



GENERAL REPORT  
ON THE AUDIT OUTCOMES OF THE  
FREE STATE  
LOCAL GOVERNMENT  
2010-11

PR: 188/2012  
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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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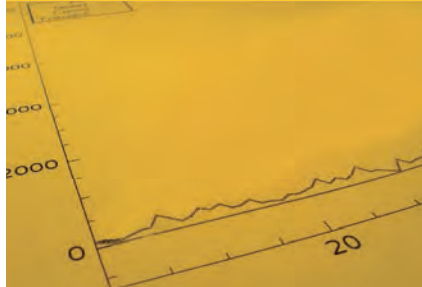


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**supply** /sə'plai/ (needed) available needed. > be ade demand). • n. (pl. supplied or availat modifier] a person, e temporary substitu supply a

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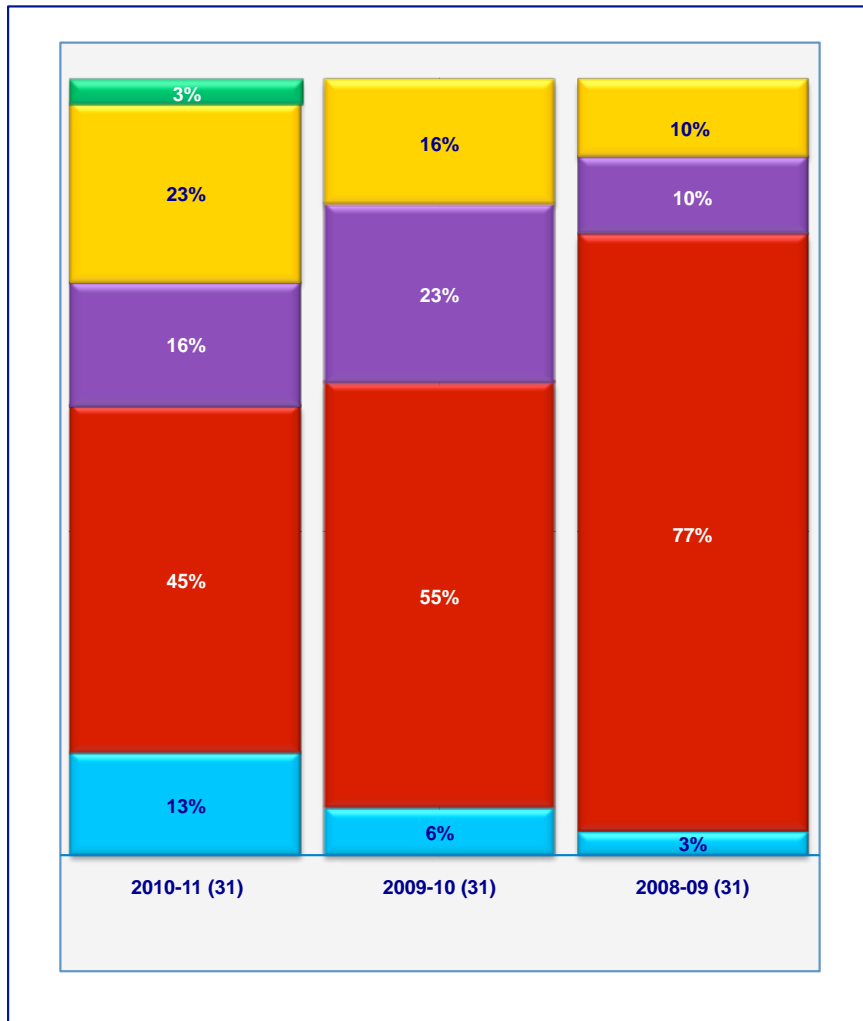




#### Our reputation promise/mission

*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 qualified.**



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

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





## SECTION 1: FOREWORD

It is with pleasure that I present to the legislature and municipal councils of the Free State Province my general report, which explains the audit outcomes for the financial year ended 30 June 2011.

Apart from one municipal entity, the Free State received no clean audit, with more than 50% of the municipalities and municipal entities still having disclaimed/adverse opinions. A five-point key control plan<sup>1</sup> was left with each municipality during the door-to-door visits in 2010 to encourage the introduction and regular monitoring of basic disciplines and key accounting controls. Non-implementation of these key controls contributed to the stagnation of audit outcomes in the province. Also of concern is that despite the appointment of suitably qualified chief financial officers at more than 80% of the municipalities and readily available support from the provincial structure, daily and monthly transactions are not adequately monitored or supervised. The skills and competence of other key officials remain a concern. The lack of consequences for transgressions is a contributing factor to irregular expenditure incurred by the province.

The lack of commitment and monitoring by more than 80% of the mayors and councils further contributed to the breakdown in accountability. The other provincial legislature committees responsible for overseeing the effective implementation of initiatives by the coordinating departments neglected to focus on the impact and achievement of these initiatives.

The premier recently announced the establishment of the municipal support task team involving individuals within the public and private sectors who will be deployed to the still-to-be-identified municipalities.

The objective of the task team would be to identify and make recommendations to address the root causes of poor audit outcomes.

Although the Free State has no municipal public accounts committees, the provincial Standing Committee on Public Accounts conducted hearings with all municipalities, but has not passed resolutions for the past two years. The committee undertook to finalise the resolutions and to identify municipalities on a quarterly basis to follow up on their key control implementation. This effort could be enhanced by the speedy implementation and training of municipal public account committees and a more

coordinated oversight by the public accounts committee and portfolio committees responsible for local government in the province. My office will in future have quarterly interactions with the provincial Standing Committee on Public Accounts updating them on the five-point key control plan status at auditees.

Better audit outcomes are possible if leadership, at both council and provincial levels, takes ownership of the results, creates stability at municipal level to enable the investment made in chief financial officers and provincial support to institutionalise the performance of expected internal control duties on a daily and monthly basis and, importantly, implements consequences for continued poor performance by municipalities.

I wish to thank the audit teams from my office and the audit firms that assisted in the province for their diligent efforts towards fulfilling our constitutional mandate.

*Auditor-General*

Auditor-General  
Pretoria  
June 2012

<sup>1</sup> Refer to annexure 13 for detail on five-point key control plan





**100** YEARS  
1911-2011





## SECTION 2: OVERVIEW OF AUDIT OUTCOMES

This general report summarises key aspects of the 2010-11 local government audit outcomes of the Free State Province. A summary of the overall audit outcomes is provided in section 2.1. Details of the findings arising from the audit of the financial statements, reporting on predetermined objectives (PDOs) and compliance with laws and regulations are included in section 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 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. For the implementation of the MFMA and the GRAP accounting standards, municipalities were graded as high, medium or low capacity. 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 are the overall audit outcomes, details of the auditees that could not be audited, an analysis of the improvement in the current year's outcomes and a three-year history of audit outcomes.

#### 2.1.1 Summary of overall audit outcomes

Local government in the Free State Province comprises five district municipalities, 20 local municipalities and six municipal entities. Of the municipalities, five are classified as high capacity, 10 as medium and 10 as low capacity. The number of municipal entities has remained unchanged at six since the previous financial year.

The audits of 18 municipalities and five municipal entities that had submitted financial statements by 31 August 2011 were completed within the legislated time frame of three months from receipt of the financial statements. Seven (23%) auditees were unable to meet the legislative requirement of timely submission. The audits of

four of these seven auditees were finalised by 31 January 2012 and are included in this report. The audits of three municipalities and one municipal entity had not been finalised as at 31 January 2012, which is the cut-off date set by the AGSA for inclusion of their audit outcomes in this general report. 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.

*Table 1: Summary of audit outcomes for current and prior year*

Audit outcomes	Municipalities*		Municipal entities	
	2010-11	2009-10	2010-11	2009-10
Financially unqualified with no findings	0	0	1	0
Financially unqualified with findings	6	4	1	1
<b>Financially unqualified financial statements</b>	<b>24%</b>	<b>16%</b>	<b>33%</b>	<b>17%</b>
Qualified opinion, with findings	3	6	2	1
Adverse opinion, with findings	1	1	0	0
Disclaimer of opinion, with findings	12	13	1	3
Number of audit reports not issued by 31 January 2012	3	1	1	1
Prior year audit outcomes of 2010-11 audits outstanding				
<b>Outstanding audits and financially qualified financial statements</b>	<b>76%</b>	<b>84%</b>	<b>67%</b>	<b>83%</b>
<b>Total number of audits</b>	<b>25</b>	<b>25</b>	<b>6</b>	<b>6</b>

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

The following figure analyses the movements in audit outcomes of all auditees between the current and previous year.

Figure 1: Improvement and regression in the audit outcomes for the year under review

Movement in audit opinions 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	↑ 1				1	
Financially unqualified with findings*	↑ 2	↔ 3			7	
Qualified*	↑ 1	↔ 4			5	
Adverse / Disclaimer/		↔ 14			14	4
<b>Total</b>	<b>4</b>	<b>23</b>	<b>1</b>	<b>0</b>	<b>27</b>	<b>4</b>

AGSA other reporting responsibilities: movement from the 2009-10 financial year in number of auditees with findings

Type of findings	No findings	Findings addressed	Repeat findings	New findings	PDO not applicable to trusts	Total auditees reported on
Reporting on predetermined objectives						
- Financially unqualified auditees		↑ 2	↔ 5		Fezile Dabi District Trust	8
- Financially qualified auditees			↔ 18		Metsimaholo Mayoral Trust	19
Compliance with laws and regulations						
- Financially unqualified auditees		↑ 1	↔ 6	↓ 1		8
- Financially qualified auditees			↔ 18	↓ 1		19

\* Also includes findings arising from the audit of predetermined objectives and compliance with laws and regulations

Movement and major trends in audit outcomes for the year under review are presented below.

Table 2: Significant aspects of the 2010-11 audit outcomes

Outcomes category	Significant aspects
<b>Overall trends</b>	<p>The Fezile Dabi District Trust managed to obtain the first clean audit outcome in the Free State. However, this trust is practically dormant as only minor activities occurred during the year under review.</p> <p>Three (11%) further improvements were noted. Xhariep and Nketoana improved from qualified audit opinions to financially unqualified, while Maluti-A-Phofung Water (Pty) Ltd improved from a disclaimer to a qualified audit opinion.</p> <p>The outcomes of the other 23 (85%) auditees remained unchanged.</p> <p>No regressions occurred.</p> <p>The disclaimer and adverse opinions are still at an unacceptably high level of 52% of auditees.</p>
<b>Improvements</b>	<p>The Fezile Dabi District Trust is the first entity in the Free State to advance to a clean audit outcome.</p> <p>The improvement in record-keeping processes and the active monitoring of the action plan resulted in Nketoana's improvement.</p> <p>The leadership at Xhariep District Municipality is instilling a culture of accountability for financial management activities. The leadership tone at the municipality had a positive impact on the audit outcome.</p> <p>The improved audit outcomes at Maluti-A-Phofung Water (Pty) Ltd were driven by the leadership that implemented and monitored the action plan on a quarterly basis to address audit findings.</p>
<b>Unchanged</b>	<p>Twenty-three (85%) auditees failed to make progress towards clean administration and their audit outcomes have remained unchanged. This was mainly due to the following:</p> <ul style="list-style-type: none"> <li>Lack of stability in leadership and administration.</li> <li>CFOs are not performing daily supervision on the transactions processed to ensure that accounting records are valid, accurate and complete.</li> <li>Councils are not exercising oversight of financial and non-financial reports and are not considering the credibility of information submitted by management. The councils are also not setting a tone for dealing with poor performance.</li> <li>Governance structures (audit committees and internal audit units) are either not in place or not effective.</li> </ul>
<b>Regressions</b>	No regressions occurred.

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 3: Outcomes of audits finalised after 31 January 2012**

Auditees	Audit opinion 2010-11	Audit opinion 2009-10
Mafube Local Municipality	Disclaimer	Disclaimer
Setsoto Local Municipality	Adverse	Qualified

The following table depicts the dates on which audits still outstanding at the date of this report are expected to be finalised. The table further indicates the prior audit outcomes of these outstanding audits.

**Table 4: Prior outcomes of audits still not finalised 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
<i>Municipalities</i>							
Nala Local Municipality	AFS not yet received	No indication	2007-08				
<i>Municipal entities</i>							
Krynaauwlust Farming Trust	AFS not yet received	No indication	2001-02				
<b>Total</b>				<b>1</b>	<b>2</b>	<b>0</b>	<b>0</b>

Nala Local Municipality had to rely on manual documentation as their financial system was not functioning. The lack of a proper leadership culture and inadequate record-keeping processes resulted in the municipality's inability to prepare financial statements for the past two financial years. Customers were also not billed. This municipality has been placed under administration in terms of section 139(1) of the Constitution of South Africa.

Financial statements of Krynaauwlust Farming Trust dating back to 2002-03 were submitted simultaneously during July 2008. The basis of accounting was unclear due to various changes in the accounting requirements during the recent years, which complicated the preparation of these financial statements. This resulted in the trust approaching the National Treasury to pronounce on the correct accounting framework.

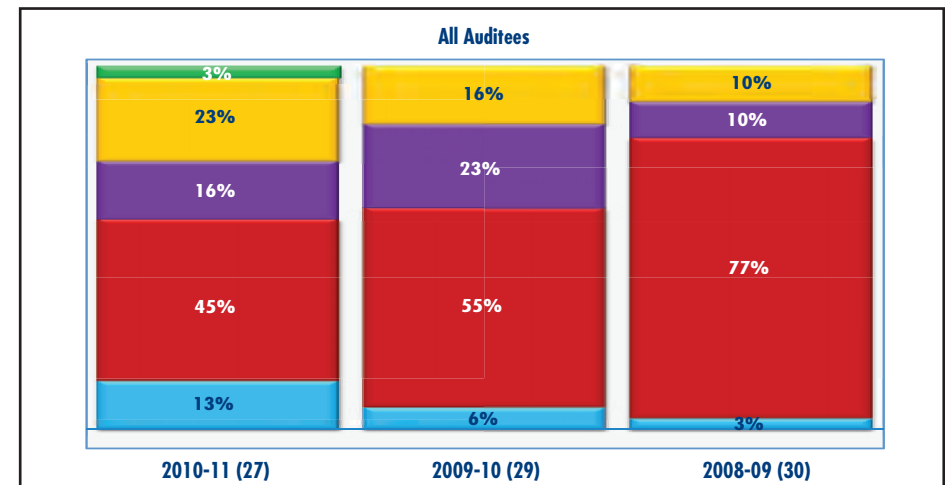
### 2.1.4 Three-year history of audit outcomes for the province

The audit outcomes over the past three financial years are depicted in figure 2.

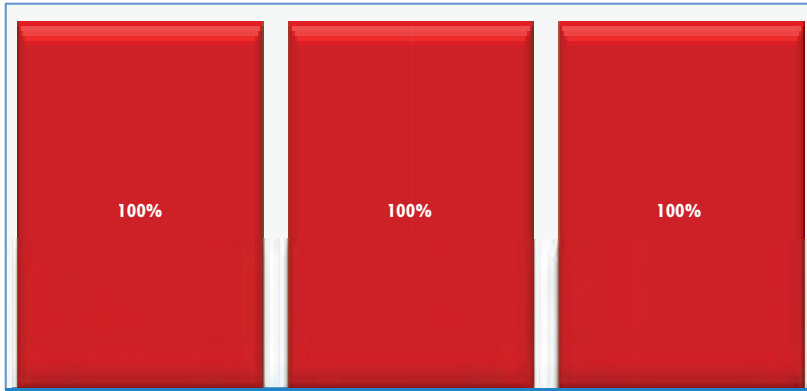
**Figure 2: Summarised three-year audit outcomes of provincial auditees**

The audit outcomes over the past three financial years are depicted in figure 2.

**Figure 2: Summarised three-year audit outcomes of provincial auditees**



**High-capacity municipalities**

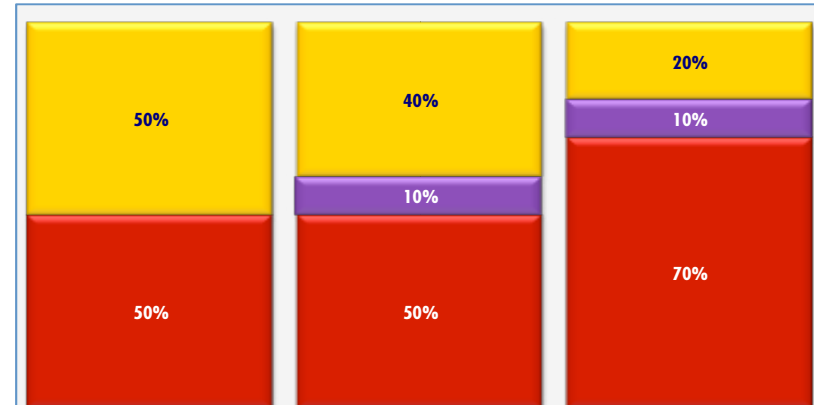


2010-11 (5)

2009-10 (5)

2008-09 (5)

**Low-capacity municipalities**

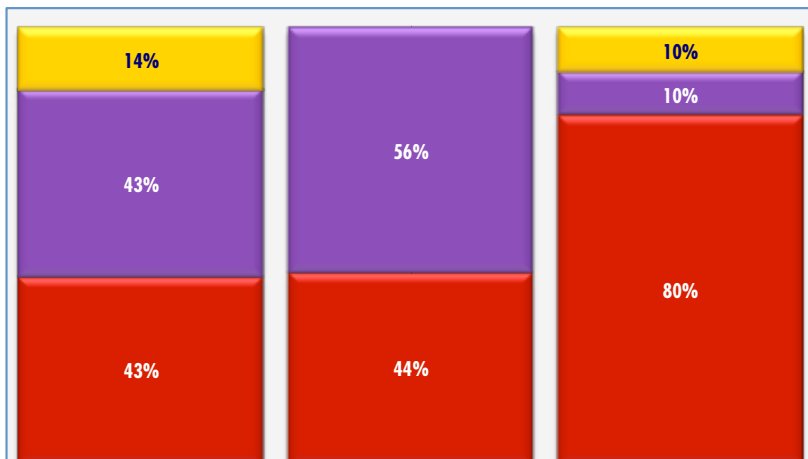


2010-11 (10)

2009-10 (10)

2008-09 (10)

**Medium-capacity municipalities**

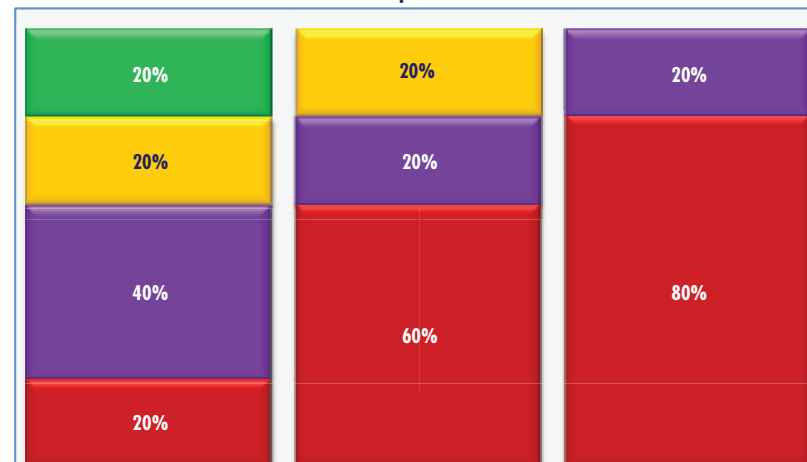


2010-11 (7)

2009-10 (9)

2008-09 (10)

**Municipal entities**



2010-11 (5)

2009-10 (5)

2008-09 (5)



There was a marginal overall improvement in audit outcomes of medium- and low-capacity municipalities as well as municipal entities. Unfortunately the audit outcomes of high-capacity municipalities have remained in the disclaimer category for the last number of years. The marginal overall improvement is insufficient to meet the 2014 clean audit commitment.

It is of concern that the province is stagnating in the undesirable category of disclaimers. This is mainly due to the following:

- Councils are not focusing on ensuring that the financial and non-financial information submitted for their approval and consideration is credible. Councils are also not monitoring the implementation of the clean audit action plans.
- The CFOs are not performing their functions adequately to ensure that financial information is accurate, complete and reliable.
- A lack of consequences for poor performance or repeat audit findings at municipalities.
- The instability of leadership and officials at municipalities also contributed to these negative outcomes.

## 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 assistance provided by consultants relating to preparation of financial statements; ■ 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

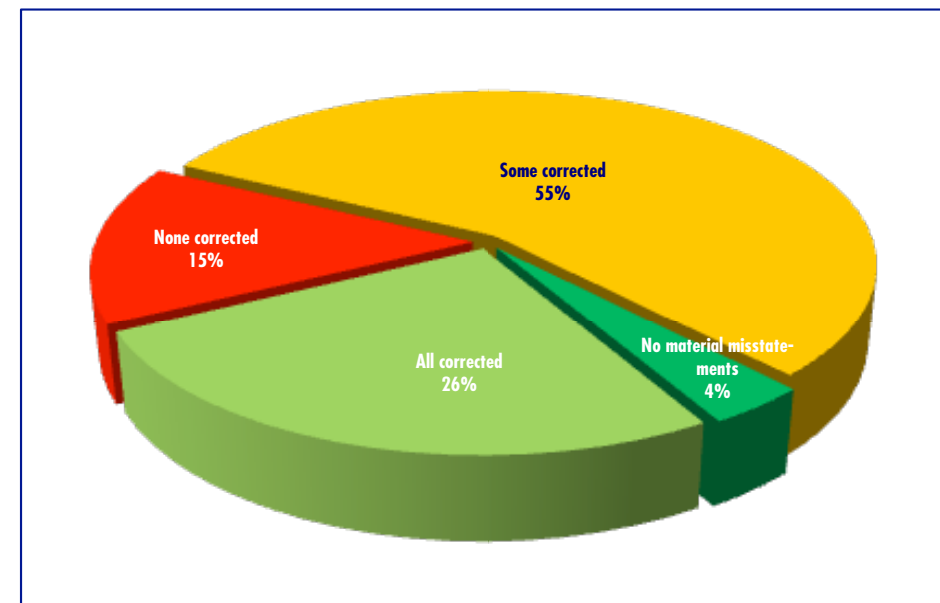
As in prior years, auditees submitted financial statements for audit that contained material misstatements in one or more areas.

Only seven (26%) auditees were able to achieve financially unqualified audit opinions. They used the opportunity during the audit to correct all the material misstatements identified by the auditors. Reliance on auditors to identify errors and misstatements to be corrected in the financial statements is not a desired and sustainable practice and unqualified audit opinions might not be maintained

in the future. Nineteen (70%) auditees were not willing and/or able to correct misstatements and/or it was not feasible to correct all of the misstatements. As a result, qualifications could not be avoided. Fezile Dabi District Trust (4%) received the first clean audit report but the trust was basically dormant for the year under review.

The extent of material misstatements in financial statements submitted for audit for the year under review is depicted in the following figure.

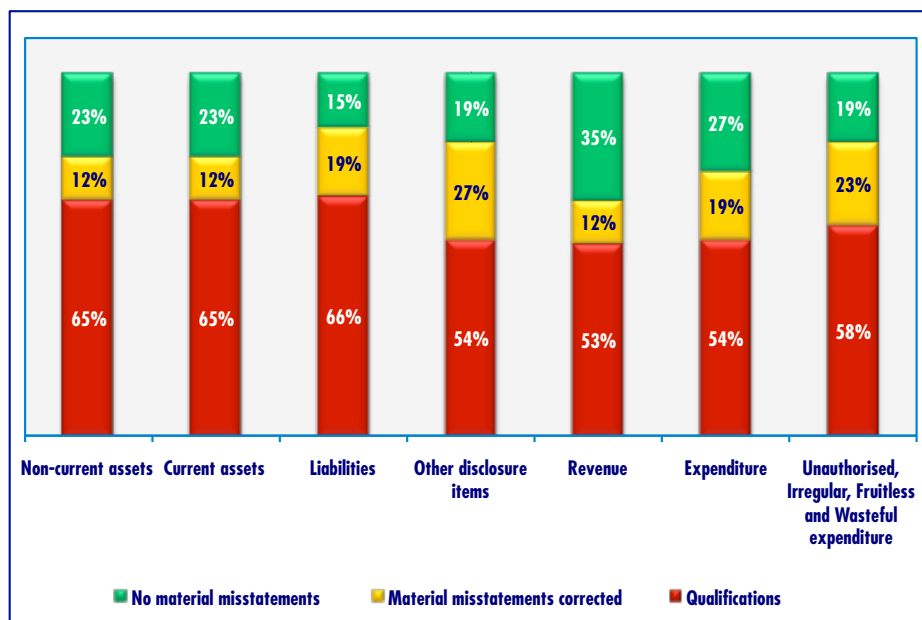
Figure 3: Material misstatements in financial statements submitted for audit



Most of the CFOs at the municipalities meet the minimum qualification requirements for the position. In instances of vacancies, the positions have been filled by persons in an acting capacity. Notwithstanding the above, there were still numerous misstatements in the financial statements submitted for auditing. Some CFOs rely on consultants to perform the majority of their functions and do not monitor the quality of work performed. This is mainly due to a lack of capacity at the finance departments, extensive involvement in meetings that are not finance related and a lack of skills to prepare GRAP-compliant financial statements.

The list of auditees with material misstatements in the financial statements submitted for audit is included in annexure 3. The following figure depicts areas in the submitted financial statements that contained material misstatements.

**Figure 4: Areas of material misstatement in financial statements submitted for audit (corrected and uncorrected)**



Municipal leadership is not setting the right tone at the top to ensure proper financial discipline throughout the year in order to facilitate accurate financial statements at year-end. The main focus is on compliance with legislated deadlines without the implementation of proper internal verification or oversight processes. Another serious concern is that auditees, including some using consultants, are heavily reliant on auditors to identify misstatements and provide recommendations on corrections.

Internal audit units and audit committees are not effectively engaged to provide assurance on the accuracy of the financial statements. Twenty-four of the 27 municipalities analysed used consultants to assist with the compilation of financial statements.

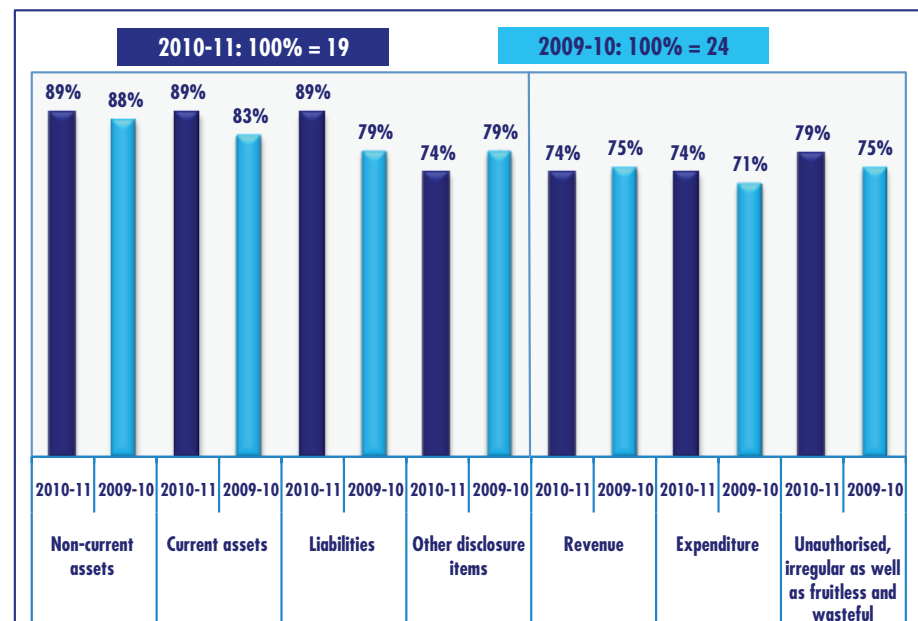
The lack of improvement in the quality of financial statements is attributed mainly to a lack of technical skills and ineffective record-keeping processes supporting the underlying figures in the financial statements. Councils do not exercise their oversight role over financial and non-financial reports and ensure that controls are in place with a view to the submission of credible information.

Unless the councils insist on assurance regarding the credibility of information that they consider and on which they base decisions and ensure that the CFOs perform their daily functions, a reduction in material misstatements will not occur.

### 2.2.2 Material misstatements in financial statements (qualifications) resulting in disclaimed, adverse or qualified audit opinions

The following figure depicts the areas that were materially misstated in the financial statements of 19 auditees (2009-10: 24) that received disclaimed, adverse or qualified audit opinions.

**Figure 5: Transversal financial statement qualification areas**





The following table depicts the progress, or lack thereof, made by auditees in addressing their prior year qualification findings. Of concern is the widespread qualification areas, which is an indication of a lack of focus to address such qualifications. Seventy-nine per cent of municipalities were qualified on unauthorised, irregular as well as fruitless and wasteful expenditure due to the unavailability of information. As a result, the auditors could not conclude that all unauthorised, irregular as well as fruitless and wasteful expenditure had been detected and disclosed. This means that the amounts in section 3 and annexure 7 to this report might be materially understated.

**Table 5: 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	
<b>Municipalities</b>									
Xhariep District	Financially unqualified with findings							Addressed	Qualified
Dhlabeng	Qualified	Repeat	Addressed	Addressed	Addressed	Addressed			Qualified
Kopanong	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer
Letsemeng	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Addressed	Adverse
Maluti - A - Phofung	Disclaimer	Repeat	Repeat	Repeat	New	Repeat	Repeat	Repeat	Disclaimer
Mangaung	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer
Mantsopa	Qualified	Repeat	Repeat	New	Addressed				Qualified
Masilonyana	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer
Matjhabeng	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer
Metsimaholo	Disclaimer	Addressed	Repeat	Repeat	Repeat	Repeat	New	Repeat	Disclaimer
Mohokare	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer
Moqhaka	Disclaimer	Repeat	Repeat	Addressed	Addressed	Repeat	Repeat	Repeat	Disclaimer

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	
Naledi	Disclaimer	Repeat	New	Repeat	New	Repeat	Repeat	Repeat	Disclaimer
Ngwathe	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer
Nketoana	Financially unqualified with findings	Addressed	Addressed		Addressed	Addressed		Addressed	Qualified
Phumelela	Adverse	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer
Tokologo	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer
Tswelopele	Qualified	Repeat	Repeat	New	Addressed			New	Qualified
<b>Municipal entities</b>									
Centlec (Pty) Ltd	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Disclaimer
Fezile Dabi District Municipality Trust	Financially unqualified with no findings						Addressed		Disclaimer
Maluti-A-Phofung Water (Pty) Ltd	Qualified	Repeat	Repeat	Repeat	Repeat	Addressed	Addressed	New	Disclaimer
Metsimaholo Mayoral Trust	Qualified			Repeat					Qualified

Despite the auditors' recommendations and the commitments made by the leadership, auditees still failed to implement the basic internal controls or meet the commitments they had made. Some auditees managed to address prior year qualification areas only after they had corrected the misstatements identified by the auditors during the current audit process. These improvements will not be sustainable unless misstatements are identified and corrected prior to the audit process.

Nketoana and Xhariep improved their audit outcomes. The leadership at both these municipalities made a concerted effort to implement the recommendations made

by the auditors. The leadership tone at Xhariep shows a willingness to accept accountability for the sound financial management of the municipality.

The leadership at Nketoana prioritised record keeping, resulting in improved audit outcomes.

Improvements in addressing qualification areas were noticed at Dihlabeng. The leadership made a concerted effort to strengthen and capacitate the finance department and to implement recommendations made by the auditors. Consultants were appointed to assist with the clearing of certain audit findings and to conduct an internal audit on certain high-risk areas. Should the effort be maintained, the municipality will also improve in the coming year,

The repetitive nature of the qualifications at the municipalities that had not improved is indicative of a lack of basic financial management principles as well as a lack of commitment by the leadership and the council.

### 2.2.3 Nature and causes of financial statement qualifications

Below is a summary of the items most commonly misstated in the financial statements and the reasons for these qualifications.

**Table 6: Non-current assets**

	Account balance misstated	2010-11	2009-10
<b>Non-current assets</b>	Property, infrastructure, plant and equipment	84%	88%
	Investment property	63%	29%
	Other non-current assets	11%	13%

The matters relating to the qualifications stemmed from the following:

- Supporting documentation could not always be obtained to verify additions, journals passed and rights to property.
- Asset registers were incomplete and not updated, hampering the physical verification of assets.
- The investment properties register did not include all the investment property owned by the municipalities.
- Title deeds to investment property could not be provided for audit purposes.

- The residual values, useful lives and depreciation methods of property, plant and equipment had not been reviewed as at the reporting date.
- Management did not assess whether there was a decrease in the value of property, plant and equipment.
- Monthly asset (movable assets) counts are not conducted by the municipality.
- The increase in findings arising from the audit of investment property was due to medium-capacity municipality having to comply fully with GRAP 16.

**Table 7: Current assets**

	Account balance misstated	2010-11	2009-10
<b>Current assets</b>	Receivables	79%	83%
	Inventory	53%	42%
	Other current assets	32%	13%

Qualifications resulted from a lack of audit evidence to verify the existence, completeness and valuation of receivables. This was largely attributable to the failure by the finance staff to implement proper record keeping in a timely manner to ensure that complete and accurate information, such as schedules and reconciliations of debtors and bank accounts, was available to support the disclosure of current assets in the financial statements.

**Table 8: Liabilities**

	Account balance misstated	2010-11	2009-10
<b>Liabilities</b>	Payables, accruals and borrowings	84%	71%
	Taxes and VAT	47%	38%
	Other liabilities	47%	33%

Common reasons for the qualifications included the following:

- Municipalities could not provide audit evidence to support journal entries that were processed against value-added tax (VAT) accounts or for differences between the general ledger and VAT returns.
- Accruals were not made at year-end for goods received and services rendered.



- Audit evidence could not be obtained to confirm the existence of contingent liabilities and the completeness of consumer deposits, loan agreements and trade and other payables.

**Table 9: Other disclosure items**

Other disclosure items	Account balance misstated	2010-11	2009-10
	Contingent liabilities and commitments		58%
Other disclosures		47%	38%
Cash flow statement		47%	42%

Common reasons for the qualifications included the following:

- Contingent liabilities were not disclosed in the annual financial statements.
- Given a lack of supporting documentation, the completeness of contingent liabilities could not be verified.
- Audit evidence could not be obtained to determine whether the cash flow statement and the related notes were fairly stated.
- Municipalities did not maintain a contract management system for the identification and recognition of commitments.

**Table 10: Revenue**

Revenue	Account balance misstated	2010-11	2009-10
	Revenue		74%
Revenue – transfer payments and grants		37%	29%

Common reasons for the qualifications included the following:

- Lack of a reliable system to control the sale of prepaid electricity.
- Lack of audit evidence for rental income, property rates income, sale of water, sewerage charges and journals processed.

**Table 11: Expenditure**

Expenditure	Account balance misstated	2010-11	2009-10
	Expenditure		74%
Employee cost		47%	46%
Expenditure – transfer payments and grants		16%	13%

Common areas contributing to the qualifications included the following:

- Audit evidence to support expenditure transactions could not be provided.
- Audit evidence could not be obtained regarding the occurrence and accuracy of overtime payments.
- Inadequate control over the recording and classification of expense transactions.

**Table 12: Unauthorised, irregular as well as fruitless and wasteful expenditure**

Unauthorised, irregular as well as fruitless and wasteful expenditure	Account balance misstated	2010-11	2009-10
	Unauthorised expenditure		26%
Irregular expenditure – SCM		74%	63%
Irregular expenditure – other		21%	38%
Fruitless and wasteful expenditure		42%	54%

Given a lack of oversight, this area was qualified due to the following:

- The approved budget for certain votes being exceeded.
- Non-compliance by the majority of municipalities with the requirements of the municipal SCM regulations. In certain instances the irregular expenditure was not disclosed in the notes to the financial statements or, where disclosed, the completeness of the amount disclosed could not be determined.
- Audit evidence could not be obtained that all irregular expenditure as well as fruitless and wasteful expenditure transactions had been properly identified by management, investigated and recorded.
- Systems to account for and identify fruitless and wasteful expenditure were either not in place or not maintained.

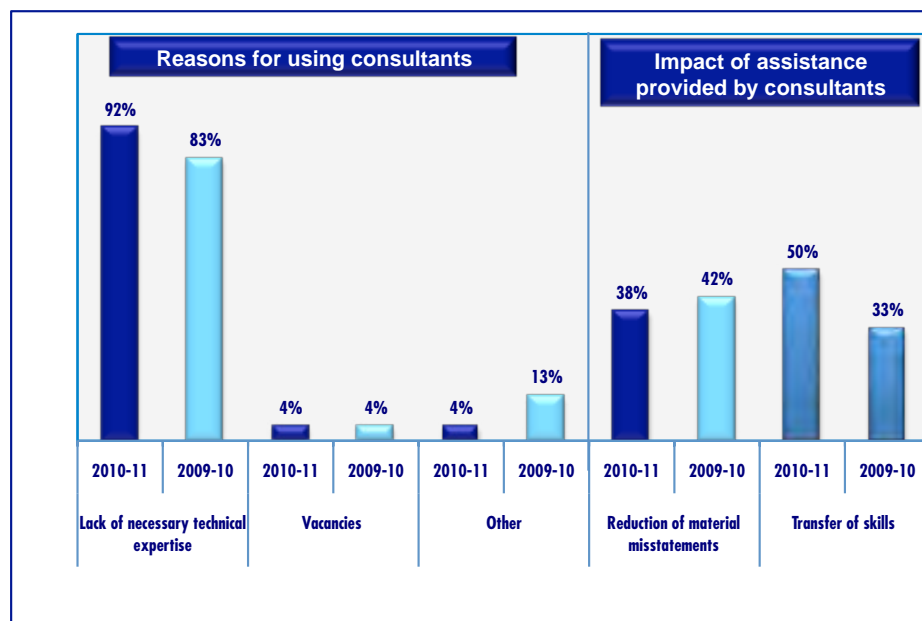
Annexure 7 provides detail on the nature of unauthorised, irregular as well as fruitless and wasteful expenditure. Annexure 1 to this report also lists the audit outcomes of all auditees, together with their financial statement qualification areas.

#### 2.2.4 Financial statement-related assistance provided by consultants

As in previous financial years, auditees continued to engage the services of consultants to assist them with accounting-related services and the preparation of year-end financial statements. Of the 27 auditees analysed, 24 (89%) were assisted by consultants, compared to 83% in 2009-10, indicating a 6% increase in dependence on consultants. Based on the available information, the cost to municipalities of consultants is estimated to have exceeded R32 million for the 2010-11 financial year, at an average in excess of R1,3 million per municipality.

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

Figure 6: Analysis of assistance provided by consultants



Municipalities are fundamentally reliant on consultants despite their low vacancy rate. It can be assumed that there are cases where certain officials are being remunerated for functions they are not performing. Further evidence of this is where consultants are performing day-to-day activities instead of assisting with technical functions such as the preparation of GRAP-compliant financial statements. This underlines, amongst other problems, the fact that CFOs are not performing the duties they have been appointed to perform.

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 effect of the increased transfer of skills will only be evident in future as skills transferred are focusing on specific areas rather than the whole of the financial statements.

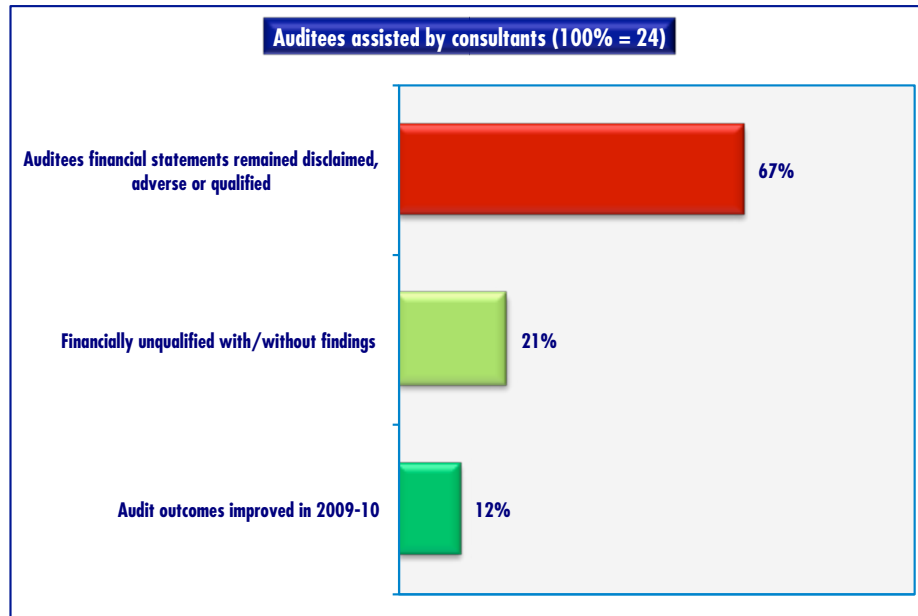
Naledi Local Municipality used consultants because there are significant vacancies at their finance unit. Lejweleputswa Development Agency made use of a consultant to perform the functions of a CFO as the extent of these functions does not justify the appointment of a full-time CFO.

For details of auditees using consultants, refer to annexure 4.

The audit outcomes of auditees where consultants were used are depicted in the following figure.



Figure 7: Audit outcomes of auditees where consultants were used



The following conclusions were drawn based on an analysis of the use of consultants and their impact on current year audit outcomes:

- The skills level and experience of staff appointed at the finance department, with specific reference to the compilation of financial statements in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), are inadequate.
- Consultants are not appointed timeously and the data used by or provided to consultants to prepare the financial statements is often not reliable and accurate. The impact of assistance provided by consultants, given the relatively small reduction in material misstatements in financial statements submitted for audit and the inadequate transfer of skills, raises further concerns regarding the sustainability of improved audit outcomes achieved this year.
- Certain municipalities rely excessively on consultants for day-to-day activities, instead of using them for their specialised expertise.

- Where consultants are used to compile the annual financial statements, the underlying problems with the accounting system, the lack of basic financial management disciplines and inappropriate record keeping are not addressed.
- The quality of consultants' work is not in all cases properly supervised and monitored due to the lack of skills and competencies of CFOs and finance department officials. This results in poor quality financial statements and further/additional fruitless and wasteful expenditure.
- The lack of stability in CFO positions and staff at the finance sections made auditees dependent on the services of consultants.

Leadership should ensure that CFOs have sufficient time to perform their daily and monthly duties. The reliability of financial information should be used as the key performance indicator when evaluating the performance of the CFO.

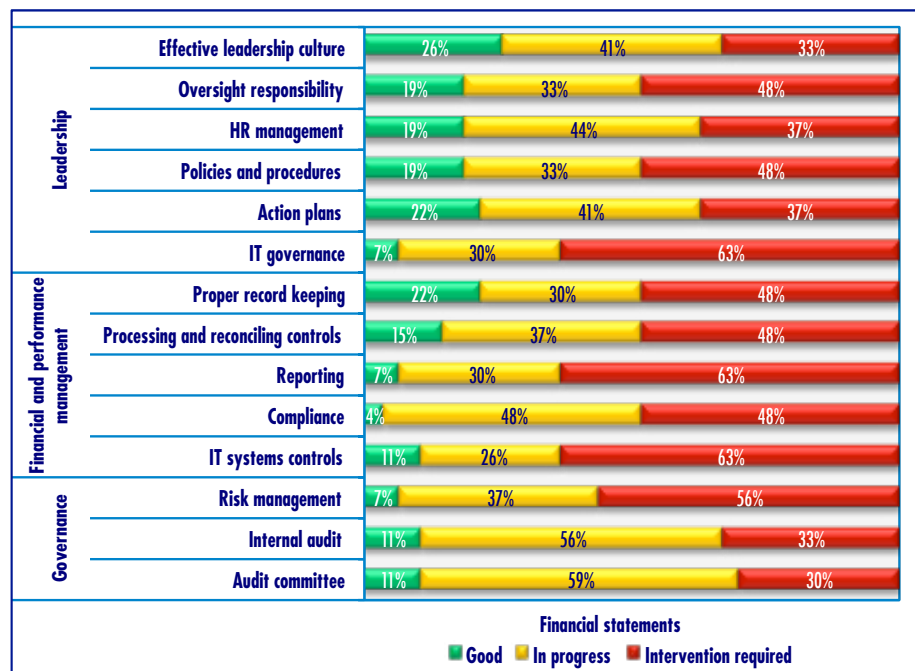
CoGTA and the provincial treasury continued with their efforts to provide training to staff at municipalities in order to build capacity. However, the lack of stability in financial management and key financial officials largely negated these efforts.

Details per institution are provided in annexure 5 to this report.

### 2.2.5 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 the prevalence of deficiencies in internal controls that have resulted in financial qualifications.

Figure 8: Assessment of key drivers of internal control over financial reporting



Root causes based on the assessment above that require the most focused attention are the following:

A lack of leadership oversight of the councils:

- The councils do not understand their oversight roles in relation to financial management.
- The councils have not implemented processes to ensure that all information considered by them for decision-making and monitoring is credible and reliable.
- The councils do not actively monitor clean audit action plans and commitments made.
- The councils do not ensure that there are consequences for poor audit outcomes.

- The councils do not set a tone of respect for SCM processes, resulting in unauthorised, irregular as well as fruitless and wasteful expenditure.
- There is a lack of interaction between the councils and the audit committees.

CFOs do not perform their duties on a day-to-day basis:

- CFOs do not supervise finance staff daily and review transactions processed to ensure that these transactions are valid, accurate and complete. The CFOs are performing other duties that fall outside this core function.
- Reliance on consultants for day-to-day activities, instead of using them for their specialised expertise.
- IT systems and controls are not prioritised due to a lack of leadership intervention, skills and financial resources.

Root causes identified in the prior year were not adequately addressed due to a lack of monitoring and follow-through on commitments made. Annexure 11 provides details on the root causes of mayors' inability to provide adequate leadership.

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

- Where audit outcomes had improved, the improvements can be attributed to three elements implemented by the leadership of the respective municipalities, namely:
  - a leadership tone showing a willingness to accept accountability for the financial management of the municipality throughout the financial year
  - implementation and monitoring of basic accounting controls and processes
  - creating a control environment that is conducive to accountability and oversight, and decisive action plans with clear time frames to address the root cause of qualifications
  - continuous monitoring thereof.
- Executive leadership and the council should ensure that all information considered by the councils is credible and that confirmation thereof is received from the audit committee. The councils should also ensure that a tone of non-compliance with laws and regulations at local government level is not tolerated and that decisive action is taken against those who do not comply with the regulatory frameworks.



- The CFOs should perform their daily and monthly responsibilities and implement effective budgeting controls and monitoring thereof. Effective and efficient systems of record keeping must be implemented and maintained. Consultants should be adequately monitored and benefit must be derived from the use of consultants.
- The leadership should create stability at municipal level.

## 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 services the municipality and municipal entity intend to deliver 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 improvement 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 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 alerting 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 AGSA's approach to auditing PDOs is described in section 2.3.1 below and the outcomes of these audits are presented and analysed in section 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 entities.

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 reports of high-capacity municipalities. Conclusions are being phased in. 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 June 2011 are summarised in the following table, followed by an analysis of the number of auditees with findings.

**Table 13: 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
<b>Auditees with no PDO findings</b>	2	0	0	0	2	0
	11%	0%	0%	0%	10%	0%
<b>Auditees with PDO findings</b>	16	14	3	2	19	16
	89%	100%	100%	100%	90%	100%
<b>Total number of auditees reported on</b>	18	14	3	2	21	16
<b>Auditees did not submit report on performance information. Findings are included above.</b>	4	5	0	0	4	5
<b>Auditees submitted performance report late (after 31 August). Findings are included above.</b>	1	5	0	1	1	6

Annexure 1 to this report lists all auditees with findings arising from the audit of reporting on PDOs as well as auditees that had not submitted the performance report or had submitted it late. Worth mentioning are the two district municipalities (Thabo Mofutsanyana and Xhariep) that had no findings on their performance reporting for the year under review.

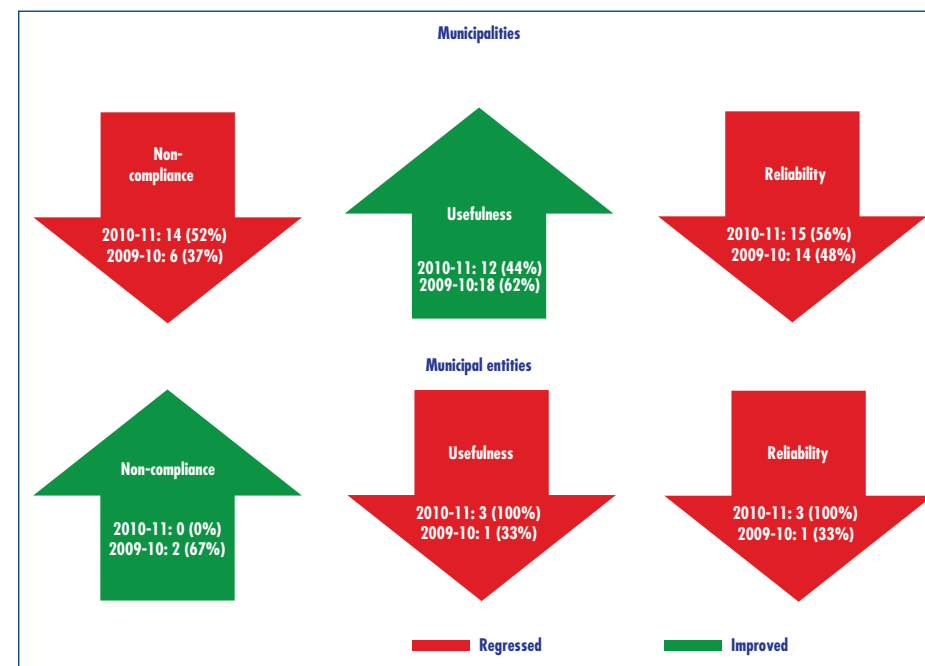
The two trusts (Fezile Dabi District trust and the Metsimaholo Mayoral Trust) are not required to report on performance information.

**Table 14: Number of auditees with findings (including non-compliance) arising from the audit of reporting on PDOs**

Finding	High-capacity municipalities (5)		Medium-capacity municipalities (7)		Low-capacity municipalities (10)		Municipal entities (3)	
	Number	%	Number	%	Number	%	Number	%
<b>Non-compliance with legislation</b>								
Annual performance report	3	60%	3	43%	4	40%	0	0%
Strategic planning and performance management	3	60%	5	71%	7	70%	2	40%
Audit committees	3	60%	6	86%	7	70%	0	0%
Internal audit	3	60%	4	57%	6	60%	0	0%
<b>Reported information not useful</b>								
Consistency	2	40%	4	57%	2	20%	3	60%
Relevance	1	20%	0	0%	1	10%	2	40%
Measurability	1	20%	4	57%	5	50%	2	40%
<b>Reported information not reliable</b>								
Accuracy	3	60%	4	57%	2	20%	1	20%
Validity	2	40%	4	57%	3	30%	3	60%
Completeness	3	60%	6	86%	3	30%	2	40%

Progress, or the lack thereof, by auditees in addressing prior year findings arising from the audit of reporting on PDOs is depicted in the following figure.

**Figure 9: Overall trends in findings on reporting on PDOs**



The improvements at Thabo Mofutsanyana and Xhariep district municipalities were as a result of increased leadership involvement in the monitoring of internal controls and reporting on PDOs to ensure compliance with laws and regulations as well as the usefulness, reliance and reliability of PDOs.

However, it must be noted that reporting on PDOs in respect of the district municipalities is not as extensive as at local municipalities due to vast differences in the mandates of these institutions. However, the principle of ensuring relevant documentation to support the reported information is still the same.

Twenty (91%) municipalities and three (100%) municipal entities faced challenges in the following areas:



- Eleven (52%) municipalities had findings due to the following:
  - The leadership did not properly report actual performance against predetermined objectives, indicators and targets.
  - The leadership at Moqhaka, Naledi, Ngwathe and Tokologo local municipalities did not submit their reports on PDOs, while Masilonyana local municipality submitted its report late for audit. An audit of PDOs therefore did not take place at any of these auditees.
  - The content of the integrated development plan was not adequate.
  - The leadership at certain municipalities did not adopt and implement a performance management system, which negatively affected the monitoring of service delivery.
  - The leadership and management either did not prepare a mid-year budget and perform assessments or did not submit the results of the mid-year budget and performance assessments to those charged with governance. This resulted in an increase in instances of unauthorised expenditure and also hampered service delivery.
  - Internal audit units and audit committees did not exist or were ineffective in their oversight responsibility in providing the councils with credible monthly and quarterly reports.
- Municipal entities managed to address prior year findings and improved on their compliance findings.
- Internal controls were not implemented and monitored to ensure reliability of information. The following challenges were experienced:
- Source information for reported targets was not complete.
  - Reported indicators were not accurate when compared to source information.
  - Reported indicators were not valid when compared to source information.

### 2.3.3 Summary of findings relating to PDOs

Findings related to auditees' reporting against PDOs are presented in the following tables and analysed thereafter. The percentages reflect those auditees that had findings arising from the audit of performance against PDOs, calculated as a percentage of the total number of auditees audited.

Details of specific findings are as follows:

#### **Annual performance report not received in time for audit purposes**

Auditees are required to submit their performance report for auditing by 31 August annually. Masilonyana Local Municipality (4%) did not submit its reports in time for audit.

#### **Non-compliance with legislation**

The legislative requirements as detailed in paragraph 2.4 were not complied with by all auditees. The most prevalent finding was the lack of adoption and implementation of a performance management system at 48% of auditees. There were no mid-year budget and performance assessments at 32% of auditees and 28% of auditees did not submit the results of their mid-year budget and performance assessments to the prescribed parties. Sixteen per cent of municipalities did not report against predetermined objectives, indicators and targets. Of great concern is that a performance audit committee is not in place at 27% of auditees and at 20% their performance audit committee did not function in the manner prescribed in legislation. Further to this, internal audit unit at 37% of auditees did not audit performance measures.

#### **Usefulness of reported information**

The usefulness of reported information is measured against the criteria of relevance and measurability. The most prevalent finding on consistency was that the reported information of 37% of auditees was not consistent with planned objectives, indicators and targets. Measurability findings were on the planned performance targets not being specific (33%), measurable (22%) and time bound (30%). At 15% of auditees it was also found that the planned indicators/measures were not well defined.

#### **Reliability of reported information**

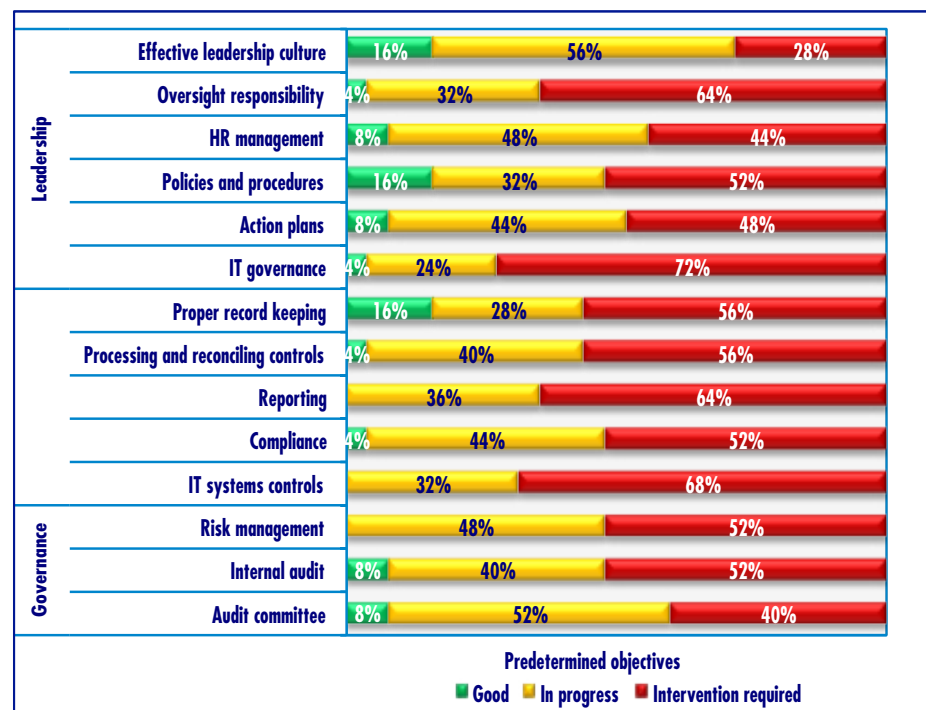
Findings on reliability of information stem mainly from a lack of or inadequate supporting documentation provided for audit purposes to verify the validity, accuracy and completeness of reported performance. The reliability of the information in the annual performance report was tested to assess its validity, accuracy and completeness. The most prevalent finding was incomplete source information for reported indicators/targets (37%).

Also note that the details of auditees with findings are listed in annexure 1.

### 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 had resulted in findings related to compliance, reliability and usefulness of performance information.

Figure 10: Assessment of drivers of internal control – reporting on PDOs



Root causes based on the assessment above require the most focused attention, including the following:

- As individual performance contracts of staff members were not aligned to the municipality's IDP and SDBIP, staff members were not held responsible for the poor performance of municipalities and municipal entities.
- Poor performance is not managed, nor is attention given to the development of underperforming staff to enhance service delivery.
- The responsibility for monitoring and reporting on performance information (if any) is treated as a secondary role instead of a core function.
- Performance audit committees and internal audit units did not quarterly review the performance reports to verify that submitted reports are valid, accurate and complete.
- The leadership did not enforce the implementation of recommendations made by internal and external auditors.
- The leadership at national and provincial levels did not provide adequate guidance to the auditees in addressing concerns on predetermined objectives.
- The council did not consider the credibility of information submitted by municipalities.
- Performance information was completed merely for compliance purposes, i.e. just to ensure that a performance report section appeared in the annual report tabled.
- The leadership did not take reporting on service delivery (PDO) seriously, given the non-submission of an annual performance report by certain municipalities.

#### Best practices

- The performance management system is monitored to ensure that the information implemented is valid, accurate and complete and that municipalities comply with laws and regulations.
- The leadership must ensure that supporting documentation on predetermined objectives is available and that the reports are credible.
- The leadership must capacitate the performance management sections with staff members who have strategic competencies and skills in corporate strategy and municipality experiences.



### ***Recommendations and the way forward***

- The council should consider the credibility of information submitted to them prior to making any decisions.
- The leadership should implement regular internal controls, such as daily, weekly, monthly and quarterly reporting and reviews by senior management, internal audit units and performance audit committees on predetermined objectives.
- The leadership should respond adequately to the risk of poor service delivery.
- Portfolio committees should obtain quarterly performance information from municipalities and get assurance from the municipality on the credibility of their information.
- The leadership should strengthen the quality of human, financial and IT resources for performance management and reporting.

Details per institution are provided in annexure 1 to this report.

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

Laws and regulations set out the activities that 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 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 outcomes of audits are presented and analysed in section 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 part 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 they relate to compliance with laws and regulations. The root causes of non-compliance and the way forward are analysed in section 2.4.6.

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

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 had been audited in previous years, the scope and extent of coverage increased for the year under review in accordance with the phased approach. 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 22 (100%) municipalities and four (80%) municipal entities. The following table analyses the movements in the number of auditees with non-compliance findings in the province.

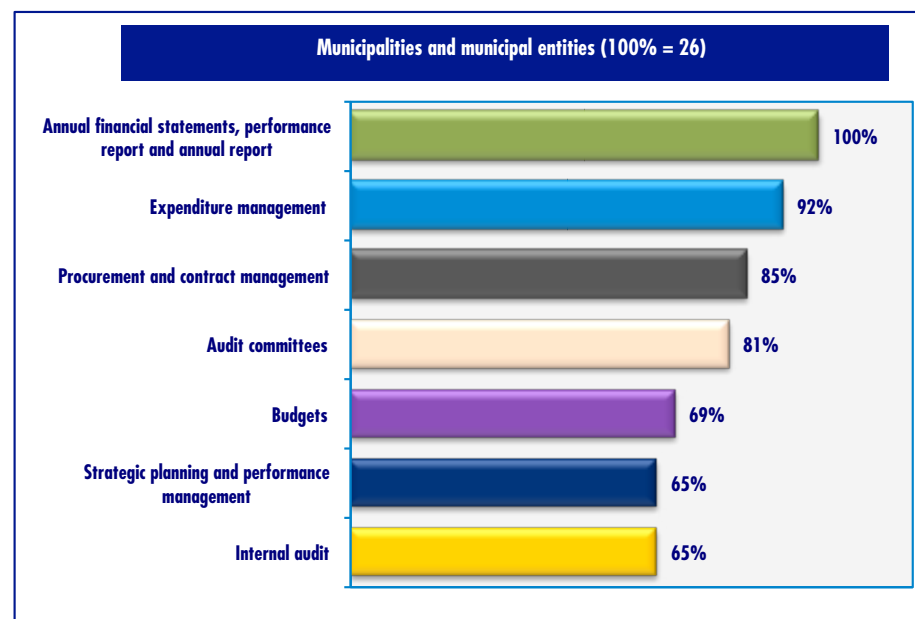
Table 15: Overall movement in the number of auditees with reported material non-compliance

Number of auditees with compliance findings	High-capacity municipalities	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	0	0	1	1	4%
Auditees with no compliance findings	0%	0%	0%	20%	4%	4%
Retained compliance findings	5	7	10	2	24	89%
Regressed to have compliance findings	0	0	0	2	2	7%
Auditees with compliance findings	100%	100%	100%	80%	96%	96%
Total number of auditees reported on	5	7	10	5	27	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 overall 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 11: Transversal reported areas of material non-compliance



Annexure 6 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.

Findings were raised at 26 (96%) auditees, the most significant of which are depicted in the following table. Only Fezile Dabi District Trust had no compliance findings as the entity is dormant and concluded no transactions during the year under review.



**Table 16: Annual financial statements, performance report and annual report findings**

Focus area	Summary of common findings	Percentage of auditees reported on
Annual financial statements, performance report and annual report	Submitted AFS was subject to material adjustments	100%

The leadership did not ensure the implementation and monitoring of internal controls to identify misstatements in the financial statements, resulting in all auditees submitting financial statements that are materially misstated.

Consultants were appointed at 24 (89%) auditees to assist with the financial statements. However, auditees still submitted financial statements that were materially misstated as fundamental internal controls such as daily, weekly and monthly reconciliations and asset counts were not implemented and monitored.

**Table 17: Expenditure management findings**

Focus area	Summary of common findings	Percentage of auditees reported on
Expenditure management	Irregular expenditure not prevented	88%
	Payments to creditors not settled within 30 days from receipt of an invoice	69%
	Unauthorised expenditure not prevented	65%

Proper SCM processes were not followed, resulting in irregular expenditure. Shortcomings identified in prior years were not addressed and this finding will recur year after year until addressed. The financial position of certain municipalities prevented them from paying creditors within 30 days from receipt of an invoice. Proper budgeting controls are not in place to assist leadership in preventing unauthorised expenditure.

**Table 18: Procurement and contract management findings**

Focus area	Summary of common findings	Percentage of auditees reported on
Procurement and contract management	Three written quotations not invited and/or deviations not justified	65%
	Competitive bids not invited and/ or deviations not justified	54%
	Preference point system not applied	50%

The municipality's leadership and management did not monitor and enforce compliance with SCM policies and procedures, resulting in irregular expenditure.

**Table 19: Audit committee and internal audit findings**

Focus area	Summary of common findings	Percentage of auditees reported on
Audit committee	Non-existence of a performance audit committee	38%
	Committee did not meet at least four times during year	35%
	Non-functioning performance audit committee	27%
Internal audit	No internal auditing of performance measurements	46%
	No/inadequate evaluation/advice or reporting on internal controls, accounting, risk and loss control	27%
	No reporting to audit committee on implementation of audit plan	23%

The leadership was not in a position to address the internal control deficiencies giving rise to qualified audit outcomes as well as findings arising from the audit of PDOs and compliance with laws and regulations as these governance structures did not function effectively throughout the year.

**Table 20: Budgets findings**

Focus area	Summary of common findings	Percentage of auditees reported on
Budget	Expenditure not in accordance with approved budget	42%
	Monthly budget statements not submitted to those charged with governance	42%
	Quarterly reports on implementation of budget and financial state of affairs not submitted to council	23%

There was a general lack of adequate leadership monitoring and review of expenditure against the approved budget. These findings are attributed to leadership’s failure to consider the credibility of monthly financial statements that contain details of expenditure incurred versus the available budget. This resulted in leadership not preventing and detecting unauthorised expenditure. As a result, auditees may face challenges in sourcing the funding for such unauthorised expenditure.

**Table 21: Strategic planning and performance management**

Focus area	Summary of common findings	Percentage of auditees reported on
Strategic planning and performance management	Lack of adoption and implementation of a performance management system	46%
	No mid-year budget and performance assessments	35%
	Strategic/annual performance plan not tabled timeously	27%

There is a general lack of skills to support strategic management at municipalities. There is also a lack of consistent accountability in this regard, which contributed to the lack of compliance at certain municipalities.

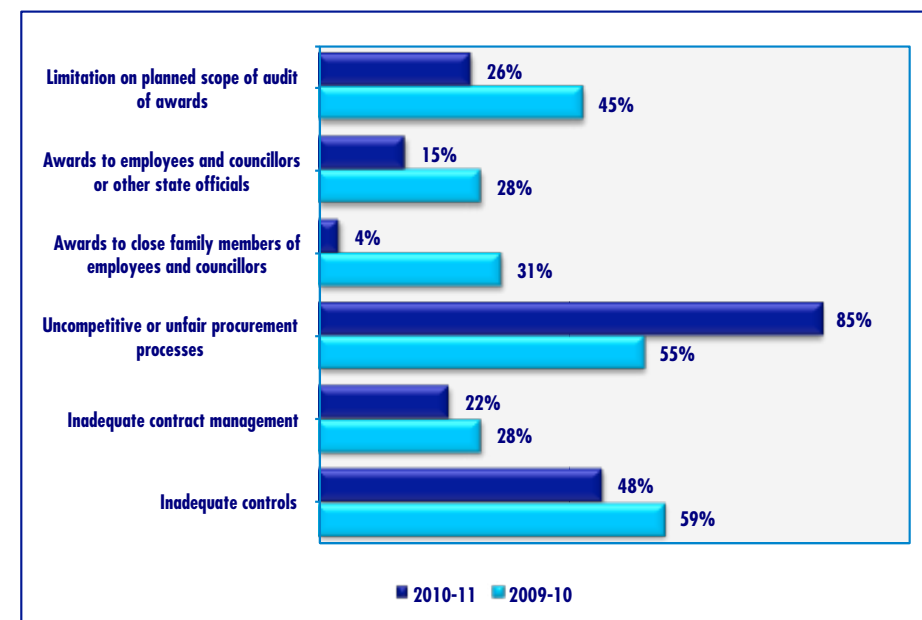
#### 2.4.4 Summary of findings arising from the audit of supply chain management (SCM)

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 27 auditees in total.

Contracts awarded and price quotations accepted (referred to as “awards” in the rest of the report) to the value of R1 943 829 951 were tested. Awards to the value of R1 939 362 000 that were selected for audit could, however, not be audited due to the required information or documentation not being made available for audit.

