



General report on the local government audit outcomes of **GAUTENG**



AUDITOR-GENERAL
SOUTH AFRICA

GAUTENG MFMA 2013-14

Our reputation promise/mission

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



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

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

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

Auditor-General

Kimi Makwetu
Auditor-General



**AUDITOR - GENERAL
SOUTH AFRICA**

HIGHLIGHTS



Clean audits increased to 39% and there was a significant improvement in audit outcomes (Section 1)

A total of 47% of auditees received unqualified opinions by correcting material misstatements found in the financial statements during the audit process (Section 2)



Increase in irregular as well as fruitless and unauthorised, but slight improvement in fruitless and wasteful expenditure (Section 5)

Auditees' financial health is not improving (Section 9)



Auditees continue to rely on consultants, but there is an improvement in the management of this resource (Section 7)

Effective use of conditional grants (Section 8)



All role players should increase the level of assurance they provide (Section 13)

Auditor-general reflects on the importance of clean administration as a catalyst to drive service delivery

GAUTENG CLEAN AUDITS 2013-14



MUNICIPALITY

Ekurhuleni Metro
Sedibeng district
Midvaal
Mogale City



MUNICIPAL ENTITY

Brakpan Bus Company	Johannesburg Roads Agency
Ekurhuleni Development Company	Johannesburg Social Housing Company
Germiston Phase II Housing Company	Lethabong Housing Institute
Joburg City Theatres	Pharoe Park Housing Company
Joburg Market	

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FOREWORD

FOREWORD

It is with pleasure that I present to the Gauteng Provincial Legislature and municipal councils my 2013-14 general report summarising the audit outcomes of local government for the financial year ended 30 June 2014.

On launching operation clean audit, the then Minister of Cooperative Governance and Traditional Affairs used the 2007-08 financial year as a baseline. Operation clean audit entailed all municipalities achieving unqualified audits by 2014. My definition of clean audit built on that of operation clean audit to specify unqualified audit outcomes without findings on compliance and performance reporting. As I reflect on the 2013-14 audit outcomes, it is clear that the province has made significant progress in improving its outcomes as 13 clean audits (39%) were achieved in the current year compared to only three (9%) in the previous year.

I am particularly encouraged by all categories of local government being represented within the clean audit space because it will inspire the leadership across local government to strive towards achieving clean audit outcomes. While the challenges in the West Rand persisted, the clean audit outcome achieved by Mogale is an indication that the other municipalities in the district can improve their audit outcomes

These positive audit outcomes are due to the leadership provided by the key officials and political heads of auditees, which ensured that action plans were devised to deal with audit concerns and were effectively monitored by various oversight structures. The stability of officials in key positions and an effective political-administrative interface were key determinants of the Gauteng local government achieving this progress.

I acknowledge the role played by audit committees, coordinating institutions and the premier in exercising their oversight responsibilities to improve the governance of local government. This was further complemented by support mechanisms that were institutionalised by the Provincial Treasury and the Gauteng Department of Cooperative Governance and Traditional Affairs.

Senior management, political leadership and oversight structures need to pay close attention to the unauthorised and irregular expenditure of some municipalities and the quality of reported performance information. This is largely indicative of significant weaknesses in internal controls of the 16 auditees (49%) that received financially unqualified opinions with findings.

The unauthorised expenditure in the province increased by R586 million to R1,3 billion, 91% of which was incurred by the City of Tshwane. This was due to unforeseen budgeting obligations that arose from asset impairment and depreciation costs relating to the reconfiguration of the City of Tshwane.

Supply chain management transgressions remain high, driven by uncompetitive or unfair procurement processes, conflicts of interests and internal control failures. This has not only translated into irregular expenditure of R1,2 billion (2012-13: R0,5 billion) but also provides little assurance that value for money was received from the acquisition of these goods and services. While some municipal public accounts committees have improved their investigation and authorisation processes, I am concerned about those that were not able to adequately fulfil this requirement.

Information technology remains critical in local government to ensure the integrity of information and to enable service delivery, the viability of municipal operations and national security. While there has been an overall improvement compared to the previous years, more attention is required at 54% of auditees. They need to enhance information technology controls relating to user access and security management to reduce the risks of information being manipulated, unauthorised access to IT systems and potential fraudulent transactions.

Our analysis of financial viability indicates that some municipalities have experienced cash flow constraints due to many consumers not paying for municipal services. This led to a significant percentage of outstanding consumer debt being provided for as irrecoverable. It is critical that a sound local government debt and cash flow management strategy be implemented to counter the impact on service delivery.

Senior management must, as the first line of defence in the combined assurance model, institutionalise a sound and strong base of internal controls and financial management discipline that will support the effectiveness of other assurance providers and limit the risk of a reversal of these positive outcomes. The province needs to continue to build a public service characterised by transparent financial and performance reporting. Accounting officers, supported by councils and other oversight structures should play a prominent role in this regard.

In support, the Office of the Premier, through the premier's coordinating forum, should continue to strengthen intergovernmental relations. The two coordinating departments, the Gauteng Department of Cooperative Governance and Traditional Affairs and the Provincial Treasury, should enhance their support and strengthen the capacity of local municipalities to perform their functions.

My staff and I remain committed to working with the municipal and provincial leadership to further improve governance and accountability, so as to build public confidence in the local government sector and in the province's ability to account for public resources in a transparent manner.

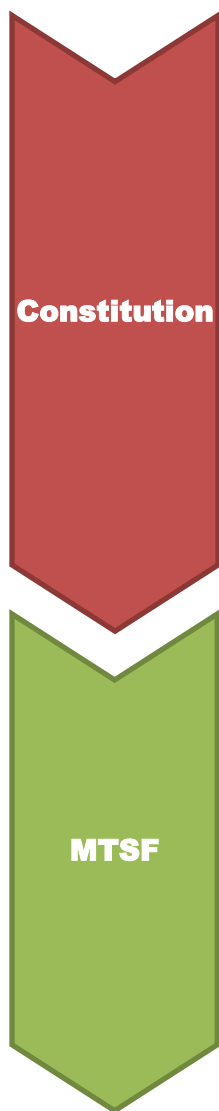
I also wish to thank the audit teams from my office and the audit firms that assisted for their diligent efforts towards fulfilling our constitutional mandate and the manner in which they continue to strengthen cooperation with the leadership in the province.

**Auditor-General
Pretoria
June 2015**

INTRODUCTION 9

The government and its strategies

The Constitution of South Africa is the supreme law of the country. It provides the legal foundation for the existence of the republic, sets out the rights and duties of its citizens, and defines the structure of the government. The spirit and aim of the Constitution is best summarised in the preamble, where it pronounces the ultimate goal - **Improve the quality of life of all citizens and free the potential of each person**. This foundation of our society, the Constitution, appoints government as the facilitator and enabler of this goal. The illustration depicts the basic operations of government that give effect to the Constitution.

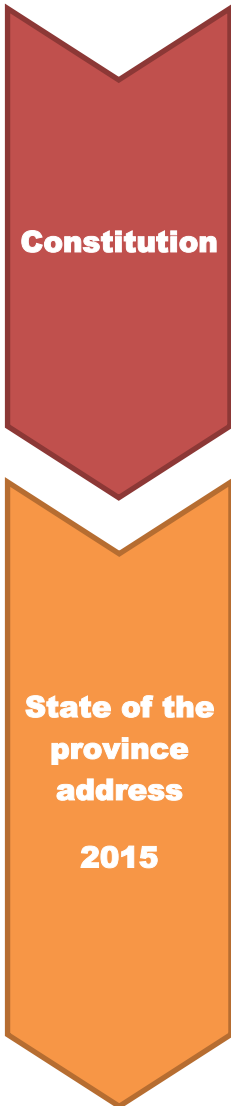


Section 40(1) - government constitutes the national, provincial and local spheres, which are distinctive, inter-dependent and interrelated

Section 41(1)(c) - all spheres of government must provide **effective, transparent, accountable and coherent government** for the country as a whole

The *Medium term strategic framework* (MTSF) serves as government's strategic plan for 2014-19. The MTSF sets out the actions that government will take and targets to be achieved over the next five years

Response of the Gauteng provincial administration with specific reference to local government



Section 151 – establishes municipalities with the executive and legislative authority vested in its municipal council

Section 152 - objectives of local government:

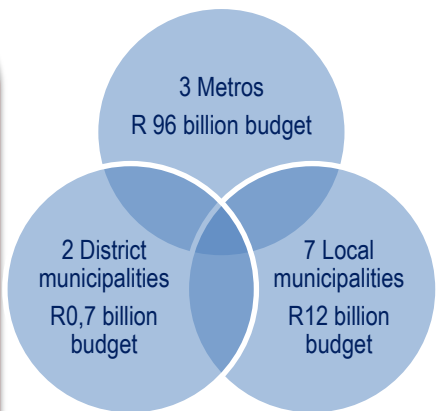
- to provide democratic and accountable government for local communities
- to ensure the provision of services to communities in a sustainable manner
- to promote social and economic development
- to promote a safe and healthy environment
- to encourage the involvement of communities and community organisations in the matters of local government

Our province occupies a special pride of place in our country's economy and this should be fully exploited to overcome the triple challenges of poverty, inequality and unemployment. Gone are the days when some regions and municipalities will be neglected as the Cinderellas on the periphery of the provincial economy.

*Honourable Speaker, we remain committed to building an activist and clean government and in this way fundamentally change the way **our people experience government**. Since assuming office, we have been hard at work to improve the way government works so Gauteng's people can see their elected representatives in action responding to all their concerns and aspirations.*

*Team Gauteng has gone directly to where there are problems to engage with those affected to find solutions. We are joining up with the **leadership of municipalities** in this task. Consequently we can say with certainty that we are a government in action, at work and on the ground with the people at all times.*

*Honourable Speaker, as part of our overall commitment to building a government system founded on principles of integrity and accountability we are taking concrete steps to **strengthen the integrity of our government and its institutions and promote corruption free, clean government.***



Historical overview of local government initiatives

Operation clean audit 2014

On 22 September 2009, responding to the findings of a government study into the problem areas of service delivery, leadership, financial management, and matters of governance, the Minister of Cooperative Governance and Traditional Affairs (CoGTA) launched operation clean audit 2014.

During his address to Parliament, the minister highlighted the particular focus on local government as the closest to the coalface of service delivery. He summarised the pre-2009 status as follows:

The then DPLG, did not support provincial departments. As a result, the link and support between municipalities and provinces was weak and not sustainable. Thus, service delivery, governance and financial management were severely affected. Technically, when a system of governance and financial management is poor due to lack of support, without a doubt service delivery will be negatively affected. More importantly, in some provincial departments and municipalities, there is lack of both administrative and political leadership.

The initiative aimed at ensuring that by 2014, all municipalities and provincial government departments in South Africa achieve clean audits on their financial statements and that they further **maintain systems for sustaining quality financial statements and management information**. In this address the following milestones were set:

- By 2011 no municipality will receive adverse and disclaimed audit opinions
- By 2012 at least 60% of municipalities must achieve unqualified audit opinions
- By 2013 this must increase to 75% of municipalities that achieve unqualified audits
- By 2014 we must have 100% of 'clean audits'

Back-to-basics programme 2015

President Jacob Zuma, in his *State of the nation* address delivered on 17 June 2014, articulated government's concerns about the improvements needed at local government level: *We would like our people's experience of local government to be a pleasant one.*

Against this background, the Ministry of CoGTA is pursuing the back-to-basics approach to address challenges faced by local government, strengthen municipalities and instil a sense of urgency towards improving citizens' lives. At a very basic level, municipalities are expected to:

- put people and their concerns first and ensure constant contact with communities through effective **public participation** platforms.
- create conditions for decent living by consistently delivering municipal **services of the right quality and standard**. This includes planning for, delivering and maintaining infrastructure and amenities, and managing the budget.
- ensure that there are no failures in services and, where these occur, urgently restore services.
- be well governed and demonstrate **good governance and administration - cut wastage, spend public funds prudently, hire competent staff, ensure transparency and accountability**
- ensure sound **financial management** and accounting, and prudently manage resources to sustainably deliver services and bring development to communities.
- build and maintain sound institutional and administrative capabilities, administered and managed by dedicated and **skilled personnel** at all levels

The AGSA has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

In support of CoGTA's operation clean audit, the AGSA intensified interactions with both the political and administrative leadership on the outcomes of their municipalities, the root causes underpinning the unfavourable outcomes and the need for a strong control environment entrenched in daily, weekly and monthly processes. The previous auditor-general also embarked on a door-to-door campaign, where he visited each municipality in the country with a message of support and where he highlighted that ***it is possible to obtain clean administration if there is true political will to change and if the leadership actively strives for quality and sustainability in executing its duties.***

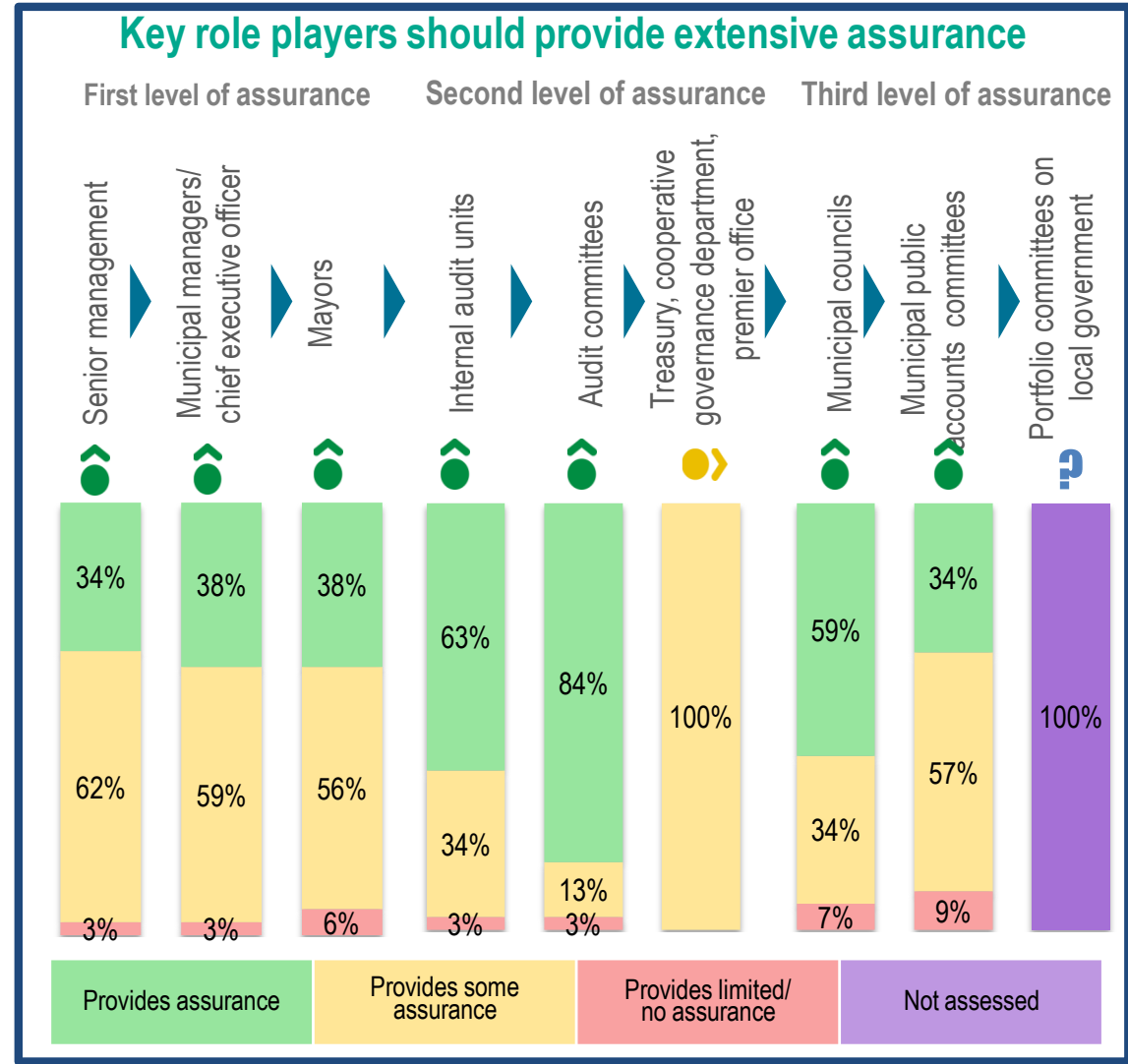
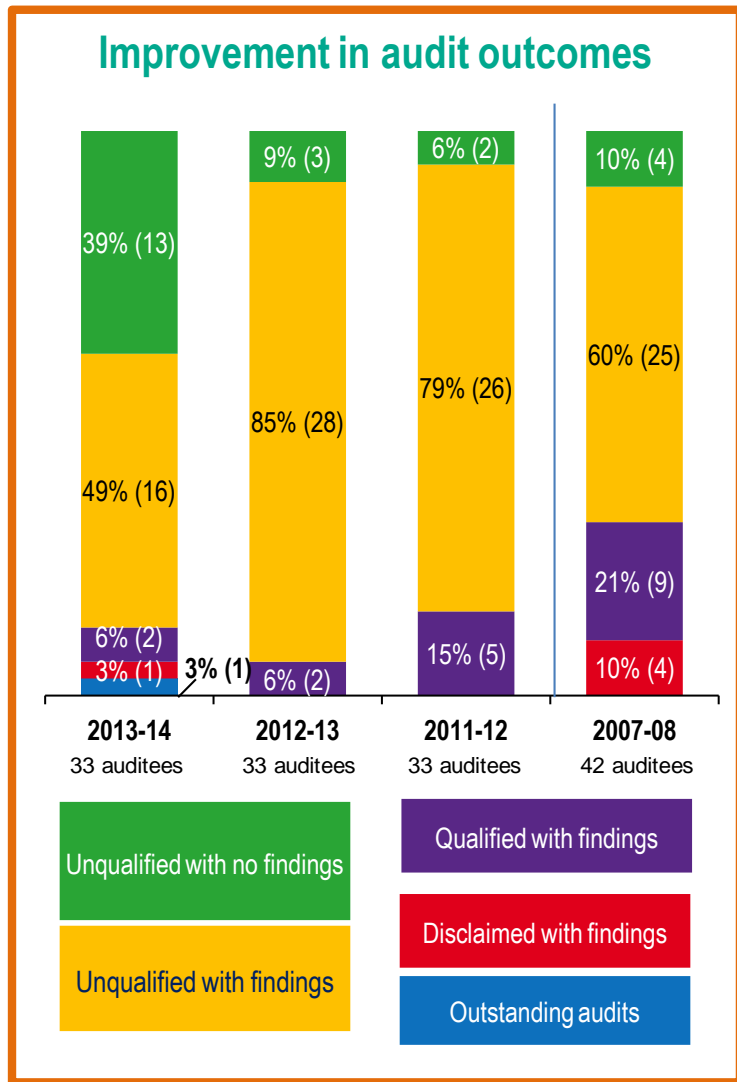
The AGSA is committed to being a critical supporter of the back-to-basics initiative.

OVERVIEW

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Summary of our message

Figure 1a: Overview of the audit message



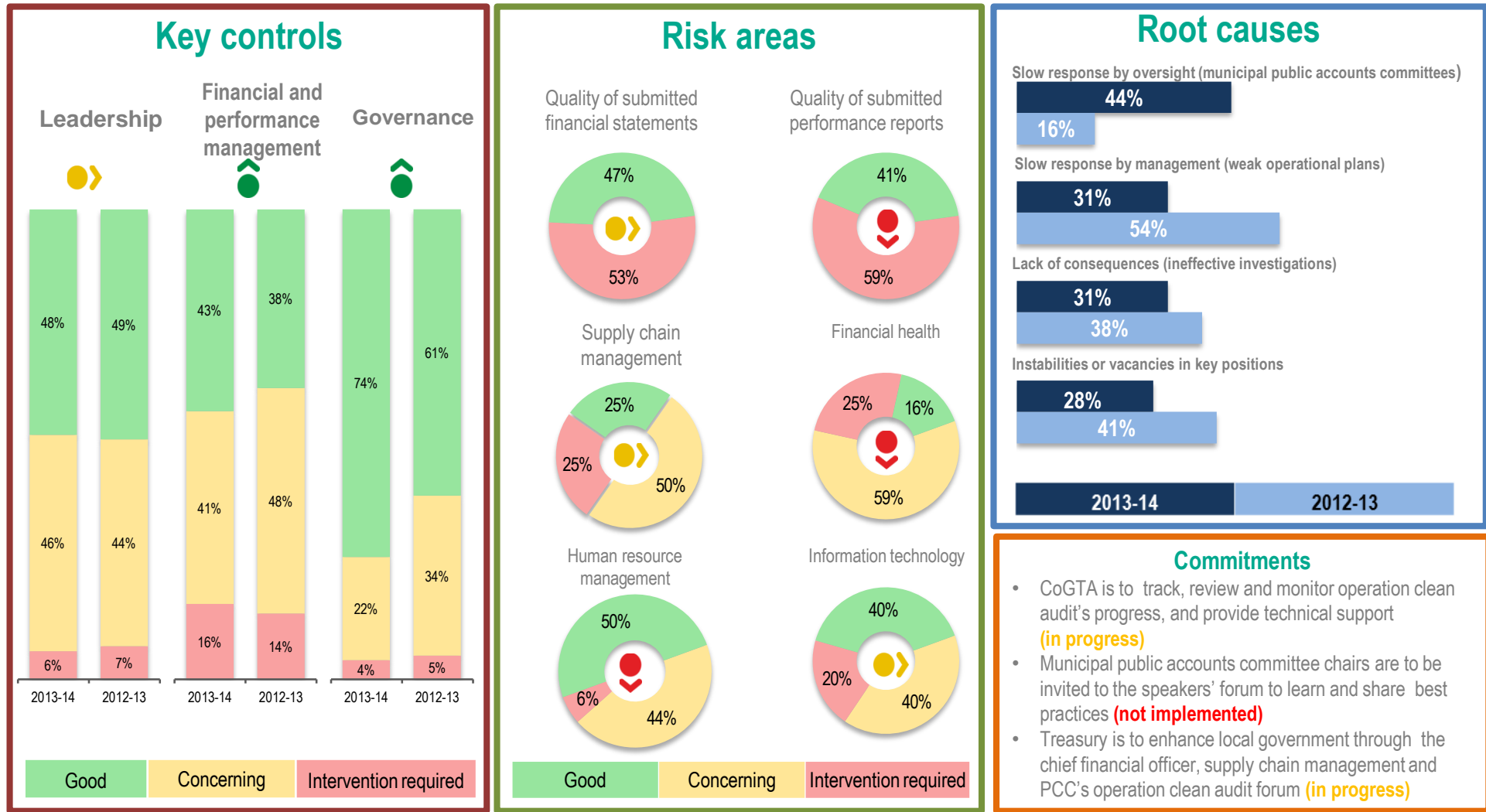
1

To improve/maintain the **audit outcomes**,

2

the **key role players** need to ...

Figure 1b: Overview of the audit message



3

... give attention to the **key controls**,

4

the **risk areas**, and

5

the **root causes**.

Characteristics of each of the categories of audit outcomes

Table 1 summarises the characteristics of auditees that fall within the different categories of audit outcomes over the following pages. This summary is provided to achieve the following:

- Assist the reader to understand the different audit outcomes.
- Highlight the good practices of auditees with clean audit opinions.
- Emphasise that auditees with an unqualified audit opinion with findings still have serious weaknesses that should be dealt with.
- Explain why auditees with qualified, adverse and disclaimed opinions are failing.

Table 1: Characteristics of auditees within the different categories of audit outcomes

Area	Best practices for clean audits (13)	Unqualified with findings (16)	Qualified with findings (2)	Disclaimed with findings (1)
Financial statements	<p>Thirteen auditees (100%) produced financial statements that were free from material misstatement.</p> <p>In addition to the better practices highlighted under different areas, the following good practices were noted:</p> <ul style="list-style-type: none"> • Robust governance structures insisted on a thorough analysis of quarterly financial and performance reports. • Chief financial officers maintained strong risk management practices by identifying and assessing risks in a timely manner. • Accounting officers established open and constructive relationships with key role players and process owners. 	<p>A total of 14 auditees (88%) in this category produced financial statements with material misstatements, but corrected these during the audit process.</p> <p>At 10 of these auditees (71%), these findings were repeat findings.</p> <p>The most common areas in which auditees made corrections were:</p> <ul style="list-style-type: none"> • property, infrastructure and equipment • contingent liabilities and commitments • receivables • revenue. 	<p>Auditees produced financial statements with material misstatements, which they could not correct before the financial statements were published.</p> <p>The most common areas in which they could not correct were:</p> <ul style="list-style-type: none"> • property, infrastructure and equipment • capital and reserves. 	<p><u>Disclaimed opinion</u>: Auditees could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements.</p> <p>The most common areas in which they could not correct were:</p> <ul style="list-style-type: none"> • property, infrastructure and equipment • capital and reserves.

Area	Best practices for clean audits (13)	Unqualified with findings (16)	Qualified with findings (2)	Disclaimed with findings (1)
<i>Annual performance report</i>	Auditees measured and reported on their performance (in the annual performance report) in accordance with the predetermined objectives in their integrated development plans (IDPs) and service delivery and budget implementation plans (SDBIPs), and in a manner that was useful and reliable .	<p>A total of 100% of these auditees prepared an annual performance report.</p> <ul style="list-style-type: none"> Six auditees (37%) prepared annual reports that met the requirements of the reporting framework, half of which (18%) corrected the misstatements identified during the audit. The annual performance reports of 10 auditees (63%) were not useful and/or reliable and resulted in compliance findings. 	<p>A total of 100% of these auditees prepared an annual performance report.</p> <p>The annual performance report of one auditee (50%) was not useful and not reliable.</p>	This auditee prepared an annual performance report. However, the annual performance report was not reliable .
<i>Compliance with key legislation</i>	The auditees complied with key legislation.	<p>Fifteen auditees (94%) did not comply with key legislation.</p> <p>The following material instances of non-compliance were reported :</p> <ul style="list-style-type: none"> Procurement and contract management Not paying expenditure within thirty days Not preventing fruitless, wasteful and irregular expenditure Asset management Revenue management. <p>Some of these compliance findings prevented auditees from achieving clean audit outcomes.</p>	Two auditees (100%) did not comply with key legislation.	One auditee (100%) did not comply with key legislation.

Area	Best practices for clean audits (13)	Unqualified with findings (16)	Qualified with findings (2)	Disclaimed with findings (1)
Controls	<p>Auditees had good controls and/or were working on the areas that needed further attention to ensure that their clean audit status was maintained:</p> <ul style="list-style-type: none"> • The leadership created an environment conducive to internal control and oversight (71% of auditees). • Senior management ensured that controls were in place for robust financial and performance management reporting systems (77%). • They focused on governance through risk management activities and effective internal audit units and audit committees (95%). <p>Their continued focus on these basic controls contributed to their success:</p> <ul style="list-style-type: none"> • The leadership established a culture of ethical behaviour, commitment and good governance (100% had good controls). • Good human resource practices ensured that adequate and sufficiently skilled officials were in place and that their performance was managed (62%). • Audit action plans were used to address internal control weaknesses (85%). 	<p>Auditees had good controls in some areas, but should pay attention to the basic controls as a limited number of auditees had good controls in the following areas:</p> <ul style="list-style-type: none"> • Effective leadership culture (69%) • Good human resource controls (44%) • Good information and communication technology (ICT) governance and controls (25%) • Effective audit action plans (19%) • Proper record keeping (19%) • Strong daily and monthly controls (19%) • Review and monitor compliance (13%). 	<p>Very few auditees had good basic controls. There were no auditees with good controls in the following areas:</p> <ul style="list-style-type: none"> • Proper record keeping • Daily and monthly processes • Human resource controls • Review and monitoring of compliance. <p>Also of concern were the following areas that require further progress:</p> <ul style="list-style-type: none"> • Effective leadership culture • ICT governance and controls • Audit action plans. 	<p>The basic controls were in a poor state. We assessed the status of controls at most of these auditees as 'intervention required'.</p> <p>The poorest controls were in the following areas:</p> <ul style="list-style-type: none"> • Proper record keeping • Review and monitor compliance • Daily and monthly controls.

Area	Best practices for clean audits (13)	Unqualified with findings (16)	Qualified with findings (2)	Disclaimed with findings (1)
Controls	<ul style="list-style-type: none"> • Proper record keeping ensured that information was accessible and available to support financial and performance reporting (92%). • Basic disciplines and controls were in place for daily and monthly processing and to reconcile transactions (85%). • Mechanisms were in place to identify applicable legislation, changes and processes to ensure and monitor compliance with legislation (77%). 			
Key officials	<p>There were no vacancies in key positions.</p> <p>There was stability at the level of municipal manager/chief executive officer, chief financial officer and head of the supply chain management (SCM) unit. These officials had been in their positions for between three to four years.</p> <p>The competencies of these officials were assessed and all had already achieved the competency requirements prescribed by the regulations.</p>	<p>There were vacancies in the following key positions at these auditees:</p> <ul style="list-style-type: none"> • Municipal manager/chief executive officer – 25% • Chief financial officer – 6% • Head of the SCM unit – 19%. <p>A total of 6% of chief financial officers and 6% of heads of SCM units had not achieved their minimum competency requirements.</p>	<p>The vacancies in key positions were higher than those of auditees with unqualified opinions with findings:</p> <ul style="list-style-type: none"> • Municipal manager – 50% • Chief financial officer – 50% • Head of the SCM unit – 50%. <p>There was even less stability, with key officials being in these positions for less than one year.</p>	<p>There were vacancies in all key positions (i.e. chief executive officer, chief financial officer and head of SCM) at this auditee.</p> <p>The officials' minimum competency requirements were not assessed due to the above vacancies.</p> <p>This auditee had the least stability, as the chief executive officer was in his position for less than two months.</p>

Area	Best practices for clean audits (13)	Unqualified with findings (16)	Qualified with findings (2)	Disclaimed with findings (1)
<i>Assurance providers</i>	<p>Key role players worked together to provide assurance on the credibility of the financial statements and performance reports and to ensure compliance with key legislation.</p> <p>These auditees understood that assurance on the credibility of the information in the financial statements and performance reports came primarily from the actions of management/leadership and their governance partners – internal audit units and audit committees.</p> <p>The political leadership also provided strong monitoring and oversight to hold the administration to account.</p> <p>Auditees where role players provided full assurance were as follows:</p> <ul style="list-style-type: none"> • Senior management (85%) • Municipal managers/chief executive officers (85%) • Mayors (69%) • Internal audit units (69%) • Audit committees (100%) • Municipal councils (100%) • Municipal public accounts committees (MPACs) (69%). 	<p>Some role players did not provide the required level of assurance. As a result, the financial statements and annual performance reports prepared, reviewed and signed off by senior management and the municipal manager/chief executive officer of these auditees were materially misstated. The internal audit units and the audit committees did not add to the credibility of these reports, while monitoring and oversight by the political leadership did not have the desired results.</p> <p>These role players also did not ensure or insist on strong controls to ensure compliance with key legislation and to prevent, detect and correct material misstatements.</p> <p>The auditees where role players provided full assurance were limited:</p> <ul style="list-style-type: none"> • Senior management (0%) • Municipal managers/chief executive officers (6%) • Mayors (19%) • Internal audit units (56%) • Audit committees (81%) • Municipal councils (38%) • MPACs (13%). 	<p>The internal audit unit at two (100%) auditees and the audit committee at one (50%) auditee provided the required assurance. The rest of the role players provided some or limited/no assurance.</p>	<p>The contributions to assurance by the role players at this auditee were minimal.</p> <p>The role players that provided the least assurance were at the first and third level of assurance:</p> <ul style="list-style-type: none"> • Senior management, the chief executive officer and internal audit provided some assurance. • The municipal council, the mayor, MPAC and the audit committee provided limited/no assurance.

Area	Best practices for clean audits (13)	Unqualified with findings (16)	Qualified with findings (2)	Disclaimed with findings (1)
<i>Use of consultants</i>	<p>Auditees used consultants for financial reporting services but used them effectively. Six (46%) of these auditees were assisted by consultants at a cost of R23 million.</p> <p>They appointed the consultants in time, provided them with the required records and documents, and managed the process effectively.</p>	<p>Auditees used consultants widely for financial reporting services, but most could not produce financial statements without material misstatements – these material misstatements were corrected through the audit process.</p> <p>Eleven (65%) of these auditees were assisted by consultants at a cost of R62 million.</p> <p>The following practices in managing consultants (not limited to financial reporting) need attention:</p> <ul style="list-style-type: none"> • Transfer of skills at 29% of auditees • Performance management and monitoring at 6% of auditees • Planning and appointment processes at 12% of auditees. 	<p>One auditee (50%) was assisted by consultants at a cost of R1,1 million.</p> <p>The following were the main reasons for the auditee having poor audit outcomes despite using consultants:</p> <ul style="list-style-type: none"> • The records and documents consultants needed to perform their services could not be provided to them. • The consultants were appointed too late. <p>There were weaknesses in the following practices when managing consultants (not limited to financial reporting):</p> <ul style="list-style-type: none"> • Performance management and monitoring. • Appointing consultants where the skills were available within the entity (internal capacity). 	<p>One auditee was assisted by consultants at a cost of R57 450.</p> <p>The following were the main reasons for the auditee having poor audit outcomes despite using consultants:</p> <ul style="list-style-type: none"> • The records and documents consultants needed to perform their services could not be provided to them. • The consultants were appointed too late. • Consultants could not deliver on their contract. <p>The following practices when managing consultants (not limited to financial reporting) were weakest at this auditee:</p> <ul style="list-style-type: none"> • Transfer of skills • Appointing consultants to perform work of a permanent/continuous nature - no attempts were made to create positions.

Area	Best practices for clean audits (13)	Unqualified with findings (16)	Qualified with findings (2)	Disclaimed with findings (1)
Use of grants	<p>The municipalities effectively used the municipal systems improvement grant (MSIG) and the financial management grant (FMG), which were aimed at improving financial and performance management:</p> <ul style="list-style-type: none"> • Four of these municipalities received the grants. Only 2% of these grants were not spent (R0,2 million). • All the targets for the grants were achieved. <p>Auditees were also able to use their municipal infrastructure grants (MIGs) effectively:</p> <ul style="list-style-type: none"> • Only 3% of the grant was not spent (R3,4 million). • The targets were achieved for 100% of the money spent. 	<p>Although the municipalities used the MSIG and FMG, they spent less of the grants and achieved less than auditees with clean audit opinions.</p> <ul style="list-style-type: none"> • 21% of the grants were not spent. • Targets were not achieved for 50% of the MSIG spent and 16% of FMG spent. <p>The weaknesses in the control environments of these municipalities also affected their ability to use the MIG effectively:</p> <ul style="list-style-type: none"> • 5% of the grant was not spent (R12 million). • 90% of the money was spent (R249 million), but 67% of targets were achieved. 	<p>The municipalities in this category used less of their grants:</p> <ul style="list-style-type: none"> • West Rand district did not spend a small fraction of the MSIG and FMG (R19 000). • Targets were achieved for the MSIG and FMG spent. • Randfontein did not spend 22% of the MIG (R6,2 million). 	<p>The auditee did not receive the MSIG, FMG or MIG.</p>

Area	Best practices for clean audits (13)	Unqualified with findings (16)	Qualified with findings (2)	Disclaimed with findings (1)
<i>Supply chain management</i>	<p>Auditees had no material instances of non-compliance with SCM legislation. Areas of good SCM practices were found at 31% of auditees, but 69% still needed to improve in some areas.</p> <p>Their levels of irregular expenditure were relatively low as a result of their good SCM practices. These auditees incurred only 21% of the irregular expenditure of all auditees; however, they were responsible for 29% of the total municipal budget.</p>	<p>In total, 41% of these auditees did not materially comply with SCM legislation. Only 12% had good SCM practices.</p> <p>Their levels of irregular expenditure were high as a result of their poor SCM practices. These auditees incurred 70% of the total irregular expenditure and were responsible for 49% of the total municipal budget.</p> <p>At two auditees (13%), the municipal manager and council did not investigate the irregular expenditure of the previous year to determine whether anyone was liable for the expenditure.</p>	<p>One of these auditees (50%) did not materially comply with SCM legislation.</p> <p>The level of irregular expenditure was high as a result of poor SCM practices. The auditee contributed the most to irregular expenditure at 8% of total irregular expenditure while being responsible for only 1% of the municipal budget.</p> <p>The municipal manager and council at this auditee (50%) did not investigate the irregular expenditure of the previous year to determine whether anyone was liable for the expenditure.</p>	<p>The auditee could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were unable to conclude or express an opinion on the credibility of their financial statements.</p>

AUDIT OUTCOMES, ROOT CAUSES AND THE IMPACT OF KEY ROLE PLAYERS

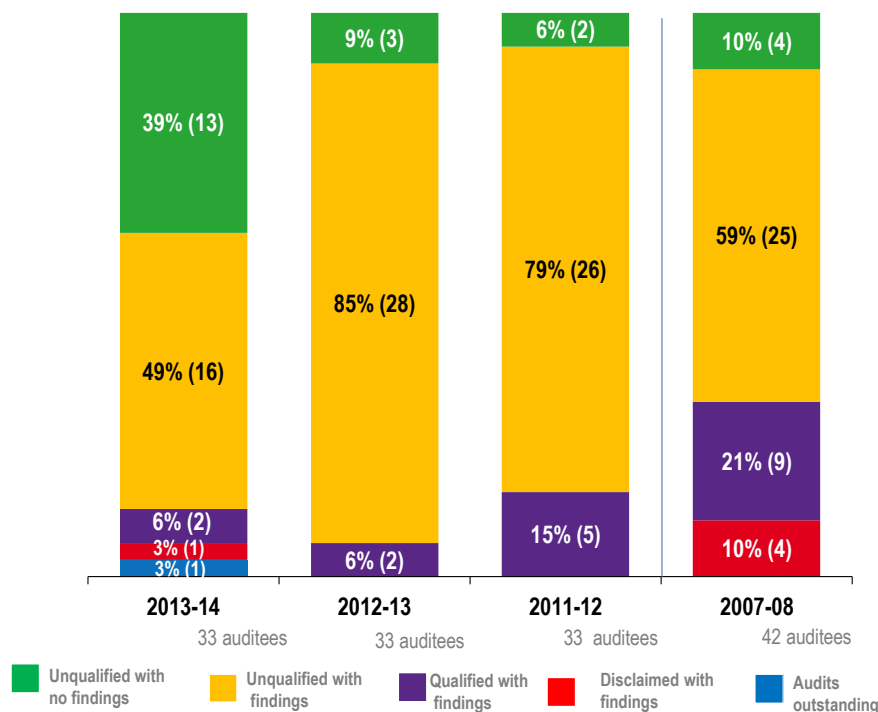
1. Overall audit outcomes

The Gauteng local government sphere consists of 12 municipalities and 21 municipal entities. The municipalities are made up of three metros, two district municipalities and seven local municipalities. The municipalities operate on a budget of R108,4 billion (operating expenditure: R92 billion and capital expenditure: R16 billion). We have completed the audits of 32 auditees and the outcomes are reflected in this report. At the date of this report, the audit outcome of Westonaria was outstanding.

Seven year analysis indicates improvement

(2007-08 vs. 2013-14)

Figure 2: Seven year outlook on audit outcomes



The overall audit outcomes have been on an upward trend. The following are the main drivers of the significant improvement:

- The strong drivers of internal controls that are supported by the administrative and political leadership
- The improved robustness of governance structures at most auditees
- The commitments made in the previous year being embedded in the controls
- The key role players providing essential assurance, especially at the auditees that achieved clean audit outcomes.

This positive trend is evident in the significant reduction in audit qualifications over a seven year period, as depicted in figure 2. Furthermore, there is a significant increase in the number of auditees that finally graduated to clean audit outcomes from having had financially unqualified opinions with findings the previous year. Thirteen auditees (39%) (2012-13: three auditees [9%]) obtained clean audit outcomes in the current year. Included in the 13 clean audits, are two local municipalities (Midvaal and Mogale), one district (Sedibeng) and, most importantly, a metro (Ekurhuleni).

Three auditees, Sedibeng district, Johannesburg Social Housing Company and Johannesburg Fresh Produce Market, sustained their clean outcomes in the current year as they institutionalised a sustainable internal control environment supported by sound and regular accounting disciplines.

While challenges in the West Rand persisted, the clean audit outcome achieved by Mogale is an indication that other municipalities in the district can achieve a clean audit outcome.

The drivers of these audit outcomes, residual challenges that still need to be addressed, and observed best practices that should be replicated across auditees in the province are discussed towards the end of this section.

2. Audit outcomes for 2013-14

Figure 3: 2013-14 audit outcomes in relation to 2013-14 budget

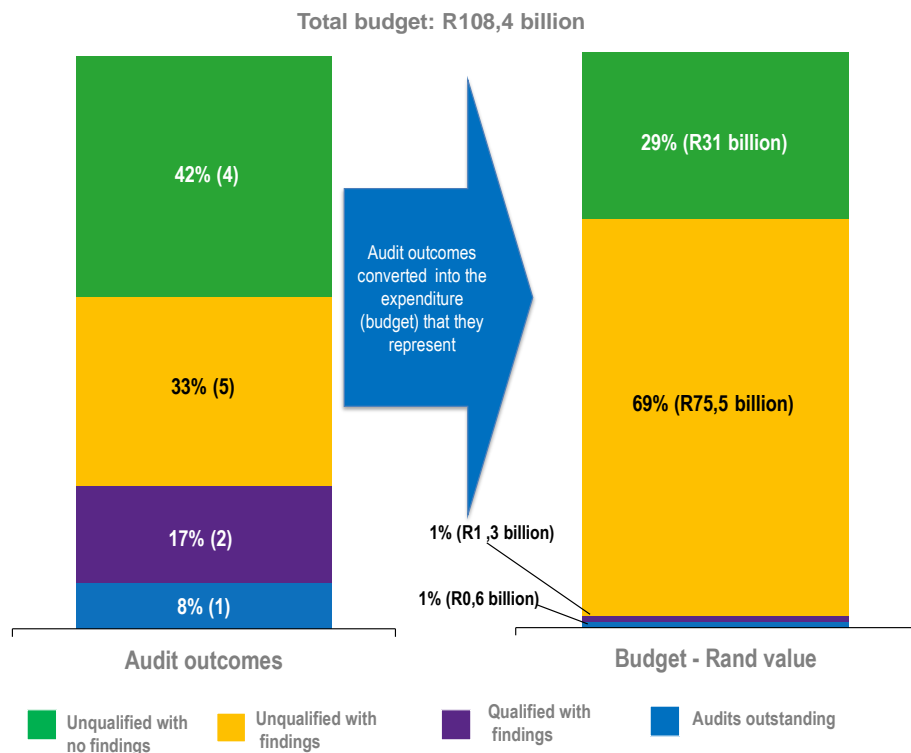


Figure 3 above translates the audit outcomes into the expenditure budgets managed by the auditees. A total of R31 billion (29%) is overseen by auditees that were able to produce financially reliable and credible financial reports, as well as comply with key legislation.

However, it is of concern that R76,8 billion of the budget (70%) was managed by auditees that achieved financially unqualified opinions with findings or were qualified. These auditees were not able to ensure that internal control systems were adequate. It is imperative that these auditees tighten their internal control environment and achieve clean audit outcomes as defined by us, so that they can ensure credible financial and performance reporting.

Submission of financial statements

Municipalities are required by the Constitution and various other legislation to be transparent and accountable for the public resources that have been provided to

them. Municipalities are required to prepare financial statements according to the applicable accounting framework and relevant legislation. These financial statements must constitute transparent reports by being reliable, accurate, credible and supported by underlying records.

Figure 4: Quality of financial statements submitted for audit

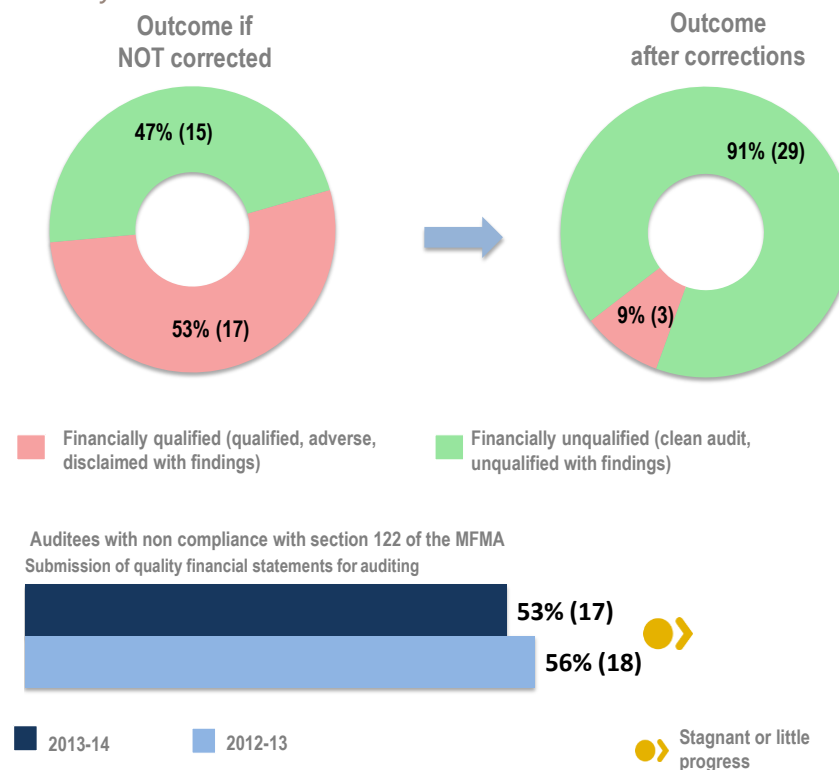


Figure 4 shows that while auditees with no material findings increased to 91% (29) after corrections, the quality of these financial statements remained a major concern.

In the current year, 47% of the auditees (15) would have received financially qualified audit outcomes had it not been for the year-end audit adjustments. This is an indication that there are still auditees who are reliant on the audit process to correct their financial statements, which is an unsustainable practice.

Movement in the 2013-14 outcomes

Figure 5: Movements in audit outcomes

	10 Improved	20 Unchanged	2 Regressed	1 Outstanding
Unqualified with no findings = 13	<p>Metropolitan municipality: Ekurhuleni</p> <p>Local municipality: Midvaal and Mogale City</p> <p>Municipal entities: Joburg Roads Agency; Joburg Theatre; Brakpan Bus; Ekurhuleni Development Company Germiston Phase II Housing Company Lethabong Housing Institute and Pharoe Park</p>	<p>District municipality: Sedibeng</p> <p>Municipal entities: Joburg Social Housing and Joburg Market</p>		
Unqualified with findings = 16		5 Municipalities* 11 Municipal entities **		
Qualified with findings = 2		Local municipality: Randfontein	District municipality: West Rand	Local municipality: Westonaria
Disclaimed with findings = 1			Municipal entity: West Rand Development Agency	

* **Metropolitan municipalities:** City of Joburg & City of Tshwane; **Local municipalities:** Lesdedi, Emfuleni, Merafong City

** **Municipal entities:** City Power, East Rand Water ; Housing Co. Tshwane; Joburg Property; Joburg City Parks, Joburg Development Agency, Joburg Metro Bus, Joburg Water, Pikitup Joburg, Sandspruit and Tshwane Economic Development

Improved audit outcomes

The improvements of outcomes in the province can be attributed to the political leadership's decisive actions and their commitment to attaining clean audit outcomes. Our interaction with Gauteng's political leadership encouraged the province to fully subscribe to the clean audit concept. This resulted in an investment in suitably qualified employees to drive the attainment of clean audits. The political leadership insisted on effective operation clean audit action plans and took them seriously. These plans were elevated to the offices of the

chief financial officer or the accounting officer. This assisted to set the right tone by leadership and ensured the implementation and achievement of sound and transparent financial administration and governance at these entities.

Ten auditees improved from unqualified opinions with findings to clean audit opinions by addressing compliance findings that were reported in the previous year.

Unchanged audit outcomes

Three auditees maintained their clean audit status as reflected in figure 5, and 15 remained with unqualified opinions with findings. These 15 auditees were unable to prepare regular financial and performance reports, and these reports were finalised late. This left management with little or no time to improve the quality of the reports through adequate supervision and reviews.

Key to the lack of improvements is the inability of some of these auditees to streamline and simplify routine month-end processes, such as calculating and estimating accruals, performing reconciliations, processing journal entries and clearing suspense accounts.

These auditees need to review financial, performance and compliance checks and balances as a continuous monthly process. The accounting officer should report monthly to the mayor and the reports should include recommendations designed to address any significant variations.

Regressions and outstanding audit outcomes

The auditees in this category are Randfontein, West Rand district and the West Rand Development Agency. It excludes Westonaria, which submitted and later withdrew its submission of the financial statements. Randfontein's qualification area of bank and cash was resolved. However, the municipality remained qualified due to a new qualification on property, infrastructure and equipment.

The West Rand Development Agency received a disclaimer of opinion. This is a regression from the previous year's audit opinion, which was unqualified with findings. Regrettably, the unfavourable outcome of the West Rand Development Agency resulted in its parent municipality, West Rand district, regressing to a qualified audit opinion.

The root causes for the qualified and disclaimed audit outcomes were the lack of skills and the lack of capacity due to vacancies in key positions. This included the positions of accounting officer, head of SCM and chief financial officer at the West Rand Development Agency. The poor outcomes were attributable to inadequate control disciplines during the year, a lack of consequences for poor performance, the administrative leadership's neglect of legislation and inadequate support from the governance structures.

The primary responsibility for identifying and resolving internal control weaknesses in financial and predetermined objectives reporting at municipalities

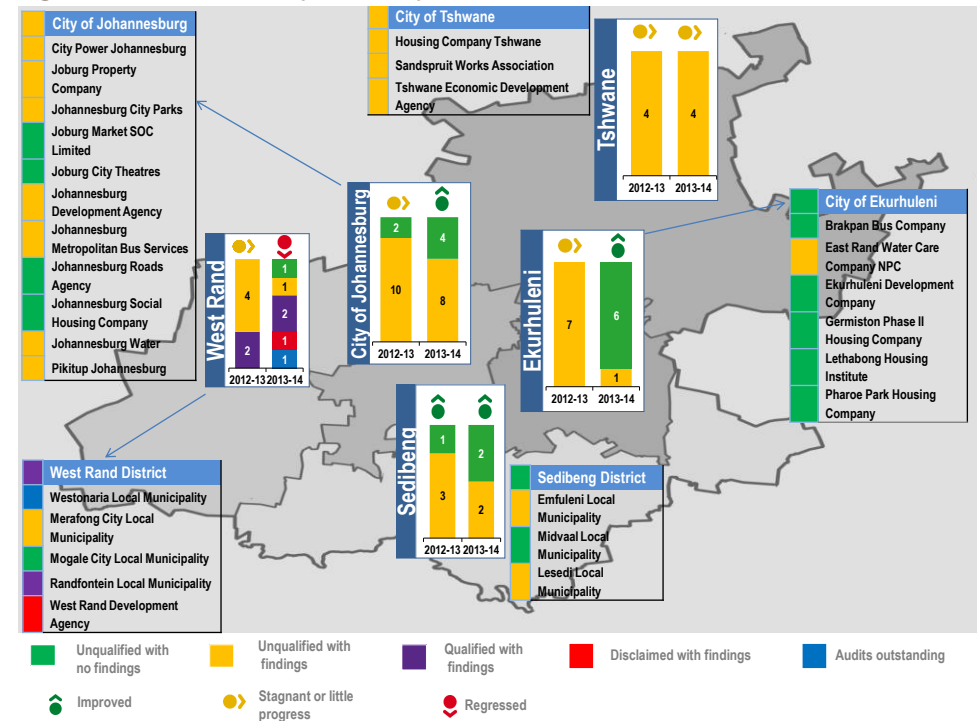
rests with the municipalities' leadership. Technical support by the Gauteng CoGTA and Provincial Treasury was not at the right level, leading to the lack of a relevant and responsive holistic support strategy that enables appropriate corrective action. This contributed to the regression in the West Rand region.

Municipal districts

District municipalities are not only required to coordinate development and delivery throughout the district, but also need to play a vital supporting role in the financial management of their local municipalities. These responsibilities included the following:

- Coordinate the development of the district and service delivery
- Play a supporting role in financial management
- Set the example in accountability and reporting
- Share best practices and assist to embed them in their local municipalities
- Ensure that daily financial and performance management are embedded
- Improve internal control, governance and accountability of local government
- Assist local municipalities where there is a lack of skills.

Figure 6: Audit outcomes per municipal district



There was an overall improvement in the regions of the City of Johannesburg, Ekurhuleni metro and Sedibeng district as a result of the political leadership responding to the previous year's recommendations and taking ownership of commitments. Furthermore, management's hands-on approach and the coordination of efforts within finance and supporting units in these districts contributed immensely to the improved audit outcomes.

West Rand district should use Mogale City as a benchmark for appropriate governance and good practices that can be replicated within the region.

The following good practices contributed to the significant improvement in the audit outcomes noted and should be shared at the chief financial officers and accounting officers' forum to ensure replication throughout the province.

- Robust governance structures insisted on a thorough analysis and review of quarterly financial and performance reports by management. This ensured that errors and exceptions were identified and rectified, to the extent possible, well in advance of the year-end reporting process.
- The chief financial officer maintained robust risk management practices and internal controls by identifying and assessing risk in good time, and by

implementing effective controls to prevent, detect and/or mitigate the risk of misstatements.

- The administrative leadership with the support of the political leadership appointed suitably qualified and experienced staff at the right time and then clearly defining their roles and responsibilities.

Conclusion

The good practices, coupled with well-planned and managed preparation processes, will contribute to the auditees' ability to meet their financial reporting responsibilities in an efficient, effective and timely manner. Therefore, these practices should be shared at various platforms in the province to ensure proper replication and further improvements.

3. Financial statement areas qualified

The purpose of the annual audit of the financial statements is to provide the users with an opinion on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in line with the financial framework and applicable legislation. The audit provides users with reasonable assurance on the degree to which the financial statements are reliable and credible, on the basis that the audit procedures did not identify any material errors or omissions in the financial statements. We use the term 'material misstatement' to refer to such material errors or omissions.

All three auditees that received modified opinions were from the West Rand region: Randfontein, West Rand district and the West Rand Development Agency.

Figure 7: Common financial statements qualification areas

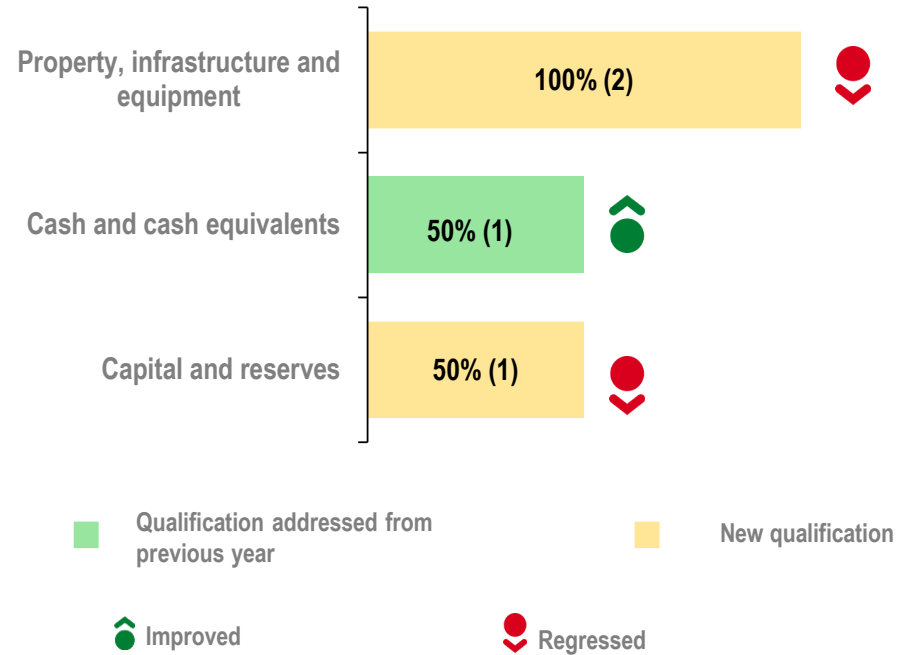


Figure 7 shows common qualification areas. Randfontein did not take ownership of the fixed asset register; instead it relied heavily on consultants. The West Rand district neglected the West Rand Development Agency, which then regressed to a disclaimer of opinion from a financially unqualified opinion in the previous year. This resulted in an overall regression in the qualification areas.

Way forward

In previous years we emphasised the importance of the role of district municipalities in supporting auditees within the district. The district support must be promoted as it is critical to assisting auditees to comply with best practices, policies and procedures.

The West Rand Development Agency's issues were not addressed by its board, the council and the governance structures of the district municipality, resulting in the district municipality unnecessarily regressing to a qualified audit opinion.

These qualification areas could have been rectified had there been adequately skilled staff within the finance unit to implement proper record keeping and had the district and coordinated institutions adequately supported auditees in the West Rand.

4. Annual performance report

To facilitate transparency, responsiveness and accountability, municipalities should have an effective performance reporting system in place. The public should have access to performance information that indicates what has been achieved with the amounts allocated to municipalities.

Service delivery initiatives in the local government sector are determined by public participation in the development and/or updating of municipal IDPs and SDBIPs. These plans should form the basis for the allocation of budgets each year. Municipalities are required to measure their service delivery against the performance indicators and targets set for each of their predetermined performance objectives, and to report on this in their annual performance reports. We audit the annual performance reports to determine whether the information in these reports is useful and reliable.

Submission of annual performance report for auditing

It is commendable that all auditees submitted their annual performance reports for auditing on time, except for Westonaria which submitted and later withdrew its submission.

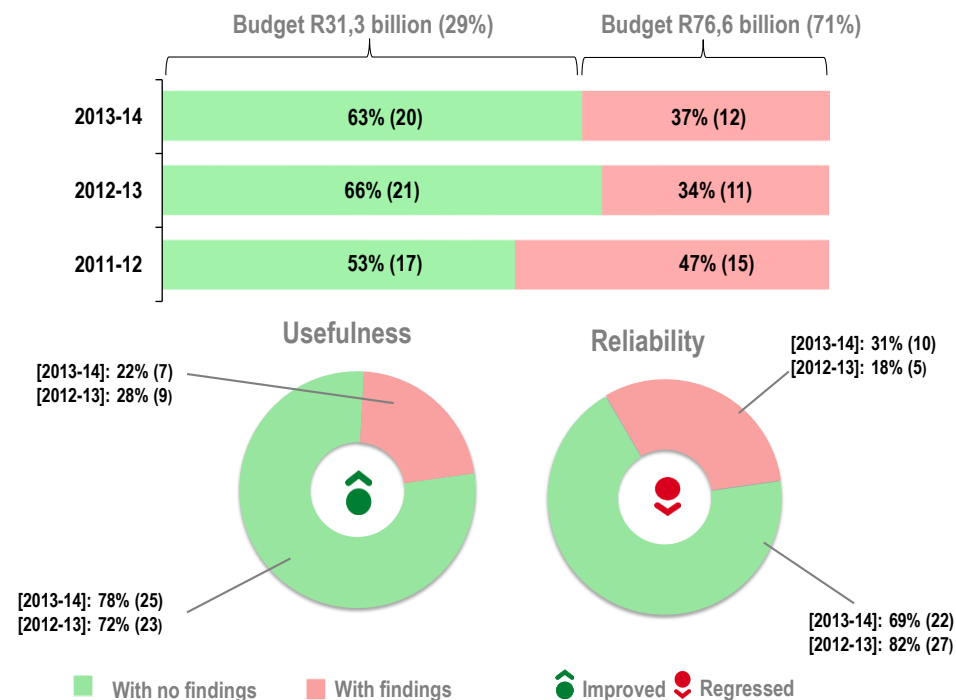
The quality of submitted performance reports regressed as only 13 auditees (41%) submitted annual performance reports that did not contain material misstatements compared to 17 auditees (53%) in the 2012-13 financial year. This is indicative of complacency and a lapse of the diligence demonstrated in the previous year.

Despite this regression, it is encouraging that 20 auditees (63%) achieved a clean audit on predetermined objectives reporting, including 7 auditees that corrected misstatements during the audit process, a sign that the issues are less severe and easily correctable. In this regard, auditees are urged to pay attention to those issues that resulted in material misstatements in performance reports and deficiencies in the internal control systems that support the generation of their performance reports.

Movement in outcomes on the annual performance reports

Figure 8 shows the number of municipalities with material findings on the quality of their annual performance reports over the past three years, together with the number of municipalities with findings on usefulness and reliability.

Figure 8: Movement in outcomes on annual performance reports and findings on usefulness and reliability



Findings on usefulness and reliability

Usefulness refers to setting objectives, indicators and targets in the planning document, and how they are reported in the annual performance report. We measured the usefulness of the reported information against the criteria of presentation, consistency, relevance and measurability.

Auditees that formulated their targets in line with the requirements of the framework for managing programme performance information (FMPPI), increased from 72% to 78% in the current year. As reflected in figure 8, it is clear that only a few auditees still struggled to ensure the usefulness of information. This was mainly a challenge at auditees with competency and capacity challenges in terms of personnel and internal controls systems designed to collate and generate performance information reporting.

The following were the most common findings on usefulness:

- Reported targets, indicators and objectives were not consistent with the approved IDP
- Performance targets were not measurable
- Indicators or measures were not well defined.

Reliability refers to the accuracy, completeness and validity of the actual reported performance against the planned objectives, indicators and targets.

Reliability continued to be a challenge. While 69% of auditees reported reliably on their performance information, this was still a regression of 13% from the previous year. The regression is a sign that some auditees did not substantiate their reported performance with credible evidence.

The most common findings noted at these auditees are the following:

- Reported performance information was not valid, accurate and complete
- The document management system was inadequate to support reported information
- The head of performance and monitoring did not review the annual performance plans and did not have the capacity to identify exceptions between actual performance and what is reported.

To improve their reporting on performance information, auditees should set the right tone at the top and prioritise credible performance information and adequate record keeping. It is encouraging, however, that five municipalities overseeing a total budget of R31,3 billion had no material findings reported in relation to their annual performance plans and Ekurhuleni metro alone contributed R27,3 billion (87%) to that total.

Compliance with legislation relating to annual performance report

Findings relating to the management of strategic planning and performance were reported at 37% of municipalities (12) compared to 34% last year. In the current year, 25 auditees (78%) did not have material misstatements on usefulness and 22 auditees (69%) did not have material misstatements on the reliability of performance information that was reported. The latter represents a regression as only 18% of auditees had findings on reliability in the previous year.

Way forward

The ultimate goal of good governance and clean administration should be to ensure that citizens experience improved service delivery and a better quality of

life. The good practices noted above should continue to be embraced and replicated throughout the province.

Auditees that submitted good quality annual performance reports for auditing had strengthened their processes and controls, creating a control environment that supports useful and reliable reporting on performance. In addition, we recommend sharing the following good practices with auditees that need to resolve their internal controls and processes:

- Technical specialists in performance management units invested time to ensure that performance information staff fully understood the requirements of the FMPPI.
- The risk assessment units, based on the assessment of the environment, ensured that the scope of internal audit units covered the evaluation of key risks that may impact the credibility of performance information reporting.
- Proper record keeping measures were implemented to ensure that complete, relevant and accurate information was accessible and available to support performance reporting. Performance and monitoring units verified the supporting records every quarter.
- Information technology systems for reporting on predetermined objectives should either be implemented or enhanced to ensure proper record keeping, document flow and data integrity.

5. Compliance

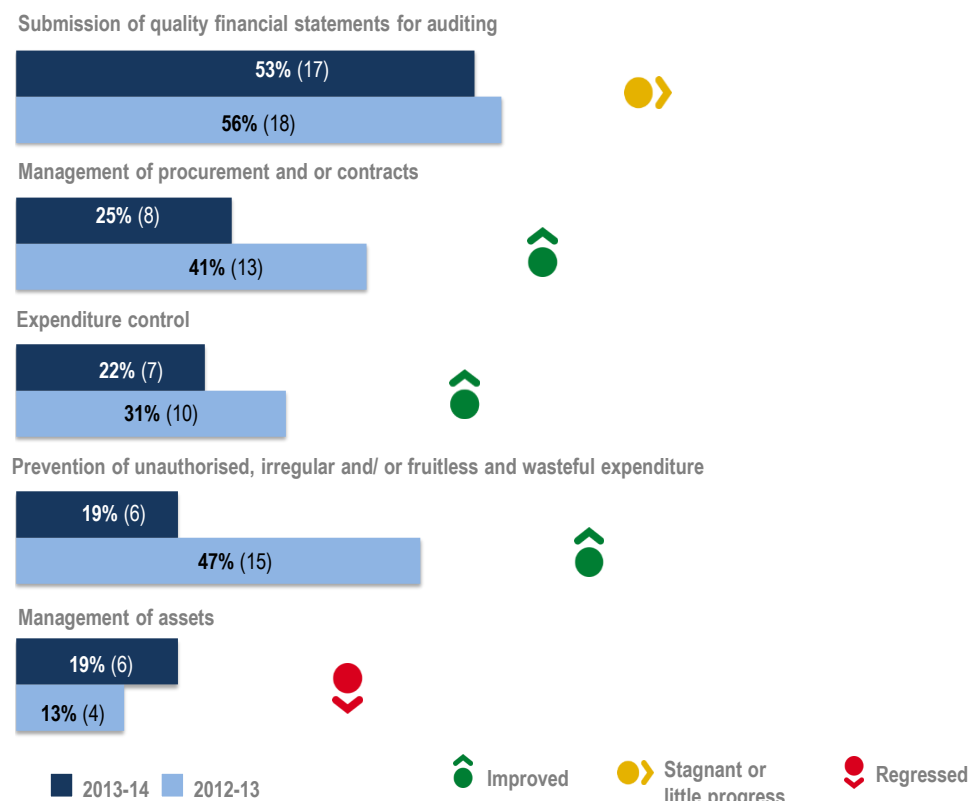
Municipalities are required to deliver services to their communities according to the legislative prescripts applicable to them. The applicable legislation is based on the principles of good governance, accountability and transparency, and regulates the stewardship of the public resources at their disposal. We annually audit and report on compliance with legislation applicable to financial matters, financial management and other related matters

Status of compliance with key legislation and movement

The province had an overall reduction in auditees with compliance findings from 91% in 2012-13 to 55% in 2013-14. This is a major improvement, especially given the nature and interpretation issues that usually complicate compliance as a subject matter. Additionally, the common areas of non-compliance also reduced or improved compared to the previous year.

Figure 9 indicates that non-compliance with key legislation is still a challenge to the province and remains a significant barrier to a majority of auditees in attaining clean and improved audit outcomes.

Figure 9: Most common compliance areas reported



The poor quality of submitted financial statements showed little progress as 53% of auditees (2013: 56%) still failed to produce financial statements that meet the required accounting standards. This was due to the slow pace at which the accounting officers and senior management at some auditees are addressing internal control deficiencies relating to basic financial disciplines.

A significant contributor to the improvement in overall compliance outcomes was the reduction in auditees with material procurement and contract management (SCM) findings from 13 auditees (41%) in the previous year to eight (25%) in the current year. This also resulted in a reduction in the number of auditees with material findings on compliance relating to the prevention of unauthorised, irregular, and fruitless and wasteful expenditure. SCM and unauthorised, irregular, and fruitless and wasteful expenditure findings, including reasons for the improvement, are analysed further in the sections below

It is of concern that the number of auditees with asset findings that related to asset registers that were not effective and/or asset management, accounting and information systems that were inadequate increased from four(13%) to six

auditees (19%). This was due to auditees not adequately accounting for changes in the asset environments and relying on audit process adjustments and consultants to appropriately account for infrastructure assets. The auditees that reported new findings in this area should be cautious of the risk that poor internal control disciplines over assets holds for the financial statements.

Unauthorised, irregular as well as fruitless and wasteful expenditure

The Municipal Finance Management Act (MFMA) requires accounting officers to take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure. Persistent disregard for strengthening this control may inadvertently create opportunities for the commission of fraudulent transactions. If the municipalities are unable to prevent such expenditure, then the MFMA requires disclosure of the amounts incurred in the financial statements and requires that such expenditure be investigated to determine liability. Where liability can be proven, the accounting officer must take disciplinary and/or criminal action against the liable employees and must institute procedures for the recovery of funds. Only after a committee of council certifies that such expenditure is not recoverable may it be written off.

Figure 10 shows the three-year trend of unauthorised, irregular, and fruitless and wasteful expenditure that should have been prevented by the municipalities, while figure 11 shows that irregular and fruitless and wasteful expenditure totalling R1,97 billion has not been investigated and dealt with as required by the MFMA. Consequently, the municipalities have not determined whether any of this expenditure resulted in money being wasted or if fraud was committed.

Despite the clear guidance in the South African Local Government Association (SALGA) guide for accounting officers to report to MPAC all the steps taken to either authorise or certify payments or to recover or write off the expenditure, this is not being adhered to at some auditees. This hampered the effectiveness of MPACs as assurance providers and the credibility of MPAC reports to the council on the appropriateness of the steps taken. It is one of the main root causes reported in Gauteng.

Figure 10: Trends in unauthorised, irregular as well as fruitless and wasteful expenditure

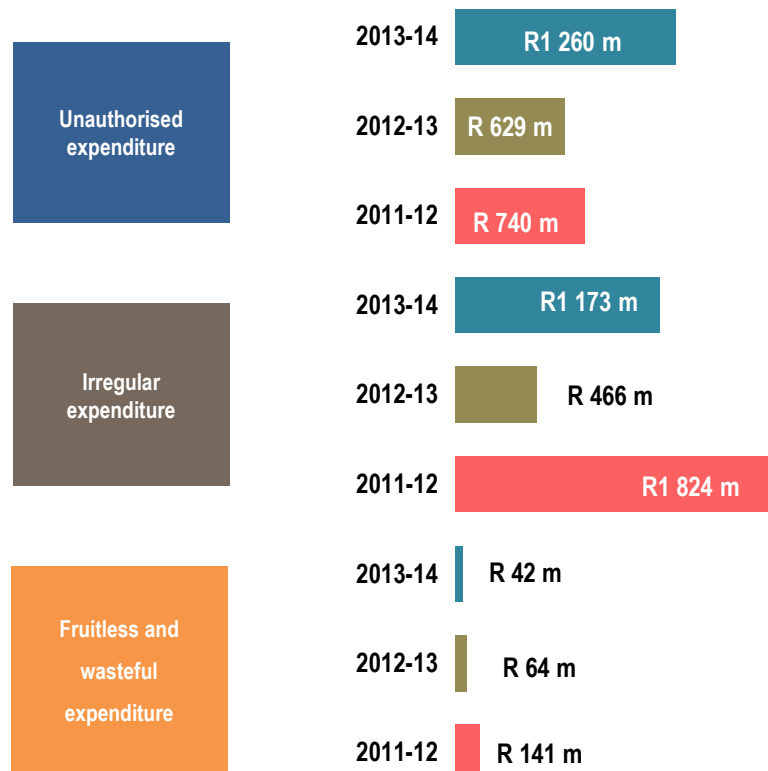


Figure 11: Previous year's unauthorised, irregular and fruitless and wasteful expenditure not dealt with

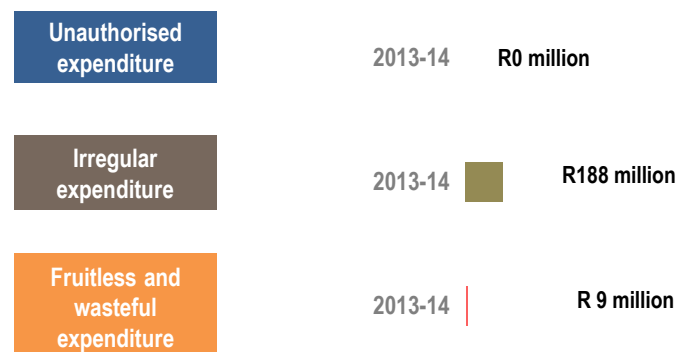


Figure 11 shows previous year's irregular and fruitless and wasteful expenditure included in the current year's closing balance. This expenditure should have been regularised or recovered as required by the MFMA.

Unauthorised expenditure

Unauthorised expenditure is expenditure that had been not spent by municipalities in accordance with the approved budget. This increased significantly over the three-year period from R740 million in 2011-12 to R1 260 million in the current year. Overspending the budget was the cause of 100% of the unauthorised expenditure incurred. Of this overspending, 73% related to non-cash accounting estimations included in approved municipal budgets instead of actual payments.

The highest contributor to the overall increase in unauthorised expenditure at 95% is the City of Tshwane, which increased by more than 100% from R598 million from the previous year to R1 194 million in the current year. This total unauthorised expenditure was mainly due to inaccurate budgeting over the non-cash items such as debt impairment and depreciation.

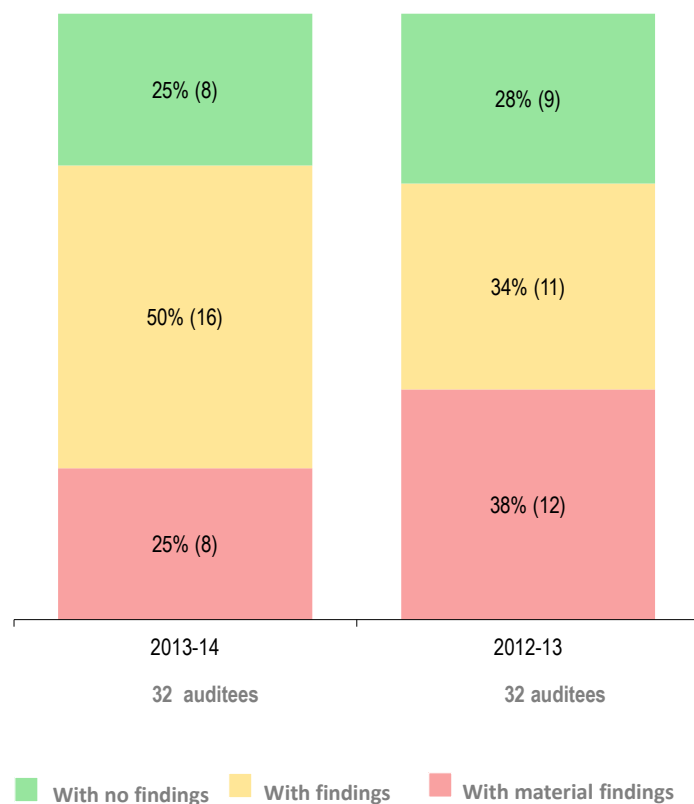
Factors that contributed to the increase in unauthorised expenditure in the province include poorly prepared budgets, inadequate budget control and a lack of monitoring and oversight of expenditure incurred during the year.

Irregular expenditure with a focus on supply chain management

Irregular expenditure is expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed, but is an indicator that legislation is not being adhered to, including legislation aimed at ensuring that procurement processes are competitive and fair. It is also an indicator of a significant breakdown in controls at some auditees. It is the role of council to investigate all irregular expenditure to determine whether it constitutes misconduct, fraud, or losses that should be recovered and, where deemed necessary, to recover these expenditures.

As part of our audits of SCM, we tested 845 contracts with an approximate value of R11,6 billion and 1 350 quotations with an approximate value of R93,7 million, also referred to as awards in this report.

Figure 12: Status of supply chain management



Non-compliance with SCM legislation was the cause of 98% of irregular expenditure. Of the total irregular expenditure, 88% was the result of acts of non-compliance in 2013-14 while the remaining 12% was irregular expenditure resulting from transgressions in the previous years that were identified in the current year.

Irregular expenditure incurred decreased over the last three years from R1,82 billion in 2011-12 to R1,17 billion in 2013-14. The three metros contributed R668 million (57%) of the total amount with Johannesburg, Ekurhuleni and Tshwane contributing R283 million, R235 million and R150 million respectively.

While it is a concern that irregular expenditure increased from last year, part of the reasons for this increase is that some of the auditees instituted better detection controls to proactively identify and disclose irregular expenditure. We will monitor the effectiveness of these controls as they are expected to curb instances of non-compliance and resultant irregular expenditure in the future.

Merafong City, contributed the largest amount to irregular expenditure at R309 million. This was due to inadequate controls, a lack of formal policies and procedures and a lack of skills and competencies within the SCM unit, which require intervention.

The majority of the irregular expenditure (73%) was not identified by the auditees' systems of internal control as it was only identified during the audit process. There is thus significant room to improve the effectiveness of the auditee's controls to ensure that all irregular expenditure is, firstly prevented and, if not, detected by the auditee and appropriately disclosed.

The main areas of SCM non-compliance that resulted in irregular expenditure, as disclosed by the auditees in their financial statements were as follows:

- Procurement without a competitive bidding or quotation process (42%)
- Non-compliance with procurement process requirements (56%)
- Non-compliance with legislation on contract management (2%).

We did not investigate the irregular expenditure as that is the role of the accounting officer and oversight body. While normal processes governing procurement were not being followed, our normal audit did not identify instances where goods and/or services were not delivered. In addition, our financial audits at these auditees did not identify any specific risks or material instances of payment for goods not received or for services not rendered.

As required by the MFMA, it is crucial that accounting officers and/or oversight bodies investigate irregular expenditure in a timely manner to determine if any person was liable for the expenditure. This will enable auditees to determine whether the irregularities constituted fraud or whether any money was wasted and to take appropriate action.

The audit of SCM resulted in two categories of findings: standard findings and material or significant findings. All the findings classified as standard were reported in the management reports of the auditees, while material ones warranted escalation to the audit reports. Figure 12 depicts three categories of auditees: those that did not have SCM findings at all; those that had findings that were not material enough to warrant inclusion in the audit report and those that had findings that were significant and escalated to the audit reports. It is important to note, therefore, that some of the auditees included in the yellow category were still able to achieve clean audit outcomes.

Figure 13: Findings on supply chain management

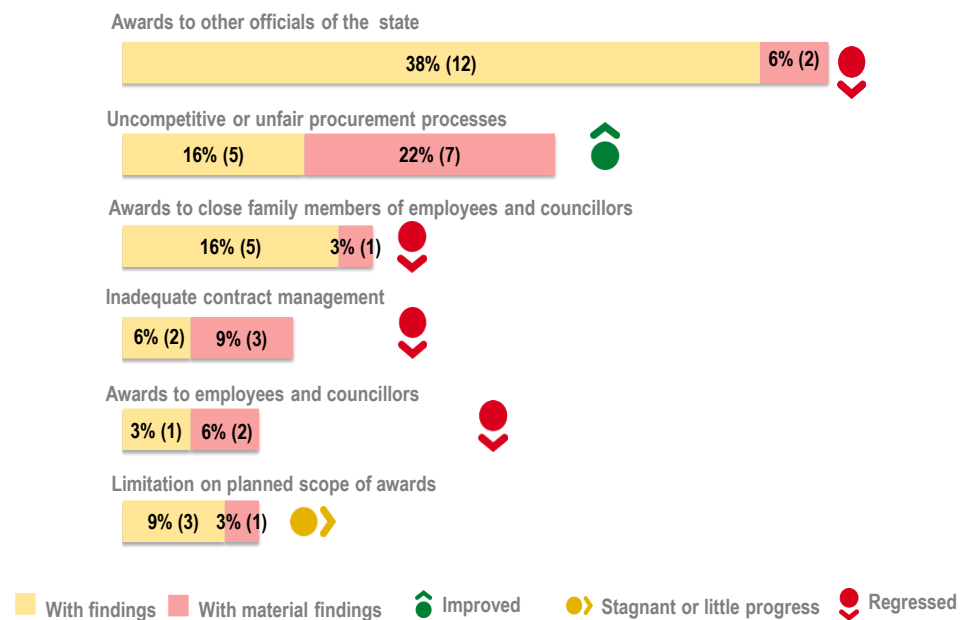


Figure 13 indicates the number of auditees that had SCM findings in the key risk areas we audit and the movement since the previous year.

The most common finding relates to awards to other state officials at 20 auditees (62%) totalling R1,9 billion. For 60% of these auditees, the supplier did not declare the interest. Although auditees may not have access to databases of other state officials, it was noted that the requisite controls as detailed in the National Treasury’s circular were not implemented to prevent non-compliance and the resultant irregular expenditure.

Awards of R2 million were made to employees and councillors at four auditees (12%). The supplier did not declare this interest at three auditees while the employees did not declare this interest at two auditees. The persons involved included lower level employees at four auditees and councillors at one auditee. It is of concern that these auditees did not have basic controls that could have prevented this finding.

Awards were also made to close family members of employees and councillors at seven auditees (22%). In one instance (3%), the auditee did not report the interest as required by the MFMA in the financial statements. In five of these instances (16%) the supplier did not declare the interest while neither the employee nor the councillor declared the interest at one auditee.

Uncompetitive and unfair procurement processes at 12 auditees (38%) were primarily a result of auditees not inviting competitive bids when required. The resulting deviations were either not approved or not justifiable in terms of MFMA SCM regulation 36.

Fruitless and wasteful expenditure

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

Fruitless and wasteful expenditure decreased from R141 million in 2011-12 to R42 million in the current year. The reduction can be attributed to auditees implementing stricter controls to ensure that suppliers are paid on time, thus reducing interest payments. This can also be seen in the reduction of the number of auditees with findings on compliance with expenditure control. Of the R42 million incurred, Randfontein incurred R23 million (55%) due to cash flow problems resulting from poor debt collection. The political and administrative leadership should ensure that fruitless and wasteful expenditure is properly investigated and recovered from officials where possible.

At some auditees, there is still a lack of understanding of SCM legislation.

Way forward

A strong financial management system is imperative to avoid a possible misdirection of resources. It is crucial for coordinating institutions, especially the Gauteng Treasury and Gauteng CoGTA, to provide appropriate support to these auditees and assist them in implementing internal control disciplines. This should eventually eliminate unauthorised, irregular, as well as fruitless and wasteful expenditure in the province and lead to improved service delivery.

In addition to audit committees insisting on appropriate and timely corrective measures from management and providing the requisite assurance over compliance reports and the adequacy of controls, the following good practices, should be shared:

- Oversight structures such as MPAC insist on prompt investigations and recommend decisive actions against transgressors.
- The political and administrative leadership lead by example and set a tone that results in a low tolerance towards deviations from controls.
- Accounting officers take appropriate steps against officials who undermine internal control, policies and procedures, and applicable legislation.

6. Human resource management

Human resource management is effective if adequate, sufficiently skilled resources (in other words, staff) are in place, and if staff performance and productivity are properly managed. The effectiveness of human resource management is critical as it has a direct bearing on building and maintaining sound institutional and administrative capabilities.

Major internal control weaknesses contributed to there being no improvement in overall human resource management within the province, despite improved outcomes. These weaknesses included significant periods of vacancy in the positions of municipal managers, chief financial officers and heads of SCM. This highlights the risk that the improvements on audit outcomes may not be sustainable.

Management of vacancies

Stability in key positions

The instability in key positions and vacancies were due to auditees not being able to recruit and retain suitable candidates. Long-term vacancies in key senior management positions combined with poor succession planning meant that auditees had to use employees in long-term acting positions.

Figure 14: Stability in key positions per audit outcome

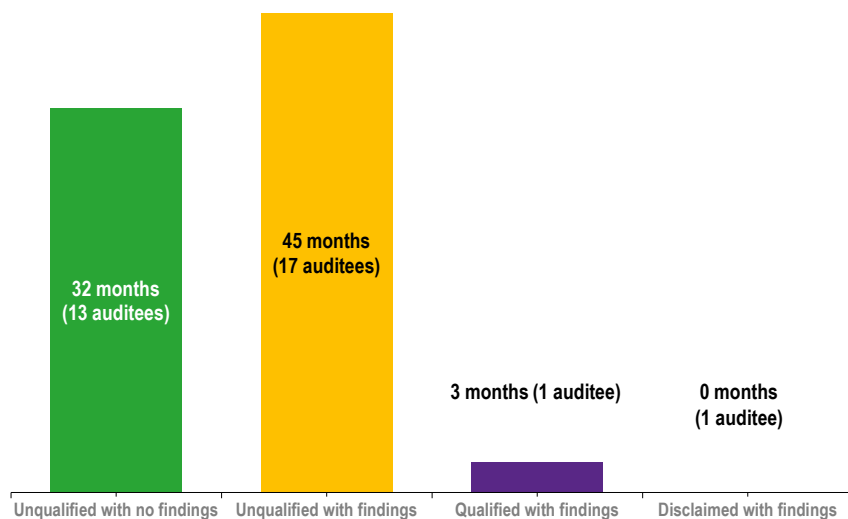


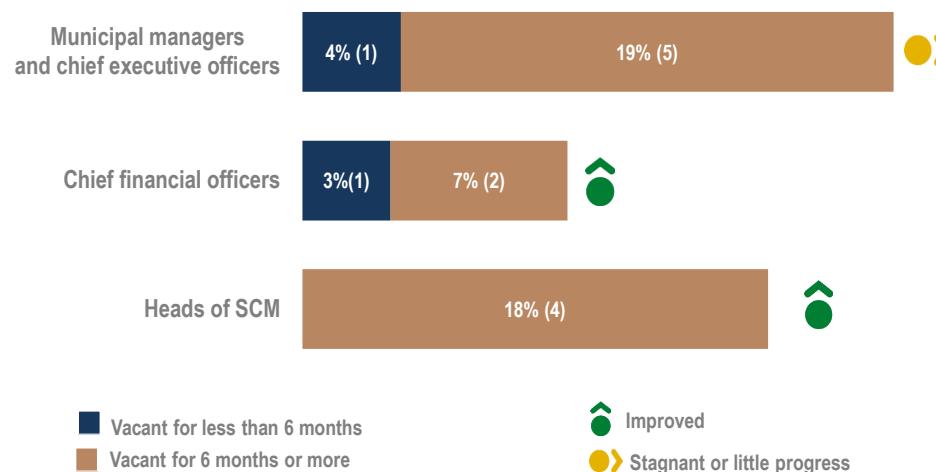
Figure 14 shows stability in the positions of municipal manager, chief executive officer, chief financial officer and head of the SCM unit as well as the impact on audit outcomes. For outcomes to improve or be maintained, key positions need to remain stable to ensure that the key controls are embedded. As is evident from auditees with clean audit outcomes, the stability in key positions resulted in better assurance being provided and better audit outcomes.

Management is the first line of defence for combined assurance and other sets of control activities that auditees in local government perform to ensure the credibility of compliance, financial and performance reporting (its value chains). The stabilisation of these key management positions is thus critical to ensuring that the maturity of the combined assurance, and the desired audit outcomes, are sustained.

Vacancies at year-end

Overall, the average vacancy rate at year-end was 19%, while the vacancy rate at both the finance and senior management level was 13%. Twelve auditees (38%) had findings concerning the management of vacancies, which is of concern.

Figure 15: Auditees with vacancies at year end



It is encouraging that auditees made some progress towards appointing and retaining staff that are suitably qualified, have the appropriate competency levels and are knowledgeable in the areas in which they have been employed. However there is still room for improvement.

Average vacancy period

Figure 16: Average vacancy period (months)



Figure 16 depicts the average number of months it takes auditees to fill key vacant positions. The legislation allows for a maximum acting period of six months before municipalities are required to obtain permission from the member of the executive council (MEC) of local government. The reality in the province, however, is that it took between nine and 12 months to fill these key positions. While it is not ideal, a balance should be struck between compliance and filling these vacancies with suitably qualified persons with adequate technical skills and public sector experience. The political and administrative leadership should prioritise filling vacant posts, especially considering that the resources are available in the province.

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Competencies and qualifications in key positions

The MFMA requires officials to meet prescribed competency levels in financial management and SCM. This is supported by the *Municipal regulations on minimum competency levels*, which sets the required levels of competence for accounting officers, senior managers, finance officials and other officials responsible for municipalities' SCM. The financial management and governance competencies ensure that chief financial officers are able to prepare credible and accurate financial reports on the accounts of municipalities.

There is an overall improvement in the number of key officials who met the requisite minimum competencies in the year under review. These competencies, which demonstrate much needed skills for a strengthened internal control environment, are critical in the discipline of preparing accurate financial statements and performance reports.

Figure 17: Achievement of minimum competencies

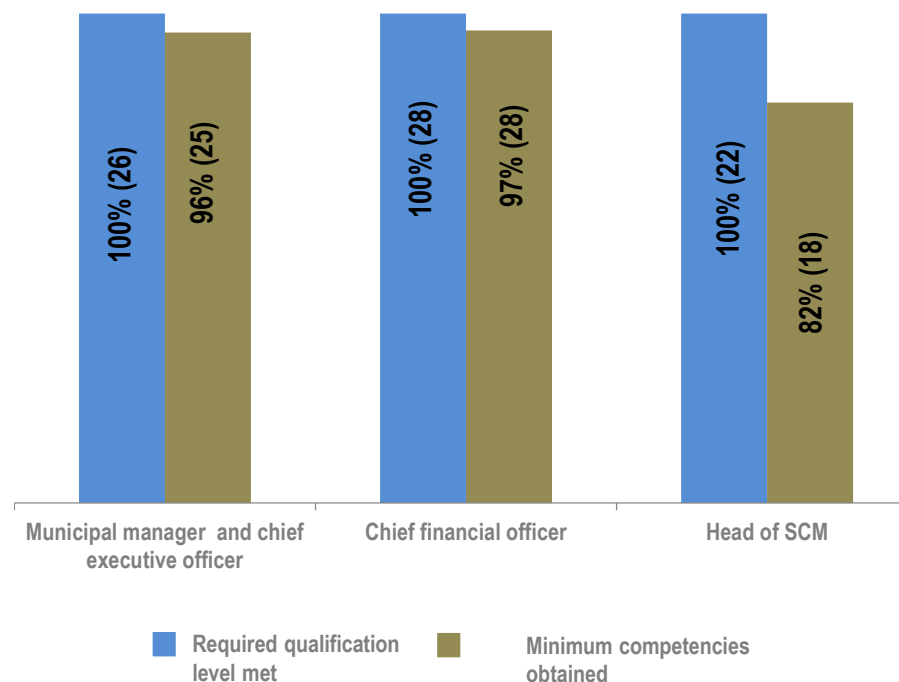


Figure 17 confirms our assertion that Gauteng does not have a shortage of suitably qualified officials with the requisite competencies and experience. At the majority of auditees that have filled positions, there is a correlation between the official qualifications and competencies. There were instances where a few appointed officials did not meet the minimum competencies. Those officials should be encouraged to fully comply with the National Treasury's circular aimed at addressing minimum competency requirements and enhance their technical skills to produce credible financial and performance reports.

Impact of chief financial officers on financial statement opinions

The municipal managers/chief executive officers, as accounting officers, are ultimately responsible for the audit outcomes. It is their responsibility to ensure that:

- the staff establishment is aligned to the municipal strategy
- vacant posts are filled in time with competent and skilled staff

- job descriptions exist for all positions to ensure performance can be managed
- consequence management is enforced where staff are not performing
- the chief financial officer and section 57 managers are performance managed
- processes are in place to manage consultants
- reports on performance against predetermined objectives are accurate.

As expected, qualified and competent staff produced credible financial statements. Our assessment of competencies and qualifications versus audit outcomes indicate that there is a correlation. This is depicted in figure 18.

Figure 18: Impact of chief financial officer's qualifications on audit opinions

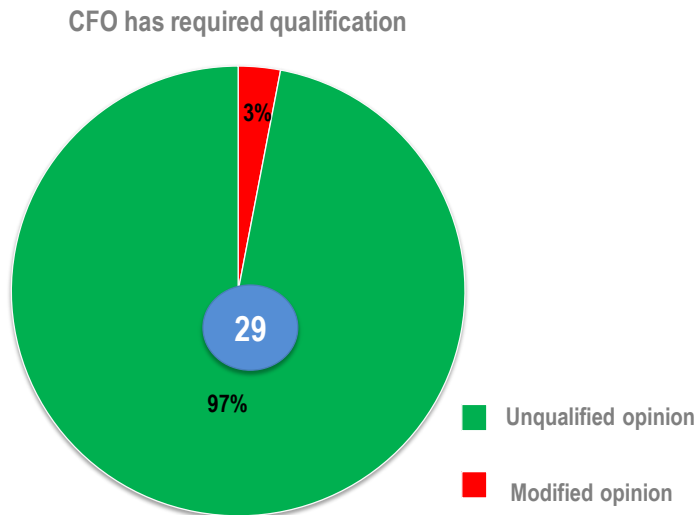
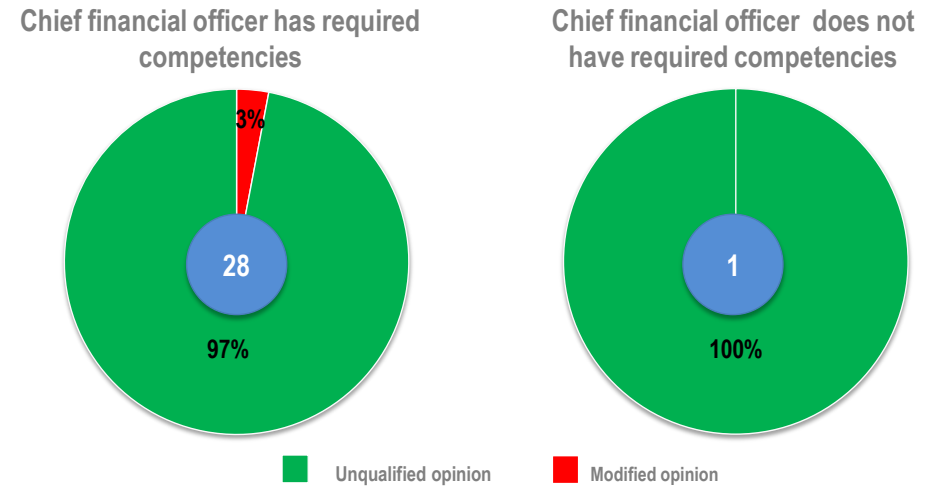


Figure 18 shows that at the majority of the auditees in Gauteng where chief financial officers were suitably qualified, better audit outcomes were achieved. Qualified officials with necessary experience in the public sector were more assertive and insisted on credible financial and performance reports, irrespective of whether they are prepared internally or from consulting firms.

The only municipality with a chief financial officer who met the requisite national qualification framework levels, and still obtained a qualified audit opinion, was Randfontein. Randfontein is considered to be an exception to the norm because it received a qualified opinion even though it had a chief financial officer, and engaged the services of consultants and officials from Gauteng CoGTA.

Figure 19: Impact of chief financial officers competencies on audit opinions



While figure 18 shows the link between chief financial officers with qualifications and audit outcomes, figure 19 depicts the correlation between chief financial officers' competencies and audit outcomes. The majority of auditees (97%) where chief financial officers had met the required competency levels achieved unqualified audit outcomes. The second graphic shows that a chief financial officer from one auditee did not meet all the minimum competency levels as prescribed by the National Treasury. However, because of stability and appropriate skills in the finance units, coupled with the services of consultants, this auditee was still able to achieve unqualified audit outcomes.

Way forward

For municipalities and their entities to perform effectively, adequate human resource management should be prioritised across the board. It is crucial that auditees strengthen their ability to attract and retain suitably qualified staff, thereby managing their vacancy rates. Officials' competencies and qualifications need to be assessed and addressed to prevent any further regression in the control environment of human resource management and a reduction in the number of findings emanating from these regressions.

The auditees that obtained clean audit outcomes were able to stabilise key positions, and this stability resulted in a transfer of skills to other levels of staff as a means of building institutional capacity.

