

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.



Accountability for financial and performance management continues to deteriorate



The presentation on local government outcomes covers

Indicators of deteriorating accountability

Impact of deteriorating accountability

Root causes

Addressing deteriorating accountability



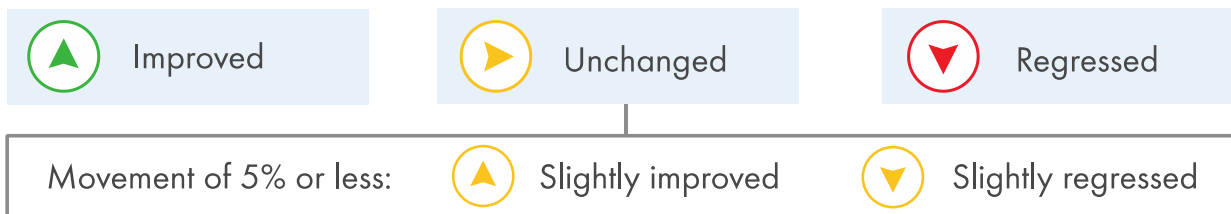
Important to note

The percentages in this presentation are calculated based on the **completed audits of 28 municipalities as at 31 January 2019**, unless indicated otherwise.

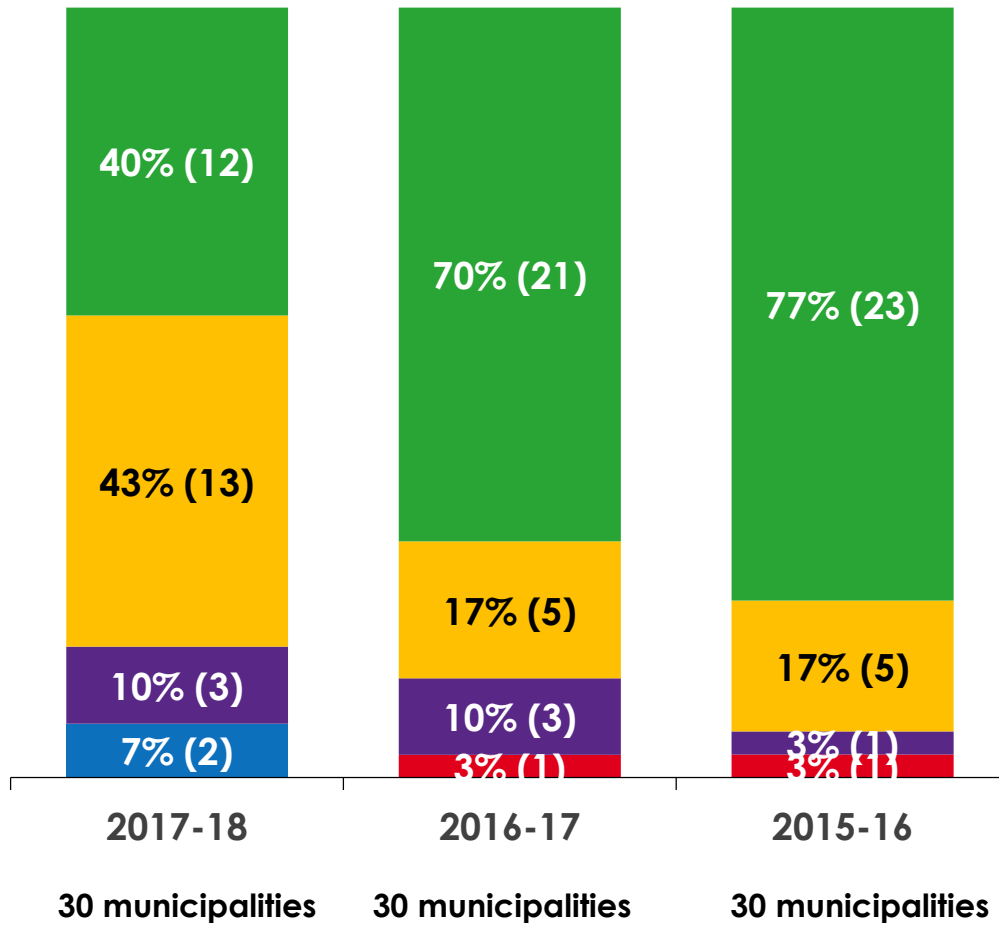
Audit outcomes are indicated as follows:

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

Movement over the previous year is depicted as follows:



