



Local Government Audit Considerations Guideline

EXPOSURE DRAFT

NOVEMBER 2023



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List of abbreviations

AFROSAI-E	African Organisation of English-speaking Supreme Audit Institutions
AM	Asset Management
BoT	Build operate transfer
CAM	Compliance Audit Manual
CFO	Chief Financial Officer
EWS	Early warning system
FAM	Financial Audit Manual
GIS	Geographic Information Systems
ISSAI	International Standards of Supreme Audit Institutions
LG	Local Government
LA	Local Authority
M&E	Monitoring and Evaluation
MM	Municipal Manager
PAC	Public Accounts Committee
PAM	Performance Audit Manual
PPP	Public Private Partnership
RINA	Rapid impact needs assessment
SAI	Supreme Audit Institution
SDG	Sustainable Development Goals
UN	United Nations
ZINWA	Zimbabwe National Water Authority

Introduction

Why Focus on Local Government?

Local government plays a huge role in delivering services to citizens, as per the structure of any country. The government tries to bring services closer to the people as the national government cannot deliver them alone.

Government has the responsibility to make policies and laws about the rights and responsibilities of citizens and the delivery of government services. The government collects revenue from taxes and uses this money to provide services and infrastructure that improve the lives of all the people in the country, particularly the poor.

The existence of local government has always been defended on the basis that it is a crucial aspect of the process of democratisation and intensification of mass participation in the decision-making process. No political system is considered complete and democratic if it does not have a local government system. Local government serves a twofold purpose. The first is the administrative purpose of supplying goods and services; the other service is to represent and involve citizens in determining specific local public needs and how these local needs can be met. Local representative government is a process that spans and connects representation and administration at local levels within local government structures.

Good government is not an end in itself, as it means achieving broader goals, such as social and political development, alleviation of poverty, and protection of the environment. Good government cannot be precisely defined. It is a set of ideas regarding the legitimacy, competence, and accountability of government, about respect for human rights and the rule of law, which add to what most people expect from those who rule over them.

¹Above all, the existence of local government is guaranteed in the national constitution that recognises local governments as an autonomous sphere of governance endowed with legal powers, financial autonomy and clearly defined roles and responsibilities. This way, the decentralised governments and the nation-state derive their legitimacy from the same founding document and fundamental law.

¹ Source: [Assessing the local Government Environment of Local Government in Africa](https://repository.up.ac.za/)
Source: <https://repository.up.ac.za/>

1. Purpose of the guideline

INTOSAI P12 talks about value and benefits to the citizens, and SAIs should strive to add value to the citizens. Auditors of local government authorities could demonstrate that services are being delivered to the citizens through value-adding reports.

The purpose of this guideline is to consolidate the knowledge of SAIs by providing guidance on some key local governance issues and how auditors can deal with audit considerations to produce value-adding reports.

In recent years, citizens throughout the continent have shown dissatisfaction with being ravaged by mass demonstrations because of poor service delivery and the question of clean audit reports with no corresponding service delivery. As SAIs, the big question remains: are we doing enough to ensure that those reports are value-adding, i.e., that they go beyond the financial standing, and whether services comply with that financial standing? Our main stakeholders, such as the Public Accounts Committee (PAC) and citizens, are increasingly interested in our reports, not just financial but compliance and performance audit reports. Furthermore, this requires us to look deeper into service delivery issues.

AFROSAI-E, through its support to all member SAIs, organised several interventions and interacted with auditors who have worked on auditing the local governance system. In these interactions, it became clear that auditors require guidance on how to approach local government auditing to produce value-adding reports, hence the production of this guideline. It is, however, worth mentioning that this guideline does not cover every possible theme in local government. It highlights some key topics auditors can tackle while performing local government audits.

With these topics, the auditor is sensitised to what could go wrong and what red flags to look for. These are termed audit considerations under the relevant chapters.

1. Scope of the guidance

This guideline covers general audit considerations for conducting service delivery audits with local government. It also focuses on the following specific areas in a local governance set-up:

- Water management service delivery.
- Waste management service delivery.

- Disaster management.
- Infrastructure.
- Financial Health.

This list is not exhaustive, and the guideline aims to assist SAIs on how to approach these topics from an audit point of view and some of the considerations.

1.1 How to use the guidance

Auditors should use this guideline, depending on the nature and scope of the audit. Throughout its various chapters, the guideline assists auditors with understanding local government service delivery issues and identifying high-level audit considerations. This will then determine the approach and type of audit to be undertaken. This guideline is not a **separate audit methodology** from the existing methodologies the SAI currently uses, i.e., Financial Audit, Compliance Audit and Performance Audit manuals. As indicated in the discussion on the purpose, it highlights some key topics in local government and sensitises SAIs on how to deal with those issues specifically.

This guideline provides a non-authoritative view on service delivery audits in local government entities. It is not to be used as a substitute for the existing methodologies but rather as a supplement to assist auditors in the audit of local government. The guideline does not address all the types of services and should not be used to determine the scope. The guideline is intended to explain and illustrate to develop a deeper understanding of service delivery audits.

2. An overview of local governments

2.1 Position of the local government in the government structure

The types of local government vary, depending on the country and its legal framework. In most countries, there are three main levels of government (**national, provincial, and local levels of government**), all defined in the national constitution as distinctive, interdependent, and interrelated. Local government authorities shall consist of local councillors who shall be elected by free, secret, and equal suffrage by the registered voters in the area over which that local government authority is to have jurisdiction for a tenure of five years (Constitution of Malawi: Amendment of 2017, (Chapter XIV))². As per the South African

² https://www.constituteproject.org/constitution/Malawi_2017.pdf?lang=en

Constitution, the Local Government: Municipal Structures Act 117 of 1998, an area must either fall in the category A municipality (metropolitan municipalities), B (local municipalities) or C (district municipalities). In Zambia, local governments are called councils, and in general, city councils are in areas with larger populations, while municipal councils cover the suburban regions. District councils operate in rural districts (The Local Government Act, 2019)³.



Fig. 2.1: Examples of Local Government Entities

Zimbabwe’s local government comprises 92 councils - two metropolitan cities, six cities, nine municipalities, nine town councils, five local boards and 61 rural district councils. Zambia’s local government has 103 councils – four city councils, fifteen municipal councils and 84 district councils.

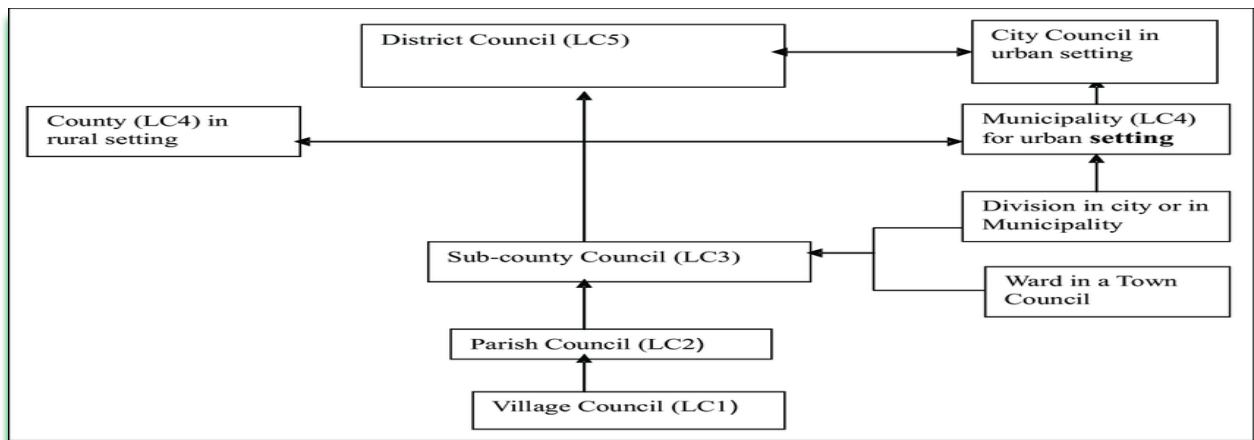
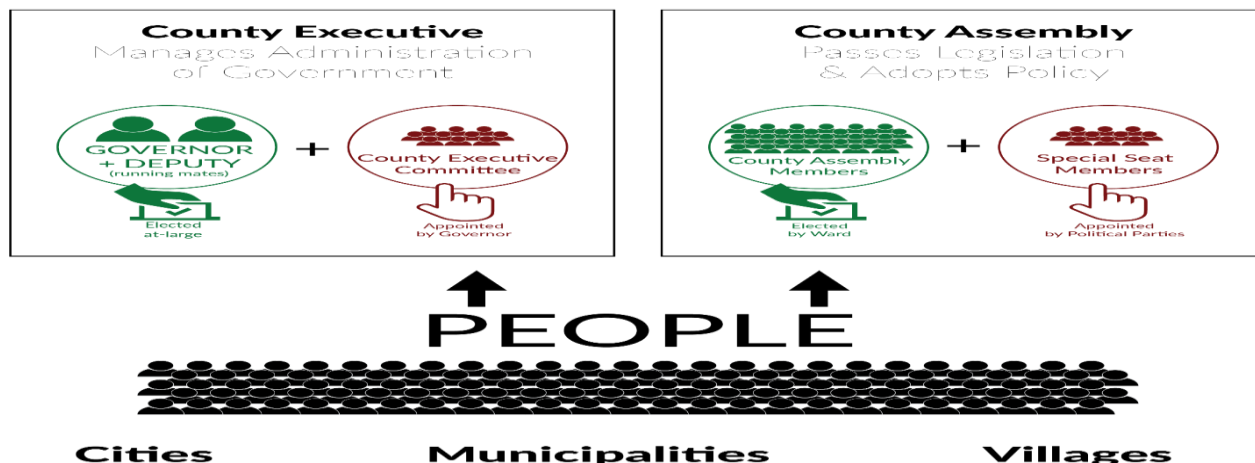


Fig 2.2: The Local Government Structure (Uganda)⁴

³ <https://www.parliament.gov.zm/node/7947>

⁴ https://www.researchgate.net/figure/FIGURE1-The-Local-Government-structure-in-Uganda_fig1_228810453/download

Kenya Local Government Structure



In Kenya, Governors are the chief executives of county governments who serve five-year terms and are term-limited to two terms. The governor appoints a deputy governor, who is usually active in the campaign as the governor’s running mate during elections. The governor’s main role includes nominating and leading a county executive committee called ‘county ministers’ or ‘cabinet.’ The county executive committee comprises professionals who head various technical departments within county governments. No matter what structure or set-up of a local government exists, what is more important is its mandate, as enshrined in the constitution, which is to serve its people with essential services.

2.2 Constitutional mandate or functions

Legally, in most countries, all local governments (councils) have similar mandates enshrined in the national constitution. e.g., Constitution of Zambia (Amendment 2 of 2016) ANNEX C, (Article 147 (2))⁵. The council’s mandate focuses on growing local economies and providing infrastructure and services to the residents within its jurisdiction.

3. Overview of service delivery in local government

3.1 Definition of service delivery

Service delivery - This is an organisation’s mechanism to meet the needs and aspirations of the people it is meant to serve. (Principles of Service Delivery in Uganda’s Local Governments, 2013)⁶. The legal framework is the backbone of the inter-relationship between central government, local government

⁵ <https://urbanlex.unhabitat.org/law/809>

⁶ <https://www.undp.org/sites/g/files/zskgke326/files/migration/ug/0b4616c209636a2fc1fc997ebdf070b247abd1def42daa4a9febfc3980f259c6.pdf>

entities and other stakeholders, including the communities, and is crucial for ensuring good governance and sustainable service delivery.



Fig 3.1: Services under Local Government Mandates

3.2 Service delivery process

Service delivery processes are the set of interrelated activities that are needed to perform service. Therefore, SAI auditors must be aware of and gain an understanding of the sequential phases of the service delivery process.

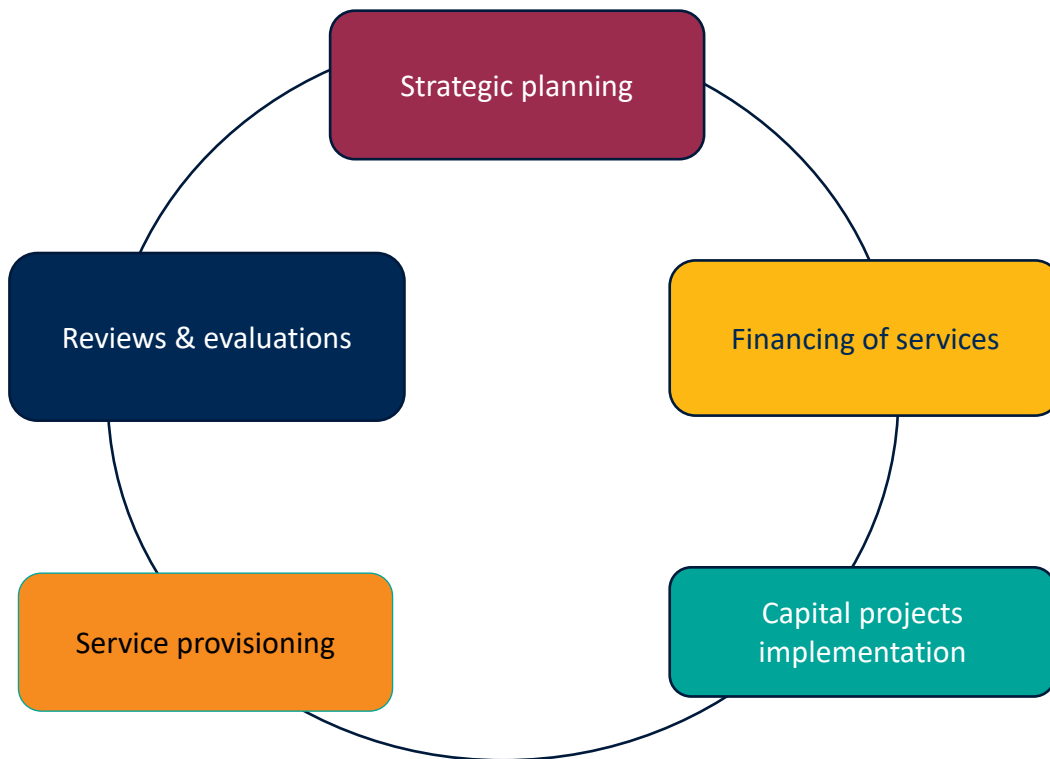


Fig 3.2: Five-step Services Delivery Process

i. Strategic planning

Local government should draw their service programmes from the National Plan, e.g., the Zimbabwe National Development Strategy (NDS1)⁷. Therefore, Entity Strategic and operational plans should be well-linked to the national priority incorporating particular services (stakeholder demands, environmental impacts, effects on human rights, and social issues).

ii. Financing of services

Planning alone does not deliver a service. Thus, planned activities should be adequately funded (Approved Annual Budget). For every planned activity, the focus has to be on matching the costs with financial sources (Budget slacks, unauthorised and wasteful expenditure).

iii. Capital projects implementation.

Effective and efficient service delivery depends on the availability and adequacy of the related service delivery medium (infrastructure assets). Managing and maintaining existing assets is key, while new acquisitions may be required per the entity's asset base and replacement policy. In addition, assets used in service provision may be leased or acquired through partnerships.

iv. Service provisioning

Service delivery may be regarded as a function of Capital Assets x Strategic Planning X Funding X Human Expertise. Human capital expertise delivers sound administration, management, quality, and effective internal controls and support mechanisms. However, while many cities have undergone substantial social, economic, and physical transformation, municipal governments' human and administrative capacities have failed to keep pace. The Auditor-General in Zimbabwe reported several service delivery issues have been rising over the years, with a thirteen per cent increase from 2020 to 2021. (Zimbabwe OAG Local Authorities Report, 2021)⁸. A lack of skilled and experienced staff negatively affects service delivery.

v. Reviews and evaluations

Effective monitoring and evaluation of key mechanisms, flow systems, models and processes ensure effective service delivery and its sustainability into the future. In general, the Service Delivery Review

⁷ https://www.dpcorp.co.zw/assets/national-development-strategy-1_2021---2025_goz.pdf

⁸ <https://www.auditorgeneral.gov.zw/downloads/category/4-local-authorities>

Framework focuses on setting priorities, making informed choices – and, where possible, reducing the delivery cost while maintaining or improving services and service levels. Failure to do so may result in substandard or unacceptable performance, which results in a gap between intended and achieved outcomes. This gap puts value for money for a service at risk and may result in unintended consequences, such as community instability and unrest.



Fig 3.3: Service Delivery Review: Key Step to Municipal Resilience – Part II (BDO Canada, 2020)

Every step above to be performed as part of the Service Delivery Review is designed to lead the local government entity’s staff through the key stages of conducting the review. These stages reflect the logical decision-making flow the municipality might go through in undertaking such an exercise.

3.3 Sources of local government revenues

Local governments need resources to finance the services and activities they are responsible for. However, the reality in most countries is that local revenue sources meet only part – sometimes quite a small part – of local expenditure needs. There are two reasons for this. Firstly, the most significant taxes (such as income tax, corporate profits tax, VAT, customs duties, and excises) are usually assigned to the central government. This is because the central government is much better placed to collect such taxes uniformly, efficiently and equitably, particularly where tax revenues are collected in only certain locations (e.g., ports, in the case of customs duties).

As a result, the taxes left for the local government to collect are generally small. Therefore, local revenue-raising needs to be accompanied by a system of fiscal transfers from the centre to ensure that local governments have sufficient resources to carry out their mandated functions and that financial resources are equitably distributed between local governments. In the Commonwealth, the dependence of local governments on intergovernmental transfers varies widely, ranging from 10 per cent in South Africa to 70

per cent in Ghana, 78 per cent in Uganda, up to 90 per cent in Lesotho, and 100 per cent in Seychelles (CLGF, 2005). However, these averages disguise big differences within countries, typically between urban and rural local governments.

The following are some of the main revenue sources for local governments.

- a. Local taxes are, in principle, the main source of revenue for local governments, with the choice of tax rates to fund local services being the key annual decision made by local elected representatives.
- b. Charges for services provided, where a service is provided directly and exclusively to the payer, are normally related to the service's cost.
- c. Fees for permits and licences, whose prime purpose is to regulate an activity rather than raise revenue, are normally (but not always) limited to the cost of administration/enforcement.
- d. Profits from local enterprises – where the local government owns an enterprise: Any profits from that enterprise would accrue to the local government (but so would any losses). This is still a significant revenue source for local governments in China but not in many other countries. Although local governments in many countries, such as Pakistan and Uganda, own markets operated as commercial enterprises, some countries also have municipal water enterprises.
- e. Central government revenue sharing – shares of taxes (and other revenues) collected by the central government and allocated (partly or wholly) to the local government are either based on their origin (where they were collected) or by formula.
- f. Intergovernmental grants of various types are used to finance some of the costs of local government services, as well as equalising (to some extent) resources between local governments.

3.4 Key challenges in the provision of service delivery

Providing sufficient, affordable, and quality essential services is a core function of local government entities. However, in many countries, delivery is constrained by coordination, governance, financing, and capacity challenges, exacerbated by the pace and scale of national growth. Lack of resources is not the only explanation for inadequate provision of services.

Others include the lack of an adequate national policy framework, the unresponsiveness of local government entities, the rigidity of laws and regulations, the difficulty for the poor in making their voices heard, the lack of transparency and accountability of local decision-makers, and the shortage of effective

and accountable experienced management personnel. (Urban Governance Topic Guide, GSDRC, 2016)⁹. From the 2021/22 consolidated report of SAIs in the region, the following challenges were identified:

Key challenges in Uganda facing local government in delivering services.

- Failure to fund the operations of local authorities remains a challenge.
- There is limited office space and inadequate office equipment.

Key challenges in South Africa facing local government in delivering services.

- Local governments are financially distressed due to no service payment and reduced funding.

3.5 Key players in the service delivery by local government entities

The provision of services by local government entities requires a joint effort from several stakeholders. SAIs need to gain an understanding of the key stakeholders in the provision of a particular service. Generally, and across nations, there are six main categories of stakeholders in service delivery: national government, local government entities, SAIs, civil society, the private sector, citizens, and the informal sector. A critical review of each stakeholder group's roles and contributions is paramount for ensuring quality service delivery audits.

3.6 The importance of internal controls in service delivery

Every local government entity that seeks to fulfil its mandate cannot shy away from ensuring that the internal controls operate effectively and efficiently. Often, some root causes for not delivering services to citizens were breakdowns in internal controls within the local government entity that were not addressed promptly. For example, the flouting of procurement regulations might signal a breakdown in internal controls that could cause a service not to be rendered or substandard. Therefore, management should invest more time in ensuring that internal controls' weaknesses are addressed.

The COSO framework defines internal control as a process effected by an entity's board of directors, management, and other personnel that is designed to provide reasonable assurance regarding achieving objectives relating to operations, reporting, and compliance.

⁹ <https://gsdrc.org/topic-guides/urban-governance/>

This definition indicates that internal control is not solely about accounting and financial matters. Compliance with laws and regulations is one of the three fundamental objectives of an organisation’s system of internal controls. In our case, as public sector auditors, the PAC is increasingly questioning financial numbers, asking how SAIs add value to compliance and service delivery issues and what impact they have on ordinary citizens.

4. Auditing service delivery

4.1 Understand the legal mandate and regulatory framework.

SAI auditors need to understand the provisions of the national constitution and other applicable laws, regulations, policies and procedures regarding the establishment and functions of local government entities. This enables the auditor to understand the mandate of the local government and ascertain whether it is delivering on its mandate.

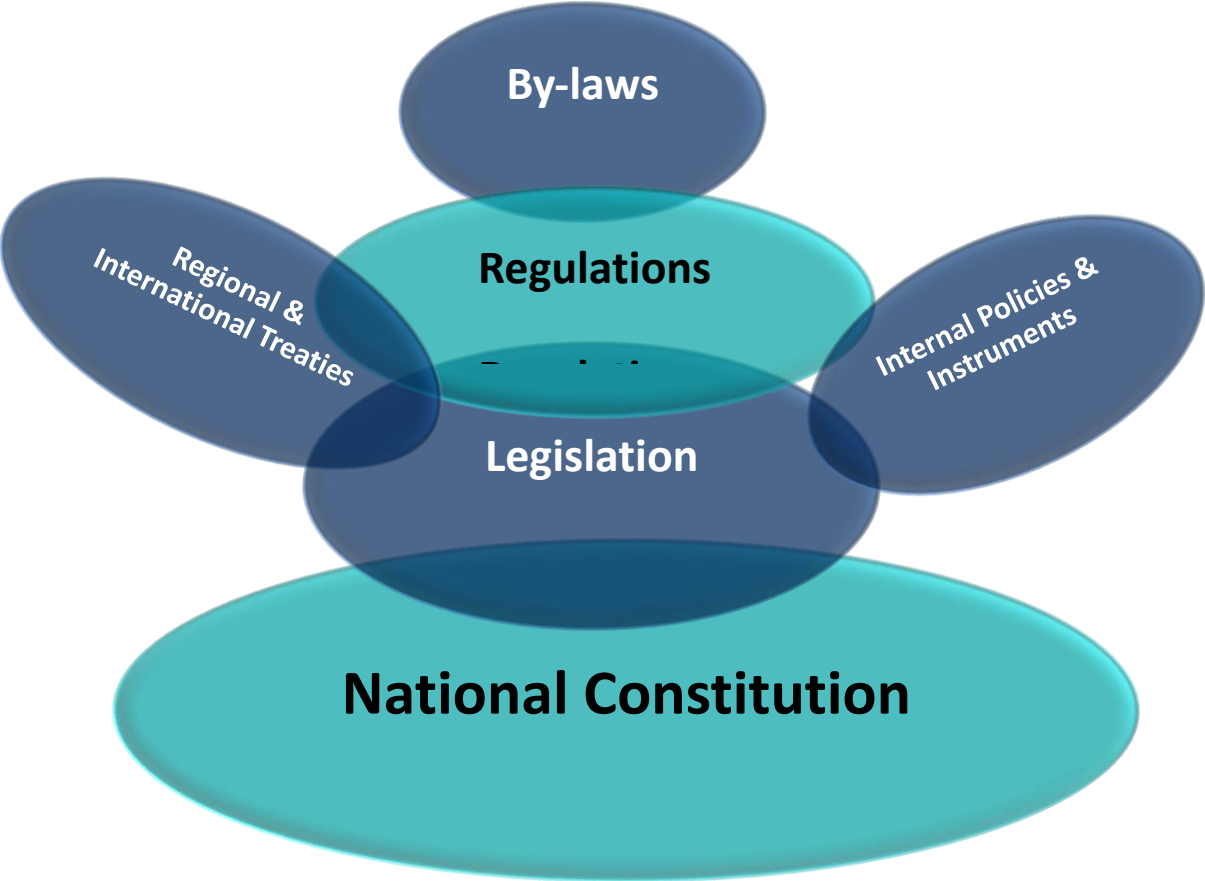


Fig 4.1 Local Government Legal Framework

4.2 Understand the service delivery process.

Planning: The provision of a service by local government entities is derived from its mandate in the national constitution and other elected governing acts. Auditors need to confirm that local government entities have an operational plan for a particular service and specifically to inquire whether the following aspects were considered: Local-level priorities are linked to national policies, stakeholder expectations, environmental and social impacts, and effects on human rights. In addition, auditors need to confirm that funds are budgeted to provide services.

Implementation: Implementation is a key phase of any service provision. However, there may be bottlenecks in effectively providing a particular service. Such hindrance may be in the form of resource constraints (funds, logistics, human capital), governance structures, weak internal controls, and cases of management override of controls. The delivery processes may also be stalled by inefficient utilisation of available resources (propriety and probity).

Monitoring and evaluation: Auditors need to inquire about and assess the existence of the monitoring framework and confirm that regular monitoring and evaluation of the progress of services provided by the local government occurs.

Reporting: Reporting on service delivery matters is key to informing various stakeholders on local government entities' operations and utilisation of resources, thus promoting transparency and public accountability. The auditor must confirm that the reports are timely and relate to overall plans.

4.3 General high-level audit considerations

- Are the laws and regulations governing service delivery by local government-aligned?
- Do local government entities have operational strategic plans with milestones drawn from the National priorities, strategy, and goals?
- Do service delivery programmes support the achievement of national goals in line with regional and international treaties?
- Are sound governance structures in place to support effective and efficient service delivery by local government entities?
- Do local government entities have approved annual budgets for key services, and are key service activities adequately funded?

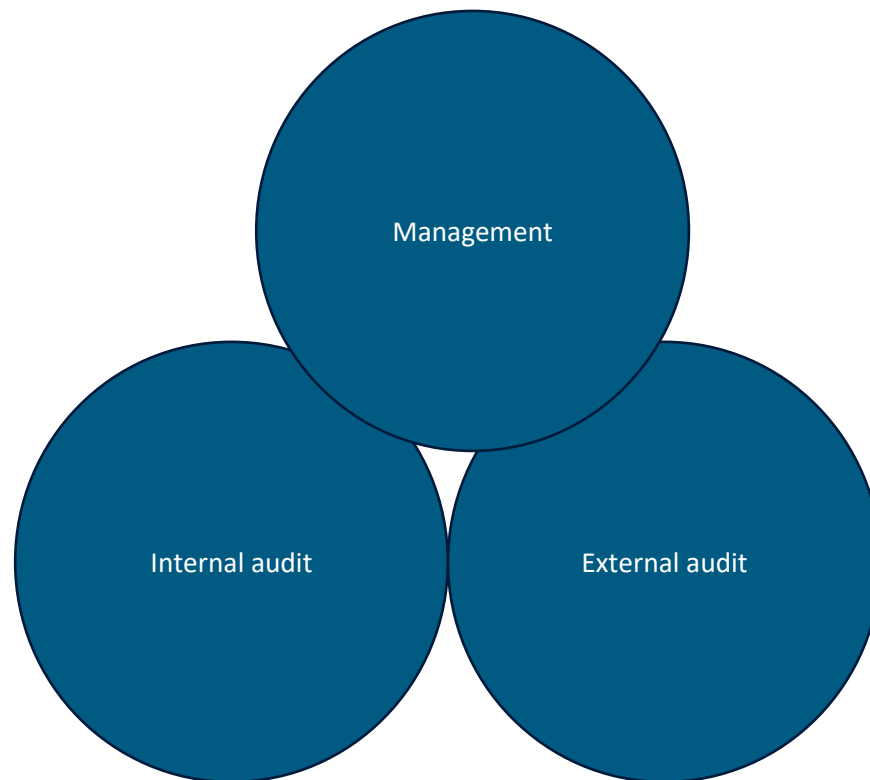
- Do local government entities comply with respective laws and regulations regarding providing services?
- Periodically/how regularly do local government entities review and evaluate their service delivery systems, models/ processes, and activities?
- Are sound and appropriate service delivery monitoring mechanisms in place?
- What environmental laws are there, and how well are entities working towards compliance with them?
- If certain services are delivered via PPPs and BoTs, is there adherence to service level agreements and obligations by the parties involved?
- Do the entities have a risk management system to avoid service disruptions and process failures?
- Are there organised and effective service delivery communication platforms and stakeholder feedback channels?
- Are there appropriate structures that allow communities and other key stakeholders to participate in service delivery systems?
- What IT systems are in place to assist with information and records maintenance for effective reporting and accountability purposes?
- Are there sound and effective internal and IT controls in place that are sufficiently functional to counter potential risks to the objectives of service delivery?
- Long-term strategies and plans against population growth and its demands to enable the sustainability of services into the future should be reviewed and evaluated.
- Are there effective response rates to emergency calls for service breakdown and disasters?

4.4 Relationship with internal auditors -¹⁰ Combined assurance

In recent years, deliberate and constant discussion has been on the combined assurance between management, internal auditors, and external auditors. This is necessary because it is believed that synergies can be leveraged by all the parties working together. Combined assurance should satisfy the audit committee that significant risks have been addressed and that suitable internal controls are there to mitigate those risks.

¹⁰ <https://oag.treasury.gov.za>

Combined assurance depiction



Internal and external audits are complementary functions within the assurance framework, and both are essential for the effective governance of an organisation. However, internal auditing is distinct from external auditing, and both functions have their value and expertise. Without compromising the requirements of the standard and where the environment permits it, it is always encouraged to use internal audit work as long as external auditors factor in issues such as objectivity, technical competence, and due care.

In some local authorities, auditors find the control environment strong, and structures such as auditee committees are capable. It is always advisable for auditors to look into the work of internal auditors and see if there are no efficiencies that could be utilised. Management's growing trend is to look for evidence that synergies between assurance providers are being capitalised on. With management at the helm, as one of the assurance providers that serves as a **first line** of defence, its objectives are to execute strategies, promote a strong culture of adhering to limits and manage risk exposure. When one looks at some of the findings in these local authorities, it is evident that the first line of defence generally fails, resulting in problems that could have been avoided.

As mentioned above, risk management is part of internal control within local government. The second line of defence is considered formal, robust, and effective risk management within which the organisation's policies and minimum standards are set. This serves as a warning to management to get its house in order before the third line of defence needs to be deployed. That is why those local authorities doing well in their audit outcomes have mastered these lines of defence. Internal and external⁸ serve as the **third line of defence** in their respective roles as providing independent assurance over the control environment and being an independent assurance provider of statutory reporting, respectively. In conclusion, every assurance provider needs to play its role efficiently and effectively for the combined assurance to work.

5. Auditing specific key services

There are many areas that an SAI can focus on, depending on the environment and the risks identified during the long/medium term strategic and annual overall audit plan. This guideline will focus on the following:

- Water management service delivery
- Waste management service delivery
- Water-waste management service delivery
- Disaster management
- Infrastructure
- Financial health

Depending on the risks identified, the SAI will decide the audit methodology or methodologies for each focus area.

5.1 Audit of water management services

Local government entities are key players in providing access to adequate clean/potable water and conserving and managing water source resources. In Africa, water challenges are enhanced by droughts, pollution, wastage, and improper management by local governments. The utilisation of non-potable water has serious public health and safety implications. UN Resolution 64/292 explicitly recognised it as a human right. (Agenda 2030 – SDG 6, Target 6.1)¹¹.

¹¹ https://www.un.org/waterforlifedecade/human_right_to_water.shtml



Fig 5.1 Water Provisioning Flow
Source: Auditor generated

In auditing the activities of local government entities, SAIs should also bear in mind the provision of such services meant for the public good and not necessarily as merely a revenue stream for the local government.

i. Water sources and abstraction

Water sources may be under the management of other government departments mandated to construct and manage water sources. In Zimbabwe, all water bodies are controlled by the Zimbabwe National Water Authority (ZINWA), which sells raw water to local government entities for treatment and subsequent supply to end users. (ZINWA Act [Chapter 20:25])¹².

Specific considerations:

Auditors need to ask the following questions:

What conditions limit or restrict the extraction of adequate raw water?

- Is adequate release of funding being made towards water management services?
- Is there adherence to regular maintenance of the water distribution network and related equipment?

ii. Water treatment/processing

Water treatment involves passing raw water through a series of water treatment steps that include coagulation, flocculation, sedimentation, filtration, and disinfection before clean water is pumped

¹² <https://media.zimlil.org/files/legislation/akn-zw-act-1998-11-eng-2016-12-31.pdf>

to reservoirs. These processes require competent and adequate staff all the time as well as a consistent energy /power supply. In addition, the treatment plant's design capacity should be good enough to treat enough water to meet daily demands.

Specific considerations:

Auditors need to look out for the following issues:

- Treatment plant/ works design capacity must be sufficient to meet the demands for reliable services.
- Frequent stoppages of the treatment process due to lack of dedicated energy/power.
- Failure to supply clean and safe water as per quality standards to all citizens.
- Is there regular maintenance of water pumps and related equipment?
- What water management service records and statistics are being maintained?
- What controls are in place to ensure adequate availability of water treatment inputs?
- What are the water management functions, human capital competencies and ideal numbers?
- What water service delivery models, modes, and technology are in place?
- Consider using the expert.

iii. Water storage and distribution

Treated water is pumped to reservoirs ready for distribution to end users. Along the water mains and distribution network, treated water may be lost through leakages caused by aged pipelines or vandalism. These points may promote easy access to potential water contamination.

Specific considerations:

The auditor needs to look out for the following issues:

- Is there a reliable supply of adequate water to meet the demands of end users?
- What controls and mechanisms ensure minimum water losses along the distribution network?
- Are water quality standards being met?
- Are water management services records and statistics being properly maintained?
- Are there adequate security systems/personnel to secure water points and reservoirs?

iv. End-user metering and revenue

Generally, water usage by consumers is charged at a subsidised tariff just as a cost recovery. Two models may be in use, namely, pre-paid and post-paid metering systems. Although these metering systems may be effective, revenue losses may still be encountered due to illegal connections and non-functional metres.

Specific considerations:

The auditor needs to look out for the following issues:

- Are the metering systems providing reliable recordings of water usage?
- Are reliable water usage records and statistics being maintained?
- What communication mechanisms are available for feedback reporting on faults and leakages?
- What controls are in place to prevent or reduce illegal water connections?

5.2 Audit of solid waste management services

Local government entities must provide solid waste management services to all waste generators, industries, institutions, hotels, restaurants, vendor markets and households under its jurisdiction.

The effects of poor solid waste management include:

- Inconsistency in refuse collection and improper disposal of solid waste, particularly by local government entities, usually results in illegal waste dumping, which becomes a problem for both the environment and the public.
- Illegal dumping of huge quantities of garbage allows biodegradable materials to decay and decompose under abnormal, uncontrolled, and unhygienic conditions.
- Decomposed waste becomes a breeding ground for various disease-causing insects and infectious organisms.
- A foul smell is produced, and refuse buildup spoils the area's aesthetic value.
- Solid wastes include toxic metals, chemicals, and other hazardous wastes, which can produce biological and physicochemical problems when released into the environment. The chemicals may drain into the soil, pollute the groundwater, and alter the productivity of the soil in the area.

- Burning the paper and other scraps, along with the hazardous wastes, causes dioxins and poisonous gases to be produced and released into the air, which results in various diseases, including chronic disease, skin infections, cancer, etc.

In managing solid waste, local government entities are encouraged to ensure sustainability in their efforts, such as practising reducing, reusing, and recycling activities on waste. By so doing, local government reduces the adverse per capita environmental impact of local government-controlled areas. The auditor’s role is to assess and analyse the information collected and make recommendations.

SAI auditors must understand the system of solid waste management, which mainly refers to collecting, treating, and disposing of solid wastes. In the waste management process, the wastes are collected from different sources and disposed of. Therefore, it is important to understand this process, which includes waste collection, transportation, treatment, analysis, and disposal.



Fig 5.2: Solid Waste Management: MCC 2020 Pilot Audit

i. Generation of solid waste

The growth in industrialisation and population has seen equivalent growth in waste generation. Waste generation includes all materials discarded, whether they are later recycled or disposed of in a landfill. Daily, tonnes of solid waste are being generated. The main sources are domestic garbage, heavy and light industries, agriculture, medical institutions, and construction sites. As production in industries increases, more waste is generated. Similarly, solid waste generation in local government areas increases as informal vendor markets increase. Auditors need to assess plans and adopt strategies to act on the increasing waste generation, as there is a direct relationship between growth in generation activities and increases in solid waste generation.

Specific considerations:

The auditor needs to look out for the following issues:

- Are local government entities enforcing waste by-laws?
- How are the local government entities measuring waste generation volumes?

ii. Collection and transportation

Waste management activities are monitored, and complete, accurate reports are produced monthly and annually. Sufficient funding is available for efficient and effective collection, transportation, and treatment/disposal activities. Local government entities should have effective solid waste collection transportation systems for proper disposal. These entities should have a good asset/ equipment base and scientifically engineered landfills to enable collection, transportation, and disposal management in compliance with laws and policies.

Specific considerations:

Auditors need to look out for the following issues:

- Do the local government entities have in place a refuse collection schedule?
- Is the refuse collection service available in all suburbs to avoid illegal dumping?
- Are refuse collection records being maintained?
- Are there designated collection points?

iii. Disposal and management of landfills

The process of solid waste handling and disposal varies in different countries. In any local government area, solid waste management is very important for the safe disposal of waste, to reduce environmental pollution and to avoid any health hazards that it may cause. Landfills are the most common method of disposing of solid wastes.

Modern-day landfills are designed to take care of various environmental factors and types of waste to minimise pollution and preserve health. General municipal solid waste can be divided into biodegradable, recyclable, and hazardous domestic waste. Industry-generated waste from chemical factories and medical waste from hospitals are considered hazardous solid waste and need special disposal arrangements.

Specific considerations:

The auditor needs to look out for the following issues:

- Is the local government entity using appropriate refuse disposal and management techniques?
- Are refuse management standard practices being adhered to?
- Is the disposal site/ landfill complying with environmental laws?
- Is the disposal site located in a suitable area, and is there physical security?
- Is the disposal site adequately equipped?
- Are there arrangements and programmes in place for the recycling of solid waste?

5.3 Audit of wastewater management services

Wastewater is a combination of one or more types of domestic effluent consisting of black water (excreta, urine, and faecal sludge) and grey water (kitchen and bathing wastewater); water from commercial establishments; industrial and agricultural effluent, stormwater and other urban run-off (United Nations-Analytical Brief on Wastewater Management, 2015)¹³.

The BOS 93:2012¹⁴, Botswana Standard for Wastewater, defines it as water contaminated with pollutants following its use or application in domestic, industrial, commercial, or institutional premises. Much of the water supplied ends up as wastewater, which makes its treatment essential.

Local governments play an important role in complying with the UN resolution - Agenda 2030, especially SDG 6, which generally relates to water and sanitation.

Poor Sanitation services in most parts of Africa are responsible for the myriad of diseases and health hazards populations face. Wastewater management is an important approach to protect water resources, and it is defined as the collection, treatment, and reuse of wastewater.

i. Collection of liquid waste

In wastewater collection, the sewerage network is one of the most important infrastructures, and undesirable performance can lead to various health and environmental effects.

¹³ <https://reliefweb.int/report/world/wastewater-management-un-water-analytical-brief>

¹⁴ https://afrosai-e.org.za/wp-content/uploads/2021/05/PA-Report-Management-of-Wastewater-Treatment_Botswana.2020.pdf

Specific considerations:

Auditors should look out for the following issues:

- Is the entity meeting the service levels regarding volumes of discharge?
- Is the entity's sewerage network accessible to all effluent-discharging institutions and households?
- What is the response rate to all reported pipe bursts and raw sewerage overflows?

ii. Treatment of effluent

Sewage treatment involves a series of processes that aim to remove contaminants from sewage to produce an effluent suitable to discharge to the surrounding environment or an intended reuse application, thereby preventing water pollution.

Specific considerations:

Auditors should look out for the following issues:

- How appropriate are the sewerage treatment models that are in place?
- What controls and monitoring tools are in place to monitor activated sludge?
- How regularly is the pump and other related equipment being maintained?
- What health and safety measures are in place regarding the treatment processes?
- Are records being maintained for collected, treated, and disposed volumes of waste?

iii. Reuse of wastewater

Treated wastewater can be categorised into Greywater and Blackwater, both of which can be usable. Greywater can be reused with little to no treatment for gardening, flushing toilets, and washing machines. Blackwater can be reused in subsurface irrigation of paddocks, farms, and plantations.

Specific considerations:

Auditors should look out for the following issues:

- What quality measures are in place to ensure sewage is safe for disposal?
- Is the wastewater suitable for reuse if the treatment uses chemicals?

5.4 Audit of disaster management and recovery

SAIs have an important role in ensuring accountability and transparency in managing disasters at the local government level. Auditors need to fully understand the factors that result in natural disasters, environmental emergencies, complex emergencies, and pandemic emergencies. Auditors should be able to address identified risks due to the disaster's immediate and secondary impacts.

Auditors must assess the availability of strategic emergency management systems in local government that are in place to protect citizens and assets from hazards to ensure continuance or sustainability.



Fig 5.3: Disasters

Source: Auditor generated report

Disaster Management comprises strategic planning and procedures to protect critical infrastructures (or 'critical assets') from severe damages when natural or human-made calamities and catastrophes occur. At the local government level, policies are established in order to have an effective, reliable, integrated, flexible, and comprehensive system to alert and warn the public of impending problems.

General high-level audit considerations

- What policies, disaster management plans and mechanisms are in place?
- How often are disaster risk assessments conducted?
- Are there disaster monitoring systems in place, and how effective are they?
- Are emergency contact details valid and updated regularly, e.g., ambulance, fire brigade, police, etc.?
- What systems are in place for managing and disbursing disaster-related aid?
- How ready is the entity, and what is the response rate following a disaster?

- Are roles and responsibilities clearly defined among stakeholders for easy coordination during disasters?
- Does the entity have an emergency fund set aside for eventualities?
- Are reliable and complete disaster records and related information being maintained?
- Does the entity have a disaster procedures manual in place?

The success of disaster risk reduction depends on the participation of society, including an understanding of the importance of the resilience of nations and communities.

5.4.1 Audit of the disaster cycle and phases

The disaster management cycle generally follows three broad phases, namely: pre-disaster (prevention and preparedness), disaster occurring (crisis and response) and post-disaster (recovery).

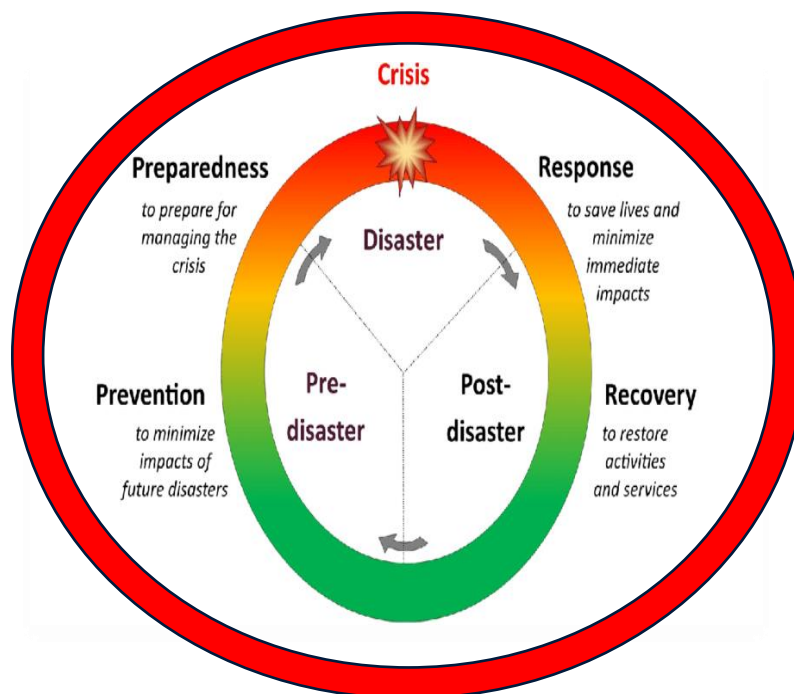


Fig 5.4: Disaster Management Phases

Source: Auditor generated

i. Prevention/mitigation

This phase includes actions to prevent or reduce disasters' cause, impact, and consequences. Hazard mitigation includes tying down homes or barns with ground anchors to withstand wind damage, digging water channels to redirect water, and planting vegetation that will absorb water.

ii. Preparedness

Preparedness includes planning, training, and educational activities for events that cannot be mitigated. This can include developing disaster preparedness plans for what to do, where to go, or whom to call for help in a disaster, and practising plans using drills.

Specific audit considerations:

- What awareness systems are in place for alerting the public in case of a disaster?
- Are local government disaster preparedness plan documents shared between participants and stakeholders?
- What records are maintained to function as a disaster management tool?
- To what extent are planned objectives aligned to and guided by the Sendai Framework for Disaster Risk Reduction 2015-2030?
- What level of training and awareness is in place?
- Are there disaster steering committees, and how effective are they?

Early warning system (EWS)¹⁵

- How effective and reliable are the local government's existing early warning systems in the disaster management process?
- Are the EWS 'end-to-end' and 'people-centred' systems?
- Do the local government entities apply IT systems such as Geographic Information Systems (GIS) when managing disasters?

iii. Crisis and response

Disasters can occur anytime; depending on the severity, a crisis may occur. The response then follows the immediate aftermath of a disaster. During the response phase, business and other operations do not function normally. Personal safety and well-being in an emergency and the duration of the response phase depend on the level of preparedness.

¹⁵ <https://preparecenter.org/topic/early-warning-systems/>

Specific audit considerations:

- What level of preparedness includes lines of action, collaboration, command, and communication during a disaster?
- How responsive are the local government teams during the disaster?
- What key actions are carried out immediately during and after a hazardous impact to save lives, reduce economic losses, and alleviate suffering?
- How fast are the response actions – such as activating the emergency operations centre, evacuating threatened populations, opening shelters, and providing mass care?
- Are teams available and equipped for emergency rescue, medical care, firefighting, and urban search and rescue?

iv. Recovery

Restoration efforts occur concurrently with regular operations and activities during the recovery period. The recovery period from a disaster can be prolonged. Activities may include reducing stress-related illnesses, dealing with excessive financial burdens, and rebuilding damaged structures based on advanced knowledge available before disasters.

Specific audit considerations:

- What plans are in place to guide the recovery process?
- How effective are the systems of data and information recovery?
- Are rapid impact needs assessments (RINA)¹⁶ conducted?
- Does the plan distinguish between prolonged and instant recovery activities?

5.4.2 Auditing disaster-related aid

Auditors must know the procedures that may operate during the emergency phase following a disaster. It may not be possible to comply with all the relevant laws and regulations in emergencies, and auditors need to consider the need to circumvent some rules in exceptional circumstances or due to force majeure to prioritise saving lives and alleviate human suffering. Disaster-related aid cover may be received from

¹⁶ <https://www.gfdrr.org/en/publication/zimbabwe-rapid-impact-needs-assessment-2019>

public and private donors to assist those affected by disaster (individual, community, organisation, or government) as cash or financial aid and in-kind aid, or a mixture of those. Disaster aid can flow directly from donors to the affected communities or through one or more intermediary entities. These may be operational agencies implementing aid actions directly or international agencies channelling aid towards operational agencies or directly to individuals or communities in need. Consideration, therefore, should be on the completeness of recording accounting recognition and governance accountability, as well as fraudulent cases.

Specific audit considerations:

- What internal controls are in place to handle and utilise disaster-related aid?
- What mechanisms are in place to ensure that aid reaches intended beneficiaries on time?
- What policies are in place to foster transparency and accountability?
- Are reliable and complete records of aid being maintained?
- What feedback platforms are available for use by affected communities?
- How effective are the operational procedures in dealing with emergency procurement and payments?
- What controls can combat collusion, corruption, and fraud during emergencies?

5.5 Audit of infrastructure

Infrastructure comprises the fundamental facilities and systems serving a country, city, or other area, including the necessary services and facilities for its economy. Infrastructure comprises public and private physical improvements such as road networks and bridges, buildings (classrooms and health buildings), railways, water supply facilities, landfill sites, sewers, water treatment works, effluent networks - soil water, industrial waste, and electrical grids. It is 'the physical components of interrelated systems providing commodities and services essential to enable, sustain, or enhance societal living conditions'.¹⁷

¹⁷ <https://www.ipsasb.org>



Fig. 5.5: Source: Auditors General Report, Zimbabwe

5.5.1 Characteristics of infrastructure assets

Some infrastructure is commonly described as ‘Infrastructural’. While there is no universally accepted definition of infrastructure, such infrastructures usually display some or all the following characteristics:

- They are part of a system or network.
- They are specialised in nature and do not have alternative uses.
- They are immovable and
- They may be subject to constraints on disposal.

Infrastructure can be constructed through:

- Own development
- An implementing agent
- A private-public partnership

Ensuring quality infrastructure performance over the infrastructure life cycle is a major challenge for many local governments. Good governance tools should be in place at all stages of a public infrastructure’s lifecycle, from planning/prioritisation and funding to development/construction, operation, maintenance, preservation, and decommissioning/disposal. However, local governments focus more on infrastructure development and less on life cycle monitoring and evaluation.

Assessing, upgrading and retrofitting existing infrastructure to improve environmental performance is particularly important to promote sustainable infrastructure. It will help ensure resource efficiency, investment, research, and development in environmentally sustainable infrastructure. A focus on the performance of the infrastructure throughout its lifespan strengthens public interest and the accountability of service providers.

5.5.2 Phases of the infrastructure project life cycle: Development/ Acquisition

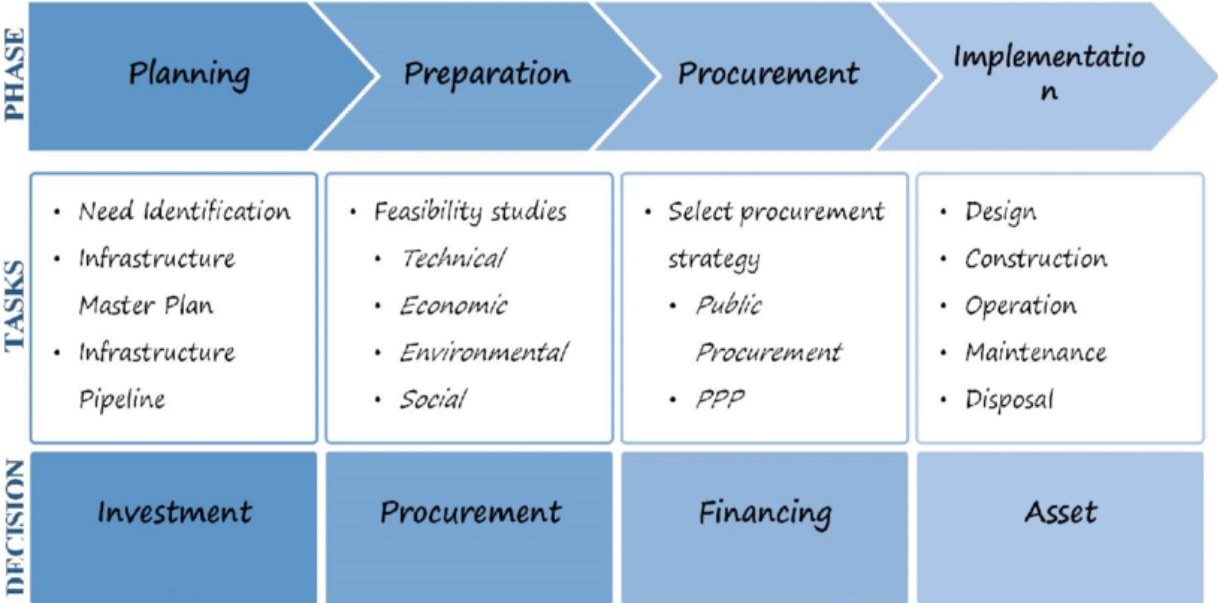


Fig. 5.6: Source: Research Gate

Infrastructure

- i. **Planning:** with core activities, including needs identification infrastructure master plan preparation, which leads to a decision on whether to invest in the infrastructure.
- ii. **Preparation:** – Comprises feasibility studies that address technical, economic, environmental, and social aspects. That leads to a decision on whether to continue with the procurement process.
- iii. **Procurement:** refers to the selection of service providers, with core activities: a review of the procurement plan, procurement implementation, and procurement administration. Decisions on whether to use public procurement or PPP are made at this level. The final decision must be made on financing. If in-house built, then this does not apply.
- iv. **Implementation:** refers to the construction processes, with core activities, pre-construction preparation/designs, construction works, and control and monitoring the progress of construction works, construction product handover, with core activities, identification and preparation of

product handover, acceptance of a product, the project work transfer process, and documentation and administration of product handover. This stage includes the operation and maintenance of the infrastructure assets.

5.5.3 Audit consideration

i. Specific consideration for the planning stage for acquisition/ development

The first stage of project development is the Initiation stage. At this stage, the local government identifies and defines the problem that the project intends to solve.

- Are the key findings of the Initiation stage presented in an Initiation Report?
- Does the Initiation stage end when the Initiation Report is approved?
- Does approval take into consideration the stakeholder's views?
- Does project planning pave the way to funding and identifying the project area/ location, making final decisions regarding project development, and having absolute authority in determining and appointing construction management and project planners/ planning consultants?
- Does the entity have expertise and competent planners, especially on two aspects, i.e., (i) understanding what is to be constructed and having a plan to build it while maximising project resources?
- During planning, it is essential to ensure that the project has resilience to time, usage, and obsolescence and can adapt to changes in climate conditions. Hazards and disasters are critical features of quality infrastructure.

ii. Specific considerations for the preparation stage

A feasibility study assesses the practicality of a proposed plan or project. A feasibility study analyses the viability of a project to determine whether the project or venture is likely to succeed. It is also designed to identify potential issues and problems arising from pursuing the project. A feasibility study also determines the threats, potential risks and problems that may occur, as well as including any significant changes that may occur (i.e., acquisitions).

- Seasoned specialists must conduct thorough feasibility studies and due diligence to ensure technical, economic, social, and environmental viability.

- Formal documentation is required as a source of information to be delivered to project stakeholders for project ownership.

iii. Specific considerations for the procurement stage

- Compliance with the applicable procurement laws and regulations must be ensured.
- Documentation and the trail of the processes, such as procurement planning, tendering, and contract award, must be confirmed.
- Project performance monitoring, including quality control, must be conducted throughout the phases of the project life cycle.
- Participation of other project stakeholders must be confirmed. Contractors should hold regular meetings with the operations and maintenance groups to ensure that their original intentions for the project are reasonably executed.
- For any modifications, relevant authorities must obtain approval.

iv. Specific Considerations under Construction/Implementation Stage

The phase of construction/ implementation aims to produce a product that meets the specifications required by the project owner at a reasonable cost and within the agreed timelines. The phase of the handover of project results aims to ensure that the final project results confirm the fulfilment of the contractual agreement, and the performance of all construction project stakeholders regarding their needs must be evaluated. Although every party should previously have been made aware of the needs required from the project and thus support the project's success, there may still be issues relating to the final phase of the infrastructure project life cycle. Frequent questions may need to be asked in the final phase of the infrastructure project life cycle, such as:

- Was the project delivered within the project timeframe?
- Were appropriate drawings and specifications supplied, and were all the tender documents completed correctly?
- Was the project within the cost and quality standard, as agreed upon in the contract?
- Was there a clear demarcation of the stakeholders' roles, tasks, authorities, and responsibilities during the implementation of the infrastructure project?
- Were approvals of completed work by relevant authorities given before payments were effected?

- Due to inaccurate project planning and control, the project manager must watch for amended project activities to meet the job requirements.
- The project manager must ensure that the project owner and the regulators have actively played their roles at every sub-phase of the handover of project results, which must include re-reviewing project needs, conducting mutual checks, conducting commissioning tests, conducting partial inspections right up until the final stage of project handover, as well as checking for construction failures.
- The project manager must confirm that the results of the post-hand-over monitoring checks/snags are shared and addressed timeously by the contractor.
- He/she must also confirm that relevant authorities have duly confirmed final payments.

v. The use of infrastructure

Infrastructure management provides transparent, rational, and accountable cost-effective management of local government infrastructure systems with the best value for money, thus saving unnecessary costs. In this capacity, infrastructure management could be viewed as a value management programme at strategic and tactical levels.

All infrastructure is subject to gradual wear and tear or ageing. Depreciation in the value of infrastructure occurs at varying speeds, depending on its nature. Without regular maintenance, infrastructure will decline, leading to poor outputs and outcomes over time. Effective access to infrastructure will gradually decrease (for instance, in terms of the number of users the infrastructure can tackle), and service quality will also decline.

Specific considerations

The auditors will need to look out for the following issues:

- **A management Plan** must be put in place, specifying management practices and decision-making for cost-effective use and sustainability.
- **An implementation plan** should identify infrastructure management's short- and long-term objectives, a work plan, roles and responsibilities, a schedule, and a budget. Identifying, assessing, and appropriately controlling risks; and
- **The performance** of the infrastructure must be monitored to ensure that an adequate level of service is maintained over the long term, and the efficiency and effectiveness of the local

government must be assessed. Responsibility and accountability for performance, safe custody, and use of the infrastructure must be defined.

- **Management Policy/Strategy** adopted by the council must indicate the Local Authority's policy objective principles and how these will be pursued.
- **Regular service contracts** must be in place for outsourced service providers, with clear provisions on the level and quality of service to be rendered.
- **An Infrastructure register.** An accurate and updated inventory of available infrastructure, costs, conditions, and location/utilisation must be maintained.
- **A defined service quality/service level standard** must be established for a particular activity or area against which service performance may be measured. Service levels usually relate to quality, quantity, reliability, responsiveness, environmental acceptability, and cost.
- **Service life** is the period within which an infrastructure must provide an acceptable level of service. The economic service life is defined as the stage when the present worth of the future maintenance costs equals the present worth of their replacement.
- **Leverage** innovation and technology must be in place to improve the ability of local governments to compile detailed inventories of their infrastructure, analyse the condition of the infrastructure, evaluate renewal alternatives, and project the renewal needs.





vi. Maintenance of the infrastructure

Maintenance involves functional checks, monitoring, testing, measuring, servicing, repairing, or replacing necessary parts so that the infrastructure can perform the required functions and achieve the intended service delivery objectives throughout its expected life span.

Spending on maintaining and improving existing infrastructure supports its performance over time and sustains its quality, as the public perceives it. Such investments reduce infrastructure breakdowns and prevent system collapses while providing services to businesses and households and supporting economic development.

Overall, the quality of infrastructure is improved when maintenance spending is aligned with the use of the infrastructure and is reviewed at regular intervals. In this regard, the economic life of a maintained infrastructure is likely to be longer than the accounting (depreciation) period of the infrastructure.¹⁸

¹⁸ Chapter 3 Maintaining and Managing Public Infrastructure Assets IMF e_library

			
<p>Uganda's Poor Waste Management Policy is turning Kampala into a City of Illegal dumping-Posted in Africa, Climate change and the environment, Commentary 11 March 2020</p>	<p>The broken pipe and the high pressure. Photo taken on 3 November 2011 by P. Feiereisen in Kariba, Zimbabwe. From Wikipedia, the free encyclopaedia</p>	<p>Broken down water supply in India¹⁹</p>	<p>Water supply challenges in Harare, Zimbabwe. ZimEye, 24 September, 2019</p>

The above picture refers to the challenges of inadequate or poorly maintained infrastructure.

Specific considerations/questions

- Is the infrastructure adequately maintained?
- Does the plan specify the local government's minimum requirements for managing maintenance?
- Does it cater for the risks associated with maintenance?
- Are health, safety and security objectives met?
- Does the local government entity have adequate information at an operational level to undertake maintenance, including the ability to analyse lifecycle costs, plan for replacements and improve the efficiency and effectiveness of maintenance?

vii. Preservation

Public Infrastructure is a foundation of economic development. Maintaining such infrastructure in good condition is critical. Infrastructure wears out with time and use. Neglected infrastructure will result in degrading the infrastructure with negative economic effects, leading to greater reconstruction costs over time. The goal of maintenance is to preserve an infrastructure, not to upgrade it. It includes minor repairs

¹⁹https://www.google.com/url?sa=i&url=https%3A%2F%2Fen.wikipedia.org%2Fwiki%2FFailures_of_water_supply_and_sanitation_systems&psig=AOvVaw2HWvVuwtMIYCPdUYcncPuq&ust=1676713002194000&source=images&cd=vfe&ved=0CA4QjhxqFwoTCPjdhv6gnPOCFQAAAAAdAAAAABAI

(routine maintenance) and improvements (capital maintenance) to eliminate the cause of defects and to avoid excessive repetition of routine maintenance efforts.

Specific considerations

- Does the entity routinely preserve the quality of individual infrastructure and renovate it in good time and with the right amount of funding?
- Does the entity rehabilitate, such as doing work to rebuild or replace parts or components of an infrastructure, to restore it to a required functional condition and extend its life, which may incorporate some modification? Generally, it involves repairing the infrastructure to deliver its original service level without significantly upgrading or renewing, using available techniques and standards.

viii. Disposal/ Reinvestment

Specific considerations

- Has the local government entity made provision for the replacement of infrastructure that has reached the end of its service life to provide an alternative that satisfies a targeted level of service (Replacement)
- Are any funds allocated to capital projects that require rebuilding the existing local government infrastructure base? (**Reinvestment**) New capacities and operations are excluded from infrastructure reinvestment decisions.

5.6 Audit of financial viability

Based on the nature of local government in rendering services and collecting revenues, financial viability needs to be assessed using indicators to give an overall picture of whether it is financially viable in the foreseeable future.

This chapter will focus on the indicators likely to affect the financial sustainability of the going concern. An interpretation of the relevant indicators should be provided as guidance to assist the auditor in drafting insightful overall comments. The results of the financial viability indicators/ ratios are then assessed to determine whether the local authority has cash flow difficulties and, if so, whether they form part of management's going concern assessment. The financial viability indicators/ ratios are therefore used for dual purposes:

- To inform the auditor’s evaluation of management’s going concern assessment.
- To complete the financial viability comments in the management report.

It is important to note that a financial viability assessment is based on audited information available to any financial statement user who may want to perform a similar analysis. Therefore, it does not consider predictive, forward-looking information such as forecasts and projections, but instead, it provides a snapshot of the reporting date.

Indicators/ ratios are restricted to those directly relevant and key to providing a message on going concern/ financial viability.

Expenditure management

Creditors payment period

This indicator shows the average number of days creditors take to be paid. Longer than 30 days indicates that the auditee may not adequately manage its working capital or that effective controls are not in place to ensure prompt payments. In addition, a period of longer than 30 days to settle creditors indicates that the auditee may be experiencing cash flow problems, which may be indicative of or lead to possible going concern/ financial viability difficulties. However, a period of longer than 30 days to settle creditors may, in certain instances, be because of disputes, late processing of payments, etc., because of poor financial management controls in place.

The formula is as follows:

Creditor-payment period

Accounts payable ÷ Total purchases x 365

Revenue management

Debtor’s days

This indicator reflects the average revenue collection period, i.e., the average number of days required for the auditee to receive consumer payment for bills/invoices issued for goods and/or services. The indicator indicates the quality of the auditee’s credit control policy, the effectiveness of its collections policy to ensure prompt payment and the quality of its cash flow and revenue management.

A high debtor-collection period indicates that the auditee is experiencing challenges in the collection of outstanding amounts, which exposes it to cash flow risk and probable liquidity problems, which may lead to going concern/ financial viability difficulties because a significant amount of potential cash is tied up in consumer debtors.

The formula is as follows:

Accounts receivable [after impairment] ÷ Total revenue for services rendered x 365

Asset And Liability Management

Current ratio

This indicator assesses the auditee's ability to repay its short-term liabilities (debt, payables, etc.) with its short-term assets (cash, inventory, receivables, etc.). A net current liability position suggests that the auditee may be unable to pay all its current or short-term obligations if they fall due at any point.

Suppose current liabilities exceed current assets, highlighting financial challenges and a probability of liquidity problems, i.e., insufficient cash to meet short-term financial obligations. Thus, there is a risk that non-current assets will need to be liquidated to settle current liabilities or that additional external financing or government funding may be required. Therefore, a net current liability position may indicate or lead to questions about the auditee's financial viability and ability to continue operating optimally at its current capacity or as a going concern.

The formula is as follows:

Current assets ÷ current liabilities

Cash management

Cash as a percentage of creditors

This indicator compares the amount owed to creditors to the cash on hand. The indicator reflects the extent to which cash is available to repay creditors. The auditee's ability to repay creditors deteriorates the higher the percentage rises. A high percentage may indicate that the auditee is experiencing cash flow problems, possibly leading to going concern/ financial viability difficulties. In addition, it may reflect that

the auditee is not adequately managing its working capital or that effective controls are not in place to ensure prompt payment of creditors.

The formula is as follows:

Cash ÷ current liabilities

Over and above the financial ratios, the auditor needs to be mindful of the nonfinancial indicators, e.g.:

- Poor internal control over commitments.
- Rising contingent liabilities.
- Delays in financial reporting.
- Crisis management.
- Low staff morale.
- A decline in the economy.

Depending on the financial statements and the entity's understanding, you may develop the ratios to establish whether the local authority is viable in the foreseeable future.

Source: Assessing the Local Government Environment in Africa