



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

Mopani District Municipality

Improved audit outcomes – consultants driven

*Portfolio Committee on Co-operative Governance
and Traditional Affairs - 2 September 2020*



AUDITOR - GENERAL
SOUTH AFRICA

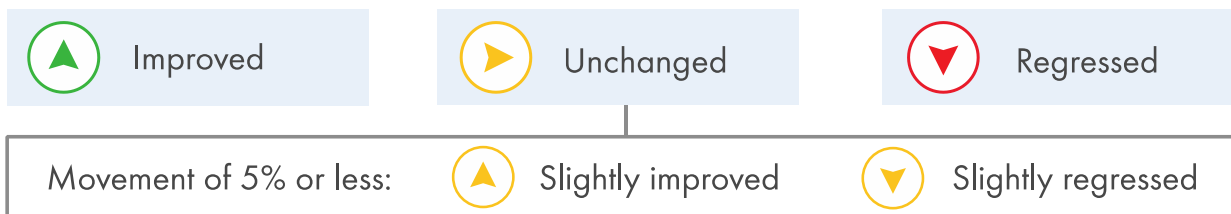
Important to note

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.

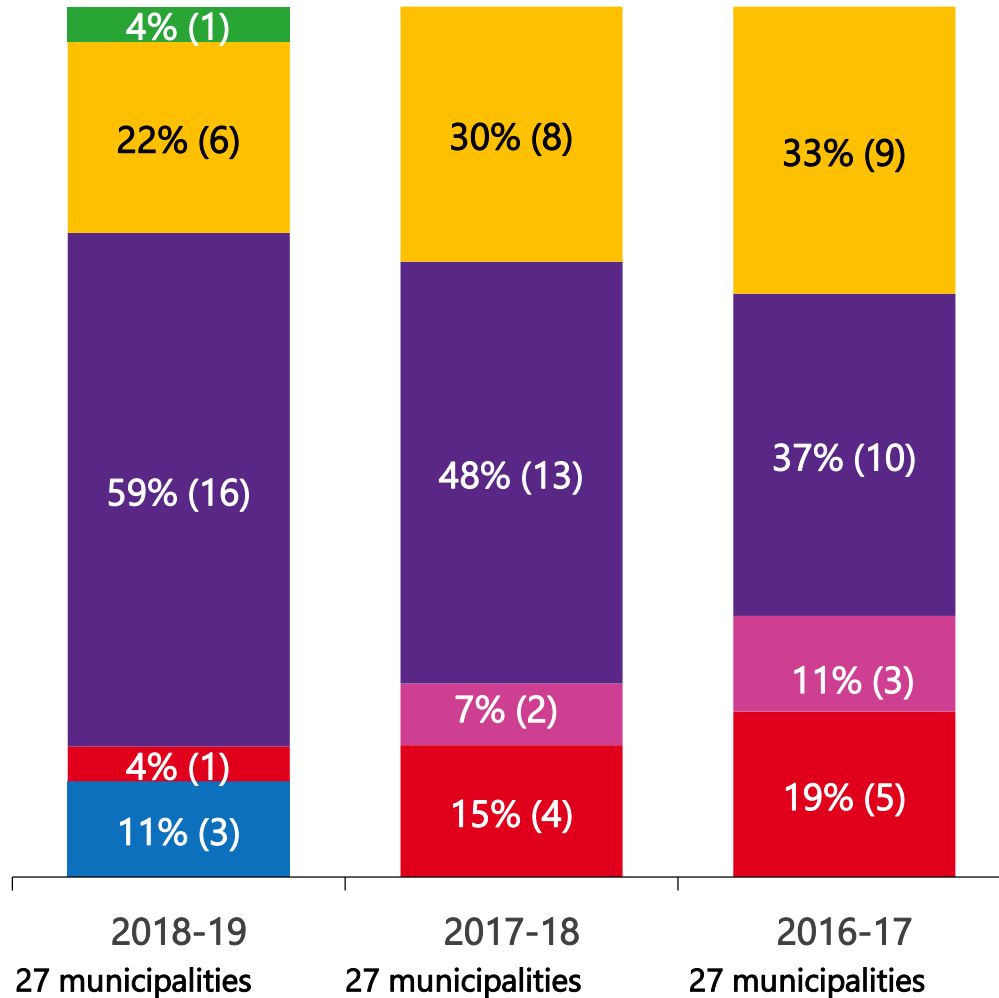
Audit outcomes are indicated as follows:



Movement from the previous year is depicted as follows:



Improvement in municipal audit outcomes – All municipalities LP



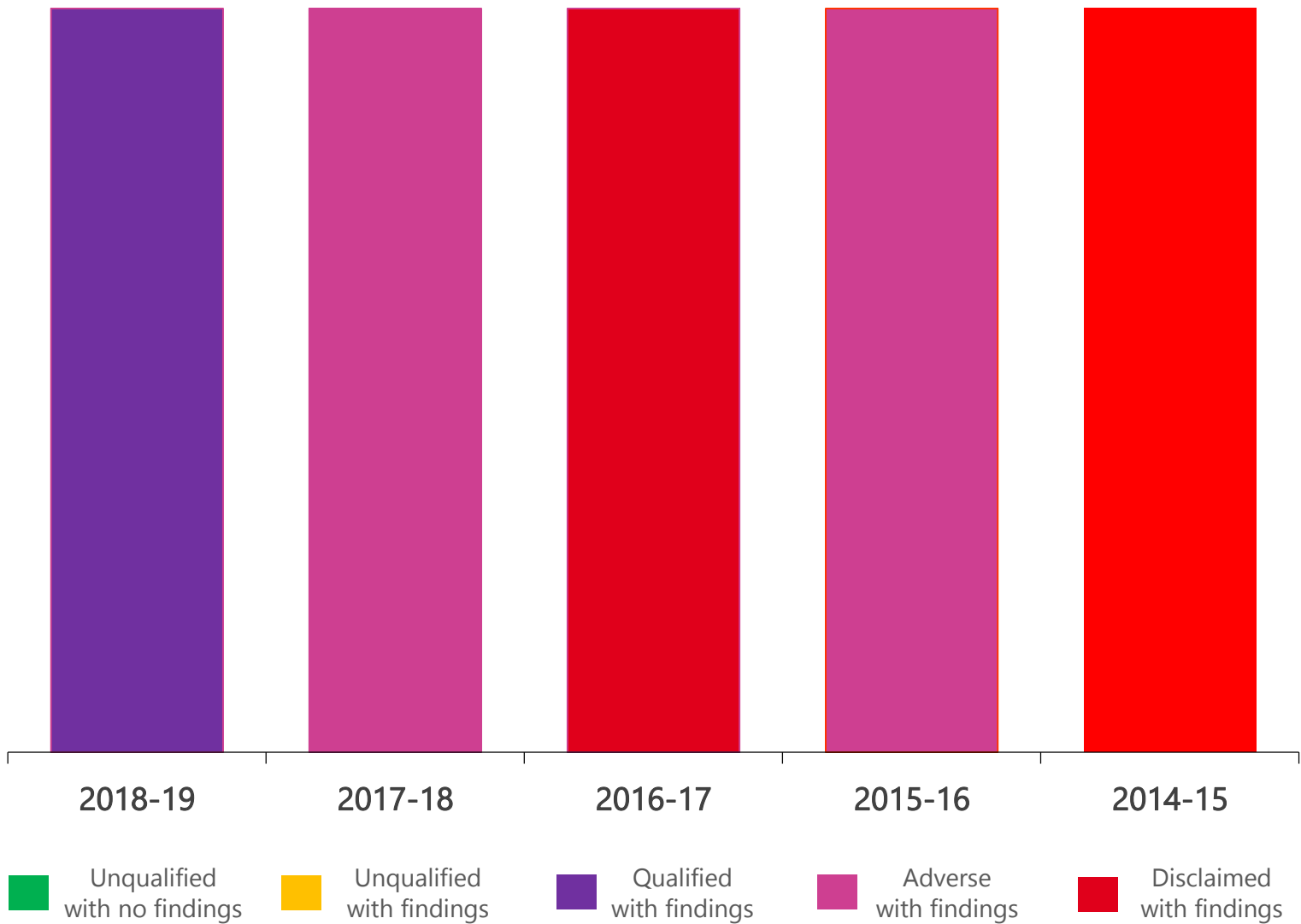
Audit outcomes – Mopani (four years of consecutive disclaimers/adverse)	
2018-19	Qualified
2017-18	Adverse
2016-17	Disclaimer
2015-16	Adverse
2014-15	Disclaimer

■ 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

Mopani District Municipality – Five years audit opinions reflection



Improved audit opinion

- The municipality improved its audit outcomes after continuous adverse and disclaimer opinions for the past four years.
- In the previous year, the Standing Committee on Public Accounts called the mayors and accounting officers of five struggling municipalities in the province to appear before them of which Mopani was one. They had to give reasons for the state of the municipality and present turnaround plans to improve audit outcomes. The strong oversight intervention had a positive impact but there are still challenges at the municipality.
- The internal control environment remains weak and requires more oversight intervention and a change in attitude by management and staff. Performance management and compliance management have been on a downward trend in contrast to an improvement on the financial statements.



