



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

City of Matlosana

***Systemic breakdown in the discipline of
financial controls***

***Portfolio Committee on Co-operative Governance
and Traditional Affairs - 25 November 2020***



AUDITOR-GENERAL
SOUTH AFRICA

Our reputation promise/mission

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

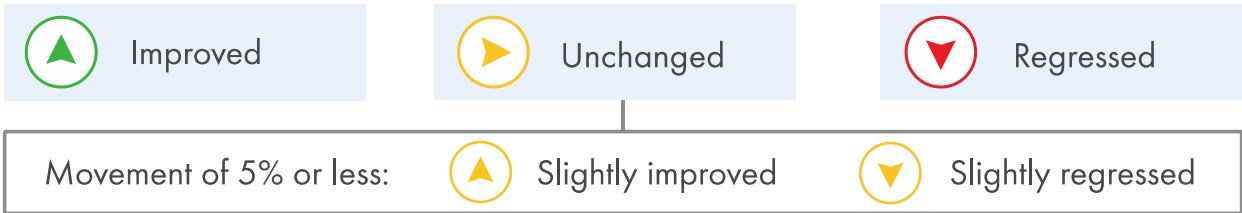


Important to note

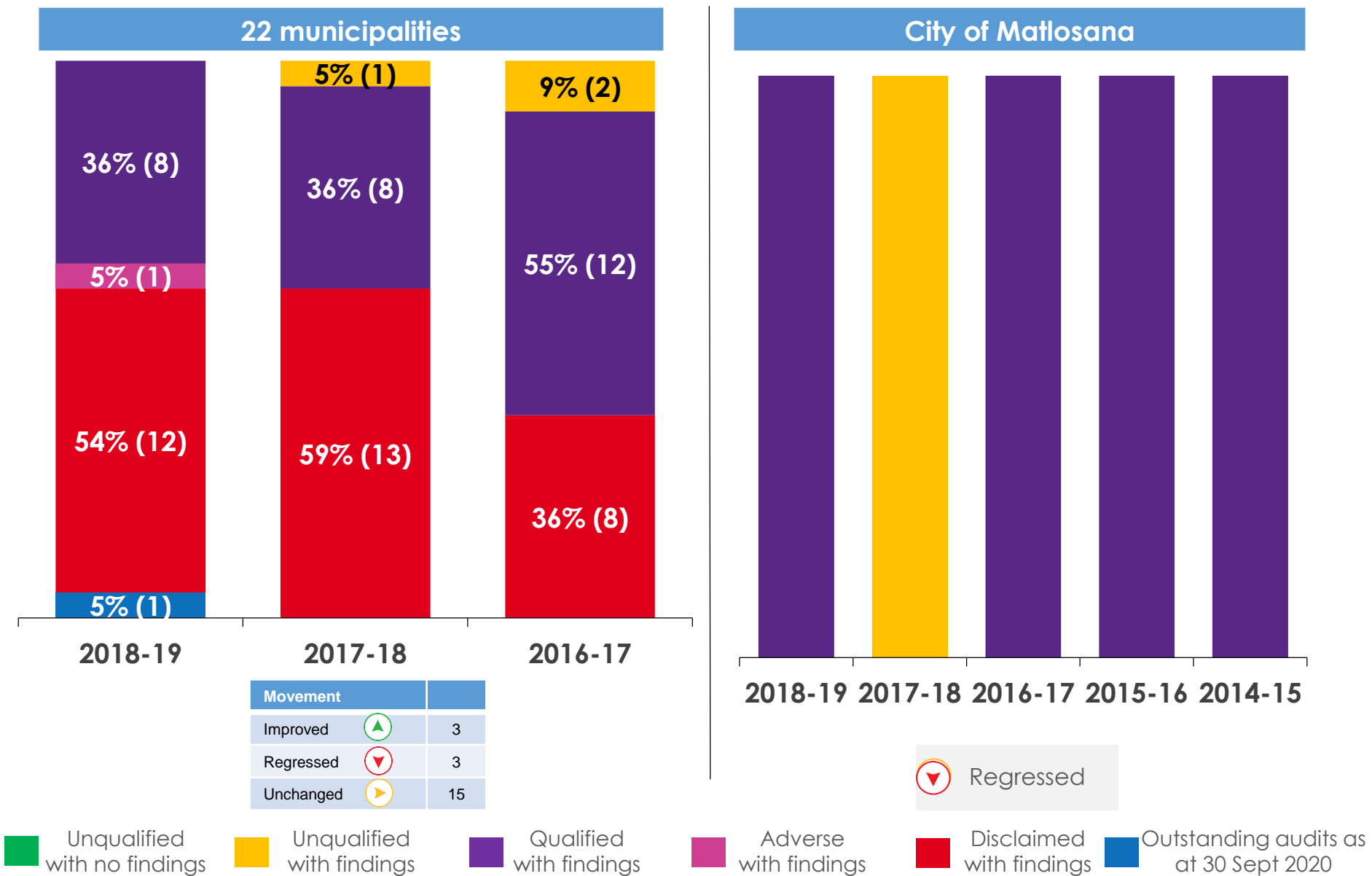
Audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Outstanding audits

Movement from the previous year is depicted as follows:



Stagnation in municipal audit outcomes



What does the financial statements say? The stark reality

53257
28760
26035

Income statement



Revenue

- **Equitable share** of **R392,9 million** (2017-18: R354,4 million) and **conditional grants** of **R174,2 million** (2017-18: R183,5 million)
- **Revenue** of **R2,4 billion** (2017-18: R2,1 billion) was generated from billing



Expenditure

- **Salary and wages** (including councillors remuneration) of **R669,8 million** (2017-18: R612,6 million)
- **Average supplier payment period** of **358 days** (2017-18: 291 days)
- **Fruitless and wasteful expenditure** of **R68,3 million** (2017-18: R52,2 million)



Net result

- The municipality incurred a deficit (expenses exceeded revenue) of **R300 million** for the year

Balance sheet



- The municipality had a significant problem in terms of debt collection with approximately **R2,6 billion** (87% of all debt) being impaired due to it being unlikely to be collected.
- This resulted in cash not being available to pay suppliers as is evident from the payables increasing to **R1,3 billion** in 2018-19. Included in these payables were arrears amounts due to Eskom of **R324,8 million and R375 million** to bulk water providers.
- The municipality is therefore increasingly dependent on conditional grants to pay operational expenses including salaries of R669,8 million. This is further evident in the municipality only spending **71% (R174,2 million)** of the R246,3 million grants received during the year resulting in **29% underspending**.
- The most significant underspending was on the Municipal Infrastructure Grant (MIG) and the Neighbourhood Development Partnership Grant (NDP) of **R51,5m and R22,5m** respectively. This highlights the significant impact of the cash flow constraints on service delivery as the municipality are unable to spend the grants on the projects it was intended for.

Declining financial health and losses

53257
53257
28760
28760
260835
260835

What the numbers say



Creditor payment longer than 30 days

Yes

Deficit identified (expenses exceed revenue)

Yes

Municipalities in vulnerable financial position

Yes



The average payment period was **358 days** – affecting the sustainability of suppliers



The aging infrastructure contributed to **water and electricity distribution losses** incurred by the municipality:

- The **total water distribution losses** for the year amounted to **R131,5 million - 41%** (2017-18: R111,8 million - 39%). These losses were **in excess of the norm of 15% - 30%**.
- The **total electricity distribution losses** for the year amounted to **R175,1 million - 26%** (2017-18: R74,8 million - 16%). These losses were also **in excess of the norm of 7% - 10%**.
- National Treasury's norm for maintenance of infrastructure assets is **8% of the carrying value of infrastructure assets**. Using this norm the municipality only incurred **R92,6 million** (2017-18: R86,9 million) on maintenance which equates **to only 2.1%** (2017-18: 1.9%) of their infrastructure assets.

These losses are not affordable given the huge outstanding amounts for bulk services such as water and electricity:

Municipality	Total amounts owed (as at June 2019)	Total amounts in arrears (i.e. 31 days and over)
Electricity (ESKOM)	R406,8 million	R324,8 million
Water (Midvaal)	R407,9 million	R375,0 million





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

Annual irregular expenditure **decreased** from R355,8 million to R248,7 million

**Analyses of irregular expenditure:
R248,7 million (2017-18: R355,8 million)**

Movement

2018-19

Payments or expenses in 2018-19



R242,4 million

97%

Represents non-compliance in 2018-19



R242,4 million

100%

Expenditure on ongoing multi-year contracts



R0 million

0%

Payments or expenses in previous years only uncovered and disclosed in 2018-19



R6,3 million

3%

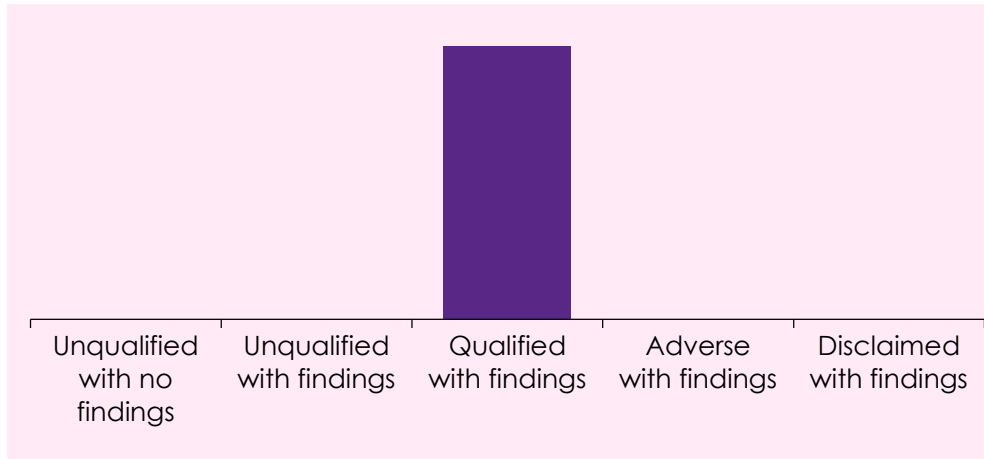
The balance of unresolved irregular expenditure is **R2,9 billion**

Annual irregular expenditure	2018-19	2017-18	2016-17
Irregular expenditure	R248,7 million	R355,8 million	R311,0 million

The root causes for the irregular expenditure incurred, related to bid adjudication committees that were not properly constituted, unfair procurement processes, inadequate contract management, Regulation 32 appointments and non disclosure of interest in suppliers.



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



REASONS WHY CONSULTANTS WERE INEFFECTIVE:

AUDITEE INEFFECTIVENESS

Matlosana's financial statements submitted for audit included material misstatements in the area in which consultants did work.

Consultant costs for financial reporting:

Municipality	Financial reporting cost paid by municipality	Financial reporting cost paid by others	Cost of finance unit salaries	Total cost of financial reporting	Staff complement of Finance units
Matlosana	R14,1 million	R0,9 million	R98,9 million	R113,9 million	216 positions

- There was **also instability at chief financial officer level** during the financial year as a substantive CFO was not appointed at year end.
- Consultants were appointed to perform work of a **permanent/continuous nature for which permanent capacity is needed** and no formal attempts were made to create the required skills in the establishment.
- **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. Some of the misstatements were subsequently corrected. Furthermore, the municipality did not also **implement adequate systems to reconcile and monitor all transactions** related to the **fresh produce market bank account**.

Instances of lack of accountability

Financial losses due unreconciled bank account of the market

- The municipality did not **implement adequate systems to reconcile and monitor all transactions** related to the **fresh produce market bank account** which resulted in a receivable R21 913 544 (2018: R10 221 337) disclosed in the financial statements which **was not supported by sufficient appropriate audit evidence**.

Consequence management

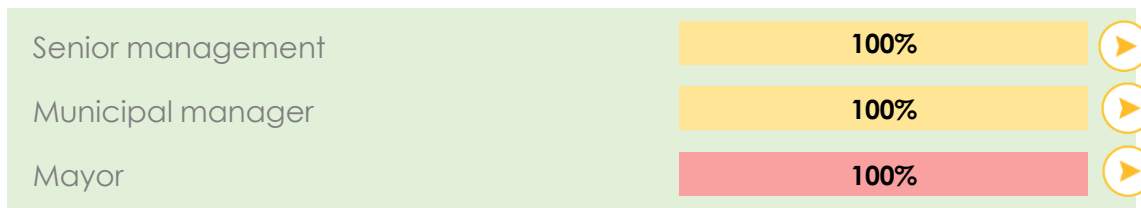
- Unauthorised, irregular and fruitless and wasteful** expenditure from previous years **was not investigated** to determine whether losses were incurred and/or whether any official is liable for the resultant losses where applicable as required by the MFMA.

Impact on service delivery

- Public funds should be used to provide services to the community** and these instances are clear examples 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**. We remain concerned by this lack of action and the continued disregard of our recommendations as all the **waste water treatment plants condition assessment** were assessed as **critical**.

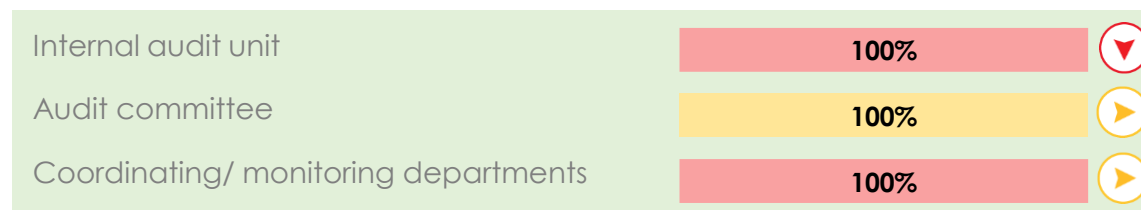
Preventative controls cannot work effectively if all assurance providers are not playing their role

ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP



- Management **non-responsive to audit messages** to address risks and improve internal control.
- **Vacancies and instability** in CFO role and lack of skills within the finance unit

INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT



- The unit had **inadequate resources** which resulted in only **42%** of the planned internal audits **being completed**
- Management **non-responsive** to their recommendations.

EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT



- Limited **progress in investigations of irregular , unauthorised and fruitless and wasteful expenditure**
- Lack of **political will** to effect **consequences** for historical **UIFW**.

Overall the key role players of the combined assurance model especially senior management and municipal managers **are not at the desired level** in responding to recommendations. To reverse the negative trajectory of audit outcomes, **preventative controls needs to be developed, implemented and monitored** in all aspects of financial and performance management.



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