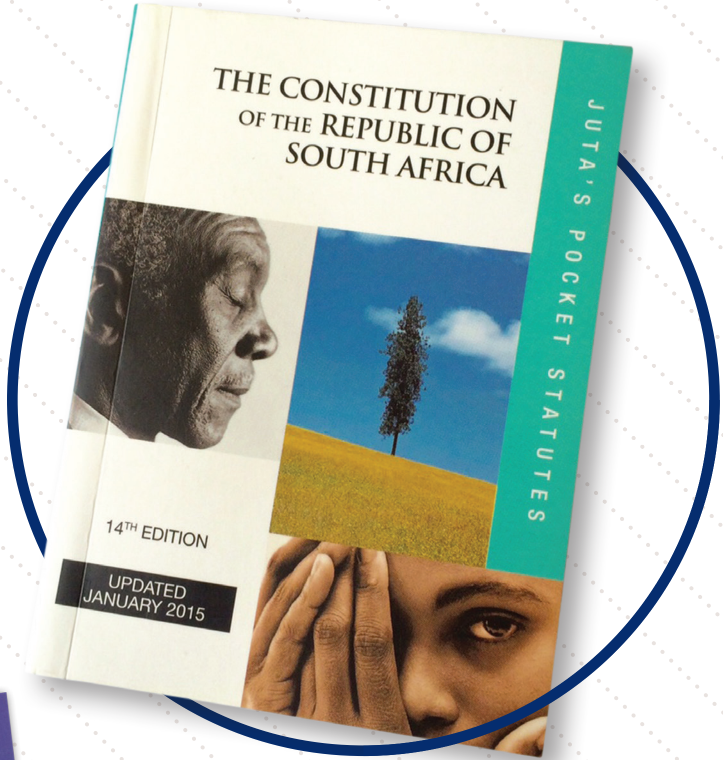
Citizens' Report
on the local government audit outcomes

MFMA 2019-20

AUDITOR-GENERAL
SOUTH AFRICA

Constitutional and legislative mandate of the AUDITOR-GENERAL OF SOUTH AFRICA (AGSA)

Chapter 9 of the Constitution of the Republic of South Africa of 1996 establishes the AGSA as one of the state institutions supporting constitutional democracy. The Constitution recognises the importance and guarantees the independence of the AGSA, stating that the AGSA must exercise its powers and perform its functions without fear, favour or prejudice.



The functions of the AGSA are described in section 188 of the Constitution and further regulated in the Public Audit Act of 2004, which mandates the AGSA to perform constitutional and other functions.

What this report is about

Dear Fellow Citizen

This is a report to you, as a citizen of South Africa, from the Auditor-General of South Africa (AGSA). Its purpose is to provide you with feedback on the audits we recently completed at municipalities around the country.

Each year, we conduct audits at the 257 municipalities in South Africa and then compile a general report that gives a bird's eye view of the audit outcomes across municipalities and the nine provinces.

This citizens' report is a summary of the audit results of municipalities for the financial year of 1 July 2019 to 30 June 2020.

What was different about our audits for this cycle was that we conducted them in the midst of the covid-19 pandemic, which affected the process in two ways. One was that the minister of Finance gave municipalities an extension to submit their annual financial statements and performance reports, which meant that the audits and our general report on the outcomes were finalised much later than usual. The other was that while conducting our normal municipal audits, we were also performing a special real-time audit of local government's covid-19 initiatives, at the request of President Cyril Ramaphosa.

You might find it helpful to read this citizens' report in conjunction with the citizens' report on our covid-19 audits, as many of the issues we found in our normal audits were also prevalent in the covid-19 audits.

As both reports show, financial management in local government is not in a good state. This is evident from our audit theme for 2019-20, Ethical and accountable leadership should drive the required change. The message we seek to get across through this theme is that the responsibility to turn local government around is purely in the hands of its leadership. To bring about change and create a culture of accountability, administrative and political leaders must step up and set the tone from the top.