Individual and organisational performance must be effectively monitored through signed performance agreements, with expected performance targets and indicators being agreed upfront. The individual performance agreements must

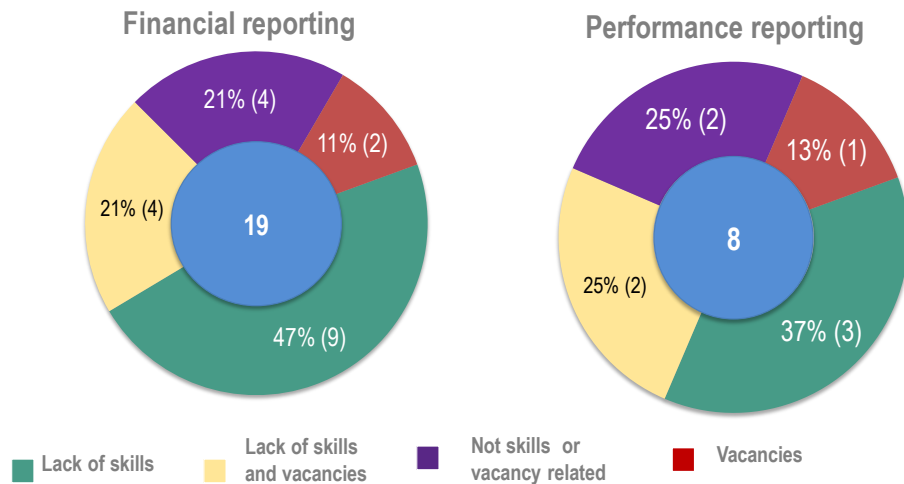
be aligned to the organisational business plans that track auditees' performance against their IDPs.

7. Consultants used in the areas of financial and performance reporting

Our audit included an assessment of the work performed by consultants at municipalities. Although we acknowledge the need to appoint consultants to assist the public service, this must be needs-driven, with an emphasis on value for money, proper planning and monitoring, and the transfer of skills.

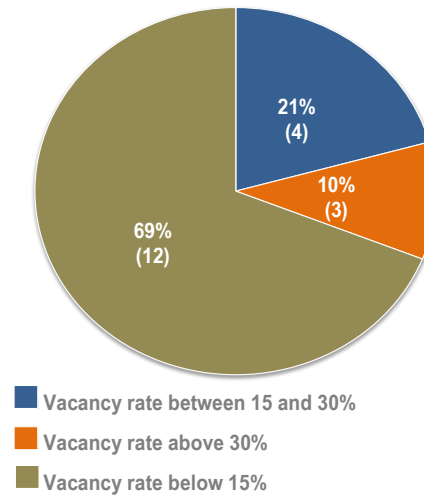
Similar to the previous year, auditees engaged consultants to assist them with the preparation of financial and performance reporting information. Although there is an improvement in the management of consultants, there are still concerns relating to transferring skills and monitoring work done by consultants.

Figure 20: Reasons for using consultants



As indicated in figure 20, the main reason for the high use of consultants for financial and performance reporting is a lack of technical skills. The use of consultants to assist with financial reporting was prevalent at 19 auditees (59%) and amounted to R86 million (2012-13: R114 million). As far as could be determined from available information, this included amounts spent by the national CoGTA on consultants assigned to assist municipalities. Consultants were used to assist with performance reporting at eight auditees (25%), at a cost of R10 million (2012-13: R1,2 million).

Figure 21: analysis of vacancies within the finance unit where consultants were used



*All these auditees have chief financial officers

Figure 21 analyses the vacancies within the finance units of auditees where consultants were used. Finance unit vacancy rates above 15% are of concern as they have an impact on the control environment and financial reporting processes. More vigorous attention should be given to using existing capacity, the up-skilling of existing officials and re-examining existing organisational structures by leadership for their relevance.

Figure 22: Impact of consultants

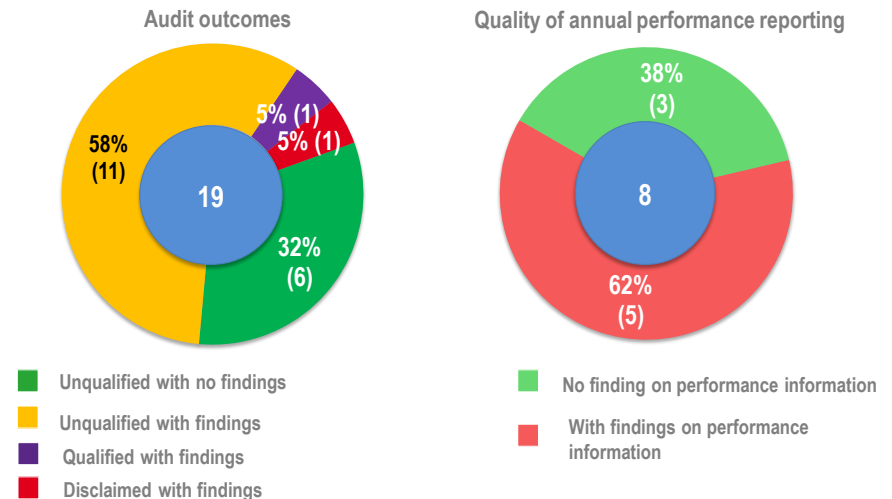


Figure 22 shows audit outcomes in relation to consultants used. Material misstatements in the components of the financials prepared by consultants occurred at two auditees: Randfontein and the West Rand Development Agency. This was due to these consultants being appointed late and the auditee's ineffective processes and systems.

Even with the use of consultants for performance reporting, material findings were reported at five auditees: the City of Johannesburg, Lesedi, Randfontein, City Power Johannesburg and Johannesburg Water. Notwithstanding the consultants that failed in their mandate because of the auditees' ineffective systems, some have not demonstrated an adequate level of understanding of the requirements for performance information reporting and were, as a result, unable to effectively assist auditees in achieving clean administration.

The reasons for the lack of impact of consultants used at the auditees concerned are documented in table 2:

Table 2: Reasons for the lack of impact of consultants

Reason for lack of impact	Financial Reporting	Performance Reporting
Auditee ineffectiveness	50%	75%
Poor project management by the auditee	50%	25%

Services bought from consultants

Consultants in Gauteng were brought in mainly to perform the following functions:

- Preparing financial statements, updating and maintaining GRAP 17-compliant fixed asset registers
- Performing technical reviews on financial statements where they were prepared by internal officials
- In some instances, consultants were brought in to compile 'audit files' to prepare for external audit. This process usually included basic accounting functions such as checking or preparing reconciliations and any other information necessary for the finalisation of annual financial statements
- Some consultants were specifically engaged to help with the preparation of performance information.

Lack of skills versus use of consultants

There is no apparent correlation between auditees that used consultants and vacancies in finance units. We therefore infer that some auditees continued to outsource their responsibilities to the consultants. The chief financial officers who have commented on the use of consultants are clear that their use of consultants, especially to review financials, is aimed at providing independent quality assurance on their internally prepared financial and performance reports.

However, unless there is a plan to transfer skills, this will create an undesirable situation where local government pays twice for same service i.e. for tasks that could have been effectively completed by officials in finance units, with the help of Treasury where complex technical transactions are involved.

There were consultants who took the assignments seriously and performed as expected. They were open and transparent with the municipalities and advised them on the best way to approach their challenges so that the objectives of the consulting assignment could be achieved.

Our review of the contractual arrangements between auditees and consultants highlighted a number of shortcomings:

- Auditees appointed consultants without first conducting a proper needs analysis to determine the particular areas for which consultants were required, and some did not have a policy or strategy in place regarding the use of consultants.
- Consultants were appointed even though skills were available in the entity. This is indicative of lack of discipline and outsourcing the responsibilities that chief financial officers and senior managers were appointed for.
- Measures to monitor contract performance and delivery were not implemented by auditees and there was no evidence of the transfer of skills having taking place during or after the use of consultants.

Way forward

Administrative leadership should aim to derive as much value as possible from the use of consultants, without detracting from their primary responsibilities. This value should translate into enhanced internal processes, strengthening of existing skills at auditees and the transfer of skills from the consultants. Coordinating and monitoring institutions such as Provincial Treasury and CoGTA need to play a stronger role in assisting the leadership in this area.

They should have proper planning and documentation before and during the appointment process, and reflect on the enduring benefit derived after the consultants have performed as required.

Established terms of reference that cater for more specific, risk-based services and regular monitoring should also assist in adding value and, ultimately, in improved service delivery.

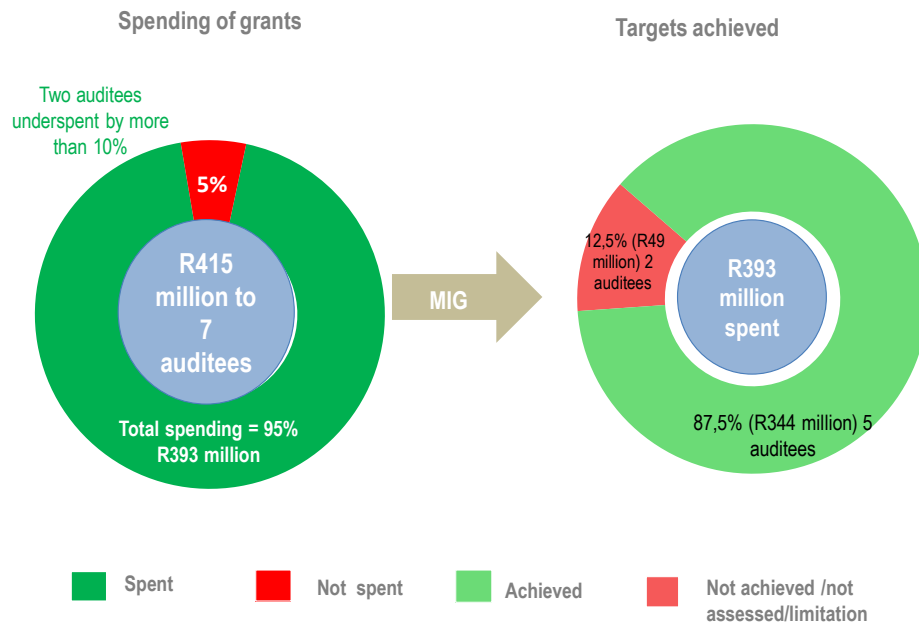
8. Conditional grants

Government's vision, priorities and expected standard of services in local government are expressed in the MTSF and CoGTA's back-to-basics strategy, where focus is placed on providing high quality, sustainable and reliable access to basic services including electricity, water, sanitation and refuse removal.

In support of these goals, grants are provided to municipalities to upgrade their infrastructure and build their institutional capacity. An MIG is provided to municipalities to upgrade their infrastructure, while the MSIG and the FMG are provided to enhance municipal capacity. This is to enable municipalities to improve coordination, accountability and performance management. These grants are conditional and can only be used for the purposes stipulated.

Municipal infrastructure grant

Figure 23: Municipal infrastructure grant



total amount of R415 million was allocated to seven local municipalities: the West Rand district Emfuleni, Lesedi, Randfontein, Midvaal, Mogale City and Merafong City.

Of the total allocated amount, 95% (R393 million) was spent and only 5% (R21 million) remained unspent at year-end. The grant was used on various projects relating to infrastructure development, such as road infrastructure, rehabilitating landfill sites, extending cemeteries, upgrading sewers and water and sanitation services.

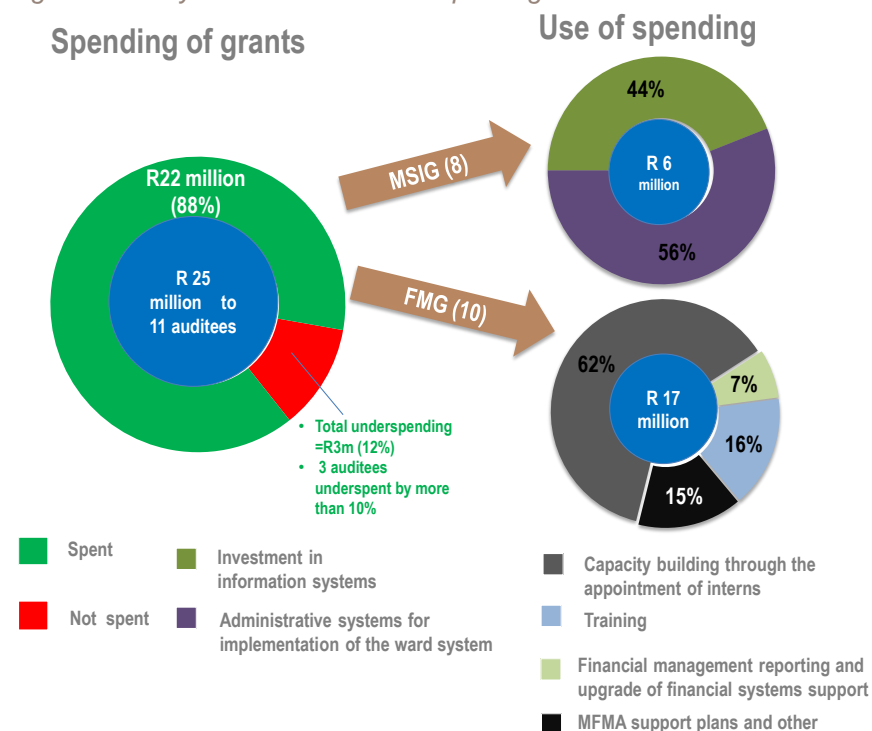
The fact that 87,5% of the targets were achieved is an indication that the majority of the grant was used for its intended purpose. It is clear that Gauteng is moving in the right direction regarding providing basic services. The province's technical capacity to develop business plans, municipalities planning projects in good time and service providers being appointed in time at a majority of municipalities enabled better spending of this particular grant.

Municipal systems improvement grant and financial management grant

Municipalities received MSIG and the FMG to assist them in to improve their financial and performance management. In total, 11 auditees received these two grants and, in the current year, R25 million was available to spend on these grants.

Figure 23 shows the expenditure of the grant on the projects aimed at improving the access to basic infrastructure services by communities in the province. A

Figure 24: Analysis of MSIG and FMG spending



The biggest contributor to the unspent portion on the LGFMG is the City of Tshwane, which underspent by 27%. The underspending was because service providers were appointed late and delays were experienced in interviewing interns.

Sedibeng district underspent on the MSIG by 21% because the funds were received late, which resulted in delays in spending.

The West Rand district received the MSIG and used the funds to finance their in house ICT project supporting service delivery. The project did not relate directly to financial management and therefore had no impact on the audit outcomes.

The FMG was used for the appropriate purposes as the municipalities filled vacant posts, especially within the finance division and performance unit. The funds seem to have had an impact at West Rand district, which improved on predetermined objectives from qualified in the previous year to unqualified in the current year.

However, the lack of proper financial support by the district to the West Rand Development Agency, and the resignation of that entity's chief executive officer, had a negative impact on the agency, resulting in it receiving a disclaimer of opinion, which ultimately diluted the results of the district.

Figure 25: Analysis of outcomes where targets were achieved

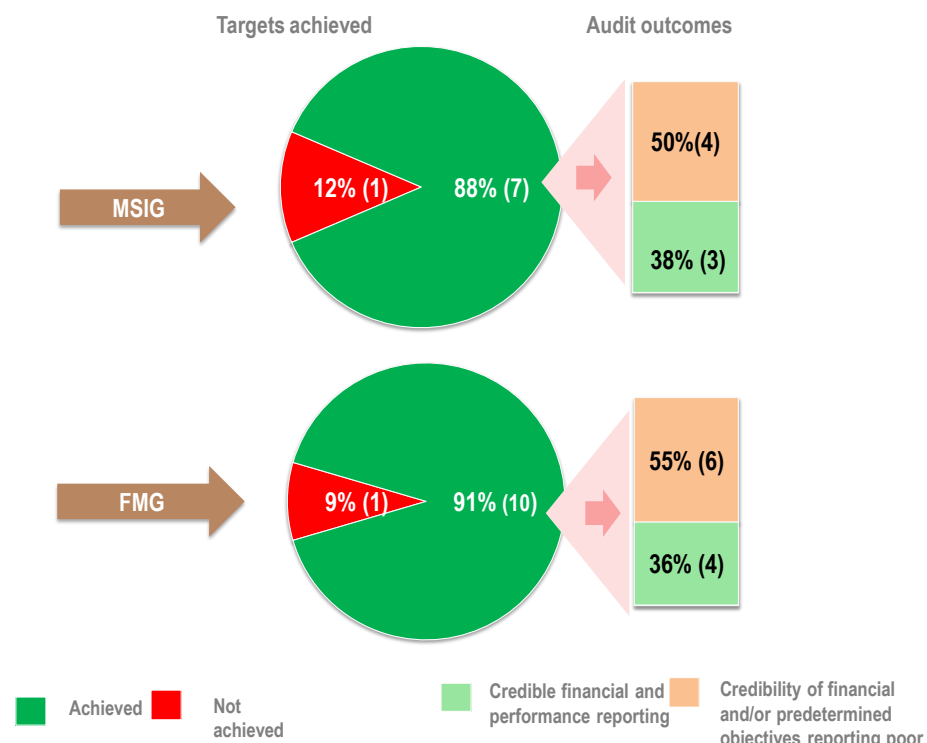


Figure 25 shows the number of municipalities that achieved or did not achieve the targets set for the MSIG and FMG, and the credibility of their financial and/or predetermined objectives reporting. There is a need for alignment and improvement in this area. The inability of municipalities to achieve the set targets prevented them from obtaining the full benefit and impact of the grant. Achieving the planned targets also did not necessarily translate into credible financial and performance reporting.

9. Financial viability

Our audits included a high-level analysis of the auditees' financial viability indicators to provide management with an overview of selected aspects of their current financial management status and practices. This analysis will enable identification and remedial action where the auditees' operations may be at risk due to poor financial management. Furthermore, the assessment indicates whether the municipalities provide services to the citizens in a sustainable manner, as required by the constitution.

We analysed 23 financial indicators and performed procedures to assess whether any events or conditions might cast significant doubt on an auditee's ability to continue its operations in the near future. Three small municipal entities were excluded from the analysis.

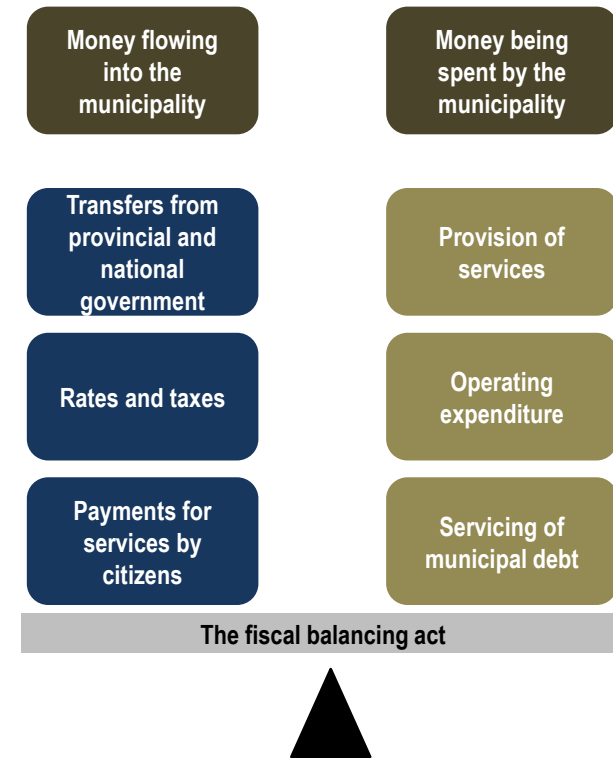
Based on the analysis, each auditee was given an overall assessment as follows:

Good	Two or less unfavourable indicators
Concerning	More than two unfavourable indicators
Intervention required	Significant doubt that operations can continue in future and/or the auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses

In November 2014, the National Treasury published *The state of local government finances and financial management as at 30 June 2014*. The report included an assessment of the financial health of municipalities based on the fourth quarter reports submitted to them by municipalities and a list of the municipalities they considered to be in financial distress. Our messages and those of the National Treasury are similar regarding the financial risks that local government faces as well as the municipalities that are most vulnerable and that should receive urgent attention from provincial and municipal leadership.

To deliver services to their residents and ensure the continuation of such services, municipalities need to carefully manage the money flowing in and the money being spent, as depicted in figure 26:

Figure 26: Cash flow management



As part of our assessment, we evaluated the following four aspects that relate to this balancing act:

- Whether the financial position of auditees was sound.
- Whether revenue collection was adequate to ensure a steady stream of income to finance service delivery activities (revenue management).
- Whether creditors were managed effectively (meeting financial obligations).
- Whether the spending patterns were in line with grant conditions.

The financial health of municipalities in Gauteng depends on their ability to earn revenue and manage their spending economically, effectively and efficiently. The results of the high-level analysis of auditees' financial health indicators demonstrated that there are various risks that management, oversight and monitoring structures, treasuries and administrative leadership should consider as they may have a negative impact on service delivery objectives.

To contextualise financial health analysis in the province, Gauteng serves as the economic engine room of the country and the sub-continent. It is responsible for about 35% of the country's gross domestic product. It being the powerhouse of South Africa and the heart of its commercial business and general government services, it is expected that the biggest spending will happen here.

A negative outlook accompanies the rating, which is a reflection of the negative outlook on South Africa's sovereign rating as it is echoed by the country's systemic pressure. Gauteng metros, as carriers of service delivery budget, however, have been able to maintain sound budgetary performance and a firm liquidity position.

Auditees in a poor financial position

Going concern uncertainty	'14	'13
Material uncertainty – future operations	25%	19%

The financial statements of eight auditees (25%) (2012-13: 6 [19%]) disclosed material uncertainties regarding the ability to continue as a going concern. Of these eight auditees, only two are local municipalities, the others being municipal entities.

Both the Sedibeng and West Rand districts' cash flow challenges are due to these districts being predominantly dependent on grant funding. Over the last five years, the allocation of equitable share to municipalities generally declined while operational costs have increased. For the last four years, the districts have therefore implemented austerity measures to ensure that their mandates continue to be met.

Emfuleni's cash flow challenges are due to a weak revenue base coupled with poor debt collection. The municipality has implemented credit control measures including a third party to assist with the collection of debt. In addition, the executive mayor has been holding public meetings to encourage the public to pay for services.

Due to the funding arrangements of municipal entities at metros, net liability positions are common, but these are covered by the subordination agreements of parent municipalities. Therefore, the issue of going concern is not prevalent or a major concern in Gauteng.

Sustainability indicators	'14	'13
Net liability position realised	42%	39%
Deficit for the year end realised	35%	39%
The year-end balance was in overdraft	3%	0%

The table above shows municipalities with possible sustainability challenges such as current liabilities exceeding current assets. Auditees in this position may have difficulty in meeting their suppliers' demands for payment. Combined with

other factors, such as the negative results from operations (net deficit position) and an overdraft bank balance, the biggest risk is inefficient and ineffective operational management. These municipalities may experience cash flow problems and may be tempted to use a portion of their conditional grant funding for payment of liabilities, adversely affecting future activities and service delivery. The mitigating factor is the ability of Gauteng municipalities to raise debt where necessary.

Revenue management

Revenue management	'14	'13
More than 10% debt irrecoverable	71%	68%
Debt collection period more than 90 days	23%	16%

A sound local government revenue system is even more important to local governance and finance than a robust expenditure process. In line with National Treasury's assertion, an increase in debt owed to the municipalities, which range from outstanding property rates to the non-recovery of billed municipal services, is a serious threat to the cash management, financial viability and sustainability of municipalities. Therefore, the administrative leadership of municipalities and municipal entities should develop and implement debt-collection strategies, which should be supported by clearly defined, documented and consistent policies and procedures that guide collectors through the collection process and instruct them on how to respond to particular situations.

Meeting financial obligations

Creditor payment period	'14	'13
Creditor payment period more than 90 days	32%	19%

The indicator, which is above the 30 days as prescribed in the MFMA, indicates that auditees could face risks of paying higher costs for goods and services to compensate for delays in payment. While the indicator refers to 'more than 90 days', the creditors payment period remained a concern as the average payment days for more than 70% of the auditees is in excess of 30 days. Credit management is a key component of the working capital requirement of local government and needs to be monitored and managed holistically, together with debt management.