The use of consultants

- Although the municipality's audit opinion improved, all the areas for which consultants were appointed were included as qualifications in the audit report. Consultants were not able to get these areas right because of inefficiencies on the part of the municipality to maintain adequate records and failure to adequately implement the audit action plan.
- Key positions in the finance department are filled but the municipality continuously require assistance of consultants. There was lack of ownership by municipal officials as consultants often took a leading role in the audit process.
- The expenditure per consultant is as follows:

Name of consultant	Nature of services	Paid by	R-value
MaxProf	VAT reconciliations and preparation of VAT returns	Municipality	28 228 983
Matseba Chartered Accountants	Preparation of financial statements	Municipality	3 287 363
ARMS	Updating the assets register	Municipality	2 554 906





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

Balance of unresolved irregular expenditure increased to **R710 million**

Annual irregular expenditure	2018-19	2017-18	2016-17
Irregular expenditure	R200,8 million	R79,9 million	R190,9 million

The reported irregular expenditure is based on the financial statements and therefore not a true reflection of the full extent of the irregular expenditure as the balance was qualified due to incomplete disclosure of irregular expenditure incurred.

- This can be attributed to the **weak tone and attitude of leadership**, and their **failure to entrench a culture of respecting** and **upholding** supply chain management laws and regulations.
- Some of the **leadership failures** are evident in the spending of the drought relief grant amounting to **R85 million** earmarked to relieve water shortages in drought stricken areas. As at 30 June 2020, **R57 million** of the grant was spent. There was no record of how contractors were appointed, in some instances payments were processed without any record of work done, some payments were processed based on directives from the former municipal manager's office without due expenditure management processes being followed. Some invoices were issued and paid prior to date of appointment. There were no processes in place to ensure that the grant was spent for its intended purpose. The grant was spent with **limited accountability**.



Continued...

- There is a need for council to be firm on the administration to ensure that laws are respected and that consequence management is implemented. MPAC need to be capacited to effectively discharge its oversight functions. More focus should be put on preventing irregular expenditure.



What do the financial statements say? The stark reality

53257
28760
26035

Income statement



Revenue

Total =
R1,7
billion

Of their total revenue of **R1,7 billion**, **R1,4 billion** (85%) was from grants (equitable share, other operational grants and conditional grants). Revenue from sale of water and sanitation amounted to **R186,8 million**. The district does not get any portion of the revenue from the local municipalities that are administering the function on its behalf.



Expenditure

Total =
R1,3
billion

The municipality spent **R172 million** for the year on the purchase of bulk water but did not get any return as reflected above.

It took on average **905 days** to pay suppliers.

Balance sheet



- **R978 million** of the consumer debtors of **R1,1 billion** (approximately 84% of all debts) was impaired, meaning that chances of recovery are low. Debt collection measures in place are ineffective.
- Current liabilities exceeded current assets by **R1 billion**. Cash reserves amounted to only **R162 million**.
- Debt due to Lepelle Northern Water and Department of Water and Sanitation for purchases of bulk water increased to about **R1 billion**. Interest and penalties incurred for the year on this amount amounted to **R60,9 million**. There is a payment arrangement in place for Lepelle however it is insufficient to address historical debt.



Shortcoming in maintenance of infrastructure and distribution losses

The municipality incurred **R125,4 million** in repairs and maintenance for 2018-19, while the carrying value of property, plant and equipment was **R5,6 billion (2.2%)**. The National Treasury norm is 8%. There is no maintenance plan in place.



Water losses amounted to **R41 million** (19%). The losses could not be verified due to lack of systems and records to support the recorded amount.

Water infrastructure, mostly boreholes amounting to **R45,7 million** was written off or impaired. Some of the boreholes were either dry or vandalised. There is no plan in place to deal with vandalism of infrastructure.

A significant number of infrastructure projects were running behind schedule.

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