



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

Dr Beyers Naudé Local Municipality

***The high cost of accountability failures in local
government***

*Portfolio Committee on Co-operative Governance
and Traditional Affairs - 19 August 2020*



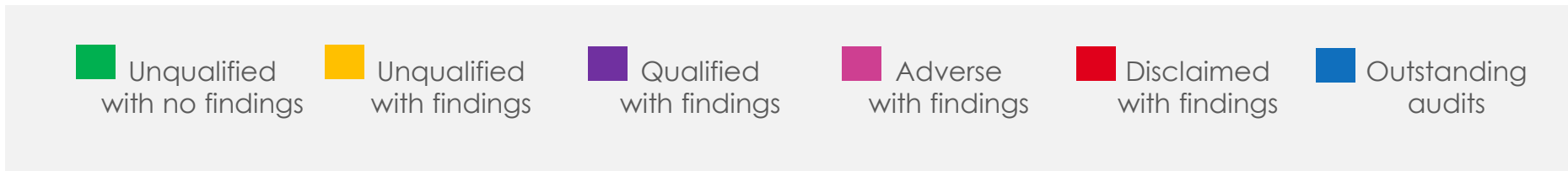
AUDITOR - GENERAL
SOUTH AFRICA

Important to note

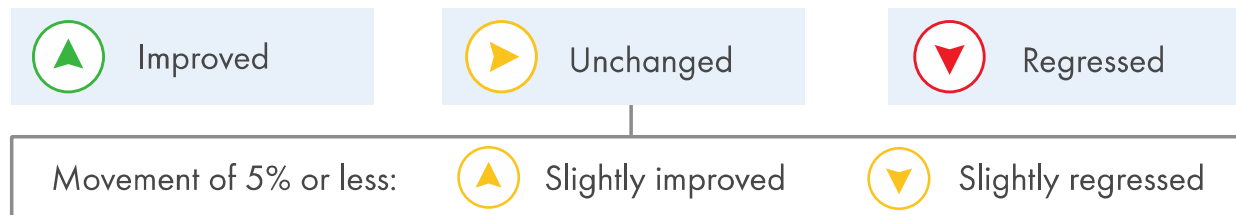
Local government in the Eastern Cape consists of 49 auditees, broken down into 33 local municipalities, six district municipalities, two metropolitan municipalities and 10 municipal entities. The municipal entities are classified as small entities and therefore are not included in this analysis. Two audits were outstanding at the cut-off date.

Therefore the percentages in this presentation are calculated based on the **completed audits of 37 municipalities as at 31 January 2020**, unless indicated otherwise.

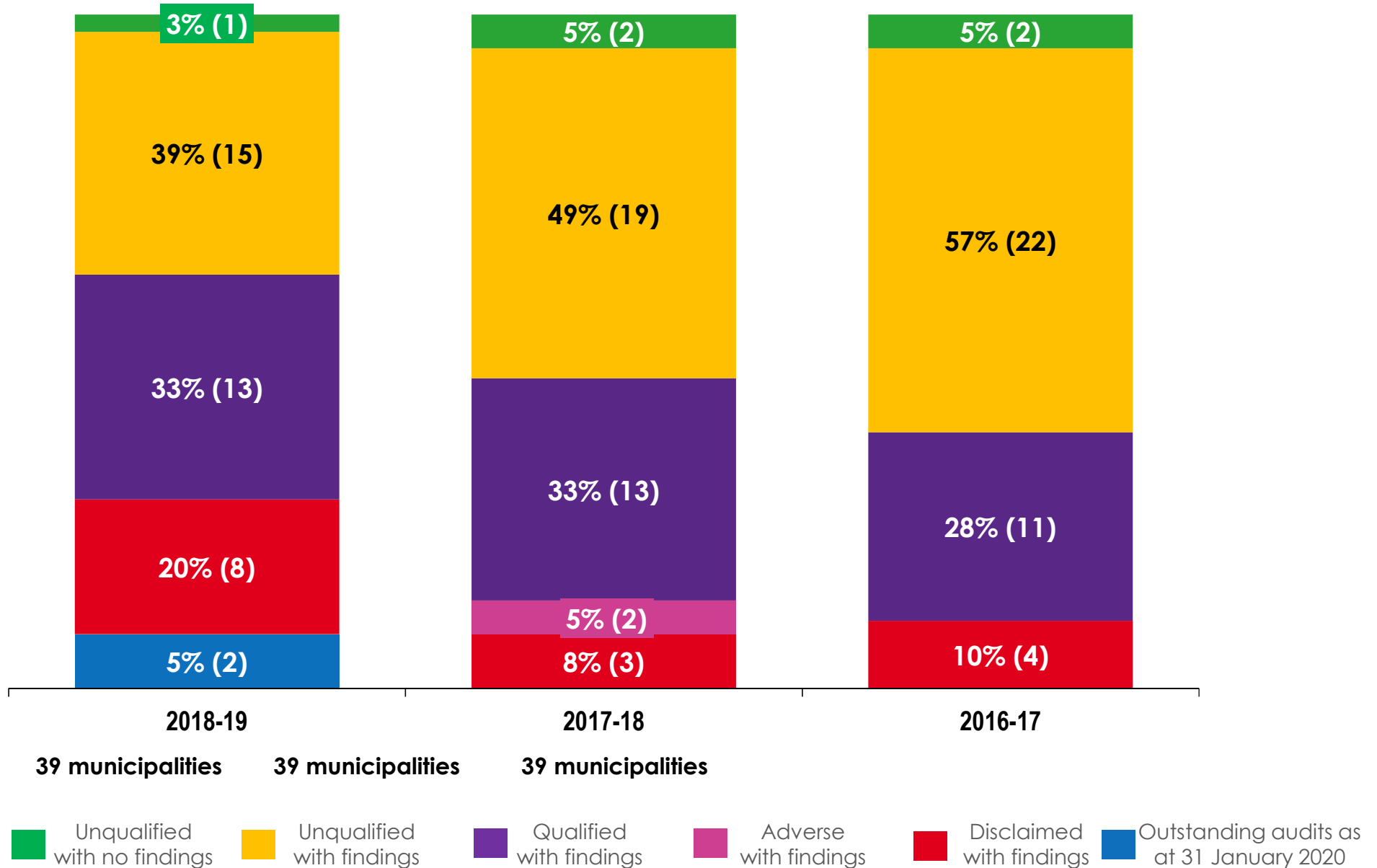
Audit outcomes are indicated as follows:



Movement from the previous year is depicted as follows:



Regression in municipal audit outcomes – All municipalities EC



39 municipalities

39 municipalities

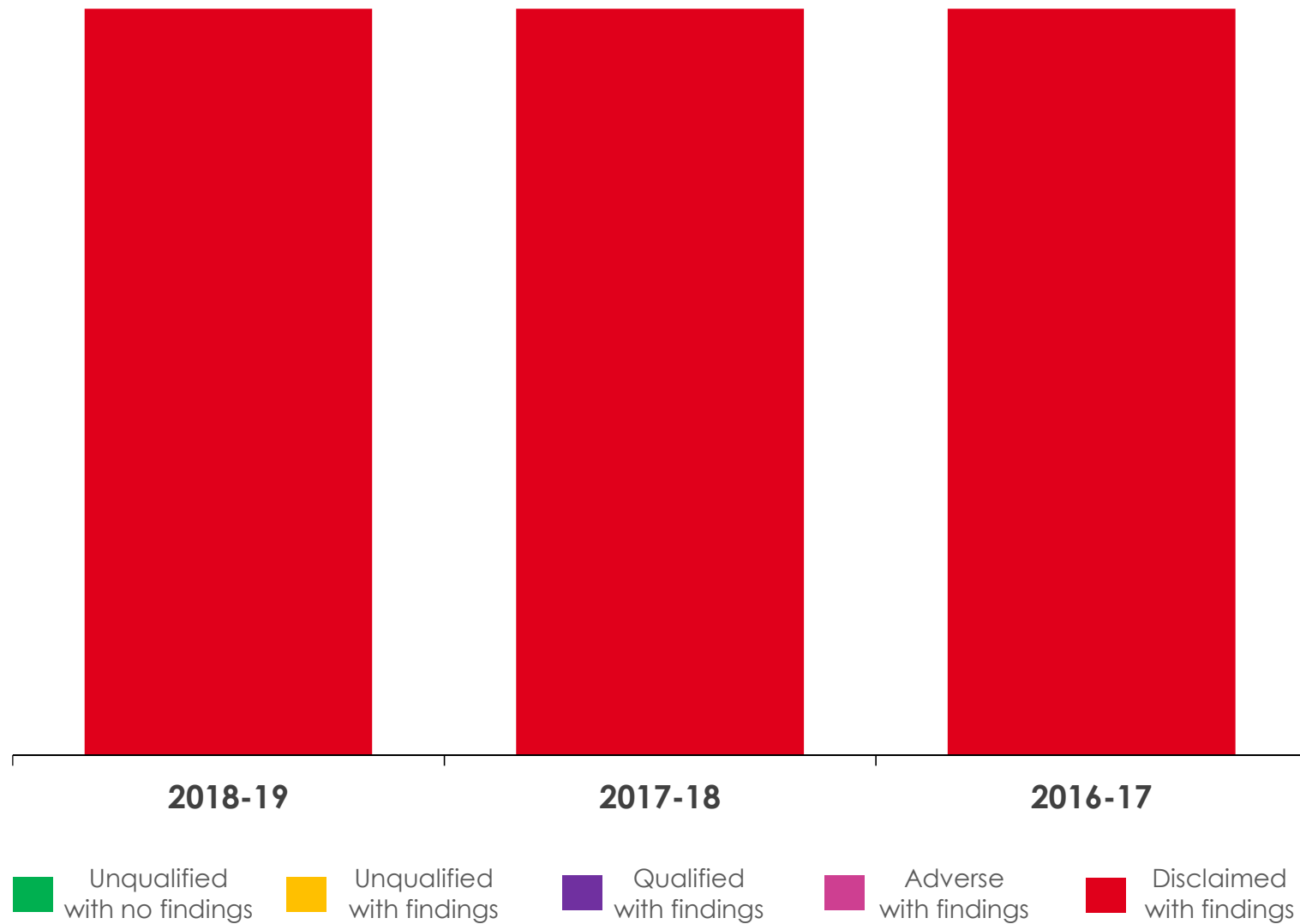
39 municipalities

■ 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

Dr Beyers Naudé Local Municipality – Three consecutive years of disclaimers





Lack of controls results in an unauthorized write-off of irregular expenditure

Balance of irregular expenditure **R85,6 million**

Irregular expenditure balances	2018-19	2017-18	2016-17
Irregular expenditure	R85,6 million	R140,9 million	R130,6 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 including a limitation on the write-off of irregular expenditure.

- A portion of the opening balance of Irregular expenditure is a result of irregular expenditure inherited from the merger of the municipalities of Camdeboo, Ikwezi and Baviaans in 2016. A further R24 million of irregular expenditure was incurred in the year under review (R50 million in the 2017/18 year) and R79 million irregular expenditure was written off.
- The council, through their municipal public accounts committee, investigated transactions making up the irregular expenditure balance to determine if value was received and if a financial loss was incurred that should be recovered. The committee recommended that R79 million of the irregular expenditure be re-investigated, as they did not have sufficient information to write this off. However, the accounting officer of the municipality approved and submitted financial statements with the write-off of irregular expenditure of R79 million. This resulted in irregular expenditure being understated in the financial statements.
- This was due to irregular expenditure of prior years **not being properly investigated**. The lack of such investigations coupled with a failure by the municipal leadership to establish the required systems to hold officials responsible has **created an environment where officials act with impunity, with no consequences for transgressions**. There is a need for the council and municipal public accounts committee to give urgent attention to this while performing their oversight functions.





Drought relief unspent grant management

- The Dr Beyers Naudé region experienced a drought and the municipality received a drought relief grant of **R30 million** to assist. An amount of **R5 million** was spent, and **R25 million** was recorded as an **unspent** conditional grant in the financial statements.
- This amount was however **not cash-backed** as the municipality had exhausted all but R5 million **in their bank account** towards the year end. This means that the unspent grant money was spent on expenses **not relating to the drought relief**. Because the municipality applied for and received a roll-over, this means that other revenue will have to be used to complete those projects, as the grant funding had been almost completely spent by the end of the year.
- Due to the poor state of record keeping, we could not confirm what the grant money had been spent on. Furthermore, the municipality did not have evidence of the reported service delivery performance relating to water services.

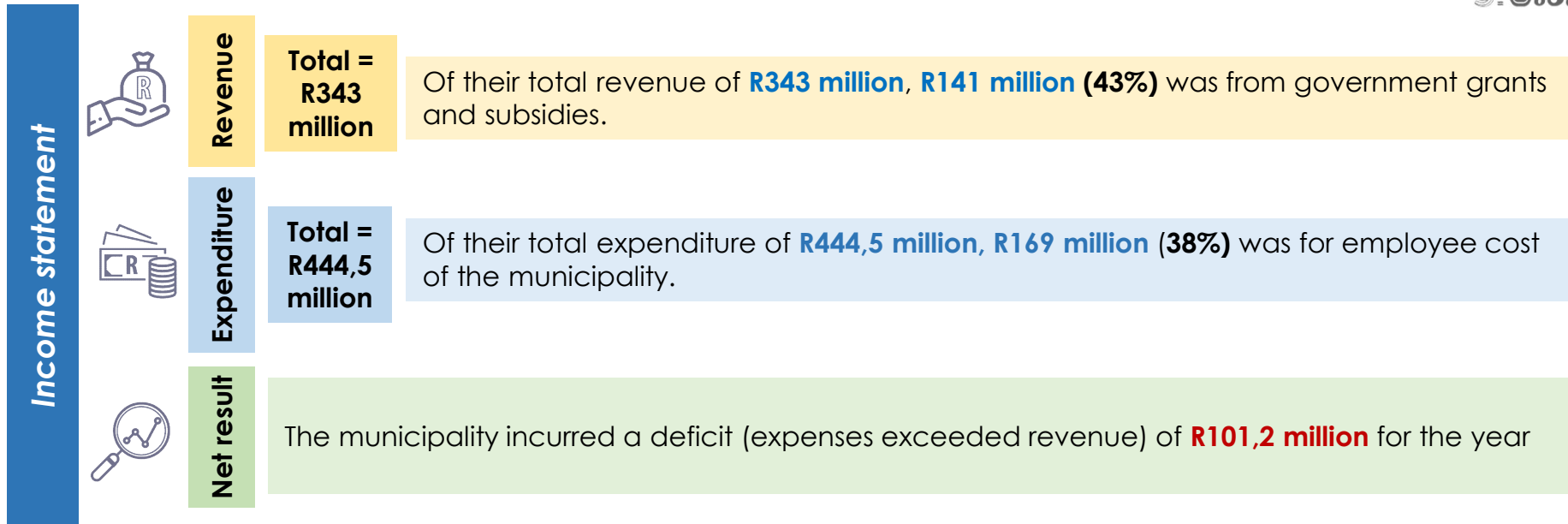


Lack of financial disciplines

- During the 2018-19 audit, we identified various example where the **leadership of the municipality has failed to implement the discipline of financial controls** over public funds, which further hindered the municipality from delivering services to the community.
- An example of this was the payment of back pay during a process of salary equalisation. This process was to align the salaries of employees inherited from the merged municipalities to a standard task grade. The back pay amounted to **R18,5 million**, however due to the poor state of accounting records we could not confirm that the correct amount was paid to employees.



What do the financial statements say? The stark reality



Dr Beyers Naudé was under increasing financial pressure and had realised net deficits (losses) since inception.

For the year under review, expenditure exceeded revenue by R101 million, indicating that the municipality may struggle to continue operations and deliver services in the future.

The equitable share grant funding for the year amounted to R83 million. This was, however, not enough to cover the salary bill of R169 million. This means that the cash collected from consumers for rates and service charges (R139 million) had to be used to first cover this shortfall before paying for the costs associated with delivering these services (for example paying Eskom, which at R89 million accounted for the majority of the municipality's payables).

The municipality disclosed that 74% of people who were charged for services amounting to R47 million might never pay the amounts due, and as a result the municipality was unable to pay creditors on time. It should be noted that it was difficult to determine the full extent of the issues at the municipality as the documents presented could not support the amounts disclosed.



Concluding remarks

The key messages included in this report highlight the deteriorating state of affairs in local government in the province and the impact of accountability failures at municipalities.

The Eastern Cape has an economy that is hampered by poverty, and municipalities have limited resources with which to carry out their legislated functions. Leadership and senior management need to be accountable for their actions and those of their subordinates. They need to conduct themselves with impeccable standards of transparency in all activities undertaken to manage the scarce resources and deliver on their mandate.

The leadership of the municipality should strengthen oversight over financial, performance and compliance reporting, as the annual financial statements, annual report and compliance reporting were not adequately reviewed before submission. They should also maintain a proper record management system for records. Furthermore, management should follow up the implementation of internal and external audit recommendations to address internal control deficiencies.



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