



Local government audit outcomes

MFMA
2018-19

UThukela District 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.”

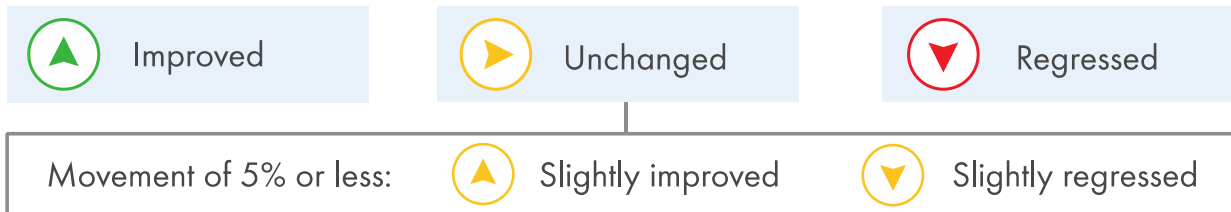
Important to note

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

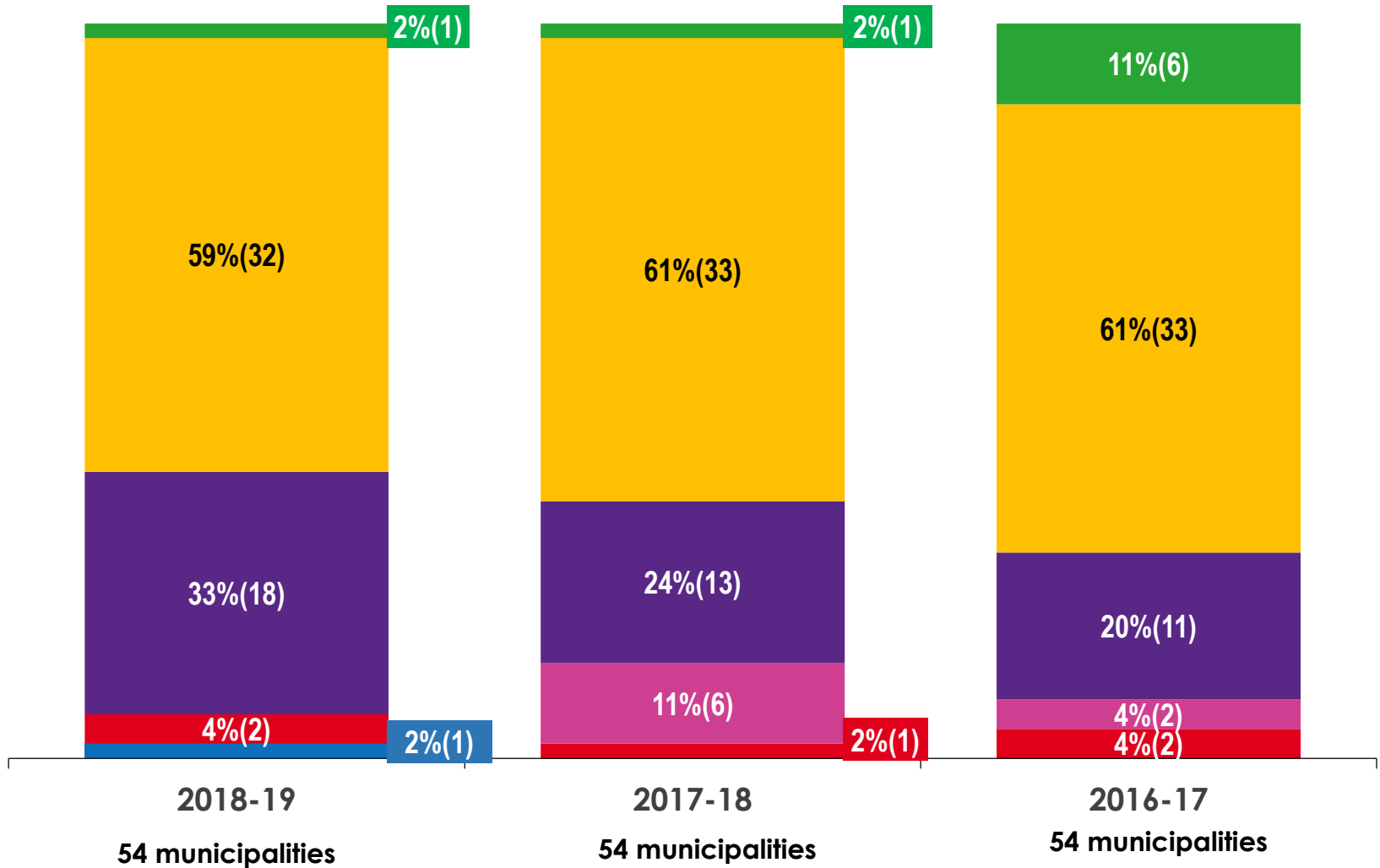
Audit outcomes are indicated as follows:

-  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		Qualified (9)	Qualified (3)	Qualified (1)
Audit of Predetermined Objectives (AoPO)	Movement	2018/19	2017/18	2016/17
Basic services (Material findings)		Nine	One	Twelve






Compliance with legislation

Compliance with legislations	Movement	2018/19	2017/18	2016/17
Financial statements (material findings)		Three	One	One
Procurement and contract management (material findings)		Ten	Eleven	Six
Strategic planning and performance management (material findings)		Three	Zero	One
Expenditure management (material findings)		Five	Three	Three



Compliance with legislation...

Compliance with legislations	Movement	2018/19	2017/18	2016/17
Revenue management (material findings)		One	Two	Two
Conditional grants (material findings)		One	One	One
Consequence management (material findings)		Two	Two	Two

Risk areas

Quality of submitted financial statements



Quality of submitted performance information



Supply chain management



Financial health



Human resource management



Information technology



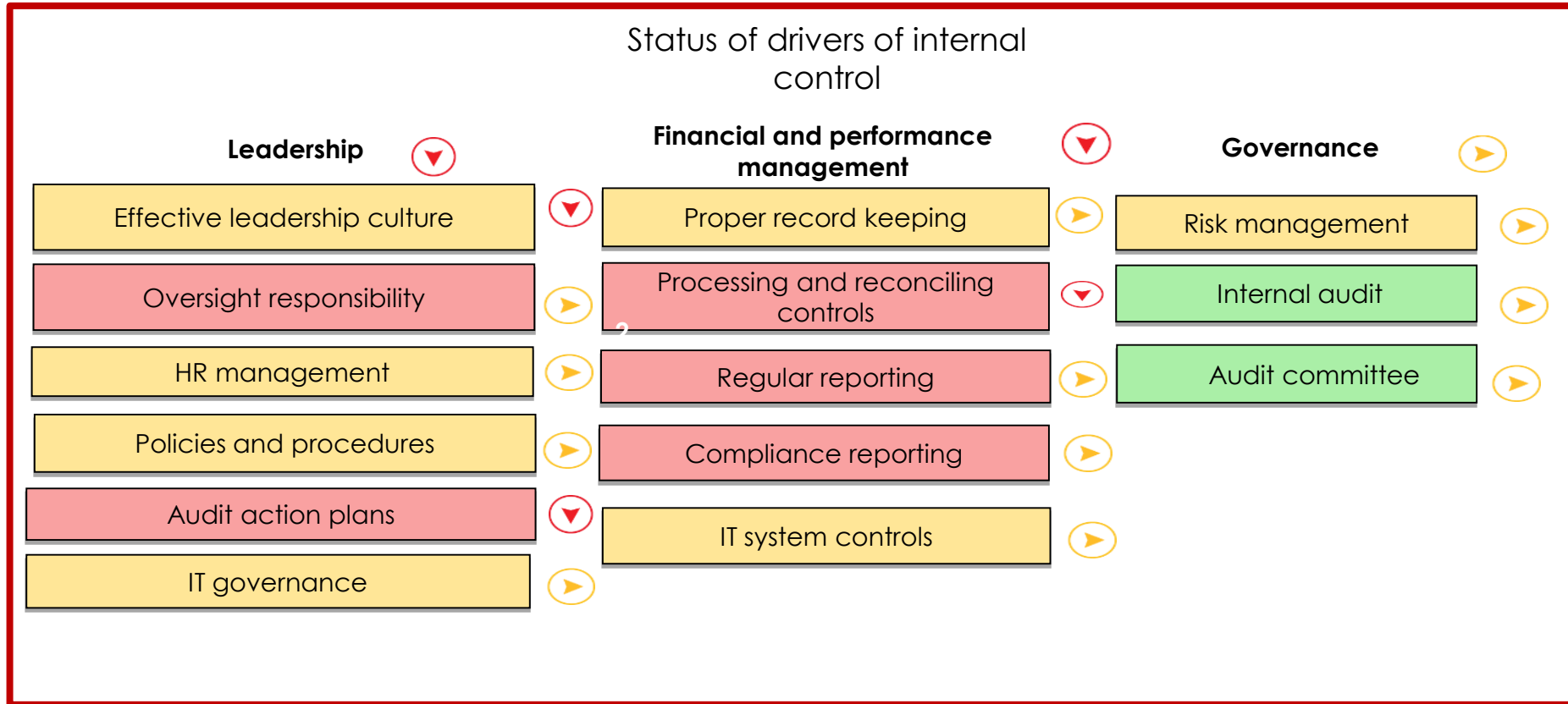
Good

Concerning

Intervention required



Key controls



Root causes to be addressed

- Leadership should hold the staff accountable for the poor performance and regressions.
- Action plans should be adequately monitored by the accounting officer to address the key audit matters that resulted in the material misstatement and findings.
- Management should ensure effective implementation and monitoring of daily and monthly controls to ensure credible annual financial statement are produced.
- Management should perform proper reviews of quarterly, mid-year, and annual performance reports to ensure reported achievements are supported by relevant reliable and complete information.
- Management should regularly review and monitor compliance with laws and regulations particularly in the supply chain management



Audit opinion

In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with 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, 2018 (Act No. 1 of 2018) (Dora).



Emphasis of matter

Restatement of corresponding figures

As disclosed in note 46 to the consolidated and separate financial statements, the corresponding figures for 30 June 2018 were restated as a result of an errors in the consolidated and separate financial statements of the group at, and for the year ended, 30 June 2019.

Material losses – bad debt

As disclosed in note 51 to the consolidated and separate financial statements, material losses of R6,91 million (2018: R13,39 million) was incurred as a result of a write-off of irrecoverable trade debtors



Predetermined Objectives

Objective	Audit Findings
Basic Services	<p>The following indicators were approved in the Service Delivery and Budget Implementation Plan (SDBIP). However, these indicators were not reported in the annual performance report submitted:</p> <ul style="list-style-type: none">a) Percentage of households provided with access to portable water by 30/06/2019b) Kilometres of Wembezi to Bosch bulk rising main upgraded by 30/06/2019

Predetermined Objectives (continued...)

Objective	Audit Findings
Basic Services	<p>c) Kilometres of bulk pipeline constructed in Bhekuzulu phase 7 by 30/09/2018</p> <p>d) Kilometres of bulk lines constructed in Bhekuzulu Phase 9 by 30/06/2019</p> <p>e) Kilometres of 50mm high voltage cable replaced in Wagensdrift Pump station by 30/06/2019</p> <p>f) Number of toilets constructed in Ezakheni E sanitation by 30/09/2018</p> <p>g) Number of households provided with sewer connections in Ezakheni E by 30/09/2018</p>

Predetermined Objectives (continued...)

Objective	Audit Findings
Basic Services	<p>Number of household's connections made at the Bhekuzulu/Phangweni phase 1&2:</p> <p>The reported achievement of 689 is not reliable as the municipality did not have an adequate performance management system to maintain records and reported value was not diligently reviewed and reconciled to the source documents to enable reliable reporting on achievement of targets. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances while in other cases the supporting evidence provided did not agree to the reported achievement. Based on the supporting evidence that was provided, the achievement was 751, but I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement as reported in the annual performance report.</p>



Predetermined Objectives (continued...)

Objective	Audit Findings
Basic Services	<p>Number of households provided with VIP toilets in Bergville sanitation project:</p> <p>The reported achievement of 531 is not reliable as the municipality did not have an adequate performance management system to maintain records and reported value was not diligently reviewed and reconciled to the source documents to enable reliable reporting on achievement of targets. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances while in other cases the supporting evidence provided did not agree to the reported achievement. Based on the supporting evidence that was provided, the achievement was 501, but I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement as reported in the annual performance report.</p>



Compliance with legislation (continued...)

Subject matter	Finding
Financial statements	<p>The consolidated and separate 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 identified by the auditors in the submitted consolidated and separate financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the consolidated and separate financial statements receiving a qualified audit opinion.</p> <p>The annual financial statements for uThukela Economic Development Agency were not submitted to the Auditor-General within two months after the end of the financial year, as required by section 126(2)(b) of the MFMA</p>

Compliance with legislation (continued...)

Subject matter	Finding
Financial statements	<p>The annual financial statements for uThukela Economic Development Agency were not submitted to the Auditor-General within two months after the end of the financial year and council did not investigate the reasons for the failure to submit annual financial statements and take appropriate steps to ensure that the financial statements were submitted to the Auditor-General as required by section 133(1)(c) of the MFMA.</p>

Compliance with legislation (continued...)

Subject matter	Finding
Expenditure management	<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> <p>Reasonable steps were not taken to prevent irregular expenditure amounting to R245,56 million as disclosed in note 54 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by awards made to suppliers who tax matters had not been declared by SARS to be in order and suppliers who are employed by the state or connected to any person employed by the state in contravention of Municipal Supply Chain Management Regulations. (MSCMR)</p>

Compliance with legislation (continued...)

Subject matter	Finding
Expenditure management	<p>Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,99 million as disclosed in note 53 to the annual consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless & wasteful expenditure was caused by interest incurred on overdue accounts.</p> <p>Expenditure was incurred without an approved budget, in contravention of section 87(8) of the MFMA</p>

Compliance with legislation (continued...)

Subject matter	Finding
Expenditure management	Reasonable steps were not taken to prevent unauthorised expenditure amounting to R66,66 million as disclosed in note 52 to the annual consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA.
Revenue management	An effective system on internal control for revenue and debtors was not in place, as required by section 64(2)(f) of the MFMA.

Compliance with legislation (continued...)

Subject matter	Finding
Conditional grants	I was unable to obtain sufficient appropriate audit evidence that the Water Services Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Dora.
Procurement and contract management	Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of MSCMR 17(a) and (c).



Compliance with legislation (continued...)

Subject matter	Finding
Procurement and contract management	<p>Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by MSCMR 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of MSCMR 36(1). Similar non-compliance was also reported in the prior year.</p> <p>Contracts and 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 contracts and quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of MSCMR 43.</p>

Compliance with legislation (continued...)

Subject matter	Finding
9.4.5 Procurement and contract management	<p>Some of the contracts and quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of MSCMR 21 (b) and 28(1)(a) and the 2017 Preferential Procurement Regulations (PPR).</p> <p>Some of the contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and its regulations.</p> <p>Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of PPPFA and PPR.</p>

Compliance with legislation (continued...)

Subject matter	Finding
Procurement and contract management	<p>Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).</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> <p>Awards were made to providers whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).</p>



Compliance with legislation (continued...)

Subject matter	Finding
Consequence management	<p>Unauthorised, expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a), of the MFMA.</p> <p>Irregular, as well as fruitless and wasteful 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.</p>
Strategic planning and performance management	<p>Annual performance objectives and indicators were not established for uThukela Economic Development Agency and included in its multi-year business plan, as required by section 93B(a) of the MSA.</p>

Compliance with legislation (continued...)

Subject matter	Finding
Strategic planning and performance management	<p>A multi-year business plan for uThukela Economic Development Agency was not developed for inclusion in the budget, as required by section 87(5)(d) of MFMA.</p> <p>The performance of uThukela Economic Development Agency was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.</p>



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 consolidated and separate 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.
- Furthermore, controls and processes over the preparation of the consolidated and separate financial statements and the annual performance report were not effectively implemented by senior management in ensuring that they were accurately prepared and supported by reliable and credible information by ensuring proper records management policy and processes are in place.





Irregular expenditure

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

2018-19	2017-18
R245,6 million	R399,8 million

Refer to note 54 of the annual financial statements.

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 988 240	R206 065

Refer to note 53 of the annual financial statement



Unauthorised expenditure

Definition : Expenditure incurred in excess of the approved budget vote

2018-19	2017-18
R66,66 million	R70,97 million

Refer to note 52 of the annual financial statement



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



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