Local government audit outcomes
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

**Audit outcomes**

- **2019-20**
  - Unqualified with no findings: 27 (11%)
  - Unqualified with findings: 89 (34%)
  - Qualified with findings: 66 (26%)
  - Adverse with findings: 6 (2%)
  - Disclaimed with findings: 12 (5%)
  - Outstanding audits: 57 (22%)
  - **Total**: 257

- **2018-19**
  - Unqualified with no findings: 20 (11%)
  - Unqualified with findings: 94 (34%)
  - Qualified with findings: 93 (26%)
  - Adverse with findings: 6 (2%)
  - Disclaimed with findings: 39 (5%)
  - Outstanding audits: 5 (2%)
  - **Total**: 257

- **First year of administration**
  - Unqualified with no findings: 33 (11%)
  - Unqualified with findings: 114 (39%)
  - Qualified with findings: 72 (24%)
  - Adverse with findings: 6 (2%)
  - Disclaimed with findings: 32 (11%)
  - Outstanding audits: 0 (0%)
  - **Total**: 257

---

**Metros**

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

*subsequently finalised to unqualified with findings
Widespread non-compliance with legislation

Findings on material non-compliance

<table>
<thead>
<tr>
<th>Year</th>
<th>Material findings</th>
<th>No material findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>28 (14%)</td>
<td>172 (86%)</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>With material findings</th>
<th>With findings</th>
<th>With no findings</th>
<th>No material findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>8% (15)</td>
<td>18% (37)</td>
<td>74% (148)</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Finding</th>
<th>Percentage</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quotation and competitive bidding processes not applied</td>
<td>56% (112)</td>
<td></td>
</tr>
<tr>
<td>No/Inadequate contract performance measures and monitoring</td>
<td>34% (67)</td>
<td></td>
</tr>
<tr>
<td>Suppliers’ tax affairs not in order</td>
<td>32% (64)</td>
<td></td>
</tr>
<tr>
<td>Bid document and specifications not in accordance with requirements</td>
<td>30% (60)</td>
<td></td>
</tr>
<tr>
<td>Declaration of interest not submitted by supplier</td>
<td>30% (60)</td>
<td></td>
</tr>
<tr>
<td>Evaluation process not fairly applied</td>
<td>30% (60)</td>
<td></td>
</tr>
<tr>
<td>Preference point system not applied or incorrectly applied</td>
<td>29% (57)</td>
<td></td>
</tr>
</tbody>
</table>
Supply chain management findings at the Metros

No. of common findings raised at the Metros

- Buffalo City
- City of Cape Town
- City of Ekurhuleni
- City of Johannesburg
- City of Tshwane
- eThekwini
- Nelson Mandela Bay
- Manguang

Limitations | Contract management | Local content | Competitive bids/Quotes not invited
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
#Excludes 57 outstanding audits
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

KWAZULU-NATAL
R4 862m
eThekwini – R1 072m

NORTHERN CAPE
R811m

WESTERN CAPE
R1 407m
City of Cape Town – R669m

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

FREE STATE
R3 089m
Manguang – R1 600m

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

KWAZULU-NATAL
R4 862m
eThekwini – R1 072m

NORTHERN CAPE
R811m

WESTERN CAPE
R1 407m
City of Cape Town – R669m

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

FREE STATE
R3 089m
Manguang – R1 600m

Irregular expenditure (continued)
Irregular expenditure (continued)

Highest contributors to irregular expenditure - R26 bn

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Tshwane Metro (GP)</td>
<td>R2.53 billion</td>
</tr>
<tr>
<td>Mangaung Metro (FS)</td>
<td>R1.60 billion *</td>
</tr>
<tr>
<td>Nelson Mandela Bay Metro (EC)</td>
<td>R1.37 billion</td>
</tr>
<tr>
<td>eThekwini Metro (KZN)</td>
<td>R1.07 billion</td>
</tr>
<tr>
<td>City of Johannesburg Metro (GP)</td>
<td>R1.05 billion</td>
</tr>
<tr>
<td>Ngaka Modiri Molema District (NW)</td>
<td>R0.87 billion *</td>
</tr>
<tr>
<td>OR Tambo District (EC)</td>
<td>R0.70 billion</td>
</tr>
<tr>
<td>City of Cape Town Metro (WC)</td>
<td>R0.67 billion</td>
</tr>
<tr>
<td>Moses Kotane (NW)</td>
<td>R0.62 billion</td>
</tr>
<tr>
<td>Rustenburg (NW)</td>
<td>R0.57 billion *</td>
</tr>
</tbody>
</table>

* Audits still outstanding or finalized 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)

- R0.34 bn (< 1%)
- R0.14 bn (< 1%)
- R12.74 bn (17%)
- R60.63 bn (83%)

Status: Money recovered or in process of recovery, Condoned or authorised, Written off, Not dealt with
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

<table>
<thead>
<tr>
<th>Expenditure Type</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irregular expenditure (R73.85 billion)</td>
<td>R60.63 bn (83%)</td>
<td></td>
</tr>
<tr>
<td>Unauthorised expenditure (R41.00 billion)</td>
<td>R31.99 bn (78%)</td>
<td></td>
</tr>
<tr>
<td>Fruitless and wasteful expenditure (R4.56 billion)</td>
<td>R3.72 bn (52%)</td>
<td></td>
</tr>
</tbody>
</table>

- **Money recovered or in process of recovery**
- **Condition or authorised**
- **Written off**
- **Not dealt with**

- R0.06 bn (1%)
- R0.32 bn (1%)
- R0.78 bn (17%)
- R0.34 bn (< 1%)
- R0.14 bn (< 1%)
## Root causes

<table>
<thead>
<tr>
<th>Root Causes</th>
<th>Slow response</th>
<th>No response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slow response by management</td>
<td>123</td>
<td>29</td>
</tr>
<tr>
<td>Slow response by political leadership</td>
<td>40</td>
<td>14</td>
</tr>
<tr>
<td>Slow response by oversight</td>
<td>18</td>
<td>9</td>
</tr>
</tbody>
</table>

### Vacancies

<table>
<thead>
<tr>
<th>Positions</th>
<th>Vacant for less than 6 months</th>
<th>Vacant for 6 months or more</th>
<th>Total vacancies</th>
<th>Average number of months in position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal manager</td>
<td>5% (9)</td>
<td>9% (17)</td>
<td>13% (26)</td>
<td>42 months</td>
</tr>
<tr>
<td>Chief financial officer</td>
<td>3% (6)</td>
<td>13% (26)</td>
<td>16% (32)</td>
<td>42 months</td>
</tr>
</tbody>
</table>

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
### The audit

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

<table>
<thead>
<tr>
<th>Disclaimers – 21 MIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>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)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Procurement and payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-compliance in procurement processes resulting in overpricing of goods and services procured</td>
</tr>
<tr>
<td>1 MI – R2,5 million estimated loss</td>
</tr>
<tr>
<td>Payment for goods or services not received or invalid salary payments</td>
</tr>
<tr>
<td>18 MIs – R285,9 million estimated loss</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interest and penalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eskom, water boards, loans and suppliers not paid on time resulting in interest</td>
</tr>
<tr>
<td>23 MIs – R979,3 million estimated loss</td>
</tr>
<tr>
<td>Payroll and VAT returns not paid on time or incorrectly calculated resulting in SARS interest and penalties</td>
</tr>
<tr>
<td>11 MIs – R54,7 million estimated loss</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue not billed</td>
</tr>
<tr>
<td>8 MIs – R182,3 million estimated loss</td>
</tr>
<tr>
<td>Debt not recovered</td>
</tr>
<tr>
<td>2 MIs – R149,4 million estimated loss</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investments and assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of investments</td>
</tr>
<tr>
<td>3 MIs – R264,9 million estimated loss</td>
</tr>
<tr>
<td>Assets not safeguarded resulting in loss</td>
</tr>
<tr>
<td>9 MIs – R116,6 million estimated loss</td>
</tr>
</tbody>
</table>
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
Stay in touch with the AGSA

www.agsa.co.za
@AuditorGen_SA

Auditor-General of South Africa

Auditor-General of South Africa