



*Local government audit outcomes* | **MFMA**  
2018-19

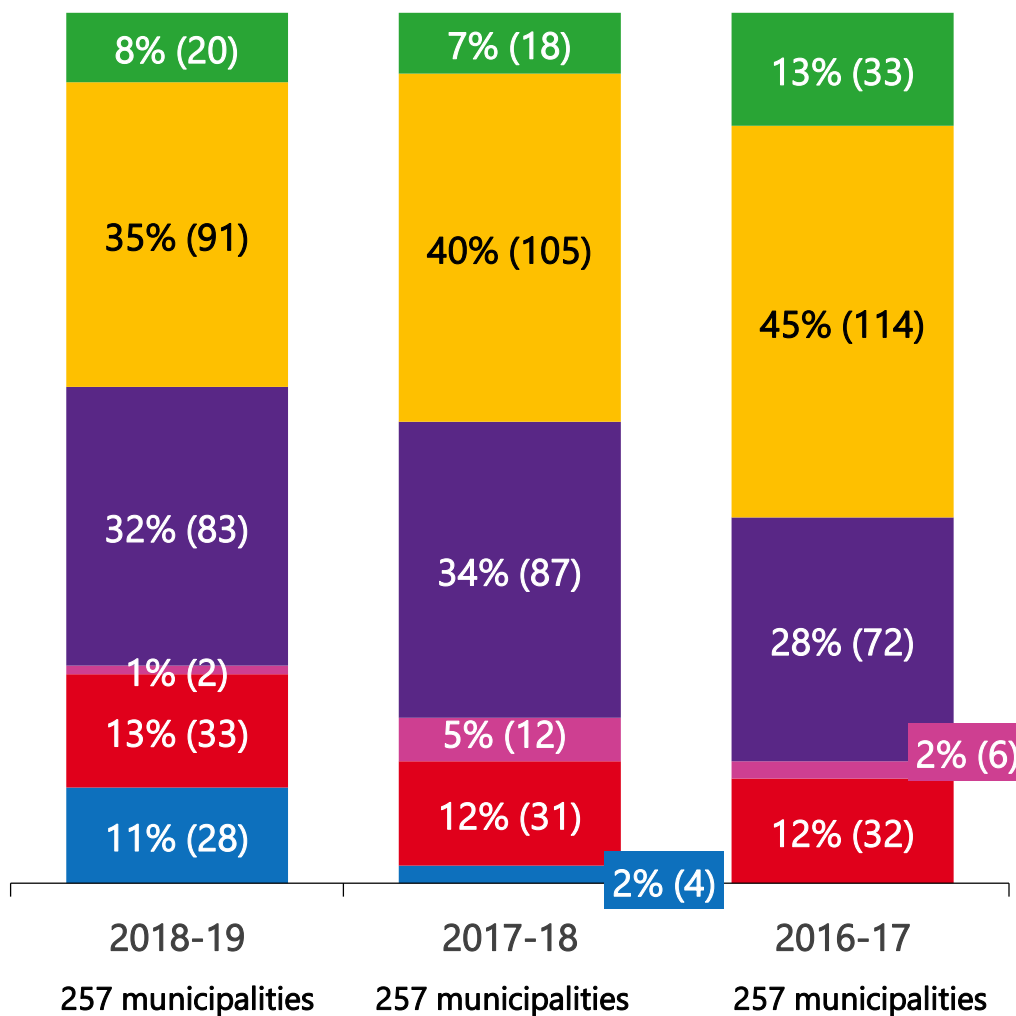
*Not much to go around, yet not the right hands at the till*

*24 June 2020*



AUDITOR-GENERAL  
SOUTH AFRICA

# Audit outcomes continue to regress – municipalities

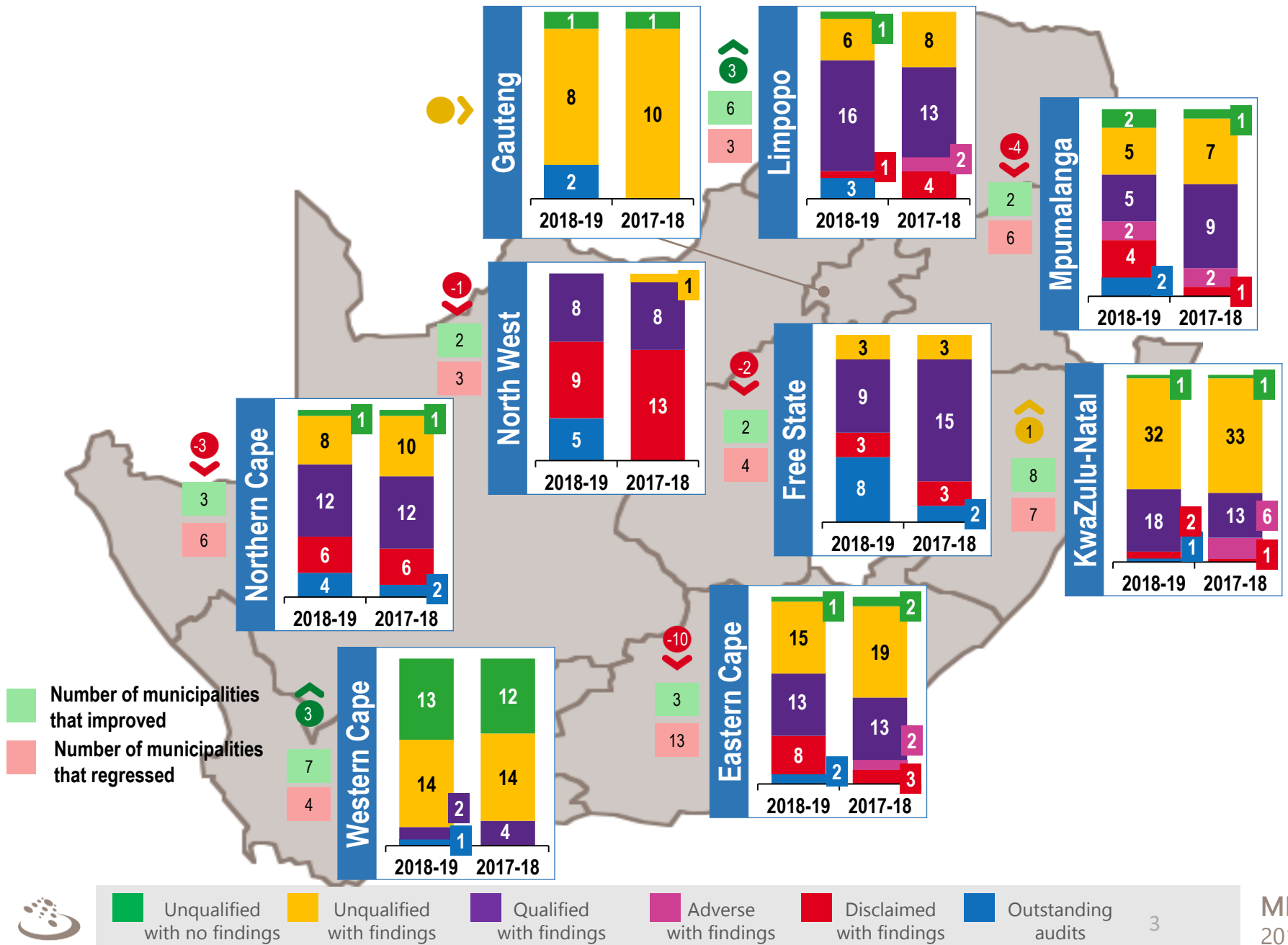


Movement	
▲	33
▼	46
▶	150
Outstanding audits	28

■ Unqualified with no findings
 ■ Unqualified with findings
 ■ Qualified with findings
 ■ Adverse with findings
 ■ Disclaimed with findings
 ■ Outstanding audits

The cut-off date for reporting of audit outcomes is set as 31 January 2020

## Movement in audit outcomes per province – municipalities



# Eastern Cape – audit outcomes per district

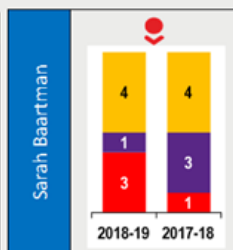
Widespread lack of financial controls and project monitoring



Metropolitan municipality

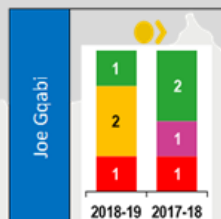
**Sarah Baartman District**

- Blue Crane Route
- Dr Beyers Naudé
- Kou Kamma
- Kouga
- Makana
- Ndlambe
- Sundays River Valley



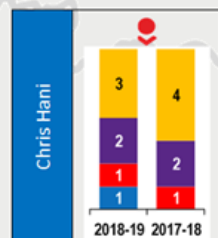
**Joe Gqabi District**

- Elundini
- Senqu
- Walter Sisulu



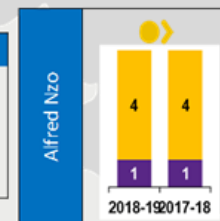
**Chris Hani District**

- Emalahleni
- Engcobo
- Enoch Mgijima
- Intsika Yethu
- Inxuba Yethemba
- Sakhisizwe



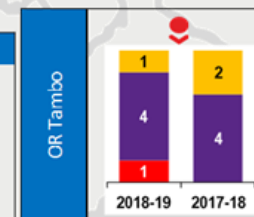
**Alfred Nzo District**

- Matatiele
- Mbizana
- Ntabankulu
- Umzimvubu



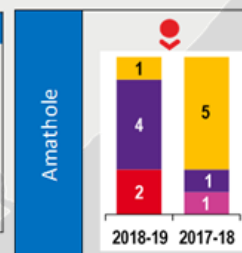
**OR Tambo District**

- Ingquza Hill
- King Sabata Dalindyebo
- Mhlontlo
- Nyandeni
- Port St. Johns

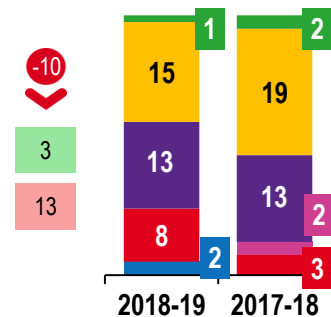


**Amathole District**

- Amahlati
- Great Kei
- Mbhashe
- Mnguma
- Ngqushwa
- Raymond Mhlaba



**Nelson Mandela**

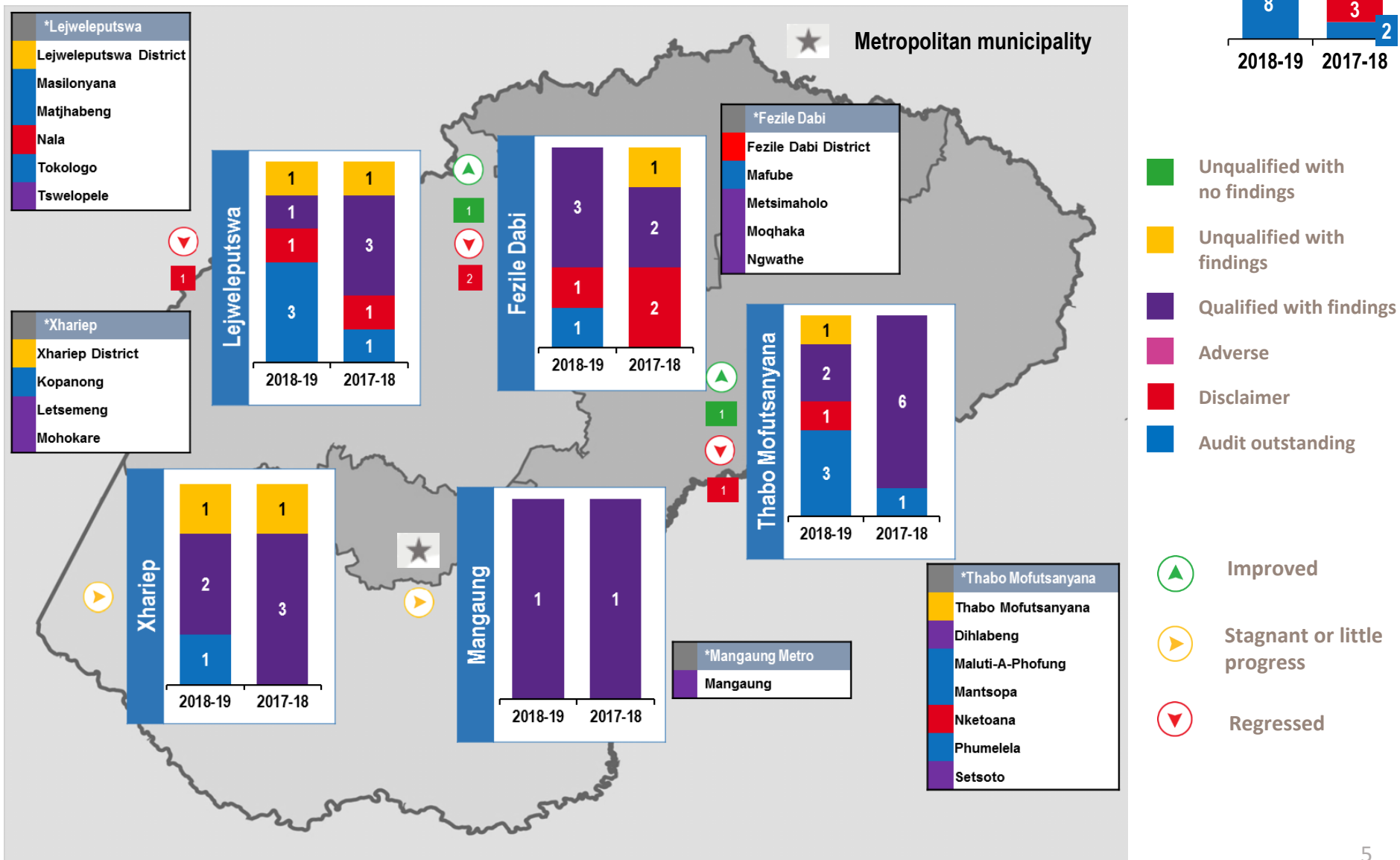


- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse
- Disclaimer
- Audit outstanding

- Improved
- Stagnant or little progress
- Regressed

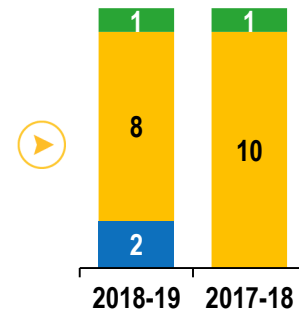
# Free State – audit outcomes per district

Deliberate lack of accountability by political and administrative leadership



# Gauteng – audit outcomes per district

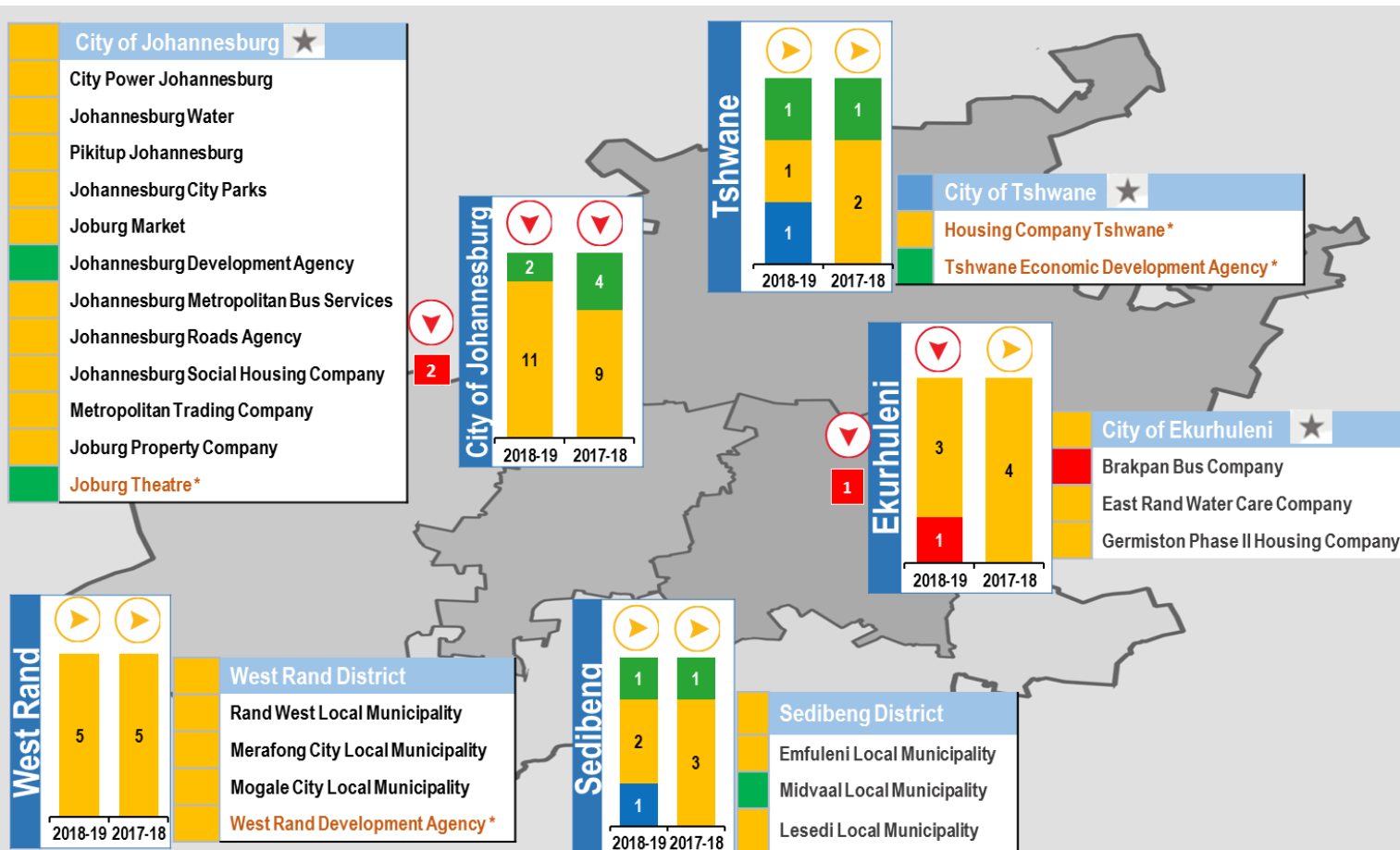
Good financial accounting with inadequate monitoring of preventative controls



Data excludes municipal entities as depicted per district

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- Qualified with findings
- Adverse
- Disclaimer
- Audit outstanding

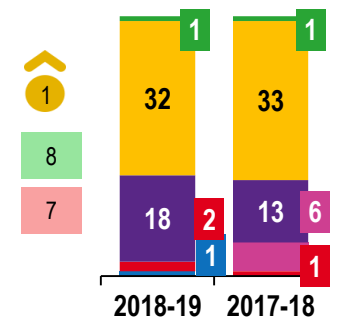
- Improved
- Stagnant or little progress
- Regressed



\* These represent small auditees which are excluded from the General Report

★ Metropolitan municipality

Little change in outcomes, accountability not adequately practised and enforced by leadership and failure of key controls

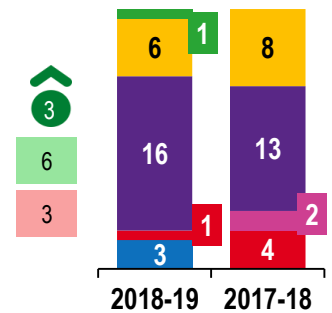
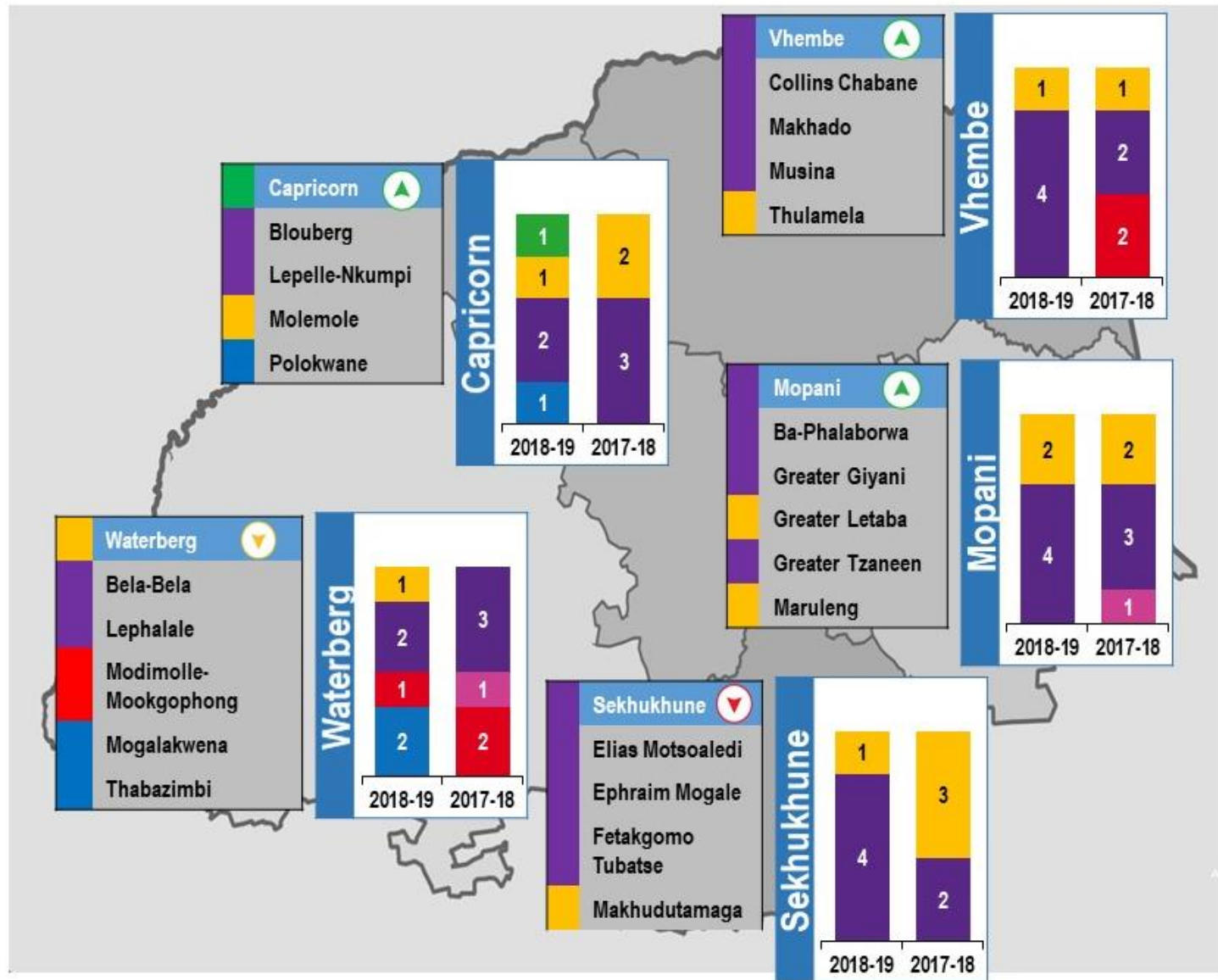


- Improved
- Stagnant or little progress
- Regressed

 Metropolitan municipality

# Limpopo – audit outcomes per district

Millions spent to improve audit outcomes – yet no consequences for poor performance



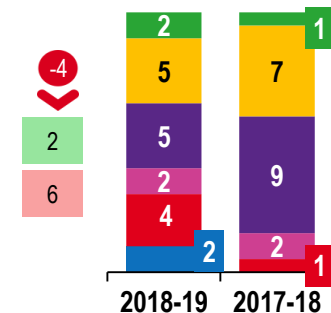
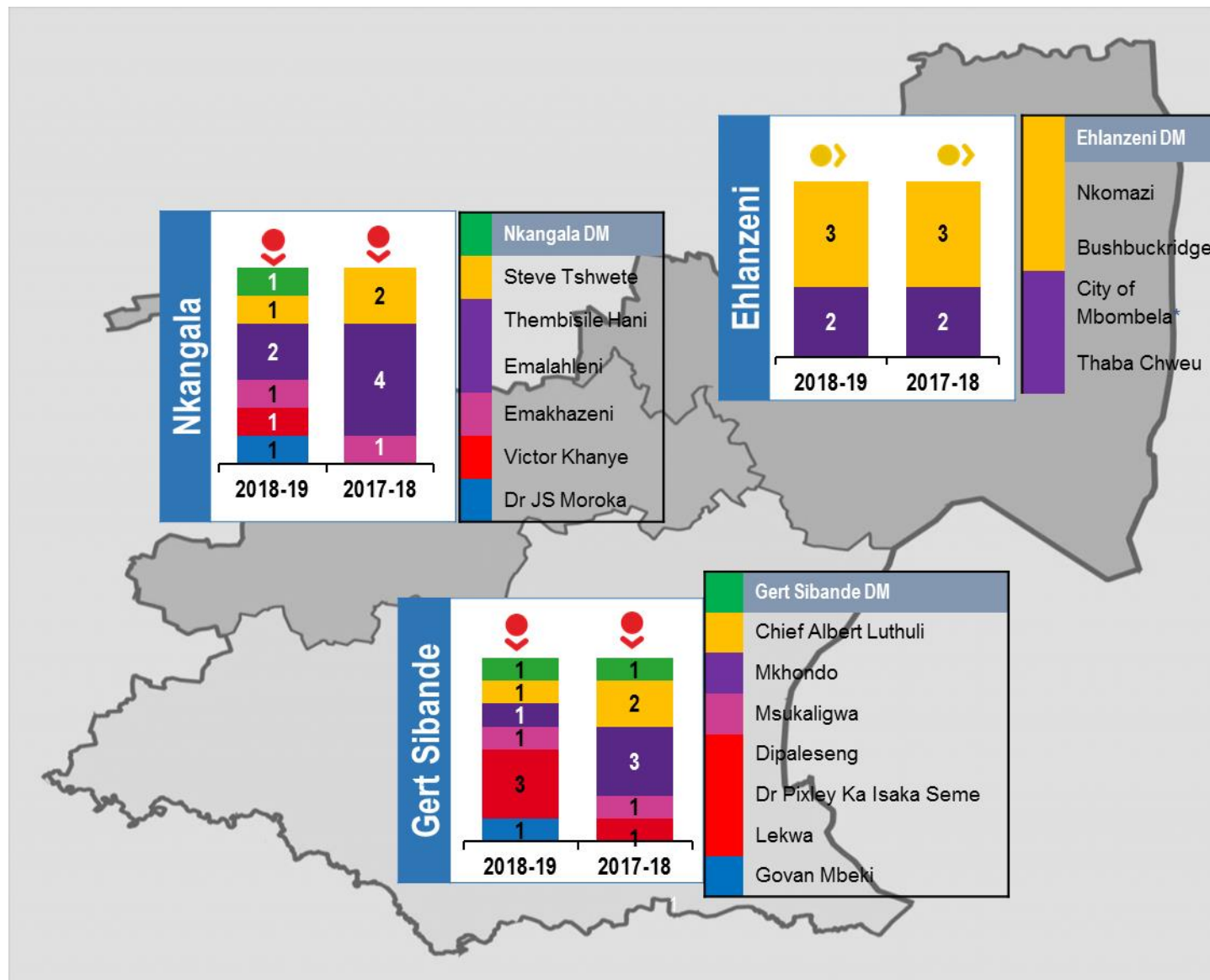
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- Improved
- Stagnant or little progress
- Regressed



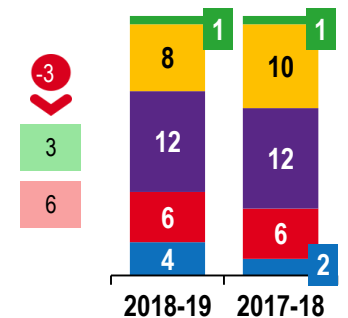
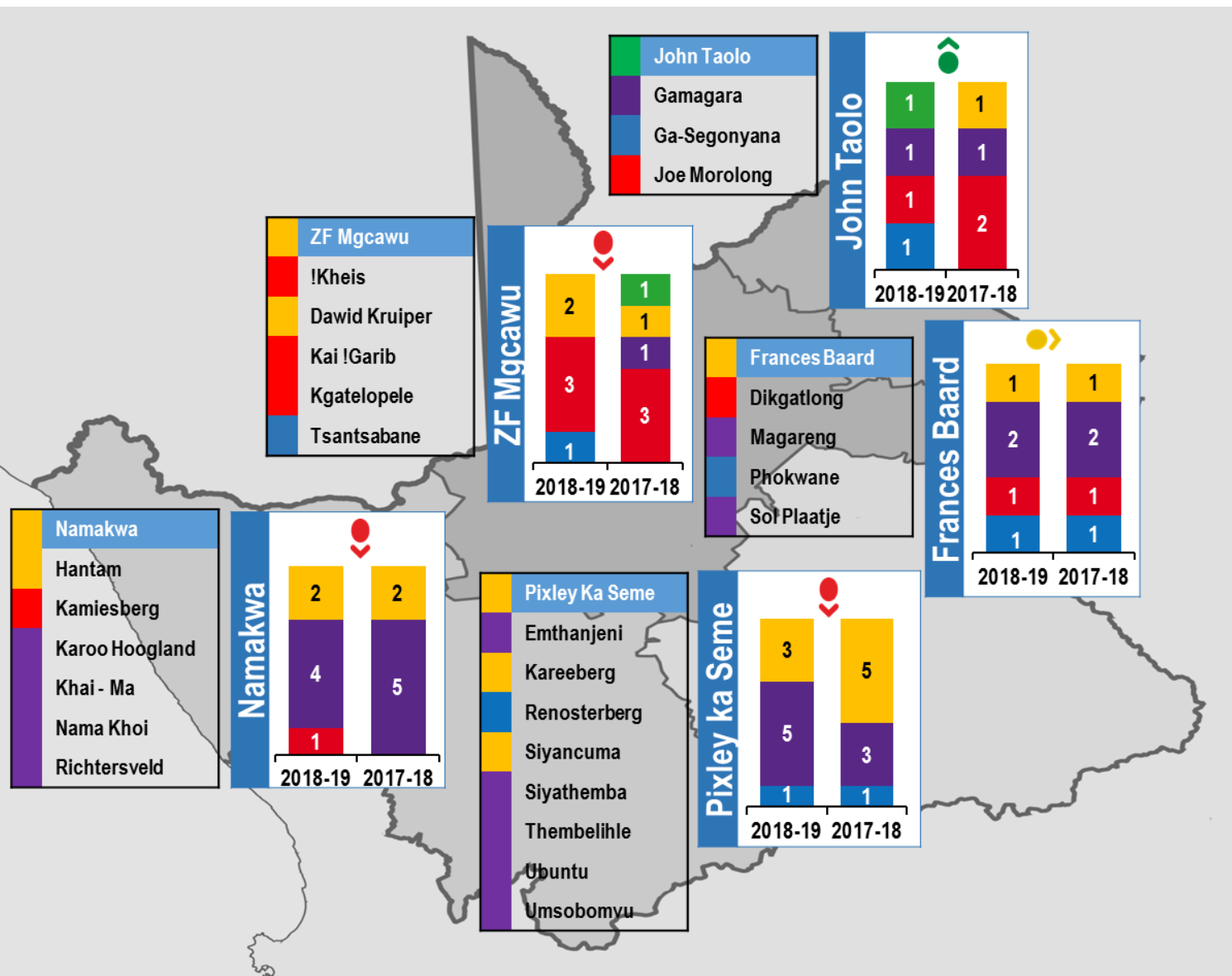
# Mpumalanga – audit outcomes per district

Deteriorating accountability and financial management coupled with weakened oversight at the centre of the significant regressions in audit outcomes



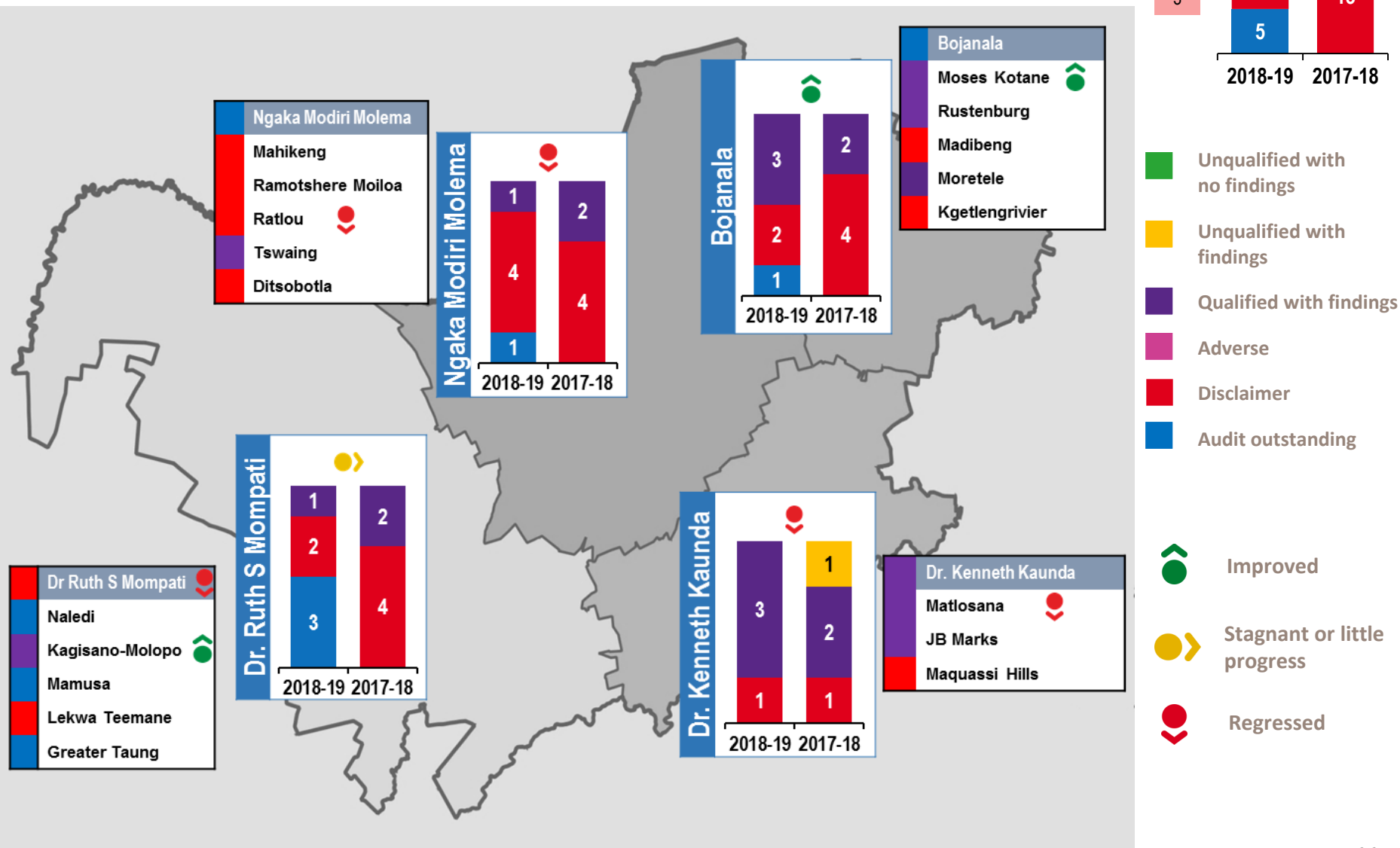
# Northern Cape – audit outcomes per district

A prolonged state of undesirable audit outcomes



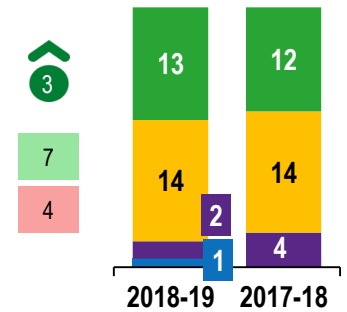
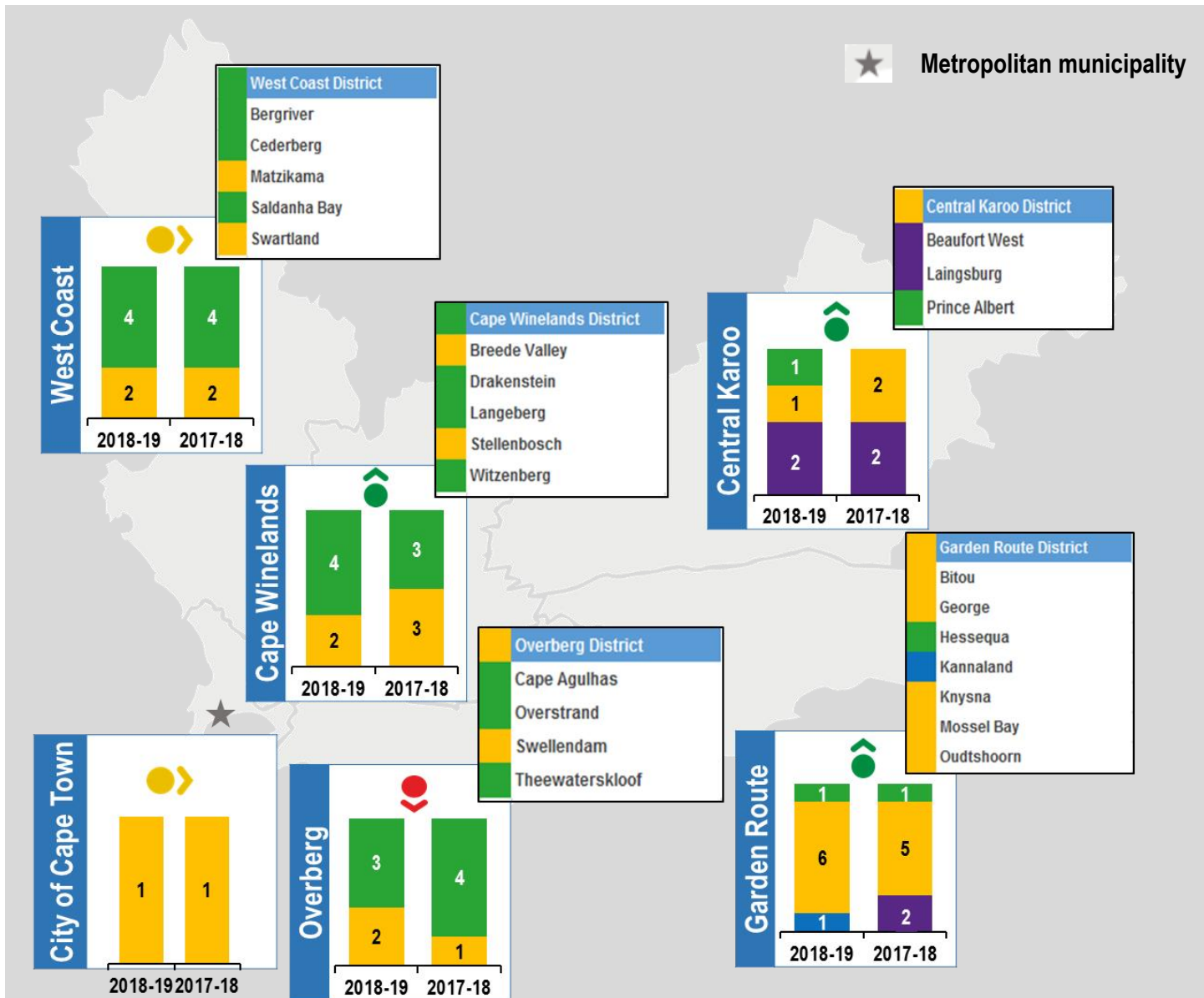
# North West – audit outcomes per district

Systemic breakdown in the discipline of financial controls



# Western Cape – audit outcomes per district

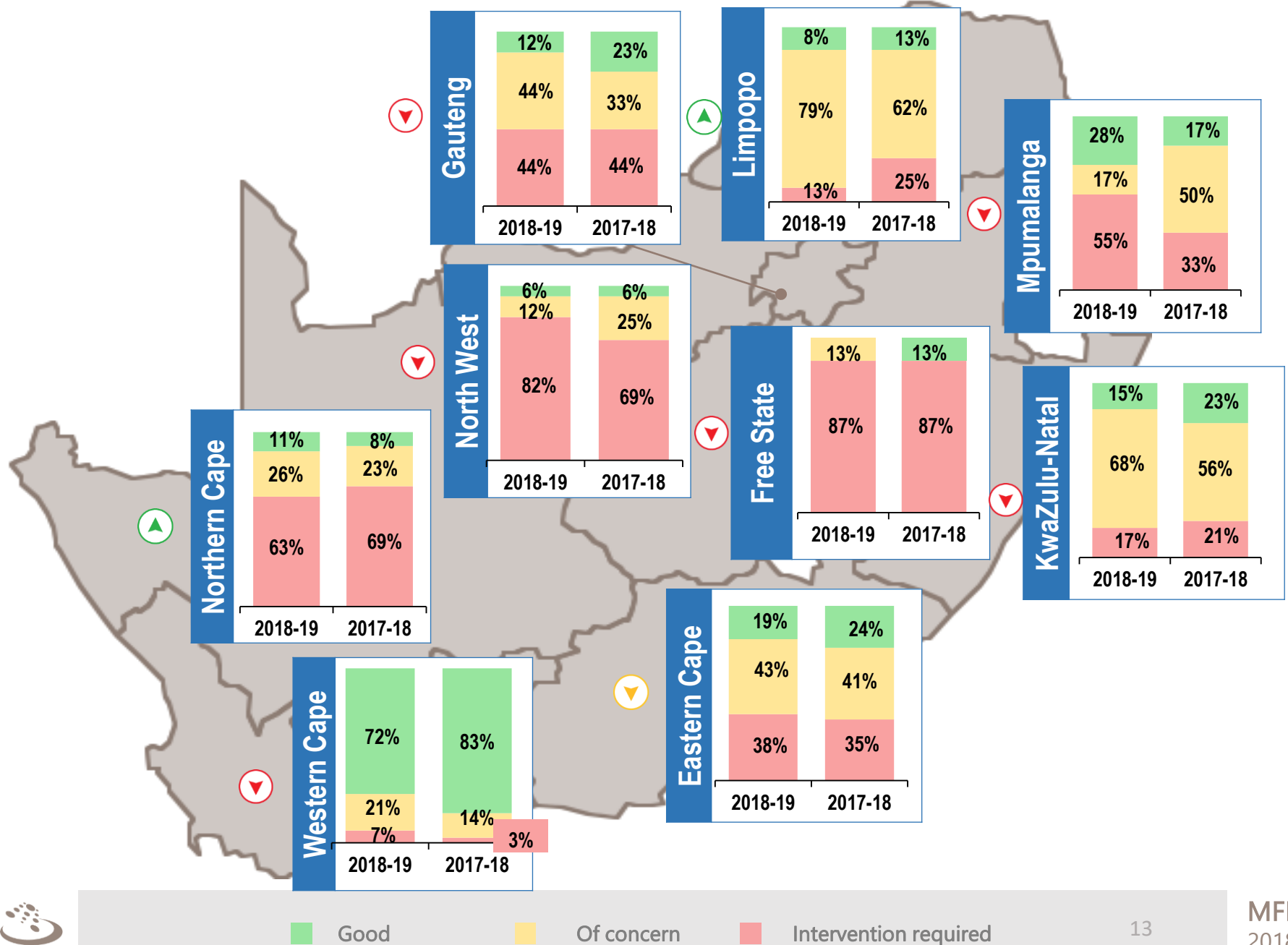
Improved outcomes but concerns remain



- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse
- Disclaimer
- Audit outstanding

- Improved
- Stagnant or little progress
- Regressed

# Financial health of municipalities



# Local government finance – the stark reality

The financial statements of 229 completed audits shows:

53257  
281760  
260835

## Income statement



### Revenue

- The **total revenue** (excluding equitable share and conditional grants) was **R226 billion**, but not **all is recoverable** (see balance sheet)
- National government **financed the municipalities** through equitable share grants of **R55 billion** and conditional grants of **R43 billion**



### Expenditure

- Salary and wages (including councillors remuneration) was **R91,30 billion** – represents **40% of own revenue** and **166% of equitable share**
- Goods and services are procured, but the suppliers are not paid – the **average creditors payment period** was **180 days**
- R2,07 billion** of expenditure was **fruitless and wasteful**
- R11,98 billion** of expenditure was **unauthorised**
- The value of infrastructure assets that municipalities should maintain and safeguard was **R317,68 billion** but the expenditure on maintenance was only **R8,5 billion**



### Net result

- 34%** of municipalities **ended the year in a deficit** (expenditure was more than revenue)
- The total **deficit in local government** was **R6,29 billion**

## Balance sheet



- The total **creditors** at year - end was **R53,52 billion**. The **cash available** at year - end was **R43,20 billion**
- The **creditors are greater than available cash** at year end at **51%** of municipalities
- The **next year's budget** will pay for expenditure of the previous year(s) – at **26%** municipalities it will be **more than half of their budgets**
- An average of **59%** of **municipal debtors** are **not recoverable**. At **55 municipalities** more than **80%** cannot be **recovered** – debt collection at **99 municipalities** was more than 90 days

**72 (31%)** municipalities are in a **vulnerable financial position**

The financial statements of **35 (15%)** municipalities are **not reliable enough for financial analysis** to determine their financial position

# Eskom and water boards outstanding debts – 229 municipalities



## Eskom outstanding debt – R billion

Total amounts owed (as at June 2019)	31 - 120 days	Over 120 days	Total amount in arrears (i.e. 31 days and over)
R18,91	R2,29	R9,02	R11,31

## Highest contributors – R billion

Municipality	Total amounts in arrears (as at June 2019)	31 - 120 days	Over 120 days
Emalahleni (MP)	R2,77	R0,33	R2,44
Ngwathe (FS)	R1,04	R0,07	R0,97
Lekwa (MP)	R0,80	R0,12	R0,68



## Water boards outstanding debt – R billion

Total amounts owed (as at June 2019)	31 - 120 days	Over 120 days	Total amount in arrears (i.e. 31 days and over)
R9,74	R0,86	R5,38	R6,24

## Highest contributors – R billion

Municipality	Total amounts in arrears (as at June 2019)	31 - 120 days	Over 120 days
Mopani (LP)	R0,93	R0,09	R0,84
Vhembe (LP)	R0,83	R0,02	R0,81
Msukaligwa (MP)	R0,68	R0,14	R0,54

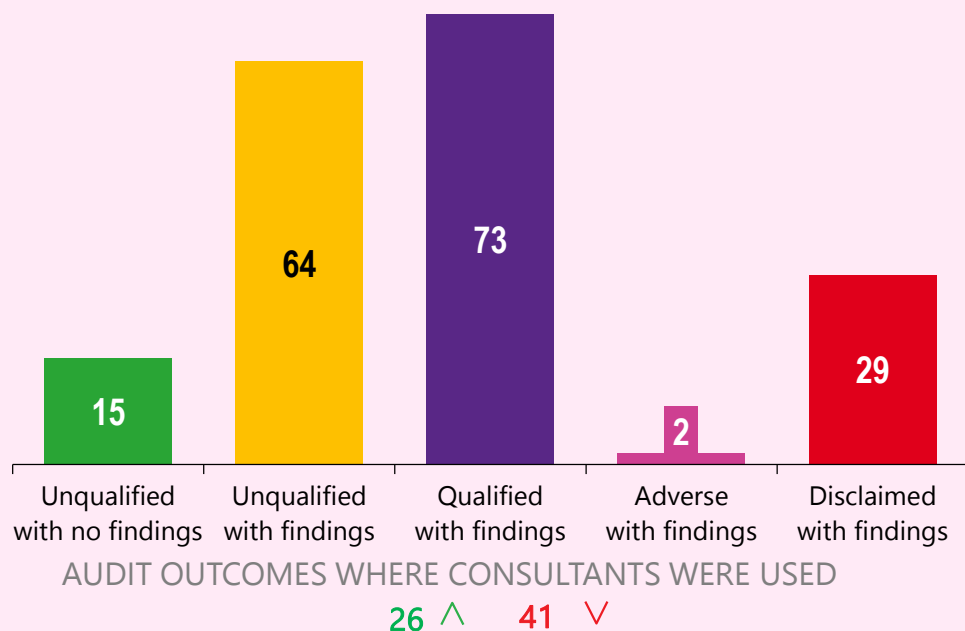
# Effective use of consultants – financial reporting services

Municipalities used consultants for financial reporting services at a cost of <sup>^</sup>R1,26 billion.

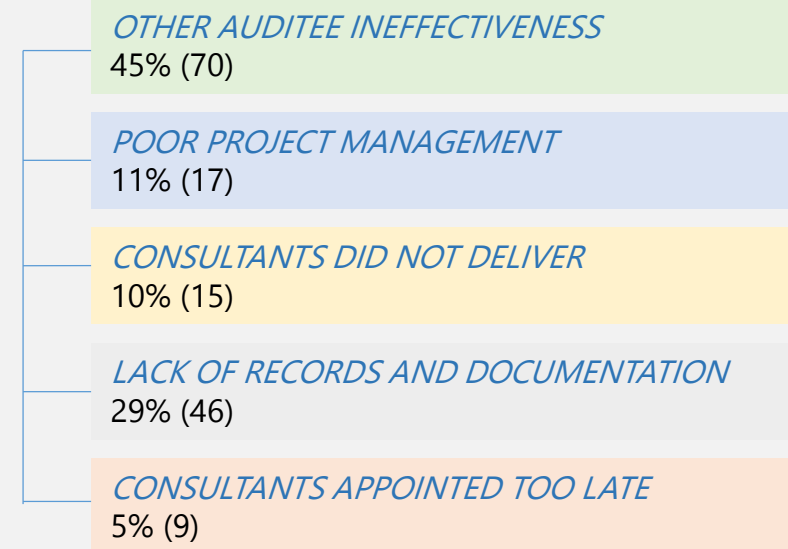
For completed audits, only R51 million (7%) of the financial reporting consultants costs were as a result of vacancies in the financial units of municipalities.

**Note:** The above costs includes financial reporting costs paid by other institutions amounting to R29 million

Province	EC	FS	GP	KZN	LP	MP	NC	NW	WC
Consultant cost – completed audits (R million)	116	29	29	94	122	95	35	180	41
Consultant cost – outstanding audits (R million)	2	17	312	1	127	3	12	47	1



## REASONS WHY CONSULTANTS WERE INEFFECTIVE



59% (134) of the financial statements submitted for auditing included material misstatements in the area in which consultants did work



<sup>^</sup> Includes R522 million for consultant costs of outstanding audits for AFS that were received





# Supply chain management non-compliance is the main cause of irregular expenditure

Annual irregular expenditure increased from \*R25,2 billion to ^R32,06 billion

*The number of municipalities incurring irregular expenditure slightly increased from 239 to 241*

Analyses of irregular expenditure on completed audits (229 municipalities) – R21,46 billion (2017-18: R16,63 billion)

Movement

2018-19

Payments or expenses in 2018-19



R14,91 billion

69%

Represents non-compliance in 2018-19



R10,58 billion

71%

Expenditure on ongoing multi-year contracts



R4,33 billion

29%

Payments or expenses in previous years only uncovered and disclosed in 2018-19



R6,55 billion

31%

## Top contributors to annual irregular expenditure (71%)

- KwaZulu-Natal – R6,47 billion (2017-18: R3,00 billion)
- North West – R3,66 billion (2017-18: R4,32 billion)
- Western Cape – R2,68 billion (2017-18: R0,68 billion)
- Eastern Cape – R2,46 billion (2017-18: R4,31 billion)

## Top 5 contributors to annual irregular expenditure over 3 years

	2018-19	2017-18	2016-17
eThekweni (KZN)	R2,34 billion	R0,73 billion	R0,51 billion
OR Tambo(EC)	R0,98 billion	R1,36 billion	R3,08 billion
City of Cape Town (WC)	R0,95 billion	R0,24 billion	R0,05 billion
Rustenburg (NW)	R0,92 billion	R1,47 billion	R0,98 billion
Mangaung (FS)	R0,84 billion	R0,10 billion	R0,01 billion



\* Figure as per 2017-18 MFMA GR

^ Includes irregular expenditure of outstanding audits for AFS that were received

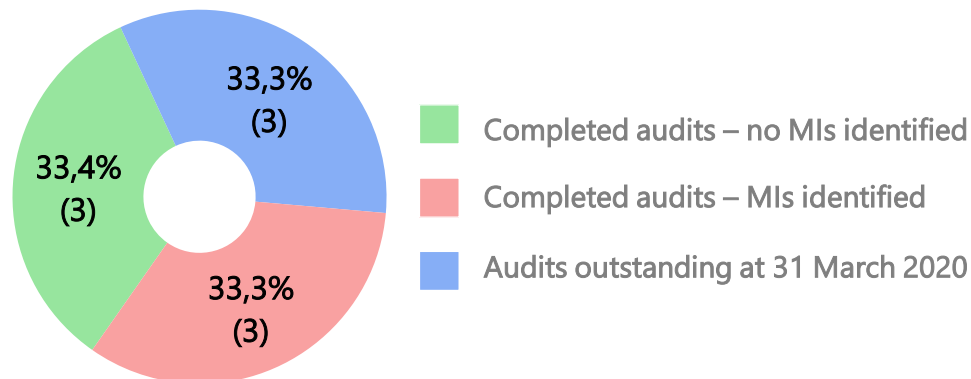
# Material irregularity process implemented at 9 municipalities

6 material irregularities (MIs) reported

**R24 499 866** financial loss

(**R2 421 897** known and **R22 077 969** estimated)

**All** municipal managers are taking appropriate action to resolve MI



## *Nature of material irregularities*



Payment for goods or services not received

**33% (2)**  
**R11 418 843**



Assets not safeguarded resulting in theft/vandalism

**50% (3)**  
**R11 849 379**



Unfair procurement leading to overpricing

**17% (1)**  
**R1 231 644**

# Preventative controls – the ultimate deterrent



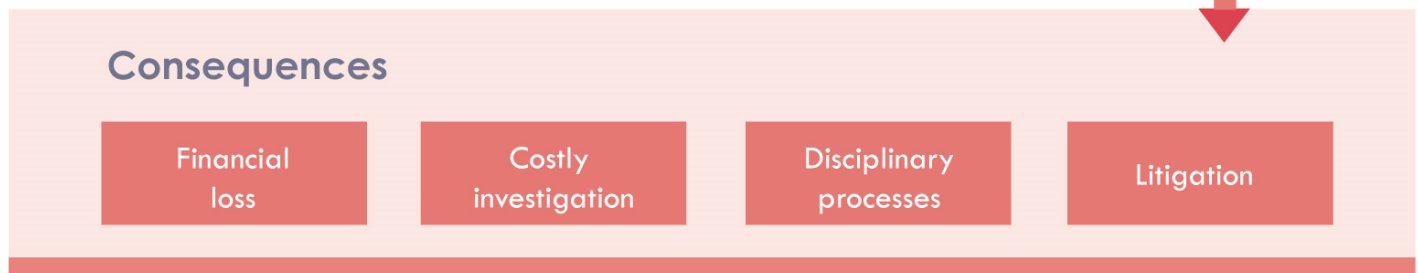
## Typical auditee business processes



## Preventative controls

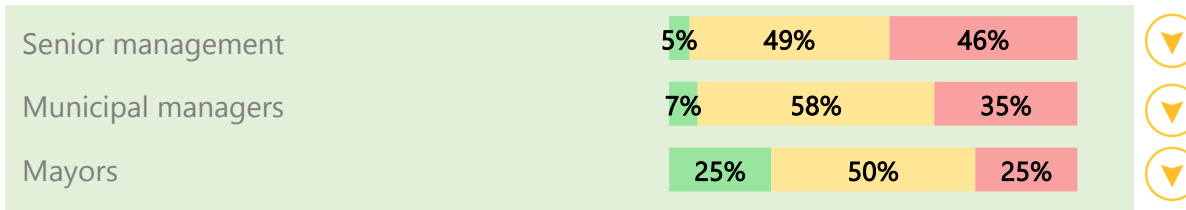


## Material irregularity and poor audit outcomes

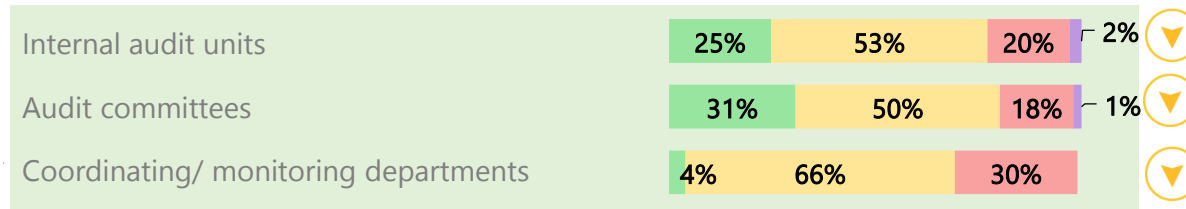


# Preventative controls cannot work effectively if all assurance providers are not playing their role

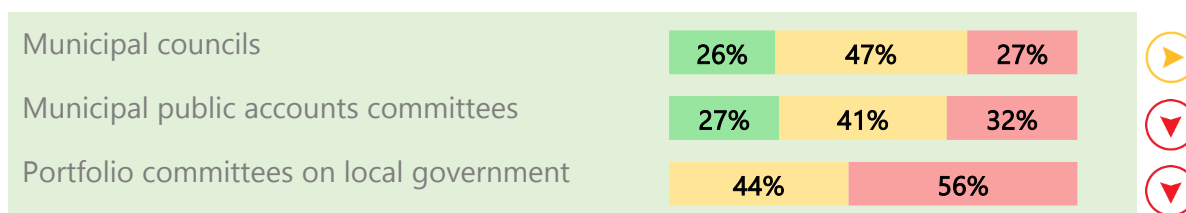
## ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP



## INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

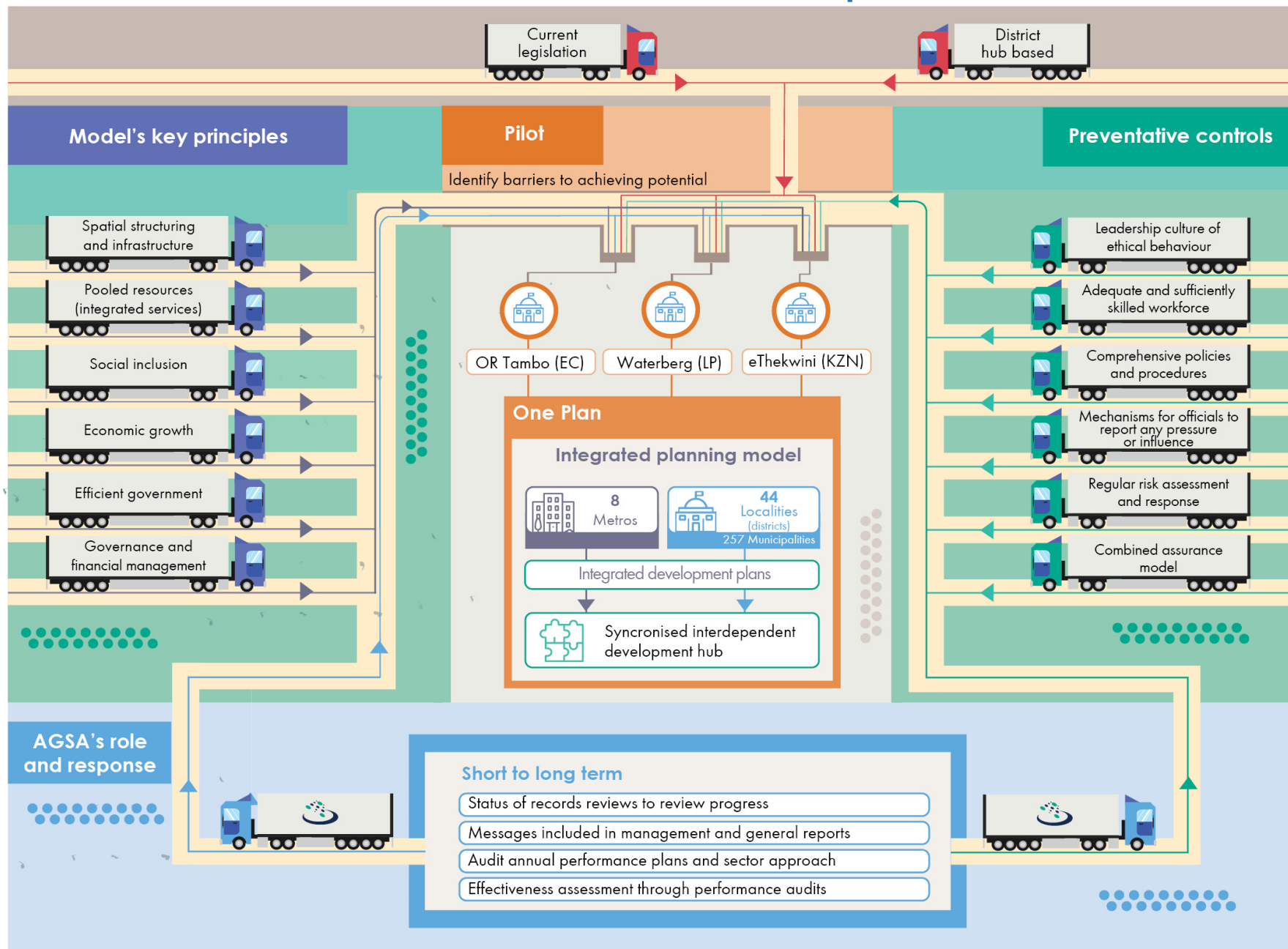


## EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT



Provides assurance Provides some assurance Provides limited/no assurance Not established

# Overview of the district coordinated development model



In every society  
some people do not want to work.

Unfortunately they have the upper hand  
in a society that lacks  
good leadership!



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