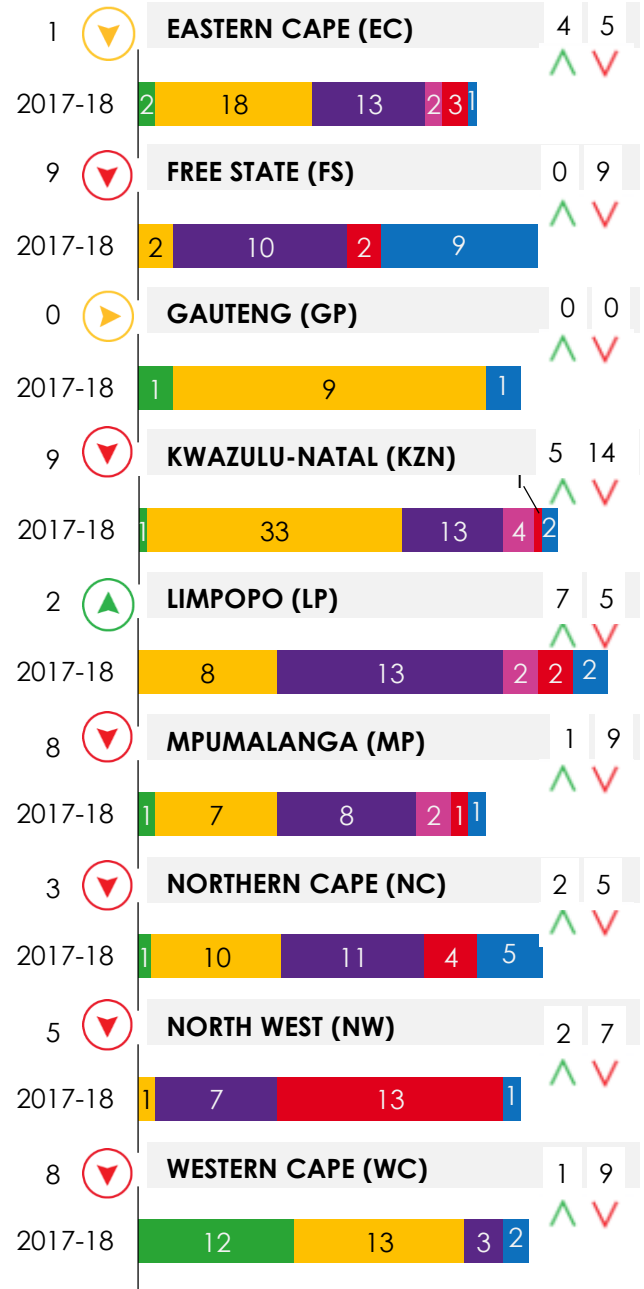
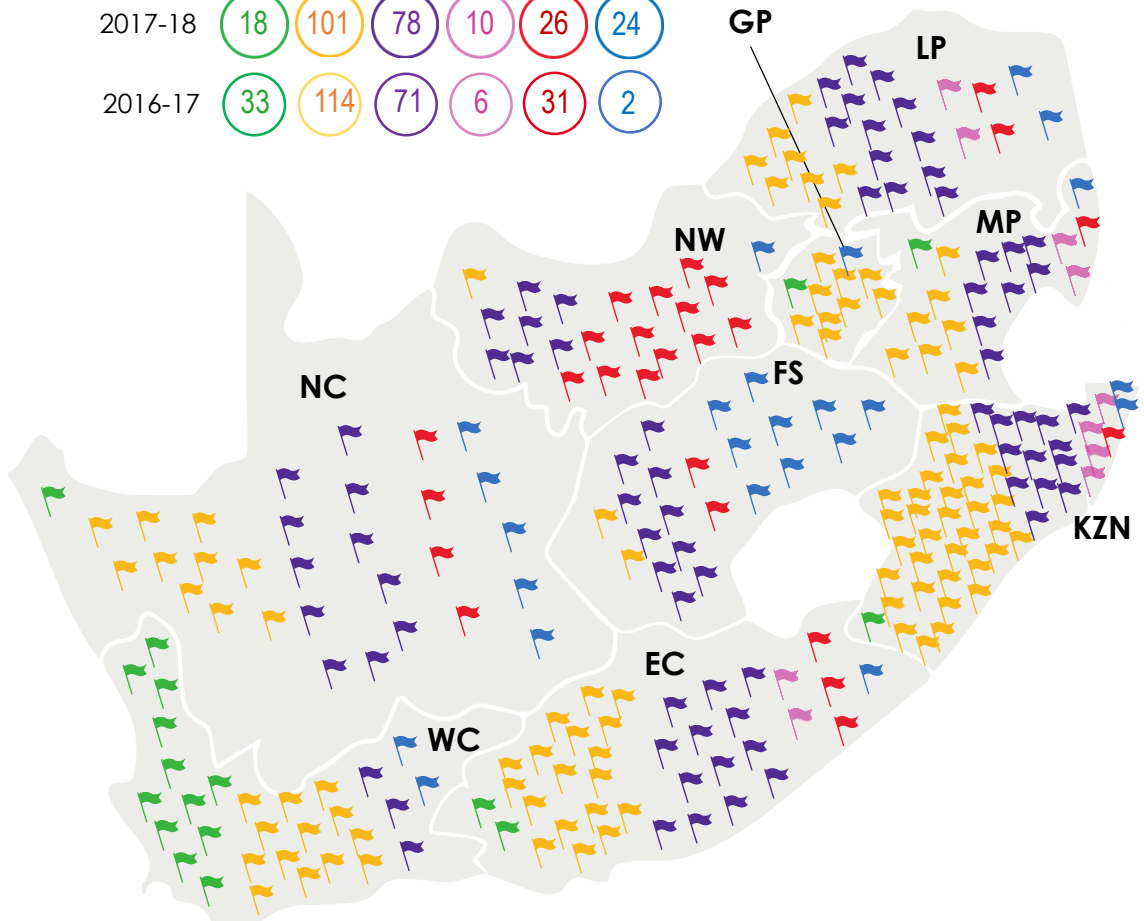
3-year MFMA Audit Outcomes



Movement	
▲	1
▼	9
▶	18
Outstanding audits	2

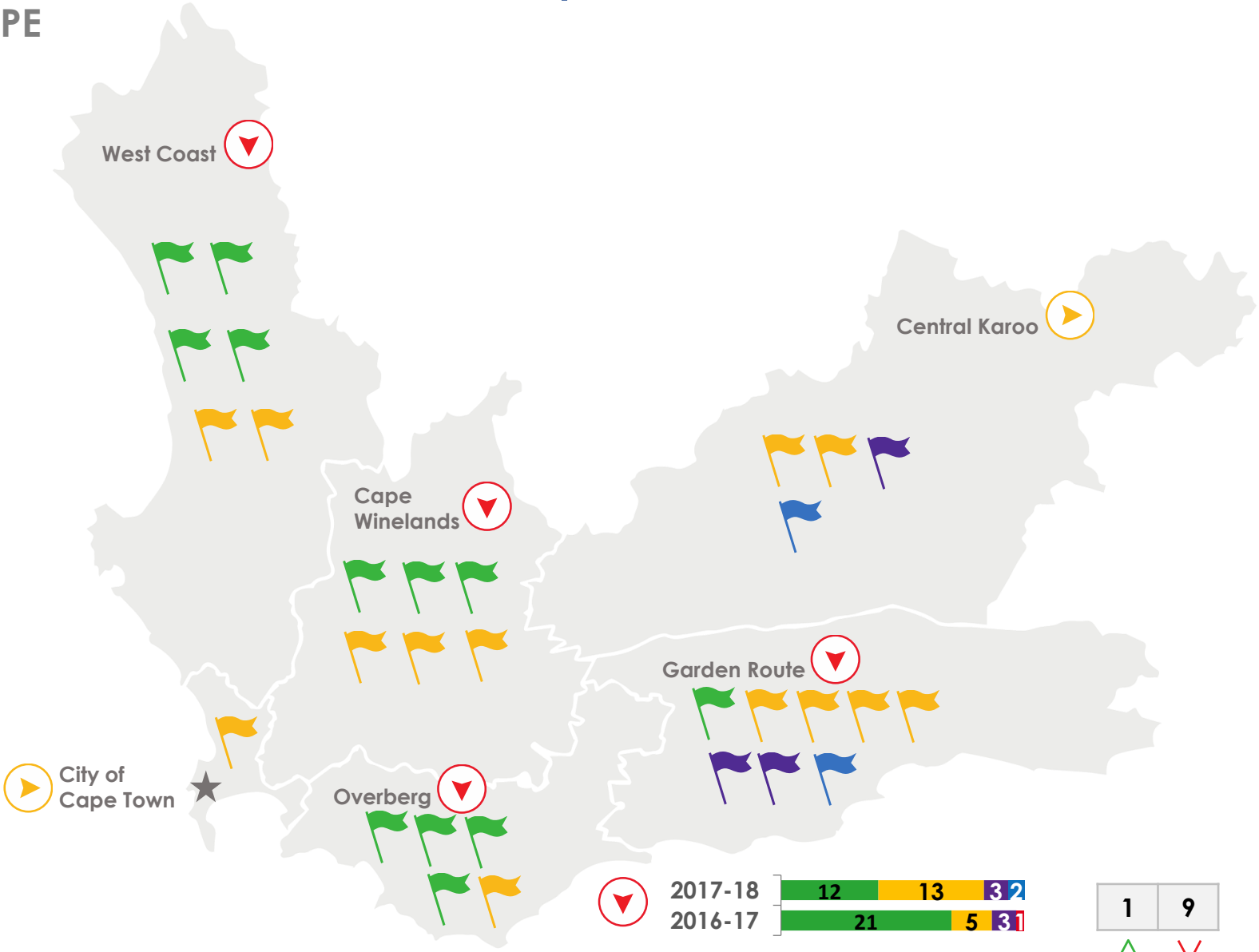


Movement in audit outcomes



Movement in audit outcomes – municipalities

WESTERN CAPE



Unqualified with no findings

Unqualified with findings

Qualified with findings

Adverse with findings

Disclaimed with findings

Outstanding audits

	2017-18	<div style="display: inline-block; width: 15px; height: 10px; background-color: green; border: 1px solid black;"></div> 12	<div style="display: inline-block; width: 15px; height: 10px; background-color: yellow; border: 1px solid black;"></div> 13	<div style="display: inline-block; width: 15px; height: 10px; background-color: purple; border: 1px solid black;"></div> 3	<div style="display: inline-block; width: 15px; height: 10px; background-color: blue; border: 1px solid black;"></div> 2
	2016-17	<div style="display: inline-block; width: 15px; height: 10px; background-color: green; border: 1px solid black;"></div> 21	<div style="display: inline-block; width: 15px; height: 10px; background-color: yellow; border: 1px solid black;"></div> 5	<div style="display: inline-block; width: 15px; height: 10px; background-color: purple; border: 1px solid black;"></div> 3	<div style="display: inline-block; width: 15px; height: 10px; background-color: red; border: 1px solid black;"></div> 1

1	9

Accountability and transparency not enabled through credible financial and performance reporting



Financial statements

Target

Submission of financial statements by legislated date (all municipalities)

Movement



2017-18

89%

2016-17

96%

Quality submission for auditing



79%

89%

Quality of published financial statements



89%

93%

Three (11%) municipalities achieved unqualified opinions only because they corrected all misstatements identified during the audit



Performance report

Target

Preparation of performance reports

Movement



2017-18

100%

2016-17

100%

Quality submission for auditing



53%

43%

Quality of published performance report



86%

89%

Reliable reporting of achievements



89%

93%

Usefulness of performance indicators and targets



86%

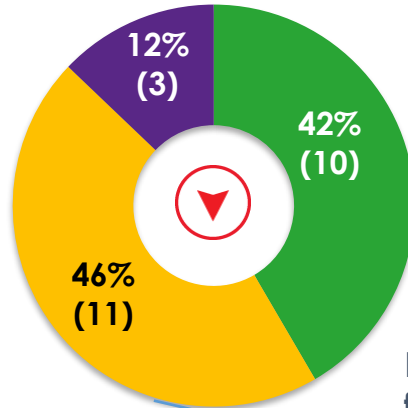
82%

Twelve (43%) municipalities had no material findings on their published performance reports only because they corrected all misstatements identified during the audit

Municipalities assisted by consultants – financial reporting

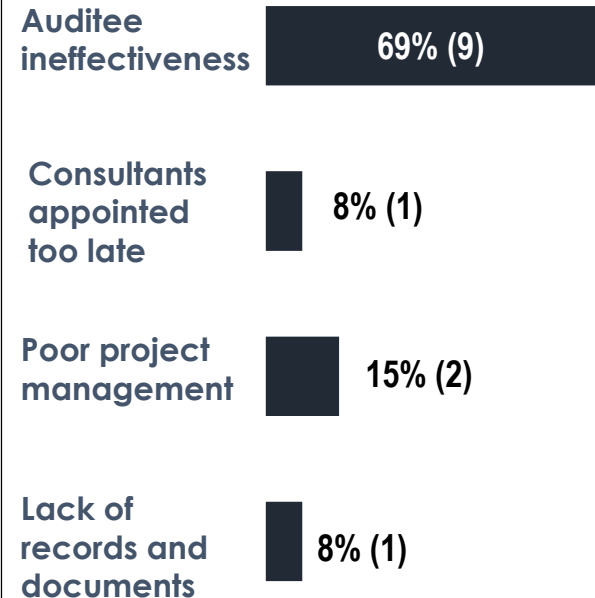
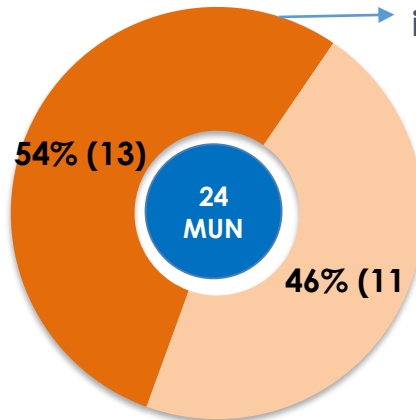
R30 million paid to consultants on financial reporting services

Audit outcomes of municipalities assisted by consultants – financial reporting



Reasons for the financial reporting consultants being ineffective

Material misstatements in area of consultant's responsibility



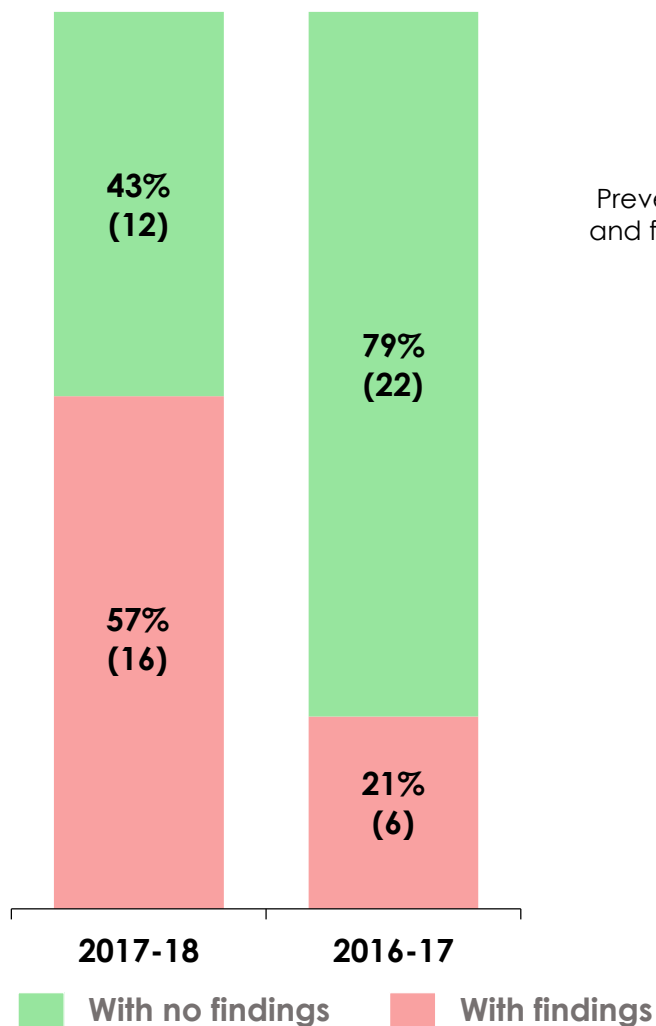
No material misstatements

Material misstatement in area of consultant work

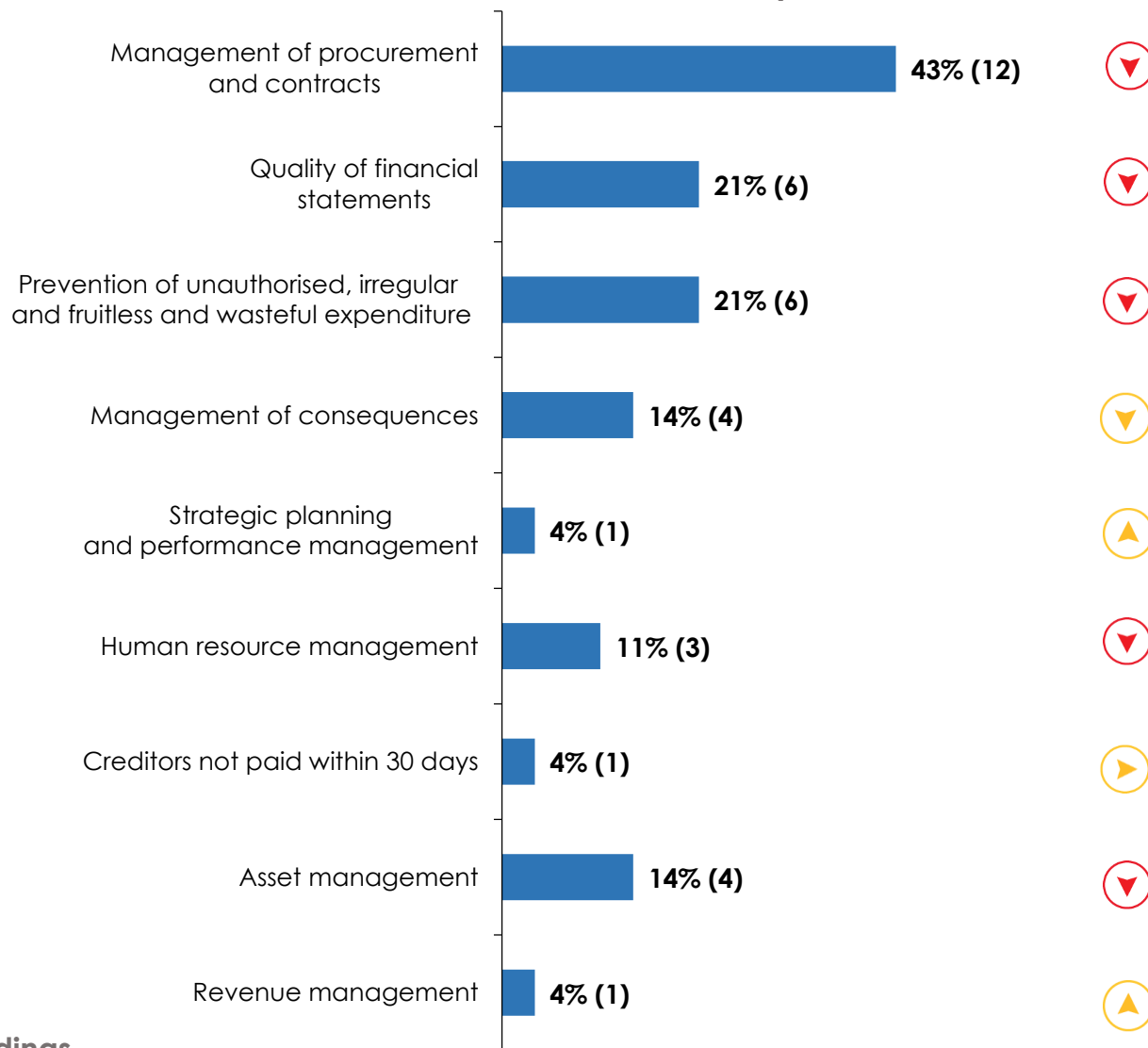


Disregard for compliance with legislation continues

Findings on compliance with key legislation



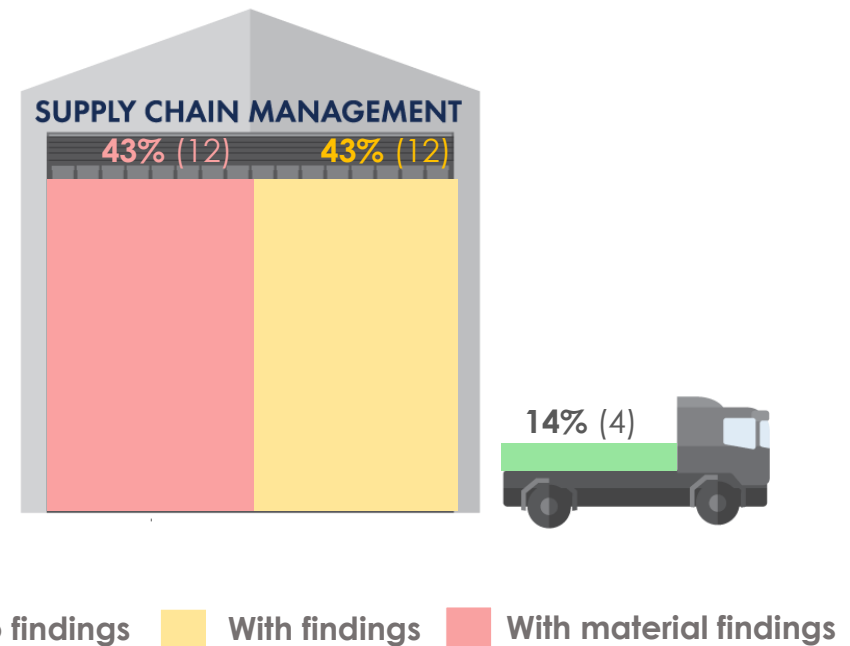
Most common non-compliance areas



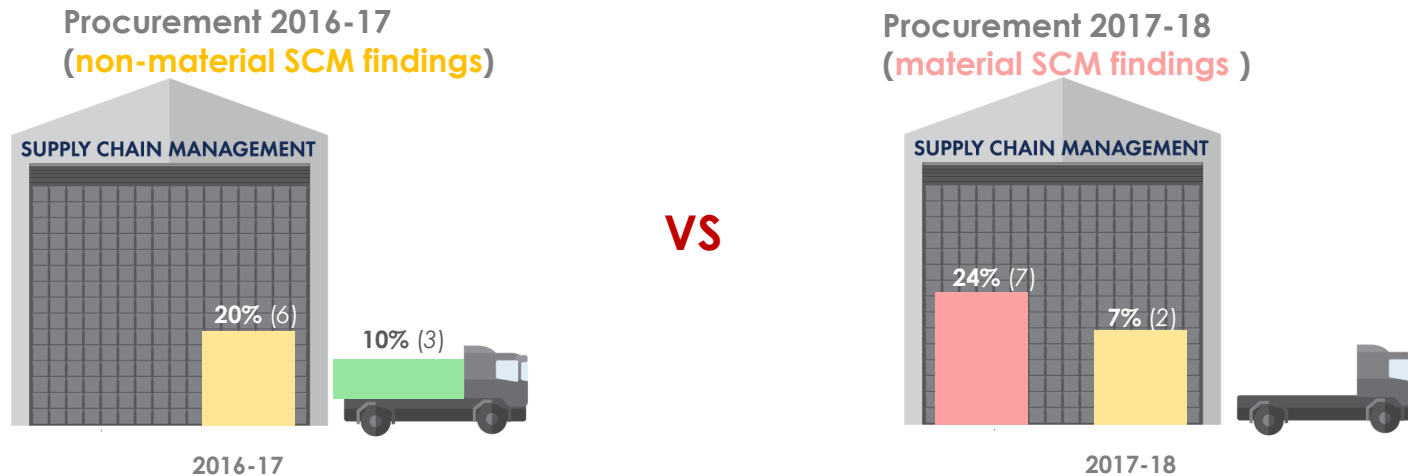
Non-compliance with supply chain management legislation is widespread

Regression in supply chain management compliance

- Not able to audit procurement of **R3 million** due to **missing or incomplete information**
- **Uncompetitive and unfair procurement** processes at **13 (46%) municipalities**
- **False declarations** of interest made by **39 suppliers** at **8 municipalities**
- **R116 million** in awards to close family members of employees and councillors



Impact of prior year non-material procurement findings not addressed on clean audits



Nine auditees regressed, seven as a result of prior year SCM findings not addressed. The above reflects the impact of SCM findings reported in the management report in 2017 (yellow) escalated to audit report findings in 2017-18

Other non-compliance findings

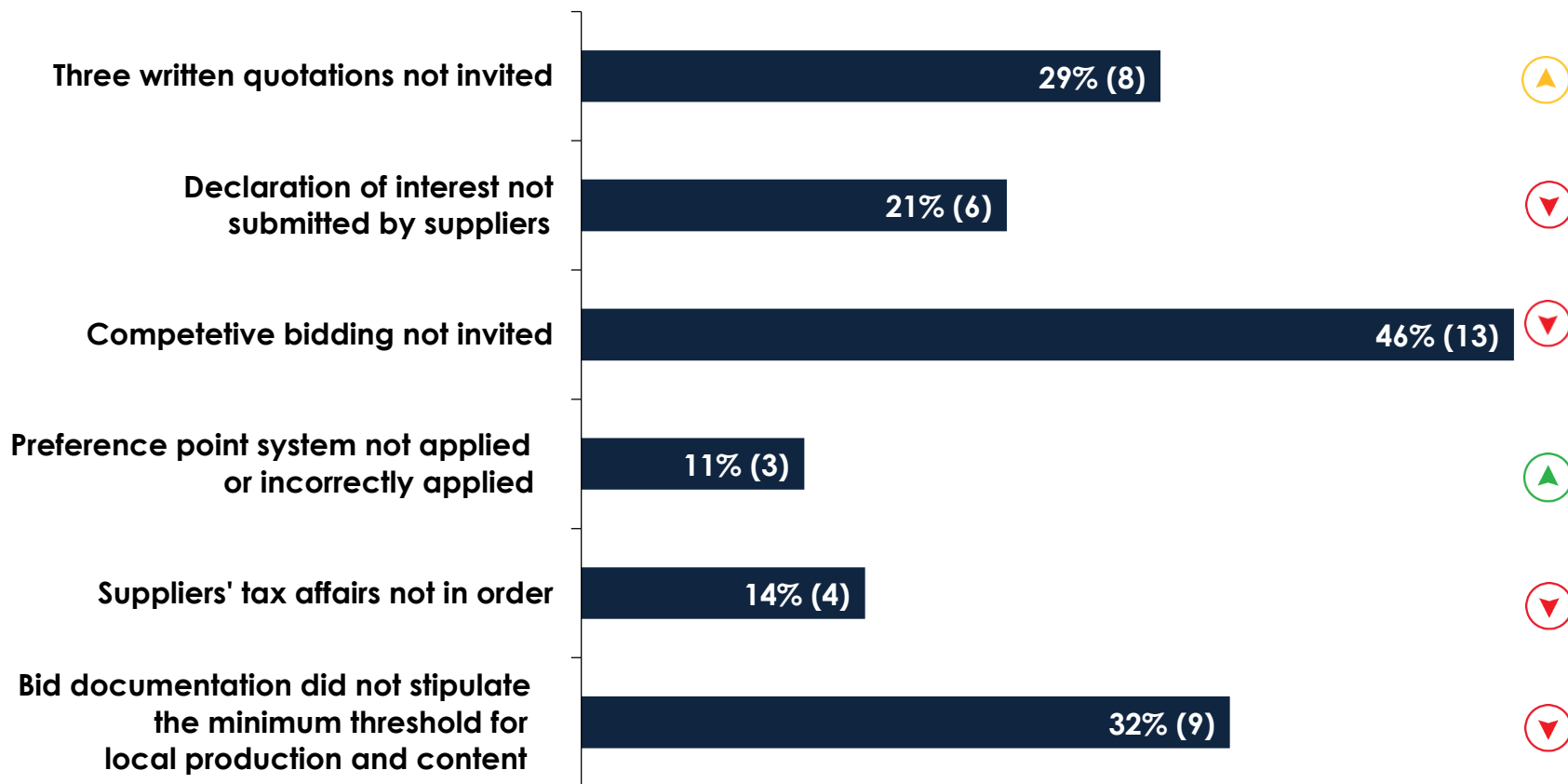
- Irregular expenditure not investigated (Stellenbosch)
- Late submission of AFS due to MsCOA (Swartland)



