



Local government audit outcomes | 2018-19

Briefing to SCOPA on the audit outcomes of Joe Morolong 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.




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:

 Improved

 Unchanged

 Regressed

Movement of 5% or less:

 Slightly improved

 Slightly regressed



Key messages for Joe Morolong local municipality

The 2018-19 audit outcome stagnated, a disclaimer audit opinion was reported for the last 3 years. The stagnation confirms that the message of accountability that we intensely focused on during the past three years has not been heeded yet. This message entailed that the mayor, municipal manager and senior management need to hold each other and their subordinates accountable. As this did not happen, similar findings were reported year after year in many instances, confirming that accountability for financial and performance management as well as compliance with legislations continues to deteriorate.

The deterioration in accountability for financial and performance was further confirmed by the occurrence of the concerns that were also highlighted in the previous year as follows:

- The **quality of the submitted financial statements continued to be poor despite the use of consultants** that cost the municipality R6,2million. This confirms that the leadership did not respond to the matters we had raised in 2017-18, and that the municipality had still not implemented controls that were meant to ensure quality financial statements.
- Predetermined objectives remained an area where progress continues lacking, as the municipality was unable to produce performance reports that were useful and reliable – clearly indicating that this area was still not receiving the necessary attention. The municipality was unable to provide supporting documents for their reported results, due to **poor record management and a lack of controls to timeously and reliably reporting on their performance.**
- The status of compliance with legislation was still a concern, reconfirming that the municipal leadership was not taking this area seriously.

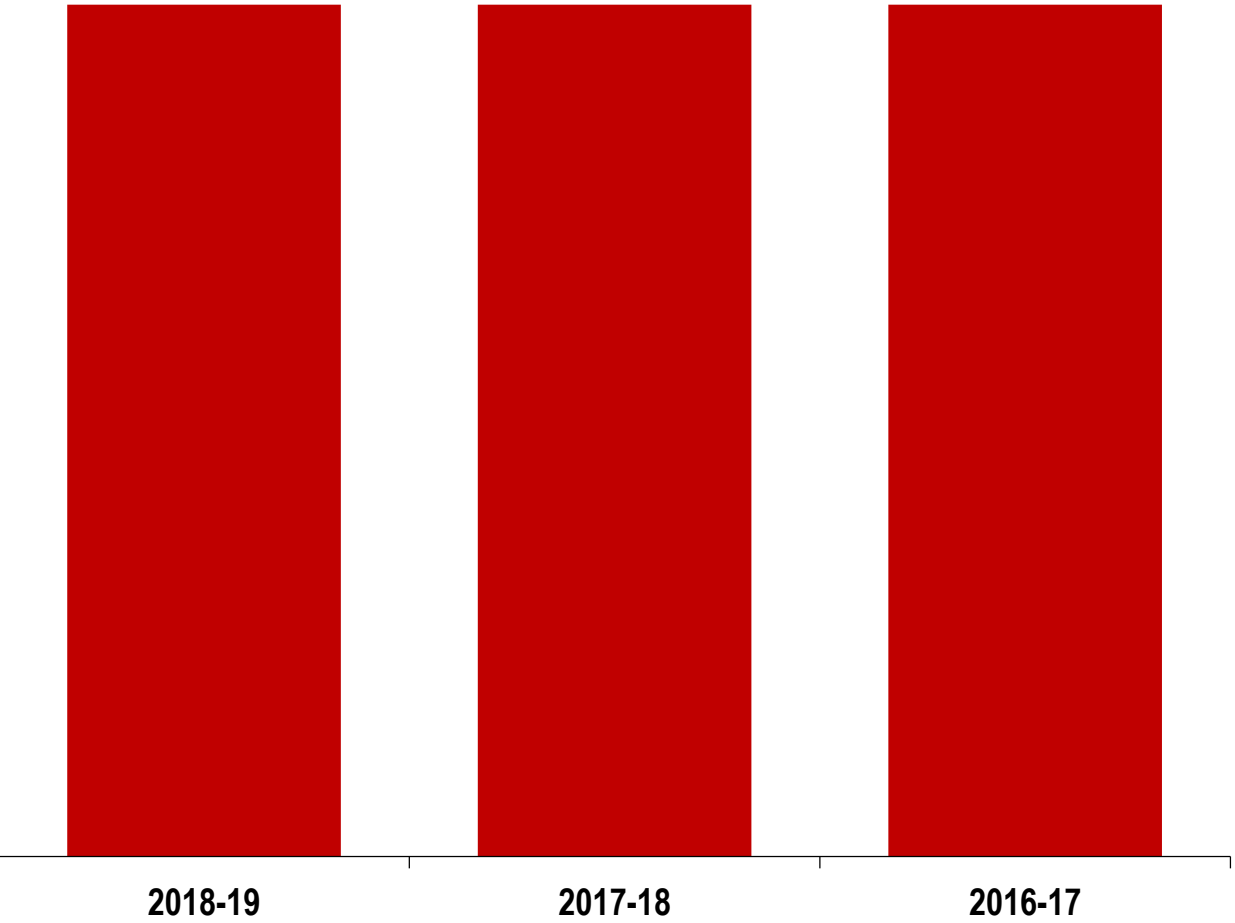


Key messages for Joe Morolong local municipality

- Irregular expenditure incurred amounted to R2 557 315 (2017-18: R6 815 622), and of further concern is the completeness of the amount due to irregular expenditure being qualified for both years. The fact that no irregular expenditure was recovered from the liable person, indicates that investigations either are not taking place or are not rigorous enough to reduce this balance. This **lack of accountability and consequences** was consistently reported in previous years, but no progress had been made in this regard
- The extent and nature of **supply chain management findings increased, pointing to a disregard for compliance with legislation.**




Overall audit outcomes have remained unchanged over the last three years



 Disclaimed with findings

Movement

 Unchanged

Consecutive disclaimers

3 years



Financial statement qualification areas



Financial statement qualification areas continue...

Reasons for qualification areas:

Combination of limitation of scope due to deficiencies in record keeping and disagreement due to AFS not GRAP/MFMA compliant

Statement of financial position (Balance sheet)

- Cash and cash equivalents
- Receivables from exchange transactions
- Receivables from non-exchange transactions
- Revenue from exchange transactions
- Revenue from non-exchange transactions
- Payables from exchange transactions
- Transfers and subsidies

Statement of financial performance (income statement)

- Contracted services
- General expenses

Disclosure

- Employee benefit obligation
- Irregular expenditure
- Unauthorised expenditure

Limitation of scope: Poor record keeping

Statement of financial position (Balance sheet)

- Property, plant and equipment
- Unspent conditional grants
- VAT receivable

Disclosure

- Fruitless and wasteful expenditure
- Commitments
- Cash flow statement

Disagreement: AFS not GRAP/MFMA compliant:

Statement of financial position (Balance sheet)

- Provision for landfill site
- Finance lease liability

Disclosure

- Deviations
- Related parties
- Contingencies
- Distribution losses
- Financial instruments
- Statement of comparison of budget and actual amounts



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 R6,2m but the municipality still did not submit quality financial statements. The key concerns on consultants, which is also evident per slide 7 and 8, is the poor quality of AFS submitted yet exorbitant amounts are being spent on consultants. Consultants were also appointed late in the financial year and received information of a poor quality to prepare AFS("garbage in garbage out"). The fact that consultants are appointed late, indicates a lack of seriousness and prioritising the preparation of a set of quality AFS.

Municipality	Audit outcome	Name of the consultants	Cost of consultants	Reason for using consultants	Material misstatements?
Joe Morolong	Disclaimer	CCG Consultants (Johannesburg) - New AFS preparation	R1 029 458	Lack of skills Capacity	Yes
		EMS solutions – New (Bloemfontein/ Johannesburg) Assisted on asset register	R794 050		
		Imani (Johannesburg) - Previous consultants AFS preparation	R4 384 468		



Accountability and transparency not enabled through credible financial and performance reporting



Financial statements

- Material adjustments were required on the submitted financial statements
- Supporting records could not provided for audit

Similar findings were also reported in the prior year (2017/18)



Performance reporting

- Material adjustments were required to the submitted performance report
- Material findings were reported on the reliability of the reported achievements
- Material findings were reported on the usefulness of performance indicators and targets

Similar findings were also reported in the prior year (2017/18)





The following key development priorities were selected:

Infrastructure and service delivery

Land, housing and environment

The key weaknesses we identified was the inconsistencies between indicators and targets listed in the SDBIP (Service Delivery and Budget Implementation Plan)/IDP (Integrated Development Plan and the APR (Annual Performance Report).

Limitations of scope was also experienced for some indicators and targets due to poor record keeping which links back to the limitation of scope on the AFS line items as indicated earlier. This indicates that record keeping is an overall issue at the municipality.



Reported achievement in the annual performance report did not agree to the supporting evidence provided

Indicator description	Reported achievement	Audited value
Number of villages prioritized for access to new water infrastructure	4	0
Number of dry sanitation units erected	300	189



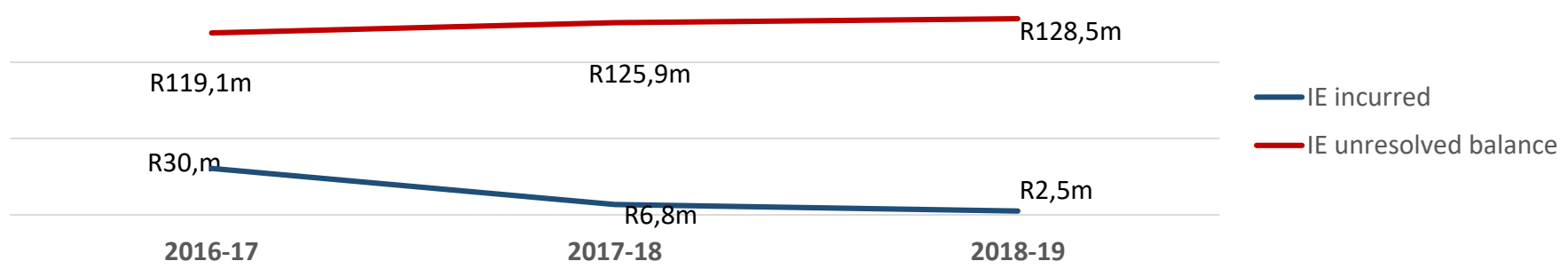
The disregard for compliance with legislation

<i>Annual financial statements, performance and annual report</i>	<i>Late submission of AFS, material misstatements identified were not adequately corrected and annual report was not tabled before council</i>
<i>Expenditure management</i>	<i>Suppliers not paid within 30 days, ineffective system of internal control over expenditure and steps to prevent UIFW</i>
<i>Revenue management</i>	<i>Ineffective system of internal control over revenue</i>
<i>Asset management</i>	<i>Ineffective system of internal control over assets</i>
<i>Liability management</i>	<i>Ineffective system of internal control over liabilities</i>
<i>Strategic planning and performance management</i>	<i>Performance management system and related controls in adequate</i>
<i>Procurement and contract management</i>	<i>Various non compliance identified on SCM regulations due to limitations of scope Competitive bidding processes not followed</i>
<i>Human resource management</i>	<i>Appropriate systems not in place to monitor, measure and evaluate performance of staff</i>
<i>Consequence management</i>	<i>UIFW not investigated to determine if any person is liable.</i>

Material non-compliance findings were reported on all of the above areas in the prior year, Conditional grants was addressed.



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 2018-19	UE 2018-19	F&W 2018-19	IE balance	UE balance	F&W balance
Joe Morolong	R2,5m	R4,6m	R196 704	R128,5m	R499,0m	R4,2m

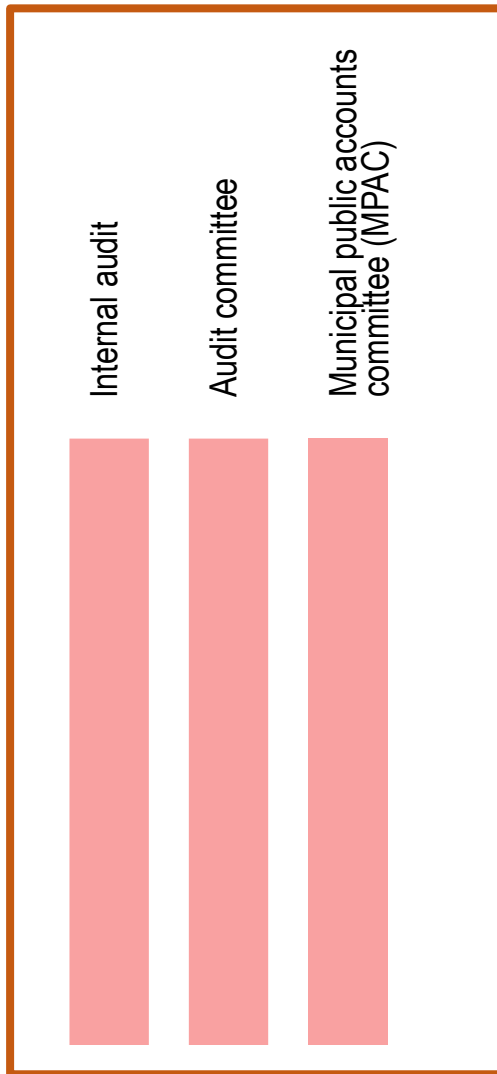
The main reason for the high levels of UIFW is the lack of consequence management to investigate and resolve these expenditure. Unresolved balances keep on increasing and should be read together with the qualification on UIFW due to the balances being incomplete. The main cause for the UIFW expenditure is due to limitations of scope and all irregular and unauthorised expenditure not being disclosed in the AFS. A limitation of scope was experience for F&W expenditure.

Unauthorised expenditure – Understatement based on calculation between actual expenditure and approved budget.

Irregular expenditure – Understatement due to limitation of scope as SCM documents not submitted for auditing and other cases such as competitive bidding processes not followed.

Indicators of deteriorating accountability

Assurance provided by internal audit, audit committee and MPAC



Provides limited/no assurance

1. The assurance provided by internal audit and audit committee depicts a picture that indicates that **the combined assurance model is not effective**
2. Although the municipality generally had governance structures in place, the effectiveness of internal audit as an assurance provider was impacted by **management's inability to act on their recommendations**. In addition, the audit committee did not appropriately track and enforce implementation of their recommendations.
3. The **MPAC was not empowered and capacitated** to implement effective consequence management.

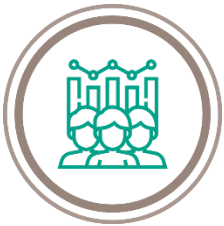


The root causes of the accountability failures



Slow or no response to recommendations

- Management (municipal manager and senior management), 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

- **Vacancies, instability in key positions and lack of adequate skills** result in over-reliance on consultants to prepare financial statements to the detriment of credible in-year financial and performance reporting and compliance with legislation.
- The average **overall vacancy rate at the municipality was 23%** with a senior management vacancy rate of 83% (majority of the SM positions were vacant). The finance staff has an insufficient understanding of the accounting framework and implementation of basic financial controls. This resulted in the municipality having to appoint consultants to prepare their financial statements.



Inadequate consequences

- The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse their control weaknesses and did not implement appropriate follow-up actions to address the root causes of audit findings. This resulted in the audit findings reported in the prior year being repeated in the current year.



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