

Amathole District



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.



District Overview 2018-19



5 Year Audit Outcomes

Auditee	Audit outcome 2018-19		Audit outcome 2017-18		Audit outcome 2016-17		Audit outcome 2015-16		Audit outcome 2014-15	
	Audit opinion	PDO Compliance	Audit opinion	PDO Compliance	Audit opinion	PDO Compliance	Audit opinion	PDO Compliance	Audit opinion	PDO Compliance
Amathole District	Disclaimer		Qualified		Qualified		Unqualified with findings		Unqualified with findings	
Amahlati	Qualified		Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings	
Great Kei	Disclaimer		Unqualified with findings		Unqualified with findings		Unqualified with findings		Qualified	
Mbhashe	Unqualified with findings		Unqualified with findings		Unqualified with findings		Unqualified with findings		Qualified	
Mnquma	Qualified		Adverse		Disclaimer		Unqualified with findings		Qualified	
Ngqushwa	Qualified		Unqualified with findings		Unqualified with findings		Qualified		Qualified	
Raymond Mhlaba	Qualified		Unqualified with findings		Unqualified with findings		New auditee		New auditee	



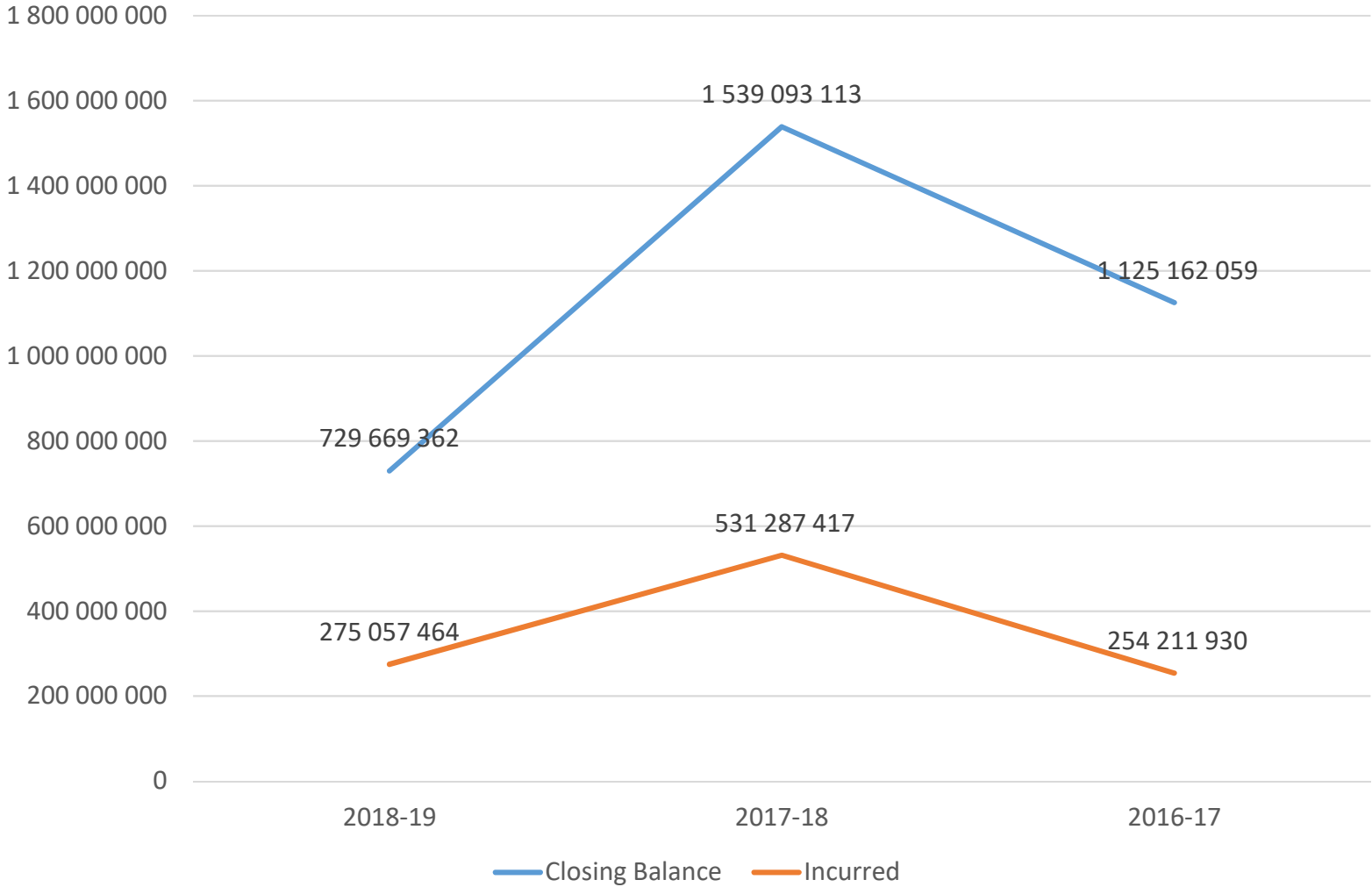
Movement table (2018-19 over 2017-18)

