Audit outcomes of municipalities 2014-15
Reputation promise

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.
Overall audit outcomes
The MTSF set new targets for improving the audit outcomes in pursuit of sound financial and administrative management by 2017-18:

- No municipalities with disclaimed or adverse opinions.
- A maximum of 25% of municipalities with qualified opinions.
- At least 75% of municipalities with unqualified opinions.
Audit outcomes vs budget allocations

<table>
<thead>
<tr>
<th>Audit outcomes</th>
<th>Budget - rand value</th>
</tr>
</thead>
<tbody>
<tr>
<td>19% (54)</td>
<td>39% (R134 billion)</td>
</tr>
<tr>
<td>40% (109)</td>
<td>41% (R143 billion)</td>
</tr>
<tr>
<td>28% (76)</td>
<td>14% (R49 billion)</td>
</tr>
<tr>
<td>1% (4)</td>
<td>1% (R4 billion)</td>
</tr>
<tr>
<td>10% (29)</td>
<td>&lt;1% (R1 billion)</td>
</tr>
<tr>
<td>2% (6)</td>
<td>5% (R16 billion)</td>
</tr>
</tbody>
</table>

Total budget: R347 billion

Convert audit outcomes to the expenditure (budget) they represent.
Provincial outcomes over 5 years (2010-11 vs 2014-15) on municipalities

Improvement in all provinces

- Gauteng
- Limpopo
- North West
- Free State
- Mpumalanga
- Northern Cape
- Western Cape
- Eastern Cape
- KwaZulu-Natal

2014-15 MFMA

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Audits outstanding

Auditor General South Africa
Provincial outcomes over 5 years (2010-11 vs 2014-15) on all auditees

Improvement in all provinces
2014-15 irregular expenditure

- Included in 2014-15 is R3 339 million disclosed to address prior year qualifications
- At 111 municipalities (41%), irregular expenditure of previous years was not investigated by management to determine if anyone was liable for the expenditure

Nature
- 97% of occurrences caused by non-compliance with SCM legislation
- Main areas of non-compliance within SCM that caused irregular expenditure:
  - Procurement without competitive bidding or quotation process (24%)
  - Non-compliance with procurement process requirements (70%)
  - Non-compliance with legislation on contract management (6%)

Highest contributors
- Rustenburg Local Municipality (NW)
  R3 062 million (2013-14: R195 million)
- Nelson Mandela Bay Metropolitan Municipality (EC)
  R1 348 million (2013-14: R1 052 million)
- City of Tshwane (GP)
  R1 100 million (2013-14: R150 million)
- Buffalo City Metropolitan municipality (EC)
  R479 million (2013-14: R409 million)
- uThukela District Municipality (KZN)
  R324 million (2013-14: R107 million)
2014-15 fruitless and wasteful expenditure

• At 104 municipalities (38%), the fruitless and wasteful expenditure of previous years was not investigated by management to determine if any person was liable for the expenditure.

Nature

• Interest on overdue accounts and late payments caused 62% of the fruitless and wasteful expenditure.

Highest contributors

• Nelson Mandela Bay Metropolitan Municipality (EC)
  R423 million (2013-14: R11 million)

• Matjhabeng Local Municipality (FS)
  R152 million (2013-14: R103 million)

• Emalahleni Municipality (MP)
  R95 million (2013-14: R56 million)

• Maluti-A-Phofung Local Municipality (FS)
  R78 million (2013-14: R32 million)

• Thaba Chweu Municipality (MP)
  R36 million (2013-14: R29 million)
2014-15 unauthorised expenditure

Nature
- 97% of occurrences caused by overspending of budget / main sections in budget
- Reasons include poorly prepared budgets, inadequate budget control, and lack of monitoring and oversight
- Municipal budgets include items such as impairments and provisions – accounting estimates and not actual expenditure; 64% of the unauthorised expenditure was due to the incorrect budgeting of these non-cash items

Highest contributors
- Madibeng Local Municipality (NW) R1 258 million (2013-14: R445 million)
- Mangaung Metropolitan Municipality (FS) R1 006 million (2013-14: R673 million)
- City of Johannesburg (GP) R959 million (2013-14: R0 million)
- City of Tshwane (GP) R786 million (2013-14: R1 194 million)

At 100 auditees (37%), unauthorised expenditure of previous years was not investigated by management to determine if anyone was liable for the expenditure
Slight regression in financial viability of municipalities

Material uncertainty exists whether 26% can continue to operate in future (up from 20% in 2013-14)

<table>
<thead>
<tr>
<th>Year</th>
<th>Two or less unfavourable indicators</th>
<th>More than two unfavourable indicators</th>
<th>Significant doubt that operations can continue in future and/or auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>8% (22)</td>
<td>61% (165)</td>
<td>31% (85)</td>
</tr>
<tr>
<td>2013-14</td>
<td>9% (25)</td>
<td>59% (159)</td>
<td>32% (88)</td>
</tr>
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</table>

Financial position of auditees (going concern)

- A net current liability position was realised
  - 39% (106)
  - 42% (114)
- A deficit for the year was realised
  - 34% (93)
  - 36% (97)
- The year-end bank balance was in overdraft
  - 4% (12)
  - 7% (20)

Revenue collection to ensure a steady stream of income to finance service delivery

- More than 10% of debt irrecoverable
  - 94% (255)
  - 92% (249)
- The year-end bank balance was in overdraft
  - 50% (137)
  - 42% (115)

Management of creditors (meeting financial obligations)

- Creditor-payment period of more than 90 days
  - 49% (133)
  - 43% (118)
Effective use of consultants

Auditees assisted by consultants with financial reporting – 275 (85%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Assisted by Consultants</th>
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<tbody>
<tr>
<td>2014-15</td>
<td>92% (250)</td>
</tr>
<tr>
<td>2013-14</td>
<td>88% (239)</td>
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</table>

Reasons for use of consultants

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<tr>
<th>Reason</th>
<th>2014-15</th>
<th>2013-14</th>
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<tr>
<td>Officials lack required skills</td>
<td>66%</td>
<td>2%</td>
</tr>
<tr>
<td>Positions vacant</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Combination of skills and vacancies</td>
<td>32%</td>
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Cost of consultants

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<th>Year</th>
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<tr>
<td>2014-15</td>
<td>R 134 million</td>
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<td>2013-14</td>
<td>R 758 million</td>
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Audit outcomes of auditees assisted by consultants – financial reporting

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<td>Financial reporting</td>
<td>41% (102)</td>
<td>16% (42)</td>
</tr>
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<td>Paid by other institutions</td>
<td>29% (73)</td>
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<td>12% (29)</td>
<td>2% (4)</td>
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<td>19% (30)</td>
<td>30% (50)</td>
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<td>17% (28)</td>
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<td>Consultants appointed too late</td>
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144 out of 250 (2013-14: 121 out of 239)

Main reasons for financial reporting consultants being ineffective at municipalities

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Key recommendations for improvement

Leadership
• Deliver on commitments to fill key positions with competent people.
• Stabilise administration (i.e. low turnover in key positions).
• Provide officials opportunity to obtain minimum competency requirements.
• Deal with transgressions and poor performance.
• Insist on credible in-year reporting by officials to improve year-end processes and enable improved decision-making.
• Support and participate in initiatives to improve audit outcomes, such as operation clean audit.
• Use forums and working relationships between municipalities and with provincial government to strengthen administration of municipalities.

Financial and performance management
• Implement audit action plans to address audit findings as well as root causes of the audit findings.
• Improve record keeping of municipalities - ensure basic controls around transactions and reconciliations are in place.
• Enable monitoring and oversight through regular and credible reporting on important matters such as SCM and contract management.

Governance
• Governance to be enhanced by well-functioning audit committees and support of internal audit units.
• Councils and municipal management to implement recommendations of audit committees.
• Internal audit units to identify risks and controls that can be implemented to mitigate risks.
Role of the municipal manager

Robust financial and performance management systems

Full and proper records of financial affairs
Effective, efficient and transparent systems for financial and risk management and internal control
System of internal audit
Develop and implement policies – tariffs, rates, credit control, debt collection and SCM
Appropriate management, accounting and information systems – assets, liabilities, revenue and expenditure

Oversight and accountability

Effective, efficient, economic and transparent use of resources
Prevention of unauthorised, irregular and fruitless and wasteful expenditure as well as other losses

Commitment and ethical behaviour

Act with fidelity, honesty, integrity and in the best interest of the municipality
Manage and safeguard assets and liabilities
Take appropriate disciplinary steps against any official who commits an act of financial misconduct or an offence
Disclose all material facts to the council or mayor

The role of the municipal manager is critical to ensure:
timely, credible information + accountability + transparency + service delivery