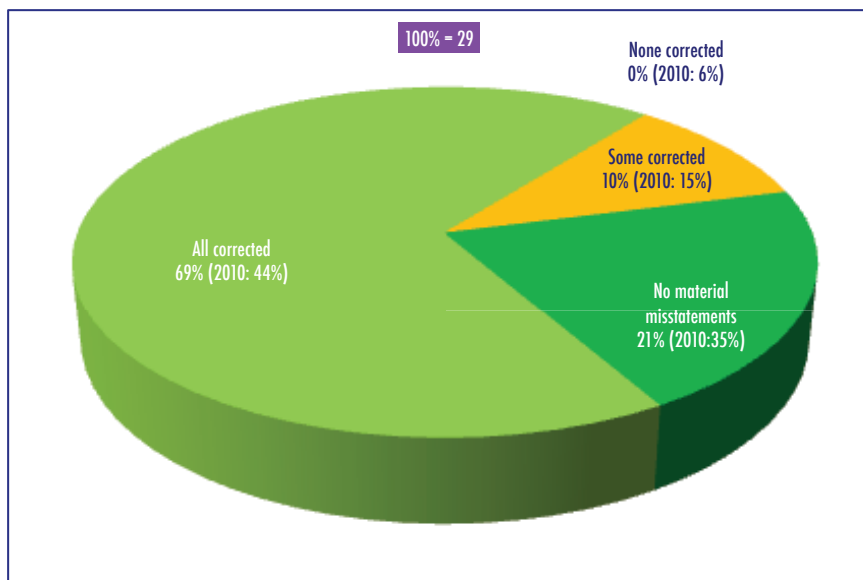
This section of the report ■ provides an analysis of the quality of financial statements submitted for audit; ■ analyses material misstatements in financial statements (qualifications) resulting in disclaimed, adverse or qualified audit opinions; ■ summarises the nature and causes of financial statement qualifications; ■ provides details of financial statement preparation-related assistance provided by consultants; ■ analyses root causes of findings and best practices; and ■ recommends the way forward on these matters.

2.2.1 Analysis of the quality of financial statements submitted for audit

As in prior years, most auditees submitted financial statements for audit that contained material misstatements in one or more areas.

Twenty (69%) auditees were only able to achieve financially unqualified audit opinions, because they were given the opportunity during the audit to correct the material misstatements identified by the auditors. The extent of material misstatements was significant enough to report non-compliance in the audit report in 48% (2009-10: 18%) of auditees, which is included in the area of "some corrected" (10%) and "all corrected" (remaining 38%) portions of the chart below. Reliance on the auditors to identify corrections to be made to the financial statements is not a sustainable practice and the unqualified audit opinions might not be maintained in the future. Some auditees were not willing and/or able to correct all of the misstatements and, therefore, could not avoid attracting qualifications. The extent of material misstatements in financial statements submitted for audit for the year under review is depicted in the following figure.

Figure 2: Material misstatements in financial statements submitted for audit



Material corrections mainly related to capital assets (2009-10: 21%), liabilities (2009-10: 33%), expenditure (2009-10: 36%) and other disclosure items (2009-10: 42%), such as compulsory MFMA disclosures around material losses, accounting policies, changes in estimates and errors, financial instruments and related parties. This primarily indicates that the preparers (municipal officials) of the financial statements did not understand and apply the GRAP reporting framework and MFMA disclosure requirements properly. In instances where consultants were utilised management did not implement processes to confirm the completeness and accuracy of information provided to consultants to prepare the disclosure notes. In turn, consultants did not verify the information received to supporting documentation. Management, including internal audit units and the audit committees, also did not review the financial statements prior to auditing, at some municipalities. Insufficient planning in relation to the preparation of the financial statements resulted in undue time pressures for finalisation thereof and as a consequence insufficient time was allowed for proper management, internal audit unit and audit committee review of the financial statements.

The areas (capital assets, current assets, liabilities, other disclosures and revenue) resulted in qualified opinions of three municipalities (Laingsburg, Overberg District and Prince Albert) because they were unable to correct all of the identified material misstatements in their financial statements due to the poor record keeping and the particular late start in the case of Overberg District to prepare a GRAP compliant asset register.

The following table depicts the progress, or lack thereof, made by auditees in addressing their prior year qualification findings.



Table 6: Auditees' history of financial statement qualification areas

Auditee	Audit opinion 2010-11	Movement in addressing 2009-10 qualification areas							Audit opinion 2009-10
		Non-current assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	U, I and F&W	
Municipalities									
Laingsburg	Qualified	New	New		Repeat				Qualified
Overberg District	Qualified	New							Financially unqualified with findings
Prince Albert	Qualified	Addressed	Repeat		Addressed	Repeat	Addressed		Disclaimer
George	Financially unqualified with findings	Addressed		Addressed	Addressed	Addressed		Addressed	Adverse
Cederberg	Financially unqualified with findings	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed		Qualified
Saldanha Bay	Financially unqualified with findings					Addressed			Qualified

The qualification areas have seen some improvement from the prior year as can be seen by the fewer repeat qualification areas, however, it is concerning that new qualification areas are emerging, especially at municipalities like Overberg that has regressed from a financially unqualified opinion to qualified opinion as result of the new qualifications relating to assets that could not be physically verified and the valuation of assets that could not be confirmed due to missing information in the asset register. Plans to address the deficiencies in asset management were not effectively monitored due to instability in the top leadership and inadequately skilled staff to accurately prepare the asset register.

Laingsburg's audit outcome is concerning as new qualification areas are emerging with the municipality being unable to address prior year qualification findings related to the disclosure of distribution losses. Qualifications related to the valuation of inventory, supporting documentation not provided in respect of adjustments to investment property and intangible assets, incorrect accounting for rehabilitation of landfill sites and no disclosure of material water distribution losses. Qualifications

resulted from poor record keeping, a lack of understanding by finance officials of the GRAP requirement and an inadequate system to quantify water distribution losses. The municipality did not have the necessary knowledge to correct the misstatements in a timely manner.

Prince Albert has improved significantly from prior year although it has two repeat qualification areas. These relate to unreconciled differences between the value-added tax (VAT) balance as recorded by the municipality and the balance per the South African Revenue Service (SARS) and no supporting evidence provided for fines revenue (payments received could not be traced to the records of traffic offences). Qualifications resulted from inadequate controls implemented over the daily processing of transactions, not performing monthly reconciliations of the VAT control account and not implementing an adequate system of control over fines revenue, which reconciles payments received to the records of traffic offences, due to leadership not assigning accountability for the management of these accounts to a specific official. The action plan, spearheaded by the CFO, to address prior year matters focussed priority on prior year audit report matters. At year-end the reconciliations of VAT and fines revenue were still in progress and could not be completed in time to avoid the audit qualifications.

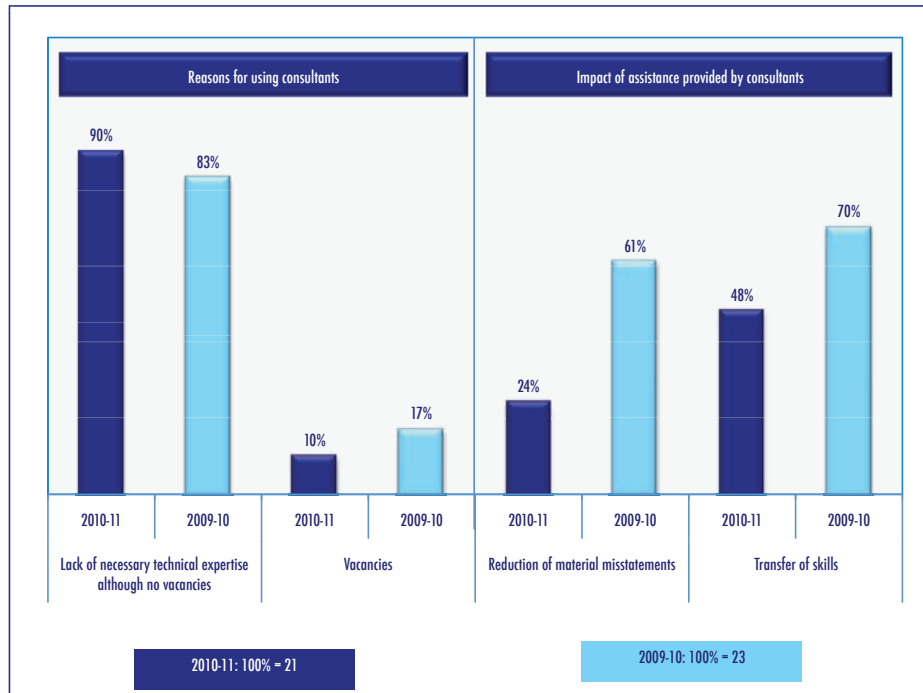
Annexure 1 to this report lists the audit outcomes of all auditees, together with their financial statement qualification areas.

2.2.2 Financial statement-related assistance provided by consultants

As in previous financial years, auditees continued to use consultants to assist them with the preparation of the asset registers and the year-end financial statements. Of the 29 auditees analysed, 21 (72%) were assisted by consultants compared to 70% in 2009:10, indicating a 2% increase in dependence on consultants. Based on the available information, the consultant cost to municipalities is estimated to have exceeded R13 million (2009-10: R14 million), at an average in excess of R647 000 per municipality.

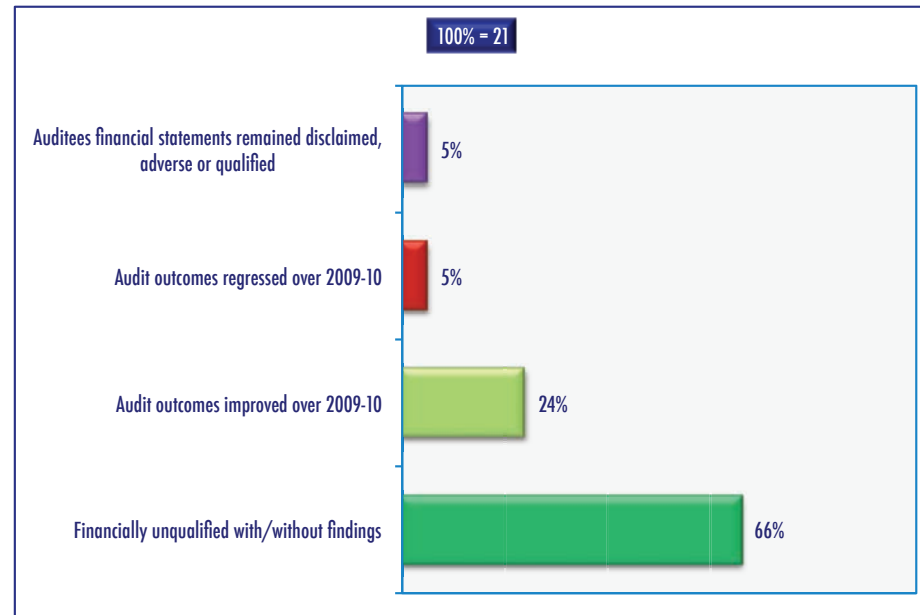
The following figure depicts the most common reasons why consultants were engaged and the impact of their assistance, as a percentage of the auditees that used consultants.

Figure 5: Analysis of assistance provided by consultants



Not all improvements in audit outcomes (or the lack of improvement) can be directly attributed to the use of consultants, as the contracted scope of work varies from one auditee to the next. The audit outcomes of auditees where consultants were used are depicted in the following figure.

Figure 6: Audit outcomes of auditees where consultants were used



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

- No vacancies existed at the finance departments of 90% of the auditees which had enlisted the assistance of consultants. This indicates that although staffing is seemingly adequate in terms of filling the number of vacant posts, the skills of these incumbents are not adequate to perform the duties for which they were employed.
- The skills level and experience of staff appointed at the finance department of the auditees, especially in relation to the compilation of financial statements that comply with GRAP, are not adequate.
- Consultants are often appointed close to year-end and the data used by or provided to consultants to prepare the financial statements is often not reliable.



- The impact of assistance provided by consultants, given the relatively small reduction in material misstatements in financial statements submitted for audit and low rate of skills transfer, raises further concerns regarding the sustainability of audit outcomes achieved this year.
- The transfer of skills reported in 2009-10 did not, in all cases, carry through to corresponding improvements in 2010-11. This was as a result of the following:
 - Adequate credibility checks were not performed by management and internal audit units to ensure that data and reports are valid, accurate and complete (basic accounting disciplines), which resulted in material misstatements requiring correction. Officials did not fully understand what is required to perform adequate credibility checks and did not understand or apply the GRAP reporting framework correctly.
 - The majority of skills transferred during 2009-10 did not relate specifically to compliance and reporting on predetermined objectives, which were the main areas which resulted in audit outcomes being “with findings” and the lack of improvement.
 - Staff to whom skills were transferred resigned in some instances.

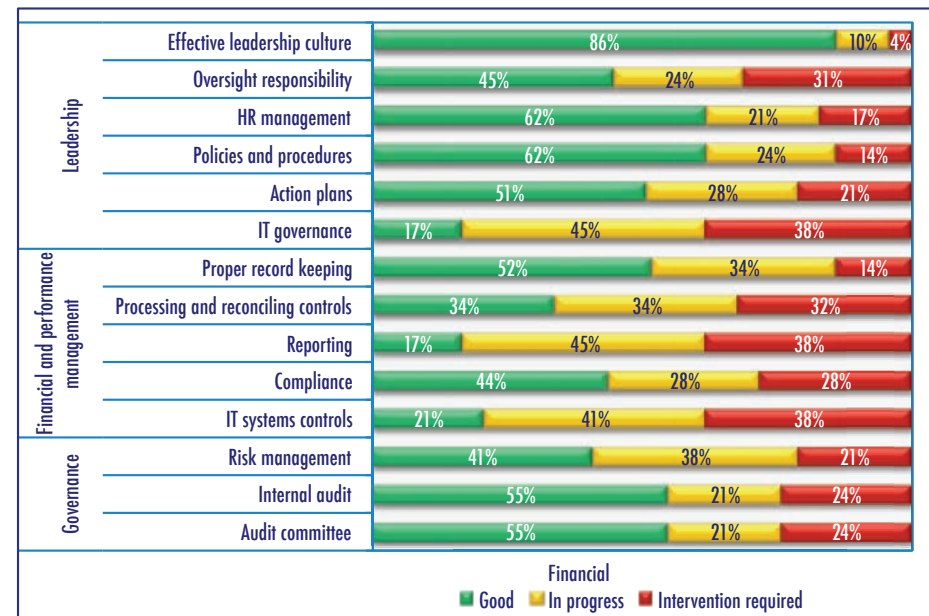
The assessment of whether skills were transferred is based on judgement, taking into account interactions with municipal officials, whether they were continuously involved in the processes the consultant assisted with and whether they can respond to audit queries related to the work performed by the consultant.

The leadership of affected municipalities should assess whether the ongoing use of consultants for the preparation of financial statements is the most economical way of addressing their needs, also taking into account the need for continuity and sustainability of the function the consultants are engaged to perform. The effective use of consultants to assist with the improvement in audit outcomes will also depend on the quality of information provided to consultants, stability at CFO level and continued monitoring and direction provided by the executive mayors and municipal managers.

2.2.3 Root causes and best practice recommendations

The ability of auditees to produce financial statements that are free from material misstatement is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance (more information on internal control is contained in section 4 of this report). The following figure indicates where deficiencies in the internal controls that have resulted in financial qualifications are prevalent.

Figure 7: Assessment of key drivers of internal control over financial reporting



All dimensions of leadership oversight were identified as being good at just fewer than 50% of auditees, raising concerns with regard to the sustainability of the financial audit outcomes. Leadership has a direct impact on the key controls implemented under financial and performance management in terms of record keeping, processing and reconciling controls, reporting and compliance. If the tide is not turned by the leadership the effect may be seen in limited progress towards clean audit outcomes.

The implementation of action plans, human resource management to fill key vacant positions and training to build the capacity of finance staff to understand and apply the GRAP reporting framework, in particular, as well as the National Treasury framework for managing performance require attention.

Although the policies and procedures to drive an effective leadership culture were in place, oversight over the implementation of these policies and procedures still requires attention, which resulted in the leadership culture not filtering through to the area of financial and performance management.

An IT governance framework which would address issues related to IT risk management, strategic alignment of IT with business and structures to actively monitor service performance by internal and external providers, was not in place.

The increased prevalence in material misstatements and the three qualified municipalities are indicative of the internal control deficiencies identified during the audit. At the affected municipalities the root causes were mainly the following:

- Finance officials not adequately delivering on/adhering to the key requirements expected of their position.
- Adequate credibility checks by management, internal audit units and audit committees not taking place to ensure that data and reports are valid, accurate and complete.
- Proper record keeping and the performance of daily and monthly reconciling of key accounts, especially asset registers and grant funding, not adequately implemented.
- Municipalities not progressing to the regular preparation of GRAP compliant financial statements to enable timely and regular reviews by the leadership.
- Officials preparing the financial statements did not understand or apply the GRAP reporting framework (especially GRAP 1, 12, 17 and 19) and MFMA disclosure requirements properly (mainly SCM deviations disclosure).
- A lack of adequate design and implementation of formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of financial information still pose a major risk to many auditees and requires urgent attention.

While many municipalities have implemented governance structures, they were found to be ineffective at the majority of auditees. This is due to risk management strategies being insufficiently implemented and inadequately capacitated internal audit units to address the risk profile of municipalities, and thereby not performing all their required duties in terms of the legislation. The issues related mainly to quarterly risk assessments not performed, policies and procedures not in place to guide the risk assessment process and risk assessments not adequately addressing risks related to compliance and predetermined objectives. Concerning is that five municipalities did not establish audit committees or these committees did not function properly.

Recommended best practices to address the root causes include the following:

- Municipal leadership to implement and monitor key controls, especially related to proper record keeping, performance of daily and monthly reconciling of key accounts and quality reporting on financial information, as well as effectively monitor the implementation of credible action plans to address past audit findings.
- Capacitating the finance units with qualified and skilled staff, while strengthening governance structures such as internal audit units and audit committees, including risk management to play a more effective role in monitoring and review of key controls and financial management improvement plans to improve outcomes.
- The appointment and effective use and monitoring of consultants who should assist with the setup of processes for daily processing of transactions and regular reconciliation of control accounts, as well as training the municipal officials to perform these functions at municipalities where the necessary skills are not available internally.
- The preparation of regular financial statements must become a standard feature of monthly reporting processes, supported by the implementation of controls to ensure daily processing of transactions and monthly reconciliation of accounts.

Although these recommendations were made in the 2009-10 general report, the municipal leadership has made limited progress with the implementation thereof. To give effect to the recommendations, the municipal leadership should renew their



endeavours to monitor the officials to ensure that they perform their responsibilities in line with their job requirements. Furthermore, they should capacitate the internal audit units through appropriate training and the filling of vacancies. They should also encourage audit committees to interact regularly with the municipal councils to provide them with the assurance on a quarterly basis regarding all in-year monitoring reports.

2.3 Findings arising from the audit of reporting on predetermined objectives

Performance information (reporting on PDOs) indicates how well an entity is performing against strategic objectives. Strategic objectives indicate what a municipality and municipal entity intend to deliver in terms of services to achieve their legislative mandate. In terms of legislation, the strategy of a municipality and its municipal entities should be included in a five-year integrated development plan (IDP). The annual performance indicators and targets that a municipality and its municipal entities aim to achieve in pursuit of the strategic objectives in the IDP are included in the annual service delivery and budget implementation plan (SDBIP). Performance indicators and targets are used to track and measure performance in relation to the strategic objectives. Legislation further requires municipalities and their municipal entities to report against their PDOs (service delivery) and to submit such annual performance reports for auditing, together with the annual financial statements.

Performance information is therefore essential to focus the attention of the public and oversight bodies on whether municipalities and their municipal entities are delivering public services, by comparing their performance against their budgets and strategic plans and to alert those charged with governance to areas where corrective action is required. Performance information also facilitates effective accountability, enabling legislators, members of the public and other interested parties to track progress, to identify the scope for improvement in service delivery and to better understand the issues involved.

The Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) requires auditors of public sector entities to provide an audit opinion or conclusion on the reported information relating to the performance of the auditee against PDOs. The approach followed by the AGSA to the audit of PDOs is described in section 2.3.1 below and the outcomes of these audits are presented and analysed in sections 2.3.2

and 2.3.3. Section 2.3.4 provides an assessment of the significant deficiencies in auditees' systems of internal control, the root cause of findings and best practice recommendations.

2.3.1 Overview of the AGSA's approach to the audit of PDOs

The audit of PDOs is defined as an annual audit of reported actual performance against predetermined objectives. This is executed as an integral part of the annual regularity audit, confirming compliance with applicable laws and regulations as well as the usefulness and reliability of the reported performance information as published in the annual performance reports of municipalities and their municipal entities. The presentation of performance information was included in the audit scope for the first time in 2010-11.

The AGSA has been gradually phasing in the audit of PDOs since the 2005-06 financial year, explaining to leaders within all spheres of government the importance of lending credibility to published service delivery information through the auditing thereof. Since the 2009-10 financial year, a separate audit conclusion, based on the results of the audit of PDOs, has been included in the management report for metros and high-capacity municipalities. However, these conclusions have not yet been elevated to the level of the audit report.

2.3.2 Movements in the number of auditees with findings arising from the audit of reporting on PDOs

Movements in the number of auditees with findings arising from the audit of their reporting against PDOs for the financial year ended 30 June 2011 are summarised in the following table.

Table 7: Movement in the number of auditees with findings arising from the audit of reporting against PDOs

Movement in number of auditees with PDO findings	Municipalities		Municipal entities		Total	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
Auditees with no PDO findings	6	1	1	3	7	4
	23%	3%	33%	75%	24%	12%
Auditees with PDO findings	20	28	2	1	22	29
	77%	97%	67%	25%	76%	88%
Total number of auditees reported on	26	29	3	4	29	33
Auditees did not submit report on performance information. Findings are included above.	0	2	1	0	1	2
Auditees submitted performance report late (after 31 August). Findings are included above.	2	7	1	0	3	7

2.3.3 Summary of findings relating to PDOs

Non-compliance with legislation

Findings on non-compliance decreased from 85% (28 of 33) to 62% (18 of 29) of auditees. The findings relate mainly to annual performance reports not prepared in accordance with legislative requirements (34%), mid-year budget and performance assessments not performed or performed late (34%), not including measures taken to improve performance in the performance report (31%), internal audit units not being in place or not functioning adequately (21%) and audit committees not being in place or functioning adequately (14%).

Findings on non-compliance are due to a combination of inadequate action plans to address prior year findings, poor implementation of these plans and insufficient monitoring controls to ensure implementation thereof. Furthermore, systems and processes were inadequate to identify and report on non-compliance, while the ongoing ineffectiveness of internal audit units and audit committees contributed to the failure of the municipal leadership to ensure compliance with the relevant laws and regulations.

Auditees are required to submit their annual performance report for auditing by 31 August annually. Two (8%) municipalities, Overberg District and Prince Albert, and one (33%) municipal entity, Khayelitsha Community Trust, did not submit their reports by the required date. The annual performance reports of these auditees were, however, audited and findings included in this report.

Usefulness of reported information

Findings on usefulness decreased slightly from 58% (19 of 33) to 52% (15 of 29) of auditees with findings on predetermined objectives. The findings relate to measurability (45%) and consistency (24%) of planned and reported indicators and targets included in the report on predetermined objectives.

Consistency findings resulted from inadequate leadership oversight and review processes to ensure that the planned objectives, indicators and targets were included in the annual performance report.

Measurability findings were as a result of a lack of leadership taking ownership to ensure a clear, logical link between the objectives of the municipality and the indicators and planned performance targets due to inconsistent interpretation of the National Treasury framework to managing programme performance and related legislation, despite retraining of the relevant officials.

Reliability of reported information

There was an increase from 42% (14 of 33) to 48% (14 to 29) of auditees with findings arising from the audit of predetermined objectives. The findings relate to a lack of source data or documentation to confirm whether the reported information is accurate, complete and consistent in relation to the source data, evidence or documentation.

Findings arising from the audit of reliability of information resulted from inadequate processes for the collection and recording of reported performance, leading to inadequate supporting documentation to ensure that reported performance is valid, accurate and complete.

There was no internal audit function at seven municipalities, while at others there were no or inadequate review of reports on predetermined objectives by the internal audit unit.

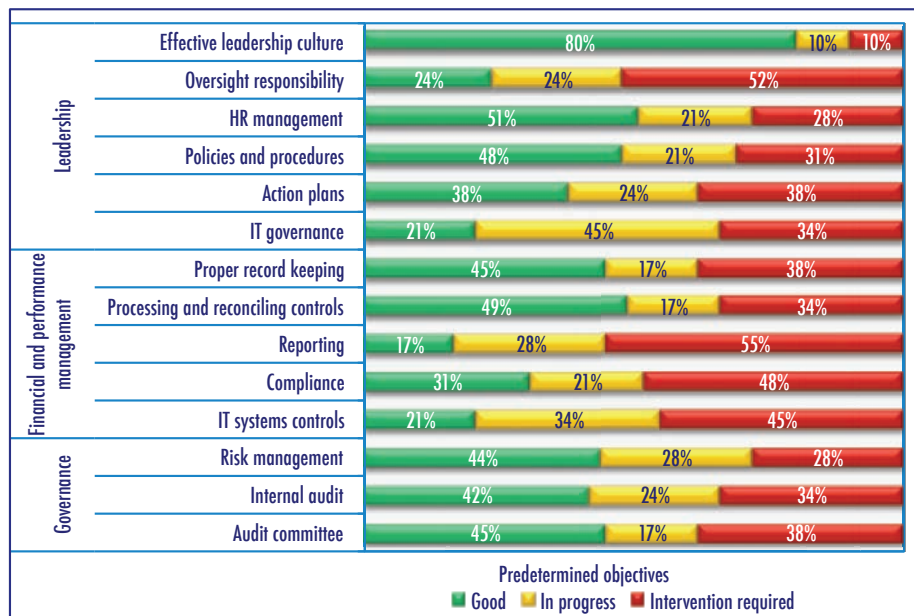


Reliability of information for four municipalities was not audited in the prior year as three did not submit their reports on predetermined objectives in time for audit and one did not report on predetermined objectives. Adequate monitoring processes were not in place to ensure valid and accurate reporting on predetermined objectives for these municipalities.

2.3.4 Root causes and best practice recommendations

The ability of auditees to meet the legislated requirements and satisfy the prescribed criteria related to reporting on PDOs (service delivery) is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance (more information on internal control is contained in section 4 of this report). The following figure indicates where deficiencies in the internal controls have resulted in findings related to non-compliance, reliability and usefulness of performance information.

Figure 9: Assessment of drivers of internal control – reporting on PDOs



It is encouraging to note the decrease in the number of auditees with findings arising from the audit of predetermined objectives as a result of addressing internal control deficiencies reported in the prior year. The material adjustments to the predetermined objective reports during auditing raise a concern on the sustainability of the predetermined objective outcomes for some municipalities with no findings. This also raises questions about the effectiveness of systems in place to report accurately and completely on predetermined objectives.

The leadership did not take ownership to ensure the effective implementation of policies and procedures to guide the documentation, collation, storing and reporting of performance information, a shortage of staff with suitable skills, as well as the inadequate clarification of roles and responsibilities for performance management. This resulted in a lack of accountability on reporting on performance information.

Root causes for the findings reported include the following:

- The leadership of the auditees did not take appropriate follow-up action to address inadequacies highlighted during the AGSA’s quarterly key control interventions in the validation of performance data.
- Inadequate processes implemented to facilitate the preparation of regular performance reports, resulting in reported information being invalid, inaccurate and incomplete.
- Inadequate record keeping of information to support reported performance.
- Adequate design and implementation of formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of performance information still pose a major risk to many municipalities and requires urgent attention.
- Insufficient review of the annual performance report and related processes by the internal audit units mainly due to the inadequate resources resulting in insufficient oversight from the audit committees.

Recommended best practices to address the root causes include the following:

The leadership should oversee the development and implementation of adequate action plans to effectively address the risks relating to performance reporting, which should include the following:

- Determining training needs or skills shortages within the municipality and address these through training interventions and focused recruitment.
- Ensuring that formal policies and procedures are developed and implemented that will be consistent with the framework to manage programme performance and to facilitate the implementation of the performance management system. These should be reviewed and monitored by the executive mayor and municipal manager. These processes should be institutionalised at municipalities and municipal entities.
- Implementation of proper record-keeping processes to ensure that complete, relevant and accurate information is easily accessible and available to support performance reporting.
- Regular preparation of performance reports that are validated for accuracy.
- Strengthening of the internal audit function to assist in identification of internal control deficiencies, recommend corrective actions and assist in confirming credibility of information.
- The establishment of performance audit committees to enable oversight relating to performance reporting.

2.4 Findings arising from the audit of compliance with laws and regulations

Laws and regulations set out the activities public sector entities are charged with in serving the citizens and stipulate any limits or restrictions on such activities, the overall objectives to be achieved and how due process rights of individual citizens are to be protected. Auditees are subject to legislation such as the MFMA and the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) whose objectives are proper financial management and performance management, transparency, accountability, stewardship and good governance. The PAA requires auditors of public sector entities to audit compliance with laws and regulations applicable to financial matters, financial management and other related matters on an annual basis.

The compliance audit approach followed by the AGSA for the year under review is described in section 2.4.1 and the audit outcomes are presented and analysed in sections 2.4.2 and 2.4.3. Specific focus was placed on auditing procurement and contract management processes (SCM) and a summary of the findings is presented in section 2.4.4.

In order to enhance accountability, auditees are required to identify and fully disclose any unauthorised, irregular as well as fruitless and wasteful expenditure incurred. Such expenditure in most cases is incurred as a result of non-compliance with laws and regulations. An analysis of the expenditure is included in section 2.4.5 in order to provide a comprehensive picture of the level of non-compliance by auditees. Section 2.4.6 provides an assessment of the drivers of internal control at auditees as it relates to compliance with laws and regulations. The root causes of non-compliance and the way forward are analysed in section 2.4.7.

2.4.1 Overview of the AGSA's approach to the audit of compliance with laws and regulations

Laws and regulations set out the activities which the public sector must perform in serving the citizens and stipulate any limits or restrictions on such activities, the overall objectives to be achieved and how due process rights of individual citizens are to be protected. Local government auditees are subject to legislation such as the MFMA and the MSA whose objectives are proper financial management and performance management, transparency, accountability, stewardship and good governance.

The procedures performed to obtain evidence that auditees complied with applicable laws and regulations were limited to the following focus areas:

- Annual financial statements, performance report and annual report
- Asset management
- Audit committees
- Budgets
- Expenditure management



- Internal audit
- Revenue management
- Strategic planning and performance management
- Transfer of funds and conditional grants
- Procurement and contract management
- Human resource management and compensation

Although compliance in most of the specified areas was audited in previous years, the scope and extent of coverage increased for the year under review. As a result, more areas and instances of non-compliance were revealed by the audits for the year under review.

2.4.2 Overall trends in the level of material non-compliance reported

As depicted below, findings on material non-compliance with laws and regulations were raised in the auditor's reports of 27 auditees (93%) [2009-10: 27 auditees (82%)]. This represents an overall increase of 13% compared to the 2009-10 financial year. The remaining two auditees, namely West Coast District and Swartland, improved their audit outcomes from the prior year by implementing action plans and compliance checklists monitored by the municipal leadership. The following table analyses the movements in the number of auditees with non-compliance findings in the province.

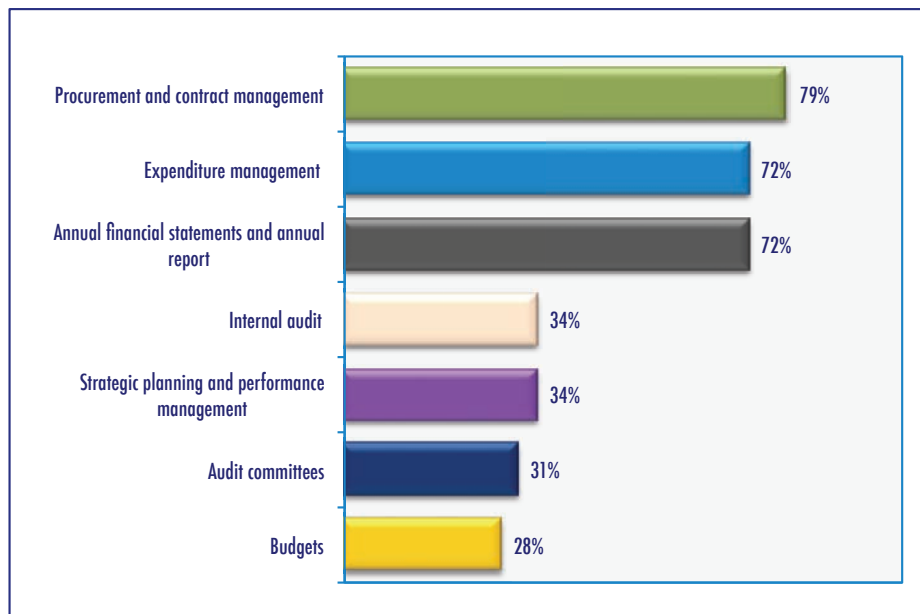
Table 13: Overall movement in the number of auditees with reported material non-compliance

Number of auditees with compliance findings	High-capacity municipalities (including metros)	Medium-capacity municipalities	Low-capacity municipalities	Municipal entities	Total auditees reported on	%
Remained with no compliance findings	0	0	0	0	0	0%
All compliance findings addressed	0	2	0	0	2	7%
Auditees with no compliance findings	0%	13%	0%	0%	7%	7%
Retained compliance findings	3	6	2	1	12	40%
Regressed to have compliance findings	5	7	1	2	15	52%
Auditees with compliance findings	100%	87%	100%	100%	93%	93%
Total number of auditees reported on	8	15	3	3	29	100%

2.4.3 Nature of transversal findings arising from the audit of compliance with laws and regulations

The following figure depicts the areas of material non-compliance, as reported in the auditor's reports, which were most prevalent at auditees for the year under review. As the focus areas and legislative requirements audited differ from those of the previous year, no comparison is made with the prior year.

Figure 10: Transversal reported areas of material non-compliance



Annexure 1 to this report lists all auditees where material non-compliance was reported in one or more of the AGSA's compliance focus areas. Transversal non-compliance findings relating to the AGSA's compliance focus areas are analysed below, except for the following:

- The findings on strategic planning and performance management and other PDO-related non-compliance are analysed in section 2.3 (PDO reporting).
- Procurement and contract management (SCM) findings are analysed in section 2.4.4.

Expenditure management

Findings were identified at 21 (72%) auditees, the most significant of which are depicted in the following table.

Table 14: Expenditure management findings

Focus area	Summary of common findings	Percentage of auditees reported on
Expenditure management	The accounting officer did not prevent irregular expenditure	66%
	The accounting officer did not prevent unauthorised expenditure	34%
	The accounting officer did not prevent fruitless and wasteful expenditure	21%

Accounting officers are responsible for ensuring that irregular, unauthorised as well as fruitless and wasteful expenditure is prevented.

Irregular expenditure refers to expenditure incurred in contravention of legislation. The high incidence of non-compliance with SCM-related legislation, as identified by the AGSA, inevitably led to an increase in irregular expenditure. Unauthorised expenditure is defined as an overspending of a budget vote or expenditure from a budget vote unrelated to the functional area of that vote. Fruitless expenditure is defined as expenditure made in vain or that could have been avoided had reasonable care been taken. The extent and nature of unauthorised, irregular as well as fruitless and wasteful expenditure is further analysed in section 2.4.5.

Annual financial statements and annual report

Findings were identified at 21 (72%) auditees, the most significant of which are depicted in the following table.

