



Local government audit outcomes

MFMA

**Mangaung Metropolitan Municipality
2018-19 audit outcomes**

Portfolio Committee on Co-operative Governance and Traditional Affairs

24 November 2020



AUDITOR-GENERAL
SOUTH AFRICA

Reputation promise

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

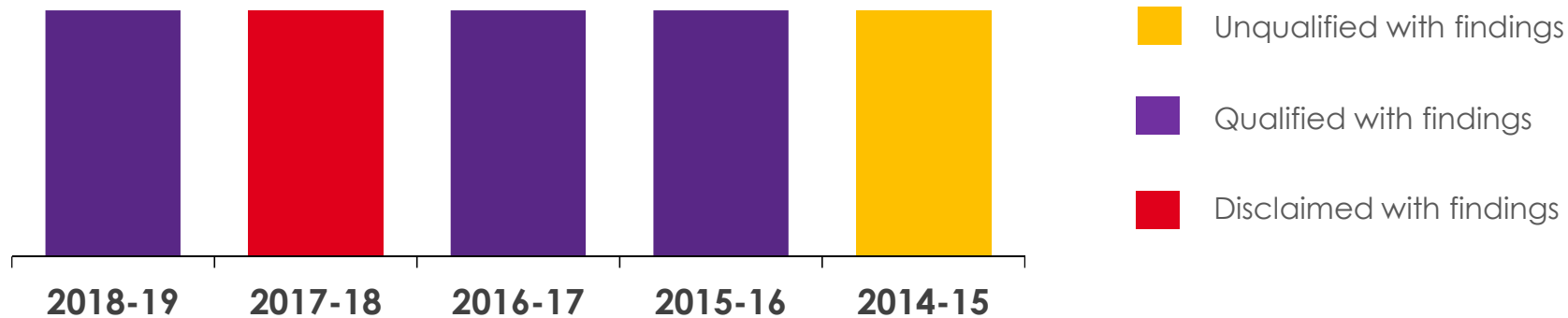


Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities in the Free State Provincial Government.



Improvement in audit outcomes



The metro's audit outcome improved from a disclaimer in the 2017-18 year to a qualified opinion in the 2018-19 year. The disagreement between the metro and its entity relating to the treatment of Centlec receivables and Centlec intercompany loan resulted in a disclaimer of opinion in the prior year, which was resolved in 2018-19.

The basis for qualification was a lack of preventative controls as similar qualification areas recurred from the previous year.

During 2018-19 oversight did not fulfil their duties of holding the administration accountable. The city manager failed to exercise his authority to hold senior managers accountable for poor performance.



Qualification areas

The municipality received a qualified opinion for 2018-19 in the following areas:

- **Payables from exchange transactions** – sufficient appropriate audit evidence for accrued leave pay was not available as management could not provide support for the accrued leave due to the status of the accounting records in relation to leave.
- **Employee benefit obligation** – during 2018, the municipality did not value the employee benefit obligation in accordance with financial standards, which also impacted on 2018-19
- **Fines, penalties and forfeits** – the municipality did not account for all fines revenue due to an inadequate system of internal control for the accurate record keeping of fines by the municipality.
- **Irregular expenditure** – not all instances of irregular expenditure were disclosed in the financial statements.



Provincial intervention in local government

- Section 139 (5) (a) and (c) of the South African Constitution is applicable which is in essence to support Mangaung with its financial recovery plan.
- The intervention was applicable from January 2020.
- The team will be led by Adv. Mzwakhe Mofokeng as the Free State EXCO representative.
- The administrative team is comprised of the following two members:
 - Adv. Mzwakhe Mofokeng – Office of the Premier
 - Thomas Lindelo Mkaza – Vast experience in local government



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

- Material misstatements were identified or findings were raised by the auditors on the work performed by the consultant or in areas of the consultants' responsibilities
- The work of the consultant was not monitored by a staff member who is sufficiently senior and had the relevant skills/ experience to ensure that work is performed and the progress made is effective.
- There is no evidence of formal skills transfer.



Credible performance reporting

Material misstatements were again identified in the annual performance report submitted for auditing. The findings below were included in the audit report:

- The reported achievements in the annual performance report were not consistent with the planned indicators and targets approved in the service delivery and budget implementation plan.
- The measures taken to improve performance against targets did not include the comparison between the previous year's actual, planned and achieved targets in the annual performance report.
- The system and processes that enable reliable reporting of the achievement against the indicator were not adequately designed, as they could provide information relating to the 2018-19 financial year only.
- Sufficient appropriate audit evidence was not available to clearly define the predetermined source information and method of collection to be used when measuring the actual achievement for certain indicators. This was due to lack of formal standard operating procedures or documented system descriptions.
- Sufficient appropriate audit evidence was not available for the reported achievements of certain indicators.
- The municipality did not have an adequate record keeping system to enable reliable reporting on the achievement of all indicators.



Disregard for compliance with legislation

Non-compliance areas:

- Annual financial statements and annual report – material misstatements were identified and corrected during the audit relating to non-current assets, current assets, liabilities, expenditure and disclosure items.
- Expenditure management – creditors not paid within 30 days, expenditure not recognised when it occurred, and reasonable steps not taken to prevent UIFWE.
- Revenue management – an effective system of internal control for fines revenue was not in place
- Procurement and contract management – non-compliance with various supply chain management regulations, the Preferential Procurement Policy Framework as well as the Preferential Procurement Regulations.
- Human resource management – sufficient appropriate audit evidence not available to confirm whether senior managers appointed had previously been dismissed for financial misconduct; appropriate systems and procedures to monitor, measure and evaluate staff performance were not developed and adopted.
- Conditional grants – certain grants were not spent for its intended purposes.
- Consequence management – some irregular as well as fruitless and wasteful expenditure were not investigated.



Grant management

Details	Urban Settlement Development Grant	Public transport infrastructure and network systems grant	Municipal Disaster Grant
Amount spent (percentage funds spent)	R785 million (69%)	R263 million (77%)	R239 million (58%)
Underspending by more than 10%	Yes	Yes	Yes
Used for intended purposes	No	No	No

Other grant utilisation findings:

- Unspent conditional grants, namely the urban settlement development grant, the municipal disaster recovery grant and the public transport network grant, were utilised to fund operational activities, which had a negative impact on infrastructure development. As a result of this as well as low repairs and maintenance expenditure, the municipality incurred water distribution losses of R187 million.
- Findings on the procurement of goods and services for the projects listed under the Public Transport Infrastructure Grant were reported.



Emphasis of matter

- Material losses of R349 974 014 (2018: R70 380 966) were incurred as a result of a write-off of consumer and other trade debtors.
- Material water distribution losses of R186 748 463 (2018: R266 368 991) were incurred. This was mainly due to technical losses, burst water pipes, leakages, faulty meters and unmetered sites.
- Consumer and other receivables were impaired by R3 373 376 111 (2018: R2 875 352 522) as a result of uncollectable debt.



Service delivery

- The municipality is part of the national process driven by the national Department of Transport to develop an integrated transport network in the metropolitan areas. The municipality has developed and approved an operational plan for phase one of the integrated public transport network (IPTN) that covers the period 2016 to 2020. Since commencement of the process, the municipality has spent R435 653 265 on planning and feasibility studies and R43 300 500 for the initial stages of the construction process of the project for phase one, which included construction of certain roads and a bus depot in the current year. The project is being done in phases and is taking significantly longer than expected.
- In 2012-13, the municipality started with the planning and establishment of the airport development (N8) node to establish a new township development area. Since the commencement of this project, the municipality has spent R142 839 754 on the planning and establishment costs. In the previous year and the year under review, there's been some progress as the land survey was completed and approval for the township establishment has been obtained from the Mangaung Municipal Planning Tribunal. However, this project has been negatively affected as it is taking significantly longer than expected.



Unauthorised expenditure increased over two years

Definition *Expenditure not in accordance with the budget or/and overspending of budget or programme*

Unauthorised expenditure incurred by Mangaung Metro

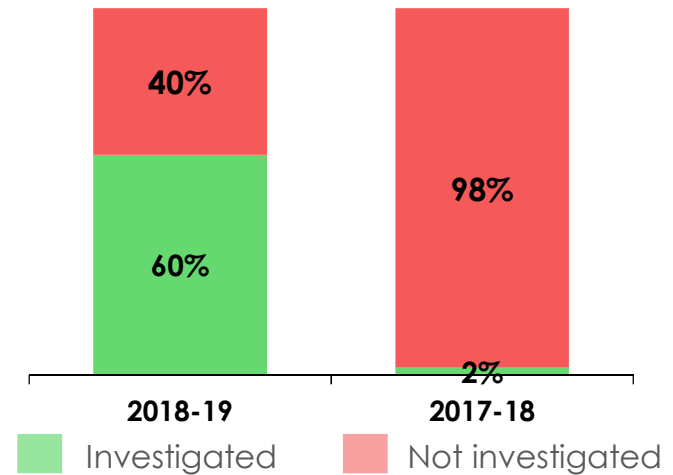


2018-19 2017-18

Nature of unauthorised expenditure

- Unauthorised expenditure relates to overspending of the approved budget.

Previous year unauthorised expenditure reported for investigation



Irregular expenditure increased over two years

Definition

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

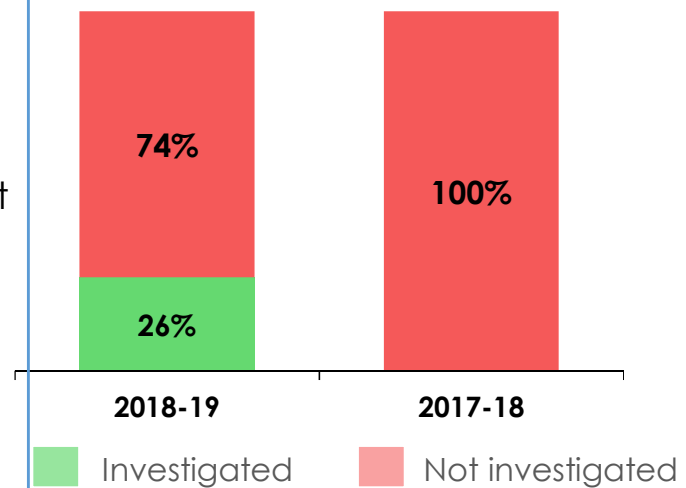
Irregular expenditure incurred by entities in portfolio



Nature of irregular expenditure

- Irregular expenditure totalling R222 million was as a result of non-compliance with supply chain management regulations.
 - Irregular expenditure totaling R276 million was as a result of service provider's contracts extended without council approval.
 - Expenditure in contravention of Section 33 of DORA amounted to R345 million.
- It should be noted that all the irregular expenditure identified by the auditors was not disclosed which resulted in a Qualification on the completeness of irregular expenditure.*

Previous year irregular expenditure reported for investigation

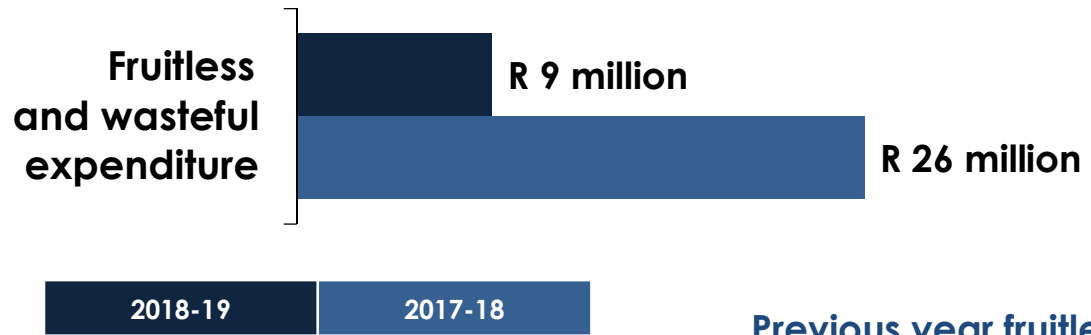


Fruitless and wasteful expenditure decreased over two years

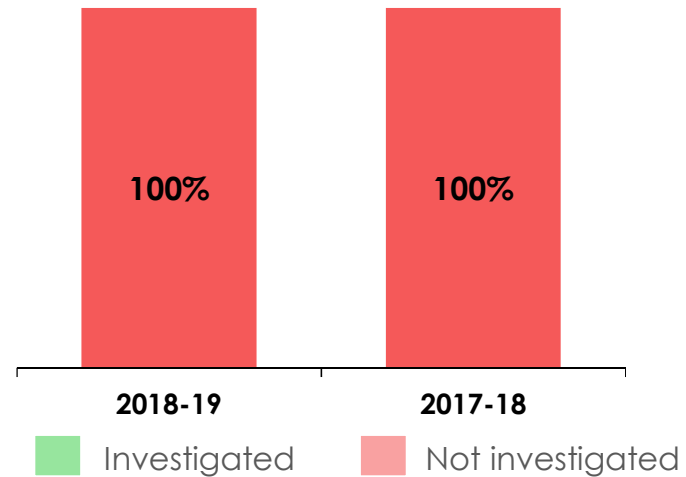
Definition

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken – no value for money!

Fruitless and wasteful expenditure incurred by entities in portfolio



Previous year fruitless and wasteful expenditure reported for investigation



Nature of fruitless and wasteful expenditure

- Fruitless and wasteful expenditure to the amount of R5,2 million incurred due to interest on late payments.
- Fruitless and wasteful expenditure to the amount of R3,7 million incurred due to payments made to suppliers where the work was not as per the required standard.



Supply chain management (SCM)

Stagnation in SCM compliance

Most common SCM findings:

- Quotations were not always obtained.
- Lack of audit evidence: Contracts were awarded without required declarations on whether the bidders were employed by the state or connected to any person employed by the state.
- Lack of audit evidence: That the bidders tax matters had been declared by the South African Revenue Service to be in order.
- Uncompetitive and unfair procurement processes.
- Bid adjudication committee that was not composed in accordance with SCM regulation
- Some construction contracts were awarded to a contractor that did not qualify for the contract.
- Bid documentation for Local content was inadequate.
- Contract performance and monitoring measures and methods were not sufficient to ensure effective contract management.



Root causes

Slow or no response to improving key controls and addressing risk areas

Management (accounting officer and senior management), the political leadership (executive authorities) and oversight bodies (MPAC) do not respond with the required urgency to our messages about addressing risks and improving internal controls

Inadequate consequences for poor performance and transgressions

If officials who deliberately or negligently ignore their duties and contravene legislation are not held accountable for their actions, such behaviour can be seen as acceptable and tolerated.





Vacancies, instabilities and competencies

There had been a level of instability in the finance unit since the resignation of the CFO in 2018. This resulted in the metro relying heavily on an individual that had been appointed on a temporary/fixed-term contract for all matters related to the financial statements. The practice of overreliance on one individual was common in the metro as it is also applied in asset management, revenue management and SCM. The risk of over-reliance was shown when the applicable person in the SCM unit was transferred to another section within the municipality, which resulted in increased instances of material non-compliance with procurement legislation included in the audit report, as well as the magnitude of irregular expenditure. The over-reliance on certain individuals was a high risk for the metro as it disabled the basic principle of segregation of duties. It also hampered the institutionalisation of preventative internal controls, thus not ensuring the sustainability of the institution, in the event that the official resigned or was promoted.



Finances – the stark reality

53257
28768
260935

Income statement		Revenue <ul style="list-style-type: none"> The total revenue (excluding equitable share and conditional grants) was R3 144 million, but not all is recoverable (see balance sheet) National government financed the municipality through grants and subsidies of R1 871 million
		Expenditure <ul style="list-style-type: none"> Salary and wages (including councillors remuneration) was R1 761 million Goods and services were procured, but the suppliers were not paid – the average creditors payment period was 181 days R8,9 million of expenditure was fruitless and wasteful R1 364 million of expenditure was unauthorised
		Net result <ul style="list-style-type: none"> Net asset position of R13 479 million
Balance sheet		<ul style="list-style-type: none"> The total creditors at year-end was R862 million. The cash available at year-end was R114 million An average of 69% of municipal debtors are not recoverable. Debt collection was 314 days

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