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

**Figure 12: 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 22: 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	Three written quotations not invited and/or deviations not justified	65%
	Competitive bids not invited and/or deviations not justified	54%
	Preference point system not applied	50%

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

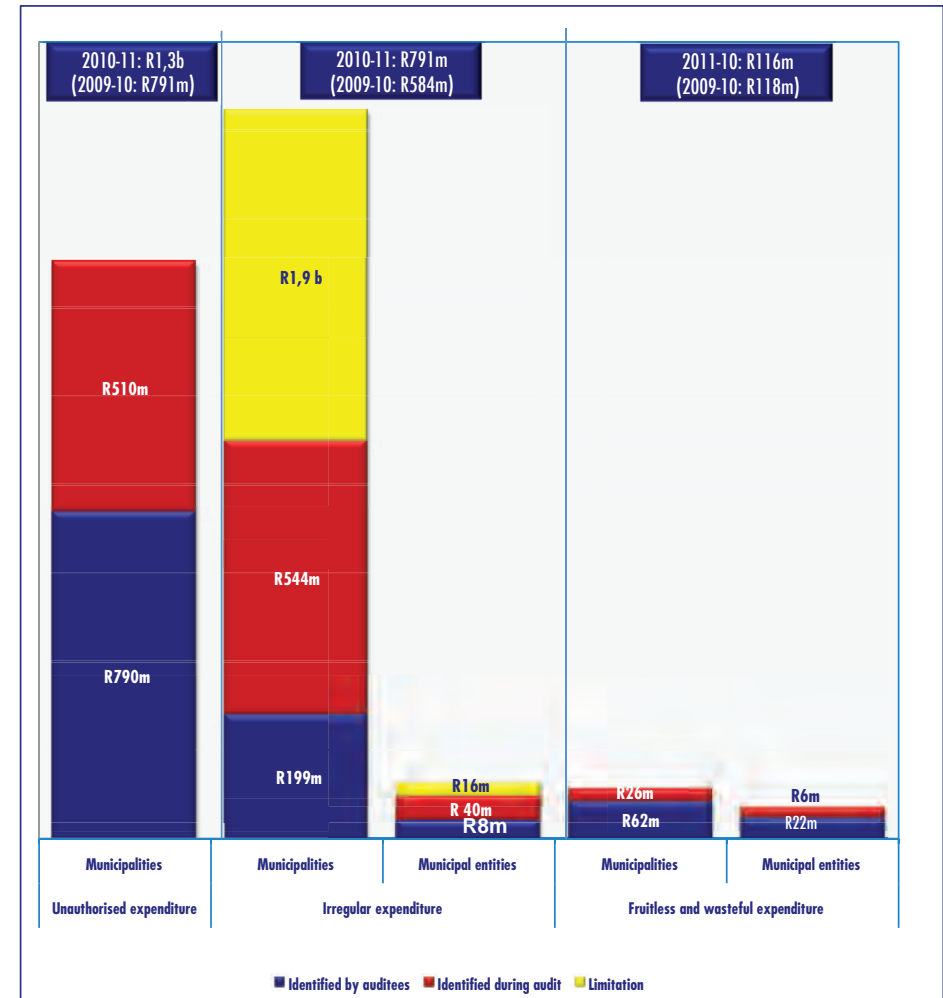
#### 2.4.5 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by auditees

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

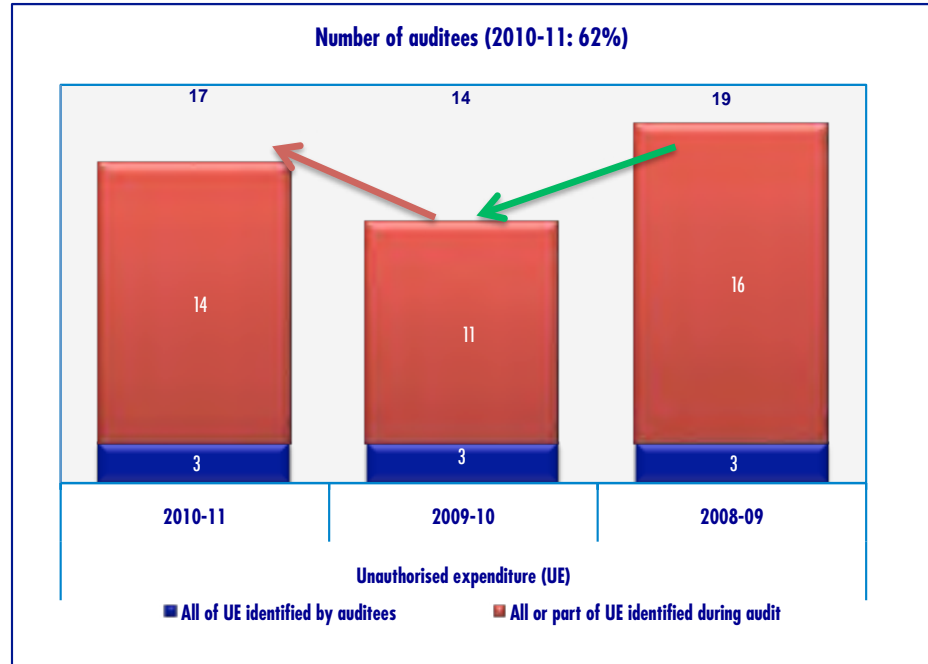
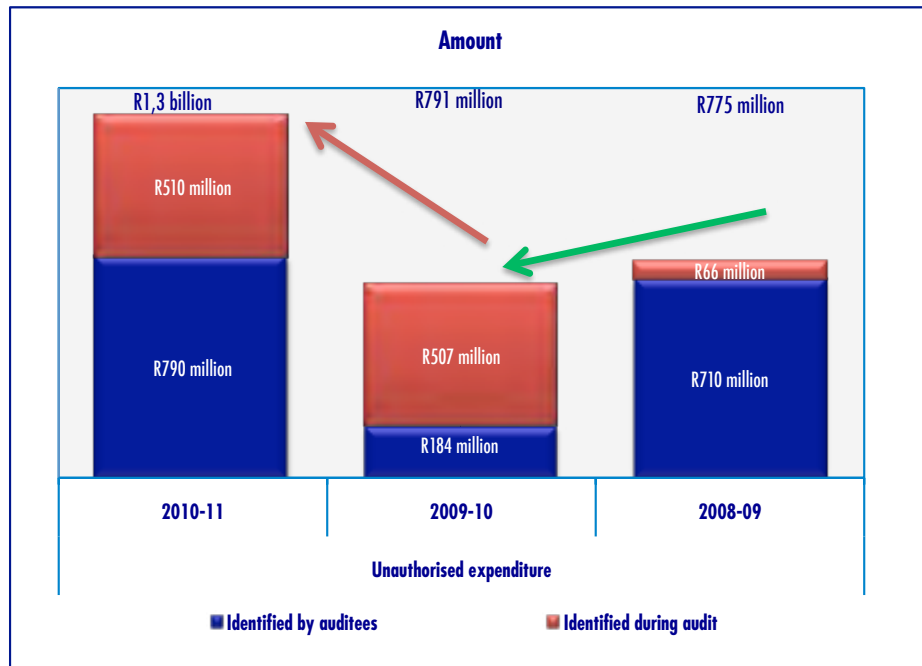


The limitation is an indication that irregular expenditure is understated. Had the supporting documentation been submitted and the SCM processes been audited, the irregular expenditure might have increased.

Annexure 7 to this report lists all auditees with findings on unauthorised, irregular and fruitless and wasteful expenditure.

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

Figure 14: Three-year trend in unauthorised expenditure

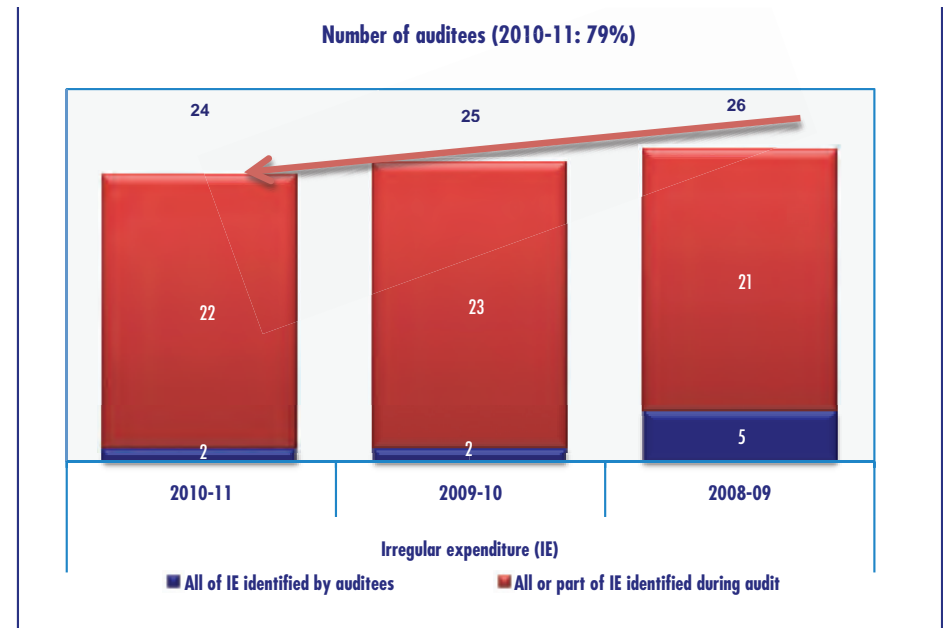
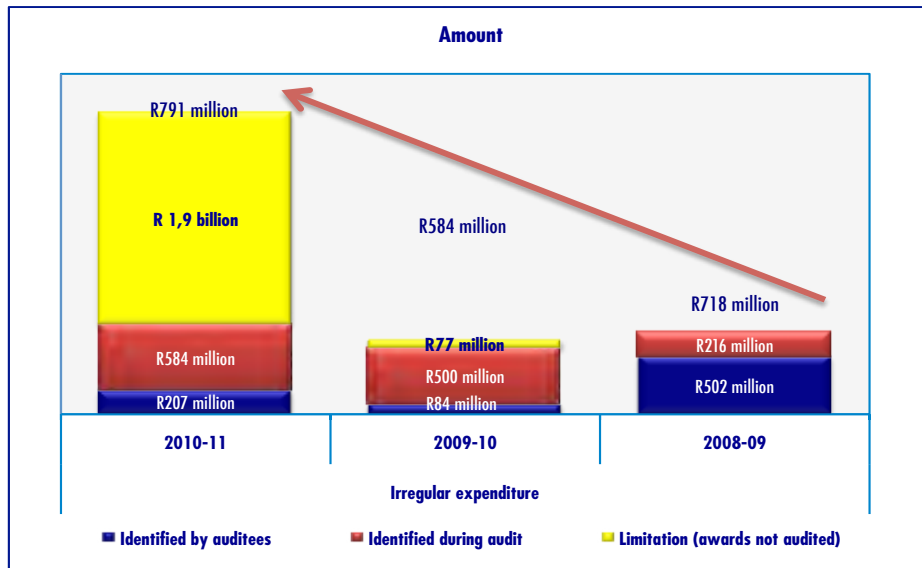




The leadership and management did not implement and monitor internal controls over the budgeting process throughout the financial year and the council did not take action against poor performance and non-adherence to the internal controls.

Despite a decrease in the number of auditees (26,3%) from 2008-09 to 2009-10, with the rand value decreasing marginally (10,8%), the downward trend was not sustained because of an increase in the number of auditees (21,4%) and a significant increase in the rand value (87,9%) from 2009 to 2010-11.

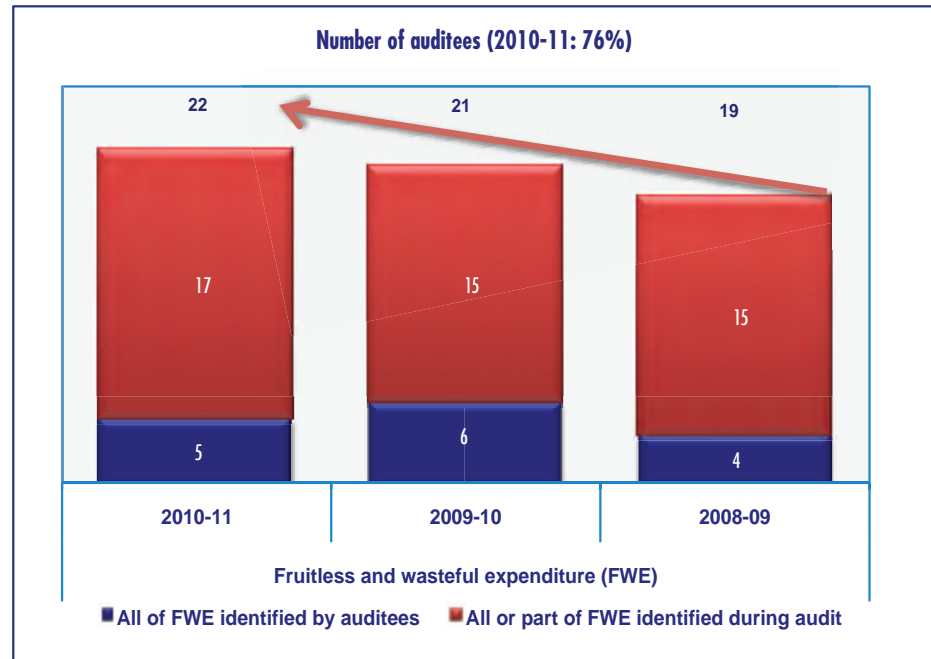
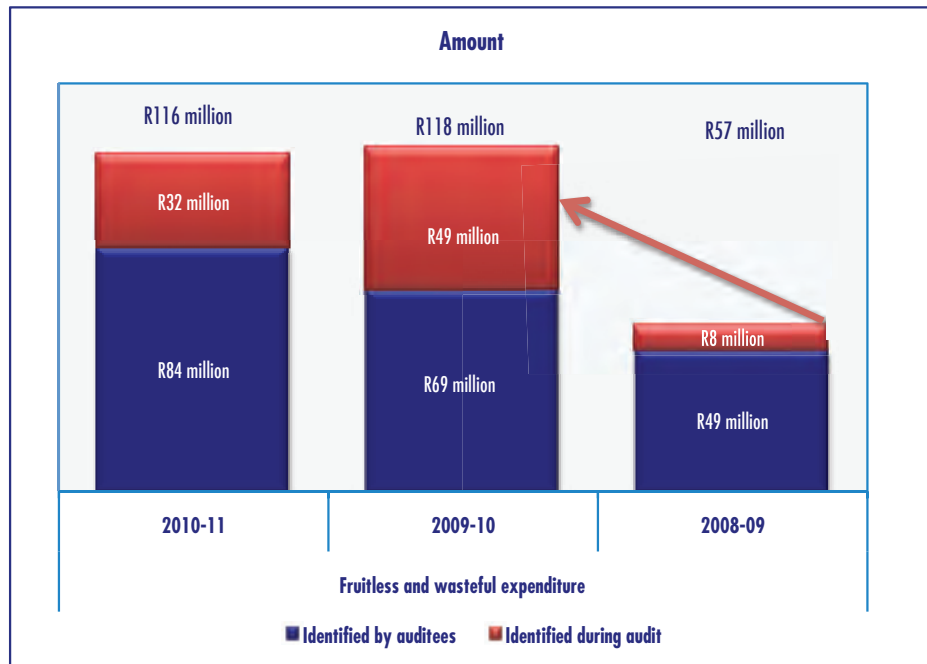
Figure 15: Three-year trend in irregular expenditure



Leadership and management's failure to implement and monitor internal controls to prevent irregular expenditure leads to irregular expenditure.

Although there was a steady decrease in the number of auditees incurring irregular expenditure over the last three years overall, the rand value of irregular expenditure has increased. The number of auditees decreased by 7,1% from 2008-09 to 2009-10 and by 7,6% from 2009-10 to 2010-11. The relevant amount decreased by 4,7% from 2008-09 to 2009-10 and increased by 14,2% from 2009-10 to 2010-11.

Figure 16: Three-year trend in fruitless and wasteful expenditure



The leadership and management did not implement and monitor internal controls to detect and prevent fruitless and wasteful expenditure.

Over the three years there was a steady increase in the number of auditees incurring fruitless and wasteful expenditure and also a steady increase in the amount.

The number of auditees increased by 10,5% from 2008-09 to 2009-10 and by 4,8% from 2009-10 to 2010-11, while the amount increased by 76,1% from 2008-09 to 2009-10, with a minor decrease of 1,7% from 2009-10 to 2010-11.

#### Unauthorised expenditure

The unauthorised expenditure occurred where expenditure was not incurred in accordance with the approved budget. The leadership and management did not implement adequate monitoring control to ensure that auditees only incur



expenditure that was budgeted for. In most cases the unauthorised expenditure is only identified at the time when the financial statements are prepared or during the audit process.

### ***Irregular expenditure***

The irregular expenditure is due to leadership and management not implementing and monitoring internal controls to prevent irregular expenditure.

Irregular expenditure resulted mainly from the following:

- Three price quotations not invited – no deviation approved
- Competitive bids not invited
- Procurement from suppliers without SARS tax clearance
- Preference point system not applied
- No declaration of interest submitted by provider
- Performance of contractors not monitored on monthly basis
- Contracts amended or extended – reasons not tabled in council
- Contracts do not stipulate provisions for termination in case of non-compliance
- Contracts extended or renewed to circumvent competitive bidding processes
- Inadequate contract performance measures and monitoring

The fact that uncompetitive and unfair procurement processes were followed in appointing suppliers resulted in procurement that is not fair, equitable, transparent and cost-effective.

### ***Fruitless and wasteful expenditure***

The leadership and management did not implement and monitor internal controls to detect and prevent the fruitless and wasteful expenditure, thus hampering service delivery.

Fruitless and wasteful expenditure relates to the following:

- Penalties and interest paid on late payment of service providers, including Telkom, Eskom and SARS.
- The leadership did not avoid interest and penalties of R4 million paid when vehicles were repossessed.

- Money paid to service provider for meter readings that were not provided.
- Payment for access control management system that was not used.
- Payments to employees who had been retrenched.
- Payment to service providers for asset registers that were not compiled according to the required standard.

Matjhabeng contributed 38% to total unauthorised, irregular and fruitless and wasteful expenditure in the province. The following are root causes of the excessive amounts incurred by Matjhabeng:

- Debtors are not followed up and recovered and debt is merely written off without any attempt to recover it.
- The budget is compiled incorrectly and leadership does not perform budget control. The writing off of debt and provisions made also contributed to the unacceptably high unauthorised expenditure.
- The total disregard for SCM policies and procedures resulted in high irregular expenditure.

Non-payment by debtors results in cash flow problems, which in turn results in non-payment of creditors. Consequently, fruitless and wasteful expenditure occurs in the form of interest.

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

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

**Table 23: Nature of and movements in unauthorised, irregular as well as fruitless and wasteful expenditure**

Nature of movements	Number of auditees	Movement in number of auditees over 2009-10	Amount	Movement in amount over 2009-10
<b>Unauthorised expenditure (applicable to municipalities only)</b>				
Overspending of votes/main division within votes	17	↑ 21%	R1,298 billion	↑ 88%
Spending not in accordance with purpose/condition	1	↑ 100%	R1,8 million	↑ 100%
<b>Irregular expenditure</b>				
Supply chain management	24	↓ 4%	R782,9 million	↑ 58%
Compensation of employees	9	↔ 0%	R7,1 million	↓ 34%
Other non-compliance	4	↓ 20%	R0.9 million	↓ 99%
<b>Fruitless and wasteful expenditure</b>				
Supply chain management	13	↑ 44%	R15,1 million	↓ 71%
Other non-compliance	20	↑ 33%	R100,7 million	↑ 53%

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

Details of the fruitless and wasteful expenditure incurred are as follows:

Fruitless and wasteful expenditure will be analysed further in the table below, indicating (i) the type; (ii) number of auditees; and (iii) rand value of the "type" of fruitless and wasteful expenditure incurred – what the expenditure consisted of, for example interest paid on late payments, rentals for buildings not occupied by municipalities, cancellation of irregular contracts, etc.

**Table 24: Analysis of fruitless and wasteful expenditure**

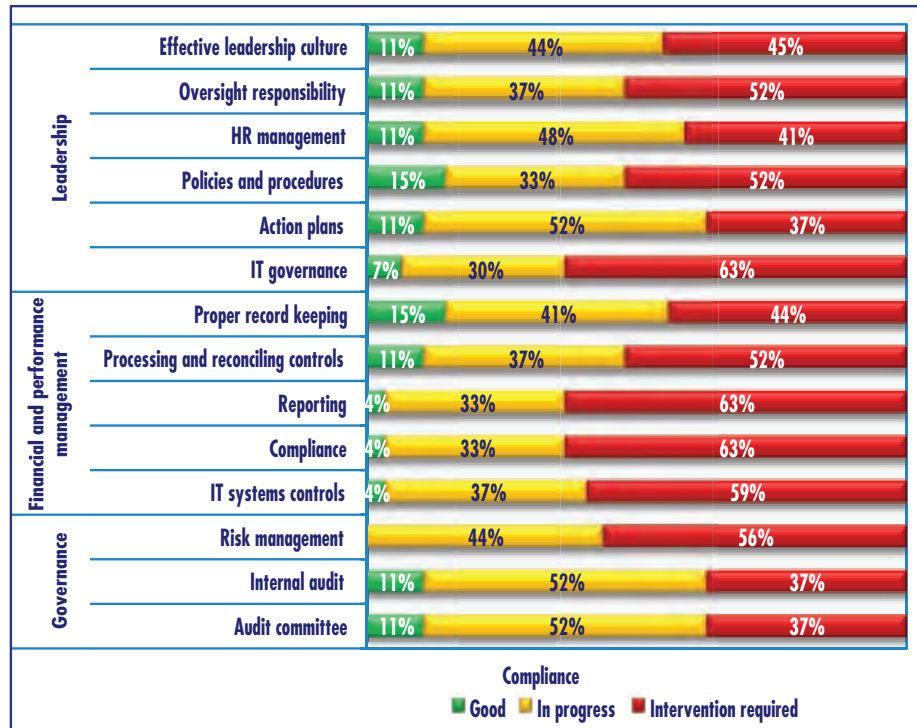
Fruitless and wasteful expenditure – type	Number of auditees	R'000
<b>Supply chain management</b>		
Payment for access control management system that is not used by the municipality	1	5 321
Money paid to service providers, while services were not rendered	2	3 559
Payments made for asset register that were not up to standard (had to be re-compiled)	1	2 869
Other (all below 1 million)	18	3 356
<b>Other non-compliance</b>		
Penalties and interest paid on late payments	20	88 362
Early termination of finance leases costs	1	4 000
Payments to employees who were retrenched	1	3 815
Staff not placed until 31/12/2010	1	1 023
Other (all below 1 million)	19	3 546
<b>Total</b>	<b>64</b>	<b>115 851</b>

### 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 internal control resulted in non-compliance with laws and regulations not being prevented.



Figure 17: Assessment of drivers of internal control over reporting on compliance with laws and regulations



Root causes based on the assessment above that require the most focused attention are the following:

- Lack of council oversight over non-compliance with laws and regulations.
- Lack of leadership tone on compliance with laws and regulations as management and staff are not held accountable for non-compliance.
- Disregard for laws and regulations due to poor planning and monitoring.
- A dedicated official is not assigned responsibility for monitoring compliance.
- A lack of understanding and commitment to implement the guidance provided on the implementation of laws and regulations.

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

- Councils should instil a culture of ethical behaviour and ensure that everyone understands, respects and adheres to laws and regulations.
- The leadership should review and report on non-compliance to the mayor on a monthly basis. Instances of non-compliance must be effectively investigated and addressed. The leadership should also make full use of the opportunities for review and monitoring by having a strong internal audit function and a well-functioning audit committee.
- Development and monitoring of a compliance checklist.
- Assigning a dedicated official to monitor compliance with laws and regulations.

Details per institution are provided in annexure 6 to this report.

