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Local government audit outcomes | 2017-18

**Accountability for financial and performance management
continues to deteriorate**

CIGFARO
8 October 2019



AUDITOR - GENERAL
SOUTH AFRICA

Aspirations for the public sector



Robust financial and performance management systems

- Sound financial management systems
- Successful implementation of the audit recommendations
- Reduction in irregular and fruitless and wasteful expenditure



Oversight and accountability

- Accurate and empowering financial and performance reporting
- An appreciation of the role of applying consequences for transgressions and poor performance
- Improved accountability leading to limited referrals for investigation and certificates of debt issued



Commitment and ethical behaviour

- Visible commitment by all players in the public service to contribute towards the financial health of the country and an improved social reality for our people
- Demonstrated ethical behaviour and professionalism in the public sector as cementing characteristics of a capable state.



Our expanded mandate



Refer material irregularities to relevant public bodies for further investigations



Take binding remedial action for failure to implement the AG's recommendations for material irregularities

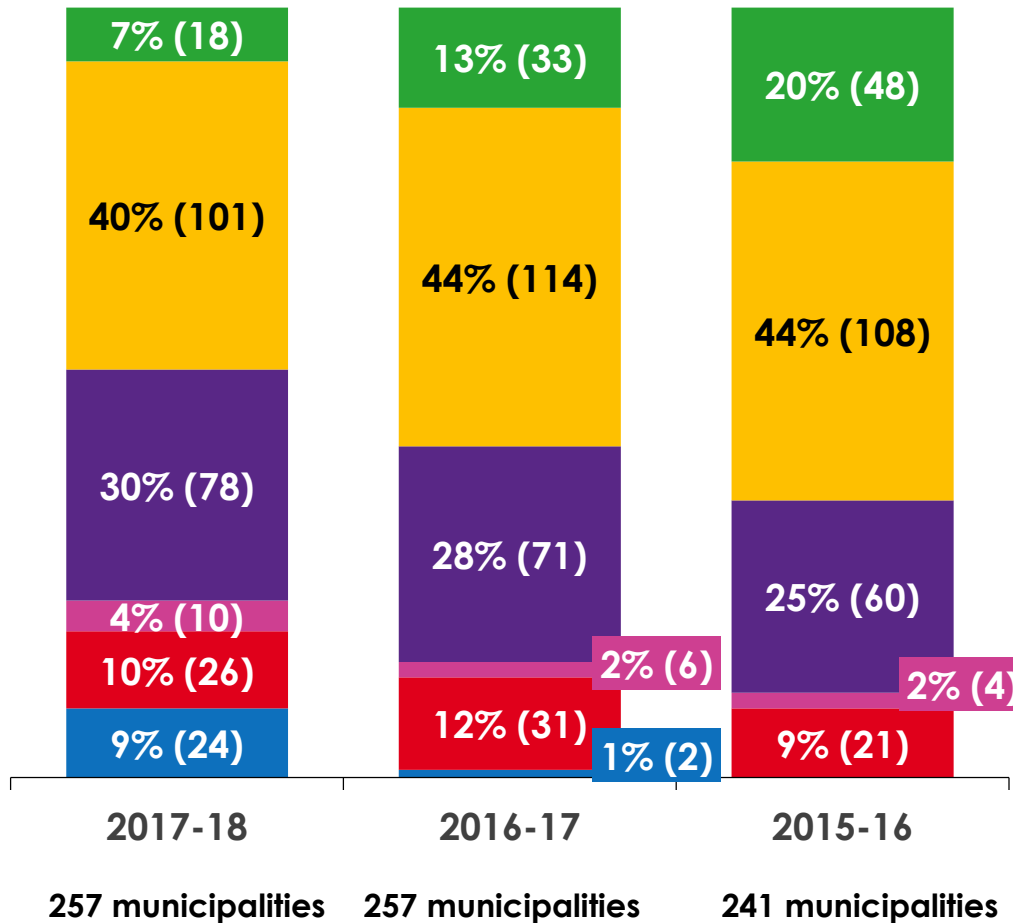


Issue a certificate of debt for failure to implement the remedial action if financial loss was involved



Effective date of amendments to PAA is 1 April 2019

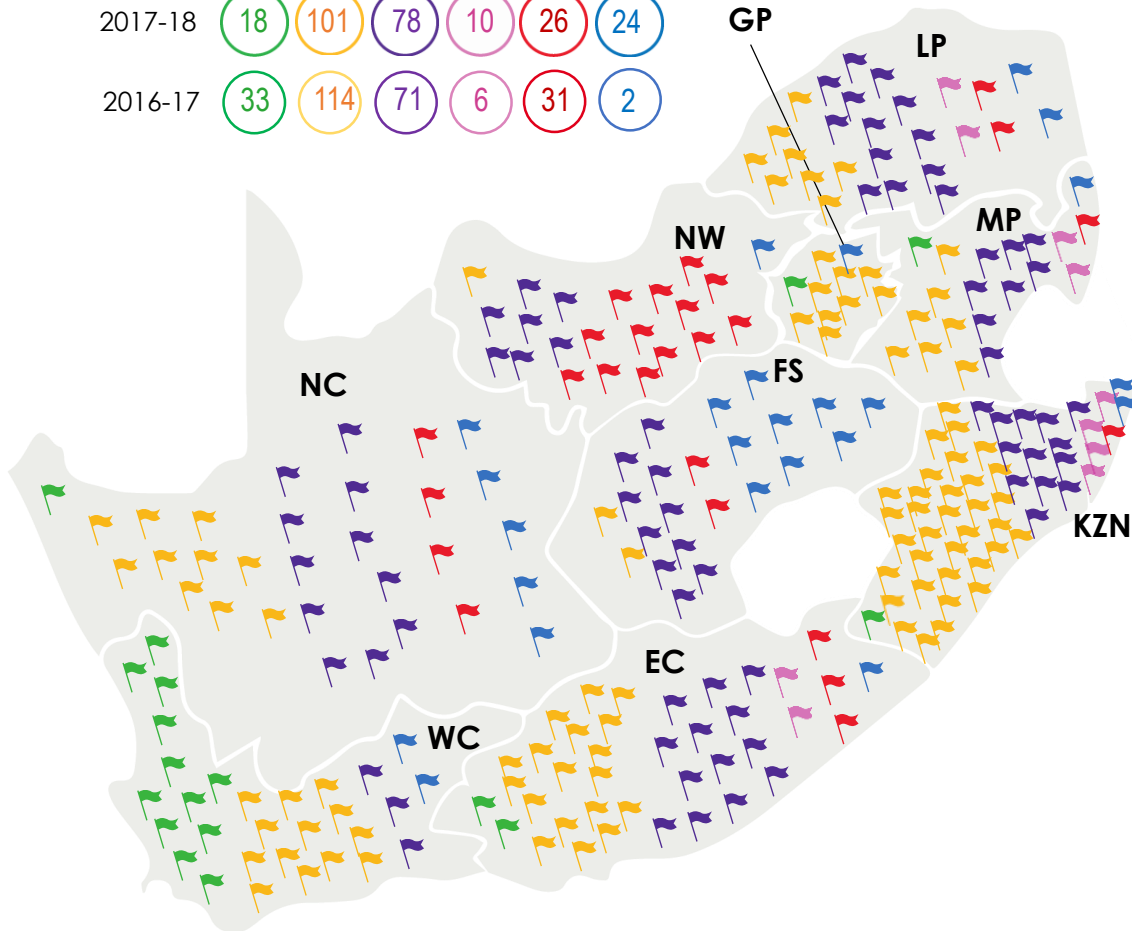
In the second year of administration, audit outcomes continue to regress



Movement	
▲	22
▼	63
▶	148
Outstanding audits as at 31 January 2019	24



Movement in audit outcomes



Unqualified with no findings

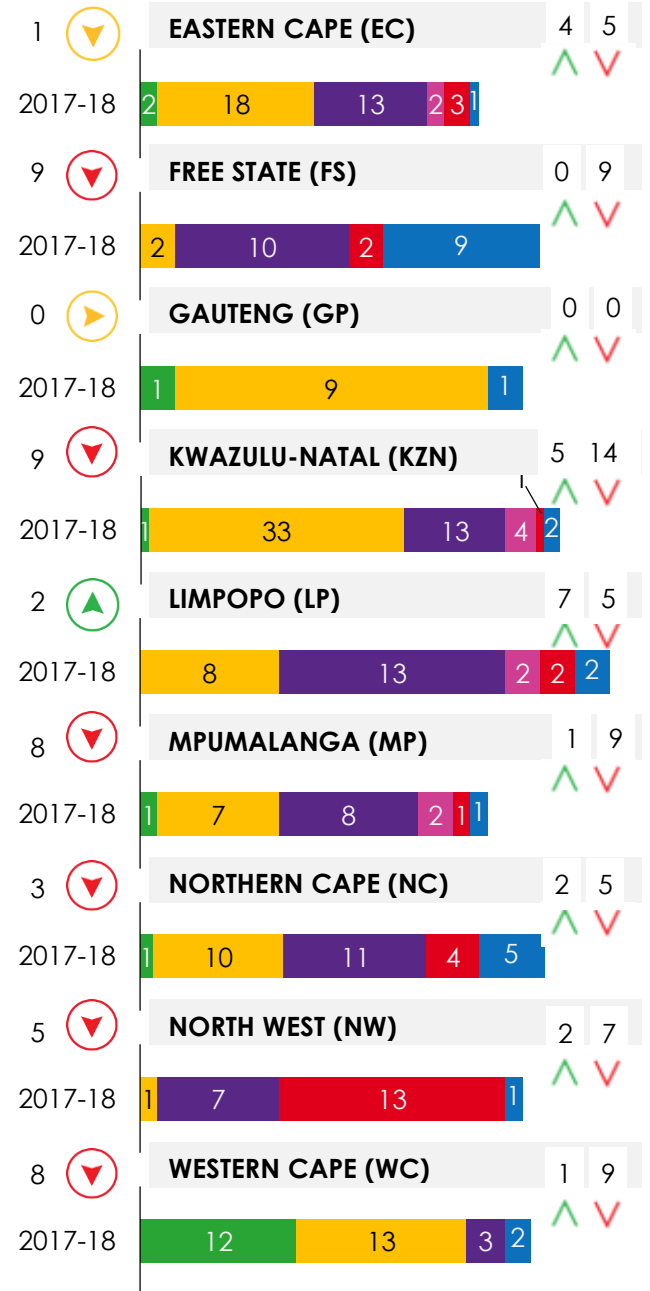
Unqualified with findings

Qualified with findings

Adverse with findings

Disclaimed with findings

Outstanding audits



Accountability continues to deteriorate

Key issues

Financial statements

- Late submission of financial statements
- Quality of financial statements submitted for audit very poor
- Quality of published financial statements worse than previous year

Performance reports

- Quality of performance reports submitted for auditing slightly improved
- Performance indicators and targets not useful
- Achievement reported not reliable

Compliance with key legislation

- Material non-compliance with key legislation on financial and performance management continues to escalate
- Material non-compliance identified at all metros

Supply chain management and irregular expenditure

- Material non-compliance with supply chain management widespread – highest since 2011-12
- Irregular expenditure decreased but remained high

Effecting consequences

- Material non-compliance with legislation on implementing consequences regressed
- Inadequate follow-up of allegations of financial and supply chain management misconduct and fraud
- Council failed to conduct investigations into all instances of UIFW
- Sufficient steps not taken to recover, write-off, approve or condone UIFW

Difficult environment

- Increased contestations, pushbacks, treats and intimidation
- Regular service delivery protests
- Lack of commitments towards implementing recommendations that enable improved audit outcomes

Impact

Financial health

- Financial health status of 76% of municipalities is concerning or require intervention
- Inability to collect debt
- 34% of municipalities disclosed a deficit
- 87% of municipalities exceeded 30-day payment period (average payment-period 174 days)
- Total outstanding debt (R18,28 billion owed to Eskom and R9,05 billion owed to water boards)
- 31% of municipalities in vulnerable financial position
- Financial losses suffered at 14 municipalities due to VBS investments – R1,6 billion write-off
- 18 municipalities placed under administration

Delivery and maintenance of infrastructure

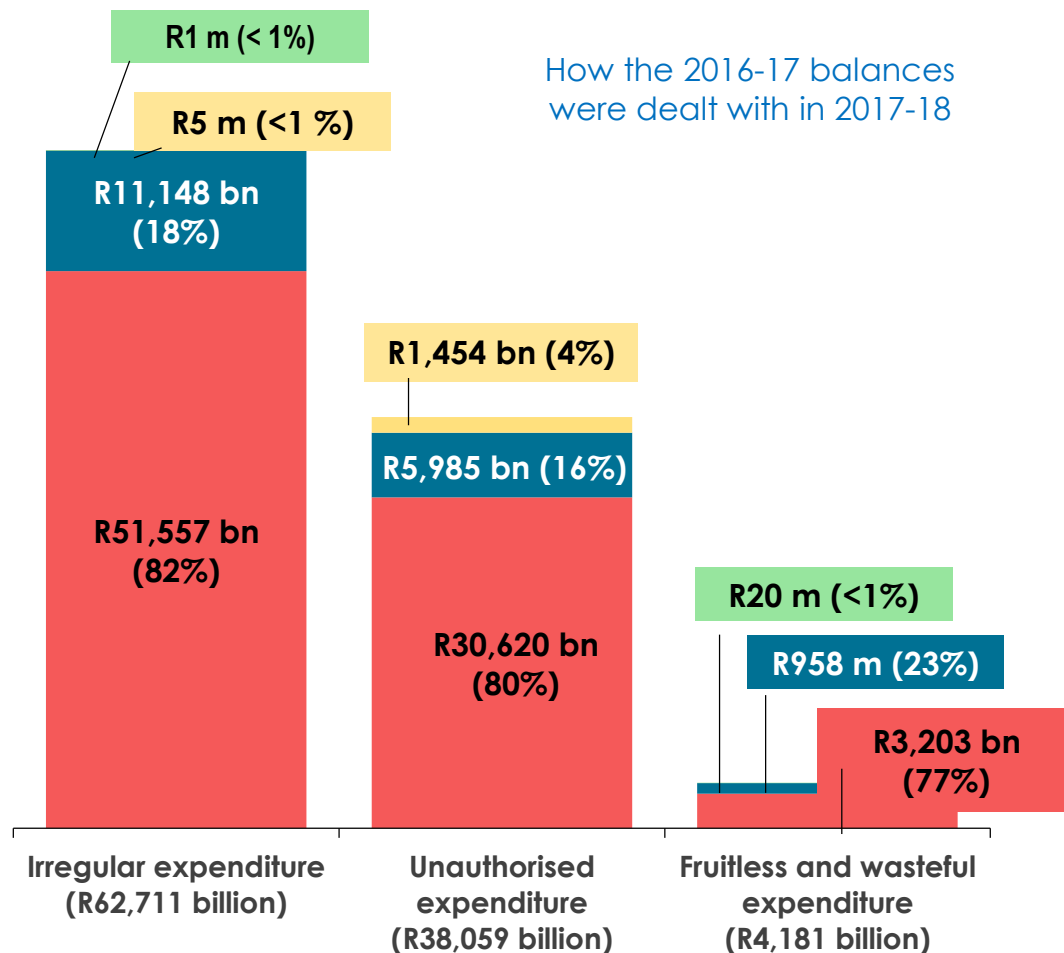
- No or poor service delivery due to underspending of grants, poor project management and delays and non-compliance with supply chain management legislation
- Condition of water and sanitation infrastructure not assessed by 32% of municipalities
- 39% of municipalities disclosed water losses of more than 30% - loss of R2,6 billion
- Condition of roads not assessed (23%) and no road maintenance plan (41%)



Material non-compliance with legislation on implementing consequences increased from 54% to 60%

Most common findings were that unauthorised, irregular and/or fruitless and wasteful expenditure were not being investigated:

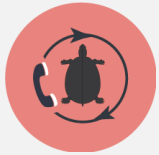
- Irregular expenditure – 125 municipalities (54%)
- Fruitless and wasteful expenditure – 117 municipalities (50%)
- Unauthorised expenditure – 108 municipalities (46%)



■ Money recovered
 ■ Condoned or authorised
 ■ Written off by council
 ■ Not dealt with by council



The root causes of the accountability failure



Slow or no response



Instability/
vacancies/
competencies



Inadequate consequences



- Management (municipal managers and senior management), political leadership (mayors) and oversight bodies (municipal councils and portfolio committees) do not **respond with the required urgency** to our messages about **addressing risks and improving internal controls** – this **slow response** from management was evident at **81%** and no response from **16%** of auditees with unfavourable outcomes.
- **Vacancies and instability** slow down systematic and disciplined improvements
- **Inadequate skills** lead to a **lack of oversight** by council (including the mayor), and insufficient implementation and maintenance of financial and performance management systems by administration
- **Political infighting** at council level and **interference** in administration weaken oversight, hinder the effecting of consequences, and make local government less attractive for professionals to join
- Leadership's inaction/ inconsistent action creates a culture of '**no consequences**', often due to inadequate performance systems and processes
- **Blatant disregard** for controls, compliance with legislation and AGSA recommendations
- Focus is on **unqualified financial statements** by using consultants and auditors, at great cost and to the detriment of credible reporting on performance and compliance with legislation
- Provincial and national role players **do not sufficiently support** municipalities

ACCOUNTABILITY



=

**Instability, skills gaps,
political interference
and corruption**



The role of leadership

Mayor and council

Municipal manager and senior managers

Provincial leadership



Tone at the top – ethical leadership, good governance and accountability



Capacitate and stabilise administration – free from political interference



Enable and insist on robust financial and performance management systems



Consistent, appropriate and swift consequences for irregularities



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ACCOUNTABILITY = PLAN + DO + CHECK + ACT

