

Gautrain



# GENERAL REPORT on audit outcomes of **GAUTENG** LOCAL GOVERNMENT

## 2009-10



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



# 100 YEARS 1911-2011



# **General report**

## **on the audit outcomes of Gauteng Local Government 2009-10**

**PR 130/2011**  
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## **Our reputation promise/mission**

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



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## SECTION 1: FOREWORD

It is with great pleasure that I present my 2009-10 general report to the provincial legislature and municipal councils, analysing the results of the audit outcomes of the Gauteng Local Government for the financial year ended 30 June 2010. The purpose of this general report is to provide an overview of the audit outcomes of local government as well as to guide those charged with governance and oversight, including the executive, councils and legislatures, to work towards achieving financially unqualified audit opinions with no findings on compliance with laws and regulations and service delivery reporting.

The Gauteng Local Government comprises 15 municipalities and 25 municipal entities. The 2009-10 audits of 14 municipalities and 23 municipal entities had been finalised by 31 January 2011. The audits of the City of Johannesburg Metropolitan Municipality, City Power Johannesburg (Pty) Ltd and Johannesburg Water (Pty) Ltd were finalised after 31 January 2011 and their audit outcomes are dealt with in section 2 of this report. Merafong City Local Municipality was incorporated into Gauteng from the North West Province due to changes in provincial boundaries.

The audit outcomes of municipalities generally remained unchanged. Three municipalities received qualified opinions (2008-09: four), there were 10 unqualified opinions with findings on reporting on predetermined objectives and/or non-compliance with laws and regulations (2008-09: eight), and Metsweding Local Municipality sustained the distinction of being the only municipality in the province to have a clean auditor's report.

At municipal entities, there was a significant improvement towards the attainment of a clean administration, with seven (2008-09: one) of the 23 entities achieving clean audit outcomes. Thirteen entities had unqualified opinions with other findings, one entity was qualified, and two entities obtained disclaimed opinions.

The prevalence of non-compliance with laws and regulations and findings on predetermined objectives remains a challenge for the province. The most significant non-compliance issues related to the contravention of Supply Chain Management (SCM) Regulations at 11 municipalities and payments not being made within 30 days, resulting in interest on late payments. The leadership of these municipalities did not implement adequate action plans to address the significant deficiencies in the design and implementation of related key internal controls.

The lack of skills to deal with developments of Generally Recognised Accounting Practice (GRAP) has resulted in a dependence on consultants at some municipalities. Despite the use of consultants by eight municipalities and eight municipal entities, financial statements submitted for auditing were subjected to corrections due to material misstatements at 10 municipalities and seven entities.

In instances where there were improved audit outcomes, the leadership is setting the correct tone, with particular emphasis on the adequacy of, and compliance with, action plans; adequate human resources in critical positions; and ensuring that basic financial disciplines are consistent.

The internal control deficiencies in SCM resulted in irregular expenditure of R203 million in the current year and there has been a significant increase in unauthorised expenditure to R1,7 billion (2008-09: R552 million). This confirms the inadequacy of preventative controls to ensure compliance with the relevant laws and regulations.



Included in the irregular expenditure amount are transactions that municipalities entered into with persons in the employ of the state or the municipality itself, for example, R3,8 million at the City of Tshwane Metropolitan Municipality.

There continues to be key findings in the information technology (IT) environment. Municipalities and municipal entities have not made progress in addressing the key IT findings raised in 2008-09. The IT deficiencies continue to compromise the reliability of computer systems for financial reporting purposes, whilst security around the data and physical computers remains inadequate.

The majority of municipalities have well-established and properly functioning audit committees and internal audit units. However, the audit committees have not been able to address deficiencies in the area of risk management, more particularly by conducting effective risk assessments which will ensure that adequate controls exist to prevent and detect fraud and error.

The provincial leadership has affirmed their commitment to ensuring the attainment of clean audit opinions. Whilst progress has been made, the impact of their interventions continues to be limited given the nature of findings, and more importantly, the slow improvement in the audit results.

The provincial departments of finance and local government will enhance their own processes, for example through the *Operation clean audit* team, so as to strengthen the monitoring and support function of local government in the province. A particular focus area for the team will be to manage the transfer of skills to the incumbent finance units by the consultants and also to strengthen the effectiveness of municipal public accounts committees (MPACs).

The leadership of the Auditor-General of South Africa (AGSA) in Gauteng will continue to increase their visibility and availability to assist executive mayors in identifying municipal-specific details of key daily, weekly and monthly controls that are either not in place or not effective, which they should monitor consistently and regularly.

We will continue with our quarterly assessments of key controls and provide detailed feedback to the mayors, the quarterly provincial coordinating forum and the relevant provincial portfolio committees.

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

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

*Auditor-General*

**Auditor-General  
Gauteng  
May 2011**

## SECTION 2: EXECUTIVE SUMMARY

The purpose of this general report is to provide an overview of the audit outcomes of the municipalities and municipal entities of the Gauteng Province for the 2009-10 financial year. An overview of these audit outcomes was presented to the provincial legislature during March 2011 to facilitate dialogue on the understanding of the key underlying issues driving these audit outcomes and possible solutions in this regard.

The summary that follows contains key issues and conclusions reached on the main sections in this report, while further details are contained in the body of the report.

### 2.1 Overview of audit outcomes

The Gauteng Local Government comprises three metros, 12 municipalities and 25 municipal entities. The 2009-10 audit outcomes of two metros, 12 municipalities and 23 municipal entities are analysed in this report. The City of Johannesburg Metropolitan Municipality, City Power Johannesburg (Pty) Ltd and Johannesburg Water (Pty) Ltd were not included in the analysis of this report due to the audits being finalised after 31 January 2011. Three of the 14 municipalities, the City of Tshwane Metropolitan Municipality, Ekurhuleni Metropolitan Municipality and West Rand District Municipality, were audited as consolidations. A new municipal entity, the West Rand Development Agency, has been included in the analysis for the first time.

The 2008-09 comparatives include the outcomes of Kungwini Local Municipality, the audit of which had been finalised after the publication of the previous report, and those of Merafong City Local Municipality, which was reincorporated into Gauteng from the North West Province in accordance with *Notice No. 8 of 2009* of the Cross-boundary Municipalities Laws Repeal and Related Matters Amendment Act, 2009 (Act No. 8 of 2009). Two City of Tshwane Metro municipal entities, Tradepoint Pretoria and Roodeplaat Temba Water Services Trust, which had been included in the prior year analysis, are not included in the current year analysis as they have been deregistered.

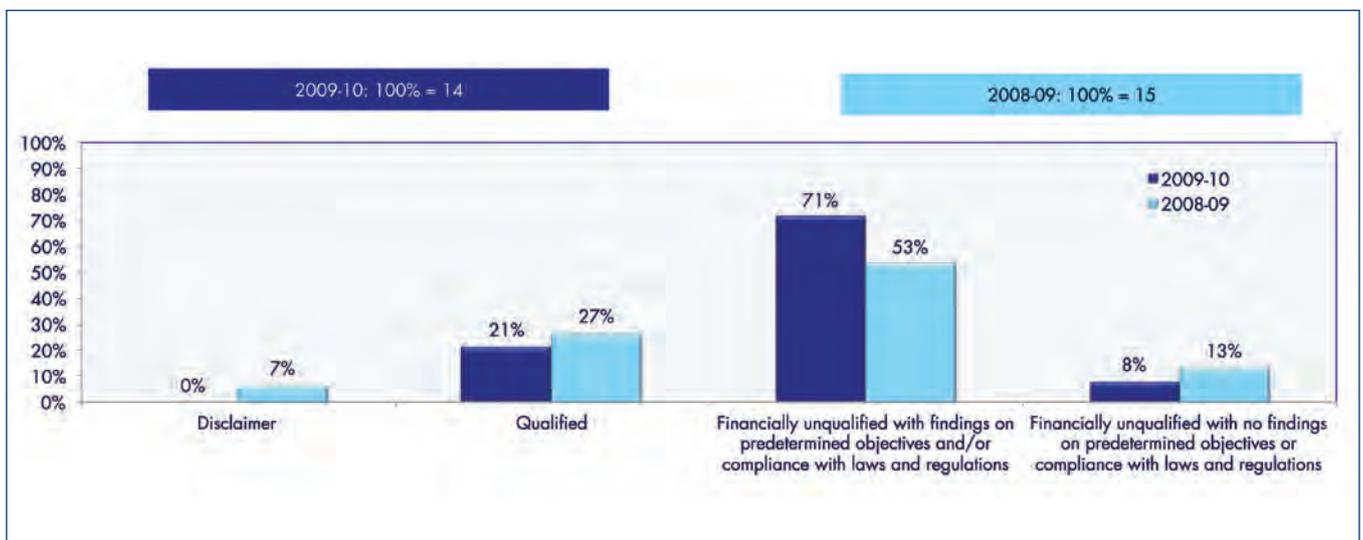
The 2009-10 audit outcomes of municipalities, including metros and municipal entities, are reflected in table 1 below.

**Table 1: Summary of audit outcomes (based on consolidated financial statements where applicable)**

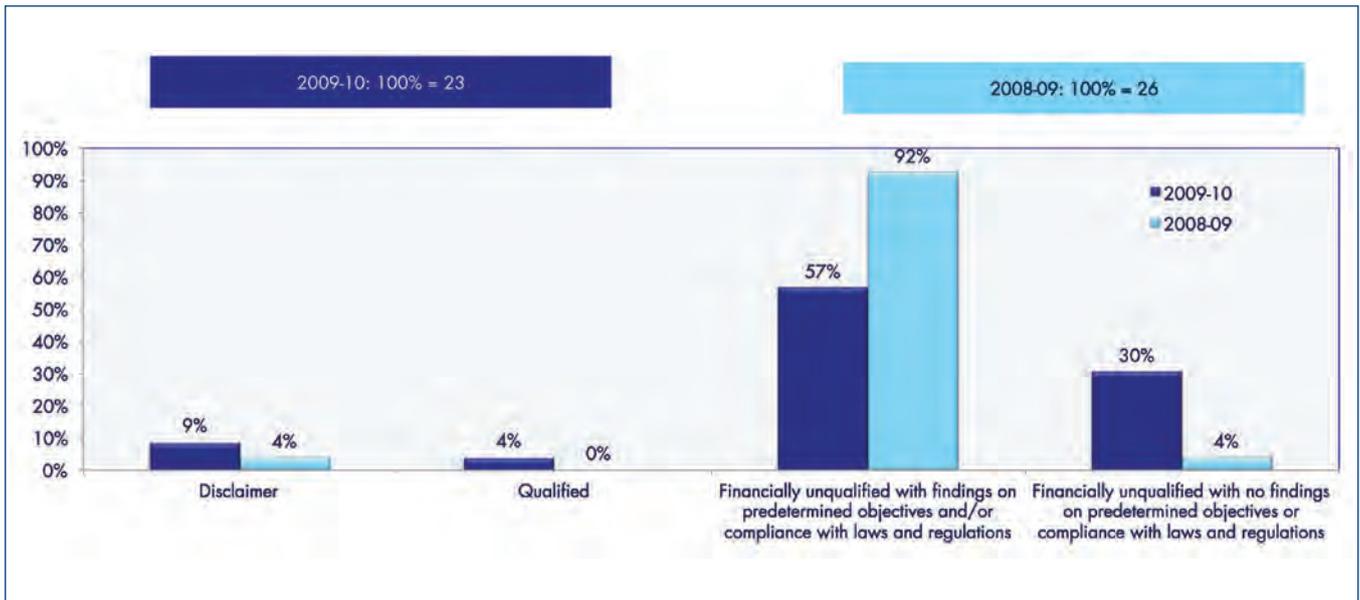
Audit outcomes	*Municipalities		Municipal entities	
	2009-10	2008-09	2009-10	2008-09
Disclaimer	0	1	2	1
Adverse	0	0	0	0
Qualified	3	4	1	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	10	8	13	24
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	1	2	7	1
<b>Total number of audits reported on</b>	<b>14</b>	<b>15</b>	<b>23</b>	<b>26</b>
<b>Number of audits not yet finalised at 31 January 2011</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>0</b>
<b>Total number of audits</b>	<b>15</b>	<b>15</b>	<b>25</b>	<b>26</b>
Findings arising from the AGSA's other legal reporting responsibilities:				
Predetermined objectives	9	12	10	11
Compliance with laws and regulations	13	11	16	19

Figures 1 and 2 graphically depict the outcomes of the audits of financial statements of municipalities and municipal entities, respectively.

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

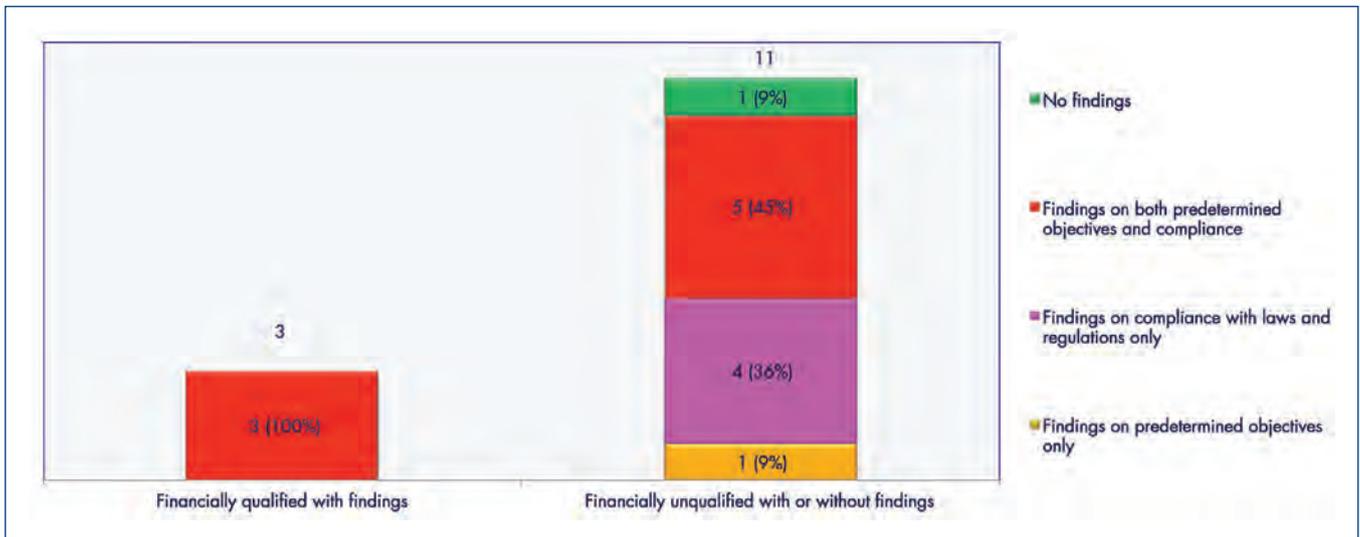


**Figure 2: Analysis of audit outcomes – municipal entities**

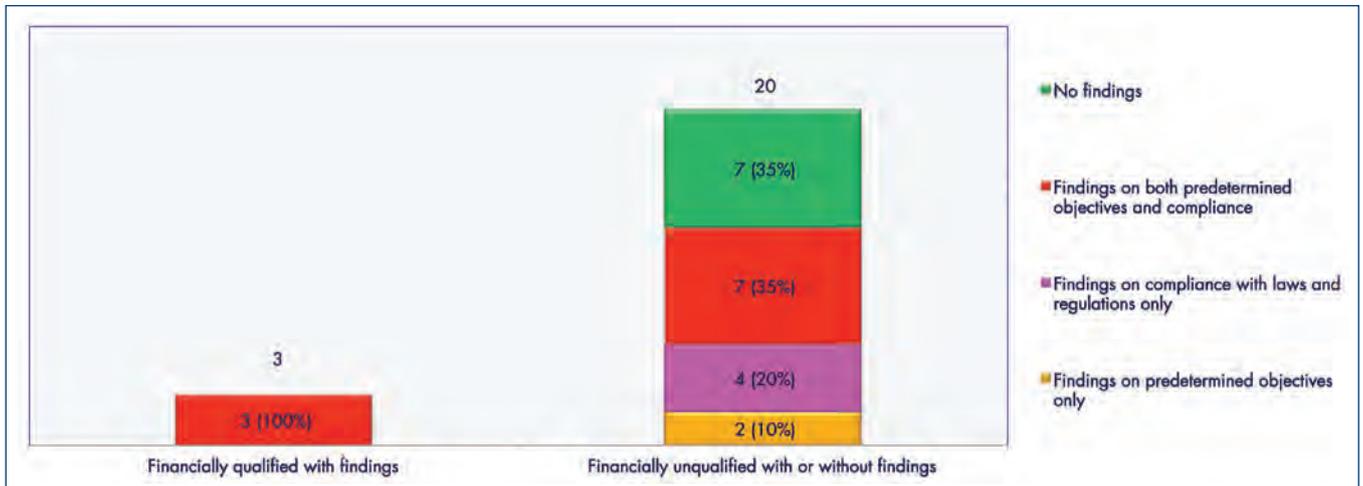


Figures 3 and 4 present an analysis of findings arising from the audit of predetermined objectives and compliance with laws and regulations for municipalities and municipal entities, respectively.

**Figure 3: Analysis of municipalities with/without findings on predetermined objectives and/or compliance with laws and regulations**



**Figure 4: Analysis of municipal entities with/without findings on predetermined objectives and/or compliance with laws and regulations**



### Highlights of the audit outcomes for the year under review

There has been no improvement in the province’s local government audit outcomes for 2009-10 at municipalities and a significant improvement at the municipal entities, with seven municipal entities being financially unqualified with no findings on reporting on predetermined objectives or compliance with laws and regulations. With the foundation of strong governance structures, sufficient review and monitoring of compliance with laws and regulations, as well as adequate monitoring and implementation of action plans at municipal entities, coupled with proactive leadership, a clean administration is attainable. The good practices identified at the municipal entities should be replicated throughout the province.

An overview of the audit outcomes of municipalities indicates the following trends:

- One municipality managed to sustain a clean audit report.
- Seven municipalities remained unchanged with financially unqualified audit opinions with findings on predetermined objectives and/or compliance with laws and regulations.
- Three municipalities improved from qualified to financially unqualified audit opinions with findings on predetermined objectives and/or compliance with laws and regulations.
- One municipality improved from a disclaimer to a qualified audit opinion.
- One municipality regressed from a financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations to a qualified opinion.
- One municipality remained unchanged with a qualified audit opinion.



Since incorporation, Nokeng Tsa Taemane Local Municipality has for the first time achieved a financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations.

At both Metsweding District Municipality and Nokeng Tsa Taemane Local Municipality, the following factors contributed to their successes:

- Management made a concerted effort to closely monitor progress made in implementing the action plans to address prior year findings.
- Action plans to address prior year qualifications were specific, responsibility was assigned and time frames were attached, while the action plans were regularly monitored by management.
- Compliance with SCM policies and procedures was monitored to identify, record and correct irregular expenditure.
- Prior year findings on predetermined objectives were sufficiently reviewed and monitored.

The financial statements of Emfuleni Local Municipality received a qualified audit opinion for the past two years. The lack of improvement is mainly as a result of insufficient leadership effort to address prior year findings, vacancies in key finance positions, and inadequate technical skills to fully comply with the requirements of GRAP 17 *Property, Plant and Equipment*.

An overview of the audit outcomes of municipal entities illustrates the following trends:

- Seven municipal entities improved from financially unqualified audit opinions with findings on predetermined objectives and/or compliance with laws and regulations to clean audit reports.
- Twelve municipal entities remained unchanged with financially unqualified audit opinions with findings on predetermined objectives and/or compliance with laws and regulations.
- One municipal entity regressed from a financially unqualified audit opinion with no findings on predetermined objectives or compliance with laws and regulations to a financially unqualified audit opinion with findings on predetermined objectives and/or compliance with laws and regulations.
- One municipal entity remained unchanged with a qualified audit opinion.
- One municipal entity regressed from a qualified audit outcome to a disclaimer (Civirelo Water).
- One municipal entity's audit outcome remained unchanged as a disclaimer of opinion (Housing Company of Tshwane).

The audit outcome of the Housing Company of Tshwane remained unchanged as a disclaimer of opinion for the past five years for the following reasons:



- An inadequate document management system resulted in poor record keeping.
- Action plans to address historical qualifications were not specific, responsibility was not assigned and no time frames were attached, while the action plans were not monitored regularly by management.
- Compliance with SCM policies and procedures was not monitored to identify, record and correct irregular expenditure.
- The expanded scope of our audit in the areas of procurement resulted in additional findings being raised.
- There was insufficient review and monitoring of reporting on predetermined objectives.

The City of Tshwane Metropolitan Municipality is putting a plan in place to deregister Civirelo Water, which also received a disclaimer of opinion.

The *Operation clean audit* team commissioned by the provincial executive has to date not had a significant impact on clean audits. The relevant portfolio committees have also had little success in influencing a shift towards clean audit opinions.

The table below sets out reasons why the financial statements of Kungwini Local Municipality and Randfontein Local Municipality were not submitted within the legislated timelines.

**Table 2: Submission of annual financial statements for audit**

Auditee	Reason	Section 133 letter issued by the AGSA
The accounting officers did not submit the following municipalities' financial statements to the AGSA for auditing by 31 August 2010:		
Kungwini Local Municipality	The financial statements submitted on 31 August 2010 had incomplete GRAP disclosures and had not been approved by the accounting officer nor had they been submitted to the audit committee. Consequently, this was regarded as non-submission and a new set was submitted on 9 September 2010.	No
Randfontein Local Municipality	While management was doing final reviews of the financial statements on 31 August 2010, they discovered significant deficiencies. In addressing the identified deficiencies, a decision was taken to delay the submission of the financial statements until 2 September 2010.	No

Since 31 January 2011 and up to the date of this report three further audits had been finalised. Their audit outcomes are reflected in table 3 below.



**Table 3: Outcomes of audits finalised after 31 January 2011**

Auditee	2009-10 Audit opinion	2008-09 Audit opinion
City of Johannesburg Metropolitan Municipality	Qualified	Financially unqualified with no findings
City Power Johannesburg (Pty) Ltd	Qualified	Financially unqualified with findings
Johannesburg Water (Pty) Ltd	Qualified	Financially unqualified with findings

The City of Johannesburg Metropolitan Municipality regressed from a clean audit opinion and the two related entities, Johannesburg Water and City Power Johannesburg, regressed from financially unqualified opinions with findings on predetermined objectives and compliance to qualified audit opinions.

The qualifications related to the inability of the auditors to conclude on the completeness and accuracy of revenue and the lack of sufficient audit evidence to support the receivables balance. The primary driver of this outcome was the migration of billings to a new centralised system during the year under review, which resulted in revenue not being billed correctly in the post-migration environment.

The City of Johannesburg Metropolitan Municipality's non-compliance issues related to non-compliance with SCM Regulations, which led to fruitless and wasteful as well as irregular expenditure. Furthermore, the municipality's leadership did not consistently monitor key controls and financial disciplines, which resulted in material losses.

Other instances of non-compliance with laws and regulations included the financial statements submitted for auditing being subjected to material corrections due to the inadequate quality of the financial statements, executive directors failing to declare all financial interests held in other companies, and councillors failing to declare all their financial interests.

The high number of investigations conducted at the municipality is an indicator of risk that key internal controls are not functioning adequately. The investigations focused on bribery, theft, financial corruption, the misallocation of Reconstruction and Development Programme houses, tender irregularities and various other issues. The lack of consistent adherence to basic internal control disciplines had a negative impact on compliance with laws and regulations.

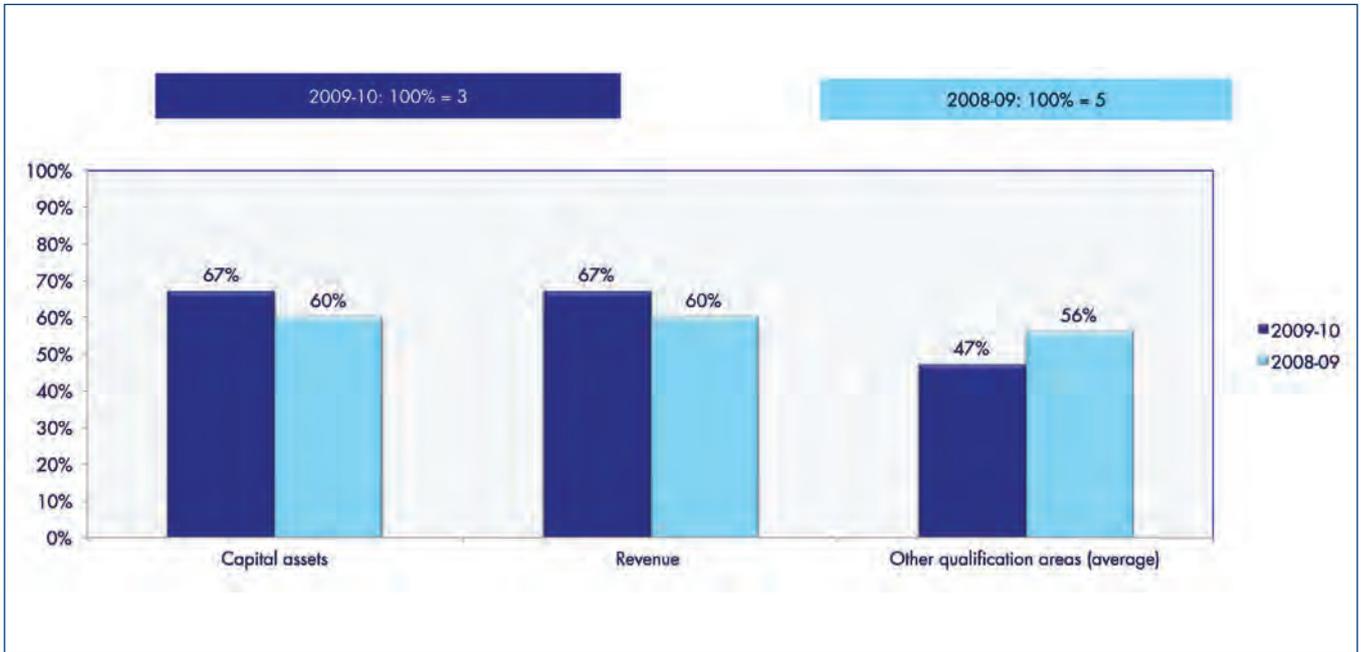
## 2.2 Findings on financial management

### 2.2.1 Transversal material issues that form the basis for the qualified, adverse or disclaimed opinion on the financial statements

The figures below depict the most common areas in financial statements attracting qualification findings.

Figure 5 illustrates that the common qualification area on the balance sheet on which the three affected municipalities were qualified, was capital assets. In the income statement, the common qualification area was revenue.

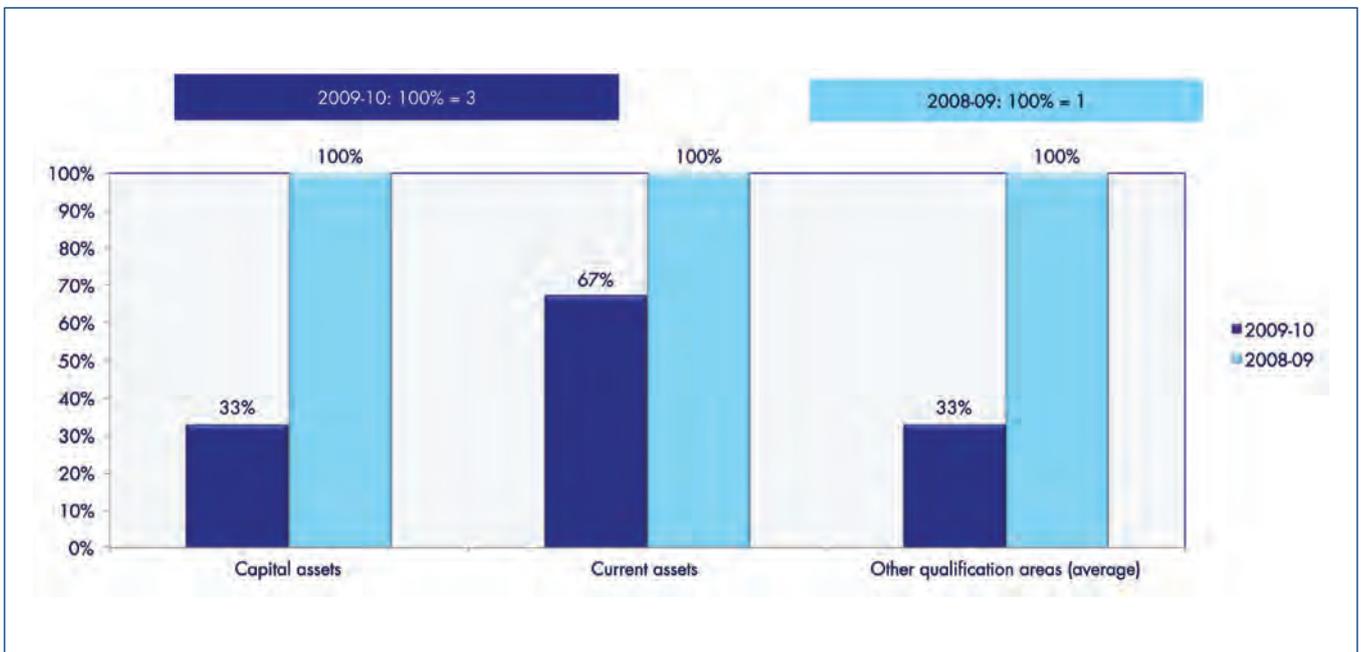
**Figure 5: Transversal qualifications – municipalities\***



**\*Municipalities: Based on consolidated reporting where applicable**

Figure 6 illustrates that the common qualification area on the balance sheet on which the three affected municipal entities were qualified, was capital and current assets.

**Figure 6: Transversal qualifications – municipal entities**



The financial statement qualification areas of the three municipalities and three municipal entities that obtained financially qualified audit opinions are reflected in the table below. The numerous repeat findings indicate that not all the previous year's qualification areas had been fully resolved or could be addressed within a one-year cycle.

**Table 4: Financial statement qualification areas**

Auditee	Audit opinion 2009-10	Movement in addressing 2008-09 qualification areas						Audit opinion 2008-09
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	
Emfuleni Local Municipality	Qualified	Repeat	Addressed	Addressed		Addressed		Qualified
Kungwini Local Municipality	Qualified	Addressed	Repeat	Repeat	Repeat	Repeat	Addressed	Disclaimer
Mogale City Local Municipality	Qualified	New			New			Financially unqualified with findings
Civirelo Water (Pty) Ltd	Disclaimer		New					Financially unqualified with findings
Housing Company Tshwane (Pty) Ltd	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat		Disclaimer
West Rand Development Agency	Qualified			New				New municipal entity

Details, including an analysis of the common root causes that led to qualified outcomes (including disclaimers), are provided below. The qualification areas per balance sheet and income statement are calculated as a percentage of the total number of municipalities and municipal entities with a qualification in that area.

- **Capital assets (67%)**

Municipalities were unable to fulfil all requirements relating to property, plant and equipment in terms of GRAP 17, as a result of inadequate planning and skills capacity within the municipalities to achieve full compliance within the required time frames.

Investment property was also not correctly classified and fairly valued in accordance with GRAP 16, due to insufficient understanding of the technical requirements of certain GRAP standards.

- **Current assets (67%)**

The completeness, existence and valuation of debtors with credit balances and indigent debtors disclosed in the financial statements could not be substantiated due to insufficient supporting documentation.

Not all provisions of GRAP 12 relating to the valuation of inventory were complied with as there was insufficient audit evidence.

- **Liabilities (50%)**

Differences between value-added tax (VAT) returns and balances in the general ledger could not be explained due to a lack of documentation as well as proper and regular in-year reconciliations.

- **Other disclosure items (33%)**

Disclosure in the financial statements was not in line with the requirements of GRAP, the International Financial Reporting Standards (IFRS) and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), as a result of finance staff not sufficiently applying standards and regulations.

- **Revenue (50%)**

Service charges revenue was not substantiated by appropriate sufficient audit evidence, resulting from poor systems of control and inadequate record keeping.

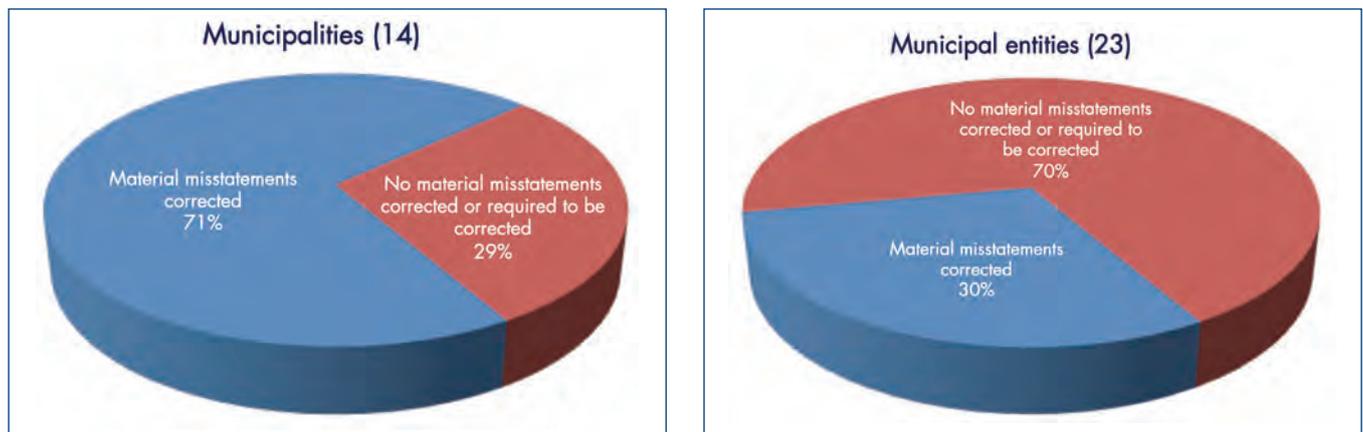
The valuation roll used to calculate property rates was not updated with the most recent property values and this was not reconciled to the billing system.

The common qualification areas for the 2009-10 financial year are similar to those reported in the prior year. Inadequate leadership efforts to implement and monitor action plans to address prior year audit qualifications, inadequate document management systems and vacancies not being filled with suitably skilled individuals are the root causes of the qualifications.

### **2.2.2 Material misstatements in financial statements submitted for auditing**

Section 122(1) of the MFMA requires that municipalities and municipal entities submit annual financial statements for auditing that fairly present their state of affairs, performance against the budget and financial position as at the end of the financial year. Such financial statements are therefore required to be free from material misstatements. Material misstatements were identified in the financial statements submitted for auditing by a total of 10 municipalities (71%), (2008-09: 80%) and seven municipal entities (30%) (2008-09: 88%).

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

**Figure 7: Material misstatements in financial statements submitted for auditing**

The material misstatements corrected resulted from a lack of compliance with the GRAP reporting framework, due to insufficiently skilled staff in the finance units. Although consultants were used, there has been a notable increase in the financial statements of municipalities that required adjustments in the current period. This indicates that these municipalities' mayors and municipal managers need to pay closer attention to the performance of consultants and the transfer of skills in respect of financial reporting.

On a positive note, municipal entities showed a significant improvement compared to the 2008-09 financial year, in that the majority of the financial statements presented for auditing were free from material misstatements. This is attributable to the successful implementation and monitoring of action plans by the leadership of municipal entities.

The material misstatements could have been detected had management adequately reviewed the financial statements prior to submission for auditing. Furthermore, had audit committees engaged internal audit units to provide assurance on the financial statement preparation process, a significant number of misstatements could have been detected prior to the financial statements being submitted for auditing.

### **2.2.3 Assistance provided by consultants to municipalities and municipal entities in the preparation of financial statements**

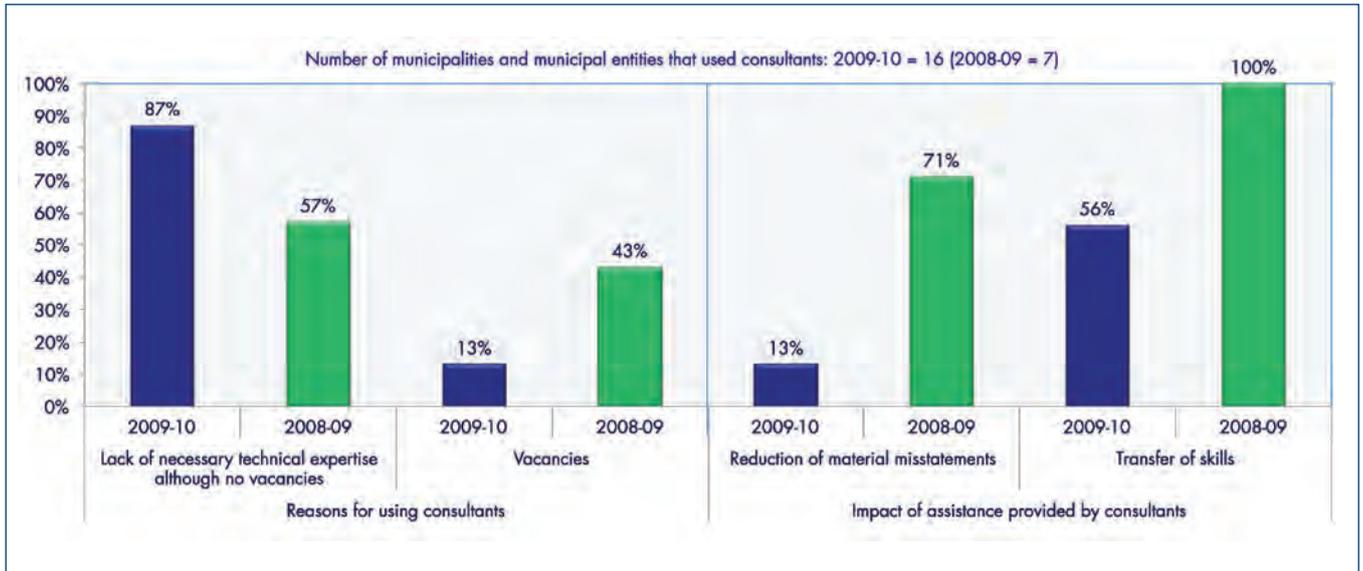
Consultants were used at eight of the 14 municipalities (57%) and eight of the 23 municipal entities (35%) analysed.

The provincial department of local government and housing (provincial CoGTA) and the Development Bank of Southern Africa (DBSA) assisted municipalities through project Siyenza Manje, which was an initiative that provided resources from the South African Institute of Chartered Accountants (SAICA) to the finance units of municipalities. This project was discontinued on 31 March 2011.

Similar to prior years, municipalities not using the Siyenza Manje consultants continued to engage the services of external consultants to assist with accounting-related services and the preparation of financial statements. The total cost of providing these services amounted to R2,9 million in the 2009-10 year.

Depicted below are the reasons why municipalities and municipal entities engaged the services of consultants to prepare financial statements as well as the AGSA's assessment of the impact of such assistance on the quality of the financial statements submitted for auditing.

**Figure 8: Assistance provided by consultants – municipalities and municipal entities**



A lack of technical skills and vacancies in the finance units resulted in continued reliance on consultants. Although consultants were used at 57% of the municipalities, skills were not adequately transferred, as evidenced by the lack of improvement in the quality of the financial statements submitted for audit purposes. Skills were not transferred due to a lack of clear reporting lines and accountability of consultants and service level agreements not including the specific process of transferring skills. These municipalities were not empowered to depend less on external assistance in undertaking their financial responsibilities.

At Nokeng Tsa Taemane Local Municipality, Kungwini Local Municipality and Westonaria Local Municipality the use of consultants resulted in improvements in the audit outcomes. Closer working relations between the finance unit staff and consultants and monitoring the work performed by the consultants directly resulted in these improvements.

Municipalities should assess whether the ongoing use of consultants for accounting-related services is the most economical way for addressing their needs, also taking into account the need for continuity and sustainability of the function the consultants are engaged to perform. To this end, municipalities should ensure that consultants deliver on their mandate of delivering quality financial information whilst transferring skills to build sustainable finance units.

The leadership, with the assistance of the Gauteng Provincial Government, must monitor and evaluate the effectiveness of the services rendered by consultants regarding the audit outcomes and transfer of skills.



The municipalities should develop terms of reference and service level agreements to enable them to clarify the reporting structure and hold consultants accountable for services rendered.

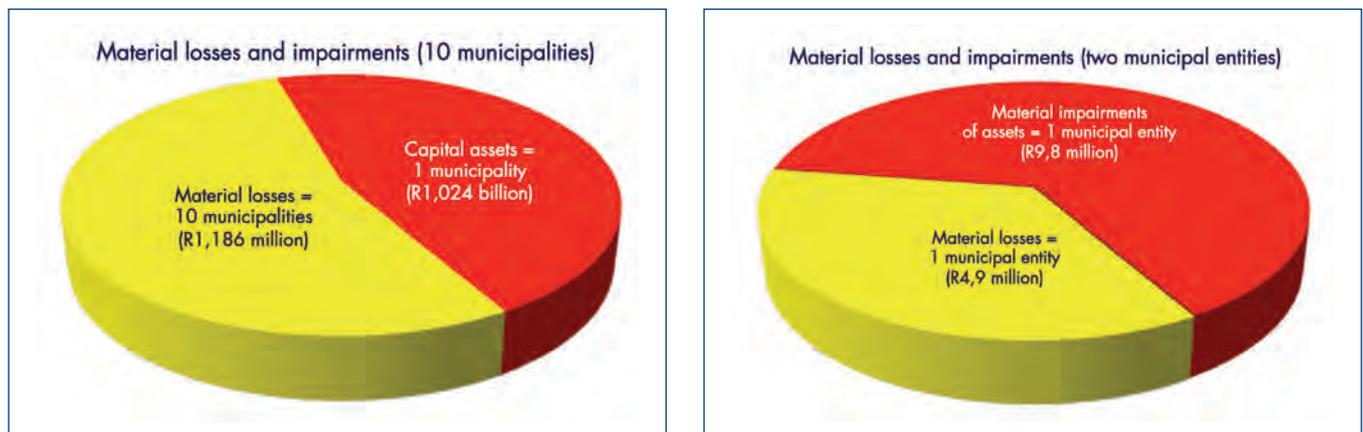
The municipalities should engage with the provincial CoGTA with the assistance of the Accounting Standards Board and the provincial department of finance to ensure that officials at the municipalities have continuous training on the current effective GRAP standards and new developments.

## 2.2.4 Material losses, material impairment of assets and underspending of the vote or conditional grants

*Impairment of assets (R1,024 billion) and material losses (R1,186 billion)*

Figure 9 indicates the material losses and impairment of assets at municipalities and municipal entities.

**Figure 9: Material losses and impairment of assets**



### Municipalities

Although assets were impaired at various municipalities, the most substantial material impairment of assets occurred at the City of Tshwane Metropolitan Municipality (R1,024 billion) as a result of irrecoverable debts written off.

Material losses were incurred as a result of electricity and water distribution losses, with 31% of the losses relating to electricity and 69% of the losses relating to water. Common causes for electricity losses included dilapidated infrastructure, technical losses and illegal connections. Water losses resulted from obsolete infrastructure and slow responses in repairing damaged pipes.

Kungwini Local Municipality incurred distribution losses on electricity and water due to technical problems on the existing network, faulty meters and illegal connections. However, the losses were not disclosed in the financial statements as required by section 125(1)(d) of the MFMA.

Ekurhuleni Metropolitan Municipality implemented advanced infrastructure asset management software. This system improves knowledge on asset management planning, asset maintenance, asset conditions and useful lives. Ultimately, this initiative should lead to improved control over material losses. It is recommended that the success of this initiative be tracked and possibly be replicated across the province.

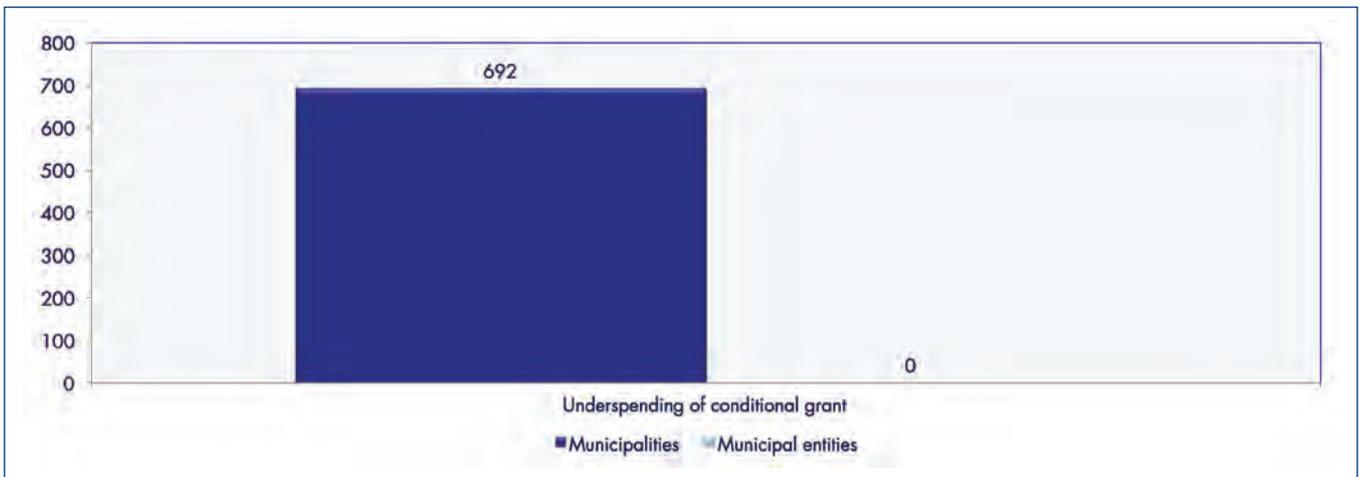
Municipal entities

Material losses were incurred as a result of inadequate controls over revenue collection from informal traders and debts that were written off due to non-recoverability.

*Underspending of conditional grants*

Figure 10 shows the material underspending of conditional grants.

**Figure 10: Material underspending of conditional grants**



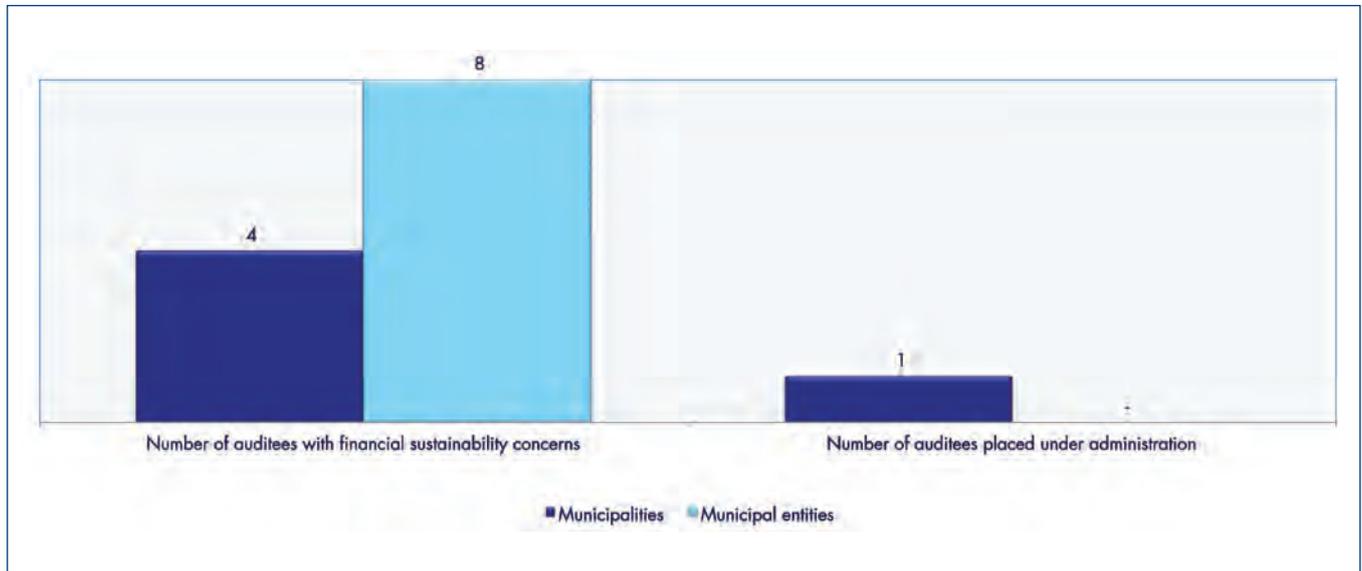
Conditional grants were materially underspent at Randfontein Local Municipality due to the inability of the municipality to gain access to the townships for the implementation of various service delivery projects and infrastructure development. Conditional grants earmarked for infrastructure development at Nokeng Tsa Taemane Local Municipality and Kungwini Local Municipality were spent on operational activities. In addition, infrastructure grants awarded for World Cup transportation were not fully utilised at one of the municipalities.

**2.2.5 Funding of operations, financial sustainability and going concern**

Four municipalities and eight municipal entities face serious financial sustainability challenges and going concern issues as depicted below.



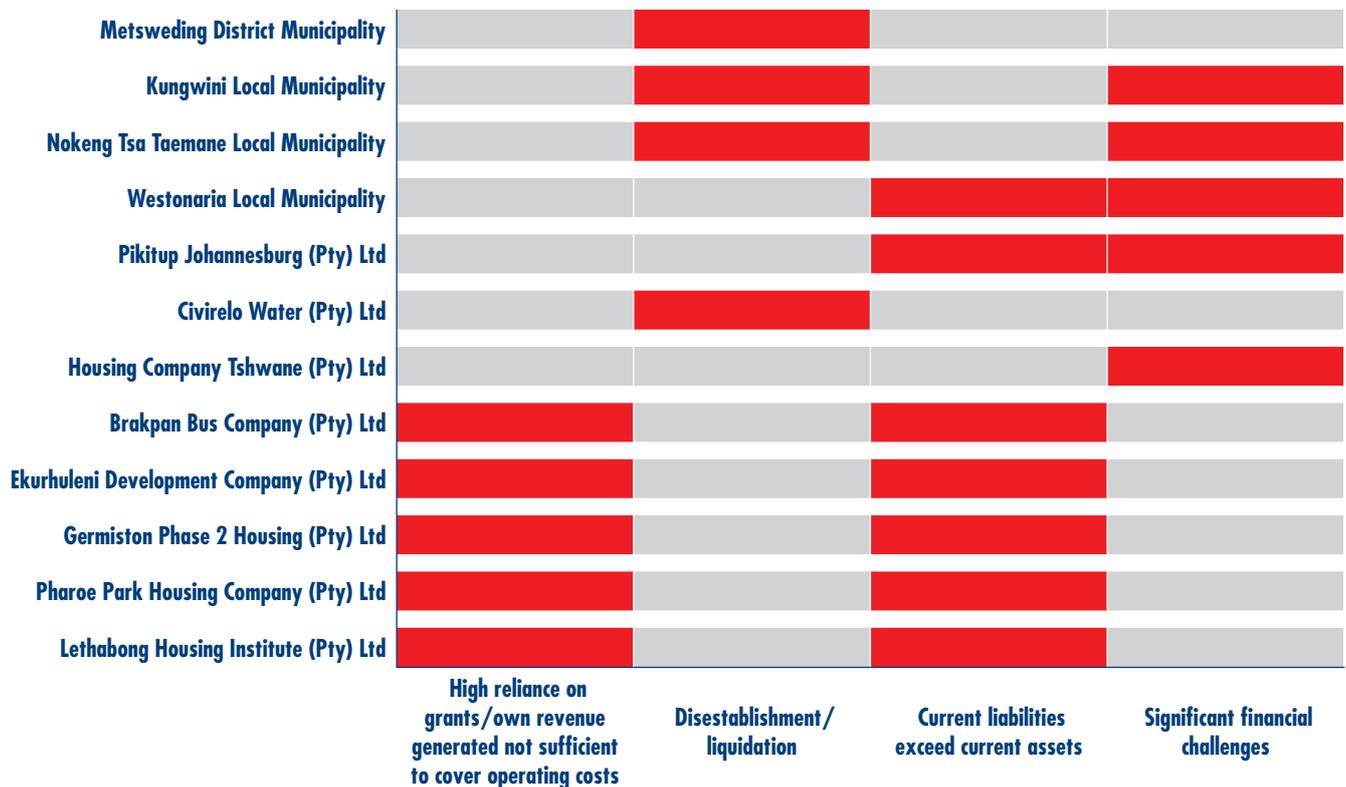
**Figure 11: Municipalities and municipal entities with funding concerns**



Nokeng Tsa Taemane Local Municipality was placed under administration with effect from 6 October 2010 in terms of section 139(5)(b) of the Constitution, as a result of concerns around its financial affairs.

The broad causes of funding or going concern issues are depicted in the figure below.

**Figure 12: Analysis of funding or going concern issues**



Although there were no financial recovery plans to address the funding or going concern issues, the leadership of the municipalities and municipal entities assessed that they would continue as going concerns based on the assumption of continued financial support from their parent municipalities for municipal entities and better management of their expenditure and collection of revenue for both municipalities and municipal entities. Management would need to ensure that the effective application of credit control policies is continuously monitored to improve the collection rate of billings and arrear debts.

### 2.3 Findings on reporting on predetermined objectives

Findings arising from the audit of predetermined objectives were raised at 64% of the municipalities in the current year, compared to 87% of the municipalities in the previous year. Findings were raised at 43% of the municipal entities, compared to 96% in the 2008-09 financial year. The findings are analysed in the figure below.

**Figure 13: Analysis of findings on reporting on predetermined objectives**

	<b>Late/non-submission: 2009-10: 32% 2008-09: 45%</b>
	<b>Non-compliance: 2009-10: 21% 2008-09: 36%</b> Compliance with the MFMA, MSA and Municipal Planning and Performance Management Regulations pertaining to the planning, management, monitoring, review and reporting of performance Inadequate presentation of reported information, reported information not submitted in time for audit purposes and non-existence and/or non-functioning of a performance audit committee.
	<b>Not useful: 2009-10: 47% 2008-09: 50%</b> Consistency, relevance and measurability of planned and reported performance information. Information is not consistent with targets and indicators as set in the strategic/corporate/annual performance plans, while targets are not specific, measurable and time bound.
	<b>Not reliable: 2009-10: 68% 2008-09: 36%</b> Reported information not accurate, complete and consistent in relation to the source data, evidence or documentation. Lack of sufficient appropriate audit evidence in relation to reported performance information and source information not adequately supporting the accuracy and completeness of the reported facts.

#### *Non-compliance with regulatory requirements*

Non-compliance findings related mainly to objectives, indicators and targets not set in advance as required by the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), the performance information not prepared and submitted timeously for audit purposes, the lack of a formalised and adequate performance management system framework, and the reported performance information not presented in accordance with National Treasury guidelines.

*Information on performance against predetermined objectives not useful*

There were instances where some targets were not specific and measurable against the required performance measure, while some performance variances were not explained. In addition, there was inconsistent reporting on performance objectives, indicators and targets as per the approved integrated development plan.

*Reported information on performance against predetermined objectives not reliable*

Findings on reliability included instances where the actual reported performance could not be verified, the evidence provided did not support the reported information, and the reported information was not accurate and complete.

The high prevalence of findings in the above three categories can be attributed to inadequate leadership supervision as well as review and monitoring, a lack of integration of predetermined objective structures and systems, inadequate record keeping, and internal audit units not reviewing performance management processes.

Of all the reports that were analysed, five municipalities (35%) and 12 municipal entities (62%) had no findings resulting from the audit of predetermined objectives. The good results of these municipalities and municipal entities can be attributed to the implementation of internal controls, quarterly reviews by internal audit units, and the implementation of action plans relating to predetermined objectives.

Good practices were implemented at Ekurhuleni Metropolitan Municipality, which led to the municipality having no findings on predetermined objectives. The internal audit unit conducted independent audits of each service delivery and budget implementation plan (SDBIP) report, which were followed up timeously for resolution. The audits provided additional reliability on reported actual achievements compared to predetermined objectives. The performance management unit responsible for monitoring predetermined objectives was headed by suitably skilled and competent individuals.

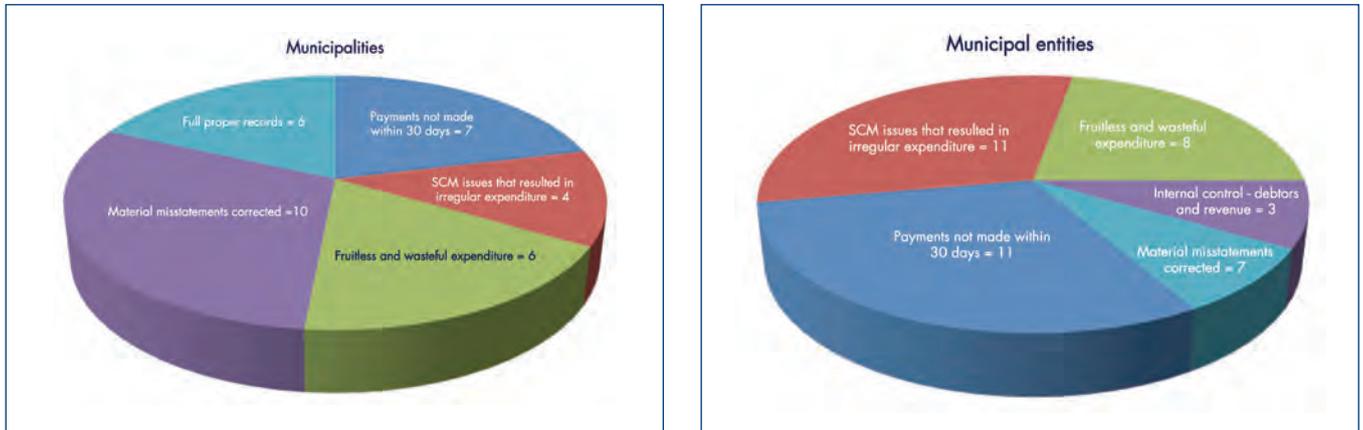
These processes assisted the municipality in ensuring compliance with the requirements of the MSA and having no findings resulting from the audit of predetermined objectives. The implementation of the good practices highlighted above will enable municipalities and municipal entities with findings on predetermined objectives to improve audit outcomes.

## **2.4 Findings on compliance with laws and regulations**

### **2.4.1 Transversal findings on compliance with laws and regulations**

The leadership of municipalities and municipal entities is experiencing challenges in complying with laws and regulations. Consequently, 13 municipalities (2008-09: eight) and 16 municipal entities (2008-09: 16) had findings on compliance with laws and regulations. The figure below depicts the most prevalent findings.

**Figure 14: Analysis of the most prevalent findings on compliance with laws and regulations (including material misstatements and supply chain management issues)**



The most common findings across all municipalities and municipal entities related to material misstatements in the submitted financial statements (refer to section 2.2.2 above) and non-compliance with SCM legislation (refer to section 2.4.3 below). Other reported matters relating to compliance with laws and regulations can be directly linked to inadequate risk assessments by the leadership and leadership’s failure to address significant deficiencies in the design and implementation of internal controls. Transversal findings are summarised below.

**Municipalities and municipal entities**

- Ten municipalities and seven municipal entities had material misstatements in the financial statements submitted for auditing due to inadequate compilation and review processes.
- At seven municipalities and 11 municipal entities, expenditure was not paid within the required 30 days from the receipt of an invoice due to insufficient monitoring of compliance with laws and regulations by the leadership. In some instances, creditors were not paid within 30 days due to a lack of funding.
- The accounting officers did not comply with their legislative responsibilities of managing the financial administration of the municipality, as they did not take reasonable steps to ensure that full and proper records were kept at six of the 14 municipalities.
- Inadequate internal audit coverage of compliance resulted in expenditure incurred in vain as set out in the MFMA at six municipalities and eight municipal entities.
- Expenditure was incurred in contravention of applicable legislation resulting in irregular expenditure at four municipalities and 11 municipal entities. This was due to insufficient monitoring of compliance with laws and regulations by the leadership and a lack of understanding of the SCM Regulations.
- Leadership did not implement and monitor adequate systems of internal control at three municipal entities in relation to debtors and revenue management.



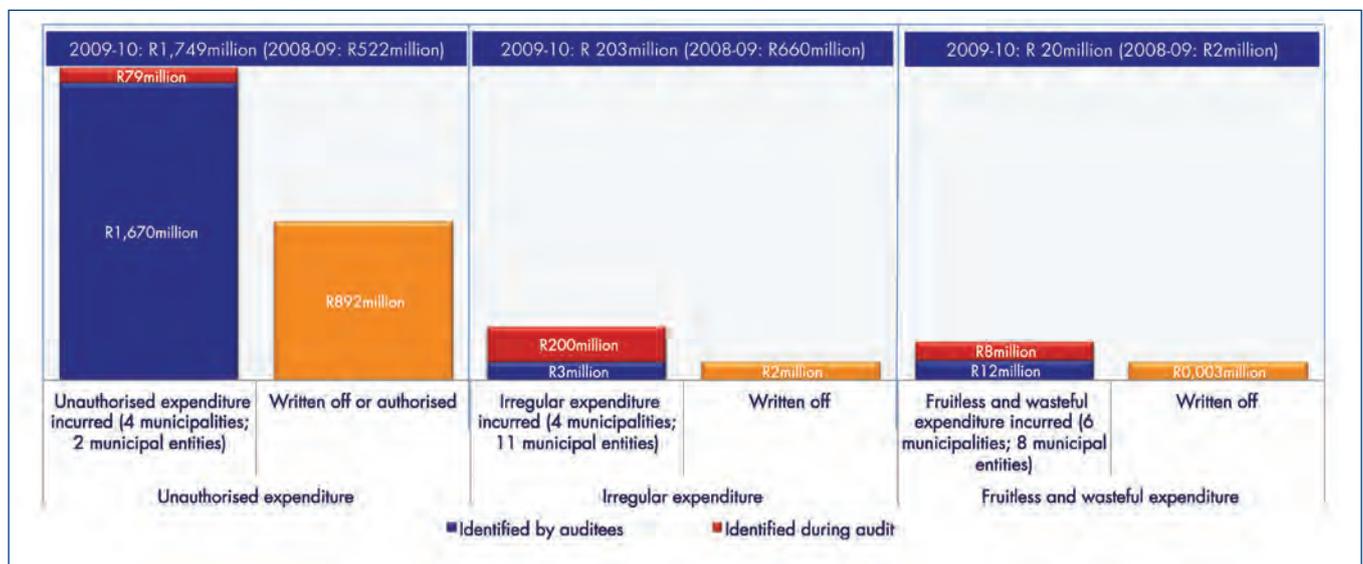
## 2.4.2 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred during the year

Unauthorised, irregular as well as fruitless and wasteful expenditure represent expenditure that was not incurred in accordance with the MFMA principles of the sound and sustainable management of the financial affairs of municipalities and municipal entities.

The figure below depicts the following:

- The unauthorised, irregular as well as fruitless and wasteful expenditure that were incurred during the year – the amounts include the expenditure that was disclosed in the financial statements as well as that not disclosed
- The number of auditees where it was incurred
- The portion of the expenditure that was identified during the audit and not by the systems of the auditee
- The expenditure determined by the council to be irrecoverable and that was written off or authorised (in the case of unauthorised expenditure) during the year

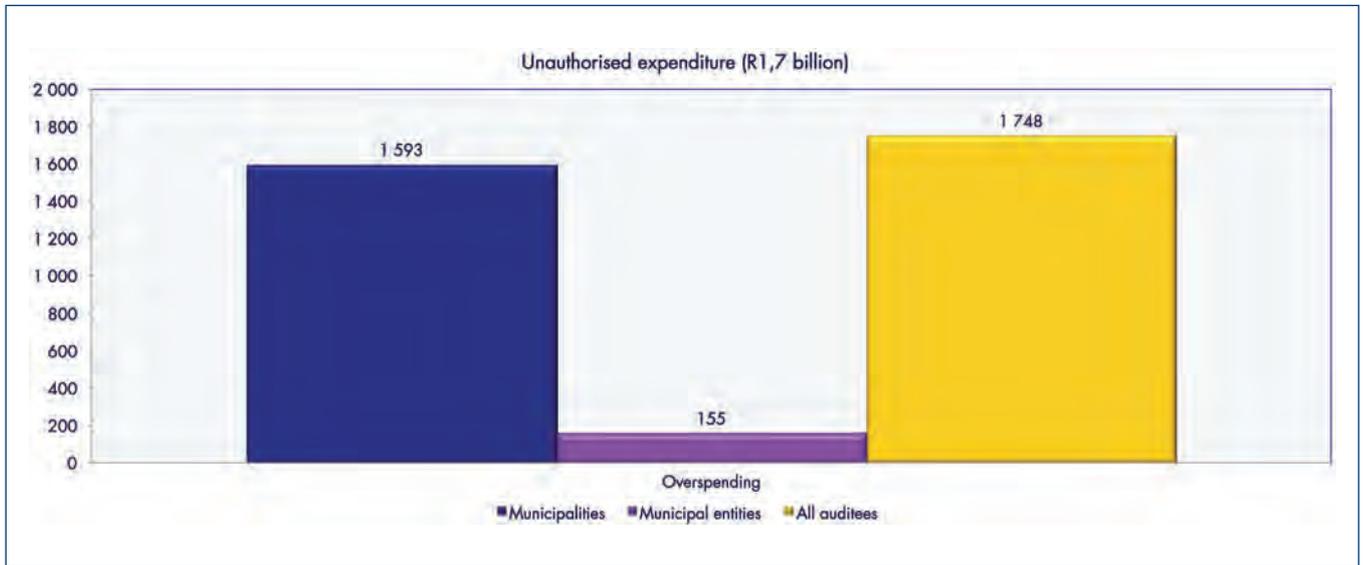
**Figure 15: Composite information on unauthorised, irregular as well as fruitless and wasteful expenditure**



*Unauthorised expenditure – R1,7 billion (2008-09: R522 million)*

There has been a significant increase in unauthorised expenditure compared to the previous year, with expenditure being incurred by four municipalities (2008-09: one) and two municipal entities (2008-09: none), as indicated in the figure below.

**Figure 16: Unauthorised expenditure – municipalities and municipal entities**

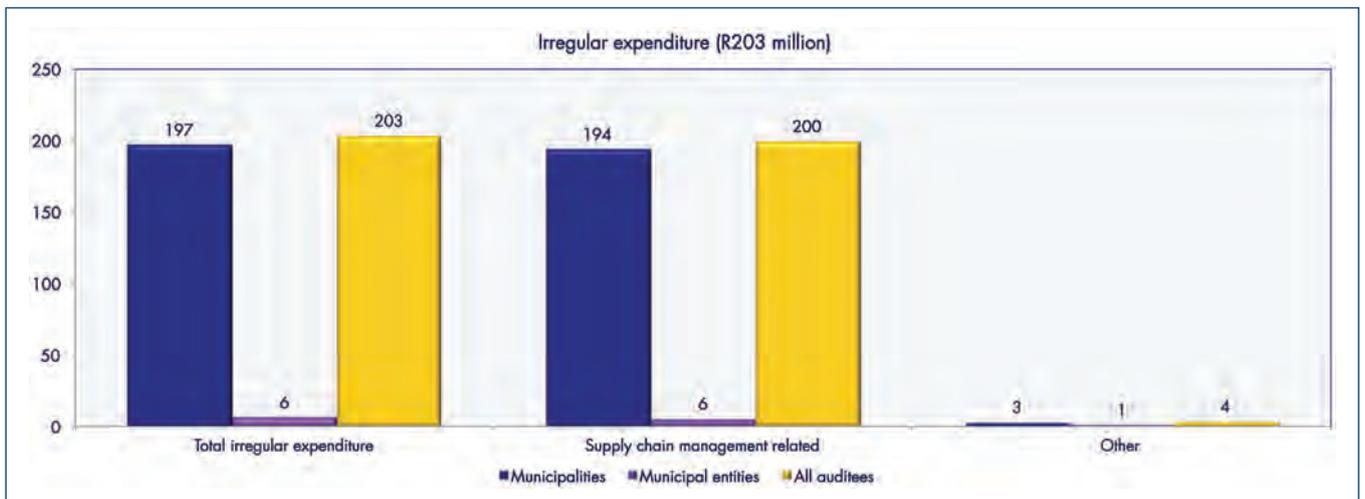


The main contributing factors to the significant increase in unauthorised expenditure were poor budgeting, expenditure relating to the World Cup, and inadequate review and monitoring of the budget by the leadership. In particular, the City of Tshwane Metropolitan Municipality incurred R1,5 billion of the total unauthorised expenditure due to expenditure relating to the World Cup.

*Irregular expenditure – R203 million (2008-09: R660 million)*

There has been a decrease in irregular expenditure in the year under review. Irregular expenditure was incurred at four municipalities (2008-09: two) and 11 municipal entities (2008-09: 11) due to the contravention of the requirements of the SCM Regulations as well as the accounting officer not adhering to section 94(2) of the MFMA and other legislative requirements. The actual amounts per category are outlined in figure 17 below.

**Figure 17: Irregular expenditure**

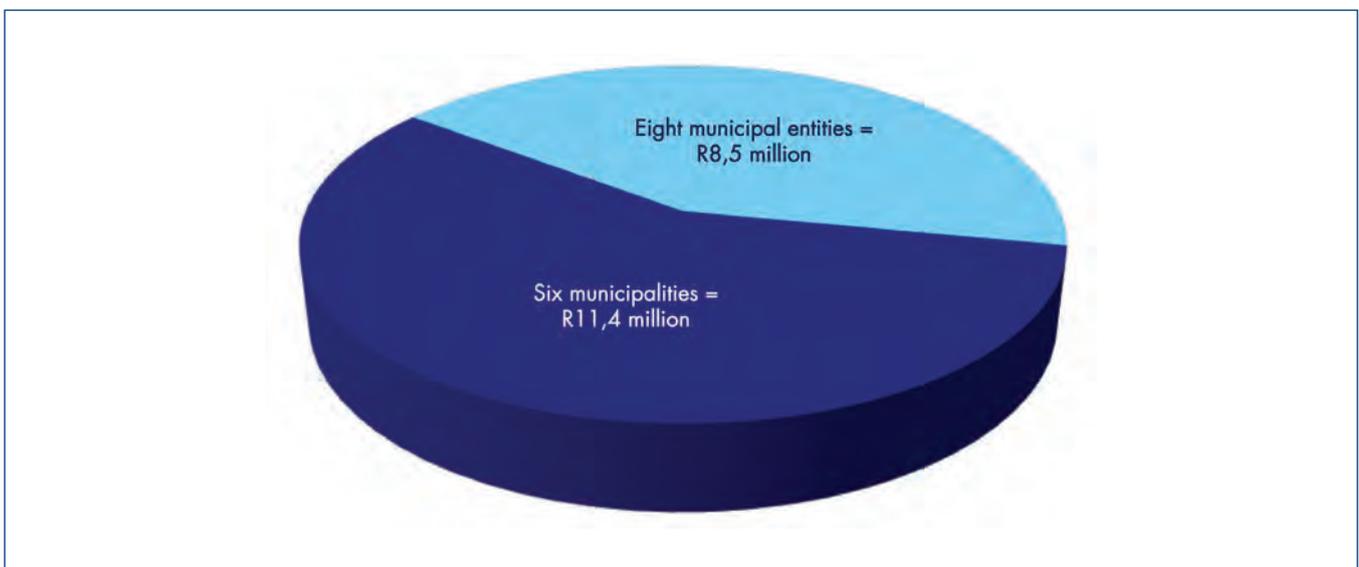


Irregular expenditure amounting to R2,1 million was written off or condoned during the year.

*Fruitless and wasteful expenditure – R19,9 million (2008-09: R1,9 million)*

As indicated in figure 18 below, there has been a significant increase in fruitless and wasteful expenditure, which this year was incurred by six municipalities and eight municipal entities. The fruitless and wasteful expenditure amounted to R11,4 million for six municipalities (2008-09: one (R1,4 million)) and R8,5 million for eight municipal entities (2008-09: one (R0,5 million)).

**Figure 18: Fruitless and wasteful expenditure incurred by municipalities and municipal entities**



Fruitless and wasteful expenditure resulted from penalties, interest incurred on the late payment of creditors, and salaries paid to suspended employees.

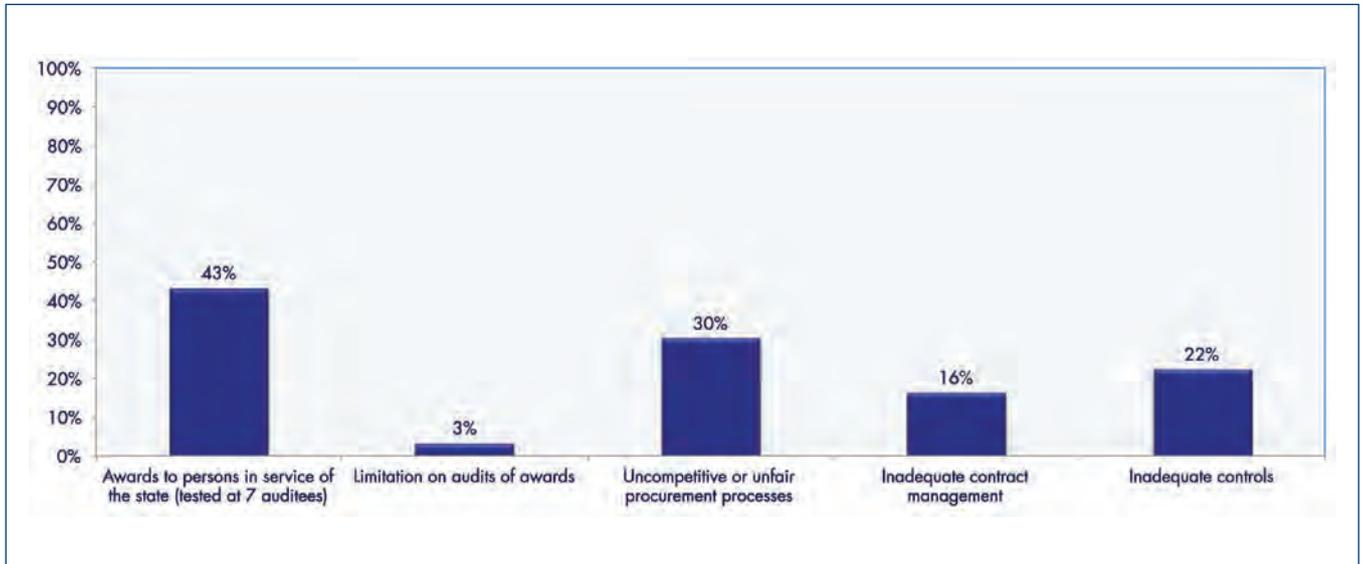
### 2.4.3 Findings on non-compliance with supply chain management legislation

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

The analysis of irregular expenditure indicates that R200 million (99%) of the irregular expenditure was incurred due to the contravention of SCM policies and legislation, with 98% of the irregular expenditure not being detected by the implemented controls. In most instances, irregular expenditure was incurred as a result of the incorrect interpretation of the SCM Regulations as well as inadequate processes and procedures to identify such expenditure.

Figure 19 summarises the significant SCM findings.

**Figure 19: Summary of significant findings on supply chain management**

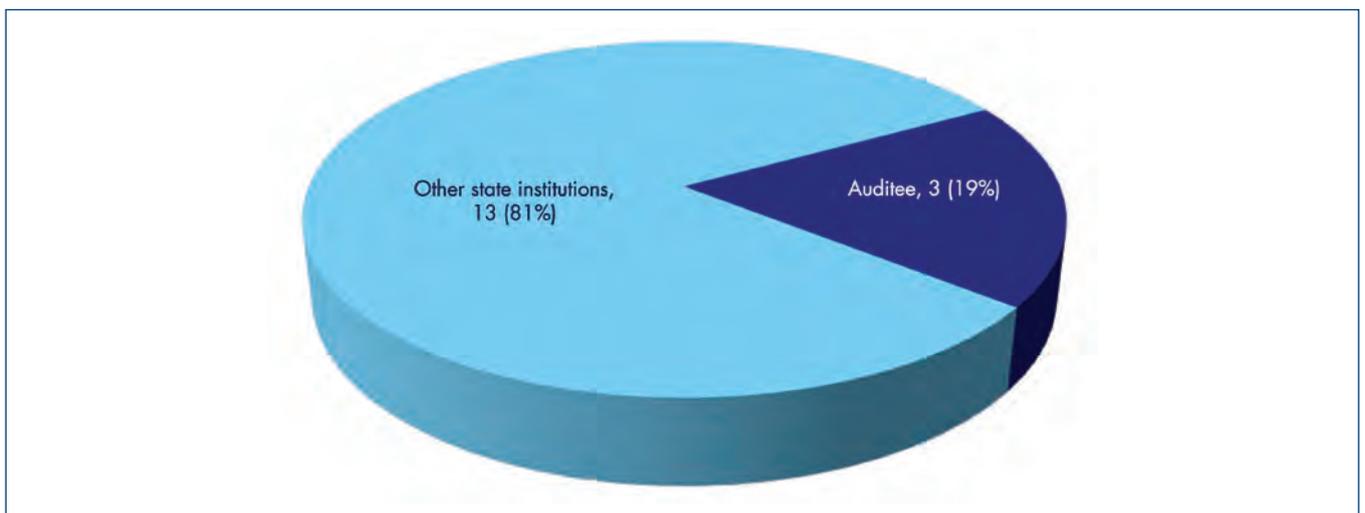


Findings arising from the audit of SCM were raised at 41% of the municipalities and municipal entities. The most prevalent findings related to awards to persons in the service of the state, uncompetitive procurement processes, and inadequate controls.

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

As indicated in the figure below, the majority of persons in the service of the state that received awards from the auditee were in the service of other state institutions.

**Figure 20: Summary of persons in the service of the state and auditees that received awards from the auditees**



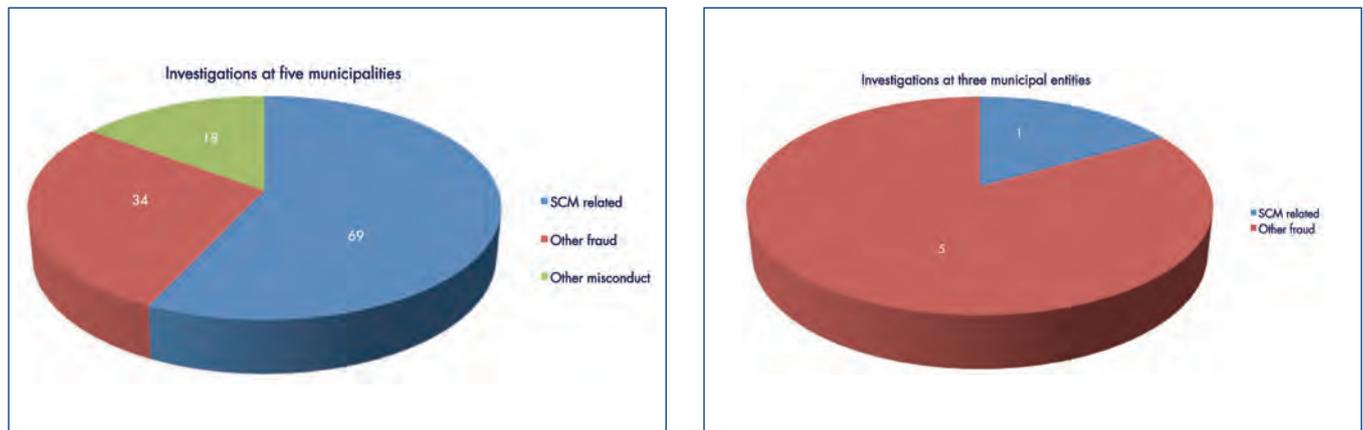
The total number of instances where awards were made to persons in the service of the state in Gauteng was 16, with a value of R3,9 million. Of these 16 instances, 13 (81%) awards worth R3,6 million were made to persons in the service of other state institutions and three (19%) awards worth R233 370 were made to persons in the service of the municipalities.

The detailed findings on SCM matters are presented in section 5 of this report.

#### 2.4.4 Investigations

The figure below indicates the type of investigations finalised or in progress. These investigations were not necessarily performed by the AGSA but were assessed as being material for purposes of inclusion in the auditor's reports.

**Figure 21: Analysis of the reasons for investigations conducted at municipalities and municipal entities**



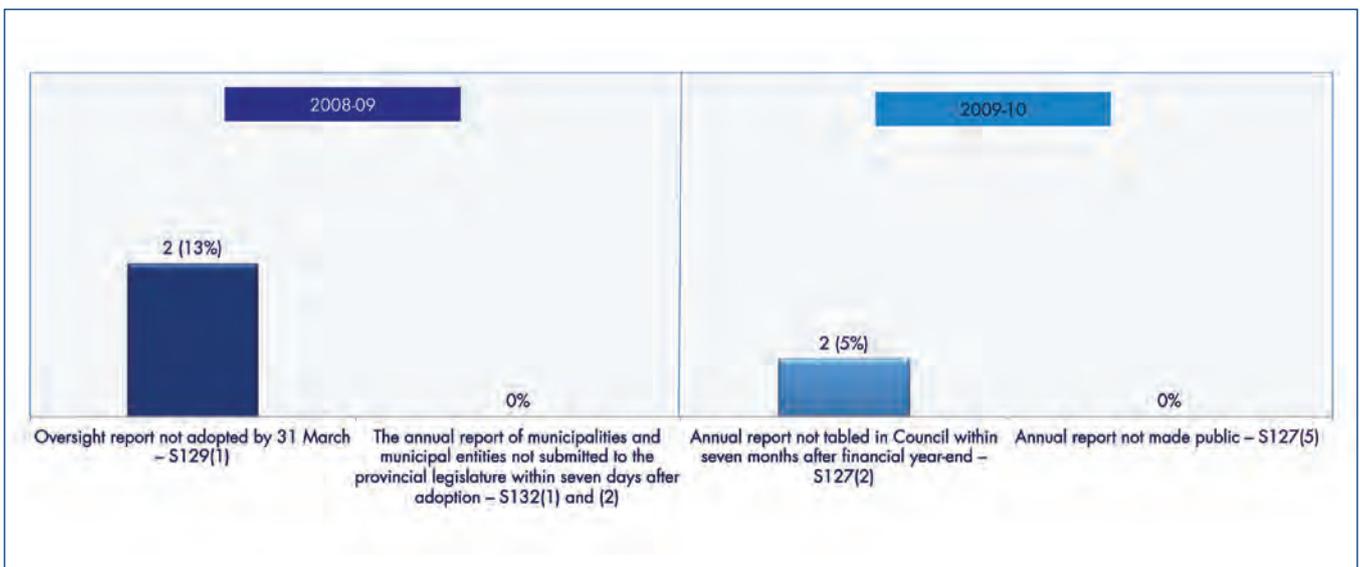
The investigations are indicators of risks that internal controls are not functioning or are being overridden by management. The focus of the investigations ranged from tender and procurement irregularities, abuse of municipal assets to payroll-related transactions.

The most common findings relating to tender and procurement irregularities involved split payments, improper SCM processes, incorrect tender specifications, and unfair pricing.

### 2.4.5 Oversight reports and tabling of annual reports

The MFMA prescribes the processes of tabling annual reports in the council and the legislature as well as the subsequent publishing of the annual report in order to ensure oversight and transparency. The figure below reflects whether the 2008-09 annual reports were dealt with as required after being tabled in the council. Also depicted is whether the 2009-10 annual reports were tabled timeously and made public as required by legislation.

**Figure 22: Oversight reports and tabling of annual reports**



#### Status of tabling 2008-09 oversight reports

Of the 15 municipalities, two councils had not adopted oversight reports by 31 March 2010 in accordance with section 129(1) of the MFMA due to the unavailability of oversight committees. The councils of Kungwini Local Municipality and Nokeng Tsa Taemane Local Municipality referred the oversight responsibility to the shared oversight committee of the district, but the oversight reports were not adopted by the shared oversight committee.

#### Timeliness of tabling 2009-10 annual reports

All the 2009-10 annual reports were tabled in the councils within seven months, with the exception of Metsweding District Municipality and City of Johannesburg Metropolitan Municipality. The Metsweding district council meeting was subsequently held on 24 February 2011, during which the annual report was tabled. The annual report of the City of Johannesburg Metropolitan Municipality was not completed in time for tabling at Council, due to delays in the audit.

## Way forward to address the high rate of non-compliance

In relation to SCM, there has been a significant increase in the number of unauthorised as well as fruitless and wasteful expenditure. Irregular expenditure decreased significantly to R203 million (2008-09: R660 million). A high number of investigations were conducted at five municipalities and three municipal entities, totalling 121 cases and seven cases, respectively. The inadequate monitoring of internal control disciplines impacted negatively on compliance with laws and regulations.

The leadership did not set up an environment that instilled sound financial discipline within the municipalities and municipal entities. This can be improved if the leadership strengthens its oversight function over the finances of municipalities and municipal entities by implementing adequate monitoring and review of SCM policies and emergency procurement.

The monitoring of budgets compared to actual results on a quarterly basis should be improved to identify unauthorised expenditure and obtain authorisation prior to incurring such expenditure.

It is imperative that the leadership addresses the internal control deficiencies that are indicated by the results of investigations. This can be achieved by improving the oversight, monitoring and accountability of the outcomes of investigations.

Municipalities should consider implementing self-assessment procedures through compliance checklists, together with ongoing review and monitoring by the municipal managers and chief financial officers (CFOs) to prevent non-compliance with laws and regulations. The internal audit units should continuously review the adequacy of internal controls in this regard.

The incoming councils should regularise overspending, irregular expenditure as well as fruitless and wasteful expenditure within the ambits of the law without delay in a consistent, appropriate and transparent manner throughout the province.

The provincial leadership committed to the following:

- Include *Operation clean audit* as a standing item on the agenda of the premier's coordinating forum, together with the strengthening of internal audit and the creation of a focused forum between the municipality and the AGSA to discuss solutions to audit outcomes.
- Enhance the coordination of local government oversight in the province, focusing on monitoring the use of consultants, shortcomings regarding non-compliance with the SCM Regulations, and deficiencies in reporting on predetermined objectives.
- Play an active role in the briefing and induction of the local government leadership and councils after the elections on the key priorities towards clean administration.

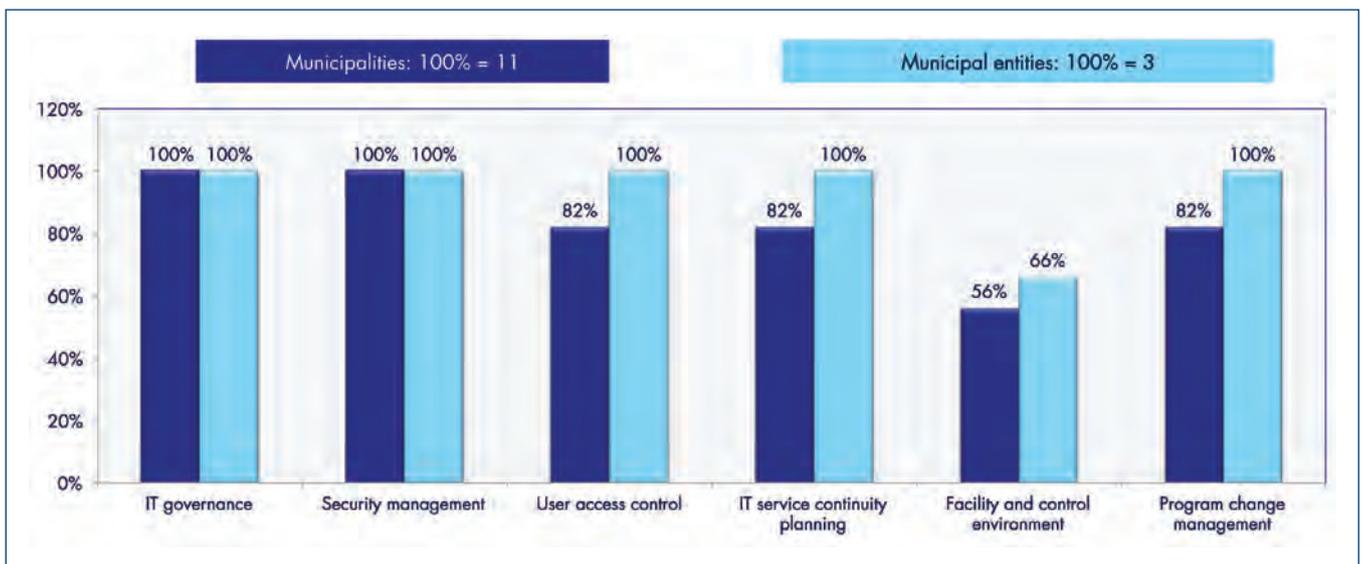
## 2.5 Findings on information technology systems

Certain municipalities and municipal entities were subjected to an information system audit based on their size and complexity. General control reviews were conducted at 11 municipalities and three municipal entities.

Municipalities and municipal entities use eight different computer application systems for financial accounting purposes, which has a negative impact on the cost of running and maintaining such systems. This is in contrast with central and provincial government which use transversal systems that provide for the more cost-effective and efficient management of the systems.

The following figure indicates the prevalence of common IT focus area findings at municipalities and municipal entities:

**Figure 23: Audit findings raised on common IT focus areas**



There were several high-risk findings, which included the lack of a risk register, an excessive number of users with administrator access rights, inadequate change control procedures, access to sensitive areas not being controlled, and disaster recovery plans not being implemented.

The following key matters require improvement at municipalities and municipal entities:

- Establish functional IT governance structures.
- Implement of adequate business continuity and disaster recovery plans.
- Reduce dependencies on service providers.
- Centralise coordination, guidance and specialist support to local government to enable the cost-effective and efficient management of IT.

The provincial leadership has committed to implementing initiatives that will assist municipalities and municipal entities in addressing IT findings, which include the roll-out of a new IT system. The system is planned to be piloted at one of the municipalities as a feasibility study before being rolled out to all other municipalities.

The following actions should also be taken by the coordinating bodies (premier's coordinating forum, CoGTA and the National Treasury) with provincial oversight:

- The National Treasury should provide prescripts regarding financial systems to minimise excessive or duplicate systems and maintenance costs as well as explore: (i) providing local government with the possibility of applying the integrated financial management system currently under development; or (ii) alternatively, evaluate the possibility of developing a transversal system specifically for local government.
- Provincial oversight should establish a governance process that will promote knowledge sharing and shared IT technical support per district or province.

The provincial portfolio committees resolved to oversee the following:

- Integrating IT systems in the province and developing a transversal system.
- Factoring into future IT tenders the requirement that the service provider should assist in monitoring the IT control environment.
- Ensuring that service providers implement action plans to address IT system audit deficiencies.

## 2.6 Drivers of audit outcomes

One municipality and seven municipal entities achieved clean audit outcomes, compared to one municipality and one municipal entity in 2008-09. Four municipalities and seven municipal entities improved their audit outcomes in the current period, with only one municipality and one municipal entity regressing from their previous audit outcomes.

As is evident from the analysis of the audit outcomes presented in the preceding sections, municipalities and municipal entities that achieved improvements or maintained positive audit outcomes can attribute this to the implementation and effective monitoring of the three fundamentals of internal control (leadership, financial and performance management as well as governance).

These controls are three-dimensional and deficiencies in any or all of them are directly linked to the audit opinions on the financial statements, the findings on reporting on predetermined objectives, and the findings on compliance with applicable laws and regulations. The figure below reflects our assessment of the performance of municipalities and municipal entities in relation to these three fundamentals of internal control.

**Figure 24: Analysis of drivers of improved audit outcomes**



## Leadership

The majority of leadership drivers were effectively implemented at most municipalities and at almost all municipal entities. This is indicative that the leadership set the right tone from the top regarding the audit process, created an environment conducive to sound financial management, and reported on predetermined objectives and compliance with laws and regulations. However, there is room for improvement with regard to the leadership developing and monitoring the implementation of action plans relating to performance management, compliance with laws and regulations, and reporting.

Eleven municipalities and 22 municipal entities were either in progress or required intervention in the following areas:

- Oversight responsibility of ensuring that IT action plans are developed, implemented and monitored
- IT governance framework that supports and enables the business, delivers value and improves performance

Executive mayors should intensify their oversight of the audit process. The key controls initiative will enhance executive mayors' understanding of key aspects of the audit process and thereby positively influence audit outcomes.

## Financial and performance management

Overall, most municipalities and municipal entities effectively monitored the financial and performance management internal controls, particularly with respect to good controls around the preparation of regular, accurate and complete financial and performance reports.

For some of the municipalities and municipal entities, the financial and performance management drivers that are in the process of being established or that may require intervention include the following:

- Proper record keeping and record management controls to ensure that supporting documents are properly filed, easily retrievable and provided for auditing within agreed time frames
- Reviewing and monitoring compliance with applicable laws and regulations to support financial management reporting
- Implementing controls to protect the application systems data from being compromised, given that this control was not in place at 71% of municipalities and 96% of municipal entities

## **Governance**

Those charged with governance at municipal entities have showed good governance initiatives. The municipal entities have effective governance structures with adequately skilled staff. The governance structures ensured that proper risk management was performed and that adequate internal controls were implemented to address the risks assessed, which was not always the case with municipalities.

Most municipalities had audit committees that played a role in the audit process; however, there appears to have been some lapses in governance pertaining to the effectiveness of the audit committees and their oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. In addition, at 86% of the municipalities and an insignificant number of municipal entities, governance initiatives required improvement in ensuring that there are adequately resourced and functioning internal audit units.

### **2.7 Action to address matters reported**

During our engagements with municipalities and the provincial executive on the 2008-09 MFMA audit outcomes, the provincial leadership and the executive mayors affirmed their commitments to the attainment of clean audit opinions by ensuring ongoing monitoring of the oversight of financial reports and reports on predetermined objectives, as well as effective risk management.

With regard to the finance units, the municipalities in conjunction with the relevant provincial departments committed to put plans in place to step up the training on standards of GRAP, to continuously strive to ensure a proper transfer of skills to finance staff from consultants, and to assess the ability of staff to produce quality monthly financial statements. There was a commitment by the leadership of municipalities to maintain and improve governance structures, including risk management, through adequate staffing with competent persons.

The provincial leadership and executive mayors responded positively to the AGSA's message around the identification and testing of key controls on a quarterly basis. The leadership committed to oversee management to ensure that where control weaknesses were identified, management would develop and implement action plans to address control weaknesses.

However, these commitments and the initiatives illustrated in tables 5 and 6 below have not translated into improved audit outcomes in 2009-10, which can be attributed to the commitments not being monitored.

**Table 5: Analysis of commitments made by key role players in 2008-09**

Key role players	Initiatives
Provincial CoGTA	Drive the implementation of the GPG-specific 2014 operation clean audit (OPCA) for municipalities.
	Developed a programme (OPCA) for provincial support on clean audits.
	Improve communication, planning and coordination in implementing the financial management reforms as required by the MFMA and any other prescripts.
Provincial treasury	Assisting municipalities in developing and implementing action plans to address audit findings.
	Monitors adherence to action plans.
	Creates a knowledge sharing platform by arranging regular CFO forums and municipal finance indabas. Significant accounting and audit issues are discussed at these forums.
SALGA	SALGA is a member of provincial OPCA committee. SALGA therefore contributes in initiatives as outlined above under CoGTA
Provincial political leadership (Premier, MEC Local Government and Housing and MEC Finance)	Both MECs monitor adherence to action plans on a quarterly basis. Where necessary, they give recommendations to improve action plans.
	Those charged with governance committed to engage on a quarterly basis with the AGSA, to discuss the outcomes of the key controls and to develop and implement action plans where control weaknesses were identified.
	They monitor and receive feedback on the activities of clean audit report committee.
Oversight (Provincial speakers forum and MPACs)	MPACs are working closely with the provincial office of the AGSA to influence the development and implementation of action plans, hence influence audit outcomes.
	MPACs monitor adherence to action plans on a quarterly basis.
	MPACs are working closely with mayoral committees to discuss and address all oversight issues, including audit related issues.

**Table 6: Assessment of commitments by key role players to address audit outcomes**

Role players	Assessment of monitoring capacity and effectiveness								
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	Human resource management	Use of consultants	Municipalities under administration	Governance structures
Provincial CoGTA	Intervention required	Intervention required	Intervention required	In progress	Intervention required	In progress	Intervention required	In progress	In progress
Provincial treasury	In progress	Intervention required	Intervention required	In progress	Intervention required	In progress	In progress	In progress	In progress
Joint coordinating effort (Provincial CoGTA and provincial treasury: Operation Clean Audit)	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required
Provincial leadership (Premier, MEC Local Government and MEC Finance)	In progress	Intervention required	In progress	In progress	Intervention required	In progress	In progress	In progress	In progress
Provincial oversight (Speakers forum and MPACs)	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required

Intervention required
  In progress
  Good progress

The provincial CoGTA and the provincial treasury have continued with the implementation of the local government financial management improvement plans and the turnaround strategy to improve financial management and governance.



Even though most of the MPACs were established more than two years ago, they were assessed at the time of the audit as requiring intervention especially regarding their monitoring capacity and effectiveness. CoGTA was in the process of training members of the MPACs on their roles and responsibilities as committee members.

While significant progress has been made by the provincial leadership and these departments, the impact of their interventions continues to be limited given the nature of findings, and more importantly, the stagnation of the audit results. The reason for not achieving improved audit outcomes can be attributed to municipalities not adhering to basic financial management and service delivery reporting through effective leadership, effective financial management and effective governance arrangements in implementing action plans.

Based on the AGSA's evaluation of the progress reports submitted by the key role players (mainly the coordinating departments, i.e. the provincial treasury and CoGTA), the assessment of commitments to address audit outcomes since the audit remain the same as at the time of the audit.

The AGSA will continue to review the progress reports to determine the coordinating departments' progress to assist municipalities to address their audit outcomes with the view of achieving clean administrations by 2014.

The speaker committed to focusing the legislature's oversight role on the following areas:

*Assistance provided by consultants*

- Collaborate with the MECs for Finance and for Local Government and Housing on enhancing oversight.
- Elevate the ongoing monitoring of the use of consultants to the speaker's forum as a discussion point.

*Audit of performance against predetermined objectives*

- Engage on observations and challenges on the reporting of predetermined objectives at the provincial strategy session. Furthermore, the speaker will track and monitor any resolutions taken at the strategy session.
- Extend the mandate of internal audit units to review the reporting on predetermined objective information prior to submission for auditing.
- Develop plans to ensure that there is concerted effort to support the struggling municipalities.
- Ensure that ongoing training relating to the National Treasury framework and the audit of predetermined objectives is provided by provincial and/or national government in collaboration with the AGSA to municipal staff and officials.

*Information technology*

- Consider in the near future integrating the IT systems in the province (i.e. developing a transversal system), given that a number of different computer application systems for financial accounting purposes are in use.
- Consider factoring into future IT tenders, the requirements that the service provider should assist in monitoring the controls in the IT environment and implement action plans to address IT system audit deficiencies.

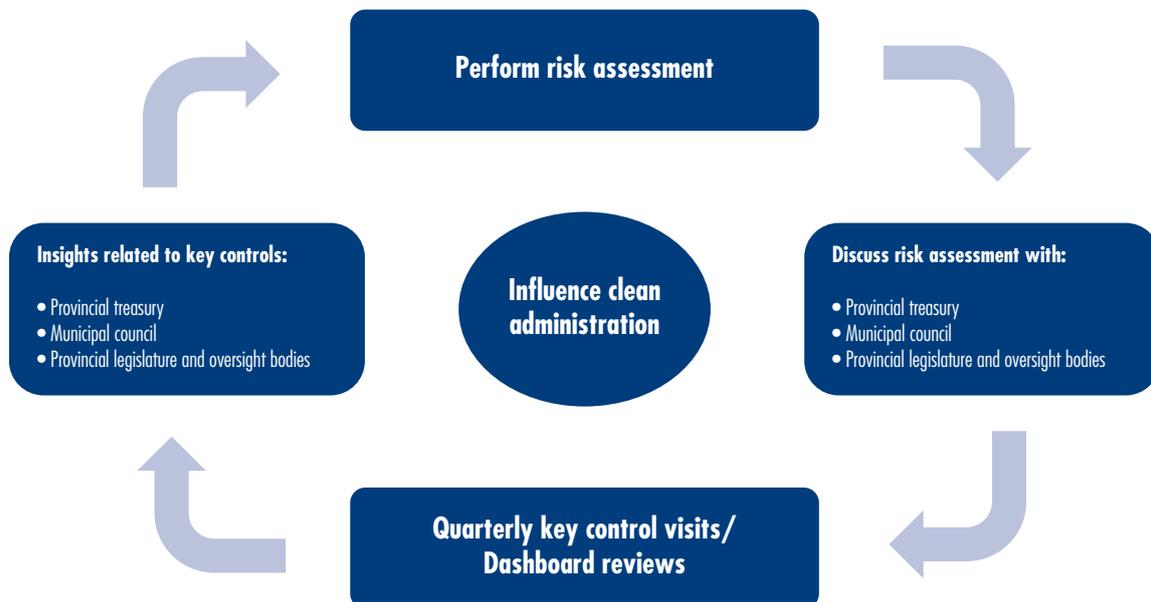
*Compliance with laws and regulations*

- Consider including action plans of critical audit aspects into performance management contracts of specific individuals, so that they can be held accountable for the implementation and monitoring of the action plans.
- Enhance oversight of the legislature and the chairpersons of relevant portfolio committees over municipalities and municipal entities.

**2.8 Initiatives by the AGSA to encourage clean administration**

Figure 25 illustrates the key elements of the AGSA’s initiatives to influence clean administration.

**Figure 25: Key elements of the AGSA’s initiatives to influence audit outcomes**



The AGSA’s leadership will continue to increase its visibility and availability to assist executive mayors in identifying municipal-specific details of key daily, weekly and monthly controls that are either not in place or not effective, which they should monitor consistently and regularly.

The results of the key controls will feed into the AGSA’s ongoing risk assessment of municipalities, which will also be discussed with the relevant role players to ensure that those risks are adequately addressed.

The initiatives and roles of the provincial CoGTA, provincial treasury, provincial political leadership and oversight forums will be monitored continuously and corrective actions will be recommended to the relevant role players in order to ensure that clean administration is achieved in the province.



## **2.9 Other emerging matters that require attention to prevent a negative impact on audit outcomes in the coming year**

The recent local government elections resulted in a change in the leadership, mayors and councillors at all municipalities. The new leadership will require an induction to ensure the continuity of good practices and disciplines. To this end the provincial CoGTA will hold orientation training and the AGSA will be present at these sessions.

The merger of the City of Tshwane Metropolitan Municipality, Metsweding District Municipality, Kungwini Local Municipality and Nokeng Tsa Taemane Local Municipality poses a challenge to the leadership of the merged municipality regarding the transition of the merged municipalities and logistical challenges based on geographic spread.

The current status of municipalities applying the transitional provisions allowed in terms of GRAP 17 *Property, Plant and Equipment* remains for a period of up to three years, after which they would have to fully comply with the requirements for the measurement of assets in terms of GRAP 17. This could pose a challenge for those municipalities that have taken advantage of these transitional provisions and are doing little to address the requirements for a fully compliant GRAP 17 asset system.

Financial systems should be developed to ensure compliance with the new GRAP statements that will become effective in the coming year.

## SECTION 3: OVERVIEW OF AUDIT OUTCOMES FOR 2009-10

This section of the analysis provides an overview of the following aspects related to the two metros, 12 municipalities and 23 municipal entities whose audits had been finalised at 31 January 2011:

Section 3.1 analyses the following matters:

- Summary of audit outcomes
- Status of completion of the audits
- Movements in audit outcomes

Section 3.2 analyses findings on financial management:

- Financial statement areas with qualifications
- Material misstatements in financial statements submitted for auditing
- Assistance provided by consultants to municipalities relating to the financial statements
- Material losses, impairment of assets and underspending of conditional grants
- Auditees with funding, financial sustainability and going concerns issues

Section 3.3 analyses findings on reporting on predetermined objectives.

Section 3.4 analyses findings on compliance with laws and regulations:

- Transversal findings on compliance with laws and regulations
- Unauthorised, irregular as well as fruitless and wasteful expenditure incurred
- Investigations and performance audits

Section 3.5 analyses findings on IT systems.

### 3.1 Summary of audit outcomes

The Gauteng Local Government comprises three metros, 12 municipalities and 25 municipal entities.

The 2009-10 audit outcomes of two metros, 12 municipalities and 23 municipal entities are analysed in this report. The City of Johannesburg Metropolitan Municipality, City Power Johannesburg (Pty) Ltd and Johannesburg Water (Pty) Ltd were not included in the analysis of this as their audits were only finalised after 31 January 2011, due to delays in finalising the audit of revenue and accounts receivable. Three of the 14 municipalities, namely the City of Tshwane Metropolitan Municipality, Ekurhuleni Metropolitan Municipality and West Rand District Municipality, were audited as consolidations. A new municipal entity, West Rand Development Agency, has been included in the analysis for the first time.

The 2008-09 comparatives include the outcomes of Kungwini Local Municipality, the audits of which were finalised after the publication of the previous report, and those of Merafong City Local Municipality, which were reincorporated into Gauteng from the North West Province in accordance with *Notice No. 8 of 2009* of the Cross-Boundaries Municipalities Laws Repeal and Related Matters Amendment Act, 2009. Two City of Tshwane Metro municipal entities, Tradepoint Pretoria and Roodeplaat Temba Water Services Trust, which

were included in the prior year analysis, are not included in the current year analysis as they have been deregistered.

The table below provides details of the 2009-10 audit outcomes of municipalities and municipal entities.

**Table 7: Summary of audit outcomes**

Audit outcomes	*Municipalities		Municipal entities	
	2009-10	2008-09	2009-10	2008-09
Disclaimer	0	1	2	1
Adverse	0	0	0	0
Qualified	3	4	1	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	10	8	13	24
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	1	2	7	1
<b>Total number of audits reported on</b>	<b>14</b>	<b>15</b>	<b>23</b>	<b>26</b>
<b>Number of audits not yet finalised at 31 January 2011</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>0</b>
<b>Total number of audits</b>	<b>15</b>	<b>15</b>	<b>25</b>	<b>26</b>
Findings arising from the AGSA's other legal reporting responsibilities:				
Predetermined objectives	9	12	10	11
Compliance with laws and regulations	13	11	16	19

### Status of completion of the audits

This report only provides details of audits completed as at 31 January 2011. Audits excluded from the analysis are listed below.

**Table 8: Audits outstanding or finalised late**

Entity not reported on	AFS received date	Reason not finalised	Date finalised
City of Johannesburg Metropolitan Municipality	31-Aug-10	Delays in the audit of revenue and accounts receivables.	June 2011
City Power Johannesburg (Pty) Ltd	31-Aug-10	Delays in the audit of revenue and accounts receivables.	June 2011
Johannesburg Water (Pty) Ltd	31-Aug-10	Delays in the audit of revenue and accounts receivables.	June 2011

### Movements in audit outcomes

There has been an insignificant improvement in the audit outcomes for 2009-10, as one municipality and seven municipal entities were financially unqualified with no findings on reporting on predetermined objectives or compliance with laws and regulations. Movements in audit outcomes of the municipalities and municipal entities for the year under review are depicted below.



**Table 9: Movements in audit outcomes**

Type of auditee	Improvement	Unchanged	Regression	New entities or those no longer in existence	Total
Municipalities (including two metros)	4	9	1	0	14
Municipal entities	7	13	2	1	23
<b>Total number of audits reported on</b>	<b>11</b>	<b>22</b>	<b>3</b>	<b>1</b>	<b>37</b>

**Figure 26: Movements in audit outcomes over 2008-09 financial year – municipalities**

Movement in audit outcome over 2008-09 – Municipalities					
	Improvement	Unchanged	Regressed	Total reported on	Prior year opinion on audits outstanding 2009-10
Disclaimer/Adverse					
Qualified	↑ 1	↔ 1	↓ 1	3	
Financially unqualified with findings*	↑ 3	↔ 7		10	
Financially unqualified with no findings*		↔ 1		1	1
<b>Total</b>	<b>4</b>	<b>9</b>	<b>1</b>	<b>14</b>	<b>1</b>

\* Findings on predetermined objectives and/or compliance with laws and regulations

The movements in audit outcomes of municipalities in the province for the year under review are analysed below.

**Municipalities**

Improvements: Four

2009-10 Audit outcomes	2008-09 Audit outcomes	Auditees
Financially unqualified with findings on predetermined objectives and/or compliance	Qualified	<ul style="list-style-type: none"> <li>• City of Tshwane Metropolitan Municipality</li> <li>• Merafong City Local Municipality</li> <li>• Nokeng Tsa Taemane Local Municipality</li> </ul>
Qualified	Disclaimed	<ul style="list-style-type: none"> <li>• Kungwini Local Municipality</li> </ul>



These improvements were due to the following:

- Commitments made by the leadership to improve the audit outcomes by setting the right tone at the top.
- Improved record keeping and document management.
- The management of Merafong City Local Municipality implemented and monitored action plans to specifically address the prior year GRAP 17 qualification areas.
- The improvement at Nokeng Tsa Taemane Local Municipality and Kungwini Local Municipality was due to assistance by consultants to address GRAP-related issues and prior year findings and to compile the financial statements.

Unchanged: Nine

Audit outcomes in 2009-10 unchanged from 2008-09	Auditees
Financially unqualified with no findings on predetermined objectives or compliance	<ul style="list-style-type: none"> <li>• Metsweding District Municipality</li> </ul>
Financially unqualified with findings on predetermined objectives and/or compliance	<ul style="list-style-type: none"> <li>• Ekurhuleni Metropolitan Municipality</li> <li>• Sedibeng District Municipality</li> <li>• West Rand District Municipality</li> <li>• Lesedi District Municipality</li> <li>• Midvaal Local Municipality</li> <li>• Randfontein Local Municipality</li> <li>• Westonaria Local Municipality</li> </ul>
Qualified	<ul style="list-style-type: none"> <li>• Emfuleni Local Municipality</li> </ul>

Metsweding District Municipality is the only municipality that has achieved a clean audit outcome for the past two years due to the positive impact of the leadership, supported by suitably skilled staff in the finance unit.

The unchanged opinions are due to the following:

- Expanded scope of our audit in the area of procurement, which resulted in additional findings being raised.
- Internal audit units and audit committees were not effective in monitoring progress on action plans to resolve prior year qualifications on predetermined objectives and compliance.
- At Emfuleni Local Municipality action plans to address prior year qualifications were not specific, responsibility was not assigned and no time frames were attached, while the action plans were not monitored regularly.

Regression: One

2009-10 Audit outcomes	2008-09 Audit outcomes	Auditee
Qualified	Financially unqualified with findings on predetermined objectives and/or compliance	<ul style="list-style-type: none"> <li>• Mogale City Local Municipality</li> </ul>

Mogale City Local Municipality regressed due to insufficient skills regarding the application of GRAP 17 and leadership not exercising effective oversight by reviewing the financial statements presented for audit purposes.

**Figure 27: Movement in audit outcomes over 2008-09 financial year – municipal entities**

Movement in audit outcome over 2008-09 – Municipalities						
	Improvement	Unchanged	Regressed	New public entities	Total reported on	Prior year opinion on audits outstanding 2009-10
Disclaimer/Adverse		← 1 →	↓ 1		2	
Qualified				1	1	
Financially unqualified with findings*		← 12 →	↓ 1		13	2
Financially unqualified with no findings*	↑ 7				7	
<b>Total</b>	<b>7</b>	<b>13</b>	<b>2</b>	<b>1</b>	<b>23</b>	<b>2</b>

\* Findings on predetermined objectives and/or compliance with laws and regulations

The movements in audit outcomes of municipal entities in the province for the year under review are analysed below.

**Municipal entities**

Improvements: Seven

2009-10 Audit outcomes	2008-09 Audit outcomes	Auditees
Financially unqualified with no findings on predetermined objectives or compliance	Financially unqualified with findings on predetermined objectives and/or compliance	<ul style="list-style-type: none"> <li>• Brakpan Bus Company (Pty) Ltd(Pty) Ltd</li> <li>• East Rand Water Care Company</li> <li>• Johannesburg Property Company (Pty) Ltd</li> <li>• Johannesburg Civic Theatre (Pty) Ltd</li> <li>• Johannesburg Social Housing Company (Pty) Ltd</li> <li>• Lethabong Housing Institute (Pty) Ltd</li> <li>• Roodepoort City Theatre</li> </ul>



These improvements can be attributed to the following:

- Commitments made by the leadership to improve the audit outcomes by setting the right tone at the top.
- Successful implementation and monitoring of action plans by the leadership.
- Filling vacancies with suitably skilled staff.
- Proper record keeping and document management.
- Improved oversight by audit committees.
- Effective internal audit units.

Unchanged: 13

<b>Audit outcomes in 2009-10 unchanged from 2008-09</b>	<b>Auditees</b>
Financially unqualified with findings on predetermined objectives and/or compliance	<ul style="list-style-type: none"> <li>• Ekurhuleni Development Company (Pty) Ltd</li> <li>• Johannesburg City Parks (Pty) Ltd</li> <li>• Johannesburg Development Agency (Pty) Ltd</li> <li>• Johannesburg Metropolitan Bus Services (Pty) Ltd</li> <li>• Johannesburg Roads Agency (Pty) Ltd</li> <li>• Johannesburg Tourism Company (Pty) Ltd</li> <li>• Johannesburg Zoo (Pty) Ltd</li> <li>• Metropolitan Trading Company (Pty) Ltd</li> <li>• Pharo Park Housing Company (Pty) Ltd</li> <li>• Phase II Housing Company (Pty) Ltd</li> <li>• Pikitup Johannesburg (Pty) Ltd</li> <li>• Sandspruit Works</li> </ul>
Qualified	<ul style="list-style-type: none"> <li>• Housing Company Tshwane (Pty) Ltd</li> </ul>

The unchanged opinions are due to the following:

- Action plans to address prior year qualifications were not specific, responsibility was not assigned and no time frames were attached, while the action plans were not monitored regularly by the management of Housing Company Tshwane.
- Compliance with SCM policies and procedures were not monitored to identify and correct irregular expenditure.
- Expanded scope of our audit in the area of procurement, which resulted in additional findings being raised.
- Insufficient review and monitoring of prior year findings on predetermined objectives.

Regressions: Two

<b>2009-10 Audit outcomes</b>	<b>2008-09 Audit outcomes</b>	<b>Auditees</b>
Disclaimed	Qualified	<ul style="list-style-type: none"> <li>• Civirelo Water (Pty) Ltd</li> </ul>
Financially unqualified with findings on predetermined objectives and/or compliance	Financially unqualified with no findings on predetermined objectives or compliance	<ul style="list-style-type: none"> <li>• Johannesburg Fresh Produce Market (Pty) Ltd</li> </ul>

Civirelo Water (Pty) Ltd regressed due to a lack of monitoring of prior year findings, poor record keeping, and leadership not exercising effective oversight by reviewing the financial statements presented for audit purposes.



Johannesburg Fresh Produce Market (Pty) Ltd regressed due to the leadership, the internal audit unit and the audit committee not exercising effective oversight by reviewing the performance information and by monitoring and reviewing compliance with laws and regulations.

The table below includes a five-year analysis of the disclaimed, adverse and qualified municipalities and municipal entities.

**Table 10: History of audit outcomes of municipalities and municipal entities with disclaimed, adverse or qualified opinions in 2009-10**

Auditee	History of audit opinions					
	Audit opinion 2009-10	Audit opinion 2008-09	Audit opinion 2007-08	Audit opinion 2006-07	Audit opinion 2005-06	Audit opinion 2004-05
Emfuleni Local Municipality	Qualified	Qualified	Disclaimed	Disclaimed	Disclaimed	Qualified
Kungwini Local Municipality	Qualified	Disclaimed	Disclaimed	Adverse	Adverse	Disclaimed
Mogale City Local Municipality	Qualified	Financially unqualified with findings	Qualified	Qualified	Qualified	Qualified
Civirelo Water (Pty) Ltd	Disclaimed	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with no findings	New municipal entity	New municipal entity
Housing Company Tshwane (Pty) Ltd	Disclaimed	Disclaimed	Disclaimed	Disclaimed	Disclaimed	New municipal entity
West Rand Development Agency	Qualified	New municipal entity	New municipal entity	New municipal entity	New municipal entity	New municipal entity

Audit outcomes have not improved over the past five years, mainly due to poor discipline around document management, the leadership not exercising effective oversight over financial statements and performance information, and the leadership not taking corrective action to address prior period audit findings.

The City of Tshwane Metropolitan Municipality is in the process of dissolving Civirelo Water and has developed a turnaround plan for Housing Company Tshwane (Pty) Ltd, which the new council should monitor.

For the province to reverse this trend, the leadership needs to take a leading role and instil a culture of accountability to address previous qualification areas and continuously monitor the financial environment. Troika should assist new councils in understanding their role in prioritising the development of internal control disciplines, which will build sound financial management.

The details of all outcomes are listed in annexure 1.

### 3.2 Findings on financial management

#### 3.2.1 Transversal material misstatements that form the basis for the disclaimed or qualified opinions on the financial statements

Figure 28 depicts the financial statement areas of municipalities that had a qualified audit opinion.

**Figure 28: Financial statement areas qualified – municipalities**

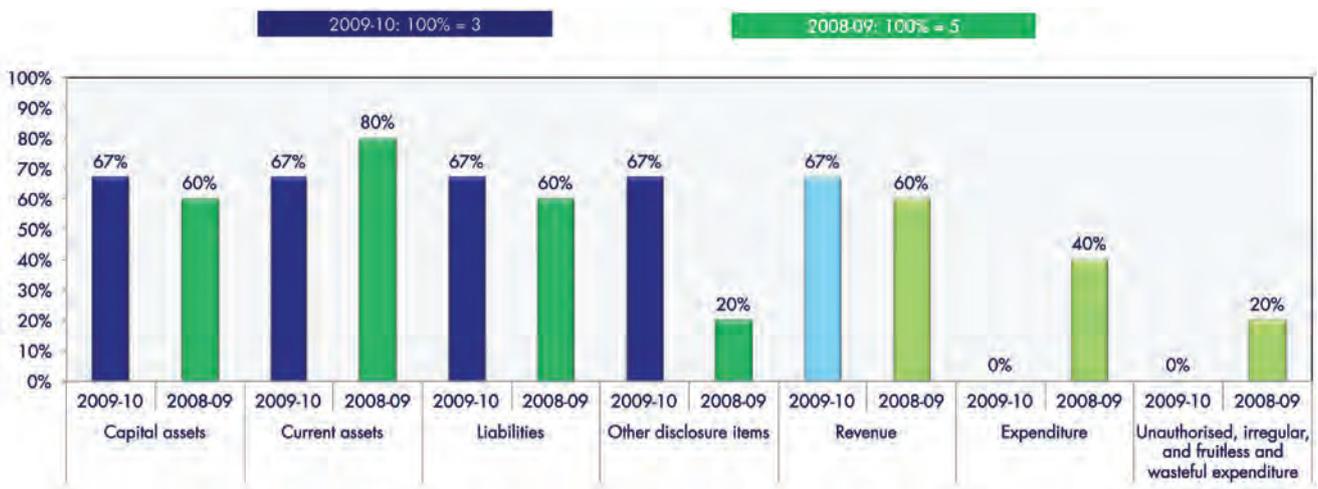


Figure 29 depicts the financial statement areas of municipal entities that had a disclaimed or qualified audit opinion.

**Figure 29: Financial statements areas qualified – municipal entities**



Table 11 indicates the movements in financial statement qualification areas from the previous year.

**Table 11: Movements in financial statement qualification areas of municipalities and municipal entities**

Auditee	Audit opinion 2009-10	Movement in addressing 2008-09 qualification areas						Audit opinion 2008-09
		Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	
Emfuleni Local Municipality	Qualified	Repeat	Addressed	Addressed		Addressed		Qualified
Kungwini Local Municipality	Qualified	Addressed	Repeat	Repeat	Repeat	Repeat	Addressed	Disclaimer
Mogale City Local Municipality	Qualified	New			New			Financially unqualified with findings
Civirelo Water (Pty) Ltd	Disclaimer		New					Financially unqualified with findings
Housing Company Tshwane (Pty) Ltd	Disclaimer	Repeat	Repeat	Repeat	Repeat	Repeat		Disclaimer
West Rand Development Agency	Qualified			New				New municipal entity

The following are the root causes of financial statement qualifications per balance sheet and income statement area:

#### *Capital assets*

Two out of three municipalities and one out of three municipal entities were qualified on property, plant and equipment as well as investment properties.

The matters relating to the qualifications resulted from the requirements of GRAP 17, specifically around recognition, determining useful lives of assets, physical verification, impairment and depreciation, which were not accounted for in terms of the standard. This also included the identification, accounting and valuation of infrastructure assets. Investment property was not correctly classified and fairly valued in accordance with GRAP 16.

The reasons for the qualifications are attributable to the following challenges:

- The complexity in the application of GRAP 17 and GRAP 16 at the municipality.
- Basic reconciliations between asset registers and financial systems, including physically asset counts, were not done regularly.

#### *Current assets*

Two out of three municipalities and two out of three municipal entities were qualified on account receivables and inventory.

The challenges stemmed from the following:

- There was insufficient audit evidence for measuring inventory at the lower of cost and net realisable value in terms of GRAP 12.
- There was insufficient understanding and interpretation of GRAP 9.
- Record keeping and record management controls were inadequate for indigent debtors and accounts receivable written off.

#### *Liabilities*

One out of three municipalities and one out of three municipal entities were qualified on VAT, income tax and deferred tax liabilities.

The challenges stemmed from the following:

- Basic reconciliations between the VAT return and the balance in the general ledger were not done regularly.
- Staff had insufficient technical skills in complying with the requirements of IAS 102, to ensure that income tax and deferred tax liabilities were provided for.

#### *Other disclosure items*

Two out of three municipalities and one out of three municipal entities were qualified on non-disclosure of material distribution losses on electricity and water, non-disclosure of not meeting the minimum requirements as required by GRAP 3, and various errors resulting from non-compliance with GRAP 1 and IFRS 7.

The reasons for these qualifications were an insufficient understanding and interpretation of the GRAP and IFRS standards.

#### *Revenue*

Two out of three municipalities were qualified on the completeness and accuracy of service charges revenue.

The challenges stemmed from the following:

- Lack of basic controls, including proper record keeping and reconciliations of the valuation roll to the billing system.
- Vacancies and lack of skills in finance units.
- Lack of oversight responsibility to ensure that these controls were implemented.

#### *Expenditure*

One out of three municipalities was qualified due to the misstatement of employee costs.

The reason for the qualification was management not implementing and monitoring action plans to address prior year employee cost findings. As a result, the valuation of the opening balance of the accumulated surplus balance could not be confirmed.

The following actions were taken by those auditees who were able to address prior year qualification areas:

- Consultants were appointed to correct prior year deficiencies.
- Management improved its record keeping and record management as the importance of record keeping become quite clear.
- Reconciliations were prepared for all significant balances in the balance sheet.
- There was sound understanding and interpretation of GRAP standards.
- The audit team interacted closely with management and the audit committee to resolve issues as they arose.

The common qualification areas for the 2009-10 financial year were similar to those reported in the prior year. The following should be done by the leadership to address the qualification areas:

- Mayors and councils need to take a leading role and instil a culture of accountability to address previous qualification areas and continuously monitor the financial environment.
- Management should develop and implement action plans to address prior year qualification areas.
- Record keeping and management must be improved. Basic financial controls including reconciliations must be prepared for all items in the financial statements.
- Mayors must ensure that the audit committees and internal audit units are effective throughout the financial period.

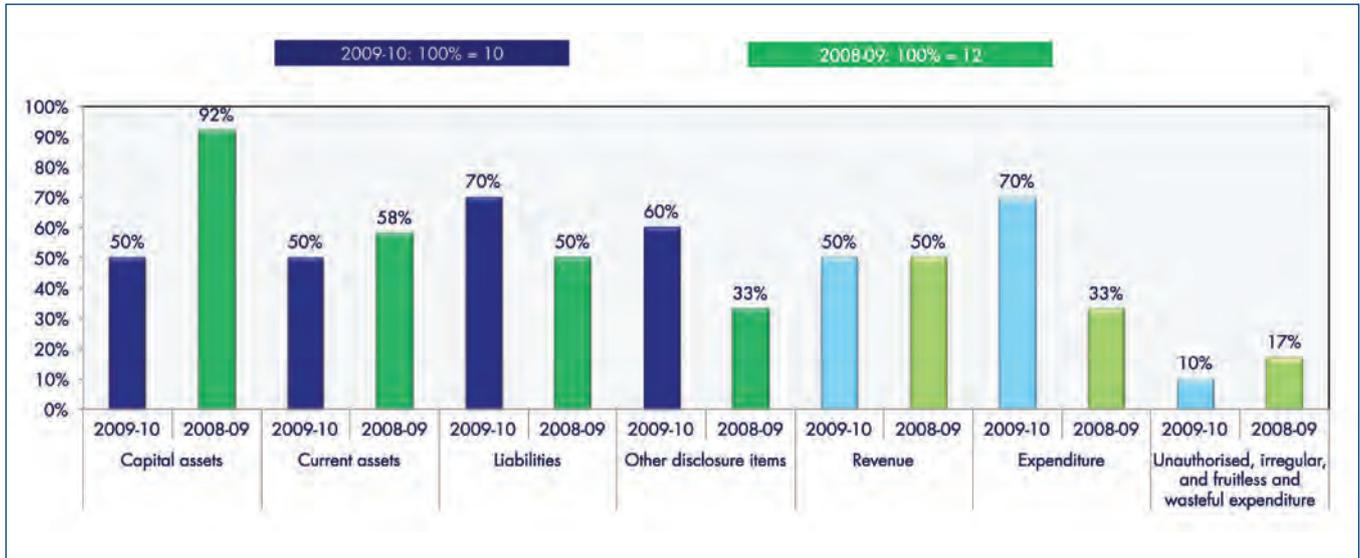
### **3.2.2 Transversal material misstatements in financial statements submitted for auditing**

Section 122(1) of the MFMA stipulates that municipalities and municipal entities must submit annual financial statements for auditing that fairly present their state of affairs, performance against the budget and financial position as at the end of the financial year. Such financial statements are therefore required to be free from material misstatements.

The financial statements of 10 of the 14 municipalities submitted for auditing on 30 June 2010 were subject to correction in respect of material misstatements identified during the audit process. If these material misstatements had not been corrected, they would have resulted in qualifications of the auditor's reports, which would have further impacted negatively on the audit outcomes.

Figure 30 indicates the material misstatements corrected by municipalities.

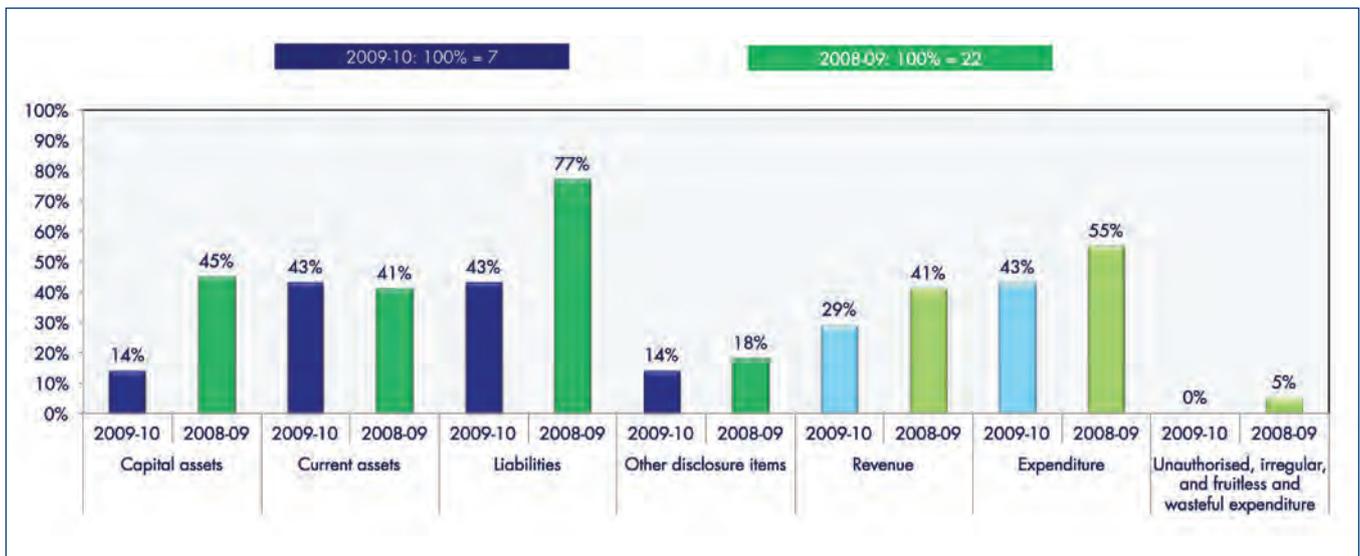
**Figure 30: Material misstatements corrected – municipalities**



The financial statements of seven of the 23 municipal entities submitted for auditing on 30 June 2010 were subject to correction in respect of material misstatements identified during the audit process. If these material misstatements had not been corrected, they would have resulted in qualifications of the auditor’s reports, which would have further impacted negatively on the audit outcomes.

Figure 31 indicates the material misstatements corrected by municipal entities.

**Figure 31: Material misstatements corrected – municipal entities**



Material misstatements at both municipalities and municipal entities are an indication that poor quality financial statements are submitted for auditing. This is attributable to the following:



- Inadequate skills to interpret and prepare annual financial statements in terms of the required framework together with a lack of ongoing monitoring and supervision.
- Inadequate record keeping and record management controls to ensure that supporting documents in the appropriate form are properly filed and easily retrievable.
- Inadequate review of annual financial statements by audit committees and internal audit units.

Material corrections could have been detected if adequate reviews of financial statements had been performed prior to submission to the AGSA. The following measures should be considered:

- Skilled staff should be recruited to manage the financial processes and prepare the financial statements.
- Finance staff should undergo continuous training in financial processes and reporting.
- The leadership should insist on the monthly preparation of accurate and complete management accounts and interim financial statements.
- Audit committees should oversee the accuracy and completeness of financial statements.
- The internal audit units should conduct independent reviews of monthly management accounts and financial statements.

An analysis of significant areas of material misstatements in the financial statements submitted for auditing by municipalities and municipal entities is presented in the table below.

**Table 12: Material misstatements in financial statements submitted for auditing (prepared with/without assistance from consultants)**

Auditee	Financial statement material misstatement area							Consultant
	Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UI, F&W*	
Ekurhuleni Metropolitan Municipality								Yes
City of Tshwane Metropolitan Municipality								No
Metsweding District Municipality								No
Sedibeng District Municipality								No
West Rand District Municipality								No
Emfuleni Local Municipality								Yes
Kungwini Local Municipality								Yes
Lesedi Local Municipality								Yes
Merafong City Local Municipality								Yes
Midvaal Local Municipality								No
Mogale City Local Municipality								Yes
Nokeng Tsa Taemane Local Municipality								Yes
Randfontein Local Municipality								No
Westonaria Local Municipality								Yes
Brakpan Bus Company (Pty) Ltd								Yes
Civirelo Water (Pty) Ltd								Yes
Ekurhuleni Development Company (Pty) Ltd								Yes



Auditee	Financial statement material misstatement area							Consultant
	Capital assets	Current assets	Liabilities	Other disclosure items	Revenue	Expenditure	UI, F&W*	
East Rand Water Care Company								Yes
Housing Company Tshwane (Pty) Ltd								No
Johannesburg Property Company (Pty) Ltd								No
Johannesburg City Parks								No
Johannesburg Civic Theatre (Pty) Ltd								No
Johannesburg Development Agency (Pty) Ltd								No
Johannesburg Fresh Produce Market (Pty) Ltd								No
Johannesburg Metropolitan Bus Services (Pty) Ltd								No
Johannesburg Roads Agency (Pty) Ltd								No
Johannesburg Social Housing Company (Pty) Ltd								No
Johannesburg Tourism Company								No
Johannesburg Zoo								No
Lethabong Housing Institute (Pty) Ltd								Yes
Metropolitan Trading Company (Pty) Ltd								No
Pharoe Park Housing Company (Pty) Ltd								Yes
Phase 2 Housing Company (Pty) Ltd								Yes
Pikitup Johannesburg (Pty) Ltd								No
Roodepoort City Theatre								No
Sandspruit Works								Yes
West Rand Development Agency								No

Although consultants were used at municipalities and municipal entities, financial statements still had material misstatements. This is an indication that the value of consultants is not fully realised.

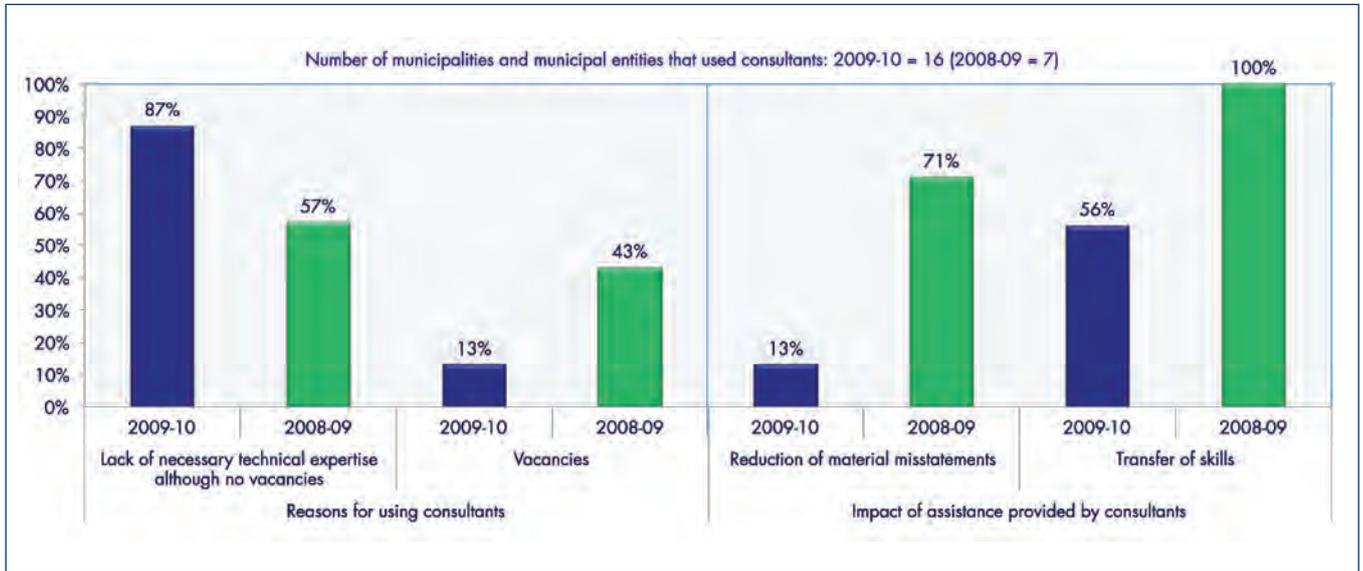
### 3.2.3 Assistance provided by consultants to municipalities in the preparation of financial statements

Consultants were utilised at eight of the 14 municipalities (57%) and eight of the 23 municipal entities (35%) to assist in preparing the financial statements, ensuring compliance with the GRAP reporting framework or providing technical advice.

The provincial CoGTA and the DBSA assisted municipalities through project Siyenza Manje, which was an initiative that provided resources from SAICA to the finance units of municipalities. The cost of this project was not passed on to the municipalities. This project was terminated on 31 March 2011.

Figure 32 below indicates the details of the assistance by consultants provided to municipalities during the year under review. The first two indicators on the graph indicate the reasons for the appointment of consultants and the last two indicators show the impact and effectiveness of the services provided by the consultants.

**Figure 32: Use of consultants – municipalities and municipal entities**



Consultants were appointed at nine additional municipalities and municipal entities, mainly due to inadequate technical expertise. Although there has been a significant increase in the use of consultants to compensate for inadequate technical expertise, there has been an insignificant improvement in the quality of financial statements. There is no evidence that consultants transferred their skills to finance unit staff at municipalities.

The introduction of GRAP has resulted in consultants being used more regularly by municipalities and municipal entities. Inadequate GRAP technical expertise in the finance units and vacancies necessitated the continued reliance on consultants.

An analysis of the use of consultants by municipalities and municipal entities is presented in the table below.

**Table 13: Assistance by consultants – cost, reasons and impact**

Auditee	Cost of consultants	Reason		Impact		Audit opinion 2009-10	Movement in audit opinion	Consultant
		Lack of technical skills	Vacancies	Reduction in material misstatements	Transfer of skills			
Ekurhuleni Metropolitan Municipality		Yes				Financially unqualified with findings	Unchanged	Yes
City of Tshwane Metropolitan Municipality						Financially unqualified with findings	Improvement	No
Metsweding District Municipality						Financially unqualified with no findings	Unchanged	No
Sedibeng District Municipality						Financially unqualified with findings	Unchanged	No
West Rand District Municipality						Financially unqualified with findings	Unchanged	No



Auditee	Cost of consultants	Reason		Impact		Audit opinion 2009-10	Movement in audit opinion	Consultant
		Lack of technical skills	Vacancies	Reduction in material misstatements	Transfer of skills			
Emfuleni Local Municipality						Qualified	Unchanged	Yes
Kungwini Local Municipality	650 000					Qualified	Improvement	Yes
Lesedi Local Municipality						Financially unqualified with findings	Unchanged	Yes
Merafong City Local Municipality						Financially unqualified with findings	Improvement	Yes
Midvaal Local Municipality						Financially unqualified with findings	Unchanged	No
Mogale City Local Municipality						Qualified	Regression	Yes
Nokeng Tsa Taemane Local Municipality						Financially unqualified with findings	Improvement	Yes
Randfontein Local Municipality						Financially unqualified with findings	Unchanged	No
Westonaria Local Municipality						Financially unqualified with findings	Unchanged	Yes
Brakpan Bus Company (Pty) Ltd						Financially unqualified with no findings	Improvement	Yes
Civirelo Water (Pty) Ltd	1 203 616					Disclaimer	Regression	Yes
Ekurhuleni Development Company (Pty) Ltd						Financially unqualified with findings	Unchanged	Yes
East Rand Water Care Company						Financially unqualified with no findings	Improvement	Yes
Housing Company Tshwane (Pty) Ltd						Disclaimer	Unchanged	No
Johannesburg Property Company (Pty) Ltd						Financially unqualified with no findings	Improvement	No
Johannesburg City Parks						Financially unqualified with findings	Unchanged	No
Johannesburg Civic Theatre (Pty) Ltd						Financially unqualified with no findings	Improvement	No
Johannesburg Development Agency (Pty) Ltd						Financially unqualified with findings	Unchanged	No
Johannesburg Fresh Produce Market (Pty) Ltd						Financially unqualified with findings	Regression	No
Johannesburg Metropolitan Bus Services (Pty) Ltd						Financially unqualified with findings	Unchanged	No
Johannesburg Roads Agency (Pty) Ltd						Financially unqualified with findings	Unchanged	No
Johannesburg Social Housing Company (Pty) Ltd						Financially unqualified with no findings	Improvement	No

Auditee	Cost of consultants	Reason		Impact		Audit opinion 2009-10	Movement in audit opinion	Consultant
		Lack of technical skills	Vacancies	Reduction in material misstatements	Transfer of skills			
Johannesburg Tourism Company						Financially unqualified with findings	Unchanged	No
Johannesburg Zoo						Financially unqualified with findings	Unchanged	No
Lethabong Housing Institute (Pty) Ltd						Financially unqualified with no findings	Improvement	Yes
Metropolitan Trading Company (Pty) Ltd						Financially unqualified with findings	Unchanged	No
Pharoe Park Housing Company (Pty) Ltd						Financially unqualified with findings	Unchanged	Yes
Phase 2 Housing Company (Pty) Ltd						Financially unqualified with findings	Unchanged	Yes
Pikitup Johannesburg (Pty) Ltd						Financially unqualified with findings	Unchanged	No
Roodepoort City Theatre						Financially unqualified with no findings	Improvement	No
Sandspruit Works	1 113 786					Financially unqualified with findings	Unchanged	Yes
West Rand Development Agency						Qualified	New entity	No
Estimated total	2 967 402							

Cost not available

Not assisted by consultants

Municipalities not using the Siyenza Manje consultants continued to engage the services of external consultants to assist with accounting-related services and the preparation of financial statements for audit purposes. The total cost of providing these services in the 2009-10 year amounted to R2,9 million.

Where there were vacancies, skills could not be transferred. At some municipalities there were no clear reporting lines and consultants could thus not be held accountable for the quality of their services. Furthermore, service level agreements did not include the need to transfer skills. Due to these shortcomings, municipalities and municipal entities were not empowered to be less dependent on external assistance in undertaking their financial responsibilities. Furthermore, this resulted in poor quality financial statements being submitted for auditing.

Municipalities should assess whether the ongoing use of consultants for accounting-related services is the most economical way for addressing their needs, also taking into account the need for continuity and sustainability of the function the consultants are engaged to perform. To this end, municipalities should ensure that consultants transfer skills to build sustainable finance units.



The leadership, with the assistance of the Gauteng Provincial Government, must monitor and evaluate the effectiveness of the services rendered by consultants regarding the audit outcomes and transfer of skills. The municipalities should develop terms of reference and service level agreements to enable them to clarify the reporting lines for consultants.

The municipalities and municipal entities should engage with the provincial CoGTA with the assistance of the Accounting Standards Board and the provincial department of finance to ensure that officials at the municipalities and municipal entities receive continuous training on the current effective GRAP standards and new developments.

During our engagement with the provincial leadership on the 2009-10 audit outcomes, the speaker and Troika committed to:

- collaborate with the MECs for Finance and for Local Government and Housing on enhancing oversight
- build capacity in the finance units and intensify support
- elevate the ongoing monitoring of the use of consultants to the speaker's forum as a discussion point.

### 3.2.4 Material losses, impairment of assets and underspending of conditional grants

#### Municipalities

The table below depicts the municipalities that incurred material losses and impairment of assets. For further details of material losses and material impairment of assets, refer to annexure 3.

**Table 14: Material losses and material impairments – municipalities**

No.	Auditee	Material losses (R 000)	Material impairment of assets (R 000)	Reason
1	Ekurhuleni Metropolitan Municipality	474 030		Water and electricity distribution losses
2	City of Tshwane Metropolitan Municipality	304 160		Water and electricity distribution losses
			1 024 557	Debt impairment
3	Nokeng Tsa Taemane Local Municipality	5 492		Water and electricity distribution losses
4	Randfontein Local Municipality	25 662		Water and electricity distribution losses
5	Westonaria Local Municipality	16 859		Water and electricity distribution losses
6	Mogale City Local Municipality	70 782		Water and electricity distribution losses
7	Midvaal Local Municipality	14 786		Water and electricity distribution losses
8	Lesedi Local Municipality	11 399		Water and electricity distribution losses
9	Merafong City Local Municipality	16 444		Water and electricity distribution losses
10	Emfuleni Local Municipality	246 468		Water and electricity distribution losses
<b>Total for all municipalities</b>		<b>1 186 082</b>	<b>1 024 557</b>	

*Material losses (R1,186 billion) and impairment of assets (R1,024 billion)*

Material losses were incurred as a result of electricity and water distribution losses, with 31% relating to electricity losses and 69% to water losses. Common causes for electrical losses included dilapidated infrastructure, technical losses and illegal connections. Water losses resulted from dilapidated infrastructure and slow responses in repairing burst pipes.

Kungwini Local Municipality incurred distribution losses on electricity and water due to technical losses on the existing network, faulty meters and illegal connections. However, the losses were not disclosed in the financial statements as required by section 125(1)(d) of the MFMA.

Ekurhuleni Metropolitan Municipality has implemented advanced infrastructure asset management software. This system improves the overall asset management planning processes, asset maintenance, asset conditions and useful lives. Ultimately, this initiative should lead to improved control over material losses. It is recommended that this good practice be replicated across the province.

A material impairment of assets was incurred at the City of Tshwane Metropolitan Municipality (R1,024 billion) as a result of debt written off.

**Municipal entities**

The table below depicts the municipal entities that incurred material losses and impairment of assets. For further details of material losses and material impairment of assets, refer to annexure 3.

**Table 15: Material losses and material impairments – municipal entities**

No.	Auditee	Material losses (R 000)	Material impairment of assets (R 000)	Reason
1	Metropolitan Trading Company (Pty) Ltd	4 858	0	Inadequate controls to facilitate successful revenue collection from informal traders.
2	East Rand Water Care Company	0	9 840	Debtors write off
<b>Total for all municipal entities</b>		<b>4 859</b>	<b>9 840</b>	

Material losses at Metropolitan Trading Company (Pty) Ltd (R4,9 million) were as a result of inadequate controls to facilitate successful revenue collection from informal traders. At East Rand Water Care Company (R9,8 million), the losses resulted from debts written off due to non-recoverability.

**Material underspending of conditional grants**

Material underspending of conditional grants is depicted in the table below.



**Table 16: Material underspending of conditional grants (municipalities)**

No.	Auditee	Conditional grant (R 000)	Material underspending of conditional grant (R 000)	% underspent
<b>Municipalities</b>				
1	City of Tshwane Metropolitan Municipality	2 494 128	399 747	16%
2	Kungwini Local Municipality	45 878	23 006	50%
3	Nokeng Tsa Taemane Local Municipality	63 499	28 291	44%
4	Randfontein Local Municipality	47 872	39 693	83%
5	Ekurhuleni Metropolitan Municipality	2 876 826	200 845	7%
<b>Total</b>		<b>5 528 203</b>	<b>691 582</b>	<b>13%</b>

### Underspending of conditional grants

Overall there were no instances of material underspending of votes; however, there was material underspending of conditional grants at Randfontein Local Municipality due to the inability of the municipality to gain access to the townships for the implementation of various service delivery projects and infrastructure development. Conditional grants earmarked for infrastructure development at Nokeng Tsa Taemane and Kungwini Local Municipalities were spent on operational activities. In addition, infrastructure grants awarded for World Cup transportation were not fully utilised at one of the municipalities.

### Funding of operations, financial sustainability and going concern

The table below depicts the municipal entities where concerns were raised with regard to funding of operations, financial sustainability and going concern.

**Table 17: Auditees with concerns related to funding of operations, financial sustainability and going concern**

Type of auditee	Reasons for financial sustainability concerns
<b>Municipalities</b>	
Metsweding District Municipality	Disestablishment of the municipality
Kungwini Local Municipality	Disestablishment and net loss for the year
Nokeng Tsa Taemane Local Municipality	Disestablishment and net loss for the year
Westonaria Local Municipality	Technical insolvency
<b>Municipal entities</b>	
Pikitup Johannesburg (Pty) Ltd	Continuous loss making and technical insolvency
Civirelo Water (Pty) Ltd	Liquidation/Deregistration
Housing Company Tshwane (Pty) Ltd	Net loss for the year and technically insolvent
Brakpan Bus Company (Pty) Ltd	Reliance on a monthly renewable subsidy
Ekurhuleni Development Company (Pty) Ltd	Cash flow and continued reliance on parent municipality for support
Phase 2 Housing Company (Pty) Ltd	Cash flow and continued reliance on parent municipality for support
Pharoe Park Housing Company (Pty) Ltd	Cash flow and continued reliance on parent municipality for support
Lethabong Housing Institute (Pty) Ltd	Cash flow and continued reliance on parent municipality for support

The municipalities and municipal entities had the following indicators of financial sustainability challenges, which created significant uncertainties regarding future operations:

- Metsweding District Municipality, Kungwini Local Municipality and Nokeng Tsa Taemane Local Municipality will be disestablished and all assets and liabilities will be transferred to the City of Tshwane Metropolitan Municipality in terms of *Notice 1866 of 2010* published in *Provincial Gazette Extraordinary No. 128*.
- A special resolution was passed on 30 June 2010 that Civirelo Water (Pty) Ltd will cease all activities and that all assets, liabilities and activities of the entity will be transferred to the parent municipality in terms of the transfer agreement. The entity will subsequently be dissolved.
- Kungwini Local Municipality, Nokeng Tsa Taemane Local Municipality, Pikitup Johannesburg (Pty) Ltd, Housing Company Tshwane (Pty) Ltd and Westonaria Local Municipality incurred significant net losses and the current liabilities exceeded current assets.
- Nokeng Tsa Taemane Local Municipality and Westonaria Local Municipality are in an overdraft position.
- Housing Company Tshwane (Pty) Ltd, Lethabong Housing Institute (Pty) Ltd, Pharoeh Park Housing Company (Pty) Ltd, Phase 2 Housing Company (Pty) Ltd and Ekurhuleni Development Company (Pty) Ltd are dependent on their parent municipalities for survival to continue as a going concern.
- Brakpan Bus Company (Pty) Ltd operates on an interim contract with the Department of Transport for the provision of passenger transport services, which is extended on a monthly basis. This condition indicates the existence of a material uncertainty that casts doubts on the ability of the entity to continue as a going concern.

With the exception of the municipalities that will be incorporated into the City of Tshwane Metropolitan Municipality, the leadership of the other municipalities and municipal entities assessed that they would continue as going concerns based on their assumption of continued receipt of financial support from their parent municipalities for municipal entities and better management of their expenditure and collection of revenue.

### 3.3 Findings on reporting on predetermined objectives

The objective of an audit of predetermined objectives is to enable the auditor to conclude whether the reported performance against predetermined objectives is reliable, accurate and complete, in all material respects, based on predetermined criteria.

All municipalities and municipal entities who receive public funds have to report on their performance against predetermined objectives and are required to submit their annual performance reports for auditing, together with the annual financial statements.

The figures in table 18 refer to municipalities and municipal entities that had findings on the reporting on performance against predetermined objectives, calculated as a percentage of the total number of entities audited. The comparatives for 2008-09 have been restated to include audits finalised since the previous general report had been issued.

**Table 18: Summary of findings on reporting on predetermined objectives**

Category of finding	Municipalities*		Municipal entities	
	2009-10	2008-09	2009-10	2008-09
Information on performance against predetermined objectives not submitted for audit by 31 August 2010	44%	45%	20%	45%
Non-compliance with regulatory requirements	33%	45%	10%	27%
Information on performance against predetermined objectives not useful	44%	36%	50%	64%
Information on performance against predetermined objectives not reliable	44%	55%	90%	18%
<b>Total number of audits with findings</b>	<b>9</b>	<b>11</b>	<b>10</b>	<b>11</b>
Number of audits with no findings	5		13	
Number of audit reports not issued by 31 January 2011	1		2	
Number of audits where the report on predetermined objectives is not applicable	0		0	
<b>Total number of audits</b>	<b>15</b>		<b>25</b>	

\*Based on consolidated municipality where applicable

Despite the AGSA's assistance during predetermined objective workshops, municipalities and municipal entities still attracted findings on predetermined objectives.

### Explanation of the various audit finding categories

#### *Non-compliance with regulatory requirements*

Findings related to non-compliance with predetermined objective regulations at three of the 14 municipalities and at one of the 23 municipal entities.

Findings mainly related to the inadequate content of the strategic plans, which did not include measurable objectives, indicators and targets for all programmes; the lack of effective, efficient and transparent systems and internal controls regarding performance management; and a lack of or inadequate quarterly reporting on performance information.

#### *Information on performance against predetermined objectives not useful*

The audit in terms of usefulness focused on the consistency, relevance and measurability of planned and reported performance information. Findings were raised on the usefulness of performance information at four of the 14 municipalities and five of the 23 municipal entities reported on.

Findings mainly related to the fact that targets and indicators reported on were not consistent with targets and indicators as set in the strategic, corporate or business plan of the municipalities and municipal entities, as well as to targets that were not specific, measurable and time bound.

*Reported information on performance against predetermined objectives not reliable*

The audit focused on whether the reported performance information could be traced back to the source data or documentation and whether the reported information was accurate, complete and consistent in relation to the source data, evidence or documentation. In the case of four out of 14 municipalities and nine out of 23 municipal entities, deviations were noted in terms of the reliability of the reported performance information.

Findings related to a lack of sufficient appropriate audit evidence in relation to the reported performance information, a lack of appropriate systems generating performance information, and the source information or evidence provided to support the reported performance information not adequately supporting the accuracy and completeness of the facts throughout.

At both municipalities and municipal entities, there is still room for improvement particularly relating to effective, efficient and transparent systems and internal controls regarding performance information.

Good practices were implemented at Ekurhuleni Metropolitan Municipality, which led to the municipality having no findings on predetermined objectives. The internal audit unit conducted independent audits on each SDBIP report, which were followed up timeously for resolution. The audits provided additional reliability on reported actual achievements compared to predetermined objectives. The performance management unit responsible for monitoring predetermined objectives was headed by suitably skilled and competent individuals.

The following processes will assist municipalities and municipal entities in ensuring compliance with the requirements of the MSA and obtaining no findings on the audit of predetermined objectives:

- Key units within municipalities and municipal entities responsible for predetermined objectives need to be headed by suitably skilled and competent individuals.
- Internal audit units need to assess the functionality of the processes and performance management systems as well as audit the results of performance information.

Details of municipalities and municipal entities with findings on predetermined objectives can be found in annexure 1.

### **3.4 Findings on compliance with laws and regulations**

#### **3.4.1 Transversal findings on compliance with laws and regulations**

In total, 13 out of 14 municipalities and 16 out of 23 municipal entities had findings on compliance with laws and regulations, as summarised in table 19 below.

**Table 19: Summary of findings on compliance with laws and regulations**

Top five categories of non-compliance	Number	Percentage
<b>Municipalities</b>		
Transversal material misstatements	10	71%
• Expenditure was not paid within the required 30 day from the receipt of invoice	7	50%
• The accounting officer did not adhere to his/her statutory responsibilities to ensure that full and proper records of the financial affairs of the municipality were kept in accordance with any prescribed norms and standards	6	43%
• Expenditure incurred could have been avoided, resulting in fruitless and wasteful expenditure	6	43%
SCM issues that resulted in irregular expenditure	4	29%
<b>Municipal entities</b>		
SCM issues that resulted in irregular expenditure	11	48%
• Expenditure was not paid within the required 30 day from the receipt of invoice	11	48%
• Expenditure incurred could have been avoided, resulting in fruitless and wasteful expenditure	8	35%
Transversal material misstatements	7	30%
• The municipality or municipal entity did not have or did not maintain effective, efficient and transparent systems of internal control as required by legislation for: debtors and revenue	3	13%

Transversally the most common findings were the material misstatements in the submitted financial statements (refer to section 3.2.2) and non-compliance with SCM legislation (refer to section 5). The table above indicates the most pervasive findings relating to non-compliance. Details of other findings are as follows:

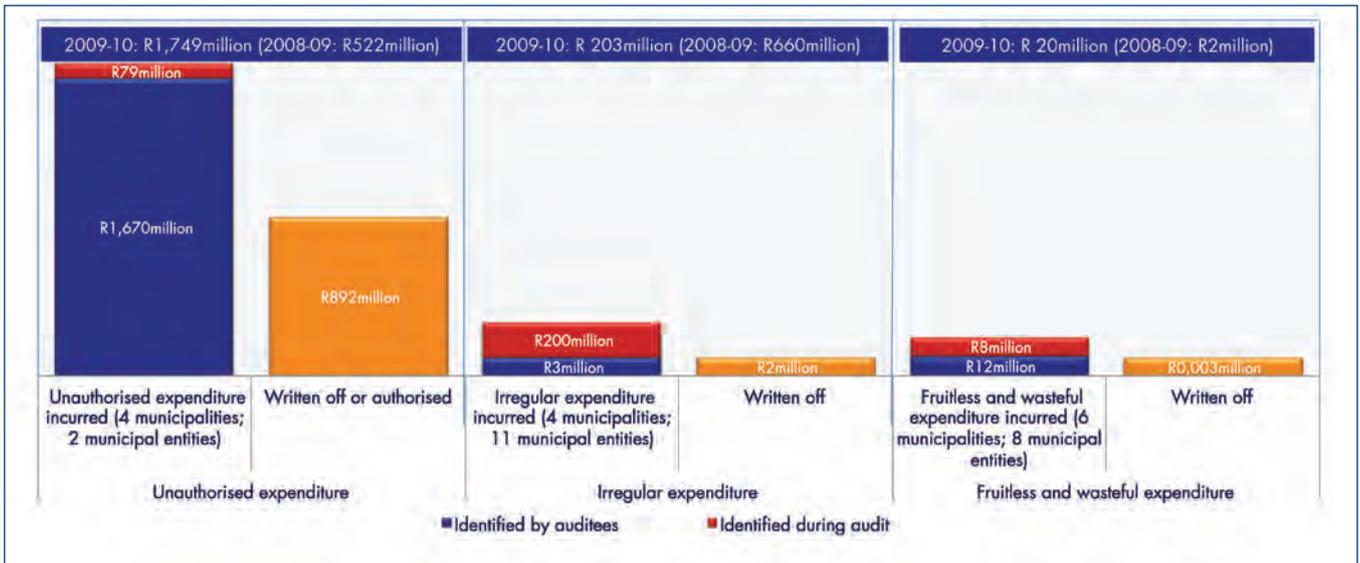
### **Municipalities and municipal entities**

- Ten municipalities and seven municipal entities had material misstatements in the financial statements submitted for auditing due to inadequate compilation and review processes.
- At seven municipalities and 11 municipal entities, expenditure was not paid within the required 30 days from the receipt of an invoice due to insufficient monitoring of compliance with laws and regulations by the leadership. In some instances, creditors were not paid within 30 days due to a lack of funding.
- The accounting officers did not comply with their legislative responsibilities of managing the financial administration of the municipality, as they did not take reasonable steps to ensure that full and proper records were kept at six of the 14 municipalities.
- Inadequate internal audit coverage of compliance resulted in expenditure incurred in vain as set out in the MFMA at six municipalities and eight municipal entities.
- Expenditure was incurred in contravention of applicable legislation resulting in irregular expenditure at four municipalities and 11 municipal entities. This was due to insufficient monitoring of compliance with laws and regulations by the leadership and a lack of understanding of the SCM Regulations.
- Leadership did not implement and monitor adequate systems of internal control at three municipal entities in relation to debtors and revenue.

### 3.4.2 Unauthorised, irregular as well as fruitless and wasteful expenditure incurred during the year

The figure below depicts the unauthorised, irregular as well as fruitless and wasteful expenditure incurred by municipalities and municipal entities for the financial year ended 30 June 2010.

**Figure 33: Unauthorised, irregular as well as fruitless and wasteful expenditure, and additional expenditure identified during the audit**



#### Unauthorised expenditure – R1,7 billion

Unauthorised expenditure in relation to a municipality means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes:

- (a) overspending of the total amount appropriated in the municipality's approved budget
- (b) overspending of the total amount appropriated for a vote in the approved budget
- (c) expenditure from a vote unrelated to the department or functional area covered by vote
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of 'allocation' otherwise than in accordance with any conditions of the allocation
- (f) a grant by the municipality otherwise than in accordance with the MFMA.

The table below analyses the unauthorised expenditure incurred.



**Table 20: Unauthorised expenditure**

Type of auditee	Nature and extent of unauthorised expenditure		
	Overspending		
	Number	%	R'000
Municipalities	4	29%	1 593 263
Municipal entities	2	9%	155 277
<b>Total</b>	<b>6</b>		<b>1 748 540</b>

Four municipalities, namely the City of Tshwane Metropolitan Municipality, Sedibeng District, Merafong City Local Municipality and Mogale City Local Municipality, and two municipal entities of the City of Johannesburg Metropolitan Municipality, namely Johannesburg Zoo and Pikitup Johannesburg (Pty) Ltd, incurred unauthorised expenditure as a result of overspending the total approved budget.

Unauthorised expenditure was incurred as follows:

- City of Tshwane Metropolitan Municipality (R1,5 billion)
- Sedibeng District Municipality (R24,5 million)
- Merafong City Local Municipality (R54,1 million)
- Mogale City Local Municipality (R11,9 million)
- Johannesburg Zoo (R4,4 million)
- Pikitup Johannesburg (Pty) Ltd (R150,9 million)

The main contributing factors leading to the unauthorised expenditure were poor budgeting, expenditure relating to the World Cup as well as the inadequate review and monitoring of the budget by the leadership. In particular, City of Tshwane Metropolitan Municipality incurred R1,5 billion of the total unauthorised expenditure due to expenditure relating to the World Cup.

#### *Irregular expenditure – R203 million*

Irregular expenditure in relation to a municipality or municipal entity means:

- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of section 170
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MSA, and which has not been condoned in terms of that act
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998)
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the SCM policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of 'unauthorised expenditure'.

The table below analyses the irregular expenditure incurred.

**Table 21: Irregular expenditure**

Type of auditee	Nature and extent of unauthorised expenditure											
	Supply chain management related			Compensation of employees related			Other			Total		
	Number	%	R'000	Number	%	R'000	Number	%	R'000	Number	%	R'000
Municipalities	4	29%	194 454	1	7%	0.15	1	7%	1 563	4	29%	196 167
Municipal entities	8	35%	5 516				3	13%	857	11	48%	6 373
<b>Total</b>	<b>12</b>		<b>199 970</b>	<b>1</b>		<b>0</b>	<b>4</b>		<b>2 420</b>	<b>15</b>		<b>202 540</b>

Irregular expenditure was incurred at four municipalities (2008-09: two) and 11 municipal entities (2008-09: 11) due to the contravention of the requirements of the SCM Regulations as well as the accounting officer not adhering to section 94(2) of the MFMA and other legislative requirements.

For details of irregular expenditure incurred at specific municipalities and municipal entities, refer to annexure 3.

*Fruitless and wasteful expenditure – R19,9 million*

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

The table below lists all municipalities and municipal entities that incurred fruitless and wasteful expenditure in the province.

**Table 22: Fruitless and wasteful expenditure**

No.	Auditee	Fruitless and wasteful expenditure (R 000)	% of total for province
<b>Municipalities</b>			
1	Ekurhuleni Metropolitan Municipality	1 018	5%
2	City of Tshwane Metropolitan Municipality	2 169	11%
3	Sedibeng District Municipality	322	2%
4	Kungwini Local Municipality	2 655	13%
5	Mogale City Local Municipality	900	5%
6	Westonaria Local Municipality	4 370	22%
<b>Subtotal municipalities</b>		<b>11 434</b>	
<b>Municipal entities</b>			
1	Civirelo Water (Pty) Ltd	837	4%
2	Housing Company Tshwane (Pty) Ltd	182	1%
3	Johannesburg Property Company (Pty) Ltd	791	4%
4	Johannesburg Fresh Produce Market (Pty) Ltd	131	1%



No.	Auditee	Fruitless and wasteful expenditure (R 000)	% of total for province
5	Johannesburg Zoo	126	1%
6	Metropolitan Trading Company (Pty) Ltd	36	0%
7	Pikitup Johannesburg (Pty) Ltd	5 230	26%
8	Sandspruit Works	1 160	6%
<b>Subtotal municipal entities</b>		<b>8 493</b>	
<b>Total</b>		<b>19 927</b>	

Six of the 14 municipalities and eight of the 23 municipal entities incurred fruitless and wasteful expenditure. Fruitless and wasteful expenditure resulted from penalties, interest incurred on the late payment of creditors, and salaries paid to suspended employees.

### 3.4.3 Investigations and performance audits

#### Investigations

The following investigations were finalised or were in progress at the date of finalising the auditor's reports on the individual municipalities and municipal entities. These investigations were not necessarily performed by the AGSA but were assessed as material for purposes of inclusion in the auditor's report.

These investigations are indicators of risks that internal controls may not be functioning or are being overridden. It is important that those charged with governance pay attention to addressing the internal control deficiencies that are indicated by the results of the investigations.

**Table 23: Investigations in progress or completed**

Municipalities and municipal entities	Nature of investigation		
	Supply chain management	Fraud	Other misconduct
<b>Municipalities</b>			
City of Tshwane Metropolitan Municipality			
Ekurhuleni Metropolitan Municipality			
Eemfontein Local Municipality			
Kungwini Local Municipality			
Nokeng Tsa Taemane Local Municipality			
<b>Municipal entities</b>			
Johannesburg Roads Agency (Pty) Ltd			
Pikitup Johannesburg (Pty) Ltd			
Johannesburg Development Agency (Pty) Ltd			

Most of these investigations dealt with SCM contraventions, mainly attributable to tender and procurement irregularities, split payments, improper SCM processes, incorrect tender specifications and unfair pricing.

## Performance audits

Details of performance audit reports tabled in the provincial legislature during the period under review are reflected in the table below. Performance audits of the infrastructure delivery process were conducted at Ekurhuleni Metropolitan Municipality and Mogale City Local Municipality. The audits were conducted because infrastructure is a major contributing factor to securing effective service delivery for taxpayers. The municipalities provided comments indicating that corrective actions will be implemented to address the shortcomings identified. It is envisaged that public reports on national, provincial and municipal level will be tabled simultaneously.

**Table 24: Performance audits in progress**

Detail of performance audits
<p>Ekurhuleni Metropolitan Municipality and Mogale City Local Municipality</p> <p><b>Audit objectives</b></p> <p>To determine:</p> <ul style="list-style-type: none"> <li>• if infrastructure projects are planned and designed to ensure effective service delivery</li> <li>• whether the most suitable contractors and consultants were appointed for planning and construction of projects</li> <li>• whether the project management of the projects ensured that it was completed on time, within budget and at the required level of quality</li> <li>• whether completed projects were utilised immediately after completion to deliver services to the community.</li> </ul>

There is clear evidence that there has been a regression in the province regarding compliance with laws and regulations. In relation to SCM, there has been a significant increase in the amount of unauthorised as well as fruitless and wasteful expenditure. A high number of investigations were conducted at five municipalities and three municipal entities, making up a total of 121 cases and seven cases, respectively. The inadequate monitoring of internal control disciplines had a negative impact on compliance with laws and regulations.

The executive leadership did not set up an environment that instilled sound financial and cash-flow discipline within the municipalities and municipal entities. This could be improved if the leadership strengthened its oversight function over the finances of municipalities and municipal entities by implementing adequate monitoring and review of SCM policies and emergency procurement. The monitoring of budgets compared to actual results on a quarterly basis should be improved to identify unauthorised expenditure and obtain authorisation prior to incurring such expenditure.

It is imperative that the executive leadership and management address the internal control deficiencies indicated by the results of the investigations. This could be achieved by improving oversight, monitoring and accountability on the outcomes of investigations. Furthermore, municipalities should consider implementing self-assessment procedures through compliance checklists, together with ongoing review and monitoring by the municipal managers and CFOs to prevent non-compliance with laws and regulations. The internal audit units should continuously review the adequacy of internal controls in this regard.

The councils should regularise overspending, irregular expenditure as well as fruitless and wasteful expenditure within the ambits of the law without delay in a consistent, appropriate and transparent manner throughout the province.

### 3.5 Findings on information technology systems

Audits were conducted on the IT systems used at 11 municipalities and three municipal entities in the province, focusing on computer general controls. These controls relate to the IT infrastructure and are imbedded in information system management processes.

The objective of audits of general controls is the evaluation of the effectiveness of IT controls to ensure that:

- financial and sensitive computer systems are only accessed by authorised officials
- systems are developed, enhanced, configured and implemented so that they are effective, functional and secure
- critical information is recoverable and usable in the event of disasters and disruptions
- financial information processes as stored in the computer systems are reliable for financial reporting purposes.

Municipalities and municipal entities are currently using various systems, ranging from off-the-shelf and in-house developed systems to customised systems. The municipalities and municipal entities vary in size from small to large and are responsible for managing their IT financial systems without the assistance of the National Treasury and the State Information Technology Agency (SITA).

The following table indicates the prevalence of common IT focus area findings at municipalities and municipal entities:

**Table 25: Transversal information system findings**

Focus area findings	Percentage of audited municipalities with finding	Percentage of audited municipal entities with finding
IT governance	100%	75%
Security management	100%	100%
User access control	83%	100%
Program change management	83%	100%
Facilities and environmental control	60%	75%
Data centre management	40%	100%
IT service continuity	92%	100%

Key IT findings identified included the following:

- Lack of IT governance processes to ensure that IT functions are operational and capacitated.
- Lack of business continuity and disaster recovery plans and centres to ensure the availability of financial information in instances of data loss.
- High dependencies on service providers due to a lack of specialist skills and support to implement and manage system security functions.

- Lack of prescripts to ensure the selection of cost-effective financial systems at municipalities, resulting in eight different systems being used at 14 municipalities and two municipal entities audited.

The following key matters require improvement at municipalities and municipal entities:

- Establish functional IT governance structures.
- Implement adequate business continuity and disaster recovery plans.
- Reduce dependencies on service providers.
- Centralise coordination, guidance and specialist support to local government to enable the cost-effective and efficient management of IT.

The following actions should also be taken by the coordinating bodies (premier's coordinating forum, CoGTA and the National Treasury), with provincial oversight:

- The National Treasury should provide prescripts regarding financial systems to minimise excessive or duplicate systems and maintenance costs as well as explore (i) providing local government with the possibility of applying the integrated financial management system currently under development; or (ii) alternatively, evaluate the possibility of developing a transversal system specifically for local government.
- Provincial oversight should establish a governance process that will promote knowledge sharing and shared IT technical support per district or province.

The speaker committed to the following during the roadshow of the auditor-general:

- Considering in the near future integrating the IT systems in the province and developing a transversal system.
- Assessing whether they should factor into future IT tenders a requirement that the service provider should assist in monitoring the IT control environment.
- Ensuring that service providers implement action plans to assist municipalities and municipal entities to address IT system audit deficiencies.

The following table lists the different application systems used by municipalities and municipal entities in the province:

**Table 26: Accounting and financial application systems used by municipalities and municipal entities**

Financial reporting system	Number in use at municipalities	Municipalities	Number in use at municipal entities	Municipal entities
BAUD	1	Ekurhuleni Metropolitan Municipality		
BIQ	5	Merafong City Local Municipality		
		Mogale City Local Municipality		
		Randfontein Local Municipality		
		West Rand District Municipality		
		Westonaria Local Municipality		
SAP	2		2	
		City of Tshwane Metropolitan Municipality		Pikitup Johannesburg (Pty) Ltd
Venus	5	Ekurhuleni Metropolitan Municipality		
		Emfuleni Local Municipality		
		Lesedi Local Municipality		
		Midvaal Local Municipality		
		Sedibeng District Municipality		
Hansen			1	Johannesburg Roads Agency (Pty) Ltd
Oracle			1	Johannesburg Metropolitan Bus Services (Pty) Ltd
PeopleSoft/JDE			1	Johannesburg Roads Agency (Pty) Ltd
<b>Total</b>	<b>4</b>		<b>4</b>	

The attention required to address IT focus areas is assessed in table 30.

Common observations noted during the audit of IT systems were the following:

### IT governance

There was no IT governance framework to facilitate the performance of IT governance practices, which would include the establishment of an IT steering committee, the maintenance of an IT risk register, and the development of IT policies and procedures. Where the information security officer positions had not been filled or the security functions were not performed, it resulted in inadequate IT operations and insufficient capacitating of IT functions.

### Security management

The security controls required to safeguard access to financial data and to ensure that access and login violation reports within financial systems were periodically reviewed had not been adequately implemented, due to a lack of specialist IT skills to perform these tasks.

### User access control

The excessive access rights assigned to a high number of users of financial systems had a considerable impact on the separation of duties, as these rights were not reviewed to ensure that they remained commensurate with the users' job responsibilities. Unassigned positions and the inadequacy of skills greatly contributed to this inefficiency, as users might have been required to perform conflicting duties, while compensating controls, such as the review of system audit trails, had not been implemented by management.



### **Program change management**

High reliance was placed on system vendors who provided system support to municipalities, due to a lack of specialist skills within municipalities. This led to the programmers who developed the systems being granted access to the systems' production environments, which enabled them to make amendments to financial data residing on these applications. Moreover, due to a lack of knowledge of how these application systems operate, compensating controls, such as the review of audit trails, had not been instituted by management to detect unauthorised changes.

### **Facilities and environmental control**

Municipalities and municipal entities did not have a centralised location for their IT equipment that contained financial data and, as a result, they operated their own IT or server rooms. Access to these rooms was not adequately controlled by the system administrators, which exposed sensitive financial data to loss.

### **IT service continuity**

A lack of business continuity plans at municipalities resulted in disaster recovery plans and backup procedures not being developed, which would have ensured the availability of financial information and the continued availability of IT services in instances of loss and disruption.

### **Data centre management**

The performance and capacity of IT systems were not monitored and reported on due to inadequate IT policies and procedures to drive this process and the absence of appropriate skills to perform the required tasks. As a result, service delivery might have been inadequate as some services might have been affected by the unavailability of systems.

Annexure 4 lists the municipalities and municipal entities where IT general controls were tested.

## SECTION 4: DRIVERS OF AUDIT OUTCOMES

This section of the general report analyses the following matters:

- The drivers of audit outcomes
- IT as a potential area of risk to financial and performance reporting, losses and service delivery
- Action by role players, provincial political leadership and oversight bodies to address matters reported
- Emerging risks to future audit outcomes

The drivers of audit outcomes are analysed under the three fundamentals of internal control. These controls are three-dimensional and should address financial, performance and compliance matters.

The reported internal control deficiencies can be directly linked to the basis for the qualified, adverse or disclaimed opinions on financial statements, findings on predetermined objectives, and findings on compliance with applicable laws and regulations.

It is clear that until such time as these controls are implemented at all the municipalities and municipal entities, an improvement in the audit opinions will not be realised. Serious attention should be paid to these areas by those charged with governance, including accounting officers, mayors, councils, audit committees and the treasury.

### 4.1 Drivers of audit outcomes

An analysis of the presence or absence of the key controls is presented in tables 27, 28 and 29 below.

#### 4.1.1 Leadership

**Table 27: Drivers of audit outcomes – leadership**

Leadership	Municipalities			Municipal entities		
	Good	In progress	Intervention required	Good	In progress	Intervention required
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity						
• Financial	79%	7%	14%	87%	13%	0%
• Performance	57%	14%	29%	91%	9%	0%
• Compliance	79%	7%	14%	91%	9%	0%
Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls						
• Financial	14%	64%	22%	61%	30%	9%
• Performance	36%	29%	35%	65%	22%	13%
• Compliance	14%	64%	22%	70%	17%	13%
Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored						
• Financial	57%	36%	7%	78%	22%	0%

Leadership	Municipalities			Municipal entities		
	Good	In progress	Intervention required	Good	In progress	Intervention required
• Performance	57%	29%	14%	87%	13%	0%
• Compliance	86%	7%	7%	87%	9%	4%
Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities						
• Financial	79%	14%	7%	78%	22%	0%
• Performance	64%	14%	22%	78%	17%	5%
• Compliance	79%	14%	7%	78%	22%	0%
Develop and monitor the implementation of action plans to address internal control deficiencies						
• Financial	79%	14%	7%	74%	26%	0%
• Performance	57%	21%	22%	74%	22%	4%
• Compliance	79%	14%	7%	74%	26%	0%
Develop and monitor the implementation of action plans to address internal control deficiencies in the IT environment						
• Financial	16%	7%	77%	5%	0%	95%
Establish an IT governance framework that supports and enables the business, delivers value and improves performance						
• Financial	0%	0%	100%	25%	0%	75%

#### 4.1.2 Financial and performance management

**Table 28: Drivers of audit outcomes – financial and performance management**

Financial and performance management	Municipalities			Municipal entities		
	Good	In progress	Intervention required	Good	In progress	Intervention required
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
• Financial	36%	50%	14%	78%	9%	13%
• Performance	36%	36%	28%	65%	17%	18%
• Compliance	57%	21%	22%	78%	9%	13%
Implement controls over daily and monthly processing and reconciling of transactions						
• Financial	57%	29%	14%	87%	13%	0%
• Performance	50%	21%	29%	78%	13%	9%
• Compliance	64%	21%	15%	87%	13%	0%
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
• Financial	14%	71%	15%	48%	43%	9%
• Performance	43%	21%	36%	57%	26%	17%
• Compliance	43%	43%	14%	74%	13%	13%
Review and monitor compliance with applicable laws and regulations						
• Financial	57%	29%	14%	65%	35%	0%
• Performance	50%	14%	36%	78%	22%	0%
• Compliance	7%	79%	14%	26%	70%	4%



Financial and performance management	Municipalities			Municipal entities		
	Good	In progress	Intervention required	Good	In progress	Intervention required
Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information						
• Financial	79%	7%	14%	96%	4%	0%
• Performance	64%	14%	22%	96%	4%	0%
• Compliance	79%	7%	14%	91%	9%	0%
Application systems susceptible to compromised data integrity (information systems)						
• Financial	25%	5%	70%	4%	0%	96%

### 4.1.3 Governance

**Table 29: Drivers of audit outcomes – governance**

Governance	Municipalities			Municipal entities		
	Good	In progress	Intervention required	Good	In progress	Intervention required
Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
• Financial	50%	36%	14%	87%	9%	4%
• Performance	50%	21%	29%	96%	0%	4%
• Compliance	57%	29%	14%	87%	9%	4%
Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
• Financial	86%	7%	7%	87%	9%	4%
• Performance	57%	14%	29%	83%	13%	4%
• Compliance	71%	7%	22%	87%	9%	4%
Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations						
• Financial	86%	0%	14%	96%	4%	0%
• Performance	57%	21%	22%	96%	4%	0%
• Compliance	71%	7%	22%	96%	4%	0%

The leadership has made significant strides in the areas of setting the right tone insofar as ethical leadership and of effectively communicating policies and procedures that set the foundation for progressing towards a clean administration.

However, leadership efforts need to be intensified in the following areas:

- Oversight over financial, performance and compliance reporting.
- Document management systems enabling easily retrievable supporting documentation for transactions.
- Oversight over the establishment of an acceptable IT governance framework and ensuring that through monitoring, the action plans aimed at addressing identified control weaknesses in the IT environment are attended to.

It is concerning to note that at 70% of the municipalities, the leadership should intervene with respect to non-compliance with the processes and procedures in the IT environment. This has resulted in concerns around data integrity. Although systems have been designed to ensure the availability, accuracy and protection of information, compliance with the municipalities' own controls and the monitoring of this compliance remain a challenge in the province.

It should be commended that in the area of governance, the province has largely been able to demonstrate a level of good practices. This should be the standard at all municipalities, since some municipalities require intervention in this respect.

The majority of municipalities have well-established and properly functioning audit committees and internal audit units. The audit committees have generally not been able to address deficiencies in the area of risk management, particularly in conducting effective risk assessments as well as ensuring that adequate controls exist to prevent and detect fraud and error, and – more importantly – manage the risks associated with the IT infrastructure.

The audit committees should be ensuring that the deficiencies around basic procedures giving rise to concerns around financial and performance reporting are speedily resolved.

The strengthening of controls within such an environment would assist in reducing the risk of non-compliance, particularly in areas of SCM, and will greatly improve the quality of financial statements being presented for audit purposes.

Refer to annexure 5 for more details per municipality and municipal entity.

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

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

The following control objectives apply to the management of IT:

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

Table 30 below provides an assessment of findings raised on common IT focus areas, where audited during the year under review. Details of findings under these focus areas are provided below the table.

**Table 30: Assessment of attention required per IT focus area**

Number	Auditee	Focus areas						
		IT governance	Security management	User access control	Program change management	Facilities and environmental control	Data centre management	IT service continuity
<b>Municipalities</b>								
<b>Metropolitan municipalities</b>								
1	City of Tshwane Metro	Intervention required	Intervention required	In progress	In progress	Intervention required	Not tested	In progress
2	Ekurhuleni Metro	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required
<b>District municipalities</b>								
3	Sedibeng District	Intervention required	Intervention required	Intervention required	Good	In progress	Good	Intervention required
4	West Rand District	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Good	Intervention required
<b>Local municipalities</b>								
5	Emfuleni	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required
6	Lesedi	Intervention required	Intervention required	Intervention required	Good	Intervention required	Intervention required	Intervention required
7	Merapong City	Intervention required	Intervention required	Intervention required	Intervention required	Good	Good	Intervention required
8	Midvaal	Intervention required	Intervention required	Intervention required	Intervention required	Good	Good	Good
9	Mogale City	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required
10	Randfontein	Intervention required	Intervention required	Intervention required	Intervention required	Good	Good	Intervention required
11	Westonaria	Intervention required	Intervention required	Good	Intervention required	Good	Good	Intervention required
<b>Municipal entities</b>								
1	Johannesburg Metropolitan Bus Services	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required
2	Johannesburg Roads Agency	Intervention required	Intervention required	Intervention required	Intervention required	Good	Not tested	Intervention required
3	Pikitup Johannesburg	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required

Good
  Intervention required
  In progress
  Not tested

**IT governance**

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

Key findings that were commonly identified during audits were the following:

- There was no approved IT strategic plan, the plan had not been implemented or the plan was not monitored.
- An IT steering committee had not been established or was not functioning effectively.
- There was a lack of a formal IT risk register.
- Policies and procedures were either not in place or incomplete.
- The functions of the information security officer had not been allocated or were not performed.
- No service level agreements were in place or monitored.

Commitments to address the weaknesses identified for this focus area were received from all 11 municipalities and three municipal entities analysed.

#### *Security management*

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

Key findings that were commonly identified during audits included the following:

- Operating system standards and procedures were not implemented.
- Security management and administration were inadequate to ensure the security of the network environment.
- Operating system security parameters were not adequately set to provide optimal security.
- An excessive number of users had administrator access rights.
- Access and logon violation reports were not reviewed.

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

Commitments to address the weaknesses identified for this focus area were received from all 11 municipalities and three municipal entities analysed.

#### *User access control*

User access control is the systematic process of managing the access of users to the application. The process includes the creation, reviewing, disabling and removing of user accounts. CFOs are responsible for these functions. These controls also act as compensating controls for ineffective security management controls.

The following key findings were commonly identified during audits:

- There was a lack of or incomplete user account management procedures.
- Access request forms were not completed.
- User access was not reviewed to ensure that it remained commensurate with users' job responsibilities.
- Activities of the system administrators and controllers were not monitored.
- Inactive or unused user identifications were not timeously removed from the system or deactivated.

- Excessive access rights were assigned to some or a high number of users.

A good practice guide on user account management was compiled and distributed to municipalities. Presentations were also made where requested.

Commitments to address the weaknesses identified for this focus area were received from all 11 municipalities and three municipal entities analysed.

#### *Program change management*

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

Key audit findings that were commonly identified included the following:

- Change control procedures or standards were not in place or were in place but had not been approved, were inadequate or were not adhered to.
- Procedures in respect of change requests, approval of changes, testing, closure of changes, configuration management, source code version control, definition of environment (development, quality assurance/ testing and production), patch management and application upgrades were not adequate.
- Programmers were allowed access to the production environment.

Commitments to address the weaknesses identified for this focus area were received from all 11 municipalities and three municipal entities analysed.

#### *Facilities and environmental control*

Facilities and environmental control relating to the information systems ensure the security, integrity, condition, performance and accessibility of the systems and the system information.

The following key audit findings were commonly identified:

- Physical access to sensitive areas was not controlled.
- Environmental controls such as the uninterruptible power supply, generators, air-conditioning system and wiring cables were not maintained.

Commitments to address the weaknesses identified for this focus area were received from all 10 municipalities and three municipal entities analysed.

#### *Data centre management*

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

Key audit findings commonly identified were the following:

- Scheduled processing was not monitored.
- Policies and procedures on the operations of the network were either not in place or incomplete.
- Maintenance procedures or schedules for system software and devices were either not in place or inadequate.
- System performance was not monitored and reported to management.

Commitments to address the weaknesses identified for this focus area were received from all 10 municipalities and two municipal entities that were analysed.

#### *Information technology service continuity*

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

Key audit findings that were commonly identified related to the following:

- Formally documented and approved business continuity and/or disaster recovery plans did not exist or were complete.
- There was a lack of or inadequate backup standards and procedures.
- Disaster recovery plans had not been fully implemented or were not regularly tested and updated.
- Backups were not kept off site.

Commitments to address the weaknesses identified for this focus area were received from all 11 municipalities and three municipal entities analysed.

## **4.2 Actions by role players to address matters reported**

Despite previous commitments by the provincial and municipal leadership to address the matters impacting on audit outcomes, very little progress has been made in achieving clean administrations.

In a joint coordinating effort between the provincial CoGTA and the provincial department of finance (*Operation clean audit*), a committee was established during the 2009-10 financial year. The effectiveness of the committee will be assessed during the 2010-11 financial year.

Nokeng Tsa Taemane Local Municipality has been placed under administration, while the provincial department of finance deployed a staff member to act as a CFO at Kungwini Local Municipality. Management support was given by the provincial CoGTA to some municipalities in terms of labour relations, governance, financial management, infrastructure and service delivery as well as the compilation of fixed asset registers that comply with GRAP 17.

MPACs have been established, which will enable municipal councils to exercise their oversight role. Inadequate accounting skills among MPAC members have, however, hampered their effectiveness in exercising their oversight role. The provincial CoGTA trained a number of MPAC members during the financial year to improve their accounting skills and committed to continue with such training.

The table below assesses the monitoring capacity and effectiveness of key role players at the time of the audit.

**Table 31: Assessment of commitments from key role players to address audit outcomes at the time of the audit**

Role players	Assessment of monitoring capacity and effectiveness								
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	Human resource management	Use of consultants	Municipalities under administration	Governance structures
Provincial CoGTA	Intervention required	Intervention required	Intervention required	In progress	Intervention required	In progress	Intervention required	In progress	In progress
Provincial treasury	In progress	Intervention required	Intervention required	In progress	Intervention required	In progress	In progress	In progress	In progress
Joint coordinating effort (Provincial CoGTA and provincial treasury: Operation Clean Audit)	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required
Provincial leadership (Premier, MEC Local Government and MEC Finance)	In progress	Intervention required	In progress	In progress	Intervention required	In progress	In progress	In progress	In progress
Provincial oversight (Speakers forum and MPACs)	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required

Intervention required
  In progress
  Good progress

It is concerning to note that a number of commitments by key role players are in progress or require intervention. This has resulted in audit outcomes that have only marginally improved from the previous year.

The matters highlighted in the table indicate that whilst initiatives are in progress to address the overall audit outcomes, the role players need to intensify and continue monitoring these commitments in order to achieve clean administrations.

The table below assesses the monitoring capacity and effectiveness of key role players since the audit.

**Table 32: Assessment of commitments from key role players to address audit outcomes since the audit**

Role players	Assessment of monitoring capacity and effectiveness								
	Supply chain management	Predetermined objectives	Financial management	Turnaround plans	IT controls	Human resource management	Use of consultants	Municipalities under administration	Governance structures
Provincial CoGTA	Intervention required	Intervention required	Intervention required	In progress	Intervention required	In progress	Intervention required	In progress	In progress
Provincial treasury	In progress	Intervention required	Intervention required	In progress	Intervention required	In progress	In progress	In progress	In progress
Joint coordinating effort (Provincial CoGTA and provincial treasury: Operation Clean Audit)	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required
Provincial leadership (Premier, MEC Local Government and MEC Finance)	In progress	Intervention required	In progress	In progress	Intervention required	In progress	In progress	In progress	In progress
Provincial oversight (Speakers forum and MPACs)	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required	Intervention required

Intervention required
  In progress
  Good progress

Since the audits, the speaker and Troika have committed to monitor the leadership of all municipalities to ensure that municipalities:

- address the value realised from using consultants for preparing financial statements and other accounting-related services
- address the accounting competencies of municipal managers and CFOs
- inform new councillors specifically on finance matters.

Furthermore, the premier also committed to discuss audit-related issues at the premier's coordinating forum to monitor progress by municipalities, while the MECs for Finance and for Local Government and Housing committed to improving the capacity of their respective departments to assist municipalities.

Following the briefing to the speaker and role players from the legislature, the following commitments were made:

- The speaker's forum will monitor the oversight role of councils and the legislature.
- MPACs will be trained to perform an effective oversight role.
- The AGSA will regularly interact with the portfolio committees on finance and local government.

Municipalities still have a long way to go in ensuring that clean administration is achieved by 2014. The following emerging risks, although having no impact on the current year, will also need to be addressed to ensure that they do not have an impact in ensuing years:

- New GRAP standards that may become effective, for example GRAP 24 *Presentation of Budget Information in Financial Statements*.

- The expiry of transitional provisions for medium- and low-capacity municipalities contained in certain GRAP standards, such as GRAP 17 on the measurement of assets.
- Overreliance on consultants in the preparation of financial statements, which is not sustainable.
- Continued reliance on auditors to identify material misstatements in the financial statements submitted for audit purposes, resulting in material adjustments.
- Incompatible systems and financial reporting systems that are not fully GRAP-compliant.

### **4.3 Emerging risks to be considered for the 2010-11 financial year**

#### *Accounting and compliance matters*

Municipalities should prepare to adopt various GRAP standards that have been issued but are not yet effective when these standards become effective. Some medium-capacity municipalities that adopted transitional provisions as per Directive 4 will need to ensure that they are fully compliant with GRAP 17 in the 2010-11 financial year, as transitional provisions ceased to be applicable in the 2009-10 financial year. This could have an impact on the auditor's report in the coming year if transitional provisions relating to measurement are not dealt with properly.

#### *Predetermined objectives*

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

#### *Financial sustainability*

A number of municipalities in the province have taken significant bank loans. Furthermore, the City of Johannesburg and Ekurhuleni Metropolitan Municipalities have issued bonds. This has resulted in significant repayment obligations. In light of the cash-flow management challenges experienced by these municipalities, the executive leadership must take the necessary steps to improve cash-flow management so that these municipalities are in a position to honour their repayments.

#### *Title deeds*

Controls over assets need to be implemented to assist municipalities to identify the properties they own. Municipalities must have a register of all their properties and the registers should contain title deed numbers. Furthermore, the asset registers must be reconciled to the deeds office's records on a regular basis. All reconciling items must be followed up and cleared timeously.

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

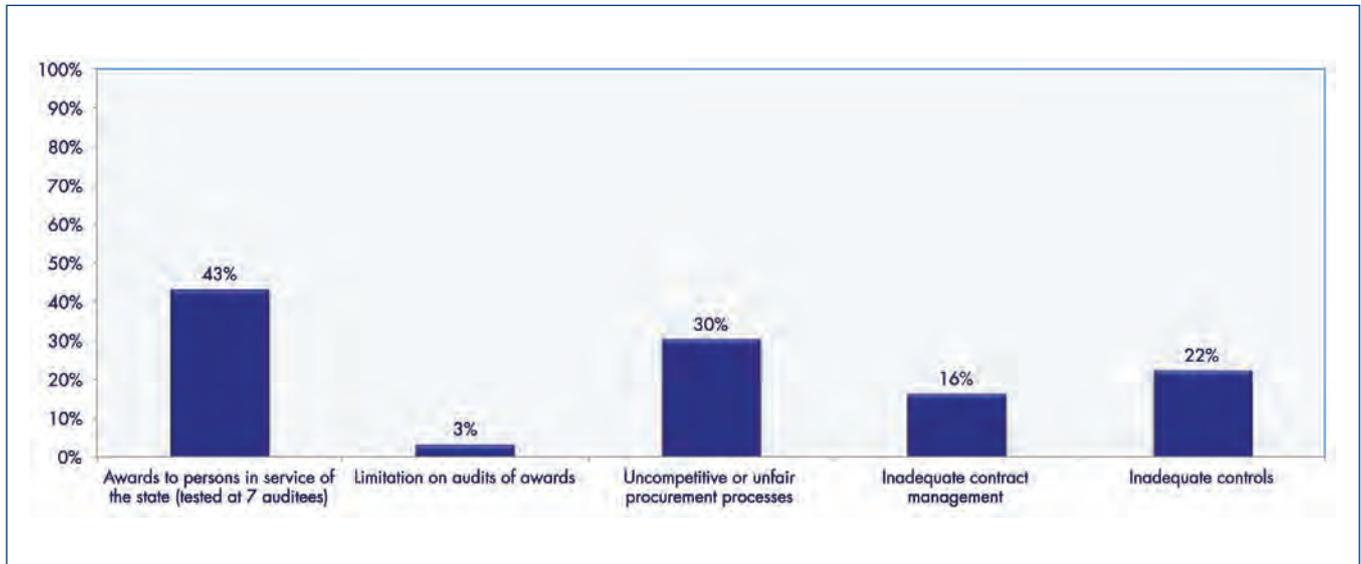
This section of the report presents the results of the audit of SCM under the following headings:

- Background
- Limitations on the audit of awards
- Awards to persons in the service of the state
- Uncompetitive or unfair procurement processes
- Inadequate contract management
- Inadequate SCM controls
- Conclusion

### 5.1 Background

The audits conducted at municipalities and municipal entities for the year ended 30 June 2010 included an assessment of procurement processes, contract management and the controls in place to ensure a fair, equitable, transparent, competitive and cost-effective SCM system that complies with legislation and that minimises the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. The City of Johannesburg Metropolitan Municipality, City Power Johannesburg (Pty) Ltd and Johannesburg Water (Pty) Ltd were not included in the analysis of this report due to the audits being finalised after 31 January 2011. As is evident from the analysis of irregular expenditure under section 3 of this report, R200 million (99%) of the irregular expenditure incurred by municipalities and municipal entities was as a result of contravening SCM policies and legislation. Ninety-nine percent of the irregular expenditure was identified during the audit process. The incomplete identification of irregular expenditure was as a result of the lack of an effective internal monitoring system over SCM. In addition, internal audit units did not evaluate compliance with laws and regulations with regard to SCM. Other contributing factors were the incorrect interpretation of legislation, a lack of understanding of the definition of irregular expenditure and the disclosure requirements thereof as well as inadequate processes or procedures to identify and report irregular expenditure.

Figure 34 summarises the SCM findings.

**Figure 34: Summary of findings on supply chain management**

Details on the most prevalent findings are presented below under the relevant headings. SCM findings per auditee are included in annexure 6.

## 5.2 Limitations on the audit of awards

At the municipalities listed in table 33 below, sufficient appropriate audit evidence could not be provided to corroborate the existence of contracts that had been awarded and quotations that had been accepted (hereinafter referred to as 'awards') in accordance with the requirements of the SCM policies and legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.

**Table 33: Limitations experienced**

Auditee	Number of awards	Value of awards	Reason for limitation
Kungwini Local Municipality	1	R2 684 785	Lack of documentation

As a result of the limitations experienced, the findings reported in the rest of this section may not reflect the true extent of irregularities and SCM weaknesses at the municipalities and municipal entities.

## 5.3 Awards to persons in service of the state

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

In order for the auditee to determine whether a potential provider is in the service of the state, reliance is placed on the declaration of the provider and the person in the service of the auditee.

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

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

Furthermore, persons with an interest in a provider are not allowed to participate in the procurement processes and/or making the award to the provider in which he/she has an interest, as it contravenes the SCM code of ethics and SCM Regulation 46(2)(f) because the person can possibly influence the awarding process. The identification and audit of awards to persons in the service of the state were this year limited to all metropolitan and high-capacity municipalities and three municipal entities. The awards identified were also tested to determine whether additional irregularities could be an indication that decisions or recommendations were unlawfully and improperly influenced.

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

**Table 34: Awards to persons in the service of the state**

Auditee	Awards to persons in service of state		Further irregularities regarding awards made	
	In service of auditee	In service of other institution	Provider did not declare interest	Provider in service of the auditee did not declare interest
Emfuleni Local Municipality	One award (R21 250)		One award (R21 250)	
City of Tshwane Metropolitan Municipality	Two awards (R212 120)	Thirteen awards (R3 618 357)	Thirteen awards (R3 618 357)	Two awards (R212 120)

At Emfuleni Local Municipality the person in the service of the auditee held a position of influence: that of municipal VIP officer. At the City of Tshwane Metropolitan Municipality the awards were made to employees who were not in influential positions as well as to persons employed in other state institutions.

Table 35 indicates the positions of the persons in the service of the auditee to whom awards were made.

**Table 35: Positions of persons in the service of the auditee to whom awards were made**

Auditee	Position	
	Senior manager	Other officials (employees)
Emfuleni Local Municipality		
City of Tshwane Metropolitan Municipality		



## 5.4 Uncompetitive or unfair procurement processes

Findings on non-compliance with legislation which resulted in uncompetitive or unfair procurement processes are summarised in the table below. If applicable to the finding, the irregular expenditure incurred is also included.

**Table 36: Findings on uncompetitive or unfair procurement processes**

Auditee	Three price quotations not obtained	Competitive bids not invited	Deviation from procurement processes not justifiable	Awards without proof of tax	No or inadequate administration of the prospective provider list	Other findings
Ekurhuleni Development Company (Pty) Ltd	R76 715					
Johannesburg Tourism Company	R83 300					
Lethabong Housing Institute (Pty) Ltd	R23 484			R51 200		
Pharoe Park Housing Company (Pty) Ltd	R214 506					
Phase II Housing Company (Pty) Ltd	R272 058					
Pikitup Johannesburg (Pty) Ltd	R138 550					
West Rand Development Agency	R56 103					
Sandspruit Works	R46 800	R1 007 017				
City of Tshwane Metropolitan Municipality		R6 864 032	R157 753 957			
Kungwini Local Municipality			R744 592	R16 945		
Civirelo Water (Pty) Ltd						
<b>Total irregular expenditure</b>	<b>R911 516</b>	<b>R7 871 049</b>	<b>R158 498 549</b>	<b>R68 145</b>	<b>N/A</b>	<b>N/A</b>
<b>Percentage of tested auditees with findings</b>	<b>22%</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>		

\*Further details on the legislation not complied with are provided in the paragraphs that follow.

### Three price quotations not invited

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

### **Competitive bids not invited**

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

### **Deviations from procurement processes not justifiable**

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

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

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

At the City of Tshwane Metropolitan Municipality deviations from the competitive bidding process were approved on the basis of it being an emergency, even though immediate action was not necessary and sufficient time was available for the bidding process to be followed.

At Kungwini Local Municipality deviations from the competitive bidding process were approved on the basis of it being an emergency, even though proper planning would have prevented such an emergency.

### **No list of accredited prospective providers**

The following are required when maintaining a list of accredited prospective providers in terms of SCM Regulation 14:

- The accounting officer must keep a list of accredited prospective providers, compiled per commodity and per type of service.
- The SCM policy must specify the listing criteria for accredited prospective providers.
- The accounting officer must, at least once a year through a newspaper commonly circulating locally, the website of the municipality or municipal entity and any other appropriate way, invite prospective providers of goods and services to apply for evaluation and listing as accredited providers.
- The SCM policy must disallow the listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector.
- The list must be updated at least quarterly to include any additional prospective providers and any new commodities or types of services.

SCM Regulation 18(b) requires that when using the list of accredited prospective providers, the accounting officer must promote ongoing competition among providers, including inviting quotations on a rotational basis.

At Civirelo Water (Pty) Ltd a list of accredited prospective providers per commodity and per type of service was not in place.

### **Awards without proof of tax clearance**

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

At Kungwini Local Municipality awards were made to providers that did not provide proof of tax clearance.

### **Other findings**

Other instances of non-compliance with legislation which resulted in uncompetitive or unfair procurement processes were the following:

- Emergency deviation from competitive bidding was approved but resulted from a lack of proper planning: 6%
- Deviation and ratification were not disclosed in the notes to financial statements: 4%
- Procurement was deliberately split into parts to avoid complying with SCM requirements: 3%
- Contract was awarded without justification to bidders not scoring highest points: 3%
- Deviation from obtaining three written quotations was approved even though it was possible to comply: 3%

## **5.5 Inadequate contract management**

Findings on contract management are summarised in the table below.

**Table 37: Findings on contract management**

<b>Auditee</b>	<b>No written contract</b>	<b>Performance of contractors not monitored</b>	<b>Unfair or non-compliant contract amendment</b>	<b>Invitation to tender not advertised on CIDB</b>	<b>Other findings</b>
Emfuleni Local Municipality					
Nokeng Tsa Taemane Local Municipality					
City of Tshwane Metropolitan Municipality					
Ekurhuleni Development Company (Pty) Ltd					
Pikitup Johannesburg (Pty) Ltd					
Johannesburg Metropolitan Bus Services (Pty) Ltd					
<b>Percentage of tested auditees with findings</b>	<b>11%</b>	<b>10%</b>	<b>6%</b>	<b>6%</b>	<b>5%</b>

Further details on these findings are provided in the paragraphs that follow.

### **No written contract**

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

There were procurement transactions that were not in writing at Ekurhuleni Development Company (Pty) Ltd and Pikitup Johannesburg (Pty) Ltd.

### **Performance of contractors not monitored on a monthly basis**

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

### **Unfair or non-compliant contract amendment, extension or renewal**

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

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

A further analysis of the non-compliance revealed the following:

At the City of Tshwane Metropolitan Municipality the above requirements were not complied with.

At Johannesburg Metropolitan Bus Services (Pty) Ltd contracts totalling R4 659 309 were extended or renewed to such an extent that the competitive bidding process was circumvented.

### **Construction contracts not advertised on Construction Industry Development Board (CIDB) website**

A construction contract at Emfuleni Local Municipality was not advertised on the CIDB website.

### **Other findings**

Other findings on contract management related to the following:

- Contracts were amended or extended without tabling reasons in the council or notifying the public.
- Contracts of longer than three years were not reviewed at least once every three years.

## 5.6 Inadequate SCM controls

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

**Table 38: Findings on SCM controls**

Auditee	Annual declarations of interest not made	Lack of proper record keeping	No risk assessment performed	Other findings
Emfuleni Local Municipality				
Kungwini Local Municipality				
Sedibeng District Municipality				
Merafong City Local Municipality				
City of Tshwane Metropolitan Municipality				
Randfontein Local Municipality				
Civirelo Water (Pty) Ltd				
Johannesburg Tourism Company				
<b>Percentage of tested auditees with findings</b>	<b>16%</b>	<b>11%</b>	<b>11%</b>	<b>8%</b>

### Annual declaration of interest

Annual declarations of interest should be made at all municipalities and municipal entities.

### Lack of proper record keeping

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

### No risk assessment performed

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

### Other findings

Other deficiencies in fundamental SCM controls were the following:

- SCM officials were not adequately trained.
- The SCM policy was in conflict with the MFMA and the SCM Regulations.
- SCM processes were not monitored effectively internally.
- Internal audit units did not evaluate controls and compliance with laws and regulations relating to SCM.
- The fraud prevention plan did not include specific measures for preventing and detecting fraud in procurement.
- SCM officials were not aware of established processes for reporting SCM irregularities and fraud.

## 5.7 Conclusion

The audit of SCM revealed various control deficiencies in the SCM units of municipalities and municipal entities. A lack of oversight and SCM personnel not having the required skills were the major contributors to SCM findings. Non-compliance with legislation by officials also resulted in awards made to persons in the service of the state. Limitations in auditing SCM might be indicative of fraud, which should be investigated further.

Proper oversight by the leadership as well as the implementation and monitoring of controls can reduce the risks that are currently faced by the province in the SCM of municipalities and municipal entities.

## SECTION 6: STATUS OF TABLING OF ANNUAL REPORTS

### 6.1 Background

In accordance with section 127(1) of the MFMA, the accounting officer of a municipal entity must, within six months after the end of a financial year, or on such earlier date as may be agreed between the entity and its parent municipality, submit the entity's annual report for that financial year to the municipal manager of the entity's parent municipality.

The mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality and of any municipal entity under the municipality's sole or shared control.

### 6.2 Summary of annual reports tabled

#### Status of tabling of annual reports

Details of the annual reports not tabled are listed in the table below.

**Table 39: Status of tabling of annual reports in the provincial legislature**

Auditee	Reason
Oversight report not adopted within two months of tabling in the council – section 129(1)	
Kungwini Local Municipality	Council referred the oversight responsibility to shared MPAC for the district
Nokeng Tsa Taemane Local Municipality	Council referred the oversight responsibility to shared MPAC for the district
Annual report not submitted to the provincial legislature within seven days of adoption of oversight report – section 132(1) and (2)	
Kungwini Local Municipality	Council did not adopt the oversight report
Nokeng Tsa Taemane Local Municipality	Council did not adopt oversight report

Of the 15 municipalities, two councils had not adopted oversight reports by 31 March 2010 in accordance with section 129(1) of the MFMA due to the unavailability of oversight committees. The councils of Kungwini Local Municipality and Nokeng Tsa Taemane Local Municipality referred the oversight responsibility to the shared oversight committee of the district, but the oversight reports were not adopted by the shared oversight committee.

Table 40 indicates the municipalities that did not table their annual reports timeously.

**Table 40: Timeliness of tabling of 2009-10 annual reports**

Auditee	Reason
Tabling by the mayor of the annual report of the municipality and the municipal entity in the municipal council by 31 January – section 127(2)	
City of Johannesburg Metropolitan Municipality	Audit finalised June 2011
Metsweding District Municipality	Council meeting not held before 31 January 2011



All the 2009-10 annual reports were tabled in the councils within seven months, with the exception of Metsweding District Municipality and the City of Johannesburg Metropolitan Municipality. The Metsweding district council meeting was subsequently held on 24 February 2011, during which the annual report was tabled. The audit of the City of Johannesburg Metropolitan Municipality was finalised after 31 January 2011 due to delays in the audit of revenue and accounts receivable. Consequently, the annual report has not been tabled in council.

## CONCLUSION

There is great potential in Gauteng to achieve clean administration. However, to date the interventions of the strategic stakeholders have not translated into improved audit outcomes for the local government. This is evidenced by the challenges as highlighted in this report, which will require an enhanced coordinated effort by the leadership of the province, with the support of the provincial treasury and the provincial CoGTA, to achieve positive audit outcomes and to improve in the areas of concern.

The repetitive audit findings on the audit of predetermined objectives, the regression of controls relating to non-compliance with laws and regulations and the significant increase in unauthorised expenditure could delay the attainment of clean administration if left unattended. The IT environment, and in particular the transaction processing environment, is the foundation for accurate financial reporting, yet there continues to be key findings in this area. Effective governance arrangements, namely audit committees and internal audit units, are crucial in assisting municipal management in establishing a sound internal control environment and performing ongoing evaluation and monitoring of management's compliance with predefined controls and progress in implementing the action plans.

The increase in the number of material misstatement adjustments in financial statements despite the use of consultants is cause for concern. The provincial leadership needs to ensure that consultants are properly supervised and monitored to ensure the transfer of skills to staff of the municipalities and municipal entities.

We wish to reiterate our critical message to the local government executive leadership that it is possible to obtain an unqualified auditor's report with clean administration if key controls are institutionalised and constantly monitored by the leadership. The improvement in the outcomes of municipal entities is testimony to this.

We are, however, confident that the challenges are not insurmountable and we remain committed to partnering with local government to assist in the process of identifying and disseminating good practices to improve governance and accountability, to build public confidence.

## **ANNEXURES TO THE GENERAL REPORT**

Annexure 1	Listing of audit outcomes, areas qualified and findings on predetermined objectives
Annexure 2	Listing of auditees with findings related to compliance with laws and regulations
Annexure 3	Listing of auditees with unauthorised, irregular, fruitless and wasteful expenditure and material losses
Annexure 4	Listing of auditees with findings raised on common IT focus areas
Annexure 5	Drivers of audit outcomes
Annexure 6	Listing of key findings on supply chain management











**ANNEXURE 2: Listing of auditees with findings related to compliance with laws and regulations**

Number	Auditee	Prohibited action/Non-adherence															
		Annual budget	Responsibilities: mayor	Responsibilities: accounting officer	Responsibilities: municipal officials	Audit committee	Internal audit unit	Payments	Transfer and disposal of assets	Transfer of funds and subsidies (for municipalities only)	Supply chain management legislative requirements	Disciplinary and criminal proceedings in instances of financial conduct	Financial statements not prepared in accordance with applicable legislation	Unauthorised expenditure (for municipalities only)	Irregular expenditure	Fruitless and wasteful expenditure	Statutory requirements of the Companies Act (only applicable to institutions registered in terms of the Companies Act)
16	Civirelo Water																
17	Ekurhuleni Development Company																
18	Erwat																
19	Housing Company Ishwane																
20	Johannesburg Property Company																
21	Johannesburg City Parks																
22	Johannesburg Civic Theatre																
23	Johannesburg Development Agency																
24	Johannesburg Fresh Produce Market																
25	Johannesburg Metropolitan Bus Services																
26	Johannesburg Roads Agency																
27	Johannesburg Social Housing Company																
28	Johannesburg Tourism Company																
29	Johannesburg Zoo																
30	Lehlabong Housing Institute																
31	Metropolitan Trading Company																
32	Pharoe Park Housing Company (Pty) Ltd																
33	Phase 2 Housing Company (Pty) Ltd																
34	Pikitup Johannesburg																
35	Rodepoort Civic Theatre																
36	Sandspruit Works																
37	West Rand Development Agency																



### ANNEXURE 3: Listing of auditees with unauthorised, irregular, fruitless and wasteful expenditure and material losses

Number	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure	Material losses	Material impairment of assets		
		Overpending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Non-permissible	Total	Related to supply chain management	Related to compensation of employees	Other				Total	
<b>Metropolitan municipalities</b>														
1	Ekurhuleni Metro						474 109			474 109		474 080 278		
2	Tshwane Metropolitan Municipality	1 502 832 586					165 430 086	150 337	1 563 135	2 168 654	304 160 000	1 014 557 168		
<b>District municipalities</b>														
3	Metsweding District													
4	Seaberg District	24 498 066												
5	West Rand District													
<b>Local municipalities</b>														
6	Enfeleni						25 969 162			2 654 842	246 468 376			
7	Kangwini										11 399 010			
8	Lesedi										16 444 328			
9	Marofong City	54 058 000					2 580 963			2 580 963	14 785 813			
10	Milavaal										70 782 306			
11	Mogale City	11 874 665								900 415	5 492 463			
12	Nokeng Isa Tsemame										25 661 828			
13	Randfontein										16 858 740			
14	Westonaria									4 370 081				
<b>Municipal entities</b>														
15	Brakpan Bus Company													
16	Civirelo Water								673 572	837 486				
17	Ekurhuleni Development Company (Pty) Ltd						909 684			909 684				
18	Ervatt						340 325			340 325			9 840 155	
19	Housing Company Ishwane									181 551				
20	Johannesburg Property Company									790 601				
21	Johannesburg City Parks													
22	Johannesburg Civic Theatre													
23	Johannesburg Development Agency													
24	Johannesburg Fresh Produce Market						515 000			130 497				
25	Johannesburg Metropolitan Bus Services								24 000	24 000				

**ANNEXURE 3: Listing of auditees with unauthorised, irregular, fruitless and wasteful expenditure and material losses**

Number	Auditee	Nature and extent of unauthorised expenditure				Nature and extent of irregular expenditure				Fruitless and wasteful expenditure	Material losses	Material impairment of assets	
		Overspending	Expenditure unrelated to functional area	Spending not in accordance with conditions of allocation	Non-permissible	Total	Related to supply chain management	Related to compensation of employees	Other				Total
26	Johannesburg Roads Agency												
27	Johannesburg Social Housing Company												
28	Johannesburg Tourism Company						83 300			83 300			
29	Johannesburg Zoo	4 390 862				4 390 862					125 805		
30	Lehlabong Housing Institute						74 684			74 684			
31	Metropolitan Trading Company												4 857 810
32	Pharoa Park Housing Company (Pty) Ltd						214 506			214 506			
33	Phase 2 Housing Company (Pty) Ltd						272 058			272 058			
34	Pikitup Johannesburg	150 886 275				150 886 275					5 229 821		
35	Rodepoort Civic Theatre												
36	Sondspuit Works								159 980	159 980	1 160 156		
37	West Rand Development Agency						3 106 515			3 106 515			



**ANNEXURE 4: Listing of auditees with findings raised on common IT focus areas**

Number	Auditee	Focus areas						
		IT governance	Security management	User access control	Programme change management	Facilities and environmental control	Data centre management	IT service continuity
<b>Municipalities</b>								
<b>Metropolitan municipalities</b>								
1	Ekurhuleni Metro							
2	City of Tshwane Metropolitan Municipality							
<b>District municipalities</b>								
3	Metsweding District							
4	Sedibeng District							
5	West Rand District Municipality							
<b>Local municipalities</b>								
6	Ermfuleni							
7	Kungwini							
8	Lesedi							
9	Merafong City							
10	Midvaal							
11	Mogale City							
12	Nokeng Tsa Taemane							
13	Randfontein							
14	Westonaria							
<b>Municipal entities</b>								
15	Brakpan Bus Company							
16	Civirelo Water							
17	Ekurhuleni Development Company							
18	Erwat							
19	Housing Company Tshwane							
20	Johannesburg Property Company							
21	Johannesburg City Parks							
22	Johannesburg Civic Theatre							
23	Johannesburg Development Agency							
24	Johannesburg Fresh Produce Market							
25	Johannesburg Metropolitan Bus Services							
26	Johannesburg Roads Agency							
27	Johannesburg Social Housing Company							
28	Johannesburg Tourism Company							
29	Johannesburg Zoo							
30	Lethabong Housing Institute							

**ANNEXURE 4: Listing of auditees with findings raised on common IT focus areas**

Number	Auditee	Focus areas						
		IT governance	Security management	User access control	Programme change management	Facilities and environmental control	Data centre management	IT service continuity
31	Metropolitan Trading Company							
32	Pharoe Park Housing Company (Pty) Ltd							
33	Phase 2 Housing Company (Pty) Ltd							
34	Pikitup Johannesburg							
35	Rodepoort Civic Theatre							
36	Sandspruit Works							
37	West Rand Development Agency							







**ANNEXURE 6: Listing of key findings related on supply chain management**

Number	Auditee	Limitation on audit of awards	Awards to persons in service of state	Awards to close family members in service of state	Uncompetitive / Unfair processes	Inadequate contract management	Inadequate controls
<b>Municipalities</b>							
<b>Metropolitan municipalities</b>							
1	Ekurhuleni Metro						
2	City of Tshwane Metropolitan Municipality						
<b>District municipalities</b>							
3	Metsweding District						
4	Sedibeng District						
5	West Rand District Municipality						
<b>Local municipalities</b>							
6	Emfuleni						
7	Kungwini						
8	Lesedi						
9	Merafong City						
10	Midvaal						
11	Mogale City						
12	Nokeng Tsa Taemane						
13	Randfontein						
14	Westonaria						
<b>Municipal entities</b>							
15	Brakpan Bus Company						
16	Civirelo Water						
17	Ekurhuleni Development Company						
18	Erwat						
19	Housing Company Tshwane						
20	Johannesburg Property Company						
21	Johannesburg City Parks						
22	Johannesburg Civic Theatre						
23	Johannesburg Development Agency						
24	Johannesburg Fresh Produce Market						
25	Johannesburg Metropolitan Bus Services						
26	Johannesburg Roads Agency						
27	Johannesburg Social Housing Company						
28	Johannesburg Tourism Company						
29	Johannesburg Zoo						
30	Lethabong Housing Institute						
31	Metropolitan Trading Company						
32	Pharoe Park Housing Company (Pty) Ltd						
33	Phase 2 Housing Company (Pty) Ltd						
34	Pikitup Johannesburg						
35	Roodepoort Civic Theatre						
36	Sandspruit Works						
37	West Rand Development Agency						

**GLOSSARY**

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





