



*Local government audit outcomes*

**MFMA**  
2018-19

## ***Polokwane Local Municipality***

*“Slow response by management to address internal control deficiencies led to material misstatements”*

*Portfolio Committee on Co-operative Governance  
and Traditional Affairs – 18 August 2020*

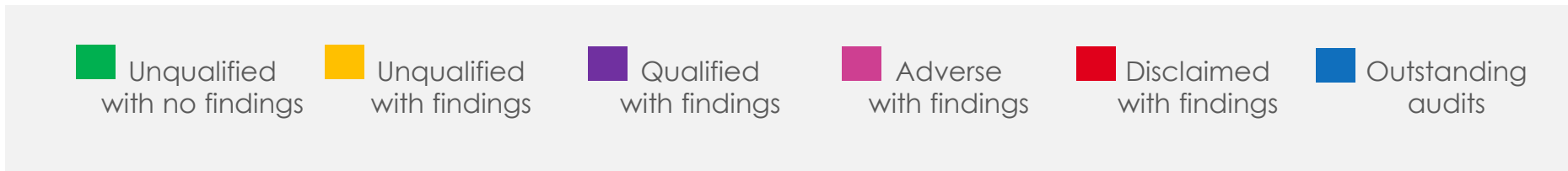


AUDITOR - GENERAL  
SOUTH AFRICA

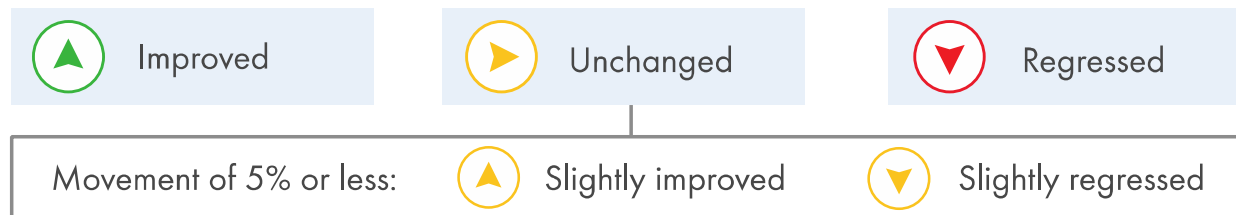
## Important to note

Local government in Limpopo consists of 27 auditees, broken down into 22 local municipalities, five district municipalities and four municipal entities. The municipal entities are classified as small entities and therefore are not included in this analysis. Three audits were outstanding at the cut-off date. Therefore the percentages in this presentation are calculated based on the **completed audits of 24 municipalities as at 31 January 2020**, unless indicated otherwise.

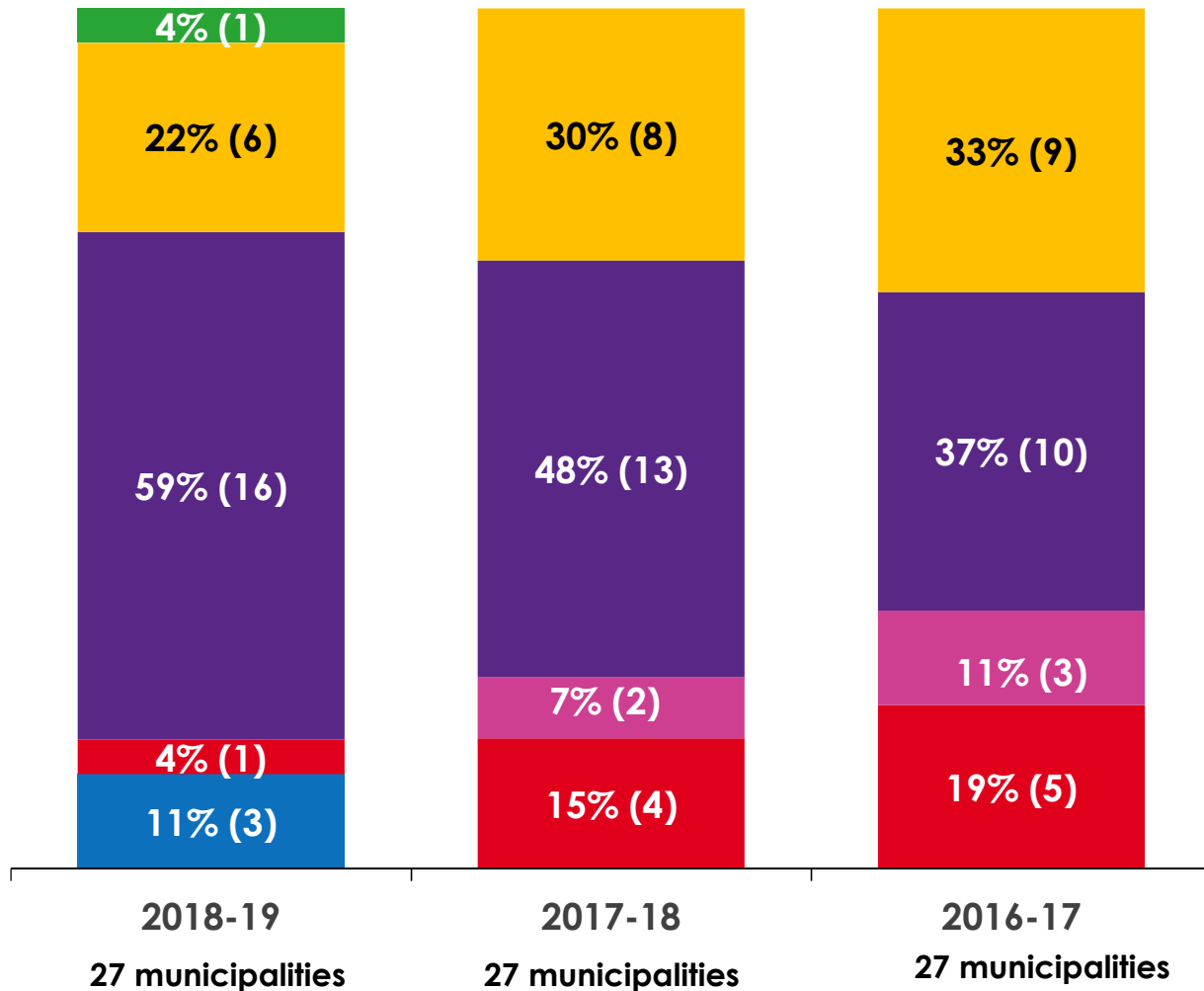
**Audit outcomes are indicated as follows:**



**Movement from the previous year is depicted as follows:**



# Provincial audit outcomes (27 auditees): net improvement

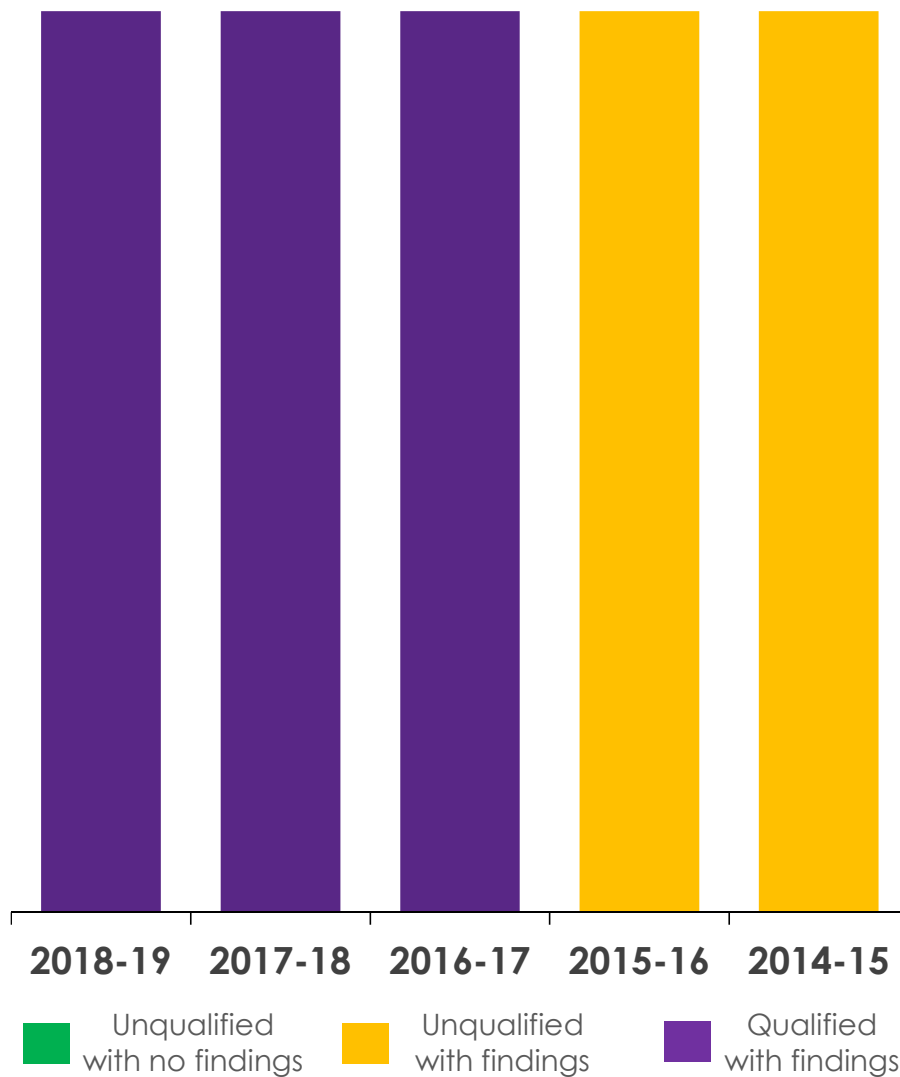


■ Unqualified with no findings   
 ■ Unqualified with findings   
 ■ Qualified with findings   
 ■ Adverse with findings   
 ■ Disclaimed with findings   
 ■ Outstanding audits as at 31 January 2020



The cut-off date for reporting of audit outcomes is set as 31 January 2020

# Polokwane Local Municipality – stagnant since 2016-17



Audit outcomes – Polokwane (three years of consecutive qualified audit opinion)	
2018-19	Qualified
2017-18	Qualified
2016-17	Qualified
2015-16	Unqualified with findings
2014-15	Unqualified with findings



# Qualification areas

<p><b>Property, plant and equipment</b></p>	<ul style="list-style-type: none"> <li>• No documented criteria to classify projects as delayed or discontinued . A supporting listing provided was confusing as to which projects should be classified as delayed or stopped. as there were inconsistencies. Examples of these inconsistencies:             <ul style="list-style-type: none"> <li>○ Breakdowns per projects did not include costs per project and the project status was not provided.</li> <li>○ Other explanations provided included termination of contracts based on the status in which the old contractor left the project. This information was submitted very late in the audit process and could therefore not be verified by the auditors.</li> </ul> </li> </ul>
<p><b>Cash and cash equivalents</b></p>	<ul style="list-style-type: none"> <li>• Long outstanding reconciling items were not cleared on time.</li> <li>• After the migration (From SAMRAS to Munsoft) which took place on April 2020, system migration reconciling items were not cleared on time,</li> <li>• The migration plan did not include a parallel run of the old and the new system.</li> </ul>
<p><b>Revenue and receivables from exchange transaction</b></p>	<ul style="list-style-type: none"> <li>• Inclusion of properties which were not supposed to be included. (e. g municipal-owned properties).</li> <li>• Duplicate transactions from the same meter (water and electricity).</li> <li>• Inclusion of customers which are supposed to be excluded as per the methodology (where actual reading was done).</li> <li>• Raw data submitted did not include critical fields to enable re- performance of calculations.</li> <li>• On Munsoft data, the current reading date was prior to the previous reading date and in other instances the current reading date was in the future.</li> <li>• Negative consumption (water and electricity).</li> </ul>



## The usage of consultants for financial reporting.

- The municipality once again made use of consultants in supporting the municipality to prepare financial reports. In the current year the municipality spent R69 647 909 on financial reporting consultants.
- While it is acknowledged that the use of consultants to support the municipality in technical financial reporting aspects is necessary, such appointment should include a plan for transfer of skills or capacitation of the municipality's finance department. It is regrettable that the cost has increased while the quality of the financial statements has remained unchanged.
- A long-term strategy on use of consultants including a detailed analysis of technical gaps in financial reporting should be introduced.

Name of consultant	Nature of services	Paid by	R-value
Bonakude Consulting (Pty) Ltd	Financial consulting	Municipality	10 077 718
I @ Consulting (Pty) Ltd	Maintenance of Asset Management System and Services	Municipality	26 963 193
MTC Tax Consulting (PTY) Ltd	VAT review services	Municipality	32 606 998



# Supply chain management non-compliance



## Reduction of irregular expenditure

Annual irregular expenditure	2018-19	2017-18	2016-17
Irregular expenditure (Incurred)	R3,5 million	R89,4 million	R198,7 million

### Non-compliance noted:

- Fourteen projects were continuing without service level agreements (signed contracts).
- Eleven awards were made to providers who were in the service of other state institutions.
- Four employees of the municipality did not declare their interests with the appointed service providers.
- Not enough information was submitted to confirm that all extensions or modifications to contracts were properly approved. (Minutes leading to the approvals and the actual approvals were not submitted).
- For the municipality to early detect if the appointed contractor is under performing, monthly monitoring of projects is required. Performance of nine contractors was not monitored on a monthly basis as required.



# What does the financial statements say? The stark reality



## Income statement



### Revenue

Total =  
**R4 billion**

From the total revenue of **R4 billion**, **R831 million (21%)** was from the equitable share allocation and **R1, 21 billion (30%)** from conditional grants. This indicates that the municipality is highly dependant on grants.



### Expenditure

Total =  
**R3,80 billion**

There were bad debts of **R217 million** for the year.  
It took on average **109 days** to pay suppliers.



### Net result

The municipality incurred a surplus (revenue exceeded expenses) of **R246 million** for the year

## Balance sheet



- The municipality also had a significant problem in terms of debt collection with **R1, 1 billion** of the consumer debtors of **R767 million** (approximately 69% of all debts) being impaired due to it being unlikely to be collected.
- Added to this was the increase in outstanding payables from **R607,9 million** (2017/18) to **R952,8 million** with cash reserves of only **R128 million** at year-end.
- The financial statements showed that the current liabilities exceeded current assets by **R128 million**.





## Deficiencies on predetermined objectives

- The Service Delivery and Budget Implementation Plan (SDBIP) and annual performance report (APR) noted that the indicator refers to electricity as it is planned and reported under the energy programme. This was also in line with the descriptions obtained from management. The Standard Operating Procedures (SOPs) however indicated that the indicator referred to water smart meters.
- Changes made on the SDBIP without the necessary approvals.
- Incorrect achievements reported on the annual performance report. (Portfolio of evidence submitted had different figures to what was showing as achieved on the annual performance report.)

## Stay in touch with the AGSA



[www.agsa.co.za](http://www.agsa.co.za)



@AuditorGen\_SA



Auditor-General of South Africa



Auditor-General of South Africa

