



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

Lekwa Local Municipality

***Deteriorating accountability and financial
management coupled with weakened oversight***

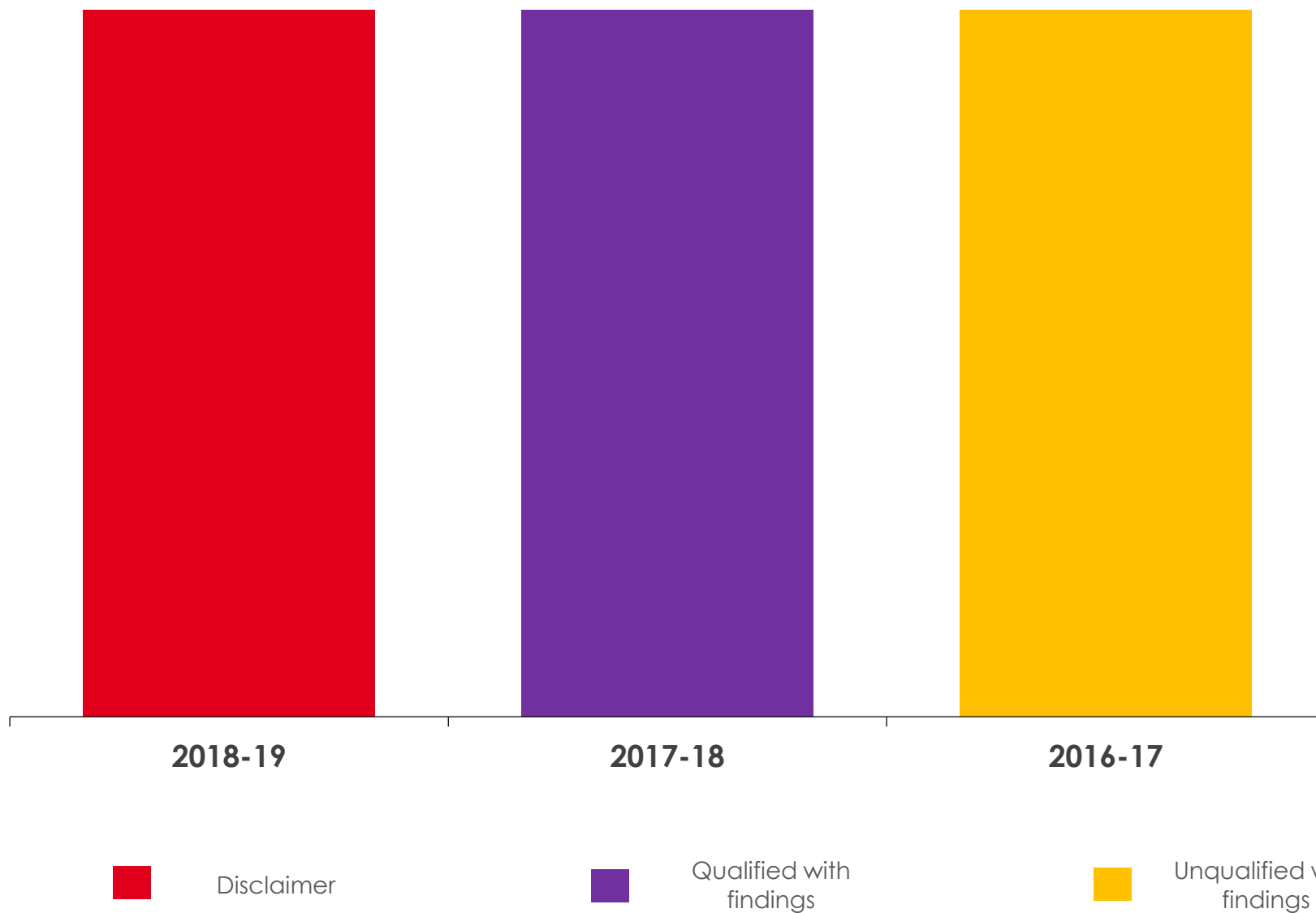
***Portfolio Committee on Co-operative Governance
and Traditional Affairs***

04 September 2020



AUDITOR-GENERAL
SOUTH AFRICA

Audit outcomes continue to regress



Preventative controls – the ultimate deterrent



Typical auditee business processes



Preventative controls



Material irregularity and poor audit outcomes

Consequences



Preventative controls – the principles that inform a solid internal control environment, are not in place or not effective

#	Internal control principle	Description
1	Separation of duties	Separating the preparer, reviewer and approver roles
2	Access controls	Limiting access to certain information and assets to specific individuals
3	Physical verification	Checking whether what is recorded in the books actually exists
4	Documentation standardisation and management	Ensuring that each transaction is supported by valid documents
5	Regular reporting	Updating the ledger and trial balances on a daily or weekly basis to provide regular insight into the state of the system, allowing management to discover and investigate discrepancies
6	Periodic reconciliations	To ensure that balances in the accounting system match up with balances in accounts held by other entities, including banks, suppliers and credit customers
7	Approval authority	Requiring specific managers to authorise certain types of transactions to add a layer of responsibility to accounting records by proving that transactions have been seen, analysed and approved by appropriate authorities

What has led to the ineffectiveness of the preventative controls for both is the instability of the control environment, characterised vacancies at critical levels and ineffectiveness of governance structures like internal audit and audit committees.



