



AUDITOR-GENERAL
SOUTH AFRICA

2020-21 audit outcomes for Kagisano-Molopo Local Municipality

National Assembly Portfolio Committee on
Cooperative Governance and Traditional Affairs

gettyimages
gettyimages





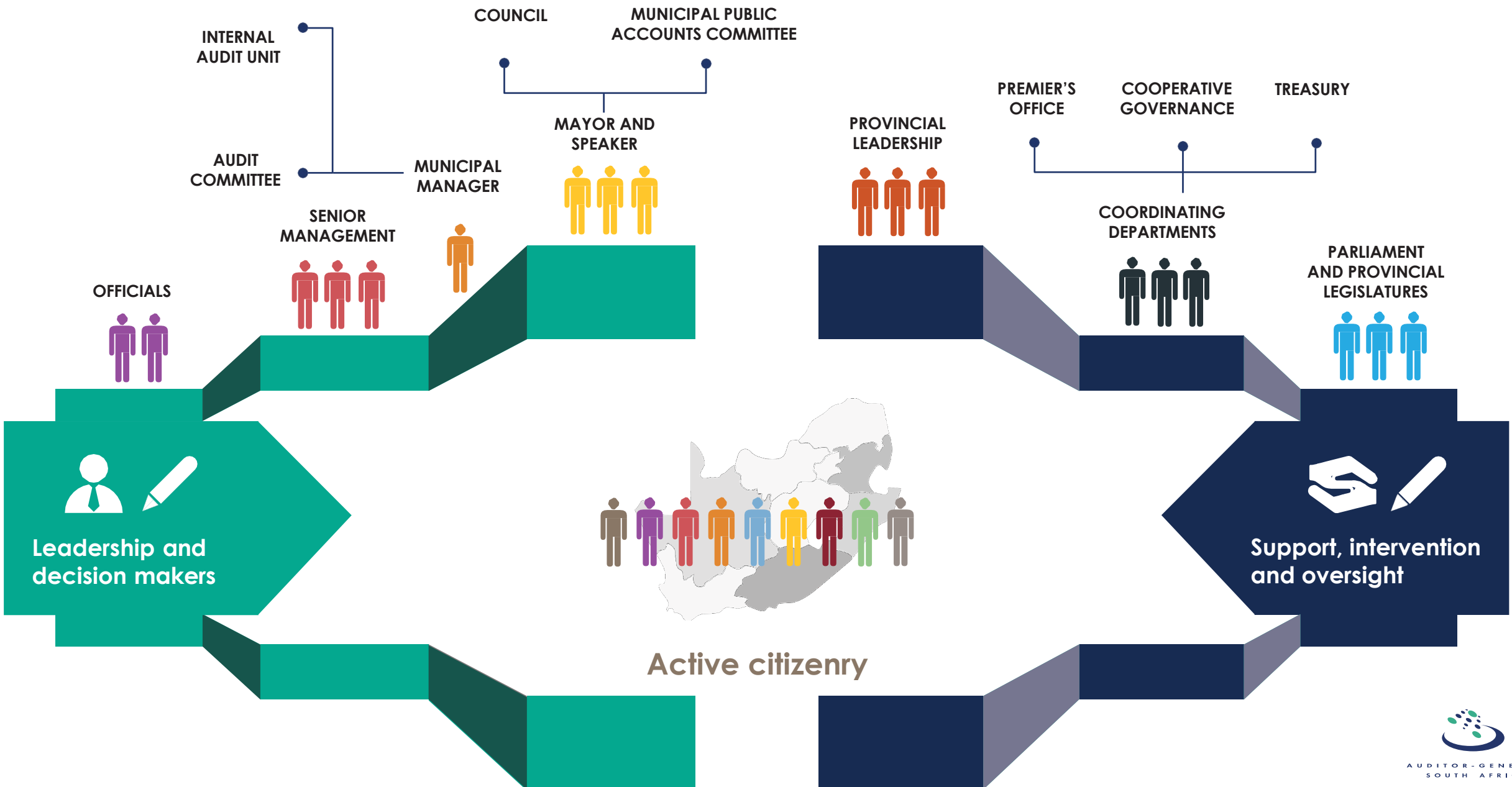
MISSION

The Auditor-General of South Africa 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.

