



Local Government Audit Considerations Guideline

2025



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List of abbreviations

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

Introduction

Why Focus on Local Government

Local government plays a significant role in delivering services to citizens. According to the structure of any country, the local government attempts to bring services closer to the people, as the national government cannot deliver all these services on its own.

Governments have the responsibility to formulate policies and laws that outline the rights and obligations of citizens, as well as the delivery of government services. The government collects revenue through taxes and uses this money to provide services and infrastructure that improve the lives of all people in the country, particularly those who are most in need.

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 lacks a system of local government. Local government serves a two-fold purpose. The primary purpose is to provide administrative services; the other purpose is to represent and involve citizens in determining specific local public needs and how these 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 serves to achieve broader goals, such as social and political development, poverty alleviation, and environmental protection. Good government cannot be precisely defined. It is rather a set of ideas regarding the legitimacy, competence, and accountability of government, as well as respect for human rights and the rule of law, which together add up to what most people expect from those who rule over them.

ⁱAbove 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 and financial autonomy, and with clearly defined roles and responsibilities. In this way, the decentralised governments and the nation-state both derive their legitimacy from the same founding document and fundamental law.

¹[Source: Assessing the Local Government Environment of Local Government in Africa](#)

[Source: https://repository.up.ac.za/](https://repository.up.ac.za/)

Purpose of Guideline

INTOSAI-P 12 emphasises the importance of delivering value and benefits to citizens, encouraging the SAI to focus on adding value to the citizens. Auditors of the local government authorities could demonstrate that services are being delivered to the citizens through value-added reports.

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

In recent years, citizens across the continent have expressed dissatisfaction through mass demonstrations related to service delivery issues and concerns over clean audit reports that do not translate into actual services.

As SAI's, the big question remains: are we doing enough to ensure that those reports are adding value? I.e., they go beyond the financial standing, but also whether that financial standing is accompanied by service.

In recent years, our main stakeholders, including the Public Accounts Committee (PAC) and citizens, have become increasingly interested in SAI reports, not just financial reports, but also compliance and performance audit reports. This has prompted further, more detailed examination of service delivery issues.

AFROSAI-E, through the support it provides to all member SAIs, organised several interventions and interacted with auditors who have worked several times on auditing the local governance system. In these interactions, it became clear that auditors require guidance on how to approach the audit of local government to produce value-added reports; thus, the production of this guideline. It is, however, worth noting that this guideline does not encompass every possible theme within a local government. It highlights some of the key topics that auditors can address during the audit of local governments.

With these topics, the auditor is being sensitised to what could potentially go wrong and what the red flags are to look for. These are referred to as audit considerations in the relevant chapters.

1. SCOPE OF THE GUIDANCE

This guideline covers general audit considerations for conducting audits of service delivery within the 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

The list is not exhaustive, and the guideline aims to assist SAI in approaching these topics from an audit perspective and considering some relevant factors.

1.1 How to use the guidance

Auditors should use this guideline depending on the nature and scope of the audit to be undertaken. The guideline, throughout its various chapters, assists the auditor in determining the nature of the audit to be undertaken. This is achieved by identifying high-level audit considerations, in line with the approach and type of audit to be undertaken.

This guideline is not a separate audit methodology from the existing methodologies that SAIs currently use, i.e. the financial, compliance, and performance manuals. As indicated in the purpose, it highlights some of the key topics in local government and aims to sensitise SAIs on how to specifically address those issues.

This guideline provides a non-authoritative perspective on auditing service delivery in local government entities; it is not intended to be used as a substitute for existing methodologies, but rather as a supplement to assist auditors in auditing local government entities. The guideline does not address all types of services and should not be used to determine the scope. It aims 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 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))¹.

According to the South African Constitution and the Local Government: Municipal Structures Act 117 of 1998, an area must fall into one of the following categories: A (metropolitan municipalities), B (local municipalities), or C (district municipalities).

In Zambia, local governments are referred to as councils. Generally, city councils are located in areas with larger populations, while municipal councils cover suburban regions. District councils are in rural districts' areas (The Local Government Act, 2019)².

Figure 1: Examples of Local Government Entities



¹ https://www.constituteproject.org/constitution/Malawi_2017.pdf?lang=en

² <https://www.parliament.gov.zm/node/7947>

Zimbabwe’s local government is comprised of 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, 15 municipal councils and 84 district councils).

Figure 2. The local government structure in Uganda³

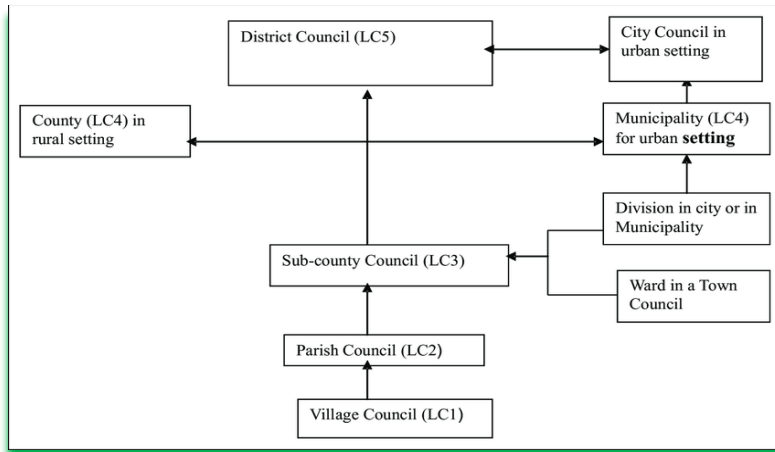
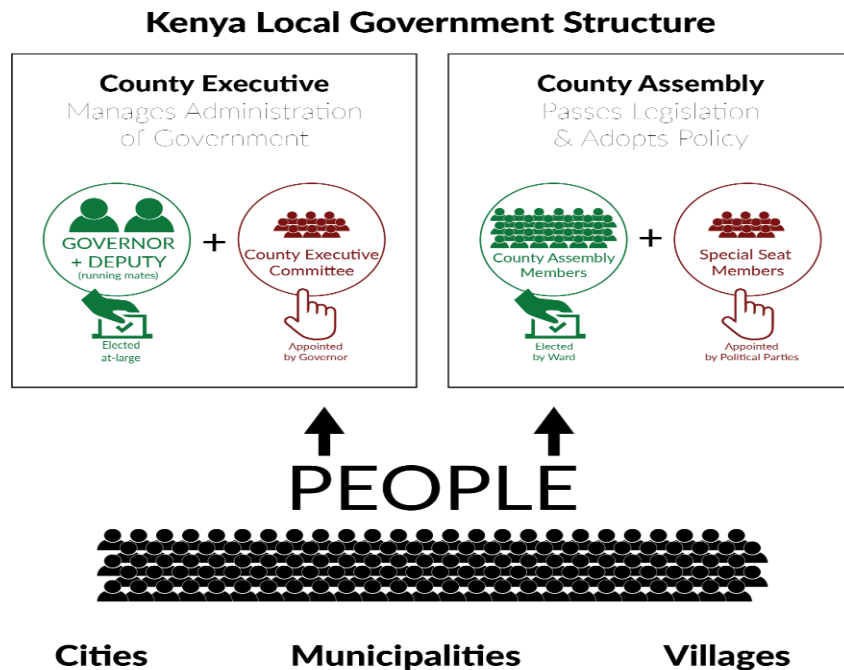


Figure 3. The local government structure in Kenya



³https://www.researchgate.net/figure/FIGURE1-The-Local-Government-structure-in-Uganda_fig1_228810453/download

In Kenya, governors are the chief executives of county governments who serve five-year terms and are 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, which is also referred to as "county ministers" or "cabinet." The county executive committee is comprised of professionals who head various technical departments within county governments.

Regardless of the structure or setup of a local government, what is more important is its mandate, as enshrined in the constitution, which is to serve its people with basic 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))⁴. Councils' mandates focus on developing local economies and delivering infrastructure and various services to residents within their jurisdiction.

⁴ <https://urbanlex.unhabitat.org/law/809>

3. OVERVIEW OF SERVICE DELIVERY IN LOCAL GOVERNMENT

3.1 Definition of Service Delivery

Service delivery is a mechanism used by an organisation to meet the needs and aspirations of the people it is meant to serve. (Principles of Service Delivery in Uganda’s Local Governments, 2013)⁵.

The legal framework is the backbone of the interrelationship between the central government, local government entities and other stakeholders, including the communities, which is crucial in ensuring good governance and sustainable service delivery.

Figure 4: Services under local government mandates

3.2 Service delivery process

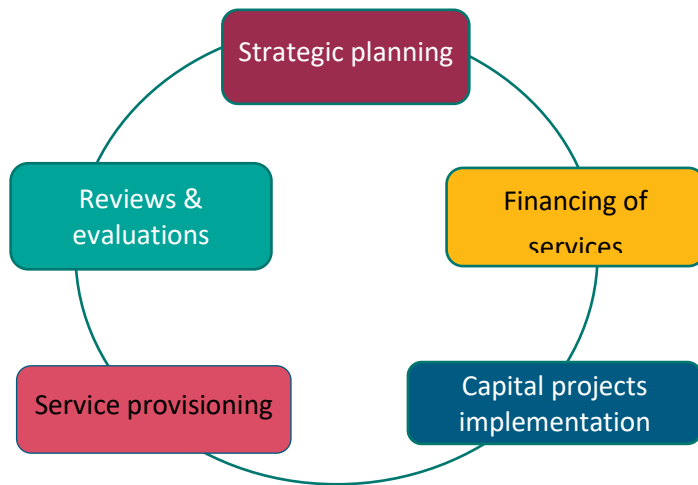


Service delivery processes are the set of interrelated activities that take place to perform a service. Therefore, it is crucial for SAI auditors to be aware of and gain an understanding of the sequential phases of the service delivery process.

5

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

Figure 5. Five-step service delivery process



i. Strategic Planning

Local Government should draw their service programmes from the national plan, e.g. the Zimbabwe National Development Strategy (NDS1)⁶. Therefore, entity strategic and operational plans should be well-linked to national priorities, incorporating particular services (stakeholder demands, environmental impacts, effects on human rights, and social issues).

ii. Financing activities

Planning alone does not deliver a service; thus, planned activities should be adequately funded (approved annual budget). For every planned activity, the focus is to match the costs with financial sources (budget slacks, unauthorised and wasteful expenditure).

iii. Capital implementation

Effective and efficient delivery of services primarily depends on the availability and adequacy of the relevant medium of service delivery (infrastructure assets). Managing and maintaining existing assets is crucial, while new acquisitions may be necessary in line with the entity's asset base and replacement policy. Additionally, assets used in service provision may be leased or acquired through partnerships.

iv. Delivering a service

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, as well as sound support mechanisms. However, while many cities have undergone

⁶ https://www.dpcorp.co.zw/assets/national-development-strategy-1_2021--2025_goz.pdf

substantial social, economic and physical transformation, the human and administrative capacities of municipal governments have failed to keep pace. The Auditor-General of Zimbabwe reported that several service delivery issues have been rising over the years, with a 13% increase witnessed from 2020 to 2021. (Zimbabwe OAG Local Authorities Report, 2021)⁷. Lack of skilled and experienced staff negatively affects service delivery.

v. Service delivery reviews and evaluations

Effective monitoring and evaluation of key mechanisms, flow systems, models and processes in place ensures effective service delivery and its sustainability into the future. In general, the Service Delivery Review Framework focuses on setting priorities, making informed choices – and, where possible, reducing the cost of delivery, while maintaining or improving services and service levels. Failure to do so may result in substandard or unacceptable performance, leading to a gap between the intended and achieved outcomes. This gap puts the value for money for a service at risk and may result in unintended consequences, such as community instability and unrest.

Figure 6. Service Delivery Review: Key step to Municipal resilience – Part II (BDO Canada, 2020)



Each of the steps above to be performed as part of the Service Delivery Review is designed to guide the staff of local government entities through the key stages of conducting the review. These stages reflect the logical decision-making process the municipality might follow when undertaking such an exercise.

3.3 Sources of local government revenues

Local governments require resources to finance the services and activities for which they are responsible. 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, excises) are usually assigned to central

⁷ <https://www.auditorgeneral.gov.zw/downloads/category/4-local-authorities>

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 local government are generally small.

Therefore, local revenue raising must be accompanied by a system of fiscal transfers from the centre to ensure that local governments have sufficient resources to perform 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, 70 per cent in Ghana, 78 percent in Uganda and 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 about 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; charges are normally related to the cost of providing the service.
- c) **Fees for permits and licences**, where the primary purpose is to regulate an activity, rather than to raise revenue, the costs 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 which are operated as commercial enterprises, and 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 local government, either based on their origin (where they were collected) or by formula.
- f) **Intergovernmental grants** of various types 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 provision of service delivery

The provision of sufficient, affordable and quality basic services is considered a core function of local government entities. However, in many countries, delivery is constrained by challenges of coordination, governance, financing and capacity, which are 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)⁸.

According to the 2021/2022 consolidated reports of SAIs in the region, the following challenges were identified:

Key challenges faced by local government in Uganda in delivering services

- Failure to fund operations of local authorities remains a challenge.
- Limited office space and inadequate office equipment

Key challenges faced by local government in South Africa in delivering services

- Local governments are financially distressed due to unpaid services and reduced funding.

3.5 Key players in the service delivery by local government entities

The provision of services by local government entities involves 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, namely: national governments, local government entities, SAIs, civil society, the private sector, and the informal sector. A critical review of each stakeholder group's roles and contributions is crucial in ensuring the quality of service delivery in an audit.

3.6 The importance of internal controls in the service delivery

For every local government entity that seeks to fulfil its mandate, it cannot shy away from ensuring that internal controls operate effectively and efficiently. Often, some of the root causes of services not being

⁸ <https://gsdrc.org/topic-guides/urban-governance/> <https://www.thecommonwealth-ilibrary.org/>

delivered to citizens have been breakdowns in internal controls within local government entities that were not addressed in a timely manner.

For example, the flouting of procurement regulations might signal a breakdown in internal control, which could potentially result in a service not being rendered at all or being substandard. Therefore, management should allocate more time to addressing the weaknesses in internal controls.

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

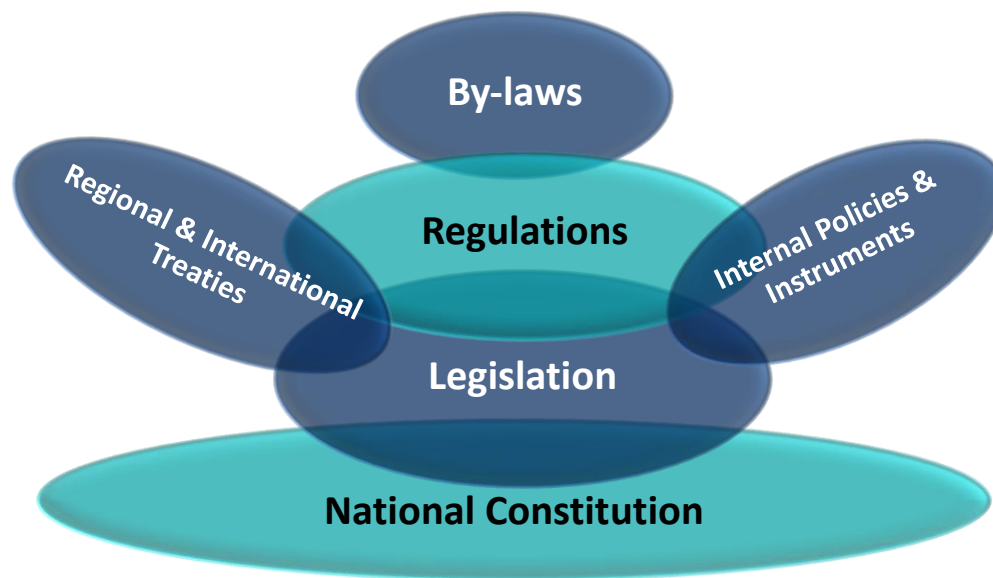
As this definition clearly indicates, internal control encompasses more than just accounting and financial matters. Compliance with laws and regulations is one of the three fundamental objectives of an organisation's system of internal controls. In the case of SAIs, as public sector auditors, PACs are increasingly questioning not just the financial numbers but also how SAIs add value when it comes to compliance and service delivery issues, as well as the impact on the ordinary citizen.

4. AUDITING THE SERVICE DELIVERY

4.1 Understand the Legal Mandate and Regulatory Framework

SAI auditors must understand the provisions of the national constitution and other applicable laws, regulations, policies, and procedures regarding the establishment and functions of the local government entity. This enables the auditor to understand the local government's mandate and determine whether it is fulfilling its responsibilities.

Figure 7. Local Government Legal Framework



4.2 Understand the Service Delivery Process

Planning. The provision of services by local government entities is derived from their mandate as set out in the national constitution and other governing acts. The auditor needs to confirm that the local government entity had an operational plan for a particular service, specifically whether the following were considered: local level priorities linked to national policies, stakeholder expectations, environmental and social impacts, as well as effects on human rights. Additionally, the auditor must confirm that funds were budgeted for the provision of services.

Implementation. Implementation is the key phase of any service provision. However, there may be bottlenecks in the effective provision of a particular service. Such hindrances may take the form of resource constraints (funds, logistics, human capital), governance structures, weak internal controls, and

instances of management overriding controls. The delivery processes may also be stalled by the inefficient utilisation of available resources (propriety and probity).

Monitoring and evaluation. The auditor must inquire about and assess the existence of a monitoring framework, confirming that there is ongoing monitoring and evaluation of the progress of services provided by the local government.

Reporting. Reporting on service delivery matters is key in informing various stakeholders on the local government entity's operations and utilisation of resources, promoting transparency and public accountability. The auditor needs to confirm that the reports are produced in a timely manner and relate to the plan.

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 there sound governance structures to support effective and efficient service delivery by local government entities?
- Do local government entities have approved annual budgets for key services and were key service activities adequately funded?
- In providing services, do local government entities comply with respective laws and regulations?
- How regularly do local government entities review and evaluate their service delivery systems, models/processes and activities?
- Are there sound and appropriate service delivery monitoring mechanisms in place?
- What environmental laws are applicable, and how are the entities working towards compliance with them?
- If certain services are delivered through PPPs and BoTs, is there adherence to service level agreements and obligations by the parties involved?
- Do the entities have a risk management system in place 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 for communities and other key stakeholders' participation in the service delivery systems?
- What IT systems are in place to assist in information and records maintenance for effective reporting and accountability purposes?
- Are there sound and effective internal and IT controls in place and functional to counter potential risks to the objectives of service delivery?
- Review and evaluate long-term strategies and plans in place to accommodate population growth and its demands, ensuring the sustainability of services in the future.
- Are there effectiveness and response rates to emergency calls for service breakdown and disasters?

4.4 Relationship with internal auditors - ⁹Combined assurance

In recent years, there has been a deliberate and constant discussion on the combined assurance between management, internal auditors and external auditors. This is a result of the belief that synergies can be leveraged from all the parties working together. Combined assurance should be sufficient to satisfy the audit committee that significant risks have been adequately addressed and that suitable internal controls are in place to mitigate these risks.

Figure 8. 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 audit is distinct from external audit, and both functions have their own value and expertise.

Without compromising on the requirements of the standards and where the environment permits, it is always encouraged to utilise the work of internal audit if external auditors consider factors such as objectivity, technical competence, and due care.

⁹ <https://oag.treasury.gov.za>

In some of these local authorities, the control environment is strong, and there are structures such as audit committees that are capable. It is always advisable for auditors to consider the work of internal auditors and identify any efficiencies that can be utilised. There is a growing trend among management to capitalise on the synergies between these assurance providers.

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. Considering some of the findings in these local authorities, it is evident that the **first line of defence** generally fails, resulting in findings that could have been avoided.

Within the local government, as mentioned above, risk management is an integral part of internal control, and as such, it is considered the **second line of defence**. This formal, robust, and effective risk management framework sets the organisation's policies and minimum standards. This serves as a warning to management to get its house in order before the third line of defence comes in. That's why local authorities that excel in their audit outcomes have effectively mastered these lines of defence.

Both the internal and external audit serve as **the third line of defence** in their respective roles as independent assurance providers over the control environment and independent assurance providers of statutory reporting, respectively.

In conclusion, for the combined assurance to be effective, every assurance provider must play its role efficiently and effectively.

5. AUDITING SPECIFIC KEY SERVICES

There are many areas that a SAI can focus on, depending on the environment and the risks identified during the long-term and 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 to follow for each particular focus area.

5.1 Audit of Water Management Services

Local government entities play a key role in providing access to adequate clean/potable water, as well as conserving and managing water sources and resources. In Africa, water challenges are exacerbated by droughts, pollution, waste, and inadequate 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)¹⁰.

Figure 9. Water provisioning flow



Source: Auditor-generated

¹⁰ https://www.un.org/waterforlifedecade/human_right_to_water.shtml

When auditing the activities of local government entities, SAls should also consider the provision of services intended for the public good, rather than as just a revenue stream for the local government.

i. Water sources and abstraction

Water sources may be under the management of another government department mandated for the construction and management of 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*])¹¹.

Specific considerations:

The auditor should look out for the following:

- What conditions are there that limit or restrict the extraction of adequate raw water?
- Is there adequate release of funding 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 to reservoirs. These processes require competent and adequate staff at all times, as well as a consistent energy/power supply. Additionally, the treatment plant's design capacity should be sufficient to treat the required amount to meet daily demands.

Specific considerations:

The auditor should look out for the following:

- Treatment plant/works design capacity against the demands for reliable services.
- Frequent stoppages of the treatment process due to a 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 services records and statistics are being maintained?
- What controls are in place to ensure adequate availability of water treatment inputs?
- Human capital competencies and ideal numbers in the water management function.

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

- What water service delivery models, modes and technology are in place?

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 for potential water contamination.

Specific considerations:

The auditor needs to look out for the following:

- Is there a reliable supply of adequate water meeting the demands for 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 security systems/personnel to secure the water points and reservoirs?

iv. **End user- metering and revenue**

Generally, water usage by consumers is charged at a subsidised tariff for 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 can still occur due to illegal connections and malfunctioning meters.

Specific considerations:

The auditor needs to look out for the following:

- 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 have the mandate to provide solid waste management services to all waste generators (Industries, institutions, hotels, restaurants, vendor markets, and households) under their 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 result in illegal dumps of waste, which become a problem for both the environment and the public.
- Illegal dumping of huge garbage drives biodegradable materials to decay and decompose under abnormal, uncontrolled and unhygienic conditions.
- Decomposed waste becomes a breeding ground for different types of disease-causing insects as well as infectious organisms.
- A foul smell is produced, and it also spoils the aesthetic value of the area.
- The solid wastes include toxic metals, chemicals, and other hazardous wastes, which, when released into the environment, can produce biological and physicochemical problems to the environment. The substances may seep into the soil and pollute the groundwater, as well as alter the soil's productivity in that particular area.
- Burning paper and other scraps, along with hazardous waste, releases dioxins and poisonous gases into the air, which can cause various diseases including chronic illnesses, skin infections, cancer, and more.

In managing solid waste, local government entities are encouraged to ensure sustainability in their efforts, including reducing, reusing, and recycling waste generated. Local government, by doing so, reduces the adverse per capita environmental impact of local government areas. The role of the auditor is to assess and analyse information collected and make recommendations.

SAI auditors must understand the system of solid waste management, which primarily refers to the complete process of collecting, treating, and disposing of solid waste. In the waste management process, waste is collected from various sources and disposed of. Therefore, it is important to gain an understanding of this process, which includes collection, transportation, treatment, analysis and disposal of waste.

Figure 10. Solid waste management: MCC 2020 Pilot audit



i. Generation of solid waste

The growth in industrialisation and population has led to an increase in waste generation. Waste generation encompasses all materials discarded, whether or not they are subsequently recycled or disposed of in a landfill. Daily solid waste is being generated in tons. Primary sources include domestic garbage, heavy and light industries, agricultural activities, medical institutions, and construction sites. As production in industries increases, more waste is generated. On the other hand, as informal vendor markets increase, solid waste generation in local government areas also increases. Auditors need to assess the plans and strategies in place to address the increased waste generation, as there is a direct relationship between growth in generation activities and an increase in solid waste generated.

Specific considerations:

The auditor should look out for the following:

- Are local government entities enforcing waste bylaws?
- How are the local government entities measuring the 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 systems for collecting and transporting solid waste for proper disposal. This implies that these entities should have a robust asset/equipment base, as well as scientifically engineered landfills, to enable collection, transportation, and disposal management in compliance with relevant laws and policies.

Specific considerations:

The auditor should look out for the following:

- Do the local government entities have a refuse collection schedule in place?
- 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 handling and disposing of solid waste varies across different countries. In any local government area, solid waste management is crucial for the safe disposal of waste and to minimise environmental pollution, thereby preventing health hazards that may arise. Landfills are the most common method of disposing of solid waste. Modern-day landfills are designed to consider various environmental factors and types of waste, aiming to minimise pollution and health risks. General municipal solid waste can be further divided into biodegradable, recyclable, and hazardous domestic waste. The industry-generated waste from chemical factories and medical waste from hospitals are considered hazardous solid waste and require special settings for disposal.

Specific considerations:

The auditor should look out for the following:

- Was the Local government entity using appropriate refuse disposal and management techniques?
- Are refuse management standard practices being adhered to?
- Is the disposal site/ landfill in compliance with the 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 for the recycling of solid waste?

5.3 Audit of Waste-water Management Services

Wastewater is a combination of one or more 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, storm water and other urban run-off (United Nations-Analytical Brief on Wastewater Management, 2015)¹².

The BOS 93:2012¹³, 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 very necessary.

Local governments play a crucial role in achieving the UN's Sustainable Development Goals (SDGs), particularly SDG 6, which focuses on water and sanitation. Poor Sanitation services in most parts of Africa are responsible for the myriads of diseases and health hazards faced by the population. Wastewater management is an important approach to protecting water resources, defined as the collection, treatment, and reuse of wastewater.

i. Collection of liquid waste

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

Specific considerations:

The auditor should look out for the following:

- Is the entity meeting the service levels in terms of 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 overflows of raw sewerage?

ii. Treatment of effluent

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

¹² <https://reliefweb.int/report/world/wastewater-management-un-water-analytical-brief>

¹³ https://afrosai-e.org.za/wp-content/uploads/2021/05/PA-Report-Management-of-Wastewater-Treatment_Botswana.2020.pdf

Specific considerations:

The auditor should look out for the following:

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

iii. Re-use of wastewater

Treated wastewater can be categorised into two types: 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:

The auditor should look out for the following:

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

5.4 Audit of Disaster Management and Recovery

SAls play a crucial role in ensuring accountability and transparency in the management of disasters at the local government level. The auditor needs to fully understand the factors that result in various types of disasters, including natural disasters, environmental emergencies, complex emergencies, and pandemic emergencies. The auditor should be able to address identified risks, considering both the immediate impacts and secondary impacts of the disaster. The auditor must assess the availability of strategic emergency management systems in local government to protect citizens and assets from hazards, ensuring their continuity and sustainability.

Figure 11. Disasters



Source: Auditor-generated

Disaster Management is a strategic planning and procedure that is administered and employed to protect critical infrastructures (also known as "critical assets") from severe damage when natural or human-made calamities and catastrophic events occur. At the local government level, policies are established to create an effective, reliable, integrated, flexible, and comprehensive system for alerting and warning the public.

General high-level audit considerations

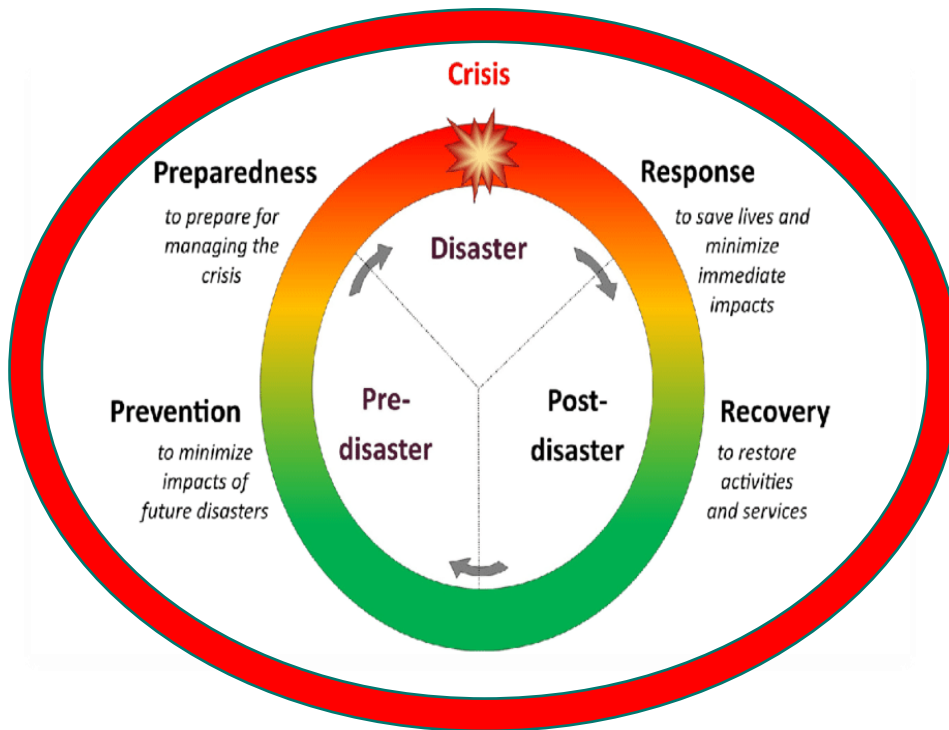
- What policies, disaster management plans and mechanisms are in place?
- How often are disaster risk assessments conducted?
- Are there disaster monitoring systems in place, and how effective are they?
- Are emergency contact details valid and have been updated regularly, e.g. ambulance, fire brigade, 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 the occurrence of a disaster?
- Are roles and responsibilities clearly defined among stakeholders for easy coordination?
- 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 as a whole, including an understanding of the importance of national and community resilience.

5.4.1 Audit of the disaster cycle and phases

The disaster management cycle typically consists of three broad phases: pre-disaster (prevention and preparedness), disaster occurrence (crisis and response), and post-disaster (recovery).

Figure 12. Disaster management phases



Source: Auditor-generated

i. Prevention/mitigation

This phase encompasses actions taken to prevent, mitigate, or reduce the causes, impacts, and consequences of disasters. Hazard mitigation includes tying down homes or barns with ground anchors to withstand wind damage, digging water channels to redirect water, and planting vegetation to absorb water, among other measures.

ii. Preparedness

Preparedness includes planning, training, and educational activities for events that cannot be mitigated. This involves developing disaster preparedness plans that outline what to do, where to go, and who to call for help in the event of a disaster, as well as exercising these plans through regular drills.

Specific audit considerations:

- What awareness systems are in place for alerting the public in case of a disaster?

- Was the local government disaster preparedness plan document shared between participants and stakeholders?
- What records are maintained as a disaster management tool?
- To what extent are the plan objectives aligned to and guided by the Sendai Framework for Disaster Risk Reduction 2015-2030?
- What level of training and awareness was provided?
- Are there disaster steering committees, and how effective are they?

Early warning system (EWS)¹⁴

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

iii. Crisis and response

Disasters can occur at any time, and depending on their severity, a crisis will ensue. 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 during an emergency, as well as the duration of the response phase, depend on the level of preparedness.

Specific audit considerations:

- What level of preparedness in terms of 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 immediately after a hazard impact to save lives, reduce economic losses, and alleviate suffering?
- How fast are the response actions - activating the emergency operations centre, evacuating threatened populations, opening shelters and providing mass care?
- Are the teams readily available and equipped for emergency rescue and medical care, firefighting, and urban search and rescue?

¹⁴ <https://preparecenter.org/topic/early-warning-systems/>

iv. Recovery

During the recovery period, restoration efforts occur concurrently with regular operations and activities. The recovery period from a disaster can be prolonged. Activities include reducing stress-related illnesses and excessive financial burdens, as well as rebuilding damaged structures using advanced knowledge gained from the preceding disaster.

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 assessment (RINA)¹⁵ conducted?
- Does the plan distinguish between prolonged and instant recovery activities?

5.4.2 Auditing disaster-related aid

Auditors need to be aware of emergency procedures which may be in operation during the emergency phase following a disaster. It may not be possible to comply with all relevant laws and regulations in emergencies, and auditors must consider the need to circumvent some rules in exceptional circumstances or due to force majeure, to prioritise the saving of lives and alleviation of human suffering.

Disaster-related aid can be received from public and private donors to those affected by a disaster (individuals, communities, organisations, or governments) in the form of cash or financial aid, in-kind aid, or a combination of these. Disaster aid can flow directly from donors to the affected communities or through one or more intermediary entities, which 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 given to the completeness of recording, accounting recognition, and governance accountability, as well as cases of fraud.

Specific audit considerations:

- What internal controls are in place to handle and utilise disaster-related aid?
- What mechanisms are in place to ensure aid reaches the intended beneficiary on time?
- What policies are in place to foster transparency and accountability?
- Are reliable and complete records of aid being maintained?

¹⁵ <https://www.gfdrr.org/en/publication/zimbabwe-rapid-impact-needs-assessment-2019>

- What feedback platforms are available for use by the affected communities?
- How effective are the operational procedures in dealing with emergency procurement and payments?
- What controls are in place to combat collusion, corruption and fraud in emergencies?

5.5 Audit of Infrastructure

Infrastructure refers to the fundamental facilities and systems that serve a country, city, or other area, including the services and facilities necessary for its economy to function. Infrastructure is composed of public and private physical improvements, including road networks and bridges, buildings (such as classrooms and health facilities), railways, water supply facilities, landfill sites, sewers, water treatment works, effluent networks (for soil water, industrial, and waste), and electrical grids. In general, it has also been defined as "the physical components of interrelated systems providing commodities and services essential to enable, sustain, or enhance societal living conditions".¹⁶

Figure 13. Infrastructure



Source: Auditors generated

5.5.1 Characteristics of infrastructure assets

Some infrastructures are commonly described as “infrastructural”. While there is no universally accepted definition of infrastructure, these infrastructures usually display some or all of 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.
- They may be subject to constraints on disposal.

¹⁶ <https://www.ipsasb.org>

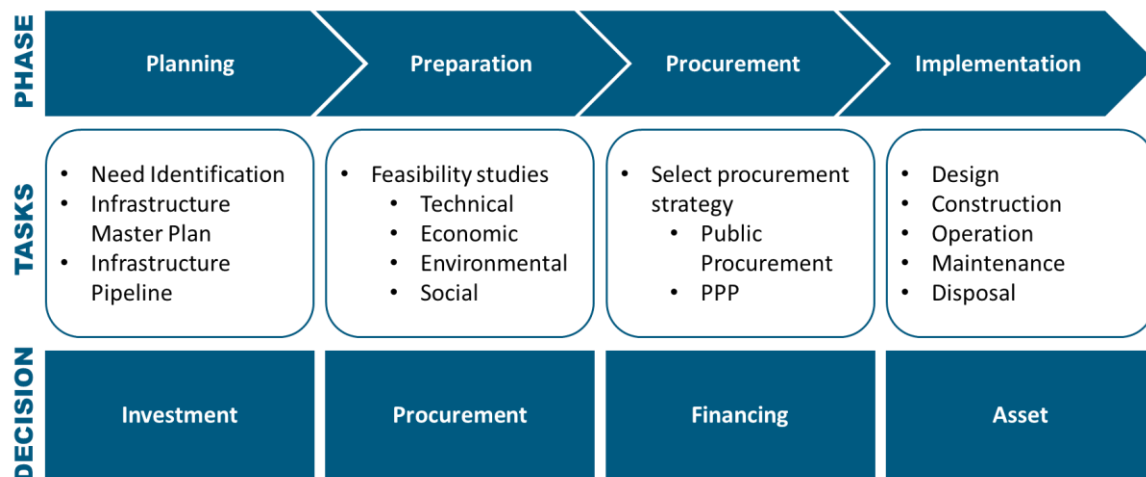
Infrastructure can be constructed through:

- Own development
- Implementing agent
- Private-public partnership

Ensuring the quality of infrastructure performance throughout the infrastructure life cycle is a significant challenge for many local governments. Good governance tools should be in place at all stages of a public infrastructure’s life cycle, starting from planning/ prioritisation, through funding, development/ construction, operation, maintenance, preservation, and decommissioning/disposal. However, local governments tend to focus more on infrastructure development and less on monitoring and evaluating the life cycle. Assessment, upgrade, and retrofitting of existing infrastructure to improve its environmental performance are particularly important for promoting 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 accountability of service providers.

5.5.2 Phases of the infrastructure project life cycle development/acquisition

Figure 14. Phases of the infrastructure project life cycle development/acquisition



Source: Research Gate

- Planning** with core activities, including needs identification and infrastructure master plan preparation. This leads to a decision of whether to invest in the infrastructure or not.

- ii. **Preparation** of feasibility studies that take care of technical, economic, environmental and social aspects. This leads to a decision on whether to continue with the procurement process or not.
- iii. **Procurement** and selection of service providers, with core activities, including a review of 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 regarding financing. If it is in-house built, then this does not apply.
- iv. **Implementation** of construction processes, with core activities, including pre-construction preparation/designs, construction works, and control and monitoring progress of construction works; construction product hand-over, with core activities: identification and preparation of product hand-over, acceptance of a product, project work transfer process, and documentation and administration of product hand-over. This stage involves the operation and maintenance of 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 stakeholders' views?
- Does project planning pave the way to funding and identification of 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, namely, understanding what was to be constructed and having a plan on how to build while maximising project resources?
- During planning, ensure that the project has resilience to time, usage, and obsolescence, changes in climate conditions, hazards and disasters are a critical feature of quality infrastructure.

ii. Specific considerations for the preparation stage

A feasibility study is an assessment of the practicality of a proposed plan or project. A feasibility study analyses the viability of a project to determine whether it is likely to succeed. The study is also designed to identify potential issues and problems that could arise from pursuing the project. A feasibility study also identifies potential threats, risks, and problems that may arise, and includes any significant changes that have occurred (e.g., acquisitions).

- Seasoned specialists carried out professional and 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 ownership of the project.

iii. Specific considerations for the procurement stage

- Ensure compliance with the applicable procurement laws and regulations.
- Confirm documentation and trail of the processes like procurement planning, procurement tendering and contract award.
- Ensure that monitoring project performance, including quality control, is conducted throughout the phases of the project life cycle.
- Ensure participation of other project stakeholders. Contractors should hold regular meetings with the operations and maintenance groups to ensure that their original project intentions are reasonably executed.
- For any modifications, ensure that approvals were made by the relevant authorities

iv. Specific considerations under the construction/implementation stage

The construction/implementation phase aims to produce a product that meets the project owner's specifications at a reasonable cost and within the agreed-upon timelines. The handover phase of the project results aims to ensure that the final project results conform to the contractual agreement and to evaluate the performance of all construction project stakeholders in relation to their needs.

Although every party is aware of its needs and thus supports the project's success, there are still issues related to the final phase of the infrastructure project life cycle. Frequent problems in the final phase of the infrastructure project life cycle include:

- Was the project delivered within the project timeframe?
- Appropriate drawings and specifications, and the completion of all tender documents.
- Was the project within the cost and quality standards, as agreed upon in the contract?

- Was there a clear demarcation of the roles, tasks, authorities, and responsibilities of the stakeholders during the infrastructure project implementation?
- Ensure approvals of completed work by relevant authorities before payments were effected.
- Look out for project activities that have been amended exceeding the job requirements; this is due to inaccurate project planning and control.
- That the project owner and regulators have actively played their roles at every sub-phase of handover of project results, covering re-reviewing project needs, conducting mutual checks, conducting commissioning tests, conducting partial handover until the final stage of project handover, and checking construction failure.
- Confirm that the results of the post-handover monitoring checks/snags are shared and addressed in a timely manner by the contractor.
- Confirm that relevant authorities duly confirm final payments.

v. **Use of infrastructure**

- Infrastructure management provides transparent, rational, and accountable cost-effective management of local government infrastructure systems with best value for money, saving unnecessary costs. In this capacity, infrastructure management could be viewed as a value management program at strategic and tactical levels.
- All infrastructures are subject to gradual wear or ageing. This depreciation in the value of the infrastructure occurs at varying speeds, depending on its nature. Without proper maintenance, infrastructure will deteriorate, resulting in suboptimal outputs and outcomes over time. Effective access to infrastructure will gradually decrease (for instance, in terms of the number of users the infrastructure can support), and service quality will also deteriorate.

Specific Considerations

The auditors will need to look out for the following:

- **A management plan** specifying the management practices and decision-making for cost-effective use and sustainability.
- **An implementation plan** should identify the short- and long-term objectives of infrastructure management, a work plan, roles and responsibilities, schedule and budget. Identifying, assessing and appropriately controlling risks.

- **Monitoring the performance** of the infrastructure to ensure that an adequate level of service is maintained over the long term and to assess the efficiency and effectiveness of the local government. There is defined responsibility and accountability for performance, safe custody and use of the infrastructures.
- **Management policy/strategy** adopted by the council that indicates the local authority's policy objective, the policy principles, and how these will be pursued.
- **For outsourced service providers, regular service contracts are in place with clear provisions outlining the level and quality of service to be rendered.**
- **Infrastructure register:** An accurate and updated inventory list of available Infrastructure, their costs, condition and location/utilisation.
- **A defined service quality/service level standard** for a particular activity or service area against which service performance may be measured. Service levels typically encompass quality, quantity, reliability, responsiveness, environmental acceptability, and cost.
- **Service life** refers to the period during which an infrastructure provides an acceptable level of service. The economic service life is defined as the period during which the present worth of the future maintenance costs equals the present worth of its replacement.
- **Leverage** on innovation and technology to improve the ability of local government to compile detailed inventories of their infrastructure, analyse the infrastructure condition, 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, ensuring the infrastructure can perform its required functions and achieve the intended service delivery objectives throughout its expected lifespan.

Spending on the maintenance and improvement of existing infrastructure supports their performance over time and sustains their quality, as perceived by the public. Such investments reduce infrastructure breakdowns; prevent system collapses while providing services to businesses and households, and support economic development.

Overall, the quality of infrastructure improves when maintenance spending is aligned with infrastructure use and 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.¹⁷

¹⁷ Chapter 3 Maintaining and Managing Public Infrastructure Assets IMF e_library

Figure 15. Challenges of inadequate or poorly maintained infrastructure.

			
<p><i>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.</i></p>	<p><i>The broken pipe and the high pressure ... Photo taken on 3 November 2011 by P. Feiereisen in Kariba, Zimbabwe. From Wikipedia, the free encyclopedia.</i></p>	<p><i>Broken down water supply in India¹⁸</i></p>	<p><i>Water supply challenges in Harare, Zimbabwe. ZimEye, September 24, 2019.</i></p>

Specific Considerations

- Is the infrastructure adequately maintained?
- Does the plan specify the local government's minimum requirements for the management of 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 efficiency and effectiveness of maintenance?

vii. Preservation

Public infrastructure is a foundation for economic development. Maintaining such infrastructures in good condition is critical. Infrastructure wears out with time and use. Neglected infrastructure will result in the

¹⁸

https://www.google.com/url?sa=i&url=https%3A%2F%2Fen.wikipedia.org%2Fwiki%2FFailures_of_water_supply_and_sanitation_systems&psig=AOvVaw2HWvVuwMIYCPdUYcncPuq&ust=1676713002194000&source=images&cd=vfe&ved=0CA4QjhxqFwoTCPjdhv6gnPOCFQAAAAAdAAAAABAI

degradation of the infrastructure, with negative effects on the economy, leading to greater reconstruction costs over time. The goal of maintenance is to preserve an infrastructure, not to upgrade it. It includes minor repairs (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 a timely manner and with the right amount of funding?
- Does the entity rehabilitate, such as works 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, repairing the infrastructure to deliver its original level of service without resorting to significant upgrading or renewal, using available techniques and standards.

viii. **Disposal/ Reinvestment**

Specific Considerations

- Has the local government entity made provision for replacement of an 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 are 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 through indicators to give an overall picture of whether it is financially viable in the foreseeable future.

This chapter will focus more on the indicators that are likely to affect the financial sustainability and the going concern.

To assist the auditor in drafting insightful overall comments, guidance on the interpretation of relevant indicators will be provided.

The results of the financial viability indicators/ratios are 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 essential to note that the financial viability assessment is based on audited information that is publicly available to any user of the financial statements who may wish to conduct a similar analysis. It therefore does not consider predictive, forward-looking information such as forecasts and projections, but rather provides a snapshot view as at the reporting date.

Indicators/ratios were therefore restricted to those that are directly relevant and key to conveying a message on the financial viability of a going concern.

Expenditure management

Creditors payment period

This indicator shows the average number of days it takes for creditors to be paid. A period of longer than 30 days indicates that the auditee may not be adequately managing its working capital or that effective controls are not in place to ensure prompt payments. In addition, a period of more than 30 days to settle creditors is normally an indication 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 more than 30 days to settle creditors may, in certain instances, be due to disputes, late payment processing, or other issues, which can result from inadequate financial management controls.

Revenue management

Debtors

This indicator reflects the average revenue collection period, i.e., the average number of days required for the auditee to receive payment from its consumers for bills or 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 in ensuring 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 collecting outstanding amounts due to it, which exposes it to cash flow risk and likely liquidity problems. These issues may lead to difficulties with going concern/ financial viability, as a significant amount of potential cash is tied up in consumer debtors.

Asset And Liability Management

Current ratio

The indicator is used to assess the auditee's ability to pay back 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 specific point.

If current liabilities exceed current assets, it highlights financial challenges and likely 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. A net current liability position may therefore be indicative of or lead to questions about the auditee's financial viability and its ability to continue operating optimally at its current capacity or as a going concern.

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 as the percentage increases.

A high percentage may be indicative that the auditee is experiencing cash flow problems, which could lead to potential difficulties with going concern/ financial viability. Additionally, it may indicate that the auditee is not adequately managing its working capital or that effective controls are not in place to ensure prompt payment to creditors.

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.
- Decline in the economy.

Depending on the financial statements and the understanding of the entity, the auditor may come up with the ratios to establish whether the local authority is viable in the foreseeable future.

¹ Source : Assessing the local Government Environment of Local Government in Africa