Non-compliance with supply chain management legislation is widespread (continued)

Unfair or uncompetitive procurement processes – most often lead to **higher prices or potential losses** and exclusion of preferential suppliers (including local suppliers), which undermine the country's **social transformation goals**

The **most common findings** were:



Irregular expenditure increased

The R696 million include the R29 million irregular expenditure for the outstanding municipalities where financial statements were received, while the analysis below relate to completed audits only.

Annual irregular expenditure increased from R165 million to **R696 million***

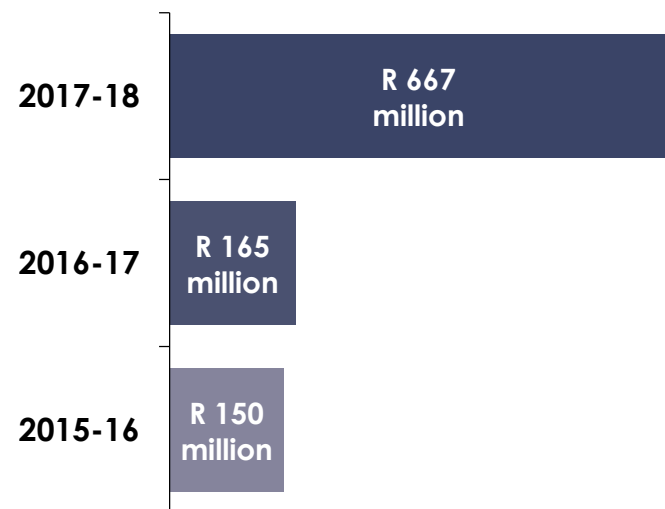
* The figure is not complete: **1 municipality (4%)** were either qualified on incomplete disclosure of irregular expenditure and are still investigating to determine the full extent of irregular expenditure to be disclosed.

- **80%** (R532 million) were expenses in 2017-18
 - **R427 million** represents non-compliance in 2017-18
 - **R105 million** is expenditure on ongoing multi-year contracts
- **20%** (R135 million) were expenses in previous years only uncovered and disclosed in 2017-18

How can irregular expenditure on multi-year contracts be reduced?

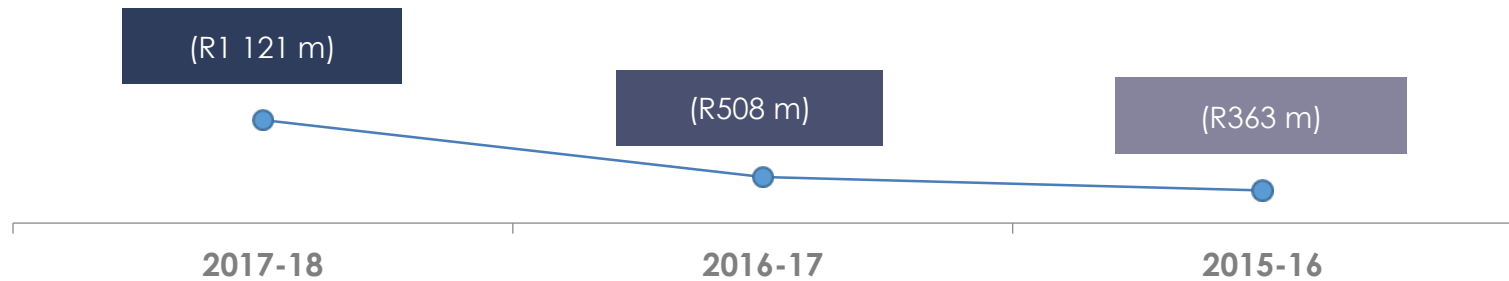
Through **condonement** or **cancellation** of contracts irregularly awarded

Annual irregular expenditure



Irregular expenditure remains high (continued)

Closing balance of irregular expenditure



Irregular expenditure of previous years is not properly dealt with through investigation, and followed by **condonement, recovery or write-off** of the expenditure by the majority of municipalities

Top 5 contributors to the accumulated irregular expenditure (constituting 76% of the R1 121 million)

- Oudtshoorn – R328 million
- City of Cape Town – R283 million
- Beaufort West – R105 million
- Garden Route district – R96 million
- Cederberg – R51 million

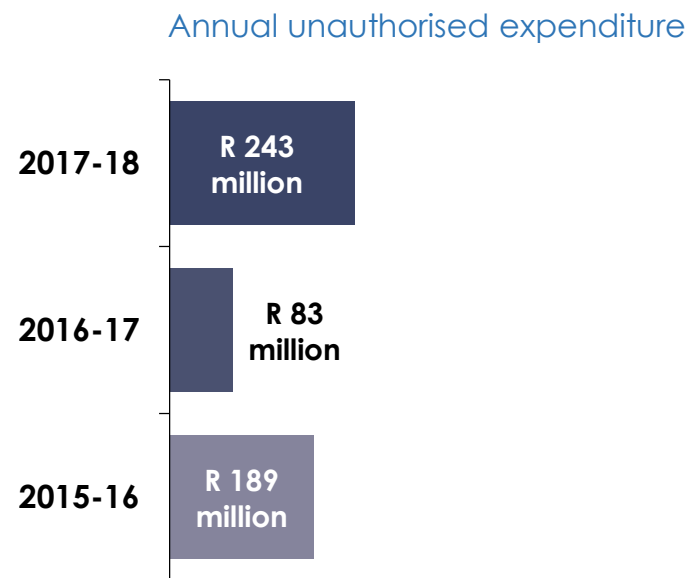
Oudtshoorn and Beaufort West also **did not investigate all instances** of prior year irregular expenditure



Unauthorised expenditure increased

Annual unauthorised expenditure increased from R83 million to **R243 million**

- **R193 million** represents non-cash items
- **R50 million** is expenditure represented by cash spent

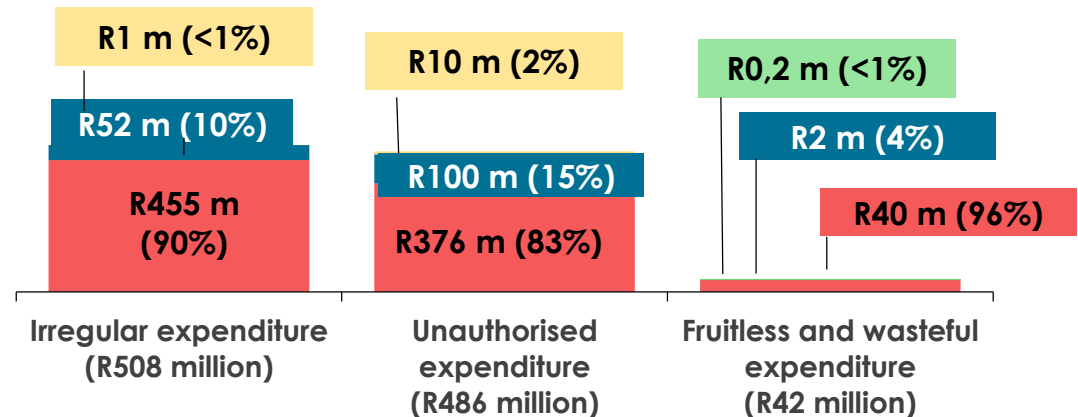


Management of consequences stagnated

How councils dealt with all the unauthorised, irregular and fruitless and wasteful expenditure to date

Most common findings were that unauthorised, irregular and/or fruitless and wasteful expenditure were not being investigated:

- Fruitless and wasteful expenditure – 3 municipalities (11%)
- Irregular expenditure – 4 municipalities (14%)
- Unauthorised expenditure – 1 municipality (4%)



■ Money recovered
 ■ Condoned or authorised
 ■ Written off by council
 ■ Not dealt with by council



Inadequate investigations are being performed

Follow-up by municipalities of supply chain management findings we reported for investigation in the previous year



Increasingly difficult environment for auditors and other role players in accountability

Our experience

Increased pressure placed on auditors as a result of threats of litigation where there are disputes to avoid negative audit outcomes.

Recommendations made in previous years to improve outcomes not implemented and messages not taken seriously.

Quality deficiencies in submitted financial statements and annual performance reports that prolongs the audit process and results in overruns on audit fees.



Impact of financial health on payment of utilities – all municipalities

Eskom arrears

R'000

2017-18 Amounts owed (as at June 2018)	0 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	Over 120 days	Not aged
R	R	R	R	R	R	
1 507 924	1 505 373	2 506	30	8	7	0

Top contributors to the debt (86% of the amounts owed as at 30 June 2018)

Municipality	0 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	Over 120 days	Not aged	2017-18 Amounts owed (as at June 2018)	2016-17 Amounts owed (as at June 2017)
	R	R	R	R	R		R	R
Breede Valley	35 701						35 701	35 792
Drakenstein	84 207						84 207	83 104
George	53 439						53 439	52 644
Stellenbosch	42 359						42 359	44 571
Kannaland	2 912	2 475	25				5 412	24 955
City of Cape Town	1 076 873						1 076 873	1 109 147



Impact of financial health on payment of utilities – all municipalities (continued)

Water boards arrears

R'000

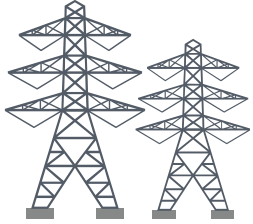
2017-18 Amounts owed (as at June 2018)	0 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	Over 120 days	Not aged
R	R	R	R	R	R	
4 132	0	0	0	0	4 132	0

Top contributors to the debt (100% of the amounts owed as at 30 June 2018)

Municipality	0 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	Over 120 days	Not aged	2017-18 Amounts owed (as at June 2018)	2016-17 Amounts owed (as at June 2017)
	R	R	R	R	R		R	R
Theewaterskloof	0	0	0	0	4 132	0	4 132	2 950



Municipal infrastructure projects and maintenance are affected



Planned targets / key milestones **not achieved by 9% of the projects that we audited**



Water infrastructure

- Irregular expenditure amounted to **R 171 million**.
- **Supply chain management** findings at **7% of the projects audited**.
- **Over- or underspending of annual budget** at **4%** of the projects audited.
- All projects audited were appropriately **accounted for in the financial statements**.
- **25%** of municipalities had **no policy on water maintenance**.
- **4%** of municipalities had **water losses of more than 30%** disclosed in their financial statements.



Sanitation infrastructure

- No irregular expenditure identified.
- No municipalities had **supply chain management** findings on the projects audited.
- No **over- or underspending of annual budget** at the projects audited.
- **25%** of municipalities had **no policy on sanitation maintenance**.



Road infrastructure

- No irregular expenditure identified.
- No municipalities had **supply chain management** findings on the projects audited.
- All projects audited were appropriately **accounted for in the financial statements**.
- No **over- or underspending of annual budget** at the projects audited.
- **18%** of municipalities had **no road maintenance plan for road infrastructure**.
- **7%** of municipalities **did not follow up on prior year findings**.



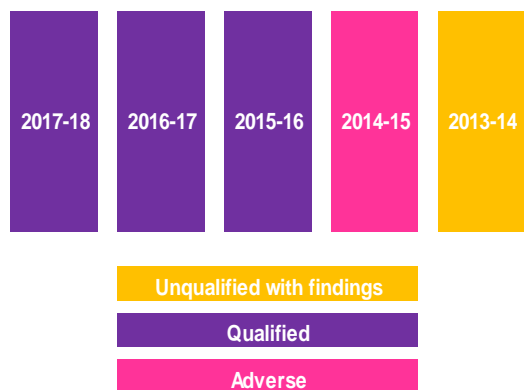
Municipalities in focus – Beaufort West

Regression in audit outcomes		Irregular expenditure																			
<p>2017-18 2016-17 2015-16 2014-15 2013-14</p> <p>Unqualified with findings Qualified Disclaimer</p>		<table border="1"> <caption>Irregular Expenditure (R Millions)</caption> <thead> <tr> <th>Year</th> <th>Irregular Expenditure Incurred</th> <th>Irregular Expenditure Closing Balance</th> </tr> </thead> <tbody> <tr> <td>2017-18</td> <td>52</td> <td>105</td> </tr> <tr> <td>2016-17</td> <td>36</td> <td>53</td> </tr> <tr> <td>2015-16</td> <td>1</td> <td>17</td> </tr> <tr> <td>2014-15</td> <td>16</td> <td>16</td> </tr> <tr> <td>2013-14</td> <td>0</td> <td>0</td> </tr> </tbody> </table>		Year	Irregular Expenditure Incurred	Irregular Expenditure Closing Balance	2017-18	52	105	2016-17	36	53	2015-16	1	17	2014-15	16	16	2013-14	0	0
Year	Irregular Expenditure Incurred	Irregular Expenditure Closing Balance																			
2017-18	52	105																			
2016-17	36	53																			
2015-16	1	17																			
2014-15	16	16																			
2013-14	0	0																			
Root causes	Key officials	Key messages/insights																			
<p>Leadership did not consistently monitor the implementation of action plans to address internal control deficiencies that were identified in prior financial periods to avoid re-occurrence of audit findings.</p> <p>Management did not adequately review the financial statements and the annual performance report before submission for audit, resulting in numerous material misstatements.</p> <p>Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance monitoring.</p>	<p>MM position filled = 8 months in position</p> <p>CFO position filled = 9 months in position</p> <p>SM vacancy rate = 33%</p>	<p>The municipality's audit outcome slightly improved from the prior year. The audit findings raised during the current year were mostly repeat findings. The financial disciplines required throughout the year for processing and recording as well as at year-end in preparation of the financial statements were inadequate which resulted in the material misstatements.</p> <p>There has been no improvement in the outcome of key risk areas that are required to achieve an improvement in the audit outcome. Inadequate reviews and monitoring at management level have been identified as a major concern and limited assurance is identified at that level. The leadership has not been supported by governance and oversight structures to achieve a strong control environment within the municipality.</p>																			

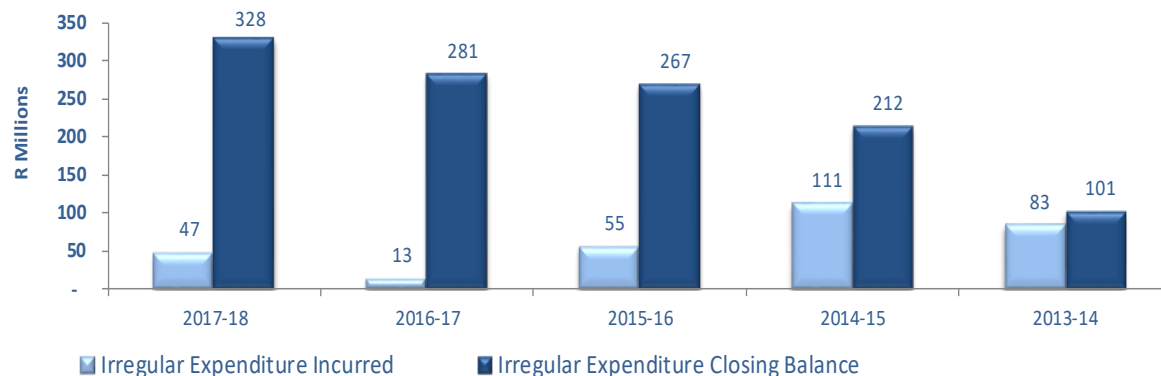


Municipalities in focus – Oudtshoorn

Regression in audit outcomes



Irregular expenditure



Root causes

The key positions of Risk Manager, Manager Assets/AFS and Senior Manager Human Resource are vacant.

Insufficient oversight on performance management compliance and reporting.

Key officials

MM position filled = 19 months in position

CFO position filled = 20 months in position

SM vacancy rate = 20%

Key messages/insights

The audit outcome has remained unchanged from the prior year, the municipality's control environment has improved considerably and we commend management of the municipality for the improvement in the internal controls.

Due to the stability of council and senior management during the 2017-18 audit year, the municipality's control environment significantly improved in comparison to the prior year, however deficiencies in the internal control environment still exist which resulted in material non-compliance and material findings on the annual financial statements and annual performance report submitted for auditing.



Root causes of the accountability failure



Slow or no response



Inadequate consequences



Instability/
vacancies/
competencies

- **Varied** interpretations of the supply chain management legislative requirements resulting in improper application thereof during the procurement process.
- A culture of “**no consequences**” at some auditees has seen irregular expenditure spike as a result of a lack of investigations into these occurrences.
- **Lack of understanding** by staff with **limited training** interventions by some auditees on SCM compliance requirements.
- Messages, root causes, control deficiencies, recommendations and emerging risks are **not taken seriously by leadership** resulting in the ineffective action plans.



ACCOUNTABILITY



=

Instability, skills gaps



The role of leadership

Mayor and council

Municipal manager and senior managers

Provincial leadership



The efforts of leadership and management must be supported by governance and oversight structures to achieve a strong control environment within the municipality.



Capacitate and upskill officials particularly on compliance areas.



Maintenance and improvement of robust financial, performance management and compliance monitoring systems.



Ensure that emerging risks are closely monitored and appropriately mitigated.





AUDITOR - GENERAL
SOUTH AFRICA

PAA amendments – the key expansion to our mandate

September 2019

Audit

Report

For
Accountability

WHAT IS A MATERIAL IRREGULARITY?

Irregularity



any **non-compliance** with, or contravention of, legislation, **fraud**, **theft** or **a breach of a fiduciary duty**



identified during an audit performed under this Act that **resulted in or is likely** to result in ...

Impact



a **material financial loss**, the **misuse** or **loss of a material public resource** or **substantial harm to a public sector institution** or **the general public.**



KEY EXPANSION OF OUR MANDATE



Refer material irregularities to relevant public bodies for further investigations



Take binding remedial action for failure to implement the AG's recommendations for material irregularities



Issue a certificate of debt for failure to implement the remedial action if financial loss was involved



IMPLEMENTATION OF THE EXPANDED MANDATE



Commencement date 1 April 2019

To allow for establishing capacity and processes, a **phased-in approach** for implementation was agreed with SCoAG on the basis of:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented
3. Auditees which are not part of the phase in will be dealt with in terms of the NOCLAR requirements

2018-19 implementation

Type of material irregularity

Type of material irregularity = Material non-compliance (which would be reported in the audit report) that resulted in (or is likely to result in) a material financial loss

Selection of auditees

Selection criteria

- Latest audit outcome not clean or unqualified with findings – except if there was a material finding on prevention or follow-up of irregular expenditure
- High irregular expenditure over the last three years
- Sufficient coverage across spheres of government and provinces.



Thank you



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