



Local government audit outcomes | 2017-18

Briefing to NCOP on the audit outcomes of Phokwane Local Municipality



AUDITOR-GENERAL
SOUTH AFRICA

Our reputation promise/mission

The Auditor-General of South Africa (AGSA) 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.







Status of 2018-19 audit cycle

- The municipality has been under administration since April 2019. The current administrators submitted the Annual Financial Statements for 17/18 financial year on 4 October 2019.
- We recently finalised the audit of 2017-18 and the audit report was signed on 7 March 2020.
- 2018/19 annual financial statements were submitted on the 10 June 2020, we are currently busy with the audit processes which started late due to covid-19.

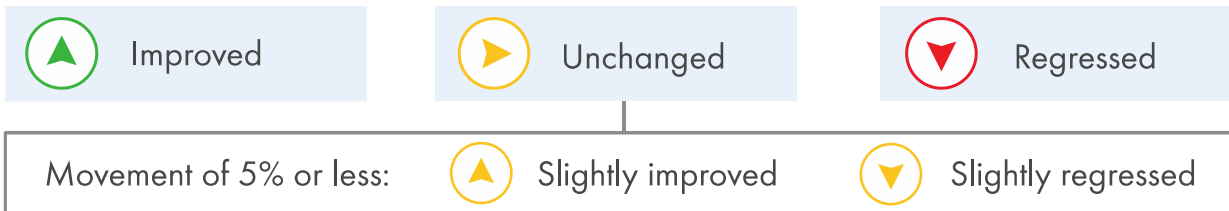


Important to note

Audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings

Movement over the previous year is depicted as follows:



Key message for Phokwane local municipality

The overall audit outcome stagnated from the previous year, it is mainly as a result of the use of consultants. The number of issues identified during the audit has not significantly reduced over the years, political leadership has not effectively dealt with issues of non-compliance with laws and regulations and, in the same breath, management has not effectively designed preventative controls to strengthen the control environment and has not effectively managed and corrected matters reported in the previous year's relating to financial statements, audit of predetermined objectives and compliance.

The vacancies in key management positions also contributed to a great extent to the undesired audit outcome. A further elaboration of root causes that informs the audit outcome are detailed below:

- Sustainable systems and processes were not introduced and implemented during the year for the recording, reconciling and reporting of transactions and balances in the financial statements. We further identified that there is lack of adequate skills within the finance department of the municipality. Despite the use of consultants to compile the financial statements submitted for audit, they were of poor quality and contained numerous basic accounting and numerical errors that could reasonably have been prevented had due care been exercised. This indicates that the municipality is relying heavily on consultants.
- The overall outcomes for predetermined objectives regressed, in the current year, the annual performance information submitted for audit purposes did not have accurate and complete audit evidence. As reported in the prior year, the significant root cause emanating from the basis of conclusion reached is due to inadequate controls relating to the collating and recording of information. The audit action plan was not adequate as it did not address the root cause findings on performance information.

