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# Local government audit outcomes and findings on covid-19 municipal relief funding



AUDITOR - GENERAL  
SOUTH AFRICA

# Our message from previous general report



## Not much to go around, yet not the right hands at the till

1. **Local government finances are under pressure**
2. Municipalities are relying on **short-term and costly solutions** such as consultants to compensate for lack of financial management and reporting skills
3. **Supervision and monitoring** is not taking place
4. **Preventative controls** must be institutionalised and strengthened through oversight
5. Leadership and oversight should use **AGSA reports and briefings** to **identify key areas** that need attention
6. There must be **consequences** for accountability failures



# What we observed – financial health and reporting



## Local government finances continue to worsen:

- Over a quarter (27%) – significant doubt on ability to continue as going concern
- Municipal debtors not recoverable (average 63%) resulting in creditors greater than available cash at year-end for almost half of municipalities (49%) and average creditor-payment period of 209 days
- Large portion (46%) of estimated recoverable revenue and equitable share used for salaries and council remuneration – only 2% of expenditure towards maintenance
- High unauthorised expenditure (R14,61 billion) and 30% ended year with a deficit



## Serious weaknesses in financial reporting

Submission of financial statements by legislated date (all auditees)	89%
Quality submission for auditing	28%
Quality of published financial statements	58%

**30%** achieved unqualified opinions only because they corrected all misstatements identified during audit

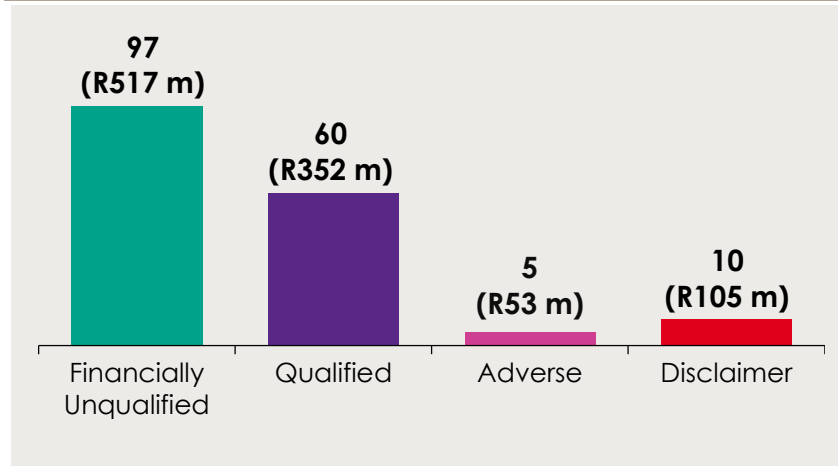


# Consultants – a short term and expensive solution to address capacity/ skills problem



Recurring use of consultants at 74% of municipalities

## FINANCIAL STATEMENTS OUTCOMES WHERE CONSULTANTS WERE USED



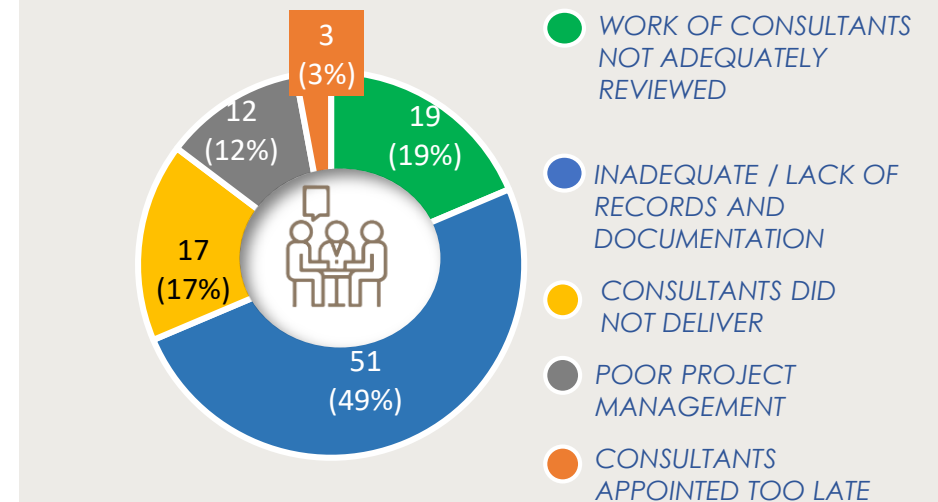
59% (102) of financial statements submitted for auditing included material misstatements

## Reasons for using consultants

## % of municipalities

Lack of skills	68%
Lack of skills and vacancies	30%
Vacancies	2%

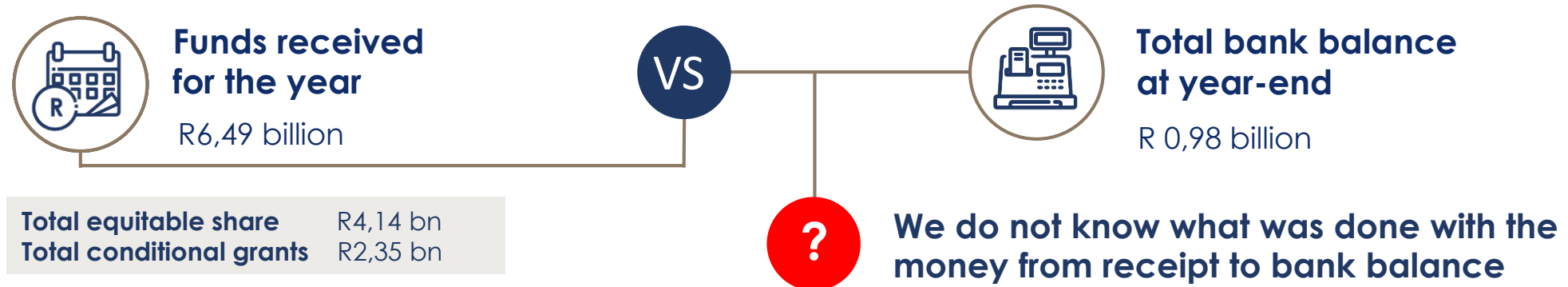
## REASONS WHY CONSULTANTS WERE INEFFECTIVE



# Municipalities with disclaimed opinions – what it means

*22 municipalities had disclaimed opinions\**

Disclaimed opinion = municipality could not provide us with evidence for most amounts and disclosures in financial statements; we could therefore not express an opinion on credibility of these financial statements



We have not received financial statements of 4 municipalities that received disclaimed opinions in prior years