Quality of submitted financial statements – 2018/19

Material differences between the financial statements and supporting schedules were identified on the following items:

- Cash and cash equivalents
- Property, plant and equipment
- Payables from exchange transactions
- Receivables from exchange and non-exchange transactions
- Capital commitments
- Irregular expenditure not complete

Impact

Management placed reliance on preparations and review of AFS to the consultants – consultants only started in June 2019 (late appointment)

Reliance on external auditors is continuously used to pick up errors in the submitted AFS

Accountability and transparency are not enabled through credible financial reporting



Preventative controls that failed

Bank reconciliation was not performed throughout the year and final year-end bank recon was also not performed.

Assets physical verification was not performed during the year.

There was no in-year reporting and monitoring performed.

Senior management did not implement and monitor internal controls



Effective use of consultants – financial reporting services

Description	2018-19	2017-18	2016-17
Amount paid to financial reporting consultants	R3 581 881	R5 849 500	R8 454 655
Number of financial reporting consultants	1	1	1
Reason for use of consultants	Lack of skills and vacancies	Lack of skills	Lack of skills
Reason for material misstatements not prevented by use of consultants	Consultant appointed too late	Lack of records and documents	Poor project management (Material amendments made to AFS)

The municipality appointed consultants to manage the financial management of the municipality, update the fixed asset register and prepare the financial statements for 2018-19. Management did not monitor the work of consultants in a manner that would allow implementation of consequences for poor or non-performance. The acting CFO did not take accountability but delegated his responsibilities for the financial statements to the consultants. As a result, the municipal officials could not respond to the audit finding on material differences between the financial statements and supporting schedules.

Regarding the reconciling of bank statements, assets verifications to the accounting records, consultants acknowledged that this was not done properly during the year and there was nothing much they could have done at year end since they were appointed in June 2019.



Movement in UIF (unauthorised, irregular and fruitless and wasteful) expenditures

Description	Movement	Closing balance 2018-19	2018-19	2017-18	2016-17
Irregular expenditure	▲	R388,9 mil	R69,6 mil	R319,2 million	R228,2 million
Fruitless and wasteful expenditure	▲	R330,6 mil	R120,1 mil	R210,5 million	R132,9 million
Unauthorised expenditure	▶	R818,2 mil	R818,2 million	R89,7 mil	R728,5 million

Nature of the UIF expenditure

Description	Nature of the expenditure incurred
Irregular expenditure	<p>The irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation, as well as payments on multi-year irregular contracts.</p> <p>Due to limitation of scope, we could not determine whether all irregular expenditure incurred during the year has been disclosed.</p>
Fruitless and wasteful expenditure	<p>The fruitless and wasteful expenditure incurred was in respect of interest and penalties on late payment of suppliers</p>
Unauthorised expenditure	<p>The unauthorised expenditure incurred in previous years relates to overspending of the approved budget</p>





The municipality's latest audit outcome (2018-19) was a disclaimer of an audit opinion which is indicative of the fact that the information in the financial statements was not sufficiently reliable to allow for meaningful detailed financial viability analysis. As a result, the following financial viability assessment focus areas could not be performed:

- **Revenue management**

- i.e. debt collection period and impairment of debtors' assessment

- **Expenditure management**

- i.e. creditors' payment period assessment

- **Assets and liabilities management**

- i.e. net asset, acid test ratio and net surplus/(deficit) assessment

- **Cash management**

- i.e. liquidity assessment

Intervention as provided for in terms of Section 139(5) (a) of the Constitution

The Executive Council of Mpumalanga Provincial Government intervened and resolved on a mandatory intervention as provided for in terms of Section 139(5) (a) of the Constitution, to provide support to Lekwa Local Municipality through PT and CoGTA's programme

The following six (6) strategies were identified and outlined in the Plan to effect a turnaround of the Municipality:

- Strategy One: Strengthening Administration, Governance and Internal Controls;
- Strategy Two: Organisational Restructuring and Human Resources Management;
- Strategy Three: Economic Development;
- Strategy Four: Revenue Management and Enhancement;
- Strategy Five: Improved Financial Planning/ Budgeting and Management (Including Cashflow Management); and
- Strategy Six: Service Delivery and Infrastructure Development and Management.

The key strategies and activities outlined needed to be implemented in:

- Short term (current to 31 December 2019);
- Medium term (up to 30 June 2020); and
- Long term (up to 30 June 2021 and beyond), to address the challenges faced by the municipality and to follow a path of financial and service delivery recovery and sustainability.

We raised our concern to the province in relation to the slow pace and impact of these interventions

Stay in touch with the AGSA



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa