

# Parliamentary Engagement

## Emfuleni Local Municipality

March 2023



**EMFULENI**  
LOCAL MUNICIPALITY

Vaal River City, the Cradle of Human Rights



# REPUTATION PROMISE



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.

**MISSION**



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

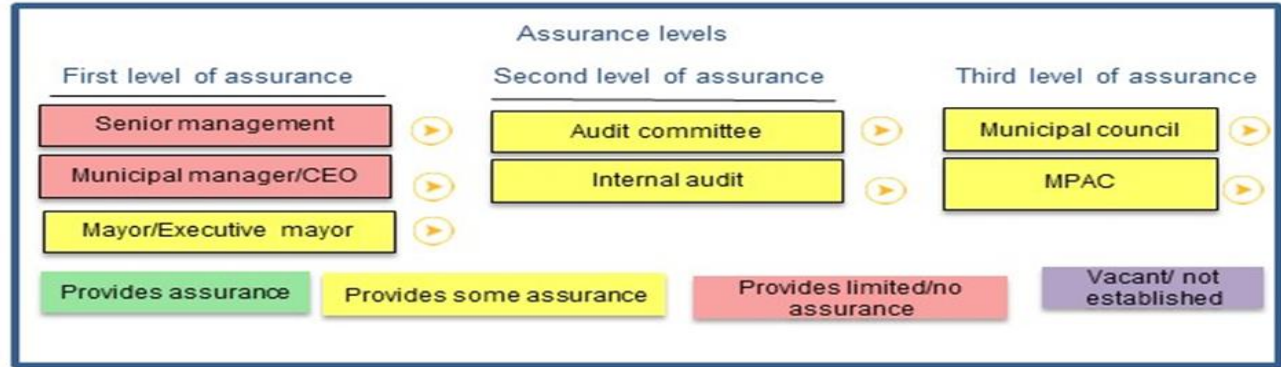
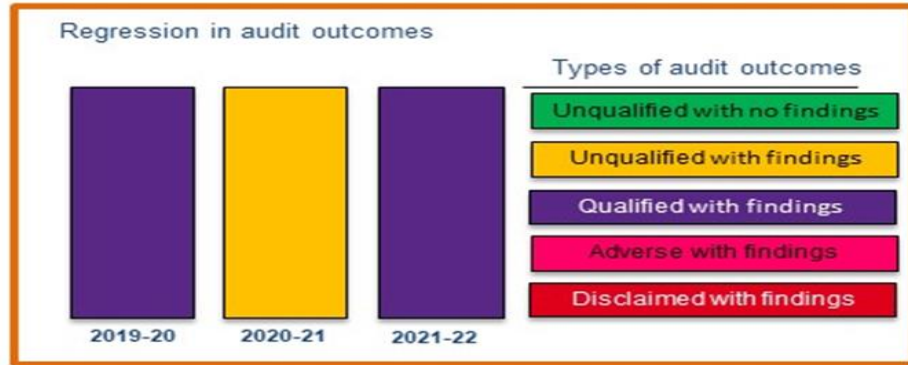
**VISION**



# Audit outcomes 2021-22



# Overall message and audit outcomes



To improve the **audit outcomes** ...



... the key role players need to **assure** that ...



... the **root causes** are addressed ...

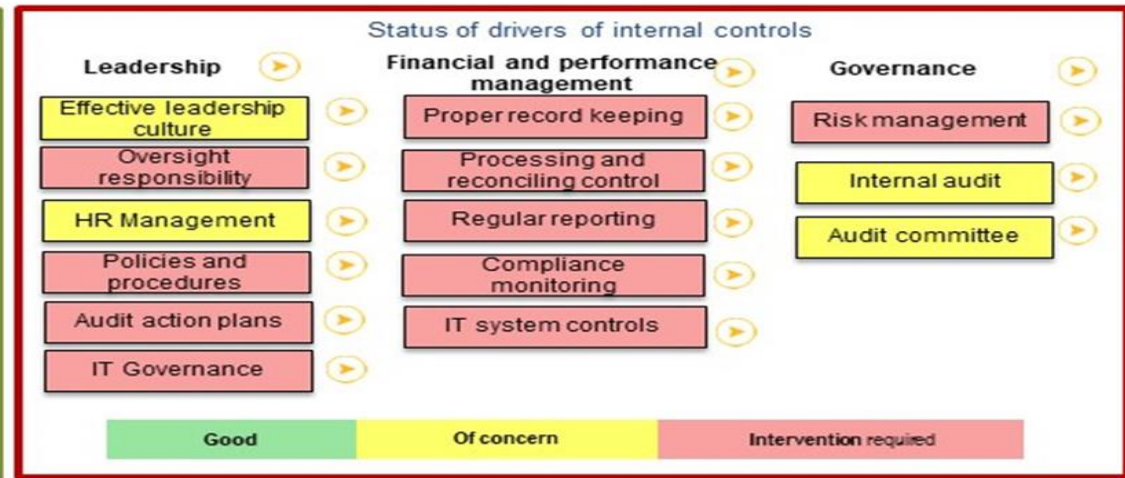
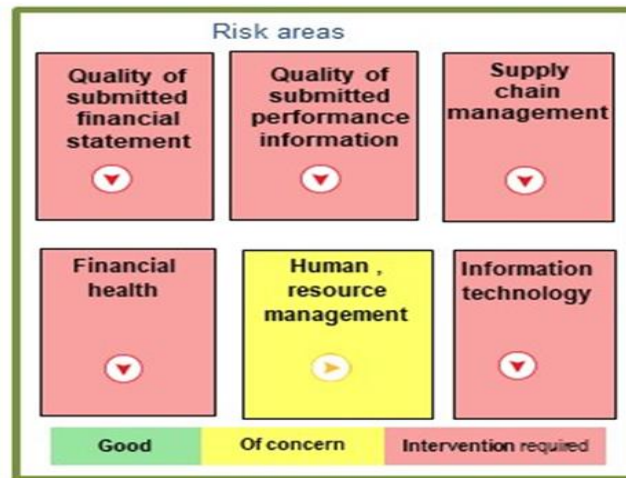
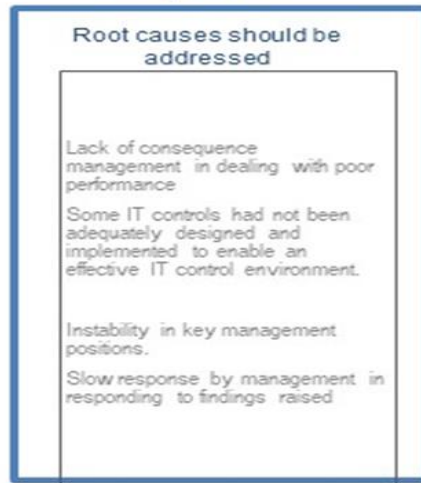


... the **risk areas** and ...



... attention is given to the **key controls** and ...

... the **best practices** are maintained.





## 3-year Outlook



The Emfuleni Local Municipality (ELM) audit outcomes on the financial statements has regressed from unqualified with findings in the prior year to a qualified opinions in the 2021/22 financial year. The municipality has also remained stagnant with a qualified opinion on the selected key performance area (KPA 2). Compliance with laws and regulations remains a concern as there were repeat non-compliance findings from the prior year.

The **financial sustainability** of the municipality remains as **intervention required**.

The audit outcomes of the **reported performance information was sustained as qualified**. Of the 28 indicators in KPA 2, 13 were recorded as achieved totalling 46% achievement which is a concern.

To improve the audit outcomes management and governance need to set the correct tone at the top and provide effective oversight responsibility regarding financial and performance reporting, compliance with laws and regulations and related internal controls.

Audit outcomes	2021-22	2020-21	2019-20
Status	↔	↔	↔

-  Unqualified opinion and findings on the predetermined objectives and compliance with laws and regulations
-  Qualified and findings on the predetermined objectives and compliance with laws and regulations





## Where are we?

The **overall audit outcome** for the ELM has regressed compared to prior year with a qualified **opinion** on the annual financial statements and material findings on performance information and compliance with laws and regulations.