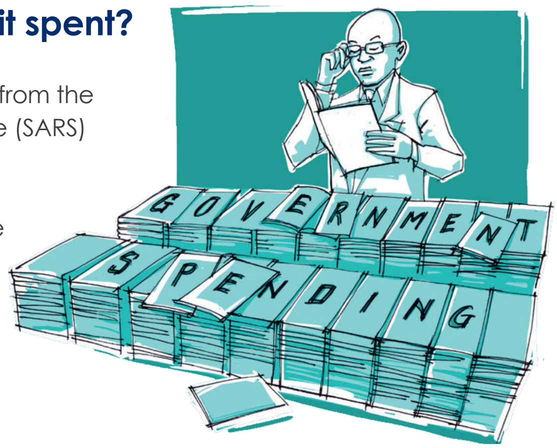
Only when there is accountability in local government will citizens be able to rely on municipalities to provide quality basic services, including water, electricity, sanitation, road repairs and public transport. As a citizen, there are a number of meaningful actions you can take to hold local government to account for its spending. Turn to page 45 for details.

Every effort has been made to keep this report reader-friendly, but using some auditing and financial management terms and words is unavoidable. For your convenience, we have included some frequently asked questions about the material irregularity process on page 47 to help you understand it better.

If you would like a more detailed view of the municipal audit outcomes for 2019-20, you can find the full general report on local government audit outcomes for the year on the AGSA's website at www.agsa.co.za.

Sincerely
Communication business unit

Where does the money come from and how is it spent?



The money that government spends comes from the public purse – from the taxes that citizens pay and which the South African Revenue Service (SARS) collects.

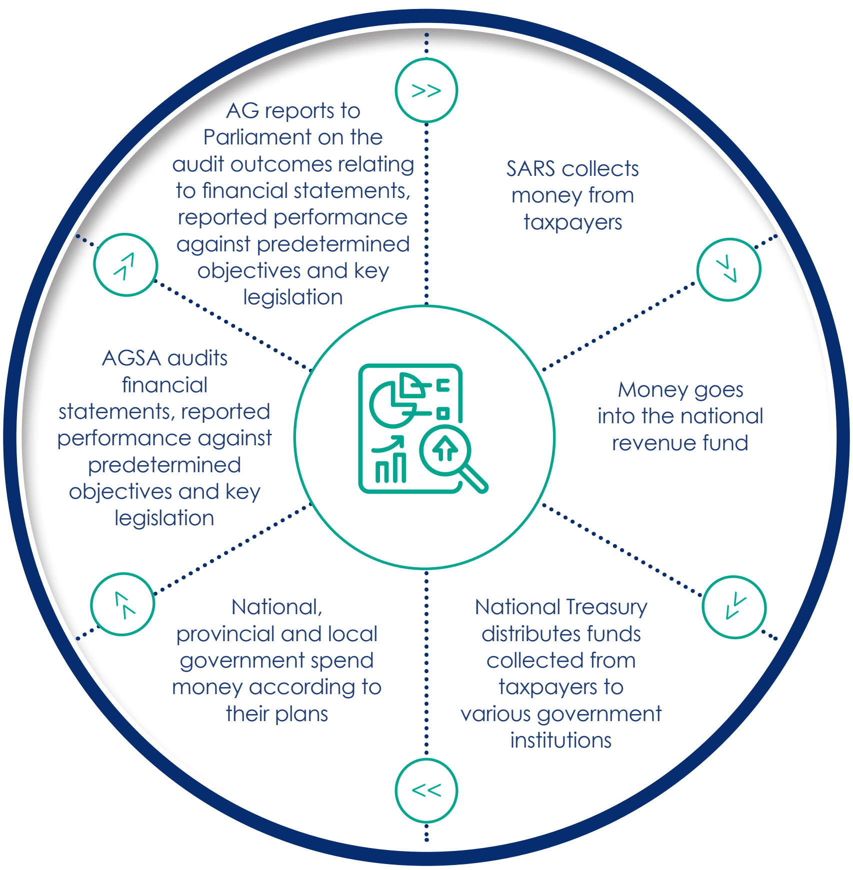
This tax money is intended to be spent on programmes that improve the quality of life of citizens through access to clean water, sanitation, electricity, safe and reliable transport, and so on.

The amount of money available for government service delivery is limited, but the demand is huge and ever-growing.

This means that the limited money available must be spent on the right things – on government's priority service delivery programmes and projects.

The following is a diagram that depicts where the money comes from and how it is spent, from the time SARS collects it from taxpayers to the time the AGSA audits and reports to Parliament on the financial statements, predetermined objectives and compliance with key legislation by municipalities and municipal entities.

Diagram 1



SECTION 01

SECTION 01

01

THE ROLE OF THE AGSA

Once a year, we audit every municipality and municipal entity in the country, further referred to as auditees.

Our auditors go through the financial statements and performance reports to check the quality and to see if they have complied with key laws on financial and performance management (such as the Municipal Finance Management Act).

People sometimes ask why the AGSA itself does not take action against the wrongdoers if an audit shows that money was wasted, misused or not properly accounted for. The answer is that we have a mandate, which comes from the Constitution and the Public Audit Act.

When auditing the financial statements, our aim is to give an opinion on whether users of the statements can rely on them to give a full, accurate picture of their spending.

Here is a quick summary of the five audit opinions that the AGSA can give, from best to worst:

1

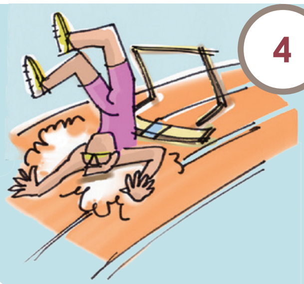
Financially unqualified opinion with no findings: The ideal – a clean audit – everything has been done the way it should be. There are no material misstatements in the financial statements and the auditee has complied with the law and reported properly on its performance objectives. A clean audit means the money has been used ideally and for the intended purpose. A clean audit also confirms that those charged with service delivery have created a solid foundation for the delivery of services and finances are unlikely to be the cause for delayed service where things are going wrong.

2

Financially unqualified opinion with findings: Not bad, but not ideal – here, the information in the financial statements is correct and complete, meaning there are no material misstatements. But there are 'material findings': problems with the auditee's performance reporting or non-compliance with the law, or both. This could compromise the auditee's accountability.

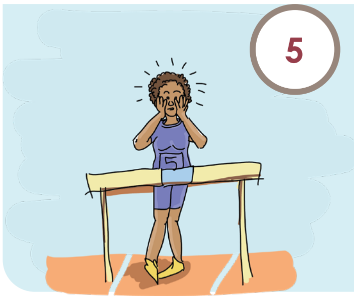
3

A financially qualified opinion with findings: The situation is worrying – the auditee did not manage and account for its finances to achieve the best results. The financial statements contain material misstatements about specific amounts, or there is insufficient evidence for the AGSA to conclude that the amounts are not materially misstated.



4

An adverse opinion with findings: Lots of problems everywhere – the auditee has not followed the correct rules and procedures and has not provided complete, correct information to account for its spending. There are a lot of material misstatements.



5

A disclaimed opinion with findings: The worst outcome – the finances are so badly managed that the auditee cannot even produce evidence (documentation) to support its financial statements.

6

Then there is a sixth category, **'outstanding audits'**, where financial statements were either submitted too late for the AGSA to audit or not submitted at all. This category is considered as bad as a disclaimer.

The things we look at are:

- Whether the financial statements fairly represent the key financial information for the financial year, using the correct reporting framework and in accordance with the law.
- Material misstatements (errors or omissions) that make it difficult to rely on the facts and figures in the financial statements.
- Whether the material errors or omissions could have been prevented or detected if a proper internal control system had been in place.

Sometimes, as you will read later in this report, an audit might show that public money has not been spent the way it should have been or the spender has not provided proper proof of how the money was spent. When this happens, the AGSA points out the problems in an audit report. After reporting on the findings, someone has to take responsibility for acting on our findings and recommendations.

