



AUDITOR-GENERAL
SOUTH AFRICA

Western Cape

LOCAL GOVERNMENT 2021-22 AUDIT OUTCOMES

Audit outcomes for financial year ended 30 June 2022
Status of material irregularities at 15 February 2023

20 June 2023

Ineffective monitoring of compliance by leadership affects audit outcomes

MISSION AND VISION



VISION

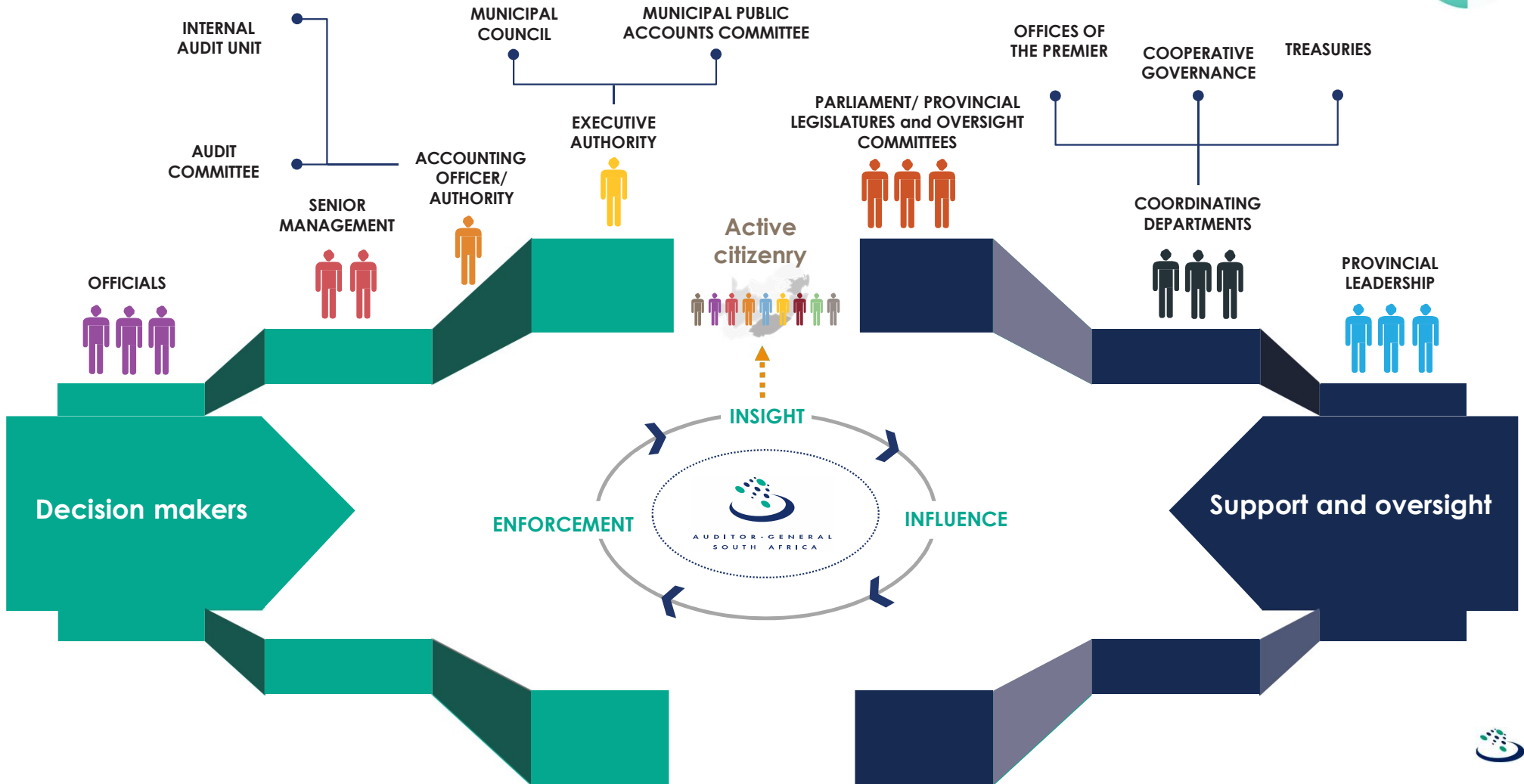
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

MISSION

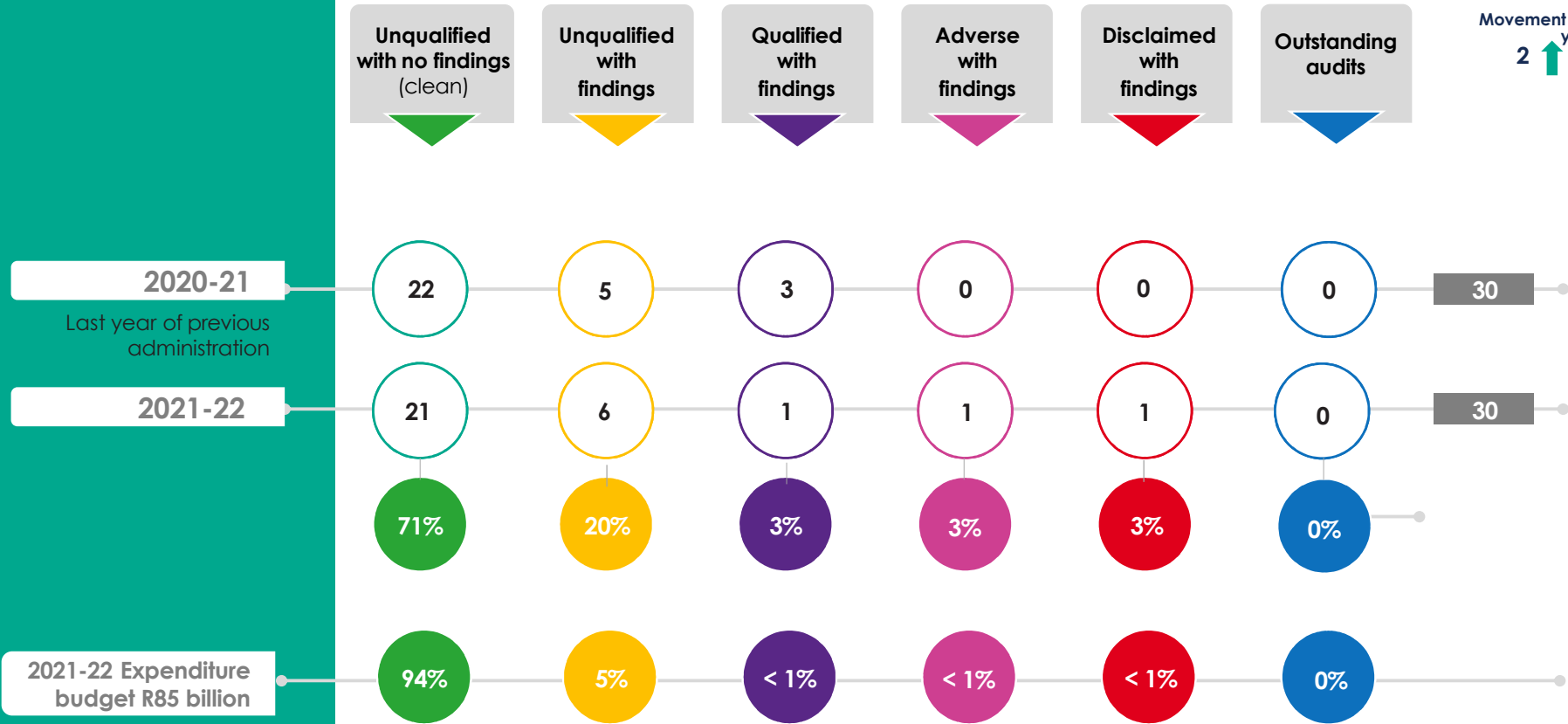
The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence



All have a role to play in accountability ecosystem



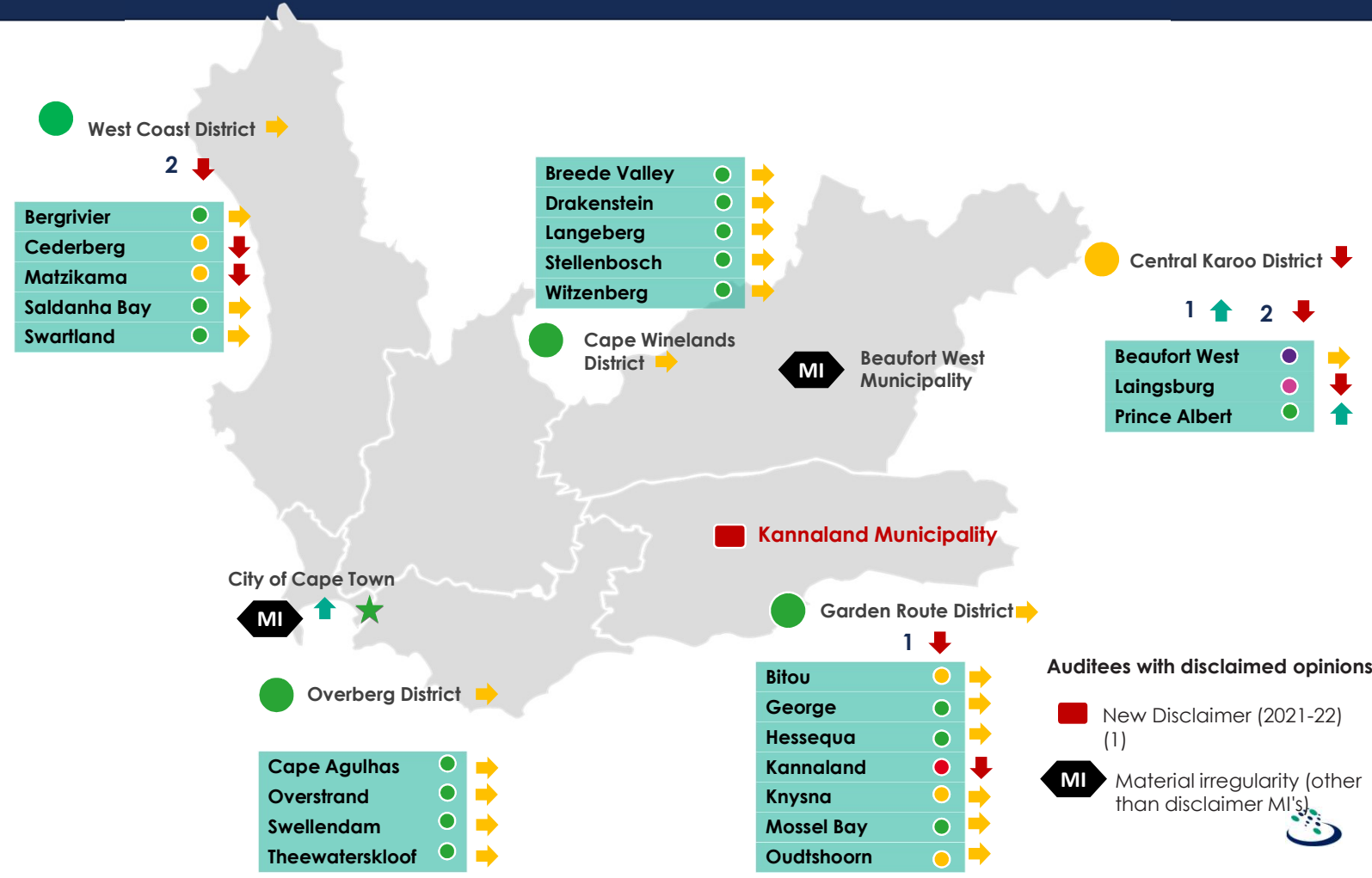
Overall audit outcomes shows a regression



Regression in audit outcomes from previous year and municipality with disclaimed audit opinion

- Improved
- Regressed
- Stagnant

- Unqualified with no findings (clean)
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Outstanding audits



Provincial audit outcome snapshot

Where we are in 2021-22:

WC

Quality of financial statements

- Embedded financial management controls remain **effective with stable administrations** at majority of the municipalities
- **Unqualified opinions at 27 municipalities.** 26 municipalities submitted AFS that did not require any material adjustments however Central Karoo DM required material adjustments to obtain an unqualified opinion.
- **Leadership instability due to political instability** caused a regression in Kannaland and a further deterioration of their control environment.

Performance reporting

- The quality of the performance reporting **remains good** with 27 municipalities receiving no material findings due to **regular reporting and reconciling controls.**
- However, **daily controls need to improve** as seven (7) municipalities made material corrections which prevented material findings at four municipalities.

Compliance

- Regression in the province **caused by compliance matters.**
- **Four clean audits lost their status** due to material findings in procurement, HR, prevention of UIFW and expenditure management.
- Compliance monitoring controls were not effective to prevent these findings which in some cases were raised in the past but were not material.

Financial Health

- Financial health remains positive with 21 municipalities being assessed as good.
- Three (3) municipalities, Beaufort, Kannaland and Cederberg, had material concerns on their going concern ability.
- Long-term financial sustainability and the ability to deliver services will be impacted due to the large proportion of billings being irrecoverable.

Provincial leadership tone

- **Strong leadership tone and stability at leadership level** evident in the positive outcomes.
- **Intensified support from PT and LG** required for underperforming municipalities and to address the instability at political and administrative level.

Legislature

There is engagements on our general report and provincial outcomes as well as engagement on reports tabled by the MEC of Local Government.
More robust engagement and deliberation to **turn actions into commitments** to enable the members to have the **necessary oversight and monitoring to enable improvement.**

HR management

Six municipalities having material non-compliance findings relating to:

- Senior managers not having performance agreements in place
- Policies and procedures not in place to monitor, measure and evaluate performance of staff.

These impacts the ability to hold individuals accountable and manage performance..

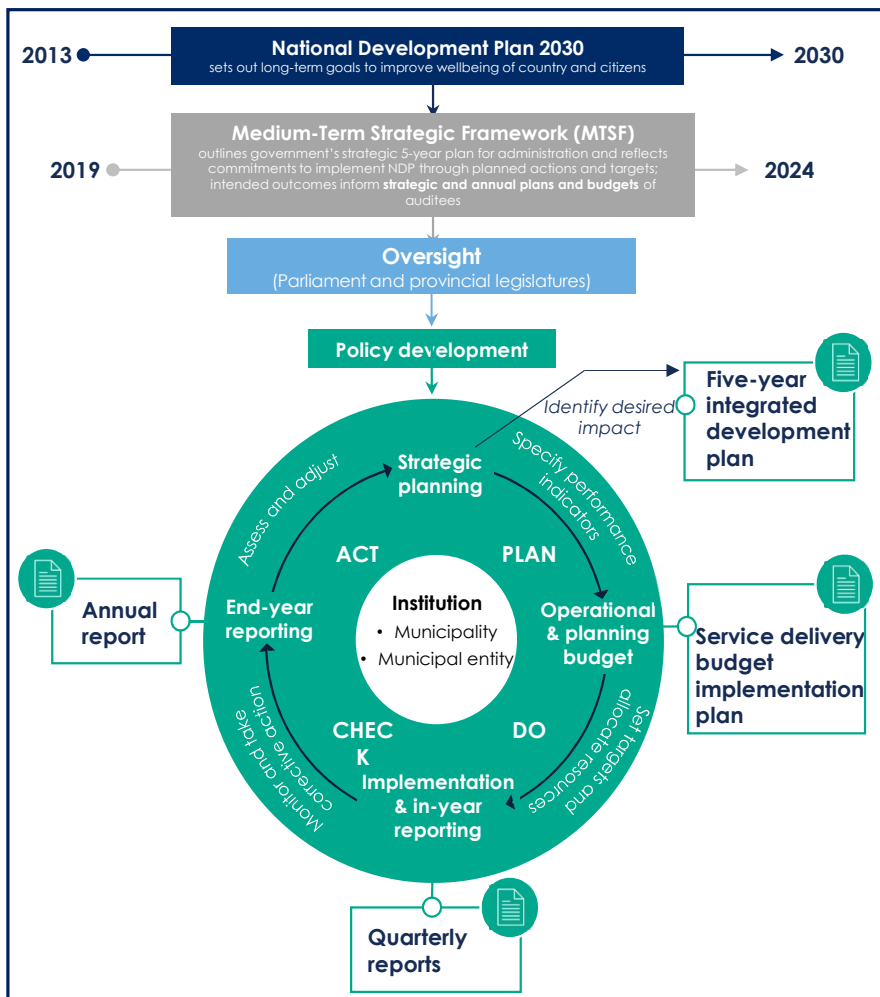
IT environment

- Prior year findings not addressed due to **budget constraints and vacancies.**
- **Adequate automated controls** for water & electricity meter readings, leave management and changes to supplier banking details.
- Adequate IT expenditure management.



Findings and insights on performance planning and reporting

Planning, budgeting and reporting cycle of government



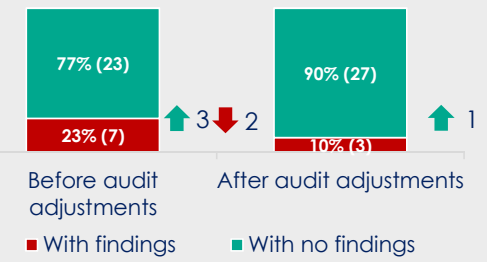
Findings: Planning for service delivery

- Performance indicator not well-defined.
- Performance indicators not verifiable.
- The City of Cape Town metro has not implemented standardized indicators in line with National Treasury's circular 88.

Findings: Reporting

- Reporting findings relate to information submitted that is not valid, accurate and complete.

Quality of performance reports before and after audit



Insight, root cause and impact

- Good controls over performance reporting in the province despite material misstatements in the APR being identified.
- Continuous migration together with budget constraints impacts the ability to have accurate record of the number of informal households and to adequately cater to the needs of informal and low-cost housing communities.
- The municipal regulations only refer to the delivery of services to "households" and there is no clear guidance on whether households include informal settlements or only formal households
- The City did not include the Circular 88 outcome indicators in the 2021-22 "Top Layer" SDBIP (Corporate Scorecard) but it was however included in the Directorate SDBIP reported on the performance of these indicators to National Treasury every quarter since the circular was issued.

WHAT WE FOUND



Project deficiencies left unattended

- Inadequate project planning
- Inadequate record keeping
- Ineffective monitoring of project milestones and quality of work performed
- Inadequate asset management
- Underperformance by contractors without consequences

Resulting in

- **Delayed completion** of projects and handovers to beneficiaries
- Project site **de-mobilised** indefinitely
- **Increased** project cost
- Quality **defects**
- **Asset deterioration** due to delays in finalising project
- Project objective **not met**
- **Irregular expenditure** incurred

Areas audited:

Clean (Drakenstein, Overstrand)
Water infrastructure

Audits (George, Cederberg, Stellenbosch)
Water infrastructure

Metro (City of Cape Town)
Delivery of housing



Irregular expenditure and consequence management

Irregular expenditure incurred and balance is reducing

Irregular expenditure incurred

R0,50 billion (25 auditees)
(2020-21: R1,23 billion (27 auditees))

Closing balance

R1,22 billion
(2020-21: R1,52 billion)

Incomplete reporting on irregular expenditure

- Still investigating to determine the full amount = 9 municipalities (30%)
- Qualification to determine the full amount = 2 municipalities (7%)

Consequence management –

Closing balance of irregular expenditure **still high:**

- MPAC did not investigate the UIFW expenditure
- Instability in AO and CFO positions

Impact of irregular expenditure incurred

Breach of **5 procurement pillars** at 19 municipalities

R0,33 billion

Irregular expenditure where **no value for money was obtained** at 4 municipalities

R0,96 million

Other **non-compliance** (e.g. payment not properly approved) at 18 municipalities

R0,16 billion

Impact not as yet assessed at 10 municipalities

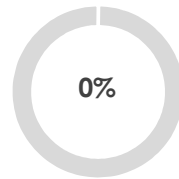
R0,21 billion

Market prices not tested adequately, which may have resulted in higher prices paid

Negative impact on government socio-economic objectives of empowering previously disadvantaged individuals and small businesses e.g.

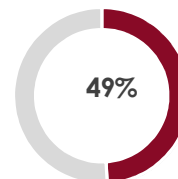
- Preference point not applied or incorrectly calculated resulting in the incorrect supplier being awarded the contract

A significant portion of 2020-21 irregular expenditure has not been dealt with



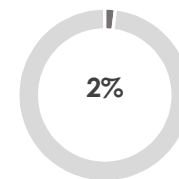
R0 bn

Money recovered or in process of recovery



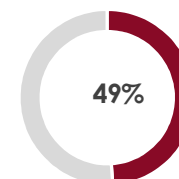
R0,74 bn

Written off



R0,03 bn

Condoned



R0,75 bn

Not dealt with



Material irregularity process is making an impact

Material irregularities identified could have been prevented by basic disciplines and processes.

Through the material irregularity process we highlight these internal control weaknesses and track improvements to prevent recurrence.



FROM INACTION TO ACTION

4 material irregularities on non-compliance resulting in:

- 4 material **financial loss** (estimated R15,3 million)
 - 0 substantial **harm to public sector institution**
 - 0 **misuse of material public sector resource**
- No **actions** were taken to address **100%** of these matters until we issued notifications



ACTIONS TAKEN BY AUDITEES

- R0 m Financial loss **recovered**
- R0 m **Prevented financial loss** from taking place
- R9 m Financial loss **in process of recovery**

- 2 **Internal controls improved** to prevent recurrence
- 2 Responsible officials identified and **disciplinary process** completed or in process
- 0 **Fraud/criminal investigations** instituted
- 2 **Stopped supplier contracts** where money is being lost



CALL TO ACTION



Ineffective monitoring of compliance by leadership affects audit outcomes

1

Continue to lead by example and embed the culture of compliance and adherence to ensure that **consequences for accountability failures** are effected swiftly at all poor performing municipalities.

2

Enhance performance reporting to measure the output and quality of services that are being delivered **to improve the lived reality** of the citizens.

3

MPAC to timely investigate irregular expenditure from prior years and to **hold officials responsible** for transgressions to enable a culture of accountability.

4

Local government and Provincial treasury to develop a plan to address skill shortages in Beaufort West, Kannaland and Laingsburg which has contributed to their poor audit outcomes.

Provincial treasury to continue to support with regular monitoring of budgets to prevent instances of municipalities with unfunded budgets.



THANK YOU



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