



## 2022 NCOP Local Government Week 13 – 15 September 2022

### *Enhancing Oversight and Accountability to Address Financial and Audit Pitfalls in the Local Sphere of Government*

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Chairperson: Municipal Finance and Fiscal Policy National Working Group



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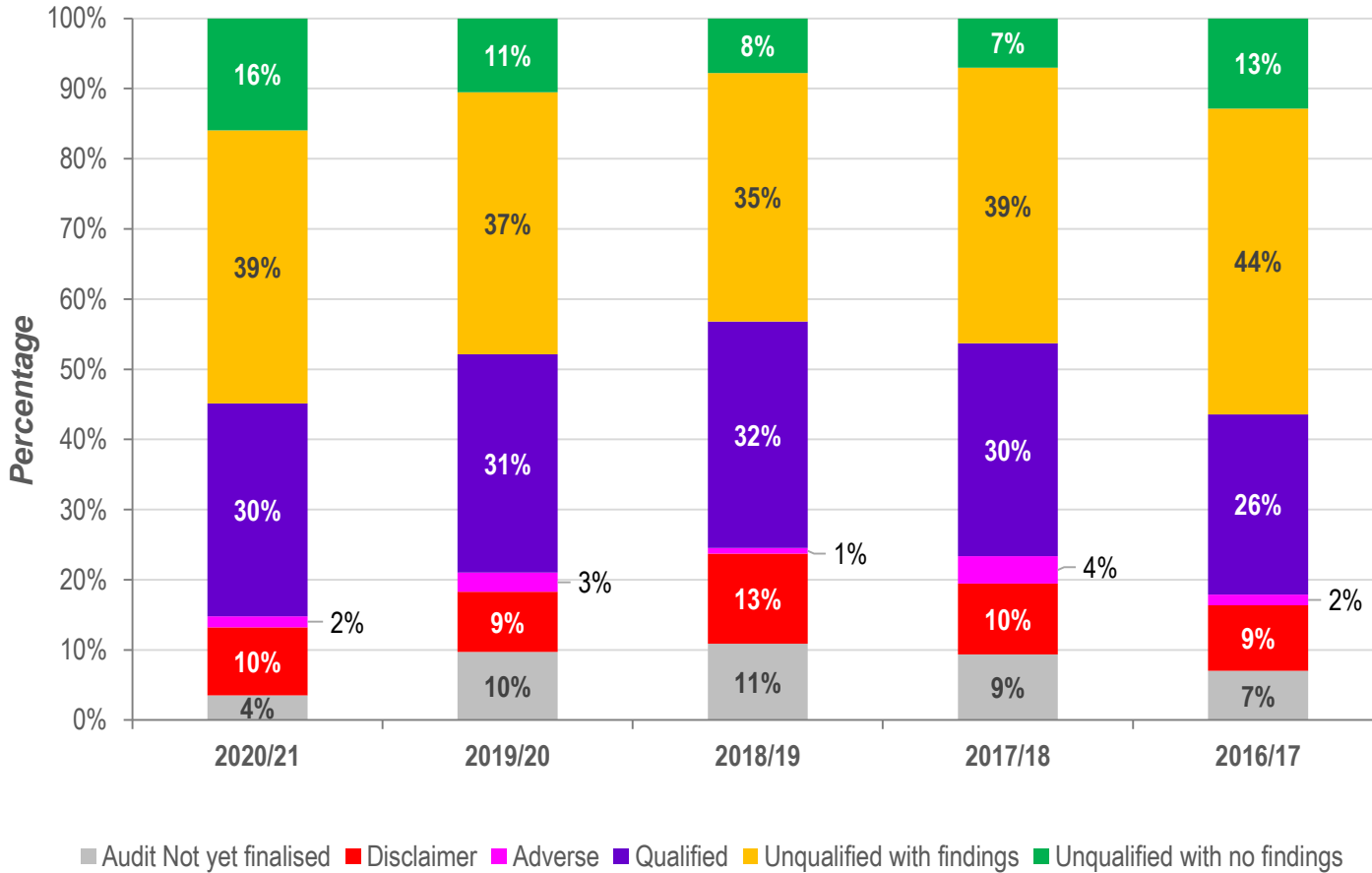
# Overview of Audit Outcomes



# National Audit Outcomes (2016/17-2020/21)



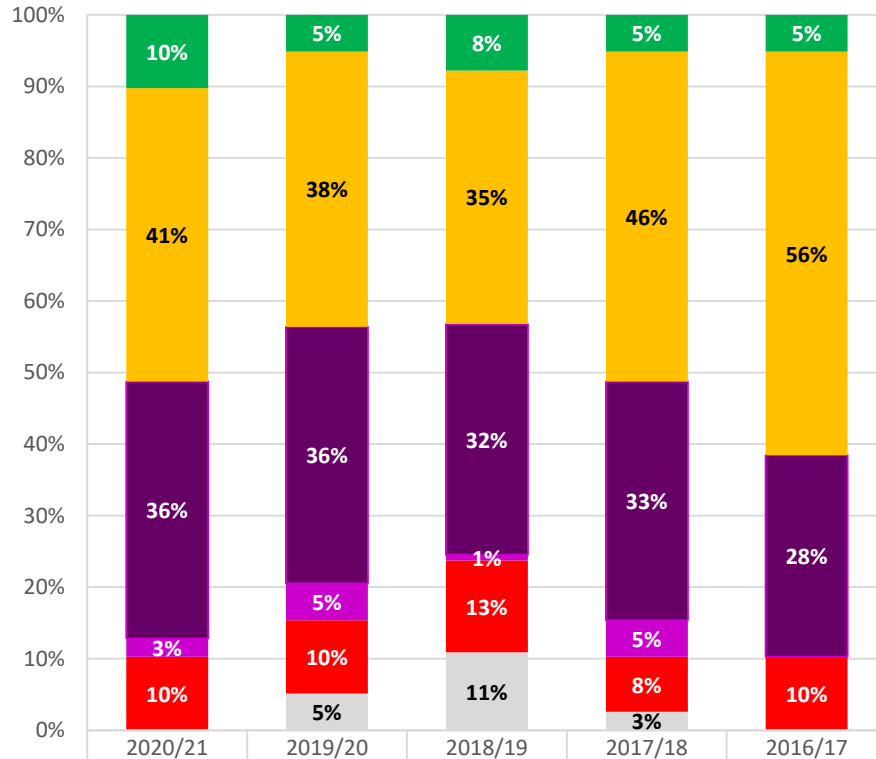
MFMA Audit Outcomes 5-Year Profile



The number of municipalities with an unqualified with no findings and unqualified with findings decreased from 145 in 2016/17 to 141 in 2020/21 translating to 3% regression overall.

Overall the 2020/21 results showed a regression with majority of municipalities receiving unqualified audits with findings (100), qualified (78), adverse (4) adverse and disclaimer (25) opinions. Nine (9) audits were not yet finalised at the legislated date

## Eastern Cape (2016-2021)



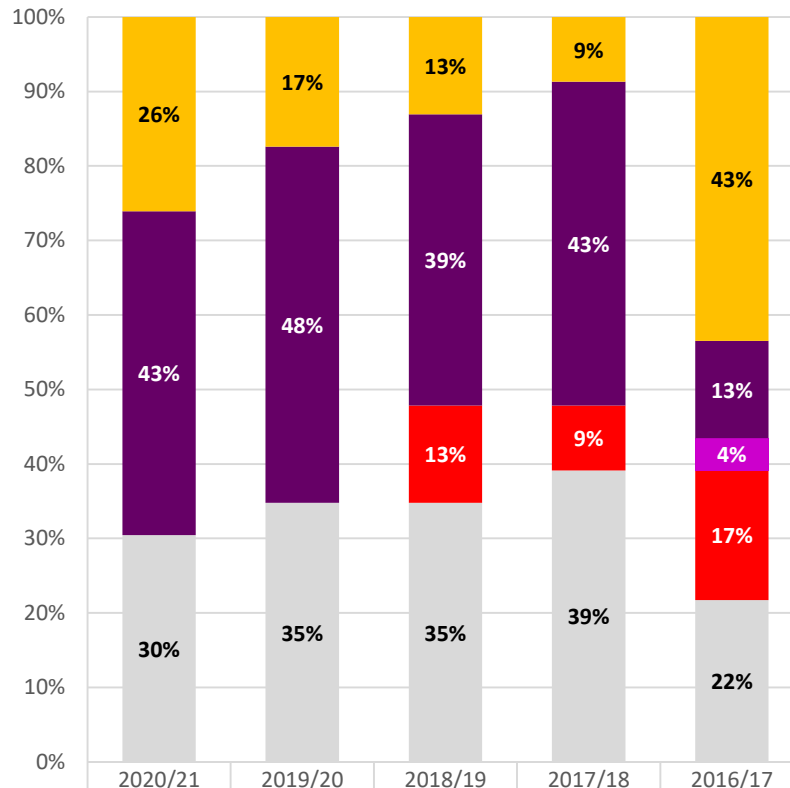
■ Unqualified with no findings	10%	5%	8%	5%	5%
■ Unqualified with findings	41%	38%	35%	46%	56%
■ Qualified	36%	36%	32%	33%	28%
■ Adverse	3%	5%	1%	5%	0%
■ Disclaimer	10%	10%	13%	8%	10%
■ Audit Not yet finalised	0%	5%	11%	3%	0%

The audit results over the past three years regressed with majority of the 39 municipalities flagged for non-compliance with legislation; and inadequate performance information reporting, a lack of which, hinders correct service delivery assessment. The current year, 2020/21 results indicate a slight increase in the number of clean audits from four (2) to eight (4,) four (4) disclaimers. The unqualified audits remained relatively unchanged over the three years, increasing slightly from 15 to 16.

Efforts to institutionalise preventative controls have not yet yielded the desired outcomes

The audit results will improve if political and administrative leadership adhere to, implement, monitor the drivers of internal controls (i.e. financial and performance management, leadership, and governance) and put in place consequences for poor performance.

## Free State (2016-2021)



	2020/21	2019/20	2018/19	2017/18	2016/17
Unqualified with no findings	0%	0%	0%	0%	0%
Unqualified with findings	26%	17%	13%	9%	43%
Qualified	43%	48%	39%	43%	13%
Adverse	0%	0%	0%	0%	4%
Disclaimer	0%	0%	13%	9%	17%
Audit Not yet finalised	30%	35%	35%	39%	22%

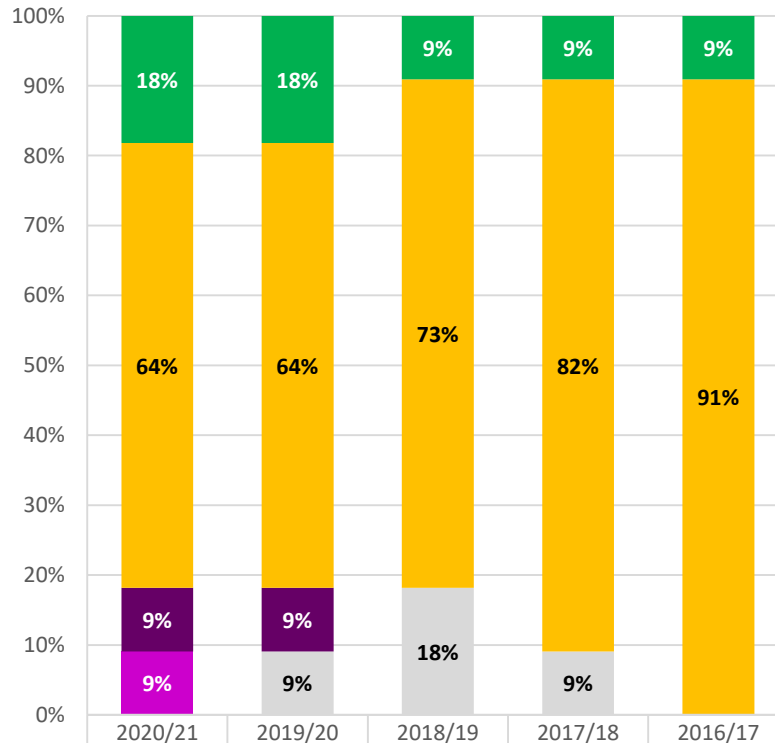
The general results have regressed over the three years, with nine (9) outstanding audits (Audits not yet finalised) and none of the 23 municipalities were able to achieve a clean audit in the 2020/21 financial year.

Inaction by political and administration leadership continued to be deliberate obstruction to municipalities' effective functioning

Inadequate or a lack of consequences in place for poor performance & transgressions by both political and administrative leadership resulted in recurring findings relating to:

- Non-compliance with SCM regulations and processes;
- Failure to implement Audit Action Plans
- A lack of HR and Financial Management

## Gauteng (2016-2021)



■ Unqualified with no findings	18%	18%	9%	9%	9%
■ Unqualified with findings	64%	64%	73%	82%	91%
■ Qualified	9%	9%	0%	0%	0%
■ Adverse	9%	0%	0%	0%	0%
■ Disclaimer	0%	0%	0%	0%	0%
■ Audit Not yet finalised	0%	9%	18%	9%	0%

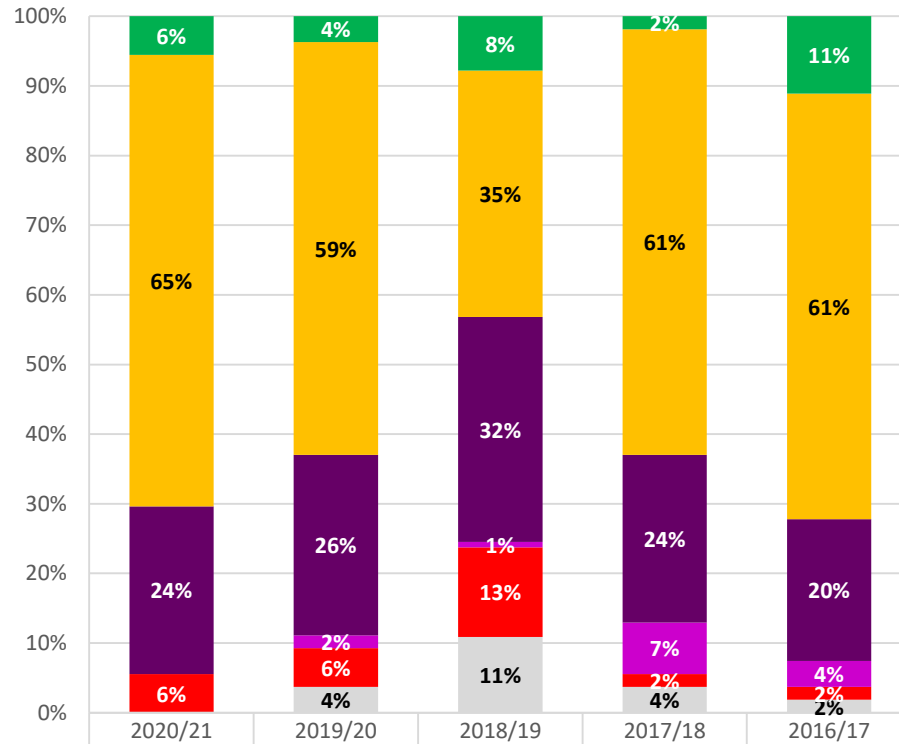
Only one (2) of the eleven (11) municipalities achieved a clean audit, and all audits were finalised for the financial year under review i.e. 2020/21

The two most disconcerting audit opinions are the ones on Rand West and Merafong, who received a qualified and adverse opinion respectively, owing to certain material findings.

The majority of findings which led to a loss in the clean audit status or stagnant results relate to non-compliance with legislation; SCM laws & regulations

Effective monitoring of controls of preventative controls is key for favourable audit outcomes

# KwaZulu-Natal (2016-2021)



■ Unqualified with no findings	6%	4%	8%	2%	11%
■ Unqualified with findings	65%	59%	35%	61%	61%
■ Qualified	24%	26%	32%	24%	20%
■ Adverse	0%	2%	1%	7%	4%
■ Disclaimer	6%	6%	13%	2%	2%
■ Audit Not yet finalised	0%	4%	11%	4%	2%

The results over the past three years have improved slightly with only three (3) of fifty four (54) municipalities achieving a clean audit followed by a slight decrease in qualified audits from eighteen (18) to thirteen (13). Three (3) municipalities received disclaimers.

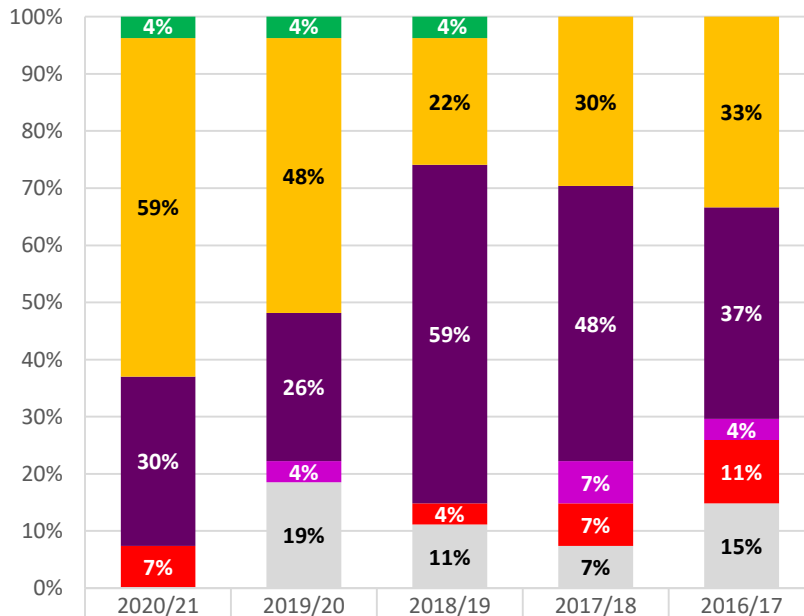
The findings relate to non-compliance with legislation; SCM laws & regulations; HR controls; and inadequate reporting on performance information. The trend of a weakening debt profile also contributes to regression in results and affected service delivery

With political and administrative buy-in and consequence management, results will improve if adequate preventative controls & systems are put in place

# Limpopo (2016 -2021)



LIMPOPO AUDIT OUTCOMES % (2016-2021)



■ Unqualified with no findings	4%	4%	4%	0%	0%
■ Unqualified with findings	59%	48%	22%	30%	33%
■ Qualified	30%	26%	59%	48%	37%
■ Adverse	0%	4%	0%	7%	4%
■ Disclaimer	7%	0%	4%	7%	11%
■ Audit Not yet finalised	0%	19%	11%	7%	15%

The results over three years improved (due to assistance by consultants) with a majority of municipalities receiving Unqualified Audit Opinions. For the 2020/21 audit, there was one (1) clean audit; sixteen (16) unqualified with findings; eight (8) qualified; one (1) disclaimer and two (2) audits not finalised at legislated date

The Qualified opinion indicates:

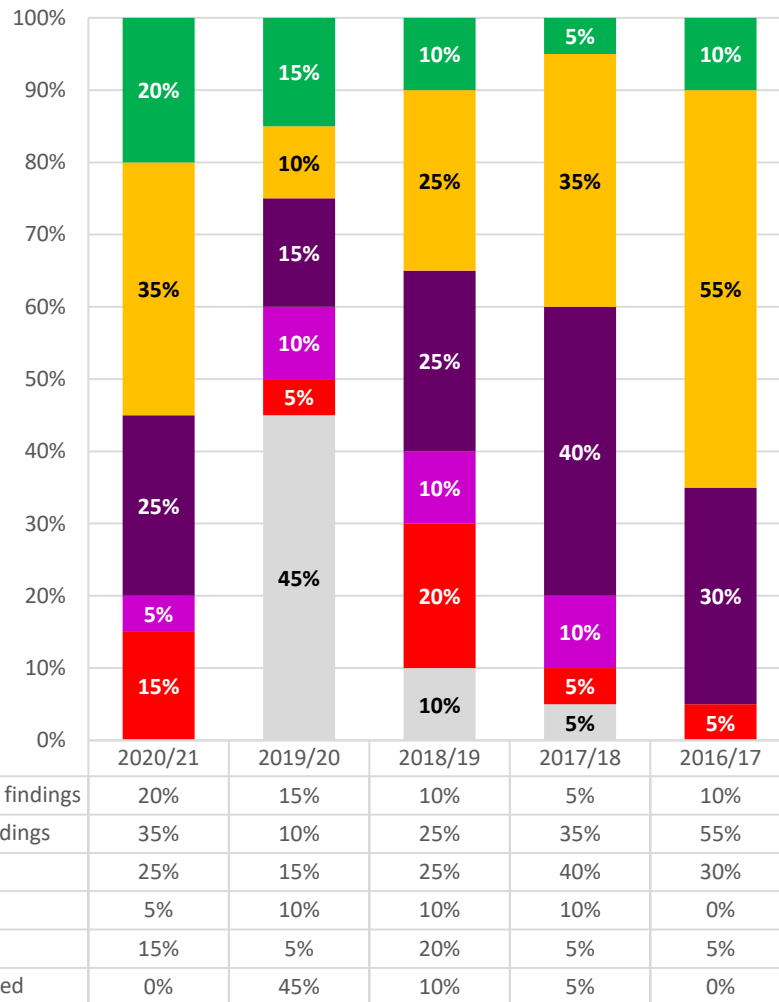
- municipalities could not produce credible & reliable financial statements and; material misstatements in their financial statements could not be corrected before the financial statements were published

Intervention by political and administrative leadership is required in the following areas:

- Finance & Performance management; SCM; HR Controls; IT controls; Compliance with legislation



## Mpumalanga (2016-2021)

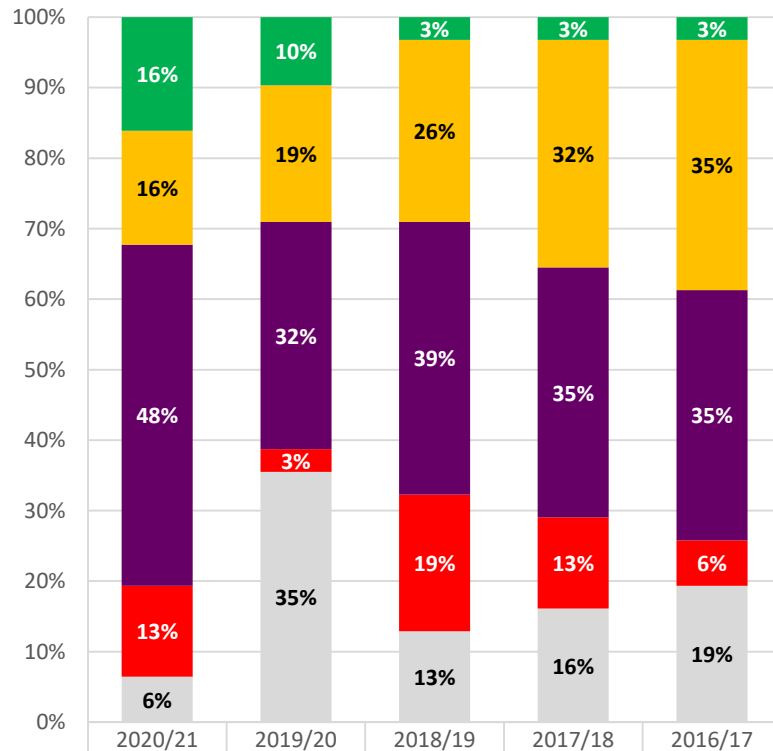


The results indicate a slight improvement in outcomes over the three years. Four (4) of the twenty (20) municipalities achieved clean audits, one (1) being an improvement. Results relating to qualified audits stagnated with five (5) over the three years. For the 2020/21 year, there were seven (7) unqualified; one (1) adverse and three (3) disclaimers.

The majority of findings relate to non-compliance with legislation; SCM laws & regulations and this negatively affects service delivery

The municipalities can improve audit outcomes if the executive and administration implement and adequately monitor drivers of internal control i.e. Leadership, Financial & Performance Management; and Governance with a focus on Complying with legislation

# Northern Cape (2016-2021)



■ Unqualified with no findings	16%	10%	3%	3%	3%
■ Unqualified with findings	16%	19%	26%	32%	35%
■ Qualified	48%	32%	39%	35%	35%
■ Adverse	0%	0%	0%	0%	0%
■ Disclaimer	13%	3%	19%	13%	6%
■ Audit Not yet finalised	6%	35%	13%	16%	19%

The audit results over the past three years indicate a regression over the term. There are four (4) clean audits, whilst (8) audits were not finalised at legislated date due to late submission of financial statements. Most municipalities consistently received qualified audits over the term.

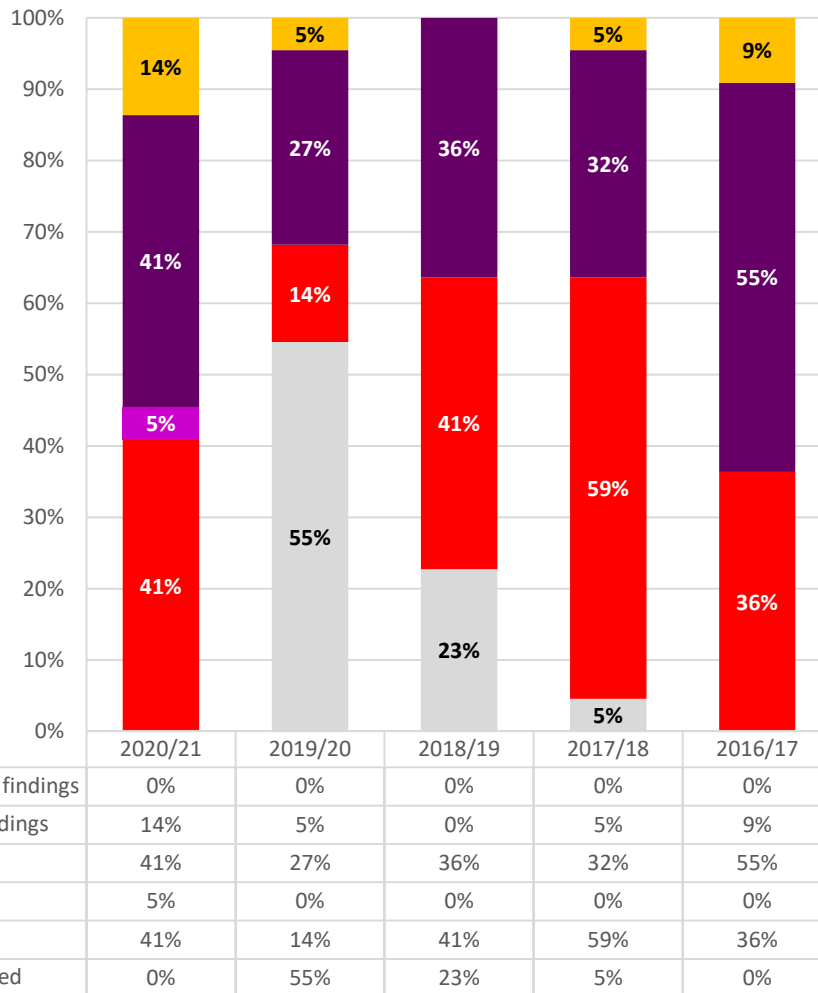
The tone of those charges with Governance has not been conducive in creating an environment of accountability and consequence management. Management relies on auditors to identify the misstatements on the financial statements

Inadequate or a lack of consequences for poor performance & transgressions by both political and administrative leadership resulted in recurring findings:

- Non-compliance with SCM regulations & processes;
- Failure to implement Audit recommendations;
- A lack of HR controls coupled with weak system of Financial Management;
- Compromised service delivery

The results will improve if the findings are adequately addressed by political and administrative leadership

## North West (2016-2021)



The results over three years have stagnated with no clean audit from the 22 municipalities and a near-equal number of Qualified (8) and Disclaimer (7) Audit Opinions. There are three (3) unqualified audits with findings, which include two (2) improvements.

The Qualified opinion indicates:

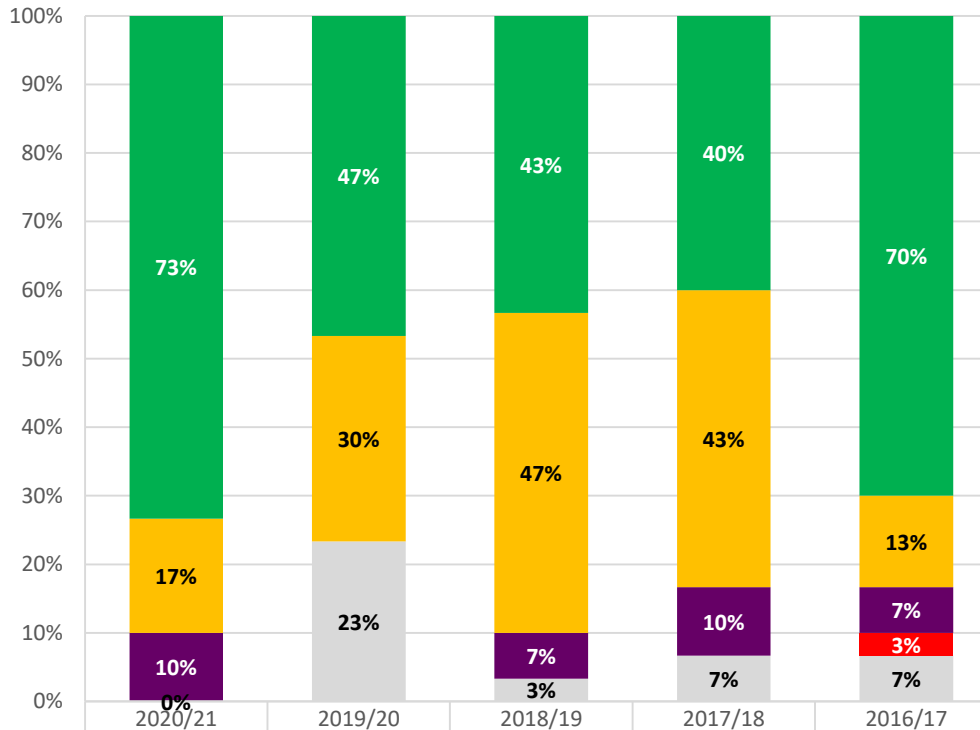
- Failures to produce credible & reliable financial statements

Leadership instability resulted in a lack of accountability, a general state of disarray and little to no service delivery

Intervention by political and administrative leadership and assessment in the following areas will improve results:

- Financial & Performance management; SCM; HR & IT controls; Compliance with legislation

## Western Cape (2016-2021)



■ Unqualified with no findings	73%	47%	43%	40%	70%
■ Unqualified with findings	17%	30%	47%	43%	13%
■ Qualified	10%	0%	7%	10%	7%
■ Adverse	0%	0%	0%	0%	0%
■ Disclaimer	0%	0%	0%	0%	3%
■ Audit Not yet finalised	0%	23%	3%	7%	7%

The results over the past three years are relatively unchanged with four (4) improved outcomes and one (1) regression. 13 of the 30 municipalities achieved clean audit; and three (3) were qualified for the year under review i.e. 2020/21 financial year

The financial statements are generally fairly presented and reliable with credible performance information reported. The balance of municipalities can improve by implementing Auditor General's recommendations and having adequate SCM and Financial Management processes in place

Leadership tone and strong control environment contributed to the positive outcomes



# Analysis of local government operating terrain



# Performance on Conditional Grants



# Performance on Conditional Grants National Profile

Province	MIG <i>Rand thousand</i>	IUDG <i>Rand thousand</i>	INEP <i>Rand thousand</i>	EEDSM <i>Rand thousand</i>	WSIG <i>Rand thousand</i>	RBIG <i>Rand thousand</i>	PTNG <i>Rand thousand</i>	USDG <i>Rand thousand</i>	TOTAL UNSPENT <i>Rand thousand</i>
Eastern Cape	145,320	-	9,454	3,600	43,352	40,222	135,140	203,306	580,394
Free State	132,630	-	8,082	1,061	70,749	70,964	-	13,159	296,645
Gauteng	55,949	-	30,710	7,395	1,210	-	29,784	44,790	169,838
Kwazulu-Natal	29,045	-	34,516	9,750	53,502	7,110	-	-	133,923
Limpopo	189,848	22,312	23,568	668	55,173	310	29,731	-	321,610
Mpumalanga	16,321	-	4,559	-	32,124	12,438	-	-	65,442
Northern Cape	103,687	-	23,342	243	56,755	44,744	-	-	228,771
North West	80,179	-	3,988	8,004	7,020	-	7,211	-	106,402
Western Cape	16,320	1,565	1,565	121	43,376	10,000	14,368	58,836	146,151
<b>Total</b>	<b>769,299</b>	<b>23,877</b>	<b>139,784</b>	<b>30,842</b>	<b>363,261</b>	<b>185,788</b>	<b>216,234</b>	<b>320,091</b>	<b>2,049,176</b>

# Councils that failed to pass 2022/23 budgets





(a) Municipality	(a) Reasons
Kopanong FS162	Council did not sit/non-compliance letter
Dihlabeng FS192	Council did not sit/non-compliance letter
Nama Khoi NC062	Community Consultation was not concluded by 31 May
Khai-Ma NC067	Community Consultation was not concluded by 31 May
Namakwa DC6	Community Consultation was not concluded by 31 May
Ubuntu NC071	Financial System related challenges
Renosterberg NC075	Not having staff in the office due to non-payment
Thembelihle NC076	Community Consultation was not concluded by 31 May
Siyathemba NC077	Community Consultation was not concluded by 31 May
Siyancuma NC078	Financial System related challenges
Dawid Kruiper NC087	Financial System related challenges
Sol Plaatje NC091	Community Consultation was not concluded by 31 May due to late submission of the IDP
Phokwane NC094	Community Consultation was not concluded by 31 May
Bitou WC047	Bitou Municipality did not approve the budget process plan in August 2021. It was only approved in December 2021 and the strategic session was only held in March 2022 hence the request for extension to better align the budget with the IDP.
Laingsburg WC051	The Municipality failed to comply with the provisions of section 14(1) of the Municipal Budget and Reporting Regulations which states that an annual budget and supporting documentation tabled in a municipal council in terms of section 16(2) of the MFMA must be in a format in which it will eventually be approved by the Council. The reason for non-compliance with the submission of the budget in the prescribed format is because the financial system settings were not such that the budget schedules could be generated from the system.

# Programme of Action



# Support to municipalities with Qualified, Adverse and Disclaimer Audit Opinion

# Municipal Audit Support Programme



The MASP is a collaborative and multi-disciplinary audit support programme underpinned by the following 4 pillars:

- Financial Management
- Leadership
- Governance
- Institutional Capacity

The collaborative and multidisciplinary nature of MASP necessitates that SALGA works with various stakeholders in order to realise the envisaged impact.

To this end, SALGA collaborates with DCoG; AGSA; National Treasury; CMAM; CIPS; IRMSA; ASB; GIZ and CIGFARO in pursuance of the multi-disciplinary audit support.

Selected 20 municipalities to support in a collaborative approach with stakeholders such as NT; PT; DCoG; CIGFARO; AGSA.

- Obtain management report and audit action plan for the selected municipalities per province and develop a customised support plan per municipality.
- Support for AFS submission by legislated deadline date
- Review of AFS where requested or applicable
- Ad-hoc requests for Internal Audit, Risk Management and MPAC support

Financial statement item	Finding
Payables from exchange transactions	Limitation of Scope <ul style="list-style-type: none"> <li>E.g. No supporting documentation presented for audit.</li> </ul>
Receivables from non-exchange transactions : Receivables from non-exchange transactions	Limitation of Scope <ul style="list-style-type: none"> <li>E.g. No supporting documentation presented for audit.</li> </ul>
Receivables from exchange transactions : Receivables from exchange transactions	Limitation of Scope <ul style="list-style-type: none"> <li>E.g. No supporting documentation presented for audit.</li> </ul>
General expenses	Limitation of Scope <ul style="list-style-type: none"> <li>E.g. No supporting documentation presented for audit.</li> </ul>
Property, plant and equipment	Limitation of Scope <ul style="list-style-type: none"> <li>E.g. No supporting documentation presented for audit.</li> </ul>
Net assets	Limitation of Scope <ul style="list-style-type: none"> <li>E.g. No supporting documentation for movements.</li> <li>E.g. Prior year other movements not supported by any evidence.</li> </ul>

### Records Management Toolkit developed in collaboration with the AGSA.

- Provide targeted support to affected municipalities on records management. Instances of limitation of scope were found by the AG due to failure by municipality to provide evidence / documentation. For example, Joe Morolong LM, Matjhabeng LM, Polokwane LM, Ngaka Modiri Molema DM, Lekwa Teemane LM, Kgatelopele LM, Chris Hani DM.

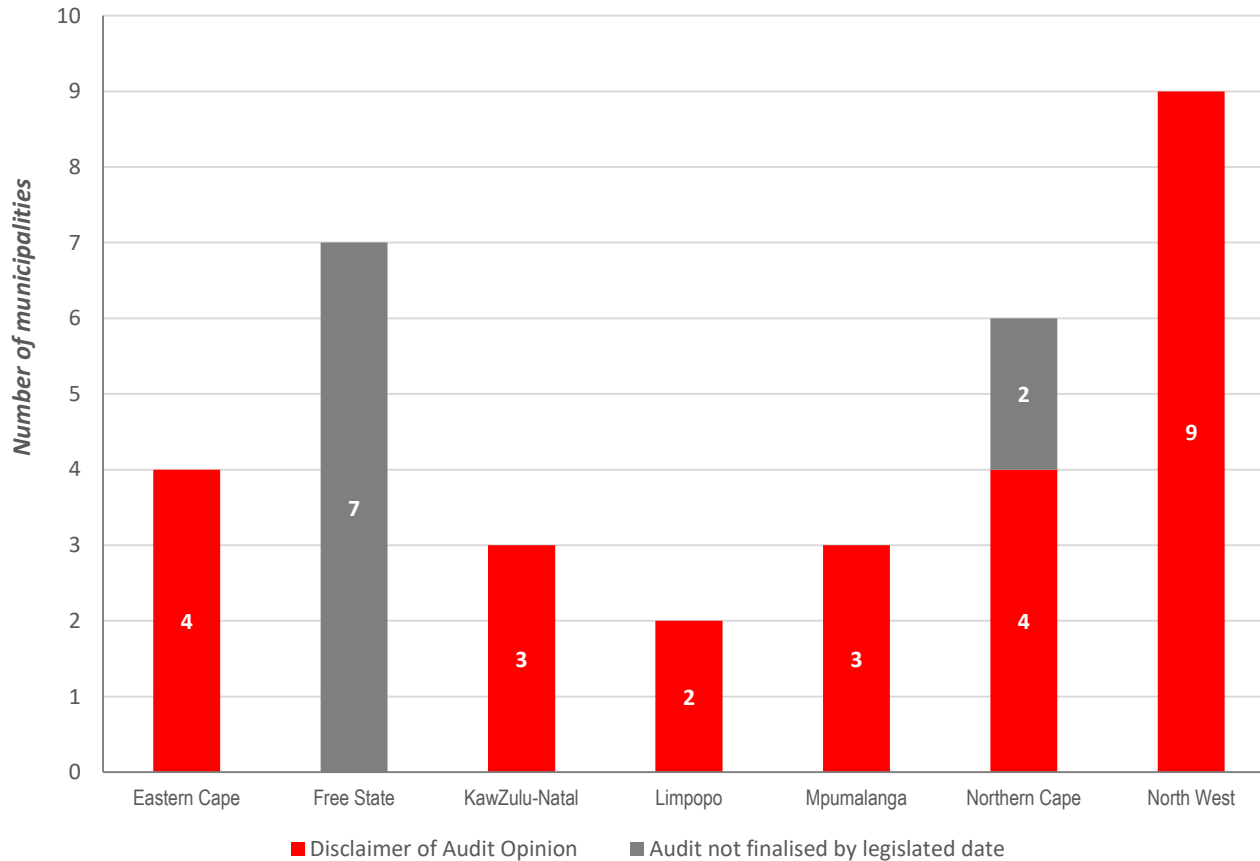
☞ **To enhance records management selected municipalities to be encouraged to take-up digitisation of records management.**

- SALGA is partnering with **Metrofile** in an effort to minimise the incidence of limitation of scope during the audit which often leads to a disclaimer of audit opinion should the limitation of scope be material.

☞ **Upon analysis of Management Report some instances are pure ill-discipline which require Consequence Management. For example, supporting documentation for journals not submitted for audit.**



Disclaimer of Audit Opinion and Audits not finalised - 2020/21



- The importance of records management is evidenced by the extent of disclaimers of audit opinion due to the materiality of the lack of documentation.
- In regard to qualified and adverse audit opinions the extent of limitation of scope is also pervasive.

**A disclaimer of audit opinion is primarily due to limitation of scope of auditors.**

# Strengthening of Oversight Responsibility of Municipal Finance Portfolio Committees and MPACs

Financial statement item	Finding
<b>Non-current assets</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. Assets not correctly impaired on the assets register</li> <li>○ E.g. Investment property incorrectly classified as PPE</li> <li>○ E.g. PPE incorrectly classified as repairs and maintenance</li> </ul>
<b>Current assets</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. Inventory - Limitation of scope</li> </ul>
<b>Non-current liabilities</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. municipality did not correctly recognise the employee benefit obligation as required by GRAP</li> </ul>
<b>Current liabilities</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. invoices incorrectly accounted for as contingent liabilities</li> </ul>
<b>Net assets</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. Misstatement of accumulated surplus</li> </ul>
<b>Revenue</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. The municipality did not have adequate systems of internal control to ensure supporting documents for journals relating to revenue from non-exchange are easily retrievable resulting in limitation of scope.</li> </ul>
<b>Expenditure</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. The municipality did not have adequate systems of internal control to ensure supporting documents for journals relating to employee related cost are easily retrievable resulting in limitation of scope</li> </ul>
<b>Disclosures</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. The municipality did not have an adequate contract management system to record, maintain and reconcile payments made on its commitments and to disclose capital commitments as required by GRAP 17, Property, plant and equipment</li> </ul>

## Good Practice Guide on Municipal Financial Management

- In order to deal with material misstatements on the financial statements of municipalities the oversight structures need to be empowered **to ask the right questions from management**. To this end, Councillors need to be empowered on Municipal Financial Management in order to hold municipal officials accountable.
- Material misstatements are pervasive across all municipalities with poor audit outcomes. For example, Joe Morolong LM, Matjhabeng LM, Polokwane LM, Ngaka Modiri Molema DM, Lekwa Teemane LM, Chris Hani DM, Kgatelopele LM.

- ☞ **Upon analysis of Management Report some root causes of material misstatements emanate from unreconciled differences between the AFS and the FAR, statutory receivables not disclosed in the AFS.**
- ☞ **These occurrences indicate ill-discipline by management thereby requiring Consequence Management to address.**





# Build capacity of municipal officials who meet the minimum qualification requirements to hold positions they occupy

Financial statement item	Finding
<b>Non-current assets</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. Assets not correctly impaired on the assets register</li> <li>○ E.g. Investment property incorrectly classified as PPE</li> <li>○ E.g. PPE incorrectly classified as repairs and maintenance</li> </ul>
<b>Current assets</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. Inventory - Limitation of scope</li> </ul>
<b>Non-current liabilities</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. municipality did not correctly recognise the employee benefit obligation as required by GRAP</li> </ul>
<b>Current liabilities</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. invoices incorrectly accounted for as contingent liabilities</li> </ul>
<b>Net assets</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. Misstatement of accumulated surplus</li> </ul>
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<b>Expenditure</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. The municipality did not have adequate systems of internal control to ensure supporting documents for journals relating to employee related cost are easily retrievable resulting in limitation of scope</li> </ul>
<b>Disclosures</b>	Material misstatements <ul style="list-style-type: none"> <li>○ E.g. The municipality did not have an adequate contract management system to record, maintain and reconcile payments made on its commitments and to disclose capital commitments as required by GRAP 17, Property, plant and equipment</li> </ul>

## Good Practice Guide on Municipal Financial Management

- In order to deal with material misstatements on the financial statements of municipalities' officials need to be properly skilled to occupy finance positions. To this end, Officials need to be trained on Municipal Financial Management practices.
- The training intervention is only suitable for officials that meet the minimum requirements for the positions they hold.



- ☞ **Upon analysis of Management Report some root causes of material misstatements emanate from unreconciled differences between the AFS and the FAR, statutory receivables not disclosed in the AFS, misallocation of expenses such as repairs and maintenance as PPE.**
- ☞ **These occurrences indicate ill-discipline by management thereby requiring Consequence Management to address.**
- ☞ **SALGA to communicate with Mayors, MPAC chairpersons and MMs to assess capacity of officials and institute disciplinary measures against officials.**

Non-compliance or irregularities regarding awards	Finding
Awards made to suppliers which partners or associates of accounting officer, senior manager (include CFO), SCM officials, councillors / directors, or Mayor has an interest.	Officials (General worker) and Councillors identified
Limitations – awards selected could not be tested.	Number of instances
Awards where non-compliance was identified	Number of instances
Irregular expenditure	SCM deviation not in line with regulation 32
Irregular expenditure	The minimum qualifying score for functionality is so high that it is unreasonably restrictive.
Irregular expenditure	The winning bidder for local content did not meet the required minimum threshold.
Irregular expenditure	Remuneration of Senior Managers paid is not in line with Government Gazette upper limits.
Awards to persons in the service of other state institutions	Number of instances
Awards were procured through a quotation process rather than following a competitive bid process.	Number of instances

## Promote ethics in Supply Chain Management

- Partnered with the **Chartered Institute for Procurement and Supply (CIPS)** in an effort to professionalise the SCM profession in the LG sector.
- CIPS is the only SAQA recognized Professional Body for Procurement & Supply in South Africa, CIPS PB is an organisation with individual members practicing the procurement & supply profession. CIPS PB maintains an oversight of the knowledge, skills, conduct and practice of the profession
- These findings are pervasive across municipalities with qualified, adverse and disclaimer of audit opinion.

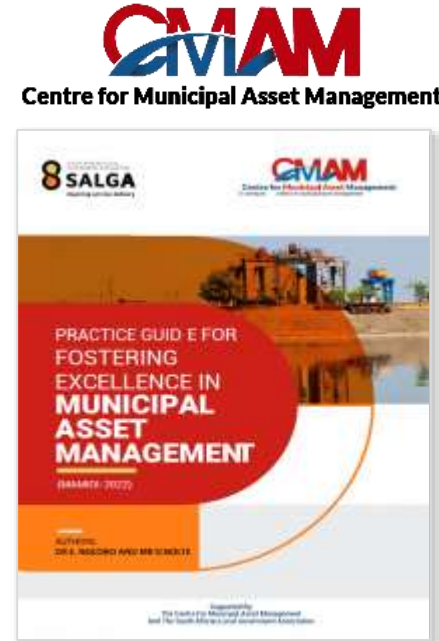


- ☞ **Encourage municipal employees to belong to CIPS.**
- ☞ **SCM officials to be accountable to a professional body and be subject to its code of ethical conduct.**
- ☞ **SCM officials to undergo training. The training intervention is only suitable for officials that meet the minimum requirements for the positions they hold.**
- ☞ **Upon analysis of Management Report some root causes of non-compliance with applicable law or regulations emanate from ill-discipline.**
- ☞ **Since these occurrences indicate ill-discipline by management, Consequence Management needs to be instituted.**
- ☞ **SALGA to communicate with Mayors, MPAC chairpersons and MMs to assess capacity of officials and institute disciplinary measures against officials.**

Financial statement item	Finding
Property, plant and equipment	Assets with indication of impairment but not assessed for impairment.
Property, plant and equipment	Differences between General Ledger, Trail Balance and AFS
Property, plant and equipment	Infrastructure assets – Water: Assets could not be verified.
Property, plant and equipment	Differences between amount disclosed as Work-in-Progress (WIP) additions and Capital expenditure from Conditional grants.
Property, plant and equipment	Completed assets not transferred out of Work-in-Progress (WIP).
Property, plant and equipment	Buildings – incorrect calculation of depreciation and the carrying value at year-end.
Property, plant and equipment	Work-in-Progress (WIP) – invoices recorded on the general ledger but not recorded in the WIP register as additions.
Property, plant and equipment	Difference between current year opening balance and prior year closing balance.
Investment property	Differences between value as per valuation and investment register resulting in understatement of investment property and overstatement of fair value adjustments

## Improve Capacity in Asset Management

- Partnered with the **Centre for Municipal Asset Management (CMAM)** in an effort to address asset management challenges in municipalities.
- Brings together, promotes and strengthens the Asset Management Community national wide – Number of initiatives over the past years (National LG Asset Management Indaba). Uplifts the professional status of the asset management practitioners. Serves as centralized knowledge repository, to stimulate and promote education and training in asset management. Promotes asset management as a means to long term sustainability. Localise International Best Practices – Municipal Asset Management

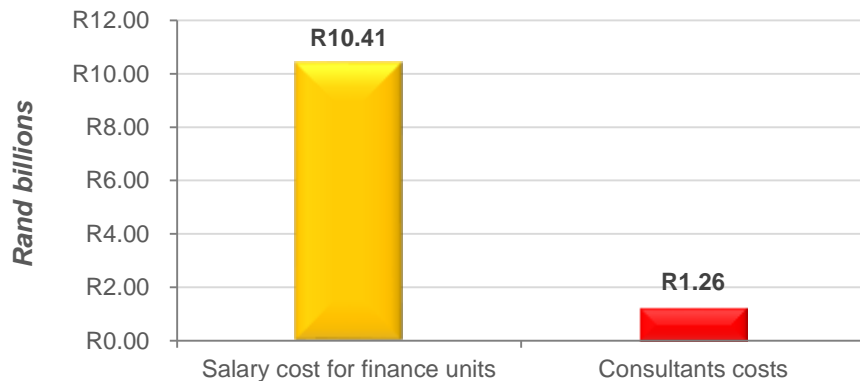


These findings are pervasive across municipalities with qualified, adverse and disclaimer of audit opinion.

- ☞ **To continue with the roll-out the Asset Management Guide training with municipalities.**
- ☞ **The training intervention is only suitable for officials that meet the minimum requirements for the positions they hold.**
- ☞ **Upon analysis of Management Report some root causes of non-compliance with GRAP indicate ill-discipline by management.**
- ☞ **Consequence Management needs to be instituted.**
- ☞ **SALGA to communicate with Mayors, MPAC chairpersons and MMs to assess capacity of officials and institute disciplinary measures against officials.**

- According to the AG, the average vacancy rate of the finance unit at municipalities was 20%, while chief financial officers were in their position for an average of 45 months.
- The salary cost for finance units totalled R10,41 billion in 2020/21.
- The total cost of financial reporting consultants totalled R1.26 billion in 2020/21.
  - Consultants cost translates to 11% of the total financial reporting cost of R11.67 billion.

### Inappropriate Use of Consultants - 2020/21



The nature of consultancy work covered the following:

- Asset management – R436 mil
- AFS preparation – R343 mil
- Tax services – R102 mil
- Accounting services – R50 mil

### Inappropriate Use of Consultants

In terms of the Municipal Cost Containment Regulations, 2019:

Paragraph 5.(5) (d) and (f) of the municipal cost containment regulations, which provide that:

- 5.(5) *When consultants are appointed, an accounting officer must -*
- (d) **ensure the transfer of skills by consultants to the relevant officials of a municipality or municipal entity;**
  - (f) **develop consultancy reduction plans to reduce the reliance on consultants.**

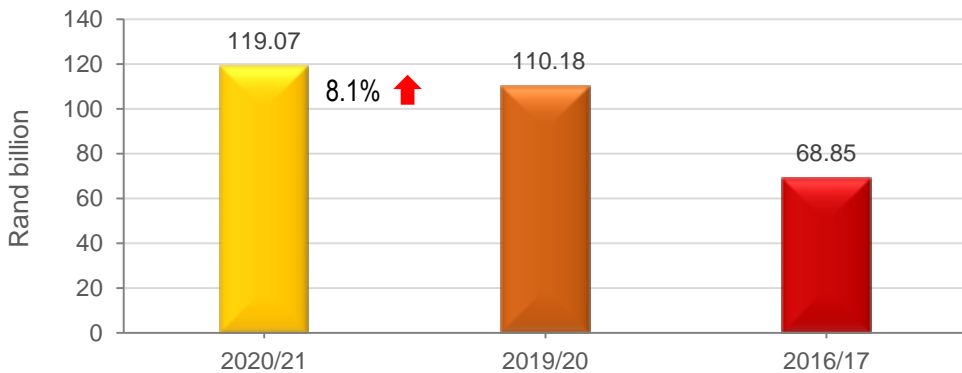
*Further, paragraph 5.(6) of the municipal cost containment regulations stipulate that “All contracts with consultants **must include a fee retention or penalty clause for poor performance**”.*

**SALGA to communicate with Mayors, MPAC chairpersons and MMs to:**

- **Assess the capacity of the finance units,**
- **Encourage municipalities to appoint capable officials in instances of vacancies.**
- **Extract accountability on the inappropriate use of consultants in accordance to Municipal Cost Containment Regulations, 2019 for the 25 selected municipalities.**

- According to the AG, UIF&W incurred in 2020/21 totalled R119.01 billion.
  - Incurred UIF&W represents an 8.1% increase from the prior years

**Irregular expenditure - 2021/21**



- The AG found significant delays by council and MPAC in investigating and making decisions on prior years irregular expenditure.



## Unauthorised, Irregular, Fruitless & Wasteful Expenditure (UIF&W)

Section 62(1)(d) of the MFMA where you are required to take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented:

- ☞ **SALGA to communicate with Mayors, MPAC chairpersons and MMs to:**
  - **Extract accountability on the incurrence of UIF&W for the 25 municipalities selected for support.**
- ☞ **SALGA to communicate with MPAC chairpersons to:**
  - **Understand why it takes municipalities so long to address prior year irregular expenditure with investigations, condonation where appropriate, or instituting of criminal charges where appropriate.**

# Successes of MASP





### Integrated Councillor Induction Programme (ICIP) - MPACs Training:



### Integrated Councillor Induction Programme (ICIP) – Finance Portfolio Committee Training:

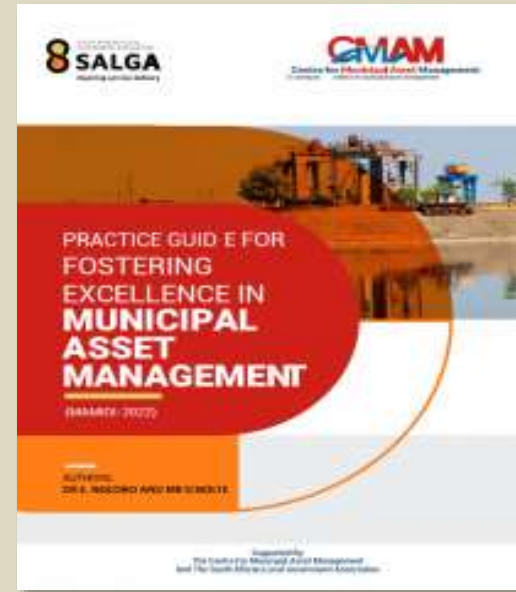


- In collaboration with National Treasury, Department of Cooperative Governance, SARS and LGSETA we successfully trained 999 Councillors on the Municipal Finance ICIP as at 31 March 2022.
  - Finance Portfolio Committees
  - Municipal Public Accounts Committees

### Records Management Toolkit:



### Asset Management Toolkit:



- In collaboration with the AGSA developed a Records Management Toolkit and trained municipalities on records management.
- In collaboration with CMAM developed an Asset Management Toolkit and trained municipalities on the asset management practice.



### Good Practice Guide on Municipal Financial Management:



### Development of Standard Operating Procedures (SoPs) for Expenditure:



- Developed a Good Practice Guide on Municipal Financial Management and trained municipalities on records management.
- In collaboration with *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)* standard operating procedures were developed for Chris Hani DM, Steve Tshwete LM and City of Mbombela LM. The SoPs covered the following topics: Planning, Procurement, Recording and Payment, Employee related costs, Inventory and Consequence Management.



### Audit Action Plan Support:

- In the Eastern Cape province, there is an improvement with Great Kei LM moving from qualified audit opinion to an unqualified with findings. Other improvements are Sakhisizwe LM from adverse to a qualified opinion and Ingquza Hill LM from a disclaimer to a qualified opinion.
- In the Gauteng province, there's an improvement of Emfuleni from a qualified audit to an unqualified audit opinion with findings.
- In KwaZulu-Natal province, uMsunduzi improved from a qualified opinion to an unqualified opinion with findings and Amajuba DM from a disclaimer of audit opinion to a qualified opinion.
- In Limpopo province, Mogalakwena improved from an adverse opinion to a qualified opinion.
- In Mpumalanga province, Thembisile Hani LM improved from a qualified opinion to an unqualified with findings and Dr Pixley ka Isaka Seme from a disclaimer of audit opinion to a qualified opinion.
- In the North West province, Dr Ruth Mompati DM improved from a disclaimer of audit opinion to qualified opinion.

# Conclusions



### **The National Council of Provinces (NCOP):**

- 1) Notes SALGA's programme of action geared towards extracting accountability and consequence management from municipalities by communicating directly with Mayors, MPAC Chairpersons and Accounting Officers of Municipalities who have transgressed in terms of relevant legislation, in order to demand that Accountability and Consequence Management be extracted and actioned. This includes**
  - **Municipalities who have incurred significant amounts of irregular expenditure (at a minimum the top 20),**
  - **Municipalities who attained Disclaimer of audit opinions**
  - **Municipalities who attained Adverse audit opinions**
  - **Municipalities whose audits were not finalised by the legislated deadline**
- 2) Notes SALGA's activities in regard to Municipal Audit Support Programme (MASP)**
- 3) Systems to be introduced by National Department to ensure management of circulars issued to Local Government**



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