These are the responsible people:

Senior management, including the chief financial officer, chief information officer and head of supply chain management, who are responsible for implementing internal controls.

Municipal managers and municipal entities' chief executive officers: their responsibilities include ensuring that steps are taken against officials who misspend public money. This is called 'effecting consequences'.

Mayors (including municipal councils): they have oversight and monitoring responsibilities, which include managing the performance of municipal managers and municipal entities' chief executive officers.

As far as municipal spending is concerned, the AGSA may do the following:

- Check all public spending yearly by conducting audits of municipalities' financial statements.
- Based on our audit findings, we give an opinion on how well or poorly the municipality concerned fared in the three areas listed below.
- In addition, based on the amendments made to the Public Audit Act, the auditor-general may now do the following:
    - Refer a suspected material irregularity to a public body with a mandate and powers that are suitable to investigate suspected material irregularities of that nature. Authorities with requisite investigative capacity and skills include the Public Protector, Special Investigations Unit, the Hawks and several others. The public body would deal with the matter within its own legal mandate and take appropriate action where necessary.

      OR
    - Make recommendations in the audit report on how a material irregularity should be addressed, within a stipulated period of time. If these recommendations have not been implemented by the stipulated date, the auditor-general must take binding remedial action; and if the material irregularity involves a financial loss, issue a directive to the accounting officer or accounting authority to quantify and recover the loss from the responsible person.
    - If the accounting officer or accounting authority fails to implement the remedial action, including a directive to quantify and recover a financial loss, the auditor-general must issue a certificate of debt in the name of the relevant accounting officer or members of an accounting authority. It is the responsibility of the relevant executive authority such as a minister, a member of the executive council or a municipal council, to recover the loss from the accounting officer or authority.

When we audit the financial statements, we check three areas:

- Have all the facts and figures been included and are these correct and accurate? This is about making sure that the financial statements give a fair presentation of the municipality's finances and that there are no material misstatements. (A material misstatement means that important information is wrong or missing, which could mislead the user of the statements.)
- Did the municipality provide reliable and credible information on the things it was supposed to do during the year (known as performance objectives or predetermined objectives)?
- Did the municipality comply with all the laws and regulations governing public finances? One of the most important of these laws is the Municipal Finance Management Act, which sets out how municipalities must manage and report on their finances.

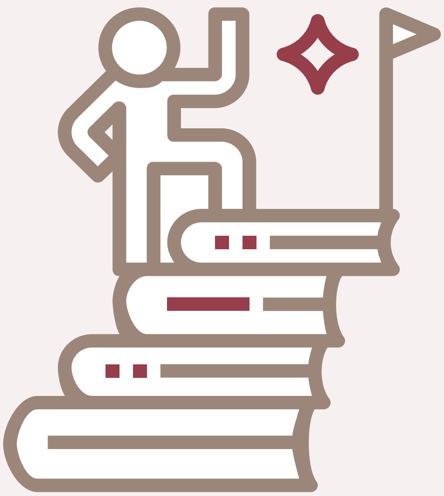
There are three kinds of problems that the auditors might flag about government spending. These are:

Unauthorised expenditure: spending that goes over budget or was not used for the purpose intended. This can be as a result of administration errors or accidents.

Irregular expenditure: spending that was incurred without complying with applicable legislation. This may be caused by procedures not being followed.

Fruitless and wasteful expenditure: pointless spending that could have been avoided. This can be simple things such as not paying suppliers on time and incurring interest.

How the AGSA makes a difference



- Demonstrating ongoing relevance to citizens and other stakeholders
- Building a model organisation through leading by example
- Strengthening the accountability, transparency and integrity of government and public entities

SECTION 02

INTRODUCTION

02

IF THEY CAN DO IT, WHY CAN'T OTHERS?

Seven municipalities across South Africa have earned clean audit opinions for at least four years, and some of them for longer. This is an extraordinary achievement considering how few of South Africa's municipalities have succeeded in obtaining a single clean audit opinion, and how many cannot yet prepare credible financial statements.

For the 2019-20 financial year, only 27 municipalities received clean audits – a mere 11% of the 200 municipalities with completed audits. Of these 27 standout municipalities, 12 received clean audits this year for the first time and 15 managed to sustain their clean audits from the previous year, including the seven municipalities that earned their fourth, fifth, sixth or even seventh clean audits.

PROVINCE	MUNICIPALITIES WITH CLEAN AUDITS FOR 2019-20
EC Eastern Cape	Elundini Local Municipality, Joe Gqabi District Municipality, Senqu Local Municipality
GP Gauteng	City of Ekurhuleni Metropolitan Municipality Midvaal Local Municipality (Sedibeng)
KZN KwaZulu-Natal	Okhahlamba Local Municipality (uThukela) uMhlatuze Local Municipality (uThungulu)
LP Limpopo	Capricorn District Municipality (Capricorn)
MP Mpumalanga	Ehlanzeni District Municipality (Ehlanzeni) Nkangala District Municipality (Nkangala) Steve Tshwete Local Municipality (Nkangala)
NC Northern Cape	Frances Baard District Municipality John Taolo Gaetsewe District Municipality ZF Mgcawu District Municipality

PROVINCE	MUNICIPALITIES WITH CLEAN AUDITS FOR 2019-20
 Western Cape	Cape Winelands District Municipality Central Karoo District Municipality Breede Valley Local Municipality (Cape Winelands) Cape Agulhas Local Municipality (Overberg) Drakenstein Local Municipality (Cape Winelands) Langeberg Local Municipality (Cape Winelands) Mossel Bay Local Municipality (Garden Route) Overstrand Local Municipality (Overberg) Prince Albert Local Municipality (Central Karoo) Saldanha Bay Local Municipality (West Coast) Swartland Local Municipality (West Coast) Swellendam Local Municipality (Overberg) Theewaterskloof Local Municipality (Overberg) Witzenberg Local Municipality (Cape Winelands)

What the seven municipalities with four to seven clean audits did so well

Looking closer at the handful of municipalities with an established record of consecutive clean audits, it becomes clear that they did not need to do anything exceptional to achieve those results.

What they did was produce accurate, complete and credible financial statements, report reliably on how they performed against their objectives for the year, and comply with the financial and procurement laws and regulations that apply to municipalities.

The question that needs to be asked is: "If they can do it, why can't others?"

Well, others can. By following the AGSA's guidance and the example of those who do well year after year, other municipalities can also work towards high-quality financial management and performance reporting and, ultimately, clean audit opinions.

Why does this matter? Because the financial statements and the performance report of a municipality tell the story of how well it is managed.

This can be a story of disciplined spending that achieves value for money, sees commitments to creditors being honoured and meets the needs of the community through the delivery of essential services as promised.

With a few exceptions, the story unfolding at municipalities is not a happy one of disciplined spending and services delivered. It is a tale of local authorities crippled by debt, unable to pay for water and electricity, and depending on grants and assistance from national government to keep going.

If the many struggling municipalities were to start emulating the best practices of the few who are doing well, the storyline would change. That is why this citizens' report starts out on a positive note, highlighting the good-news stories of the seven municipalities that have consistently prepared credible financial statements and performance reports, and complied with legislation.

Here are the stories of these municipalities, one each in the Eastern Cape, Gauteng and KwaZulu-Natal, and four in the Western Cape.

Senqu, Eastern Cape

- Senqu has an experienced leadership team; both the municipal manager and chief financial officer have 15 years' experience in local government.
- Vacancies are filled without unnecessary delays.
- The internal audit unit is fully functional and implements standardised controls in procurement.
- Responsibilities are segregated so that officials can be held accountable.
- In the middle of each financial year, the municipality compiles a plan for the preparation of the financial statements, ensuring that correct processes are followed.
- The municipal public accounts committee is fully functional, probes municipal affairs and solicits relevant answers from management.
- Senqu has an efficient disciplinary board that includes members of the provincial treasury and legal services and holds officials to account for their actions and responsibilities.

Midvaal, Gauteng

- This municipality has institutionalised the daily disciplines of financial performance and compliance controls.
- These controls are embedded in the control environment so that even the effect of the covid-19 pandemic did not prevent Midvaal from sustaining its clean audit status.
- The finance unit is adequately capacitated with competent staff who produce quality financial statements.
- The internal audit function plays the vital role of ensuring that the design and implementation of key controls are working effectively.
- The administrative and political leadership sets a strong tone at the top.
- There is a strong culture of high performance.

Okhahlamba, KwaZulu-Natal

- Key controls are institutionalised and monitored, with systems in place for records management, reviews and reporting processes.
- Compliance with legislation and policies is continually monitored and embedded in day-to-day activities.
- The internal audit unit and audit committee are adequately resourced.
- The finance team is adequately resourced and understands what needs to be done.
- Quarterly financial statements are prepared and reviewed by internal audit and the audit committee.

Witzenberg, Western Cape

- A strong leadership sets the tone at the top, with the municipal manager actively involved in all areas of the municipality, including the audit process.
- This has enabled a strong control environment and a culture of accountability.
- The internal audit unit is well capacitated and the audit committee has the appropriate financial, legal and information technology skills.
- The municipal public accounts committee is well resourced and the council is effective.
- Processes and procedures are institutionalised and policies are updated regularly to ensure clean administration.
- Job descriptions are well defined and staff members are aware of their individual roles and have good institutional knowledge of the municipality.
- There are consequences for transgressing policies and processes in the form of adequate disciplinary action.

Cape Agulhas, Western Cape

- All audit findings are taken seriously and processes are put in place to resolve findings and address the internal control deficiencies that gave rise to them.
- The municipal manager and the chief financial officer are fully engaged in the audit process and provide extensive support to the process.
- The management team and staff have remained stable for a number of years, ensuring continuity and high levels of institutional knowledge. (The change in municipal manager during 2019-20 had no impact on the municipality's operations and ability to maintain a clean administration.)
- Management and staff of the municipality consider the audit outcome as a "management tool" to improve themselves, not as a threat.

Cape Winelands District, Western Cape

- The proactive attitude of senior management and those charged with governance has enabled the municipality to avoid repeat audit findings within the control environment.
- The approach of management and those responsible for governance has been to ensure the effective implementation of policies and procedures, and to be actively involved throughout the audit process.
- They address audit findings together by monitoring management's action plans.
- Every quarter, the leadership engages management on the progress of the action plans in order to improve the control environment.

Overstrand, Western Cape

- Sound and effective policies and procedures have been implemented.
- Internal financial controls have been institutionalised, inherently creating an environment of effective leadership over financial governance, performance and compliance with legislation.
- The use of governance structures has assisted the municipality to respond adequately to key risk areas and address deficiencies identified proactively. These were then monitored through management's action plans.

Looking at the best practices of these seven municipalities, what all of them have in common is effective, involved leadership that sets the tone from the top. This ties up neatly with the theme of the auditor-general's general report on the local government audit outcomes for 2019-20, which was Ethical and accountable leadership should drive the required change.

What becomes very clear on each page of this citizens' report, is that change is sorely needed in the way municipalities manage their financial affairs.

GOOD NEWS STORIES ARE NOT THE NORM AMONG SOUTH AFRICAN MUNICIPALITIES

The positive stories of the few municipalities that are managing their finances well are not the norm. Local government finances are under severe pressure and are not being managed as they should be. The situation is extremely serious.

The financial position of just over 25% of the municipalities we audited in 2019-20 is so dire that there are real doubts over whether they will be able to continue operating as a going concern in the near future. Over 50% of the other municipalities are showing signs of financial strain.

In short, there are increasing signs of a collapse in local government finances.

The financial difficulties of many municipalities are not a sudden development. Their financial problems have been a long time coming and the AGSA has been warning, year after year, that the state of local government finances is worsening with each passing year. We have not only voiced concerns; we have also offered solutions.

Here are the four main solutions we have been recommending for municipalities – in fact, all government auditees – repeatedly:

- **Invest in preventative controls:** prevention is more effective than having to deal with the impact of accountability failures, such as financial loss, fraud and corruption, the misuse of public resources, and service delivery failures.
- **Significantly improve monitoring, review and oversight:** senior officials, municipal leaders and

councils must step up to turn the tide of poor financial management and reporting.

- **Use our reports, briefings and engagements** to identify the key areas that need attention and would benefit most from preventative controls. Our status-of-record reviews, for example, alert municipalities to risks during the year and act as an early warning signal.
- **Implement consequences for accountability failures:** it is important to create an environment in which transgressions and poor performance are dealt with appropriately to set the standards for the public service and act as a deterrent to wrongdoing.

Unfortunately, there is little evidence of our messages being taken to heart. The accountability failures continue and the improvements needed to prevent or deal with them are not being taken at most of the municipalities.

Here are some of the worrying trends that have been apparent for several years and worsened in 2019-20.

Still not getting the basics right

South Africa's 257 municipalities had an estimated expenditure budget of R719 billion in 2019-20. This is a vast amount of money and, understandably, they have to account for how they spend it. A basic legal requirement for every municipality is to prepare accurate, complete annual financial statements that mayors, councils, the National Treasury and lenders can use to make financial decisions.

The reality is that most municipalities struggle to produce credible financial statements and some also battle to do so on time.

Late statements and delayed audits

The time factor is critical. By law, municipalities must submit their financial statements for auditing two months after the end of the financial year on 30 June. The annual audit must then be completed two months after that.

That is under normal circumstances. Under covid-19 pandemic conditions, the timelines were different. The finance minister gave municipalities an extra two months to submit their financial statements, and also extended the deadline for completing the audits by another two months. This meant the audits had to be completed by 31 December 2020 for most municipalities and by 31 January 2021 for 35 municipalities with consolidated statements.

However, by 23 April 2021, 57 audits were still outstanding and did not make the cut-off point for inclusion in the AGSA's general report on the municipal audit outcomes for 2019-20.

There were three main reasons for the delays: 18 municipalities were late with their financial statements, we experienced audit-related delays at 17 municipalities and 22 audits were delayed on the side of the auditees.

As a result, instead of being able to report on the outcomes of all 257 municipalities, we could only report on 200.

Among those 200 completed audits, we found numerous shortcomings, as is evident from the poor overall audit outcomes.

Outcomes are worse than four years ago

Most municipalities are now in a worse position than they were four years ago.

For example:
In 2016-17, there were 33 municipalities with clean audits, compared to 27 today.

Where 114 municipalities had unqualified audit outcomes four years ago, this has dropped sharply to only 89.

On the other hand, there were fewer disclaimed audit opinions (the worst outcome) in the latest audit cycle, with 12 disclaimed opinions compared to 32 in 2016-17.

There is more to this apparent change than meets the eye. Many municipalities that have repeatedly received disclaimed opinions were among the 57 audits not yet completed by the cut-off date in April 2021. When some of these audits were eventually finalised by 4 June 2021, we issued 10 more disclaimed opinions.

On top of that, another four municipalities that habitually received disclaimed audit opinions had still not even submitted their financial statements for 2019-20 by June 2021.

This means the problem of certain municipalities receiving disclaimed opinions year after year has not improved.

All in all, the latest municipal audit outcomes were uninspiring, to put it mildly.

What went wrong?

There were serious shortcomings across the three main areas of our audits: quality of financial statements, quality of performance reporting and compliance with legislation.

Financial reporting: low on skills, high on costs

Most municipalities have still not mastered financial reporting, with only 28% able to provide us with quality financial statements to audit in 2019-20. This is despite the huge amount of money spent on financial management and reporting, both on paying the salaries of municipal financial officers and on hiring consultants.

