



AUDITOR-GENERAL
SOUTH AFRICA

2020-21 audit outcomes for Amathole District Municipality

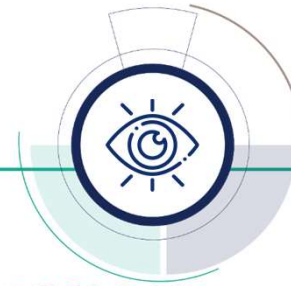
National Assembly Portfolio Committee on
Cooperative Governance and Traditional Affairs





MISSION

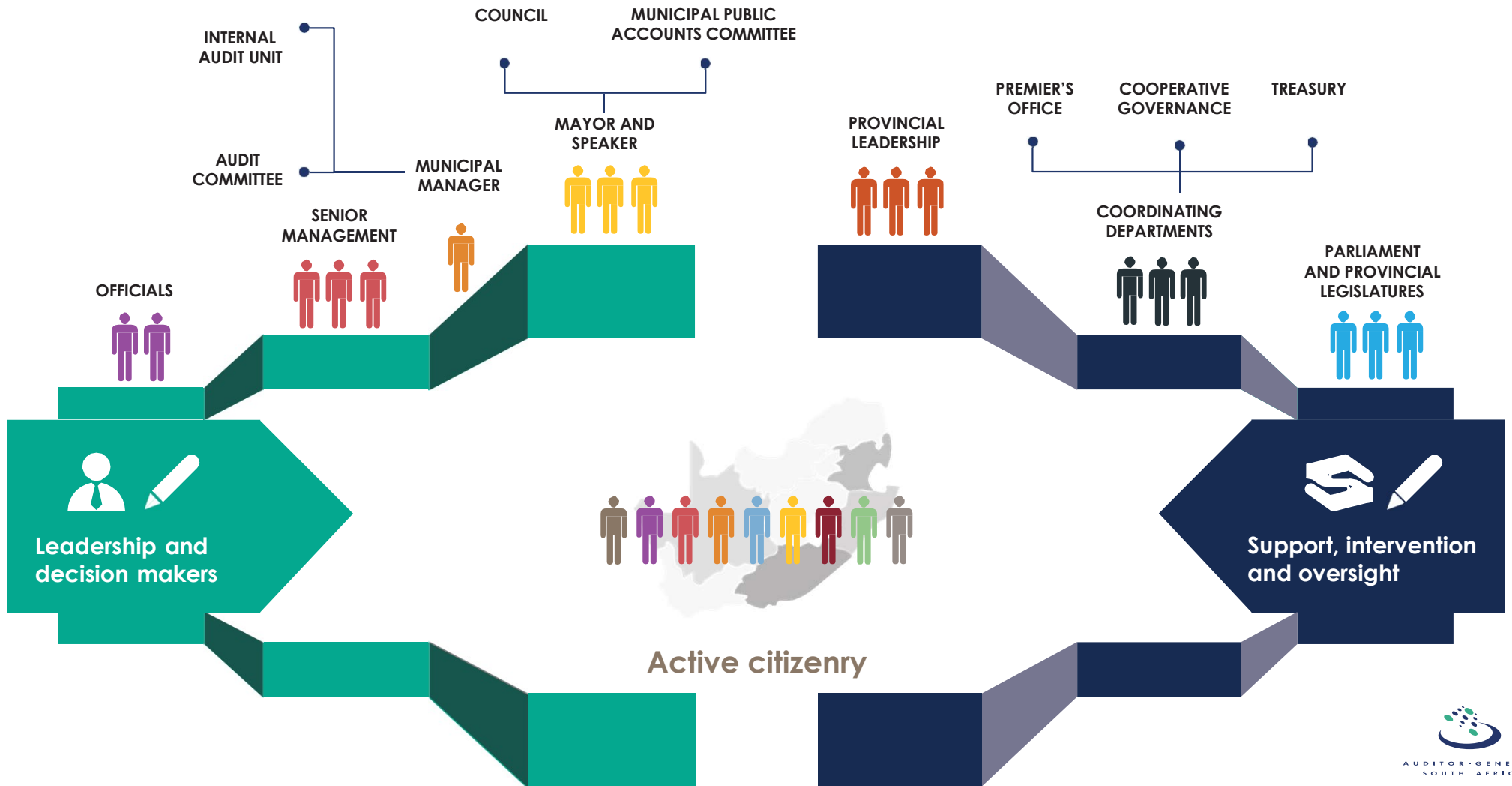
The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



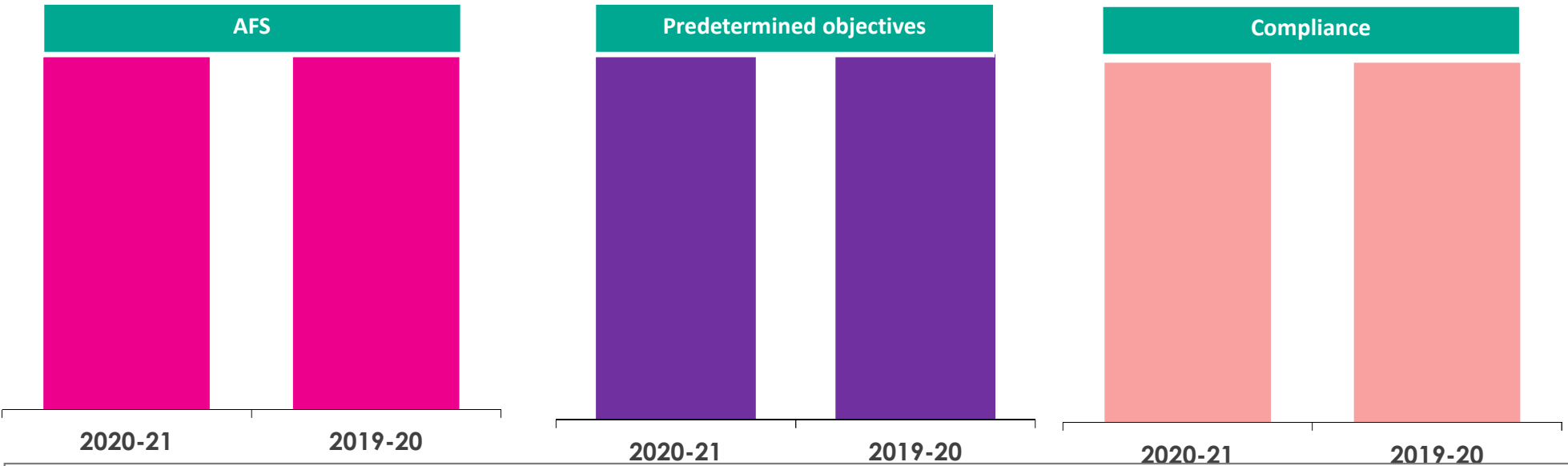
VISION

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

ACCOUNTABILITY ECOSYSTEM



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 remained stagnant on a qualified opinion. 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.



OVERALL MESSAGE

The trend in audit outcomes over the last two financial years indicates that the **municipality has been in a stagnant position where there has been no improvement in the audit outcomes.**

The municipality developed **an audit action plan** to address external audit findings, but **management did not adequately monitor the implementation of the plan** in a timely manner and this resulted in recurring findings in property, plant and equipment, payables, revenue and expenditure.

The following matters are the main contributors to the stagnation in audit outcomes:

- Inadequate implementation of **processing and reconciling controls** in relation to the preparation of regular, accurate and complete financial reports as evidenced by the number of misstatement in financial statements and performance information.
- **Ineffective record management system** that allows for timely retrieval of complete, relevant and accurate information that supports the annual financial and reported performance.
- **Lack of adequate monitoring and review** of financial and performance information.

Quality of AFS

The financial statements submitted for auditing were **not prepared in accordance with the requirements of the MFMA.**

Material misstatements of current assets and current **liabilities identified by the auditors** were subsequently corrected, but **the uncorrected material misstatements and supporting records that could not be provided** resulted in an adverse audit opinion.

Quality of APR

We identified **material misstatements** in the annual performance report submitted for auditing.

These material misstatements were on the reported performance information **of basic service delivery and infrastructure investment.**

As management subsequently corrected only some of the misstatements, **we raised material findings on the reliability** of the reported performance information.

Compliance

The municipality **failed to address prior year non-compliance findings.**

SCM non-compliance findings resulted in irregular expenditure. Goods and services were procured without following procurement process.

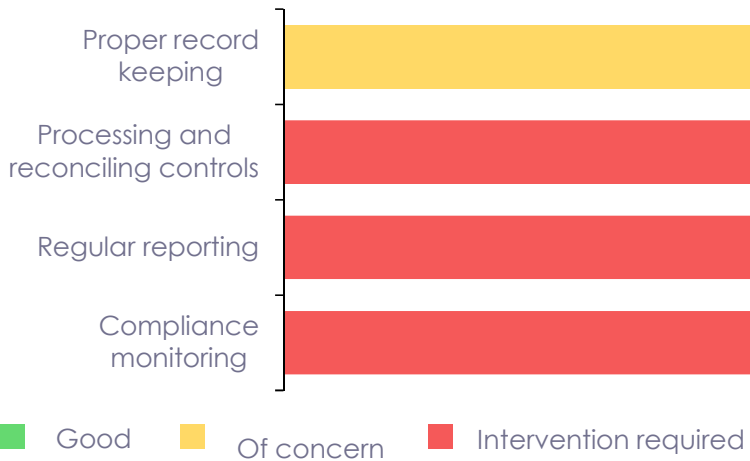
Lack of consequence management:

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

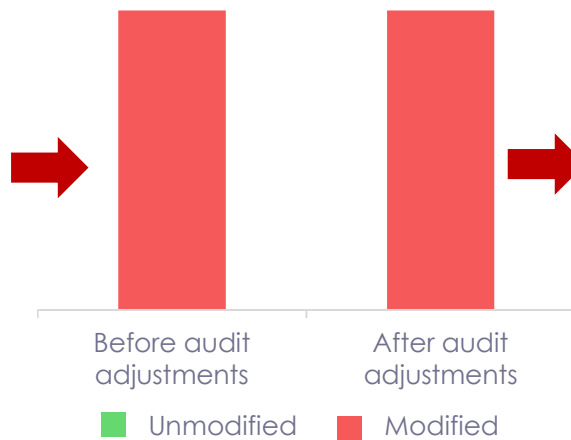


ACCOUNTABILITY AND TRANSPARENCY NOT ENABLED THROUGH CREDIBLE FINANCIAL REPORTING

Financial management controls



Impact on quality of financial statements submitted for auditing



Main qualification areas

- Material Misstatements
- Unauthorised, Irregular and F&W expenditure
- Asset management
- Expenditure management
- Consequence management
- Procurement management

- Property, plant and equipment was overstated by R96,1 million, while depreciation amortisation and impairment included in the consolidated and separate statement of financial performance is understated by R67,8 million, repairs and maintenance in the consolidated and separate statement of financial performance is understated by R28,3 million.
- We were unable to obtain sufficient appropriate audit evidence for the valuation of water supply infrastructure assets, as we were not able to confirm the condition and functionality of the assets.
- Government grants and subsidies in the consolidated and separate statement of financial performance was understated by R28,5 million, unspent conditional grants in the consolidated and separate statement of financial position was overstated by R24,8 million and VAT payable in the consolidated and separate statement of financial position was understated by R3,7 million.
- The municipality did not have adequate internal controls to maintain records of trade payables for the supply of water services. I was unable to obtain sufficient appropriate audit evidence to substantiate the trade payables disclosed in note 20 to the consolidated and separate financial statements.

ACCOUNTABILITY AND TRANSPARENCY NOT ENABLED THROUGH CREDIBLE FINANCIAL REPORTING

- Operational costs in the consolidated and separate statement of financial performance are overstated by R21,6 million and payables from exchange transactions in the consolidated and separate statement of financial position are understated by R21,6 million.
- Inventory consumed included in the consolidated and separate statement of financial performance is understated by R218,2 million and the related inventories in the consolidated and separate statement of financial position is understated by the same amount (2020:R74,8 million).
- The budgeted amounts disclosed in the consolidated and separate financial statements did not agree to the approved budget. As a result, total budgeted revenue is overstated by R23 million.
- Commitments disclosed in note 45 to the consolidated and separate financial statements are overstated by R21,8 million.
- I was unable to obtain sufficient appropriate audit evidence to support unauthorised expenditure. This was due to inaccurate amounts utilised to determine the amount disclosed in the consolidated and separate financial statements.
- The municipality did not fully record irregular expenditure in the notes to the consolidated and separate financial statements, as required by section 125(2) (d) (1) of the MFMA. This was because expenditure incurred in contravention of the supply chain management (SCM) requirements was not detected and appropriately disclosed in the consolidated and separate financial statements.

PERFORMANCE PLANNING AND REPORTING HAS IMPACT ON SERVICE DELIVERY

Quality of performance reports before and after audit



Findings: Reporting

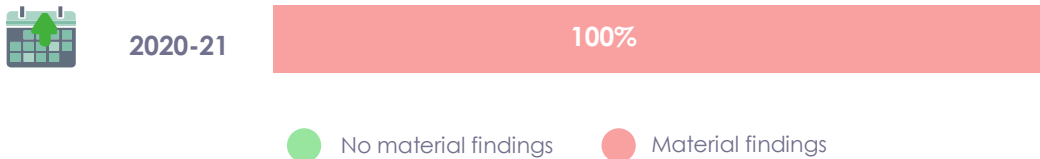
The municipality could not provide supporting evidence for the following key performance measures relating to the provision of water :

- Number of households connected to basic level of water (water supply)
- Sampling frequency

Impact

- The provision of water services is the key mandate of the municipality as a water services authority and therefore the municipality will be unable to deliver on the provision of water at the right quality standards to the communities in the Amatole region.
- The inability of the municipality to retain records and data will impact negatively on decision making within the municipality to address the challenges of draught and water shortages that are faced by the region.

COMPLIANCE WITH KEY LEGISLATION

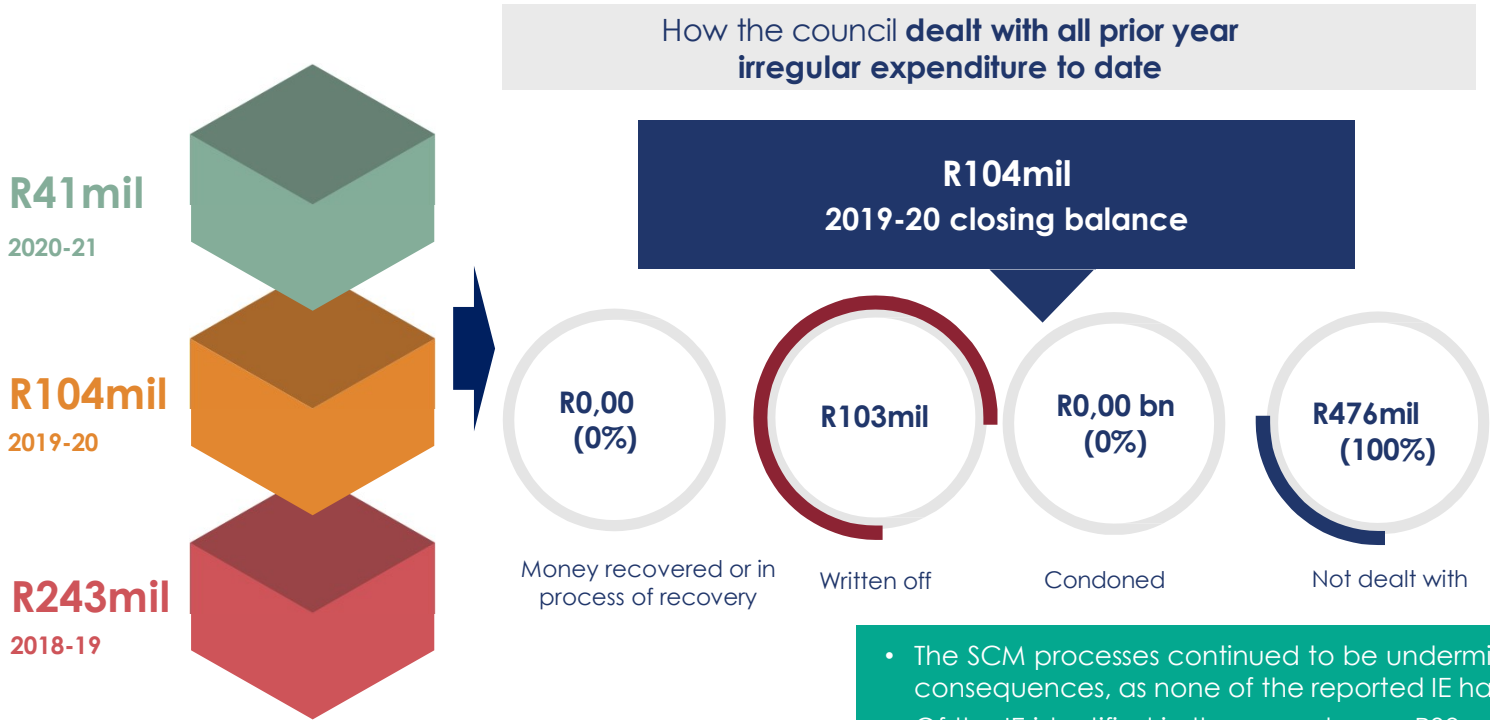


In the current year there has been a stagnation in the compliance with legislation. The non-compliance identified is similar to that reported in the prior year. The municipality did not implement effective action plans to address significant internal control deficiencies relating to compliance with legislation.

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 of which only some were subsequently corrected.
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

A LACK OF ACCOUNTABILITY AND CONSEQUENCES – IRREGULAR EXPENDITURE



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.

Current Status of ADM and Aspire



Amatole District Municipality

Leadership stability

- The position of the municipal manager is currently vacant as the re-appointment of the former MM was declared irregular in a court process
- COGTA has deployed an acting municipal manager for a period of three months from 1 November 2022
- The CFO is currently under suspension from 28 October 2022.

The following instability has taken place in the municipality's entity during the period of the audit and has created delays in the audit process:

- The parent municipality recalled the previous board and an interim board was appointed from 1 November 2022
- The position for the CEO is being contested in court as the parent municipality deployed an acting CEO while there is an appointed individual whose contract has not lapsed
- The CFO has resigned and there is currently no acting CFO in the position

Annual financial statements

- The annual financial statements of the municipality were not submitted for audit on 31 August 2022 as required by Section 126 of the MFMA.
- In terms of section 126(1), 127 (1), (2) and section 129 (1) of the MFMA, the municipality submitted a request for an extension to Provincial Treasury for the submission to be made on 31 October 2022, however the submission timeline was not adhered to and a revised date has not been communicated in writing.
- The challenges that have resulted in the delay in the submission of the financial statements relates to labour unrest that resulted in a disruption the operations of the municipality during the commencement of their financial year-end processes.





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