



Local government audit outcomes

MFMA
2018-19

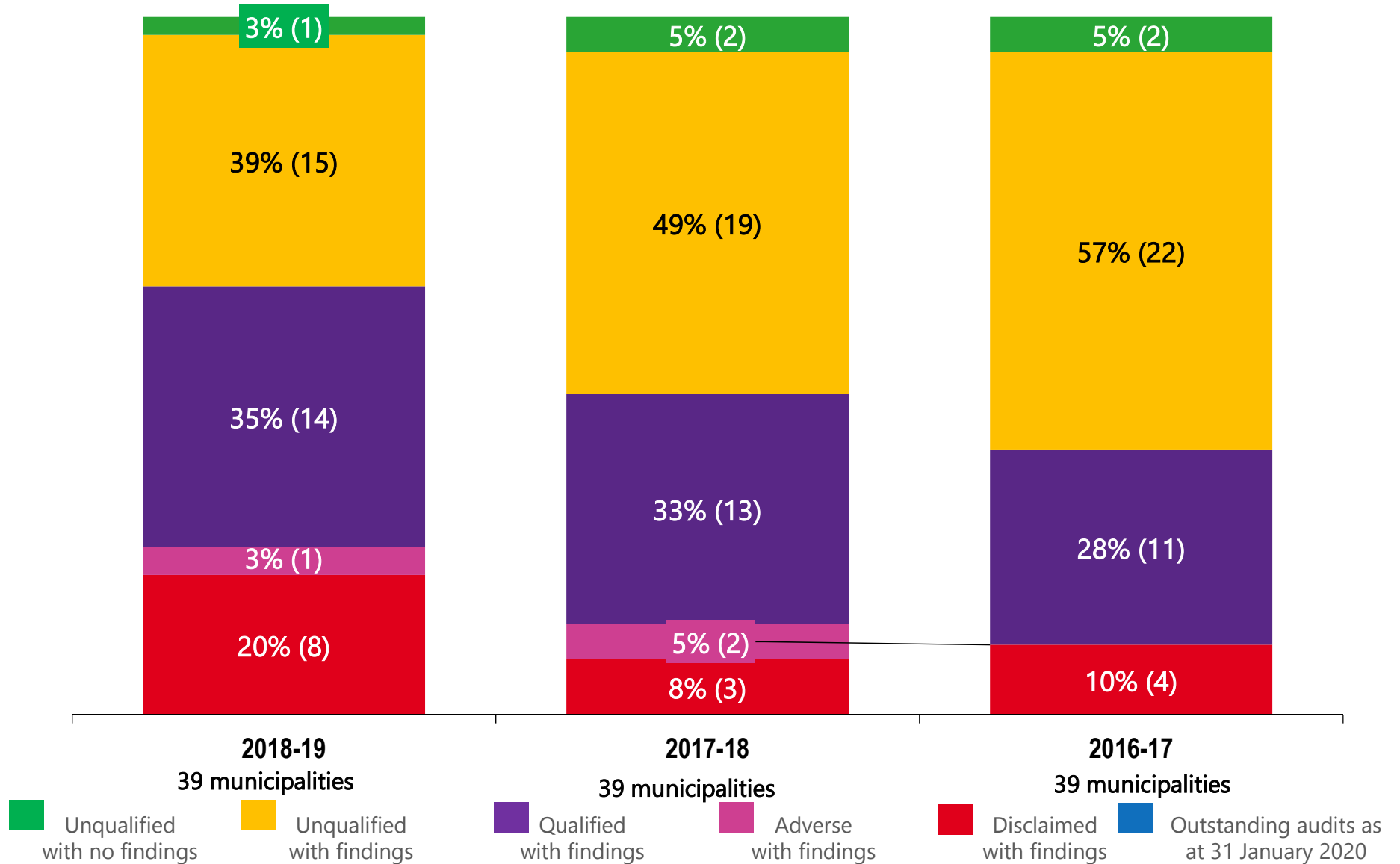
Eastern Cape

The high cost of accountability failures in local government



AUDITOR-GENERAL
SOUTH AFRICA

Audit outcomes continue to regress – municipalities





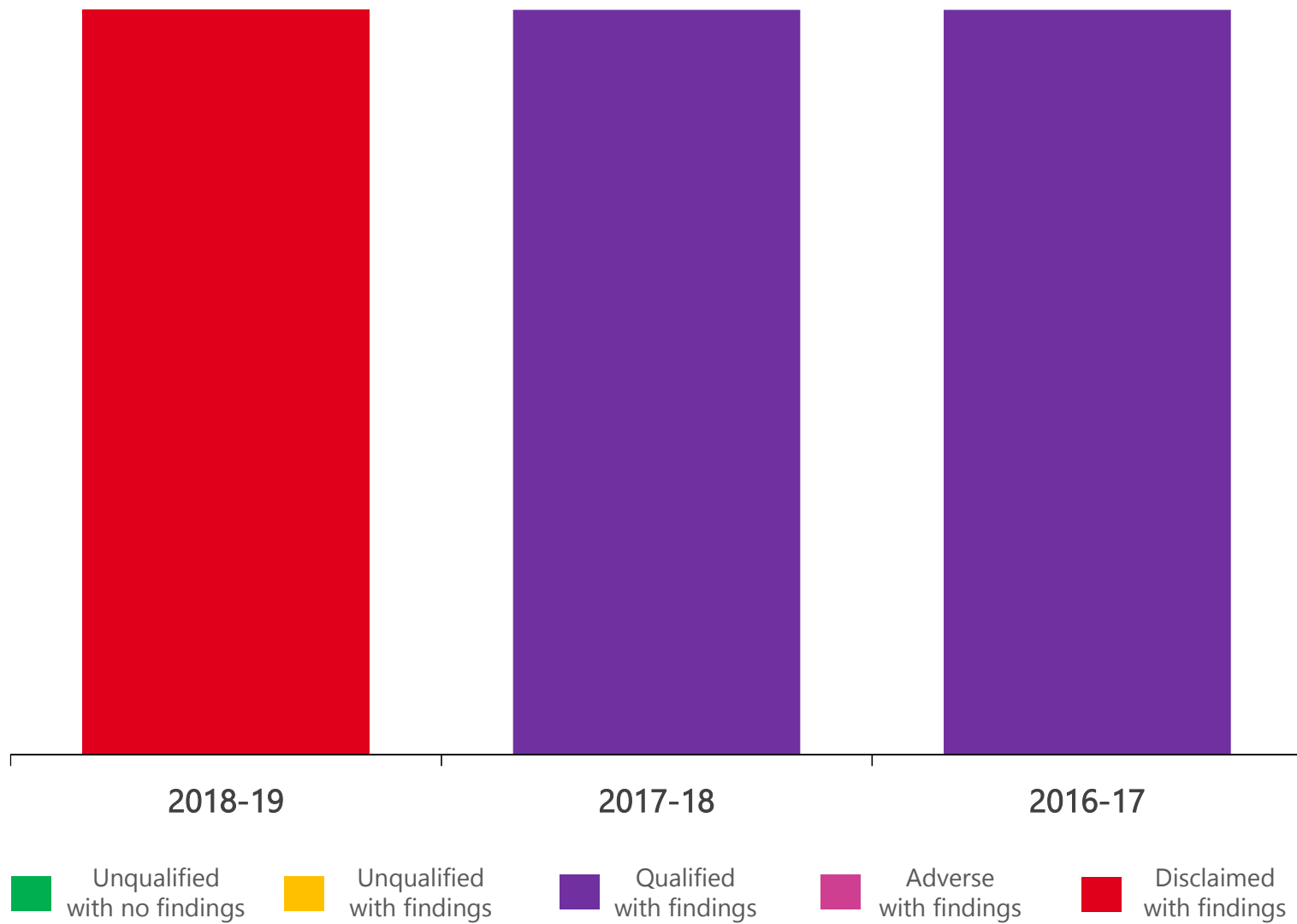
Local government audit outcomes | **MFMA**
2018-19

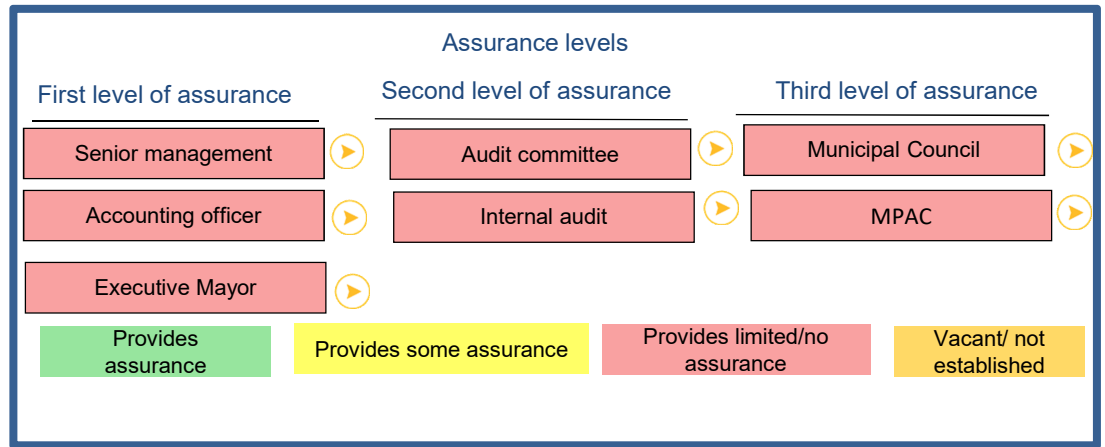
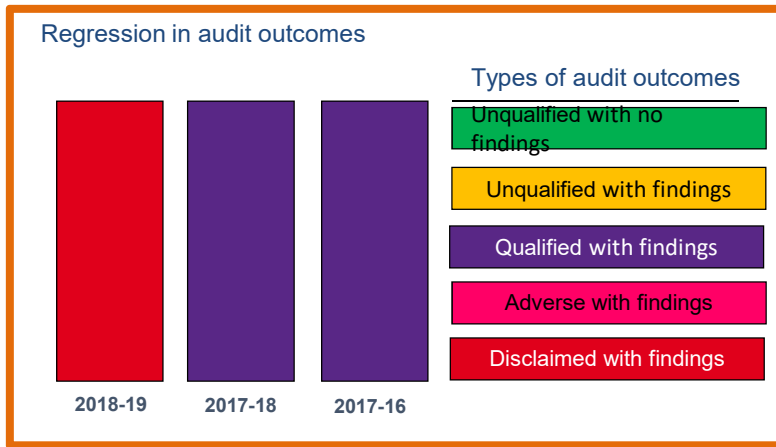
Makana Local Municipality



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Makana Local Municipality – Regression in audit opinion





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



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



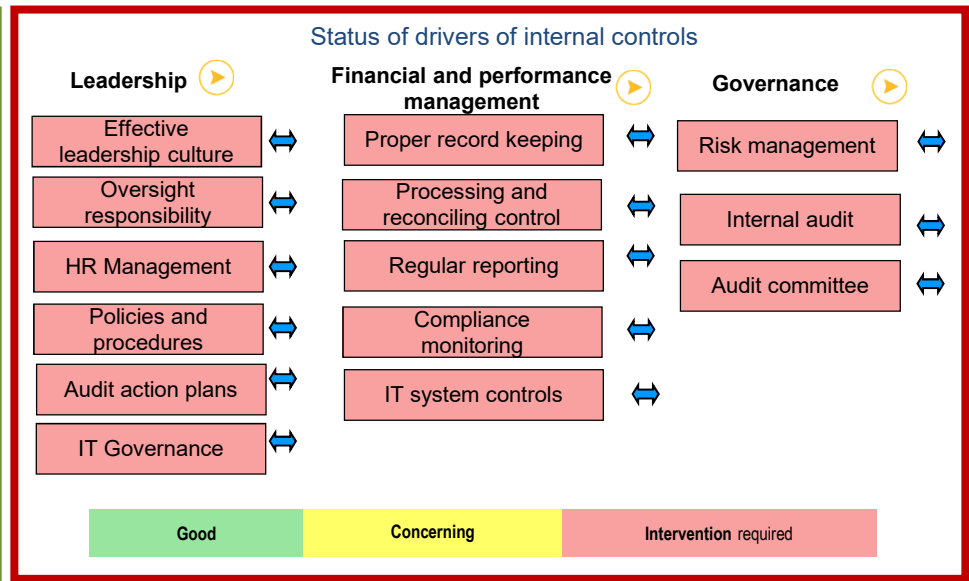
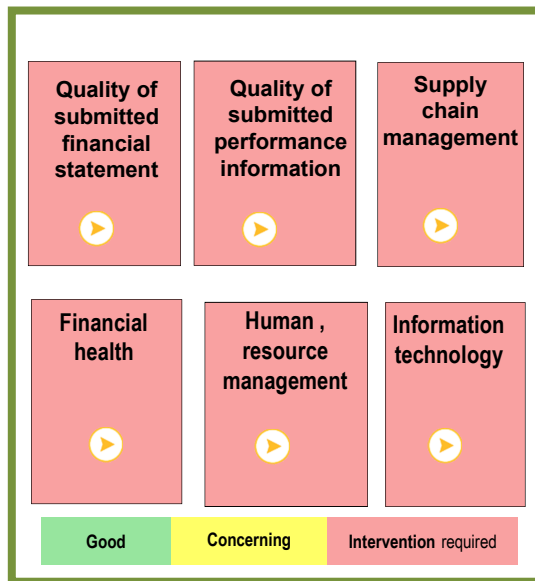
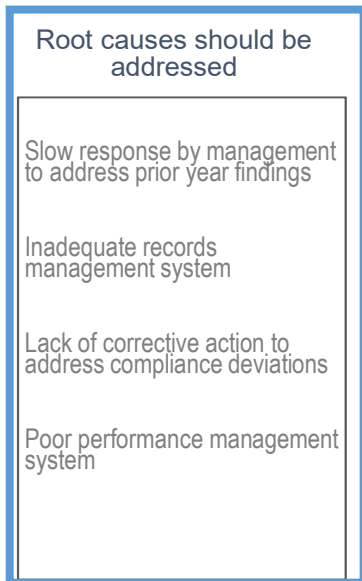
... the **root causes** are addressed ...



... the **risk areas** and ...



... attention is given to the **key controls** and ...





2018/19 overview financial year audit outcomes

Risk areas

Quality of submitted financial statement	Quality of submitted performance information	Supply chain management
Financial health	Human, resource management	Information technology

Good
Concerning
Intervention required

Predetermined objectives

	Reported information useful	Reported information reliable
2018-19	Repeat	Repeat
2017-18	Repeat	Repeat
2016-17	Repeat	Repeat

Compliance with laws and regulations

	Annual Financial Statements & Annual Report	Consequence management	Asset Management	Liability Management	Revenue management	Annual report	Expenditure management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	Unauthorised and irregular expenditure
2018-19	Repeat	Repeat	Addressed	Addressed	Repeat	Repeat	Repeat	Repeat	New	Repeat	Repeat
2017-18	Repeat	Repeat	Addressed	Repeat	Repeat	Addressed	Repeat	Repeat	New	Repeat	Repeat
2016-17	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat		Repeat	Repeat



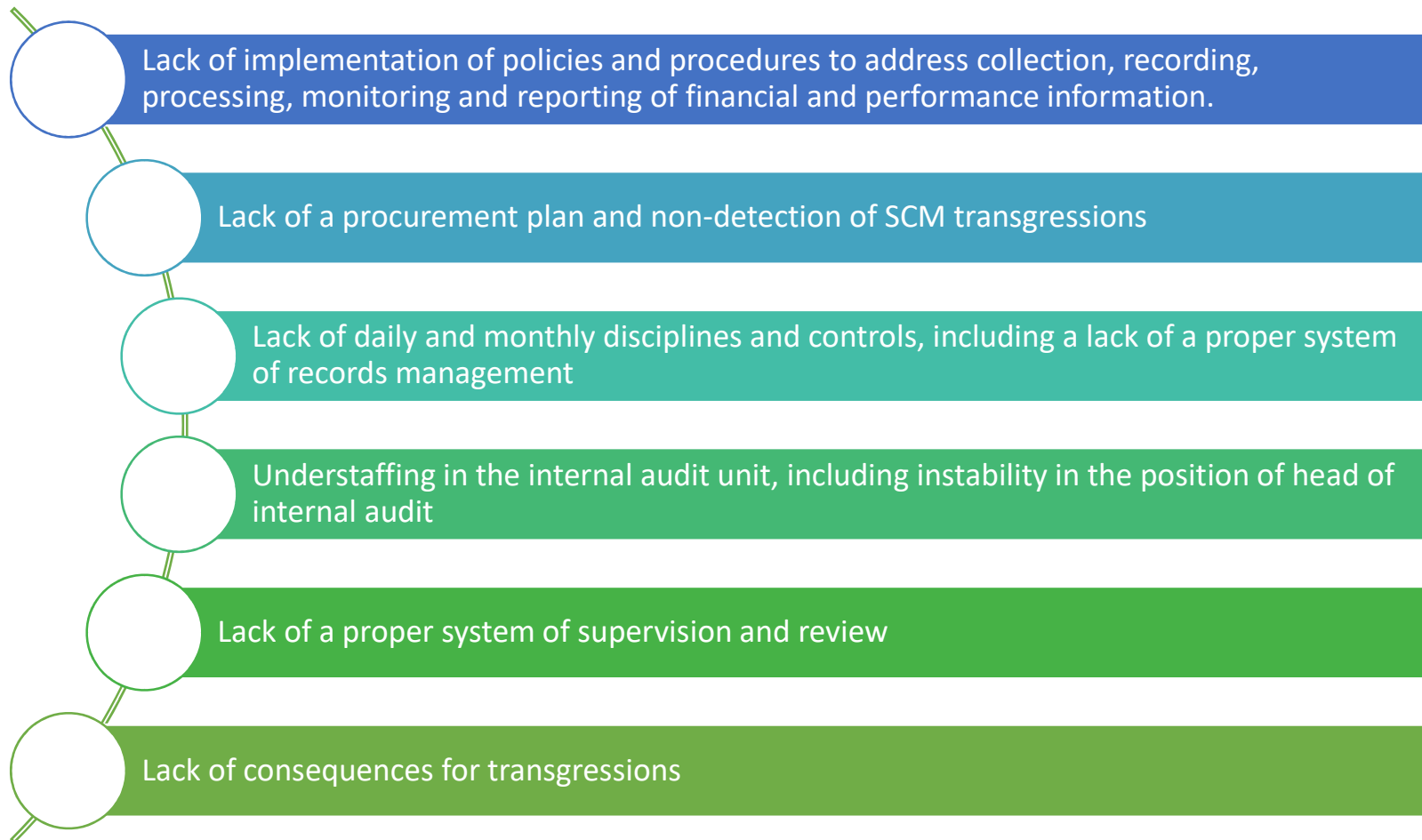
Background



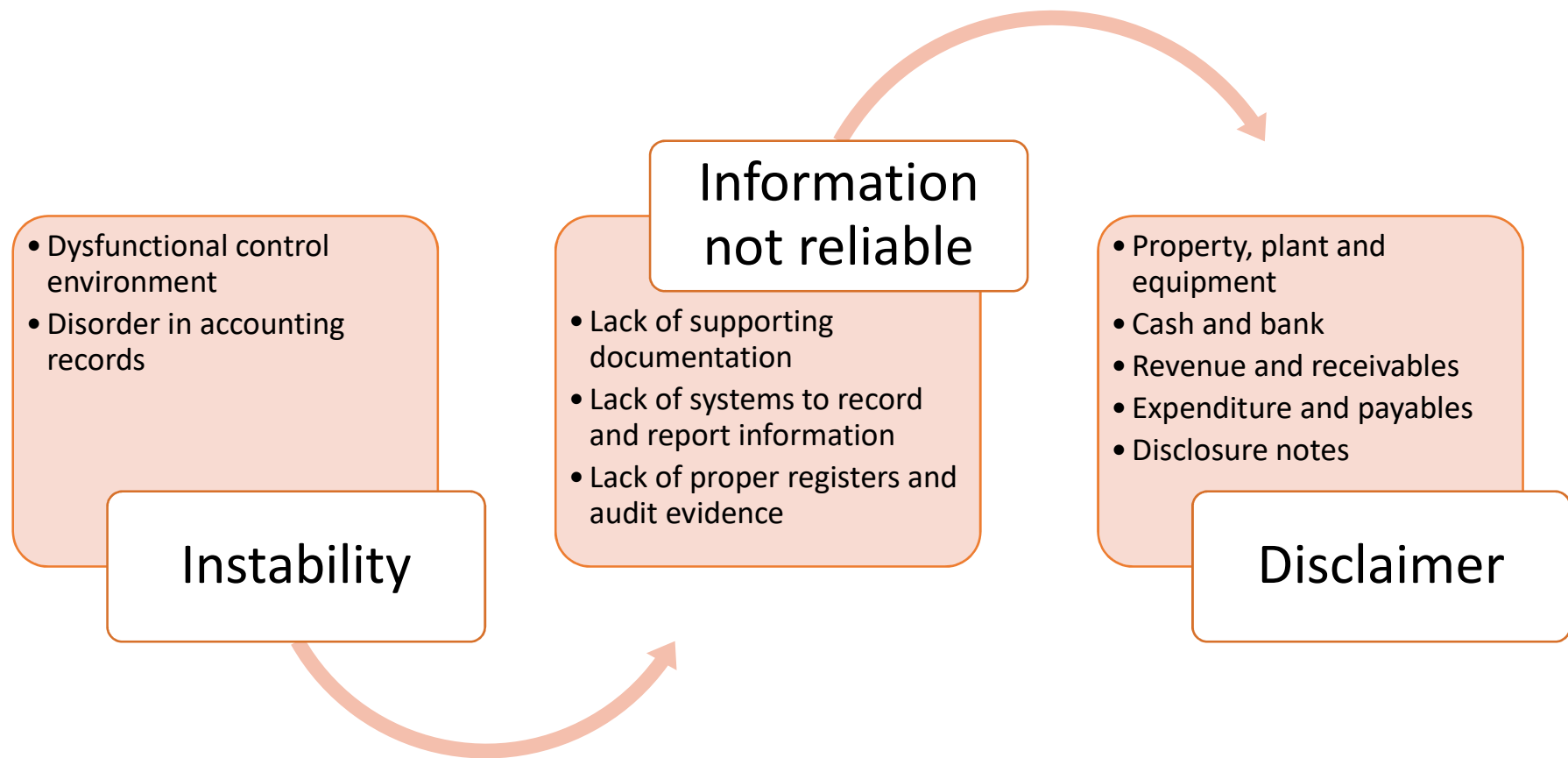
Impact of leadership instability

- The impact of the instability in political and administrative leadership was as follows:
- A history of poor decision-making because of a lack of leadership
- The Municipal Infrastructure Grant (MIG) of the municipality was managed by the district municipality as a result of the municipality's mismanagement of the grant in prior years. This included massive underspending as well as spending outside the conditions of the grant.
- Due to this mismanagement, some of the major challenges faced by the municipality are the ageing water, sanitation and roads infrastructure that have not been adequately maintained.
- Together with the drought faced by the region, this resulted in the town going without water frequently and for long periods.
- Numerous service delivery protests took place and the community took the municipality to court to have the council dissolved and the municipality placed under administration. Subsequent to year-end, the court ruled in favour of the community. The municipal council has succeeded in obtaining leave to appeal against this ruling, The matter is ongoing

Lack of preventative controls



Impact of lack of preventative controls



Cost of consultants

Year	Financial consultants cost
2016-17	R1 024 151
2017-18	R2 601 620
2018-19	R1 686 142



The municipality paid in total R6 million for consultants.

R1,7 million was for financial reporting services and R4,3 million was for IT related services.

Consultants were appointed without a proper needs assessment.

The municipality's SCM Policy does not include measures to address over reliance on consultants.

A gap analysis prior to the appointment of consultants was not performed by the management of the municipality. A gap analysis in relation to the use of consultants is to identify gaps between current available human resources and human resources required to complete a specific project.

The municipality does not have a consultancy reduction plan.





Supply chain management non-compliance is the main cause of irregular expenditure

Year	Opening balance	Incurred	Adjustments to prior year	Closing balance
2016-17	R128,3 million	R55,2 million	R0,2 million)	R183,7 million
2017-18	R183,7 million	R45,1 million	0	R228,8 million
2018-19	R228,8 million	R56,5 million	0	R285,3 million

Over the past three years, no irregular expenditure has been written off or condoned.




As the municipality did not maintain adequate records of expenditure and payments incurred, in contravention of the SCM prescripts, I was unable to determine the full extent of the misstatement of irregular expenditure as it was impracticable to do so.



The reported irregular expenditure is however based on financial statements and therefore not a true reflection of the full extent of the irregular expenditure as the balance on irregular expenditure was qualified due to incomplete disclosure of all irregular expenditure incurred.

What do the financial statements say?



Income statement		Revenue	Total = R524 million	Of their total revenue of R524 million , R153 million (29%) was from government grants and subsidies.
		Expenditure	Total = R544 million	Of their total expenditure of R544 million , R176 million (32%) was for employee cost of the municipality.
		Net result	The municipality incurred a Deficit (expenditure exceeded revenue) of R5,1 million for the year	

The municipality experienced significant cash flow challenges, with the result that they took on average 327 days to pay creditors. The municipality also did not have sufficient liquid resources to be able to settle its debts as current liabilities exceeded current assets by R154,7 million. This could have a negative impact on service delivery as creditors may not want to provide goods or services to the municipality.

The municipality continued to struggle to collect all monies due to it as evidenced by the increasing debtors balance and debtor's impairment provision. 92% of debtors were impaired. The lack of effective revenue management and debt collection processes is a major contributing factor.

Management identified certain financial risks that negatively impact its ability to sustain current levels of operations before taking government grants into account. As stated in note 51, these events or conditions, along with other matters as set forth in note 51, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.



Shortcomings on infrastructure maintenance

- The backlog on the provision of water and sanitation services is due to insufficient funding for infrastructure needs, and water infrastructure that is aged and in need of repair
- There is no policy for routine maintenance of water and sanitation infrastructure
- No condition assessments were performed to inform the maintenance plan
- The auditors reported limitations on all the indicators for water supply in the performance report



The municipality disclosed that bulk water losses decreased from the prior year, with a loss of **R12,6 million** (2017-18: R14,8 million) incurred, which represents **37%** (2017-18: 76%) of the total bulk water purchased, however none of the disclosed information could be verified as a result of inadequate record keeping.





Local government audit outcomes

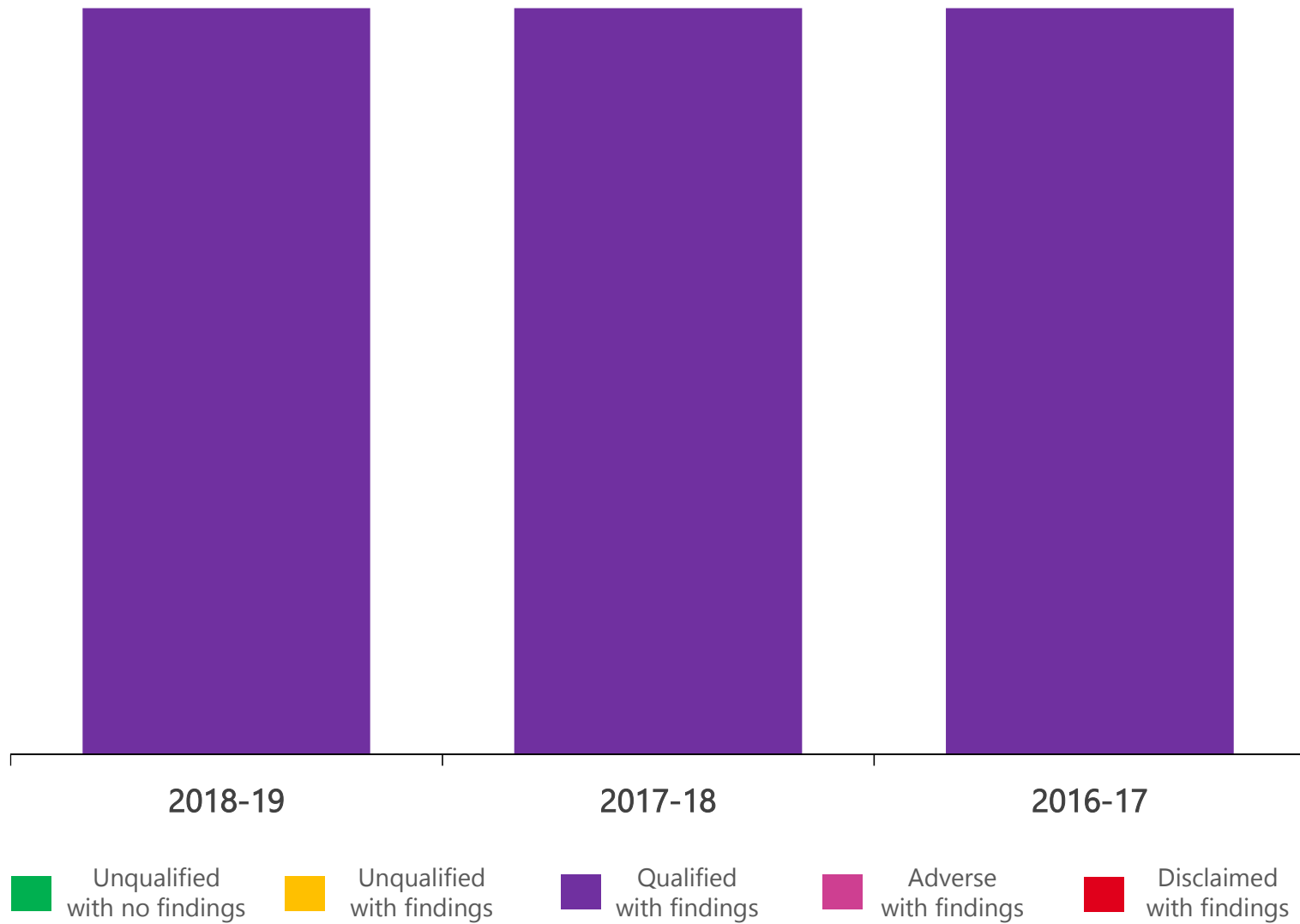
MFMA
2018-19

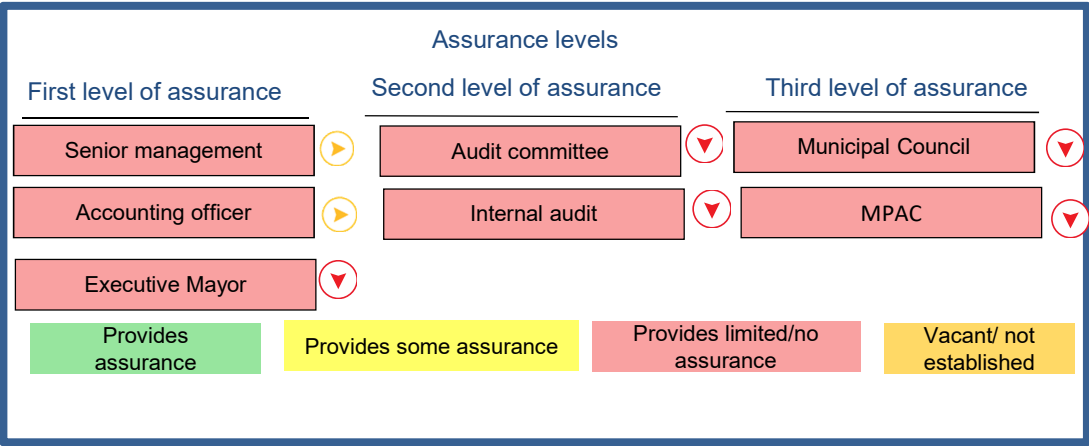
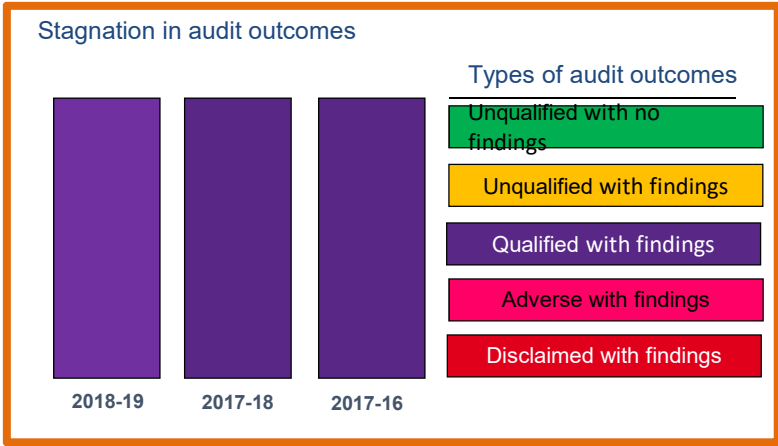
Nelson Mandela Bay Metropolitan Municipality



AUDITOR-GENERAL
SOUTH AFRICA

Nelson Mandela Bay Metro Municipality – Three consecutive qualified audit opinions





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



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



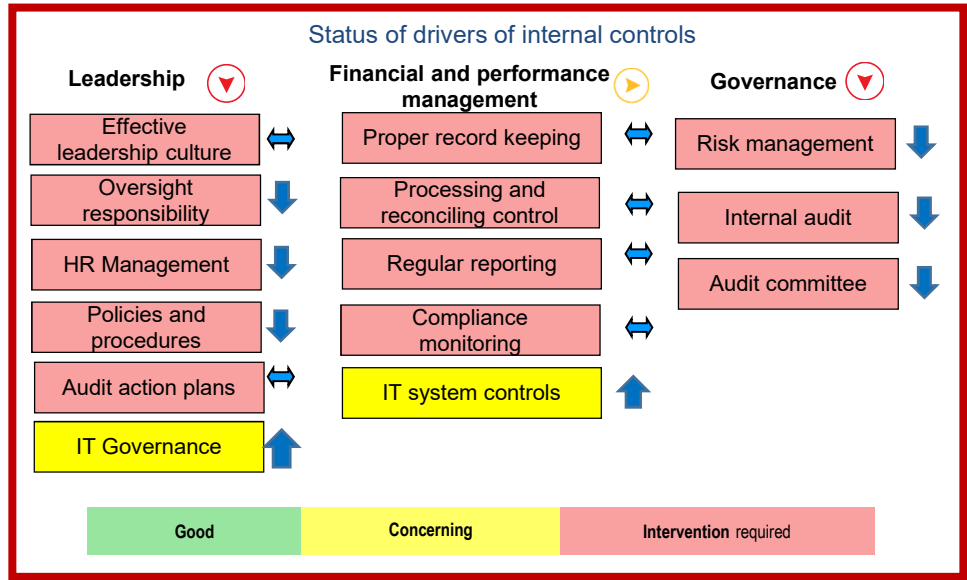
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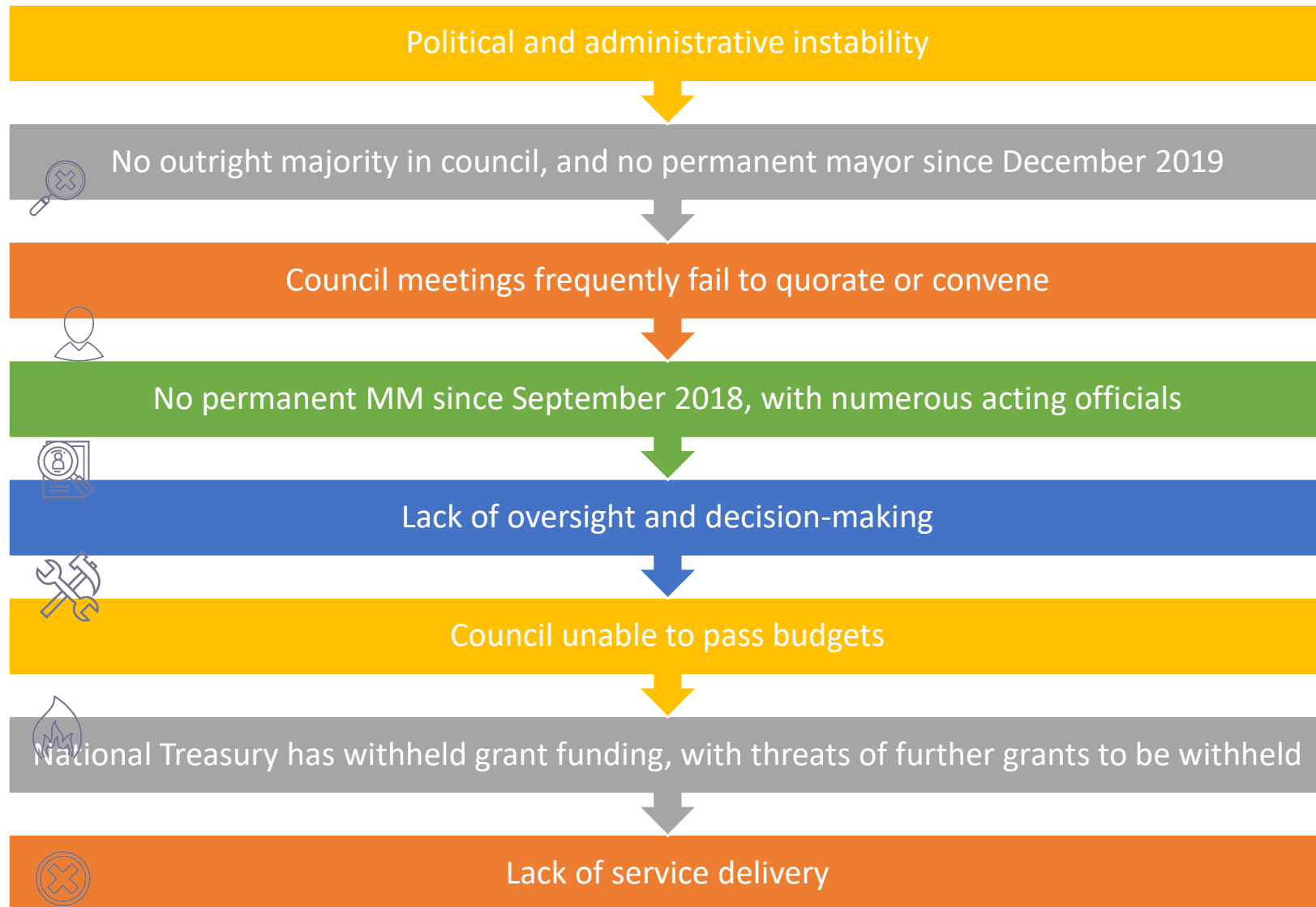
... the **risk areas** and ...



... attention is given to the **key controls** and ...



Background and current status of the municipality



Impact of leadership instability

- The impact of the instability in political and administrative leadership was as follows:
- Council did not investigate irregular expenditure which continues to accumulate year on year with no one being held accountable.
- The CFO position remained vacant for the second successive financial year. Due to this leadership vacuum, proper financial disciplines were not in place, with the result that the municipality was unable to account for items on the financial statements such as infrastructure assets, revenue and creditors among others.
- Audit action plans were not implemented and monitored
- Continued reliance on the audit process to identify and correct misstatements in the financial statements

Lack of preventative controls

- Heavy reliance on manual systems for most of the financial information
- Lack of daily and monthly disciplines and controls, including a lack of a proper system of records management
- Lack of implementation of policies and procedures
- Lack of a proper system of supervision and review
- Lack of consequences for transgressions



Impact of lack of preventative controls

Qualified audit opinion

Inadequate asset registers and recons

Lack of proper systems and supporting documentation

Property, plant and equipment

Intangible assets

Investment property

Irregular expenditure (opening balance)

Revenue

Payables

Unauthorised expenditure





2018/19 overview financial year audit outcomes

Risk areas

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Concerning
Intervention required

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Compliance with laws and regulations

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2018-19	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat
2017-18	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat
2016-17	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat





Supply chain management non-compliance is the main cause of irregular expenditure

Year	Opening balance	Incurred	Adjustments to prior year	Closing balance
2016-17	R3,4 billion	R8,5 billion	(R232 million) Written off by council (R36 million)	R11,6 billion
2017-18	R11,6 billion	R2,7 billion	R129 million	R14,4 billion
2018-19	R14,5 billion	R2 billion	0	R16,5 billion

Over the past two years, no irregular expenditure has been written off or condoned.

Part of the basis for the qualified opinion is a limitation on the completeness and accuracy of the prior year amount and opening balance of irregular expenditure, with the result that the closing balance is not confirmed.



The reported irregular expenditure is however based on financial statements and therefore not a true reflection of the full extent of the irregular expenditure as the balance on irregular expenditure was qualified due to incomplete disclosure of all irregular expenditure incurred.

What do the financial statements say?



<i>Income statement</i>		Revenue	Total = R11,3 billion	Of their total revenue of R11,4 billion , R3,1 billion was from government grants and subsidies.
		Expenditure	Total = R10,2 billion	Of their total expenditure of R10,2 billion , R3,3 billion (32%) was for employee cost of the municipality.
		Net result	The municipality incurred a surplus (revenue exceeded expenditure) of R1,2 billion for the year	

The amount of time it took the municipality on average to collect its debtors increased from 67 days in the prior year to 79 days in the year audited, and 57% of the debtors were impaired, The municipality did not have enough cash reserves to pay its creditors on time because of the slow collection and high write-off rates of debtors.

Although the average days taken to pay creditors reduced slightly from 183 to 165 days, this was still significantly higher than the 30 days required by the MFMA, and remained concerning. The long delays in payment of creditors, especially small and local businesses, could have a detrimental effect on their viability and on the local economy.

Current liabilities as a percentage of next year's budgeted resources was 35%, which is a significant portion of the budget. This may impact on service delivery in future periods.



Shortcomings on infrastructure maintenance

- There is no policy for routine maintenance of water and sanitation infrastructure
- No specific timeframes and targets were determined for maintenance of infrastructure as there was no maintenance plan
- There was no evidence that quality of water was assessed and monitored during the year
- There is no maintenance plan developed for routine maintenance and renewal of roads infrastructure
- Certain projects included in the priority list for roads maintenance could not be carried out as they were not budgeted for



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