
Local government audit outcomes



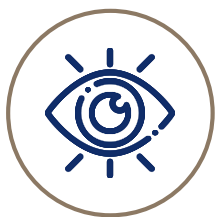
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SOUTH AFRICA

Reputation promise



MISSION

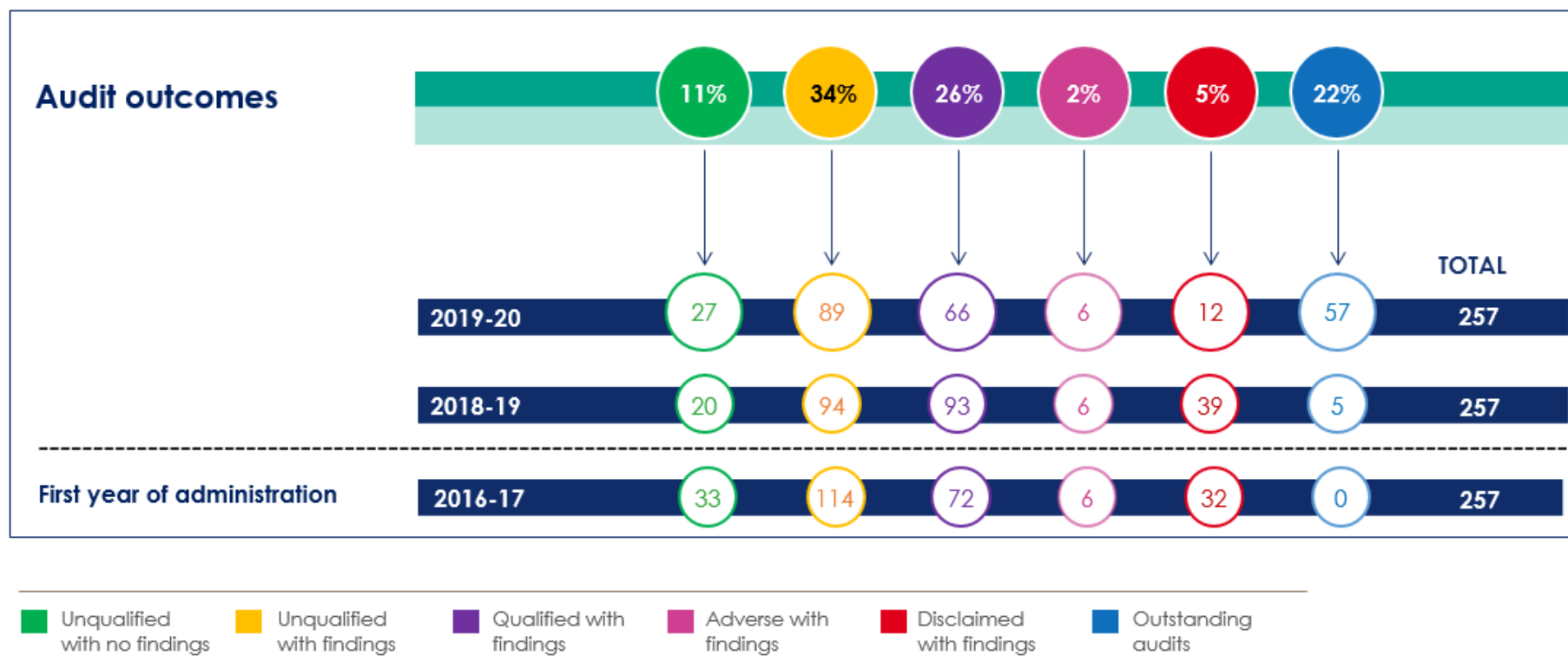
The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



VISION

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

Poor audit outcomes remains prevalent



Metros

Buffalo City
 City of Cape Town
 City of Ekurhuleni
 City of Johannesburg
 City of Tshwane
 eThekweni
 Nelson Mandela Bay
 Manguang*

*subsequently finalised to unqualified with findings



Widespread non-compliance with legislation

Findings on material non-compliance



Most common areas of non-compliance

Prevention of unauthorised, irregular and fruitless and wasteful expenditure	76%
Procurement and contract management	74%
Quality of financial statements	73%
Effecting consequences	57%

Status of compliance with SCM legislation



Details of SCM non-compliance

Uncompetitive and unfair procurement processes	168 (84%)
Awards to employees and political office-bearers	R19 million
Limitations on audit of awards selected for testing	R1,43 billion
False declarations by suppliers	890 instances