Table 15: Annual financial statements and annual report findings

Focus area	Summary of common findings	Percentage of auditees reported on
Annual financial statements and annual report	The submitted AFS was not prepared in accordance with the prescribed accounting framework	48%
	The AFS was not submitted for auditing within two months after the end of the financial year	28%
	Consolidated performance report not prepared in accordance with MSA requirements	21%



The most prevalent finding in this area relates to material misstatements and inadequate supporting records for financial statements submitted for auditing, which were, in some cases, subsequently corrected as analysed in section 2.2.1. Misstatements would generally result in a non-compliance finding in the audit report if it resulted in a modified audit opinion or if a financially unqualified opinion was obtained as a result of correcting misstatements which were not isolated instances and where there is a history of material misstatements.

Twelve municipalities did not submit their financial statements within the required two months after the year-end, as per the legislated deadlines. Late submission of financial statements related primarily to the municipalities' inability to meet the GRAP reporting requirements relating to property, plant and equipment due to the late engagement of consultants to assist with the reporting requirements as well as leadership instability.

Six municipalities did not report on the comparative information of the performance of the municipality and/or each external service provider as required by section 46 of the MSA in their performance report, as analysed in section 2.3.

Internal audit

Findings were identified at 10 (34%) auditees, the most significant of which are depicted in the following table.

Table 16: Internal audit finding

Focus area	Summary of common findings	Percentage of auditees reported on
Internal audit	No or inadequate internal auditing of performance measurements	24%

The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the MSA, and did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the actual performance.

Audit committees

Findings were identified at nine (31%) auditees, the most significant of which are depicted in the following table.

Table 17: Audit committee finding

Focus area	Summary of common findings	Percentage of auditees reported on
Audit committees	Audit committee was not in place or not functioning adequately	17%

At five municipalities the audit committees were not established or functioning properly. The lack of governance led to inadequate risk assessment and non-compliance with laws and regulations. The performance of internal audit is influenced by the absence of audit committees. This can be addressed by encouraging professionals to participate in their communities.

Budgets

Findings were identified at eight (28%) auditees, the most significant of which are depicted in the following table.

Table 18: Budgets finding

Focus area	Summary of common findings	Percentage of auditees reported on
Budgets	Expenditure was not incurred in accordance with the approved budget	28%

Unauthorised expenditure represents expenditure that was not incurred in accordance with the MFMA principles of sound and sustainable management of financial affairs of municipalities. An assessment of the related weaknesses indicated a general lack of adequate monitoring and review by the leadership of the expenditure against the approved budget. Root causes are as indicated in section 2.4.5.

2.4.4 Summary of findings arising from the audit of supply chain management (SCM)

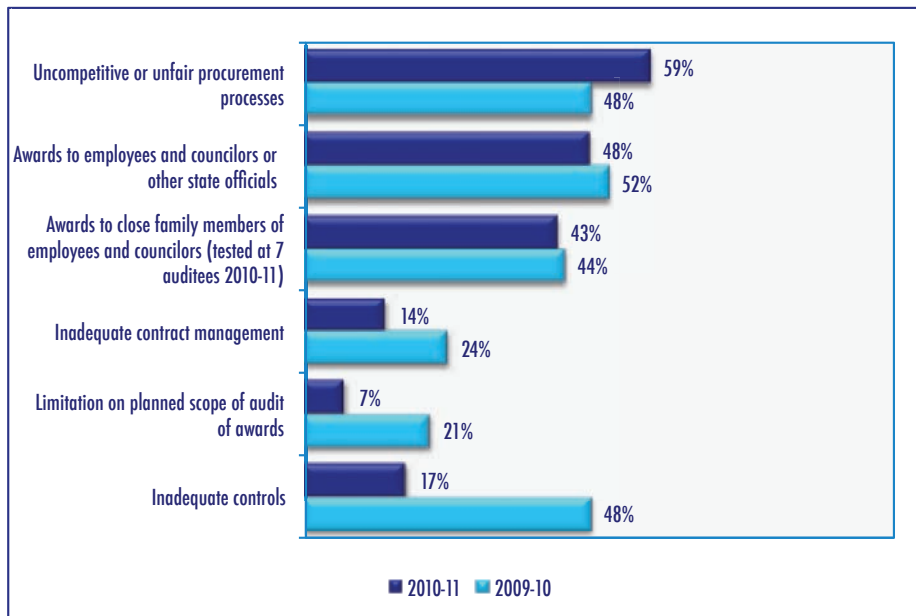
The audits included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. The assessments were performed at 29 (100%) auditees in total.

Contracts awarded and price quotations accepted (referred to as “awards” in the rest of the report) to the value of R547 million were tested. Awards to the value of R1,4 million that were selected for audit could not be audited due to the required information or documentation not being made available by auditees.

Findings arising from the audit were reported in the management reports of 24 (83%) auditees, while in 23 (79%) of these cases the findings were significant enough to warrant reporting thereof in the auditor’s report.

A summary of findings arising from the audit is provided in the following figure.

Figure 11: Summary of findings arising from SCM audit



The most prevalent material non-compliance matters reported in the audit reports are depicted in the following table.

Table 19: Non-compliance findings arising from the audit of procurement and contract management

Focus area	Summary of common findings	Percentage of auditees reported on
Procurement and contract management	Awards made to providers who are in service of the auditee or other state institutions – providers did not declare the interest	48%
	Bids advertised for shorter period or not invited and/or deviation not justified	14%
	Three written quotations not invited and/or deviations not justified	28%

Section 3 of this report provides a more detailed analysis of SCM findings.

2.4.5 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees

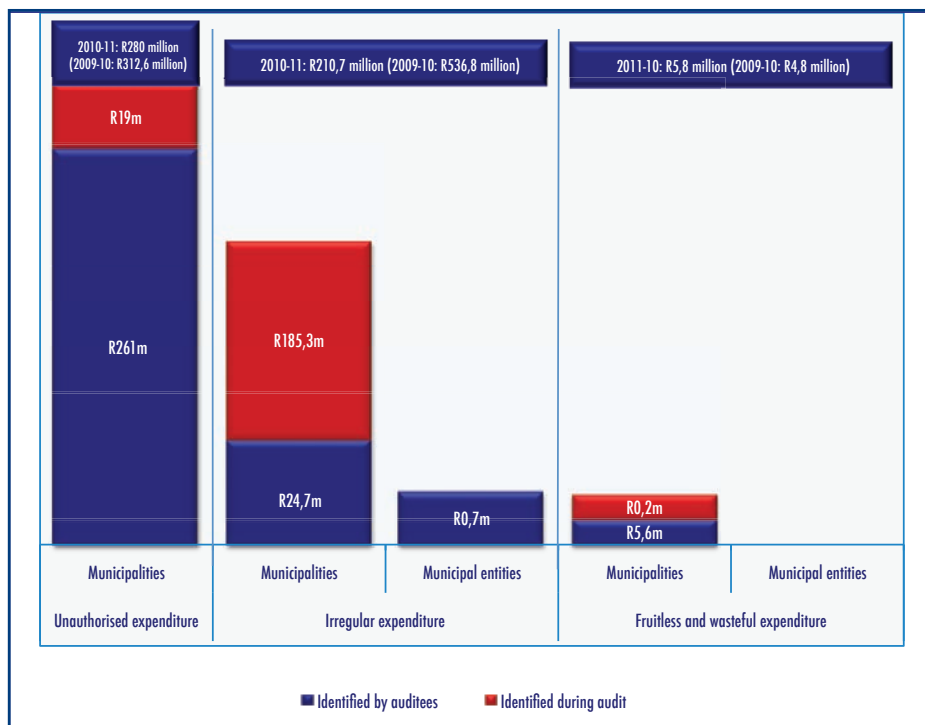
The MFMA requires accounting officers to ensure that unauthorised, irregular as well as fruitless and wasteful expenditure is prevented. The MFMA also makes it compulsory for auditees to disclose such expenditure in their financial statements.

Extent of unauthorised, irregular as well as fruitless and wasteful expenditure incurred

The figure below depicts the extent of such expenditure incurred in the year under review and the portion thereof that was identified during the audit and not detected or reported by the auditees.



Figure 12: Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees



Unauthorised expenditure

Fourteen municipalities incurred unauthorised expenditure amounting to R280 million. An amount of R277,8 million related to overspending and R2,2 million related to non-permissible grant spending. Unauthorised expenditure was incurred due to improper budgeting, incorrect allocations between capital and operating budgets and inadequate monthly budgetary controls.

Irregular expenditure

Nineteen municipalities and one entity incurred irregular expenditure totalling R210,7 million. In addition to the amount reflected above, R1,4 million could not

be audited as no supporting documentation could be presented for audit (also refer to section 3.2 for more information) and the actual irregular expenditure could be higher than the amounts identified by auditees and during the audit process.

Supply chain management

Non-compliance that gave rise to irregular expenditure included SCM policy on declarations of interest for quotations under R30 000 not fully adhered to in respect of suppliers found to be in the employ of the state, SCM policy on declarations of interest for quotations under R200 000 not fully adhered to and contracts not advertised for the full 30-day period as required.

Overall, irregular expenditure decreased due to improved SCM systems and monitoring as well as improved document management. George accounted for R265 million of the overall improvement, as a result of providing SCM supporting documentation which could not be furnished in the prior year. The improvement was as a result of implementation and monitoring of an action plan to address prior year audit findings. Prior year irregular expenditure of audits not yet finalised in 2010-11 amounted to R11 million.

At the one entity that incurred irregular expenditure (Cape Town International Convention Centre), a project was extended by appointing the same consultant without going through a competitive bidding process.

Compensation of employees

Overberg District and Prince Albert incurred irregular expenditure amounting to R875 000 related to councillors' remuneration that was not in accordance with the limits as gazetted.

Irregular expenditure – other

The Cape Town International Convention Centre incurred irregular expenditure related to theft and fraudulent supplier payments amounting to R731 000.

Fruitless and wasteful expenditure

Six municipalities incurred fruitless and wasteful expenditure totalling R5,8 million relating mostly to interest on late payments and water and electricity losses above the norms, as determined by the municipalities.

Nature and overall trends in unauthorised, irregular as well as fruitless and wasteful expenditure

The nature of unauthorised, irregular as well as fruitless and wasteful expenditure incurred and trends in such expenditure are analysed in the following tables.

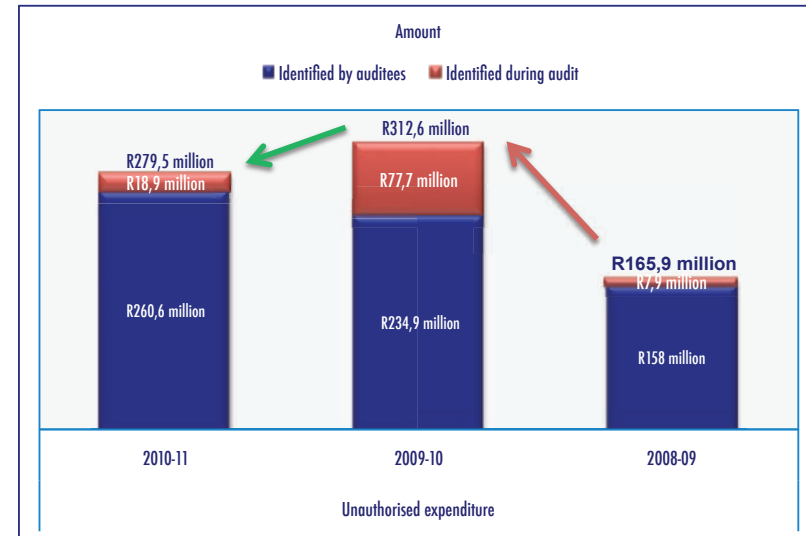
Table 20: Nature of and movements in unauthorised, irregular as well as fruitless and wasteful expenditure

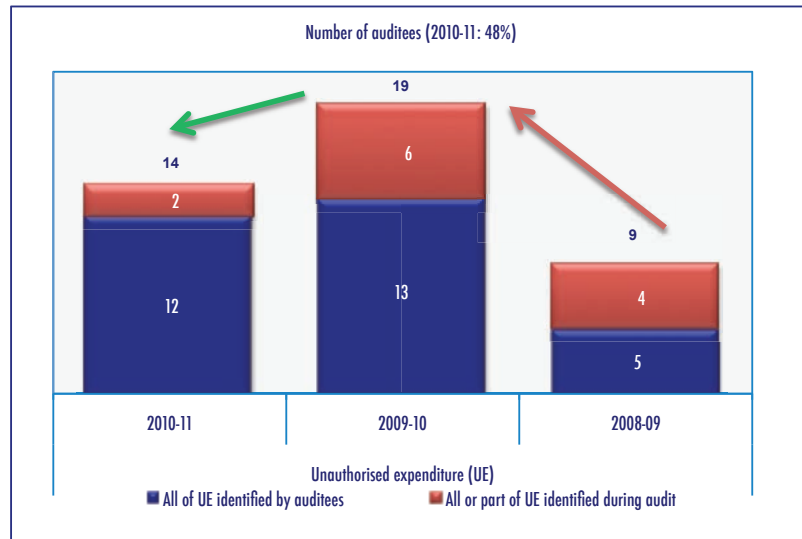
Nature of movements	Municipalities			Movement from 2009-10
	Number of auditees	Movement from 2009-10	Amount	
Unauthorised expenditure (applicable to municipalities only)				
Overspending of votes/main division within votes	14	13%	R277,8 million	13%
Spending not in accordance with purpose/condition	0		R0	
Expenditure unrelated to functional area/Non-permissible grant	1		R2,2 million	78%
Irregular expenditure				
Supply chain management	20	13%	R209,1 million	63%
Compensation of employees	2	13%	R0,9 million	100%
Other non-compliance	1	80%	R0,7 million	49%
Fruitless and wasteful expenditure				
Supply chain management	1		R0,08 million	
Other non-compliance	6	200%	R5,72 million	63%

Note: 'Unchanged' denotes an increase/reduction of 5% or less in the level of findings compared to the previous financial year

A three-year analysis of unauthorised, irregular as well as fruitless and wasteful expenditure incurred is presented in the following figures.

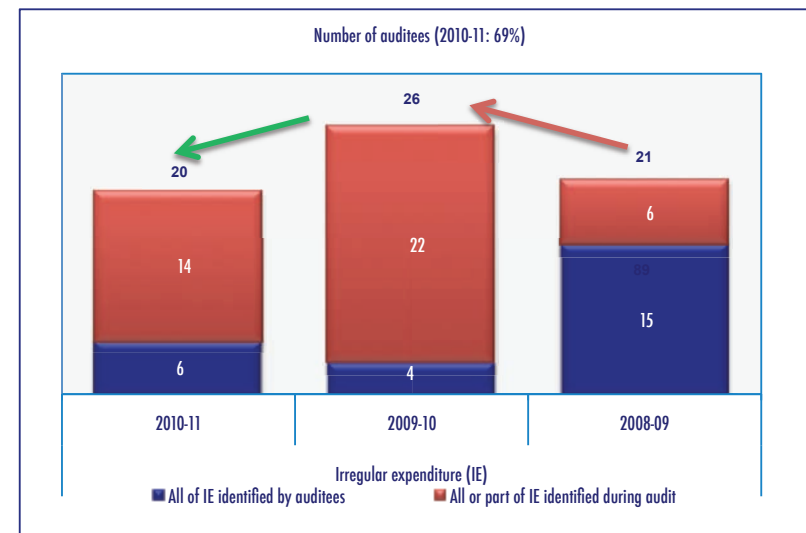
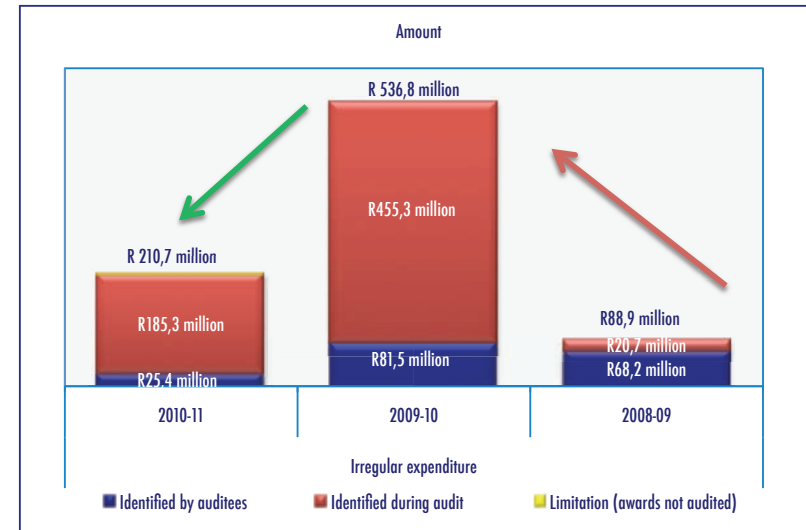
Figure 13: Three-year trend in unauthorised expenditure





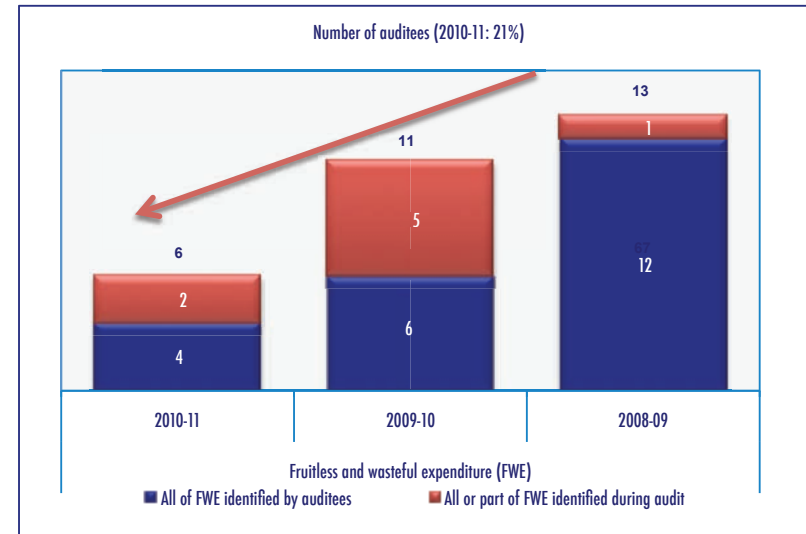
There was a sharp increase in unauthorised expenditure of 69% from 2008-09 to 2009-10 due to inadequate review and monitoring by the leadership of the expenditure against budgets. Although there was a slight decrease from 2009-10 to 2010-11 appropriate budgeting and effective monitoring of actual expenditure against budgeted expenditure remains a concern.

Figure 14: Three-year trend in irregular expenditure



It is encouraging to note a marked decrease from 2009-10 to 2010-11 in both the rand amount and the number of auditees incurring irregular expenditure as a result of improved SCM systems. The sharp increase from 2008-09 to 2009-10 was as a result of non-compliance with SCM requirements, specifically, incomplete disclosure of deviations from procurement processes accounting for R269 million. The increase from 2008-09 to 2009-10 and reduction from 2009-10 to 2010-11 related mainly to George that accounted for R265 million of the overall regression and improvement, as a result of providing SCM supporting documentation which could not be furnished in 2009-10.

Figure 15: Three-year trend in fruitless and wasteful expenditure



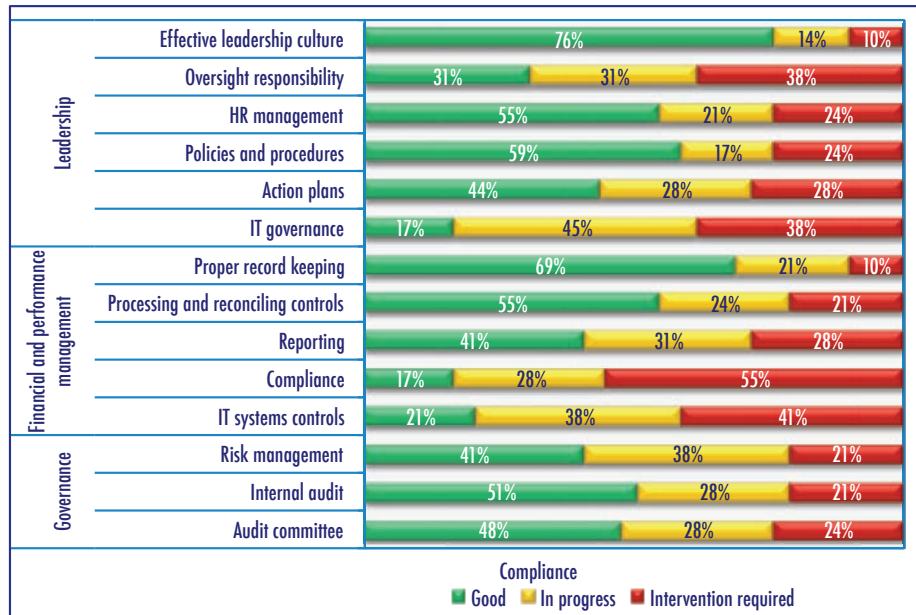
It is encouraging to note a marked decrease from 2009-10 to 2010-11 in the number of auditees incurring fruitless and wasteful expenditure although the rand value has increased. Efforts around timely creditor payments and monitoring of excessive electricity and water losses need to be further intensified to reduce the amount.

2.4.6 Root causes and best practice recommendations

The ability of auditees to enforce adherence to legislation and to discharge their statutory responsibilities is influenced by the existence of a sound system of internal control. The key drivers of these controls are classified under the fundamental principles of (i) leadership; (ii) financial and performance management; and (iii) governance (more information on internal control is contained in section 4 of this report). The following figure indicates where deficiencies in the internal controls have resulted in non-compliance with laws and regulations not being prevented.



Figure 16: Assessment of drivers of internal control over reporting on compliance with laws and regulations



Leadership oversight was identified as being in progress or requiring intervention at 69% of auditees, which translated to non-compliance findings at 93% of auditees. This key driver, in combination with HR management, has a direct impact on the audit outcome of compliance. Non-compliance must have consequences and accountability must be enforced at all levels. For example, consideration should be given to implementing appropriate consequences for those who intentionally neglect regulations that govern strategic areas such as SCM. There must be a conscious decision by political and administrative leadership to take action against transgressors.

Those charged with governance and oversight must commit to take the lead in turning around non-compliance with SCM legislation and ensure a strong ethical culture within municipalities. Active governance and involvement by internal audit units and audit committees can also go a long way in meeting the tender process challenges, thus helping municipalities move faster towards clean administration.

Root causes for the findings reported include the following:

- Leadership not exercising oversight on expenditure and contracts entered into, and over the municipality's responsibilities in terms of the MFMA, MSA and SCM regulations. Findings in respect of SCM were due to inadequate leadership oversight to establish adequate systems and processes to identify and report on non-compliance and inadequate guidance by the municipal leadership to create an understanding on the application of SCM regulations among operational SCM personnel.
- A lack of appropriate focus from the leadership to address areas of non-compliance through adequate action plans and monitoring of non-compliance contributed to findings.
- Deterioration in the accuracy of the financial statements and supporting information and this is linked to the skills and experience of the CFOs who did not perform adequate monitoring and reviewing of the information submitted by their support staff. Inadequate monitoring of compliance with laws and regulations by management.
- The risk regarding non-compliance with legislation was not always identified by management resulting in a lack of focus from the internal audit units at municipalities or where these risks have been identified, and it was not adequately addressed through the internal audit plans.
- Audit committees did not always provide oversight over the compliance with laws and regulations as a result of a lack of focus from internal audit units on the risk of non-compliance.
- Action plans to address prior year findings were not adequately monitored by the audit committees to confirm that matters regarding compliance were addressed.

The leadership should focus attention on the areas of non-compliance through the following recommended best practices:

- Strengthening the capacity of SCM staff through the recruitment and retention of skilled and competent persons and through ongoing SCM training. SCM staff at all levels, including SCM officials should be encouraged to familiarise themselves with the SCM regulations and related guidance issued by the national and provincial treasuries to understand exactly what the requirements are for each type of procurement.
- Overseeing the development and implementation of appropriate action plans and monitoring of compliance through the use of compliance checklists.
- Implementation of effective risk management strategies to address risks relating to compliance with laws and regulations.
- Implementation of systems that can facilitate the timely identification and reporting of instances of non-compliance with laws and regulations with a view to have a corrective action.

2.5 Focus areas for management and provincial role players for improved and sustained audit outcomes

As is evident from the analysis of audit outcomes presented in this section of the report, there are a number of areas that require focus and, in some instances, intervention to achieve clean administration. Such intensified focus and intervention are required principally from the following parties:

- Accounting authorities, accounting officers, chief financial officers, and auditee management (analysed in sections 4.1, 4.2 and 4.3).
- Audit committees, provincial executive leadership and other role players (analysed in sections 4.4 and 4.5).

The AGSA has identified nine focus areas which, if properly attended to by auditee management, provincial leadership and coordinated provincial oversight bodies, will make a significant contribution to clean administration in local government. These areas are:

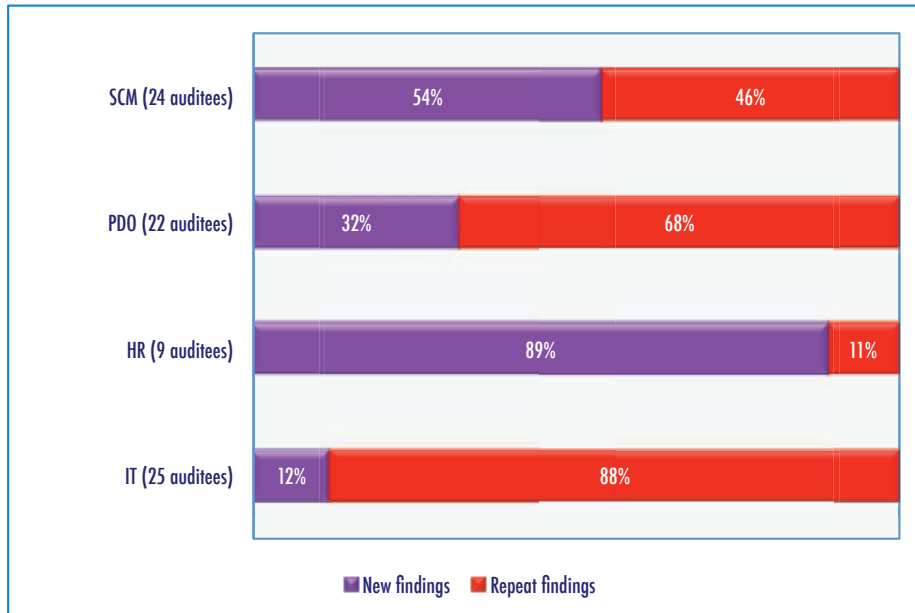
- (i) supply chain management
- (ii) reporting on PDOs
- (iii) financial management
- (iv) turnaround plans
- (v) information technology (IT) controls
- (vi) human resource (HR) management
- (vii) use of consultants
- (viii) municipalities under administration
- (ix) governance structures.

In addition to implementing action plans to address qualification findings, a stronger focus by management and provincial role players on four specific focus areas will result in a significant and rapid improvement in financial management and reporting auditees. These four areas are (i) supply chain management; (ii) reporting on PDOs; (iii) HR management; and (iv) IT management.

There has been little overall movement in findings in these areas, as depicted in the following figure.



Figure 17: Repeat and new findings in four focus areas



The AGSA's senior leadership has specifically engaged with the auditee leadership on these four focus areas. The lack of progress made in these areas is reflected above.

Sections 4.5 and 5.1 of this report provide an assessment of the role of provincial role players and the commitments made by them during February and March 2012. The new commitments aim to improve the outcomes of the provinces through improved oversight from provincial leadership by ensuring that operation clean audit is a standard agenda item of the premier's coordinating forum, improvement and monitoring of the support initiatives provided by the ministries of the provincial treasury and local government to municipalities and capacitating and strengthening of internal audit units and audit committees.

The AGSA's ongoing initiatives to encourage clean administration are discussed in section 5.2 of this general report, while other emerging matters that require attention to prevent a negative impact on future audit outcomes are discussed in section 5.3.



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SECTION 3: FINDINGS ARISING FROM THE AUDIT OF SUPPLY CHAIN MANAGEMENT

3.1 Background to the audit of SCM

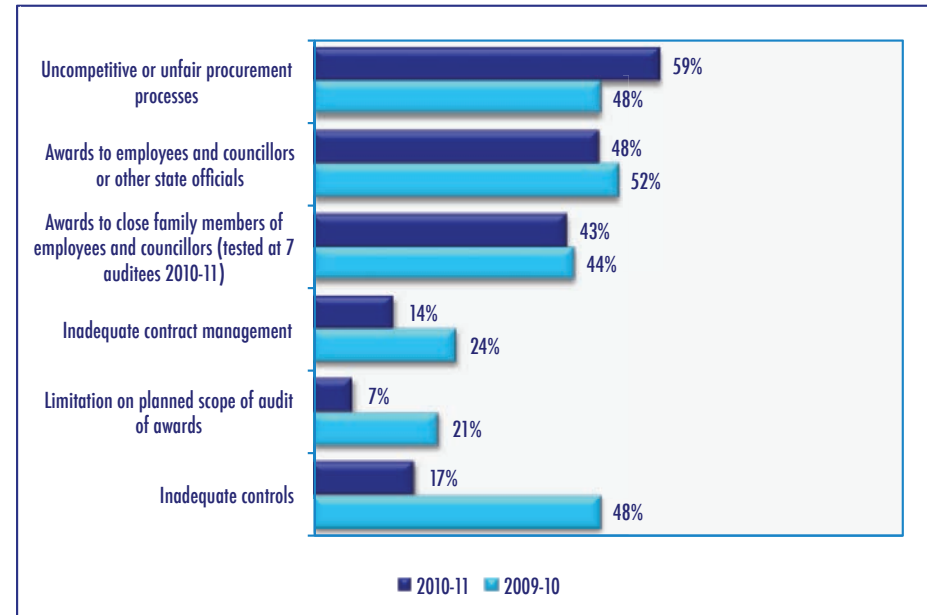
The audits included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and must minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. The assessment was performed at a total of 26 (100%) municipalities and three (100%) municipal entities.

As is evident from the analysis of irregular expenditure (section 2.4.3), R209 million (99%) of the irregular expenditure incurred by auditees was as a result of the contravention of SCM legislation. Eighty-five per cent of the irregular expenditure was identified during the audit process.

Findings arising from the audit were reported in the management reports of 83% of the auditees where the assessment was performed, while in 23 (79%) of these cases the findings were significant enough to warrant reporting thereof in the auditor's report.

The following figure presents a summary of SCM findings with a comparison with the results of the previous year. Details of the most prevalent findings are provided under the headings as depicted in the figure. The percentages are based on the number of auditees where the findings were raised.

Figure 18: Summary of findings arising from the audit of supply chain management



3.2 Limitations on planned scope of audit of awards

Sufficient appropriate audit evidence could not be provided at three (10%) auditees that awards had been made in accordance with the requirements of SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. This was a result of two files that went missing due to inadequate control over SCM files at Drakenstein. At Prince Albert supporting documentation for service providers appointed by Central Karoo District (shared services) could not be provided for audit purposes as the supporting documentation was not maintained by the local municipality and controls were not in place to keep a record of the relevant supporting documentation. At Overberg District audit evidence could not be obtained to confirm that the final decision on which quotation to accept was made by an appropriately delegated official due to requisitions not being attached

to payment vouchers and due to the failure to generate orders. The following table depicts the auditees where limitations were experienced.

Table 21: Limitations experienced

Auditees	Number of auditees	Number of awards	Value of awards R'000
Drakenstein	1	2	654
Overberg District	1	22	367
Prince Albert	1	3	409
Total	3	27	1 430

As a result of the limitations experienced, the findings reported in the rest of this section might not reflect the full extent of irregularities and SCM weaknesses at the auditees.

3.3 Awards to state officials

SCM regulation 44 prohibits awards to persons or entities owned/managed by them if they are in service of the auditee (i.e. employees and councillors) or if they are in service of any other state institution. Such expenditure is also considered irregular.

The audit included the identification of such prohibited awards. Further testing was performed to determine whether the legislated requirements with regard to declaration of interest were adhered to.

The following table depicts the audit findings raised at auditees where prohibited awards were identified, with an indication of the positions of the officials involved. Where prohibited awards were also identified in the previous year the name of the auditee is highlighted in red.

Table 22: Awards to officials in the service of the auditee

Auditees	Awards made					Awards made to officials of other state institutions		Provider did not submit declaration of interest	Provider did not declare interest
	Officials in service of the auditee			Official did not declare interest	Official was involved in making the award	Number	R'000	%	%
	Number	R'000	Positions	%	%				
Municipalities									
Beaufort West						3	717	100%	
Bitou	5	358	Other officials	100%					
Breede Valley						14	860	100%	
Cape Winelands District				100%		9	542		100%
City of Cape Town	14	1 275	Councillor / other officials	64%		50	77 424	66%	32%
Drakenstein						5	146		100%
George						5	191	100%	
Langeberg						5	2 604		
Overstrand						3	30	100%	
Prince Albert						1	1 379	100%	
Saldanha Bay						5	1 222		100%
Stellenbosch	1	189	Other official	100%		3	408		100%
Theewaterskloof						1	475	100%	
Witzenberg	1	14	Councillor	100%		4	29		100%
Total	21	1 836		17%		108	86 027	28%	21%



3.4 Awards to close family members of state officials

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

The audit included the identification of awards to close family members, but only at seven (24%) auditees where information on close family members could be obtained. Further testing was performed to determine whether the financial statement disclosure was made and whether the legislated requirements with regard to declarations of interest were adhered to.

The following table depicts the audit findings raised at auditees where awards to close family members of officials of the auditee were identified, with an indication of the positions of the officials involved. Where such awards were also identified in the previous year the name of the auditee is highlighted in red.

Table 23: Awards to close family members

Auditees	Awards made to close family members of persons in service of the auditee			No disclosure in financial statements	Official did not declare interest	Provider did not submit declaration of interest	Provider did not declare interest
	Number*	R'000	Positions	%	%	%	%
Municipalities							
Overstrand	1	4	Other officials	0%	100%	0%	0%
Cederberg	2	84	Other officials	0%	100%	100%	0%
Breede Valley	26	3 400	Other officials	0%	0%	0%	0%
Total	29	3 488		0%	29%	14%	0%

3.5 Uncompetitive or unfair procurement processes

The principles of contracting for goods and services in a manner that is fair, equitable, transparent, competitive and cost effective comes from our Constitution. Legislation, most notably the MFMA and SCM regulations, prescribes the processes and rules to be followed by municipalities and municipal entities in order to consistently and correctly apply the constitutional principles and to safeguard the process against abuse. The preferential procurement framework further gives effect to the constitutional principle of giving preference to the previously disadvantaged in the allocation of work by the public sector.

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

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

The procurement processes of 335 contracts (R363 million) and 849 quotations (R183 million) were tested. The five most prevalent findings on non-compliance with SCM legislation that resulted in uncompetitive or unfair procurement processes are summarised in the following table. Where the findings were also raised in the previous year the name of the auditee is highlighted in red.

Table 24: Findings on uncompetitive or unfair procurement processes

Auditees	Three written quotations not invited – no deviation approved		Competitive bids not invited – no deviation approved		Approved deviation for quotations and contracts – not disclosed in AFS		Bids advertised for shorter period – no approval of deviation		No declaration of interest submitted by provider		Other findings	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Municipalities												
Berg River	3	46										
Bitou	5	563							9	167	3	2 680
Cape Winelands District									11	247		
Central Karoo District					2	648					6	688
City of Cape Town							13	33 363	386	36 772		
Drakenstein	2	52	5	932								
Eden District	8	843							28	17 963	5	188
George	2	191							2	160		
Knysna	7	88									8	1 283
Laingsburg	10	552	6	2 289							2	124
Mossel Bay									12	490		
Overberg District	3	194	2	2 322			1	530	28	972	37	5 522
Prince Albert											2	409
Stellenbosch	125	6 162					2	54 185				
Theewaterskloof					308	6 939						
Municipal entities												
Cape Town International Convention Centre	9	151									1	9 811
Khayelitsha Community Trust					3	471						
Total	174	8 842	13	5 543	313	8 058	16	88 078	476	56 771	64	20 705

* Number: indicates number of instances

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

Table 25: Findings on non-compliance with legislation

Finding	Detail
Three price quotations not invited – no deviation approved	A price quotation process is prescribed for procurement of goods and services valued between R10 000 and R200 000 in terms of SCM regulations 12(1) (c) and 17(1). Three price quotations were not always obtained and the deviations were not approved by a properly delegated official or committee as required.
Competitive bids not invited – no deviation approved	Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulations 19(a) and 36(1).
Approved deviation for quotations and contracts – not disclosed in AFS	The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA as disclosure of SCM deviations identified by the auditors were subsequently corrected.
Bids advertised for shorter period – no approval of deviation	Invitations for competitive bidding were not always advertised for a required minimum period of days as per the requirements of Municipal SCM regulations 22(1) and 22(2).
No declaration of interest submitted by provider	Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of Municipal SCM Regulation 13(c).
Other findings	Other findings included, amongst others, procurement deliberately split to avoid compliance requirements, procurement from suppliers without SARS tax clearance, quotations not obtained from listed prospective suppliers/suppliers meeting listing requirements, some contracts and/or quotations could not be audited for procurement compliance – limitation, project not registered with Construction Industry Development Board within 21 working days, bids not adjudicated by a properly constituted adjudication committee, bids not evaluated by properly constituted evaluation committee and bid specifications not approved by the accounting officer or delegated person.

3.6 Inadequate contract management

Shortcomings in the manner that contracts are managed result in delays, wastage and fruitless expenditure, which impact directly on service delivery to the citizens.

The five most prevalent findings on inadequate contract management are summarised in the following table. Where the findings were also raised in the previous year the name of the auditee is highlighted in red.



Table 26: Findings arising from the audit of contract management

Auditees	Performance of contractors not monitored on monthly basis		Inadequate contract performance measures and monitoring		No signed contract / not signed by the delegated official		Contracts amended or extended – reasons not tabled in the council	
	Number	R'000	Number	R'000	Number	R'000	Number	R'000
Municipalities								
Eden District					56	49 722		
Overstrand	1	406						
Prince Albert							1	1 379
Saldanha Bay			4	4 055				
Total	1	406	4	4 055	56	49 722	1	1 379

Further details of the findings are as follows:

Table 27: Findings on contract management

Finding	Detail
Performance of contractors not monitored on a monthly basis	In terms of section 116(2) (b) of the MFMA, the accounting officer must, on a monthly basis, monitor the performance of the contractor in terms of the contract or agreement.
Inadequate contract performance measures and monitoring	The accounting officer should establish standard operating procedures to coordinate the communication of non-performing contractors between the technical department and SCM unit. Internal stakeholder relationships need to be built so that the technical service department informs the SCM department and the council of non-performance of contractors.
No written contract or contract not signed by delegated official	Goods and services were received and payments made to suppliers without a written, signed contract or the contracts were not approved by a delegated official.
Contracts amended or extended – reasons not tabled in the council	In order to enable accountability and oversight the MFMA prescribes that reasons for amendment or extension of contracts should be tabled in the council. Instances were identified where the council was not informed.

3.7 Inadequate SCM controls

Findings on deficiencies in fundamental SCM controls are summarised in the following table.

Table 28: Findings arising from the audit of SCM controls

Auditees	Inadequate controls for vendor acceptance and maintenance	No processes to report any breach of or failure to comply SCM system	AO did not submit quarterly reports to mayor on SCM policy implementation	Inadequate controls to ensure interest is declared	No processes to report any breach of or failure to comply SCM system	Other controls
Municipalities						
Overberg District						
Laingsburg						
Central Karoo District						
Breede Valley						
Saldanha Bay						
Total	2	2	1	1	1	5
Percentage of auditees tested	7%	7%	3%	3%	3%	17%

Further details of the findings are as follows:

Table 29: Findings on SCM controls

Finding	Detail
Inadequate controls for vendor acceptance and maintenance	Controls over the acceptance of new vendors and amendments to existing vendors were inadequate.
No processes to report any breach of or failure to comply with the SCM system	Official processes to report to the council on breaches or failure to comply with the SCM system were not established.
Accounting officer did not submit quarterly reports to the mayor on SCM policy implementation	The accounting officer did not submit quarterly reports to the mayor on SCM policy implementation.
Inadequate controls to ensure interest is declared	Adequate controls to ensure that declarations of interest are obtained for all procurement were not established.
No processes to report any breach of or failure to comply with the SCM system	The municipality did not establish formal processes and channels so that breaches of or failure to comply with SCM requirements are reported.
Other controls	Other control weaknesses included roles and responsibilities for management and coordination of SCM unit not clearly assigned, inadequate/no written delegations, register of bids received on time not published on website, audit committee review of compliance with laws and regulations did not include SCM, risk assessment did not address SCM and fraud prevention plan did not include measures for preventing and detecting fraud in procurement.

Awards to employees, councillors or other state officials remained stagnant. The issues related mainly to two findings related to declarations of interest, no declarations requested or obtained and declarations obtained where the suppliers did not declare their status as “in service of other state institutions”. While controls can be implemented at a municipal level to address the issue on obtaining declarations, the issue on false declarations may require a combined approach (municipalities, entities, provincial and national treasuries) in terms of compiling a database of all individuals in service of the state against which declarations obtained can be checked.

Those charged with governance and oversight must commit to take the lead in turning around non-compliance with SCM legislation and ensure a strong ethical culture within municipalities. Active governance and involvement by internal audit units and audit committees can also go a long way in meeting the tender process challenges, thus helping municipalities move faster towards clean administration.

Non-compliance must have consequences and accountability must be enforced at all levels. For example, consideration should be given to implementing appropriate consequences for those who intentionally neglect regulations that govern strategic areas such as SCM. There must be a conscious decision by political and administrative leadership to take action against transgressors.

3.8 Overall conclusion on SCM matters

There was a slight regression in terms of SCM non-compliance overall. Findings on uncompetitive or unfair procurement processes regressed due to leadership not ensuring that appropriate policies and procedures were drafted and communicated to SCM personnel to create a clear understanding of all the relevant laws, regulations and policies. In the instances where policies and procedures were developed the implementation thereof was not adequately monitored by the municipality.



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SECTION 4: DRIVERS OF AUDIT OUTCOMES

4.1 Significant deficiencies in auditees' systems of internal control

4.1.1 Statutory responsibility of accounting officers and senior officials to maintain effective systems of internal control

A key responsibility imposed by the MFMA and other legislation on accounting officers and other municipal officials is to implement and maintain effective, efficient and transparent systems of financial and risk management and internal control.

The implementation of effective internal control helps to achieve important objectives and sustain and improve performance. Objectives are derived from the regulatory environment and fall into the following categories:

- Operations – Effectiveness and efficiency of operations, including goals for operational and financial performance and safeguarding against loss (financial and performance management).
- Reporting – Pertaining to the reliability of reporting, including internal and external reporting of financial and non-financial information.
- Compliance – Pertaining to compliance with laws and regulations.

The objectives are driven by the mandate and the mission and vision of the organisation. Setting objectives is a prerequisite for internal control and a key part of strategic planning.

Internal control is a multi-dimensional iterative process of ongoing tasks and activities which are performed by the people, not just policies and systems, who provide assurance concerning the achievement of objectives. The fundamental principles contained in the key drivers of internal control must be present and operate together in order for the system of internal control to be effective.

The leadership of an organisation sets the tone from the top regarding the importance of internal controls and expected standards of conduct. The control environment is the foundation for all other components of internal control and provides discipline, process and structure. A risk assessment should be conducted

to establish what control activities (policies and procedures) are required to ensure achievement of the control objectives. The availability of accurate and complete information and the communication of information are required to carry out day-to-day internal control activities. Ongoing monitoring of activities (good governance) is necessary to ascertain whether all components of internal control are present and functioning.

When internal control is effective, management and those charged with governance have reasonable assurance that the entity understands the extent to which the operations are managed effectively and efficiently; prepares reliable reports; and complies with laws and regulations.

An explanation of the details of each driver of internal control is contained in the glossary of terms.

The assessment below is based on significant deficiencies relating to the following:

- Material misstatements in the financial statements presented for audit (whether or not these have been corrected as a result of the audit).
- Findings arising from the audit of PDOs.
- Findings arising from the audit of compliance with laws and regulations.

Table 30: Assessment of the key drivers of internal control

Internal control driver	Objectives impacted on								
	Financial reporting (misstatements in financial statements)			Service delivery planning and reporting			Compliance with laws and regulations		
Leadership	53%	27%	20%	44%	24%	32%	47%	26%	27%
Effective leadership culture	83%	14%	3%	80%	10%	10%	76%	14%	10%
Oversight responsibility	44%	28%	28%	24%	24%	52%	31%	31%	38%
HR management	62%	21%	17%	51%	21%	28%	55%	21%	24%
Policies and procedures	58%	28%	14%	48%	21%	31%	59%	17%	24%
Action plans	51%	28%	21%	38%	24%	38%	44%	28%	28%
IT governance	17%	45%	38%	21%	45%	34%	17%	45%	38%
Financial and performance management	31%	37%	32%	33%	23%	44%	41%	28%	31%
Proper record keeping	52%	31%	17%	45%	17%	38%	69%	21%	10%
Processing and reconciling controls	32%	34%	34%	49%	17%	34%	55%	24%	21%
Reporting	14%	48%	38%	17%	28%	55%	41%	31%	28%
Compliance	44%	28%	28%	31%	21%	48%	17%	28%	55%
IT systems controls	18%	41%	41%	21%	34%	45%	21%	38%	41%
Governance	51%	25%	24%	44%	23%	33%	47%	31%	22%
Risk management	41%	38%	21%	44%	28%	28%	41%	38%	21%
Internal audit	55%	21%	24%	42%	24%	34%	51%	28%	21%
Audit committee	55%	17%	28%	45%	17%	38%	48%	28%	24%

No significant deficiency

Deficiencies in the process of being addressed

Intervention required









4.1.2 Movement in implementation of key drivers and recommendations for improvement




The following table summarises the movement from the prior year and outlines specific ways in which the drivers of internal controls can be improved.

Table 31: Summarised recommendations for improvement of key drivers

Leadership element	Movement since last audit	Summarised comments
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity		
Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls		It is important that the mayor should play an active oversight role to ensure that the key elements of good internal control and governance are adhered to. Notwithstanding the commitment that we received from the mayors during the door-to-door visits that were conducted in the province, the mayors did not perform the oversight that was discussed and agreed upon. During these visits the role and responsibilities between the mayor, the municipal manager and the chief financial officer were cleared and there was no uncertainty regarding what role the mayor will have to play to ensure that the municipalities move to better audit outcomes.
Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored		The leadership needs to be involved in the financial management and performance management and set the tone at the top to create an environment conducive to good financial management and service delivery; thereby improving the audit outcomes. The audit outcomes indicate that the leadership tone on human resource capacity and the monitoring of action plans is crucial.
Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities		The need for competent and skilled staff to support the municipal manager was identified as a priority to improve on the prior year audit outcomes and the production of regular and quality financial and performance information. The successful appointment of competent and skilled staff, together with training interventions, led to improvements in the audit outcomes. Thus the leadership needs to take active steps in ensuring that adequately skilled staff are recruited and appointed. The contracting of independent consultants in specialised areas that are adequately monitored and where skills are transferred also contributed to the improvement in the audit outcomes. Future improvement in audit outcomes will depend on stability at senior management level and continued direction provided by the leadership.
Develop and monitor the implementation of action plans to address internal control deficiencies		Where IT systems are not adequate, the leadership has not established an IT governance framework due to a lack of skills in the IT section and did not prioritise action plans or the implementation of the action plans to address the deficiencies. Performance information structures and systems need to be integrated within existing management processes and systems to improve audit outcomes. Furthermore, municipalities and municipal entities need to develop and implement a strategic IT plan that supports business requirements.
Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment		
Establish an IT governance framework that supports and enables the business, delivers value and improves performance		

Financial and performance management element	Movement since last audit	Summarised comments
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting		Pertinent information should be identified and captured in a form and time frame to support effective financial and performance reporting, which reduces instances of material amendments resulting from the audit. Adherence to basic financial controls throughout the financial year, i.e. daily processing of transactions, monthly reconciliation of accounts and the continuous review thereof, needs to be actively monitored by management in order to improve audit outcomes. Documents supporting the financial statements and other information should be readily available, without any significant delay, when requested throughout the audit process. There were municipalities and municipal entities that were not able to supply documentation that supports the information in the financial statements or the report on predetermined objectives due to an inadequate archive system.
Implement controls over daily and monthly processing and reconciling of transactions		Basic reporting disciplines, such as proper record keeping, regular processing of transactions and reconciliations, preparation of monthly reporting, and controls over compliance with fiduciary responsibilities, also require leadership attention. Monthly monitoring of these key controls will enhance the level of accountability to executive authorities and improve the quality of reporting on financial and service delivery information.
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information		Although the audit outcomes of municipalities and municipal entities have improved from the prior year, the quality of the financial statements submitted for auditing is still not adequate based on the increase in the material misstatements identified and corrected. The municipalities and municipal entities did not have competent individuals who understand the financial reporting framework and performance management requirements to perform proper reviews prior to the submission of the financial statements. This is the main reason for the appointment of consultants. The pervasive material misstatements identified by auditors were mainly the result of a lack of supervision and review of monthly reports used in the preparation of the financial statements by the leadership, particularly the chief financial officers. Furthermore, it is critical for the leadership to ensure that the required skills are transferred to staff where consultants are appointed.
Review and monitor compliance with applicable laws and regulations		Compliance checklists should be implemented and identified cases of non-compliance should be reported on a monthly basis. These reports should be used to further strengthen controls in the affected areas to avoid further non-compliance throughout the year.
Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information		Findings on predetermined objectives and the design and implementation of formal controls over IT systems are concerning. Targets set by municipalities are not always clear and measurable and supporting documentation to substantiate the outcomes cannot always be submitted. IT systems to report on predetermined objectives are generally not in place.
Application systems susceptible to compromised data integrity (Information Systems)		The IT environment, with specific reference to controls regarding access control and protection of information which are not in place, is also of concern. Furthermore, manual or automated controls were not always adequately designed to ensure that the transactions did occur, were authorised, and were completely and accurately processed to ensure compliance with all applicable laws and regulations.



Governance	Movement since last audit	Summarised comments
Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored		The leadership needs to ensure that comprehensive risk assessments are performed that cover all critical areas to improve audit outcomes.
Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively		There is a need to adequately resource the internal audit function to ensure that it operates effectively by identifying internal control deficiencies in a timely manner and by recommending and monitoring corrective action.
Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations		<p>While audit committees have in general been appointed and are meeting, there is scope for improving the interaction of the mayor and the municipal manager with a view to providing feedback on the identification of risk areas and an assessment of the effectiveness of the control environment.</p> <p>To improve audit outcomes it is critical that audit committees and internal audit units function effectively by reviewing the financial statements submitted for audit purposes, and ensuring that measures have been implemented to correct previous year audit findings by monitoring the action plans to correct audit findings.</p>



Overall progress made



No significant overall change



Overall regression

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

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

Inadequate HR management negatively impacts on internal control and is one of the root causes of the following matters outlined in this report:

- Material misstatements in the financial statements presented for audit (whether or not these have been corrected as a result of the audit).
- Findings arising from the audit of PDOs.
- Findings arising from the audit of compliance with laws and regulations.

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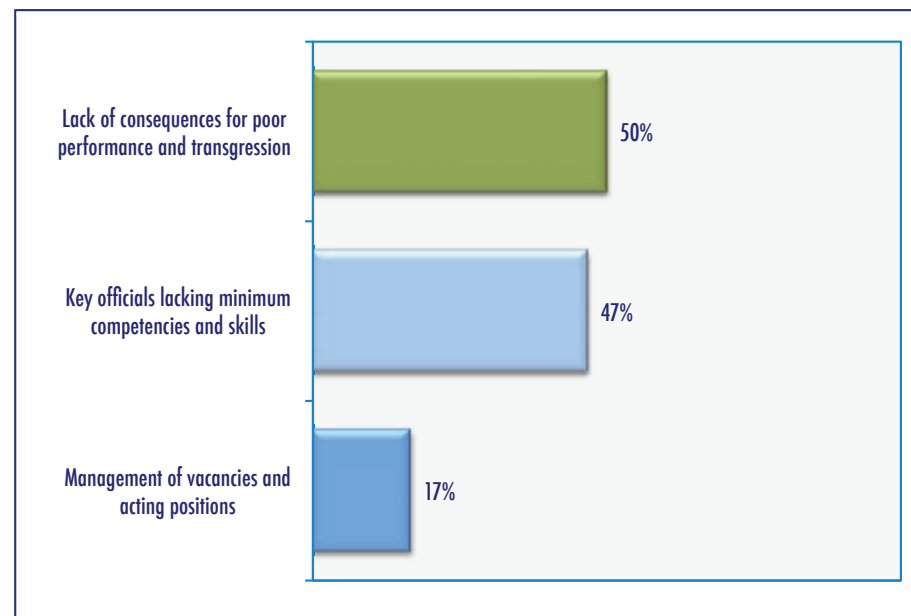
The assessment of the drivers of internal control at the time of the audit, as analysed in section 2, identified HR management as the area where significant attention is still required for audit outcomes to improve.

The AGSA's assessment of HR management focused on the following areas:

- HR planning and organisation
- Management of vacancies
- Appointment processes
- Performance management
- Acting positions
- Management of leave, overtime and suspensions

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

Figure 19: Summary of HR management weaknesses



Assessments included that leadership did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored as critical posts were either vacant during the year under review or filled with temporary resources without the necessary experience or the necessary training was not provided to existing staff.