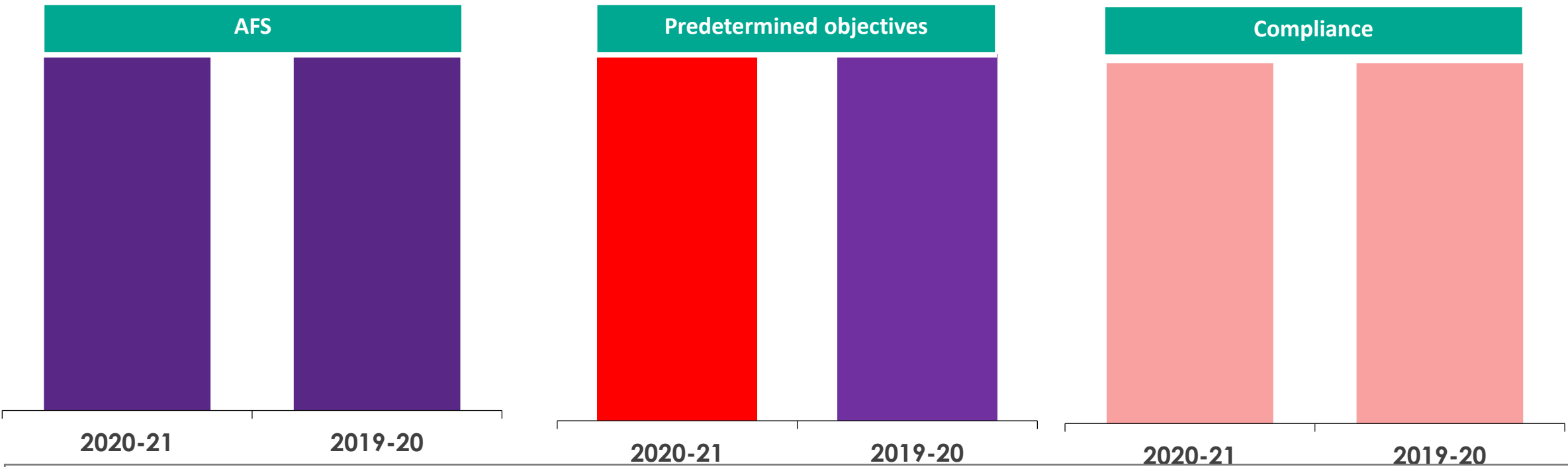


VISION

To be recognised by all our stakeholders as a relevant supreme audit institution (SAI) that enhances public sector accountability



STAGNATION IN AUDIT OUTCOMES OVER TWO YEARS



Impact of the above audit outcomes:

- The **culture of producing quality financial statement not yet instilled** as the financial statements submitted by the municipality was not at the desired level and there is a reliance on the audit process to identify misstatements in these financial statements. **Credible financial statements are crucial for enabling accountability and transparency.**
- Reporting of performance information regressed in the current year with the performance report not being useful or reliable and reported achievements not supported. The unreliable performance reporting is **hampering the ability of the oversight structures to monitor** how well the municipality is delivering on services to citizens and to respond to poor performance.
- The AO and senior management **did not enforce a culture of consequence management** to discourage wrongdoing, or promote attention to detail compliance. Municipality continued to flout legislated requirements, which resulted in irregular expenditure.



The **audit outcome on the financial statements remains unchanged** compared to the prior year. Although the municipality was able to resolve some of the qualification areas from previous year, some repeat findings were reported due the action plan to address these issues was not effective and implementation not always closely monitored.

