



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

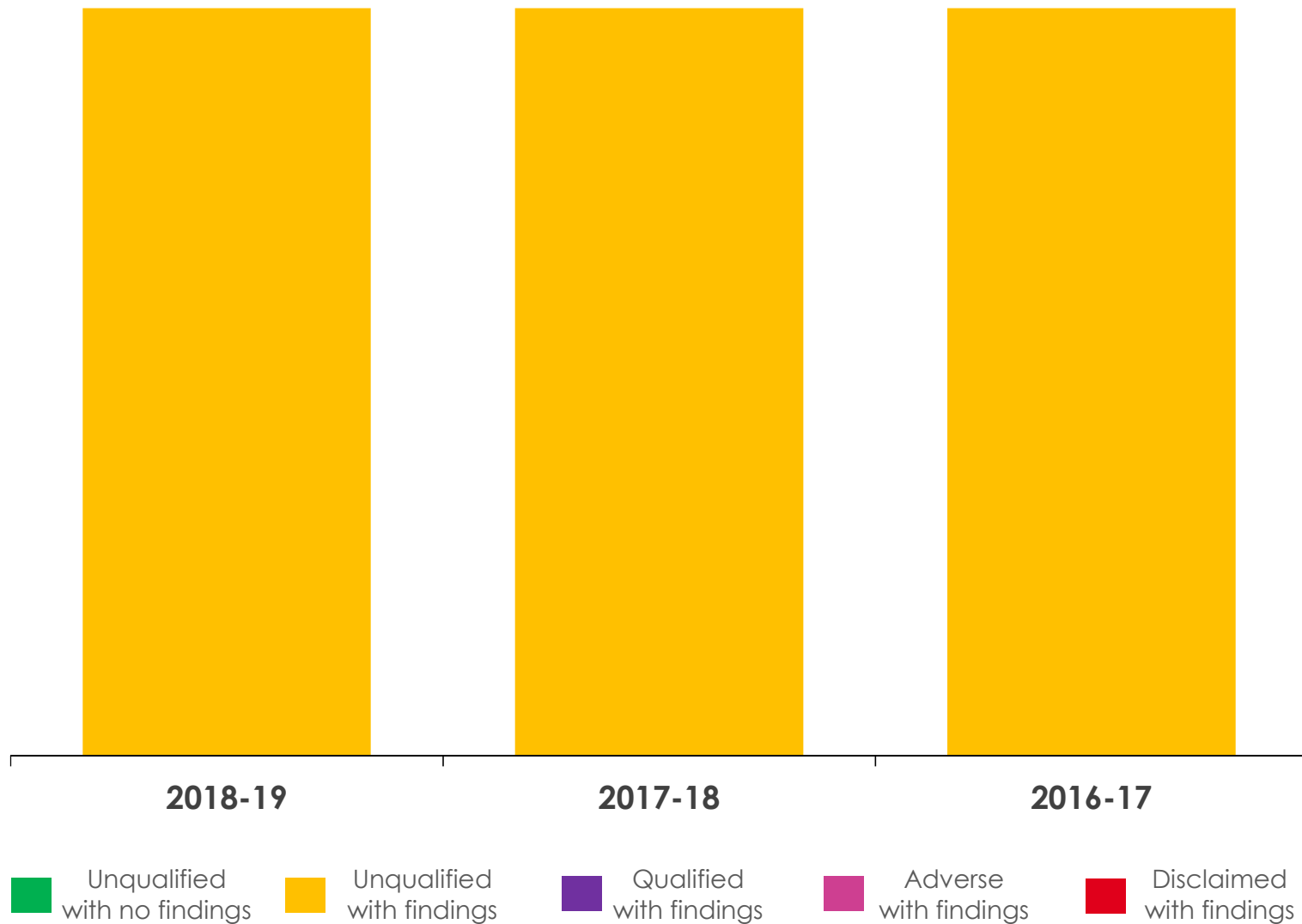
## ***Mbhashe Local Municipality***

*Portfolio Committee on Co-operative Governance  
and Traditional Affairs – 03 March 2021*



AUDITOR-GENERAL  
SOUTH AFRICA

## Mbhashe Local Municipality – Three consecutive years of Unqualified with findings on PDO and Compliance



# Background

Mbhashe Local Municipality serves Dutywa, Elliotdale and Willowvale and is one of the 7 municipalities in the Amathole District.

## **The 2018-19 financial year audit revealed that:**

- The municipality did not have an effective records management system in place to enable reliable reporting on financial and performance information.
- The lack of preventative controls throughout the year resulted in a large number of reconciliations, journals and corrections being performed after year-end.
- The internal audit was not provided the necessary support by management to provide assurance on internal controls, and their recommendations were not implemented.

**The audit opinion was unqualified with findings on PDO and compliance**





# 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	Repeat	Repeat
2017-18	Repeat	Repeat
2016-17	New	New

**Compliance with laws and regulations**

	Material misstatement	IFWE	Annual Financial Statements & Annual Report	Asset management	Expenditure management †	Financial misconduct	Revenue management †	Strategic planning and performance management †	Procurement management †	HR management †
2018-19	Repeat	Repeat		New	Repeat	Addressed	New	Addressed	Repeat	Addressed
2017-18	Repeat	Repeat	Addressed		Repeat	Repeat	Addressed	New	Repeat	New
2016-17	Repeat	Repeat	Repeat	Addressed	New	Repeat	Repeat		Repeat	Addressed





## Irregular expenditure

<b>Irregular expenditure closing balances</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>
Irregular expenditure	R12,3 million	R539 million	R539 million

<b>Annual expenditure incurred</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>
Irregular expenditure incurred	R90,6 million	R136,5 million	R31,2 million

- The majority of the irregular expenditure resulted from the incorrect composition of the bid adjudication committee (BAC).
- The BAC composition was made up of 3 senior managers as compared to the 4 required by the SCM prescripts
- Council wrote off R617,3 million in the 2018-19 year, all relating to this matter.





## Deficiencies on predetermined objectives

### **Reliability and usefulness of reported performance**




We were unable to obtain sufficient appropriate audit evidence for the majority of the reported indicators as there were either differences between the reported information and the supporting evidence, or supporting evidence was not provided

The municipality does not have an adequate system in place to verify the reported achievements compared to the planned achievement in the SDBIP.



# What do the financial statements say?

53257  
28760  
26035

Income statement		<b>Revenue</b>	<b>Total = R337,8 million</b>	Of their total revenue of <b>R337,8 million</b> , <b>R311,6 million (92%)</b> was from government grants and subsidies.
		<b>Expenditure</b>	<b>Total = R295,4 million</b>	Of their total expenditure of <b>R295,4 million</b> , <b>R118,8 million (40%)</b> was for employee cost of the municipality.
		<b>Net result</b>		The municipality incurred a surplus of <b>R42,3 million</b> for the year

- A large percentage of the expenditure of the municipality (40%) goes to employee related costs.
- The debt collection period was 168 days, 68% of the debt owed to the municipality is impaired. This is due to the consumer debtors not honouring their payment terms, and this may negatively impact the cash flow situation of the municipality.



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