



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

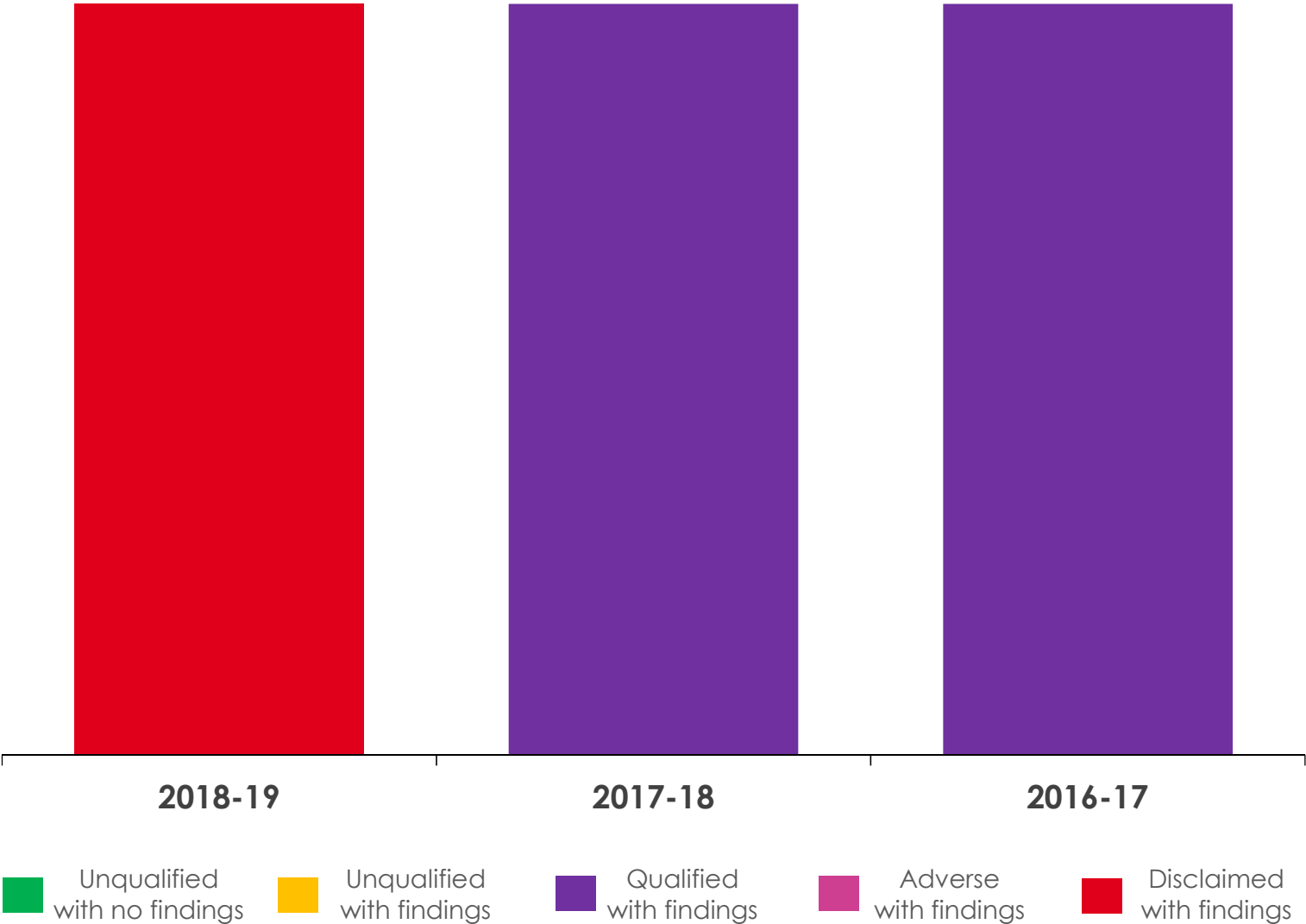
Amathole District Municipality

*Portfolio Committee on Co-operative Governance
and Traditional Affairs – 03 March 2021*



AUDITOR-GENERAL
SOUTH AFRICA

Amathole District Municipality – Regression in audit outcomes





Background

Amathole is one of the 7 districts of Eastern Cape province . The district is comprised of six local municipalities: Mbhashe, Mngquma, Great Kei, Amahlathi, Ngqushwa and Raymond Mhlaba.

The **2018/19** financial year audit revealed the following:

- **Financial statements submitted for audit did not reconcile to the general ledger** and underlying schedules. The general ledger did not contain the opening balances. The municipality purchased an accounting system that has not been set up in a way that supports the accounting processes. Further the municipal officials do not understand how to use the system optimally. This affected accurate billing of service charges.
- Financial statements were not supported by accurate and complete supporting documentation.
- There was no regular processing and reconciliation of transactions during the year.
- The municipality did not have a proper record keeping system for reporting purposes.
- There was a lack of preventative controls to ensure that funds are used in the most efficient and effective way.

The audit opinion was a disclaimer on the financial statements as a whole.



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	KPA 2 :Not well defined not verifiable	KPA2 :Inadequate supporting documents
2017-18	KPA2 :Not consistent , well defined ,and verifiable KPA3 : No findings	KPA2 :Disagreements KPA3 : No findings
2016-17	KPA 2 : Not well defined	KPA 2 and KPA 3 -LED : Addressed

Compliance with laws and regulations

	Annual Financial Statements & Annual Report	Consequence management	Revenue management	Assets management	Expenditure management	Strategic planning and performance management	Procurement management
2018-19	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat
2017-18	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat
2016-17	New	New	New	New	Repeat	New	New



Qualification areas – basis for disclaimer

Item	Details
The financial statements as a whole were disclaimed as all of the following items could not be agreed to the supporting evidence, or supporting evidence was not submitted for audit	<ul style="list-style-type: none">• Property, plant and equipment including infrastructure assets• VAT payable• Provisions specifically leave pay provision• Trade payables• Revenue including service charges, interest earned and revenue from government grants• Inventory consumed• Unauthorised expenditure• Cash flow statement





Year on year increase on irregular expenditure

Balance of irregular expenditure **R243 million**

Irregular expenditure balances	2018-19	2017-18	2016-17
Irregular expenditure	R243 million	R118 million	R17.7 million

The reported irregular expenditure is based on financial statements and therefore possibly not a true reflection of the full extent of the irregular expenditure, as there is a disclaimer of opinion on the financial statements .

- A portion of the opening balance of irregular expenditure is a result of the irregular procurement of the SAP system in the 2015 financial year with the initial cost amounting to R75 million. The procurement of the system was irregular since it was not one of the systems recommended by National Treasury for Mscoa implementation.
- The council, through their municipal public accounts committee, investigated the transactions making up the irregular expenditure balance to determine if value was received or if a financial loss was incurred that should be recovered. Nothing has been written off or recovered in the last two financial years.





Irregular expenditure incurred – Increase from prior years

Annual expenditure balances	2018-19	2017-18	2016-17
Irregular expenditure incurred	R125 million	R100 million	R16 million

Non-compliance that gave rise to irregular expenditure:

- Awards procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers, and the deviation was approved even though it was possible to obtain the quotations.
- Contracts awarded without inviting competitive bids.
- One contract was awarded to a bidder who did not score the highest points in the bid evaluations, and there was no justification for the deviation.
- The performance of eleven contractors or providers was not monitored monthly to ensure effective contract management.



Findings on infrastructure

Planning and reporting on the provision of water and sanitation service

There was a backlog in the provision of water and sanitation services due to:

- Lack of sufficient water and sanitation infrastructure to meet the needs of the municipality
- Damaged and aged water and sanitation infrastructure in need of repair
- A plan on routine maintenance of water and sanitation infrastructure was not developed.
- No condition assessments of water and sanitation infrastructure were performed to inform the water and sanitation infrastructure maintenance plan

Reporting on water losses

- Water losses were incorrectly calculated and did not agree to the supporting documentation





Deficiencies on predetermined objectives

The systems and processes that enable reliable reporting of achievement against the indicators were not adequately designed to clearly define how these indicators would be measured.




Indicator number	Performance indicator
SDI 1/2	Number of refurbished Water Services Infrastructure projects (WTW's & WWTW's) as per the Refurbishment Plan.
SDI 1/3	Number of programmes implemented according to WCDM

We were unable to obtain sufficient appropriate audit evidence for the reported achievement of number of households supplied with new VIP toilets. This was due to inadequate unique identifiers to verify the toilets and locations where they were installed.



What do the financial statements say?

53257
53268
28760
26035

Income statement		Revenue	Total = R1,9 billion	Of their total revenue of R1,9 billion , R1,4 billion (76%) was from government grants and subsidies.
		Expenditure	Total = R1,7 billion	Of their total expenditure of R1,7 billion , R721 million (43%) was for employee cost of the municipality.
		Net result		The municipality incurred a surplus of R297 million for the year

The district has been under increasing financial pressure and had realised net deficits (losses) since inception.

The municipality purchased an accounting system that has not been set up in a way that supports the accounting processes. Further the municipal officials do not understand how to use the system optimally. This affected accurate billing of service charges.

The equitable share grant funding for the year amounted to R638 million. This was, however, not enough to cover the salary bill of R721 million. This means that the cash collected from consumers for rates and service charges had to be used to first cover this shortfall before paying for the costs associated with delivering these services.

Our assessment of the municipality's financial viability was limited due to the material limitations experienced.



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