	Improved 1	Unchanged 1	Regressed 5
Unqualified with no findings			
Unqualified with findings = 1		Mbhashe	
Qualified with findings = 4	Mnquma		Raymond Mhlaba Amahlati Ngqushwa
Disclaimed with findings = 2			Amathole District Great Kei



Colour of the indicates the audit opinion from which the auditee has moved.

Irregular Expenditure as at 2018-19

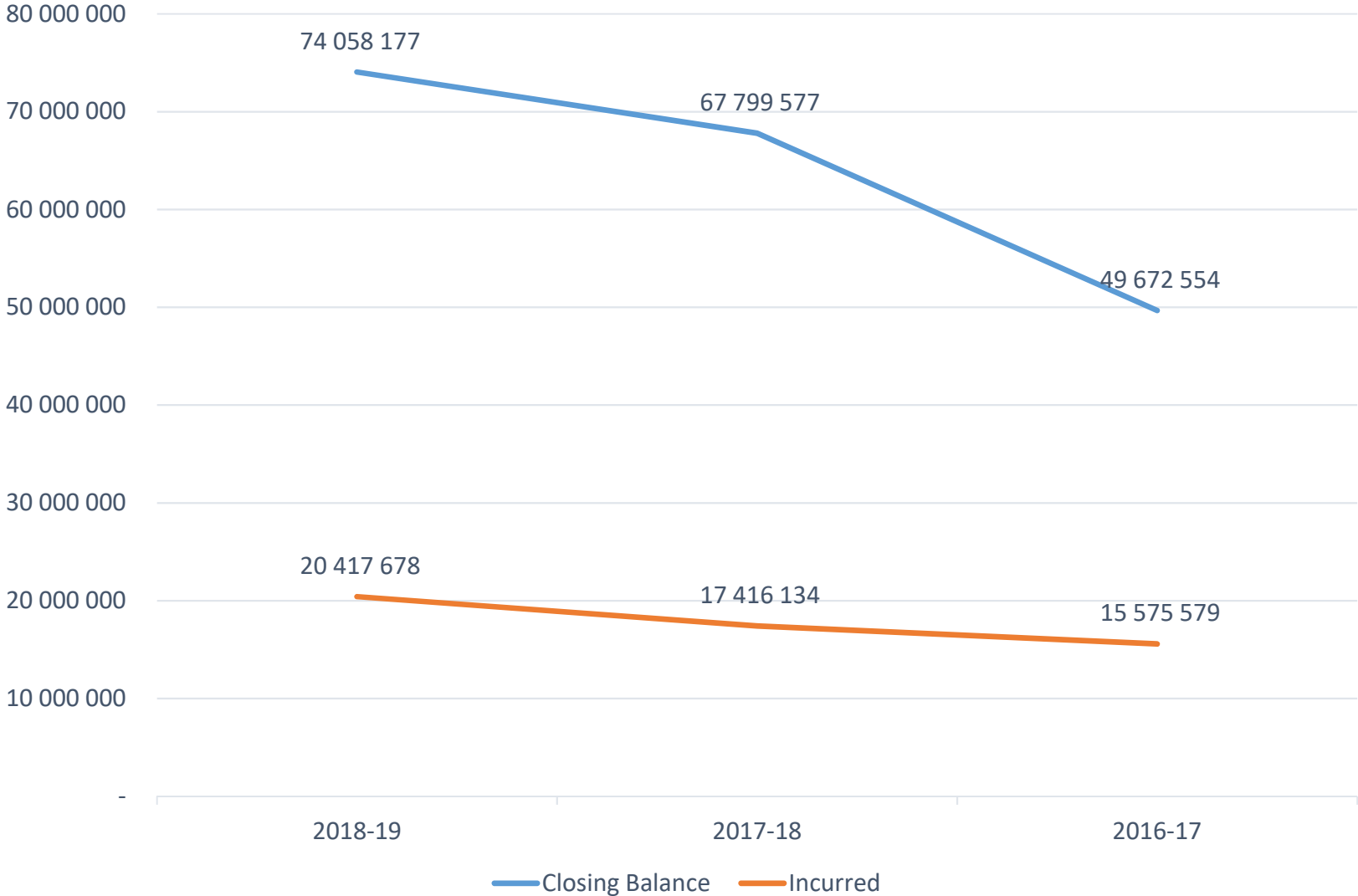


Irregular Expenditure 2018-19

Auditee	Irregular Expenditure					
	Opening Balance	Current	Condoned by relevant authority	Irregular expenditure recovered/ transferred to receivables for recovery	Written off as Irrecoverable	Current year closing balance
Amathole District	118 080 376	125 229 588	-	-	-	243 309 964
Amahlati	59 973 747	13 134 855	-	-	-	73 108 602
Great Kei	16 692 776	77 000	-	-	5 927 797	10 841 979
Mbhashe	539 029 658	90 622 833	-	-	617 292 166	12 360 325
Mnquma	471 389 885	21 909 109	-	-	461 261 252	32 037 742
Ngqushwa	97 342 978	23 369 342	-	-	-	120 712 320
Raymond Mhlaba	236 583 693	714 737	-	-	-	237 298 430