Spending patterns

Spending matters	'14	'13
Underspending of capital budget by +10%	32%	10%
Underspending of conditional grant by +10%	19%	13%
Overspending of operational budget by +10%	13%	0%

Underspending on the capital budget regressed when compared to the previous year. Only nine auditees in the current year monitored effective budgeting tools to ensure that capital budgets were not underspent, compared to fifteen auditees in the previous year. Capital budgets are also directly linked to service delivery; therefore, where capital budgets are significantly underspent the implication is that service delivery objectives are not being achieved.

Similar to underspending capital budgets, the high incidence and extent of underspending specific-purpose conditional grants had a negative impact on municipalities' infrastructure roll-out and service delivery objectives.

Overspending on budgeted operating expenditure regressed. This is attributed to poor in-year budget monitoring, unrealistic budgets and budgets not supported by credible assumptions. This resulted in auditees being unable to ensure that their spending was within the approved budget allocations.

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Way forward

Sound financial health is imperative to ensuring the effective operation of local government. It is essential that budget processes are tightened and that spending only occurs in line with a realistic assessment of the available budget. Most importantly, these auditees should ensure that controls are in place to monitor and competently manage the budget throughout the year.

The extended collection periods may result in cash flow problems, adversely affecting operational management. The excessive write-off of debt highlighted the culture of non-payment for services by consumers, high levels of non-technical distribution losses and the impact of an economic recession accompanied by rising rates and tariffs.

The collection of rates was also impacted by the affordability of municipal services. The economic environment makes municipal services expensive to residents. This was made worse by inadequate revenue, indigent debtors' processes and a lack of capacity within revenue collection departments.

The net current liability position highlights the concerns of liquidity and cash challenges. As indicated above, some auditees incurred more than they generated, which resulted in an increase in outstanding creditors. Of concern is that auditees adopted over-optimistic budget estimates in collections and they

overspent on their operating expenditure budget, which contributed to ever-increasing creditor balances.

Debt management is a key component of the working capital requirement of local government, as it needs to be monitored and managed holistically together with credit management. Doing more with less can materialise if, among other cost saving initiatives, a concerted effort is made to curtail the extent and costs of using external service providers (consultants).

10. Information technology systems

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

Effective **IT governance** is essential for the overall well-being of an organisation's IT function and ensures that the organisation's IT control environment functions well and enables service delivery. An IT governance framework is being developed by a national coordinating and monitoring structure that was established by the minister of CoGTA. The framework is in draft format and currently undergoing a consultative process with the objective of achieving final approval and implementation during the 2015-16 financial year.

Our audit also included an assessment of the IT controls that focus on security management, user account management and IT service continuity. There has been some improvement since the previous year in the number of auditees that had findings on IT controls. The most common findings were as follows:

Security management

Security management findings were reported at 54% of the municipalities, which is an improvement of 12% on the previous year. The improvement can be attributed to an increase in the number of municipalities that had designed security management policies and procedures.

Although security management policies and procedures had been approved for the metros, they had not been implemented to ensure that the systems were adequately secured. At most district and local municipalities and municipal entities the security policies and procedures were inadequate as they did not cover firewall, antivirus and patch management. As a result, little improvement had been achieved in the management of security in the province.

The systems of the municipalities and municipal entities were consequently exposed to security threats, which increased the risk of financial information being manipulated, or destroyed and could lead to incorrect reporting.

User access management

User access management findings were reported at 54% of the municipalities, which is an improvement of 24% on the previous year. The improvement can be attributed to an increase in the number of municipalities that had designed and implemented security management policies and procedures.

Although security policies and procedures had been drafted for the Systems, Applications and Products (SAP) system, which was used by many of the municipalities in the province, these policies and procedures did not comprehensively address user account management risks. As a result, unauthorised users might be created on the system and be used to perform fraudulent activities. The risk was exacerbated by the fact that access rights on the financial systems were not monitored to ensure that they remained aligned to the users' job responsibilities. As a result, excessive access might be granted to the financial systems, which would allow users to execute functions for which they had not been authorised. Such access would, for instance, enable users to make changes to supplier details, meter readings and employee details, such as leave and banking account information. Municipalities might as a consequence suffer financial losses or the integrity of their data might be compromised.

Information technology service continuity

Service continuity findings were reported at 54% of the municipalities, which is a regression of 6% from the previous year. The regression is due to some municipalities not implementing the controls designed; for example, the disaster recovery plan was not tested in the 2013-14 financial year.

Disaster recovery plans had still not been approved for the Ekurhuleni metro and at the City of Johannesburg, the primary site and the recovery server were situated in the same building.

Backup policies were found to be inadequate as they did not cater for all the systems used at the municipalities and did not cover all aspects of data recovery. The municipalities and municipal entities were consequently exposed to the loss of financial information, should a disaster occur.

Deficiencies still to be improved

- CoGTA should engage with the chief information officer of the Gauteng Department of Finance, who facilitates the chief information officer council for provincial departments, regarding the sharing of knowledge among the chief information officers.
- Auditees should fill vacant positions to ensure that IT controls are monitored in-house, especially at auditees who make use of the services of IT consultants.

- Audit committees should play a role in ensuring that IT controls are implemented.
- The internal audit function of auditees should be capacitated with IT skills that would enable them to assist in actively following up on IT commitments.
- Executive management should put measures in place to monitor the implementation of IT controls, especially where application systems are owned by the business.

Way forward

Government has realised that many of the IT systems used for financial management at municipalities do not have the functionality to support all the complex and sophisticated business environments of local government. This has been a contributory factor in the poor audit outcomes. The standard chart of accounts project being implemented by the National Treasury is expected to improve the financial management systems of local government.

11. Key controls

A key legislated responsibility of accounting officers, senior management and officials is to implement and maintain effective and efficient systems of internal controls. As part of our audits, we assessed auditees' internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with key legislation. To make it easier to implement corrective action, we have categorised the principles of the different components of internal control under leadership, financial and performance management and governance

Figure 27: Key Controls

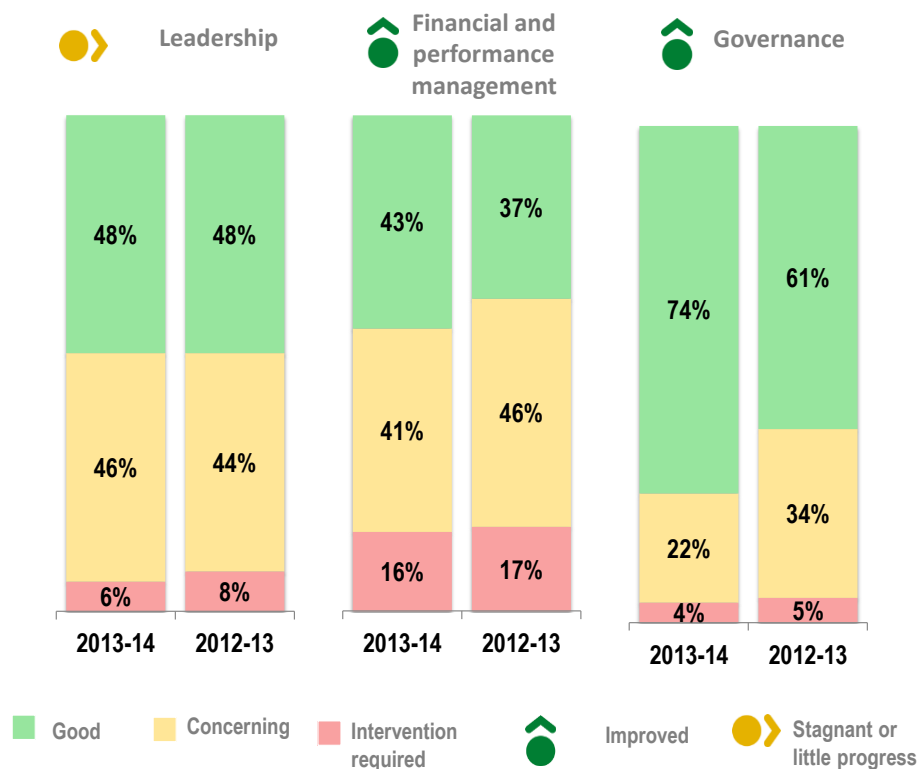


Figure 27 shows the status of the different areas of internal control and the overall movement since the previous year

The overall positive movement is encouraging and driven by a slight improvement in the area of financial and performance management, and a significant improvement in governance.

Good practices to be replicated

Auditees with improved and strong internal control environments were able to implement and sustain the following key elements of internal control underlying leadership, financial and performance management, and governance. Other auditees are encouraged to embrace these best practices to improve their audit outcomes.

Leadership

Although this area remained stable in the current year, there was a significant improvement in key leadership controls in the previous year. The effect of this

has manifested itself in the significant improvement in audit outcomes in the current year and in particular the significant increase in the number of auditees achieving a clean audit outcome. The stability of political and administrative leadership contributed to effective oversight and they have demonstrated their support for our messages. Consistent with previous years, leadership continued to be available quarterly to engage with the AGSA leadership, took ownership of the quarterly key control dashboard reports and showed a better understanding of the key control assessment process, improving the culture of accountability.

Accounting officers led by example and held senior management accountable for achieving a strong control environment through regularly monitoring the implementation of action plans. Suitably skilled and competent key officials were appointed; including those responsible for preparing financial statements and divisional heads responsible for compliance. There was also greater consequence management against non-performing officials.

Financial and performance management

Senior management regularly reviewed the quality of financial and performance reports and monitored compliance, which enabled them to identify and correct internal control deficiencies in good time. There were improvements in proper record keeping. Those auditees that improved their audit outcomes were able to master key internal control disciplines such as performing regular reconciliations and producing quarterly financial statements.

Governance

Audit committees increased their assurance through evaluating and monitoring responses to risks, overseeing the effectiveness of the internal control environment and being more persuasive in getting management to implement actions plans and recommendations in good time. Furthermore, some audit committees, through chairpersons, heeded our call of establishing relationships and feedback platforms with the executive mayors. This enabled them to provide the mayors with periodic briefings regarding strategic internal and external developments affecting the entity including independent advice in the areas of risk, control and compliance.

Internal audit units were better capacitated and skilled to review critical financial, performance and compliance processes throughout the year. Internal audit was also better structurally positioned, which enhance their independence and effectiveness. Risk assessments and internal audit plans were more closely aligned, providing management an opportunity to resolve internal control deficiencies and adequately respond to critical risks in good time.

Deficiencies still to be improved

Despite the improvements discussed above, there is still scope for further improvement in certain key areas, as a number of auditees' controls are still rated as of concern. This could prevent these auditees from moving from financially qualified or financially unqualified with findings to clean audit outcomes.

Way forward

Although the overall improvement in internal controls are encouraging, the impact of this must be sustained by ensuring that these good practices are embraced and replicated across the local government sphere in the province. This will enable other auditees to join the ranks of those who have mastered these key internal control disciplines, thereby achieving improved audit outcomes.

The quality of financial statements and performance information should be improved further by strengthening basic daily, monthly and quarterly internal processes to verify data and supporting evidence. This remains a challenge at a number of auditees. Administrative leadership should also honour their commitments and ensure that action plans are implemented and monitored regularly and that compliance with legislation is regularly monitored and reviewed for adherence.

Greater consequence management should also be implemented for officials who transgress policies and regulations, with a particular emphasis on SCM and unauthorised, irregular, and fruitless and wasteful expenditure.

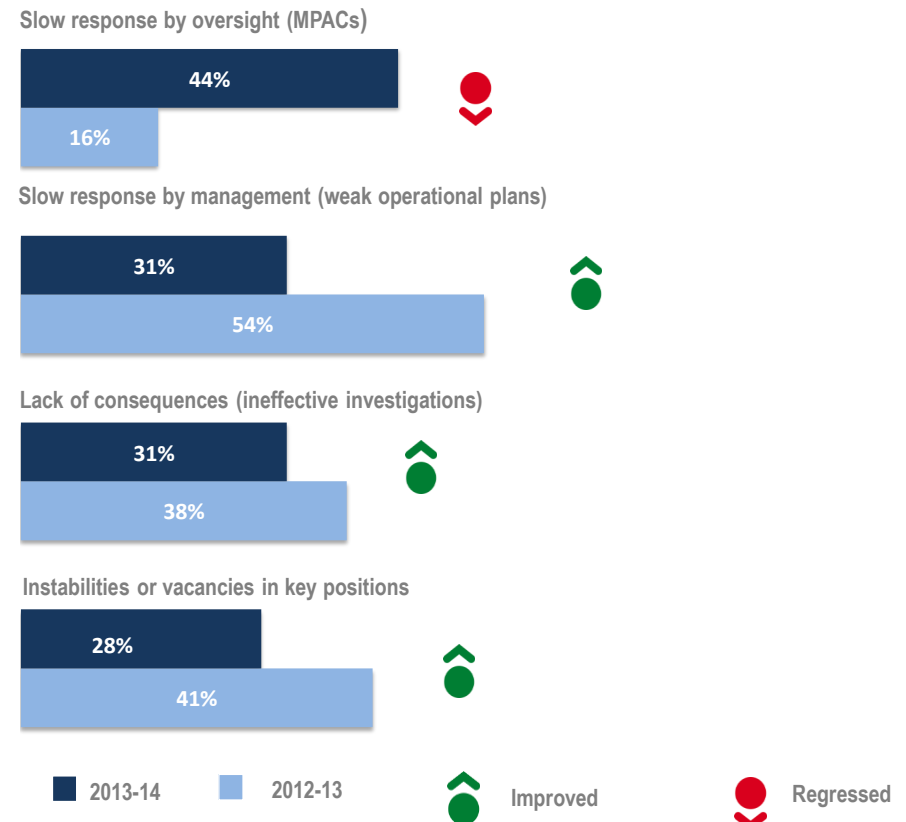
In addition, at certain auditees, internal audit can improve in terms of aligning their audit plans with risk management processes, identifying internal control deficiencies and recommending corrective action effectively.

12. Root causes

Our audits included an assessment of the root causes of audit findings, based on identifying the internal controls that failed to prevent or detect the error or non-compliance. These root causes were confirmed with management and shared in our management reports with the political and administrative leadership. We emphasised that addressing these root causes was critical to ensuring improved outcomes that were sustainable in the future.

The information that follows summarises the most common root causes as shown in figure 28 and provides recommendations for addressing these root causes.

Figure 28: Root causes to be addressed



Slow response by oversight - municipal public accounts committees

Details of root cause

Slow response by MPACs was a root cause at 44% of the auditees (16% in 2012-13). The prevalence of this root cause is driven by the fact that, except for the metros and larger municipalities like Emfuleni, the majority of MPACs are not adequately capacitated, especially in the fields of finance and governance. This results in some key responsibilities of MPACs shifting to other MFMA section 79 committees such as the finance committee. In addition, some councillors view MPAC as undermining the authority of council instead of being seen as a support structure of council. MPAC's impact was further compromised at some municipalities due to members considering party allegiances in their interactions. Proper interrogation of non-compliance and consequence management was not enforced by some MPACs.

While auditees have made strides in addressing other root causes identified in previous years this root cause has been identified and elevated to the main root cause in the province as it impacts on the effectiveness of the executive council.

Recommendations

At 44% of auditees where this root cause was prevalent, the following should be implemented to address the root cause:

- Coordinating institutions should assist by providing training to MPACs regarding their roles and responsibilities. This will enable MPACs to provide greater oversight and ensure that they hold management accountable for identified deficiencies and findings. The Gauteng SCoPA has committed to continuing to work closely with MPAC members, who are invited to attend SCoPA briefing and hearing sessions.
- Councils should ensure that only councillors with relevant knowledge and skills are chosen to serve as MPAC members.
- MPACs should enforce consequence management by monitoring investigations, in particular those relating to unauthorised, irregular, and fruitless and wasteful expenditure, and reporting back to council in good time.
- Governance structures such as MPAC and audit committees should drive the improvement of the municipalities' control environment through robust oversight.

Slow response by management in implementing adequate control disciplines

Details of root cause

This was previously the most widespread root cause in the province; however, there has been an improvement as only 31% of auditees are impacted by this root cause compared to 54% in the previous year. The driver of the reduction is the political and administrative leadership's decisive actions and commitment to the clean audit target. Auditees have embarked on recruiting suitably qualified staff with requisite competencies. These officials, most of whom have the right qualifications and appropriate public sector experience, are supported by qualified interns. They all seem to be joining with the motivation to add value to the local government environment. Below are recommendations to further improve audit outcomes and address this root cause.

Recommendations

At 31% of auditees where this root cause was prevalent, the following should be implemented to address the root cause:

- The administrative leadership should take accountability and ownership of implementing action plans, recommendations and commitments. The political leadership should, in turn, hold accounting officers responsible for this implementation.
- Accounting officers should set the tone by creating a control environment that is conducive to accountability and good governance. This will encourage the timely implementation of action plans to address internal control deficiencies and the previous year's audit findings.
- The administrative leadership, through internal audit units, should review the business processes and operational plans to ensure an improvement in daily operations and service delivery.
- Provincial treasury and Gauteng CoGTA should intensify support to these affected auditees to assist them to adequately respond to identified control deficiencies.

Inadequate consequences for poor performance and transgressions

Details of root cause

There was an improvement in this root cause from 38% of auditees in the previous year, to 31% of auditees in the current year. Similar to the root cause above, this can be attributed to auditees responding positively to our message and implementing consequence management. Some auditees have instituted disciplinary proceedings against officials where required. Improved consequence management has resulted in a reduction in the number of auditees with material findings relating to SCM.

However, the total number of SCM findings increased, as did the amount of unauthorised and irregular expenditure, because of the 31% of auditees who did not address this root cause. This creates a culture of non-compliance, with no incentive to comply with policies and procedures. Furthermore, the implementation of action plans and recommendations is undermined.

Recommendations

The following actions should be implemented to address this root cause:

- Political and administrative leadership should ensure that an ethical culture with zero tolerance for non-adherence to policies and procedures is instilled.

Leadership should lead by example by demonstrating integrity and ethical values in their own conduct.

- Policies and procedures relating to disciplinary action and performance management should be clearly communicated and consistently applied and enforced for all levels of staff. Line managers should be provided with training on these policies to equip them to respond to subordinates who underperform or commit transgressions.
- Findings on compliance, especially those relating to SCM, should be investigated to determine whether there are indicators of misconduct, followed by disciplinary hearings where misconduct has been confirmed. All unauthorised, irregular as well as fruitless and wasteful expenditure should be investigated promptly, as required by the MFMA, to determine whether such expenditure should be recovered from the responsible official.
- While there was a reduction in this root cause for consequences, it is important to note that some MPACs need to exercise their delegated power and authority sufficiently. The focus should be on interrogating documents and submissions relating to irregular or fruitless and wasteful expenditure, especially those that relate to conflict of interest and declarations from officials in the service of the auditees and other state institutions.

Instabilities or vacancies in key positions

Details of root cause

The reduction in the number of auditees with instabilities or vacancies in key positions as a root cause from 41% to 28% demonstrates the progress that has been made by the leadership in the province to capacitate their environments. However where this root cause remained prevalent, it had a noticeable impact on the audit outcomes, especially in the West Rand region where instability and vacancies in key positions contributed to qualifications at Randfontein and the West Rand Development Agency. These vacant positions are often occupied by officials in an acting capacity, who often lack the authority to take decisive actions and, as a result, might not be accountable for actions taken while they were in the acting capacity.

Recommendations

- Given the above, it is vital that the political and administrative leadership fast track the appointment of qualified and competent staff to key positions.
- Municipalities should take full advantage of the abundance of qualified professionals in the province.

- Disciplinary processes of suspended senior officials should be fast-tracked to either allow these officials to resume their duties quickly or appoint a permanent replacement.
- Proper succession planning at senior management level needs to take place to allow acting officials to adequately adapt to greater responsibilities.
- Coordinating institutions can assist with providing guidance to auditees on filling these key positions and intervening where necessary.
- Greater emphasis should be placed on empowering the officials in an acting capacity.

13. The level of assurance provided and the impact on of these role players on audit outcomes

The administrative and political leadership of auditees and those that perform an oversight or governance function should work towards improving key controls, addressing the root causes and ensuring that there is an improvement in the key risk areas. In doing so, they can provide assurance on the quality of the financial statements and performance reports as well as compliance with legislation.

Figure 29: Assurance provided by key role players

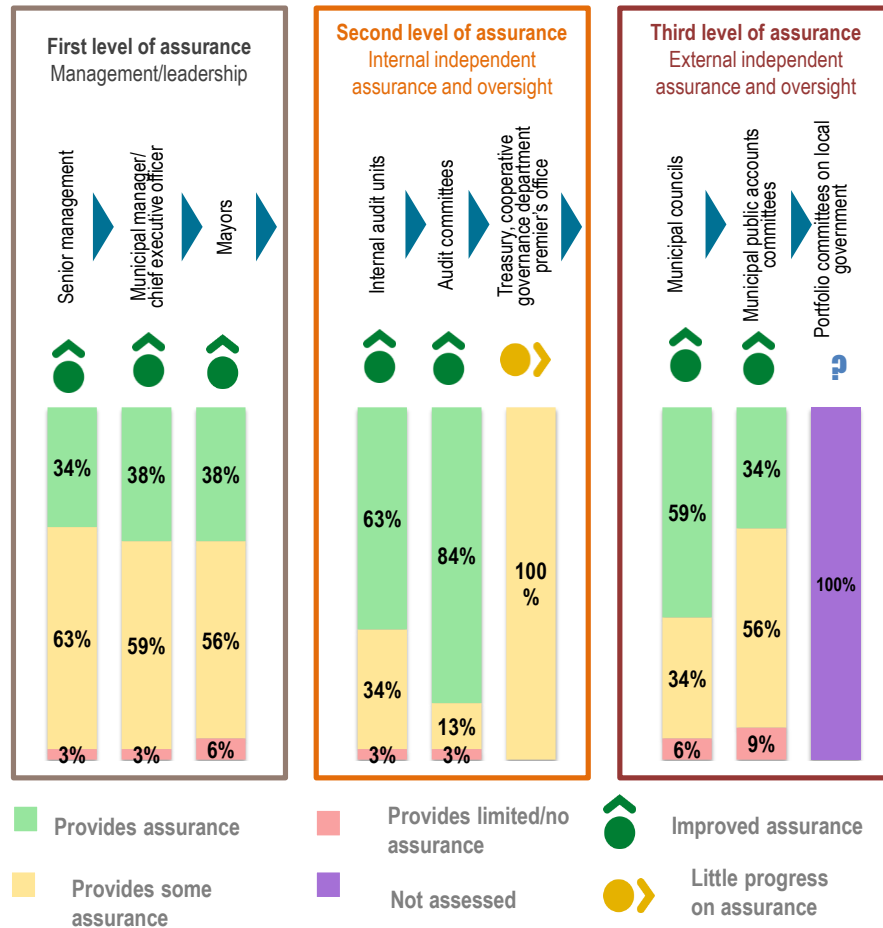


Figure 29 reflects the improvement in the assurance provided by the majority of role players, which contributed to the improvement in internal controls, progress in addressing root causes and, ultimately, a significant improvement in audit outcomes in the province.

However, we are encouraging all levels of assurance to further focus on the basics of assurance as highlighted in the individual sections below so that daily and monthly processes are institutionalised and monitored through extensive, continuous and effective oversight.

Here follows an overview of the assurance provided by each of the assurance providers.

First level of assurance

Senior management, accounting officer and mayor

The improvement in assurance was driven by the implementation of commitments made by the leadership in the previous year to improve audit outcomes. Honouring these commitments was a focus area during our engagements. Our messages during engagements with the political and administrative leadership focused on the institutionalisation and implementation of basic internal controls.

The accounting officers should ensure that they are satisfied with the skills and resources in the finance and supporting departments to ensure further improvements in overall audit outcomes. This is important because senior management and their response to our recommendations of implementing basic controls have been cited as one of the key root causes for the current audit outcomes.

Senior management, which includes the chief financial officer, chief information officer and head of the SCM unit, form the foundation of the combined assurance model as the first line of defence. They should therefore ensure that the basic disciplines of control activities are implemented. This will automatically result in better financial and performance information and compliance with legislation.