Subsequent to the election of the council the municipality experienced certain challenges leading up to the **Provincial Exco invoking S139(1)(b) intervention** at the municipality. These challenges includes include:

- Governance: council infighting which may hinder the council fulfilling its oversight role.
- Financial management: inadequate budget processes resulting in unfunded budget. Failure to establish a disciplinary board to investigate unauthorised, irregular and fruitless and wasteful expenditure.
- Service delivery matters not addressed which may result in community unrest.

As part of **our value adding work**, we performed an assessment of the landfill site – the municipality does not have license for landfill site as the land used for this purpose belongs to the tribal authority and there are ongoing negotiations.

Quality of AFS

The **quality of the submitted financial statements remains a concern**, as material misstatements were identified during the audit.

Continued reliance on consultants for financial reporting and asset management with no skills transfer due to vacancies in the finance unit.

Despite using consultants, the quality of financial statements remained poor.

Quality of APR

The **audit outcomes for reported performance information** regressed to a disclaimer conclusion, due to a lack of understanding of performance planning and reporting as well as inadequate records management. The quality of the **annual performance report remains a concern as material misstatements were identified during the audit.**

Compliance

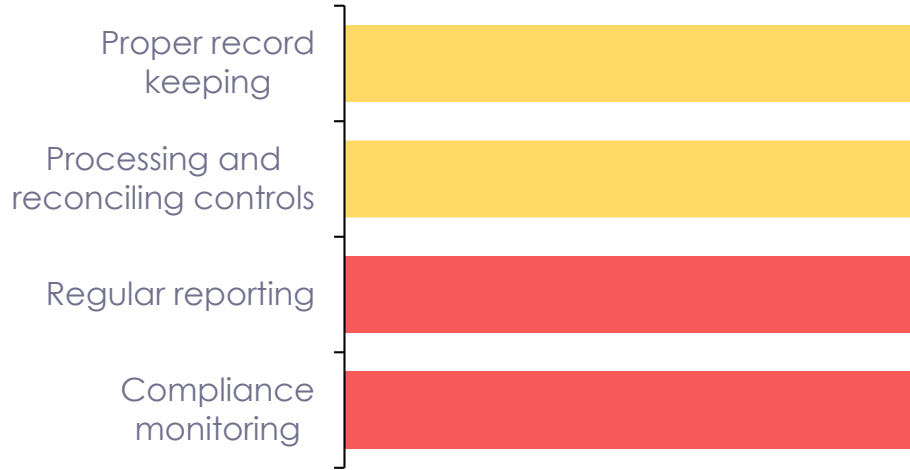
The municipality **failed to submit the annual financial statements for auditing by the legislated date**

The **number of SCM non-compliance findings increased** compared to the prior year and resulted in irregular expenditure. Goods and services were procured without following procurement process.

Lack of consequence management: The municipality did not investigate unauthorised, irregular and fruitless and wasteful expenditure of as prescribed by Section 32 of the MFMA.

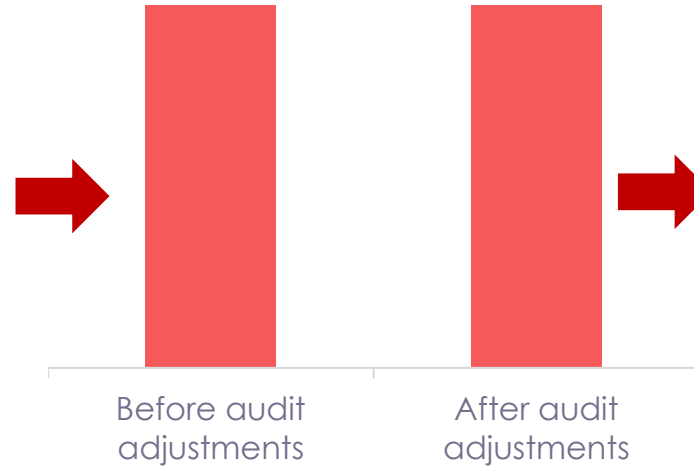
ACCOUNTABILITY AND TRANSPARENCY NOT ENABLED THROUGH CREDIBLE FINANCIAL REPORTING

Financial management controls



■ Good ■ Of concern ■ Intervention required

Impact on quality of financial statements submitted for auditing



■ Unmodified ■ Modified

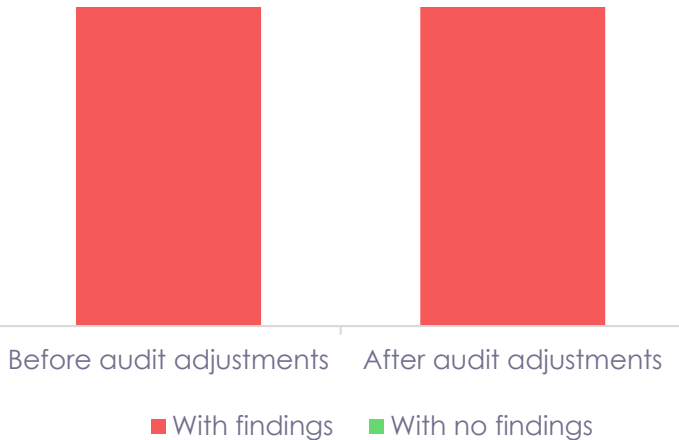
Main qualification areas

- Irregular expenditure
- Property, plant and equipment
- Investment property
- Receivable from exchange and non-exchange transactions

Impact

- The municipality did not do an adequate risk assessment of the debtors to determine their ability to pay outstanding debt. Furthermore, reasonable steps are not always being taken by the municipality to collect monies outstanding. This results in substantial impairments and debt write-offs at year-end which also places significant strain on the municipalities cash flow as creditors are not paid timeously.
- Lack of proper records of fair value adjustments made likely resulted in the municipality misstating the value of its investment property. The incorrect information on the assets value may not present a true picture of assets available for the provision of services.
- Management did not perform an adequate review of the assets register to ensure that all land that belong to the municipality are included in the assets register that is used to prepare the financial statements. The incomplete asset register may not present a full picture of the assets that are available for service delivery.
- The municipality did not have adequate measures in place to prevent irregular expenditure. Not following SCM processes may have resulted in the municipality not procuring services economically and causing financial loss to the state.

Quality of performance reports before and after audit



Findings: Planning for service delivery

- The audit outcomes for reported performance information regressed to a disclaimer conclusion, due to lack of understanding of performance planning and reporting as well as inadequate records management.
- The review processes in the municipality failed to ensure that performance reporting is credible

Findings: Reporting

The performance report not being reliable and reported achievements not supported for the following indicators:

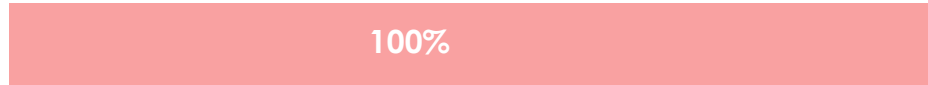
- KPA 1 - Basic service delivery and infrastructure development

Impact

The review processes in the municipality failed to ensure that indicators relating to basic services and infrastructure development are credible. As a result these indicators could not be audited. Without credible performance reporting it is difficult to assess whether the municipality is delivering adequate services to citizens in the municipal area.



