



Local government audit outcomes

MFMA
2018-19

Inkosi Langalibalele 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.”

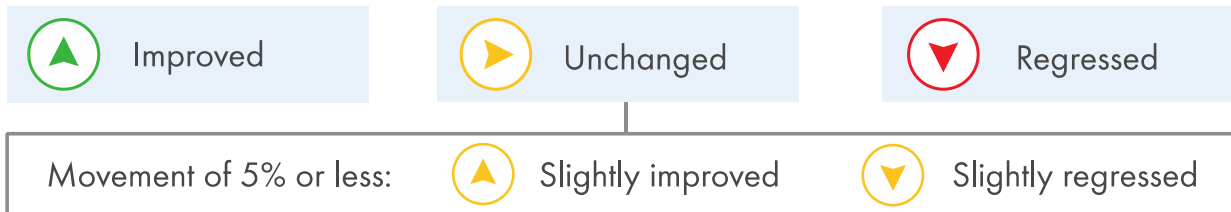
Important to note

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

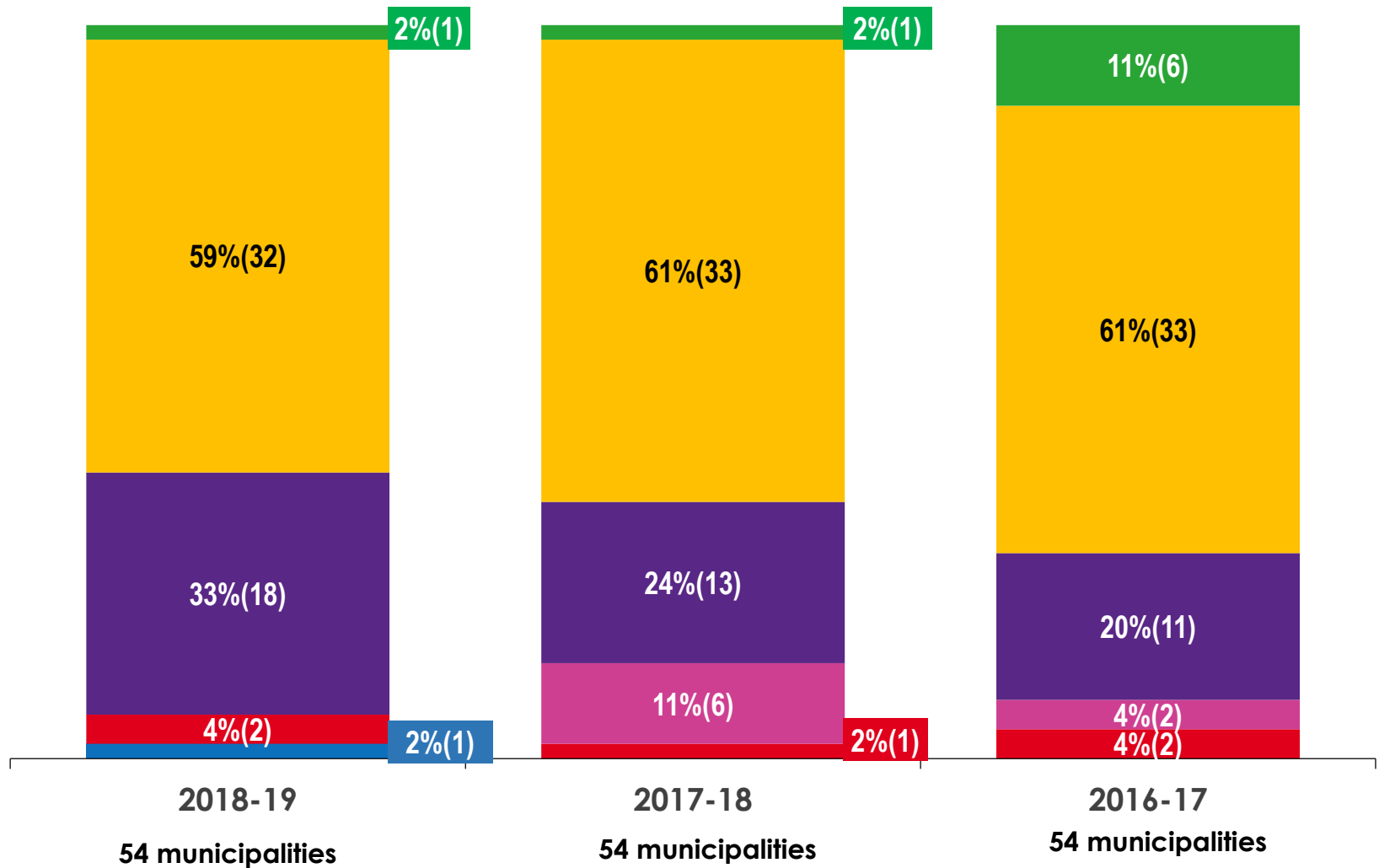
Audit outcomes are indicated as follows:

-  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 (Basis for Adverse opinion, refer to slide 9)		Adverse	Adverse	-
Audit of Predetermined Objectives (AoPO)	Movement	2018/19	2017/18	2016/17
Basic services (Material findings)		Disclaimer	Adverse	-



Compliance with legislation

Compliance with legislation			
Annual financial statements		✓	✓
Procurement and contract management		✓	✓
Expenditure management		✓	✓
Budgets			✓
Asset management		✓	✓
Conditional grants			✓
Strategic planning and performance management			✓
Consequence management		✓	✓



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



Audit opinion

In my opinion, because of the significance of the matters described in the basis for adverse opinion section of this auditor's report, the financial statements do not present fairly, in all material respects, the financial position of the Inkosi Langalibalele Local Municipality as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with the South African 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, 2017 (Act No. 3 of 2017) (Dora).



Basis for adverse opinion

Property, plant and equipment

I was unable to obtain sufficient appropriate audit evidence that the municipality had properly recorded property, plant and equipment as required by SA Standards of GRAP 17 Property, plant and equipment. This was as a result of material variances between the assets register, the general ledger and the financial statements that were identified. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to confirm whether any adjustments were necessary to property, plant and equipment stated at R720,69 million (2018: R734,02 million) and depreciation stated at R51,68 million (2018: R37,28 million) in the financial statements.

Value added tax (VAT) receivable

I was unable to obtain sufficient appropriate audit evidence that the municipality had properly recorded value added tax as required by the Value Added Tax Act of South Africa, 1991 (Act No.89 of 1991). This was as a result of material variances between the VAT reconciliation, the general ledger and the financial statements that were identified. I was unable to confirm value added tax by alternative means. Consequently, I was unable to confirm whether any adjustments were necessary to value added tax stated at R7,67 million (2018: R47,86 million) in the financial statements.



Basis for adverse opinion

Receivables from exchange and non-exchange transactions

I was unable to obtain sufficient appropriate audit evidence that the municipality had properly recorded receivables in accordance with the SA Standards of GRAP 104, Financial Instruments. This was as a result of material variances identified between the age analysis, the general ledger and the financial statements. I was unable to confirm receivables by alternative means. Consequently, I was unable to confirm whether any adjustments were necessary to receivables from exchange and non-exchange transactions stated at R143,05 million (2018: R187,82 million) and provision for doubtful debts stated R232,89 million (2018: R89,94 million) in the financial statements.

Payables from exchange transactions – trade payables

I was unable to obtain sufficient appropriate audit evidence that the municipality had properly accounted for payables from exchange transactions as the municipality did not have adequate systems to record creditors. I was unable to confirm the trade payables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade payables stated at R75,61 million (2018: R120,84 million) in note 16 to the financial statements.



Basis for adverse opinion

Employee benefits – Provision for leave

I was unable to obtain sufficient appropriate audit evidence for provision of leave due to the status of accounting records. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the provision stated at R9,29 million (2018: 9,29 million) as disclosed in note 16 to the financial statements. Additionally, the resultant impact on employee cost and the accumulated surplus could not be determined as it was impractical to do so.

Cash and cash equivalents

The municipality did not have adequate internal controls in place to ensure that the cash book is reconciled to the cash and cash equivalents balance and that reconciling items are cleared on a monthly basis resulting in an unexplained difference. In addition, the cash and cash equivalent balance was misstated by an estimated amount of R24,88 million. This was as a result of material differences between confirmation and the financial statements.



Basis for adverse opinion

Revenue from non-exchange transactions - Property rates

The municipality did not recognise property rates as required by SA Standards of GRAP 23: Revenue from non-exchange transactions. This was as a result of an incorrect application of the Municipal Property Rates Act, No 6 of 2004. Consequently, I was unable to determine the impact of the misstatements to property rates stated at R47,87 million (2018: R88,95 million) in note 23 to the financial statements.

Transfers and subsidies

The municipality did not record transfers and subsidies as required by SA Standards of GRAP 1: Presentation of financial statements. Comparative figures were accounted for on a different basis to current year figures. Consequently, the transfers and subsidies stated at nil (2018: R30,89 million) in the financial statements was misstated by an undeterminable amount.



Basis for adverse opinion

Bulk purchases

The municipality did not recognise all bulk purchases as required by SA Standards of GRAP 1: Presentation of financial statements. This was as a result of incorrect recognition of the accrued expenditure relating to electricity. Bulk purchases were misstated by an unknown amount. Consequently, I was unable to determine the impact of the misstatements to bulk purchases stated at R153,29 million in note 30 to the financial statements.

Employee related costs

The municipality did not properly record employee related costs as required by SA Standard of GRAP. This was as a result of discrepancies between the underlying records and the financial statements. Consequently, employee related costs stated at R180,98 million in note 25 to the financial statements was misstated by an estimated amount of R14,07 million.



Basis for adverse opinion

Commitments

The municipality did not properly account for capital commitments as required by SA Standards of GRAP 17 Property, plant and equipment. Discrepancies were identified between amounts recorded in the financial statements as well as supporting schedules and information. Furthermore, completed projects were still included in the capital commitments disclosure. I was unable to determine the full extent of the misstatement as it was impractical to do so. Consequently, commitments stated at R26,73 million (2018: R70 million) in note 35 to the financial statements was misstated by an unknown amount.

In addition, I was unable to obtain sufficient appropriate audit evidence for operational commitments as the supporting documents were not submitted for audit. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to operational commitments stated at R8,59 million in note 35 to the financial statements.

Irregular expenditure

The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This resulted in irregular expenditure being misstated by an unknown amount. I could not confirm the irregular expenditure by alternate means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure stated at R266,21 million (2018: R249,04 million), as shown in note 42 to the financial statements.



Basis for adverse opinion

Unauthorised expenditure

The municipality did not include all unauthorised expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This resulted in unauthorised expenditure being misstated by an unknown amount. I could not confirm the unauthorised expenditure by alternate means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure stated at R66,56 million (2018: R60,27 million), as shown in note 40 to the financial statements.

Cash flow statement

The municipality did not prepare the statement of cash flows in accordance with the requirements of SA Standards of GRAP 2, Cash flow statements. Cash flows from operating activities were misstated as finance costs and changes in working capital were not correctly accounted for and evidence to confirm payments to suppliers and others was not provided for audit purposes. I was unable to determine the full extent of the misstatements in the disclosure for the statement of cash flows as it was impractical to do so.



Basis for adverse opinion

Contingent liabilities

The municipality did not properly record contingent liabilities as required by SA Standards of GRAP 19: Provision, contingent liabilities and assets. This was as a result of discrepancies between the financial statements and the confirmations obtained. Consequently, contingent liabilities stated at R64,49 million in note 36 to the financial statements was misstated by an estimated amount of R8,76 million.

Statement of comparison of budget and actual

The municipality did not prepare the statement of cash flows in accordance with the requirements of SA Standards of GRAP 24, presentation of budget information in the financial statements. This was as a result of discrepancies between the amounts in the statements and the supporting documents. I was unable to determine the full extent of the misstatements in the disclosure for the statement of cash flows as it was impractical to do so.

Emphasis of matter

Restatement of corresponding figures

As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Fruitless and wasteful expenditure

As disclosed in notes 41 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R1,78 million, (2018: R5,06 million) as it incurred interest on late payments.



Predetermined objectives

Objectives	Finding
<p>Basic service delivery</p>	<p><i>Usefulness and reliability of reported performance information:</i></p> <p>Percentage of consumers with access to electricity</p> <p>The achievement for target Percentage of consumers with access to electricity reported in the annual performance report was 100%. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 76%.</p> <p>Number of constructions of halls/creches and construction of road completed</p> <p>The achievement for target Number of constructions of halls/creches and construction of road completed reported in the annual performance report was 12. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of nine.</p> <p>Various indicators</p> <p>I was unable to obtain sufficient appropriate audit evidence that clearly defined the Predetermined source information and method of collection to be used when measuring the actual achievement for the various indicators below. This was due to a lack of technical indicator descriptions. I was unable to test whether the indicators were well-defined by alternative means.</p> <p>Planned indicator</p> <ul style="list-style-type: none"> % of refuse removal Number of Substations, Kiosks, Minisubs maintained Number of M3 of damage roads which require rehabilitation Number of street lighting maintained



Compliance with legislation

Subject matter	Finding
<p>Expenditure management</p>	<p>Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending on employee related costs.</p> <p>Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-availability of sufficient information to confirm that the SCM process was followed.</p> <p>Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,78 million, as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by the late payment of invoices.</p> <p>Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.</p>



Compliance with legislation (continued...)

Subject matter	Finding
Consequence management	All of the irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.



Compliance with legislation (continued...)

Subject matter	Finding
Asset management	An effective system of internal control for assets, including an adequate asset register, was not in place as required by section 63(2)(c) of the MFMA.

Compliance with legislation (continued...)

Subject matter	Finding
<p>Procurement and contract management</p>	<p>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, as required by MSCMR 13(c).</p>
	<p>Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.</p>
	<p>Some of the contracts and quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Services to be in order, in contravention of the SCM regulation 43.</p>
	<p>Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA). Similar non-compliance was also reported in the prior year.</p>
	<p>Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA.</p>



Compliance with legislation (continued...)

Subject matter	Finding
Revenue Management	An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Internal control deficiencies

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

- Leadership did not provide adequate oversight and monitoring in ensuring that approved policies and action plans are implemented to fully address previous findings on the financial statements, predetermined objectives and compliance with legislation. Furthermore, consequence management was not effectively implemented for non-performance, to slow responses in addressing and implementing recommendations and transgressions reported.
- Senior management did not implement proper record management processes and systems for the maintenance of documents supporting both the annual financial statements and reported performance. Additionally, compliance with procurement and contract management requirements were not implemented and monitored.





Irregular expenditure

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

2018-19	2017-18
Unknown amount	R48 109 459

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
R1 778 974	R2 169 744



Unauthorised expenditure

Definition : Expenditure incurred in excess of the approved budget vote

2018-19	2017-18
Unknown amount	18 089 763



Conclusion

How to improve audit outcomes

- Mid-year and final financial statements should be compiled and reviewed by the CFO, internal audit and audit committee timeously to ensure that errors and misstatements are identified early on in the process and can be rectified
- Monthly asset reconciliations for all classes of assets should be conducted on a monthly basis to ensure that errors and misstatements are identified early on in the year.
- SCM and Performance units should be strengthened
- Internal controls should be institutionalised
- Credible and reliable financial and administration systems should be maintained



Stay in touch with the AGSA



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa