



Local government audit outcomes

MFMA
2018-19

Alfred Duma Municipality

Portfolio Committee on Co-operative Governance and Traditional Affairs

10 March 2021



AUDITOR - GENERAL
SOUTH AFRICA



MISSION

“The Auditor-General of South Africa 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.”



VISION

“To be recognised by all our stakeholders as a relevant Supreme Audit Institution (SAI) that enhances public sector accountability.”

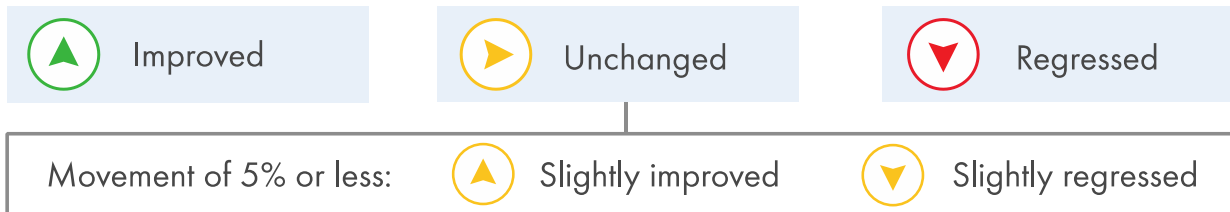
Important to note

The percentages in this presentation are calculated based on the **completed audits of 53 municipalities as at 31 January 2020**, unless indicated otherwise.

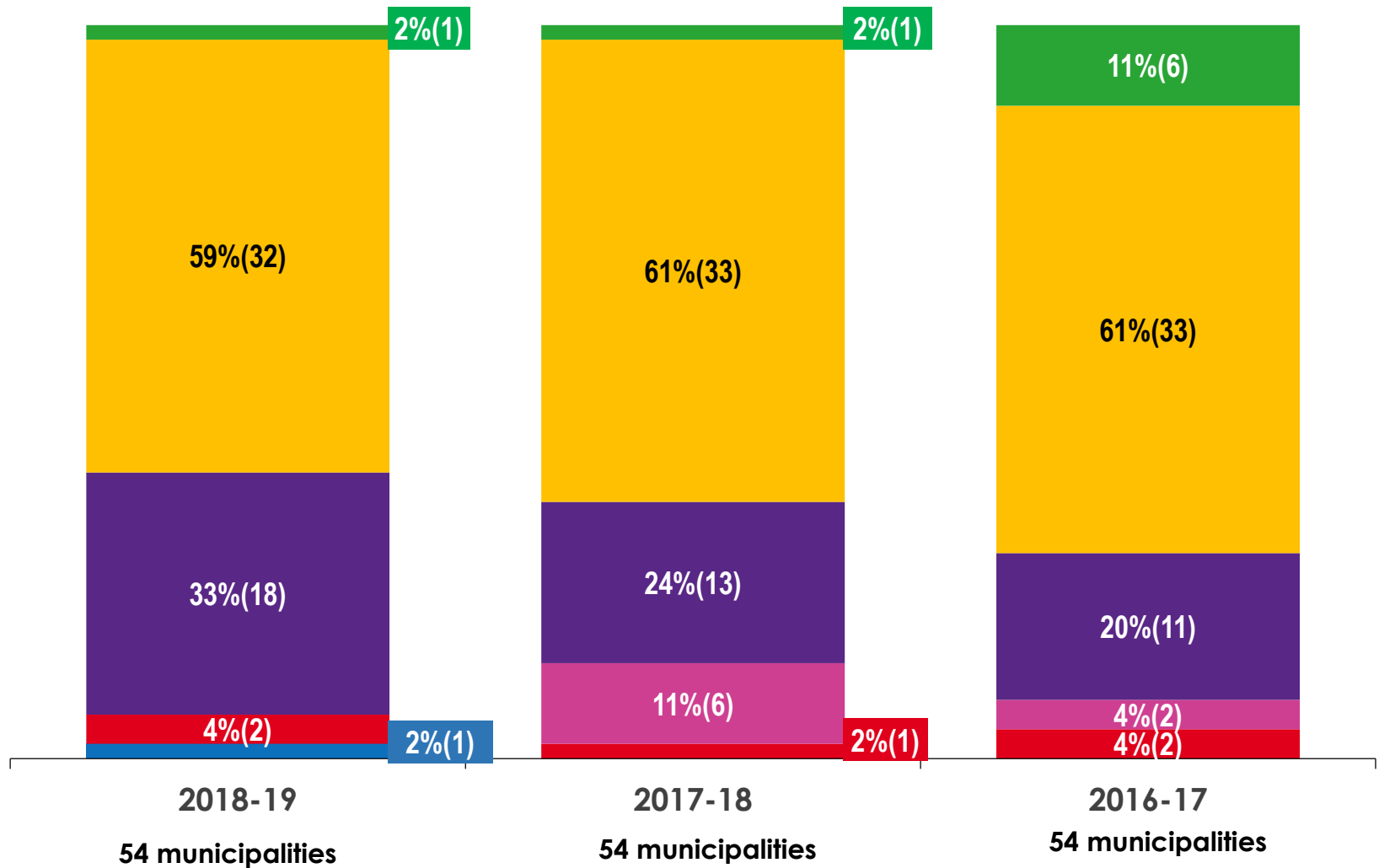
Audit outcomes are indicated as follows:

-  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:

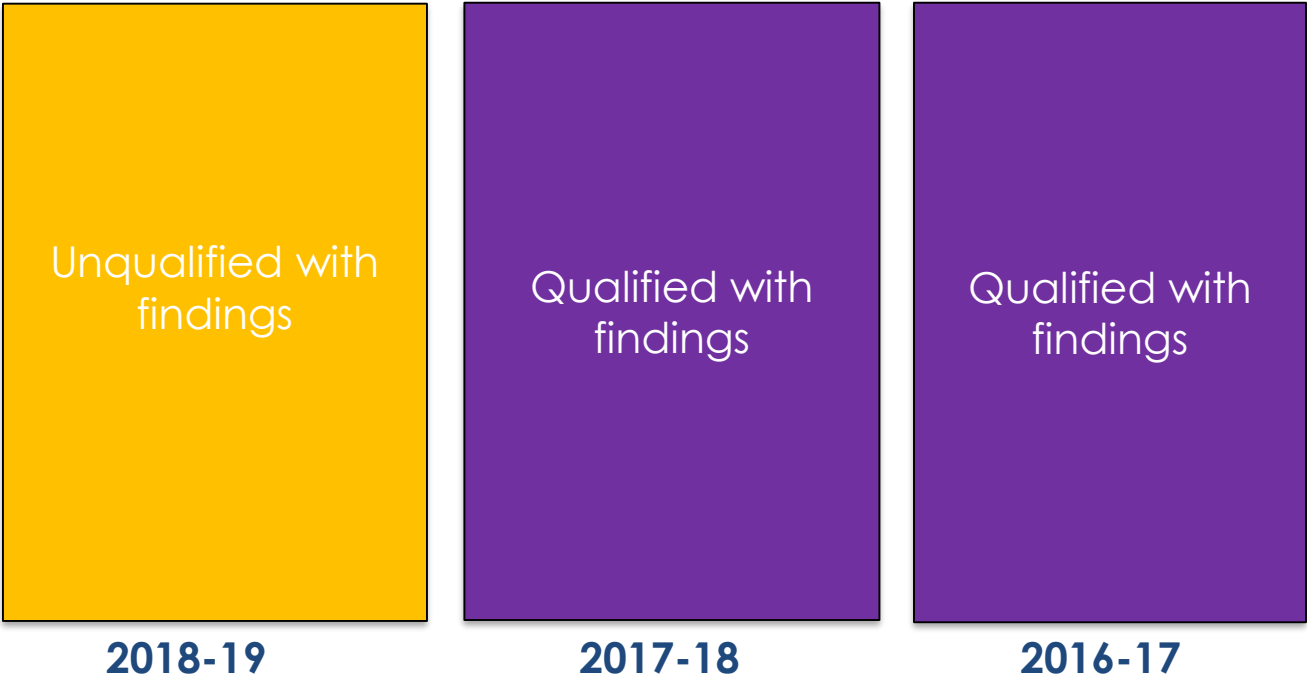


Audit outcomes show a slight improvement – municipalities



Overall key message

Trends in audit outcomes









Types of audit outcomes



Annual financial statements	Movement	2018/19	2017/18	2016/17
Audit opinion		Unqualified	Qualified	Qualified
Audit of Predetermined Objectives (AoPO)	Movement	2018/19	2017/18	2016/17
Basic services (Material findings)		None	One	None



Compliance with legislation

Compliance with legislations	Movement	2018/19	2017/18	2016/17
Financial statements (material findings)		One	One	One
Procurement and contract management (material findings)		Two	Two	Four
Strategic planning and performance management (material findings)		None	One	One
Expenditure management (material findings)		Two	Two	Two
Asset management (material findings)		None	One	Two
Consequence management		None	One	One



Risk areas

Quality of submitted financial statements



Quality of submitted performance information



Supply chain management



Financial health



Human resource management



Information technology

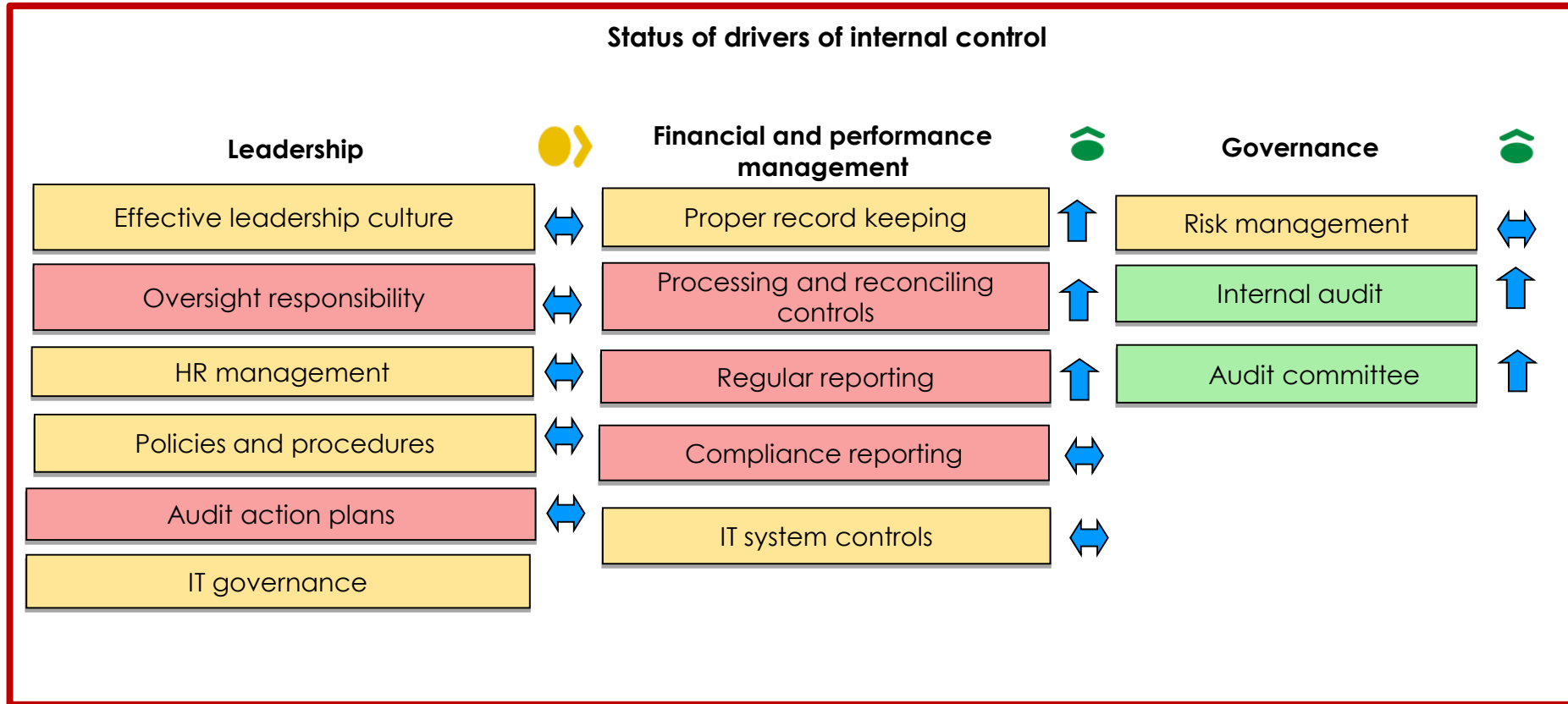


Good

Concerning

Intervention required

Key controls



Root causes to be addressed

Management should regularly review and monitor compliance with laws and regulations particularly in the supply chain management

...



Audit opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alfred Duma Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).



Emphasis of matter

Restatement of corresponding figures

As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material losses – trade debtors

As disclosed in note 16 and 17 to the financial statements, the municipality raised a provision for bad debt of R262,61 million (2018: R229,29 million) on consumer debts as the recoverability of these amounts were doubtful.

Material losses – bad debts

As disclosed in note 32 to the financial statements, material losses of R70,68 million (2018: R43,58 million) was incurred as a result of a write-off of irrecoverable trade debtors.



Predetermined Objectives

The basic services delivery and infrastructure development objective was evaluated for usefulness and reliability of the reported performance information. There were no audit findings to report.



Compliance with legislation

Subject matter	Finding
Financial statements	<p>The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets and accumulated surplus identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.</p>



Compliance with legislation (continued...)

Subject matter	Finding
Expenditure management	<p>Reasonable steps were not taken to prevent irregular expenditure amounting to R 919 thousand as disclosed in note 39.2 to the annual financial statements, as required by section 62(1)(d) of the MFMA.</p> <p>Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 21,12 million, as disclosed in note 39.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.</p>

Compliance with legislation (continued...)

Subject matter	Finding
Procurement and contract management	<p>The performance of some of the contractors or providers were not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.</p> <p>The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA</p>

Internal control deficiencies

The following were the root causes that gave raise to the reported findings in the audit report:

- Leadership did not perform effective oversight and monitoring to ensure that delegated officials consistently applied policies and procedures and related internal controls to achieve reliable and credible financial reporting as well as compliance with applicable legislation.
- Senior management did not implement adequate review procedures to ensure that the annual financial statements were prepared in accordance with the financial reporting framework and that adequate controls were in place to monitor compliance with supply chain management regulations and legislation.





Irregular expenditure

Definition: Expenditure that was incurred in contravention of applicable laws and legislations

2018-19	2017-18
R919 156	R15 497 580

Fruitless and wasteful expenditure

Definition: Expenditure that should not have been incurred (incurred in vain that could have been avoided and no value for money received)

2018-19	2017-18
R6 927	R 101 045



Unauthorised expenditure

Definition : Expenditure incurred in excess of the approved budget vote

2018-19	2017-18
R21 121 291	R16 612 386

Conclusion

How to improve audit outcomes

- Clean administration vs clean audit opinion
- Institutionalisation of internal controls
- Good governance (capacitation and effectiveness of audit committee, internal audit, functioning oversight structures e.g. MPAC)
- Capacitation and skilling in finance departments
- Strengthening capacity/skilling of Finance/SCM/Performance units
- Financial and administration systems that are strong and reliable
- Regular, accurate and complete financial performance reporting



Stay in touch with the AGSA



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa