



Setting the national context: Reflections from the KZN Municipalities and Metros Audit Benchmarking process: How does eThekweni Municipality fare?

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REPUTATION PROMISE/MISSION

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



PURPOSE OF PRESENTATION

To provide participants with analysis of eThekweni's audit outcomes and governance controls in comparison to other metropolitans in the country



CONTENTS

1. Good governance and ethics in local government
2. Audit outcomes
3. Key risk areas: eThekweni and other metro comparison
4. Assurance model: Role of leadership
5. Key controls
6. Commitments
7. Clean audits and service delivery: the correlation
8. Conclusion



Good governance and ethics in local government



Good Governance and Ethics in Local Government

- The Constitution of South Africa is the supreme law of the country. It provides the legal foundation for the existence of the republic, sets out the rights and duties of its citizens, and defines the structure of the government. The spirit and aim of the Constitution is to ***Improve the quality of life of all citizens and free the potential of each person***. This foundation of our society, the Constitution, appoints government as the facilitator and enabler of this goal.
- Local Government need to ensure that their political and administrative leadership municipalities prioritise and put people first. They must pay undivided attention to creating conditions for decent living by consistently delivering municipal services to the right quality and standard.



Good Governance and Ethics in Local Government

- Their conduct must be characterised by good governance, transparency and accountability. They must at all times ensure sound financial management, and they must build and maintain sound institutional and administrative capabilities.
- Set the right tone by insuring that the fundamentals of good government are set in stone.
- Continuously display honesty and transparency in government and deal appropriately with matters of bribery, corruption and conflict of interest .

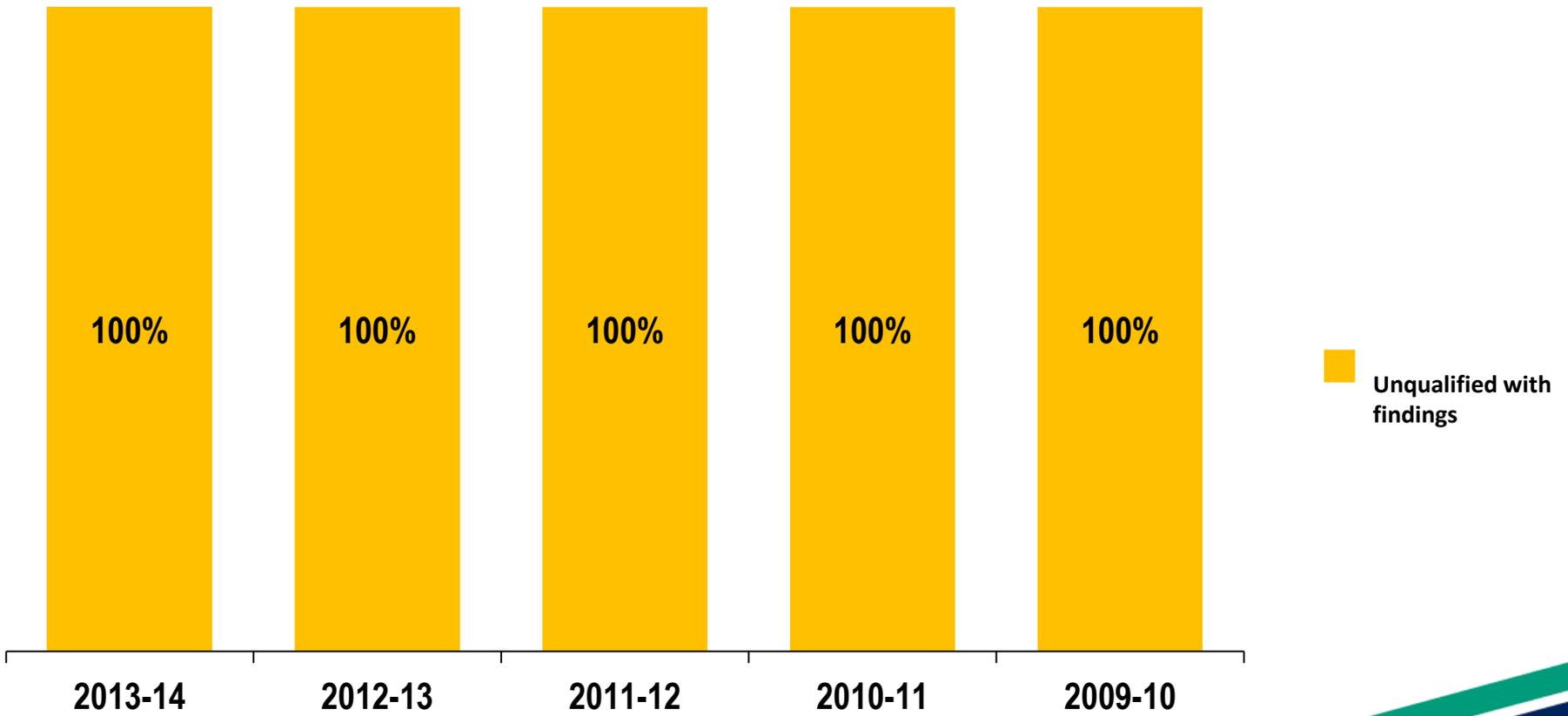
**It should always be clear what the right thing is to do
– in ethics there is no space for grey areas**



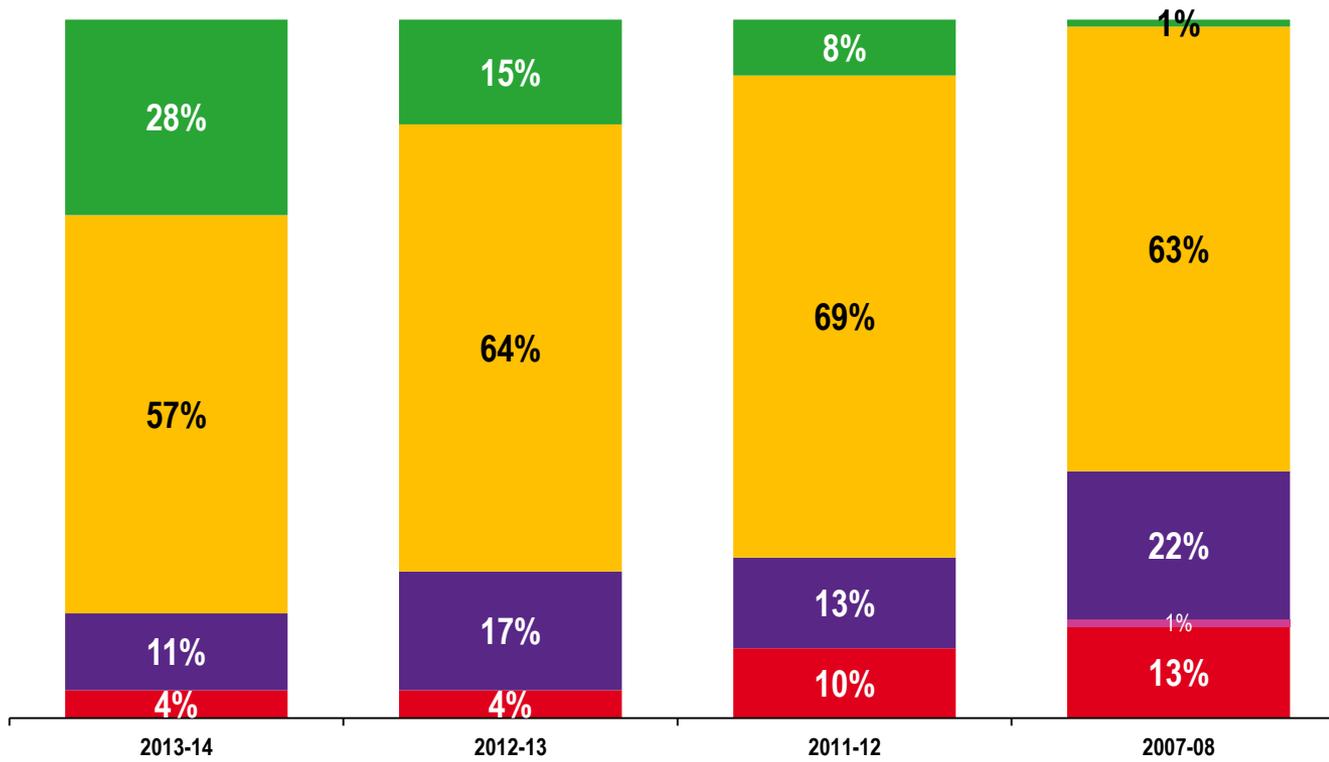
Audit Outcomes



eThekweni – no movement in audit outcomes over 5 years



KZN Local government Audit Outcomes 2013-14



Unqualified with no findings

Adverse with findings

Qualified with findings

Unqualified with findings

Disclaimed with findings

Comparison of audit outcomes in the province – MFMA 2013-14

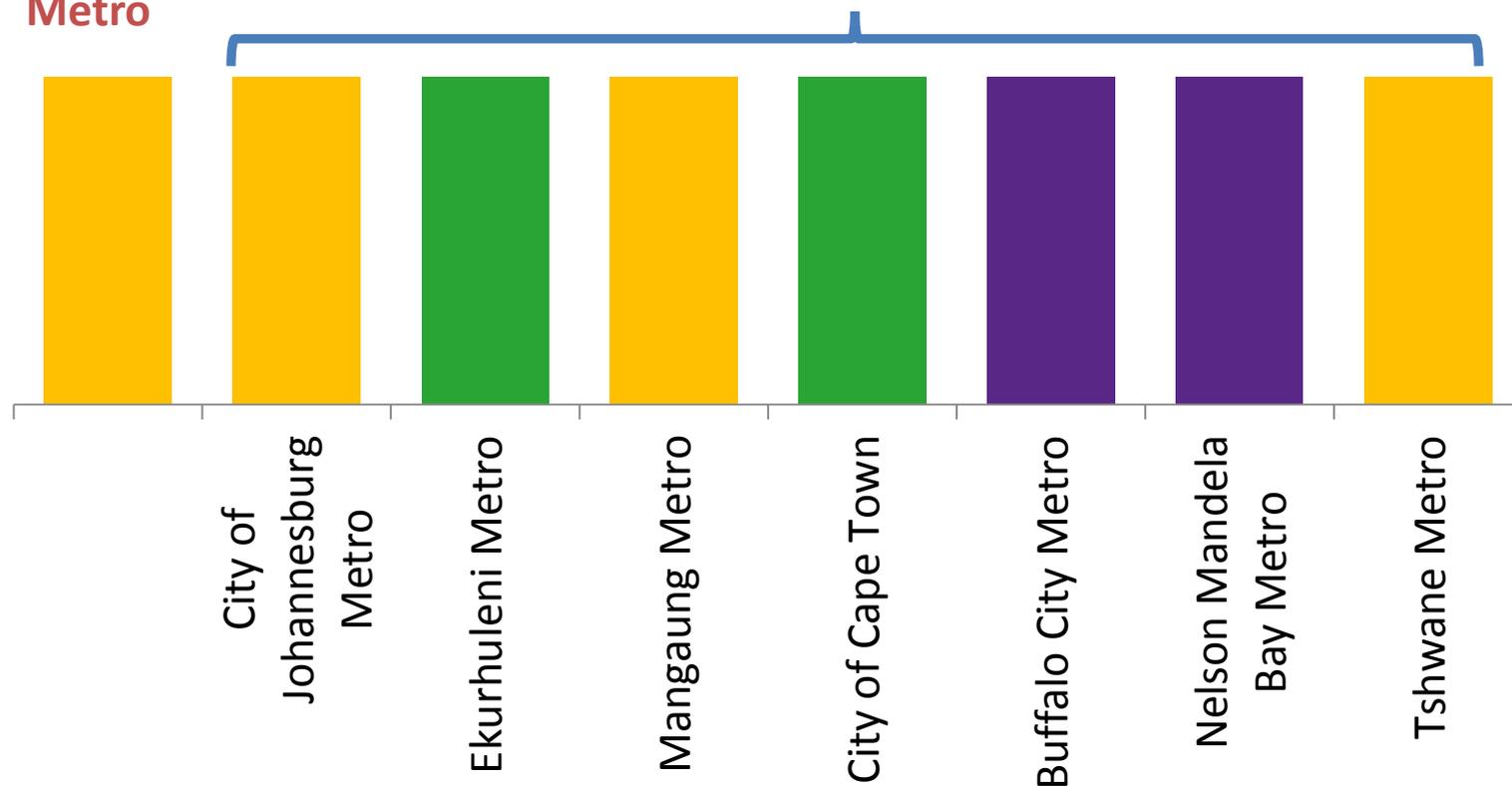
- The following are the audit outcomes in the province:
 - 20 auditees attained clean audit opinions
 - 41 auditees received unqualified opinions with findings
 - 8 received qualified opinions
 - 3 auditees were disclaimed
- eThekweni Metropolitan, together with forty other auditees are in the category of unqualified opinions with findings. Thirty-four (83%) auditees in this category, including eThekweni, produced financial statements with material misstatements, but corrected these during the audit process.
- The most common areas in which these auditees made corrections were property, infrastructure and equipment, contingent liabilities and commitments, irregular expenditure and payables, accruals and borrowings.
- Seventeen of the auditees in this category prepared performance reports that were not useful and/or reliable. Ten auditees received good outcomes on performance reports only because they corrected the misstatements identified during the audit. eThekweni did not have any material findings on its performance report.
- The metropolitan was one of the forty auditees in this category that did not comply with key legislation.



Metropolitan audit outcomes for 2013-14

eThekweni
Metro

Other 7 metropolitans



Unqualified with no findings

Unqualified with findings

Qualified with findings



Comparison of audit outcomes with other metropolitans for 2013-14

- The following are the audit outcomes for all metropolitans
 - 2 metropolitans received clean audit opinions
 - eThekweni, together with 3 others received unqualified opinions with findings
 - 2 metropolitans received qualified opinions
- eThekweni was the only metro in this category that did not have material findings on predetermined objectives, together with the two clean audits (Ekurhuleni and City of Cape Town) and Nelson Mandela Bay.
- All metros except for the clean audits had material findings on compliance.
- Three of the four metros in the category of unqualified with findings had material findings in five or more of the compliance focus areas. eThekweni had material compliance findings in three focus areas.

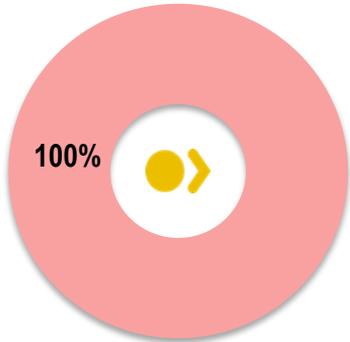


Key Risk Areas: eThekweni and other Metro Comparisons

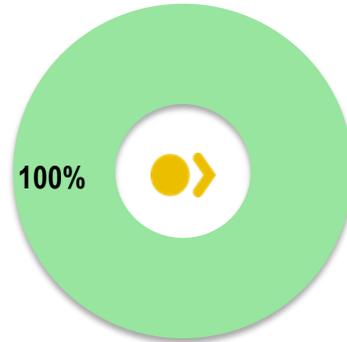


eThekwini - key risk areas

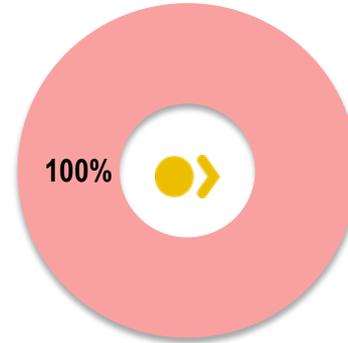
Quality of submitted financial statements



Quality of submitted performance reports



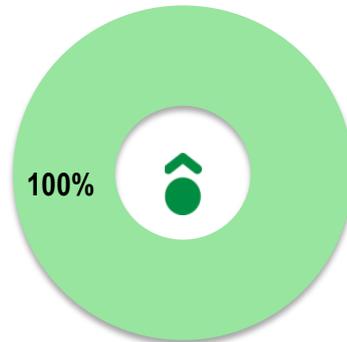
Supply chain management



Financial health



Human resource management



Information technology



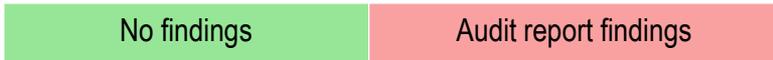
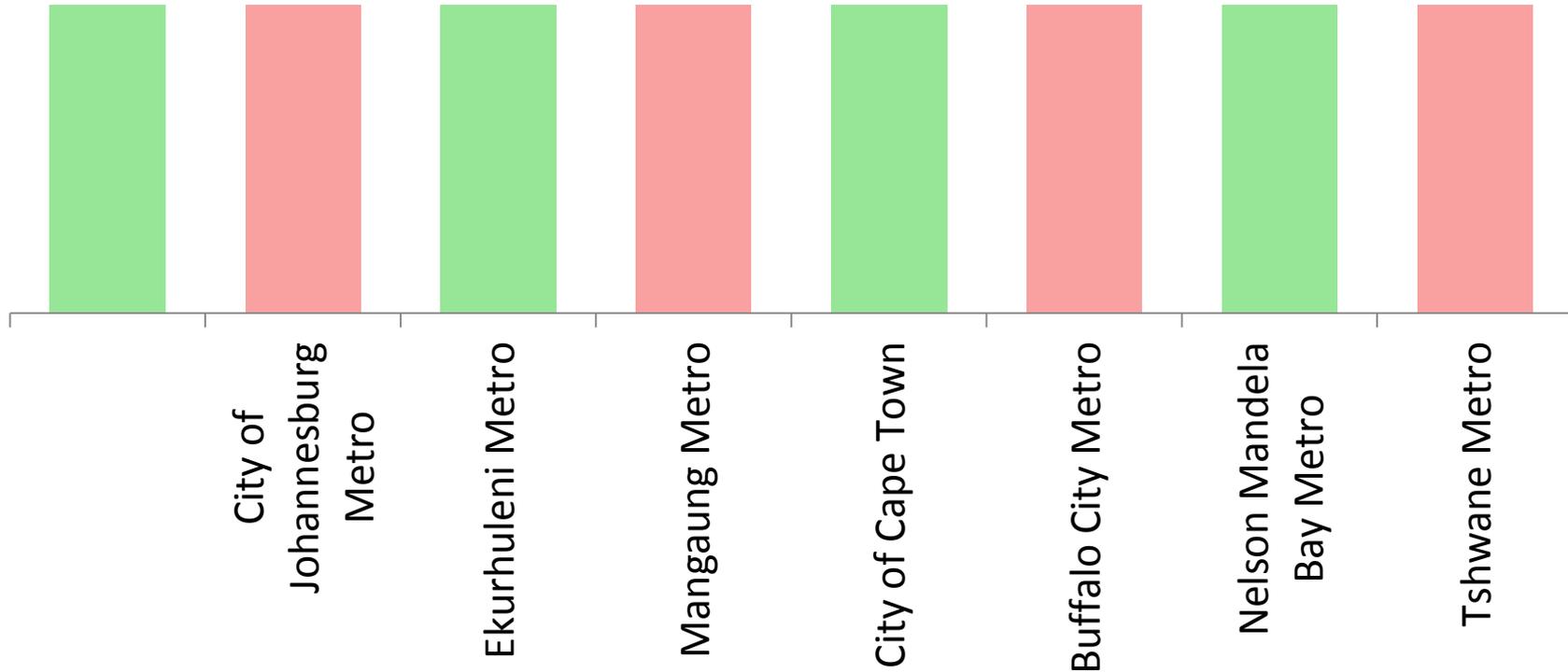
- Good
- Concerning
- Intervention required

- Unchanged
- Improved

Status of predetermined objectives per metropolitan

eThekweni
Metro

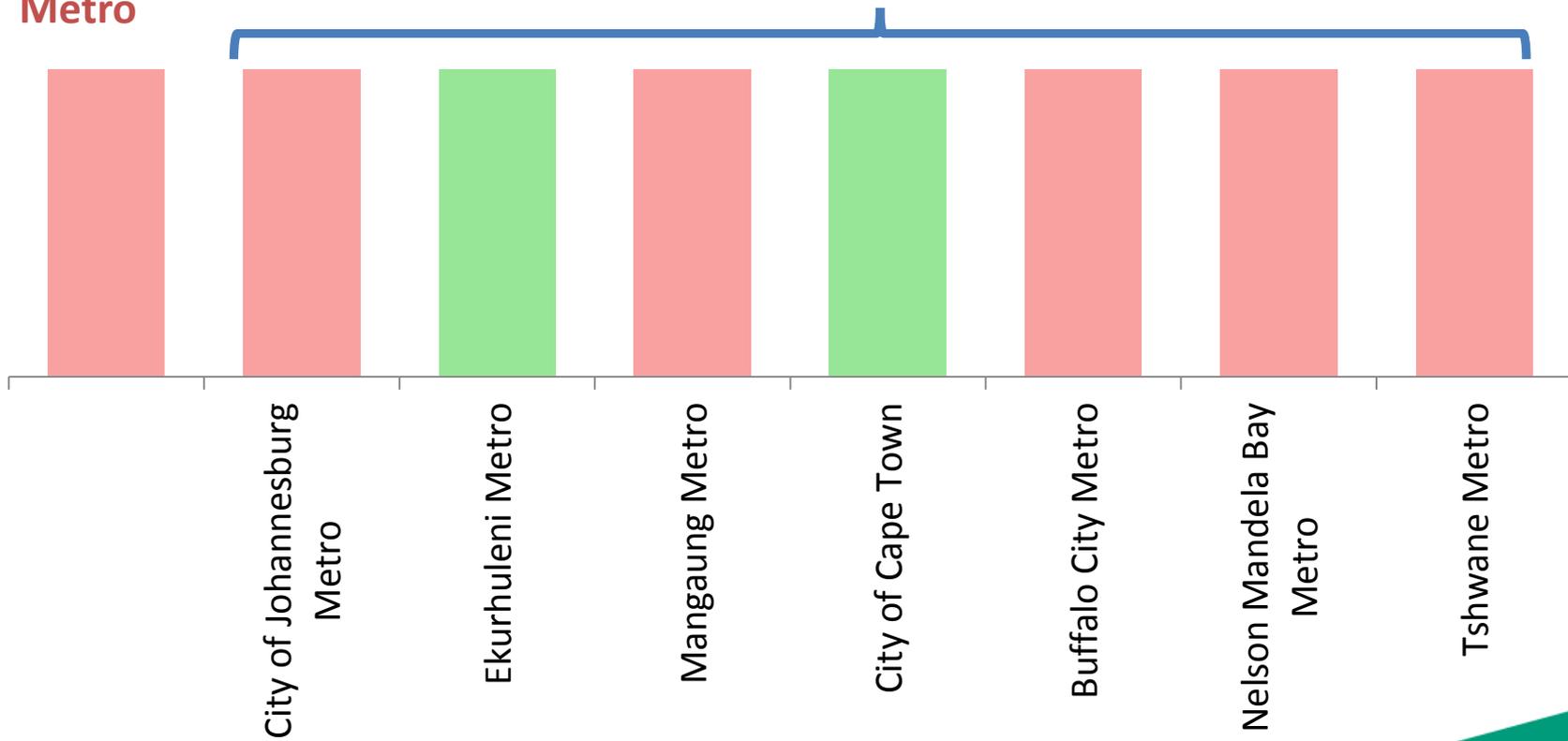
Other 7 metropolitans



Status of compliance with legislation per metropolitan

eThekweni
Metro

Other 7 metropolitans



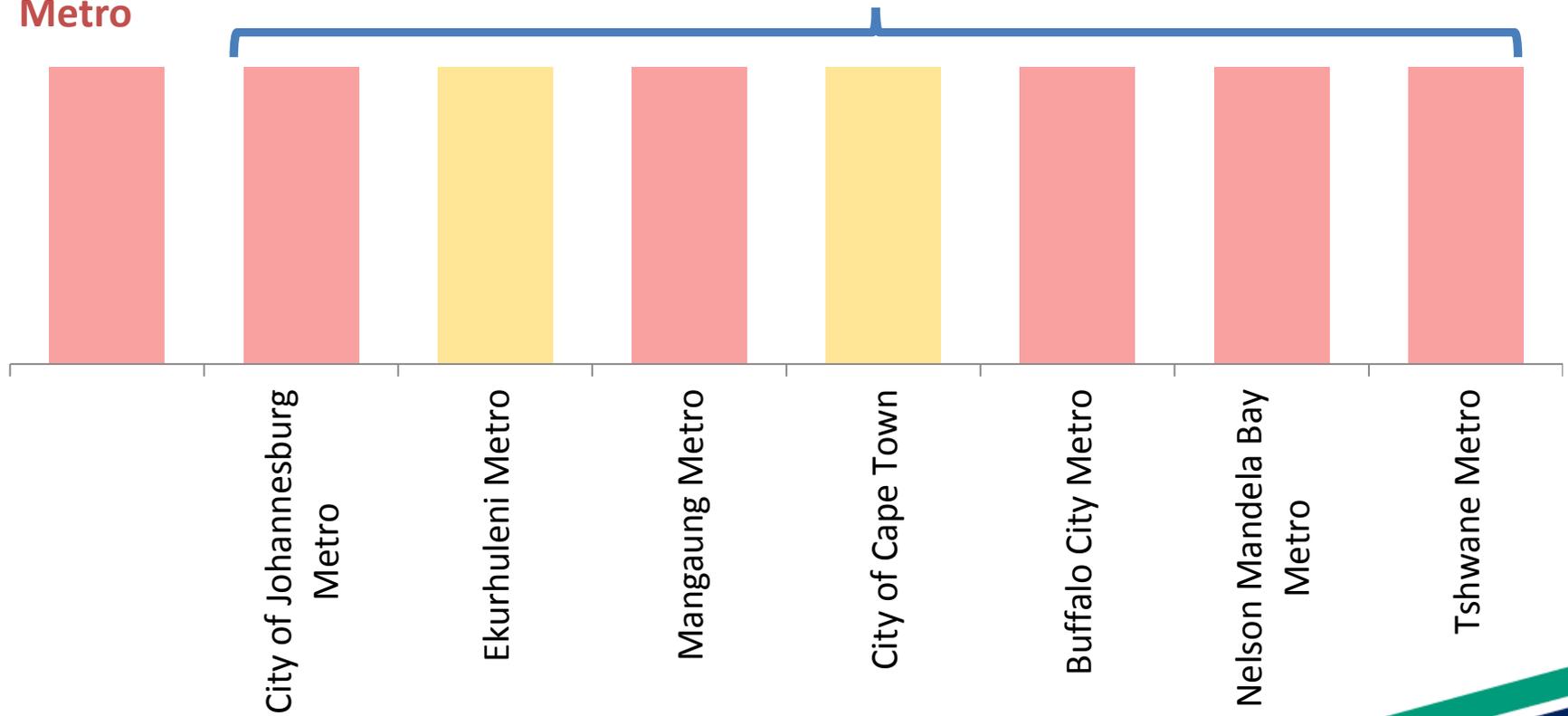
No material findings on compliance

Audit report findings

Status of supply chain management per metropolitan

eThekweni
Metro

Other 7 metropolitans



Management report findings

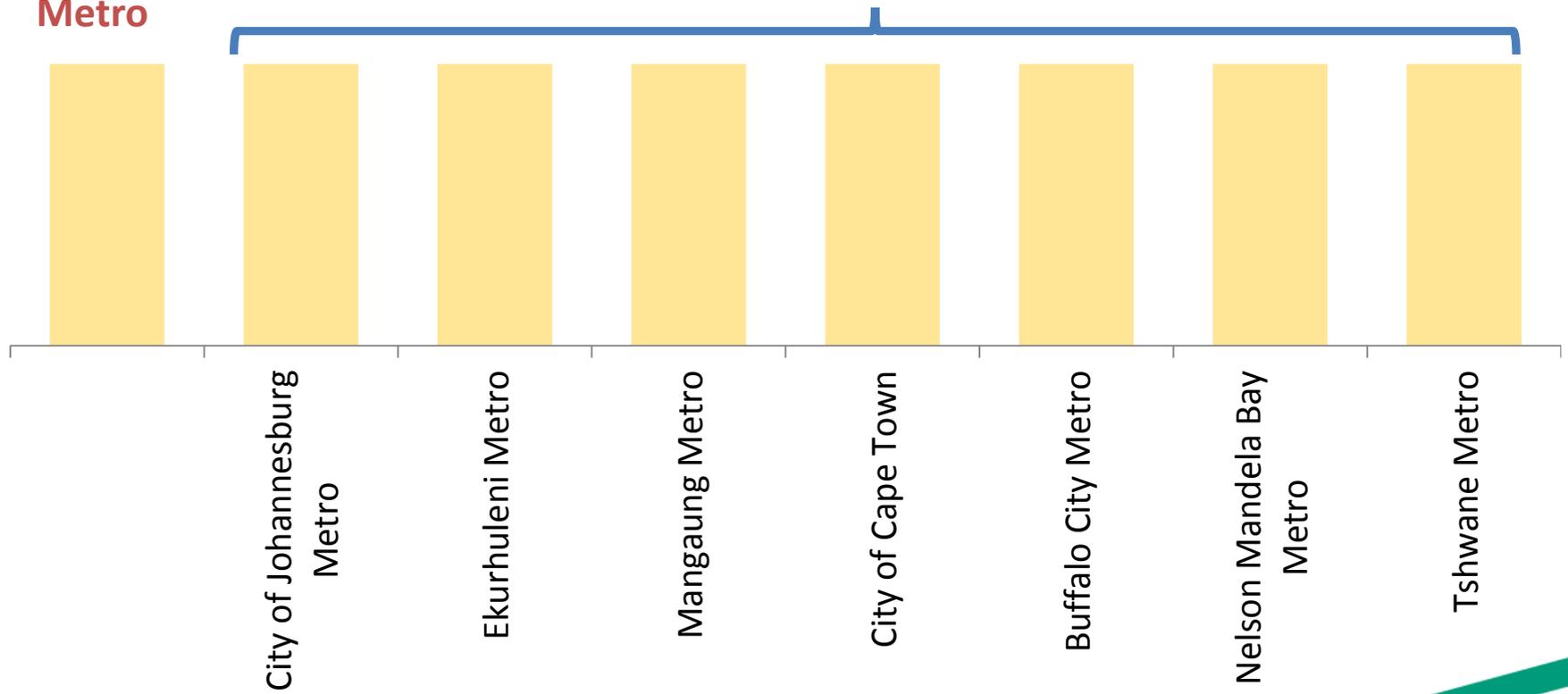
Audit report findings



Status of financial health per metropolitan

eThekweni
Metro

Other 7 metropolitans



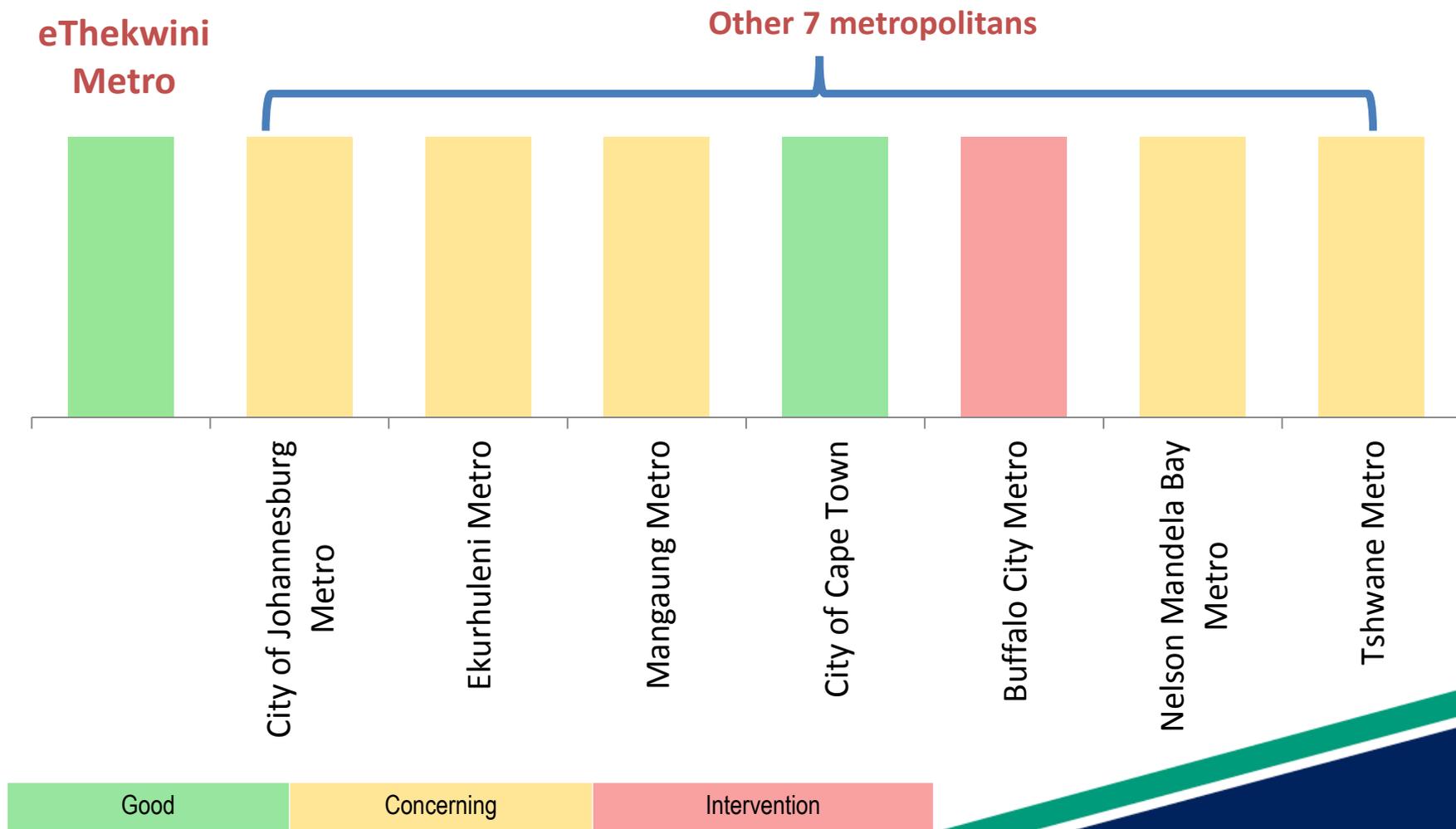
Concerning

Reasons for eThekweni incurring water losses

- Illegal water connections
- Leakages as a result of ageing infrastructure
- Tampering of meters
- Water used to fill water tankers (for delivery to predominantly rural areas) are not measured nor billed.
- Incorrect ratios used on bulk meters
- Reservoir overflows and service connection leaks
- Expansion of new infrastructure (water lost during testing phase of new infrastructure)
- Unbilled consumption
- Leaks not being repaired timeously
- Inflows and outflows on pipelines not monitored vigorously



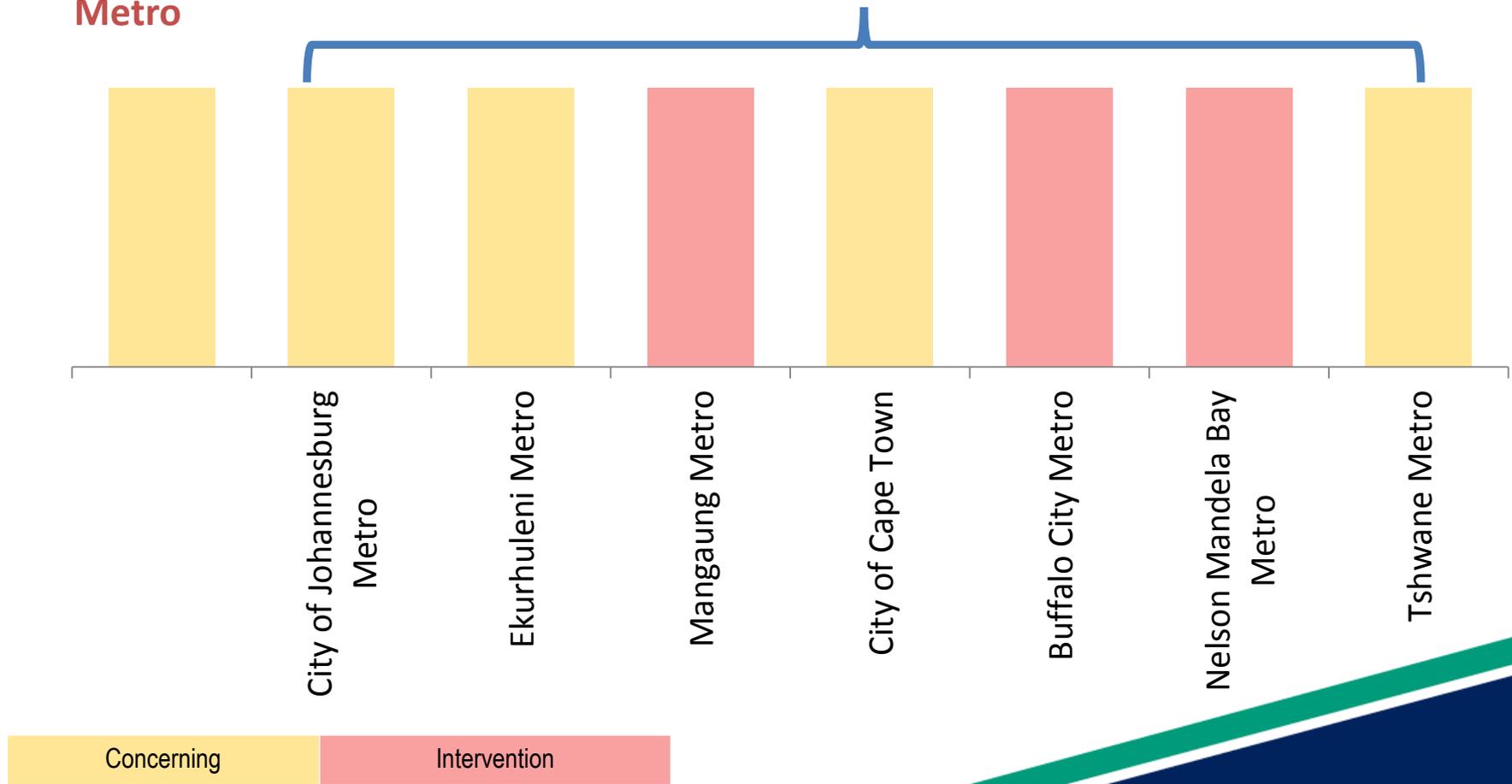
Status of human resource management controls per metropolitan



Status of information technology controls per metropolitan

eThekweni
Metro

Other 7 metropolitans



Concerning

Intervention



Information technology risks

Information technology controls are assessed as “concerning” at 5 metros' including eThekweni while these are assessed as “intervention” required at 3 metros. Some of the risks of poor IT controls include:

- The confidentiality, integrity and availability of critical IT systems and business processes is compromised due to a lack of adequately designed security policies and procedures
- IT infrastructure not protected from vulnerabilities and unauthorised access due to password and firewall parameter settings not being effectively configured.
- Risk of unauthorised access to, and creation or amendment of financial and performance information stored in the application systems due to:
 - Formal user access request documentation was not completed for registering users, changing access rights, effecting password resets and terminating access rights.
 - Users were being granted access without obtaining management authorization and in some instances the access granted to users was not in line with their job descriptions.

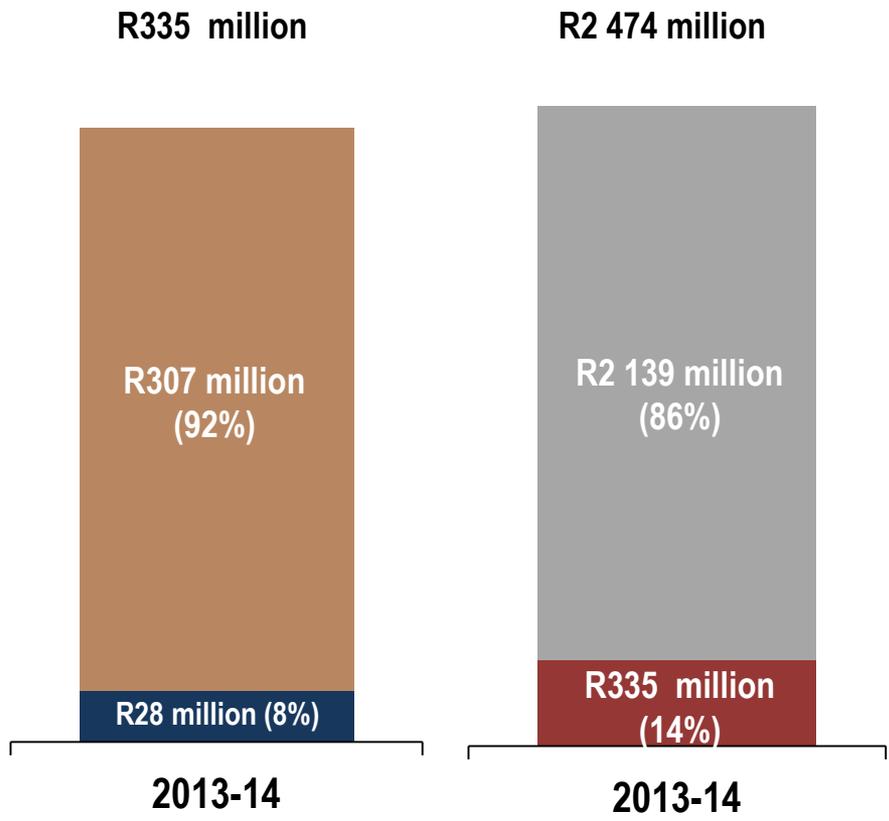


Information technology risks continued..

- Inability to recover critical business operations and application systems that would be impacted by disasters or major system disruptions within reasonable time frames due to.
 - Business continuity plans (BCPs) and disaster recovery plans (DRPs) not being appropriately designed and implemented.
 - Backups not being tested to ensure that they could be restored when required. Back-ups not stored off-site



Irregular expenditure of eThekweni in comparison to other metropolitan's



• Ethekeweni incurred 14% of the combined irregular expenditure of all metropolitan municipalities.

Nature

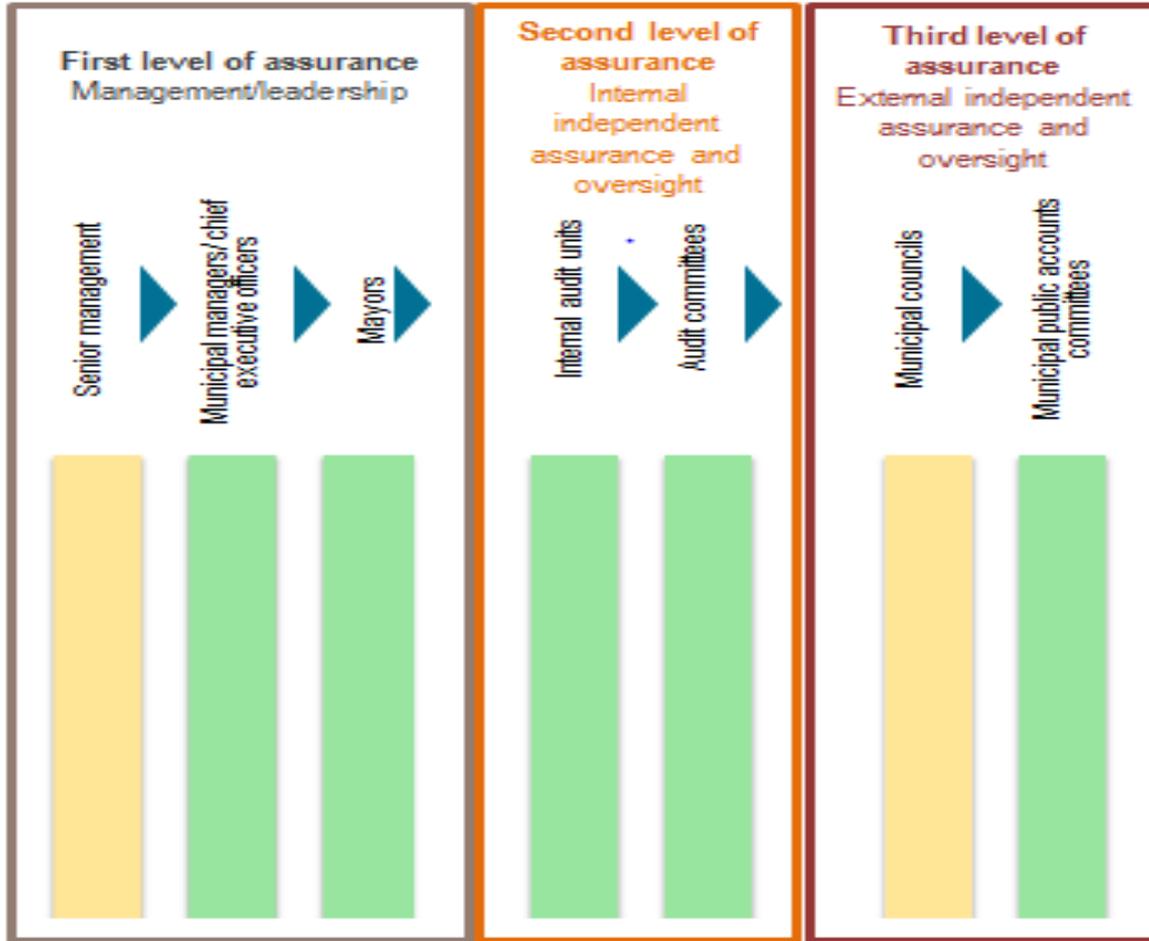
- 99% of occurrences at metropolitan municipalities was caused by **non-compliance with SCM legislation**
- **Main areas of non-compliance** within SCM that caused irregular expenditure:
 - Procurement without competitive bidding or quotation process (65%)
 - Non-compliance with procurement process requirements (22%)
 - Non-compliance with legislation on contract management (13%)

- Identified by auditees
- Identified during audit
- Irregular expenditure by other metropolitan's
- Irregular expenditure of eThekweni metropolitan

Assurance Model: Role of Leadership



eThekweni - key role players work together to provide assurance



■ Provides assurance

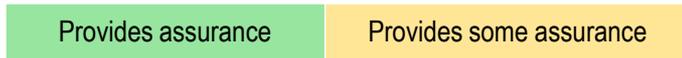
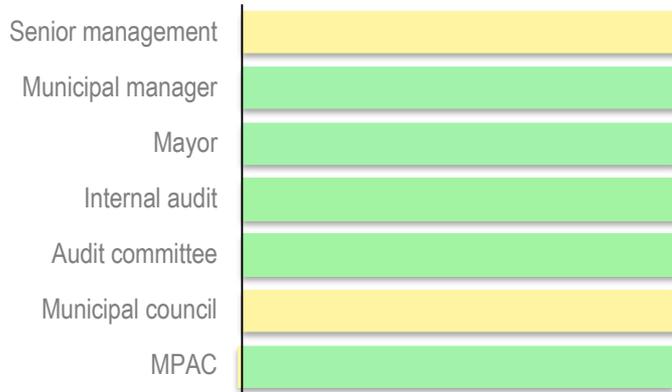
■ Provides some assurance

The metropolitan understands that assurance on the **credibility of the information in the financial statements and performance reports** comes primarily from the **actions of management/ leadership and their governance partners** – internal audit units and audit committees

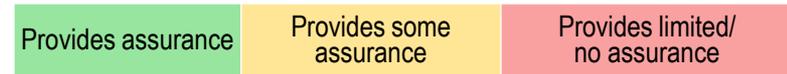
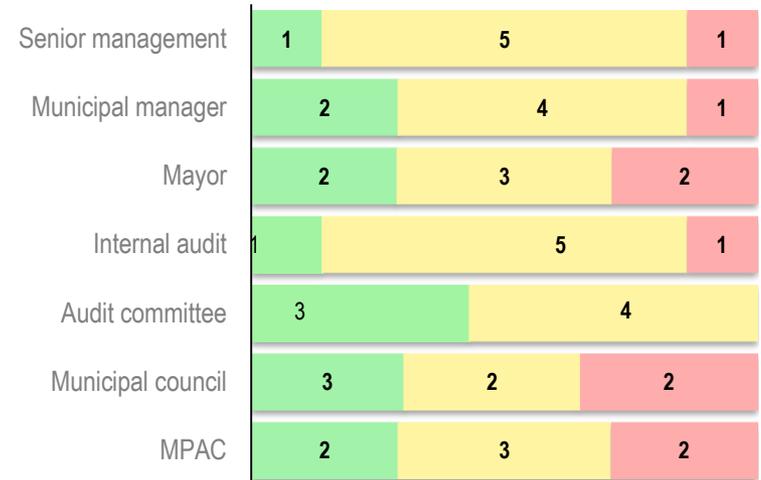
Their political leadership provides a **strong monitoring and oversight role** and holds the administration to account

Status of assurance providers per metropolitan

eThekweni



Other 7 metropolitans



LEADERSHIP

- Key role players need to work together to provide assurance on the credibility of the financial statements and performance reports and to ensure compliance with key legislation
- The political leadership need to provide a ***strong monitoring and oversight role*** and need to hold the administration to account.
- The overall level of assurance provided by senior management remained stagnant. The reasons for the lack of movement in assurance were weak support from lower staff levels and slow response in the implementation of action plans and recommendations by the administration. The assurance provided can be improved by having a committed, capacitated and adequately skilled senior management team that has the requisite institutional knowledge. Senior management should be held accountable for, and should provide a high level of assurance in, the performance of their responsibilities.



Understanding and monitoring of the municipal managers mandate are key to improving internal control environment

Role of municipal manager

Robust financial and performance management systems

Effective, efficient and transparent systems for

- financial and risk management
- internal controls (under control of audit committee)
- procurement and evaluation

Oversight and accountability

- Effective, efficient, economical and transparent use of resources
- Prevention of unauthorised, irregular and fruitless and wasteful expenditure and, if discovered, reporting to treasury
- Efficient and economic management of available working capital

Commitment and ethical behaviour

- Manage and safeguard assets and liabilities
- Take appropriate disciplinary steps against any official contravening the MFMA

The **role of the municipal manager** is critical to ensure:

timely, credible information + accountability + transparency + service delivery

GOVERNANCE

Good practices implemented at eThekweni Municipality

Council

- Council and MPAC have an aligned work plans and structured agenda for audit matters
- Robust discussions are held at council on the state of monthly financial, performance and compliance reporting
- The head of IA and AC chair also report quarterly EXCO council meetings

Risk management

- The importance of the governance risk management is understood by all assurance providers
- Recommendations of key assurance providers are acted upon in good time
- Risks are updated regularly and responded to in terms of a risk strategy
- A risk register is maintained with a risk scoring, due date and task allocation



GOVERNANCE

Internal audit/Audit committee

- The internal audit and audit committees' report to council include compliance with the relevant laws and regulations
- Monthly reporting is audited by the internal auditors
- Head of internal audit has full access to report to MPAC and council on their audit results, free of any reprisal, to enable leadership to be fully appraised of the status of administrations.
- The chair of the audit committee reports to council and MPAC at least quarterly on the status of financial, performance and compliance matters and other matters required as per the audit committee charter.

Municipal Public Accounts Committee

- MPAC appreciates and understands the importance of good governance.
- Recommendations of the IA and AC are taken seriously.
- MPAC insists on credible, accurate and reliable financial, performance and compliance information.
- And is encouraging the administration to achieve clean audit.



Key controls



Status of key controls per metropolitan

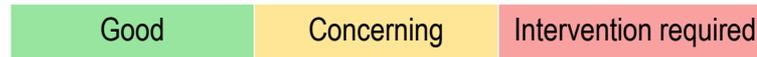
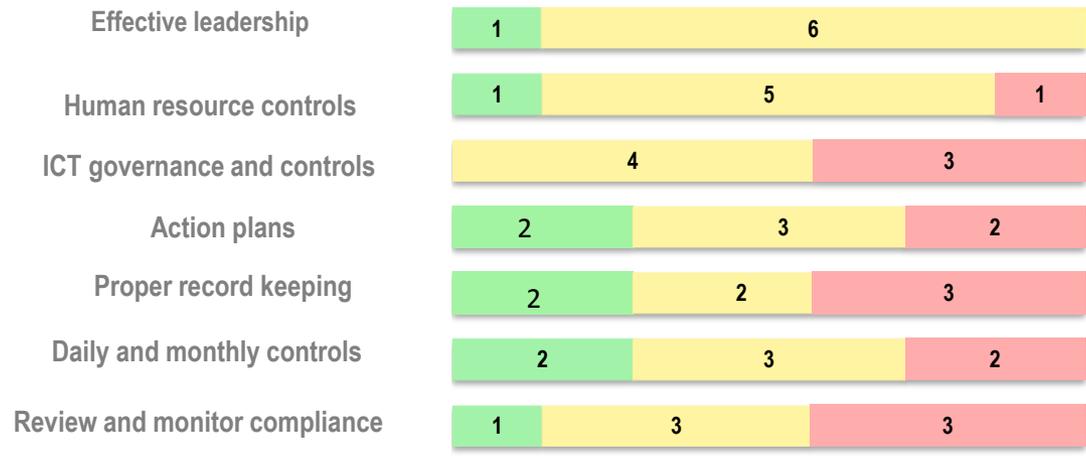
eThekwini

Key controls



Other 7 metropolitans

Key controls



Commitments



Commitments

- To intensify oversight over the controls, processes and policies pertaining to the awarding of SCM regulation 36 contracts and compliance with section 116 (3) of the MFMA
- To monitor compliance with the monitoring and implementation of IT governance and controls, review of controls, processes and formalised
- Monitor compliance of transactions within the Housing unit
- Appropriate disciplinary action arising from investigations to be taken against councilors and employees that transacted with the municipality



Clean audits and service delivery: the correlation



Clean audits and service delivery

- The Auditor-General conducted field visits at municipalities who obtained a clean audit.
- The objective of the field visits was to try to draw comparisons between clean audit and service delivery
- Certain key characteristics that had a positive impact on audit outcomes and service delivery



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

Leadership

- Suitably qualified officials implemented the disciplines around financial management and good governance, which are supported by dedicated political leaders who monitor and ensure that these disciplines are met

Financial and performance management

- Measures are implemented to ensure legislated duties are performed and prohibited transactions are prevented
- Regular, accurate and complete financial and performance reports are prepared and supported by reliable information



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

Governance

- Ongoing risk identification and risk management form an integral part of the governance arrangements.

Other

- Entrenched skills in engineering and project management
- Municipalities take pride in their work and responsibilities, they believe they exist to provide effective services to citizens
- Innovation is practiced to enhance services provided to citizens is central in ensuring that municipal resources are applied economically, effectively and efficiently.



Conclusion

- In order for eThekweni Municipality to position itself to achieve the goal of clean audit, it is imperative that each role player diligently executes their responsibilities. In this manner, the leadership can build a professionalised local government that embraces the concepts of transparency, accountability as well as credible and reliable financial and performance reporting.
- Oversight and review over the controls, processes and policies pertaining to the awarding of contracts, awards to employees and councilors that transacted with the municipality and transactions within the housing unit , should be undertaken by senior management and oversight structures.
- The enabling role of the municipal manager and the oversight functions of councils will play a pivotal role in creating an environment where effective, efficient and economical service delivery and a clean audit are natural products of performing the correct actions at the outset.



QUESTIONS



Auditing to build public confidence



THANK YOU



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence