



AUDITOR-GENERAL
SOUTH AFRICA

2020-21 audit outcomes for Mogalakwena Local Municipality

National Assembly Portfolio Committee on
Cooperative Governance and Traditional Affairs





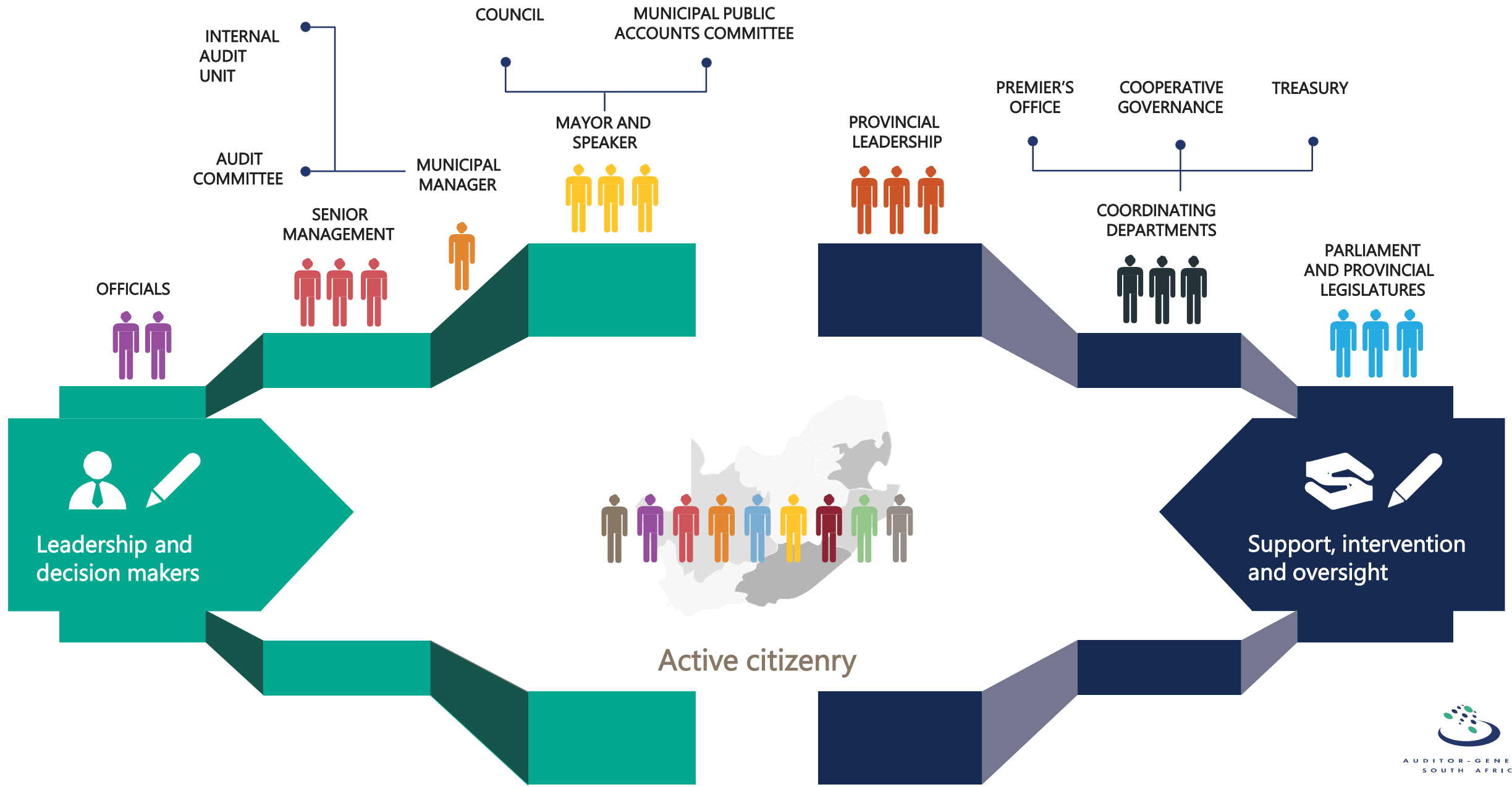
MISSION

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.

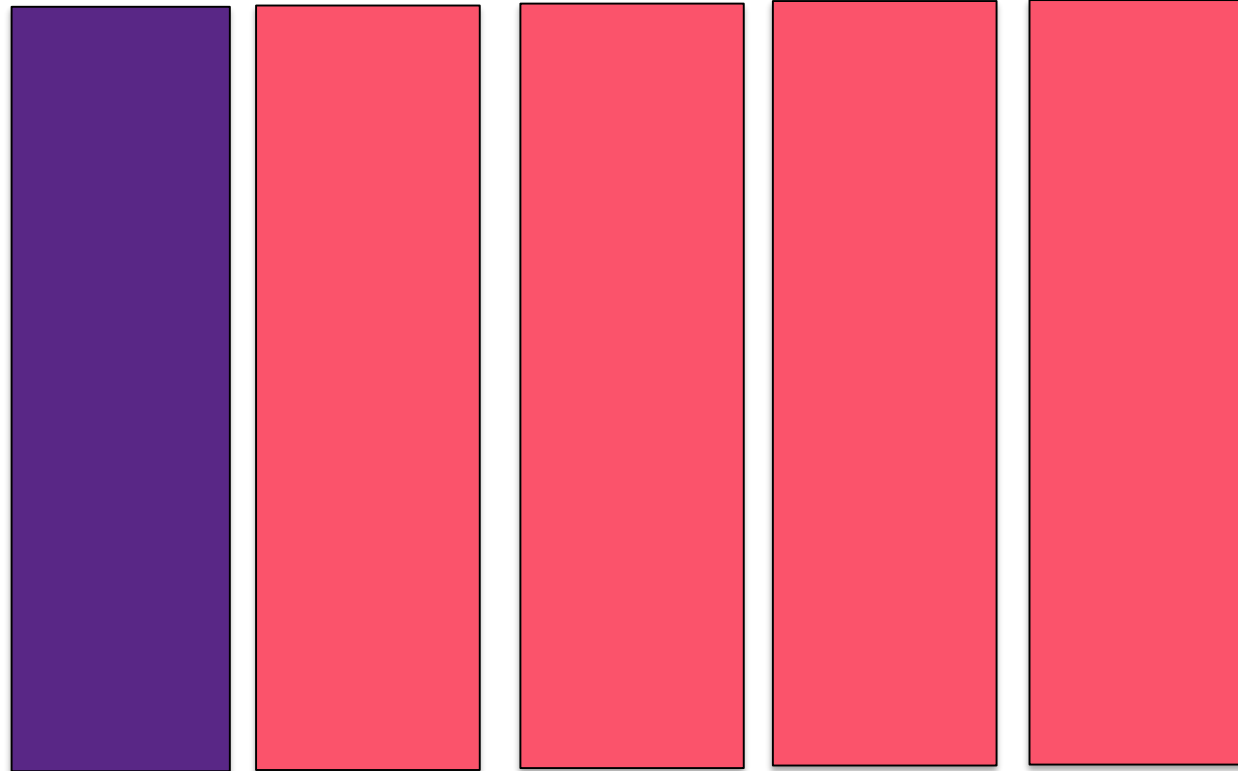


VISION

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



Audit outcome



2020-21

2019-20

2018-19

2018-17

2016-17

Types of audit outcomes

Unqualified with no findings

Unqualified with findings

Qualified with findings

Adverse with findings

Disclaimed with findings

1. There was an improvement in the audit outcome from an adverse audit opinions from 2016 -2017 to 2019 - 2020 financial years to a qualified audit opinion with findings on performance information and compliance with legislation in the 2020-21 financial year. The improvement was mainly driven by the high reliance on consultants with little progress in dealing with internal control weaknesses. Sustainable processes are not in place to ensure that the improvement is maintained
2. The lives and experiences of Mogalakwena citizens were negatively affected by instability in the political and administrative leadership, which had a detrimental effect on service delivery.
3. The position of accounting officer has been vacant for almost two years (the former permanently appointed MM resigned 19 February 2021) and was only filled in the 2022-23 financial year.
4. The position of chief financial officer (CFO) has been vacant for more than two years and has still not been filled. The frequent change of political leadership impact negatively on the administration as some of the senior managers are replaced through suspension and resignations. The senior management vacancy rate is at 83%.
5. Internal audit and the audit committee provide recommendations which are slowly implemented by management. MPAC did not investigate unauthorised, irregular and fruitless and wasteful expenditure (UIFW) and as a result the closing balances of these unwanted expenditures remain high.
6. The municipality was placed under section 139(1)(b) administration (effective from December 2019) to address non-compliance with supply chain management (SCM) regulations, project management and to speed up the implementation of the infrastructure development plan; the budget; performance management system and the service delivery budget implementation plan. The municipality is still under administration. The impact of the intervention is yet to yield consistent outcomes and result in an improved control environment as evidenced by the inconsistent trends in both irregular and fruitless and wasteful expenditure an a number of repeat findngs. Unauthorised expenditure is increasing due to the municipality preparing unfunded budgets.

After four consecutive adverse audit outcomes, the municipality improved to a qualified audit opinion with findings on performance management and non-compliance with legislation. The sustainability of this outcome is a concern, due to the overreliance on consultants and adjustments on the financial statements and a weak control environment.

Material errors identified in the financial statements submitted for auditing are due to deficiencies in internal controls as well as unreliable information supplied to consultants. The position of CFO is still vacant.

We reported material non-compliance findings related to material adjustments in the financial statements; unauthorised, irregular, and fruitless and wasteful expenditure; and procurement and contract management.

Findings were raised on the quality of performance information on the usefulness and reliability of the reported information. If the municipality cannot account for its performance, we cannot conclude that services are being delivered consistently and at the required quality.

The municipality struggled to implement their core mandate on basic services, water provision, electrification, roads and infrastructure development, as only 33% of their basic service delivery indicators were met.

Quality of annual financial statements

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

The municipality continues to rely on consultants for financial reporting and adjustment processes. Key positions are still vacant and the municipality failed to capacitate the finance units through skills transfer and training programmes

Quality of annual performance report

The audit outcomes for **reported performance information** remained stagnant on a qualified opinion.

Corrective action was not taken to address identified control weaknesses and reviews were inadequate, which resulted in differences between the reported performance as compared to the relevant supporting documentation

Compliance

The municipality failed to submit **annual financial statements that were free from material misstatement** for auditing.

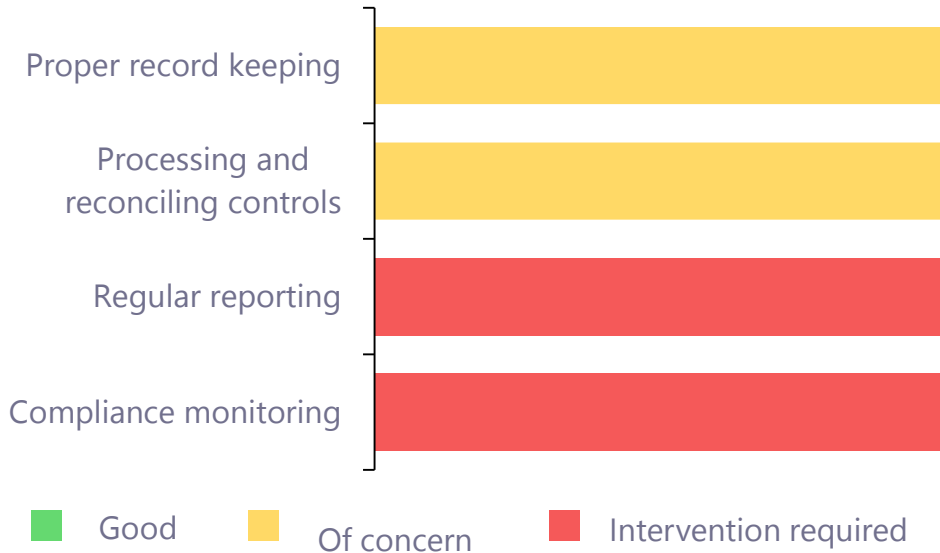
The number of **SCM non-compliance findings increased** and resulted in irregular expenditure. Goods and services were procured without following procurement process.

Lack of consequence management: The municipality did not investigate unauthorised, irregular and fruitless and wasteful expenditure

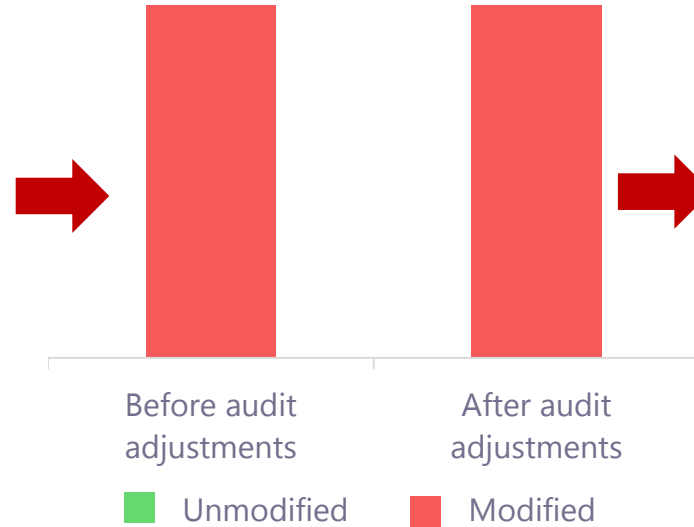
ACCOUNTABILITY AND TRANSPARENCY NOT ENABLED THROUGH CREDIBLE FINANCIAL REPORTING

7

Financial management controls



Impact on quality of financial statements submitted for auditing



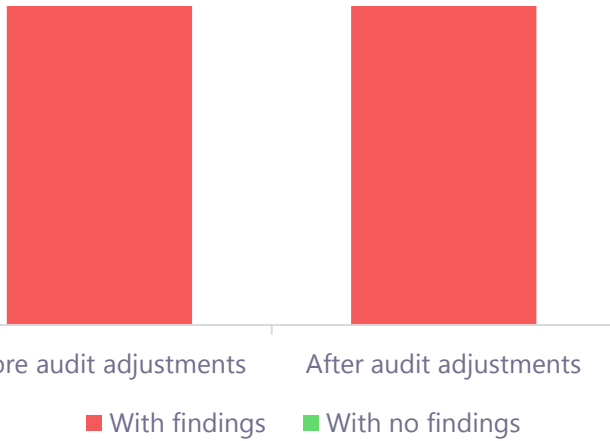
Qualification areas

- Property, plant and equipment
- Investment property
- Impairment provision
- Payables from exchange transactions
- Consumer deposits, prior period error
- Revenue from exchange and non-exchange transactions
- Expenditure, cash flow statement

Impact

- All prior period misstatements that were carried over to the 2020-21 financial year were not resolved.
- Various transactions on the annual financial statements were not sufficiently/appropriately supported, resulting in numerous misstatements.
- Adequate controls are not in place for the safeguarding of assets
- Impairment assessments for property, plant and equipment and receivables was inadequate
- Proper controls were not in place to ensure collection of revenue
- Expenditure was incurred for goods/services not received.

Quality of performance reports before and after audit



Findings: Planning for service delivery

- The audit outcomes for reported performance information remained stagnant on a qualified opinion, due to a weak control environment and monitoring processes
- Review processes failed to ensure that performance reporting is credible

Findings: Reporting

The performance report is not reliable and reported achievements not supported for KPA 2 - 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

Non-compliance findings are 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.

Subject matter	Findings	Status
Annual financial statements	Annual financial statements had material misstatements, resulting in numerous adjustments, some errors could not be adjusted and resulted in a qualified audit opinion	X
Procurement and contract management	Various non-compliances with legislation for procurement and contract management	X
Expenditure management	Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure	X
Revenue management	Various non-compliances with legislation for revenue management that emanated from not recognising all amounts that meets the definition of a revenue in accordance with GRAP 1 as well as various misstatements identified under revenue testing.	X
Asset management	Various non-compliances with legislation for asset management that emanated from lack of unbundling of assets which resulted in the asset register being inaccurate . Various misstatements were also identified under assets with a majority of the issues recurring from the prior year .	X
Strategic planning	The performance management system and related controls were not maintained as it did not describe how the performance monitoring, review, reporting and improvement processes should be conducted and managed	X
Consequence management	Management has not yet implemented the necessary consequence management processes to effectively deal with irregular, unauthorized as well as fruitless and wasteful expenditure.	X