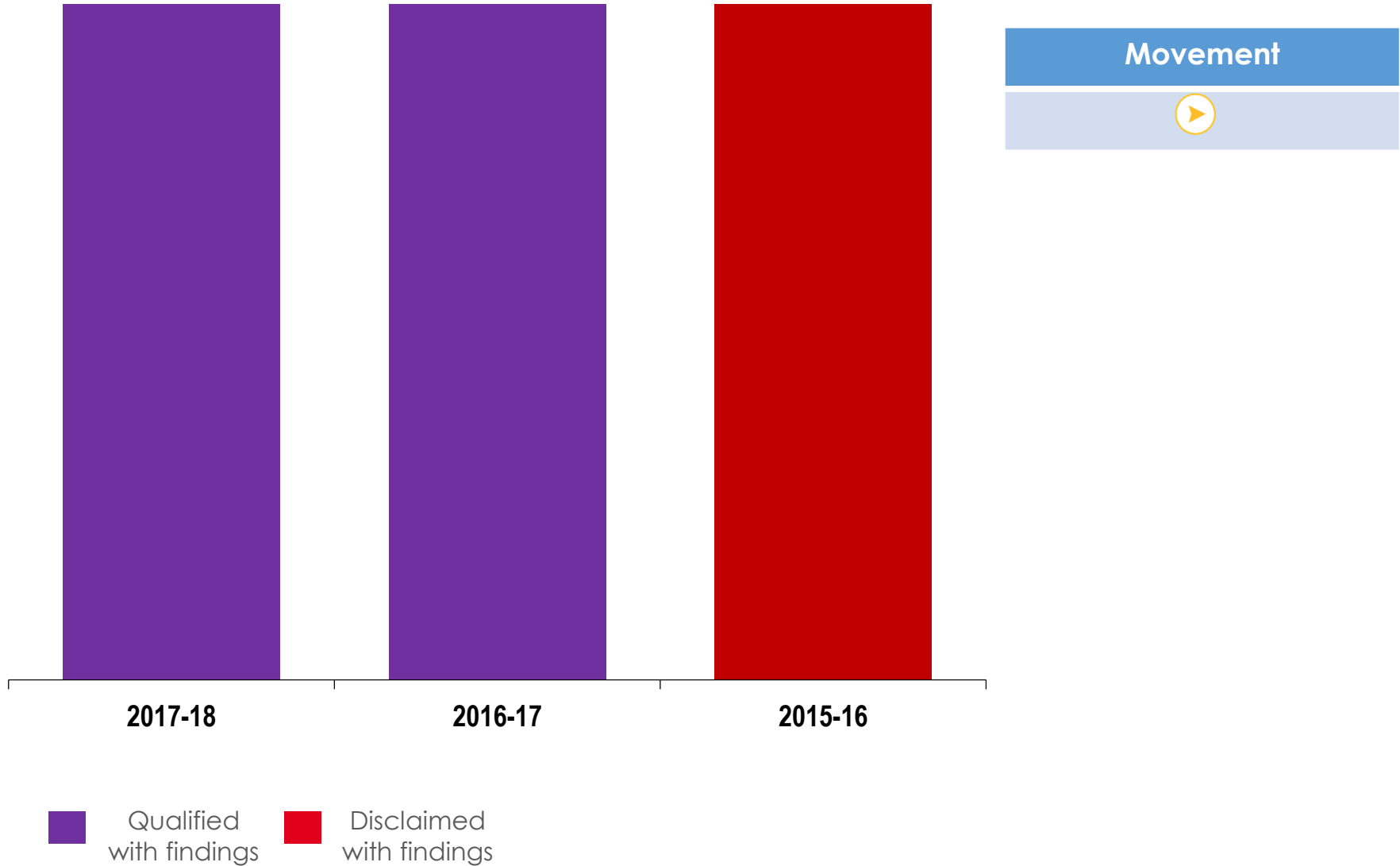


Key message for Phokwane local municipality(continued)

- Non-compliance with legislation remains a major concern and the municipality is unlikely to improve the audit outcomes if the root causes for material non-compliance findings are not addressed. Various repeat findings were identified relating to poor quality of financial statements submitted, lack of systems for expenditure management, asset management, revenue management, strategic planning and performance management, human resource management, procurement and contract management and utilisation of the conditional grant. In addition, the audit identified that there is lack of actions taken and consequence management implemented relating to unauthorised, fruitless and wasteful expenditure which was incurred in the prior years.
- The lack of consequence management is evident in the increase of irregular expenditure over the years. Irregular expenditure incurred amounted to R48 109 496 (2016-17: R88 831 096), and of further concern is the completeness of the amount due to irregular expenditure being qualified for both years. The irregular expenditure incurred is due to transgression of SCM prescripts. The assessment of the root cause for non-compliance with laws and regulations further indicates that there is lack of review and monitoring by senior management, a lack of oversight from leadership and no regards for compliance with laws by officials of the municipality.
- The municipality is experiencing major cash constraints as reflected in the financial statements. This is evident in the annual performance report. The municipality is struggling to make ends meet and this has a direct effect on service delivery. One of the major difficulties being experienced by the municipality is recovering its consumer debtors, the potential negative effect of this tendency on the cash flows of the municipality and the inability to settle accounts payable within an acceptable period indicate that there is a risk that the municipality may be exposed to serious financial difficulties in terms of section 138 of the MFMA. The debtors' collection days is 42 days while the creditors payment days it 354 days.



