

**AGSA briefing
MFMA Audit Cycle 2018-19
Northern Cape**

Sol Plaatje Local Municipality

16 March 2021



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Sol Plaatje Local Municipality



- 100% SCM related
- Prior year IE was not investigated
- IE amounting to R3.4 million were written-off
- 4.96% of IE related to multi-year contracts

Overall key message

Audit outcomes are stagnant in the current year as the municipality maintained qualified audit opinion. One of the contributing factors for this stagnation is the political leadership that has not done well in providing stability and create an enabling environment for the municipality to run its business in a manner that promotes transparent reporting and accountability. Key to the control environment and reporting are the accounting officer and the director of finance which this year has seen acting personnel assigned to these roles. The general control environment is affected by such an instability as it has ripple effect on various divisions within the municipality.

The vacancies and instability at the IDP (Integrated Developmental Plan) unit within the municipality has played a role in an increased number of material findings reported on their pre-determined objectives, as the municipality received increased number of limitation of scope findings on these areas when compared to the prior year. The other contributing factor for this regression was the failure by the municipality’s officials to verify the evidence submitted to the auditors in support of the reported targets in their annual performance report.

There is an expectation of management to design, implement and monitor controls within various processes that inform accurate reporting. These processes should be clearly communicated and independent of individuals within the municipality so that they absorb changes between personnel. Management has not effectively addressed this expectation.

This poor control environment enabled some instances of material findings on laws and regulations. Whether municipal personnel were acting or serious instability with key positions, those that eventually carried on the business of the municipality did not always observe the laws and regulations.

We also bring to the attention of the municipality the need to assess the impact of the 2018 community strikes and various other protests in 2019. The abolishment of the R260 tariffs and other tariffs issues before that. And the prolonged investigations on key officials. A turnaround strategy is needed to address the financial difficulties, whilst we acknowledge the short term solutions implemented in 2019 we do not see that as a responsible approach to the institution of this magnitude.

Analysis of financial statements

- The debtor-collection period (after impairment) was calculated to be 358 days (317 days). This indicates that the municipality's ability to collect revenue have deteriorated.
- This was further confirmed with the decrease in the year-end cash balance (R74mil [2018: R135mil]) together with an increase in the creditor's outstanding balance (R238mil [2018: R170mil]).
- The current liabilities as a percentage of next year's budgeted resources have increased from 24.9% to 27.9%. This increase emphasizes the current cash flow difficulties that the municipality is experiencing.
- The cash resources of the municipality will be depleted if it fails to improve the cash flow situation.
- This cash management problem imposes a risk on the municipality's ability to deliver services effectively in future. For example, self-funded projects were put to a stop.