



Local government audit outcomes

MFMA
2018-19

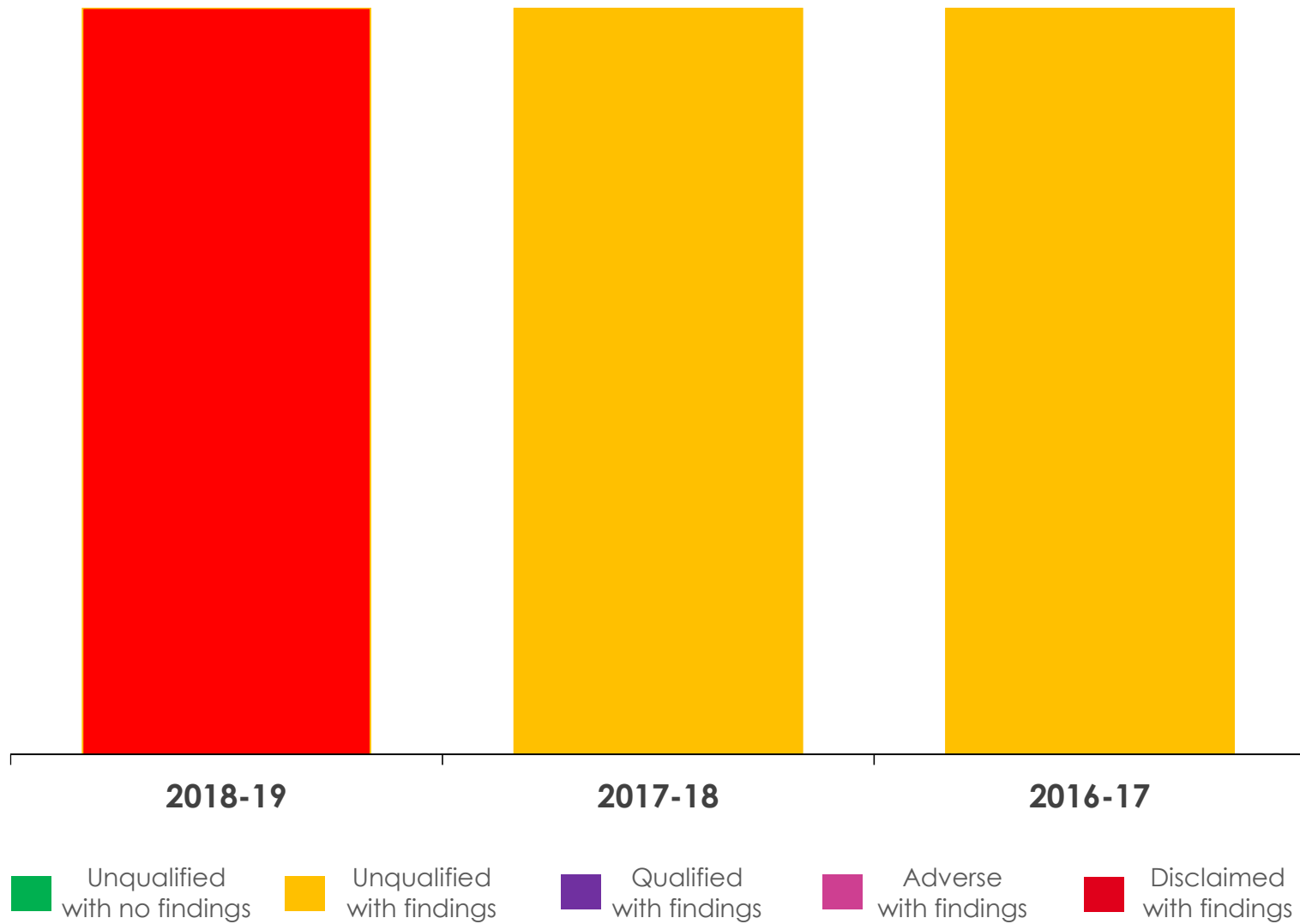
Great Kei Local Municipality

***Portfolio Committee on Co-operative Governance
and Traditional Affairs – March 2021***



AUDITOR-GENERAL
SOUTH AFRICA

Great Kei Local Municipality





Background

Great Kei Local Municipality is an administrative area in the Amathole District of the Eastern Cape based in Komga.

The 2018-19 financial year audit revealed that:

- There was instability at senior management level and vacancies in key positions.
- The audit action plan was not implemented by management.
- There was a lack of proper records management and inadequate preventative controls in place.
- There were significant differences between the information in the annual financial statements and the underlying accounting records due to challenges with financial system implemented.
- Material differences between the underlying records (trial balance and general ledger) and annual financial statements which the municipality was unable to correct resulted in all items on the financial statements being disclaimed.

The audit opinion was a disclaimer for the financial statements as a whole.





2018/19 overview financial year audit outcomes

Risk areas

Quality of submitted financial statement	Quality of submitted performance information	Supply chain management
Financial health	Human, resource management	Information technology

Good
Concerning
Intervention required

Predetermined objectives

	Reported information useful	Reported information reliable
2018-19	New – no well defined	Repeat (KPA2 – Basic services)
2017-18	No findings	New (KPA1 -Service delivery and infrastructure provision & KPA2 Local Economic Development)
2016-17	No findings	No findings

Compliance with laws and regulations

	Annual Financial Statements & Annual Report	Consequence management	Human resource management	Budgets	Revenue management	Expenditure management	Strategic planning and performance management	Procurement management
2018-19	Repeat	Repeat	Addressed	Addressed	New	Repeat	Addressed	Addressed
2017-18	Repeat	New	New	Addressed	No finding	Repeat	New	Repeat
2016-17	New	No finding	No finding	New	No finding	New	No finding	New





Dealing with irregular expenditure

Closing balance of irregular expenditure **R10,8 million**

Irregular expenditure balances	2018-19	2017-18	2016-17
Irregular expenditure	R10,8 million	R16,7 million	R14,1 million

- The council, through their municipal public accounts committee, investigated transactions making up the irregular expenditure balance to determine if value was received and if a financial loss was incurred that should be recovered.
- During the 2018/19 year, the committee recommended that R16,7 million of the irregular expenditure be written off. However, through the audit process it was discovered that R10,7 million of the irregular expenditure was not properly investigated. This resulted in irregular expenditure being understated in the financial statements and management subsequently made an adjustment.





Deficiencies on predetermined objectives




The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of some of the indicators in the APR. As a result, I was unable to obtain sufficient appropriate audit evidence for the following indicators:

No	Performance indicator	Reported Achievement
1	Number of households with access to weekly refuse removal	4335
2	100% of submitted building plans processed	Achieved
3	Number of safety meeting forums held	4 GKM local community safety meetings



What do the financial statements say?

53257
28760
26035

Income statement		Revenue	Total = R121,6 million	Of their total revenue of R121,6 million , R70 million (58%) was from government grants and subsidies.
		Expenditure	Total = R105,6 million	Of their total expenditure of R105,6 million , R53,8 million (51%) was for employee cost and remuneration of councillors of the municipality.
		Net result		The municipality had a surplus (revenue exceeded expenses) of R15,2 million for the year

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.



Other matters

- The municipality was under administration during 2018-19. The administrator seconded by the Department of Co-operative Governance and Traditional Affairs (Cogta) left the municipality in December 2018, thereafter an acting municipal manager was appointed until a permanent appointment was made in May 2019.
- The municipality's operations were impacted by staff protests that were relating to non-payment of salaries.



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