The financial statements submitted for audit purposes were **not free from material misstatements**. This is due to lack of adequate review processes by management before submission for audit.

We identified **material findings** in the annual performance report submitted for audit. Management should **implement adequate review processes** on the annual performance report before submission for audit, to ensure the information reported is **valid, accurate and complete**.

ELM incurred **irregular expenditure** amounting to R232 305 800 in the current year of assessment. Fruitless and wasteful expenditure of **R827 881 210** was incurred in the current year. Unauthorised expenditure also increased in the current year by **R2 708 864 475**. Irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

The debtors' impairments continue to increase on a year-on-year basis due to **poor collection rates**. This has a negative impact on the municipality's cash flow as the **resources needed to provide basic services are diminished**. Distribution losses for both water and electricity **continue to be high**, the percentage losses are **above the MFMA circular 71 norms** (7%-10% for electricity and 15%-30% for water). Management should ensure that these matters are addressed as a matter of urgency.

## Transversal root causes

- Lack of consequence management for transgressions and poor performance.
- Instability in key management positions.
- Slow response by management in responding to findings raised.



# Emphasis of matters : Audit report

Audit Area	Areas of emphasis in the audit report
<b>Material uncertainty relating to going concern</b>	I draw attention to note 35 to the financial statements, which indicates how the structural economic challenges and resultant financial distress have affected the municipality to date, resulting in certain material uncertainties related to the future financial position, performance and cash flows of the municipality. These events or conditions along with the other matters as set forth in note 35, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.
<b>Restatement of corresponding figures</b>	As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.
<b>Material uncertainties</b>	With reference to note 31 to the financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters could not be determined and/or reliably measured; therefore, no provision for any liabilities that may result was made in the financial statements.
<b>Material Impairments</b>	<ul style="list-style-type: none"> <li>As disclosed in note 3 to the financial statements, the trade and other receivables from exchange transactions balance has been significantly impaired. The allowance for impairment amounts to R4 417 610 273 (2022: R8 671 786 694 ), which represents 87.9% (2020-21: 95.%) of total trade and other receivables from exchange transactions. The contribution to the allowance for impairment was R964 106 985 (2020-21: R788 546 015).</li> <li>As disclosed in note 4 to the financial statements, the trade and other receivables from non-exchange transactions balance has been significantly impaired. The allowance for impairment amounts to R1 103 787 516 (2020-21: R1 801 935 154), which represents 80.5% (2020-21:72,6%) of total trade and other receivables from non-exchange transactions. The contribution to the allowance for impairment was R391 024 689 (2020-21: R291 550 695).</li> </ul>
<b>Distribution losses</b>	<ul style="list-style-type: none"> <li>As disclosed in note 40 to the financial statements, material electricity losses of R598 556 898 (2020-21: R527 403 154) were incurred, which represents 23% (2020-21: 21.87%) of total electricity purchased.</li> <li>As disclosed in note 40 to the financial statements, material water losses of R733 720 550 (2020-21: R592 530 225) were incurred, which represents 63.7% (2020-21: 57%) of total water purchased</li> </ul>
<b>Disclosure on the impact of Covid-19</b>	I draw attention to note 44 in the financial statements, which deals with the impact and possible effects of Covid-19 on the municipality's current, future performance and cash flows.



**Where we are in 2021-22 :** “To accelerate accountability by providing insights to the relevant stakeholders, thereby improving the lived realities of the citizens”



## AFS

- **The quality of published AFS was not maintained-** The municipality did not recognise all general expenditure incurred in the current year financial statements resulting in material misstatement for general expenditure and trade payables.



## Compliance

**material non-compliance** with laws and regulations identified.

**AFS** - financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

### Expenditure management

- Invoices not paid within 30 days
- Non prevention of UIFW as required by section 62(1)(d) of the MFMA:
  - Non prevention of unauthorised expenditure amounting to R2 708 864 475.
  - Non prevention of irregular expenditure amounting to R232 305 800.
  - Non prevention of fruitless and wasteful expenditure amounting to R827 881 210.

### Procurement and contract management

- Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
- Some of the contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 Preferential Procurement Regulation 9(1).
- The performance of some of the contractors was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

### Consequence management

- UIFW was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.





# Audit of performance information

Key performance area	Opinion	Movement
KPA 2 – Basic services and infrastructure	Qualified	

## Key Performance Area (KPA) 2- Basic Service and Infrastructure

- BS 03 - Number of new electricity meters replaced in ELM licensed area of supply.
- BS 02 - Number of additional dwellings provided with connections to main electricity supply by the municipality.
- BS 05 - Number of electrical substations refurbished/upgraded/new.
- BS 15 - Percentage achievement to a turnaround time to restore all potable water service interruptions (current norm to comply with is 48 hours).
- BS 20 - Percentage achievement to a compliance to turnaround time (48 hours) to restore wastewater service interruptions after reported.

### Findings identified:

- The achievements reported in the annual performance report materially differed from the supporting evidence provided (BS03, BS02, BS05).
- Supporting evidence was not provided to support the reported achievements (BS03, BS15 and BS20).



# Focus Area : Information Technology

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# Focus Area : Information technology : Overall environment

## Overall environment

- The status of IT control required management intervention as the IT audit outcomes remained stagnant when compared to the prior years. The IT general controls were not effective to ensure reliance on IT controls.
- The stagnation of IT audit outcomes was due to failure to implement the action plans as per AGSA 2021-22 and lack of consequence thereof. In addition, the IT function was not seen as a strategic partner within the municipality as IT was not represented in executive strategic governance structures to ensure the advancement of IT in order to support business objectives.
- The IT control weaknesses were noted in the areas of user access management, program change control, IT service continuity management and IT security management.
- Due to the weaknesses in the IT environment, the municipality faces an increased cyber security risk.

## Key findings : IT Governance

- There are no governance structures such as IT steering committee appointed to monitor IT governance matters within the municipality
- The framework has not been approved and remain in draft.
- A Governance Champion has not been appointed and an IT steering committee has not been established.
- An IT risk assessment was not conducted to identify the risks affecting IT environment for the 2021/2022 financial year



## Key findings : IT Controls

- The municipality does not have an adequately documented Disaster recovery plan and facility due to procurement delays. As a result, no disaster recovery tests could be performed.
- The backups were not taken/replicated to an offsite facility.
- The municipality did not perform backup restorations tests
- Security patches were not adequately deployed into the environment.



# Focus Area : Key projects

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# Key projects: Sebokeng WWTW, Leeukil WWTW and Ruitspruit WWTW

Purpose of site visit: to perform an assessment of the wastewater management service delivery function of the municipality

## Work performed

- Understanding the processes for environmental risk identification and monitoring relating to wastewater management.
- Whether the wastewater treatment works of the municipalities are licenced.
- Physical site visits at selected wastewater treatment works to determine and assess:
  - Physical condition and operation of wastewater treatment infrastructure.
  - Whether processes for wastewater treatment, quality monitoring and disposal exist and whether wastewater quality results comply with the disposal requirements.
  - Whether processes for preventing pollution or degradation of the environment were established or monitored.



## Key findings

The infrastructure of the municipality is in a dilapidated state, we conducted site visits in the three wastewater treatment plants; Leeukil, Sebokeng and Rietspruit and we noted that the sites were not effectively safeguarded and maintained to prevent malfunctioning, theft and vandalism hence, the wastewater works were not operating as intended.

Reasonable measures were not taken to prevent significant pollution and degradation of the adjacent environments as a result, effluent is not disinfected with chlorine before it is discharged, causing pollution to the Vaal River.



# Summary of findings

## Environmental risk identification and monitoring processes

- Environmental risks relating to wastewater management were not identified and monitored during the period under review. Final effluent discharged into the rivers was not consistently measured nor monitored through-out the year. Testing of effluent discharged did not occur for up to 8 months of the year under review.
- Testing results, which showed ineffective treatment of effluent as the results were non-compliant with limits, were only available for the 4 months between March 2022 and June 2022.

## Wastewater quality and compliance monitoring

- The quality of the effluent discharged at the wastewater treatment plants of the Municipality was non-compliant per their licence conditions of the plants as required by section 22(2)(a) and (c) of NWA. Testing of the quality of the effluent was not performed for up to 8 months of the year under review.

## Processes for preventing pollution or degradation of the environment

- The following observations were made that indicate reasonable measures were not taken to prevent significant pollution and degradation of the adjacent environments, including water resources as required by section 28(1) of NEMA and section 19(1) of NWA:
  - Leeukil WWTW, chlorination instruments were non-functioning, and that means that the treated effluent is not disinfected with chlorine before it is discharged, which results in the pollution of the, Leeukuil River and ultimately the Vaal River.
  - Sebokeng WWTW, chlorination instruments were non-functioning, and that means that the treated effluent is not disinfected with chlorine before it is discharged, which results in the pollution of the, Rietspruit River ultimately the Vaal River.
  - Ruitspruit WWTW, chlorination instruments were non-functioning, and that means that the treated effluent is not disinfected with chlorine before it is discharged, which results in the pollution of the, Rietspruit River ultimately the Vaal River.



# Public Audit Act Amendments : Material irregularities



# REFLECTION ON PAA IMPLEMENTATION

The ELM was selected for the **PAA implementation in phase three.**



MI 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 PAA 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.

## Role of oversight and Executive authority's

- **The role remains the same**, by reporting material irregularities we highlight the most material matters affecting the auditee and provide information to assist in the oversight role.
- Executive authority **monitors progress and supports the MM** in addressing the MI's and improving controls
- **Oversight committees** monitor progress and **calls MM to account** for actions taken and outcomes



## Role of Municipal Manager

MMs have a legal obligation to prevent all irregularities and take action if it occurred.

- By identifying material irregularities, we support them in **detecting irregularities that could have a significant impact** on the auditees' finances, resources and delivery.
- Through the notification process we **empower them to take the appropriate steps in terms of legislation timeously**, thereby reducing the negative impact on the auditee and setting the right tone of accountability and the need for consequences.
- We **give space to the MM to take the actions required** to deal with the material irregularities – we use our additional powers only where the MM is not dealing appropriately with the material irregularities.
- Prevent re-occurrence of MIs by embedding basic disciplines and processes





# MIs detail

## Reported Material irregularity:

### Failure to pay tax payable (VAT) by the required timeframe

- The municipality failed to pay the tax payable amounting to R19 295 711,75 for the month of April 2021 by the last business day of the month of May 2021 to the commissioner as required by section 28(1)(b)(iii) of the Value Added Tax Act. As a result of this failure to pay the tax payable by the required timeframe, the commissioner of the South African Revenue Services (SARS) imposed a penalty amounting to R1 929 571 which represents 10% of the tax payable for the month of April 2021. The municipality paid the penalty on 11 June 2021.
- The non-compliance is likely to result in a material financial loss if not recovered. The amount is disclosed in note 38 as a comparative to the 2021-22 annual financial statements.
- The accounting officer was notified of the material irregularity on 15 December 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter.
- The accounting officer has taken the following action to address the material irregularity:
  - Filed a request for a remission with SARS on 31 March 2022 to request the Commissioner to remit the imposed penalty.
- I will follow up on the progress of the filed request for remission with SARS during my next audit.

### Material irregularities in progress:

- I identified material irregularities during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the responses from the accounting officer. These material irregularities will be included in the next year's auditor's report.

Date of material irregularity notification	Description of material irregularity / suspected material irregularity	Status
15 July 2022	Eskom invoices not settled within 30 days	The process of evaluating the response from the accounting officer was not yet completed.
15 July 2022	Rand Water invoices not settled within 30 days	The process of evaluating the response from the accounting officer was not yet completed.

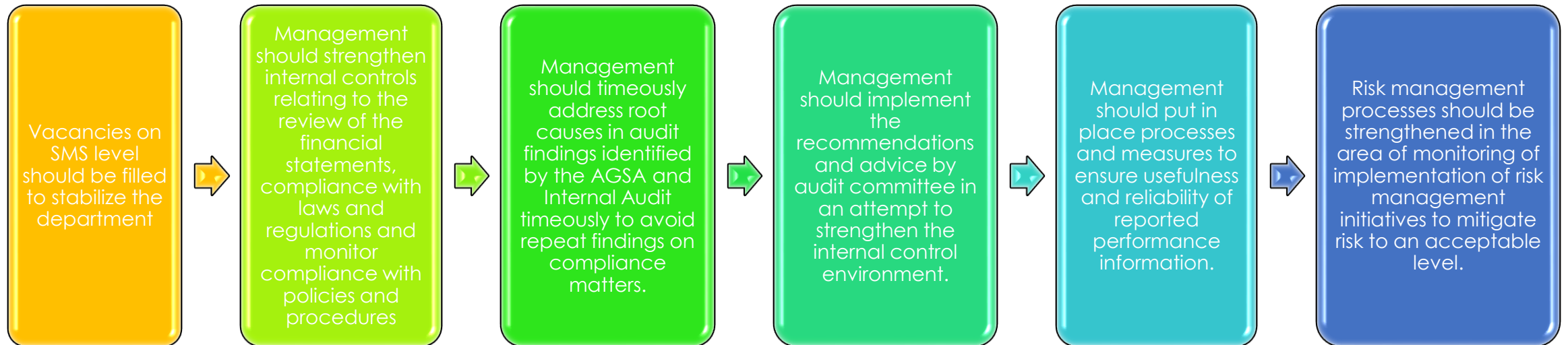


# Management commitments

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# Key recommendations for improvement of the audit outcomes



# Prior year commitments

Commitment	Made by	Origin of commitment	Status
<p>Annual financial statements</p> <ul style="list-style-type: none"> <li>Improve the quality of annual financial statement through preparation of the quarterly financial statement.</li> <li>Monitor the implementation of the Audit Action plans to resolve 2020-21 financial issues as raised by the Auditor-General ( SA) and Internal Audit.</li> </ul>	Executive Mayor	28 March 2022	<p><b>Not implemented.</b></p> <p>Material findings were identified on general expenditure and trade payables resulting in a qualified audit opinion.</p>
<p>Performance Management (AOPO)</p> <ul style="list-style-type: none"> <li>Ensure that adequate mechanisms and systems of internal controls to verify the consistency and reliability of performance information.</li> <li>Ensuring through the accounting officer the service delivery targets are credible when reported on a quarterly basis and that senior officials are held accountable to achieve the service delivery targets.</li> </ul>	Executive Mayor	28 March 2022	<p><b>In progress.</b></p> <p>Findings were identified in the current year and the audit opinion on the pre-determined was qualified.</p>
<p>Compliance (expenditure management, SCM, consequence management, revenue management)</p> <ul style="list-style-type: none"> <li>Monitor the Reduction of unauthorized, irregular, wasteful and Fruitless expenditure.</li> <li>Provide oversight and ensure that there is effective contract management.</li> <li>Monitor Compliance with laws and regulations.</li> </ul>	Executive Mayor	28 March 2022	<p><b>Not Implemented.</b></p> <p>Repeat material non-compliance findings were identified in the current year.</p>
<p>Vacant positions</p> <ul style="list-style-type: none"> <li>Ensure the appointment of S56 managers to ensure sustainability within Emfuleni</li> </ul>	Executive Mayor	28 March 2022	<p><b>Not Implemented.</b></p> <p>Key management positions have not been filled.</p>
<p>Material irregularities (PAA amendments)</p> <ul style="list-style-type: none"> <li>Ensure that material irregularity identified are appropriately dealt with by the Accounting Officer.</li> </ul>	Executive Mayor	28 March 2022	<p><b>In progress.</b></p> <p>The reported MI's have not yet been resolved.</p>



# THANK YOU

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