

Compliance with Audit Procedures by Local Municipalities within Ngaka Modiri Molema District

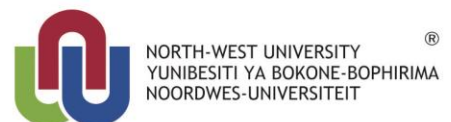
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Mini-dissertation submitted in partial fulfilment of the requirements
for the degree Master of Business Administration at the North-
West University, Mafikeng Campus

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November 2015

It all starts here TM



DECLARATION

I hereby declare that the mini-dissertation submitted in partial fulfilment of the requirements for the Master of Business Administration degree at the Mafikeng Campus of the North-West University is my own work and has not previously been submitted to any other institution of higher education. I further declare that all sources cited or quoted are indicated and acknowledged in a comprehensive list of references.

NJ Lesolang

DEDICATION

This study is dedicated to my wife, Nosipho, and my parents Mr Abiot Monche Lesolang and Mrs Johanna Lesolang.

ACKNOWLEDGEMENTS

First and foremost, I would like to thank God for giving me wisdom and strength to complete this project. His grace is indeed all-encompassing.

Secondly, I would like to express my sincere gratitude to my supervisor, Dr KRF Kadama, for his positive attitude and guidance.

Thirdly, I would like to thank my family and friends for their support, encouragement and understanding during my protracted absences.

Last but not least, I would like to thank my beautiful and loving wife, Nosipho, for her unconditional love and support. She is indeed a gift from God.

ABSTRACT

The study was conducted in the Ngaka Modiri Molema District of the North West Province of South Africa. Its aim was to contribute solutions to the worsening unfavourable audit opinions within the local municipalities. The objectives were to identify the factors that led to unfavourable audit opinions and to recommend measures to improve the audit opinions.

The study adopted an exploratory research design. A mixed-method approach was applied to collect data. Data-collection tools included a series of assessment matrices and semi-structured interviews.

Findings of the study indicate that none of the local municipalities fully complied with best practice in any of the eleven competencies assessed. On the overall, the three local municipalities scored 62%, 46% and 22% respectively. It was also clear that the competencies evaluated fell within the micro-environment of the municipalities.

The study concluded that the factors that led to unfavourable audit outcomes in the local municipalities were internal and could be mitigated through corrective action by top management. A number of recommendations were suggested for top management to adopt in this regard. The study also recommended that further studies should be undertaken to develop a framework that would streamline the flow of information in the municipal finance system with a view of obtaining credible financial statements.

Keywords: Local municipality, audit outcomes, Auditor-General, annual financial statements, financial management, internal audit, audit committee.

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CHAPTER 1 INTRODUCTION

1.1. Introduction

The new democratic government of South Africa that came into existence after the 1994 elections was faced with the challenge of coming up with a strategy that would create a path for the implementation and upholding of democracy. The signing of the new Constitution of the Republic of South Africa in 1996 placed local government at the epicentre of the government delivery system and at the heart of poverty eradication initiatives.

Local government, also referred to as municipalities, was informed by the imperatives of fast-tracking service delivery to local communities, enhancement of financial performance of municipalities, the strengthening of human resource capacity and broad consolidation of institutional capacity for municipalities (Department of Provincial and Local Government, 2006). According to National Treasury (2010) municipal environments are faced with challenges such as inadequate skills capacity; excessive bureaucracy; a silo mentality; limited human and material resources; competing priorities; and infrastructure backlogs to mention only a few. Such dynamics increase the probability of failure to achieve the stated objectives of municipalities and place an extra duty of care on municipal managers to contain risks within acceptable limits.

In the past, financial management in municipalities did not receive adequate attention. This originates from the fact that the previous government administration had been based on a rule-bound approach, a hierarchical system of management and accountability was negligible (Public Service Commission, 2003: 1). The introduction of the Municipal Finance Management Act (MFMA), Act No 56 of 2003, laid a foundation for a more responsible governance framework as well as an accountable financial management system for municipalities. Sections 62(1) (c) (i) and 95(1) (c) (i) of the MFMA, require the Accounting Officers to ensure that their municipalities have and maintain effective, efficient and transparent systems of financial and risk management and control.

Risk management has become a valuable management tool which increases an organisation's prospects of success through minimising negative outcomes and optimising opportunities. Local and international trends confirm that risk management is a strategic imperative rather than an option within high performing organisations (Coetzee & Lubbe, 2013). Internal auditing function on the other hand, exists to examine and report on risk exposures and the organisation's risk management efforts. It is the responsibility of management, through the system of internal control, to identify, implement, manage, and monitor the controls to mitigate these risks (Sobel, 2011). This study therefore focuses on

financial reporting of local municipalities within Ngaka Modiri Molema District with a specific focus on the compliance with Auditor-General audit procedures.

1.2. Background

Ngaka Modiri Molema District Municipality (NMMDM) is one of the four District Municipalities of the North West Province of South Africa. The geographical position of the municipality as defined by Latitude and Longitude is 25°57'20.1"S and 25°48'28.2"E. The District Municipality covers an area of 31 039 Km² and it is home to Mafikeng, the capital of the province. As illustrated in Figure 1.1, the district consists of five local municipalities, namely Mafikeng, Ratlou, Ramotshere Moiloa, Ditsobotla, and Tswaing.



Figure 1.1: Map of Ngaka Modiri Molema showing local municipalities in the district

Source: Ngaka Modiri Molema District Municipality (2013)

Like most public and private organisations, municipalities are under-performing when it comes to risk management (The Institute of Internal Auditors South Africa, 2013). According to The Institute of Internal Auditors South Africa (2013:5) 60% of respondents in a study conducted in both private and public entities did not believe that their risk management practices were adequate. The state of risk management in local municipalities within NMMD confirms the assertions of that report because only one local municipality within the district have risk management function (Mahole, 2015).

According to the Auditor-General (2014), Ngaka Modiri Molema was the worst performing district where all local municipalities received disclaimer of opinions except one, which received a qualified opinion from the Auditor-General for the 2012/2013 financial year audit. This serves as evidence that the status of financial and risk management at municipalities within Ngaka Modiri Molema was ineffective.

For the purpose of anonymity the names of the municipalities will not be disclosed, they will only be indicated alphabetically as A to E in Table 1.1

Table 1-1: History of audit outcomes in municipalities within NMMDM

Municipal	External Audit outcome						
	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07
A	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
B	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
C	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
D	Disclaimer	Disclaimer	Disclaimer	Qualified	Qualified	Disclaimer	Disclaimer
E	Qualified	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Disclaimer	Disclaimer

Source: Adapted from Auditor-General (2013)

The concepts applied in Table 1-1 are discussed in detail on page 24

The picture painted by the Auditor-General (2013), as outlined in Table 1.1, indicates that the municipalities received unfavourable audit opinions from the Auditor-General and municipalities were regressing . Between the financial year 2007/2009 and 2008/2009 some municipalities managed to improve their audit opinion; however, others regressed even more over time.

The ineffective management and collapse of systems of internal control was also portrayed by the continuous increase in unauthorised, irregular, and fruitless and wasteful expenditure as illustrated in Figure1.2. The overall picture of the North West Province shows that unauthorised expenditure increased from R584.9million in 2010/2011 financial year to R1 715.1million in 2012/2013 financial year; the figure represents an increase of almost 193%. On the other hand, Irregular expenditure increased from R419.1million in 2010/2011 financial year to R2 815.7million in 2012/2013 financial year; this represents an increase of 571%. One municipality within the district incurred R953million on irregular expenditure during 2012/2013 financial year, which is 34% of the total amount incurred in the province (SOUTH AFRICA. Auditor-General, 2013).

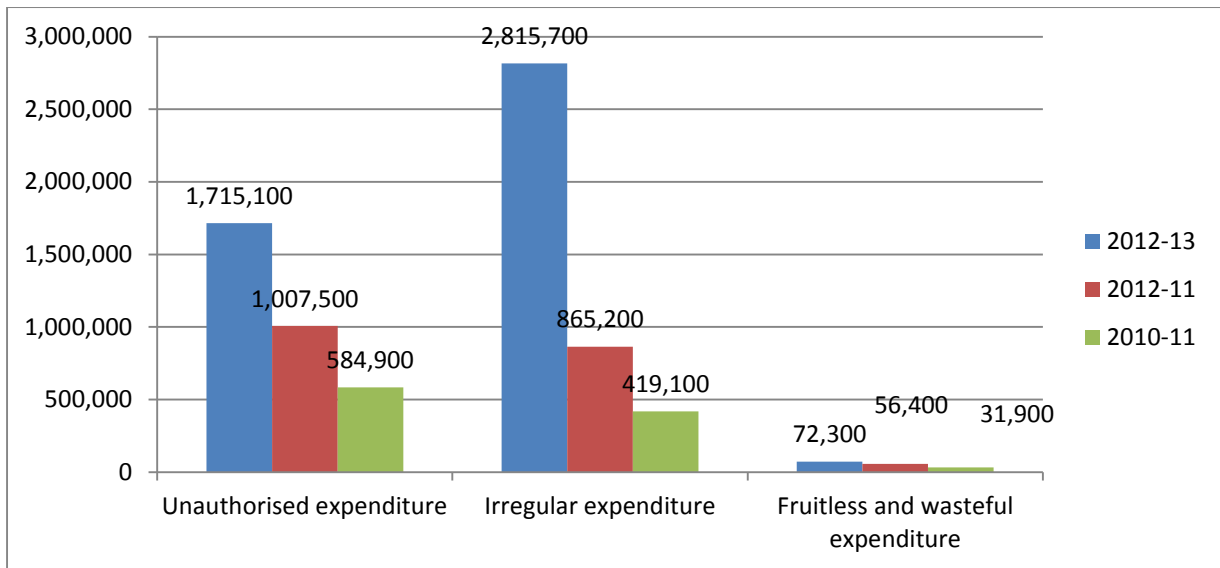


Figure 1-2: Unauthorised, irregular, fruitless and wasteful expenditure

Source: Auditor-General (2013)

To address the challenge of undesirable audit opinions by the Auditor-General, all the municipalities within the district appointed service providers to assist them with the preparation of financial statements and annual performance reports (Auditor-General, 2013). However, given that the risk maturity of the municipalities was low, the appointment of service providers did not add value to the audit outcomes. The hiring of consultants by municipalities came at a high cost as illustrated in Figure 1.3.

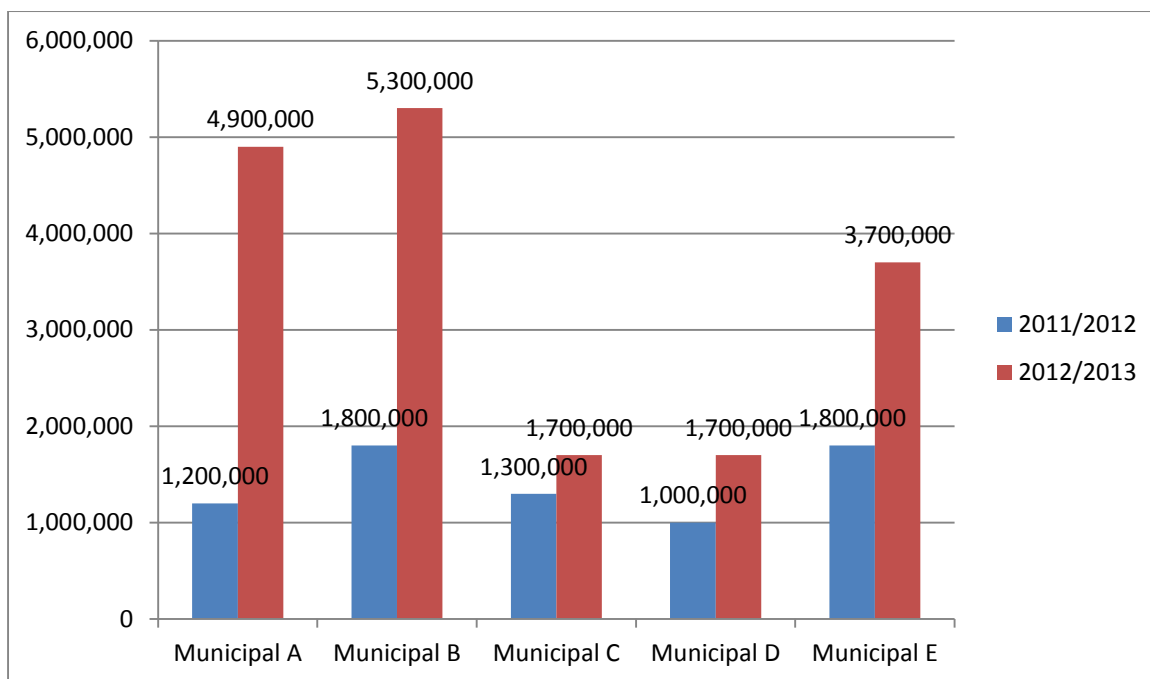


Figure 1-3: Consultation costs incurred by local municipalities

Source: Auditor-General, 2013

The percentage increase of consultation cost is illustrated in Table 1.2.

Table 1-2: Analysis of the percentage increase

Municipality	Consultation costs		Percentage increase
	2011/2012	2012/2013	
Municipal A	R 1 200 000	R 4 900 000	308%
Municipal B	R 1 800 000	R 5 300 000	194%
Municipal C	R 1 300 000	R 1 700 000	31%
Municipal D	R 1 000 000	R 1 700 000	70%
Municipal E	R 1 800 000	R 3 700 000	106%

According to Municipal Finance Management Act (Act 56 of 2003), Internal Audit is supposed to assist municipalities with risk management activities; nevertheless, there is a concern about the level and maturity of risk management in the municipalities and the question on whether the internal audit is optimally utilised to close the current gap in risk management need to be probed.

1.3. Problem statement

The local municipalities of Ngaka Modiri Molema District have, in the period 2007-2013, received progressively worsening audit reports from the Auditor-General. The deteriorating situation has failed to improve despite the engagements of exorbitantly expensive consultants. Therefore there is a need for a study to be conducted to come up with suggestions on how to improve the audit outcomes of the local municipalities of Ngaka Modiri Molema District.

1.4. Purpose of the study

The purpose of this study is to contribute a solution to the problem of unfavourable audit outcomes in local municipalities within Ngaka Modiri Molema District.

1.5. Research question

The main question that this research study attempts to answer is: what needs to be done to improve the audit outcomes of local municipalities in Ngaka Modiri Molema District?

1.6. Research objectives

In order to address the research question, the study adopted the following objectives:

1. Establish the factors that led to the unfavourable audit opinions; and
2. Recommend measures for improvement of the audit outcomes within the local municipalities.

1.7. Ethical considerations

The following moral principles of ethics were upheld:

1. The researcher sought permission from the participants before undertaking the research.
2. The researcher explained to the participants the purpose of the study.
3. The researcher informed the participants about their right to choose whether or not to participate.
4. The researcher assured the participants of the anonymity of the study.
5. The researcher explained to the participants that their identity would not be disclosed.
6. The researcher assured the participants that their rights, privacy, confidentiality and dignity would be respected.

1.8. Delimitation of the study

This research study was limited to the geographical area of Ngaka Modiri Molema District in South Africa. The study focused on audit activities of the municipalities and the participants in the study were municipal employees.

1.9. Summary

This chapter served as an introduction to the study. The chapter started by outlining the background information relating to the study; thereafter, the problem statement was formulated. In addressing the problem statement, the purpose of the study, research questions, and research objectives were developed in order to have a structured framework for the study. The chapter concluded by highlighting the ethical considerations and outlining the delimitations of the study. The next chapter reviews literature from previous, related research.

CHAPTER 2 LITERATURE REVIEW

2.1. Introduction

The previous chapter of this study introduced the study by providing the background, problem statement, and purpose of the study. The chapter furthermore outlined the questions that the study sought to answer and the objectives that the study sought to achieve. The purpose of this chapter is to review literature from previous related research. This will be achieved by gathering information on topics relating to problems faced by municipalities across the globe and measures put in place to address the unfavourable audit opinions.

2.2. Theoretical foundation

The study was founded on the systems theory of management. According to Stevenson (2012) the systems approach is valuable in decision-making because the approach emphasises interconnectivity and interrelationship among different components of an organisation and allows management to view an organisation as a whole as well as part of the larger external environment systems.

According to Kipchumba and Yano (2014) the systems theory of management views activities of any segment of an organization as factors that affect, in varying degrees, the activities of every other segment. Furthermore, the theory acknowledges that departments that interact co-operatively are likely to be more efficient than they would be if they operated in isolation.

This approach is most relevant for this study because, in the context of a municipality, various components contribute to the outputs and if one component is not functional, it may negatively affect the achievement of the set objectives. It is therefore imperative to look at different components individually and collectively and their contribution towards the overall objectives. Stevenson (2012) states that this approach promotes an ideal decision-making philosophy that consider the bigger picture.

2.3. The establishment of Local Municipalities in South Africa

Prior to the establishment of the South African democratic dispensation of 1994, municipalities in South Africa existed without constitutional recognition. The operating models of different homelands and provincial governments resulted in a variance in municipal operations. In some provincial governments, municipalities were given rights and powers to run the cities and pass by-laws whereas in others, municipalities only performed administrative functions (SALGA, 2011).

According to SALGA (2011), the transformation of local government began after the unbanning of liberation movements in 1990. The need for transformation of local government arose because the municipalities were racially segregated and the levels of services provided were not equal. Koma (2010) confirms that local government was shaped by the signing of the new constitution of the Republic of South Africa in 1996. One of the major improvements that came as a result of the new constitution of the Republic of South Africa (Act 108 of 1996) was the establishment of local government's autonomy and the promotion of local government as a sphere of government (SALGA, 2011).

The objectives of Local government as outlined in Section 152 of Act 108 of 1996 are to:

- a) Provide democratic and accountable government for local communities.
- b) Ensure the provision of services to communities in a sustainable manner.
- c) Promote social and economic development.
- d) Promote a safe and healthy environment.
- e) Encourage the involvement of communities and community organisations in the matters of local government.

The financial and administrative capability of a municipality must be applied in order to achieve the abovementioned objectives (Act 108 of 1996).

In an effort to strengthen constitutional democracy and provide accountability in government institutions, the Auditor-General's office was established under section 188 of Act 108 of 1996. The role of the Auditor-General in a municipal context is to audit and report on the accounts, financial statements, and financial management of the municipality.

2.4. Auditing function

According to Scholtz (2014), there are two main forms of auditing, namely, external auditing and internal auditing. According to Woolf (1997), external auditing is a review process in which the financial statements of an organisation are subjected to scrutiny in order to enable auditors to form an opinion on the truthfulness, completeness, and fairness of the statements. The opinion of the auditor is then reduced to a report and communicated to the organisation that commissioned the audit and other mandatory stakeholders. Loughran (2010) points out that external auditing is a process of examining financial information prepared by an independent party in order to establish whether the information is presented fairly and accurately. However this study focused on the internal audit systems and only used Auditor-General report as an external audit report.

The Institute of Internal Auditors (2013) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes". The definition of internal audit indicates that the profession evolved from being finance-based to a management-oriented profession focusing on assisting management to accomplish its objectives through the evaluation and improvement of risk management processes; internal control adequacy and effectiveness; and governance processes (Barac & Coetzee, 2012).

2.5. Risk management

The definition of internal audit outlines risk management as one of the main elements that internal audit is anchored on. Risk management can be defined as a systematic and formalised process to identify, assess, manage, and monitor risks (National Treasury, 2010). The concept of risk management is fairly new in the public sector. The study of the risk maturity of South African private and public sector organisations found that generally management was not embracing the risk management concept, as a result, public sectors were not risk mature (Coetzee & Lubbe, 2013).

According to Sobel (2011), the core internal audit role with regard to risk management include reviewing the management of key risks, evaluating the reporting of key risks, evaluating risk management processes, giving assurance that the risks are correctly evaluated, and giving assurance on the risk management processes.

The Institute of Internal Auditors (2009) suggests that internal auditing may extend its involvement in risk management provided the following conditions apply:

1. The internal audit should be prohibited from managing risk on behalf of management as that may affect the impartiality of internal audit function. Management should therefore remain the custodians of risk management.
2. The nature of internal auditor's role and the extent of work that will be undertaken should be documented in the internal audit charter and approved by the audit committee.
3. The involvement of internal audit is limited to providing advice, training, or support to management. This is regarded as part of the consulting service offered by internal audit with an intention to assist the organisation to achieve its objectives.
4. Once the internal audit function extends its involvement in risk management, it ceases to undertake assurance audits on risk management because internal audit cannot give an impartial opinion on any part of work for which it was responsible. If management

requires an assurance on risk management, such activity should be undertaken by other suitably qualified parties that will not be biased.

5. Internal audit should perform its work in accordance with the applicable procedures, best practices, and standards in order to ensure that its impartiality is not compromised.

Furthermore, the Institute of Internal Auditors (2009) highlights the following consulting roles that the internal audit activity may undertake:

1. Making available management tools and techniques used by internal auditing to analyse risks and controls;
2. Championing the introduction of risk management in organizations;
3. Providing advice, facilitating workshops, coaching the organization on risk and control and promoting the development of a common language, framework and understanding;
4. Coordinating, monitoring and reporting on risk management activities; and
5. Supporting managers as they work to identify the best way to mitigate a risk.

2.6. Control

Control is the second element that the definition of internal audit is anchored on. Controls can be defined as processes or actions taken by management and other stakeholders to minimise the risks facing the organisation, thus ensuring that the organisation achieve its objectives (Coetzee, du Bruyn, Fourie, & Plant, 2014). According to Spencer-Pickett (2010), management should undertake the following activities in implementing controls:

1. Determine the need for controls. This suggests that management should be in a position to identify situations that warrant the implementation of controls and respond appropriately.
2. Design appropriate controls. After identifying a situation that warrants the implementation of controls, management must design suitable controls that will be able to address the identified risk.
3. Implement the selected controls. Once the control is designed, it is the duty of managers to ensure that the control is implemented.
4. Verify whether controls are applied correctly. It is the responsibility of management to ensure that the controls are not circumvented.
5. Maintain and upgrade controls. Securing controls is a continuous activity that should be spearheaded by managers. Management should continuously seek ways to improve controls to foster the achievement of the organisation's objectives.

According to National Treasury (2012), the role of internal audit in relation to controls is to assist the organisation to maintain and continuously improve controls. This is achieved by

evaluating the controls' adequacy, effectiveness and efficiency; advising management and recommending improvements to strengthen controls; and conducting follow-up audits in order to establish whether management has implemented the audit recommendations (Spencer-Pickett, 2010; Coetzee *et al.*, 2014).

2.7. Governance processes

The last element that the definition of internal audit is anchored on is governance. According to Coetzee *et al.* (2014) in South African municipal context, governance is a combination of structures and processes put in place by the municipal council in order to inform, direct, manage, and monitor the activities of an organisation towards the achievement of its objectives. The failure of large corporations led to the development of corporate governance models across the globe (Spencer-Pickett, 2010). In South Africa, a committee on corporate governance, headed by former High Court judge, Mervyn King, was established with the intention of promoting integrated approach to good governance in the interests of a wide range of stakeholders.

The first report of the committee that is known as the King 1 Report was issued in 1994. Currently the report that is in operation is King 3 Report, which was issued in 2009 (Spencer-Pickett, 2010). In contrast to the King 1 and 2 Reports, King 3 applies to all entities regardless of the manner and form of incorporation or establishment and whether in the public, private sectors or non-profit sectors.

According to Institute of Directors in Southern Africa (2009), the King 3 Report covers the following topics:

1. Role and function of the board/council - among others, the report outlines that the council should promote ethical culture, exercise leadership, and integrity in directing the organisation. The council/ board should furthermore ensure the integrity of financial reporting and establish independent structures to verify and safeguard the integrity of their financial reporting.
2. Corporate citizenship: leadership, integrity, and responsibility – corporate citizenship refers to an ethical relationship between an organisation and the external stakeholders or environment in which the organisation operates. The organisation should strive to consider the external environment and stakeholders in decision making in order to build and promote a good relations. This means that the decisions of management and municipal councils should be based on the ethical values that underpin good corporate governance. Examples of ethical values may include responsibility, accountability,

fairness, and transparency. It is the responsibility of council to ensure that the organisation acts and is perceived as a responsible corporate citizen.

3. Audit committees - an organisation must establish an independent audit committee, which consist of suitably skilled and experienced members. Among other responsibilities, the audit committee should monitor and report on the integrity and completeness of the organisations' financial reporting. Furthermore the committee should conduct an annual review of the design, implementation and effectiveness of the organisation's system of internal financial controls.
4. Risk management - management remains responsible for the implementation of risk management process; an organisation may appoint a risk expert to assist management however, such appointment does not renounce management responsibility for risk management to such risk experts. It is the responsibility of council to adopt the risk philosophy and plans and to appoint the risk management committee.
5. Internal audit – the municipal council should ensure that an independent internal audit function staffed with a competent and independent team is established. The function should conduct risk-based audits and report functionally to the audit committee and administratively to the Accounting Officer.

According to the National Treasury (2012), the internal audit function must evaluate and improve the governance process by:

1. Promoting suitable ethical behaviour and values;
2. Ensuring effective organizational performance management and accountability;
3. Communicating risk and control information to relevant stakeholders; and
4. Coordinating the activities of and communicating information among the audit committee, external, internal auditors, and management.

The establishment of internal audits at municipalities is legislated by Section 165 of Act No 56 of 2003 that requires each municipality to have an internal audit unit. Furthermore, the Act states that the internal audit function of a municipality must carry out the following activities:

1. Prepare and implement a risk-based audit plan and an internal audit programme for each financial year;
2. Advise the Accounting Officer and report to the audit committee on the implementation of the internal audit plan and matters relating to:
 - i. Internal audit.
 - ii. Internal controls.
 - iii. Accounting procedures and practices.

- iv. Risk and risk management.
 - v. Performance management.
 - vi. Loss control.
 - vii. Compliance with this Act, the annual Division of Revenue Act and any other applicable legislation.
3. Perform any other reasonable and permissible duties as may be assigned to it by the Accounting Officer in consultation with the audit committee.

External audit on the other hand is an independent examination of the organisation's annual financial statements with the objective of expressing an opinion on whether the financial statements have been prepared in accordance with the applicable standards and are a true reflection of the financial position of the organisation (Marx & Lubbe, 2010). Act No. 108 of 1996 recognises the Auditor-General South Africa as the supreme audit institution of the Republic; hereafter the term Auditor-General will be used to refer to Auditor-General South Africa unless otherwise specified.

Act No. 108 of 1996 compels the Auditor-General to have full legal capacity; to be independent and subjected only to the Constitution and the law, including the Public Audit Act (Act No. 25 of 2004); and to be accountable to the National Assembly. Act No. 108 of 1996 furthermore empowers the Auditor-General to conduct external audits at municipal level and to report on the accounts, financial statements, and financial management of all municipalities. In conducting the audits, Auditor-General must be impartial and must exercise the powers and perform the audit functions without fear, favour, or prejudice.

2.8. Difference between internal and external audit

Internal and external auditors have different objectives; are engaged in different activities; possess different qualifications; and are accountable to different parties (Coetzee, *et al.*, 2014). The difference between the internal audit and external audit are outlined in Table 2.1 below.

Table 2-1: Differences between internal and external audits

Internal Audit	External audit
An internal audit forms part of the municipality and achieve its independence by reporting administratively to the Accounting Officer and functionally to the audit committee on issues relating to risks, controls and governance.	An external audit is independent from the municipality and it is accountable to the National Assembly.
Internal audits focus on providing an assurance on the effectiveness of risk, control and governance processes.	External audit focus on issuing an opinion on financial statements.
The internal audit conducts audits throughout the financial year.	External audit conducts audits once in a financial year.
An internal audit forms part of the work of municipal employees.	An external audit is not part of the municipal workforce.

Source: Adapted from Scholtz (2014)

2.9. Internal audit plans

According to the Institute of Internal Auditors (2013), internal audit must develop an annual risk-based audit plan that responds to changes in the organization's risks, operations, programs, systems, and controls. The municipal internal audit is not an exception, National Treasury (2012) states that the Chief Audit Executive should ensure that the risk-based audit plan, supported by management and approved by the Audit Committee, is developed annually.

National Treasury (2012) furthermore highlights the following as issues that should be taken into consideration while developing the risk-based internal audit plan:

1. Internal audit must ensure that the risk assessment was properly carried out and the risk assessment report of the municipality is reliable, accurate and complete.
2. An assessment of the capacity, availability, and skills of internal audit staff must be carried out in order to identify the team's strength and weaknesses.
3. Major changes in the organisation's risk environment should be identified and considered.
4. Management inputs and consensus on the envisaged audits must be pursued.

For a risk-based audit plan to comply with the requirements as set out by the Institute of Internal Auditors (2013), the plan must be based on an assessment of risk and exposures affecting the organization; prepared in consultation with management and other stakeholders; and approved by the audit committee. Any material change to the plan must be approved by

the Audit Committee (National Treasury, 2012). The Audit Committee plays a key role in an organisation because it promotes accountability and good governance. Be that as it may, a study on the perceived effectiveness of audit committees in the South African public service found that the audit committees in the public sector are perceived as effective even though there is a room for improvement on key areas of oversight over governance, risk management and financial reporting (van der Nest, 2008).

2.10. Generally Recognised Accounting Practice (GRAP)

Financial reports are used by municipalities as a means to communicate the financial information to all relevant stakeholders; these reports are based on sound accounting standards (Fourie, Opperman & Scott, 2011). Section 13 of the Public Audit Act (Act No. 25 of 2004) gives the Auditor-General the authority to determine the standards to be applied in performing audits. In determination of the audit standards, Auditor-General should consider local and international auditing best practices and the capacity to comply with the standards.

According to Section 122 of the Municipal Finance Management Act (Act 56 of 2003), the annual financial statements of a municipality must be prepared in accordance with generally recognised accounting practice (GRAP). The aim of GRAP is to give the preparer of the financial statements guidance in preparation of the statements (Fourie, Opperman & Scott, 2011). The standards of GRAP applicable to South African Municipalities are outlined in Table 2.2.

Table 2-2: Standards of GRAP

Reference	Topic
GRAP 1	Presentation of financial statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting policies, changes in accounting estimates
GRAP 4	The Effect of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions
GRAP 24	Presentation of Budget Information in the Financial Statements
GRAP 26	Impairment of Cash-generating Assets
GRAP 100	Non-Current Assets held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments

Source: Adapted from Fourie, Opperman and Scott (2011)

According to Carstens (2009), most municipalities were unable to implement GRAP because of lack of skills and understanding of the practice. The most problematic practices were:

1. GRAP 13: Leases. This is caused by the inadequate management of lease contracts and the incorrect classification between finance leases and operating leases. A finance lease is form of lease in which the rewards and risks are transferred to the lessee. In most cases, the period of the lease covers a major part of the useful life of an asset and the ownership is transferred to the lessee at the end of the lease agreement. The operating lease is opposite of a finance lease in a sense that the lessor retain the risks and benefits; furthermore, the ownership is not transferred at the end of the lease agreement (Fourie, Opperman & Scott, 2011).

2. GRAP 17: Property, plant, and equipment. The challenges in implementing GRAP 17 are attributed to the fact that most municipalities do not have an accurate and complete fixed asset register which include all assets, their initial cost, acquisition date, and remaining useful life. To address the non-compliance with GRAP 17 requirements Welgemoed (2010) suggests that the municipalities must appoint competent and capable officials and conduct quarterly asset verifications and monthly updates of the assets register. Furthermore, municipalities must consider forming an internal asset management committee to monitor the compliance with the practices and to oversee the development of internal controls that will promote proper assets management as early as the procurement phase.
3. GRAP 19: Provisions, contingent liabilities, and contingent assets. The non-compliance is caused by inappropriate record-keeping that results from lack of supporting documents and incomplete records (Carstens, 2009).

CQS Technology Holdings (2011) attributes the challenges in implementing GRAP to lack of competent staff and resources, tight deadlines, asserting the accuracy of information versus completing the work within the time allowed, and the use of inadequate software.

To address the GRAP challenges, CQS Technology Holdings (2011) suggests that municipalities should:

1. Adequately prepare for financial reporting by addressing the issues raised by Auditor-General during the previous audit.
2. Possess knowledge of the requirements of GRAP or consider appointment of reputable consultants that will assist with the preparation of financial statement and transferring of necessary skills.
3. Compile a plan of activities that need to be undertaken prior to the end of a financial year and activities that need to be completed in preparation for financial reporting.
4. Ensure that there are sufficient and skilled personnel who meet or exceed minimum competency requirements as outlined in section 83 of Act 56 of 2003.
5. Prepare and safeguard data and supporting documents.
6. Generate financial information using a well-designed software that is able to integrate with other systems that produce information relevant for financial reporting.

According to Ntetha and Mostert (2011) some of the problems with performance and achievement of the set objectives emanate from lack of proper coordination and management of information technology and the skills and resources limitations. To address challenges resulting from information technology, Mohamed and a/p Gian Singh (2012) suggest that

information technology (IT) governance should be implemented as part of the organisation's corporate governance. The purpose of IT governance is to promote sound information technology processes that are supported by relevant policies, plans, strategies and resources that enhance the efficient achievement of the organisation objectives.

2.11. Preparation and submission of financial statement to Auditor-General

Act 56 of 2003 compels municipal accounting officers to prepare the annual financial statements of a municipality in line with Generally Recognised Accounting Practices (GRAP). The statements have to be submitted to the Auditor-General within two months after the end of a financial year in question. Given that the municipal financial year starts on the first of July and ends on the last day of June; this means that all municipalities in South Africa have to submit their annual financial statements to Auditor-General not later than the last day of August each year.

A municipality must adequately plan and prepare for the submission of annual financial statements to ensure that the financial statements represent a true reflection of the financial position of a municipality (Jack, 2011). The plan should encompass both the pre and post-financial year-end activities. Currently there is no prescribed model for preparing for financial year-end in South African municipalities; however; Table 2.4 outlines some of the activities that should be considered. The table does not consist of an exhaustive list but it captures some of the activities that are necessary in order to comply with the requirements of GRAP and Act 56 of 2003.

Table 2-3: Activities to be considered when preparing the financial statements plan

Activity	Target date
Develop an action plan to address all issues raised by the Auditor-General in the previous audit report	Before end of financial year
Monitor the implementation of the Auditor-General action plan	Monthly
Preparation of Interim Financial Statements	Half yearly
Develop action plan to address findings raised by internal audit and continuously monitor the implementation progress	Monthly
Conduct bank reconciliations	Monthly
Submit monthly MFMA section 71 reports that are accurate and credible	Monthly
Conduct inspection of all finance related registers e.g. rental register, investment register, grants register, etc.	Monthly
Preparation and review of monthly grants reconciliation	Monthly
Update the assets register	As and when there is a movement
Conduct physical assets verification	Quarterly
Conduct physical inventory count	Quarterly
Prepare and implement the cut-off plan	One month before financial year-end
Appointment of consultants for financial statement preparations (If the municipality is not capacitated)	Two months before the financial year-end
Preparation of financial statements and audit file	Within two months after the financial year-end
Submission of financial statements to review team and internal audit as well as audit committee members for quality review	At least two weeks before submission to Auditor-General

Source: Adapted from Municipal Finance Management Act (Act 56 of 2003) and Mahikeng Local Municipality (2015)

Over and above the financial statements plan, National Treasury (2009) encourages municipalities to prepare an audit file in order to facilitate the efficient review of financial statements by the Auditor-General. The audit file must be coordinated by the Chief Financial Officer, approved by the Accounting Officer, and submitted to the Auditor-General to support the financial statements.

National Treasury (2009) furthermore encourages the formulation of a committee comprising different units that contribute towards the preparation of financial statements. This enables the smooth coordination of information for financial statements preparation and for auditing purposes. Lastly, National Treasury (2009) suggests that the audit file should at least contain information as highlighted in Table 2.4. Municipalities are encouraged to put additional information on the file to support the financial statements figures and disclosures.

Table 2-4: Audit file contents

Item in Financial Statements	Evidence in the audit file
Statement of Finance Position (Balance Sheet)	
Statement of net assets	
Accumulated surplus	Journals and supporting information for all prior period corrections, changes in accounting policies
Funds / Reserves	Journal entries and supporting documents for all movements in reserves
Non-current liabilities	
Long-term liabilities	<ul style="list-style-type: none"> • Loan register outlining both short and long-term components of loan liability, with redemption tables as per loan agreements. • Confirmation of outstanding balances and interest paid to the lenders
Creditors	<ul style="list-style-type: none"> • Creditor's trial balance and control account • Justification for late payments of individual creditor accounts. • Schedule of deposits paid for services to be supplied, reconciled to accounts receivable listing. • Schedules in support of all other liabilities such as rehabilitation provisions, commitments and contingent liabilities.
Unspent grants	End-of-year reconciliation of grant returns
VAT	VAT reconciliation – highlighting total amount paid and owing with copies of SARS returns
Bank overdraft	Bank statements, reconciliations, and bank confirmation
Non-current assets	

Property, plant and equipment	<ul style="list-style-type: none"> • Assets Register containing the opening balances, in-year purchases, write-offs, and disposals including dates with values. • Information detailing the approach used to establish the residual values and useful lives. • Detailed evidence in support of any valuations undertaken. • Evidence confirming that the assets physical verification was undertaken.
Stores / consumables	<ul style="list-style-type: none"> • Evidence of regular inventory counts. • Evidence in support of valuations, impairments, and reconciliation of any losses.
Long-term receivables	Information supporting the long-term receivable figures.
Current assets	
Debtors	<ul style="list-style-type: none"> • Debtors control account and trial balance • Document outlining the steps taken to recover from outstanding debtors. • Full information and authorization for write-offs and impairments.
Bank balances and cash	Bank statements, reconciliations, and bank confirmations on balances and interest earned
Investments / short term deposits	Investment Register
Statement of Financial Performance (Income and Expenditure Statement)	
Revenue	
Programme reporting i.e. property Rates	All programme balances to be supported by the figures contained in the trial balance and other source documentation pertinent to the programme i.e. valuation role reconciled to rate book with third party confirmation
Expenditure	
Programme reporting i.e. employee costs	All programme balances to be supported by the figures contained in the trial balance
Other Documentation	
Standard accounting source documentation	Electronic and hard copies – End of financial year adjustment journal, general journal, trial balance, subsidiary ledgers, general ledger also cash book, valuations register, rate book, calculations relating to consolidation of accounts, register of contracts and other legal documents, performance contracts (employee terms and conditions)

Accruals	Schedule of non-standard accruals with supporting documentation and appropriate authorizations
Prepayments	Schedule of all prepayments with supporting documentation and appropriate authorizations
Suspense accounts	Evidence to show clearance of all suspense accounts at year end reconciling to the trial balance
Control accounts	Evidence to show balancing of all control accounts at year end reconciling to the trial balance
Payroll	Monthly certified payroll reconciling to relevant control accounts, employee policies
Other	Strategic plan, organisational structure, risk assessment, risk strategy, performance information, fraud prevention plan, minutes of council, management and other committee meetings
Evidence of strategic planning	<ul style="list-style-type: none"> • Integrated Development Plan (IDP) • Service Delivery and Budget Implementation Plan (SDBIP) • Procedure manuals and finance related policies
Internal audit	Internal audit plan, Internal audit charter, internal audit reports.
Auditor-General / Audit Committee	<ul style="list-style-type: none"> • Evidence of remedial action taken to address previously raised findings. • Audit committee charter. • List of audit committee members containing their qualifications and number of audit committee meetings attended • Audit committee reports

Source: South Africa. National Treasury (2009)

2.12. Audit opinions

According to Public Audit Act, No. 25 of 2004, the report submitted by the Auditor-General must reflect opinions and statements as may be required by any legislation applicable to the municipality. The report must furthermore reflect at least an opinion or conclusion on:

- a) whether the financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and results of its operations and cash-flow for the period which ended on that date in accordance with the applicable financial framework and legislation;
- b) the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters; and

- c) The reported information relating to the performance of the auditee against predetermined objectives.

According to Auditor-General (2015), the following audit opinions can be expressed in the report:

1. Clean audit opinion/outcome. This opinion is used to outline that the financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.
2. Financially unqualified audit opinion. This is an indication that the financial statements do not have material misstatements; however, findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.
3. Qualified audit opinion. The opinion is used to highlight that the financial statements contain material misstatements in specific amounts, or there is insufficient evidence to conclude that specific amounts included in the financial statements are not materially misstated.
4. Adverse audit opinion. The opinion highlights that the financial statements contain material misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.
5. Disclaimer of audit opinion. This opinion indicates that the auditee provided insufficient evidence in the form of documentation on which to base an audit opinion.

2.13. Auditor-General reports

Besides the audit opinion, Auditor-General reports must contain important findings that do not affect the fair presentation of financial statements and the audit opinion. These findings are outlined in the report because of their significance; they are referred to as “emphasis of matters” (SALGA, 2010). Emphasis of matters could include:

1. Going concerns.
2. Significant uncertainty.
3. Material inconsistency of information.
4. Basis of accounting.

Going concern refers to the ability of the municipality to continue operating indefinitely; this simply means that the municipalities’ assets are sufficient to cover both the short-term and long-term obligations. The Auditor-General may raise a finding on the municipality’s ability to operate as a going concern if there are possibilities that a condition or an event may have an

impact on the municipalities' capacity to honour its short-term and long-term obligations (Auditor-General, 2009).

Significant uncertainty on the other hand highlights outcomes that are based on future events that cannot be reasonably measured at the date in which the report is signed. The matter is regarded as significantly uncertain if it has a potential to affect the financial statements (Auditor-General, 2009).

Material inconsistency of information highlights the existence of information that contradicts material information contained in the audited financial statements. Information is regarded as material if it has a potential to influence the opinion of its user (Auditor-General, 2009).

Basis of accounting outlines that there were amendments to the applicable accounting policies. In the context of South African municipalities, the authority to amend the basis of accounting is granted by the National Treasury; the effected amendments must be presented or disclosed in the financial statements (Auditor-General, 2009).

Even though the emphasis of matters does not have an impact on the audit opinion, their degree serves as a yardstick to evaluate general controls, financial and risk management, and legislative compliance (SALGA, 2010).

The Auditor-General is compelled by Section 21 of Act 25 of 2004 to submit the audit report in accordance with the relevant legislation. The relevant legislation in the context of municipalities in South Africa is the Municipal Finance Management Act (Act 56 of 2003). Section 126 of Act 56 of 2003 require Auditor-General to submit an audit report on financial statements of a municipality to the accounting officer of the municipality within three months of receipt of the statements. Once the Auditor-General has submitted an audit report to the accounting officer, no person other than the Auditor-General may alter the audit report or the financial statement.

Section 131 of Act 56 of 2003 obliges municipalities to address all issues raised by the Auditor-General in an audit report. The municipal mayor is required to ensure that the municipality complies with the provisions of this section by providing oversight over the development of a plan to address issues raised by Auditor-General; this plan is normally referred to as audit recovery plan. The Section furthermore requires the Member of Executive Council (MEC) for local government in the province to establish whether municipalities have adequately addressed any issues raised by the Auditor-General and to provide support where necessary.

Lastly, the financial report together with the Auditor-General report and the audit recovery plan must be included in the municipal's annual report, which has to be made public. Furthermore, a report on actions taken by MECs for local government to address issues raised by the Auditor-General have to be table to Parliament by the Cabinet member responsible for local government (Act 56 of 2003).

2.14. Challenges faced by municipalities

According to Audit Scotland (2015), municipalities across the globe face common challenges that include reduction of resources, increasing demands for services, and increasing public expectations. Be that as it may, municipalities in the developed countries are able to receive clean audits. For example, the Victoria Auditor-General (2015) points out that all financial statements of municipalities received clean audit opinions. This means that the annual financial statements were reliable and fairly presented the results of the municipalities' operations and their assets and liabilities.

On the other hand, municipalities in developing countries, more especially in Africa, were still struggling to obtain clean audits. A study conducted in Uganda demonstrated that there were accountability deficiencies in municipalities. The deficiencies emanated from the internal control, risk, and governance weaknesses (Kakumba & Fourie, 2008). The main municipal challenges in Uganda as outlined by Kakumba and Fourie (2008) were:

1. Poor monitoring and supervision.
2. Misappropriation of funds.
3. Sub-standard quality of work done by contractors.
4. Inadequate skills in financial management and other technical areas like planning and engineering.
5. Corruption and irregular awarding of tenders.
6. Irregular recruitment and appointment of staff.

Kakumba and Fourie (2008), point out that in dealing with the challenges, the Uganda government put punitive measures in place to punish public servants who mismanage municipalities and misuse and abuse public resources. Most of the officials and senior politicians who were found wanting were disciplined and in some instances, money was recovered and unlawful decisions were annulled.

The study conducted by Kakumba and Fourie (2008) revealed that the punitive measures did not necessarily improve accountability and local government effectiveness. The study furthermore suggested that government should identify the organisational structural

deficiencies and focus on putting preventive measures in place to combat corruption and promote efficient and effective public sector performance. Implementation of performance management systems at all levels within the organisation and continuous monitoring of performance contributes positively towards the achievement of the organisations objectives and accountability (Sebashe & Mtapuri, 2011).

South African municipalities are not an exception; 30 out of the 319 audited institutions received a clean audit. The number of clean audits represents only 9% of the auditees (Makwetu, 2014).

An analysis conducted by SALGA (2010) reveals that the factors that contribute to unfavourable audit opinions are:

1. Non-compliance with the applicable accounting standards,
2. Inadequate preparation of asset registers,
3. Poor systems of internal control,
4. Weaknesses in accounting processes/reconciliations, and
5. Valuation and completeness of assets and liabilities.

The analysis furthermore points out that the following were issues that were generally raised under emphasis of matters:

1. Amendments to applicable financial reporting framework in order to comply with the applicable accounting policy or to accommodate peculiar transactions.
2. Unauthorised, fruitless, and wasteful expenditure that is continuously increasing and not accounted for in accordance with the applicable regulations.
3. Material under-spending of conditional grants.
4. Revision of figures from preceding financial statements in order to correct significant errors discovered in the current year.

According to Ngoepe and Ngulube (2014), respondents in a study on the Auditor-General's report on South African Municipalities highlighted the issues outlined on Table 2.5 as the contributors to the unfavourable audit opinions.

Table 2-5: Ranking of key contributors to the audit opinion by respondents

Rank	Key Contributors	Average score
1	Internal Controls	7.63%
2	Quality and timeliness of financial statements	6.80%
3	Finance	6.15%
4	Availability of key officials	6.01%
5	Leadership	5.79%
6	Records Management	5.68%
7	Supply Chain Management	5.43%
8	Information Technology	4.16%
9	Human Resources Management	3.80%
10	Risk Management	3.56%

Source: Ngoepe and Ngulube (2014)

On the other hand, Makwetu (2014) highlighted six key factors that contributed to the unfavourable audit opinion. The first factor was lack of skilled and competent staff that resulted to poor quality of submitted financial statements. According to Makwetu (2014), Municipalities did not improve the quality of the financial statements submitted for auditing purposes; The Auditor-General received only 18% of the financial statements that did not contain material misstatements.

The second factor was corruption and non-adherence to policies that resulted in inappropriate supply chain management processes. The purpose of supply chain management is to promote fair competition, value for money and accountability; however, municipalities are still grappling with the implementation of supply chain management processes and that translates to poor service delivery and unfavourable audit outcomes (Bizana, Naudé & Ambe, 2015). Makwetu (2014) points out that little was done to improve the procurement and contract management weaknesses. The main challenge in the supply chain management process is the implementation of the supply chain management policies, presentation of supporting documents as well as conflict of interest.

The third factor was the appointment of incompetent and unqualified staff that resulted in poor human resource management. Draai and Oshoniyi (2013) pointed out that the appointment of unqualified staff and poor performance in local government was due to lack of scarce skills and high vacancy rates. According to Shipalana and Phago (2014), high vacancy rates result in increased workloads that ultimately result in burnout and low staff morale. The appointed incumbents are expected to go an extra mile in order to compensate for the gaps arising from

vacancies and that translates to high volume of workload and fatigue. Makwetu (2014) confirmed that vacancies were poorly managed and acting periods were prolonged - as a result municipalities could not perform at an optimum level.

The fourth highlighted factor was the lack of information technology skills that led to poor information technology controls. A review of information technology controls revealed that security management, user access and information technology service continuity still need attention as over 60% of the auditees were still struggling with the design of these controls and had not yet begun to implement them (Makwetu, 2014).

The fifth factor was inappropriate budgeting, expenditure and incompetent finance staff that resulted in poor financial health. As part of the assessment, the Auditor-General reviewed the municipality's ability to continue as a going concern. Makwetu (2014) outlined that 76% of the auditees displayed indicators of financial distress and significant doubt about the ability to continue as a going concern.

The last factor was the lack of competent Chief Financial Officers (CFO) that resulted in the ineffective use of consultants. The majority of municipalities used consultants at a total estimated cost of R734 million. In total, 79% of auditees used consultants and lack of skills to perform the work was the most common reason for using consultants. Furthermore, a review on consultant's management revealed that skills were not transferred, and consultant's appointment, performance management, and monitoring was poor (Makwetu, 2014). A study titled "exploring public sector managers' preferences for attracting consultants or academics as external experts" confirmed that managers in the public sector normally acquire the services of consultants due to lack of skills, experience and knowledge. Generally the skills transfer process is not formalised as a result managers continue to depend on services rendered by consultants (van Helden, Gronlund, Mussari & Ruggiero, 2012).

Over and above the challenges and risks faced by municipalities, a study conducted in Canada suggested that auditors do have an influence on the organisations they audited, but their attempts often fail. The study found that the mere presence of auditors or their expected visits to the municipalities do not really encourage auditees to behave correctly. Neither do auditors consistently convince auditees to change their management practices (Morin, 2014). The assertion by the Canadian study was confirmed by a study conducted by Ngoepe and Ngulube (2014) which outlined that follow-ups and remedial actions were not done to address internal audit findings in government.

While it is acknowledged that the Auditor-General makes credible, useful and pertinent recommendations, they will not necessarily lead to improvements in the performance of administrations, as they publicly purport (Morin, 2014). The phenomena outlined by the study is also found in South African Municipalities. According to Makwetu (2014), the efforts to assist local government to improve the audit outcomes did not produce positive results.

2.15. Government initiatives to address the municipal challenges in South Africa

In order to address the poor audit outcomes, government introduced initiatives to address compliance with audit procedures. The first initiative was called Operation Clean Audit 2014 (OCA 2014) that was launched in 2009 as a “turnaround plan” to improve local government audit opinion. Its target was that all 283 local and district municipalities should achieve clean audits of their financial statements by 2014 (Powell, O’Donovan, Ayele, & Chigwata, 2014). However the 2012/2013 Auditor-General report indicated that only 9% of the auditees received clean audits (Makwetu, 2014). This indicated that the initiative was not likely to achieve its objectives.

According to Oberholzer (2012), the failure of OCA 2014 was due to the following factors:

1. Insufficient skills and capacity within municipalities.
2. Lack of sufficient dedicated funding for the required interventions.
3. Insufficient coordination and support by national and provincial government.
4. Political instability that diverts the attention of management, instead of dealing with operational matters, management tends to focus their attention on quelling political disputes. According to Draai and Oshoniyi (2013) political interference in the recruitment and dismissal of staff contributed to the decision-making and ultimately the performance of the municipality because in most instances, decisions are made to appease the politicians and often the decisions are not in the best interest of the organisation.
5. Focus on finding quick solutions and achieving compliance with minimum requirements, rather than developing a long term, sustainable solution with an appropriate execution plan and scientific change management.
6. Many municipalities were unable to collect revenue and as a result they were not financially viable.
7. Fatigue due to numerous uncoordinated interventions at municipalities by different departments.

The second initiative by government was introduced in 2014 and it is called Back-to-Basics. The aim of the initiative is to encourage municipalities to become functional centres of good

governance (COGTA, 2014). According to Corruption Watch (2014), the initiative is centred on five principles, namely:

1. Putting people first and engaging with communities. This encompasses the measures to enhance communication and engagement of community and all relevant stakeholders.
2. Delivering basic services. The principle promotes planning, implementation and maintenance of basic infrastructure critical for sustaining basic standards of living and economic activity within municipalities.
3. Good governance. This involves monitoring the functionality of council and other municipal oversight structures.
4. Sound financial management. It involves monitoring of financial performance and address capacity deficiencies of municipalities to develop and implement audit and post audit action plans.
5. Building capabilities. This encompasses the appointment of competent and committed people with the capability to improve the municipal services and performance.

To monitor the progress of the initiative, the Accounting Officer, Chief Financial Officer, Mayor, Chief Whip, and Speaker are required to submit a progress report to Council, on a monthly basis, highlighting the activities undertaken to achieve the Back-to-basics initiative (COGTA, 2014). The initiative is still in its infancy stage; its impact will be measured in a few years' time.

2.16. Possible solutions to address the unfavourable audit opinions

Different authors present different recommendations for addressing unfavourable audit opinions. This might be the reason why municipalities are unable to improve; there is no one-size fits all approach to improving the audit opinion. According to Jack (2011), the following strategies should be adopted by Municipal Managers to minimise the number of unnecessary queries:

1. Properly preparing for the audit by compiling an audit file, obtaining, and adequately safeguarding all supporting documents. National Treasury (2009) suggests that the compilation of the audit file should be directed by the Chief Finance Officer (CFO) in collaboration with representatives from other affected units. A copy of the audit file should be signed off by the CFO and the Accounting Officer prior to submission to the Auditor-General. National Treasury (2009) furthermore strongly recommended that the file should be presented to internal audit for their input.
2. A positive attitude towards the audit in order to build a good relationship with the Auditor-General to ensure that proper guidance is received.

3. A common understanding of the audit plan and expectations to enable the municipality to adequately plan for the audit and avail necessary resources to support the auditing process.
4. Logic and reason in understanding and applying legal, financial, and audit requirements; this will assist the municipality to correctly classify transactions and comply with the applicable statutes.
5. Appointing a dedicated official to coordinate responses to the Auditor-General's representatives.
6. Appointing an experienced and skilled service provider to address audit queries and develop an audit action plan to address the Auditor-General queries.

On the other hand, Tewary (2013) points out that the municipality must undertake the following activities in order to achieve clean audits:

1. Understand all the requirements of GRAP standards;
2. Record all transactions in compliance with GRAP standards;
3. Conduct daily recording of transactions in the general ledger and reconcile at least once a month;
4. Generate and review financial information from recorded data in general ledger; and
5. Analyse the financial position of the municipality regularly and take corrective action.

SALGA (2010) lists the following as factors that may contribute to improving financial management practices and ultimately improving the audit opinion:

1. Improving the control environment and implementing legislated good governance practices;
2. Strengthening leadership at an administrative and political level on the importance of accurate financial reporting;
3. Developing capacity and skills within the finance departments; and
4. Ensuring that there is increased attention given to asset management.

In his report, Makwetu (2014) indicates that there is still hope that the situation of municipalities can be turned around and suggests that the following should be undertaken in order to advance to clean audits:

1. Introducing basic accounting and daily control disciplines.
2. Enforcing compliance with all legislation.
3. Employing staff in accounting and financial management positions with the required level of technical competence and experience.

4. Calling for information and reports regularly with a view to supervising implementation of financial management improvement plan.
5. Allowing the CFO to be in charge of the financial records and report thereon to the municipal manager.
6. The council keeping the monitoring of the financial improvement plan on its quarterly meeting agenda.
7. The municipal manager reviewing management accounts with the CFO on a monthly basis.

Ngoepe and Ngulube (2013) analysed the Auditor-General Report of national and provincial government departments as well as municipalities for the financial year 2005/06 to 2009/10 and concluded that records management has an effect on the organisation's audit opinion. In most cases, the root cause of qualified and adverse audit opinions resulted from a lack of a clear trail of supporting documentation. Ngoepe and Ngulube (2013) suggest that proper record management is one of the main factors that can assist municipalities to comply with the Auditor-General's procedures.

2.17. Summary

Based on the literature review it appears that the unfavourable audit opinions are not only unique to local municipalities within Ngaka Modiri Molema District. This phenomenon is also experienced across South Africa and other African countries. The core issues that contribute to unfavourable audit opinions revolve around poor leadership and lack of relevant capacity and competency. The literature review also pointed out that the interventions put in place by the South African government did not optimally improve the audit opinions received by municipalities in South Africa; however, there are various recommendations from the Auditor-General and other authors that may assist municipalities if correctly implemented. The following chapter will discuss the research methodology, including the research paradigm and research design used in the study. The chapter will furthermore discuss the sample selection techniques, data collection and analysis methods.

CHAPTER 3 RESEARCH METHOD AND DATA ANALYSIS

3.1. Introduction

The purpose of this study is to contribute a possible solution to the problem of unfavourable audit outcomes in local municipalities within the Ngaka Modiri Molema District. This chapter describes the research design and methods used for the study. This chapter furthermore highlights the population; sample selection methods applied in the study; data-collection methods and data-analysis techniques.

3.2. Research paradigm

According to Göktürk (2011) the word paradigm was derived from the Greek word 'paradeigma' which means pattern or model and it has been applied by researchers to denote assumptions regarding the nature and conduct of research. There are three main traditional research paradigms that a researcher can apply in a study which are positivism, realism, and interpretivism (Bryman, 2012).

A positivist paradigm adopts scientific analytical methods and believe that a researcher should be objective. The researcher in this case is more focused on explaining as opposed to understanding the subject that is researched (Grix, 2010). According to Bryman (2012) realism is a research paradigm that takes the characteristics of both the positivism and interpretivism paradigms. It asserts that instead of only explaining the reality, a researcher can explain and at the same time understand reality by applying appropriate research methods.

An interpretivist paradigm is an opposite of the positivist paradigm. The interpretivist researchers believe that there are differences between natural and social world as a result, data collection methods which promote the understanding of the social world should be applied (Grix, 2010). An interpretive paradigm is characterised by observation and interpretation. The researcher applies observation methods to collect information; the collected information is interpreted by matching its correlation with the applicable patterns (Bryman, 2012). This paradigm is suitable for investigating complex human behaviour and social phenomena; however, the paradigm tends to result in subjective findings which may differ between researchers (de Villiers, 2005).

This study adopted the interpretivist paradigm by focusing on observations and analysis of existing information. This method was most appropriate because in order to contribute solutions to the problem of unfavourable audit outcomes in local municipalities within Ngaka Modiri Molema District, the researcher needs to have an understanding of the problems at hand.

3.3. Research design

This study adopted an exploratory research design. According to Reiter (2013), exploratory research intends to provide new and previously overlooked explanations; it allows the researcher to pose new questions, determine the nature of the problem and provide new explanations by looking at reality from a new angle. The exploratory design was most suitable because the study sought to explore the cause of the problems faced by the municipalities.

A mixed approach was adopted, in which both qualitative and quantitative data were collected. The qualitative approach was used to identify the reasons for undesirable audit outcomes and possible corrective actions that can be put in place in order to improve the audit outcomes of local municipalities. The responses gathered from respondents were classified, analysed, and interpreted according to their meaning. Both the frequencies and percentages of respondents assisted in identifying the key issues.

3.4. Population of the study

A population is made up of all unit of analysis from which a sample is to be selected (Weman, et al., 2005). In this study, there were two sets of populations. The first set included municipalities; there were five local municipalities in Ngaka Modiri Molema district. The second set included employee of local municipalities within Ngaka Modiri Molema district. According to Yes Media (2015) there were 2 002 employees appointed at the five local municipalities within Ngaka Modiri Molema District at the end of the financial year 2013/2014.

3.5. Sample selection

Involving the entire population in a research project may be unrealistic and uneconomical because in most cases the population is too substantial for a researcher to cover (Weman, et al., 2005). Instead of including the whole population, a segment of a population that represents the wider population is selected; the selected segment is called a sample (Bryman, 2012).

Firstly, convenience sampling method was used to select a sample of three local municipalities from the five municipalities to participate in the study. For the purpose of anonymity and protecting the image of the selected municipalities, the names of the municipalities will not be disclosed, they will only be indicated by alphabet A, B, and C. According to Özdemir, St. Louis and Topbaş (2011), the convenience sampling method is a non-probability sampling technique consisting of units of analysis either known by the researcher or readily accessible to the researcher. The convenience sampling method was selected because the researcher wanted to save time and costs. In addition, the municipalities were easily accessible to the researcher.

Secondly, purposive sampling method was used to select the interviewees. According to Weman *et al.* (2005), purposive sampling is one of the non-probability sampling methods. The researcher relies on their experience to deliberately obtain units of analysis in a manner that the obtained sample may be regarded as being representative of the relevant population. The sampling method ensures that the researcher selects employees that have information needed for the study. Since the study adopted an interpretivist paradigm approach, most of the information was collected using the assessment matrix. The researcher only interviewed the Chief Financial Officers of the selected municipalities using a semi-structured interview guide. The Chief Financial Officers were selected because they were responsible for compiling annual financial statements of the municipalities.

3.6. Data-collection method

A letter introducing the researcher and requesting permission to conduct a research was obtained from the North-West University and it was forwarded to the sampled municipalities through an email. A copy of the sent letter is attached as Annexure 1. Primary data were collected through interviews. A meeting was set-up telephonically with the municipal officials who were responsible for providing data relevant for the study. Relevant data were collected and analysed at various municipal premises between the 03 September 2015 and 28 September 2015.

Semi-structured interviews were conducted with the Chief Financial Officers of the sampled municipalities. Meeting with different Chief Financial Officer were set up telephonically and the interviews were conducted at the municipal premises. An interview guide which is attached as Annexure 2 was developed and used in conducting semi-structured interviews in order to gather information and to address questions that emanated from the analysis that was conducted through the assessment matrix.

In semi-structured interviews, the researcher compiles a list of questions to be covered and develops an interview guide to ensure that the topics that have bearing on the study are covered (Welman, Kruger & Mitchel, 2005). This method was preferred because it allowed the researcher to use probes intended at clearing up ambiguous responses; the researcher was furthermore afforded an opportunity to pose follow-up questions arising from the analysis emanating from the assessment matrix and responses provided during the interview.

Secondary data were collected using an assessment matrix which is attached as Annexure 3. The assessment matrix was developed based on international best practice and used to evaluate whether the municipalities complied with best practice. According to Groenland (2014), the assessment matrix approach is based on interpretation and coding of records

based on academic knowledge in order to draw a conclusion based on structured analysis and understanding. Different assessment matrices have previously been applied in various disciplines to analyse, interpret and summarise complex aspects of knowledge generation and to provide recommendations for improvements (Klopper & Lubbe , 2011).

The selected data-collection methods were preferred because municipalities are highly politicized in nature (South African Cities Network & Khanya AICDD, 2014) and obtaining information through interviews may be a futile exercise and impair the achievement of the research objectives which are to establish the factors that leads to the unfavourable audit opinion; and recommend measures for improvement of the audit outcomes within local municipalities.

3.7. Data analysis

Assessment matrices based on eleven areas of competence were developed and utilised for data analysis. The matrices adopted a scale of -1 to 5 where; -1 = information not submitted; 0 = vacant/ non-existent; 1 = very poor; 2 = poor; 3 = average; 4 = satisfactory; and 5 = good. The optimum score was the highest score that a municipality could achieve. The optimum score was compared with the actual score attained by the municipality in order to establish compliance with the areas of competence. Percentage score was calculated using the following formula:

$$\text{Percentage score} = \frac{\text{Actual score}}{\text{Optimum Score}} \times 100$$

3.8. Summary

In this chapter the research paradigm and methodology adopted by the study were discussed. The study adopted an exploratory research design. The population of the study was highlighted and the applied sample selection techniques were discussed. Lastly, the data collection method and data analysis techniques were outlined. The following chapter presents the findings of the study.

CHAPTER 4: PRESENTATION OF RESULTS

4.1. Introduction

This chapter presents the findings of the study in tabular form. Tables 4.1 to 4.11 display the respective raw scores of analysis of eleven areas of competence. Each table shows the optimum score expected and actual score obtained per item assessed. Table 4.12 is a summary of the analysis from Tables 4.1 to 4.11. It gives both the total raw score and relative score obtained for each municipality assessed. Table 4.13 displays the results of the interviews.

4.2. Findings from the assessment matrices

The data collected using the assessment matrices are presented as Tables 4-1 to 4-11. The assessment matrix scoring was based on a scale of -1 to 5 where; -1 = information not submitted; 0 = vacant/ non-existent; 1 = very poor; 2 = poor; 3 = average; 4 = satisfactory; and 5 = good. A summary of the assessment matrix results is presented as Table 4-12.

Table 4-1: Key staff complement

Position	Optimum number	Optimum Score	Actual score		
			Municipal A	Municipal B	Municipal C
Municipal Manager	1	5	5	3	3
Chief Financial Officer	1	5	5	0	5
Senior Manager: Corporate Services	1	5	5	0	5
Senior Manager: Technical Services	1	5	5	5	3
Chief Audit Executive	1	5	5	0	0
Chief Risk Officer	1	5	5	0	0
Manager: Budget and Reporting	1	5	5	5	3
Manager: Supply Chain Management	1	5	5	5	5
Manager: Income/ revenue	1	5	0	5	5
Manager: Expenditure	1	5	5	5	0
Manager: Integrated Development Planning	1	5	5	0	5
Manager: Performance Management	1	5	5	0	3
Total		60	55	28	37
Percentages		100%	92%	47%	62%

Table 4-2: Key staff qualifications

Position	Minimum qualifications	Optimum Score	Actual Score		
			Municipal A	Municipal B	Municipal C
Municipal Manager	higher education qualification that is at least at NQF level 6	5	-1	5	-1
Chief Financial Officer	At least NQF level 6	5	-1	0	-1
Senior Manager: Corporate Services	At least NQF level 6	5	-1	0	-1
Senior Manager: Technical Services	At least NQF level 6	5	-1	5	-1
Chief Audit Executive	Post-graduate degree in Auditing and/or Accounting and Professional designation such as Certified Internal Auditor	5	-1	0	-1
Chief Risk Officer	At least NQF level 6	5	-1	0	-1
Manager: Budget and Reporting	At least NQF level 6	5	-1	5	-1
Manager: Supply Chain Management	At least NQF level 5, or National Diploma: Public Finance Management and Administration	5	-1	5	-1
Manager: Income/revenue	At least NQF level 5, or National Diploma: Public Finance Management and Administration	5	-1	5	-1
Manager: Expenditure	At least NQF level 5, or National Diploma: Public Finance Management and Administration	5	-1	5	-1

Manager: Integrated Development Planning	At least NQF level 5 in the related field	5	-1	0	-1
Manager: Performance Management	At least NQF level 5 in the related field	5	-1	0	-1
Total		60	-12	30	-12
Percentages		100%	-20%	50%	-20%

Table 4-3: Key staff experience

Position	Minimum experience	Optimum Score	Actual score		
			Municipal A	Municipal B	Municipal C
Municipal Manager	Minimum of 5 years' experience at a senior management level	5	-1	5	-1
Chief Financial Officer	Minimum of 5 years at middle management level	5	-1	0	-1
Senior Manager: Corporate Services	Minimum of 5 years at middle management level	5	-1	0	-1
Senior Manager: Technical Services	Minimum of 5 years at middle management level	5	-1	5	-1
Chief Audit Executive	Minimum of 5 years in internal audit management	5	-1	0	-1
Chief Risk Officer	Minimum of 5 years at middle management level	5	-1	0	-1
Manager: Budget and Reporting	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official	5	-1	5	-1

Manager: Supply Chain Management	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official	5	-1	5	-1
Manager: Income/revenue	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official	5	-1	5	-1
Manager: Expenditure	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official	5	-1	5	-1
Manager: Integrated Development Planning	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official	5	-1	0	-1
Manager: Performance Management	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official	5	-1	0	-1
Total		60	-12	30	-12
Percentages		100%	-20%	50%	-20%

Table 4-4: Municipal governance processes

Activity	Minimum Requirement	Optimum Score	Actual score		
			Municipal A	Municipal B	Municipal C
Municipal manager	A municipal Council must appoint a Municipal Manager who will serve as an accounting officer and administration head.	5	5	3	3
Declaration of interest	All councillors and municipal officials (specifically management and finance officials) must declare in writing, their financial interests)	5	4	3	3
Performance Management	A municipality must develop and implement performance management system	5	2	1	2
	Result of the performance measurements must be audited by internal audit on a quarterly basis.	5	5	1	0
	Municipal Councils must ensure that performance agreement is signed with the municipal manager and that regular in-year performance monitoring takes place.	5	5	1	3
	Where performance is not at the required level, appropriate corrective actions should be implemented	5	2	1	1
Structure	Municipal councils must develop and adopt an approved organisational structure.	5	5	5	1
	Each position on the organisational structure must have a job profile containing the minimum requirements for the position and a job description.	5	4	2	1

Senior Management	Stability should be maintained at senior management level. (Senior Managers should be appointed on a fixed-term contract and not as acting position)	5	5	1	2
System of delegation	A municipal council must develop and implement a system of delegation in order to optimise administrative and operational efficiency.	5	5	4	2
Human resources management	Municipal council must develop, adopt and implement a human resource policy that include among others: recruitment, selection and appointments; training; disciplinary procedures; and service conditions of staff.	5	5	4	3
	Municipal council must make a budgetary provision for staff development and training.	5	5	4	3
Code of Conduct	All staff members must be provided with a code of conduct.	5	4	4	4
Information Technology	The Municipality should establish an IT governance framework that supports and enables the achievement of objectives.	5	4	0	0
Total		70	60	34	28
Percentages		100%	86%	49%	40%

Table 4-5: Functionality of internal audit unit

Activity	Minimum Requirement	Optimum Score	Actual score		
			Municipal A	Municipal B	Municipal C
Establishment	Internal audit unit must be established or the services outsourced/shared	5	4	4	0
Chief Audit Executive minimum competency requirements	Certified Internal Auditor	5	1	1	0
Independence	The Chief Audit executive report administratively to the Municipal Manger and Functionally to the Audit Committee.	5	5	4	0
Communication	Chief Audit Executive have direct communication with the municipal manger, audit committee, municipal council, and other appropriate governing authorities.	5	5	3	0
Internal audit charter	Accepted by the Municipal Manager, approved by the audit committee and noted by the municipal council	5	5	3	0
Internal audit strategic plan	Based on the risk assessment, includes inputs from management and approved by the audit committee	5	5	1	0
Internal audit budget	Controlled by the Chief Audit Executive and covers: <ul style="list-style-type: none"> • Personnel-related expenditure; • Capital expenditure and software; 	5	4	1	0

	<ul style="list-style-type: none"> • Training and development; • Institute of Internal Auditors membership fees; and • Quality assurance programmes 				
Effectiveness of internal audit staff	Well-documented job descriptions	5	5	1	0
	Performance evaluations	5	2	1	0
	Training programmes	5	4	1	0
Quality assurance and improvement	The activities of the internal audit must be guided, monitored and supervised at each level of operation.	5	3	5	0
	Audits are performed in accordance with the International Standards for the Professional Practice of Internal Audit.	5	3	4	0
Internal Assessments	Annual internal assessments appraising among others, compliance with the legislative framework, definition of internal auditing, standards, internal audit charter, code of ethics and methodology.	5	1	1	0
External Assessments	Conducted by a qualified reviewer or review team from outside the municipality at least once in 5 years.	5	1	1	0
Communicating Results	The audit results should be communicated to the municipality and relevant senior and Executive management. Communications must include the engagement's objectives and Scope as well as applicable conclusions, recommendations, and action plans.	5	4	4	0

Monitoring Progress	Follow-up audits must be incorporated in the annual internal operational audit plan.	5	5	5	0
	A follow-up engagement and reports must be submitted to Council to address actions not being implemented	5	4	1	0
Consulting Activities	The internal audit charter should include the authority and responsibilities of consulting services.	5	5	5	0
Total Score		90	66	46	0
Percentages		100%	73%	51%	0%

Table 4-6: Functionality of audit committee

Activity	Minimum Requirement	Optimum score	Actual score		
			Municipal A	Municipal B	Municipal C
Establishment	municipality must have an audit committee which advise the municipal council and the management of the municipality	5	5	2	0
Charter	The Audit Committee Charter which guides the operations of the Audit Committee should be approved by the municipal Council, reviewed on an annual basis, and published on the municipal website	5	4	1	0
Audit Committee Members	Council must appoint at least three persons who are not in the employ of the municipality as the audit committee.	5	5	2	0
	The audit committee must sit at least four (4) times a year.	5	5	3	0
	The audit committee members should collectively possess the following skills and experience: <ul style="list-style-type: none"> • Financial management • Legal • Information Technology • Performance Management • Admin and Governance • Technical skills e.g. Engineering 	5	4	1	0
	The audit committee must report to Council on a quarterly basis.	5	5	4	0

Responsibilities of the Audit Committee	The audit committee must review the Annual Financial Statements two weeks before submission to the Auditor-General.	5	5	1	0
	The audit committee should review annual Auditor-General audit plans and audit fees.	5	5	1	0
	Confirm if the Auditor-General audit file is prepared in line with the applicable standards	5	5	1	0
Performance	Performance of the audit committee should be assessed on an annual basis	5	4	1	0
Total Score		50	47	17	0
Percentages		100%	94%	34%	0%

Table 4-7: Implementation of municipal risk management

Activity	Minimum requirements	Optimum score	Actual score		
			Municipal A	Municipal B	Municipal C
Establishment	Municipal Council must establish and maintain effective, efficient and transparent systems of risk management.	5	4	1	0
Policy	A risk management policy must be developed and adopted/approved by the municipal Council	5	5	1	0
	Risk management policy must be communicated to all officials.	5	5	0	0
Strategy	Municipality must develop and implement a risk management strategy to guide the implementation of the risk management policy.	5	4	0	0
	The strategy must be supported by management and approved by the Municipal Council.	5	5	0	0
Fraud prevention	The municipality must develop a fraud prevention policy which has to be adopted by the municipal Council.	5	5	4	0
	The municipality must develop and implement a fraud prevention strategy/plan to guide the implementation of the fraud prevention policy.	5	4	0	0
Budget	Operating and capital costs of the Risk Management Unit must be controlled by the Chief Risk Officer.	5	1	0	0
Risk identification and assessment	The municipality should develop and implement an ongoing Process of risk identification and assessment.	5	5	1	0

Risk response	Management must develop and communicate risk response strategies which have timelines to the relevant risk owners.	5	4	1	0
Audit committee	The Audit Committee should provide an independent and objective view of the municipal risk management effectiveness.	5	4	1	0
Risk Management Committee	A Risk Management Committee should be established to assist Council with the discharge of risk management responsibilities.	5	4	0	0
	The chairperson of the Risk Management Committee should be an external person, appointed by the Municipal Council.	5	1	0	0
	A Risk Management Committee Charter should be supported by the Municipal Manager and approved by the Municipal Council	5	5	0	0
Internal Audit	Internal Audit must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.	5	5	0	0
Totals		75	61	9	0
Percentages		100%	81%	12%	0%

Table 4-8: Adequacy of supply chain management processes

Activity	Minimum requirement	Optimum score	Actual score		
			Municipal A	Municipal B	Municipal C
Policy	A Municipal Council must develop and approve a supply chain management policy	5	5	5	4
	A Municipal Council should review the supply chain management policy on an annual basis	5	5	5	1
	The Municipal Manager must submit a quarterly report to the municipal mayor on the implementation of the supply chain management policy within ten days of the end of each quarter.	5	4	1	1
	The Municipal Manager must submit a report on the implementation of the supply chain management policy to the municipal Council within 30 days of the end of each financial year.	5	1	1	1
Supply chain management unit	The municipality must establish a supply chain management unit under the supervision of the Chief Financial Officer to implement the supply chain management policy	5	4	3	3
	The supply chain management unit must encompass: <ul style="list-style-type: none"> • Demand management • Acquisition management • Logistic and disposal management • Risk management and performance management 	5	2	3	3

Prohibited expenditures	A municipality must develop and implement internal controls to prevent and identify unauthorised, irregular or fruitless and wasteful expenditure	5	2	1	2
	A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure	5	2	1	1
Total Score		40	25	20	16
Percentages		100%	63%	50%	40%

Table 4-9: Adequacy of financial management

Activity	Minimum requirement	Optimum score	Actual score		
			Municipal A	Municipal B	Municipal C
Budget	The Municipal Council must approve an annual budget before the commencement of a financial year	5	4	5	5
	A Municipal Manager must submit a monthly budget statement to the provincial treasury by no later than ten working days after the end of each month.	5	4	4	4
Reconciliations	The CFO must prepare monthly bank reconciliations on a monthly basis by no later than ten working days after the end of each month.	5	4	2	2
Records Management	The Municipality must develop and implement a record management system to record and safeguard all municipal documents	5	2	4	1
	The records management system should be computerised to enable easy retrieval of hard copies and reproduction of information in case of loss of hard copies.	5	2	3	1
Financial management system	A municipality should utilise a financial management system that is approved by National treasury and that is capable of integrating with other systems that produce information relevant for financial reporting	5	5	1	2

	The financial management system should be able to generate daily, weekly and monthly reports; and generate credible and reliable Annual Financial Statements	5	5	3	3
	The financial management system should be in line with the requirements of GRAP	5	5	3	2
Assets Management	The municipality should establish a unit that is dedicated to assets management under the supervision of the CFO	5	5	4	2
	A municipality should develop and maintain an updated assets register in line with GRAP.	5	2	3	2
	A municipality should conduct quarterly assets verification	5	3	2	3
	The municipality must develop and maintain an accounting information system that accounts for the assets and liabilities of the municipality.	5	4	3	4
Year-end plan	The municipality should prepare and implement a financial statements preparation plan that will include among others, the cut-off plan and procedures.	5	5	4	2
Annual financial statements	The CFO must prepare annual financial statements.	5	3	1	3
	In cases where financial statements are prepared by consultants on behalf of the municipality, the quality of work performed by consultants must be monitored	5	1	1	1
	In cases where financial statements are prepared by consultants on behalf of the municipality, skills must be transferred to the municipal employees.	5	1	1	1

	The Annual Financial Statements must be submitted to the Audit Committee for quality review prior submission to the Auditor-General	5	5	4	1
	The Annual Financial Statements must be submitted to the Auditor-General on or before the 30 August?	5	5	5	5
Total Score		90	65	53	44
Percentages		100%	72%	59%	49%

Table 4-10: Preparation of audit file

Activity	Minimum requirement	Optimum score	Actual score		
			Municipal A	Municipal B	Municipal C
Municipal Audit File	Audit file should be clearly referenced	5	5	4	4
Order of information	Audit file should follow the order of information that appears in the annual financial statements	5	5	5	4
Contents of the file	The file must contain all the items included on the Auditor-General audit file checklist	5	3	3	2
Preparation and coordination	The file should be prepared by an official from the municipal Budget and Treasury office under the supervision of the Chief Financial Officer	5	5	3	3
	A timetable must be developed to integrate the various deadlines of each contributor into the completed document	5	3	5	4
Verification and authorization	The file should be verified by the Chief Finance Officer and authorised by the Municipal Manager prior submission to the Auditor-General	5	2	1	3
Distribution	The information should be discussed with the internal audit unit prior to distribution to the Auditor-General.	5	5	1	0
	Copies of the file should be retained by the Municipal Manager, Chief Financial Officer, official responsible for coordinating the file.	5	5	5	5

	The audit file must be submitted to the Auditor-General on or before the 30 August	5	5	4	4
Total		45	38	31	29
Percentages		100%	84%	69%	64%

Table 4-11: Audit process support and recovery plan

Activity	Minimum requirement	Optimum score	Actual score		
			Municipal A	Municipal B	Municipal C
Coordination of the audit process	The Municipal Manager should establish a steering committee to coordinate Auditor-General requests and responses	5	5	3	3
Audit report	The Auditor-General must issue an audit report to the Municipal Manager within three months of receipt of the statements.	5	5	5	5
	The Municipal Mayor should create a space for engagements with the Auditor-General in order to understand the processes undertaken and the audit opinion issued by the Auditor-General	5	3	1	1
Audit recovery plan	The Municipality must address all issues raised by Auditor-General	5	3	1	1
	The Municipal Mayor must ensure that the Municipal Manger develops a plan to address the issues raised by the Auditor-General	5	4	1	4
	The Audit plan should be strategic, measurable, attainable, realistic, and time bound.	5	5	4	2
	The plans should be agreed upon with the Auditor-General to ensure that the recommendations made have been adequately addressed.	5	5	1	1

	The Municipal Manager should monitor the implementation of the plan on a monthly basis.	5	2	1	1
	The Municipal Mayor should report on the implementation of the plan to Council on a quarterly basis	5	4	1	1
	The Municipal Council should provide a strong monitoring and oversight role and hold the administration accountable	5	2	1	1
	The Municipal Mayor and Manager should set a tone of zero tolerance for non-performance with the plan and hold staff accountable	5	1	1	1
	Internal audit should review the effectiveness and implementation of the plan	5	5	1	0
Total score		60	44	21	21
Percentages		100%	73%	35%	34%

Table 4-12: Summary of assessment matrix results

AREA	Optimum score	Total score		
		Municipal A	Municipal B	Municipal C
Key Staff Complement	60	55	28	37
Key Staff Qualifications	60	-12	30	-12
Key Staff Experience	60	-12	30	-12
Municipal Governance Processes	70	60	34	28
Functionality of Internal Audit Unit	90	66	46	0
Functionality of Audit Committee	50	47	17	0
Implementation of Municipal Risk Management	75	61	9	0
Adequacy of Supply Chain Management Processes	40	25	20	16
Adequacy of Financial Management	90	65	53	44
Preparation of Audit File	45	38	31	29
Audit Process Support and Recovery Plan	60	44	21	21
Total	700	437	319	151
Percentages	100%	62%	46%	22%

Table 4-13: Responses from Chief Financial Officers

Question	Municipal A	Municipal B	Municipal C
Does the municipal council put an adequate effort in ensuring that the municipality achieve a clean audit?	The municipal council is playing a vital role in ensuring that the municipality improve its audit outcomes. Among other things that the council has done is to receive and approve the audit action plan that addresses the findings raised by the Auditor-General and to approve a budget that addresses the audit recovery plan.	Council is playing its oversight role through the Municipal Public Accounts Committee that is aimed at ensuring adequate financial management. The committee hold management accountable and they normally engage with the Auditor-General in order for them to be kept abreast with the audit findings. The shortfall of council is lack of monitoring.	The council infightings and political instabilities rendered the council ineffective, as a result, council was unable to put in an adequate effort to assist the municipality to achieve a clean audit.
Do the other spheres of government provide relevant support to ensure that the municipality achieve a clean audit?	The Provincial Treasury and other provincial and national departments have previously provided support in the form of consultants to ensure that the municipality's finances are adequately managed and the Annual financial statements are prepared and submitted on time.	The National Treasury, Provincial Treasury and other departments provide support to the municipality; however, the transfer of skills is not materialising due to staff shortages and high workloads.	Support has been received from both the Department of Local Government and Department of Finance (Provincial treasury) however the instabilities in the municipality rendered some of the support ineffective.

<p>Why is the municipality failing to achieve a clean audit opinion?</p>	<p>The non-existence of governance structures like the internal audit, risk management and audit committee; and the high vacancy in key positions were some of the key factors that contributed to the unfavourable audit opinions. The municipality was able to improve from disclaimer to qualified opinion after the appointment of key personnel and establishment of governance structures.</p>	<p>Different units are working in silos and key positions remain vacant for extended periods of time. Furthermore, in-year monitoring and other relevant activities are not undertaken because of the high workloads and the tight schedule of the municipal calendar activities. The municipality only consider the audit related issues during the auditing period.</p>	<p>Lack of skills, high vacancy rates, political interference, insufficient budget and non-existence of governance structures are the key contributors to the unfavourable audit opinion. The other issue that is causing the municipality to receive unfavourable opinions is the lack of proper records management within the municipality.</p>
<p>What should the municipality do to ensure that it achieves a clean audit?</p>	<p>The municipal manager and council should ensure that the officials own up to their responsibilities by undertaking continuous monitoring and ensuring that there is accountability</p>	<p>The point of departure is the political leadership that holds administration accountable and that supports the efforts towards clean audit. Secondly, the appointment of personnel in key positions especially the position of Municipal Manager and Chief Financial Officer and senior managers. Lastly the implementation of performance</p>	<p>Financial relief should be sought to ensure that the vacant positions are filled with skilled personnel. The political interference is discontinued to ensure that the administration carry out its duties without interruption and fears.</p>

		management systems that will ensure that skills shortages are identified and addressed, good performance is rewarded and poor performance is discouraged and punished.	
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4.3. Summary

In this chapter, the findings of the study were presented and analysed. Various factors were found to be contributing towards unfavourable audit outcomes. This furthermore emphasises the systems theory of management which points out the interdependence of different functions of the organisation. The ineffectiveness of some sections contributes towards the unfavourable audit opinions in municipalities. In the next chapter findings of the study are discussed and recommendations for improvement suggested,

CHAPTER 5: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

In the previous chapter the results of the data collected during the study were presented and analysed. This chapter serves as a concluding chapter of the study in which the findings will be discussed and recommendations for improvement suggested.

The purpose of this study was to contribute solutions to address the problem of unfavourable audit outcomes in local municipalities within Ngaka Modiri Molema District. The main question that this research study attempted to answer was “what needs to be done to improve the audit outcomes of local municipalities in Ngaka Modiri Molema District?” To address the research question, the study adopted two research objectives. The first objective was to establish the factors that had led to the unfavourable audit opinion; and the second objective was to recommend measures for improvement of the audit outcomes within local municipalities.

5.2. Discussion of findings

The discussion indicates how findings relate with objective 1 of this study which is to establish the factors that led to the unfavourable audit opinions. The discussion analyses the elements summarised in Table 4-12.

5.2.1. Key staff complement

The point of departure was to establish whether key positions in the municipalities were filled with incumbents with the necessary qualifications and experience. The overall results point out that there is a high number of vacancies in key positions in each of the three local municipalities that were investigated. An analysis of vacancies indicates that in local municipalities A, B, and C, vacant rates of key position stood at 8%, 53%, and 38% respectively. The results furthermore indicated that the Municipal Manager of municipal A was appointed on a fixed-term contract while the incumbents at municipality B and C were appointed in an acting capacity. In addition, the CFO of municipality A was appointed on a fixed-term contract while the position of CFO was vacant at municipality B. The incumbent at municipality C was appointed in an acting capacity. As discussed in Section 2.14, high levels of vacancies in key positions result in frustrations within the workforce which contributes to instability in municipalities and ultimately to poor performance and unfavourable audit opinions.

5.2.2. Qualifications and experience of key personnel

Information relating to the key personnel qualifications and experience was not availed to the researcher by some of the municipalities and reasons for non-disclosure of information were not provided. Findings from the study indicated that the incumbents from the municipality that agreed to submit information relating to qualification and experience were all complying with the minimum qualifications and experience requirements; however, many key positions were vacant. As a result, the municipality was only 50% compliant with regard to qualifications and experience of key personnel.

The reluctance of the other municipalities to disclose information on qualifications and experience of personnel resulted in the assumption that they had not complied with the requirements. For that matter, the researcher deems it reasonable to conclude that none of the three local municipalities complied with minimum standards for qualification and experience of key personnel.

This means that there is a shortage of skills in the municipalities. As discussed in Section 2.14 there were insufficient skills and expertise in municipalities and in instances where skills and expertise were available, it was overstretched with a view of compensating for vacancies. This contributed towards poor performance as a result of fatigue and high workloads and that ultimately contributed towards an unfavourable audit opinion.

5.2.3. Governance processes

The compliance level of municipalities on issues relating to governance process was at 86% for municipality A, 49% for municipality B, and 40% for municipality C. The top three governance issues identified by the study as key contributors to unfavourable audit opinion were political leadership, performance management, and Information Technology (IT).

The first governance issue that was identified by the study was the lack of political leadership and political instability. The interviews with the municipal officials revealed that the municipal council was not adequately executing its oversight responsibility and it did not create an environment that promoted a culture of accountability and consequence management. Furthermore, there were instances where political instability influenced performance of the municipality. As discussed in Section 2.15 political instability normally diverts the attention of management from their key responsibilities and contributes towards the unfavourable audit opinion.

The second governance finding was in relation to performance management. Performance management at all the sampled municipalities was not functional at all levels and council did not

adequately carry out its responsibility of monitoring performance and holding non-performing officials accountable by including among others, punitive measures. The compliance level on issues relating to performance for municipalities A, B, and C was 70%, 20%, and 30% respectively. As discussed in Section 2.14 a culture of poor performance and lack of consequence management contributes towards the non-implementation of the Auditor-General findings and that results to unfavourable audit outcomes.

IT governance was the third finding that relates to governance. All the sampled municipalities except for one did not have an IT governance framework to support and enable the achievement of objectives. Compliance level for municipality A was 80% while municipalities B and C had compliance levels of 0%. The absence IT governance framework means that the information technology of the municipality is not managed in a well-coordinated manner and the financial management system used for generating financial information and financial statements it also cannot be relied on As discussed in Section 2.10, one of the reasons for non-achievement of desired audit opinions is the failing financial management systems. The root cause of the failing financial management systems is the lack of IT governance framework. This therefore suggests that the lack of this framework contributed towards the unfavourable audit opinion.

5.2.4. Functionality of internal audit

Functionality of internal audit at municipalities A, B, and C received a rating of 73%, 51%, and 0% respectively. These results indicate that the internal audit functions in the municipalities were inefficient and non-functional in one municipality. The absence and inefficiencies of internal audit means that in-year assurance is not provided hence efforts to realise a clean audit are not materialising. As discussed in Section 2.4, internal audit plays a vital role in assisting the organisations to move towards the achievement of its objectives. This is achieved by proving management and municipal council assurance on the effectiveness of controls that directs the municipality towards the achievement of a clean audit. The ineffectiveness of internal audit can therefore be considered as one of the factors that contributed toward the non-compliance with the Auditor-General's audit procedures.

5.2.5. Functionality of audit committees

The study found that only two municipalities had appointed audit committees; their compliance levels in this regard were 94% and 34%. None of the municipalities was fully compliant in this regard. As discussed in Section 2.9, audit committees are viewed as important elements that promote good governance within the organisation. Therefore, the researcher deems it reasonable to conclude that the absence of audit committees at some municipalities and dysfunctional committees at others contributed towards the unfavourable audit opinions at municipalities.

5.2.6. Implementation of municipal risk management

The study found that only one municipality had a functional risk management unit, the municipality received a score 81%. The remaining two municipalities scored 12% and 0%, respectively. This analysis indicates that the municipalities lack capacity to adequately identify and mitigate their risk exposure; as a result, they are vulnerable to risks such as fraud, theft, loss of material resources, non-achievement of objectives and unfavourable audit opinion. As discussed in Paragraph 2.5, generally management in the public sector do not embrace the risk management concept leading to non-implementation of risk management process which translate to non-achievement of the set objectives and unfavourable audit outcomes.

5.2.7. Adequacy of supply chain management (SCM) processes

The rating received by the municipalities on the adequacy of SCM processes was 63%, 50%, and 40% respectively. This analysis indicates that none of the municipalities fully complied with established policies. The municipal mayors and councils contributed towards the structural inefficiencies by not fulfilling their oversight role of ensuring that management should implement the supply chain management policies. As discussed in Section 2.14, municipalities are struggling with the implementation of supply chain management processes. Poor enforcement of proper supply chain management policies results in poor controls in the procurement process and an increase in irregular expenditure.

5.2.8. Adequacy of financial management

The study found that there were three main contributors to the inadequacy of financial management in municipalities. The first contributor was the failure to conduct timeous reconciliations. Annual financial statements are a culmination of day-to-day financial transactions of an organisation. The lack of timeous reconciliations of financial information means that errors and omissions are not identified and corrected on time resulting to recurring incorrect financial information. One municipality scored 80% on the performance of reconciliations while the other two scored 40% each. The notion that reconciliations contribute to unfavourable audit opinions is supported by discussion in Section 2.16, which pointed out that timeous reconciliations must be performed in order to improve the municipal audit outcomes.

The second contributor found by the study was the inappropriate records management and financial systems. All municipalities except one were still using out-dated manual record management processes that are prone to document misplacement and losses. The score received by municipalities in respect of records management are 40%, 70%, and 20%, respectively. As discussed in Section 2.16., records management is one of the core factors that

contribute towards unfavourable audit opinions. The use of out-dated records management processes that are not computerised contributes towards the unfavourable audit outcomes.

The study furthermore found that all the local municipalities were unable to prepare the annual financial statements and they continue to use consultants without a proper skills transfer strategy. All the sampled municipalities received a score of 20% on the transfer of skills by consultants. In Section 2.14, it is noted that the use of consultants by municipalities does not improve audit outcomes because there is no skills transfer and there is no proper monitoring of consultants' performance.

5.2.9. Preparation of Audit File

The study found that all the municipalities compiled a year-end plan that assisted them to eventually submit the financial statements on time; however, because annual financial statements are an output of several processes, the inefficiencies in various departments like records management, internal audit, information technology and supply chain management may result in annual financial statements that are unreliable. The municipalities received a scoring of 84%, 69%, and 64% respectively. Notwithstanding the discussions in Section 2.16 that proper planning has a positive impact on the audit outcome; the plan must be supported by interconnectivity and interrelationship among different components within the organisation in line with the systems theory of management.

5.2.10. Audit process support and recovery plan

Findings of the study indicated that the audit process support and the development and implementation of audit recovery plan were lacking in municipalities. Municipalities received a score of 73%, 35% and 35% respectively. None of the municipalities were fully compliant in this regard. The score is an indication that the municipalities were not implementing corrective measures to address discrepancies raised by the Auditor-General. The outstanding issues raised by Auditor-General were carried over to the following year resulting in an increase in outstanding issues and an unfavourable audit opinion. As discussed in Section 2.13, the municipalities have to address the Auditor-General queries by developing an audit action plan. When correctly implemented, the plan may assist municipalities to work towards favourable audit opinions.

5.3. Conclusion

Eleven key areas of competence that must be satisfactorily addressed were identified in the study. Therefore objective 1 was achieved. From the discussion above, it is clear that none of the local municipalities fully complied with the optimum standard (100%) in any of the eleven competences for clean audit outcomes summarised in Table 4-12. Overall, the three local municipalities scored

62%, 46% and 22% respectively. It is also clear that the competencies evaluated fall within the micro-environment of the municipalities. It can therefore be concluded that the factors that led to unfavourable audit outcomes in the local municipalities of Ngaka Modiri Molema District were internal and could be mitigated through corrective action by top management and the council. The findings of this study may not be applicable to other district municipalities. However, the method developed in this study to assess performance in Ngaka Modiri Molema district could be applied in other district municipalities.

5.4. Recommendations

In order to improve the audit outcomes of local municipalities within the Ngaka Modiri Molema District, the following recommendations have to be implemented:

1. The municipalities must advertise and recruit to fill all key vacancies with competent candidates who possess the necessary qualifications, experience, attributes.
2. The municipalities must identify the skills shortages especially in finance sections and develop and implement training programmes that will address the skill shortages.
3. The municipalities must provide bursaries for scarce skills and recipients of the bursaries must be contracted to work for municipalities for specified period.
4. Municipalities must cascade performance management system to all levels of the organisation and ensure that regular in-year performance monitoring is undertaken. Relevant corrective actions should be implemented in cases where performance is not at the desired level.
5. The municipal Councils and Municipal Managers of all municipalities must set a tone of zero tolerance for non-performance, transgressions of legislation, and circumventing of internal controls; and hold employees accountable.
6. Municipalities must develop information technology plans that include the information technology governance framework and set aside budget to enable the implementation of the plan. The municipalities must furthermore attract and retain the required information technology skills to ensure that information technology controls are adequately designed and implemented to enable the production of credible and reliable information.
7. All municipalities must establish internal audit units, audit committees, risk management committees, and risk management functions in line with the Municipal Finance Management Act. The effectiveness of the structures should be assessed on an annual basis to establish whether their structures comply with their mandate.
8. All the municipalities must develop supply chain management policies and structures in line with the Municipal Finance Management Act.
9. The Chief Financial Officers must ensure that daily, weekly and monthly reconciliations are performed and monitored to promote accurate and reliable in-year and year-end reporting.

10. Municipalities must develop and implement appropriate record management systems that will promote the safeguarding of information and ensure that the documents are available to support the financial statements.
11. All the Municipal Managers must ensure that controls are put in place to monitor and thus to justify the use of consultants. Furthermore, the Municipal Managers must ensure that the contracts of all consultants include the transfer of skills executed in a systematic manner. Monitoring of the skills transfer must be undertaken and reported to council.
12. All municipalities in consultation with the Auditor-General must develop sound audit recovery plans to address findings raised by the Auditor-General. Implementation of these plans should be monitored on a monthly basis by management and quarterly basis by the audit committee and council.

The recommendations above are testimony that objective 2 was achieved. If the suggested recommendations are fully implemented they will go a long way towards improving the audit outcomes within the municipalities.

5.5. Recommendation for further study

In the study, it emerged that since annual financial statements are generated from information compiled from various departments, it is highly likely that inefficiencies in those departments may result in annual financial statements that are not realistic and credible. This study therefore recommends that further studies should be undertaken to develop a framework that would streamline the flow of information in the municipal finance system with a view of obtaining reliable information to be used in preparation of annual financial statements.

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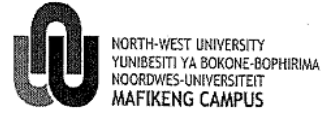
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ANNEXURES

Annexure 1: Permission to conduct a research



Graduate School of Business and
Government Leadership (GSB&GL)
Private Bag x 2946, Mmabatho
South Africa, 2735
Tel: 018-389 2437 Fax: 018-389 2335
Email: Gradschool@nwu.ac.za

24 August 2015

To whom it may concern

Permission to conduct research- Mr NJ Lesolang -MBA student

This letter serves to introduce Mr NJ Lesolang who is presently a registered student for Master in Business Administration (MBA) programme at the Graduate School of Business and Government Leadership of the North West University. He is conducting a research project on, **“Compliance with audit procedures by local municipalities within Ngaka Modiri Molema District”** towards a partial fulfillment of his MBA programme.

In this regard, your office is requested to afford his full co-operation to conduct this research. In particular, Mr NJ Lesolang, requires permission to access information, data or even to distribute questionnaires.

Your cooperation will be highly appreciated.


Ismail Haffeejee
Research Unit



Annexure 2: Letter from Ngaka Modiri Molema District Municipality



NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY

Cnr. Carrington Str and 1st Avenue, Industrial Site, Mahikeng, 2745 | Tel: (018) 381 9400|Fax (018) 381 4300
Private Bag X2167, Mahikeng, 2745| www.nmmdm.gov.za

OFFICE OF THE MUNICIPAL MANAGER

27 August 2015

Mr N.J. Lesolang
4749 Moseme Close
Unit 13
Mmabatho
2735

Dear Sir

REQUEST FOR PERMISSION TO CONDUCT A RESEARCH

Your letter dated 24 August 2015 requesting permission to conduct research on the compliance with audit procedures by local municipalities within Ngaka Modiri Molema District is noted and acknowledged. Ngaka Modiri Molema through the Office of the Acting Municipal Manager hereby grants you permission to conduct a research towards the fulfilment of your Master of Business Administration (MBA).

The Office of the Acting Municipal Manager would like to wish you all the best in your studies.

Regards

L.A. GOPANE
ACTING MUNICIPAL MANAGER

"Leaders in integrated municipal governance"

Annexure 3: Interview guide

INTERVIEW GUIDE	
Name of the Municipality:	
Person Interviewed:	
Interview date:	

Question	Response
Does the municipal council put an adequate effort in ensuring that the municipality achieve a clean audit?	
Does the other spheres of government provide relevant support to ensure that the municipality achieve a clean audit?	
Why is the municipality failing to achieve a clean audit opinion?	
What should the municipality do to ensure that it achieves a clean audit?	

Annexure 4: Assessment matrix

The assessment matrix scoring is based on a scale of -1 to 5 where; -1 = information not submitted; 0 = vacant/ non-existent; 1 = very poor; 2 = poor; 3 = average; 4 = satisfactory; and 5 = good

KEY STAFF COMPLEMENT

Position	Optimum number	Actual Number	Variance	Compliance %	Optimum Score	Actual Score
Municipal Manager	1				5	
Chief Financial Officer	1				5	
Senior Manager: Corporate Services	1				5	
Senior Manager: Technical Services	1				5	
Chief Audit Executive	1				5	
Chief Risk Officer	1				5	
Manager: Budget and Reporting	1				5	
Manager: Supply Chain Management	1				5	
Manager: Income/ revenue	1				5	
Manager: Expenditure	1				5	
Manager: Integrated Development Planning	1				5	
Manager: Performance Management	1				5	
Total					60	

KEY STAFF QUALIFICATIONS

Position	Minimum qualifications	Qualifications of Incumbent	Compliant		Optimum Score	Actual Score
			Yes	No		
Municipal Manager	higher education qualification that is at least at NQF level 6				5	
Chief Financial Officer	At least NQF level 6 for municipalities with annual Budget of below R500 million. At least NQF level 7 for municipalities with annual budgets of above R500 Million.				5	
Senior Manager: Corporate Services	At least NQF level 6				5	
Senior Manager: Technical Services	At least NQF level 6				5	
Chief Audit Executive	Post graduate degree in Auditing and/or Accounting and Professional designation such as Certified Internal Auditor				5	
Chief Risk Officer	At least NQF level 6				5	
Manager: Budget and Reporting	At least NQF level 6				5	

Manager: Supply Chain Management	At least NQF level 5, or National Diploma: Public Finance Management and Administration				5	
Manager: Income/revenue	At least NQF level 5, or National Diploma: Public Finance Management and Administration				5	
Manager: Expenditure	At least NQF level 5, or National Diploma: Public Finance Management and Administration				5	
Manager: Integrated Development Planning	At least NQF level 5 in the related field				5	
Manager: Performance Management	At least NQF level 5 in the related field				5	
Total					60	

KEY STAFF EXPERIENCE

Position	Minimum experience	Experience of Incumbent	Compliant		Optimum Score	Actual Score
			Yes	No		
Municipal Manager	Minimum of five years' experience at a senior management level				5	
Chief Financial Officer	Minimum of 5 years at middle management level				5	
Senior Manager: Corporate Services	Minimum of 5 years at middle management level				5	
Senior Manager: Technical Services	Minimum of 5 years at middle management level				5	
Chief Audit Executive	Minimum of 5 years in internal audit management				5	
Chief Risk Officer	Minimum of 5 years at middle management level				5	
Manager: Budget and Reporting	Minimum of four years of which at least one year must be at middle management level and at least three years at any level				5	

	in a role related to the position of the official					
Manager: Supply Chain Management	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official				5	
Manager: Income/revenue	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official				5	
Manager: Expenditure	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official				5	
Manager: Integrated Development Planning	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official				5	

Manager: Performance Management	Minimum of four years of which at least one year must be at middle management level and at least three years at any level in a role related to the position of the official				5	
Total					60	

MUNICIPAL GOVERNANCE PROCESSES

Activity	Minimum Requirement	Actual situation	Compliant		Optimum Score	Actual Score
			yes	no		
Municipal manager	A municipal Council must appoint a Municipal Manager who will serve as an accounting officer and administration head.				5	
Declaration of interest	All councillors and municipal officials must declare in writing, their financial interests				5	
Performance Management	A municipality must develop and implement performance management system				5	

	Result of the performance information must be audited by internal audit on a quarterly basis.				5	
	Municipal Councils must ensure that performance agreement is signed with the municipal manager				5	
	Municipal Councils must ensure that regular in-year performance monitoring takes place.					
	Where performance is not at the required level, appropriate corrective actions should be implemented				5	
Structure	Municipal council must develop and adopt an approved organisational structure.				5	
	Each position on the organisational structure must have a job profile containing the minimum requirements for the position and a job description.				5	
Senior Management	Stability should be maintained at senior management level. (Senior Managers should be appointed on a				5	5

	fixed-term contract and not as acting position)					
System of delegation	A municipal council must develop and implement a system of delegation in order to optimise administrative and operational efficiency.				5	
Human resources management	Municipal council must develop, adopt and implement a human resource policy that include among others: recruitment, selection and appointments; training; disciplinary procedures; and service conditions of staff.				5	
	Municipal council must make a budgetary provision for staff development and training.				5	
Code of Conduct	All staff members must be provided with a code of conduct.				5	
Information Technology	The Municipality should establish an IT governance framework that supports and enables the achievement of objectives.				5	
Total					70	

FUNCTIONALITY OF INTERNAL AUDIT UNIT

Activity	Minimum Requirement	Actual situation	Compliant		Optimum Score	Actual Score
			yes	no		
Establishment	Internal audit unit must be established or the services outsourced/shared				5	
Chief Audit Executive minimum competency requirements	Certified Internal Auditor				5	
Independence	The Chief Audit executive report administratively to the Municipal Manger and Functionally to the Audit Committee.				5	
Communication	Chief Audit Executive have direct communication with the municipal manger, audit committee, municipal council, and other appropriate governing authorities.				5	

Internal audit charter	Accepted by the Municipal Manger, approved by the audit committee and noted by the municipal council				5	
Internal audit strategic plan	Based on the risk assessment, includes inputs from management and approved by the audit committee				5	
Internal audit budget	Controlled by the Chief Audit Executive and covers: <ul style="list-style-type: none"> • Personnel related expenditure; • Capital expenditure and software; • Training and development; • Institute of Internal Auditors membership fees; and • Quality assurance programs 				5	
Effectiveness of internal audit staff	Well-documented job descriptions				5	
	Performance evaluations				5	
	Training programmes				5	
Quality assurance and improvement	The activities of the internal audit must be guided, monitored and supervised at each level of operation.				5	
	Audits are performed in accordance with the International				5	

	Standards for the Professional Practice of Internal Audit.					
Internal Assessments	Annual internal assessments appraising among others, compliance with the legislative framework, definition of internal auditing, standards, internal audit charter, code of ethics and Methodology.				5	
External Assessments	Conducted by a qualified reviewer or review team from outside the municipality at least once in 5 years.				5	
Communicating Results	The audit results should be communicated to the municipality and relevant senior and Executive management. Communications must include the engagement's objectives and Scope as well as applicable conclusions, recommendations, and action plans.				5	

Monitoring Progress	Follow-up audits must be incorporated in the annual internal operational audit plan.				5	
	A follow-up engagement and reports must be submitted to Council to address actions not being implemented				5	
Consulting Activities	The internal audit charter should include the authority and responsibilities of consulting services.				5	
Total Score					90	

FUNCTIONALITY OF AUDIT COMMITTEE

Activity	Minimum Requirement	Actual situation	Compliant		Optimum Score	Actual Score
			yes	no		
Establishment	Municipality must have an audit committee which advise the municipal council and the management of the municipality				5	
Charter	The Audit Committee Charter which guides the operations of the Audit Committee should be approved by the municipal Council, reviewed on an annual basis, and published on the municipal website				5	
Audit Committee Members	Council must appoint at least three persons who are not in the employ of the municipality as the audit committee.				5	
	The audit committee must sit at least four (4) times a year.				5	
	The Audit committee members should collectively possess the following skills and experience:				5	

	<ul style="list-style-type: none"> • Financial management • Legal • Information Technology • Performance Management • Admin and governance • Technical skills e.g. Engineering 					
Responsibilities of the Audit Committee	The audit committee must report to Council on a quarterly basis.				5	
	The audit committee must review the Annual Financial Statements two weeks before submission to the Auditor-General.				5	
	The audit committee should review annual Auditor-General audit plans and audit fees.				5	
	Confirm if the Auditor-General audit file is prepared in line with the applicable standards				5	
Performance	Performance of the audit committee should be assessed on an annual basis				5	
Total Score					50	

IMPLEMENTATION OF MUNICIPAL RISK MANAGEMENT

Activity	Minimum Requirement	Actual situation	Compliant		Optimum Score	Actual Score
			yes	no		
Establishment	Municipal Council must establish and maintain effective, efficient and transparent systems of risk management.				5	
Policy	A risk management policy must be developed and adopted/approved by the municipal Council				5	
	Risk management policy must be communicated to all officials.				5	
Strategy	Municipality must develop and implement a risk management strategy to guide the implementation of the risk management policy.				5	
	The strategy must be supported by management and approved by the municipal Council.				5	

Fraud prevention	The municipality must develop a fraud prevention policy which has to be adopted by the municipal Council.				5	
	The municipality must develop and implement a fraud prevention strategy/plan to guide the implementation of the fraud prevention policy.				5	
Budget	Operating and capital costs of the Risk Management Unit must be controlled by the Chief Risk Officer.				5	
Risk identification and assessment	The municipality should develop and implement an ongoing Process of risk identification and assessment.				5	
Risk response	Management must develop and communicate risk response strategies which have timelines to the relevant risk owners.				5	
Audit committee	The Audit Committee should provide an independent and objective view of				5	

	the municipal risk management effectiveness.					
Risk Management Committee	Risk Management committee should be established to assist Council with the discharge of risk management responsibilities.				5	
	The chairperson of the Risk Management Committee should be an external person, appointed by the Municipal Council.				5	
	Risk management Committee Charter should be supported by the Municipal manager and approved by the Municipal Council				5	
Internal Audit	Internal Audit must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.				5	
Totals					75	

ADEQUACY OF SUPPLY CHAIN MANAGEMENT PROCESSES

Activity	Minimum Requirement	Actual situation	Compliant		Optimum Score	Actual Score
			yes	no		
Policy	A municipal Council must develop and approve a supply chain management policy				5	
	A municipal Council should review the supply chain management policy on an annual basis				5	
	The Municipal Manager must submit a quarterly report to the municipal mayor on the implementation of the supply chain management policy within 10 days of the end of each quarter.				5	
	The Municipal Manager must submit a report on the implementation of the supply chain management policy to the municipal Council within 30 days of the end of each financial year.				5	
Supply chain management unit	The municipality must establish a supply chain management unit under				5	

	the supervision of the Chief Financial Officer to implement the supply chain management policy					
	<p>The supply chain management unit must encompass:</p> <ul style="list-style-type: none"> • Demand Management • Acquisition Management • Logistic and disposal management • Risk management and performance management 				5	
Prohibited expenditures	A municipality must develop and implement internal controls to prevent and identify unauthorised, irregular or fruitless and wasteful expenditure				5	
	A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure				5	
Total Score					40	

ADEQUACY OF FINANCIAL MANAGEMENT

Activity	Minimum Requirement	Actual situation	Compliant		Optimum Score	Actual Score
			yes	no		
Budget	Municipal Council must approve an annual budget before the commencement of a financial year				5	
	A Municipal Manager must submit a monthly budget statement to the provincial treasury by no later than 10 working days after the end of each month.				5	
Reconciliations	The CFO must prepare monthly bank reconciliations on a monthly basis by no later than 10 working days after the end of each month.				5	
Records Management	The Municipality must develop and implement a record management system to record and safeguard all municipality documents				5	
	The record management system should be system computerised to				5	

	enable easy retrieval of hard copies and reproduction of information in case of loss of hard copies.					
Financial management system	A municipality should utilise a financial management system that is approved by National treasury and that is capable of integrating with other systems that produce information relevant for financial reporting				5	
	The financial management system should be able to generate daily, weekly and monthly reports; and generate credible and reliable Annual Financial Statements				5	
	The financial management system should be in line with the requirements of GRAP				5	
Assets Management	The municipality should establish a unit that is dedicated to assets management under the supervision of the CFO				5	

	A municipality should develop and maintain an updated assets register in line with GRAP.				5	
	A municipality should conduct quarterly assets verification				5	
	The municipality must develop and maintain an accounting information system that accounts for the assets and liabilities of the municipality.				5	
Year-end plan	The municipality should prepare and implement a financial statements preparation plan that will include among others, the cut-off plan and procedures.				5	
Annual financial statements	The CFO must prepare annual financial statements.				5	
	In cases where financial statements are prepared by consultants on behalf of the municipality, the quality of work performed by consultants must be monitored				5	
	In cases where financial statements are prepared by consultants on behalf				5	

	of the municipality, skills must be transferred to the municipal employees.					
	The Annual Financial Statements must be submitted to the Audit Committee for quality review prior submission to the Auditor-General				5	
	The Annual Financial Statements must be submitted to the Auditor-General on or before the 30 August?				5	
Total Score					90	

PREPARATION OF AUDIT FILE

Activity	Minimum Requirement	Actual situation	Compliant		Optimum Score	Actual Score
			yes	no		
Municipal Audit File	Audit file should be clearly referenced				5	
Order of information	Audit file should follow the order of information that appears in the annual financial statements				5	
Contents of the file	The file must contain all the items included on the Auditor-General audit file checklist				5	
Preparation and coordination	The file should be prepared by an official from the municipal Budget and Treasury office under the supervision of the Chief Finance Officer				5	
	A timetable must be developed to integrate the various deadlines of each contributor into the completed document				5	

Verification and authorization	The file should be verified by the Chief Finance Officer and authorised by the Municipal Manager prior submission to the Auditor-General				5	
Distribution	The information should be discussed with the internal audit unit prior to distribution to the Auditor-General.				5	
	Copies of the file should be retained by the Municipal Manager, Chief Finance Officer, official responsible for coordinating the file.				5	
	The audit file must be submitted to the Auditor-General on or before the 30 August				5	
Total					45	

AUDIT PROCESS SUPPORT AND RECOVERY PLAN

Activity	Minimum Requirement	Actual situation	Compliant		Optimum Score	Actual Score
			yes	no		
Coordination of the audit process	The Municipal Manager should establish a steering committee to coordinate Auditor-General requests and responses				5	
Audit report	The Auditor-General must issue an audit report to the Municipal Manager within three months of receipt of the statements.				5	
	The Municipal mayor should create a space for engagements with the Auditor-General in order to understand the processes undertaken and the audit opinion issued by the Auditor-General				5	
Audit recovery plan	The Municipality must address all issues raised by Auditor-General				5	
	The Municipal Mayor must ensure that the Municipal Manger develops a plan				5	

	to address the issues raised by Auditor-General					
	The Audit plan should be strategic, measurable, attainable, realistic, and time bound.				5	
	The plans should be agreed upon with the Auditor-General to ensure that the recommendations made have been adequately addressed.				5	
	The Municipal Manager should monitor the implementation of the plan on a monthly basis.				5	
	The Municipal Mayor should report on the implementation of the plan to Council on a quarterly basis				5	
	The Municipal Council should provide a strong monitoring and oversight role and hold the administration accountable				5	
	The Municipal Mayor and Manager should set a tone of zero tolerance for non-performance with the plan and hold staff accountable				5	

	Internal audit should review the effectiveness and implementation of the plan				5	
Total Score					60	