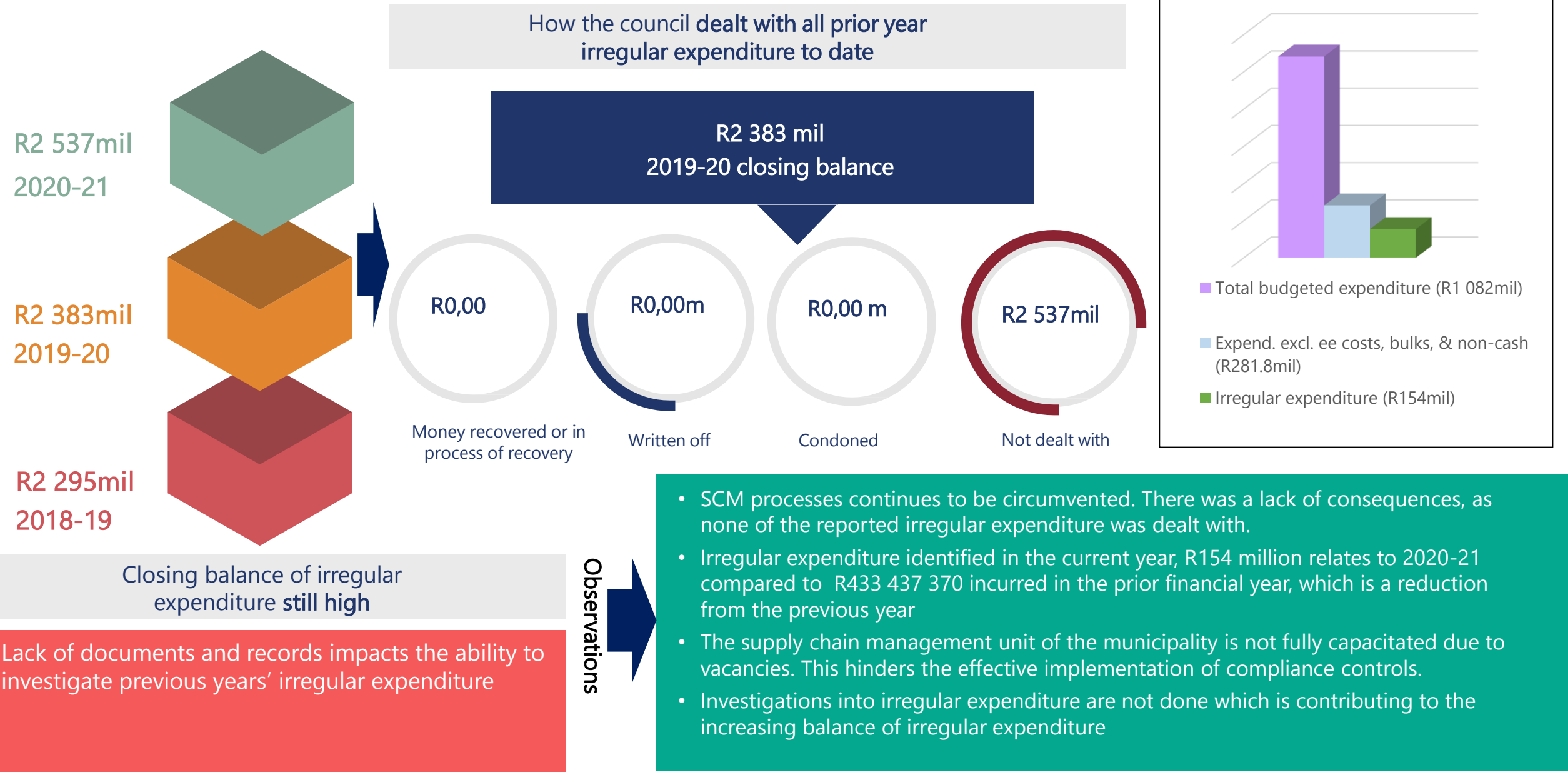
X

X Previous year's finding addressed

X New finding identified in 2021-22

X Repeat finding





The total unauthorised expenditure increased from R79 million to R583 million in the current year.

The increase is as a result of inadequate budgeting processes and preparations of unfunded budgets. There are key vacancies in the budget and treasury office (finance unit) such as the budget manager.

The reason for the unauthorised expenditure not dealt with:

- No systems (policies, financial disciplinary board) are in place to investigate financial misconduct

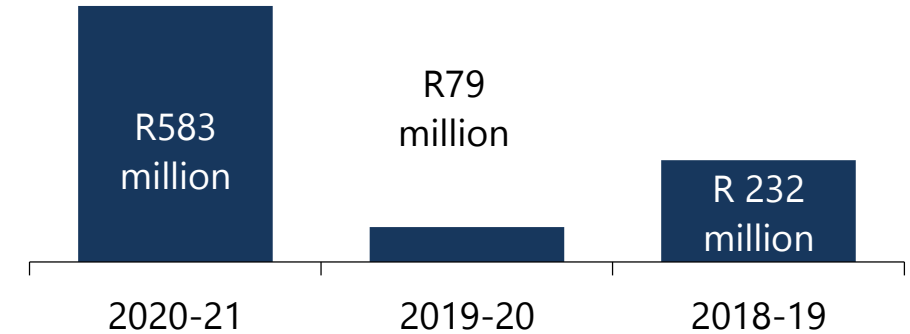
The total fruitless and expenditure decreased from R45 million to R4 million due to a reduction in overpayments as well as reduction in court imposed penalties due to breaches of contracts.

The fruitless and wasteful expenditure was incurred on interest and penalties on overdue accounts (Eskom, and other creditors)

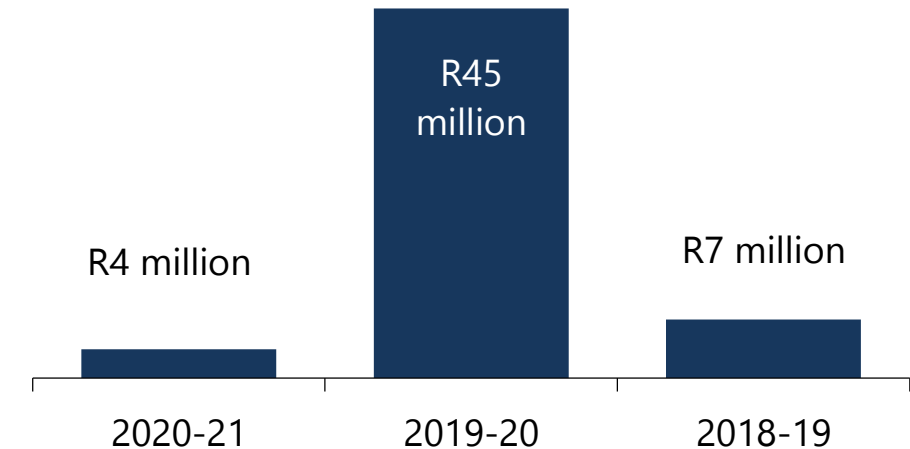
The reason for the fruitless and expenditure not dealt with:

- No systems (policies, financial disciplinary board) are in place to investigate financial misconduct

Unauthorised expenditure incurred



Fruitless and wasteful expenditure incurred



- We identified one material irregularity regarding a payment for work not performed on an infrastructure project to the value of R13 308 477 in contravention of section 65(2) of the MFMA
- We notified the accounting officer of the material irregularity on 14 December 2019.
- In response to the material irregularity, the accounting officer appointed a service provider to conduct a formal investigation. The outcome of the investigation confirmed the financial loss and recommended that the responsible official be charged with an act of misconduct.
- The responsible officials resigned and did not attend the disciplinary proceedings, therefore the accounting officers pursued legal action against the former employee.
- The Polokwane high court issued a summons on 8 November 2021 whereby the municipality can lodge a claim of recovery from the supplier or from the former employee if money can not be recovered from the supplier.
- The matter is currently in the Polokwane high Court, as a result, the actions of the accounting officer were assessed as appropriate. The audit team will continue monitoring the matter and actions of the accounting officer until the matter is concluded.

Paragraph 19 of the 20 /21 audit report reported that evidence could not be provided for contracted services, bulk purchases, repairs and maintenance as the municipality did not provide the underlying supporting documentation.

Paragraph 51 to 61 of the 20/21 audit report reported non compliance to SCM legislations.

Both these paragraphs were addressed by SIU through the below SIU Proclamation

SIU Proclamation R180 issued on 5 March 2021 to investigate the following:

Procurement/contracting of goods and services that did not follow supply chain management legislation

Unauthorised, irregular and fruitless and wasteful expenditure incurred in relation to the tenders listed below:

- Tender number: 04-2017/2018 (Bulk Masterplan: Phase 2A bulk water supply zone 1 - WF2A and WF8 infrastructure (boreholes and pipelines));
- Tender number: 05-2017/2018 (Bulk Masterplan: Phase 2A bulk water supply zone 1 - Gravity bulk connection to reservoirs);
- Tender number: 06-2017/2018 (Bulk Masterplan: Phase 2A bulk water supply zone 1 - WF2 raising mains, storage and bulk supply);
- Tender number: 25-2016/2017 (Construction of VIP toilets), waste removal and collection services, landfill services and the hiring of equipment, bush clearing and grass cutting services; and legal services.

The SIU concluded as follows

- The service providers were appointed verbally at a total cost of R4 140 741. without following an appropriate deviation process.
- The appointment of the service providers was irregular as there were no quotations submitted, no monitoring of services, no proof of delivery of goods no assessment to determine a reasonable price to be charged by supplier.

To date we have received SIU reports in relation to contravention of SCM regulation and some officials were suspended

- SIU Proclamation R180 issued on 5 March 2021 to investigate the following:

In the 18 -19 - audit report we raised a non-compliance finding on the filling of posts that were unfunded. This matter is being investigated through the below proclamation.

- The recruitment, selection and appointment of personnel of the municipality in a manner that was contrary to applicable legislation; policies, procedures, prescripts, instructions or practices of, or applicable to the municipality; or the applicable post structures, minimum post requirements and remuneration structures; and for positions that they are not qualified for.

The investigation was still ongoing at the date of reporting.

Paragraph 21 of the 20 -21 audit report reported that included in the general expenses of R91 991 553 is an amount of R23 796 154 for goods not received. Proof of distribution of water to villages could not be provided by the municipality although payments were made. The matter is also under proclamation and the investigation in progress.

Key messages provided in the prior year:

It is recommended that the leadership and management prioritize a culture of compliance with laws and regulations and a strong internal control environment:

1

Significant weaknesses in internal controls, slow implementation of an audit action plan and lack of consequence management contributed to the modified audit opinion.

2

Leadership should ensure that there vacancies in key management positions are filled to improve continuity, accountability and transparency.

3

Weak record management processes were noted which resulted in a negative audit outcome and slow also hampered the ability for the municipality to implement consequence management.

4

Inadequate financial management disciplines which continue to challenge the financial health and sound budget management within the municipality.

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

- All prior year misstatements will be addressed.



Overall reflections on implementation of commitments:

- Steps taken to address prior year findings. Monitoring of implementation was done by consultants.
- Despite the improvement in the audit outcome, the municipality is still reliant on the audit process to identify material misstatements
- The internal control environment still requires improvement.
- Monitoring of compliance with legislation must be prioritised.
- There is overall reduction in the extent of limitation experienced during the audit as a result of improved recordkeeping.

- The municipality's financial health continues to deteriorate. The municipality could not recover money from consumers for services rendered.
- Together with ineffective budgetary management processes, this led to delays in paying creditors. The current creditors payment period stands at 278 days. The municipality's financial health assessment has a direct impact on service delivery.
- As at 30 June 2021, the municipality had six projects to the value of R103 555 345 that were long outstanding and 18 abandoned projects to the value of R209 407 930. Only 38% of service delivery targets were met during the year under review.
- The municipality had unspent conditional grants to the amount of R68 579 800 as at 30 June 2021, payables of R354 056 962 and commitments of R356 011 034.
- These facts are an indication that the municipality does not have financial resources to start new projects, resume old projects or to maintain infrastructure

Stay in Touch With the AGSA



Auditor-General of
South Africa



@AuditorGen_SA



Auditor-General of
South Africa

www.agsa.co.za