



Local government audit outcomes

MFMA
2018-19

Elias Motsoaledi Local Municipality

Millions spent to improve audit outcomes – yet no consequences for poor performance

*Portfolio Committee on Co-operative Governance
and Traditional Affairs – 17 March 2021*



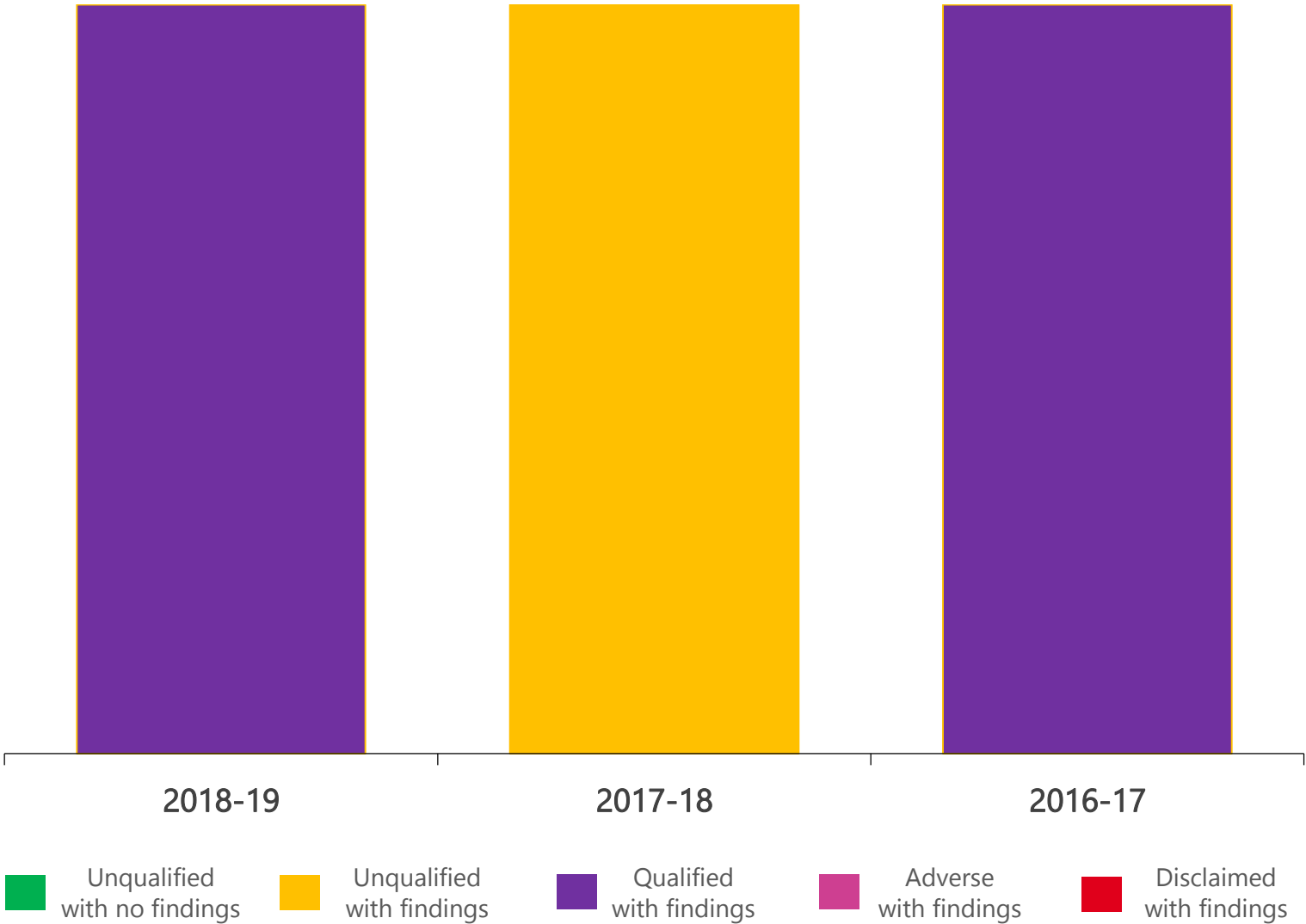
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Reputation promise

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.



Elias Motsoaledi Local Municipality – Three consecutive years audit outcomes





Background

- Elias Motsoaledi Local Municipality (formerly Greater Groblersdal Local Municipality) is located in the Sekhukhune District Municipality of Limpopo province, South Africa. The seat of Elias Motsoaledi Local Municipality is Groblersdal. Municipality is named in honour of the late Elias Motsoaledi.

The **2018** financial year audit revealed that:

- There were still weaknesses identified in the monitoring of the affairs of the municipality by the leadership to ensure that internal controls are adhered to, risks are managed and outcomes are achieved.
- The audit also revealed material misstatements in the annual performance report submitted for auditing. The annual report contained material findings on the usefulness and reliability of the reported performance information.
- The quality of the financial statements and performance reports submitted for auditing continued to be a challenge for the municipality.
- Management, the executive authority and oversight structures did not respond with the required urgency to our message about addressing risks identified and to improve internal controls identified. The action plan mainly focuses on the short term, that is, to only fix the problems that resulted in audit report findings. Sustainable processes were not put in place to ensure that the underlying records do not contain errors.

The municipality received an Unqualified audit opinion with findings

The **2019** financial year audit revealed that:

- The municipality could not sustain or improve its prior year audit outcome due to numerous misstatements that were identified during the audit. It is critical that internal control systems are consistently reviewed and revised to remain robust to ensure achievement of strategic objectives.
- The municipality regressed in financial reporting, improved in the audit of AOPO and maintained the audit outcome for compliance. The IT governance has improved; however, IT system controls remain concerning. A concerted effort needs to be made to address findings on IT systems which can compromise the integrity of processed information. The vacancies in key senior position remains concerning, with the CFO resigning and municipality manager suspended.

The usage of consultants for financial reporting.

- The municipality has made use of consultants in the 2016-17 financial year as well as the two preceding years. The consultants supported the municipality to prepare financial reports. In the 2018/19 year the municipality spent R11 229 046 on financial reporting consultants. There is an indication of the downward trend in the spending on the use of consultants for financial reporting.
- While it is acknowledged that the use of consultants to support the municipality in technical financial reporting aspects is necessary, such appointment should include a plan for transfer of skills or capacitation of the municipality's finance department.

	Name of consultant	Nature of services	Consultant appointment reason	R-value
2018-19	Munsoft (pty) Ltd	Financial consulting	Lack of skills	R11 229 046
2017-18	Munsoft (pty) Ltd	Financial consulting	Lack of skills	R24 630 914
2016-17	Munsoft (pty) Ltd	Financial consulting	Lack of skills	R6 464 529





2018/19 overview financial year audit outcomes

Risk areas

Quality of submitted financial statement	Quality of submitted performance information	Supply chain management
Financial health	Human, resource management	Information technology

Good
Concerning
Intervention required

Predetermined objectives

	Reported information useful	Reported information reliable
2018-19	Addressed	Addressed
2017-18	KPA4 & 1 – not well defined & reliability	Findings KPA4 & 1 - Basic services
2016-17	KPA4 – not well defined	Findings KPA4-Basic services

Compliance with laws and regulations

	Annual Financial Statements & Annual Report	UIFW	Revenue management	Financial misconduct	Expenditure management	Asset management	Procurement management
2018-19	Repeat	Repeat	Repeat	Addressed	Addressed	Repeat	Repeat
2017-18	Repeat	Repeat	Repeat	Repeat	New	New	Repeat
2016-17	Repeat	Repeat	Repeat	Repeat	No finding	No finding	Repeat



Qualification areas – basis for qualification

Item	Details
Property plant and equipment	<ul style="list-style-type: none"> • Differences between depreciation disclosed and the underlying records. • Investment property in accordance with GRAP 16, Investment property, which was incorrectly accounted for as property, plant and equipment.
Finance lease obligation	<ul style="list-style-type: none"> • Difference between the finance lease obligation and the underlying records.
Allowance for impairment	<ul style="list-style-type: none"> • Difference between the allowance for impairment for consumer debtors from exchange transactions and the underlying records.
Landfill site provision	<ul style="list-style-type: none"> • I was unable to determine the present value for the rehabilitation of landfill site due to the status of the accounting records
Revenue from non-exchange transactions	<ul style="list-style-type: none"> • The municipality incorrectly accounted for traffic fines receipt in revenue for fines, penalties and forfeits instead of reducing the receivables from non exchange transactions
Bulk purchases	<ul style="list-style-type: none"> • I was unable to obtain sufficient appropriate audit evidence for bulk purchases as the municipality did not maintain proper financial records for bulk purchases invoices before recording in the financial statements
Cash flow statement	<ul style="list-style-type: none"> • The municipality did not prepare and present its cash flow statement in accordance with GRAP 2 as differences were identified.





Irregular expenditure incurred – Significant increase in the past three financial periods

Annual expenditure balances	2018-19	2017-18	2016-17
Irregular expenditure incurred	R216 million	R167 million	R84,5 million

Non-compliance noted:

- A contract was awarded to a bidder based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and its regulations.






Lack of financial disciplines

- During the 2018-19 audit, we identified various example where the **leadership of the municipality has failed to implement the discipline of financial controls** over public funds, which further might hindered the municipality from delivering services to the community.
- The financial statements contained numerous misstatements that were uncorrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework.
- Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

What do the financial statements say? The stark reality



<i>Income statement</i>		Revenue	Total = R507 million	Of the total revenue of R507 million , R316 million (62%) was from government grants and subsidies.
		Expenditure	Total = R444,5 million	Of the total expenditure of R477 million , R146 million (33%) was for employee cost of the municipality.
		Net result	The municipality incurred a surplus (expenses exceeded revenue) of R40 million for the year	

The municipality experienced a positive surplus for the 2018/19 financial year as it incurred a surplus of R40 million, however the municipality is having cash flow challenges due to the following matters:

- Debtors are not paying on time
- Takes long to settle its short term creditors
- Current liabilities exceeds current assets



Concluding remarks

The key messages included in this report highlight the state of affairs in local government in the province and the impact of accountability failures at municipalities.

The leadership of the municipality should strengthen oversight over financial, performance and compliance reporting, as the annual financial statements and compliance reporting were not adequately reviewed before submission. Furthermore, management should follow up the implementation of internal and external audit recommendations to address internal control deficiencies.



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