



Local government audit outcomes

MFMA

**Maluti-A-Phofung Local Municipality
2016-17 audit outcomes**

**Deliberate lack of accountability by political and
administrative leadership**

Portfolio Committee on Co-operative Governance and Traditional Affairs

25 August 2020

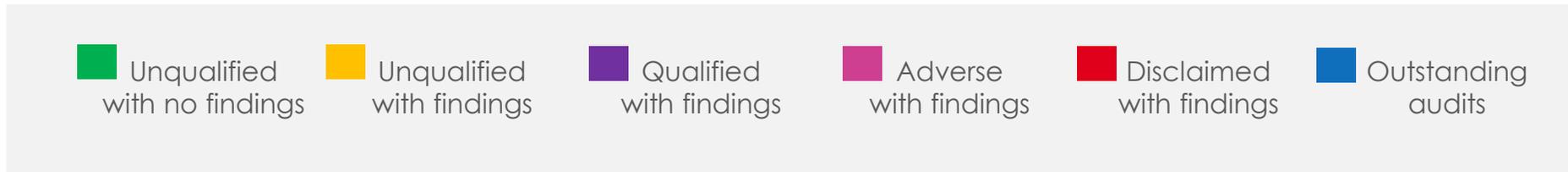


AUDITOR - GENERAL
SOUTH AFRICA

Important to note

Local government in the Free State consists of 26 auditees, broken down into 19 local municipalities, four district municipalities and three municipal entities. The municipal entities are not included in this analysis. The audit outcomes of 16 municipalities are included in this presentation as the audits of eight municipalities had not yet been completed by the 31 January 2020 cut-off date.

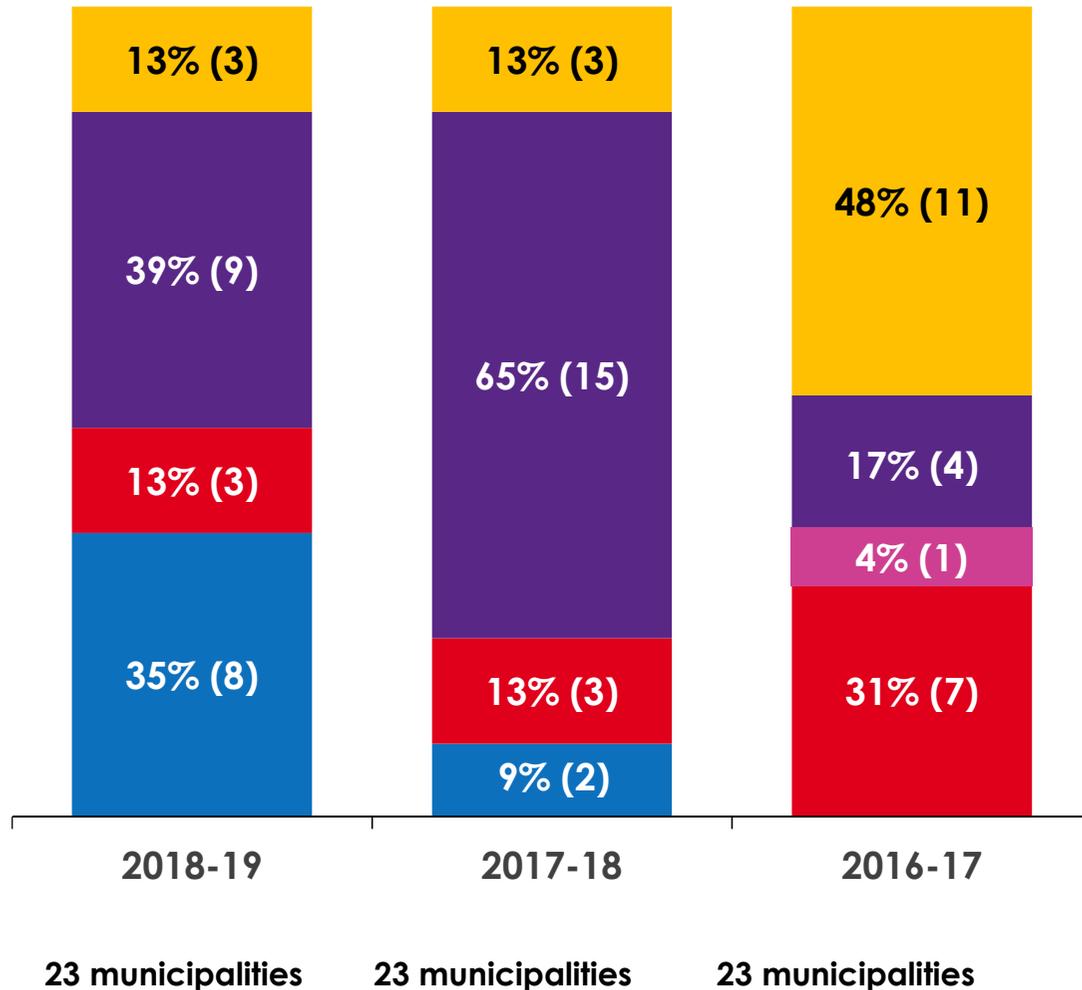
Audit outcomes are indicated as follows:



Movement from the previous year is depicted as follows:



Regression in municipal audit outcomes – All FS municipalities



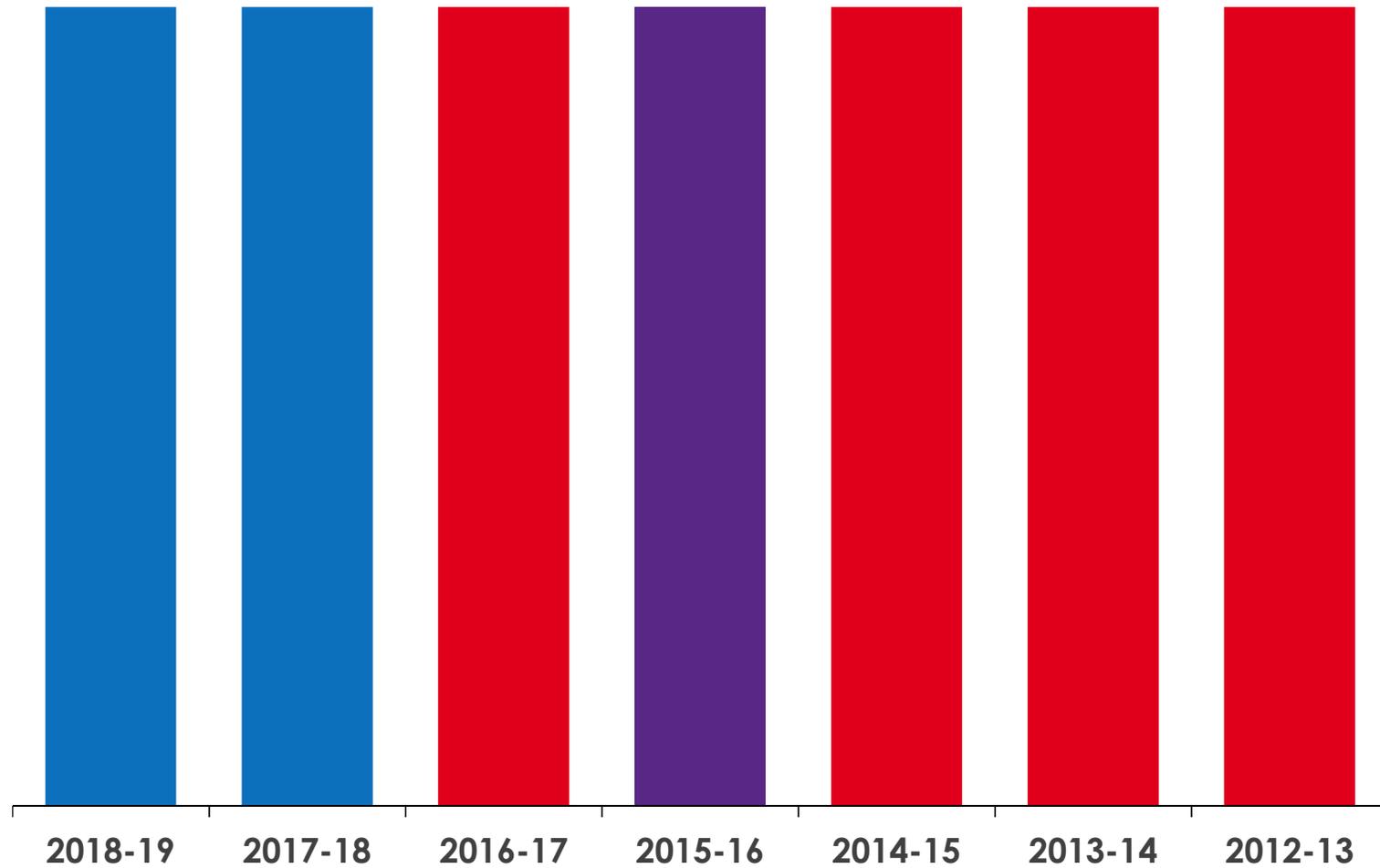
Audit outcomes – Maluti-A-Phofung	
2018-19	Annual financial statements (AFS) outstanding
2017-18	AFS submitted 6 February 2020
2016-17	Disclaimer
2015-16	Qualified
2014-15	Disclaimer
2013-14	Disclaimer
2012-13	Disclaimer

■ 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

Maluti-A-Phofung Local Municipality



Legend:
 ■ Unqualified with no findings (Green)
 ■ Unqualified with findings (Yellow)
 ■ Qualified with findings (Purple)
 ■ Adverse with findings (Pink)
 ■ Disclaimed with findings (Red)
 ■ Outstanding audits as at 31 January 2020 (Blue)



Status of annual financial statements

- The municipality's last audited set of financial statements was for **2016-17**.
- The **council did not prioritise** the preparation and submission of the financial statements for audit purposes and no official was held accountable.
- The 2017-18 financial statements was due on **31 August 2018**. The municipality submitted these financial statements on **6 February 2020** only.



Qualification areas: 2016-17

The municipality received a disclaimer of opinion for 2016-17 in the following areas:

- **Receivables from exchange transactions** – incorrect calculations for impairments. Furthermore, lack of sufficient appropriate audit evidence for the gross balances due to the status of the accounting records
- **VAT receivable** – lack of information to support adjustments made in the VAT account
- **Trade and other payables from exchange transactions** – transactions with a creditor relating to water purchases was not recognised in the financial statements. The municipality did not allocate payments made by identifiable debtors to the accounts of those debtors. Also sufficient appropriate audit evidence was not available for creditors at year-end owing to inadequate record management.



Qualification areas: 2016-17 (continued)

- **Property, plant and equipment** – lack of evidence that the useful lives and residual values were reviewed. Not all items of property, plant and equipment was recognised in terms of accounting principles. Immovable assets were not appropriately classified and incorrect location descriptions were used.
- **Service charges** – revenue from prepaid electricity was not recorded at the correct amount due to lack of review. Also, sufficient appropriate audit evidence was not available as the municipality did not have adequate systems of internal controls for reconciling prepaid electricity transactions with their vendors.
- **Employee related costs** – inadequate supporting documents for travel allowances, cell phone allowances, salaries of employees whose contracts have expired and overtime paid
- **General expenditure** – sufficient appropriate audit evidence was not available for journals passed owing to the status of accounting records
- **Commitments** – the municipality did not maintain adequate accounting records of capital expenditure



Section 139(1)(b) intervention

- Maluti-A-Phofung, is one of the municipalities where the provincial department of cooperative governance (CoGTA) intervened in terms of **section 139(1)(b) of the Constitution** in the Free State Province.
- At Maluti-a-Phofung, situated in Phuthaditjhaba in the Thabo Mofutsanyana district, there was significant political instability and the council did not have enough members to form a quorum.
- Council was unable to make the key decisions and provide the leadership and oversight required for the delivery of municipal services to the local community in a financially sustainable manner.
- There were a number of service delivery protests for electricity and water services due to their disrupted supply.
- Residents in Phuthaditjhaba did not have access to running water and they relied on water tanks for daily use.
- The municipality's assets were attached by some creditors, which intensified the challenges faced by the municipality.



Section 139(1)(b) intervention (continued)

- The municipal **employees had to be paid**, even though they could not work, as the tools of trade necessary to fulfil their job responsibilities were not available for a prolonged period.
- The municipality **did not implement controls for SCM**, resulting in significant irregular expenditure, especially the expenditure related to water distribution as it could not always be confirmed that water paid for was actually delivered.
- The municipality was placed under administration of the provincial government on **20 February 2018**.
- While the municipality was under the administration of provincial government, they were **still not able to provide services** to the community.
- This resulted in the municipality's administration being taken over by the national government on **23 August 2019**.
- With effect of **1 April 2020** yet another administrator from provincial government was appointed.