Fruitless and Wasteful Expenditure as at 2018-19

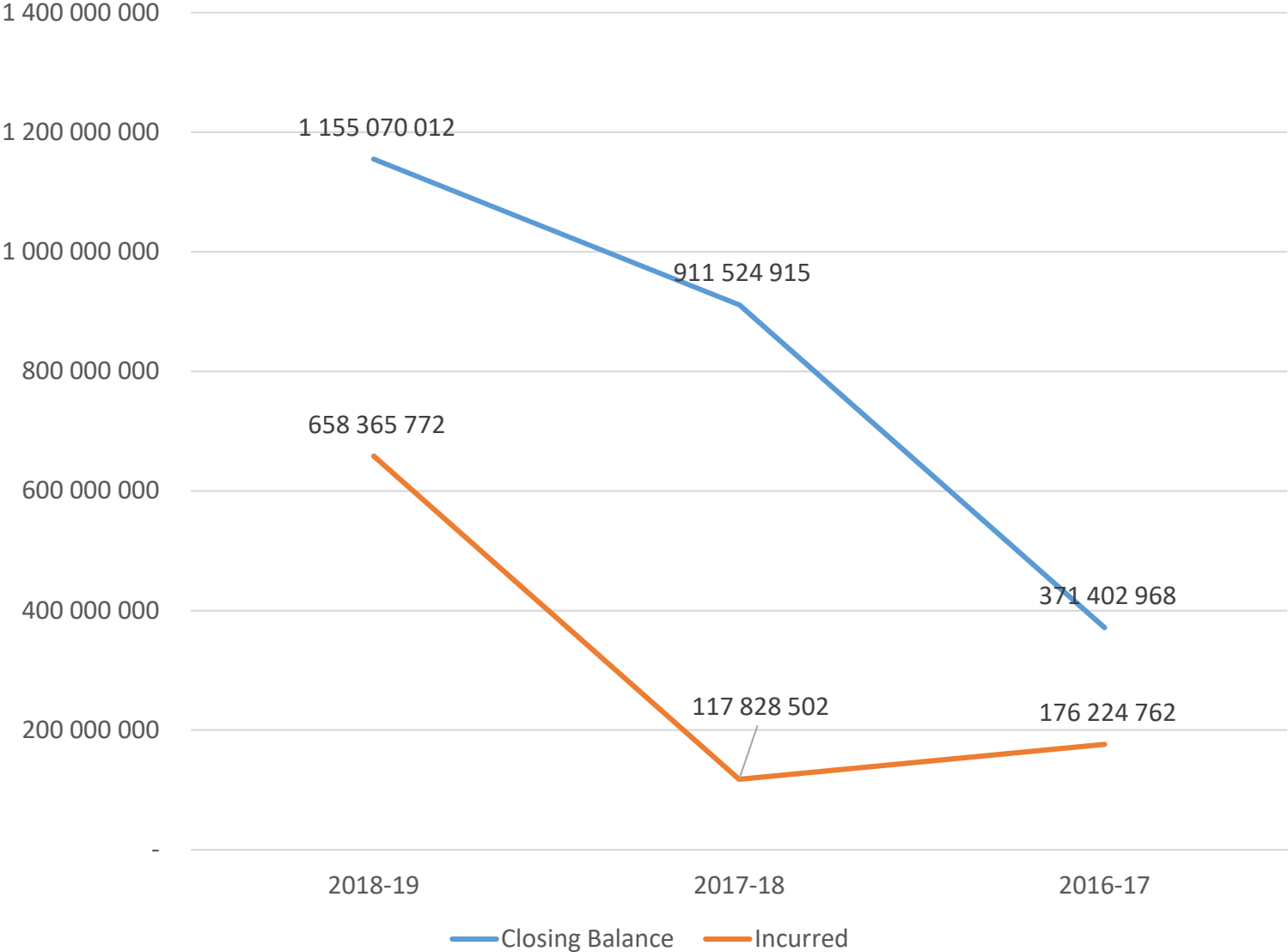


Fruitless and Wasteful Expenditure 2018-19

Auditee	Disclosed value		Movement in fruitless and wasteful expenditure			Current year closing balance
	Opening balance	Incurred	Fruitless and wasteful expenditure recovered/ transferred to receivables for recovery	Prior year error(s) negative restatement (FWE)	Written off as Irrecoverable	
Amathole	4 382 348	727 747	-	-	-	5 110 095
Amahlati	6 583 544	793 025	-	-	-	7 376 569
Great Kei	2 511 084	1 762 537	-	(37 206)	3 172 995	1 063 420
Mbhashe	6 773 371	184 028	-	-	6 773 371	184 028
Mnquma	4 896 376	827 078	-	-	4 175 470	1 547 984
Ngqushwa	416 897	102 429	-	-	-	519 326
Raymond Mhlaba	42 235 957	16 020 834	-	-	-	58 256 791



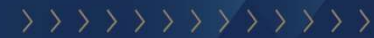
Unauthorised Expenditure as at 2018-19



Unauthorised Expenditure 2018-19

Auditee	Previous year closing balance	Incurred	Movement in unauthorised expenditure				Current year closing balance
			Authorised in an adjustments budget	Unauthorised expenditure recovered/ transferred to receivables for recovery	Prior year error(s) negative restatement (UE)	Written off as Irrecoverable	
Amathole District	117 749 345	154 845 832	-	-	-	-	272 595 177
Amahlati	88 887 887	81 283 113	-	-	11 153 035	-	181 324 035
Great Kei	57 041 535	-	-	-	-	46 953 971	10 087 564
Mbhashe	102 627 811	-	-	-	-	102 627 811	-
Mnquma	276 391 923	415 282 017	-	-	-	276 391 923	415 282 017
Ngqushwa	34 717 829	6 954 810	-	-	-	-	41 672 639
Raymond Mhlaba	234 108 580	-	-	-	-	-	234 108 580

2018-19 Financial health summary per Municipality



Amathole District Municipality

The district has been under increasing financial pressure and had realised net deficits (losses) since inception.

The municipality purchased an accounting system that has not been set up in a way that supports the accounting processes. Further the municipal officials do not understand how to use the system optimally. This affected accurate billing of service charges.

The equitable share grant funding for the year amounted to R638 million. This was, however, not enough to cover the salary bill of R721 million. This means that the cash collected from consumers for rates and service charges had to be used to first cover this shortfall before paying for the costs associated with delivering these services.

Our assessment of the municipality's financial viability was limited due to the material limitations experienced.



Amahlathi Local Municipality

Amahlathi Municipality was under increasing financial pressure and has realised net deficits (losses).

For the 2018/19 year, expenditure exceeded revenue by R28,3 million, indicating that the municipality may struggle to continue operations and deliver services in the future. The equitable share grant funding for the year amounted to R106 million. This was, however, not enough to cover the salary bill of R124 million. This means that the cash collected from consumers for rates and service charges of R58.7 million had to be used to first cover this shortfall before paying for the costs associated with delivering services (for example paying Eskom, which at R31 million accounted for 47% of the municipality's payables).

The municipality disclosed that 82% of people who were charged for services amounting to R80 million might never pay the amounts due, and as a result the municipality was unable to pay creditors on time.



Raymond Mhlaba Local Municipality

The municipality is under financial strain and is heavily reliant on government grants and subsidies

Of the R366 million debtors recorded, R333 million (90%) of the debtors are impaired.

Payables of R311 million constitutes 66% of the total revenue received by the municipality.

In addition, the municipality's creditors payment days continue to worsen (777 days in 2019 versus 444 days in 2018) which is the result of the cash flow challenges experienced by the municipality. The municipality does not have sufficient liquid assets to be able to settle its short term obligations. This may negatively affect the municipality's ability to fulfil its mandate and provide services.



Mnquma Local Municipality

Mnquma municipality has been consistently realizing a net deficit, mostly due to the non-cash items in the income statement.

For the 2018-19 financial year, there was a spike in expenditure due to impairment losses and revaluation losses of R123,4 million and R232,2 million respectively.

The debt collection period was 168 days.

The equitable share grant funding for the year amounted to R83 million. This was, however, not enough to cover its expenditure as the municipality was under collecting on property rates as well as income from investment properties.



Ngqushwa Local Municipality

Own revenue generation in 2018/19 was low in comparison to grant revenue received, and the significant debt collection period of 270 days, indicates that what was generated was not adequately collected.

The municipality's creditors payment period was 167 days in 2018/19, and management was still unable to settle its creditors within 30 days as legislated.

In addition, creditors as a percentage of cash and cash equivalents was very concerning, as the municipality did not have adequate cash to pay its creditors at year-end.

This shows that the municipality was not adequately managing its working capital.



Mbhashe Local Municipality

The bulk of the expenditure of the municipality (40%) goes to employee related costs.

The creditors payment period is 17 days, this has improved from 29 days in the previous year.

The debt collection period was 168 days which is high as the percentage of impairment is also high at 68% of the total debt. This is due to the consumer debtors not honouring their payment terms, and this may negatively impact the cash flow situation of the municipality.

The equitable share grant funding for the year amounted to R225 million of which half covers the employee costs.



Great Kei Local Municipality

Even though the disclaimed financial statements reflected a surplus, the municipality was under increasing financial pressure as it was unable to meet its financial obligations on time.

The equitable share grant funding for the year amounted to R50,2 million. This was, however, not enough to cover the salary bill of R53,8 million. This means that the cash collected from consumers for rates and service charges had to be used to first cover this shortfall before paying for the costs associated with delivering these services (for example paying Eskom, which at R5,9 million also accounted for the majority of the municipality's payables).

The municipality disclosed that 72% of consumers who were charged for services might never pay the amounts due, and as a result the municipality was unable to pay creditors on time. It should be noted that it was difficult to determine the full extent of the issues at the municipality as the financial records contained material misstatements resulting in a disclaimer of opinion.



The way forward

- A culture of basic financial management discipline and adherence to good controls should be enforced. Proper systems and processes should be put in place to plan and monitor infrastructure delivery. All role-players should diligently execute their roles as outlined in the legislation for marked and sustainable improvements to be realised in the district.
- Preventative controls must be implemented at all municipalities to prevent and monitor instances of non-compliance and other transgressions.
- To prevent further accountability failures, consequence management should be diligently and timeously implemented.
- Leadership of municipalities should work with oversight structures such as internal audit, audit committee and our office, and implement all their recommendations on a timely basis.



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