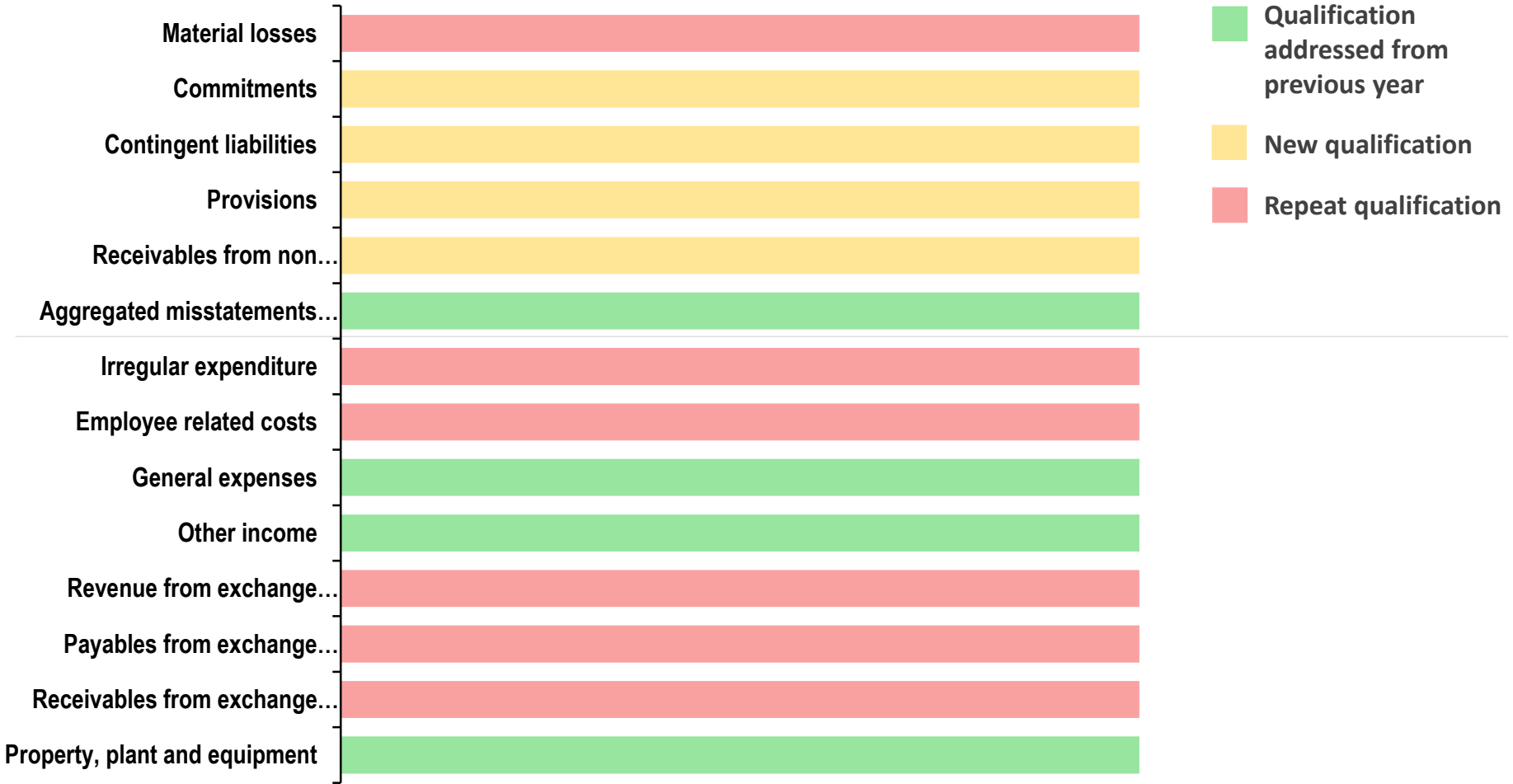
Overall audit outcomes have improved over the last three years



Financial statement qualification areas



Financial statements qualification areas



Financial statement over reliance on consultants

Use of consultants

The municipality made use of consultants to assist with financial reporting (preparing of financial statements as well as asset registers) at a cost of R6,6m but the municipality still did not submit quality financial statements

Municipality	Audit outcome	Name of the consultants	Cost of consultants	Reason for using consultants	Material misstatements?
Phokwane		<p>AFS</p> <ul style="list-style-type: none"> - Makomota Consulting R1 898 320 Assets register and management - I @ consulting: MSCOA compliant = R1 553 584 Debt collection <ul style="list-style-type: none"> - Zandile management = was not paid in 2017/18 financial year Mscosa compliant <ul style="list-style-type: none"> - BCX paid R809 186 	R4,2m	Lack of skills	Yes



Accountability and transparency not enabled through credible financial and performance reporting



Financial statements

- The municipality did not submit their financial statements by the legislated date
- Material adjustments were required on the submitted financial statements

Similar findings were also reported in the prior year (2016/17)



Performance reporting

- Annual performance report was presented without accurate and complete underlying performance records. Which resulted in limitation

This is a new finding for 2017/18 financial year, in the prior year performance information was qualified



The disregard of compliance with legislation continues

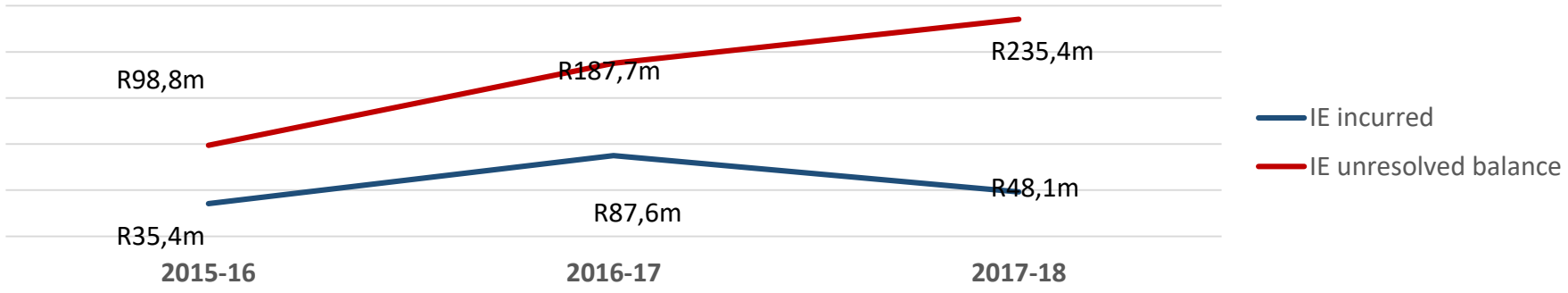
Material non-compliance was identified in the following areas:

- *Annual financial statements, performance and annual report*
- *Expenditure management*
- *Asset management*
- *Strategic planning and performance management*
- *Procurement and contract management*
- *Human resource management*
- *Utilisation of conditional grants*
- *Revenue management*
- *Consequence management*

Material non-compliance findings were reported on all of the above areas in the prior year, except for Utilisation of conditional grants where no material findings were reported in the prior year.



