



Local government audit outcomes 2016-17

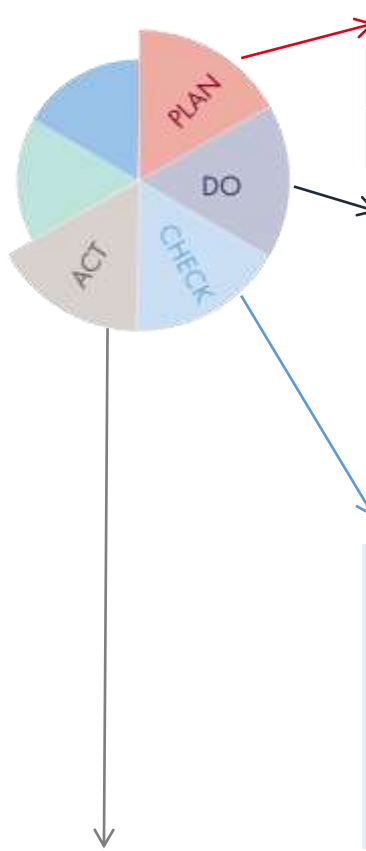
The impact of accountability failures



AUDITOR - GENERAL
SOUTH AFRICA



Little improvement in plan-do-check-act cycle



PLAN

2016-17 2015-16

Status of audit action plans regressed	17%	23%	▼
Usefulness of performance indicators and targets regressed	50%	61%	▼

DO

Overall internal controls slightly regressed	22%	26%	▼
Basic financial and performance management controls regressed	17%	23%	▼
ICT controls slightly improved	20%	15%	▲
Vacancies in CFO positions slightly regressed	28%	24%	▼

CHECK

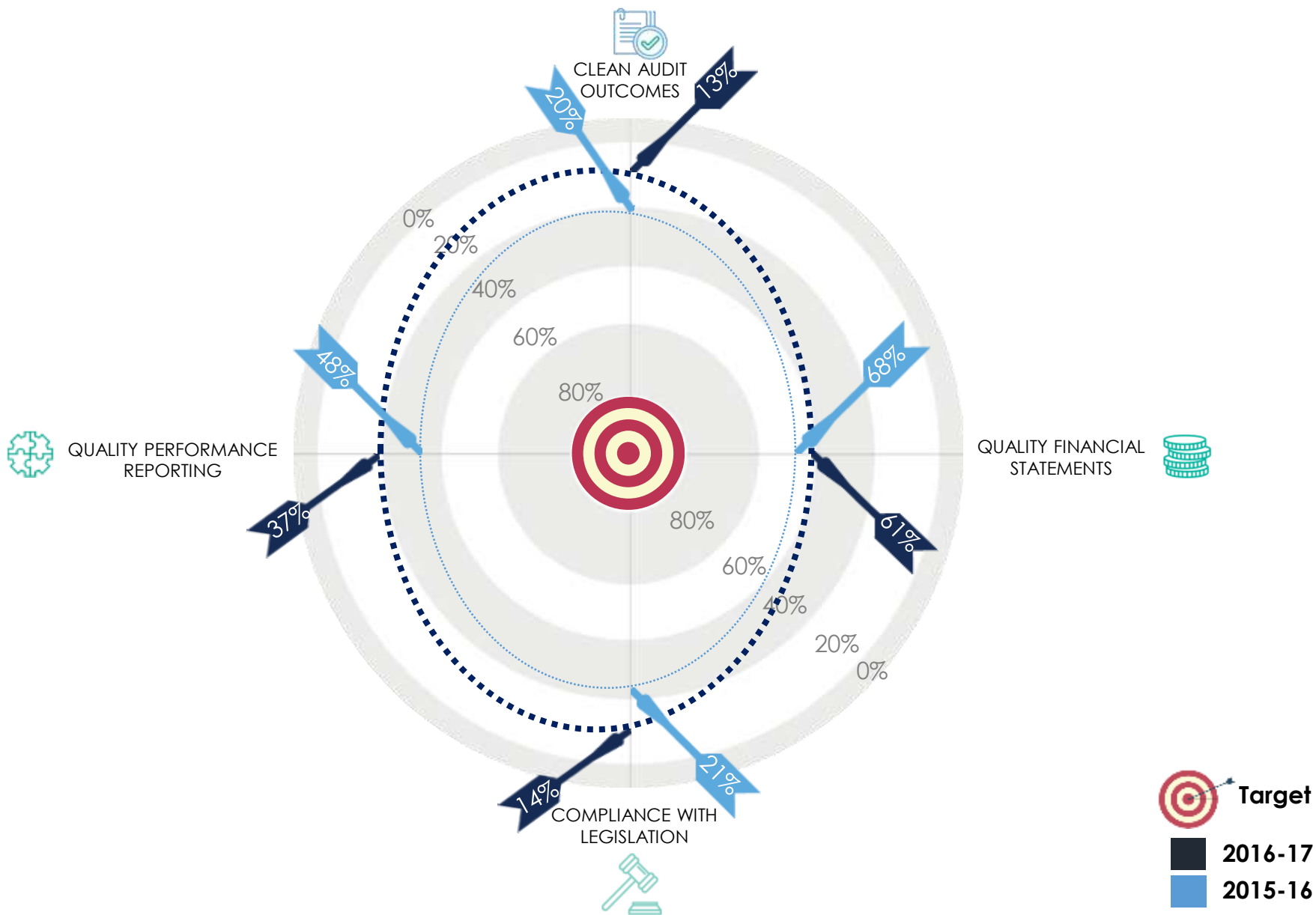
Assurance provided by:

• Senior management and municipal managers regressed			▼
• Mayors, councils and MPACs slightly regressed			▼
• Internal audit units and audit committees regressed			▼
• National and provincial role players regressed			▼

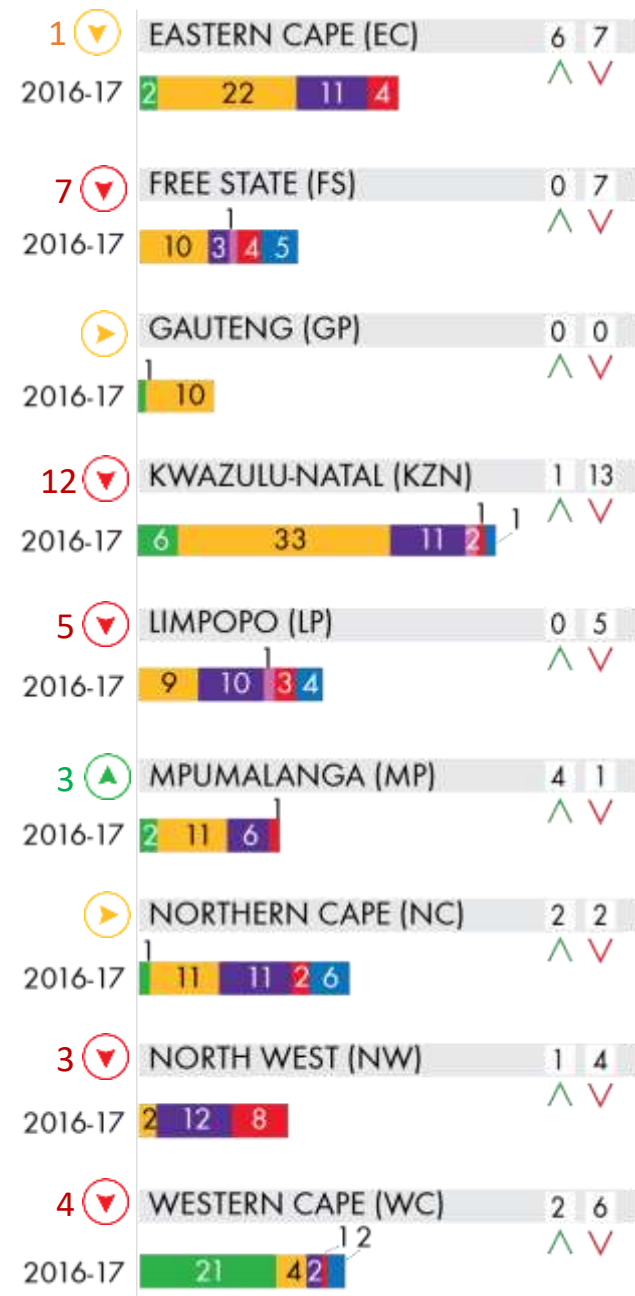
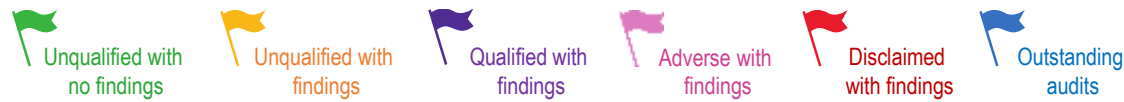
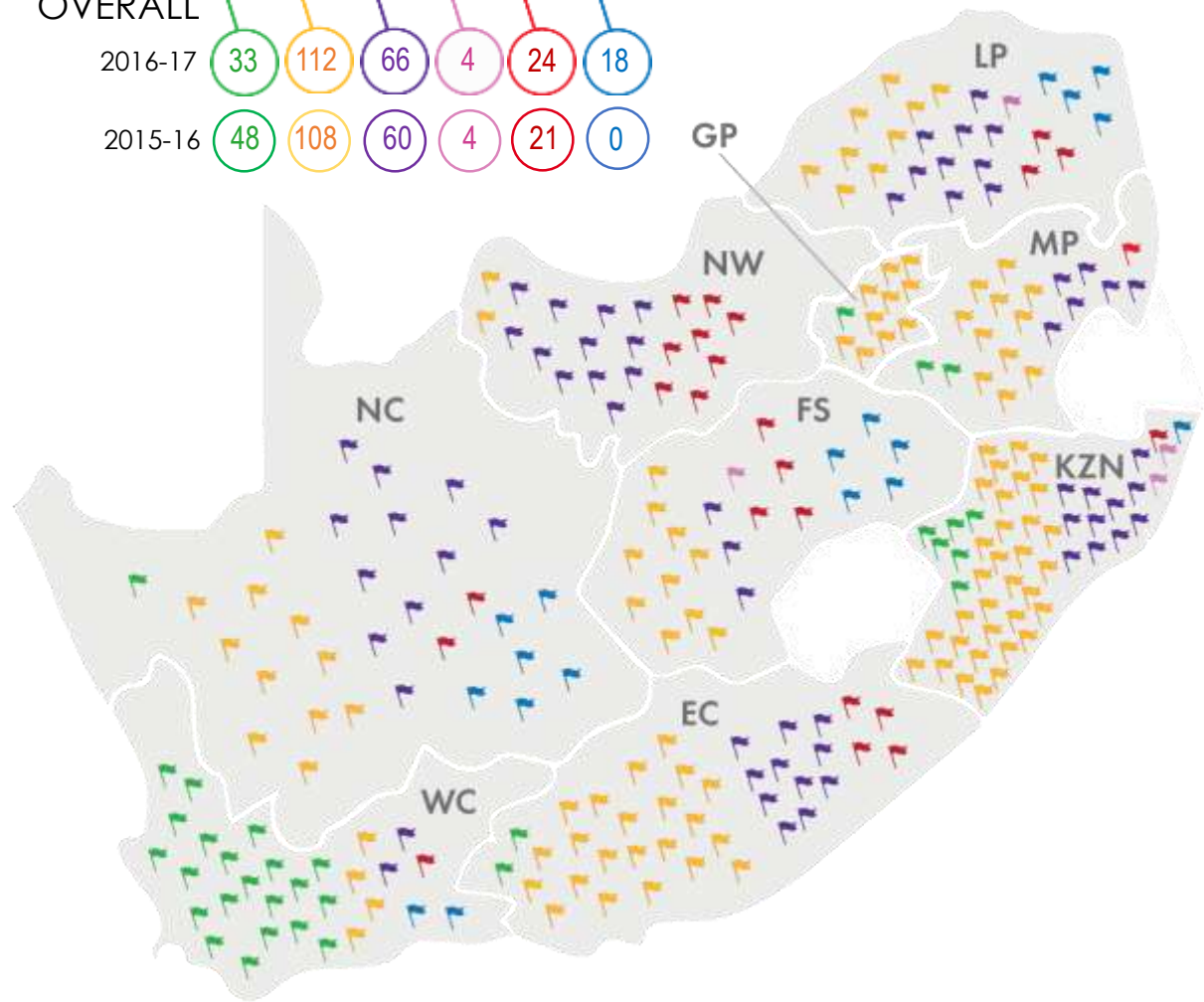
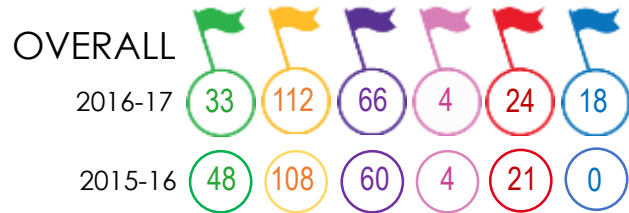
ACT

Compliance with consequence management legislation regressed	56%	50%	▼
Investigation of previous year UIFW regressed (closing balance of UIFW not dealt with is R66,925 billion)	39%	48%	▼
Investigations into SCM findings we reported in previous year slightly regressed	29%	33%	▼

In first year of administration, audit outcomes regressed






Movement in audit outcomes



Accountability and transparency not enabled through credible financial and performance reporting



Financial statements

 Target	Movement	2016-17	2015-16
Quality submission for auditing		22%	34%
Quality of published financial statements		61%	68%



Performance report

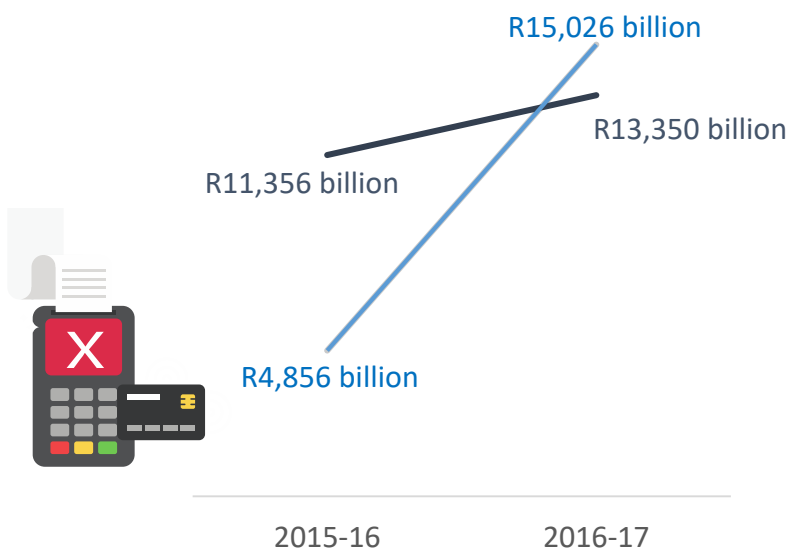
 Target	Movement	2016-17	2015-16
Quality submission for auditing*		10%	19%
Quality of published performance report		37%	48%
Reliable reporting of achievements		44%	55%
Usefulness of performance indicators and targets		50%	61%

* 10 municipalities did not prepared performance reports



Irregular expenditure and supply chain management

Irregular expenditure increased from R16,212 billion to **R28,376 billion (75% increase)**

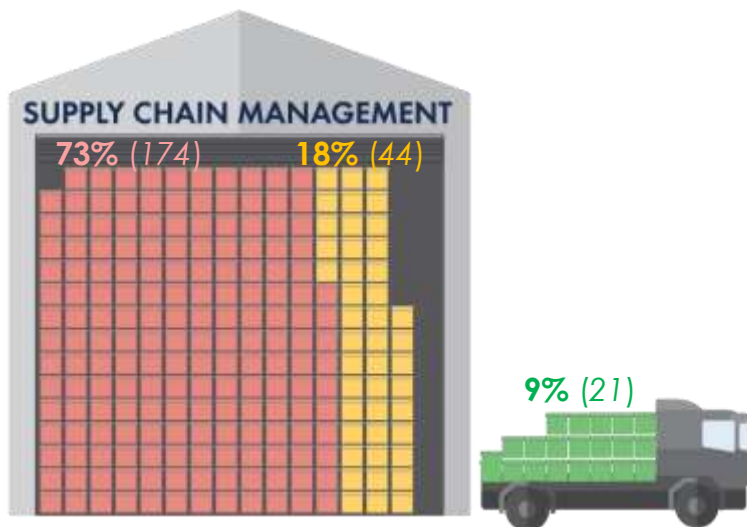


53% of the irregular expenditure was payments/ expenses in previous years only uncovered and disclosed for the first time in 2016-17

47% of the irregular expenditure was payments/ expenses in 2016-17.

It represents **4%** of the local government expenditure budget. It includes payments made on contracts irregularly awarded in a previous year – if the non-compliance was not investigated and condoned, the payments on these multi-year contracts continue to be viewed and disclosed as irregular expenditure

How much of the R28,376 billion then represents **non-compliance in 2016-17?**
Based on analyses of the top 26 contributors, it is estimated to be **16%**



Regression in SCM compliance

Not able to audit procurement of **R1,296 billion** due to missing or incomplete information

R2,075 billion prohibited awards to other state officials

False declarations of interest made by **1 440 suppliers**

Uncompetitive and unfair procurement processes at **67% of municipalities**



Declining financial health and losses



What the numbers say

- 31% had a deficit (expenses exceed revenue)
- 55% took longer than 90 days to collect debt
- 47% took longer than 90 days to pay their creditors
- Unauthorised expenditure of R12,603 billion; R7,485 billion as a result of non-cash items
- 31% in a vulnerable financial position

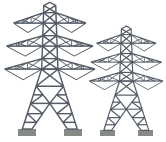


Actual and potential financial losses

- Fruitless and wasteful expenditure of R1,526 billion
- Non-compliance by 78% of municipalities can potentially lead to a financial loss



Municipal infrastructure



Infrastructure projects

- Planned targets/key milestones **not achieved or not evaluated at 38% municipal infrastructure grant projects**
- **26%** water projects **exceeded completion date**
- **22%** sanitation projects **exceeded completion date**
- **26%** road projects **exceeded completion date**



Infrastructure maintenance and losses

- **27%** did not perform an assessment on the **condition of road infrastructure**
- **40%** had water losses of more than **30%**
- **35%** did not perform an **assessment on the condition of water infrastructure**
- **22%** did not **budget for maintenance of water infrastructure**
- **46%** had **no water maintenance plan**



Examples of project deficiencies

City of Tshwane Metro (GP)

Fort West housing project and Themba water purification plant

- Project delays due to non-/late payment of contractors, contributing to non-compliance on expenditure management and interest incurred on late payments to contractors
- Reasons for non-achievement of target: inadequate project management of key milestones; lack of planning before appointing contractor, resulting in overspending on project; and inadequate monitoring of consultants

Ngaka Modiri Molema District (NW)

Upgrade of waste water treatment works at Tlhabologang

- Project with initial end date of May 2014 still not completed due to non-payment of service provider, leading to suspension of work
- Original budget of R67 852 652 subsequently adjusted to R106 418 621 due to initial understatement of costs
- Material non-compliance relating to appointment of service provider

Rustenburg (NW)

Rustenburg rapid transport system Phase 1C sections B and C

- Delays noted in phase 1C of the contract, with only 40% of construction completed by June 2017
- 32% of work completed on Section B of phase 1C, but approximately 50% of contract amount was already paid to the contractor
- 35% of work completed on Section C of phase 1C, but 54% of contract amount was already paid to the contractor



The root causes of the accountability failure



▼ Slow response

- **Vacancies and instability** slow down systematic and disciplined improvements



▼ Instability/
vacancies /
competencies

- **Inadequate skills** lead to **lack of oversight** by council (including 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 consequence management, and make local government less attractive for professionals to join



▼ Inadequate
consequences

- Leadership's inaction / inconsistent action creates 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** at great cost by using consultants and auditors, to the detriment of credible performance reporting and compliance with legislation
- Provincial and national role players **do not sufficiently support** municipalities



ACCOUNTABILITY ↓

=

↑
Instability
Skills gaps
Political interference
Corruption

The AGSA's contribution to improve accountability

INPUT



Management reports
Audit reports
General reports

REPORTS



WEAKNESSES IN
INTERNAL CONTROLS



RISKS
THAT NEED
ATTENTION



ROOT CAUSES



RECOMMENDATIONS



ENGAGEMENTS

OUTCOME

WHY
NOT DESIRED IMPACT?





Status of records review

Objectives

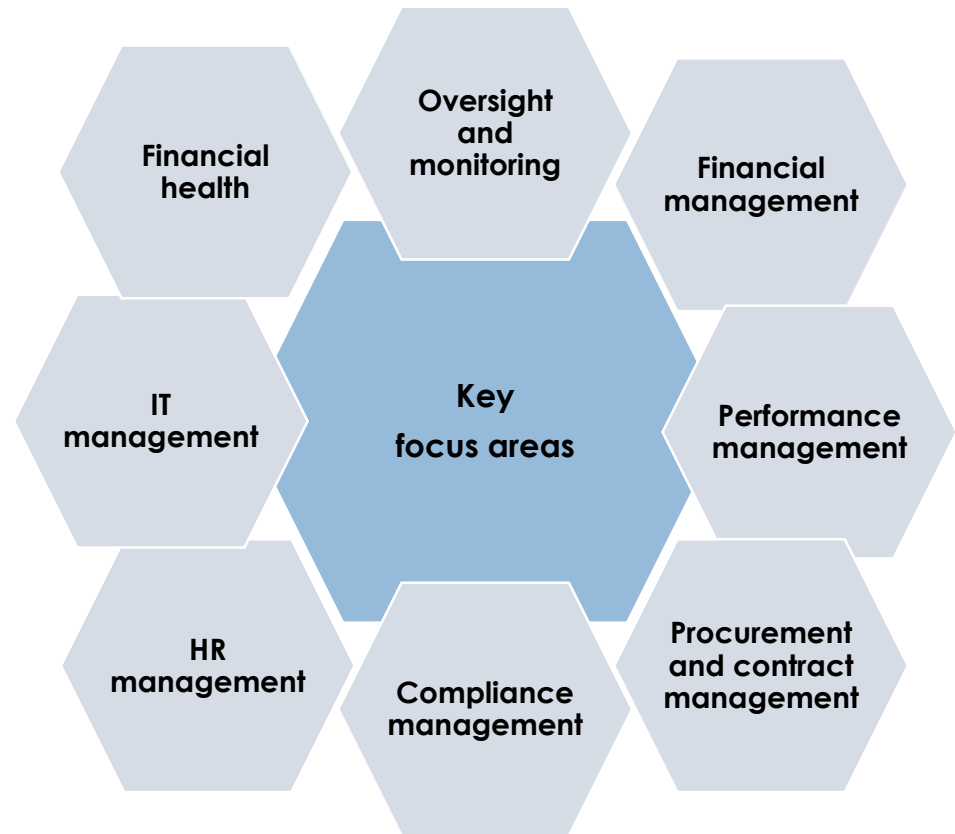
Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation, and consequential regression in audit outcome

Provide our assessment of the status of key focus areas that we reviewed

Assess progress made in implementing action plans / follow through with commitments made in previous engagements

Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

Focus areas

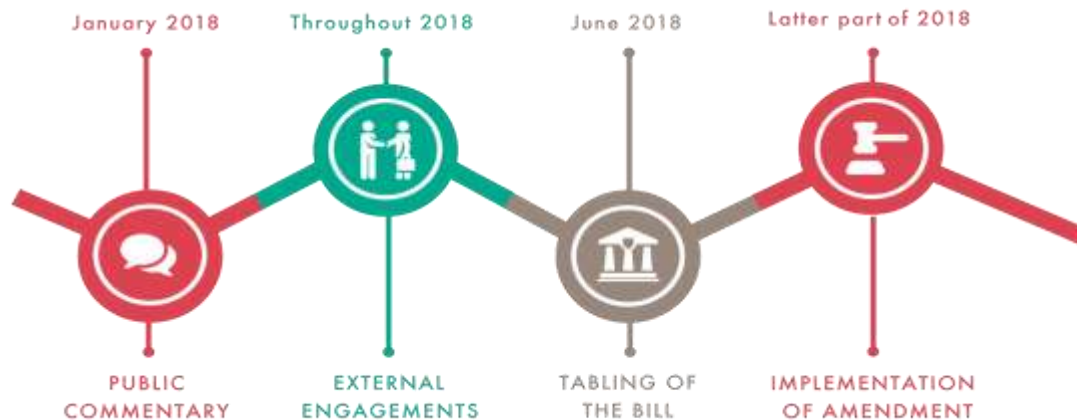


PAA amendments to impact accountability



Per PAA Bill

The PAA amendments would allow referral for investigation of:
Any **acts/omissions** identified through our audit,
which caused (or can cause) a **loss of public resources** OR
which resulted (or can result) in **public resources not being used for its lawful purpose**



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