Province of the
EASTERN CAPE
PROVINCIAL TREASURY

CIGFARO: AFS READINESS SEMINAR

COORDINATING THE REPORTING AND AUDIT PROCESS FOR IMPROVED AUDIT OUTCOMES

MS N. OLIPHANT

HOME OF LEGENDS

VISION: We envision a prosperous province supported by sound financial and resource management.

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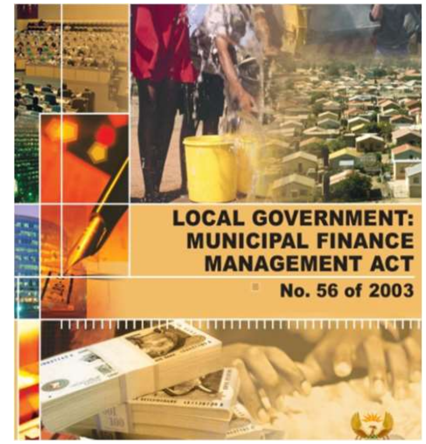
Part 1: LEGISLATIVE BACKGROUND

LEGISLATIVE BACKGROUND

National Treasury

- National Treasury (NT) is responsible for monitoring the level of compliance with the applicable laws and regulations in municipalities and municipal entities as required by section 5 (2)(c)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA).
- NT may take appropriate steps if a municipality or municipal entity commits a breach of the MFMA, including the stopping of funds to a municipality in terms of section 216(2) of the Constitution if the municipality, or a municipal entity under the sole or shared control of that municipality, commits a serious or persistent material breach of the MFMA as required by Section 5 (2)(e) of the MFMA.



Provincial Treasuries

- Section 5 (3) (a-c) read in conjunction with Section 5 (4) (a)(i) and 5 (4) (c-d) of the MFMA states that a Provincial Treasury (PT) must in accordance with a prescribed framework fulfil its responsibilities in terms of the MFMA; promote the object the MFMA, monitor compliance with the MFMA by municipalities and municipal entities in the province, may exercise any powers and must perform any duties delegated to it by NT in terms of the MFMA. The PT may take appropriate steps if a municipality or municipal entity in the province commits a breach of the MFMA and assist NT in <u>enforcing compliance</u> with the measures established in terms of section 216(1) of the Constitution.

INFLUENCE VS ENFORCEMENT

MFMA - AFS CHALLENGES & ROOT CAUSES

Poor quality financial statements

Slow progress on the implementation of the audit action plan, poor record management and non-performance of monthly accounting disciplines and lack of credible mSCOA data strings(Sec 71 IYM)

Capability & Capacity Gaps

Conducive environment to work, non-cooperation and commitment by municipal leadership and officials. High reliance on consultants with no skills transfers and no value for money. Non-availability and limited resources at municipal level for capacity building.

OVERVIEW

Governance Failure:

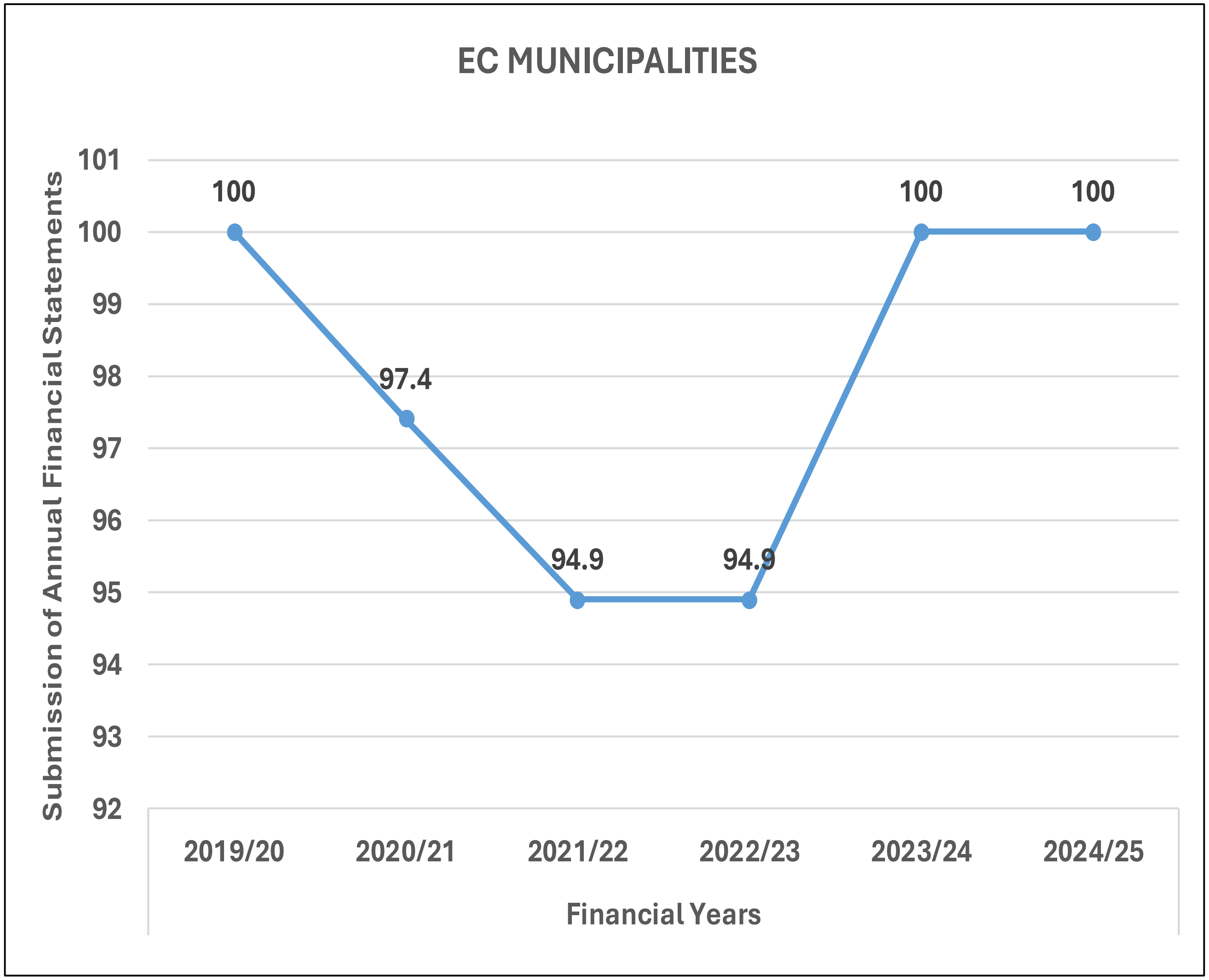
Inadequate oversight by internal Audit, Audit Committee & Council, issues not identified early

Lack of consequence management :

Reasonable steps not taken to prevent and address UIFWE balances. There are no consequence management steps taken to address non-performance

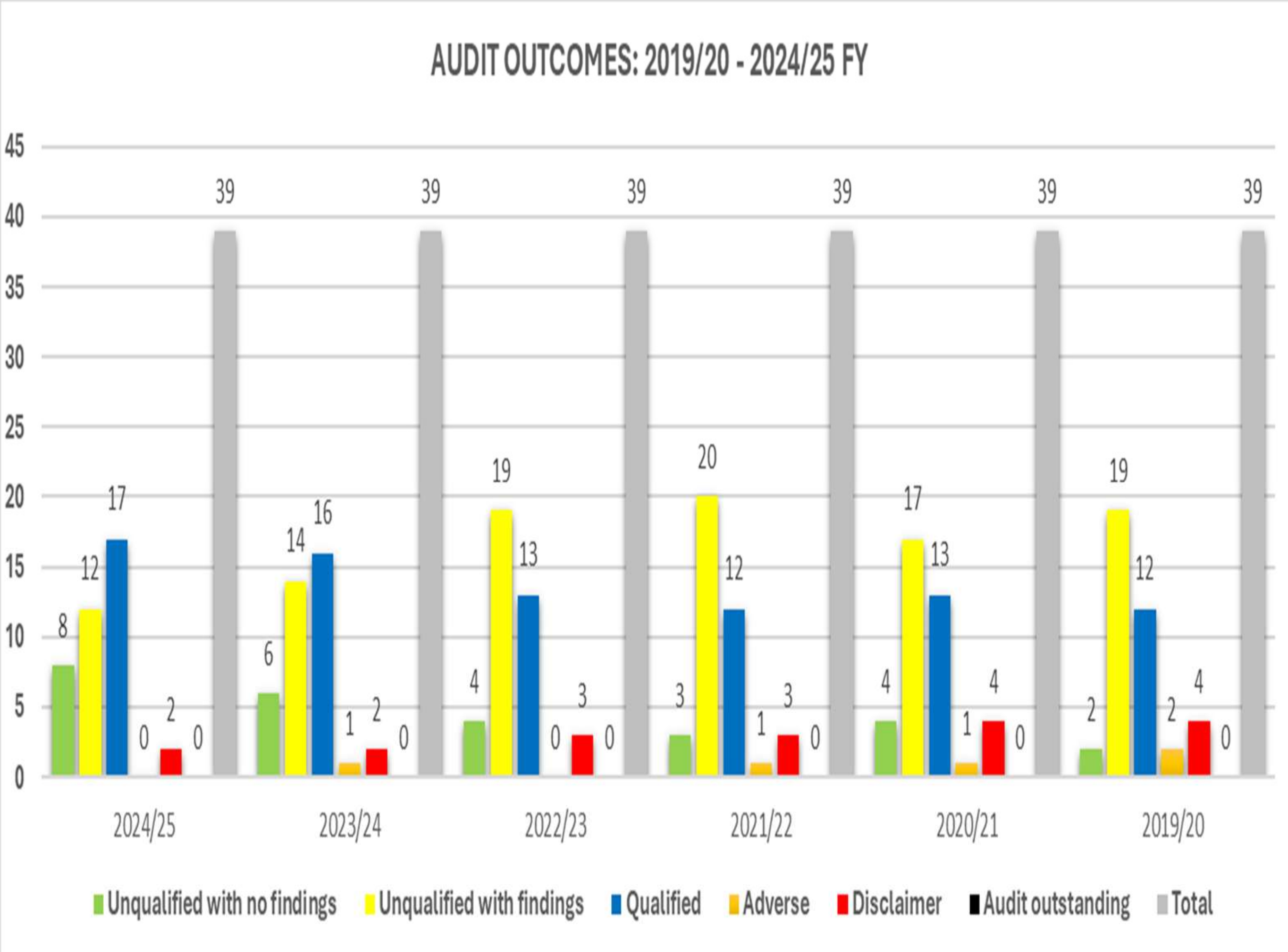
Part 2: STATUS QUO: AFS, AUDIT ACTION PLANS & UIFWE

SUBMISSION OF ANNUAL FINANCIAL STATEMENTS 2019/20 – 2024/25 FINANCIAL YEARS



- Figure indicates **six-year trend analysis** on AFS submission (sec 126 of MFMA) to AGSA for auditing:
  - **2019/20** all 39 municipalities submitted AFS within the legislated timeframes.
  - **2020/21** deterioration where one municipality submitted late and a further regression in **2021/22 & 2022/23** as two municipalities submitted late.
  - However, for both **2023/24 & 2024/25** all 39 municipalities in the Province submitted AFS with the legislated timeframes and achieved **100% submission.**
- Finally, the area of improvement is for all municipalities to ensure that AFS are also submitted simultaneously to both PT & NT Go Muni as per the MFMA Circulars.

AUDIT OUTCOMES 2019/20 – 2024/25 FINANCIAL YEARS



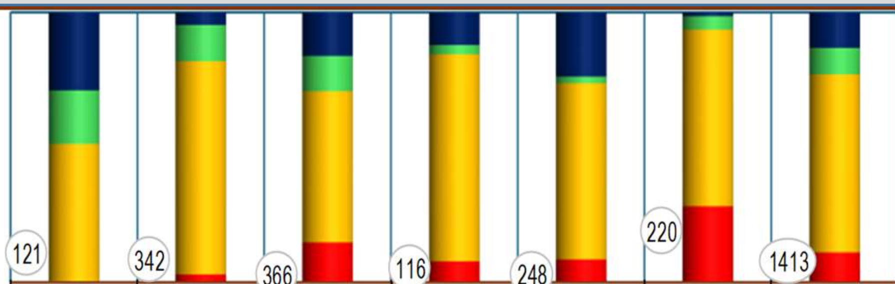
Overall, there is <u>steady improvement</u> on the municipal audit outcomes in the province over the **past six years.**

<u>TOP 10 CRITICAL ISSUES RAISED DURING THE AUDIT:</u>

- Non-compliance of Asset Registers with GRAP Standards
- Procurement Irregularities
- Increase in UIFWE
- Lack of sufficient appropriate evidence
- Material Misstatements in the financial statements
- Consequence Management - DC Board not functional
- Lack of effective Audit Committee & Council
- Revenue & Receivable Misstatements
- Poor Contract Management.
- Ineffective use of consultants
- Water and electricity losses

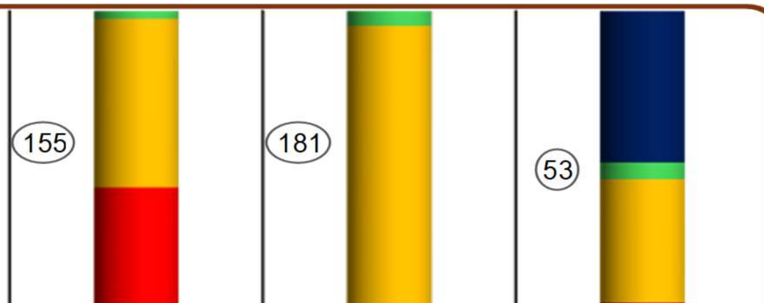
IMPLEMENTATION STATUS: PROVINCE – 09 JUNE 2026

2024/25
Audit Action Plan
Implementation
Eastern Cape Status



	Alfred Nzo District	Amathole District	Chris Hani District	Joe Gqabi District	OR Tambo District	Sarah Baartman District	Total
IA Agreed findings Addressed	28.9%	4.7%	16.1%	12.1%	23.8%	1.4%	13.2%
Actions Completed	19.8%	13.5%	13.1%	3.4%	2.4%	5.0%	9.8%
Implementation Started	51.2%	78.9%	56.0%	76.7%	65.3%	65.5%	66.0%
Implementation Not Started	0.0%	2.9%	14.8%	7.8%	8.5%	28.2%	11.0%

2024/25
Audit Action Plan
Implementation
Non-Delegated

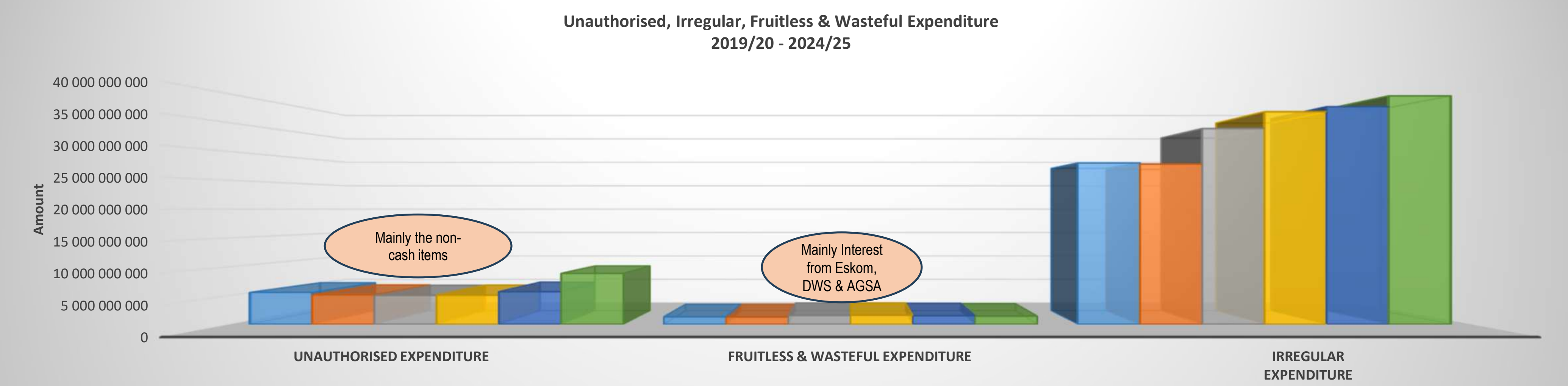


	Nelson Mandela	Buffalo City	O.R. Tambo
Agreed Findings Addressed	0.0%	0.0%	50.9%
Actions Completed	2.6%	5.0%	5.7%
Implementation Started	56.8%	94.5%	41.5%
Implementation Not Started	40.6%	0.6%	1.9%

ANALYSIS:

- There are **1413** actions captured as audit findings for the implementation and only **13.2%** have been addressed and validated by Internal Audit whilst **10.9%** have been completed but not yet validated by Internal Audit. The large percentage is at **66%** which is the implementation in progress and **11%** the implementation not yet started.
- Overall, the performance of the districts is **CONCERNING** as the actions addressed and validated by Internal Audit are below 50% .
- Regarding the non-delegated Municipalities ONLY OR Tambo is reflecting positive progress in the province where actions validated by Internal Audit are at **50%**
- Both Metro's there are no actions validated by the Internal Audits, it's even concerning for Nelson Mandela as **41%** of actions have not yet been implemented.
- The large number of Municipalities are still updating AAPs outside of the web-enabled system using EXCEL templates.
- Municipalities are engaged weekly on slow web-based AAP progress with only **THREE MONTHS** before submission of AFS to AGSA and there is a risk that audit issues may re-occur.

PROVINCIAL TREND ANALYSIS ON UIFWE: SIX – FINANCIAL YEARS



	Unauthorised Expenditure	Fruitless & Wasteful Expenditure	Irregular Expenditure
19/20 Audited	5 530 295 786	1 295 841 824	28 013 760 592
20/21 Audited	5 105 364 799	1 267 334 882	27 818 127 651
21/22 Audited	5 023 713 171	1 542 486 242	33 998 394 665
22/23 Audited	5 068 131 486	1 579 100 643	36 910 429 661
23/24 Audited	5 649 340 395	1 487 471 636	37 785 952 056
24/25 Audited	8 834 320 121	1 412 306 989	39 666 831 346

UIFWE	BASELINE MOVEMEN
UNAUTHORISED	60%
F&WE	9%
IRREGULAR	42%
OVERALL	43%

- **IRREGULAR EXPENDITURE** in the province increased by 42% from 2019/2020 (R28.013 billion) to 2024/2025 (R39.66 billion). Increase of 5% Year on Year.
- **Total UIFWE** for the current year = **R49.9 billion** which is a **43%** increase from the baseline: **R34.8 billion.** Increase of 11% Year on Year.
- The main contributors to **UIFWE** in the province are the non-delegated municipalities **Nelson Mandela & BCM however OR Tambo has improved with** all contributing a total of **R41.4 billion**, representing **83%** of the total amount.
- **IE** for NDM amounts to **R36.33bn** (73% of the total) vs baseline of **R22.05bn** amounting to **increase of 65%.**
- **IE** for Metros for the CY **amounts to R35.87billion vs a baseline of R20.08bn** reflecting an **increase of 79%** and **99%** of the total for the NDMs.
- **OR Tambo** DM has met the MTSF target = **77% reduction of IE** but Unauthorised and F&WE is not being adequately dealt with.

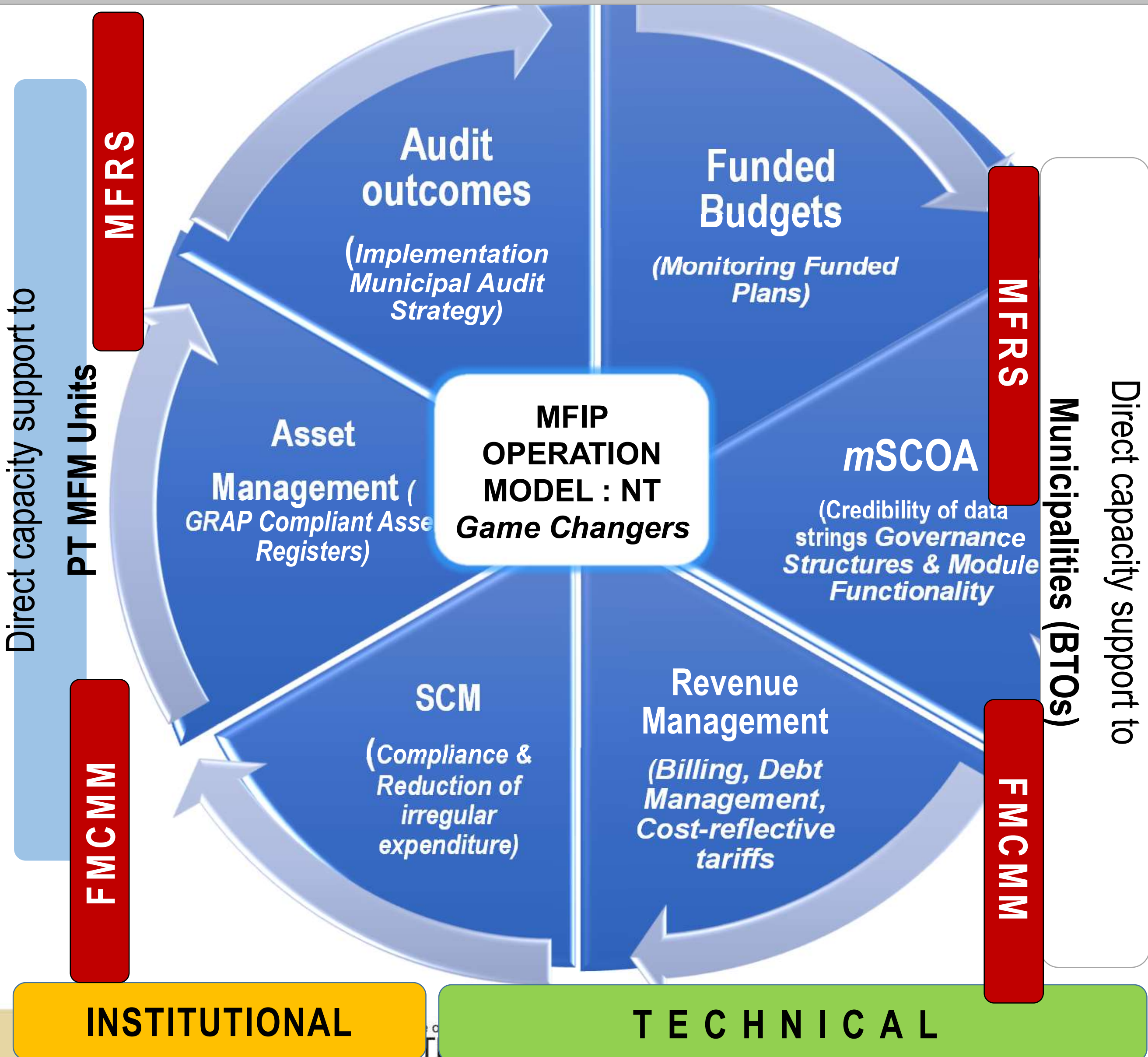
LIST OF DELEGATED MUNICIPALITIES THAT HAVE MET THE MTSF TARGET >= 75%

No.	Municipality	District	2019/2020	2023/2024 *Restated*	Additional 2024/2025	Write-off/Recovery 2024/2025	Closing Balance FA 2024/2025	% Reduction vs 2019/2020	% Reduction vs 2023/2024
1	EC101 Dr Beyers Naude	Sarah Baartman	190 487 559.00	168 819 902.00	47 073 636.00	168 819 902.00	47 073 636.00	-75%	-72%
2	DC10 Sarah Baartman	Sarah Baartman	5 045 665.00	1 537 357.00	71 007.00	555 772.00	1 052 592.00	-79%	-32%
3	EC443 Winnie Madikizela Mandela	Alfred Nzo	1 857 620.00	167 516 493.00	69 098 889.00	236 341 731.00	273 651.00	-85%	-100%
4	EC105 Ndlambe	Sarah Baartman	445 676 511.00	102 020 197.00	138 982 773.00	187 711 035.00	53 291 935.00	-88%	-48%
5	EC123 Great Kei	Amathole	11 512 746.00	-	936 327.00	-	936 327.00	-92%	N/A
6	EC157 King Sabata Dalindyebo	OR Tambo	857 625 316.00	**27 780 594.00**	50 531 054.00	27 613 553.00	50 698 095.00	-94%	82%
7	EC142 Senqu	Joe Gqabi	21 915 776.00	65 326 445.00	5 518 295.00	69 631 337.00	1 213 403.00	-94%	-98%
8	DC44 Alfred Nzo	Alfred Nzo	1 411 533 760.00	105 531 567.00	27 142 019.00	105 598 850.00	27 074 736.00	-98%	-74%
9	EC126 Ngqushwa	Amathole	104 975 114.00	5 360 811.00	1 811 605.00	7 093 384.00	79 032.00	-99.9%	-99%
10	EC108 Kouga	Sarah Baartman	4 809 198.00	-	-	-	-	-100%	N/A
11	DC13 Chris Hani	Chris Hani	417 421 352.00	2 416 773.00	5 057 391.00	7 474 164.00	-	-100%	-100%
12	DC14 Joe Gqabi	Joe Gqabi	199 350 877.00	-	-	-	-	-100%	N/A
13	EC441 Matatiele	Alfred Nzo	9 412 749.00	-	-	-	-	-100%	N/A
14	EC444 Ntabankulu	Alfred Nzo	18 733 434.00	-	-	-	-	-100%	N/A

- The table above reflects **14 MUNICIPALITIES** that have reduced irregular expenditure and meeting the MSTF target of ***75% in the 2024/25 FY.***
- It is encouraging to note good progress made in ***Dr Beyers Naude & Winnie Madikizela Mandela*** municipalities which were in the Top 10 during 2023/24 Financial Year
- **Pockets of Excellence!!! Kouga, Chris Hani, Joe Gqabi, Matatiele & Ntabankulu have WRITTEN-OFF by 100%.**

Part 3: IMPLEMENTATION OF PROVINCIAL AUDIT STRATEGY: 2025/26 FY

IMPLEMENTATION OF PROVINCIAL AUDIT STRATEGY: 2025/26 FY



- Strategy aligned to **NT SIX GAME CHANGERS** with MFIP TA deployed in the province.
- Aim is to ensure municipalities achieve **"clean administration"** – which requires disciplined approach across financial year 12 months of consistent discipline: where there are no material findings and accurate performance reporting, ethical leadership setting the tone at the top, zero corruption, compliance and sound financial management.
- **Benefits**: Attracting investment, new residents this also increases the revenue base of the municipality, retain existing quality staff, attracting skills such as accountants, engineers and deliver quality services to the community.
- Provincial Treasury has been providing various support initiatives to municipalities using the **Blanket Approach** vs the **Differentiated Approach**, with challenges in municipalities the department had to be agile and resilient in their support to be able to make an **IMPACT** in municipalities.

IMPLEMENTATION OF PROVINCIAL AUDIT STRATEGY: 2025/26 FY

MFMA CALENDAR: AFS & AUDIT RELATED SUPPORT ACTIVITIES - 2025/26 FINANCIAL YEAR

Month	High Level Activity	Evidence
Quarterly - After 15 days	Update progress: Implementation of Audit Action Plan by IA, PT, AC and Council	Audit Action Plan, Agenda, Minutes / Council Resolution
Quarterly - After 15 days	Update progress: FMCMM Action Plans to IA, PT, AC & Council using web-based	Audit Action Plan, Agenda, Minutes / Council Resolution
Monthly /Quarterly	Differentiated Approach - Conduct Virtual /Physical Municipal Engagements on AFS - Assess Key Controls (month-end process), Reconciliations, Preparation of Electronic Audit File & AFS Readiness	Agenda & Feedback Reports
Quarterly	Participation of PT in Audit Committees of municipalities	AC Feedback Reports & Attendance Re
27 -Mar-26	PT roll -out SCM & Asset Management Workshop	Agenda, Presentation Slides & attend Register
31-Mar-26	Conduct AFS Readiness session on target municipalities	
16- Mar -26	Provincial CFO Forum - Post Audit Workshop	Agenda, Presentation Slides & attend Register
31 Mar-26	Engagement – Top 10 UIFWE "WAR ROOM"	Agenda, Presentation Slides & attend Register
March – June 26	Submission of Interim Financial Statements for comments to PT	PT Comments on the reviewed interim A
30-Apr-26	Submit AFS Preparatory Plan to IA & PT	AFS Preparation Plan
30-Jun-26	PT roll-out virtual workshop on GRAP Standards & AFS Preparation & AFS Tools	Presentation Slides & Attendance Regis
30-Jun-26	Arrange with AGSA to audit opening balances – Qualified, Adverse/Disclaimed Municipalities	AGSA Engagement Letter
31-July 26	Physical trainings of AFS Review conducted per district	AFS Review Report
31-July-26	Engagement – Top 10 UIFWE "WAR ROOM"	
15-Aug-26	Submission of Draft AFS to PT, Internal Audit for independent quality review	PT Comments on the reviewed AFS
26-Aug-26	Submission of Final AFS & recommendations from PT & IA to AC for review & Council	Minutes AC & Council Resolution
31-Aug-26	Submission of AFS to AGSA for audit	Pre-Audited AFS & AGSA Confirmation
Aug -Nov -26	MFMA Audit Technical Committee Meetings	Resolutions & Agenda
Sept – Nov-26	Invitation of PT to Audit Steering Committee Meetings	Minutes of the Meeting & Agenda
30-Nov-26	Uploading/Submission of Audit Reports & Management Reports to NT	Audit Report & Management Report
24-Jan-27	Submission of draft Audit Action Plans to IA & PT for independent review	Draft Audit Action Plan & Comments
31-Jan-27	Tabling Annual Report (including details of corrective /audit action plan)	Annual Report & Council Resolution
31- Jan -27	Engagement – Top 10 UIFWE "WAR ROOM"	Agenda, Presentation Slides & attend Register
31 Jan 27	Capture final Audit Action Plan into FMCMM web-enabled system for submission.	Audit Action plan report from web ena FMCMM system

MUNICIPAL AUDIT STRATEGY:

MFMA Calendar on AFS & Audit Support 2025/26 FY there are activities that are not legislated by the MFMA these are considered "good practices" for sustainable improvement of audit outcomes in the province

UIFWE STRATEGY:

Developed with structured support on preventative measures and issues to address UIFWE & UIFWE War Room established.

IMPLEMENTATION OF PROVINCIAL AUDIT STRATEGY: 2025/26 FY

To Move to Clean

Elundini LM
Winnie MM LM
AB XUMA LM
Ndlambe LM
Ngqushwa LM
KSD LM

6

To Move to Unqualified

Blue Crane LM
Dr Beyers Naude
Matatiele LM
Port St John's LM
Ingquza Hill LM
Raymond Mhlaba LM
Enoch Mgijima
Inxuba Yethemba
Mhlontlo LM
Nyandeni LM
Walter Sisulu LM

11

To Move to Adverse/'Qualified"

Makana LM
Sundays River LM

2

Developed support plans for **PRIORITISED MUNICIPALITIES** above based on the qualification paragraphs in their 2024/25 audit report is implemented through monthly & quarterly engagements:

IMPLEMENTATION OF PROVINCIAL AUDIT STRATEGY: 2025/26 FY

Municipalities with <u>disclaimer audit opinion</u> will be provided monthly virtual /physical support on the following key activities:

a. Review of opening balance i.e. correcting previous audit findings and encourage discussion between each municipality and AGSA.
b. Assist in setting up a dedicated registry for the safekeeping of records and provide guidance on access control and control over the movement of documents.
c. Unpacking Monthly IYM (Credibility of mSCOA data strings – Impact on Financial statements)
d. Review reports on the reconciliation between sub-systems such as billing, payroll, fixed asset register and general ledger.
e. Review policies and procedures developed, updated and implemented to ensure an effective control environment.
f. Monitor implementation of the Audit Action Plans including Material Irregularities & AFS Process Plans.
g. Provide guidance, support and monitoring on the processes to address UIFWE
h. Validation of Key Controls /Reconciliations by the Internal Audit.
i. Facilitate engagements on compliance SARS on VAT issues & inhouse preparation of Vat reconciliations
j. Monitoring usage of Consultants on transfer of skills as per SLA (Consultancy Reduction Strategy).
k. Monitor attendance of municipal officials in workshops/trainings.

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IMPLEMENTATION OF PROVINCIAL AUDIT STRATEGY: 2025/26 FY

Municipalities with Qualified Audit Opinions, the prioritise activities on monthly virtual /physical support:

a. Monitor implementation on the items of non-compliance with GRAP Standards & MFMA
b. Monitor and review on internal controls through demonstration of the role of the oversight structures.
c. Review of opening balance i.e. correcting previous audit findings.
d. Monitor implementation of the Audit Action Plans including Material Irregularities & AFS Process Plans.
e. Encourage municipalities to prepare reliable quarterly /interim financial statements to be reviewed and monitored by the leadership of the municipalities, Internal Audits, Audit Committees and Provincial Treasury.
f. Assist municipalities in developing a clear strategy to build required in-house capacity to deal with all aspects of the financial statements.
g. Unpacking Monthly IYM (Credibility of mSCOA data strings – impact on the financial statements)
h. Provide guidance, support and monitoring on the processes to address UIFWE
i. Validation of Key Controls /Reconciliations by the Internal Audit.
j. Facilitate engagements on compliance SARS on VAT issues & inhouse preparation of Vat reconciliations
k. Monitoring usage of Consultants on transfer of skills as per SLA (Consultancy Reduction Strategy).
l. Monitor attendance of municipal officials in workshops/trainings.

IMPLEMENTATION OF PROVINCIAL AUDIT STRATEGY: 2025/26 FY

Municipalities with Unqualified Audit Opinion with /without emphasis of matters. The following key activities on quarterly virtual/physical support:

a. Monitor compliance in line with applicable laws and regulations, the review and monitoring mechanism such as checklists or dashboards to be developed to ensure compliance with the MFMA.

b. Monitor implementation of the Audit Action Plans including Material Irregularities & AFS Process Plans.

c. Oversight on the continuous strengthening internal controls

d. Unpacking Monthly IYM (Credibility of mSCOA data strings – Impact on Financial statements)

e. Encourage municipalities to produce reliable quarterly/interim financial statements to be reviewed and monitored by the leadership of the municipalities, Internal Audits, Audit Committees & Provincial Treasury.

f. Provide guidance, support and monitoring on the processes to address UIFWE

g. Validation of Key Controls /Reconciliations by the Internal Audit.

h. Facilitate engagements on compliance SARS on VAT issues & inhouse preparation of Vat reconciliations

i. Monitor attendance of municipal officials in workshops/trainings

Part 4: CLEAR OWNERSHIP OF ROLES & RESPONSIBILITIES ON AUDIT READINESS

CLEAR OWNERSHIP OF ROLES & RESPONSIBILITIES ON AUDIT READINESS

MUNICIPAL /CITY MANAGER:

- Ultimately responsible for the AFS, APR and compliance with MFMA.
- Set the tone of achieving ‘clean audit” allocate resource and hold CFO & other SMS accountable
- Engage with Audit Committee and Council on Audit Readiness and prior year findings

CHIEF FINANCIAL OFFICER

- Leads preparation of the AFS and financial components of APR.
- Ensure month-end closure, reconciliations , monthly and quarterly financial reports are prepared
- Own relationship with AGSA and coordinate Audit File & Responses during the audit
- Drive 12-month audit readiness plan and report progress to MM & Audit Committee.

AUDIT COMMITTEE ROLE

- Review draft AFS & APR before tabling to Council
- Assess quality of internal controls and response to prior-year findings
- Hold management to high standard and ensure action plans are implemented
- Support the MM/CM & CFO in creating a culture of compliance and control

COUNCIL

- Must receive clear and timely reports on audit readiness and on audit findings
- Taking audit outcomes seriously and demanding improvement when results are poor
- Reinforces the message that ‘clean audit’ is a priority
- Ensure that Audit Committee is properly constituted so that oversight is effective.

Source: skynode.co.za/dolobha

Part 5: INTERFACE BETWEEN AGSA & MUNICIPALITIES

MFMA Audits: FY (PT & AGSA Technical Meeting)

- **MFMA Technical Meeting** was established to discuss both soft issues such as working relations with municipalities and technical issues such interpretation of GRAP Standards/MFMA Circulars.
- Meeting **Chaired by AGSA with PT the Secretariat** and update the Tracking Resolution Register on all issue resolved/pending
- **Escalation** by PT or AGSA of any disagreements between municipalities and audit teams.
- AGSA also updates PT regarding the **confirmation on the submission of AFS** and meetings resumes during the month of Sept. each year until 30 Nov or any last day of audit by AGSA.
- AGSA share contact details of SM for each municipality to ensure dates for ASC are shared with PT.
- Both Municipalities and AGSA escalates disagreement to ensure matters are resolved outside the courts of law
- Any matter unresolved in this provincial platform is then escalated to **National (AGSA & NT)**
- PT develop **Position Paper** to discuss with NT for their views.
- AGSA also alert PT of any **risks during the audit** to provide support to municipalities
- Where possible both PT & AGSA compare notes regarding way forward for final response to the municipality.
- AGSA engages on the approach of support to **stagnant municipalities** to discuss and share the support plans for AGSA review to ensure there is impact as well as reviewing the strategies to support municipalities.
- **Tracking register** is carried over to the next year's audit all the issues not resolved for further research /response by AGSA National CoGTA & NT.

Part 6: CONCLUSION

CONCLUSION

- Compliance with MFMA and sound financial management form the foundation of **“clean administration”** this will further facilitates successful budgeting, planning and implementation of both capital and operating projects.

- Great impact on this **STRATEGY** need collective buy-in by the Municipalities and all affected role players in the province, namely, *PT, NT, CoGTA, OTP, SARS, SALGA* as well as the District Municipalities to improve audit outcomes.

- Therefore, the designed **Integrated Joint Support Plan Matrix** - CoGTA - SALGA & PT is crucial in making an impact on supporting municipalities in the Province.

CIGFARO

THANK YOU