



AUDITOR - GENERAL
SOUTH AFRICA

Gauteng

LOCAL GOVERNMENT

SCOPA SESSION WITH MPAC

30 May 2023

MFMA 2021-22 audit outcomes and provincial material irregularities



MISSION AND VISION



VISION

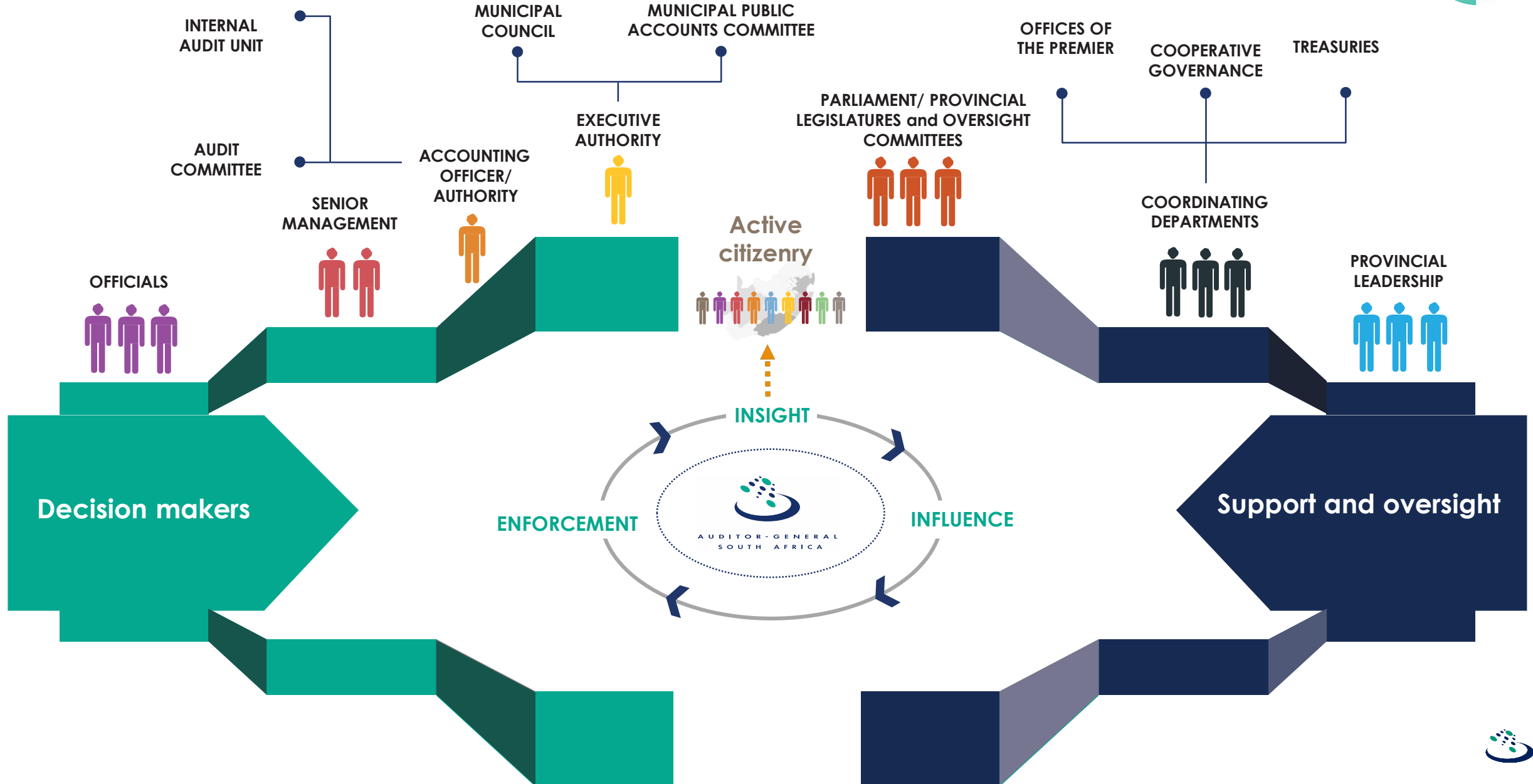
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

MISSION

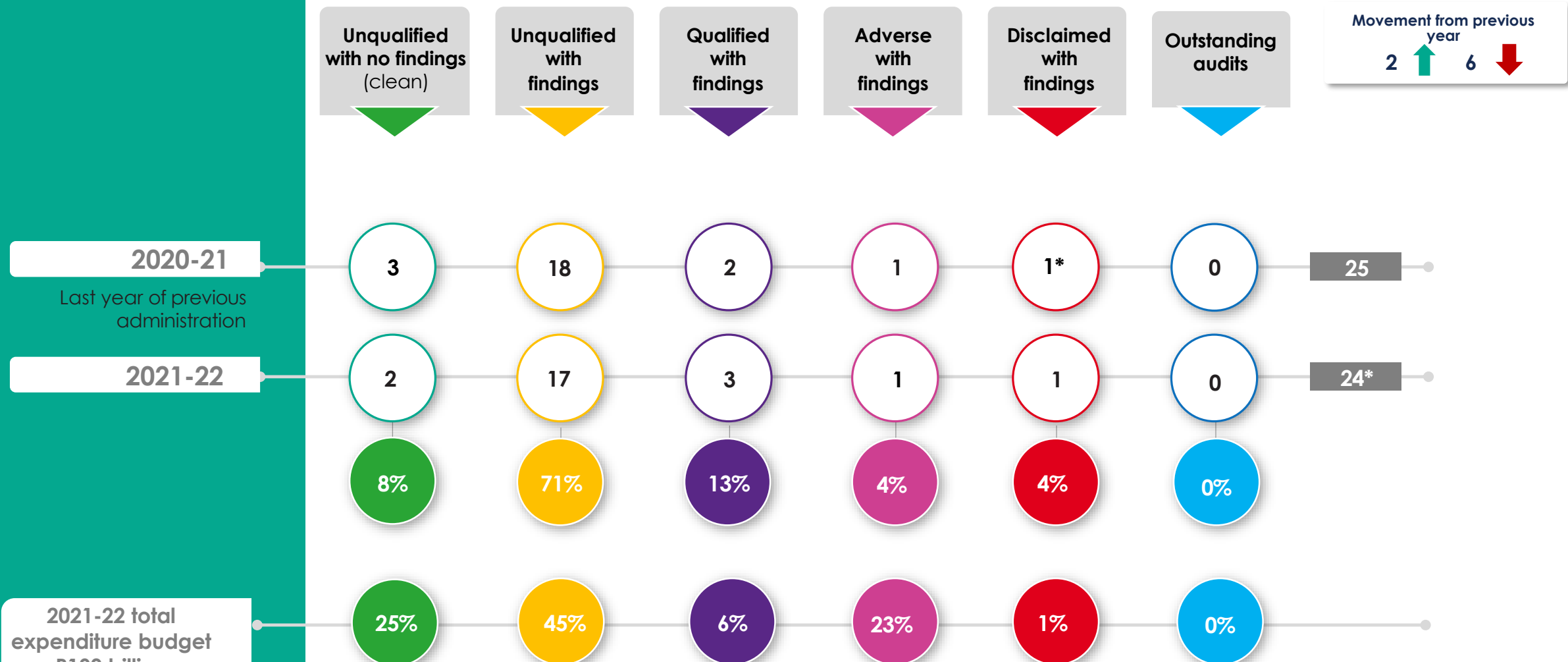
The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence



All have a role to play in accountability ecosystem



Overall audit outcomes show an overall downward trend



- CoE and Midvaal **sustained** their clean audit opinions by maintaining good control and governance disciplines. Randwest **improved**.
- **Declining quality** of submitted AFS **caused regressions** at CoT, Merafong, Mogale and Emfuleni.
- **Quality** of performance reporting was **still a challenge** for most, and **lack of achievement** of targets, contributing to lack of service delivery.
- Overall compliance has **stagnated from prior year** with majority of auditees not complying with legislation.
- **Deteriorating financial** health with repairs and maintenance below the required threshold affecting aged infrastructure.
- **Co-ordinating institutions** have opportunities to do more, to support municipalities.

*Prior year included Brakpan Bus Company which was merged to COE in the current year.



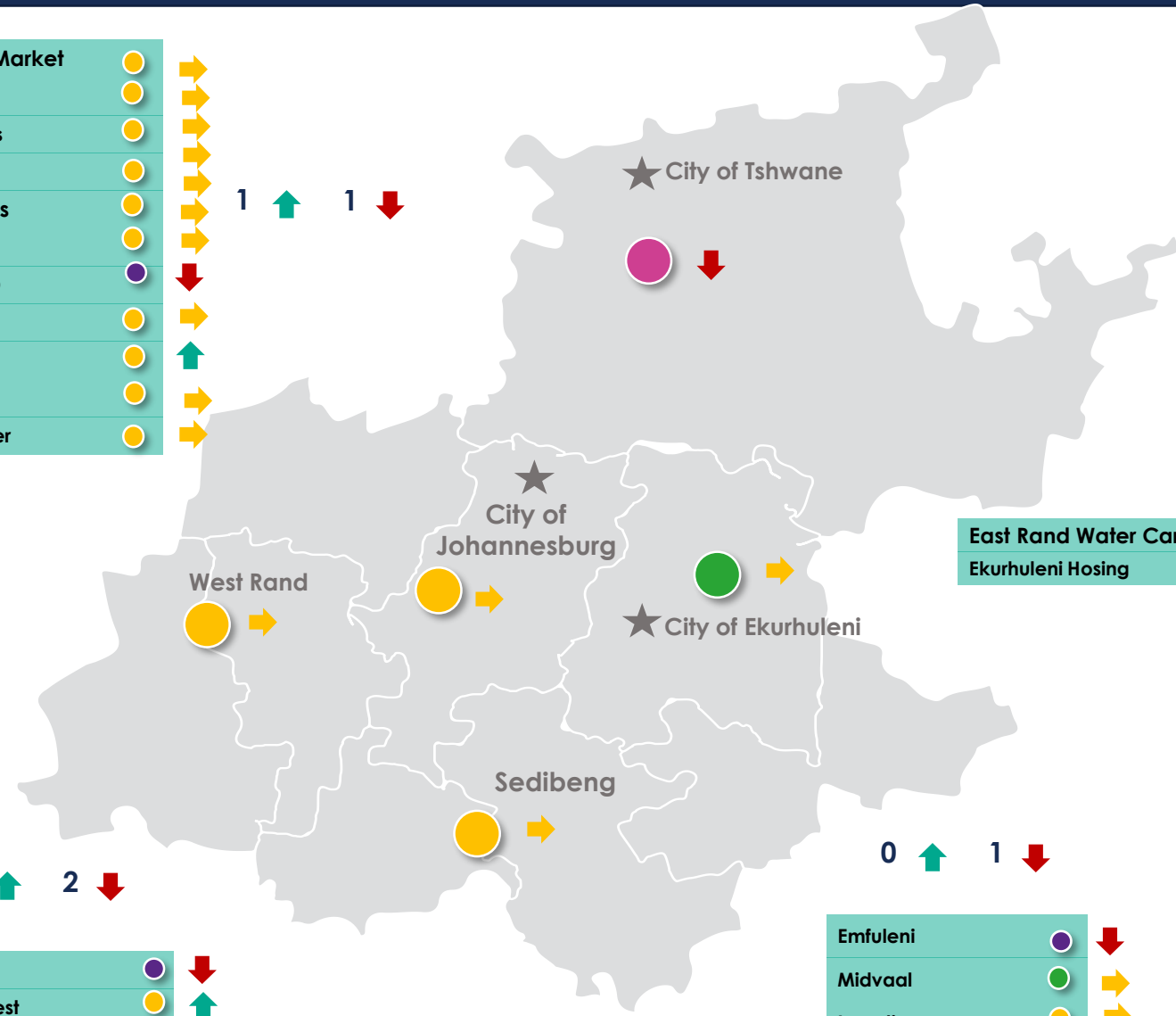
Gauteng Landscape- outcomes

- ↑ Improved
- ↓ Regressed
- Stagnant

- Unqualified with no findings (clean)
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Outstanding audits

Jorbug Market	●
JPC	●
City Parks	●
JDA	●
Metrobus	●
JRA	●
JOSHCO	●
J Water	●
MTC	●
Pikitup	●
City Power	●

Mogale	●	↓
Rand West	●	↑
Merafong	●	↓



1	↑	1	↓
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East Rand Water Care	●	→
Ekurhuleni Hosing	●	↓

Emfuleni	●	↓
Midvaal	●	→
Lesedi	●	→



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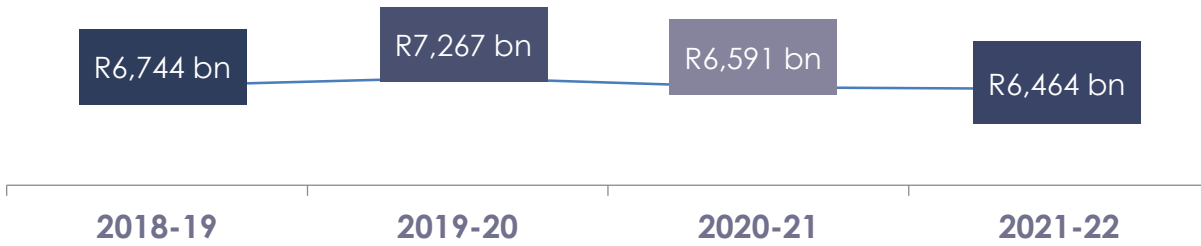
Auditees with disclaimed opinions

■ New disclaimer (2021-22) (1)



Irregular expenditure slightly decreased

Annual irregular expenditure



Top contributors – in current 2021-22

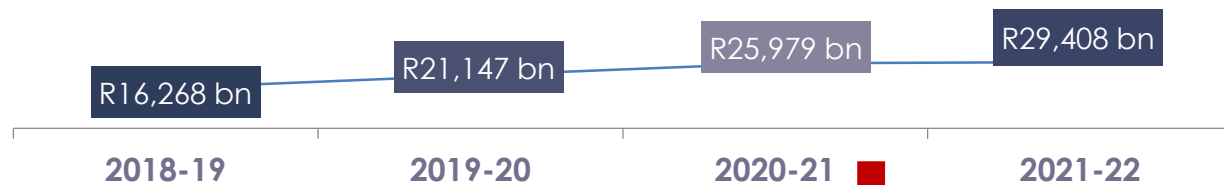


Impact of irregular expenditure incurred

Breach of five pillars of procurement – equitable, fair, cost effective, transparent and competitive:
24 auditees: R4 822 m

Other: 11 auditees: R1 641 m

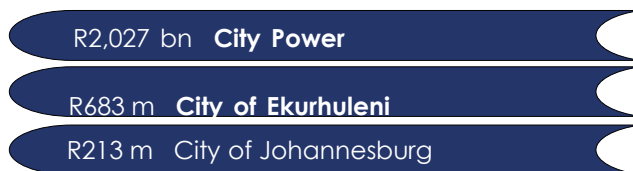
Closing balance of irregular expenditure



Although the irregular expenditure remains high, it is encouraging to note that auditees continue to receive goods and services and no financial loss has been identified on irregularly awarded contracts.

No financial loss identified from the current year irregular expenditure identified, hence, there were no Mis identified.

Top 3 contributors for irregular expenditure written off



How have auditees dealt with irregular expenditure

R25,979 bn – 2020-21 closing balance

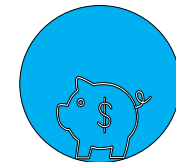
R3,034 bn (12%)

R22,945 bn (88%)

Written off/
Negative restatement/
Transferred

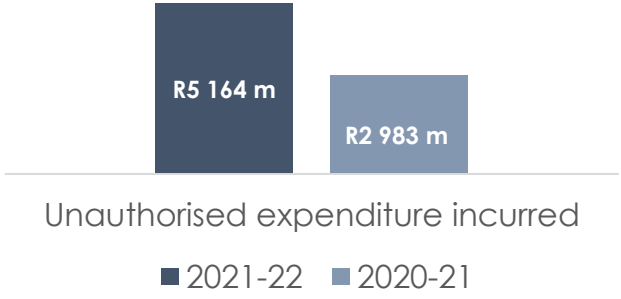
Not dealt with

There are still less effort of dealing with opening balances and this is due to ineffectiveness of disciplinary bodies and backlogs of investigations which are caused by vacancies in forensic units of various municipalities.



Unauthorised expenditure and Fruitless and wasteful expenditure increased

UE incurred



Unauthorised expenditure (UE) incurred has increased from **R2 983 million** in the prior year to **R5 164 million** in the current year, while the total balance increased from **R14,2 billion** to **R19,3 billion** in the current year. The increase in balance is due to lack of effort by auditees in dealing with prior years UE.



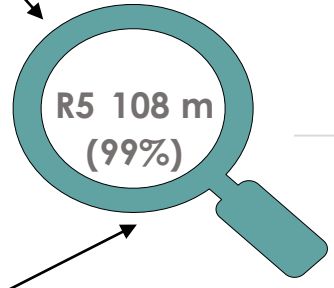
UE - The current year UE was mainly caused by **overspending** of budgets which was not approved. The incurrence of UE depicts lack of financial management in terms of budgeting.

Fruitless and wasteful expenditure (FwE) incurred has increased from **R1 005 million** in the prior year to **R2 455 million** in the current year and the total balance increased from **R2,8 billion** to **R5,21 billion** from the prior year.

FWE - The increase in the current year was mainly caused by interest on late payments by Emfuleni, COJ and unused licenses at COJ. There were three **new material irregularities** identified where the related expenditure is already disclosed as part of the total of fruitless and wasteful expenditure from COJ and COT.

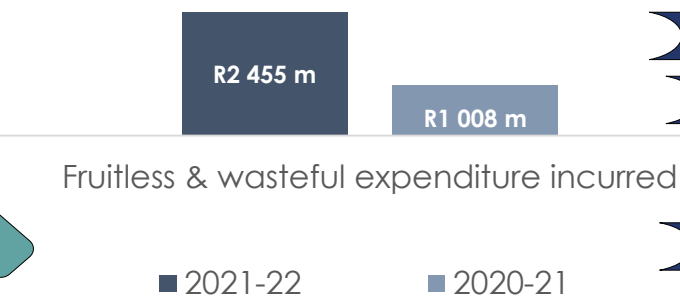
UE TOP CONTRIBUTORS

- Emfuleni – R2 708,8 m
- City of Tshwane – R1 351,1 m
- Rand West – R602,6 m
- City of Tshwane – R391,2 m
- Mogale – R54,3 m

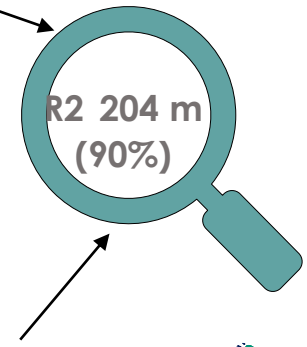


FWE TOP CONTRIBUTORS

FWE incurred



- COT – R845,3 m
- Emfuleni – R827,9 m
- COJ – R344,5 mil
- City Power – R98,9 mil
- MTC – R88,4 m



Municipalities failure to plan

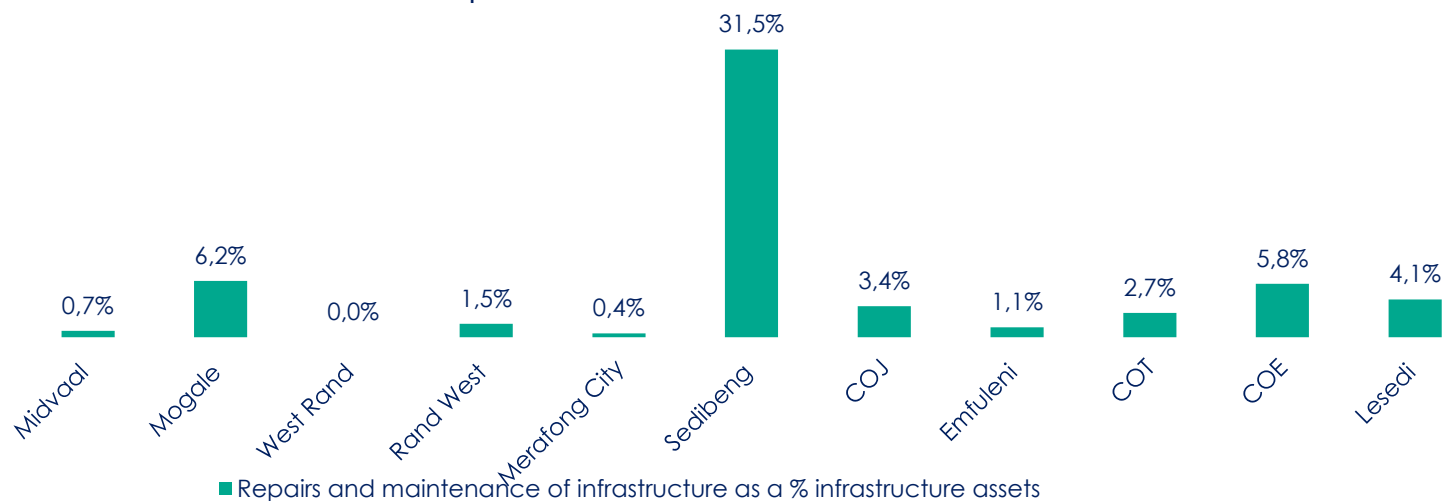
Metro budgets 2021-22

Metro	Total budget	CAPEX	OPEX
COE	46 588 378 521,00	3 078 987 296,00	43 509 391 225,00
COJ	32 889 723 000,00	4 170 896 000,00	28 718 827 000,00
COT	43 512 046 323,00	3 254 195 835,00	40 257 850 488,00
Emfuleni	6 551 362 442,00	300 718 628,00	6 250 643 814,00
Lesedi	1 206 261 000,00	121 440 000,00	1 084 821 000,00
Merafong	2 421 836 000,00	122 479 000,00	2 299 357 000,00
Midvaal	1 427 939 123,00	178 121 324,00	1 249 817 799,00
Mogale	3 806 555 672,00	330 907 287,00	3 475 648 385,00
Rand West	2 474 000 000,00	287 000 000,00	2 187 000 000,00
Sedibeng	400 912 026,00	2 143 240,00	398 768 786,00
West Rand	265 240 000,00	6 000 000,00	259 240 000,00

Long-term planning – % CAPEX y/y

	2021-22	2020-21	2019-20
	6,6%	9,9%	11,1%
	12,7%	15,8%	15,7%
	7,5%	4,9%	10,3%
	4,6%	5,3%	5,5%
	10,1%	10,0%	8,2%
	5,1%	8,1%	13,3%
	12,5%	10,3%	10,1%
	8,7%	7,4%	7,5%
	11,6%	10,0%	17,0%
	0,5%	0,5%	0,6%
	2,3%	1,8%	2,3%

Repairs and maintenance of infrastructure



Impact

- Reduction in investment in capital projects year on year
 - Deteriorating infrastructure in poor service delivery, e.g. water outages at CoJ, water that is not fit for consumption at CoT
 - Projects delayed at most metros and halted at some instances due to budget constraints (COE)
-
- Increasing water and electricity losses amounting to R5,3 billion (approximately) due to aging infrastructure affecting financial health
 - Key infrastructure assets not available for service delivery due to break downs and idle time e.g. CoT Rooiwal



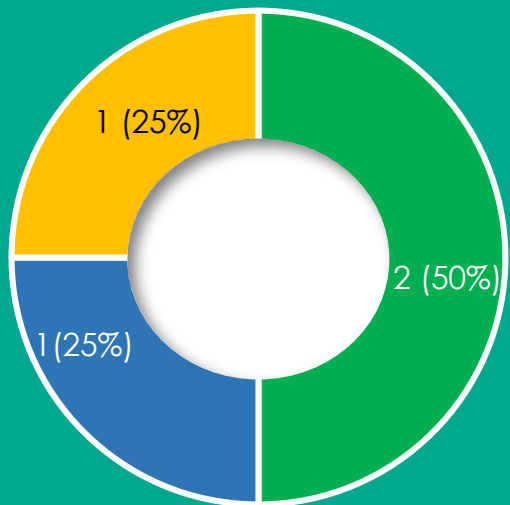
Use of consultants for financial reporting- benefits are limited

WHAT WE FOUND



- R164 million (2021: R155 million) – total cost of financial reporting consultants
- 11 (46%) auditees* used financial reporting consultants during the year

Reasons why consultants were ineffective



- Consultants did not deliver
 - CoT
 - Merafong
- Other auditee ineffectiveness
 - Emfuleni
- Consultants appointed too late
 - Lesedi

Nature of consultant work

- Asset management (Preparation of the assets register that are compliant with GRAP 17 – R134,9 million
- Prepare and review of financial statements – R10,9 million
- Other financial reporting – R 17,9 million
- Other services# – R197 million

Reasons for appointing consultants

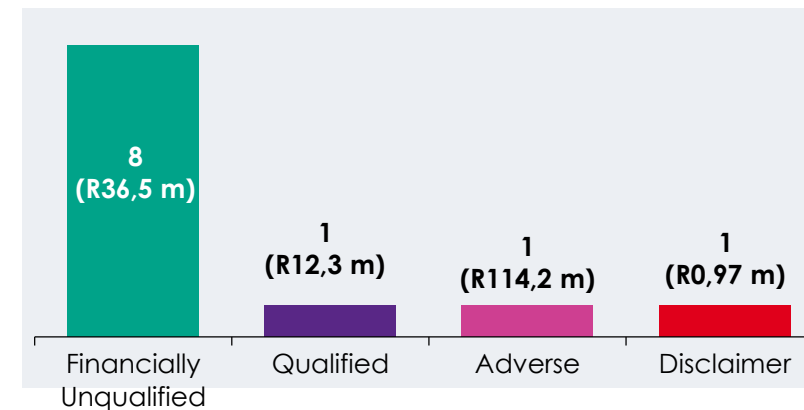
- Lack of financial skills – 5 (46%) municipalities
- Vacancies – 3 (27%)
- Combination (Vacancies and lack of skills) – 3 (27%) municipalities

Additional insights

- Auditees did not ensure adequate skills transfer or training programmes implemented in the finance units.
- The use of consultants further constrains the already burdened municipal fiscus as these funds could be channeled towards projects

33% (4) of financial statements submitted for auditing included material misstatements in area of consultant work

Financial statements outcomes after corrected



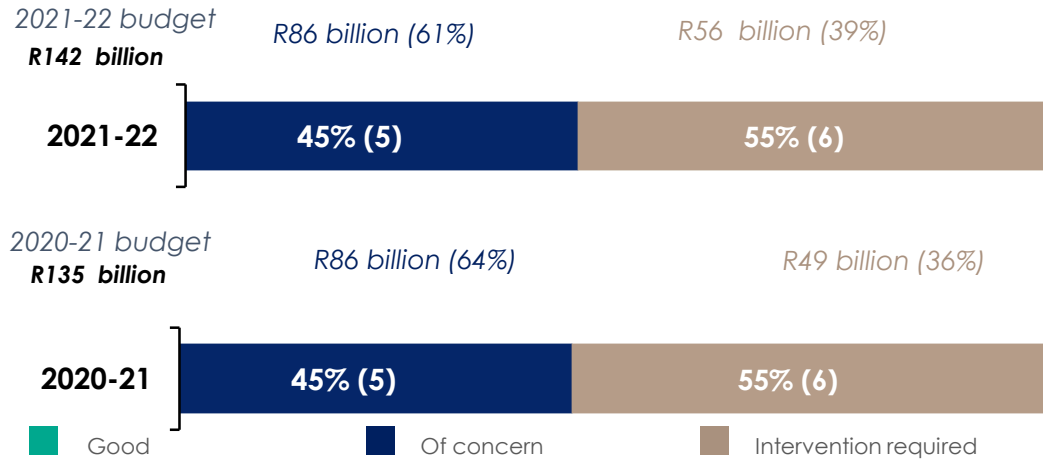
#Other services
Investigations & probity audits – R197,m

Other financial services
Providing an accounting system – R3,5 m
Property valuation roll – R7,5 m
Internal audit – R1,2 m
management – R2,4m

Tax service cost – R3,2
General financial

* CoT, CoE, City Power, Lesedi, Merafong, City Parks, Emfuleni, Metrobus, JPC, Midvaal and Rand West





- **Three (33%)** of municipalities had a deficit and **100%** took longer than 30 days to pay their creditors
- The average creditor-payment period was **311 days** and the total amount in arrears of **R30,12 bn**.
- At year-end **municipalities** owed **R11,30 billion** and **R9,34 billion**, to **Eskom** and **Rand Water**, respectively.

- Seven (7) municipalities adopted unfunded budgets– impact on the delivery of capital projects (non compliance to Sec18 of MFMA)
- Poor revenue collection is still a challenge impacting ability to service short term debt and finance capex
- Limited availability of cash resources impacting adequate spending on CAPEX to address service delivery needs

Mayor, council and its committees

- Mayor must hold management accountable for the implementation of Budgets, MFMA S52(a)
- MSA S79 committees must monitor the implementation of budget

NT & Cogta

- NT must provide adequate support to metros in implementing the budget circular, MFMA 5(2)(1)(a) & (b)
- Cogta to timely intervention on financial health concerns, MFMA 136(1)

- Key infrastructure assets not adequately maintained due to unavailability/limited cash resources resulting in deteriorations of service delivery infrastructure
- Increasing water & electricity losses (R3.2b of water losses) resulting in lost revenue
- Budgeting for CAPEX and spending on repairs and maintenance is not at the desired level for the metros – ageing infrastructure will impact service delivery
- NT, PT and Cogta needs to strengthen the in-year monitoring processes on financial and budget management
- Going concern issues were noted at Emfuleni, Rand West, West Rand, Sedibeng, Merafong and COT
- High debt ratios at some metros

* Merafong and COT obtained a disclaimer and adverse audit opinion respectively and is excluded from the assessment



Observations from key projects and target achievements

Examples of service delivery – Clean audit

Gauteng - City of Ekurhuleni



Projects visited



Pam Brink Reservoir and Edelweiss Reservoir (Water)

- Although the pump station had been completed for both projects, they had not yet been commissioned.

IRPTN Area 5 – (CR Swart between Zuurfontein and Pretoria Road) (Road)

- Better communication is needed between departments within the City. To ensure that where other service providers are given permission, to conduct work on a project completed by the City, that work on site is reinstated to the required quality.

Portion 62 Airport Park (Housing)

- This housing project is still in progress, and had not yet reached practical completion, due to budget constraints.

Crystal Park Substation (Electricity)

- No findings were noted. Best practices were implemented.

Chemical toilets (Sanitation)

- No issues were noted for chemical toilets, as the toilets had been provided, were in working order and had been cleaned as required.

SDBIP/APR Reflections (APR extract)

- COE achieved 76 % of the performance targets for the scoped in strategic objective relating to basic services
- A number of key service delivery indicator targets were met, while others were narrowly missed.

KPI	Target	Achievement
No. of new water connections meeting minimum standards	1000	3098
% of total water connections metered	94,1%	92%
Number of reservoirs constructed	7	4
No of storm water systems maintained	7 000	10 614
No of storm water systems constructed	17	26

Observations from key projects and target achievements

Gauteng – City of Johannesburg (including through its entities)



Contracts did not include price adjustments and were not comprehensive

Key projects

Inadequate project management provided to poor performing contractors at the JDA and not recovered.

Delay in the completion of long outstanding projects meant to improve adequacy of electricity



Projects visited



Orlando West 7B project (Water)

- Payments to the contractor did not align to the payments, and projects for water were not on-track for completion within the anticipated timelines.

Orange Farm 2B (Water)

- The project did not attain the completion date, and various factors impacted the timelines of the project.

Lehae Housing Project (Housing)

- The contract price increase impacted the budget allocated to the project, as budgets allocated for the delivery of services and construction of houses are utilized to compensate for the increase in the cost of the contract. A number of houses were invaded at the time of the audit, beneficiaries' allocated houses from informal settlements are still awaiting the occupation of their houses, indefinitely.



SDBIP/APR Reflections (APR extract)

- Key service delivery inputs that came from the public participation were housing, provision of sanitation, waste management services, electricity and water. inputs were included in the IDP and SDBIP.
- It remains a concern that the City has not yet fully implement circular 88 that requires tier 1 and tier 2 standardised indicators to have been reported
- The overall performance reduced to 58%(20/21:66%) against targets set,

KPI	Target	Achievement
Percentage households with access to water	97.89%	99.79%
Percentage households with access to sanitation	93.14%	93.01%
Number of dwellings provided with connections to mains electricity supply by the municipality	3200	5 769
Number of Social Housing units completed	349	0
Percentage of all recognised informal settlements provided with waste management services	100%	100%

Observations from key projects and target achievements

Gauteng – City of Johannesburg (including through its entities)



Key projects



Projects visited



Refurbishment of Selby Depot (Housing)

- Advance payments were made to the contractor, and not recovered by the entity. The contractor abandoned site and a new contractor was being appointed, alterations and remedial work were required to complete the project.

Refurbishment of Eldorado Park Substation (Electricity)

- Long outstanding project, has been in implementation since 2015, and the project has not attained the objective of improving capacity and adequacy of electricity.

Chemical Toilets (Sanitation)

- Some chemical toilets visited were in a poor condition. The municipality does not always monitor the provision and servicing of chemical toilets to ensure contract specifications are adhered to.

SDBIP/APR Reflections (extract)

- A number of key service delivery targets not achieved with only 48% of targets achieved for the programme relating to basic service

KPI	Target	Achievement
Number of new water connections meeting minimum standards installed	2 004	0
Km of roads and storm water constructed to the required standard	22km	0 km
Number of households with access to sanitation (new sanitation connections)	1 913	0
% of waste water quality compliance according to waste use license	60%	36%
<i>(Also linked to MI issued – Substantial Harm to the General Public – Residents of Hammanskraal)</i>		

Observations from key projects and target achievements

Gauteng – City of Tshwane

Key projects

No controls to monitor usage of chemical toilets by residents

Bulk infrastructure not provided for some housing units

Poor quality effluent discharged into some water sources

Projects visited



Chemical Toilets (Sanitation)

- No controls were in place to monitor usage by residents, as there were some toilets which were locked by some residents, thus preventing others from using the toilets.

Fortwest Ext 4 – Construction of 300 housing units (Housing)

- Housing units were practically complete and ready for occupation however, as there was no bulk infrastructure, the houses could not be handed over and were illegally occupied.
- Other concerns were also noted, such as time delays and price variations.



Waste Water Treatment Works (WWTW) (Water)

- The quality of effluent discharged into the water sources by the WWTW's was well below the levels set out by the National Water Act and environmental laws.
- Significant failure to safeguard and maintain the WWTW's to enable them to operate effectively. Numerous key infrastructure was found to be non-operational and in need of maintenance or replacement.

Green Drop Results

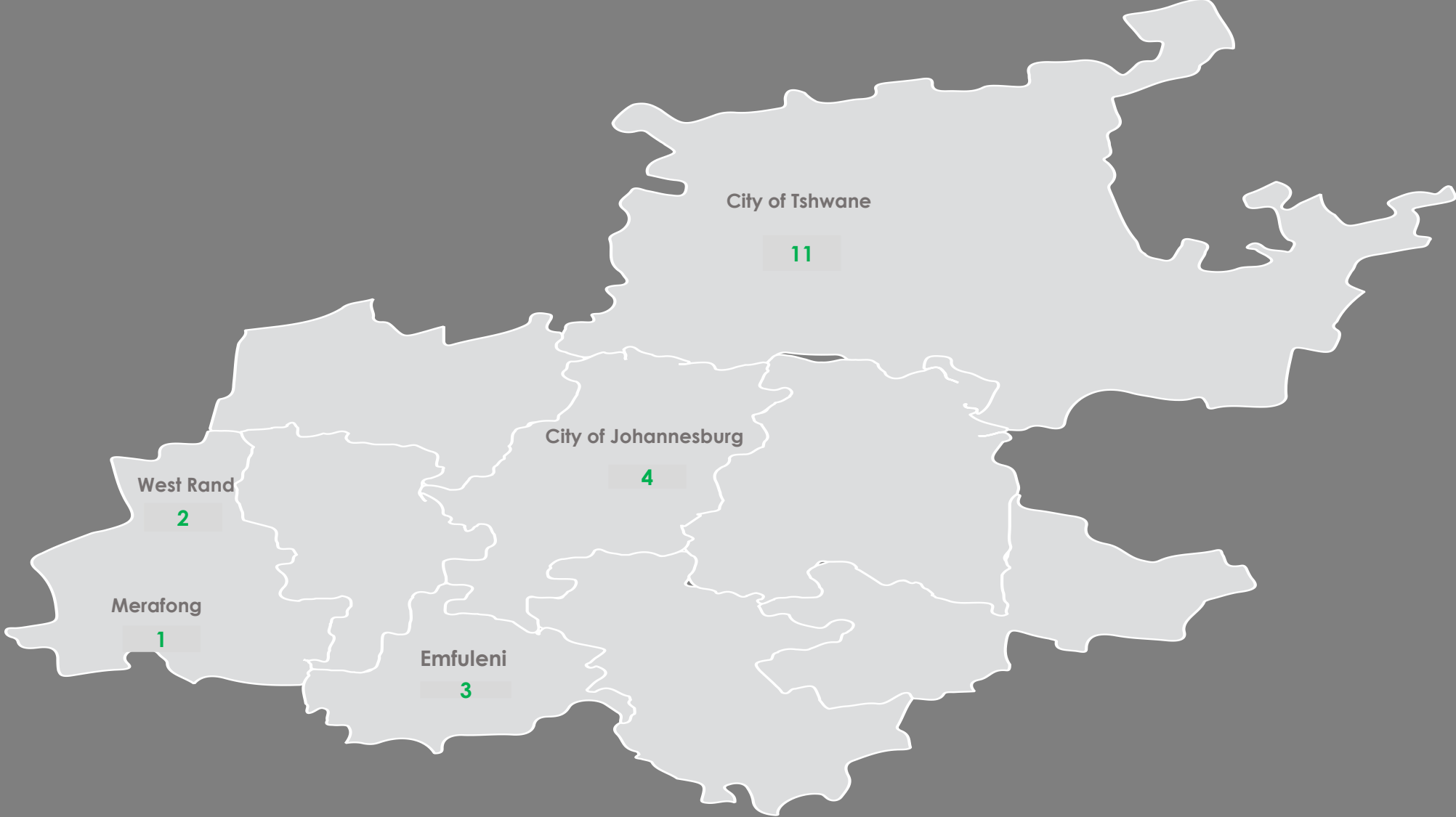


SDBIP/APR Reflections (extract)

- A number of key service delivery targets not achieved with only 45% (17/38) of targets achieved for the programme relating to basic service.
- Non achievement mostly attributable to asset management (i.e. aging infrastructure not maintained, delayed projects), SCM and liquidity issues.

KPI	Target	Achievement
Number of new sewer connections meeting minimum standards (C88)	1000	412
Percentage of complaints/callouts responded to within 24 hours (sanitation/waste water) (C88)	70%	67,30%
Percentage of wastewater treatment capacity unused	0,30%	17%
Infrastructure leakage index (C88)	6,3	6,48
Kilometres of roads and storm water constructed to the required standard	31,94km	22.883km
Percentage of wastewater samples compliant to water use license conditions <i>(Also linked to MI issued – Substantial Harm to the General Public – Residents of Hammanskraal)</i>	60%	37,7%

Material irregularities per region



Material irregularities

The MI process has been implemented at majority of the auditees with JDA and Midvaal being the only 2 left to implement in 2022/23 audit cycle

Categories of active MIs at five auditees

Payments

7

Interest and penalties

7

Investment and assets

5

Revenue

1

Environmental

1

Status of 21 cumulatively raised MIs

16 MIs were active when the cycle started, five new MIs were identified during the cycle and one MI was resolved

Recommendations for MPAC

This will be applicable to MPAC overseeing municipalities with material irregularities.

- Request the AOs to provide feedback or an update on MIs reported in the audit report.
- Monitoring the progress of the action plans as committed by the AO, recommendations and remedial actions as issued by the AGSA.
- Timely intervention from MPAC where there is a delay in the implementation of planned actions / recommendations / remedial actions by AOs.
- Ensure that disciplinary boards are functioning – LG reg.: financial misconduct S4(1)
- Ensure that disciplinary boards are functioning – LG reg.: financial misconduct S4(1)

13

AO is **taking appropriate action** to address MI (COJ, COJ, Emfuleni, Merafong and West Rand)

1

MI has been **resolved** (COT)

4

AO response in **assessment** (COJ, COT and Emfuleni)

3

Remedial actions issued (COT)

Observations from the MI process

- MI process has been able to drive some culture shift in municipalities where MIs have been raised.
- We have begun to see the impact of our extended mandate, as most accounting officers have implemented corrective steps, instituted investigations, initiated disciplinary processes against officials who were found to be responsible, implemented preventative controls and are in the process of recovering financial losses

Resolution of MIs is often delayed by:

- Public bodies completing investigations
- Delays in the recovery process
- Instability at accounting officer level
- Delays in identifying responsible officials and completing disciplinary process



Material irregularity process is making an impact

Material irregularities identified could have been prevented by basic disciplines and processes

Through the material irregularity process we highlight these internal control weaknesses and track improvements to prevent recurrence



From INACTION to ACTION

5 accounting officers were notified of **21 material irregularities** on **non-compliance** resulting in:

20

material **financial loss** (estimated R575,1 million)

1

substantial **harm to the general public**

0

misuse of material public sector resource

No actions were taken to address **81%** of these matters until we issued notifications



ACTIONS TAKEN BY AUDITEES

R32,2 m

Financial loss **recovered**

R0 m

Prevented financial loss from taking place

R537,4 m

Financial loss **in process of recovery**

14

Internal controls improved to prevent recurrence

4

Responsible officials identified and **disciplinary process** completed or in process

3

Fraud/criminal investigations instituted

0

Stopped supplier contracts where money is being lost



THANK YOU



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