

OPERATION CLEAN AUDIT 2014

STRATEGY UPDATE

November 2011

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1 THE PURPOSE

The purpose of this document is to update the Operation Clean Audit 2014 Strategy for the Limpopo Province.

2 GUIDING VISION

By 2014, all 13 Provincial Departments, 30 Municipalities, and related Public Entities in Limpopo must achieve clean audits¹ on their Annual Financial Statements and implement appropriate systems to maintain and sustain the quality of financial statements and management information.

3 GOAL

- 3.1 To assist all Provincial Departments, Municipalities and related Public Entities to achieve sustainable improvement in financial management and governance that will yield clean audit opinions by 2014.
- 3.2 To address all issues raised by the Auditor General and internal audit units to reduce vulnerability to financial management and governance risks in the provincial departments and municipalities through targeted projects.

4 OBJECTIVES

- 4.1 Improving the availability of quality supporting documentation to support the financial statements and management information;
- 4.2 Strengthening governance structures and governance regimes;
- 4.3 Strengthening capacity building initiatives;
- 4.4 Strengthening capacity to implement Operation Clean Audit;
- 4.5 Sharing information and knowledge management within and amongst Provincial Departments, Public Entities, Municipalities and other provinces.

¹ Unqualified audit opinion with no matters under compliance with laws and regulations or predetermined objectives.

5 PROGRAMME PERFORMANCE INDICATORS

- 5.1 Between 2010 and 2011, no municipality or provincial department and their related Public Entities should receive an Adverse or Disclaimer audit opinion;
- 5.2 By 2012, at least 60% of the 13 provincial departments, 30 municipalities and their related Public Entities achieving unqualified audit opinion, of which 25% should be clean audit opinions. (60% = 8 Departments, 18 Municipalities, 6 Entities)
- 5.3 By 2013, at least 75% of the 13 provincial departments, 30 municipalities and their related Public Entities achieving unqualified audit opinion, of which 50% should be clean audit opinions. (75% = 10 Departments, 22 Municipalities, 7 Entities)
- 5.4 By 2014 all 13 provincial departments, 30 municipalities and their related Public Entities achieving unqualified audit opinion, of which 75% should be clean audit opinions.

| | Departments (100% = 13) | | | Municipalities (100% = 30) | | | Public Entities (100% = 10) | | |
|------------------------|---------------------------------|---------|---------|-----------------------------------|---------|---------|------------------------------------|---------|---------|
| Audit Year | 2011/12 | 2012/13 | 2013/14 | 2011/12 | 2012/13 | 2013/14 | 2011/12 | 2012/13 | 2013/14 |
| Number of Clean Audits | 2 | 5 | 10 | 5 | 11 | 23 | 2 | 4 | 8 |

6 BACKGROUND

- 6.1 Post 1994, the South African government has and still puts service delivery improvement agendas as a critical element in creating a better life for all its citizens. The Auditor-General's reports, however, continue to reveal ineffective internal control and governance environments (internal audit, risk management and audit committees), poor performance management and the absence of integrated systems, especially financial management systems, which in reality negatively impacts on the government's ability to deliver services, ensure good governance and accountability.
- 6.2 Both the Limpopo provincial and local governments are faced with challenges which among others include:
- ✓ Lack or inadequate leadership and supervision;
 - ✓ Inadequate skills on planning, budgeting, financial management, expenditure management, credit control, debt management, risk management and internal audit;
 - ✓ Material misstatements of amounts disclosed in financial statements submitted for audit;

- ✓ Unavailability / missing supporting documentation to support financial statements and management information
- ✓ Poor interface between financial and non-financial information (in-year-monitoring and quality annual reporting);
- ✓ Inadequate cash flow management;
- ✓ Lack of systems to manage audit queries and recommendations by both internal and external auditors;
- ✓ Inadequate systems to manage good governance practices (especially, conflict of interest and accountability frameworks) within provincial departments and municipalities;
- ✓ Leadership and management inaction, especially with regard to following up on audit queries, both from internal and external auditors;
- ✓ Inadequate administrative and political oversight to strengthen accountability and responsibility (oversight)
- ✓ Skills shortages in the office of the CFO or Budget and Treasury office;
- ✓ Poor debtors management
- ✓ Inadequate asset management
- ✓ Non compliance to the prescripts of the Public Service Act, Public Finance Management Act, Municipal Finance Management Act and Preferential Procurement Policy Framework Act and their related regulations;
- ✓ Inadequate human resource management practices;
- ✓ Weak risk management

6.3 The Auditor General has identified the following actions to be taken to improve audit outcomes:

6.3.1 Leadership

Those charged with leadership and governance in departments, municipalities and their related entities need to:-

1. Show commitment to improve on the audit outcomes by creating an environment conducive to sound financial management and improved service delivery;
2. Review and monitor the action plans to address all significant internal control deficiencies, on a continuous basis;
3. Place people with the appropriate skills in appropriate positions to ensure compliance with applicable laws and regulations;
4. Fill all critical vacancies in finance, internal audit and other significant components within a reasonable time (3 months);
5. Implement action plans to address user IT access control deficiencies.

6.3.2 Financial and performance management

The institutions management teams need to ensure that:-

1. There is proper records management and that supporting documents are properly filed and easily retrievable;
2. Fixed asset register's reflect the assets owned by the institution and agree to the financial records and financial statements;
3. All reconciliations and suspense accounts are cleared and monitored on a monthly basis;
4. Budget, expenditure and cash flow trends are analysed on a monthly basis
5. Accurate financial statements and performance information are produced monthly and supported by relevant and reliable documentation;
6. Compliance with the PFMA , MFMA and related regulations are monitored;
7. Application systems are not susceptible to compromised data integrity.

6.3.3 Governance

Those charged with governance in the institutions must:-

1. Improve the effectiveness of internal audit, risk management and audit committees through continuous monitoring;
2. Maintain effective risk management strategies, including fraud prevention plans;
3. Monitor and evaluate risks relating to IT systems, including implementation of action plans to address IT audit outcomes;
4. Monitor the IT governance framework.

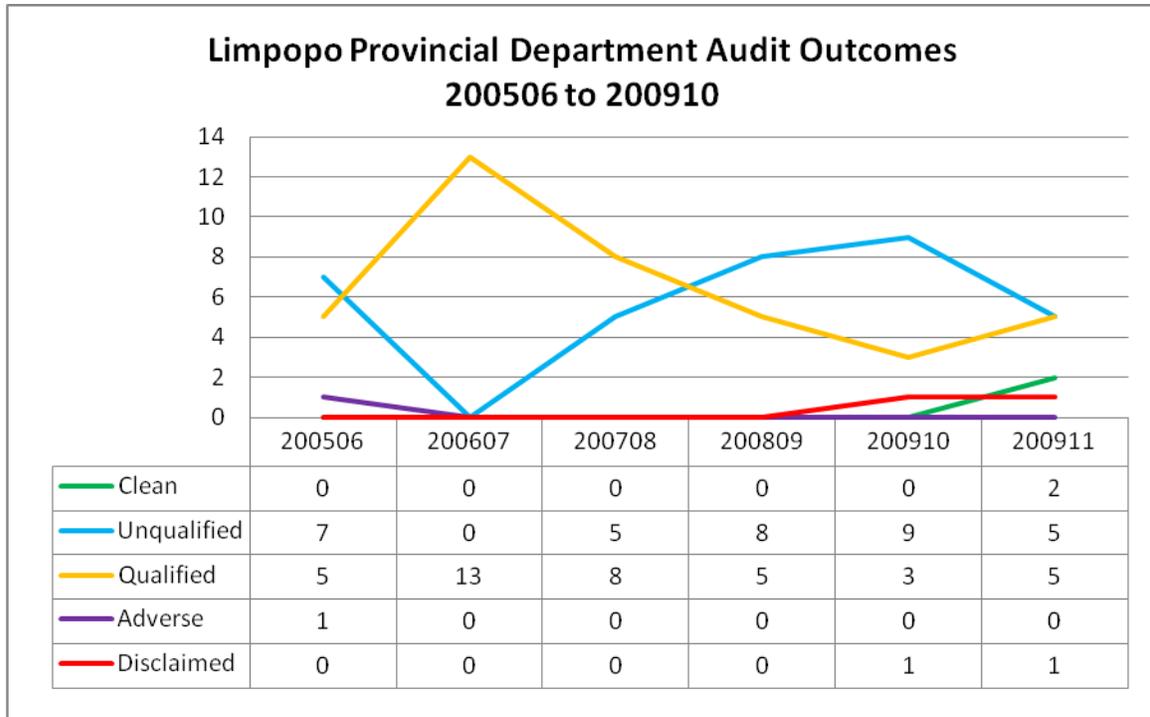
7 OVERVIEW OF AUDIT OUTCOMES – 2005/06 TO 2010/11

7.1 Limpopo provincial departments audit outcomes:

| Vote No | DEPARTMENT | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|---------|--|---------|---------|---------|---------|---------|---------|
| 1 | Premier | UQ | Q | UQ | UQ | UQ | UQ |
| 2 | Legislature | UQ | Q | Q | Q | UQ | UQ |
| 3 | Education | UQ | Q | Q | Q | D | Q |
| 4 | Agriculture | UQ | Q | UQ | Q | UQ | CL |
| 5 | Treasury | UQ | Q | Q | UQ | UQ | UQ |
| 6 | Economic Development | Q | Q | Q | UQ | UQ | UQ |
| 7 | Health | Q | Q | Q | Q | Q | D |
| 8 | Roads & Transport | Q | Q | Q | UQ | UQ | Q |
| 9 | Public Works | UQ | Q | Q | Q | Q | Q |
| 10 | Safety, Security & Liaison | UQ | Q | UQ | UQ | UQ | UQ |
| 11 | Co-Operative Governance, Housing Settlements & Traditional Affairs | AD | Q | Q | UQ | UQ | CL |
| 12 | Social Development | Q | Q | UQ | UQ | Q | Q |
| 13 | Sport, Arts & Culture | Q | Q | UQ | UQ | UQ | Q |

CL = CLEAN AUDIT Q = QUALIFIED AD = ADVERSE
 UQ = UNQUALIFIED D = DISCLAIMER O/S = OUTSTANDING

As can be seen above since 2006/07, when all 13 Votes were qualified, Limpopo has recorded a steady improvement in the number of Votes that receive unqualified audit opinions, 3 in 2007/08, 8 in 2008/09, and 9 in 2009/10. Unfortunately there was a small regression in 2010/11 to only 7 votes that were unqualified, however in the same year Limpopo recorded its first 2 clean audit reports.



7.2 Limpopo Public Entities audit outcomes

| Vote No | DEPARTMENT | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 201011 |
|---------|--|---------|---------|---------|---------|---------|--------|
| 1 | Limpopo Economic Development Enterprise (LIMDEV) | Q | UQ | UQ | UQ | UQ | Q |
| 2 | Limpopo Agri-business Development Corporation (LADC) | UQ | UQ | UQ | UQ | UQ | O/S |
| 3 | Limpopo Tourism and Parks Board (LTPB) | UQ | UQ | Q | D | D | O/S |
| 4 | Trade Investment Limpopo (TIL) | UQ | UQ | UQ | UQ | UQ | O/S |
| 5 | Limpopo Gambling | UQ | UQ | UQ | UQ | UQ | UQ |
| 6 | Roads Agency Limpopo (RAL) | UQ | UQ | UQ | UQ | UQ | CL |
| 7 | Gateway Airport Authority Limited (GAAL) | Q | UQ | UQ | Q | UQ | UQ |
| 8 | Limpopo business Support Agency (LIBSA) | UQ | UQ | UQ | UQ | UQ | O/S |

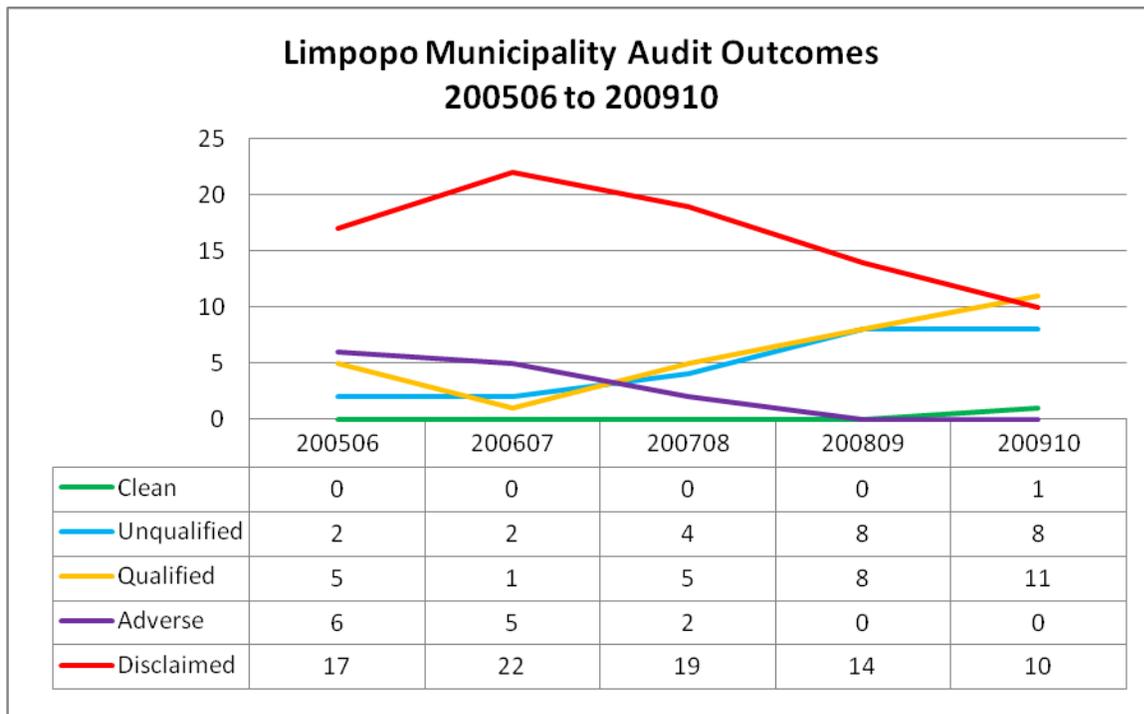
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For the Limpopo departmental public entities, Limpopo has performed well in terms of obtaining unqualified reports, in 2006/07 all 8 were unqualified. Thereafter there has been consistent poor performance by Limpopo Tourism and Parks which has received disclaimers for the 2008/09 and 2009/10 audit periods. In 2010/11 the Roads Agency Limpopo received the first Public Entity Clean Audit opinion, with Limdev regressing to qualified. At the time of this analysis 4 public entity audits for 2010/11 were still outstanding.

7.3 Limpopo Municipalities Audit Outcomes



From the graph above it will be noted that the number of disclaimer audit opinions have been steadily decreasing from 22 in 2006/07 to 10 in 2009/10, this decrease has resulted in the increase in the number of qualified audit opinions from 1 in 2006/07 to 11 in 2009/10 and an increase in the number of unqualified audit opinions from 2 to 8 in the same period. In 2009/10 Fetakgomo municipality recorded the first clean audit for the Limpopo municipalities.

| Vote No | MUNICIPALITIES | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|---------|----------------------------|---------|---------|---------|---------|---------|
| 1 | Vhembe District | Q | D | D | D | Q |
| 2 | Makhado | A | D | A | D | D |
| 3 | Musina | UQ | UQ | UQ | UQ | UQ |
| 4 | Mutale | A | D | D | Q | UQ |
| 5 | Thulamela | A | D | D | Q | Q |
| 6 | Waterberg District | Q | UQ | UQ | UQ | UQ |
| 7 | Bela-bela | D | D | Q | Q | UQ |
| 8 | Lephalale | Q | A | D | D | Q |
| 9 | Modimolle | A | D | D | Q | Q |
| 10 | Mogalakwena | D | D | UQ | Q | UQ |
| 11 | Mookgophong | D | D | D | D | D |
| 12 | Thabazimbi | D | D | D | D | Q |
| 13 | Capricorn District | UQ | D | D | D | D |
| 14 | Aganang | D | D | Q | UQ | D |
| 15 | Blouberg | D | A | D | D | Q |
| 16 | Lepelle -Nkumpi | A | D | D | D | D |
| 17 | Molemole | Q | A | D | D | D |
| 18 | Polokwane | Q | D | D | UQ | Q |
| 19 | Mopani District | D | D | D | UQ | UQ |
| 20 | Ba-Phalaborwa | D | A | A | D | D |
| 21 | Greater Giyani | D | D | Q | Q | Q |
| 22 | Greater Letaba | D | D | Q | UQ | UQ |
| 23 | Greater Tzaneen | D | D | Q | Q | Q |
| 24 | Maruleng | D | D | D | Q | UQ |
| 25 | Sekhukhune District | D | D | D | D | D |
| 26 | Elias Motsoaledi | D | D | D | D | D |
| 27 | Fetagomo | A | Q | UQ | UQ | CL |
| 28 | Ephraim Mogale | D | A | D | UQ | Q |
| 29 | Greater Tubatse | D | D | D | D | Q |
| 30 | Makhudutamaga | D | D | D | D | D |

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8 AUDIT OUTCOMES AND PREDETERMINED OBJECTIVES CONCLUSIONS 200809 TO 201011

As will be noted in the table below the overall Limpopo Provincial departments audit outcomes has remained constant in 2010/11 as compared to 200910. The opinion on the financial statements for 3 Limpopo Votes unfortunately regressed, while at the same time 3 Votes recorded an improved financial statement audit outcome. (In either year Limpopo unfortunately recorded 1 disclaimer.)

Also in the table below is the trend in the Auditor General's (AG) conclusions expressed on the predetermined objectives of all 13 departmental Votes. It will be note that there has been a remarkable improvement in the conclusions expressed by the AG, 6 improvements and only 1 regression. Unfortunately there were still 6 Votes that had not received unqualified conclusions.

DEPARTMENTS - AUDIT OUTCOMES

| Department | 200910 Audit Outcome | 201011 Audit Outcome | 200910- PERFORMANCE INFORMATION | 201011- PERFORMANCE INFORMATION | TREND Audit Outcome | TREND Performance Information |
|--|----------------------------|----------------------------|---------------------------------------|---------------------------------------|---------------------------|-------------------------------------|
| Office of the Premier | UQ | UQ | D | Q | | |
| Legislature | UQ | UQ | Q | UQ | | |
| Education | D | Q | D | D | | |
| Agriculture | UQ | CLEAN | Q | UQ | | |
| Treasury | UQ | UQ | UQ | UQ | | |
| Economic Dev, Environment & Tourism | UQ | UQ | AD | UQ | | |
| Health | Q | D | D | AD | | |
| Roads & Transport | UQ | Q | UQ | Q | | |
| Public Works | Q | Q | Q | Q | | |
| Safety, Security & Liaison | UQ | UQ | UQ | UQ | | |
| Co-Operative Governance, Housing Settlements & Traditional Affairs | UQ | Clean | UQ | UQ | | |
| Social Development | Q | Q | D | AD | | |
| Sport, Arts & Culture | UQ | Q | Q | UQ | | |

9 APPROACH AND IMPLEMENTATION OF OPERATION CLEAN AUDIT 2014

- 9.1 Municipalities, Provincial Departments and their respective Entities must develop and implement Clean Audit programmes;
- 9.2 Provincial Treasury transversal units, (Assets, Financial Reporting, Supply Chain Management, Risk Management) and the MFMA support units in both CoGHSTA and Provincial Treasury must provide strategic support to all Municipalities, Provincial Departments and their respective Entities;
- 9.3 To implement the Clean Audit 2014 programme in the province, the province must establish a Provincial Treasury Clean Audit 2014 Coordinating Committee (PTCA-CC) and District Municipalities to establish District Clean Audit Coordinating Committees (DCA-CC)
- 9.4 The DCA-CC must meet quarterly with all their respective local municipalities to review progress in implementation of their Clean Audit Programmes and prepare a district report for submission to the PTCA-CC;
- 9.5 The PTCA-CC must also meet quarterly with the representatives from MFMA support units in Provincial Treasury and the Department of Co-operative Governance, Human Settlements & Traditional Affairs to review progress in implementing Clean Audit programmes in all municipalities;
- 9.6 The PTCA-CC must meet quarterly with all departments, their respective Public Entities and DCA-CC to review progress in implementation of the Clean Audit Programmes. However the PTCA-CC must meet at least **monthly** with the Departments of Health, Education, Public Works and Social Development;
- 9.7 PTCA-CC must prepare a quarterly progress report to the Operation Clean Audit 2014 Executive Coordinating Committee (OPCA-ECC), which should include emphasis on the matters in outlined in paragraph 10 below.
- 9.8 Implementation of any OPCA-ECC resolutions must be monitored by the PTCA-CC.

10 KEY REPORTING REQUIREMENTS BY DEPARTMENTS, MUNICIPLAITIES AND RELATED PUBLIC ENTITIES TO PTCA-CC AND OPCA-ECC

- 10.1 At the centre of the relationship between the PTCA-CC and OPCA-ECC scope of reference is the provincial and municipal AG Audit Action Plans.

10.2 The basis for the following reporting parameters is informed by the best practices identified by the Auditor General. In addition the parameters include monitoring and evaluation, capacity building, partnerships and networks, and knowledge management and sharing.

10.3 The following reporting parameters should be central tenets of the reports by the provincial departments and municipalities and Municipalities, provincial departments and their respective entities must report on, at least, the following at each PTCA-CC meeting:

1. LEADERSHIP

- a) Commitment and progress towards the achievement of the Limpopo Clean Audit 2014 programme;
- b) Progress with the implementation of their AG action plans
- c) Progress with the implementation of internal audit corrective recommendations,
- d) IT governance implementation
- e) Implementation of effective HR management
- f) Capacity initiatives in the CFO office or Budget and Treasury Offices (BTO)
- g) Knowledge sharing and partnerships initiatives

2. FINANCIAL & PERFORMANCE MANAGEMENT

- a) Monthly and daily reconciliations of bank accounts, debtors, creditors, suspense accounts.
- b) Asset register management
- c) Inventory management
- d) Submission quality, timely and accurate financial reports (IYM, Infrastructure, monthly financial statements)
- e) Compliance with Supply Chain Management prescripts
- f) Revenue Management
- g) Cashflow management
- h) Progress made in ensuring all performance information targets are SMART and aligned to the institutions strategic plans and plans put in place to ensure actual outcomes/ouputs are verifiable.

3. GOVERNANCE

- a) Progress with the implementation of the Asset Management Framework,
- b) Effectiveness of Governance structures, including Audit Steering Committee meetings, Risk Committees, Executive Management Meetings
- c) Compliance with PFMA, MFMA and DORA
- d) Improvement in the implementation of the Key Controls

11 OPERATION CLEAN AUDIT 2014 EXECUTIVE COORDINATING COMMITTEE

- 11.1 The province must establish an Operation Clean Audit 2014 Executive Coordinating Committee (OPCA-ECC) which should consist of Executive Council representatives from the Provincial Department of Cooperative Governance Human Settlement and Traditional Affairs (CoGHSTA), Office of the Premier, Provincial Treasury and a representative from the Provincial South African Local Government Association (SALGA), with the Provincial Business Executives from the Office of the Auditor- General providing advisory services.
- 11.2 The OPCA-ECC must establish a terms of reference (ToR's) to ensure proper accountability and governance of the project. It is in this context that a technical and implementation approach is required to effectively deal with the project vision.
- 11.3 The terms of reference for the OPCA-ECC should include processes to:
1. Drive and coordinate the implementation of the Limpopo Operation Clean Audit 2014 programme for municipalities and provincial departments and their respective entities;
 2. Review progress made with clean audit deliverables and milestones,
 3. Evaluate and monitor plans to resolve both internal & external audit report and management letter findings, by all Departments, municipalities and their respective entities, at least quarterly
 4. Monitor support provided to the provincial departments and municipalities by Provincial Treasury, CoGHSTA and any other stakeholders;
 5. Coordinate Clean Audit capacity building initiatives;
 6. Provide regular feedback to the Executive Council on the programme activities and progress;
 7. Work closely with National Department of Cooperative Governance and Traditional Affairs to encourage collaboration of programmes and ensure effectively integrated implementation and reporting;
 8. Create a provincial platform for municipalities, provincial departments and partners to interact and share knowledge.
- 11.4 Taking into account the vision and programme purpose, the OPCA-ECC must focuses on the processes management implement with regards to improving leadership, financial management and governance. Before operationalisation the project, the PTCA-CC must embark on a situation analysis in the province, by focusing on these three areas.
- 11.5 The OPCA-ECC, in particular, must assess the ability of all managers to manage the municipalities' and provincial departments' finances.

The key questions to be answered are whether:-

11.5.1 Leadership:

1. There are sufficient appointments with the required skills to perform the necessary tasks to achieve a clean audit?
2. The leadership within municipalities and provincial departments are able to identify the risks that could adversely affect departments, municipalities and their related entities ability to achieve a clean audit?

11.5.2 Financial Management

1. Municipalities, Provincial Departments and their related Public Entities have developed monitoring systems to manage the audit process and determine whether such monitoring systems are sustained throughout the clean audit programme;
2. Municipalities, Provincial Departments and their related Public Entities have adequate and effective internal controls and IT systems;
3. Municipalities, Provincial Departments and their related Public Entities have the ability to assess and verify whether their internal control systems will indeed produce the required results.

11.5.3 Governance:

1. The internal audit units, audit committees and risk management units are functioning efficiently and effectively and have the necessary resources to enable them to deliver on their mandate. (These functions must be effective to provide effective assurance.)

12 REPORTING FRAMEWORK AND ACCOUNTABILITY

The proposed reporting framework for departments, municipalities and related public entities (institutions) is as follows:

1. Institutions, in consultation with their risk management committee to formulate their action plans to address audit findings (both internal and external), as guided in the approved template in **Annexure A**.
2. CFO of an Institution is to present their proposed action plans to the Institutions Audit Steering Committee, who should review and recommend the plans for approval to the Accounting Officer.
3. Accounting Officer to report on progress made in implementing recommended corrective actions to the Institutions Audit Committees and any other relevant independent oversight bodies at least quarterly.

4. Accounting Officer to incorporate any inputs and amendments proposed by the Audit Committee or other oversight bodies and submit report to DCA-CC or PTCA-CC for consolidation and reporting.
5. DCA-CC must report quarterly to the PTCA-CC and the Department of Co-operative Governance, Human Settlements & Traditional Affairs.
6. PTCA-CC must report quarterly to the Operation Clean Audit 2014 Executive Coordinating Committee (OPCA-ECC).
7. OPCA-ECC to provide feedback to Provincial Treasury for corrective actions by Institution and further monitoring

13 CLEAN AUDIT 2014 STRATEGY

| Clean Audit Strategy | | | | |
|--|--|--|---------------------------|---------------|
| Objective | | Key Performance Indicator | Responsibility | Target dates |
| i. Improving the availability of quality supporting documentation to support the financial statements and management information. | Records management | Established and capacitated record management units | Accounting Officer/CEO/MM | Dec2011 |
| | | Implemented standardized financial record management and filing systems | Accounting Officer/CEO/MM | Nov2011 |
| | | Compliance to Minimum Information Security Standards (MISS) | Accounting Officer/CEO/MM | Ongoing |
| | | Improved monitoring of records and compliance to MISS | Treasury/ DLGH | Quarterly |
| | Financial reporting and disclosure of financial information | Institutions trained on the AFS frameworks (National Treasury Framework, SA GAAP & GRAP) | Treasury/ DLGH | Mar or Jun |
| | | Financial statements prepared monthly | CFO | Monthly |
| | | Quarterly financial statements submitted with substantiating working paper files | CFO | Quarterly |
| | | Updated and reconciled asset registers | CFO | Monthly |
| | | Asset verifications conducted as per policy | CFO | As per policy |
| | | Accounting records reconciled and suspense accounts cleared | CFO | Monthly |
| | | IFMS implemented | Provincial Treasury | Ongoing |
| | | Standardised financial management systems implemented in all Limpopo Municipalities | Provincial Treasury/DLGH | July 2012 |

Clean Audit Strategy

| Objective | | Key Performance Indicator | Responsibility | Target dates |
|---|---|---|-----------------------------------|--|
| | | Inventory management reforms implemented | CFO | Dec 2011 |
| | | Annual Financial Statements prepared and submitted to AG timeously | CFO | May & Jul |
| ii. Strengthening governance structures and governance regimes | Resolving AG audit findings | Action plans developed to address the root causes of findings contained in AG management report and audit report | CFO | Aug or Nov |
| | | Monthly Audit Steering Committee (ASC) meetings held | Accounting Officer/CEO/MM | Monthly |
| | | Executive Authority/Accounting Authority/Executive Mayor briefed on progress on resolving AG audit findings | Accounting Officer/CEO/MM | Quarterly |
| | Internal Audit & Audit Committee | Internal Audit Units established and effective | Accounting Officer/CEO/MM | ASAP |
| | | Internal audit findings resolved timeously | Accounting Officer/CEO/MM | Monthly |
| | | Audit Committees established and effective | Accounting Officer/CEO/MM/ | ASAP |
| | | Reports to Audit Committee submitted timeously | Accounting Officer/CEO/MM/ CFO | Quarterly & As per Secretariat request |
| | | Quarterly Audit Committee meetings held & attended by HOD/CFO/CRO | Accounting Officer/CEO/MM/ | Quarterly & As per |

Clean Audit Strategy

| Objective | Key Performance Indicator | Responsibility | Target dates | |
|-----------|--|---|-------------------------------|---------------------|
| | | | CFO | Secretariat request |
| | | Audit Committee recommendations/resolutions implemented timeously | Accounting Officer/CEO/MM/CFO | Monthly |
| | Risk Management | Annual Risk assessments conducted and risk profile reviewed | Accounting Officer/CEO/MM/CRO | Jan/Feb |
| | | Risk Management Committees established and effective | Accounting Officer/CEO/MM/CRO | ASAP |
| | | Risk Management Committees meetings held to effectively monitor the implementation of risk mitigation strategies. | CRO | Monthly |
| | Improved monitoring and reporting | Asset register assessed for completeness and compliance to standards | Provincial Treasury | Monthly |
| | | Supply Chain management compliance assessed | Provincial Treasury | Monthly |
| | | Quarterly financial statements reviewed | Provincial Treasury | Monthly |
| | | Suspense accounts monitored | Provincial Treasury | Monthly |
| | | Usage, effectiveness and stability of information systems monitored | Provincial Treasury | Monthly |
| | | Quality, reliability and accuracy of performance information monitored | Provincial Treasury | Quarterly |

Clean Audit Strategy

| Objective | | Key Performance Indicator | Responsibility | Target dates | |
|-----------|---|---|--|---------------------|---------|
| | | AG audit action plans progress assessed and monitored | Provincial Treasury/DLGH | Monthly | |
| | | Internal audit findings and Audit Committee recommendations/resolutions assessed & monitored | Provincial Treasury/DLGH | Monthly | |
| | | Annual Financial Statements reviewed by Treasury and Audit Committee prior to submission to AG | Treasury/ Audit Committees | May & Jul | |
| | | Risk Management processes & committees functionality and effectiveness reviewed and monitored | Provincial Treasury/DLGH | Monthly | |
| | | Institutions assisted with the development of business processes/procedure manuals | Provincial Treasury | Ongoing | |
| | | Effective compliance and implementation of financial policies & prescripts monitored | Provincial Treasury | Monthly | |
| | Internal control environment | Procedure manuals for approved policies reviewed | CFO forums | Ongoing | |
| | | Internal Controls (Revenue/SCM/Payments/Assets/Cash/Receivables/Liabilities/Inventory/Payroll) reviewed | Provincial Treasury | Monthly | |
| | | Financial delegations framework reviewed | Provincial Treasury | Aug2011 | |
| | | Internal control environment effectiveness assessed | Internal Audit | Ongoing | |
| | iii. Strengthening capacity building | Capacity | Departmental CFO office structures reviewed and skills and competencies assessed | Provincial Treasury | Dec2011 |

Clean Audit Strategy

| Objective | | Key Performance Indicator | Responsibility | Target dates |
|--|--|--|-------------------------|--------------|
| initiatives | | All key financial management vacant posts filled with adequately skilled people | Accounting Officer/CEO/ | Nov2011 |
| | | | Municipal Managers | June 2012 |
| | | Continuous training & capacity building of staff on financial management and systems | AO/CEO/MM/ LPT | Ongoing |
| | | Provincial workshops & courses held on key accounting, governance and financial management practices | Provincial Treasury | Ongoing |
| | | Transversal inventory management unit established | Provincial Treasury | Dec2011 |
| | | Coordinate financial and risk management training courses | Provincial Treasury | Quarterly |
| | | Capacity building & training partnerships built with educational institutions in Province | Provincial Treasury | Ongoing |
| iv. Strengthening capacity to implement Operation Clean Audit | Leadership | Clean Audit 2014 supported and the level of the Executive Council | EXCO | Ongoing |
| | | Audit issues/action plan progress report standing item on EXCO agenda | EXCO | Monthly |
| | | Clean Audit 2014 Provincial Coordinating Committee established & functional | Director General | ASAP |
| v. Sharing information and knowledge management within | Improve knowledge sharing among | CFOs' fora coordinated | Provincial Treasury | Monthly |
| | | Input into the formulation of Accounting Standards (ASB) facilitated | Provincial Treasury | Monthly |

Clean Audit Strategy

| Objective | | Key Performance Indicator | Responsibility | Target dates |
|--|----------------------------------|---|---------------------|--------------|
| and amongst Provincial Departments, Public Entities, Municipalities and other provinces | critical stakeholders | Inputs on the reporting framework facilitated | Provincial Treasury | Monthly |

14 MUNICIPAL CLEAN AUDIT 2014

OPERATION CLEAN AUDIT MUNICIPAL FINANCE: PROGRAMME OF ACTION 2010-11

MUNICIPAL FINANCE

Strategic Goals:

- PRIORITY 1: FACILITATE INTEGRATED AND RESPONSIVE GOVERNANCE IN A DEVELOPMENTAL STATE
- PRIORITY 2: STRENGTHEN ACCOUNTABILITY AND CLEAN GOVERNANCE

| STRATEGIC OBJECTIVE (10 Point Plan & Outcome 6 of delivery agreement) | Key Focus Area | ISSUE | CHALLENGE | ACTIONS | Responsibility | TIMEFRAME |
|--|------------------------------------|--|------------------------|--|----------------|-----------|
| Strengthen the administration, institutional and financial capabilities of municipalities | Implement Operation Clean Audit | Submission of credible and quality Annual Financial statements | Late submission of AFS | Conduct an AFS Readiness analysis in all municipalities. | DLGH | May 2011 |
| | (6.1 of delivery agreement) | | | Provide municipalities with detailed guidelines and terms of reference for | DLGH | May 2011 |

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|--|----------------|-------|---|---|---|-----------|
| | | | | preparation of financial statements Assist the municipalities to develop and implement plan to compile AFS | | |
| | | | Lack of monthly and quarterly reconciliations | MIG and MSIG reconciliations Assist municipalities with reconciliation of control accounts i.e. VAT, creditors, debtors, salaries control and other accounts | DLGH to monitor, support & report. Municipalities to implement | Monthly |

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|---|-----------------------|--------------|--|---|--|--------------------------------|
| | | | <p>Weak Internal processes and controls</p> <p>Duplication of Journals</p> <p>No processes in place for doing month-end procedures</p> | <p>Implement Interim Audits – Quarterly reviews on Key controls by AG</p> <p>Monitor that all Control Account Journal are signed by the CFO</p> <p>Attach ledger print out of amount to be rectified and reasons</p> <p>Produce action plans to respond to AG’s quarterly key control assessment reports.</p> | <p>Auditor General/ Municipalities</p> <p>DLGH</p> <p>Municipalities to develop & implement.</p> | <p>Monthly</p> <p>QUARTELY</p> |

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|--|----------------|-----------------------------------|---|--|--|-----------|
| | | | | Monitor progress on action plans and report quarterly. | DLGH | |
| | | Addressing Municipal Audit Issues | Inadequate portfolio of Evidence files (Audit trail). | Provide municipalities with compliance checklists for preparation of the audit file. | DLGH/LPT | June 2011 |
| | | | Recurring audit issues | Develop and implement action plans to address previous audit issues | Municipalities to develop & implement. | December |
| | | | Non-implementation of Audit action plans | Monitor progress on action plans and report quarterly | DLGH | Monthly |

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|--|----------------|----------------------------|---|--|--|--------------------------|
| | | | Timely Auditor General Reporting and delays in responding to audit issues | Conduct regular municipal audit steering committee meetings to monitor the audit process; management's availability and assist in dealing with audit issues. | Municipalities/ DLGH/LPT | October to November 2011 |
| | | Municipal Asset Management | Poor asset management | Assist with the development and implementation of asset management procedure manual. Assist the municipalities to update assets registers on quarterly basis. | DLGH/LPT and Municipalities. DLGH/LPT | M 2011 |

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|---|-----------------------|--------------|------------------|---|----------------------------------|------------------|
| | | | | Assist the municipalities with stock taking and assets verification Assist the municipalities to comply with assets management, additions, disposal and transfers procedures Monitor that municipalities maintain title deeds registers | DLGH DLGH/LPT DLGH | July 2011 |

| STRATEGIC OBJECTIVE (10 Point Plan & Outcome 6 of delivery agreement) | Key Focus Area | ISSUE | CHALLENGE | ACTIONS | Responsibility | TIMEFRAME |
|---|-----------------------|--------------------------------------|---|--|--|---|
| | | Supply Chain and Contract Management | Lack of capacity (Legal, Project Management & SCM skills & understanding) | Establish SCM Units and train municipal officials Monitor that municipalities comply with the SCM regulations and Supply Chain Management Committees are in Place Assist the municipalities to develop Procurement Plans | DLGH/LPT and Municipalities DLGH/LPT DLGH/Municipalities | Quarterly Monthly June 2011 |

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|--|--|----------------|--|--|-----------------------------|-----------|
| | | | | Assist the municipalities to develop and maintain Tender Register | DLGH/LPT and Municipalities | June 2011 |
| | Reduced Municipal Debt (6.3 of delivery agreement) | Municipal Debt | Non payment and increasing government and other debt | Establishment of a Debt Management Forum to implement the strategy | DLGH/LPT | Monthly |
| | | | Inadequate processes to address outstanding debt by government departments | Assist municipalities with Data cleansing to improve integrity | DLGH | Quarterly |
| Data integrity and availability on municipal billing systems | Monitor proper implementation of debt management policy. | DLGH/LPT | Monthly | | | |

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|--|--|---|---|---|--|---------------------------------|
| | | | <p>Poor Indigent Management</p> <p>Lack of municipal debt by-laws and weak enforcement</p> | <p>Assist with development and implementation of revenue enhancement strategies</p> <p>Development and gazetting of by-laws</p> | <p>DLGH/LPT and Municipalities</p> <p>Municipalities</p> | <p>Monthly</p> <p>June 2011</p> |
| | <p>Improved HR practices</p> <p>(6.7 of delivery agreement)</p> | <p>Building Municipal Capacity and Competencies</p> | <p>Shortage of municipal finance skills in marketplace.</p> <p>Inadequate competencies of personnel and CFO's</p> | <p>Roll out of SAICA AAT programme.</p> <p>Develop and implement provincial capacity building strategy.</p> | <p>DLGH</p> <p>DLGH / SALGA and Municipalities</p> | <p>July 2011</p> |

| STRATEGIC OBJECTIVE (10 Point Plan & Outcome 6 of delivery agreement) | Key Focus Area | ISSUE | CHALLENGE | ACTIONS | Responsibility | TIMEFRAME |
|--|---|--|---|---|---|-----------|
| | | | Capacity building initiatives are not well co-ordinated and sustainable High vacancy rates | Conduct annual skills development audits. Assist with the review of organisational structure Councillor oversight training conducted Assist municipalities with filling of critical posts. | DLGH DLGH / Municipalities DLGH / SALGA | |
| | Improved Service Delivery through Effective Management of | Service Delivery & Effective Management of Financial Resources | Poor reporting on performance information | Support municipalities to develop Credible Service Delivery and Budget Implementation Plans | DLGH | June 2011 |

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|---|---|--------------|--|---|-----------------------|------------------|
| | Financial Resources (6.1, 6.4, 6.5, 6.6 of the delivery agreement) | | Budgets are not linked to performance information Weak Provincial capacity to analyse budgets Budgets no cash backed Poor quality of budget information | Support municipalities with reporting on performance information Support municipalities in submission of non-financial performance information with AFS for auditing Monitor expenditure for adherence to budgets | DLGH/LPT | Monthly |

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|--|----------------|---|--|--|----------------|---------------------------------------|
| | | | Non-submission of budget information in correct formats | | | |
| | | Consolidated Municipal Annual Report and tabling of MEC reports in provincial legislature and IGR structure | Late and non-submission of annual and oversight reports. | Produce consolidated Municipal Annual Report and tabling of MEC reports(Section 131 of the MFMA) in provincial legislature and IGR structure | DLGH | October 2011 |
| | | Performance Agreements | Lack of performance agreements and some are not aligned with the IDP | Ensure that municipality develop and review the PMS, and S57 sign Performance Agreements aligned to SDBIP's annually | DLGH | By the 31 st July annually |

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|---|---|----------------------|---|--|-----------------------|---|
| | | | Performance agreements not output and outcomes based. | Ensure that municipalities compile and adopt section 46 reports with oversight recommendations | DLGH | Draft by the 31 December, second draft adopted by 25 January and final draft by 31 March with oversight report. |
| | Uproot fraud, corruption, nepotism and all forms of maladministration (6.2 of the delivery agreement) | Fraud and corruption | Municipalities not dealing adequately with fraud, corruption and misconduct cases Lack of anti-corruption policies and plans | Ensure that municipalities maintain up to date fraud and corruption policies and plans Assist with establishment of committees to deal with issues raised in the anti fraud hotlines. | DLGH | Quarterly |

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|--|----------------|-------|---|---|---|--|
| | | | Recommendations from forensic investigations. | Undertake and report on forensic investigations commissioned in terms of Section 106 of the Municipal Systems Act. | | |
| | | | Poor response rate of law enforcement agencies to local government finance related cases. Delays in justice system | Strategic Engagements with Law Enforcement Agencies and MOUs signed incorporating mechanisms for follow up on municipal investigations. | Awaiting for regulations from NT and COGTA/SALGA | |
| | | | Governance | MPACs | Alignment of committees of council and clarity on | Rollout of Framework on MPAC's to municipalities |

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|--|--|---|---|--|----------------|-----------|
| | (6.1 of delivery agreement) | | roles and responsibility in system | Establishment of MPACs in all municipalities | report. | |
| Audit Committees | | Ineffective audit committees with inappropriate membership | Training for audit committees. | DLGH and PT | Quarterly | |
| | | No audit committees | Monitor the effectiveness and functionality of audit committees | DLGH | | |
| Internal Audit Units | Ineffective or no internal audit units in municipalities | Monitor the effectiveness and functionality of internal audit units | DLGH / PT | Monthly Quarterly report | | |

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|--|----------------|----------------------------------|--|---|-----------------------------|---------------------------------|
| | | Risk Management Units | | Monitor the establishment and functionality of risk management units | DLGH / PT | Monthly Quarterly report |
| | | District Area Finance Forums | Some not established or not functional. SALGA capacity to support DAFFS | Monitor District CFO's FORA. Assist the municipalities to develop calendar for District CFO's FORA and monitor implementation | DLGH | Quarterly |
| | | Functional Provincial IGR forums | Meetings conducted according to schedule and MFMA Planning cycle | Monitor the functionality of following Fora: <ul style="list-style-type: none"> • CFO forum • Risk Management • Internal Auditors | DLGH/LPT and Municipalities | Quarterly |