



Local government audit outcomes

MFMA
2018-19

Ephraim Mogale Local Municipality

*The high cost of accountability failures in Local
Government*

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



AUDITOR-GENERAL
SOUTH AFRICA

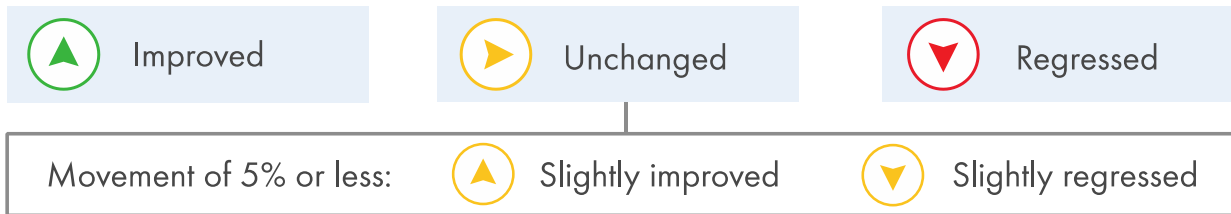
Important to note

Local government in the Limpopo consists of 28 auditees, broken down into 20 local municipalities, five district municipalities and 3 municipal entities. The municipal entities are classified as small entities and therefore are not included in this analysis. Two audits were outstanding at the cut-off date. Therefore the percentages in this presentation are calculated based on the **completed audits of 27 municipalities as at 31 January 2020**, unless indicated otherwise.

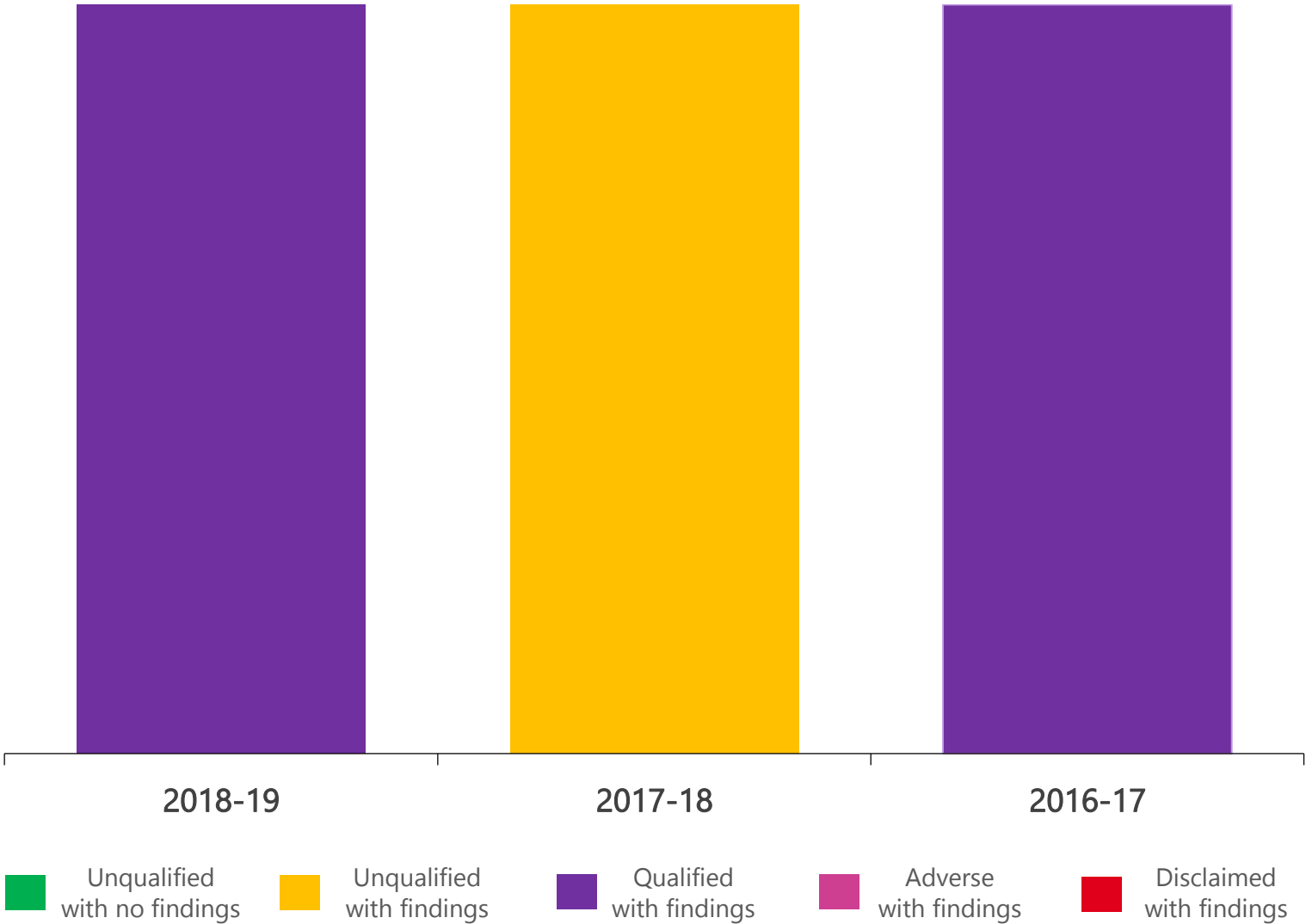
Audit outcomes are indicated as follows:



Movement from the previous year is depicted as follows:



Ephraim Mogale Local Municipality – Audit outcomes for three years





Background

- January 21, 2010, was turning point when the Ephraim Mogale Local Municipality was officially declared, replacing the name Greater Marble Hall Local Municipality by the Member of the Executive of Limpopo Local Government and Housing. Municipality had various upswings and downswings audit outcomes in past three years since 2016/17 financial year

The **2017** financial year audit revealed that:

- Critical positions of the Director Corporate Service and Director Planning and Development were vacant for almost 12 months.
- There was no signed performance management agreement in place for middle and lower management level
- Policies & procedures were not in place for performance management system and
- No clear implementation of audit plans by management and quality assurance by internal audit and audit committee
- Daily and monthly reconciliations were not performed for asset management as required by assets management policy and Municipal Finance Management Act
- Annual Financial Statements were submitted with for audit with inaccurate , incomplete and unreliable supporting documents
- **Numerous supporting schedules were submitted** for audit and, of the schedules submitted, there are material variances between the supporting schedules and AFS relating to non-current assets , disclosers and cash flow.

The municipality received qualified audit opinion due to Completeness of Property , Plant and Equipment.

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

- **Numerous supporting schedules were submitted** for audit and, of the schedules submitted, there are material variances between the supporting schedules and AFS relating to assets , revenue , expenditure , disclosers and cash flow however there were subjected to adjustments process or corrected
- KPA 2: Basic service delivery and infrastructure development was qualified based on the material findings on reliability and usefulness.
- There has been material non-compliance on annual financial statements , procurement and contract management , expenditure , assets and human resource management.

The audit opinion was has improved to unqualified for the year under review.



The usage of consultants for financial reporting.

- The municipality has made use of consultants in the 2-18-19 year as well as the two preceding years, although the amount spent in 2018-19 was much reduced compared to previous year. The consultants supported the municipality to prepare financial reports. In the current year the municipality spent R4 303 451 on financial reporting consultants. There were several material misstatements on the annual financial statements and were subsequently corrected.
- 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.
- The consultants have been able to assist with resolving qualification matters in 2016-17 however for the year under review (2018/19) the municipality has been qualified on discloser notes (Commitment)

	Name of consultant	Nature of services	Consultant appointment reason	R-value
2018-19	Munsoft Consultants	Financial consulting	Lack of skills and vacancies	R4 303 451
2017-18	Munsoft Consultants	Financial consulting	Lack of skills and vacancies	3 333 678
2016-17	Munsoft Consultants	Financial consulting	Lack of skills and vacancies	9 863 727





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	Findings KPA2 – Basic services and infrastructure development
2017-18	Addressed	Findings KPA2 – Basic services
2016-17	KPA2 – Not well defined	Findings KPA2-Basic services & KPA 3 – Local Economic Development

Compliance with laws and regulations

	Annual Financial Statements & Annual Report	Consequence management	Assets management	Human resource Management	Expenditure management	Strategic planning and performance management	Procurement management
2018-19	Repeat	New	Addressed	Addressed	Repeat	None	Repeat
2017-18	Repeat	None	Repeat	Repeat	Repeat	None	Repeat
2016-17	New	None	New	New	New	None	New



Qualification areas – basis for disclaimer

Item	Details
Commitments	<ul style="list-style-type: none">• Some of the contracts which were active at year end were not recorded in the commitment register for operational and capital resulting in material misstatements in the annual financial statements.





Lack of controls resulted write-off and condonement of irregular expenditure

Balance of written off and condonement of irregular expenditure **R36,8million & R 5,2 Million**

Irregular expenditure balances	2018-19	2017-18	2016-17
Irregular expenditure	R7,6 million	R20,9 million	R3,6 million

The reported irregular expenditure is based on financial statements and therefore possibly not a true reflection of the full extent of the irregular expenditure, as there has been lack of sufficient and adequate investigations to determine the completeness of irregular expenditure

- The 2017/18 irregular expenditure of R 20 966 380 million was referred to the MPAC for investigation and was subjected to written-off by the municipal council.
- The 2018/19 irregular expenditure of has been referred to the MPAC during the year under review and has been investigated and approved for written off by municipal council however upon our review through evaluation of the basis of write off and discussion with MPAC chairperson we identified that there was not sufficient and adequate evidence to base the written off of R 7 Million for 2019/20
- This was due to irregular expenditure of prior years **not being properly investigated**. The lack of such investigations coupled with a failure by the municipal leadership to establish the required systems to hold officials responsible has **created an environment where officials act with impunity, with no consequences for transgressions**. There is a need for the council and municipal public accounts committee to give urgent attention to this while performing their oversight functions.





Irregular expenditure incurred – Decrease from prior years

Annual expenditure balances	2018-19	2017-18	2016-17
Irregular expenditure incurred	R18,3 million	R2,9 million	R3,6 million

Material Non-compliance identified

- 2 contracts were procured without inviting competitive bids and deviation were approved even though it was practical to invite competitive bids
- 1 contract was awarded to bidders based on preference points that were not according to PPPFA
- 19 quotations were awarded bidders who did not submit declarations on whether they were employed by state or connected person
- 1 construction contract was awarded to contractors who were not registered with CIDB
- SCM policy was not in line with Municipal Supply Chain Regulation





Consequence management non-compliance

Material non-compliance identified :

- Some of the losses resulting from irregular expenditure were certified council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.
- Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine
- The municipality did not adopt systems (policies) to investigate allegations of misconduct; and disciplinary procedures.
- Petrol card transaction which cannot be verified that they occurred
- A disciplinary board was not established to investigate allegations of financial misconduct and monitor the institution of disciplinary proceedings against an alleged transgressor.
- Irregular/fruitless and wasteful expenditure disclosed in note 43 and 44 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of this expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular/fruitless and wasteful expenditure and losses incurred must be recovered from the person liable.





Deficiencies on predetermined objectives

The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the some of the indicators in the APR. 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 achievements. Based on the supporting evidence that was provided, the achievement of these indicators was different to the reported achievement in the annual performance. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

No	Performance indicator	Reported Achievement	Audited Values
1	Kilometers of road to be upgraded by June 2019 (Ngwalemong internal streets)	0,5km	3,3km
2	Kilometers of road to be upgraded by June 2019 (Ngwalemong internal streets)	0,5km	2,8km
3	Number of quarterly local aids council meetings schedules and held by June 2019	2	1
4	Number of Streetlights fittings inspected by June 2019	1 056	5 755



Deficiencies on predetermined objectives

No	Performance indicator	Reported Achievement	Audited Value
5	Number of mastlights fittings inspected by June 2019	528	2349
6	% of households with access to minimum level of basic waste removal by June 2019 (Once a week)	15,5%	
7	Number of households with access to minimum level of basic waste removal by June 2019 (Once a week)	6 369	



Deficiencies on predetermined objectives

The municipality did not have proper review and validation processes in place to ensure that all the planned indicators per the SDBIP are transferred consistently to the annual performance report. As a result, the reported annual achievement for the “Number of households to be connected with sanitation services by 30th June 2019” is not consistent with the planned target per the revised SDBIP.

No	Performance indicator	Reported Achievement
1	% of households with access to a minimum level of basic waste removal by June 2019(once a week)	15,5%
2	Number of households with access to a minimum level of basis waste removal by June 2019 (Once per week)	6 369






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 hindered the municipality from delivering services to the community.
- Disciplinary board was not properly constituted to investigate any financial misconduct or some of the contravention of the financial misconduct regulations.
- Irregular expenditure was not properly investigated during the year under review and some of awards were made to employees of the state.
- An example of this was petrol card transactions which could not be verified due to lack of adequate controls or system for refilling fuel.

What do the financial statements say? The stark reality



<i>Income statement</i>		Revenue	Total = R280 million	Of their total revenue of R280 million , R166 million (60%) was from government grants and subsidies.
		Expenditure	Total = R260,5 million	Of their total expenditure of R260,5 million , R91 million (35%) was for employee cost of the municipality.
		Net result	The municipality incurred a surplus (revenue exceeded expensed) of R31,3 million for the year	

Herewith its the financial analysis of the municipality for the year under review which result in sustainable financial health which also requires improvement

The municipality should implement rigorous steps to improve their debt collection to enhance their cash flow . There is need to monitor and follow up on conditions basis the payment approaches to the turnaround the creditors payment period to avoid any undue fruitless and wasteful expenditure as result of late payments as some of the surplus funds could be tied in unused funds due to suppliers



Concluding remarks

The key messages included in this report highlight the state of affairs in Ephraim Mogale Local Municipality in Limpopo Province and the impact of accountability failures at municipality.

Leadership and senior management need to be accountable for their actions and those of their subordinates. They need to conduct themselves with impeccable standards of transparency in all activities undertaken to manage the scarce resources and deliver on their mandate.

Vacancies at senior management level must be filled to enable continuous monitoring and review of the internal control system.

The municipality's audit outcome remains stagnant due to slow response by management and political leadership to address prior year audit findings, and the lack of implementation and monitoring of audit action plans as well as addressing significant internal controls deficiencies.

The leadership of the municipality should strengthen oversight over financial, performance and compliance reporting, as the annual financial statements, annual report and compliance reporting were not adequately reviewed before submission. They should also maintain a proper record management system for records.



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