2020-21



No material findings



Material findings

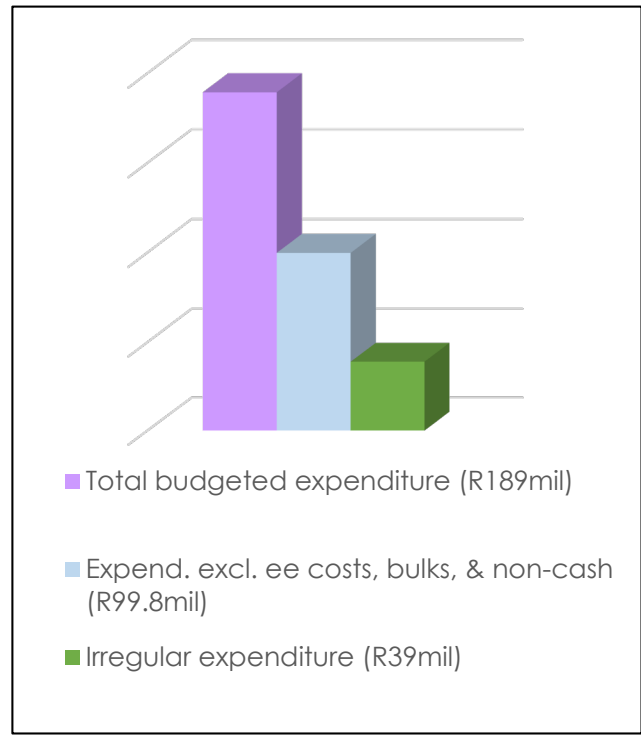
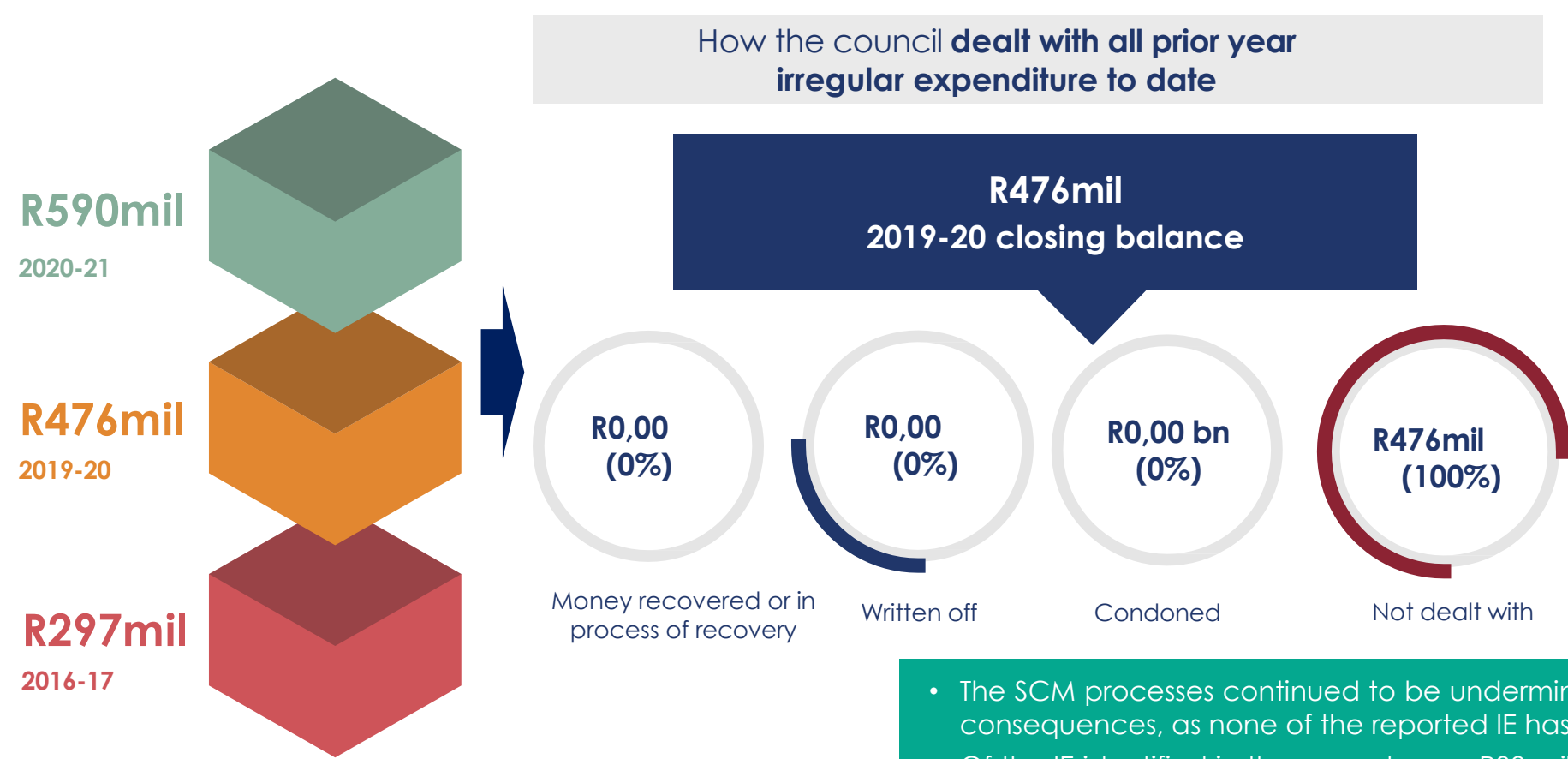
In the current year there has been a stagnation in the compliance with legislation. The non-compliance identified is similar to that reported in the prior year. The municipality did not implement effective action plans to address significant internal control deficiencies relating to compliance with legislation.

Most common areas of non-compliance	Findings
Procurement and contract management	X Various non-compliance with legislation on procurement
Quality of financial statements	X The financial statements submitted for auditing were not prepared in all material respects in accordance with the MFMA. Material misstatements were identified by the auditors in the submitted financial statements which were subsequently corrected, resulting in a qualified audit opinion.
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	X Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure
Effective consequences	X Management has not yet implemented the necessary consequence management processes to effectively deal with irregular, unauthorised as well as fruitless & wasteful expenditure. A culture of accountability together with timely and effective consequence management for non-performance and transgressions was not enforced.

X Previous year's finding addressed

X New finding identified in 2021-22

X Repeat finding



Closing balance of irregular expenditure **still high**

- Council committees are not capacitated to perform proper investigations of irregular expenditure, as required by MFMA section 32(2). This is due to a lack of cooperation between committees and the accounting officer.
- Lack of documents and records impacts the ability to investigate previous years' irregular expenditure

Observations

- The SCM processes continued to be undermined when procuring. There was a lack of consequences, as none of the reported IE has been dealt with.
- Of the IE identified in the current year, R39 million relates to 2020-21 expenses and R24 million to expenses of the previous year.
- An estimated 39% of all expenditure that should have followed procurement processes was irregular.
- The SCM unit of the municipality is not fully capacitated due to vacancies. This hinders the effective implementation of compliance controls.
- Investigations were not done, which enables the disregard of compliance-related controls.

A LACK OF ACCOUNTABILITY AND CONSEQUENCES – UNAUTHORISED AND FRUITLESS & WASTEFUL EXPENDITURE

The total unauthorised expenditure increased from R236 million to R272 million.

The unauthorised expenditure is attributable to:

- Inadequate budgeting processes. There are key vacancies in the BTO office such as the Budget Manager.

The reason for the unauthorised expenditure not dealt with:

- There is a lack of cooperation between the AO and the council committees that delays the initiation of investigations.

The total fruitless and expenditure incurred in the 2020-21 financial year remained unchanged at R2million.

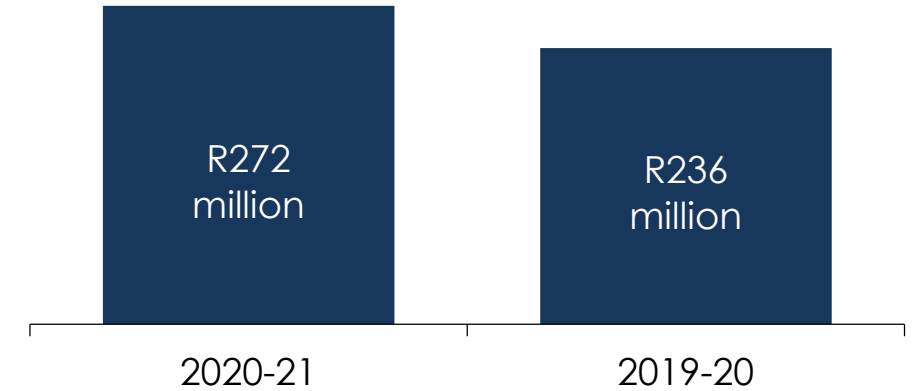
The fruitless and wasteful expenditure is attributable to:

- Interest and penalties on overdue accounts (Eskom, SARS, etc.)

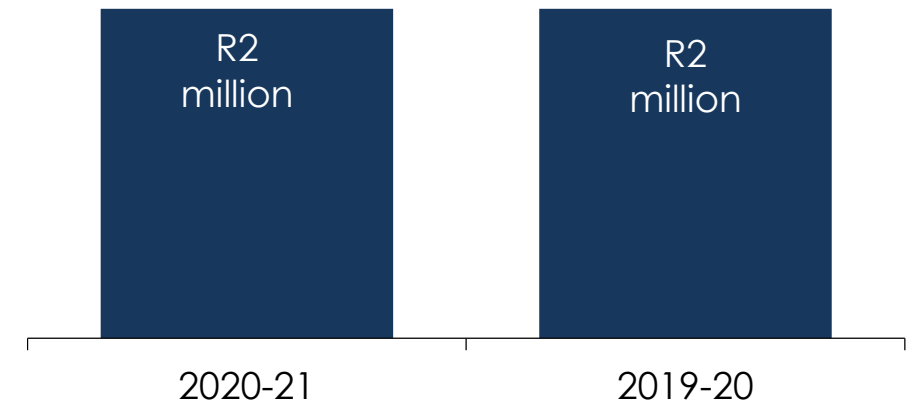
The reason for the fruitless and expenditure not dealt with:

- Delay in initiating investigations due to a lack of cooperation between the AO and municipal committees.

Unauthorised Expenditure incurred



Fruitless & Wasteful Expenditure incurred



Key messages provided in the prior year:

It is recommended that the tone of leadership should create an environment of zero tolerance to non-compliance and transgressions and that will be achieved by ensuring the following:

1

The political, executive and administrative leadership should **institutionalise a culture of high performance behavior** and keep senior management and those in charge of internal control disciplines accountable. There should be a heightened emphasis on the timeliness of senior management to implement recommendations by different role players, develop action plans and address the root causes of audit findings.

2

Leadership should ensure that there is **appropriately skilled-staff in key positions within the finance unit**. This will reduce the excessive reliance on consultants to compile financial statements. Furthermore, leadership should perform in-year reporting, monitoring and oversight to prevent material misstatements in the financial statements, non-compliance with laws and regulations.

In response to the 2020-21 audit outcomes, the following commitments were made by the AO:

- The accounting officer committed to addressing all prior year misstatements, specifically relating to PPE and irregular expenditure.



Overall reflections on implementation of commitments:

- Based on our assessment there were steps taken to address prior year findings, specifically PPE and irregular expenditure. However, the control environment has weakened compared to the prior year as we have identified new issues in the current financial year. This may hinder the municipality's ability to improve its audit outcome and internal control environment, highlighted by the fact that there are possible new qualification paragraphs (General expenses and Contracted Services) which were not identified in the prior year.
- This is further heightened by the fact that the municipal manager's contract was terminated shortly after year-end and Provincial EXCO made the decision to invoke Section 139(1) (b) of the Constitution at the Municipality in September 2022, following a report of systematic failures by Council to carry out its executive and other legislative mandate.

Stay in Touch With the AGSA



Auditor-General of
South Africa



@AuditorGen_SA



Auditor-General of
South Africa

www.agsa.co.za