Accounting officers (municipal managers or chief executive officers) are responsible for auditees' financial and performance management controls, including leadership, planning, risk management, oversight and monitoring. While accounting officers depend on senior management for designing and implementing the required controls, they should create an enabling environment that priorities and recognises the importance of such controls. They should also ensure that staff of sufficient skill are employed, that performance is monitored and that staff are held accountable for their actions.

Mayors have a monitoring and oversight role at both municipalities and municipal entities in terms of the MFMA and the Municipal Systems Act. They therefore need to ensure that strategies and budgets are aligned to the mandate and that objectives are achieved.

Through our regular interactions with mayors we have encouraged them to continue improving audit outcomes by being actively involved in key governance matters and ensuring that accounting officers are held accountable. The improvement in the audit outcomes is testament to the increased level of assurance that mayors have provided through taking ownership of key controls and focusing on monitoring action plans to address shortcomings identified in the key control environment.

To improve the assurance provided at this level, there is a need for continued alignment and commitment to clean administration between the mayor, the accounting officer and senior management. This will ultimately result in continued improvement in audit outcomes.

For to improve further, senior management, municipal managers and mayors, should refer to recommendations in the preceding sections of this report.

Second level of assurance

Internal audit and audit committees

A significant improvement in the level of assurance was noted with 63% of internal audit units (2013: 34%) and 84% of audit committees (2013: 69%) providing assurance. This directly contributed to the improvement of audit outcomes.

Internal audit units provide independent assurance on the effectiveness of internal controls, financial information, risk management, performance management and compliance with legislation. The improvement in assurance was a result of auditees adequately capacitating internal audit with the requisite resources and internal audit aligning their audit plans to critical risk assessment areas. Internal audits' recommendations and actions plans were taken seriously and implemented by the auditees' leadership.

An audit committee is an independent body that advises the council, mayor, accounting officer and senior management on matters such as internal controls, risk management, financial and performance management and compliance with legislation. The assurance levels provided by audit committees were also enhanced due to them becoming more persuasive in promoting accountability through regular interactions with mayors. Other contributors to the high level of assurance provided by audit committees were the constant and robust engagement with accounting officers to keep abreast of key changes that required attention and continuous assessment of the status of the progress made on action plans.

Coordinating departments and their executive leadership (provincial treasury, provincial Department of Cooperative Governance and Traditional Affairs and Office of the Premier)

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

that have a direct role to play in supporting and monitoring local government, and thereby providing a level of assurance, are the provincial treasury, the provincial CoGTA and the Office of the Premier. Our assessment of the assurance provided by these departments is based on their initiatives to support and monitor local government and the impact they have had on improving the internal controls of auditees

Provincial treasury

The provincial treasury is a critical role player in provincial government and has responsibilities in terms of the Constitution and the MFMA to support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers, and to perform their duties. Provincial government, with the provincial treasury as custodian, must also assist municipalities in building capacity to support efficient, effective and transparent financial management.

The provincial treasury continued to implement a number of initiatives to support Gauteng local government. These included providing support programmes for municipal budgets, financial accounting, auditing, resource management, compliance, asset management, training, monitoring, advisory technical support and inter-governmental forum engagements. This has contributed to the positive trend in audit outcomes at certain auditees.

Other auditees, however, remained stagnant at financially qualified or unqualified with findings despite these interventions. It is recommended that the National Treasury assess whether the provincial treasury has sufficient capacity to support these municipalities to secure long-term sustainability and assist with efforts to build capacity.

National Treasury should enhance support initiatives to the metros, in particular at the City of Johannesburg and Tshwane, relating to compliance with legislation and performance information as these auditees' outcomes remained stagnant due to these two areas. National Treasury should also consider capacitating the provincial treasury to provide support to the metros and the municipalities that are struggling to move out of the qualified space, such as Randfontein and Westonaria.

Provincial treasury needs to have a clear support programme that is responsive to the challenges faced by local municipalities and ensure that suitably qualified people with the necessary experience are assigned to the municipalities to provide the requisite support. Clear milestones should be set for these initiatives and the outcomes of these support programmes should be measured by treasury and tracked by the provincial executive to evaluate their effectiveness. In addition, the level of support provided to municipalities could also be intensified to the level provided to provincial departments.

Provincial Department of Cooperative Governance and Traditional Affairs

CoGTA is a crucial role player within the local government environment as envisaged by the Constitution. It is required to support, provide intervention to and monitor municipalities while at the same time, ensuring good governance, the delivery of basic services and infrastructure development. The department also provides coordination and integration with other spheres of government. CoGTA remains pivotal to ensuring solid economic growth, poverty alleviation and job creation within the context of a developmental local government agenda. This developmental role is accompanied by the provision of adequate institutional and administrative support and financial resourcing.

Through our interactions with the MEC, we noted that the provincial CoGTA remains committed to holding municipalities accountable for addressing the findings in our audit reports via the MFMA section 131 process. These initiatives contributed to the overall improvement of audit outcomes and reduction in findings. CoGTA was visible and contributed at the audit steering committee of Ekurhuleni where the metro and five of its entities received clean audit outcomes.

CoGTA will also continue, through the Gauteng Operation Clean Audit Committee, to track, review and monitor the progress made by municipalities and entities in preparing and reporting on monthly financial statements.

The department also remained committed to providing technical support to the municipalities that received qualified audit opinions in the previous year. However, the benefits of this intervention were not realised in the current financial year. These initiatives need to be intensified and the progress adequately monitored for these interventions to have an impact.

The minister of CoGTA launched the back-to-basics strategy in September 2014. The strategy supports and complements the outcomes of the MTSF.

Some of the key performance areas of the back-to-basics approach include the following:

- Ensure sound **financial management and accounting** and prudent management of resources to sustainably deliver services and bring development to communities.
- **Create conditions for decent living** by consistently delivering municipal services of the right quality and standard.
- Put people and their concerns first and ensure constant contact with communities through effective **public participation** forums.
- Build and maintain **sound institutional and administrative capabilities**, administered and managed by dedicated and skilled personnel at all levels.

- Be **well governed** and demonstrate good governance and administration.

The provincial CoGTA's efforts supporting this new initiative may also assist municipalities to improve audit outcomes. We will be able to assess the impact of this initiative on audit outcomes in our future interactions with CoGTA and during our 2014-15 financial year audits.

Provincial executive

The provincial treasury, together with the provincial CoGTA and premiers' office, make up the provincial executive. These coordinating institutions share a platform at the premier coordinating forum, where the premier's oversight responsibility in the province is enabled.

In terms of the MTSF and the back-to-basics approach, cooperative governance must be strengthened to enable better service delivery that can improve the lives of citizens. The MTSF further requires the Office of the Premier, in collaboration with CoGTA, to strengthen and support municipalities to plan and deliver services.

The premier coordinating forum gave the Gauteng mayors, MECs for local government, MEC for provincial treasury and the premier's office the opportunity to come together and discuss local government issues in the province. Operation clean audit is a standing agenda at the meetings. Representatives from provincial CoGTA and provincial treasury are invited to report on the progress of their initiatives to support the municipalities in the province.

Through these initiatives, the premier continued to provide some level of oversight and assurance. Platforms such as these need to be strengthened and refocused to enable those municipalities that have achieved clean audit outcomes to share knowledge and best practices with those that are qualified or reported material findings.

The MEC for Gauteng CoGTA should continue to intensify service delivery and technical support in the West Rand region including providing extended technical support to t Randfontein and Westonaria. The success of the support initiatives in the West Rand region will depend on its quality and intensity.

Since technical support, including financial statement reviews by the Gauteng Treasury was in place in the previous year as well, it is clear that the emphasis of the importance and robustness of these initiatives should be directed at the level of the MECs. It is encouraging that a priority for the MECs for CoGTA and Finance is getting West Rand municipalities out of the red zone.

Third level of assurance

Council and municipal public accounts committee

The council is required to provide assurance through monitoring and oversight. This includes approving or overseeing certain transactions and events as well as investigating and acting on poor performance and transgressions, such as financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure.

There was an improvement in the level of assurance provided by council when compared to the previous year due to the following:

- Council had established processes for MPAC and audit committees to report to it and acted on recommendations.
- Council held the administration accountable for implementing council resolutions.
- Councillors, through the speaker, insisted on regular and credible financial and performance reports and compliance with legislation.

MPAC is a council committee that is responsible for improving governance, transparency and accountability. This committee is an important provider of assurance; it is required to give assurance to the council on the credibility and reliability of financial and performance reports, compliance with legislation as well as internal controls.

It must be noted that sometimes, these structures are inhibited from effectively fulfilling their responsibilities by the inability of senior and executive management to provide credible information for oversight purposes. In addition, capacity constraints, lead to MPACs being unable to properly interpret the submissions and enable the committee to come up with impactful resolutions. This was noted as one of the root causes in Gauteng.

The level of assurance provided by MPACs was not at the desired level at 66% of auditees where limited or no assurance was provided. These auditees were characterised by MPAC members who lacked basic financial skills which prevented them from effectively interrogating the municipality's financial and performance reports, the level of adherence to legislation and, in particular, compliance to SCM prescripts. These MPACs were not able to exercise their delegated power to compel administrative leadership to appear before it and implement corrective action in good time.

As part of an effort to capacitate MPACs, the Gauteng provincial public accounts committee (SCoPA) has committed to work closely with MPAC members, who have been invited to attend SCOPA briefing and hearing sessions. We have observed that some MPAC members have accepted this invitation and attended these SCoPA sessions; however, it is still too early to assess the impact of this

new initiative. Another initiative has also seen chairpersons of different MPACs holding combined meetings to allow for them to share best practices.

We remain encouraged by the best practices displayed by MPACs that have provided assurance as this will lead to improved assurance in the future, when these best practices have been institutionalised across the province.

Provincial Legislature and portfolio committee on the Department of Cooperative Governance and Traditional Affairs

In terms of the Constitution, the provincial legislature must maintain oversight of the executive authority responsible for local government. This executive authority includes the MEC for Local Government and Traditional Affairs and other executives involved in local government. This mandate is exercised through portfolio committees that scrutinise executive authority decisions on the implementation of service delivery programmes. The portfolio committee on CoGTA and human settlements is used to conduct oversight of local government.

We did not assess the portfolio committees' impact on the audit outcomes because of limited interactions due to changes in the committees' membership after the elections. We are, however, encouraged that the committee conducts quarterly oversight meetings with departmental executives.

Standing invitations for the AGSA to attend the quarterly portfolio committee meetings should be encouraged.

While the MEC for CoGTA made a commitment to provide support to the local government sphere, the concern remained that these reports are still not being provided to the respective portfolio committee for consideration. We are encouraged by the MEC's undertaking to address this concern by collaborating with the provincial treasury to maximise the initiatives of the provincial government.

Summary of key commitments from stakeholder roadshow

On 12 May 2015, as part of his MFMA cycle roadshow, the Auditor-General (AG) met with the Speaker of Gauteng Provincial Legislature, Gauteng Premier and Gauteng MECs for CoGTA and Finance. The purpose of the meeting or roadshow was to officially discuss the Gauteng MFMA 2014-15 results prior to tabling them. As reflected below, the stakeholders also reflected on key commitments deemed necessary to further improve the province's audit outcomes.

Key commitments

The **speaker** of Gauteng Provincial Legislature committed to:

- continue with capacitation of oversight and support Gauteng CoGTA in empowering MPACs
- work with AGSA in ensuring oversight is strengthened.

The **premier** of Gauteng committed to:

- further strengthen local government support and processes
- maintain the relationship between coordinating institutions and AGSA as well as supporting the audit office's constitutional mandate.

MEC for **Gauteng CoGTA** committed to:

- provide training to oversight structures and improve the local government audit outcomes
- continue to cooperate further strengthen the relationship with the AGSA.

MEC for **finance** in Gauteng committed to:

- continue to support the local municipalities with technical issues
- provide particular attention to Westonaria and Randfontein
- to develop a position paper on MPAC.

14. Conclusion

Gauteng local government should endeavour to lead the implementation of the MTSF and back-to-basics strategy. This opportunity will require impeccable ethical behaviour and professionalism by all players in the sphere of local government. Aiming for the implementation of the MTSF can only be achieved when significant deficiencies in internal control and root causes are addressed.

It was encouraging to see the political and administrative leadership making strides in addressing some of the root causes from previous financial years. This is evident by the number of municipalities and municipal entities that turned the corner and moved into the clean audit space.

With an enhanced effort to address the root causes detailed above, Gauteng will be far better positioned to enable the majority of its auditees to reflect clean administration.

Way forward

The improvement in audit outcomes was driven by a noticeable overall improvement in the assurance provided by different role players through honouring various commitments made in the previous year. This is an indication that the combined assurance model is maturing and the majority of assurance providers are playing their roles effectively and complementarily.

It is important to entrench this combined assurance at our auditees to improve the credibility of reported financial and performance management. This will be enhanced by ensuring that the 2013-14 commitments are continually tracked and implemented in time.

TESTIMONIES, CLEAN AUDITS AND SUCCESSFUL SERVICE-DELIVERY PROJECTS

Midvaal

'A combination of factors allowed Midvaal to obtain a clean audit. This ranged from resolving performance management issues and performing self-evaluations. We had to ensure that we follow through with the projects we had initiated and comply with all the necessary legislation. We also had to follow through with the supply chain procedures and make sure that we record and document the actions we have taken, including how we have spent our money so that we can be reviewed and assessed in a transparent manner.'



Cllr Baloyi
Mayor



Cllr Gungubele
Mayor

Ekurhuleni Metro

'Achieving a clean audit has a direct impact on service delivery in a number of ways and what is critical of a clean audit is the trust and confidence that people have in government.'



Mr Mashitisho
Municipal manager

Mogale City

'While this municipality can now celebrate a clean audit, it was not all smooth sailing as we had to rid the municipality of the three-year backlog of annual financial statements. Although I joined the municipality in 2006, we had to start by working on compiling financial statements for the 2002-03 financial year. But in a few years we managed to turn that around.'

Clean administration and service delivery field visits

We conclude this report by sharing some success stories of municipalities that have both achieved clean audits and effectively delivered infrastructure projects to improve the lives of their citizens. The section firstly gives some background on the AG's field visits to these municipalities, then lists key characteristics that have had a positive impact on the audit outcomes and service delivery of these municipalities, and lastly details specific projects before touching on the way forward.

The table below shows the 2013-14, 2012-13 and 2007-08 audit outcomes of the municipalities in the province that achieved clean audit outcomes in the current year.

Table 3: Comparison of current year, previous year and 2007-08 audit outcomes of municipalities with clean audits

Auditee	Auditee type	2013-14 audit outcomes	2012-13 audit outcomes	2007-08 audit outcomes
		Audit opinion	Audit opinion	Audit opinion
Ekurhuleni Metro	M	Unqualified with no findings	Unqualified with findings	Qualified with findings
Sedibeng District	DM	Unqualified with no findings	Unqualified with findings	Unqualified with findings
Midvaal	LM	Unqualified with no findings	Unqualified with findings	Unqualified with findings
Mogale City	LM	Unqualified with no findings	Unqualified with findings	Qualified with findings

Legend (audit outcomes)
Unqualified with no findings
Unqualified with findings
Qualified with findings
Adverse with findings
Disclaimed with findings
Audit not finalised at legislated date
New auditee

M = metropolitan municipality
DM = district municipality
LM = local municipality
ME = municipal entity

The field visits were part of our effort to put a face to the concept of a clean audit as well as demonstrate that it is all in the hands of the leadership to restore confidence in local government. It is our earnest desire that all entrusted with financial management and oversight responsibilities in local government can take some useful lessons from the better practices of these municipalities. We applaud all of them for blazing a trail in this effort towards good financial management and governance.

Background

In the first three months of 2015, AG Kimi Makwetu and staff from our office visited different municipalities across the country that had received clean audits. As previously explained, an auditee achieves a clean audit (or an unqualified opinion with no findings) when the financial statements are unqualified and we report no findings on either reporting on predetermined objectives or compliance with key legislation.

The aim of the field visits was to observe, first hand, the correlation between clean audit outcomes and service delivery achievements as well as to identify the key characteristics of these clean audit municipalities.

The leadership of these municipalities had an opportunity to reflect on the importance of clean administration as a catalyst to drive service delivery, showcase their governance structures as a critical area in ensuring the attainment of clean audit outcomes, and accompany the AG and his team on visits to key projects.

In this regard, we are now in a better position to confirm that these clean audits do not come on the back of the non-delivery of services, as demonstrated by the projects described further on in this section. The same practices applied by these municipalities over the last few years in achieving clean audits were also evident in the management of the projects visited. These included using action plans with clear timelines; officials being assigned specific roles and responsibilities and being adequately supervised and monitored by senior management; employing skilled people in key positions, such as engineers; a healthy interface between the administrative and the political leadership; and effective oversight by governance structures, such as audit committees.

The observations made during the visits should not be regarded as an audit, but we considered it worthwhile to share the good practices noted during the visits to municipalities across the country, as these could benefit other municipalities struggling to achieve clean administration and grappling with service delivery challenges.

Key characteristics that have had a positive impact on audit outcomes and service delivery

Leadership

- The roles of the council and the administration are clarified and understood, and they actively participate in forums to promote a common vision for good governance through accountable financial and performance management and compliance with legislation.
- The municipal leadership displays a great awareness and understanding of what municipalities have to achieve on a daily basis, both from a financial management and governance perspective as well as a service delivery point of view.
- They have suitably qualified officials to implement the disciplines around financial management and good governance, which are supported by dedicated political leaders who monitor and ensure that these disciplines are implemented.
- Credible action plans are developed and implemented to correct the internal control deficiencies we had highlighted in previous years.
- The monitoring of the implementation of action plans is a standing agenda item at meetings of councils and audit committees on a quarterly basis.
- Particular attention is paid to the systems used to manage and report on their performance while corroborating their service delivery reports, apart from being able to produce credible accounts on their revenue, expenses, liabilities and assets.

Financial and performance management

- Basic internal controls and systems, including performing daily, monthly and quarterly reconciliations of their financial records, are embedded in the control environment of municipalities.
- Proper record keeping is implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Regular, accurate and complete financial and performance reports are prepared and supported by reliable information.
- Measures are implemented to ensure that legislated duties are performed and that prohibited transactions are prevented to ensure compliance with regulations.

Governance

- Ongoing risk identification and risk management form an integral part of the governance arrangements at these municipalities.
- Fully functional internal audit units are in place, over which audit committees provide effective oversight.
- MPACs have been established and contribute to enhanced oversight.

Further factors making the municipalities successful

- Making good governance and service delivery the norm is a key element of the success of the municipalities who achieved clean audits.
- The municipalities take great pride in their work and responsibilities, as they believe they exist to provide effective services to their citizens.
- The municipal leadership creates platforms and facilities for communities to express their needs and service delivery concerns to the municipality; for example, through regular meetings in community halls and having a 24-hour hotline to report service breakdowns.
- Innovation to enhance the services provided to citizens is central to ensuring that municipal resources are applied economically, effectively and efficiently.
- Entrenched skills in engineering and project management are present at these municipalities.
- The municipalities do not see the achievement of a clean administration as a project, but rather as an outcome of the continuous implementation of governance processes and disciplines, which are key in achieving service delivery. Consequently, these municipalities achieve clean administration without compromising service delivery.
- The municipalities use their clean administration status to attract investors and donors, which then collaborate with the municipalities and provide more funding, enabling the municipalities to deliver more and better services to their communities.
- The municipalities are determined to sustain their clean audit status.
- There is no fear of being audited and the municipalities respond positively to our recommendations.

These key characteristics were evident at all the municipalities visited, as further detailed below.

Field visits in the province

The AG visited some of the municipalities in the province that had obtained a clean audit in the 2013-14 financial year, namely:

- Sedibeng District (10 February 2015)
- Midvaal (10 February 2015)
- Mogale City (11 February 2015)
- Ekurhuleni Metro (1 April 2015)

Sedibeng District and Midvaal



AG Kimi Makwetu with executive mayors of Sedibeng District and Midvaal Cllrs Simon Mofokeng and Bongani Baloyi and their teams.

As Midvaal is part of the Sedibeng District, they had a combined session at Midvaal. Hosted by both executive mayors, Cllr Mohale Simon Mofokeng (Sedibeng District) and Cllr Bongani Baloyi (Midvaal), the AG was taken through detailed presentations before embarking on site visits. Cllr Mofokeng attributed the performance of his municipality to the role of various stakeholders. 'All the units in the municipality must work like a chain. Also, each individual must know that they have a very important role to play. As an executive mayor I play an oversight role; where it is necessary, I intervene to make sure that things are going according to plan without interference in the administration,' he reflected.

According to Cllr Baloyi, a combination of factors allowed Midvaal to obtain a clean audit. This ranged from resolving performance management issues and performing self-evaluations. 'We had to ensure that we follow through with the projects we had initiated and comply with all the necessary legislation. We also had to follow through with the supply chain procedures and make sure that we record and document the actions we have taken, including how we have spent our money so that we can be reviewed and assessed in a transparent manner,' he said.

Projects visited

The following projects were visited due to their size, budget spent, and impact on the daily lives of citizens.

Meyerton wastewater treatment works

According to the municipality's APR, the objective of this project is to ensure efficient water and sanitation infrastructure that will contribute to improving the quality of life. This will likely result in increased compliance figures and positive green drop assessment results. The project will also assist future projects relating to human settlement, as the previous reservoir did not have enough capacity to accommodate the increase in residential areas. This is a long-term project, with the current year's expenditure focusing on the construction of a new 10-megalitre reservoir and bulk water mains. This project, as reflected in the mayor's foreword in chapter 1 of the 2013-14 annual report, relates to the broader KPA 6: physical infrastructure and energy efficiency.



Part of the wastewater treatment works.



The wastewater treatment works project will assist future human settlement projects, as the previous reservoir did not have enough capacity to accommodate the increase in residential areas.

Sicelo housing project

In its endeavour to deliver decent houses to its residents, the municipality partnered with the Gauteng Department of Human Settlement and Cooperative Governance to build more than 400 houses for indigent families. The objective of this project is to facilitate the development and empowerment of the poor and most vulnerable (through the provision of housing to deal with the challenges resulting from the rapid growth as a result of migration) in terms of the municipality's APR. The project is discussed in the mayor's foreword in chapter 1 of the 2013-14 annual report under key service delivery improvements, and relates to KPA 3: social and community development, key focus area (KFA) 15: sustainable human settlements, and KPI 29: funding of a migration plan.



The municipality partnered with the Gauteng Department of Human Settlement and Cooperative Governance to build more than 400 houses for indigent families. The objective of this project is to facilitate the development and empowerment of the poor and most vulnerable through the provision of housing to deal with challenges resulting from rapid growth due to migration.



Road development in Mimosa Avenue

The APR objective of this project includes community safety through traffic control. Cllr Baloyi explained that key to this development was a recently built traffic calming circle to prevent vehicle accidents. This was the municipality's response to a tragic incident in which a child died after being hit by a car. The project is discussed in the mayor's foreword in chapter 1 of the 2013-14 annual report under key service delivery improvements.



The traffic calming circle was built to reduce road accidents.



Mogale City



The AGSA's delegation led by AG Kimi Makwetu with the leadership of Mogale City.

While this municipality can now celebrate a clean audit, it was not all smooth sailing according to the municipal manager, Dan Mashitsho, as they had to rid the municipality of the three-year backlog of annual financial statements. Although he joined the municipality in 2006, 'we had to start by working on compiling financial statements for the 2002-03 financial year. But in a few years we managed to turn that around.'

Projects visited

Condale substation upgrade

The project manager of this substation, an employee of the municipality, highlighted that this substation was officially opened in 1960. He pointed out that this initiative, of which the objective in the APR is to ensure sustainable service delivery – and more specifically to enhance the electricity distribution capacity of the municipality through energising additional transformers – is being upgraded to ensure a stable electricity supply capacity for the expanding community while accommodating Eskom's proposed infeed transformer. Currently, the substation receives a capacity of 160 MVA from Eskom and the upgrade will see it increasing this capacity to 240 MVA. The project will be completed during the

2014-15 financial year and is on schedule. The project is linked to the specific KPI: stages for the transformer energiser, of which the target of 10 has been met.



The Condale substation is being upgraded to enhance the electricity distribution capacity of the municipality and to ensure a stable electricity supply capacity for the expanding community.



Chief Mogale integrated township

According to the APR, the objectives of this project are linked to sustainable service delivery and social upliftment. This is one of the few new townships in the country that are multiracial and is thus also playing a role in advancing social cohesion and integration.



A township with a difference. At first glance, this could be a township anywhere, but the uniqueness of Chief Mogale is that it is an integrated community that seeks to develop housing for all citizens regardless of race – forging the promise of one South Africa for all.



Kagiso sport complex

In line with the strategic objective of ensuring sustainable service delivery – and more specifically the upgrading of sport facilities – as per the designs completed in the APR, the AG’s delegation visited the Kagiso sport complex where the municipality is now taking cricket to the previously marginalised township. Previously, cricket-playing youth had to compete for limited facilities with other youngsters in the traditional soccer-playing township. This facility has provided the township youth with a chance not only to dream but also to reach their goals, with Mogale now producing top-quality cricket players. The project is discussed on page 20 of the APR and was partially achieved at year-end, compared to the planned target of completion.



The Kagiso sport complex where the municipality is now taking cricket to the previously marginalised township. This facility has provided the township youth with a chance to dream and reach their goals, with Mogale City now producing top-quality cricket players.

Luipaardsvlei landfill site

The last project visited in Mogale City was the Luipaardsvlei landfill site where the municipality highlighted its plans of recycling waste to energy with the aim of reducing its dependence on landfilling. The APR states that the objective of this project is to ensure sound environmental management, including municipal health through the construction of a new landfill site. This initiative will also have environmental benefits in addition to contributing to sustainability, as it will reduce land rehabilitation costs in future. The site is linked to the specific KPI 'landfill cell development' on page 39 of the APR, of which the target of constructing a new landfill cell was completed.



Workers offloading refuse at the Luipaardsvlei landfill site, an initiative of which the environmental benefits include the reduction of land rehabilitation costs in future.





AG Kimi Makwetu with executive mayor Cllr Mondli Gungubele and their teams in front of the Winnie Mandela clinic.

This municipality has come a long way since 2011 when it was one of the poorest performing municipalities in terms of customer satisfaction. Since then, the Gauteng Observatory has given the municipality a status indicating that service delivery satisfaction is on the rise, according to the executive mayor, Cllr Mondli Gungubele. He said 'achieving a clean audit has a direct impact on service delivery in a number of ways and what is critical of a clean audit is the trust and confidence that people have in government'.

The city manager, Khaya Ngema, said Ekurhuleni Metro is Africa's industrial hub, as it boasts the biggest single concentration of manufacturing on the continent. 'We are also Africa's aviation interchange,' he said. Talking about some of the projects that the AG and his team visited, he said that they want to integrate the municipality so that it can become more spacious both economically and in terms of living. 'A single core administration has a better possibility of integrating Ekurhuleni Metro into the bigger Gauteng city region.'

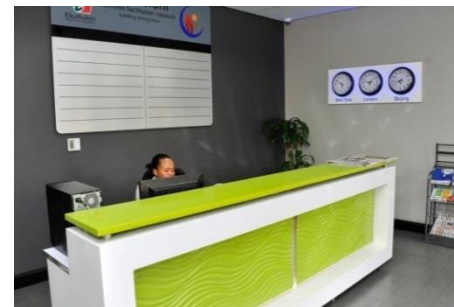
Projects visited

Ekurhuleni business facilitation network

This is a one-stop centre where investors come to solve problems with regard to business ventures and entrepreneurship. The centre also offers support and helps aspiring entrepreneurs and investors through coordinated business support, incubation, mentorship, linkages, and financing interventions for small, medium and micro enterprises and cooperatives.



The Ekurhuleni business facilitation network is aimed at attracting investment to Africa's first 'aerotropolis'. The municipality spent R10 million to put together the facility that also aims to improve relations with the broader investment community.



Integrated rapid public transport network

In its first phase of implementation, this project aims to improve and promote the use of public transport in Ekurhuleni Metro. It is part of a 20-year plan to provide an accessible, affordable and integrated public transport service for all citizens.



The integrated rapid public transport network, stretching over 40 kilometres, will cost R1,7 billion over three years. The route will also include the bus rapid transit section.



Fab lab

Ekurhuleni Metro adopted the fab lab concept to assist in promoting innovation and support entrepreneurship within disadvantaged communities. The visited lab is in Tembisa Township and is open to primary school children in the area. Children get to explore the world through the Internet and also get to come up with different ideas, which then get realised through technology.



We observed the young lads from Tembisa exploring some technology-linked projects and models based on their broad interests.



Winnie Mandela clinic

This clinic and the Tembisa customer care centre were damaged during a service delivery protest, during which 10 cars were also torched. Both these facilities have since been refurbished and will re-open soon.



The refurbished Winnie Mandela clinic.



deliver public services, and accurately report on their ability to deliver these services.

A key ingredient for obtaining a clean audit and delivering services is the presence of strong governance structures and systems, which would easily detect and timeously correct the breakdown of controls in municipalities. Such environments are characterised by readily available documentation. Most importantly, they have accountable managers and leaders who are able to provide explanations and additional evidence in support of the transactions they are reporting on. They also have the support of strong oversight by mayors and councils that back the efforts of municipal managers and CFOs.

Those municipalities that are struggling to improve the quality of their financial and service delivery reporting as well as to prevent non-compliance with legislation have not institutionalised these good practices, which can result in service delivery objectives not being achieved. They should implement the key disciplines entrenched at the municipalities with clean audit outcomes, as detailed earlier on in this section under the key drivers of internal control.

Municipalities are at the forefront of service delivery, as they have a direct impact on the experiences and lives of South Africans. It is therefore important for municipalities to have sound systems and governance structures that will enable them to continue to achieve high levels of efficiencies and find innovative ways to deliver services. The municipalities that achieved clean audits have demonstrated that they are better placed to continuously improve the delivery of services.

Conclusion

The municipalities we visited demonstrate impeccable levels of discipline and oversight in their financial management and operational activities. They have strong financial and performance management systems and governance structures, which enable them to safeguard public money and use it appropriately and transparently to improve the lives of people through service delivery within the framework of applicable laws. These systems and governance structures support the municipalities' ability to develop service delivery plans, allocate funds and utilise them within the framework of the law to

ANNEXURES

Annexure 1: Auditees' audit outcomes, areas qualified, findings on predetermined objectives, compliance and specific focus areas

Auditee ID	Auditee	2013-14 audit outcomes		2012-13 audit outcomes		Financial statement qualification areas				Findings on predetermined objectives			Findings on compliance											Findings on specific risk areas			Unauthorised, irregular as well as fruitless and wasteful expenditure																		
		Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Quality of submitted performance reports	Supply chain management	Financial health	Human resource management	Information technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R			
Financial audits																																													
Metropolitan municipalities																																													
649	City of Johannesburg Metro	R	R	R	R								R	N				R			A	R	R	N								R		R	R	F			0,00	283,20	0,02				
650	Ekurhuleni Metropolitan Municipality		A		R														A					A							A	A		R	R	F			0,00	235,20	10,00				
807	Tshwane Metropolitan Municipality		N	R		A	R												R	R		N	R	N							R			R	R	F			1194,00	150,30	0,36				
District municipalities																																													
659	Sedibeng District Municipality				A	A																												N	M				0,00	0,24	0,20				
660	West Rand District		A	R		N	R												A															A		F			0,00	0,00	0,00				
Local municipalities																																													
651	Emfuleni Local Municipality		R	R		R	R												A	R															R	N	M			0,00	0,00	0,11			
653	Lesedi Local Municipality		R	R		R	R												R	R																R	R	F			0,00	3,20	1,50		
821	Merafong City		R	R		R	R													R																					65,70	308,60	0,00		
655	Midvaal Local Municipality		A	A		N	R												A	A																				0,00	0,00	0,00			
656	Mogale City		A	A		A	R												A	A																					0,00	0,00	4,20		
658	Randfontein Local Municipality		R	R		R	R		N	A									R	N																					0,08	99,50	23,20		
661	Westonaria Local Municipality					R	R																																						
Municipal entities																																													
662	Brakpan Bus Company SOC Ltd			A		R																																					0,00	1,70	0,00
664	City Power Johannesburg (Soc) Ltd		N	R		R														N																						0,00	4,20	0,00	
668	East Rand Water Care Company NPC			R		R														N	R	N																			0,00	14,00	0,00		
666	Ekurhuleni Development Company (SOC) Ltd			A		A	R																																			0,00	0,44	0,00	
681	Germiston Phase II Housing Company SOC Limited			A		R																																				0,00	0,01	0,11	
804	Housing Company Tshwane		A	R		R	R													A																						0,00	0,00	0,01	
670	Joburg Market SOC Limited																																									0,00	0,00	0,00	
671	Joburg Property Company			R		R																																			0,00	0,00	0,59		
663	Johannesburg City Parks			R		R																																			0,00	2,70	0,01		
665	Joburg City Theatres (SOC) Ltd			A		R																																			0,00	0,00	0,00		

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	New auditee	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not reported (NR)	Financial health findings	Material unfavourable indicators	Unfavourable indicators	No unfavourable indicators	Legend (Expenditure)	Improved	Regressed
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Auditee ID	Auditee	2013-14 audit outcomes		2012-13 audit outcomes		Financial statement qualification areas					Findings on predetermined objectives			Findings on compliance										Findings on specific risk areas			Unauthorised, irregular as well as fruitless and wasteful expenditure																			
		Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Non-current assets	Current assets	Liabilities	Capital and reserves	Other disclosure items	Revenue	Expenditure	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Aggregate misstatements	Reported information not useful	Reported information not reliable	Information not submitted in time for audit	No annual performance report	Material misstatement or limitations in submitted AFS	Unauthorised, irregular, as well as fruitless and wasteful expenditure	Annual financial statements and annual report	Asset management	Liability management	Budgets	Expenditure management	Consequence management	Audit committees	Internal audit	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management	Other	Quality of submitted performance reports	Supply chain management	Financial health	Human resource management	Information technology	Unauthorised expenditure Amount R	Irregular expenditure Amount R	Fruitless and wasteful expenditure Amount R		
Municipal entities																																														
669	Johannesburg Development Agency (Soc) Ltd		N	A		R										N	N			A																						0,00	0,14	0,58		
678	Johannesburg Metropolitan Bus Services		R	R		R	R									N	R			N	R		N										R									0,00	44,50	0,00		
672	Johannesburg Roads Agency			A		A	R													A												A										0,00	3,60	0,02		
673	Johannesburg Social Housing Company																																									0,00	0,00	0,00		
675	Johannesburg Water		N	R		R										N				R													N								0,00	12,20	0,00			
677	Lethabong Housing Institute NPC (LHI)			A		A	R														A																					0,00	0,00	0,00		
680	Pharoe Park Housing Company SOC Limited			A		R															A																				0,00	0,00	0,03			
682	Pikitup Johannesburg		A	R		R	R									A				R																					0,00	2,20	1,30			
806	Sandspruit Works Association			R		A	R													R	N												R								0,00	7,20	0,05			
1255	Tshwane Economic Development Agency (TEDA)		N	R		R										N					N		A										A	N							0,00	0,00	0,04			
1211	West Rand Development Agency		R	R		N	R	N	N	N	N					A	N			R			R		N																0,00	0,13	0,01			
Consolidation audits																																														
Metropolitan municipalities																																														
649	City of Johannesburg Metro			R		R	R									A	A			R			A	R	R	N																				
650	Ekurhuleni Metropolitan Municipality			A		R															A																									
807	Tshwane Metropolitan Municipality			R		A	R													R	R		N	R	N																					
District municipalities																																														
660	West Rand District			R		R	N			N						N				R			A	R		A																				

Legend (Audit outcomes)	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	New auditee	Legend (Findings)	Addressed (A)	New (N)	Repeat (R)	Not reported (NR)	Financial health findings	Material unfavourable indicators	Unfavourable indicators	No unfavourable indicators	Legend (Expenditure)	Improved	Regressed
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Annexure 2: Comparison of audit outcomes over five years

Auditee	GR Location	Audit outcome 2013-14			Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11			Audit outcome 2009-10		
		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings	
			Predetermined objectives	Compliance		Predetermined objectives	Compliance		Predetermined objectives	Compliance		Predetermined objectives	Compliance		Predetermined objectives	Compliance
Financial audits																
Metropolitan municipalities																
City of Johannesburg Metro	GP															
Ekurhuleni Metropolitan Municipality	GP															
Tshwane Metropolitan Municipality	GP															
District municipalities																
Sedibeng District Municipality	GP															
West Rand District	GP															
Local municipalities																
Emfuleni Local Municipality	GP															
Lesedi Local Municipality	GP															
Merafong City	GP															
Midvaal Local Municipality	GP															
Mogale City	GP															
Randfontein Local Municipality	GP															
Westonaria Local Municipality	GP															
Municipal entities																
Brakpan Bus Company SOC Ltd	GP															
City Power Johannesburg (Soc) Ltd	GP															
East Rand Water Care Company NPC	GP															
Ekurhuleni Development Company (SOC) Ltd	GP															
Germiston Phase II Housing Company SOC Limited	GP															
Housing Company Tshwane	GP															
Joburg Market SOC Limited	GP															
Joburg Property Company	GP															
Johannesburg City Parks	GP															
Joburg City Theatres (SOC) Ltd	GP															
Johannesburg Development Agency (Soc) Ltd	GP															

Auditee	GR Location	Audit outcome 2013-14			Audit outcome 2012-13			Audit outcome 2011-12			Audit outcome 2010-11			Audit outcome 2009-10		
		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings		Audit opinion	Findings	
			Predetermined objectives	Compliance		Predetermined objectives	Compliance		Predetermined objectives	Compliance		Predetermined objectives	Compliance		Predetermined objectives	Compliance
Municipal entities																
Johannesburg Metropolitan Bus Services	GP															
Johannesburg Roads Agency	GP															
Johannesburg Social Housing Company	GP															
Johannesburg Water	GP															
Lethabong Housing Institute NPC (LHI)	GP															
Pharoe Park Housing Company SOC Limited	GP															
Pikitup Johannesburg	GP															
Sandspruit Works Association	GP															
Tshwane Economic Development Agency (TEDA)	GP															
West Rand Development Agency	GP															
Consolidation audits																
Metropolitan municipalities																
City of Johannesburg Metro	GP															
Ekurhuleni Metropolitan Municipality	GP															
Tshwane Metropolitan Municipality	GP															
District municipalities																
West Rand District	GP															

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

Auditee	Leadership																					Financial and performance															Governance																	
	Movement			Effective leadership culture			Oversight responsibility			HR management			Policies & procedures			Action plans			IT governance			Movement			Proper record keeping			Processing and reconciling controls			Reporting			Compliance			IT system controls			Movement			Risk management			Internal audit			Audit committee					
	F	P	C	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C	O	F	P	C				
Metropolitan municipalities																																																						
City of Johannesburg Metro	↔	↔	↔																																																			
Ekurhuleni Metropolitan Municipality	↑	↑	↑																																																			
Tshwane Metropolitan Municipality	↓	↓	↓																																																			
District municipalities																																																						
Sedibeng District Municipality	↔	↔	↔																																																			
West Rand District	↑	↑	↔																																																			
Local municipalities																																																						
Emfuleni Local Municipality	↑	↑	↑																																																			
Lesedi Local Municipality	↔	↔	↔																																																			
Merafong City	↓	↓	↓																																																			
Midvaal Local Municipality	↑	↑	↑																																																			
Mogale City	↑	↑	↑																																																			
Randfontein Local Municipality	↔	↔	↔																																																			
Municipal entities																																																						
Brakpan Bus Company SOC Ltd	↑	↑	↑																																																			
City Power Johannesburg (Soc) Ltd	↑	↑	↑																																																			
East Rand Water Care Company NPC	↓	↓	↓																																																			
Ekurhuleni Development Company (SOC) Ltd	↑	↑	↑																																																			
Germiston Phase II Housing Company SOC Limited	↑	↑	↑																																																			
Housing Company Tshwane	↑	↑	↑																																																			
Joburg Market SOC Limited	↓	↔	↔																																																			
Joburg Property Company	↔	↔	↔																																																			
Johannesburg City Parks	↔	↔	↔																																																			
Joburg City Theatres (SOC) Ltd	↑	↓	↓																																																			

Good
Concerning
Intervention required
↑ Improved
 ↔ Unchanged
 ↓ Regressed
 F Financial
 P Performance
 C Compliance
 O Overall

GLOSSARY OF TERMS, ACRONYMS AND ABBREVIATIONS

Glossary of key terminology used in this report

Adverse audit opinion (on financial statements)

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

Asset (in financial statements)

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

Assurance / assurance provider

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

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

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

Other role players that should provide assurance further include oversight structures and coordinating or monitoring departments (see 'oversight structures as well as coordinating and monitoring departments').

Backups

In information technology, a backup, or the process of backing up, refers to the copying and archiving of computer data so that it may be used to restore the original after a data loss event. The primary purpose of a backup is to recover data after its loss, be it by data deletion or corruption.

Business continuity plan (BCP)

A business continuity plan is a plan to continue operations if a place of business is affected by different levels of disaster, which can be localised short-term disasters, to days-long building-wide problems, to a permanent loss of a building. Such a plan typically explains how the business would recover its operations or move operations to another location after damage by events like natural disasters, theft or flooding. For example, if a fire destroys an office building or data centre, the people and business or data centre operations would relocate to a recovery site.

<i>Capital budget</i>	The estimated amount planned to be spent by auditees on capital items in a particular financial period; for example, fixed assets such as property, infrastructure and equipment with long expected lives and that are required to provide services, produce income or support operations.
<i>Cash flow (in financial statements)</i>	The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).
<i>Clean audit</i>	The financial statements receive a financially unqualified audit opinion and there are no material findings on the quality of the annual performance report or compliance with key legislation.
<i>Commitments from role players</i>	Initiatives and courses of action communicated to us by role players in local government aimed at improving the audit outcomes.
<i>Conditional grants</i>	Money transferred from national government to auditees, subject to certain services being delivered or on compliance with specified requirements.
<i>Consolidated financial statements</i>	Financial statements that reflect the combined financial position and results of a municipality and those of the municipal entities under its control.
<i>Contingent liability</i>	A potential liability, the amount of which will depend on the outcome of a future event.
<i>Creditors</i>	Persons, companies or organisations that the auditee owes money to for goods and services procured from them.
<i>Current assets (in financial statements)</i>	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash in less than 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
<i>Disaster recovery plan (DRP)</i>	A disaster recovery plan is a documented process or set of procedures to recover and protect an auditee's information technology infrastructure in the event of a disaster. Usually documented in written form, the plan specifies the procedures that an auditee should follow in the event of a disaster. It is a comprehensive statement of consistent actions to be taken before, during and after a disaster. The disaster could be natural, environmental or artificial. Artificial disasters could be intentional, such as the act of an attacker; or unintentional (in other words, accidental), such as the wall of a dam breaking).

Disclaimed opinion (on financial statements)

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

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

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

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

Financially unqualified audit opinion (on financial statements)

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

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Firewall

A security system used to prevent unauthorised access between networks (both internal/internal and internal/external). A firewall will allow only approved traffic in and/or out by filtering packets based on the source or destination. The firewall inspects the identification information associated with all communication attempts and compares it to a rule set consistent with the auditee's security policy. Its decision to accept or deny the communication is then recorded in an electronic log.

Fruitless and wasteful expenditure

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

Going concern

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

Governance (as one of the drivers of internal control)

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

Human resource (HR) management

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

<i>Information technology (IT)</i>	The computer systems used for recording, processing and reporting financial and non-financial transactions.
<i>IT controls</i>	Computer-related controls ensure the confidentiality, integrity and availability of state information; enable service delivery; and promote national security.
<i>IT governance</i>	The leadership, organisational structures and processes which ensure that the auditee's information technology resources will sustain its business strategies and objectives.
<i>IT security management</i>	The controls preventing unauthorised access to the computer networks, computer operating systems and application systems that generate and prepare financial information.
<i>IT service continuity</i>	The processes of managing the availability of computer hardware, system software, application software (computer programmes) and data to enable auditees to recover or establish information system services in the event of a disaster.
<i>IT user access management</i>	The procedures through which auditees ensure that only valid and authorised users are allowed segregated access to initiate and approve transactions on the information systems.
<i>Internal control / key controls</i>	<p>The process designed and implemented by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the auditee's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with key legislation.</p> <p>It consists of all the policies and procedures implemented by auditee management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information.</p>
<i>Irregular expenditure</i>	Expenditure incurred without complying with applicable legislation.
<i>Key drivers of internal control</i>	The three components of internal control that should be addressed to improve audit outcomes, namely leadership, financial and performance management, and governance (which are defined elsewhere in this glossary.)

Leadership (as one of the drivers of internal control)

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

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

Material finding (from the audit)

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

Material misstatement

(in financial statements or annual performance reports)

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

Misstatement (in financial statements or annual performance reports)

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

Net current liability

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

Net deficit (incurred by auditee)

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

Operational budget / operating budget

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

Oversight structures as well as coordinating and monitoring departments

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

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

Password

In access control, confidential authentication information, usually composed of a string of characters, may be used to control access to physical areas and data. Passwords have to comply with certain complexity rules to ensure that they are not easy to guess.

<i>Property, infrastructure and equipment (in financial statements)</i>	Assets that physically exist and are expected to be used for more than one year, including land, buildings, leasehold improvements, equipment, furniture, fixtures and vehicles.
<i>Qualified audit opinion (on financial statements)</i>	The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.
<i>Receivables / debtors (in financial statements)</i>	Money owed to the auditee by persons, companies or organisations that have procured goods or services from the auditee.
<i>Reconciliation (of accounting records)</i>	The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.
<i>Root causes (of audit outcomes being poor or not improving)</i>	The underlying causes or drivers of audit findings; in other words, why the problem occurred. Addressing the root cause helps to ensure that the actions address the real issue, thus preventing or reducing the incidents of recurrence, rather than simply providing a one-time or short-term solution.
<i>Supply chain management (SCM)</i>	Procuring goods and services through a tender or quotation process and monitoring the quality and timeliness of the goods and services provided.
<i>Unauthorised expenditure</i>	Expenditure that was in excess of the amount budgeted or allocated by government to the auditee, or that was not incurred in accordance with the purpose for which it was intended.
<i>Vulnerability</i>	In information security, a weakness or flaw (in location, physical layout, organisation, management, procedures, personnel, hardware or software) that may be exploited by an attacker to cause an unfavourable impact.

Acronyms and abbreviations

AG	<i>auditor-general (the person)</i>
AGSA	<i>Auditor-General of South Africa (the institution)</i>
APP	<i>annual performance plan</i>
APR	<i>annual performance report</i>
CEO	<i>chief executive officer</i>
CFO	<i>chief financial officer</i>
CoGTA	<i>Department of Cooperative Governance and Traditional Affairs</i>
DM	<i>district municipality</i>
FMG	<i>financial management grant</i>
GP	<i>Gauteng</i>
GRAP	<i>Generally Recognised Accounting Practice</i>
HR	<i>human resources</i>
ICT	<i>information and communications technology</i>
IDP	<i>integrated development plan</i>
IT	<i>information technology</i>
KPA	<i>key performance area</i>
KPI	<i>key performance indicator</i>
LM	<i>local municipality</i>
ME	<i>municipal entity</i>
MEC	<i>member of the executive council</i>
MFMA	<i>Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</i>
MIG	<i>municipal infrastructure grant</i>
MPAC	<i>municipal public accounts committee</i>
MSA	<i>Municipal Systems Act, 2000 (Act No. 32 of 2000)</i>
MSIG	<i>municipal systems improvement grant</i>
MTSF	<i>medium term strategic framework</i>
NCOP	<i>National Council of Provinces</i>
SALGA	<i>South African Local Government Association</i>
SCM	<i>supply chain management</i>
SDBIP	<i>service delivery and budget implementation plan</i>



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