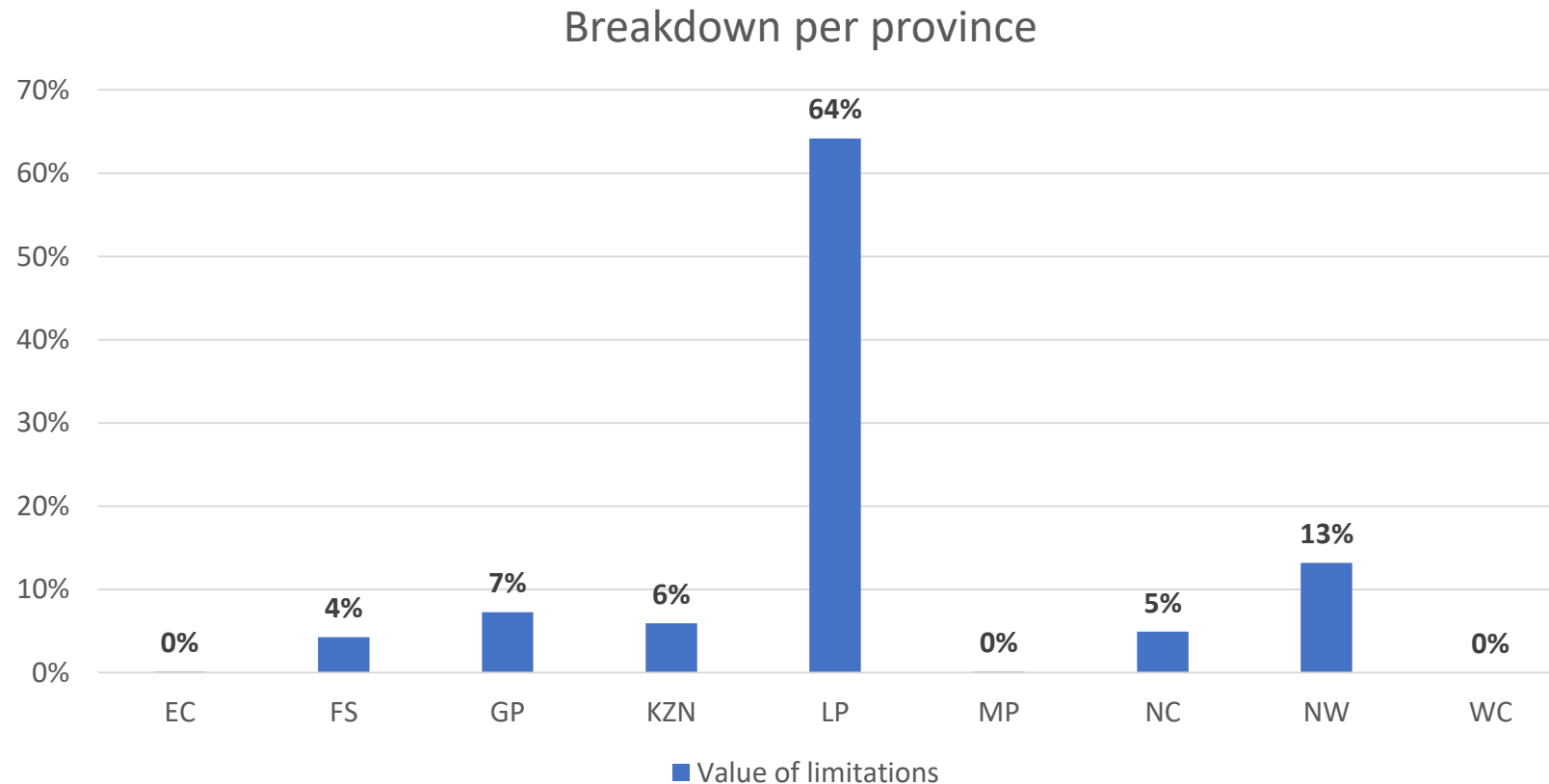
Annual irregular expenditure: R26 billion incurred by **246** municipalities

But irregular expenditure is not complete - in addition to the limitations in testing, **73 (37%)** municipalities were qualified on completeness of their disclosure and/or did not know total amount and were still investigating to determine this

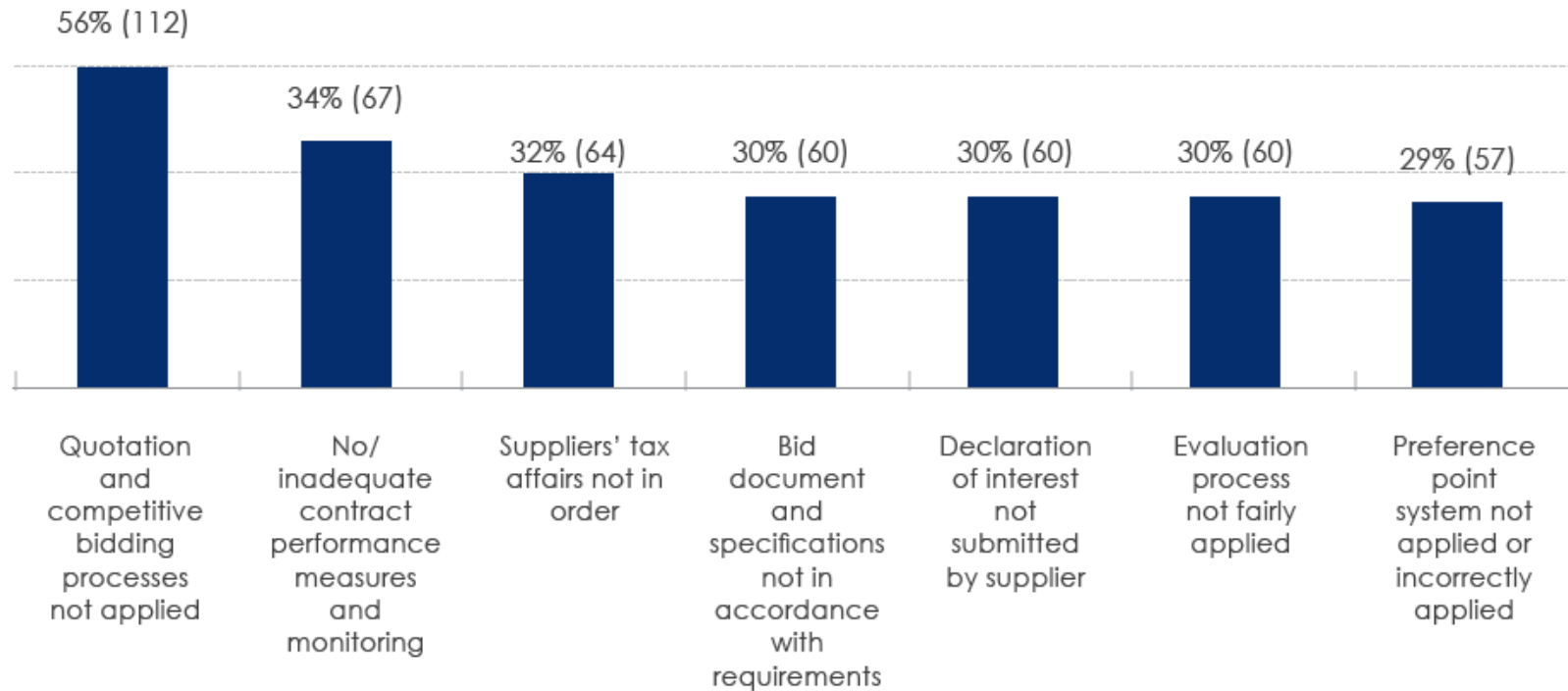


Limitations posed on the audit of SCM

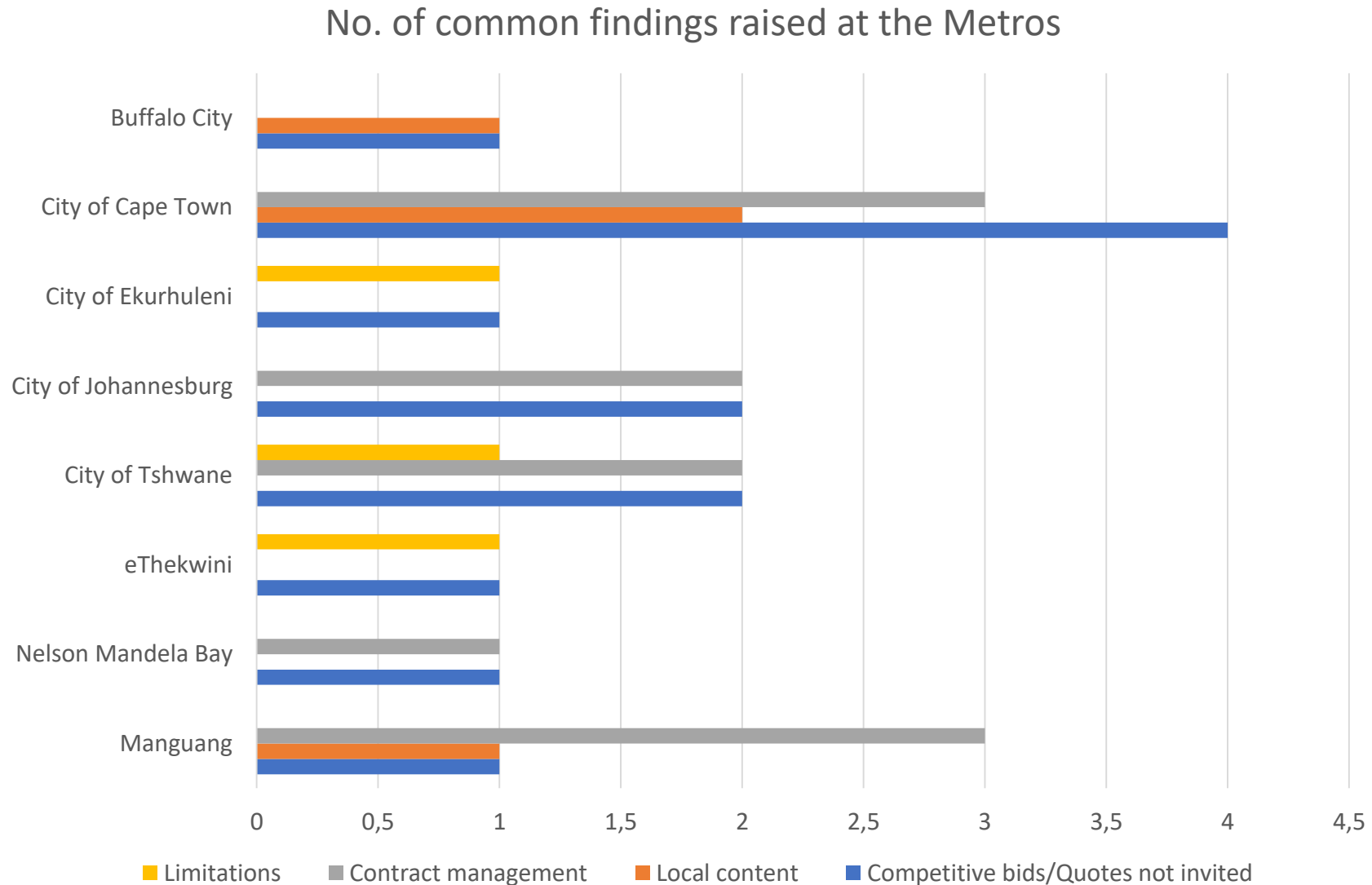
We were unable to audit awards to the value of R1,43bn due to documentation not being provided. The graph below breaks down the contribution each province had.



Supply chain management findings reported in the audit report



Supply chain management findings at the Metros



Irregular expenditure

73 municipalities (37%) were qualified on completeness of their disclosure and/or did not know total amount and were still investigating to determine this

We could not audit procurement processes for selected contracts valued at **R1,43 billion**

#When did transgressions take place?

Current year = R8,73 billion (45%)

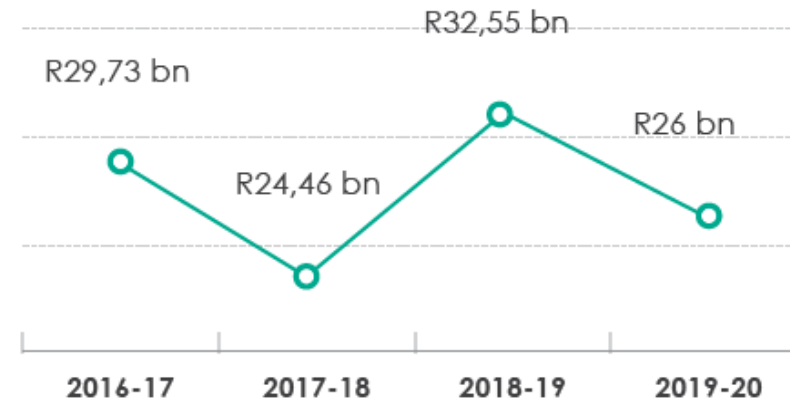
Prior year = R4,81 billion (25%) (only uncovered and disclosed now)

Multi-year contracts = R5,77 billion (30%)

**Includes 57 outstanding audits*

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*Movement over 4 years



Irregular expenditure (continued)

NORTH WEST
R4 171m

GAUTENG
R7 270m
City of Ekurhuleni – R147m
City of Johannesburg – R1 050m
City of Tshwane – R2 530m

LIMPOPO
R2 286m

MPUMALANGA
R 1 556m

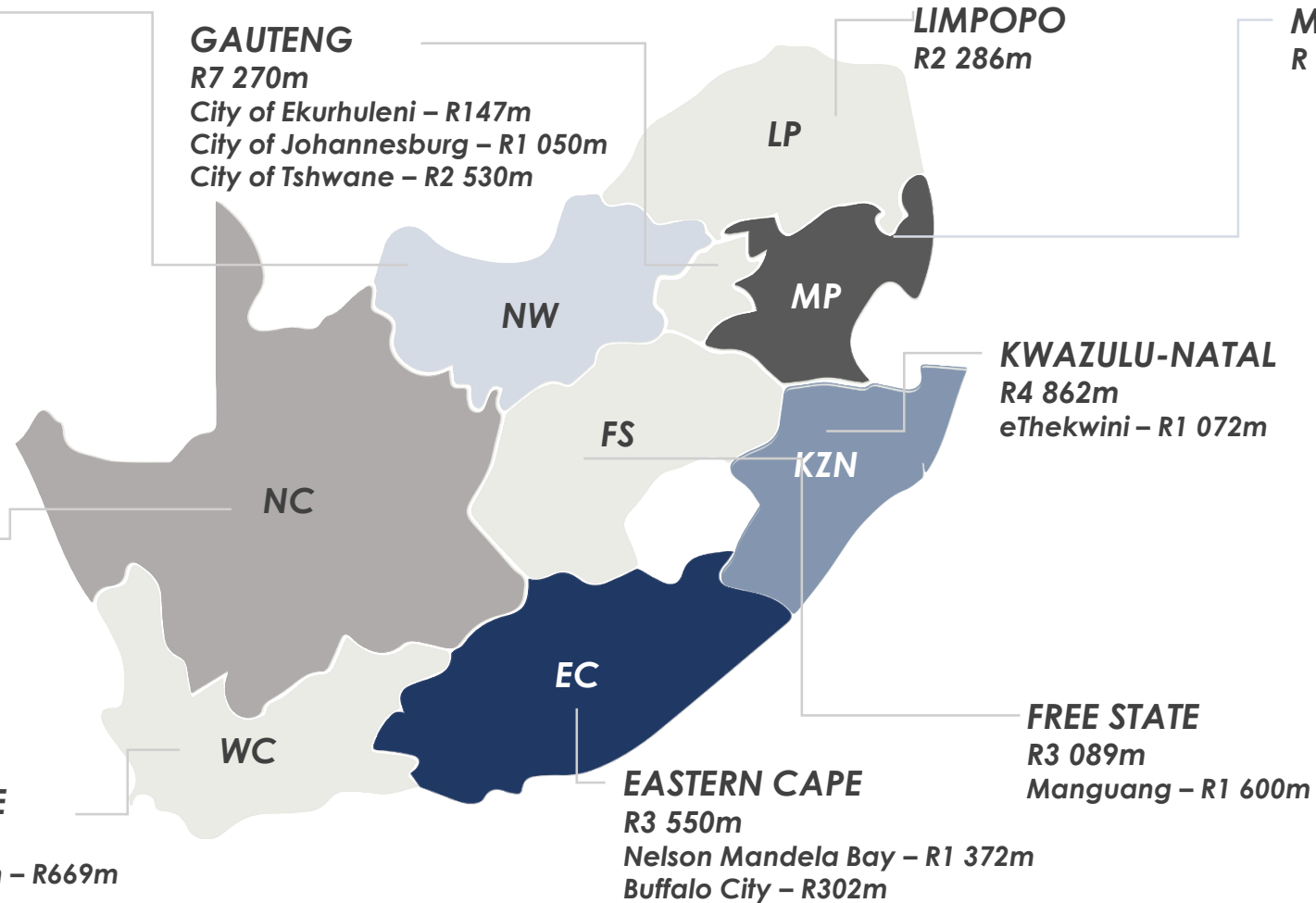
NORTHERN CAPE
R811m

WESTERN CAPE
R1 407m
City of Cape Town – R669m

EASTERN CAPE
R3 550m
Nelson Mandela Bay – R1 372m
Buffalo City – R302m

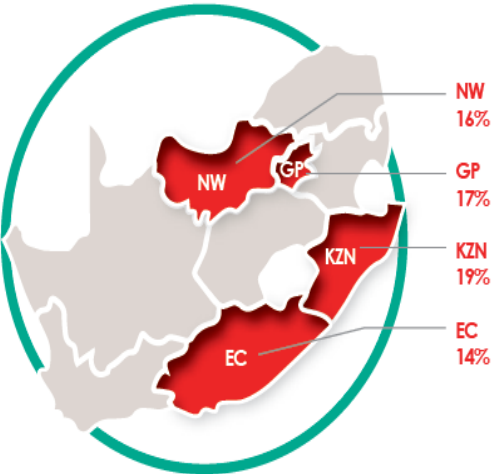
KWAZULU-NATAL
R4 862m
eThekweni – R1 072m

FREE STATE
R3 089m
Manguang – R1 600m



Irregular expenditure (continued)

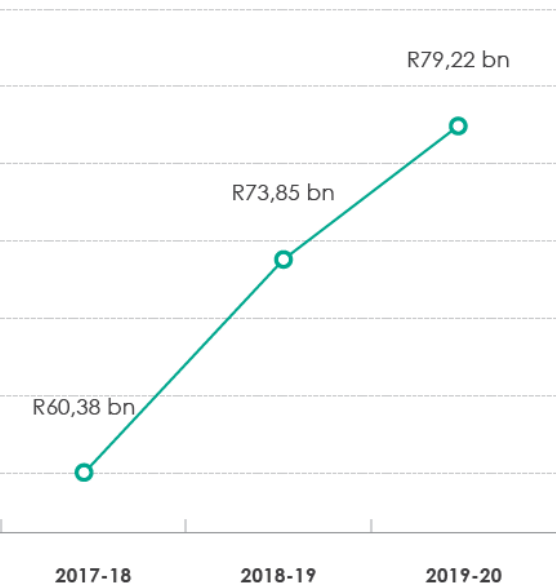
Highest contributors to irregular expenditure – R26 bn



TOP CONTRIBUTORS TO IRREGULAR EXPENDITURE	
City of Tshwane Metro (GP)	– R2,53 billion
Mangaung Metro (FS)	– R1,60 billion *
Nelson Mandela Bay Metro (EC)	– R1,37 billion
eThekweni Metro (KZN)	– R1,07 billion
City of Johannesburg Metro (GP)	– R1,05 billion
Ngaka Modiri Molema District (NW)	– R0,87 billion *
OR Tambo District (EC)	– R0,70 billion
City of Cape Town Metro (WC)	– R0,67 billion
Moses Kotane (NW)	– R0,62 billion
Rustenburg (NW)	– R0,57 billion *

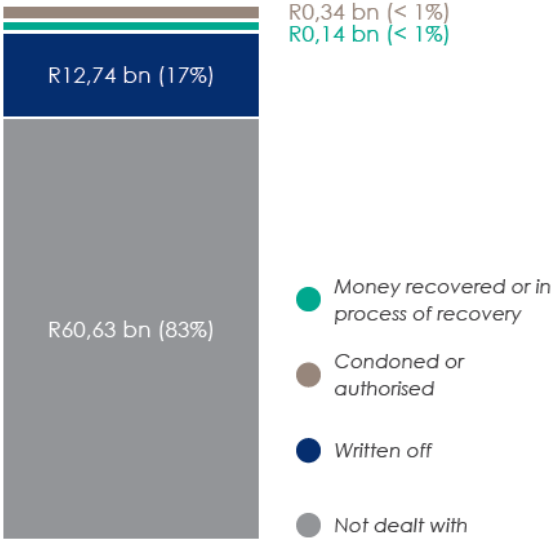
* Audits still outstanding or finalised after cut-off date of report

Closing balance of irregular expenditure continues to increase



Yet municipalities are slow in dealing with it

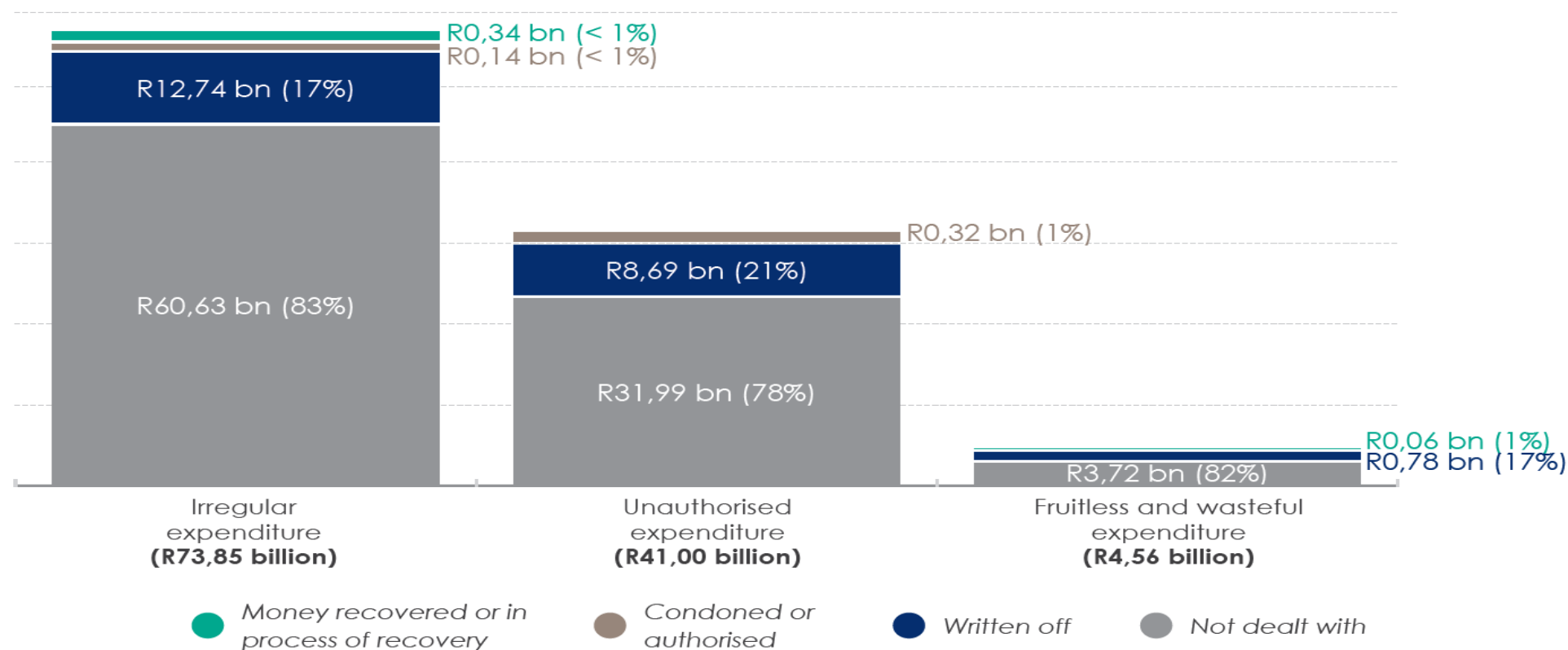
(Figures are expressed as percentage of previous year's closing balance of R73,85 bn)



Irregular expenditure (continued)

How did the council deal with all prior year unauthorised, irregular and fruitless and wasteful expenditure to date?

Figures are expressed as percentage of previous year's closing balance

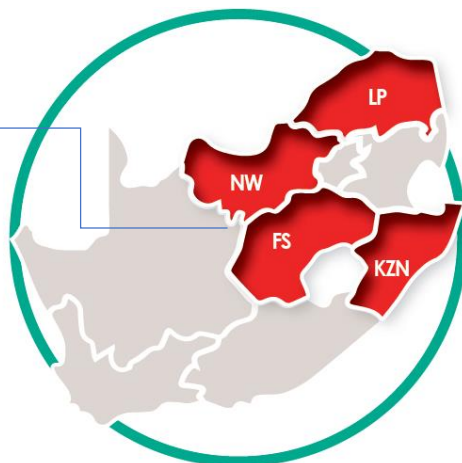


Root causes

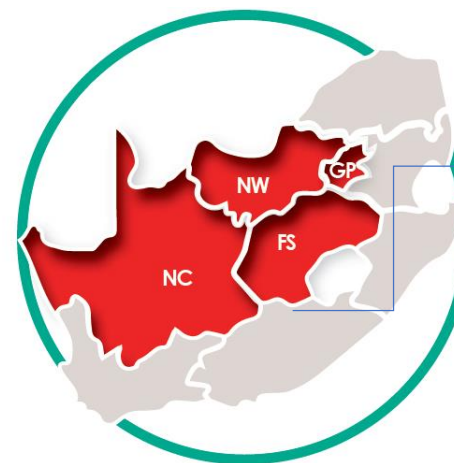
	Slow response	No response
Slow response by management	123	29
Slow response by political leadership	40	14
Slow response by oversight	18	9

POSITIONS	VACANCIES			AVERAGE NUMBER OF MONTHS IN POSITION
	Vacant for less than 6 months	Vacant for 6 months or more	Total vacancies	
Municipal manager	5% (9)	9% (17)	13% (26)	42 months
Chief financial officer	3% (6)	13% (26)	16% (32)	42 months

Provinces where no responses most common



Provinces where instability and vacancies in key positions are most prevalent





Financial management of covid-19 municipal relief funding

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The audit

Approach	<p>43 auditees selected based on size of allocation and risk profile.</p> <p>Real-time audit covering R3,7 billion (63% of expenditure (March-December 2020)</p> <p>Fraud risk assessments performed at 12 municipalities</p> <p>Multidisciplinary teams deployed</p> <p>Remaining auditees and period of expenditure – audit as part of 2020-21 audits</p>
Limitation experienced	<p>Supporting documentation for expenditure and procurement – 8 auditees (R35,2 million)</p> <p>Accounting records to identify Covid related payments – 2 auditees (R8,7 million)</p>
Municipal response	<p>Generally well-received and cooperation provided. Best practices observed</p> <p>Commitments received from majority of municipalities to address shortcomings</p>



High level observations

Funds made available but it was **underspent** to implement initiatives

Failure to realise value of a **project plan** for saving time, money and avoid many challenges

Significant **deficiencies in procurement and contract management processes**, as well as inadequate controls to ensure that **payments are only made for goods and services that are delivered**

Clear signs of **overpricing, unfair procurement processes**, potential fraud and non-compliance

We provided **recommendations** to municipal managers on all our findings

For any endeavour to succeed, everyone involved should share a common goal and understand and embrace the role they play in achieving that goal.

We thus encourage all role players to **diligently execute their responsibilities, abide by the applicable rules and take full accountability** for their part. The lessons learned will empower them to tighten controls to prevent a recurrence in future transactions

Every rand is precious when you are responsible for peoples lives





Material irregularities (up to 11 June)

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Implementation of material irregularity process

Material irregularity

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 Public Audit Act 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**

If municipal manager does not appropriately deal with material irregularities, our expanded mandate allows us to:



Refer material irregularities to relevant public bodies for further investigations



Recommend actions to resolve material irregularities in audit report
Take binding remedial action for failure to implement recommendations



Issue certificate of debt for failure to implement remedial action if financial loss was involved

Nature of identified material irregularities (MIs)

Municipal manager notified of 96 MIs with estimated financial loss of R2,04 billion



Disclaimers – 21 MIs

Full and proper records not kept as evidenced **by repeat disclaimer opinions** – resulting in substantial harm to municipalities (lack of service delivery and/ or vulnerable financial position)



Procurement and payments

Non-compliance in procurement processes resulting in **overpricing of goods and services procured**
1 MI – R2,5 million estimated loss

Payment for **goods or services not received** or **invalid salary payments**
18 MIs – R285,9 million estimated loss



Interest and penalties

Eskom, water boards, loans and suppliers **not paid on time** resulting in interest
23 MIs – R979,3 million estimated loss

Payroll and VAT returns **not paid on time** or incorrectly calculated resulting in SARS interest and penalties
11 MIs – R54,7 million estimated loss



Revenue management

Revenue **not billed**
8 MIs – R182,3 million estimated loss

Debt **not recovered**
2 MIs – R149,4 million estimated loss



Investments and assets

Loss of **investments**
3 MIs – R264,9 million estimated loss

Assets not safeguarded resulting in loss
9 MIs – R116,6 million estimated loss



Key take away points

1. There needs to be an attitude shift. Non-compliance should be the exception and not the norm
2. Take audit recommendations seriously and implement action plans taking these into account
3. Fill key positions with individuals who have a zero tolerance for non-compliance
4. Investigate irregular expenditure and implement consequence management
5. Ensure the different assurance providers are capacitated and working effectively



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