



MFMA
2016-17

Briefing to the Portfolio Committee on CoGTA:

Masilonyana Local Municipality

9 March 2021



AUDITOR - GENERAL
SOUTH AFRICA

Reputation promise

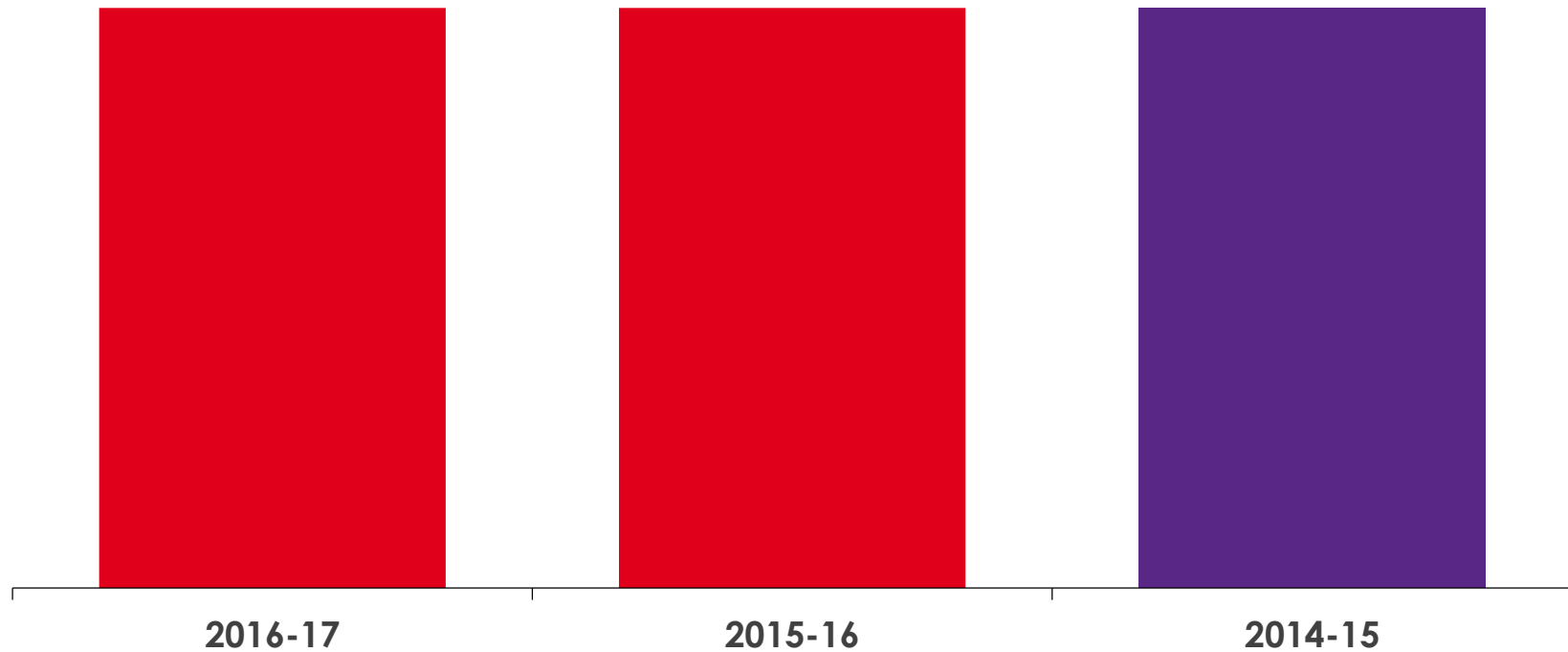
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



The 2016-17 audit outcomes



Audit outcomes over three years



The last audit report issued for Masilonyana Local Municipality is 2016-17. The financial statements for 2017-18 was submitted on 7 December 2020.

The municipality regressed to a disclaimer of audit opinion for two consecutive years from receiving a qualified opinion.

Financial statement preparation remains a concern. The following material misstatements identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently:

- Current assets
- Expenditure



Qualification areas

Property, plant and equipment – sufficient appropriate audit evidence was not available for work-in-progress as the municipality did not maintain adequate supporting evidence for recorded values.

Payables from exchange transactions – sufficient appropriate audit evidence could not be obtained that all payables from exchange transactions were accounted for due to insufficient record keeping.

Service charges – sufficient appropriate audit evidence could not be obtained that all service charges were accounted for on the billing system due to insufficient record keeping. Furthermore, incorrect tariffs and consumption were levied to consumer accounts.

Commitments – sufficient appropriate audit evidence could not be obtained for commitments as the municipality did not maintain accurate and complete record of all contractual information used to determine commitments.

Provisions – during 2016, sufficient appropriate audit evidence could not be obtained for the environmental rehabilitation included in provisions, as the municipality did not accurately consider the contaminated area and the useful lives due to a shortfall of available field data

VAT receivable – sufficient appropriate audit evidence was not available as VAT reconciliations were not performed.

Property rates – sufficient appropriate audit evidence could not be obtained for property rates, as the municipality did not maintain adequate supporting evidence for adjustments made to the valuation roll.

Contingencies – sufficient appropriate audit evidence could not be obtained due to insufficient record keeping by the municipality.

Interest received – the municipality did not have adequate systems in place to ensure that interest income was correctly accounted for. Interest was incorrectly charged and, also, not always charged on all overdue accounts. Furthermore, prior year adjustment journals were incorrectly recorded as 2016-17 interest income.

Irregular expenditure – the municipality did not adequately disclose all instances of irregular expenditure in the financial statements, as the full extent thereof was not investigated.

Fruitless and wasteful expenditure – the municipality did not adequately disclose all instances of fruitless and wasteful expenditure in the financial statements. Funds were spent on capital projects that were not completed.





Performance reporting

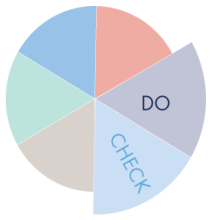
The usefulness and reliability of the reported performance information for the following programmes as presented in the annual performance report were evaluated:

- KPA 1 – Basic service delivery

Material findings were raised in respect of the usefulness and reliability on KPA 1 – Basic service delivery as follows:

- Sufficient appropriate audit evidence could not be obtained for certain reported achievements due to inadequate performance management systems and processes.
- Reported achievements of indicators were misstated.
- Certain targets and indicators were not reported on as per the planned strategic objective indicators and targets.

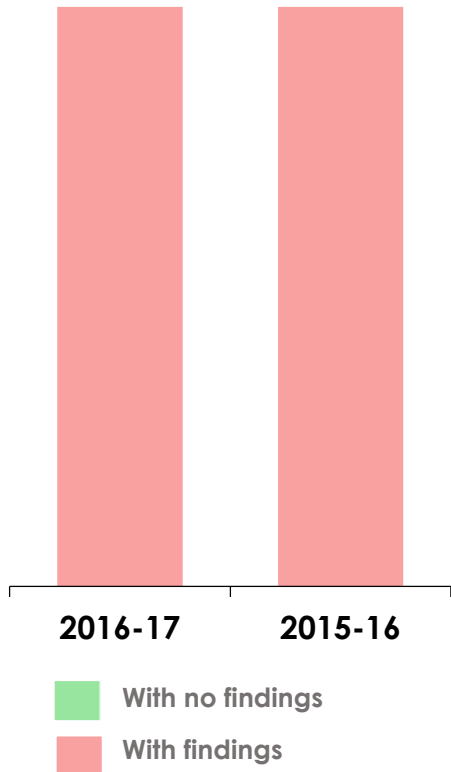




Disregard for compliance with legislation

Non-compliance areas

Findings on compliance with key legislation



Annual financial statements and annual report

- The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of the MFMA.
- The annual financial statements were not submitted within two months of the end of the financial year.
- Council failed to adopt an oversight report containing council's comments on the annual report within the prescribed timelines.

Strategic planning and performance management:

- Key performance indicators (KPI) were not set for each of the development priorities and objectives.
- Performance targets were not set for each of the KPIs.
- Amendments to the integrated development plan were made without making the proposed amendments available for public comment.
- The SDBIP was revised during the year without council approval.

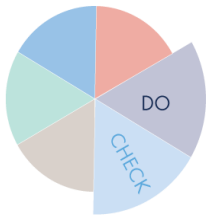
Budgets:

- Reasonable steps were not taken to prevent unauthorised expenditure.

Expenditure management:

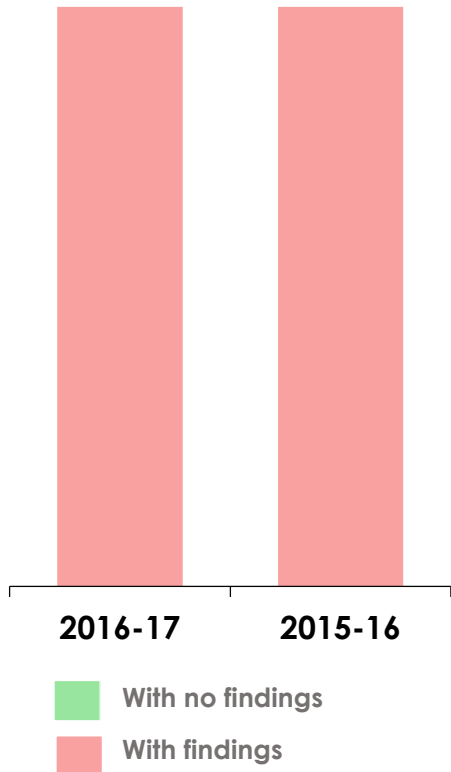
- Money owed by the municipality was not always paid within 30 days.
- Effective steps were not taken to prevent irregular as well as fruitless and wasteful expenditure.





Disregard for compliance with legislation (continued)

Findings on compliance with key legislation



Non-compliance areas

Revenue management:

- An adequate management, accounting and information system which accounts for revenue and debtors was not in place.
- An effective system of internal control for revenue was not in place.
- Revenue due to the municipality was not calculated on a monthly basis.
- Interest was not charged on all accounts in arrears.

Asset management:

- An effective system of internal control for assets was not in place.

Liability management:

- An effective system of internal control for liabilities was not in place.

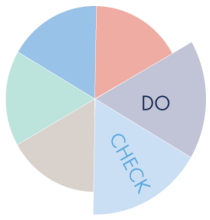
Human resource management:

- Appointments were made in posts which were not provided for in the approved staff establishment.
- Sufficient appropriate evidence could not be obtained that job descriptions were established for all posts in which appointments were made.
- Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted.

Consequence management:

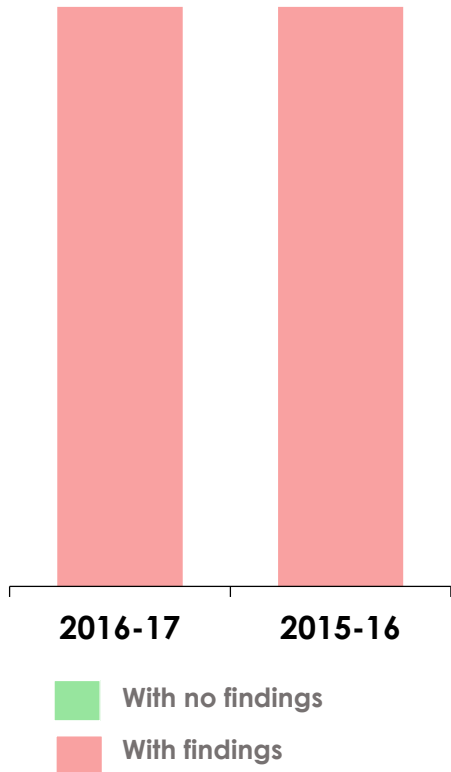
- Unauthorised, irregular as well as fruitless and wasteful expenditure were not investigated to determine if any person will be liable for the expenditure.





Disregard for compliance with legislation (continued)

Findings on compliance with key legislation



Non-compliance areas

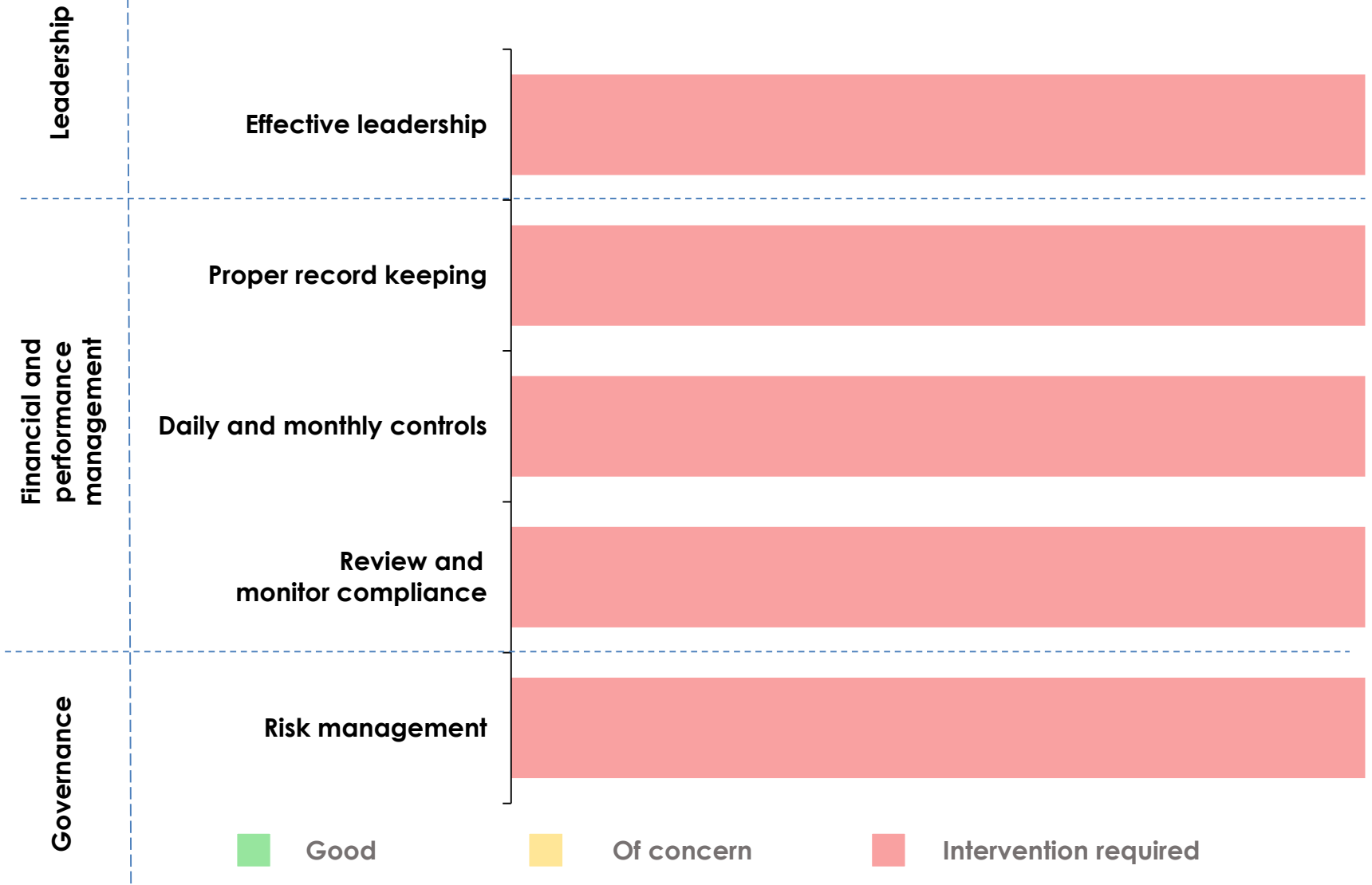
Procurement and contract management:

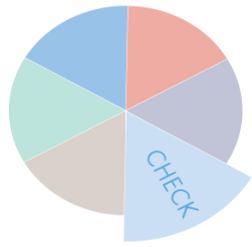
- Competitive bids were adjudicated by a bid committee that was not composed in accordance with SCM regulations.
- Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding.
- The performance of contractors or providers was not monitored on a monthly basis.
- Some of the quotations were accepted from bidders whose tax matters had not been declared in order by SARS.
- Some of the commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content.
- Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations
- Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state.
- Sufficient appropriate evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by inviting competitive bids and/or that deviations approved by the accounting officer were only if it was impractical to invite competitive bids.
- Persons in service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest.



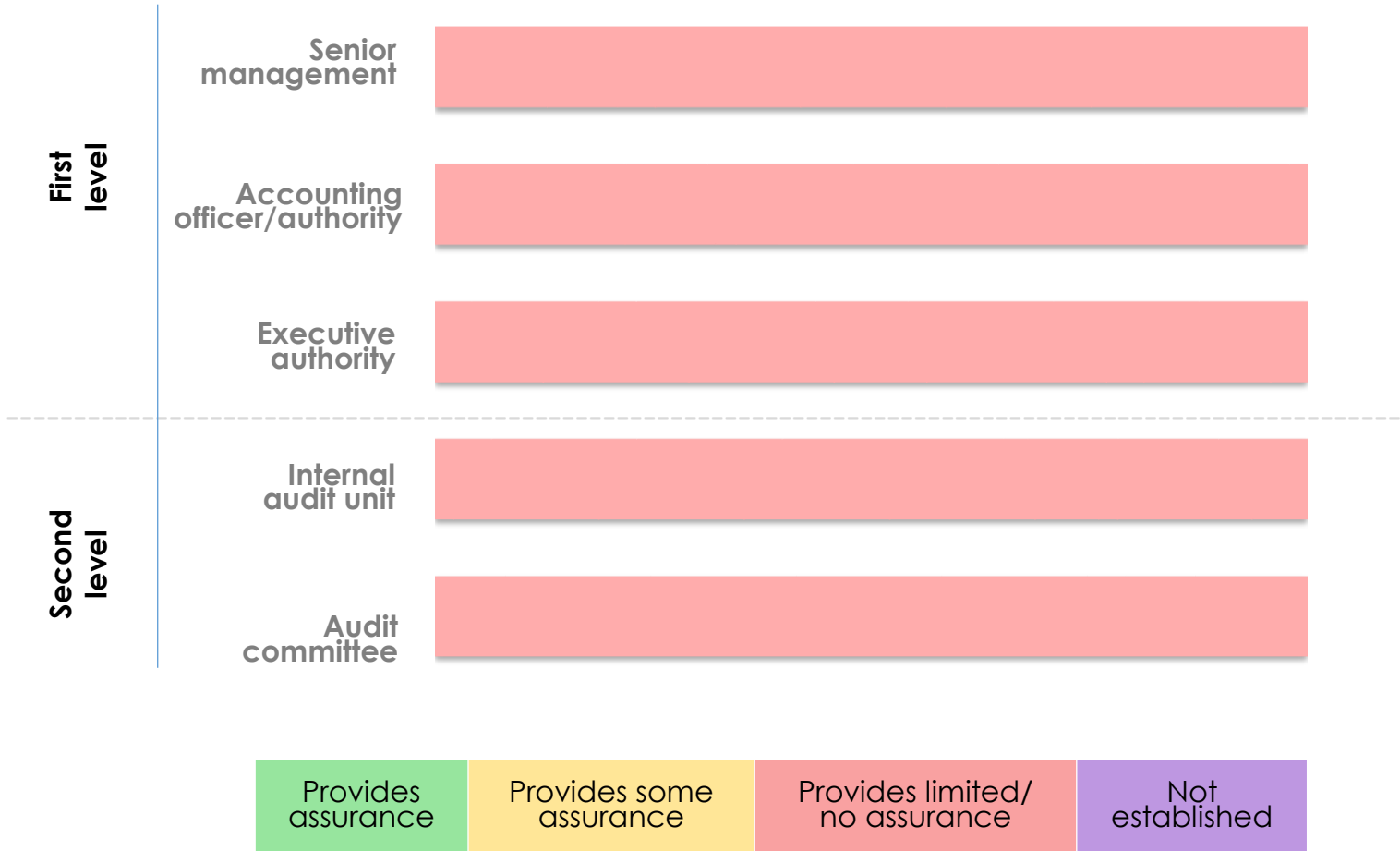


Status of internal control





Assurance provided



Financial health and financial management



Financial health

- The municipality incurred a net loss of R136 223 353.
- Total liabilities exceeded total assets by R131 962 847.
- Material electricity losses of R15 546 197 (2016: R16 635 257) was incurred, which represents 59.77% (2016: 57.35%) of total electricity purchased, mainly due to tampering with meters, faulty meters and illegal connections.
- Material water losses of R2 257 285 (2016: R2 274 427) was incurred, which represents 90.88 % (2016: 85.52%) of total water purchased, mainly due to mainly due to tampering with meters, faulty meters and illegal connections.

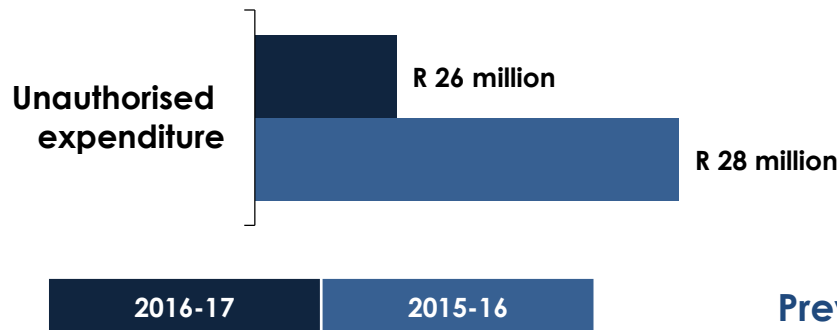


Unauthorised expenditure decreased over two years

Definition

Expenditure not in accordance with the budget vote / overspending of budget or programme

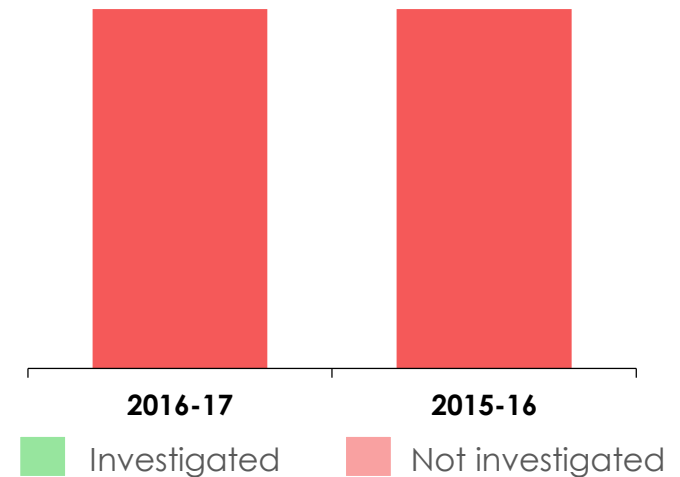
Unauthorised expenditure incurred by entities in portfolio



Nature of unauthorised expenditure

The municipality incurred unauthorised expenditure due to overspending of the budget.

Previous year unauthorised expenditure reported for investigation

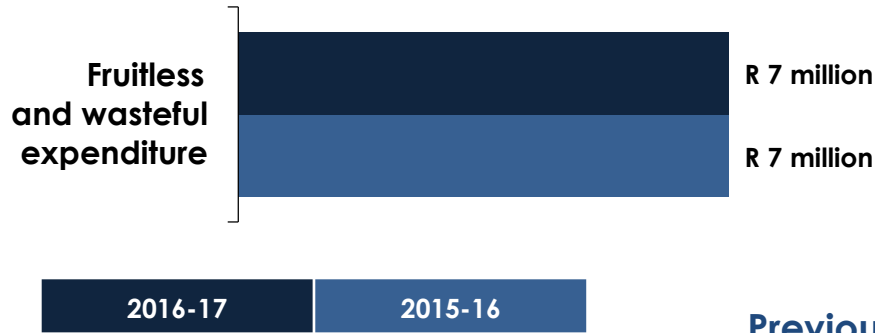


Fruitless and wasteful expenditure did not decrease over two years

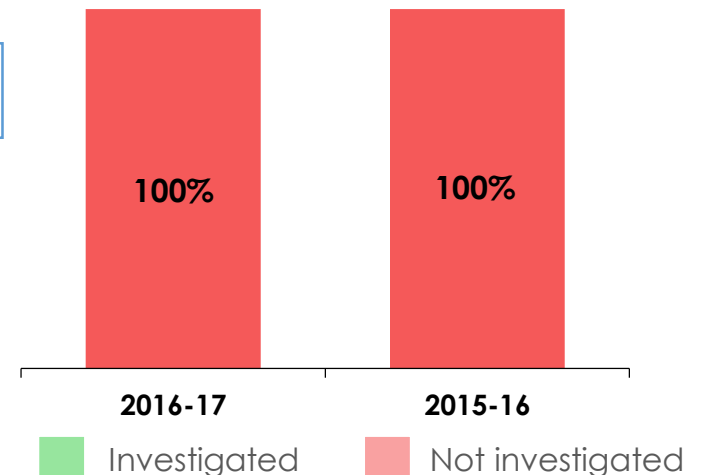
Definition

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 relates to interest on late payments.



Irregular expenditure in creased 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



2016-17

2015-16

Nature of irregular expenditure

The municipality incurred irregular expenditure, which relates to SCM.

Previous year irregular expenditure reported for investigation



2016-17

2015-16

Investigated

Not investigated



Root causes

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

Management (accounting officers and senior management) and the political leadership (executive authorities) 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**