Performance management

Inadequate performance management of accounting officers and employees is at the root of many of the failures of local government and was identified at 50% of the municipalities.

The controls and performance objectives of the municipalities do not filter through to the performance contracts of municipal officials in order to direct their daily operations. Lack of discipline, absence of commitment to serving the public interest and non-adherence to the code of conduct for municipal officials were identified as



root causes by national, provincial and oversight role players and are echoed in the experiences of the public at some municipalities.

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

The disciplinary regulations for senior managers, effective from April 2011, provide mechanisms and procedures for managing misconduct of municipal managers and senior managers. The implementation of these regulations will further provide an opportunity for the councils and municipal managers to demonstrate their commitment to accountability.

Competencies of key personnel

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

The audit outcomes, failures in service delivery and the high demand for consultants, as highlighted in this report, are indicative of an environment where the persons appointed in these posts do not have the competencies required. This has been identified as a weakness at 47% of the municipalities. The root cause of this is two pronged – people are appointed who do not have the competencies, while current employees do not keep up with the changing local government environment through ongoing training and development.

There is, however, an opportunity to turn around the situation in the upcoming years through implementation of the municipal regulations on minimum competency levels. The regulations define the minimum competency levels of accounting officers, CFOs, senior managers, SCM officials and other financial officials. It provides for a phasing-in period for persons currently in those positions to obtain the minimum competency level through academic studies and experience and by addressing any gaps in competencies through training and development. The phasing-in period

ends on 1 January 2013. As from that date, these positions may not be filled by persons who do not meet the minimum competency levels.

The recent amendments made to the MSA go further by declaring any such appointments at municipal manager level null and void. It also provides for a defined appointment process of municipal managers which includes monitoring and intervention by the MEC for local government. These important amendments, which came into effect in July 2011, also prohibit the appointment of municipal managers or senior managers who hold political positions in a political party.

Management of vacancies and acting positions

The biggest challenge for local government is to attract and retain qualified competent persons across all areas of administration. High vacancy levels and key positions being vacant for long periods were identified at a number of municipalities.

The vacancies at the level of municipal manager and senior management have the biggest impact on the audit outcomes. Officials are directed to act in these positions until the vacancies are filled, but at 17% of the municipalities it was noted that the acting periods were for longer than the accepted benchmark of six months.

Vacancies and skills shortages result in increased reliance on consultants for the preparation of financial statements and the maintenance of the accounting systems and controls. When consultants are used they should strengthen systems of internal control in partnership with internal officials, in such a manner that daily and monthly reconciliations become the institutional culture of each and every municipality. Such an approach would facilitate the skills transfer in a more structured manner. When vacancies exist there is no opportunity to transfer skills to officials.

Although all vacancies should be filled as a matter of urgency, the ideal is that key positions are filled with people who have the required competencies. There is an option for secondments, consultants and national and provincial support in these cases.

Conclusion

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

4.3 Information technology (IT) management as a specific driver of audit outcomes

4.3.1 Overview of IT systems management

This section gives an overview of the adequacy and effectiveness of controls relating to the IT environment on which financial and management systems reside.

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

Twenty-two audited municipalities in the Western Cape Province use eight different financial systems. These range from off-the-shelf packages (computer packages bought) to customised systems (computer packages bought and modified).

The management and support of these financial systems are done independently, i.e. each municipality manages its own system with the support of vendors except for the shared change management boards, where municipalities contribute to changes to the applications.

Municipalities

- Implement governance processes
- Implement security management controls
- Implement user access controls
- Actively participate in the district ICT forums

4.3.2 Summary of overall IT weaknesses

IT management of financial systems was evaluated at 24 municipalities within the province. Key areas in the management of IT where weaknesses were identified are summarised in the following table:

Table 32: Summary of IT control weaknesses

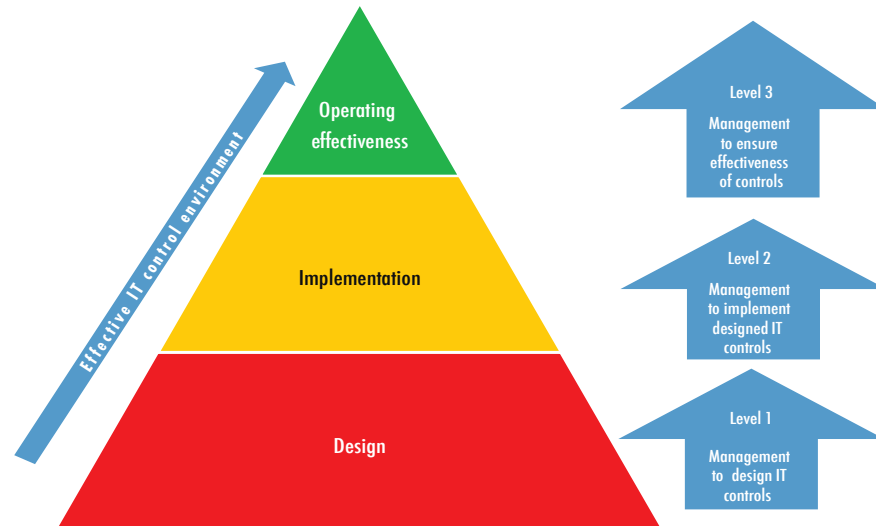
Focus area	Outline of aspects audited	Incidence of control weaknesses identified		
		Municipalities		
		Number audited	Number with weaknesses	Percentage
IT governance	The structures, policies and processes through which the auditee ensures that IT is in line with the business requirements. Key focus was on the management of service level agreements.	24	24	100%
Security management	Controls that prevent unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.	24	22	92%
User access management	Procedures through which the auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.	24	24	100%
IT service continuity	Processes of managing the availability of hardware, system software, application software and data to enable auditee to recover/establish information system services in the event of a disaster. Key focus was on the application backup process.	24	23	95%

4.3.3 Analysis of IT control weaknesses identified in table 32

During the review of the IT control environment the weaknesses were categorised in three phases, namely the control design phase during which management designs the IT controls to address the risk identified in the IT environment, the control implementation phase during which the designed controls are implemented by management and the control effectiveness phase, when the implemented controls are operating effectively continuously over a period.



Figure 20: Effective IT control environment



The IT control weaknesses for the province were summarised as follows:

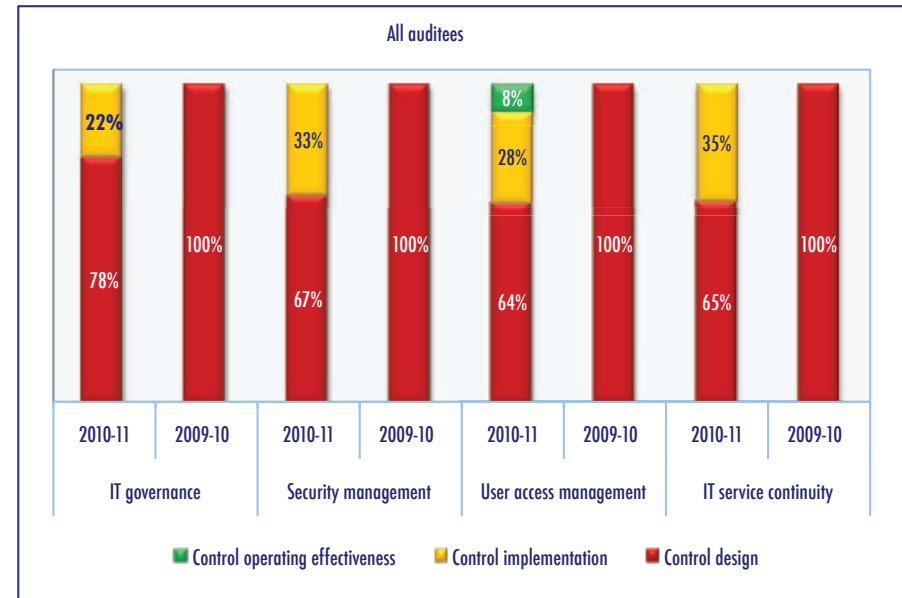
Control design: The majority of municipalities are still in the process of designing key IT controls to ensure effective and efficient IT management within the municipalities.

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

Control operating effectiveness: A small number of municipalities have made significant progress with user account management, as it was adequately designed and implemented. However, management should monitor that these IT controls are operating effectively throughout the year.

The drivers of the IT control weaknesses are categorised and depicted in the figure below.

Figure 21: Drivers of IT control weaknesses



4.3.4 Status of management commitments implemented to address IT weaknesses

Although municipalities made progress in addressing previous years' weaknesses, time lagging occurred during the implementation of the commitments due to IT being regarded as a back office function and not as an enabler of strategy. The municipalities did manage the IT action plans outside the overall business/audit remedial plans and therefore did not receive the necessary senior management attention. This resulted in municipalities not implementing commitments at the proposed turnaround time frames.

Figure 22: Status of management commitment implemented to address IT weaknesses

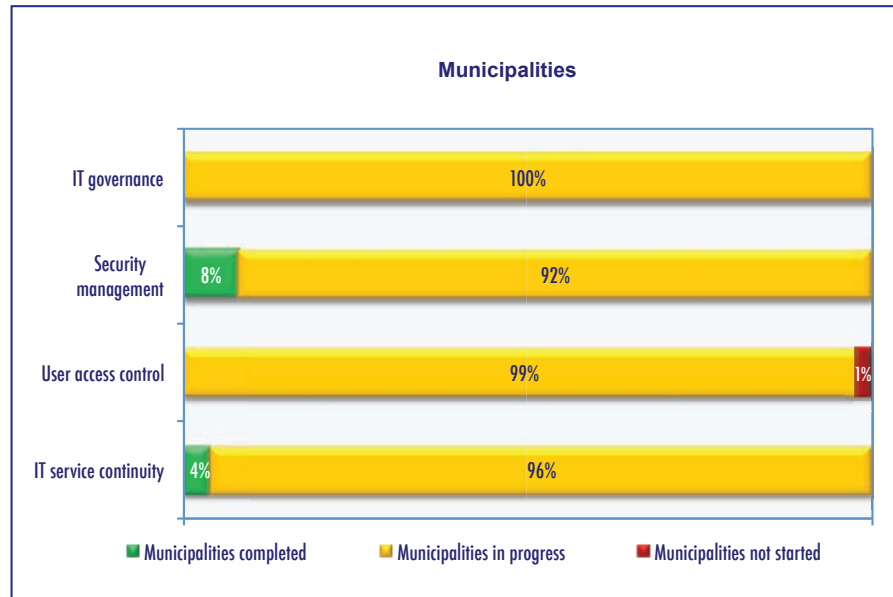


Table 33: Summary of significant IT weaknesses of the 2010-11 financial year

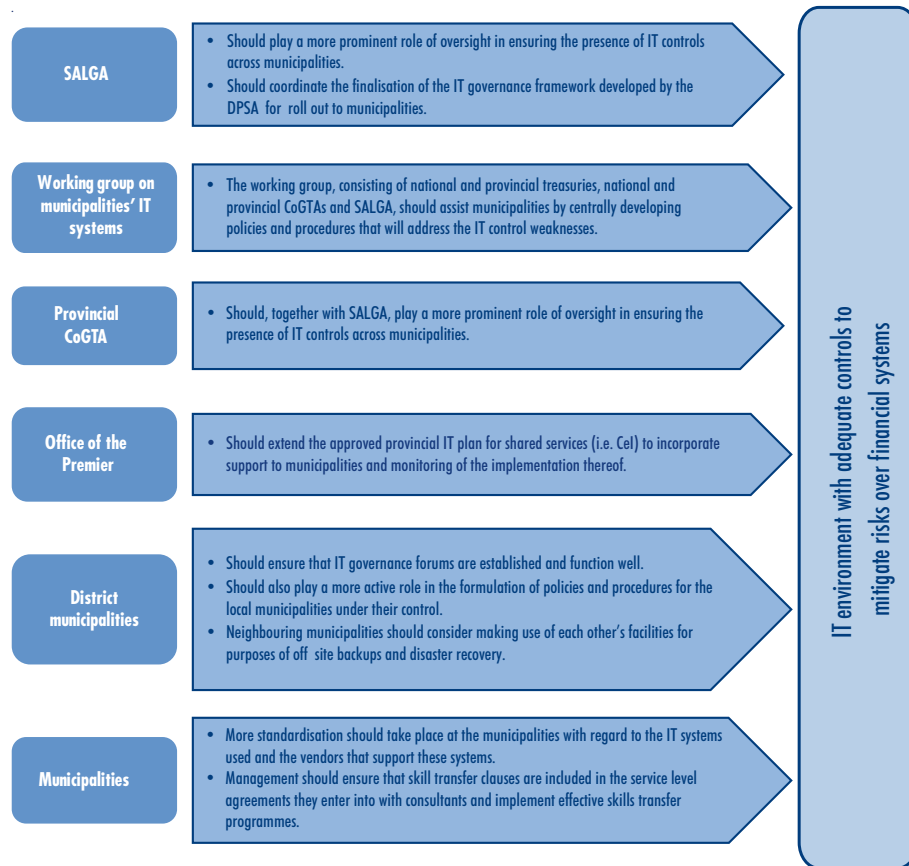
IT focus areas	Significant IT weaknesses
IT governance	There is no IT governance framework to address the lack of IT risk management, strategic alignment of IT with business and structures to actively monitor service performance by internal and external providers. There are no service level agreements between the municipalities and the vendors supporting their financial systems. Moreover, the service providers are not effectively managed to ensure value delivery.
Security management	The IT security policy had not been documented and approved by management. The security parameter settings implemented on the domain controller are inadequate and no operating system standards or procedures exist. There is a lack of formally documented patch management procedures to address changes to the system.
User account management	User account management procedures have not been formally documented and approved. Key monitoring or reviews of user access profiles and review of administrators have not been performed.
IT service continuity	The majority of the municipalities did not have operational disaster recovery plans to facilitate recovery of systems in the event of unforeseen disasters affecting the availability of IT systems. The backup and retention procedures had not been formally documented and approved by management, which resulted in backups not being monitored and periodically tested. The backups were not retained at an off-site facility.

4.3.5 Root causes

The overall root causes are the lack of management awareness, lack of understanding of IT matters and IT is not regarded to be of strategic importance. This is evident in the inadequate oversight responsibility by senior management resulting in repeat findings due to inadequate resource (skills, staff and budget) allocation. A significant amount of responsibility and/or accountability is transferred to external service providers without sufficient monitoring, which results in the lack of timely implementation of appropriate IT controls.



4.3.6 Way forward for key role players

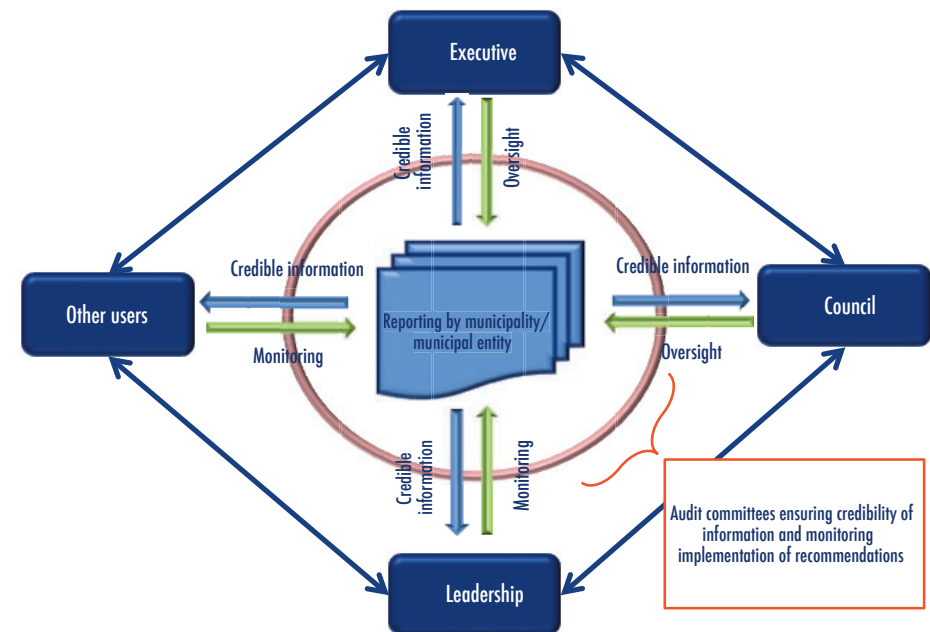


4.4 Role of audit committees in promoting clean administration

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

responsibilities, with the ultimate aim of achieving the organisation's objectives. The role of the audit committee worldwide is evolving and audit committees need to look wider than their legally prescribed duties and focus on intent of legislation. In the public sector this means that audit committees need a level of maturity in order to serve the society as a whole.

Figure 23: Role of audit committees in assessing and reporting on governance, risk management and control at auditees



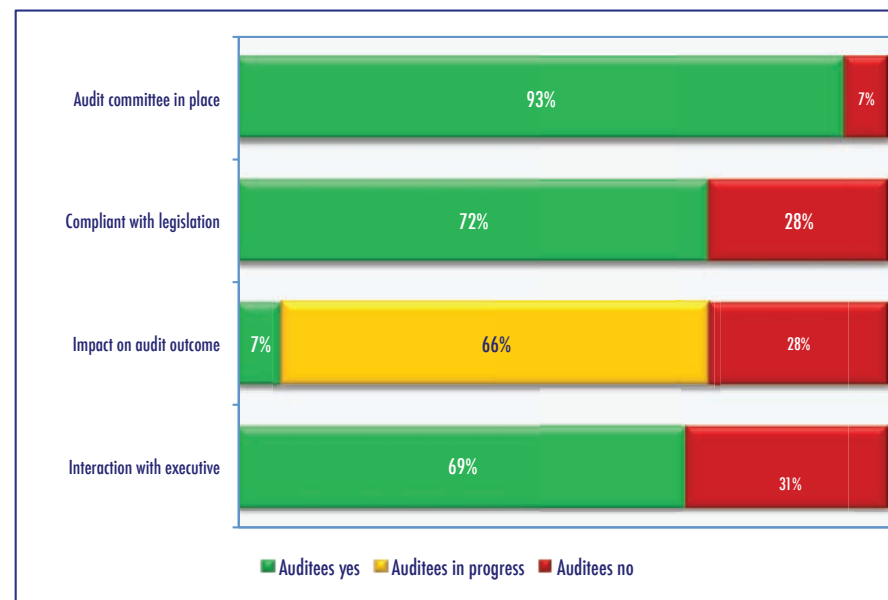
The responsibilities of the audit committee include providing assurance on the credibility of various reports produced for purposes of oversight, decision making and accountability. Should the audit committee fail in executing this responsibility effectively, vital decisions relating to funding, accountability and service delivery will be based on information that may be inaccurate, incomplete and unreliable. Figure 24 below depicts the current status and effectiveness of audit committees in the province.

Self-assessment by municipalities is critical to providing credibility to the system of internal control and the various reports that are used for monitoring, reporting and decision making by management, executive leadership, audit committees and council. The recommended process to be followed to ensure credible information is as follows:

- Municipal manager to start documenting their self-assessment of internal/key controls. The AGSA's key controls dashboard can be used for this purpose, it can be enhanced or municipalities can develop their own dashboard.
- Mayors to sign off on these checklists and take responsibility for effective internal controls within the municipality.
- The AGSA's key control review will then be evaluated against this self-assessment.
- Internal audit unit to also evaluate this checklist.
- Audit committee and MPAC to focus on this self-evaluation to assess the control environment and track the municipality's progress against the self-assessment.
- The council to confirm before the start of meetings that information presented for consideration meets the credibility criteria, i.e. it is accompanied by the checklist signed off by the municipal manager, evaluated by the internal audit unit and confirmed by the audit committee and MPAC.
- If the above is not in place, the AGSA will not proceed with the further evaluation of key controls.
- Monthly preparation of AFS to be a compulsory requirement and to be included in the checklist.

It is recommended that the provincial treasury should assist in standardising the internal/key controls evaluation checklists. The AGSA dashboard can be used or adapted according to needs.

Figure 24: Effectiveness of audit committees



Twenty-seven of 29 auditees had audit committees in place for the period under review as prescribed, and 72% of audit committees complied with the letter of the law. However, there is a very distinct difference between being compliant and being effective. It is evident that two (7%) of the audit committees had a direct impact and 19 (66%) had a partial impact on the audit outcomes of their respective auditees.

The effectiveness of audit committees has also been limited by the lack of adequate training and a lack of effective coordination and communication with the internal audit units and the municipal leadership.

Strengthening audit committees for improved oversight

Mayors should ensure that the audit committees are effective throughout the financial period and in order to do so, the following recommendations should be considered:



The effectiveness of audit committees is dependent on the support and respect received from the leadership. The leadership should ensure that the audit committees are afforded sufficient time, as well as financial and other resources to effectively fulfil their responsibilities. Existing vacancies on audit committees should also be filled with skilled and competent professionals.

In addition, the effectiveness of an audit committee is mostly dependent on a properly resourced and skilled internal audit function that produces timely, relevant and quality reports focussed on systems of internal control. Internal audit functions should therefore be strengthened to support the audit committees in their work.

The executive mayors should continue facilitating improved interaction between the audit committee and themselves, internal audit units and the municipal managers, with a view to receiving feedback from the audit committee on residual risk areas and an assessment of the effectiveness of the internal control environment concerning financial reporting, predetermined objectives and compliance.

4.5 Assessment of monitoring and oversight by key role players at the time of the audit

Between February 2012 and the date of this report, the AGSA engaged provincial role players on all nine specific focus areas where their contributions to improve audit outcomes could be further enhanced. An assessment of the monitoring capacity and effectiveness of the role players in relation to these focus areas at the time of the audit is depicted in the following table.

Table 34: Assessment of monitoring capacity of key provincial role players to address audit outcomes at the time of the audit

Role players	Assessment of monitoring capacity and effectiveness								
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	Human resource management	Use of consultants	Municipalities under administration	Governance structures
Joint coordinating effort (Provincial CoGTA and the provincial treasury; Operation clean audit)	Intervention required	In progress	In progress	In progress	Intervention required	Intervention required	In progress	Not applicable	Intervention required
Provincial leadership (Premier, MEC for Local Government and MEC for Finance)	Intervention required	In progress	In progress	In progress	Intervention required	Intervention required	In progress	Not applicable	Intervention required
Provincial oversight (Public Accounts Committee)	Intervention required	In progress	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Not applicable	Intervention required



Note: Responsibility for these focus areas varies among role players.

Joint coordinating effort (provincial CoGTA and provincial treasury: operation clean audit)

While significant progress has been made to assist municipalities, the immediate impact of operation clean audit continued to be limited in view of the recurrence of findings in the 2010-11 financial year. The reason for not improving audit outcomes is due to the municipal leadership not responding to the coordinating department's recommendations in a timely manner owing to inadequate oversight and monitoring of the implementation of local government financial improvement plans (LGFMP). Another contributing factor is the continued misalignment between the timing of the LGFMP and the audit reporting cycle to allow the coordinating departments to proactively identify areas in which municipalities require assistance.

Provincial leadership (premier, MEC Local Government and MEC Finance)

At our meeting with the premier, MEC Finance and MEC Local Government (Troika) on 17 January 2012, the premier conceded that not enough progress had been made in implementing prior year commitments and re-affirmed her intentions to assist the municipalities to achieve clean administration, within the constraints of the prevailing legislation that guarantees separation of powers for this sphere of government.

Provincial oversight (municipal public accounts committees)

With respect to MPACs, our discussions with the provincial CoGTA revealed that there was not a wide support of MPACs at a local government level in the province because municipalities required further clarification on the terms of reference and the structuring of MPACs. The City of Cape Town was the only municipality in the province that had an established MPAC in the 2010-11 financial year. According to the provincial CoGTA, seven more municipalities established MPACs subsequent to the 2010-11 financial year. The national CoGTA and National Treasury developed a guide on MPACs that was made available in August 2011, which is being used by the provincial CoGTA to assist municipalities with the establishment of MPACs.



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SECTION 5: COMMITMENTS TO IMPROVE AUDIT OUTCOMES AND OTHER MATTERS REQUIRING ATTENTION FROM THE LEADERSHIP AND ROLE PLAYERS

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

5.1 Commitments made by key role players subsequent to audit to address audit outcomes

Responses and commitments emanating from the February and March 2012 interactions and roadshows in the province are outlined below.

Table 35: Commitments and actions by provincial executive leadership and oversight

Outline of role player commitment/proposed action plans – March 2012		Focus areas targeted by commitments and action plans							
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration
Provincial political leadership (Premier, MEC Local Government and MEC Finance)									
1	* The provincial leadership will: <ul style="list-style-type: none"> - drive the strengthening of the relationship between the ministries of provincial treasury and local government and municipalities. - review the effectiveness of the municipal-specific support and oversight initiatives provided to the councillors and officials to enable them to address financial and performance management at municipalities. - review the status of the quality, implementation and monitoring of the municipalities' action plans. * The relationship can be monitored by the premier through feedback at the premier's coordinating forum (PCF).								
2	* The premier will ensure that operation clean audit, coordinated by the ministries of provincial treasury and local government, will become a standing agenda item of the PCF for monitoring and evaluation of municipalities' key controls and commitments, as well as sharing of best practice in order to achieve sustainable clean audit outcomes.								

Outline of role player commitment/proposed action plans – March 2012		Focus areas targeted by commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
Provincial political leadership (Premier, MEC Local Government and MEC Finance) continued										
3	* The premier will request internal audit to present their findings at the PCF and utilise these sessions to follow up on the actions taken to address the findings.									
4	* The premier will explore and implement the concept for a “twinning” system that will pair well-performing municipalities with those requiring improvement in order to transfer skills and share good practices to improve financial and performance management.									
5	* The premier will raise the importance of an independent internal audit function which is protected from political influence at the President’s Coordinating Council.									
6	* Provincial treasury will:									
	- provide an online support helpdesk to assist with any queries related to the financial statements, performance information and compliance with laws and regulations.									
	- evaluate whether all 30 municipalities have implemented the GRAP framework. This will be done by providing workshops on the relevant accounting frameworks.									
	- analyse the audit outcomes to determine the transversal accounting and governance issues which will inform specific training in 2012-13.									
	- arrange the roll-out of GRAP 104, 103 and 24 training by external service providers.									
	- get involved in MinMay and PCF forums to understand the complexities faced by the municipalities and address their concerns in follow-up sessions with CFOs and subsequent MinMay and PCF sessions.									
	- perform LG FGRO local government financial governance reviews for all 30 municipalities where areas such as accounting, supply chain management and corporate governance are assessed.									
	- engage National Treasury to provide specific guidelines on laws and regulations, practise and instruction notes which should lead to a government-wide consistent interpretation of fruitless and wasteful, irregular and unauthorised expenditure.									
	- drive the institutionalisation of enterprise risk management (ERM) and internal audit at all municipalities. These endeavours include having workshops with CFOs, audit committees and other such similar bodies. This will be in cooperation with the Department of Local Government.									



Outline of role player commitment/proposed action plans – March 2012		Focus areas targeted by commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
Provincial political leadership (Premier, MEC Local Government and MEC Finance) continued										
7	*The Department of Local Government will:									
	- perform a readiness assessment to determine what municipalities should do to manage and report on PDOs and assist municipalities with the development of standard key performance indicators.									
	- assist municipalities with the implementation of performance management systems; participate in and provide support to interview panels; appoint a service provide to assist with recruitment and to provide advice on disciplinary matters.									
	- garner support for the establishment of municipal public accounts committees and clarify the role of these committees - support the review by the premier of the appointment of internal audit units and audit committees to strengthen the independence of these governance structures - continue with council training to strengthen oversight at their level									
	- provide quarterly progress reports on the above initiatives to the minister and, when called upon, to the standing committee on local government. There will also be a report to the PCF twice a year.									

Outline of role player commitment/proposed action plans – March 2012		Focus areas targeted by commitments and action plans								
		Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	HR management	Use of consultants	Municipalities under administration	Governance structures
Coordinated provincial oversight										
1	<p>* The joint oversight committee will continue with its reviews. As part of proactive oversight, the municipalities' key control documents will be used as a template for interactions. Municipalities will provide quarterly feedback to the committee.</p> <p>* The joint oversight committee will report to parliament on the outcome of reviews. Parliament will in turn through SCOPA call upon municipalities to account for their outcomes, if considered necessary.</p>									
2	The joint oversight committee, together with the MEC Local Government will continue with the training initiatives rolled out to local councillors. The possibility of the involvement of PALAMA with the executive leadership of municipalities will be explored.									
3	Municipalities will be encouraged to budget appropriately so that MPACs can be established in the 2012-13 financial year.									
4	The possibility of provincial APAC and MPAC forums will be explored.									

 Post-audit commitment/initiative (new)

 Commitment/initiative from prior year



5.2 AGSA initiatives to encourage clean administration

The AGSA continued in the 2010-11 financial year with its initiatives to enhance accountability in the province and to influence the process towards obtaining financially unqualified audit opinions with no findings in the areas of predetermined objectives and non-compliance with laws and regulations (clean audit reports). The main goal was to strengthen the relationship with the political and the administrative leadership to deepen the understanding of the AGSA and the mechanisms relating to the internal control model of leadership, governance, financial and performance management, and ultimately accountability, thereby paving the road towards improving public confidence.

These initiatives included the quarterly key control programme to provide proactive insights into the root causes of the status of internal controls, as well as the increased visibility of the AGSA's senior leadership and continuous interaction with management and those charged with governance with the objective of improving the effectiveness of the audit process and engaging with all role players that can influence clean audit outcomes. To this end, our engagements focused on simplicity, clarity and relevance of the message, securing buy-in and seeking commitment that will influence clean audit outcomes.

During the year under review, the AGSA also participated in various forums arranged by the provincial treasury and the provincial Department of Local Government to discuss the audit criteria, risks and the scope of auditing predetermined objectives and SCM with a view to influence municipalities to implement appropriate internal controls for improvement in these areas. During CFO forums, the AGSA highlighted key risk areas in the auditing of the financial statements, as well as the importance for municipalities to proactively implement action plans to comply with the GRAP reporting framework. These sessions also resulted in an improvement in the understanding of municipalities of the audit findings and root causes. A notable initiative included our well-received participation despite the medium- to low-attendance of the councillors in the training of new municipal councillors in June 2011 to create an understanding of the role councillors could play in influencing clean audit outcomes. The AGSA will continue to participate in these training interventions to enhance the oversight capacity of councillors.

During quarterly key control engagements, the AGSA visited the premier, the MECs for Finance and Local Government, as well as the speaker to discuss the key controls for the respective municipalities and to highlight those areas that they could influence to ensure clean audit outcomes. These initiatives by the AGSA, which will continue in the 2011-12 financial year, serve to enlighten the executive leadership on the outcomes and key controls of municipalities and/or municipal entities, as well as recommended action to the provincial and municipal leadership to improve audit outcomes. On 17 and 19 January 2012, the AGSA met with the key provincial role players to discuss the 2010-11 MFMA audit outcomes and to seek commitments from them towards achieving clean administration. This was followed by a presentation on the audit outcomes to the legislature in February 2012. Further engagements took place on 8 March 2012 when the auditor-general (AG) presented the 2010-11 MFMA audit outcomes to the leadership of local government and the province with a view of confirming their commitments to achieving clean administration. At this session the following points were raised:

A dedicated resource must be tasked to check that predetermined objective information produced is supported by appropriate audit evidence that supports completeness, accuracy and validity of the reported information.

The level of administrative stability to be enhanced through political influence, which must aim to address instability experienced in the positions of municipal manager and CFO.

Official communication is needed from the leadership to indicate to all role players that remaining in the yellow zone of financially unqualified with findings, year after year is not acceptable. Furthermore, it took considerable effort from audit teams in terms of material corrections allowed to get the majority of municipalities to financially unqualified with findings.

Municipalities should be given access to the provincial information on those in service of the state to enable them to confirm the completeness of declarations of conflict of interest provided by suppliers.

The question was raised: "What happens when there are persistent results that are less than ideal? Is there a consequence?" The leadership needs to look at these questions to get the province moving to clean audit administration.

The AGSA will continue with the quarterly assessments, with municipalities first performing self-assessments, and engagements with all levels of leadership to track progress made by municipalities and municipal entities to implement and improve on key controls. The quarterly results of the key control meetings will be presented to the legislature. Focus will also be on the support to municipalities and municipal entities requiring improvement to close all gaps in understanding, as well as the sustainability where good results have been achieved. We will participate in the upcoming third phase of councillor training.

5.3 Other current and emerging matters that require attention

5.3.1 Financial sustainability of auditees

Although matters such as debt collection, payment of creditors, ability to fund operations, and the maintenance of infrastructure were noted at some municipalities, none of these were significant, requiring reporting in the audit report. Detailed below are some matters which are highlighted for consideration in this regard. Reporting on this concern will be further discussed in the general report of 2011-12.

Funding of operations

Concerns regarding the ability to fund ongoing operations or being financially sustainable were identified at one (3%) auditee [2009-10: one (3%)]. The following table depicts the extent of such concerns in the province and the main reasons for such concerns.

Table 36: Reasons for funding and financial sustainability concerns at auditees

Auditee	High reliance on grants/Own revenue generated not sufficient to cover operating costs	Serious challenges being experienced in the recovery of consumer debtors	No cash for unspent grants	Debt collection problems	Current liabilities exceed current assets	Significant financial challenges
Municipal entities						
Knysna Economic Development Agency						
Total	1	0	0	0	0	0

There is a material uncertainty that casts significant doubt on the entity's ability to operate as a going concern. The entity's ability to continue as a going concern is dependent upon the continuing support of Knysna and ongoing support of grantors to cover operating and capital costs.

5.3.2 Material losses incurred and material impairment of assets

The details of material losses and asset impairments, as disclosed in the financial statements of auditees for the year ended 30 June 2011, are depicted below. This non-cash expenditure often gives rise to unauthorised expenditure. While these types of losses are not planned they do occur in the normal course of business, and should therefore be taken into consideration in the development of the budget. However, reasonable care should be taken to minimise them and to manage them constructively.

Table 37: Material losses incurred and impairment of assets

Auditees	Material losses (R'000)	Material impairment of assets (R'000)
Municipalities	1 796 923	914 866
Municipal entities	16 091	602
Total	1 813 014	915 468

The most significant material losses for municipalities relate to water and electricity distribution losses and the impairment of consumer debtors. Reasons for distribution losses include, among others, technical losses, illegal connections and unmetered municipal use.

The municipal entity had a material impairment of assets related to an expansion project to increase the capacity of the convention centre.

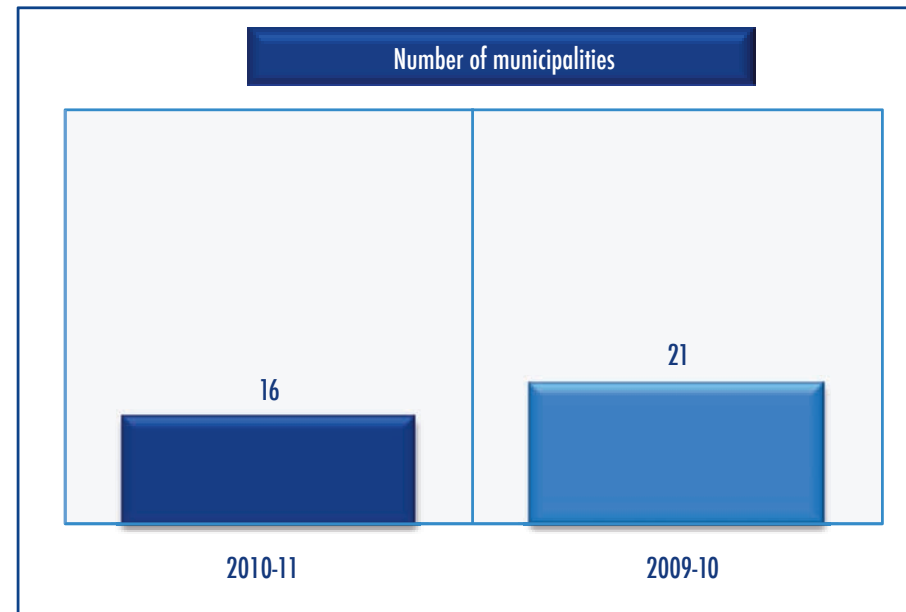
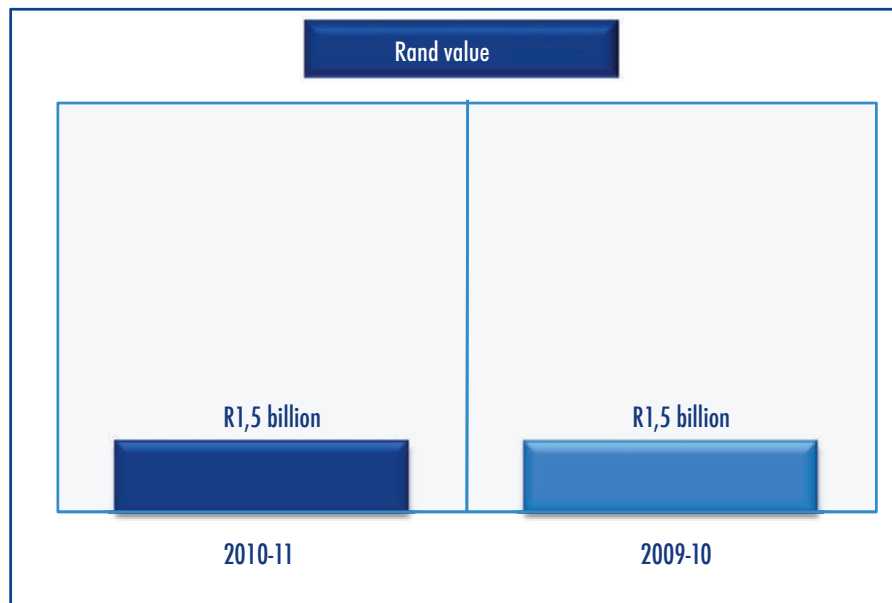
Annexure 5 to this report provides further details on losses and asset impairments per auditee.



5.3.3 Material underspending of votes and/or conditional grants

Sixteen municipalities (62%) [2009-10: 21(74%)] underspent their votes and/or conditional grants for the year ended 30 June 2011, as depicted in the following figure. This underspending, which is not an economic saving, is an indicator of poor financial management and often results in non-performance on service delivery and the neglect of other functions such as maintenance of infrastructure.

Figure 25: Material underspending of votes or conditional grants



The main reasons for underspending were inadequate capacity to execute the relevant projects.

The underspending impacted housing projects, environment protection services, roads and transport as well as sport and recreation.

5.3.4 Changes expected in the 2011-12 financial year

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

Accounting matters

The current standards of GRAP have been in a process of being fully implemented over a period of years and to this end transitional provisions for full adherence were developed. In the current financial year (2010-11) the transitional provisions

for medium-capacity municipalities came to an end. The transitional provisions for low-capacity municipalities expire in the 2011-12 financial year with the effect that all currently applicable standards of GRAP will be fully applicable for the year-end financial statements. No additional GRAP standards will apply for the 2011-12 financial year.

Compliance matters

Developments in SCM legislation

The revised preferential procurement regulations came into effect on 7 December 2011. The most significant changes were the introduction of B-BBEE certificates and the requirement for evaluation of functionality. Municipalities and municipal entities should ensure that their policies and procedures are in compliance with these regulations to avoid any regression in terms of compliance findings.

Municipal regulations on minimum competency level

Minimum competency regulations were issued on 15 June 2007. As per regulations 15 and 18, all municipalities must ensure that their staff members comply with the competency requirements with effect from 1 January 2013.

This means that the requirements are not yet applicable for the 2011-2012 financial year (financial period ending 30 June 2012). However, municipalities will need to start aligning their recruitment policies to the regulations and putting measures in place to ensure that they comply with the requirements by 1 January 2013.

The following matters specific to the province should also be taken into account:

The premier encouraged mayors to adopt as by-laws the Business Interests of Employees Bill of the Western Cape. Provincial government employees and their families will be prohibited from directly or indirectly holding more than 5% of shares, stock, membership or other interests in an entity that does business with the provincial government, unless approval is given by the relevant minister in accordance with certain criteria set out in the bill.

Before the provincial government enters into any contract with an entity for the sale, lease or supply of goods and services, the entity must provide an affidavit disclosing whether or not it is owned or part-owned by employees of the Western Cape government.

All provincial government employees will be required to disclose their business interests at prescribed intervals, in the same way that the Cabinet members do.



Glossary of key terminology used in the report

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

<i>General ledger</i>	A record of all financial transactions undertaken by an entity.
<i>Governance</i>	In the context of this general report it refers to the governance structures (audit committees) and processes (internal audit and risk management) as one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
<i>Information technology (IT)</i>	Computer systems used for recording and reporting financial and non-financial transactions.
<i>IT governance</i>	The structures, policies and process whereby the auditee ensures that information technology is in line with the business requirements.
<i>IT service continuity</i>	Processes of managing the availability of hardware, system software, application software and data to enable auditees to recover/establish information system services in the event of a disaster.
<i>IT security management</i>	Controls preventing unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.
<i>IT user access management</i>	Procedures through which the auditees ensures that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.
<i>Internal control (key controls)</i>	Internal control is the process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with the applicable laws and regulations. Internal controls consist of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adherence to policies, safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial and service delivery information.
<i>Inventory</i>	Goods held for resale or for internal use.
<i>Irregular expenditure</i>	Expenditure incurred without complying with applicable laws and regulations.
<i>Leadership</i>	Local government leadership refers to both political (mayors and council) and administrative leaders (municipal manager and senior managers). It is also one of the three key overall drivers of internal control that should be addressed to improve audit outcomes.
<i>Material finding</i>	Audit findings on reporting on predetermined objectives or non-compliance with laws and regulations which are significant enough in terms of value and/or nature that they would influence the understanding of the reported information.
<i>Material misstatement</i>	Misstatements which are significant enough to influence the opinions of users of the reported information. Materiality is considered in terms of the rand value and/or the nature and cause of the misstatement.



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

ANNEXURE 1: Auditees' audit outcomes, financial statement areas qualified and findings arising from the audit of predetermined objectives and compliance with laws and regulations

Number	Auditee	2010-11 audit year		2009-10 audit year		Financial statement qualification areas							Findings arising from the audit of predetermined objectives						
		Audit outcome 2010-11	Predetermined objectives Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Presentation	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Other non-compliance with related legislation
Metropolitan municipality																			
1	City of Cape Town	Financially unqualified with findings		Financially unqualified with no findings															
District municipalities																			
2	Cape Winelands District	Financially unqualified with findings		Financially unqualified with findings															
3	Central Karoo District	Financially unqualified with findings		Financially unqualified with findings															
4	Eden District	Financially unqualified with findings		Financially unqualified with findings															
5	Overberg District	Qualified		Financially unqualified with findings															
6	West Coast District	Financially unqualified with no findings		Financially unqualified with findings															
Local municipalities																			
7	Beaufort West	Financially unqualified with findings		Financially unqualified with findings															
8	Berg River	Financially unqualified with findings		Financially unqualified with findings															
9	Bitou	Financially unqualified with findings		Financially unqualified with findings															
10	Breede Valley	Financially unqualified with findings		Financially unqualified with findings															
11	Cape Agulhas	Financially unqualified with findings		Financially unqualified with findings															
12	Cederberg	Financially unqualified with findings		Qualified															
13	Drakenstein	Financially unqualified with findings		Financially unqualified with findings															
14	George	Financially unqualified with findings		Adverse															
15	Hessequa	Financially unqualified with findings		Financially unqualified with findings															
16	Kannaland	Audit not finalised at legislated date due to late submission of financial statements		Adverse															
17	Knysna	Financially unqualified with findings		Financially unqualified with findings															
18	Laingsburg	Qualified		Qualified															
19	Langeberg	Financially unqualified with findings		Financially unqualified with findings															



Number	Auditee	2010-11 audit year		2009-10 audit year		Financial statement qualification areas								Findings arising from the audit of predetermined objectives					
		Audit outcome 2010-11	Predetermined objectives Compliance with laws and regulations	Audit outcome 2009-10	Predetermined objectives Compliance with laws and regulations	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular as well as fruitless and wasteful expenditure	Presentation	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Other non-compliance with related legislation
20	Matzikama	Financially unqualified with findings		Financially unqualified with findings															
21	Mossel Bay	Financially unqualified with findings		Financially unqualified with findings															
22	Oudtshoorn	Audit not finalised at legislated date due to late submission of financial statements		Qualified															
23	Overstrand	Financially unqualified with findings		Financially unqualified with findings															
24	Prince Albert	Qualified		Disclaimer															
25	Saldanha Bay	Financially unqualified with findings		Qualified															
26	Stellenbosch	Financially unqualified with findings		Financially unqualified with findings															
27	Swartland	Financially unqualified with no findings		Financially unqualified with findings															
28	Swellendam	Audit not finalised at legislated date due to late submission of financial statements		Disclaimer															
29	Theewaterskloof	Financially unqualified with findings		Financially unqualified with findings															
30	Witzenberg	Financially unqualified with findings		Financially unqualified with findings															
Municipal entities																			
31	Cape Town International Convention Centre	Financially unqualified with findings		Financially unqualified with no findings															
32	Khayelitsha Community Trust	Financially unqualified with findings		Financially unqualified with findings															
33	Knysna Economic Development Agency	Financially unqualified with findings		Financially unqualified with findings															

ANNEXURE 2: Five-year history of audit outcomes of all auditees

Number	Auditee	Audit outcome 2010-11	Audit outcome 2009-10	Audit outcome 2008-09	Audit outcome 2007-08	Audit outcome 2006-07
Metropolitan municipality						
1	City of Cape Town	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with findings	New consolidation	New consolidation
District municipalities						
2	Cape Winelands District	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
3	Central Karoo District	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
4	Eden District	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified
5	Overberg District	Qualified	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified
6	West Coast District	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
Local municipalities						
7	Beaufort West	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
8	Berg River	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Disclaimer	Qualified
9	Bitou	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified
10	Breede Valley	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified
11	Cape Agulhas	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with no findings
12	Cederberg	Financially unqualified with findings	Qualified	Disclaimer	Qualified	Qualified
13	Drakenstein	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified
14	George	Financially unqualified with findings	Adverse	Qualified	Qualified	Qualified
15	Hessequa	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified	Qualified
16	Kannaland	Audit not yet finalised due to late submission of financial statements	Adverse	Disclaimer	Disclaimer	Disclaimer
17	Knysna	Financially unqualified with findings	Financially unqualified with findings	New consolidation	New consolidation	New consolidation
18	Laingsburg	Qualified	Qualified	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
19	Langeberg	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
20	Matzikama	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified



Number	Auditee	Audit outcome 2010-11	Audit outcome 2009-10	Audit outcome 2008-09	Audit outcome 2007-08	Audit outcome 2006-07
21	Mossel Bay	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified
22	Oudtshoorn	Audit not yet finalised due to late submission of financial statements	Qualified	Disclaimer	Disclaimer	Disclaimer
23	Overstrand	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
24	Prince Albert	Qualified	Disclaimer	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
25	Saldanha Bay	Financially unqualified with findings	Qualified	Disclaimer	Disclaimer	Qualified
26	Stellenbosch	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified
27	Swartland	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
28	Swellendam	Audit not yet finalised due to late submission of financial statements	Disclaimer	Disclaimer	Financially unqualified with findings	Qualified
29	Theewaterskloof	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified
30	Witzenberg	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified
Municipal entities						
31	Cape Town International Convention Centre	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with findings	New municipal entity
32	Khayelitsha Community Trust	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	New municipal entity
33	Knysna Economic Development Agency	Financially unqualified with findings	Financially unqualified with findings	New municipal entity	New municipal entity	New municipal entity



Number	Auditee	Leadership												Financial and performance management												Governance																	
		Effective leadership culture			Oversight responsibility			HR management			Policies and procedures			Action plans			IT governance			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT systems controls			Risk management			Internal audit			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			
21	Prince Albert	Y	R	R	Y	R	R	R	R	R	Y	R	Y	R	R	R	R	R	R	R	R	R	Y	R	Y	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R			
22	Saldanha Bay	Y	Y	Y	Y	R	Y	R	R	R	Y	R	Y	R	R	R	R	R	R	Y	R	Y	R	R	R	Y	R	Y	R	R	R	Y	R	Y	Y	R	Y	Y	R	Y			
23	Stellenbosch	G	G	G	R	R	R	G	G	G	G	G	G	R	R	R	R	R	R	R	R	R	Y	R	Y	R	R	R	R	R	R	Y	R	Y	G	G	G	G	G	G			
24	Swarthland	G	G	G	G	G	G	G	G	G	G	G	G	Y	Y	Y	G	G	G	G	G	G	Y	Y	Y	G	G	G	R	R	R	G	G	G	G	G	G	G	G	G			
25	Theewaterskloof	G	G	G	R	R	Y	G	G	G	G	G	G	R	R	R	Y	Y	Y	R	R	R	R	R	R	G	G	G	R	R	R	Y	Y	Y	G	G	G	R	R	R			
26	Witzenberg	G	G	G	R	Y	G	G	G	G	Y	Y	Y	G	G	G	R	G	G	Y	Y	Y	G	G	G	R	R	R	Y	Y	Y	R	R	R	G	G	G	G	G	G			
Municipal entities																																											
27	Cape Town International Convention Centre	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G						
28	Khayelitsha Community Trust	G	G	G	R	R	R	G	G	G	G	G	G	G	G	G	G	G	G	G	G	G	R	R	R	G	G	G	R	R	R	G	G	G	G	G	G	G	G	G			
29	Knysna Economic Development Agency	G	R	Y	G	R	Y	G	R	Y	R	R	R	R	R	R	R	R	R	Y	Y	Y	R	R	R	G	R	Y	Y	Y	Y	R	R	R	Y	Y	Y	R	R	R			

ANNEXURE 4: Findings arising from the audit of supply chain management

Number	Auditee	Limitation on planned scope of audit of awards	Awards to employees and councillors or other state officials	Awards to close family members of employees and councillors	Uncompetitive or unfair procurement processes	Inadequate contract management	Inadequate SCM controls
Metropolitan municipality							
1	City of Cape Town						
District municipalities							
2	Cape Winelands District						
3	Central Karoo District						
4	Eden District						
5	Overberg District						
Local municipalities							
6	Beaufort West						
7	Berg River						
8	Bitou						
9	Breede Valley						
10	Cederberg						
11	Drakenstein						
12	George						
13	Knysna						
14	Laingsburg						
15	Langeberg						
16	Mossel Bay						
17	Overstrand						
18	Prince Albert						
19	Saldanha Bay						
20	Stellenbosch						
21	Theewaterskloof						
22	Witzenberg						
Municipal entities							
23	Cape Town International Convention Centre						
24	Khayelitsha Community Trust						



ANNEXURE 5: Material losses incurred and impairment of assets

Auditees		Material losses (R'000)	Material impairment of assets (R'000)	Reason(s)
Municipalities				
1	City of Cape Town	506 544		Material losses: Water
		689 266		Material losses: Electricity
		302 782		Material losses: Actuarial losses
			773 893	Material impairment: Accounts receivable
		9 866		Material impairment: PPE
2	Cape Winelands District Municipality		1 005	Material impairment: Accounts receivable
3	Eden District Municipality	3 470		Material losses: Electricity
4	Overberg District Municipality	6 313		Material losses: Actuarial losses
			3 302	Material impairment: Accounts receivable
5	West Coast District Municipality	2 853		Material losses: Water
		9 229		Material losses: Actuarial losses
			596	Material impairment: Accounts receivable
6	Bergriver Municipality	3 494		Material losses: Electricity
			2 423	Material impairment: Accounts receivable
		2 637		Material losses: Actuarial losses
7	Bitou Municipality	3 606		Material losses: Water
			12 124	Material impairment: Accounts receivable
8	Breede Valley Municipality	13 587		Material losses: Electricity
		15 866		Material losses: Water
9	Cape Agulhas Municipality	280		Material losses: Water
		4 500		Material losses: Electricity
10	Cederberg Municipality	1 115		Material losses: Actuarial losses
			8 006	Material impairment: Accounts receivable
			4 503	Material impairment: Accounts receivable
11	Drakenstein Municipality	1 861		Material losses: Water
		27 710		Material losses: Electricity
			26 541	Material impairment: Accounts receivable
		60 059		Material losses: Bad debts written off

Auditees		Material losses (R'000)	Material impairment of assets (R'000)	Reason(s)
12	George		27 524	Material impairment: Accounts receivable
13	Hessequa Municipality	811		Material losses: Water
14	Langeberg	19 428		Material losses: Water and Electricity
15	Overstrand Municipality	6 159		Material losses: Electricity
		3 101		Material losses: Water
			4 806	Material impairment: Accounts receivable
			2 632	Material impairment: Investments
			799	Material impairment: PPE
16	Saldanabay Municipality	22 954		Material losses: Electricity
			11 036	Material impairment: Accounts receivable
		9 584		Material losses: Water
17	Stellenbosch Municipality	2 058		Material losses: Water
			11 316	Material impairment: Accounts receivable
18	Swartland Municipality	9 025		Material losses: Water and Electricity
19	Theewaterskloof Municipality	534		Material losses: Water
		2 344		Material losses: Electricity
		4 910		Material losses: Actuarial losses
		18 638		Material losses: Bad debts written off
			1 607	Material impairment: PPE
20	Witzenberg Municipality	42 204		Various losses
			12 887	Material impairment: Accounts receivable
Subtotal municipalities		1 796 923	914 866	
Municipal entities				
1	Cape Town International Convention Centre	16 091		Material losses: PPE
			602	Material impairment: Accounts receivable
Subtotal municipal entities		16 091	602	
Total		1 813 014	915 468	