Section 139(1)(b) intervention (continued)

- Administrators had **not developed and implemented** sustainable systems and preventative controls. This lack of proper guidance resulted in Administrators **not being able to work effectively** with municipal officials.
- The efforts by provincial government to place Maluti-A-Phofung, under administration in terms of section 139 of the Constitution **did not yield any results.**



The usage of consultants for financial reporting did not result in improved quality of financial statements

- The management at the municipality did not invest in adequate preventative controls in the daily operations, which made it difficult for the municipality to maintain adequate record management systems.
- This resulted in the municipality relying on the consultants to prepare a credible set of financial statement for the 2016-17 financial year.
- Notwithstanding the municipality's investment in consultants to the tune of R20 million, no impact could be seen in the quality of the financial statements and performance reports submitted for auditing. During 2016-17, municipalities in the Free State spent R57 million on consultants for financial reporting (excluding Maluti-A-Phofung).



Supply chain management non-compliance is the main cause of irregular expenditure

- During 2016-17 Maluti-A-Phofung incurred irregular expenditure of R215 million. The balance disclosed in the financial statements was R430 million, which includes R215 million from prior years not being investigated by Council.
- Despite all the reporting done, the red flags raised and the many recommendations made for a number of years now, the municipality still implement uncompetitive and unfair procurement processes and do not monitor the performance of contractors on a monthly basis.
- The municipality does not prioritise irregular expenditure and proper investigations are not done.



Supply chain management non-compliance is the main cause of irregular expenditure *(continued)*

Non-compliance findings that were raised include:

- Goods and services procured without obtaining the required price quotations
- Some quotations accepted from prospective providers who were not on the list of accredited prospective providers
- Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state
- Procurement without inviting competitive bids
- Quotations and contracts awarded in the absence of proof that tax matters are in order
- Bid evaluation committee not always composed of required officials
- Preference point system not always applied
- Extensions or modification of contracts not always approved by delegated official
- Performance of contractors or providers not monitored on a monthly basis
- Contract performance and monitoring measures were insufficient
- Awards made to providers in service of other state institutions
- Officials with private or business interest in contracts awarded by the municipality did not always declare such interest
- Officials whose close family members had a private or business interest in contracts awarded by the municipality did not always declare such interest



Emphasis of matter

The municipality incurred material water distribution losses of 11 969 561 units and electricity distribution losses of 307 910 667 units mainly due to leakages, burst water pipes, line losses as well as tampering and theft.

Material losses to the amount of R644 078 398 were incurred as a result of allowance for impairment of consumer receivables.



Performance reporting

Material misstatements were identified in the annual performance report submitted for auditing. As management corrected only some, the following material findings on usefulness and reliability were included in the audit report:

- Supporting evidence provided did not agree to the reported achievement
- Source information and/or evidence for achieving planned indicators was not always clearly defined
- Systems and processes that enable reliable reporting of achievements were not adequately designed



Local government finance – the stark reality

The 2016-17 financial statements of Maluti-A-Phofung shows:

53257
28768
26090
90835

Income statement		Revenue	<ul style="list-style-type: none"> The total revenue (excluding equitable share and conditional grants) was R223,7 million, but not all is recoverable (see balance sheet) National government financed the municipality through equitable share grants of R635,1 million
		Expenditure	<ul style="list-style-type: none"> Salary and wages (including councillors remuneration) was R367,6 million Goods and services were procured, but the suppliers were not paid – the average creditors payment period was 696 days R515 million of expenditure was fruitless and wasteful, of which R265 million was incurred during 2016-17 R2,5 billion of expenditure was unauthorised, of which R820 million was incurred during 2016-17
		Net result	<ul style="list-style-type: none"> Maluti-A-Phofung had a R798,6 million deficit for 2016-17 (expenditure was more than revenue)
Balance sheet			<ul style="list-style-type: none"> The total creditors at year-end was R2,7 billion. The cash available at year - end was R9 million An average of 59% of municipal debtors are not recoverable. Debt collection was 261 days

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