## 2.5 Focus areas of 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:

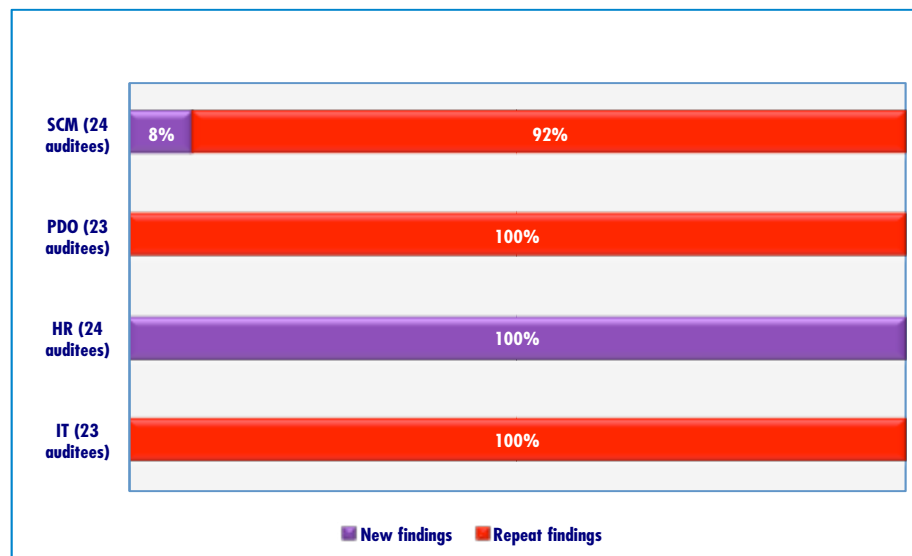
- Accounting authorities, accounting officers, CFOs and auditee management (analysed in section 4.1, 4.2 and 4.3).
- Audit committees, provincial executive leadership and other role players (analysed in section 4.4 and 4.5).

The AGSA has identified nine focus areas in total 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 against 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; and (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 18: Repeat and new findings in four focus areas



My office engaged with the leadership of all auditees 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 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.

### Way forward/recommendations

Provincial leadership and municipal leadership should strengthen and enhance human resources to improve the municipalities' audit outcomes and service delivery by ensuring that the HR plan is implemented and monitored consistently.

The HR plan should specifically address the challenges that are also depicted in section 4.2 of this report.







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

### 3.1 Background to the audit of supply chain management

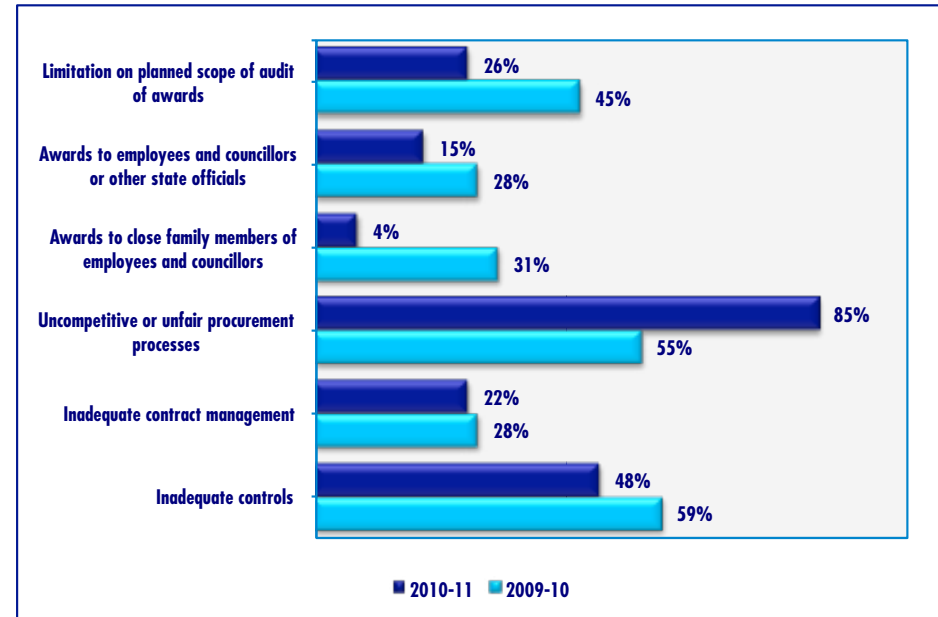
The audits included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective SCM system, the processes and controls need to comply with legislation and must minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. The assessment was performed at a total of 22 municipalities and five municipal entities.

As is evident from the analysis of irregular expenditure (section 2.4.5), R782 854 853 (99%) of the irregular expenditure incurred by auditees was as a result of the contravention of SCM legislation. Seventy-four per cent of the irregular expenditure was identified during the audit process.

Findings arising from the audit were reported in the management reports of 22 (81%) the auditees where the assessment was performed, while the findings were material enough at all of these auditees to warrant reporting thereof in the auditor's report.

The following figure presents a summary of SCM findings with a comparison to 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 audited.

Figure 19: Summary of findings on supply chain management



Annexure 8 to this report lists all auditees with key findings arising from the audit of supply chain management.

### 3.2 Limitations on planned scope of audit of awards

Seven (26%) auditees could not provide evidence that awards had been made in accordance with the requirements of SCM legislation. This information was requested as part of the audit sample to be tested. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred in respect of these awards was not irregular. The limitations are attributable to a lack of oversight by management to ensure that the municipalities' record management system functions effectively. Furthermore, the record management system used by the municipalities was not always centralised but fragmented between different sections at the municipalities, which resulted in record keeping inefficiencies that hampered the submission of information to support complete, relevant and accurate financial and performance reporting.

The following table depicts the auditees where limitations were experienced. Those auditees where limitations had also been raised in the previous year are highlighted in blue. Note that the municipalities mentioned below also had qualifications on unauthorised, irregular as well as fruitless and wasteful expenditure as mentioned in section 2.2.2.

**Table 25: Limitations experienced**

Auditees	Number of awards	Value of awards R'000
Centlec (Pty) Ltd	103	16 698
Kopanong Local Municipality	34	67 661
Mangaung Local Municipality	521	1 238 236
Masilonyana Local Municipality	207	406 857
Matjhabeng Local Municipality	47	80 104
Naledi Local Municipality	25	26 710
Ngwathe Local Municipality	49	103 096
<b>Total</b>	<b>986</b>	<b>1 939 362</b>

As a result of the limitations, 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 had also been identified in the previous year the name of the auditee is highlighted in blue.

**Table 26: 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	%	%				
<b>Municipalities</b>									
Mangaung Local Municipality	4	6 443	2 councillors 2 other officials	25%	0%	19	1 395	0%	100%
Mantsopa Local Municipality	1	88	1 other officials	100%	0%	8	374	100%	100%
Masilonyana Local Municipality	1	107	1 councillor	100%	0%	0	0	0%	0%
Matjhabeng Local Municipality	2	88	2 other officials	0%	0%	15	5 525	100%	100%
<b>Total</b>	<b>8</b>	<b>6 726</b>		<b>56%</b>	<b>0%</b>	<b>42</b>	<b>7 294</b>	<b>50%</b>	<b>75%</b>

\* Number: indicates number of instances

### 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; however, this resulted in an audit finding at only one (4%) auditee. 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 had also been identified in the previous year, the name of the auditee is highlighted in blue.

**Table 27: 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	%	%	%	%
<b>Municipalities</b>							
Matjhabeng Local Municipality	1	3 923	Other official	0%	100%	0%	100%
<b>Total</b>	1	3 923		0%	100%	0%	100%

\* Number: indicates number of instances

### 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 that goods and services are procured at competitive and economical prices.

The procurement processes of 604 contracts (R1 846 758 172) and 526 quotations (R97 071 779) were tested out of an original sample of R3 883 191 951. 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 had also been raised in the previous year the name of the auditee is highlighted in blue.

Table 28: Findings on uncompetitive or unfair procurement processes

Auditees	Three price quotations not obtained		Competitive bids not invited		Procurement from suppliers without SARS tax clearance		Preference point system not applied		No declaration of interest submitted by provider		Other findings		Total per municipality	
	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000
<b>Municipalities</b>														
Dhlabeng Local Municipality			3	15 065							8	704	11	15 769
Kopanong Local Municipality	7	669	2	1 421			14	1 279	10	1 038	26	40 430	59	44 837
Lejweleputswa District Municipality	1	4	1	452									2	456
Letsemeng Local Municipality	213	7 767	11	9 991	26	8 727	34	11 356	32	6 998	57	29 577	373	74 416
Maluti-A-Phofung Local Municipality			6	14 165									6	14 165
Mangaung Local Municipality	4	41	16	38 421			6	3 677	6	3 677	169	496 756	201	542 572
Mantsopa Local Municipality	66	5 747	32	2 212							18	53 793	116	61 752
Masilonyana Local Municipality	5	348	34	3 535	7	18 090				0	83	101 315	129	123 288
Matjhabeng Local Municipality	11	754					15	2 233	42	129 133	134	549 074	202	681 194
Metsimaholo Local Municipality	8	3 426	0	0	21	6 962	13	20 646	7	2 418	13	50 600	62	84 052
Mohokare Local Municipality	14	628	7	5 422	13	1 075	15	3 142	15	3 142	34	18 804	98	32 213
Moqhaka Local Municipality	14	1 251											14	1 251
Motheo District Municipality	3	289											3	289
Naledi Local Municipality	11	1 012									8	12 057	19	13 069
Ngwathe Local Municipality	13	1 139	1	378							13	1 139	27	2 656
Nketoana Local Municipality	12	4 544	4	2 239									16	6 783
Phumelela Local Municipality	22	407			2	10 882							24	11 289
Thabo Mofutsanyane District Municipality	35	796	6	7 024	2	614							43	8 434
Tokolologo Local Municipality	22	1 587									13	25 944	35	27 531
Tswelopele Local Municipality	1	42											1	42
Xhariep District Municipality	40	1 797		0	19	1 006	23	1 745	14	998	14	998	110	6 544
<b>Municipal entities</b>														
Centlec (Pty) Ltd	14	13 206	13	13 206							3	140	30	26 552
Maluti-A-Phofung Water	8	380	3	5 648	20	3 491					7	26 624	38	36 143
<b>Total</b>	<b>516</b>	<b>45 454</b>	<b>133</b>	<b>98 466</b>	<b>90</b>	<b>47 356</b>	<b>120</b>	<b>44 078</b>	<b>126</b>	<b>147 404</b>	<b>585</b>	<b>1 380 627</b>	<b>1570</b>	<b>1 763 385</b>

\* Number: indicates number of instances



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

**Table 29: Findings on non-compliance with legislation**

Finding	Detail
Three written price quotations not invited	A price quotation process is prescribed for the procurement of goods and services below R200 000. Three written price quotations were not always obtained from prospective providers as prescribed and the deviations were not approved by a delegated official.
Competitive bids not invited	A competitive bidding process should be followed for the procurement of goods and services above R200 000. Competitive bids were not always invited and the deviations were not approved by a properly delegated official.
No declaration of interest submitted by provider	As part of the bidding and procurement process providers are required to declare any connections they have with persons in service of the auditee or other state institutions. The declarations were not always submitted by the providers, with the result that auditees did not have sufficient information to identify conflicts of interest and the prohibited awards.
Procurement from suppliers without SARS tax clearance	Awards were made to suppliers without proof from the South African Revenue Service (SARS) that their tax matters were in order.
Preference point system not applied	The preference point system was not applied in all procurement of goods and services above R30 000, as required by Preferential Procurement Policy Framework Act.
Other findings.	The other findings raised were as follows: <ul style="list-style-type: none"> <li>Three written quotations not invited – approved deviation not reasonable/justified.</li> <li>Quotation process not compliant with legislation/SCM policy – no deviation approved.</li> <li>No prospective supplier list for inviting price quotations.</li> </ul>

### 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 had also been raised in the previous year the name of the auditee is highlighted in blue.

**Table 30: Findings arising from the audit of contract management**

Auditees	Performance of contractors not monitored on monthly basis		Contracts amended or extended – reasons not tabled in council		Contracts do not stipulate provisions for termination in case of non-compliance		Contracts extended or renewed to circumvent competitive bidding processes		Inadequate contract performance measures and monitoring		Other		Total per municipality	
	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000	No.	R'000
<b>Municipalities</b>														
Kopanong Local Municipality	2	2 388									1	1 710	3	4 098
Mangaung Local Municipality	16	36 748					3	19 953					19	56 701
Masilonyana Local Municipality	5	4 551	5	13 466	10	30 363	8	29 986	8	21 069			36	99 435
Mohokare Local Municipality									5	4 551			5	4 551
Phumelela Local Municipality					5	21 639							5	21 639
<b>Municipal entities</b>														
Centlec (Pty) Ltd			1	388 388									1	388 388
<b>Total</b>	<b>23</b>	<b>43 687</b>	<b>6</b>	<b>401 854</b>	<b>15</b>	<b>52 002</b>	<b>11</b>	<b>49 939</b>	<b>13</b>	<b>25 620</b>	<b>1</b>	<b>1 710</b>	<b>69</b>	<b>574 812</b>

\* Number: indicates number of instances

Further details of the findings are as follows:

Table 31: Findings arising from the audit of contract management

Finding	Detail
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.
Payments made in excess of approved contract price (with further approved extensions)	A contract prescribes the prices, terms and maximum values, which can be increased through approved extensions and variations. Instances were identified of payments being made to suppliers in excess of these approved contract prices.
Contracts amended or extended without approval by a delegated official	Irregular expenditure was identified based on contracts that were extended or renewed without approval by a delegated official.
Contracts extended or renewed to circumvent competitive bidding processes	It is normal business practice to extend or renew contracts, but at some auditees it was done to the extent that competitive bidding processes were being circumvented, resulting in a procurement practice that was unfair, uncompetitive or not transparent.
Performance of contractors not monitored on a monthly basis	The performance of the contractor in terms of the contract or agreement was not monitored on a monthly basis as required by the MFMA.
Inadequate contract performance measures and monitoring	Measures applied in monitoring the performance of contractors were not always sufficient to ensure that contractors delivered in accordance with the contract.
No action taken against non-performing contractors	Strong and decisive action was not always taken against contractors that did not deliver in the manner as agreed in the contract.
Contracts amended or extended – reasons not tabled in council	In order to enable accountability and oversight, the MFMA prescribes that reasons for amendment or extension of contracts should be tabled in council. Instances were identified where the council was not informed.
Contract price more than tendered price	Suppliers were contracted for the delivery of goods and services at prices that were higher than the prices submitted with their tenders, with no justification provided for the increase.
Other findings	The other findings identified were as follows: <ul style="list-style-type: none"> <li>Performance of contractors not monitored on monthly basis.</li> <li>No signed contract/contract not signed by delegated official.</li> </ul>

### 3.7 Inadequate SCM controls

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

Table 32: Findings arising from the audit of SCM controls

Auditees	Declarations of interest not recorded in register	Register of bids received on time not published on website	AO did not submit quarterly reports to mayor on SCM policy implementation	Inadequate controls to ensure interest is declared	No controls to monitor performance of contractors	Other controls	Total
<b>Municipalities</b>							
Kopanong Local Municipality							
Letsemeng Local Municipality							
Mangaung Local Municipality							
Mantsopa Local Municipality							
Masilonyana Local Municipality							
Matjhabeng Local Municipality							
Metsimaholo Local Municipality							
Mahokare Local Municipality							
Maqhaka Local Municipality							
Ngwathe Local Municipality							
Tokologo Local Municipality							
Xhariep District Municipality							
<b>Municipal entities</b>							
Centlec (Pty) Ltd							
<b>Total</b>	<b>8</b>	<b>8</b>	<b>5</b>	<b>6</b>	<b>5</b>	<b>13</b>	<b>45</b>
<b>Percentage of auditees tested</b>	<b>25%</b>	<b>26%</b>	<b>27%</b>	<b>80%</b>	<b>90%</b>	<b>100%</b>	<b>46</b>



Further details of the findings are as follows:

**Table 33: Findings arising from the audit of SCM controls**

Finding	Detail
Inadequate controls to ensure that interest is declared	The controls at some auditees were inadequate to ensure that: <ul style="list-style-type: none"> <li>officials declare whether they or their close family members, partners and associates have interests in suppliers to the auditee</li> <li>suppliers declare any connections to persons in service of the auditee or other state constitutions.</li> </ul>
No controls to monitor performance of contractors	The controls at some auditees were inadequate to ensure that contractor performance is monitored in accordance with the contract.
Declarations of interest not recorded in register	The declarations of interest by SCM officials and role players were not always recorded in a register kept by the accounting officer for this purpose, as prescribed.
Risk assessment did not address SCM	SCM is generally an area of considerable risk at most of the auditees. However, the risk was not recognised in the risk assessments performed at these auditees.
Register of bids received on time not published on website	Although prescribed by the SCM regulations, a register of bids received on time was not always published on the website of the auditee.
Other findings	The other findings identified were as follows: <ul style="list-style-type: none"> <li>Internal audit did not evaluate SCM controls/processes and compliance.</li> <li>Risk assessment did not address SCM.</li> <li>Inadequate controls to ensure that interest is declared.</li> </ul>

### 3.8 Overall conclusion on SCM matters

It is clear from the information included in paragraph 3.1 to 3.7 that auditees in the Free State still face several challenges with regard to procurement and contract management. Not only is the high occurrence of irregular expenditure with regard to supply chain management of concern, but also the fact that this was not timeously identified and properly reported by management.

It was noted that there was an improvement compared to the previous year in five of the six areas that were audited. This clearly indicates that the commitments made by the mayors and municipal staff are starting to bear fruit. The one area of concern, however, is that of uncompetitive or unfair procurement processes which increased from 55% to 78% of municipalities. The following municipalities and municipal entities were again found to be non-compliant with these SCM processes: Dihlabeng, Kopanong, Lejweleputswa, Letsemeng, Maluti-A-Phofung Water, Mangaung, Mantsopa, Mathjabeng, Metsimaholo, Motheo, Ngwathe, Nketoana, Phumelela, Thabo Mofutsanyane and Xhariep. Although SCM policies were in place, there were instances relating to the deliberate disregard for these policies. Furthermore, non-compliance with SCM policies was not adequately monitored and acted on by the municipal leadership in the province.

At seven municipalities a limitation was placed on the audit of procurement and contract management, which might be an indication of possible fraud and might require investigation.

Accounting officers need to ensure that a culture of respect for supply chain procedures is implemented immediately; that irregular expenditure is prevented by implementing adequate controls including checklists; and that, if irregular expenditure occurs, it is timeously identified and acted on immediately to prevent any further occurrence.









## 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 within 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 34: 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	19%	37%	44%	8%	40%	52%	11%	41%	48%
IT governance	7%	30%	63%	4%	24%	72%	7%	30%	63%
Action plans	22%	41%	37%	8%	44%	48%	11%	52%	37%
Policies and procedures	19%	33%	48%	16%	32%	52%	15%	33%	52%
HR management	19%	44%	37%	8%	48%	44%	11%	48%	41%
Oversight responsibility	19%	33%	48%	4%	32%	64%	11%	37%	52%
Effective leadership culture	26%	41%	33%	16%	56%	28%	11%	44%	45%
Financial and performance management	9%	33%	58%	4%	36%	60%	7%	37%	56%
IT systems controls	11%	26%	63%	0%	32%	68%	4%	37%	59%
Compliance	4%	48%	48%	4%	44%	52%	4%	33%	63%
Reporting	7%	30%	63%	0%	36%	64%	4%	33%	62%
Processing and reconciling controls	15%	37%	48%	4%	40%	56%	11%	37%	52%
Proper record keeping	22%	30%	48%	16%	28%	56%	15%	41%	44%
Governance	11%	52%	37%	4%	48%	48%	7%	48%	45%
Audit committee	11%	59%	30%	8%	52%	40%	11%	52%	37%
Internal audit	11%	56%	33%	8%	40%	52%	11%	52%	37%
Risk management	7%	37%	56%	0%	48%	52%	0%	44%	56%









#### 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 35: 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		An effective leadership tone is critical to ensure a culture of clean administration. It is required that leadership set a tone of honesty and ethical business practices. This is a specific challenge to the Free State as all municipalities had incidents of non-compliance with laws and regulations and leadership should ensure that to supply chain regulations are adhered to in the province.
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 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. Sessions were conducted to familiarise the mayors appointed after the local government elections. The role of councils needs to be strengthened as councils should play an ongoing monitoring and oversight role to ensure that the municipality improves the internal control environment. For the year under review the outgoing councils neglected this function and the new councils appointed during the year also did not perform this important oversight function.
Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored		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 for 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 for two municipalities. Thus the leadership needs to take active steps in ensuring that adequately skilled staff are recruited and appointed, especially where CFO vacancies still exist. 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.
Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities		Policies and procedures were developed by provincial treasury, but only a few councils in the province adopted these policies, formally approved them and sanctioned the implementation thereof. Without this essential internal control the municipalities will continue to fail to adequately implement and monitor adherence to internal controls.
Develop and monitor the implementation of action plans to address internal control deficiencies		All municipalities in the province have action plans to improve their audit outcomes, but the leadership and oversight monitoring thereof is lacking. Unless all action plans have specific milestones and time frames that are continuously monitored by the administration and the council, the outcomes will not improve.
Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment		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.
Establish an IT governance framework that supports and enables the business, delivers value and improves performance		Performance information structures and systems need to be integrated into 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.

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		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. All financial information as well as information regarding service delivery must be filed on a regular basis to ensure that it is available for audit purposes. This is a key cornerstone for good administration.
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 a few municipalities and municipal entities have improved since the prior year, the quality of the financial statements submitted for auditing is still not adequate. This conclusion is based on the increase in the material misstatements identified and corrected. The municipalities and municipal entities CFOs did not have processes in place to ensure that all information submitted for audit was credible. The CFOs were not performing the functions attributable to their role as 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. The lack of skills in the rest of the finance units is the main reason for the appointment of consultants. Furthermore, it is critical that leadership ensure that the required skills are transferred to staff where consultants are appointed.
Review and monitor compliance with applicable laws and regulations		The increase in findings on compliance with laws and regulations is a concern as some of these findings resulted in municipalities and municipality entities incurring unauthorised, irregular as well as fruitless and wasteful expenditure. Leadership should review municipality and municipalities entities' compliance with laws and regulations monthly to prevent instances of non-compliance with laws and regulations and where it did occur it should be detected and action should be taken immediately to prevent future instances of non-compliance.
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 the design and implementation of formal controls over IT systems are of concern. 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. 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 which 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. The council will also be highly reliant on the internal audit in future to provide assurance on the credibility of information submitted to the council for consideration and decision-making.
Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations		While audit committees have in general been appointed, this governance structure should meet regularly and discharge its duties in terms of the MFMA. They should ensure improved interaction between the audit committee and the mayor and/or council with a view to providing feedback on the identification of risk areas and an assessment of the effectiveness of the control environment.  The councils will rely on the audit committee to assist them to gain a higher level of confidence regarding the credibility of information provided to the council. The credibility to information is directly linked to the status of internal control in the municipality and the follow-up testing by internal audit.



Overall progress made



No significant overall change



Overall regression

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

Effective 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 properly 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

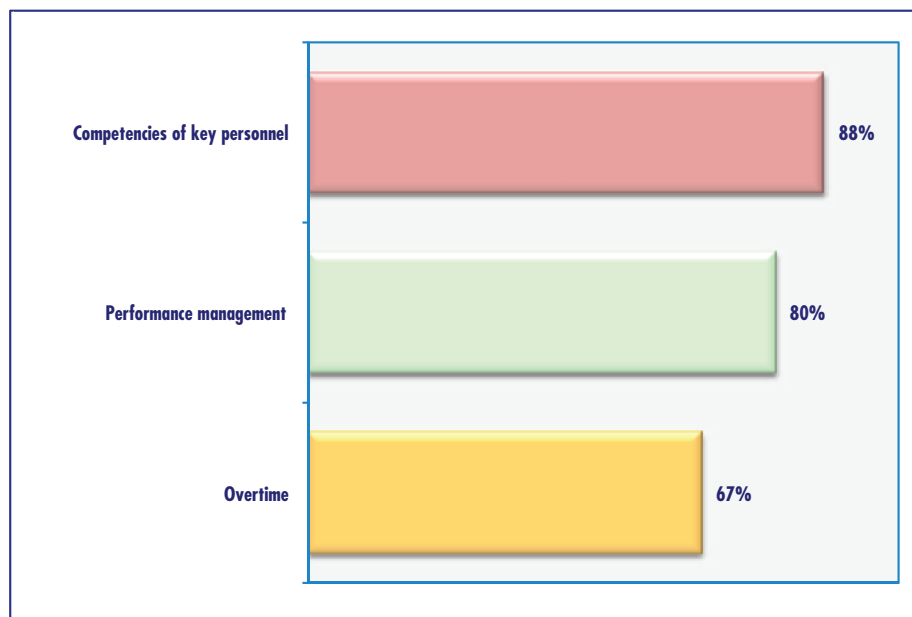
The assessment of the drivers of internal control at the time of the audit, as analysed in paragraphs 2.2.5, 2.3.4 and 2.4.6, identified HR management as the area where significant attention is still required for audit outcomes to improve.

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 identified at 24 auditees, which should be improved to positively affect audit outcomes.

Figure 20: Summary of HR management weaknesses



Fourteen auditees (Dhlabeng Local, Kopanong Local, Matjhabeng Local, Mohokare Local, Moqhaka Local, Naledi Local, Ngwathe Local, Phumelela Local, Tokologo Local, Motheo District, Lejweleputswa District, Thabo Mofutsanyana District and Xhariep District as well as Centlec) did not have CFOs for the year or a portion of the year. The vacancies in key positions and especially at the finance units pose challenges in the internal control environment. A sound control environment is based on adequate supervision and continuous monitoring. It was also noted that vacant positions are filled with people in an acting capacity for extensive periods. Furthermore, funding constraints resulted in municipalities in rural areas not being able to appoint the entire approved establishment at the level of expertise required (engineers, financial staff, etc.). The following findings raised during the audit require intervention:

- Positions at the finance department were vacant for more than 12 months and vacancies were not advertised within six months.
- The overall vacancy rate had increased since the previous year.
- Senior management positions were vacant for more than 12 months.



Given the vacancies, staff worked excessive overtime without prior approval. Overtime is not adequately regulated and monitored to ensure that benefits are derived from the overtime worked. This is also of concern in light of the amounts spent on consultants to assist municipalities in the province. It is important that the organisational structure of the municipality is adequate to ensure that all requirements are met. The organisational structure must be both effective and efficient. Efficiency requires the number of staff to be as low as possible, while effectiveness requires that the skills and competence of staff match the responsibility of the position. Effective performance management also contributes to the effectiveness of a structure.

Leadership also did not implement and monitor internal controls to ensure that proper recruitment processes are followed before appointing staff. We identified the following:

- Background verification processes were not followed.
- Staff were appointed who do not have the required qualifications and experience for the position.
- Appointments were made in posts that had not been advertised.

The recommendation that the councils ensure that all senior and critical positions be filled with competent staff was a resolution of the premier at the premier's coordination forum meeting in December 2012.

## 4.3 IT management as a specific driver of audit outcomes

### 4.3.1 Overview of IT systems management

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

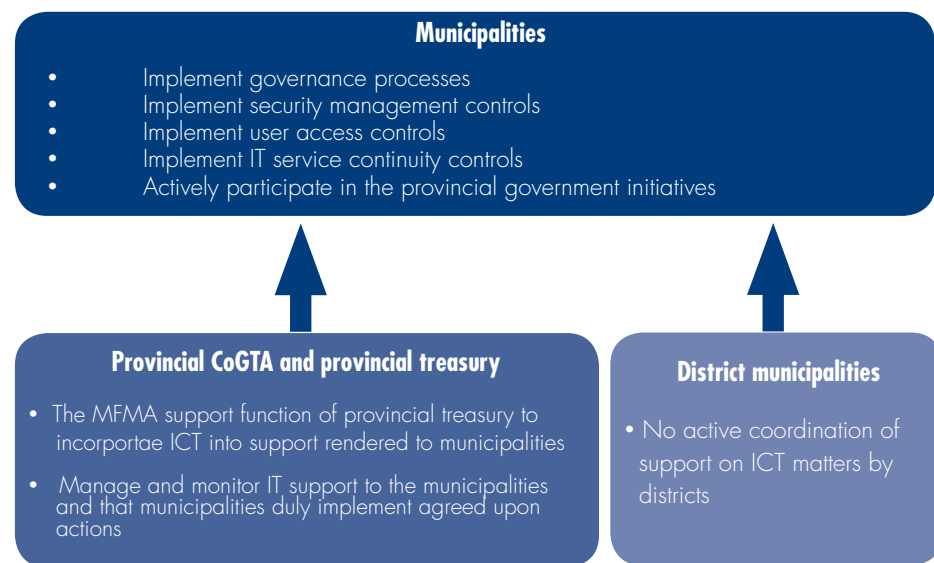
Municipalities and their entities rely on IT systems to perform their statutory financial management, reporting and administrative functions. The information processed and stored on IT systems is vital to the accuracy and reliability of the financial and performance information used by management for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

Twenty-three auditees (17 local municipalities, four district municipalities and two municipal entities) were audited in the province. No information systems audit was conducted at the Motheo District Municipality due to its disestablishment and merging with Mangaung Local Municipality, and at the Nala Local Municipality due to a total breakdown in systems. The extent of transactions at the Lejweleputswa Development Agency, Fezile Dabi District Trust and Metsimaholo Mayoral Trust did not justify the cost of an information systems audit. These municipalities use seven different financial systems and four different payroll systems. These range from off-the-shelf packages (computer packages bought) to customised systems (computer packages bought and modified).

Of the 23 audits conducted as mentioned above, the results of Mafube and Setsoto local municipalities are, however, not included in this report as the regularity audit was not finalised by 31 January 2012, as indicated under section 2.1.3 of this report.

Two municipal entities were audited, both of which use an off-the-shelf and customised system for financial management and payroll management.

The management and support of these financial and payroll systems are depicted in the figure below.



### 4.3.2 Summary of overall IT weaknesses

IT management of financial systems was evaluated at 17 municipalities, four district municipalities and two municipal entities within the province. All the auditees had findings arising from the audit of the focus areas below, except for the Fezile Dabi District Municipality, which did not have security management findings. Key areas in the management of IT where weaknesses were identified are summarised in the following table:

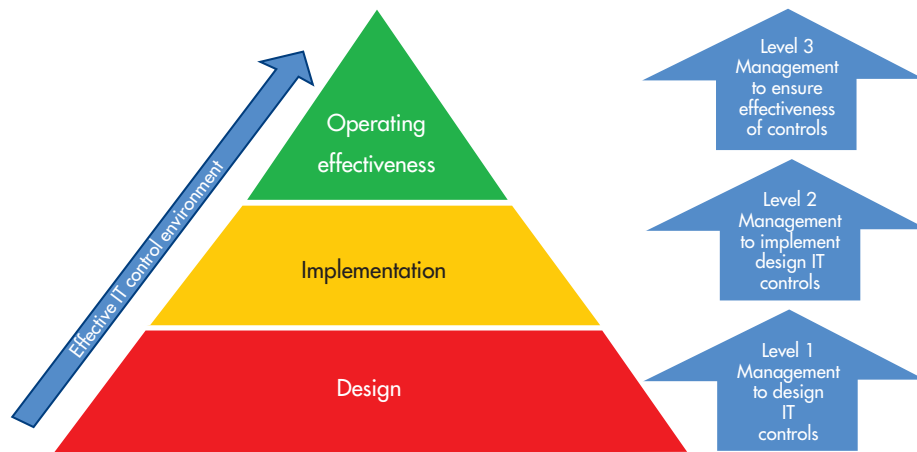
**Table 36: Summary of IT control weaknesses**

Focus area	Outline of aspects audited	Incidence of control weaknesses identified					
		Municipalities			Municipal entities		
		Number audited	Number with weaknesses	%	Number audited	Number with weaknesses	%
<b>IT governance</b>	The structures, policies and process through which the auditees ensure that IT is in line with the business requirements. Key focus was on the management of service level agreements.	21	21	100%	2	2	100%
<b>Security management</b>	Controls that prevent unauthorised access to the networks, operating systems and application systems that generate and prepare financial information.	21	20	95%	1	1	100%
<b>User access management</b>	Procedures through which the auditees ensure that only valid, authorised users are allowed segregated access to initiate and approve transactions on the system.	21	21	100%	1	1	100%
<b>IT service continuity</b>	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.	21	21	100%	2	2	100%



### 4.3.3 Analysis of IT control weaknesses identified in table 36 above

During the review of the IT control environment, the weaknesses were categorised into 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 and continuously over a period.



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

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

**Control implementation:** Although some of the municipalities have designed key controls, they are still experiencing difficulty in implementing them and ensuring that they remain effective throughout the year.

**Control operating effectiveness:** A number of municipalities have made progress in designing and implementing controls. A great effort will be required to ensure that these function effectively throughout the period under review.

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

Figure 21: Drivers of IT control weaknesses

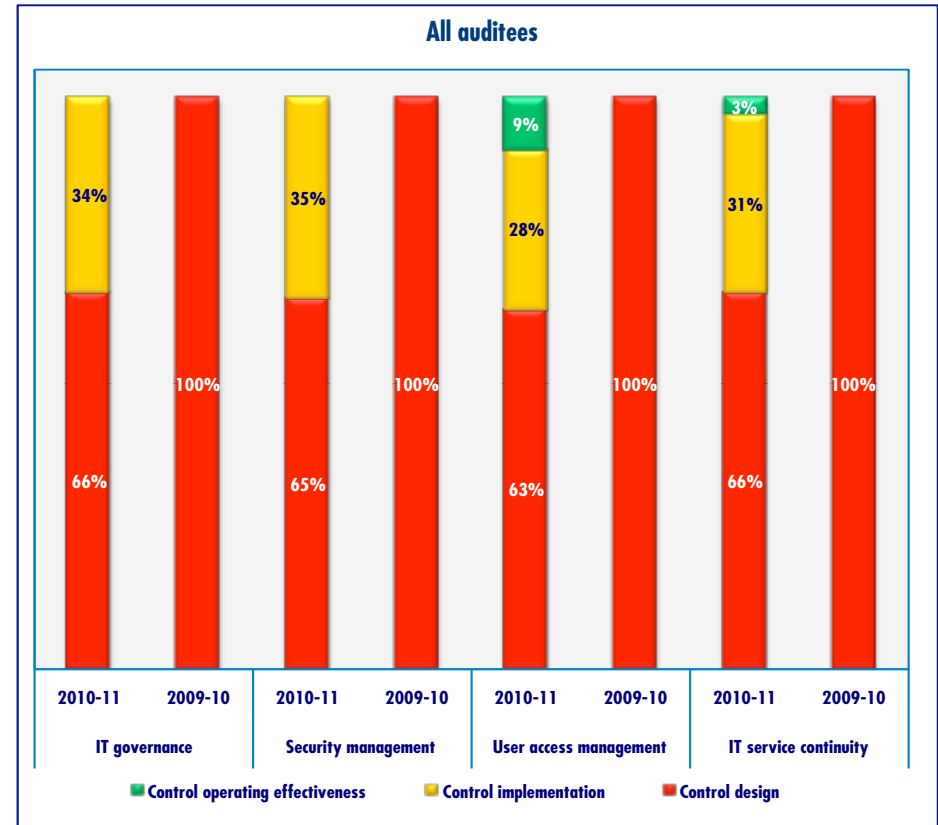


Figure 22: Status of management commitment implemented to address IT weaknesses

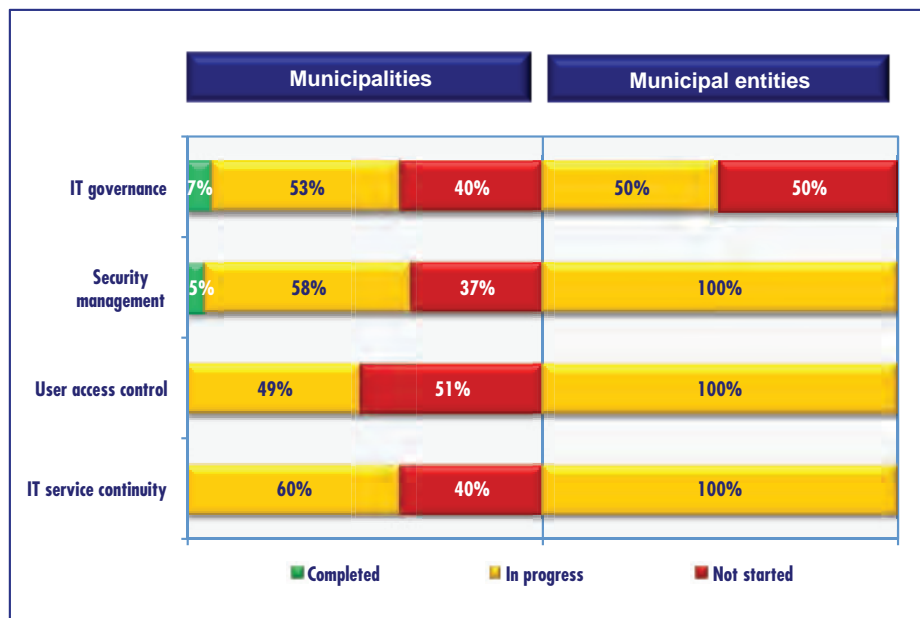


Figure 22 above measures management's implementation of the commitments made during the 2009-10 financial year to address IT weaknesses. Some progress has been made in addressing the previous year's weaknesses, with the majority of municipalities assessed as being in the process of implementing IT controls. During 2009-10 some municipalities had not submitted their commitments, which resulted in little progress being made in addressing weaknesses and hence the intervention required.

Four municipalities had not submitted their management commitments for 2010-11.

Table 37: Summary of significant IT weaknesses in the 2010-11 financial year

IT focus areas	Significant IT weaknesses
IT governance	Risk management not encompassing IT risk management. Service level agreements (SLAs) not entered into with service providers resulting in a lack of proper contracts governing relations with third parties. Seven auditees (Setsoto, Mafube, Nketoana, Matjhabeng, Kopanong and Thabo Mofutsanyana Local Municipality as well as Maluti-A-Phofung Water) appointed service providers to assist them with IT-related services. These services were not monitored and SLAs were not in place, notwithstanding approximately R3,3 million being paid to these auditees. IT governance frameworks not established.
Security management	No formally documented and approved IT security policy or inadequate IT security policy. No operating system, security standards and procedures. Inadequate logical security parameter settings on servers.
User account management	Formal user account management policies and procedures have not been designed and, where they had been designed, have not been implemented adequately to ensure their effectiveness. Appropriateness of users' access rights was not periodically reviewed to minimise the risk of inappropriate access. System administrator/controller activities were not monitored. Inadequate segregation of duties.
IT service continuity	No formal continuity plans in place to minimise the impact of a disruption. Inadequate backup procedures. Lack of documented and periodically tested disaster recovery plan (DRP). Backups were not stored off-site.

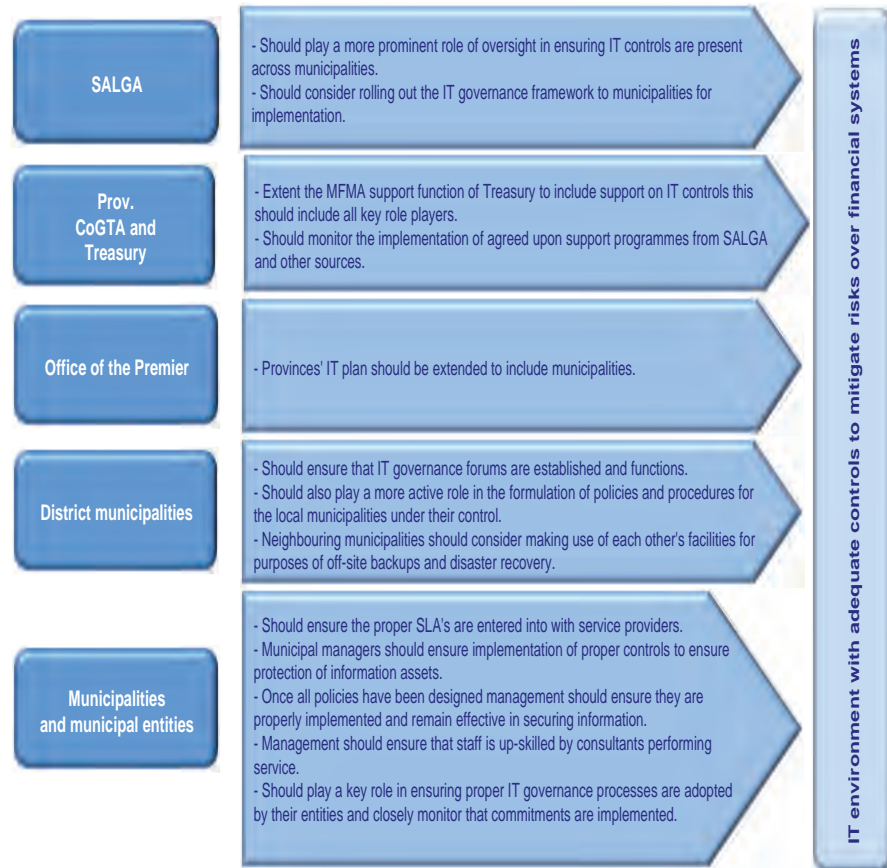
#### 4.3.5 Root causes

The overall root cause is a lack of commitment by management at some municipalities to address all the IT weaknesses raised in the previous year. Four municipalities (Masilonyana, Tokologo, Matjhabeng and Ngwathe Local Municipalities) had not submitted their management commitments for 2010-11 despite repeated requests from the audit team.

In addition, there is a lack of implementation and monitoring of commitments by the leadership. IT is not considered to be of strategic importance at many municipalities, thus resulting in its operations and management being left solely to vendors. This practice, coupled with a lack of SLAs and non-transfer of skills, results in continued reliance on these vendors.



### 4.3.6 Way forward for key role players



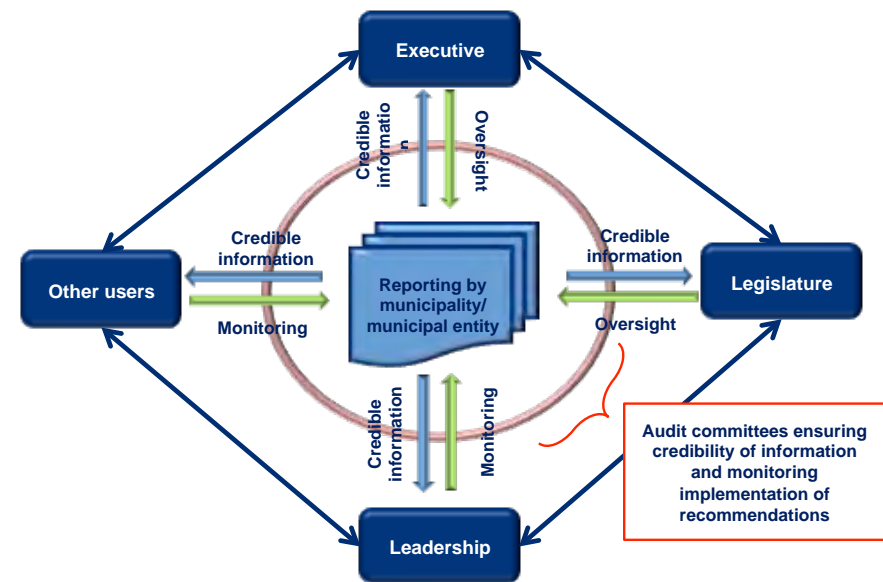
## 4.4 Role of audit committees in promoting clean administration

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 oversee 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 beyond their legally prescribed duties and focus on the intent of legislation. In the public sector this means that audit committees need a level of maturity in order to serve society as a whole.

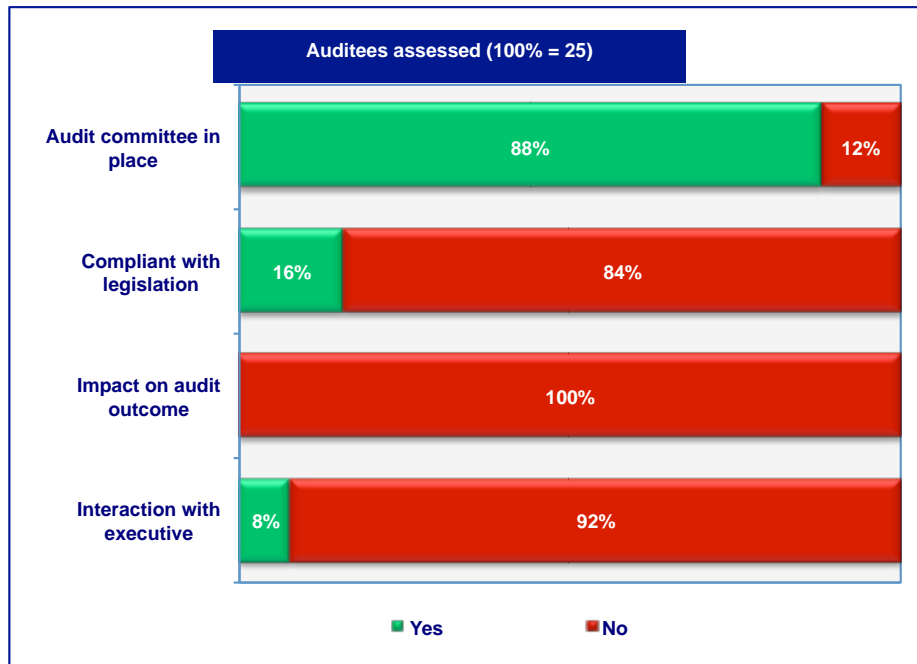
Annexure 10 to this report provides detail on the evaluation of audit committees.

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. The figure below depicts the current status and effectiveness of audit committees in the province.

Figure 24: Effectiveness of audit committees



All auditees had audit committees in place except for Matjhabeng, Ngwathe and Phumelela local municipalities. Where audit committees were in place, these were not functioning effectively as they did not review the credibility of monthly and quarterly reports before submitting them to the council. The annual financial statements were also not adequately reviewed or were not reviewed at all. We noted that in a number of instances the documentation was provided to the audit committees on the day of the meeting, which hampered effective oversight.

Audit committees also failed to comply with MFMA requirements, as they did not advise the municipal council, the accounting officer, the management staff of the municipality, or the board of directors for municipal entities on matters relating to:

- internal financial control and internal audits
- risk management
- accounting policies

- the adequacy, reliability and accuracy of financial reporting and information
- performance management
- effective governance.

Furthermore, it is the implementation of recommendations rather than the recommendation as such that drives improved systems of internal control, monitoring and supervision and, ultimately, improved outcomes. Currently recommendations from the audit committees are not monitored and implemented.

#### Way forward/recommendations

- Audit committees should comply with section 166 of the MFMA in all instances.
- Audit committees should be composed of experts with the necessary skills and knowledge of all activities of the municipality, such as being technically acquainted with engineering, finance, strategic and corporate services.
- The audit committees should regularly review the validity, accuracy and completeness of all monthly, quarterly and annual financial, performance and compliance reports and the chairperson should report to the mayor to provide assurance on the credibility of information.
- Audit committees should effectively use the Free State audit committee forum to learn from and share best practices with other audit committee members.

Details on the evaluation of audit committees are contained in annexure 10.

The role of the audit committees becomes even more important as the Free State is one of the provinces without municipal public accounts committees (MPACs). There had also not been any SCOPA resolutions for the past two years, which contributed to municipalities not acting on poor audit outcomes.



#### 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 38: Assessment of monitoring capacity of key provincial role players to address audit outcomes at the time of the audit**

		Assessment of impact of provincial role player plans and initiatives on current year audit outcomes								
		Areas of focus and where support/intervention was required								
Role players		SCM	PDOs	Financial management	Turnaround plans	IT controls	Human resource management	Use of consultants	Municipalities under administration	Governance structures
Oversight accountability	Premier									
	MEC Finance									
	MEC Local government									
	Provincial Treasury									
	Provincial CoGTA									
	Portfolio committee on CoGTA									
	Legislature									
	SCOPA									
		Accounting officers, accounting authorities, CFOs and senior officials								
		Administrative accountability								

No significant identified impact on 2010-11 outcomes

Some impact on 2010-11 outcomes

Not within mandate or direct sphere of influence of role player

The numerous prior year commitments as listed in table 39 below did not yield the desired results. This was mainly due to commitments not being coordinated between the stakeholders and a general lack of municipal leadership commitment to implement and monitor initiatives. Irrespective of the provincial treasury's initiatives relating to, amongst others, SCM and IT, no improvement was evident at auditees. Nala has been under administration for the past three years up to 30 September 2011. Despite this, there was no improvement in their financial administration and no noticeable attempts were made to recover debtors. Masilonyana was under administration for the last number of years. A slight reduction in audit findings was noticed, but the overall audit outcome remained unchanged.

Stakeholders recommitted and, where necessary, adjusted their action plans in order to improve audit outcomes by 2014.

The Free State Province is the only province where MPACs have not been established. This hinders the process of ensuring accountability for audit outcomes. The councils are also not in a position to rely on the MPACs to provide assurance on the credibility of information submitted to the councils for consideration.

The legislature also had no impact on the local government outcomes, as the provincial portfolio committees did not monitor the impact of initiatives taken by the provincial treasury and CoGTA.









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

This general report concludes by providing details of commitments received from the provincial leadership and other role players in response to the 2010-11 audit outcomes. The AGSA's ongoing 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 39: 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
<b>Premier</b>									
1	A team of highly competent people will be appointed in the province to provide support to municipalities, this includes a person on chief-director level to oversee municipalities within the provincial treasury. This will be complemented by a joint team to be established between CoGTA and provincial treasury to support municipalities and to monitor the implementation of action plans by municipalities.								
2	The premier committed to ensure that a hand-on approach is followed by all leaders on all levels and he also committed to ensure that the right leadership tone is set in the province.								
3	Training on role clarification for mayors, municipal managers and chief financial officers will be presented.								
4	The premier will possibly redeploy mayors of municipalities with good outcomes to problem municipalities.								
5	Actions needs to be taken against officials where the municipality continues to receive disclaimers								
6	The councils need to act on all forensic reports issued								
7	The councils need to ensure that all positions are filled with competent staff								
8	The appointment of specialised focus groups consisting of experts in municipal finance and governance to assist auditees with financial and non-financial administration. These focus groups will be appointed at specific municipalities for periods longer than two years.								

**Outline of role player commitment/proposed action plans March 2012**

**Focus areas targeted by commitments and action plans**

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
<b>MEC Finance</b>										
1	The MEC: Finance envisaged possible financial support to struggling municipalities during the next budget cycle.									
2	Will conduct sessions with councillors of individual municipalities and obtain their recommitment to achieve the 2014 clean audit goal.									
3	Provincial treasury will provide guidance on managing and preventing unauthorised, irregular as well as fruitless and wasteful expenditure.									
4	The MEC: Finance urged the mayors and municipal managers to ensure continuous compliance with policies and procedures prior to any approvals									
<b>MEC Local Government</b>										
1	Engagements are envisaged on national level to clarify the role of SALGA.									
2	MEC will intervene on municipalities that are not performing and will implement consequences for poor performance.									
3	Visits to the municipalities to assess the progress in achieving clean audit outcomes and to determine the need for support.									
4	MEC to deploy financial and engineering experts at certain municipalities.									
5	MEC to develop a tool to monitor progress emanating from the objectives outlined in the IDP and the national turnaround strategy.									
6	MEC to coordinate her efforts with that of the Public Accounts Committee to monitor the implementation of their resolutions.									



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
<b>Provincial treasury</b>										
1	An orientation workshop will be presented to incoming councillors after the local government elections scheduled for May 2011 with special emphasis on the importance of the correct leadership tone.									
2	Basic key controls, record management/filing system will be monitored quarterly by provincial treasury.									
3	Provincial treasury will workshop finance unit at the municipalities to use financial systems optimally.									
4	Provide assistance to the municipalities with the clearing and verifying of amounts owed by provincial departments to municipalities.									
5	Development and roll out of a revenue guide to enhance revenue collection.									
6	Treasury will assist municipalities to focus on the basics by developing key performance indicators on accounting, specifically SCM by 1 April 2012.									
7	Implementation of checklists to ensure that reconciliations and basic daily controls are performed.									
8	Strengthen the role of the internal audit unit by assisting the units to develop risk-based audit plans.									
9	Provide training to CFOs on fulfilling their roles and responsibilities.									

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
<b>CoGTA</b>										
1	Interaction with Councils in conjunction with AGSA to inform and empower them as to their functions as well as the oversight role they need to play with regard to accurate and timely financial statements, formulation and implementation of policies and procedures and making sure Mayors, CFOs and MMs are properly capacitated and performance-managed.									
2	HoD- CoGTA will place Masilonyana Local municipality under administration.									
3	Training will be provided to audit committees on their roles and responsibilities.									
4	Assist leadership to ensure that critical vacancies are filled with competent and skilled candidates.									
5	Engagement with leadership to ensure the right tone at the top and monitor implementation of the five point key controls plan.									
6	To ensure that leadership investigate each instance of irregular expenditure and take appropriate action to determine responsibility and to recover funds.									
7	To enhance oversight role of leadership to ensure that CFOs are held accountable for submitting information that is not credible.									
8	All role players will coordinate efforts to compile an appropriate action plan to address all IT deficiencies on local government level.									
9	To provide leadership with clear guidance on performance management system.									
10	To ensure that Mayors actively perform their monitoring role and implement corrective action continuously.									
<b>Public accounts committee</b>										
1	Will conduct quarterly public hearings at the district level and promote public participation.									
2	Involve the HAWKS and the Public Protector, where necessary.									
3	Quarterly meetings with the AGSA to discuss the implementation of the five-point key control plan and arrange hearings with municipalities where intervention is required.									
<b>SALGA</b>										
1	SALGA and CoGTA to determine the competency levels of the various CFO's and also assist at the municipalities where CFO's are being recruited and interviewed. At municipalities where CFO's are found incompetent SALGA will assist with the performance management of the individual.									
2	SALGA will liaise with Provincial Treasury and CoGTA to promote knowledge sharing on the challenges of municipalities.									
	Post-audit commitment/ initiative (new)									
										Commitment/ initiative from prior year



The impact of and reasons for prior year commitments not having the desired results are reflected in table 39 above. New initiatives and a coordinated approach will strengthen prior year commitments and should lead to improved audit results by 2014.

## 5.2 AGSA initiatives to encourage clean administration

Our engagement focused on sustaining a relationship with all role players that can influence clean administration. The AGSA implemented the following initiatives in assisting auditees in their drive towards clean administration:

- The visibility of the AGSA's senior leadership and the executive leadership in the province and continuous interaction with management, leadership and the provincial treasury was strengthened to highlight possible challenges, audit findings and transversal risks.
- Quarterly interactions with the CFOs, municipal managers, mayors and internal audit units to evaluate key controls and assess the impact and corrective action required.
- Identifying risks and the possible impact thereof. This was also discussed with stakeholders.
- Reviewing action plans to ensure that corrective actions would sufficiently address the root causes identified, and monitoring the progress made on these action plans.
- Participating in the following forums to influence the stakeholders' involvement in driving clean administration:
  - CFO forum
  - Internal audit forum
  - Risk management forum
- District area finance forums (SALGA). Holding weekly trilateral technical committee meetings with the provincial treasury and CoGTA. Early warnings were identified and recommendations were made to the provincial treasury and CoGTA for intervention.
- Participating in an interaction with the mayors and the SALGA working committee on information system audit outcomes and the roles and responsibilities of the leadership in clearing IT deficiencies.
- Hosting induction workshops for new councillors on their roles and responsibilities in performing effective oversight.

## 5.3 Other current and emerging matters that require attention

### 5.3.1 Financial sustainability of auditees

Many municipalities and even municipal entities are experiencing difficulty in maintaining a financially sustainable position. These include matters such as debt collection, payment of creditors, ability to fund operations, and the maintenance of infrastructure. Detailed below are some matters which are highlighted for consideration in this regard. Reporting on this concern will be expanded further 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 nine (33%) auditees [2009-10: 13 (45%)]. The following figure and table depict the extent of such concerns in the province and the main reasons for such concerns.

Figure 25: Auditees with concerns relating to ongoing funding of operations

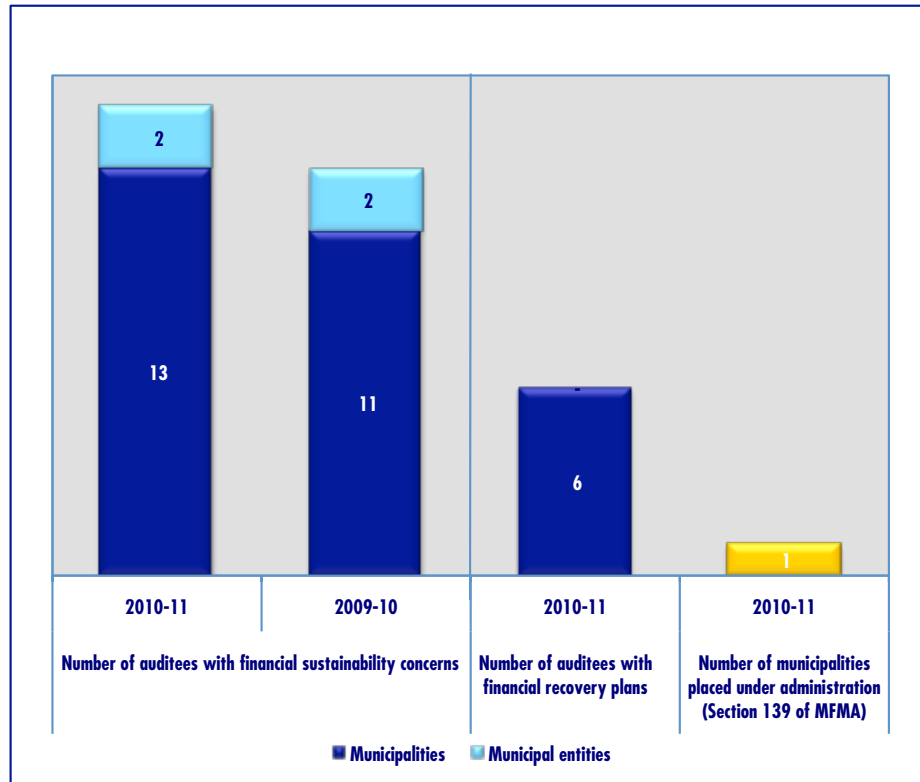


Table 40: Reasons for funding and financial sustainability concerns at auditees

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	Disestablishment of auditee
<b>Municipalities</b>							
Kopanong							
Letsemeng							
Mangaung							
Masilonyana							
Matjhabeng							
Mohokare							
Moghaka							
Motheo							
Naledi							
Ngwathe							
Tokologo							
Tswelopele							
Xhariep							
<b>Municipal entities</b>							
Metsimaholo Mayoral Trust							
Maluti-A-Phofung Water							
<b>Total</b>	<b>9</b>	<b>9</b>	<b>1</b>	<b>10</b>	<b>4</b>	<b>4</b>	<b>3</b>



Of concern is the fact that the majority of the above municipalities take no action to address their sustainability issues. Only six auditees had financial recovery plans. However, these plans were not monitored effectively. They merely rely on conditional grants, while service delivery is not prioritised. Moqhaka and Tswelopele embarked on a debt purification process to update the debtors register, identify all indigent consumers and take action against defaulting consumers.

### Recommendations

All auditees should implement a debtor purification process.

Councillors should motivate their constituencies to pay for services rendered.

The leadership should consider the credibility of information submitted by the municipality to ensure accurate and timely billing for services.

Management should develop and monitor enhanced revenue strategies, including identification of assets for a possible return thereon and effective budget control.

### 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 and manage them constructively.

Table 41: Material losses incurred and impairment of assets

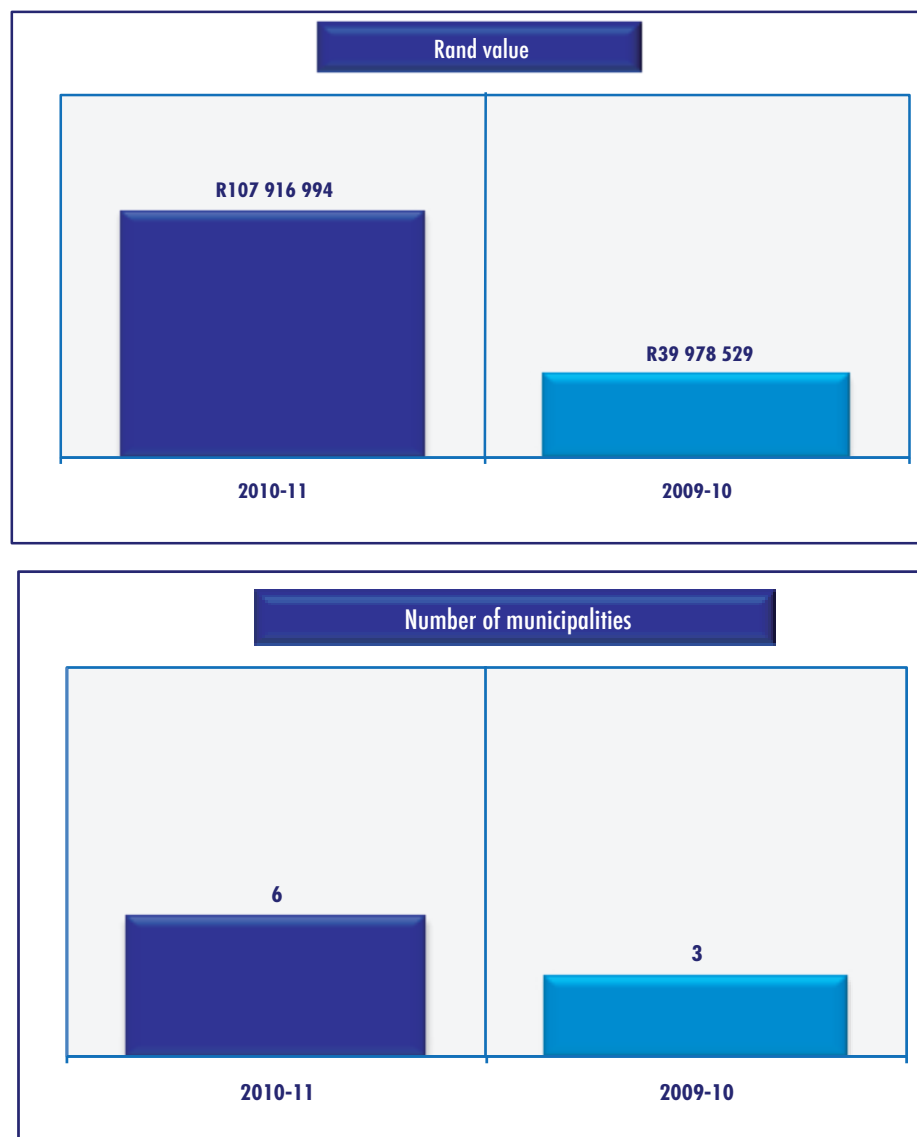
Auditees		Material losses (R'000)	Material impairment of assets (R'000)	Reason(s)
<b>Municipalities</b>				
1	Dihlabeng		230 192	Impairment of debtors
2	Lejweleputswa		8 039	Impairment of debtors
3	Kopanong	18 926		Material losses: Water, electricity and debt written off
			61 029	Impairment of receivables
4	Letsemeng	3 359		Material losses: Water and electricity
			18 440	Impairment of receivables
5	Mangaung	250 199		Material losses: Water
			840 151	Impairment of bad debt, receivables and financial assets
6	Mantsopa	10 314		Material losses: Electricity
7	Masilonyana	2 913		Material losses: Electricity
			164 172	Impairment of receivables
8	Matjhabeng	72 314		Material losses: Water and electricity
			1 058 153	Impairment of receivables
9	Metsimaholo	10 277		Material losses: Inventory, property and actuarial valuation
			10 231	Impairment of receivables
10	Mohokare	8 147		Material losses: Debt written off
			42 167	Impairment of receivables
11	Moqhaka	43 538		Material losses: Water and electricity
			206 400	Impairment of receivables
12	Naledi	18 228		Bad debts written off
			26 767	Impairment of receivables
13	Nketoana		153 446	Impairment of receivables
14	Phumelela		11 720	Impairment of receivables
15	Thabo Mafutsanyana		49 080	Impairment of receivables
16	Tokologo		24 645	Impairment of receivables
17	Tswelopele		22 398	Impairment of debtors
18	Xhariep	4		Loss on sale of asset
			3	Impairment of receivables
<b>Subtotal municipalities</b>		<b>438 219</b>	<b>2 927 033</b>	

Auditees		Material losses (R'000)	Material impairment of assets (R'000)	Reason(s)
<b>Municipal entities</b>				
1	Centlec	131 607		Material losses: Electricity and inventory write off
			122 667	Impairment of receivables
2M	aluti-A-Phofung Water		697	Impairment of receivables
<b>Subtotal municipal entities</b>		<b>131 607</b>	<b>123 364</b>	
<b>Total</b>		<b>569 826</b>	<b>3 050 397</b>	

### 5.3.3 Material underspending of votes and/or conditional grants

Six municipalities (27%) [2009-10: 3 (13%)] underspent their votes and/or conditional grants for the year ended 30 June 2011, as depicted in the following figure. Such 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 26: Material underspending of votes or conditional grants





The lack of accountability for poor performance results in the following:

The leadership not paying enough attention to the budgeting process and the continuous monitoring thereof.

- The lack of capacity at municipalities which hampers service delivery.
- The cash flow situation at certain municipalities which negatively impacts on their ability to carry out projects.

The list of municipalities with material underspending of votes or conditional grants is included in annexure 12 to this report.

#### **5.3.4 Changes expected in the 2011-12 financial year**

The following matters are expected to have an impact across local government in the 2011-12 financial year 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 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 to 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 meet the competency requirements with effect from 1 January 2013.

This means that the requirements are not yet applicable for the financial year 2011-2012 (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:*

Motheo District Municipality was disestablished and merged with Mangaung Local Municipality to form a metro effective from 1 July 2011.

Centlec and Mangaung previously used the same accounting system. Since July 2011 Centlec has used its own accounting system. Due consideration will have to be given to the IT risk as well as the risk of transferring the opening balance from Mangaung to Centlec.









## 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, areas qualified and findings arising from the audit of predetermined objectives

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
<b>District municipalities</b>																			
1	Fezile Dabi District	Financially unqualified with findings		Financially unqualified with findings															
2	Lejweleputswa District	Financially unqualified with findings		Financially unqualified with findings															
3	Motheo District	Financially unqualified with findings		Financially unqualified with findings															
4	Thabo Mofutsanyana District	Financially unqualified with findings		Financially unqualified with findings															
5	Xhariep District	Financially unqualified with findings		Qualified															
<b>Local municipalities</b>																			
6	Dihlabeng	Qualified		Qualified															
7	Kopanong	Disclaimer		Disclaimer															
8	Letsemeng	Disclaimer		Adverse															
9	Mafube	Audit not finalised at legislated date		Disclaimer															
10	Maluti - A - Phofung	Disclaimer		Disclaimer															
11	Mangaung	Disclaimer		Disclaimer															
12	Mantsopa	Qualified		Qualified															



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	
<b>Local municipalities</b>																				
13	Masilonyana	Disclaimer		Disclaimer																
14	Matjhabeng	Disclaimer		Disclaimer																
15	Metsimaholo	Disclaimer		Disclaimer																
16	Mohokare	Disclaimer		Disclaimer																
17	Moqhaka	Disclaimer		Disclaimer																
18	Nala	Audit not finalised at legislated date		Audit not finalised at legislated date																
19	Naledi	Disclaimer		Disclaimer																
20	Ngwathe	Disclaimer		Disclaimer																
21	Nketoana	Financially unqualified with findings		Qualified																
22	Phumelela	Adverse		Disclaimer																
23	Setsotho	Audit not finalised at legislated date		Qualified																
24	Tokologo	Disclaimer		Disclaimer																
25	Tswelopele	Qualified		Qualified																

## ANNEXURE 1: Auditees' audit outcomes, areas qualified and findings arising from the audit of predetermined objectives

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
<b>Municipal entities</b>																		
26	Centlec (Pty) Ltd	Disclaimer		Disclaimer														
27	Fezile Dabi District Municipality Trust	Financially unqualified with no findings		Disclaimer														
28	Krynaauwlust Farming Trust (Pty) Ltd	Audit not finalised at legislated date		Audit not finalised at legislated date														
29	Lejwe Le Putswa Development Agency (Pty) Ltd	Financially unqualified with findings		Financially unqualified with findings														
30	Maluti-A-Phofung Water (Pty) Ltd	Qualified		Disclaimer														
31	Metsimaholo Mayoral Trust	Qualified		Qualified														



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

No.	Auditee	2010-11	2009-10	2008-09	2007-08	2006-07
<b>District municipalities</b>						
1	Fezile Dabi District	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified
2	Lejweleputswa District	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified	Qualified
3	Motheo District	Financially unqualified with findings	Financially unqualified with findings	Qualified	Disclaimer	Qualified
4	Thabo Mofutsanyana District	Financially unqualified with findings	Financially unqualified with findings	Disclaimer	Disclaimer	Disclaimer
5	Xhariep District	Financially unqualified with findings	Qualified	Disclaimer	Disclaimer	Disclaimer
<b>Local municipalities</b>						
6	Dihlabeng	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
7	Kopanong	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Qualified
8	Letsemeng	Disclaimer	Adverse	Disclaimer	Disclaimer	Disclaimer
9	Maluti - A - Phofung	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
10	Mangaung	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
11	Mantsopa	Qualified	Qualified	Disclaimer	Qualified	Qualified
12	Masilonyana	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
13	Matjhabeng	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
14	Metsimaholo	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Qualified
15	Mohakare	Disclaimer	Disclaimer	Adverse	Disclaimer	Disclaimer
16	Moqhaka	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
17	Naledi	Disclaimer	Disclaimer	Adverse	Disclaimer	Disclaimer
18	Ngwathe	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
19	Nketoana	Financially unqualified with findings	Qualified	Disclaimer	Disclaimer	Disclaimer
20	Phumelela	Adverse	Disclaimer	Disclaimer	Disclaimer	Disclaimer
21	Tokologo	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
22	Tswelopele	Qualified	Qualified	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
<b>Municipal entities</b>						
23	Centlec (Pty) Ltd	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
24	Fezile Dabi District Municipality Trust	Financially unqualified with no findings	Disclaimer	Disclaimer	Disclaimer	Not established
25	Lejweleputswa Development Agency	Financially unqualified with findings	Financially unqualified with findings	Disclaimer	Adverse	Disclaimer
26	Maluti - A - Phofung Water	Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer
27	Metsimaholo Mayoral Trust	Qualified	Disclaimer	Disclaimer	Disclaimer	Disclaimer

### ANNEXURE 3: Auditees with material misstatements in financial statements submitted for audit

Number	Auditee	No material misstatements	All corrected	Some corrected	None corrected
<b>District municipalities</b>					
1	Fezile Dabi District				
2	Lejweleputswa District				
3	Motheo District				
4	Thabo Mofutsanyana District				
5	Xhariep District				
<b>Local municipalities</b>					
6	Dihlabeng				
7	Kopanong				
8	Letsemeng				
9	Maluti - A - Phofung				
10	Mangaung				
11	Mantsopa				
12	Masilonyana				
13	Matjhabeng				
14	Metsimaholo				
15	Mohokare				
16	Moqhaka				
17	Naledi				
18	Ngwathe				
19	Nketoana				
20	Phumelela				



Number	Auditee	No material misstatements	All corrected	Some corrected	None corrected
21	Tokologo				
22	Tswelopele				
<b>Municipal entities</b>					
23	Centlec (Pty) Ltd				
24	Maluti-A-Phofung Water (Pty) Ltd				
25	Lejweleputswa Development Agency				
26	Fezile Dabi District Municipality Trust				
27	Metsimaholo Mayoral Trust				
		<b>1</b>	<b>7</b>	<b>15</b>	<b>4</b>

## ANNEXURE 4: Auditees making use of consultants

Number	Auditee	Consultant appointed	Reason			Impact		Consultant cost R	Consultant appointed by CoGTA	
			Lack of necessary technical skills	Vacancies	Other	Reduction in misstatements	Consultant skills transfer			
<b>District municipalities</b>										
1	Fezile Dabi District	Yes						257 014		Progress made
2	Lejweleputswa District	Yes						832 601		In progress
3	Motheo District	Yes						864 120		Improvement required
4	Thabo Mofutsanyana District	Yes						0	Yes	
5	Xhariep District	Yes						580 000		
<b>Local municipalities</b>										
6	Dihlabeng	Yes						1 768 037		
7	Kopanong	Yes						1 710 000		
8	Letsemeng	Yes						1 500 000		
9	Maluti - A - Phofung	Yes						1 494 501		
10	Mangaung	Yes						4 791 497		
11	Mantsopa	Yes						1 640 860		
12	Masilanyana	Yes						450 000		
13	Matjhabeng	Yes						1 424 000		
14	Metsimaholo	No						0		
15	Mohokare	Yes						550 000		
16	Moqhaka	Yes						0	Yes	
17	Naledi	Yes						699 218		



Number	Auditee	Consultant appointed	Reason			Impact		Consultant cost R	Consultant appointed by CoGTA		
			Lack of necessary technical skills	Vacancies	Other	Reduction in misstatements	Consultant skills transfer				
18	Ngwathe	Yes						57 000		Progress made	
19	Nketoana	Yes						725 446		In progress	
20	Phumelela	Yes						7 141 255		Improvement required	
21	Tokologo	Yes						509 381			
22	Tswelopele	Yes						304 939			
<b>Municipal entities</b>											
23	Centlec (Pty) Ltd	Yes						4 770 311			
24	Fezile Dabi District Municipality Trust	No						0			
25	Lejwe Le Putswa Development Agency (Pty) Ltd	Yes						34 300			
26	Maluti-A-Phofung Water (Pty) Ltd	Yes						160 466			
27	Metsimahalo Mayoral Trust	No						0			
								<b>Total</b>	<b>32 264 946</b>		





Number	Auditee	Leadership												Financial and performance												Governance																	
		Effective leadership culture			Oversight responsibility			HR management			Policies & procedures			Action plans			IT governance			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system 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	F	P	C
20	Phumelela	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
21	Tokologo	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
22	Tswelopele	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
<b>Municipal entities</b>																																											
23	Centlec (Pty) Ltd	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
24	Lejwe Le Putswa Development Agency (Pty) Ltd	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
25	Maluti-A-Phofung Water (Pty) Ltd	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
26	Fezile Dabi District Municipality Trust *	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C
27	Metsimaholo Mayoral Trust *	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C	F	P	C

\* Reporting on performance information is not applicable at these two entities and was therefore not evaluated

## ANNEXURE 6: Auditees with findings related to compliance with laws and regulations

Number	Auditee	Areas of non-compliance												
		Annual financial statements, performance report and annual report	Asset management	Audit committees	Budgets	Expenditure management	Financial misconduct	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Other	Procurement and contract management	HR management and compensation
<b>District municipalities</b>														
1	Fezile Dabi District													
2	Lejweleputswa District													
3	Motheo District													
4	Thabo Mofutsanyana District													
5	Xhariep District													
<b>Local municipalities</b>														
6	Dihlabeng													
7	Kopanong													
8	Letsemeng													
9	Maluti-A-Phofung													
10	Mangaung													
11	Mantsopa													
12	Masilonyana													
13	Matjhabeng													
14	Metsimaholo													
15	Mohokare													



Number	Auditee	Areas of non-compliance												
		Annual financial statements, performance report and annual report	Asset management	Audit committees	Budgets	Expenditure management	Financial misconduct	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Other	Procurement and contract management	HR management and compensation
16	Maqhaka													
17	Naledi													
18	Ngwathe													
19	Nketoana													
20	Phumelela													
21	Tokologo													
22	Tswelopele													
<b>Municipal entities</b>														
23	Centlec (Pty) Ltd													
24	Lejwe Le Putswa Development Agency (Pty) Ltd													
25	Maluti-A-Phofung Water (Pty) Ltd													
26	Fezile Dabi District Municipality Trust													
27	Metsimahalo Mayoral Trust													
		<b>26</b>	<b>13</b>	<b>21</b>	<b>18</b>	<b>24</b>	<b>2</b>	<b>17</b>	<b>14</b>	<b>17</b>	<b>5</b>	<b>24</b>	<b>22</b>	<b>12</b>

## ANNEXURE 7: Auditees with findings on unauthorised, irregular, and fruitless and wasteful expenditure as well as material losses and impairment of assets

		Unauthorised expenditure				Irregular expenditure			
		Nature				Nature			Total R
		Overspending	Not in accordance with purpose/condition	Expenditure unrelated to functional area (MFMA only)	Non-permissible grant (MFMA only)	Supply chain management-related R	Compensation of employees related R	Irregular expenditure – other R	
<b>District municipalities</b>									
2	Fezile Dabi District Municipality				0	351 672		85 428	437 100
3	Lejweleputswa District Municipality	617 980			617 980	1 241 889	1 969 582		3 211 471
4	Motheo District Municipality				0	340 939	1 245 548	100 000	1 686 486
5	Thabo Mofutsanyane District Municipality				0	8 233 930	196 668		8 430 598
6	Xhariep District Municipality	3 604 257			3 604 257	12 048 766			12 048 766
<b>Local municipalities</b>									
6	Ditlhabeng Local Municipality	159 253 174			159 253 174	16 389 077			16 389 077
7	Kopanong Local Municipality	15 915 342			15 915 342	39 745 847			39 745 847
8	Letsemeng Local Municipality	4 877 820			4 877 820	23 165 516	140 917		23 306 433
9	Maluti - A - Phofung Local Municipality	165 162 000			165 162 000	35 799 696	156 288		35 955 984
10	Mangaung Local Municipality	67 711 892			67 711 892	134 391 609			134 391 609
11	Mantsopa Local Municipality	41 791 702			41 791 702	4 919 105			4 919 105
12	Masilonyana Local Municipality	9 562 597			9 562 597	32 185 478		115 651	32 301 129
13	Matjhabeng Local Municipality	619 645 905			619 645 905	182 919 759	3 230 992		186 150 751
14	Metsimaholo Local Municipality	16 822 590	1 852 001		18 674 591	29 042 811	62 678		29 105 489
15	Mohokare Local Municipality	15 118 443			15 118 443	62 768 280			62 768 280
16	Moqhaka Local Municipality	32 132 650			32 132 650	61 579 270			61 579 270
17	Naledi Local Municipality - FS				0	1 285 733			1 285 733



Fruitless and wasteful expenditure			Total per auditee	Material losses, impairments and underspending				Other financial information				
Nature		Total		Material losses	Material impairment of assets	Material under-spending of vote	Material underspending of conditional grant	Capital assets total	Current assets total	Liabilities total	Revenue total	Expenditure total
Supply chain management	Other											
		0	437 100					22 492 430	210 491 557	118 416 734	136 073 786	126 895 435
	27 128	27 128	3 856 579		8 039 390			89 933 757	47 415 253	34 619 852	97 177 349	99 934 390
127 500	1 034 515	1 162 015	2 848 501				1 362 971	9 892 085	82 055 359	10 086 160	161 718 864	130 554 974
	29 947	29 947	8 460 545		49 079 862	11 434 239		8 081 605	23 232 644	30 425 236	65 875 185	54 814 710
	56 107	56 107	15 709 130	4 148	3 040			20 845 616	16 688 347	6 438 778	45 264 547	37 396 868
	1 670 934	1 670 934	177 313 185		230 192 284			1 897 234 226	57 875 480	248 408 263	427 181 190	534 880 605
910 000	2 711 815	3 621 815	59 283 004	18 925 720	61 029 399			362 142 160	34 285 484	75 144 449	184 951 607	152 619 181
118 895	57 417	176 312	28 360 565	3 359 169	18 439 822			170 705 933	25 740 521	28 197 382	89 052 579	80 504 809
1 859 521	326 948	2 186 469	203 304 453				15 496 794	877 848 395	257 352 009	257 919 522	855 971 038	733 976 841
	11 836 142	11 836 142	213 939 643	250 198 998	840 151 337			3 928 890 075	550 651 975	1 567 274 323	2 210 510 012	1 806 039 712
	87 768	87 768	46 798 575	10 314 183				449 285 045	5 985 395	57 160 857	163 790 299	173 433 322
70 744	686 224	756 968	42 620 694	2 913 461	164 171 676			429 342 639	25 255 199	90 760 399	176 507 783	125 782 512
8 859 532	32 153 472	41 013 003	846 809 659	72 313 622	1 058 152 505			1 109 719 406	175 354 035	755 368 404	1 521 082 694	1 487 578 663
40 088	318 086	358 174	48 138 254	10 276 597	10 231 346			846 416 751	223 911 340	193 480 742	517 487 932	498 052 300
	4 951 550	4 951 550	82 838 273	8 146 803	42 166 847		12 487 503	185 965 129	27 727 062	50 339 381	101 750 443	95 360 935
	6 599 347	6 599 347	100 311 267	43 537 967	206 400 287			1 164 379 277	71 112 263	207 745 480	409 261 680	420 665 735
592 351	3 155 201	3 747 552	5 033 285	18 228 343	26 766 671			174 454 068	18 369 236	62 564 873	75 346 193	87 454 726

## ANNEXURE 7: Auditees with findings on unauthorised, irregular, and fruitless and wasteful expenditure as well as material losses and impairment of assets

		Unauthorised expenditure				Irregular expenditure				
		Nature				Nature			Total R	
		Overspending	Not in accordance with purpose/condition	Expenditure unrelated to functional area (MFMA only)	Non-permissible grant (MFMA only)	Supply chain management-related R	Compensation of employees related R	Irregular expenditure – other R		
18	Ngwathe Local Municipality					0	10 908 862	33 333	571 799	11 513 994
19	Nketoana Local Municipality	91 976 261				91 976 261	7 642 643			7 642 643
20	Phumelela Local Municipality	19 945 202				19 945 202	39 315 083			39 315 083
21	Tokologo Local Municipality	32 329 251				32 329 251	30 601 348	68 048		30 669 396
22	Tswelopele Local Municipality	1 469 036				1 469 036	280 969			280 969
<b>Municipal entities</b>										
23	Centlec (Pty) Ltd					0	40 337 914			40 337 914
24	Fezile Dabi DM Trust					0				0
25	Lejweleputswa Development Agency					0				0
26	Maluti-A-Phofung Water					0	7 358 657			7 358 657
27	Metsimaholo Mayoral Trust					0				0
<b>Total</b>						<b>1 299 788 103</b>				<b>790 831 784</b>



Fruitless and wasteful expenditure			Total per auditee	Material losses, impairments and underspending				Other financial information				
Nature		Total		Material losses	Material impairment of assets	Material underspending of vote	Material underspending of conditional grant	Capital assets total	Current assets total	Liabilities total	Revenue total	Expenditure total
Supply chain management	Other											
1 699 512	5 641 205	7 340 717	18 854 711				64 815 049	154 153 767	595 397 354	173 947 766	337 174 182	294 327 307
36 421		36 421	99 655 325		153 446 038			700 508 882	56 583 994	45 281 954	165 919 390	219 488 261
	159 138	159 138	59 419 423		11 719 645			221 948 774	26 732 680	52 783 580	117 499 535	77 758 196
690 925	141 527	832 452	63 831 099		24 644 541			222 716 030	24 444 988	28 003 314	103 459 225	80 169 505
		0	1 750 005		22 397 915		2 320 438	470 099 492	19 455 281	38 828 981	98 535 043	113 140 463
99 393	29 017 601	29 116 994	69 454 908	131 606 951	122 667 100			2 671 445 846	661 524 901	1 158 953 272	1 261 072 695	1 373 968 145
		0	0									
		0	0					59 670	3 333 170	827 424	4 743 466	2 022 286
	83 731	83 731	7 442 388		697 472			2 401 283	28 572 163	72 603 020	97 094 591	104 111 161
		0	0									
		<b>115 850 684</b>	<b>2 206 470 571</b>									

## ANNEXURE 8: Auditees with key 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
<b>District municipalities</b>							
1	Fezile Dabi District						
2	Lejweleputswa District						
3	Motheo District						
4	Thabo Mofutsanyana District						
5	Xhariep District						
<b>Local municipalities</b>							
6	Dihlabeng						
7	Kopanong						
8	Letsemeng						
9	Maluti - A - Phofung						
10	Mangaung						
11	Mantsopa						
12	Masilanyana						
13	Matjhabeng						
14	Metsimaholo						
15	Mohokare						
16	Moqhaka						
17	Naledi						
18	Ngwathe						
19	Nketoana						
20	Phumelela						



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
21	Tokologo						
22	Tswelopele						
<b>Municipal entities</b>							
23	Centlec (Pty) Ltd						
24	Maluti-A-Phofung Water (Pty) Ltd						
25	Lejweleputswa Development Agency						
26	Fezile Dabi District Municipality Trust						
27	Metsimaholo Mayoral Trust						

## ANNEXURE 9: Auditees with key findings arising from the audit of human resource management

Number	Auditee	Acting positions	Appointment processes	Competencies of key personnel	HR planning and organisation	Leave administration	Management of vacancies	Overtime	Performance management	Suspensions
<b>District municipalities</b>										
1	Fezile Dabi District									
2	Lejweleputswa District									
3	Motheo District									
4	Thabo Mofutsanyana District									
5	Xhariep District									
<b>Local municipalities</b>										
6	Dihlabeng									
7	Kopanong									
8	Letsemeng									
9	Maluti - A - Phofung									
10	Mangaung									
11	Mantsopa									
12	Masilanyana									
13	Matjhabeng									
14	Metsimaholo									
15	Mohokare									
16	Moqhaka									
17	Naledi									



Number	Auditee	Acting positions	Appointment processes	Competencies of key personnel	HR planning and organisation	Leave administration	Management of vacancies	Overtime	Performance management	Suspensions
18	Ngwathe									
19	Nketoana									
20	Phumelela									
21	Tokologo									
22	Tswelopele									
<b>Municipal entities</b>										
23	Centlec (Pty) Ltd									
24	Maluti-A-Phofung Water (Pty) Ltd									

## ANNEXURE 10: Evaluation of audit committees

Number	Auditee	Audit committees			
		Audit committee in place	Compliant with legislation	Impact on outcome	Interaction with executive
<b>District municipalities</b>					
1	Fezile Dabi District	Green	Red	Red	Red
2	Lejweleputswa District	Green	Red	Red	Red
3	Motheo District	Green	Green	Red	Red
4	Thabo Mofutsanyana District	Green	Red	Red	Red
5	Xhariep District	Green	Red	Red	Red
<b>Local municipalities</b>					
6	Dihlabeng	Green	Red	Red	Red
7	Kopanong	Green	Red	Red	Red
8	Letsemeng	Green	Red	Red	Red
9	Maluti - A - Phofung	Green	Green	Red	Red
10	Mangaung	Green	Red	Red	Green
11	Mantsopa	Green	Green	Red	Green
12	Matjhabeng	Red	Red	Red	Red
13	Metsimaholo	Green	Red	Red	Red
14	Mohokare	Green	Red	Red	Red
15	Moqhaka	Green	Red	Red	Red
16	Naledi	Green	Red	Red	Red
17	Ngwathe	Red	Red	Red	Red
18	Nketoana	Green	Red	Red	Red
19	Phumelela	Red	Red	Red	Red
20	Tokolologo	Green	Red	Red	Red



Number	Auditee	Audit committees			
		Audit committee in place	Compliant with legislation	Impact on outcome	Interaction with executive
21	Masilonyana				
22	Tswelopele				
<b>Municipal entities</b>					
23	Centlec (Pty) Ltd				
24	Lejwe Le Putswa Development Agency (Pty) Ltd				
25	Maluti-A-Phofung Water (Pty) Ltd				

## ANNEXURE 11: Root causes mayors not providing adequate leadership

Number	Auditee	Roles and responsibilities not clear between the mayor, MM and CFO	Political instability and inadequate oversight	Tone at the top – performance of staff not aligned to desired audit outcome and no consequences for poor performance	Deployment to municipalities without considering the adequacy of skills for positions	No follow-through on commitments	Lack of coordination of initiatives and requirements of CoGTA/treasury by the municipality	Progress
<b>District municipalities</b>								
1	Fezile Dabi District							↔
2	Lejweleputswa District							↔
3	Motheo District							↔
4	Thabo Mofutsanyana District							↑
5	Xhariep District							↔
<b>Local municipalities</b>								
6	Dihlabeng							↔
7	Kopanong							↔
8	Letsemeng							↔
9	Maluti - A - Phofung							↔
10	Mangaung							↓
11	Mantsopa							↔
12	Masilonyana							↔
13	Matjhabeng							↔
14	Metsimaholo							↔
15	Mohokare							↔
16	Moqhaka							↔



Number	Auditee	Roles and responsibilities not clear between the mayor, MM and CFO	Political instability and inadequate oversight	Tone at the top – performance of staff not aligned to desired audit outcome and no consequences for poor performance	Deployment to municipalities without considering the adequacy of skills for positions	No follow-through on commitments	Lack of coordination of initiatives and requirements of CoGTA/treasury by the municipality	Progress
17	Naledi	In progress	Improvement required	Improvement required	Improvement required	Improvement required	Improvement required	↔
18	Ngwathe	Improvement required	Improvement required	Improvement required	Improvement required	Improvement required	Improvement required	↔
19	Nketoana	In progress	In progress	In progress	Progress made	In progress	In progress	↑
20	Phumelela	In progress	Improvement required	Improvement required	In progress	Improvement required	Improvement required	↔
21	Tokologo	Improvement required	Improvement required	Improvement required	In progress	Improvement required	Improvement required	↔
22	Tswelopele	In progress	In progress	Improvement required	In progress	Improvement required	In progress	↔
<b>Municipal entities</b>								
23	Centlec (Pty) Ltd	Improvement required	Improvement required	Improvement required	In progress	Improvement required	Improvement required	↓
24	Fezile Dabi District Municipality Trust	Progress made	Progress made	Progress made	Progress made	Progress made	In progress	↑
25	Lejwe Le Putswa Development Agency (Pty) Ltd	In progress	In progress	Improvement required	In progress	Improvement required	In progress	↓
26	Maluti-A-Phofung Water (Pty) Ltd	In progress	In progress	Improvement required	In progress	Improvement required	Improvement required	↔
27	Metsimaholo Mayoral Trust	In progress	Improvement required	In progress	In progress	In progress	Improvement required	↔

	Progress made
	In progress
	Improvement required

## ANNEXURE 12: Material underspending of votes or conditional grants

Number	Auditee	Material underspending of vote	Material underspending of conditional grant	Total
1	Motheo District Municipality		1 362 971	1 362 971
2	Thabo Mafutsanyana District Municipality	11 434 239		11 434 239
3	Maluti-A-Phofung Local Municipality		15 496 794	15 496 794
4	Mohokare Local Municipality		12 487 503	12 487 503
5	Ngwathe Local Municipality		64 815 049	64 815 049
6	Tswelopele Local Municipality		2 320 438	2 320 438
		<b>11 434 239</b>	<b>96 482 75</b>	<b>107 916 994</b>



### ANNEXURE 13: Five-point key control plan as discussed with auditees

Number	Key control	Responsible person	Frequency
1	Confirmation of daily disciplines of reconciling cash receipts, deposits and payments and filing of documentation	CFO	Daily
2	Monitoring that all monthly reconciliations and disciplines are performed	MM with support of CFO	Monthly
3	Confirmation of monthly asset count and asset reconciliations to the mayor (this should include progress on the infrastructure assets)	MM with support of CFO	Monthly
4	Monthly feedback to the mayor on revenue and expenditure linked to the performance targets (service delivery)	MM	Monthly
5	Monthly feedback to the mayor on the monitoring of compliance with laws and reconciliations (with special attention to compliance with the conditions of conditional grants)	MM	Monthly