*\* Includes 10 audits completed after cut-off date*



# Municipalities with disclaimed opinions – who it is

12

Completed audits by cut-off date of 23 April 2021

10

Includes audits subsequently finalised as at 4 June 2021

22

Total disclaimed opinions

## NORTH WEST

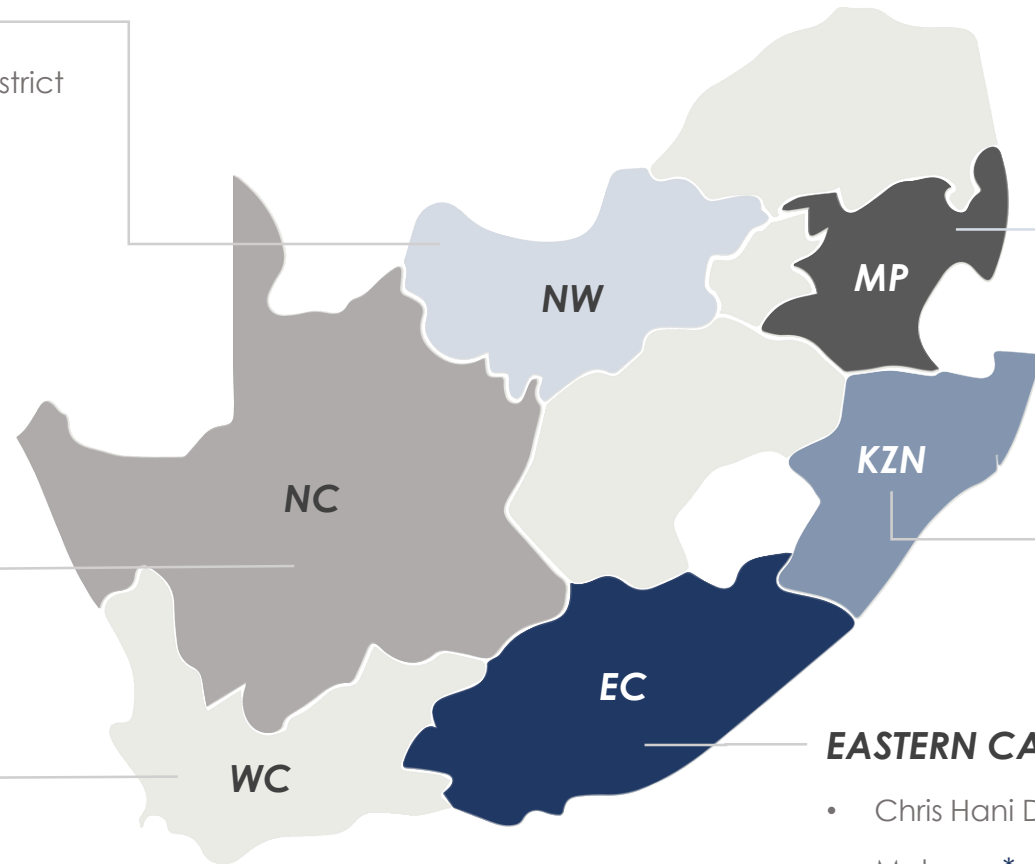
- Dr Ruth Segomotsi Mompati District
- Maquassi Hills \*
- Ratlou \$
- Lekwa Teemane \*
- Madibeng \$
- Ramotshere Moiloa
- Mamusa

## NORTHERN CAPE

- Kai !Garib
- !Kheis

## WESTERN CAPE

- Beaufort West



## MPUMALANGA

- Govan Mbeki (placed under administration after year-end)
- Dipaleseng
- Lekwa
- Dr Pixley Ka Isaka Seme

## KWAZULU-NATAL

- Amajuba District
- Inkosi Langalibalele ¥
- uMzinyathi District §
- Nquthu

## EASTERN CAPE

- Chris Hani District
- Makana \*
- Ingquza Hill
- Sundays River Valley

\* Under administration for one year  
 \$ Under administration for 2 years  
 ¥ Under administration for 3 years  
 § Under administration for 4 years



# Unreliable performance reporting – a symptom of poor management of service delivery

*A performance report accounts for essential service delivery promises made by a municipality in their IDP*

Preparation of performance reports	98%
Quality submission for auditing	24%
Quality of published performance reports	48%

*24% had no material findings only because they corrected all misstatements identified during the audit*

Finding	This means	
Achievement reported not reliable	Services reported as delivered may not have taken place at all or were fewer than those reported	41%
Performance indicators and targets not useful	Measures used to plan for service delivery not good enough to enable delivery of planned services	39%
No underlying records or planning documents	We could not confirm anything on the performance report	5%

There is great correlation between persistent poor service delivery outcomes by municipalities to the poor state of performance reporting.



# Widespread non-compliance with legislation

## Findings on material non-compliance



## Most common areas of non-compliance

Prevention of unauthorised, irregular and fruitless and wasteful expenditure	76%
Procurement and contract management	74%
Quality of financial statements	73%
Effecting consequences	57%

## Status of compliance with SCM legislation



## Details of SCM non-compliance

Uncompetitive and unfair procurement processes	168 (84%)
Awards to employees and political office-bearers	R19 million
Limitations on audit of awards selected for testing	R1,43 billion
False declarations by suppliers	890 instances



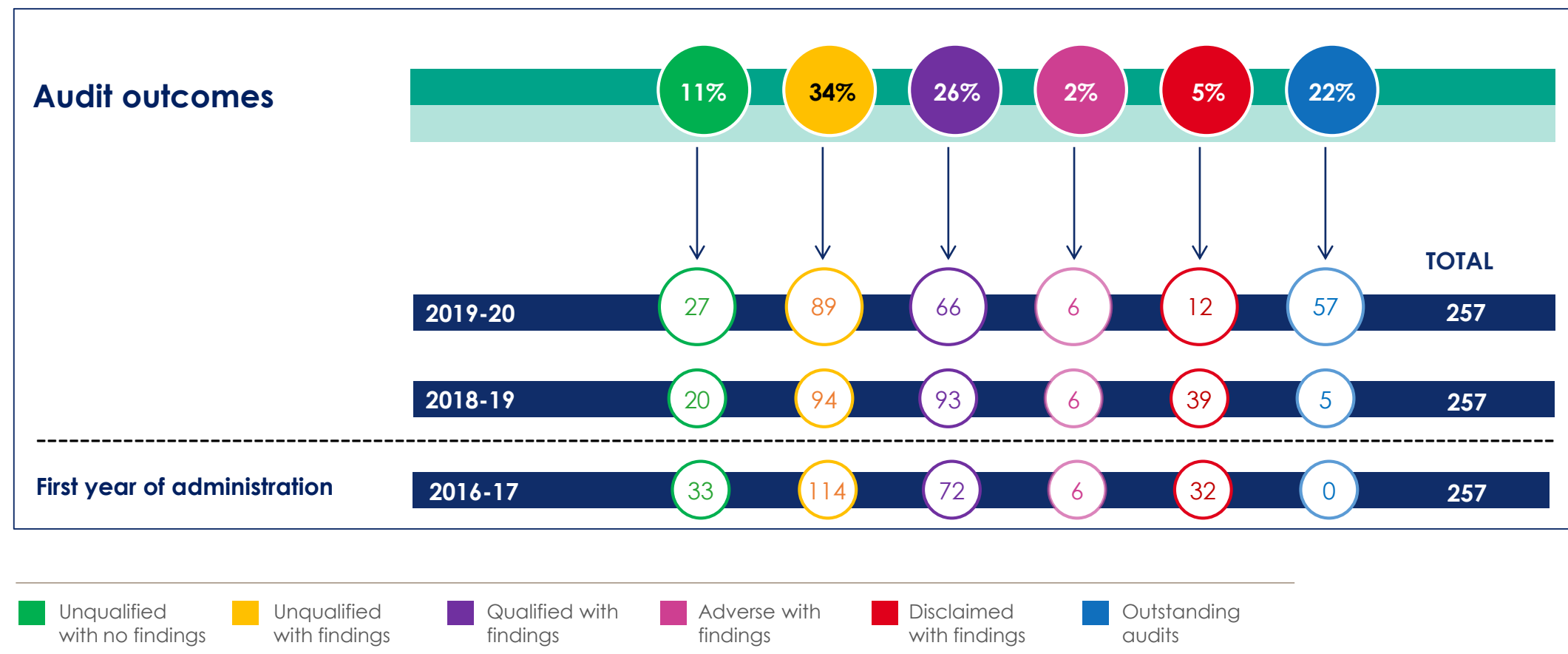
**Annual irregular expenditure: R26,09 billion** incurred by **246** municipalities

**But irregular expenditure is not complete** - in addition to the limitations in testing, **73 (37%)** municipalities were qualified on completeness of their disclosure and/or did not know total amount and were still investigating to determine this





# Poor audit outcomes remains prevalent



# Provincial key messages



Improve and focus on controls for sustainable outcomes

***Improvement in outcomes, but they might not be sustainable due to poor control environments***



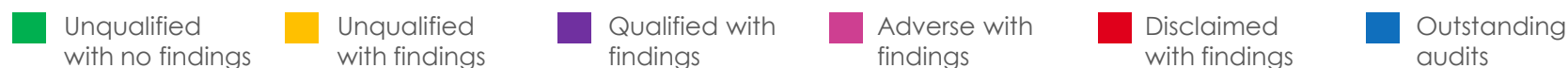
Accountability can be realised through decisive leadership tone

***Lack of accountability creates a perpetual disrespect for regulations, resulting in mismanagement of resources and lack of service delivery***



Improve monitoring of preventative controls

***Despite pockets of improvements, inadequate monitoring of preventative controls resulted in stagnant outcomes and increasing levels of UIFW expenditure***



# Provincial key messages *(continued)*



Upscale implementation of preventative controls and drive consistent consequence management

***Stagnation in audit outcomes – effective accountability and consequence management not consistently enforced***



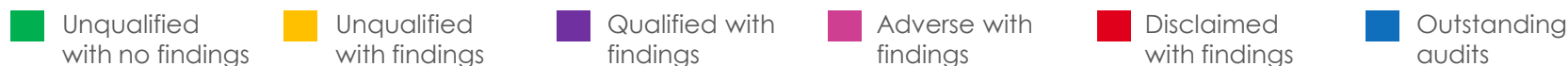
Active leadership supervision will lead to sustainable key control environment

***Improvement in audit outcomes which is mainly consultant driven is not supported by equivalent improvement in sustainable key control environment***



A need for leadership to act on accountability will have desired change

***The state of internal controls, coupled with lack of consequences for transgressions and weakened oversight is at the centre of the deteriorating accountability in our local government***



# Provincial key messages *(continued)*



Sustainable change starts with leadership will to drive it

***The benefits derived from implementing preventative controls are evident, but there is still a lot to be done to address undesirable audit outcomes***



To bring about accountability, leadership must be aligned and actively lead

***Total neglect of internal control disciplines resulting in financial and operational collapse, weakened governance and lack of accountability***



Improvement but concern remains

***Good financial accounting controls but inadequate preventative controls on compliance***



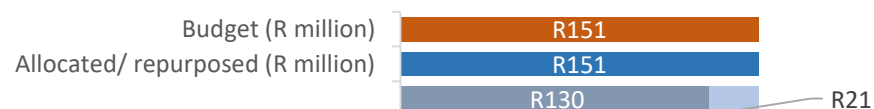
# Covid-19 relief funding to local government

In total, **R7 106 million (42%)** of the **R16 765 million** allocated/ repurposed, was expensed by March 2021

## 2019-20 funding

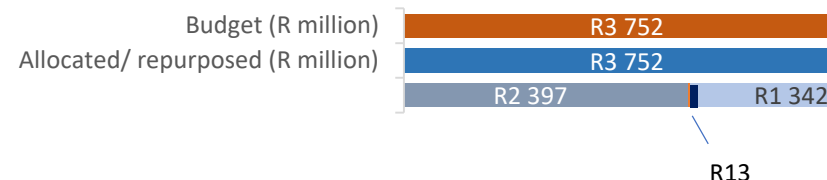
### Municipal disaster relief fund

Emergency relief funds paid to non-metropolitan municipalities on 8 May 2020 for cost of sanitation and increased provision of other municipal services



### Repurposed grants

Conditional grants paid to municipalities in March 2020 repurposed for Covid-19-related initiatives

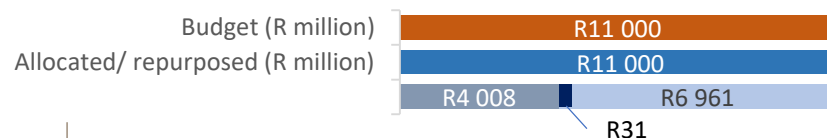


## 2020-21 funding – part of R500 billion relief package

### Equitable share

Additional allocations for provision of basic services to additional households who lost their source of income and became indigent due to covid-19 pandemic

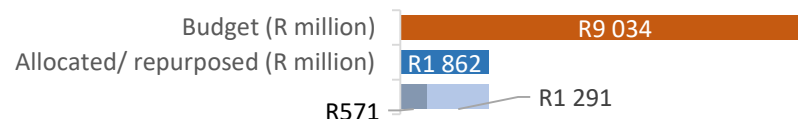
(Transferred December 2020 – March 2021)



### Conditional grants

Conditional grants made available to be repurposed for provision of emergency water supply, increased sanitation of public transport and facilities, and food and shelter for the homeless

(Transferred in tranches from July 2020 to March 2021. Only R1,9 billion were repurposed through budget process by municipalities, therefore R7,1 billion not repurposed)



# Key findings: Infrastructure

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Quarantine sites

Temporary shelters

Water infrastructure

Water tanks



1. No/ inadequate **needs assessment and planning**
2. Excessive/ inflated **prices** paid
3. Covid-19 funds not used for **intended purpose**
4. Poor **quality infrastructure**
5. **Delays** in completion of projects
6. Inadequate **water and sanitation at shelters**
7. Installation of water tanks – **poor workmanship**
8. Water infrastructure project **payments** without proof of delivery
9. Uncompetitive and unfair **procurement** processes



# Key findings: Personal protective equipment (PPE)



## Planning and procurement

Inadequate planning resulted in instances of **PPE shortages or excessive PPE procurement**

Required **procurement processes** not followed

Awards to **family members** of official and **officials employed by state**

**Fraud red flags** identified

## Quality, price and delivery

**Prices higher than market-related rates** as determined by National Treasury

Some suppliers:

- **delivered PPE that did not meet the required specifications**
- **under delivered**
- **or delivered late**

## Storage and utilisation

Ineffective **stock management processes**

Poor **storage practices**

**Inadequate security at storage facilities**

High value PPE items used **uneconomically**



# Key findings: Other goods and services

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Sanitation services



Water tankering  
services



Use of Covid funds

1. No/ inadequate **needs assessment**
2. **Unhygienic and unsafe conditions** – chemical toilets
3. Water distribution at **inflated prices**
4. Water tanks **not filled**
5. Spending of Covid-19 funding for **non-Covid purposes**
6. Required **procurement processes** not followed
7. **Fraud red flags**





# Material irregularities (up to 11 June)

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# Implementation of material irregularity process

## Material irregularity

means any **non-compliance** with, or **contravention** of, legislation, **fraud, theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public**

If municipal manager does not appropriately deal with material irregularities, our expanded mandate allows us to:



**Refer material irregularities** to relevant public bodies for further investigations



**Recommend actions** to resolve material irregularities in audit report  
**Take binding remedial action** for failure to implement recommendations



**Issue certificate of debt** for failure to implement remedial action if financial loss was involved

# Nature of identified material irregularities (MIs)

*Municipal manager notified of 96 MIs with estimated financial loss of R2,04 billion*



## Disclaimers – 21 MIs

Full and proper records not kept as evidenced **by repeat disclaimer opinions** – resulting in substantial harm to municipalities (lack of service delivery and/ or vulnerable financial position)

## Procurement and payments

Non-compliance in procurement processes resulting in **overpricing of goods and services procured**  
**1 MI – R2,5 million** estimated loss

Payment for **goods or services not received** or **invalid salary payments**  
**18 MIs – R285,9 million** estimated loss

## Interest and penalties

Eskom, water boards, loans and suppliers **not paid on time** resulting in interest  
**23 MIs – R979,3 million** estimated loss

Payroll and VAT returns **not paid on time** or incorrectly calculated resulting in SARS interest and penalties  
**11 MIs – R54,7 million** estimated loss

## Revenue management

Revenue **not billed**  
**8 MIs – R182,3 million** estimated loss

Debt **not recovered**  
**2 MIs – R149,4 million** estimated loss

## Investments and assets

Loss of **investments**  
**3 MIs – R264,9 million** estimated loss

**Assets not safeguarded** resulting in loss  
**9 MIs – R116,6 million** estimated loss



# Our message – Ethical and accountable leadership should drive desired change

“Only a capable, efficient, ethical and development-oriented state can deliver on the commitment to improve the lives of the people of this country.” – *President Cyril Ramaphosa*

**Mayor and council**



Tone at the top – ethical leadership, service-orientation, good governance and accountability

**Municipal manager  
and senior  
managers**



Capacitate and stabilise administration – free from political interference / changes

**Provincial  
leadership**



Enable and insist on a strong control environment with practical, automated and routinely executed internal controls that prevent financial loss, wastage and transgressions and significantly improves financial and performance management and reporting



Consistent, appropriate and swift consequences for accountability failures



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