Unauthorised, irregular as well as fruitless and wasteful expenditure remains high



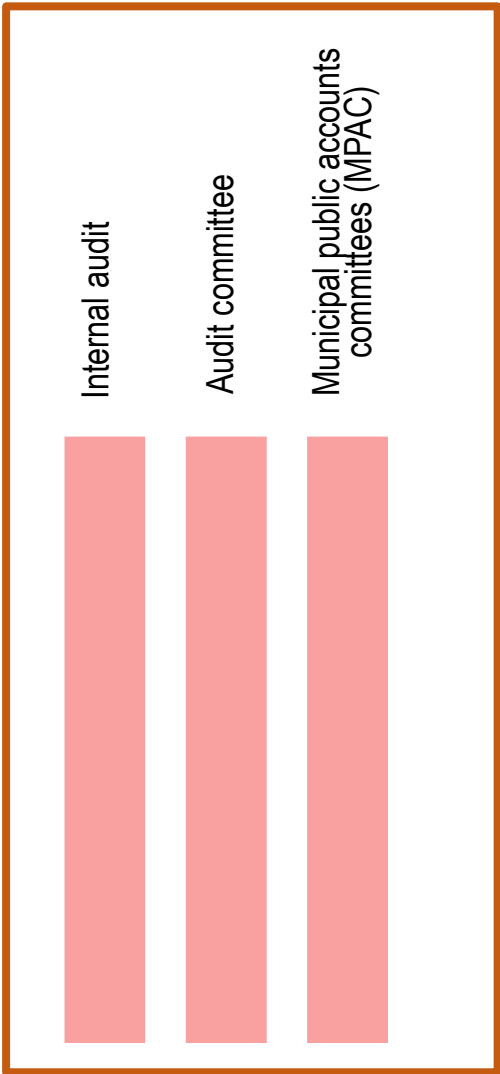
This is based on the amounts disclosed in the financial statements and therefore incomplete as the municipality was qualified on the completeness of irregular expenditure.

Municipality	IE 2017-18	UE 2017-18	F&W 2017-18	IE balance	UE balance	F&W balance
Phokwane	R48,1	R116,4	R4,7	R253,4m	R747,4m	R13,8m

The main reason for the high levels of UIFW is the lack of consequence management to investigate and resolve these expenditure. Unresolved balances keep on increasing.



Assurance provided by internal audit, audit committee and MPAC



- 1. The municipality's did not have effective governance structure throughout the year, which resulted in weakness in internal controls within the municipality.
- 2. The **MPAC was** not empowered and capacitated to implement effective consequence management

Provides limited/no assurance Provides some assurance Provides assurance

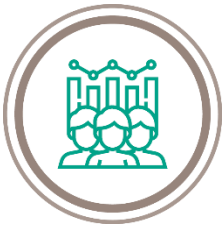


The root causes of the accountability failures



Slow or no response to recommendations

- Political leadership (mayor) and oversight bodies (municipal council and portfolio committee) do not **respond with the required urgency** to our messages about **addressing risks and improving internal controls**.



Instability / vacancies / competencies

- The municipality had vacancies in key management positions (**Municipal Manager, Chief Financial officer, Chief Information Officer, IT Manager, Manager records and admin management and Asset Manager**). These vacancies resulted in a leadership vacuum. Monitoring of the internal control environment was therefore not done and resulted in the municipality not prioritizing the financial and performance reporting
- The average **overall vacancy rate the municipalities was 28%** with some senior management vacancies being filled during the year, this included the Municipal Manager's position and the CFO's position. Due to this instability, consultants still had to be appointed to prepare financial statements.



Inadequate consequences

- Action plans to address prior year audit findings were not effectively monitored, this resulted in the audit findings in the prior year report being recurring in the current year. Furthermore, irregular, unauthorised and fruitless and wasteful expenditure identified was not investigated to determine if any person is liable for the expenditure. Lack of consequence management is also evident in the increasing UIFW.



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