In total, municipalities spent R5,59 billion on financial management and reporting in 2019-20, which was substantially more than the already high R847 million spent in the previous year. Of this, R4,57 billion was used for staff salaries and just over R1,02 billion on appointing financial consultants.

The trend of hiring consultants to prepare financial statements is growing, including at municipalities with fully staffed finance units. Four years ago, 62% of municipalities were using financial reporting consultants; this has since climbed to 78% of municipalities.

What makes the escalating cost of financial management and reporting even more worrying is that there is no evidence of skills transfer taking place between consultants and municipal officials.

It is time to ask difficult questions about underperformance by finance units and the value derived from the billions of rands spent on financial reporting.

Performance reporting on shaky ground

Over 76% of municipalities were unable to submit credible performance reports on their service delivery plans against their objectives and targets for 2019-20. A further four municipalities did not submit performance reports to us at all.

We attribute this poor performance to municipalities lacking adequate systems to collate and report on their performance information, and to municipal officials not understanding or applying the requirements.

When credible performance reporting is lacking, oversight bodies and the public cannot use these reports to hold municipalities accountable for the service delivery promises they make.

Few complied with legislation

In 2019-20, our audit teams again observed widespread non-compliance with legislation, with serious (material) non-compliance reported at 86% of municipalities.

As in previous years, non-compliance with supply chain management (SCM) requirements was common. We reported findings on uncompetitive and unfair procurement at 84% of the 200 municipalities audited, and contract management findings at 44%.

There is still a tendency among municipalities to do nothing to deal with non-compliance. Although they are bound by law to ensure there are consequences when legislation is not honoured, more than 60% did not do so.

One of the most common problem areas was the failure to investigate unauthorised, irregular, and fruitless and wasteful expenditure:

- 96 municipalities (48%) did not investigate the previous year's irregular expenditure
- 88 (44%) did not investigate fruitless and wasteful expenditure
- 80 (40%) did not investigate the previous year's unauthorised expenditure.

The impact of this inaction is significant, as we have seen from the ongoing increases in irregular, unauthorised, and fruitless and wasteful expenditure.

Irregular expenditure climbs unchecked

Considering the lack of action taken when officials do not comply with the law, it comes as no real surprise that irregular expenditure disclosed for 2019-20 ballooned to R26 billion.

The actual amount could be even higher. Questions still remain over irregular expenditure, as more than a third of the municipalities were either qualified on the completeness of disclosures on irregular expenditure or they were still investigating.

On top of that, we could not audit contracts or quotations worth R1,43 billion because the procurement paperwork was not forthcoming.

Furthermore, because of some municipalities' failure to investigate irregular expenditure in previous years, the closing balance of irregular expenditure at municipalities since 2016-17 now stands at R70 billion.

The table below lists the top 10 contributors to irregular expenditure in 2019-20.

MUNICIPALITY	IRREGULAR EXPENDITURE DISCLOSED
City of Tshwane Metro, Gauteng	R2,53 billion
Mangaung Metro*, Free State	R1,60 billion
Nelson Mandela Bay Metro, Eastern Cape	R1,37 billion
eThekwini Metro, KwaZulu-Natal	R1,07 billion
City of Johannesburg Metro, Gauteng	R1,05 billion
Ngaka Modiri Molema District*, North West	R0,87 billion
OR Tambo District, Eastern Cape	R0,70 billion
City of Cape Town Metro, Western Cape	R0,67 billion
Moses Kotane, North West	R0,62 billion
Rustenburg*, North West	R0,57 billion

*Audits still outstanding or finalised after cut-off date of report

Fruitless and wasteful spending still on the rise

In 2019-20, fruitless and wasteful expenditure at 174 municipalities totalled R3,47 billion.

As with irregular expenditure, the real amount could be higher because the completeness of the amounts of expenditure disclosed by nine municipalities was questionable.

A substantial portion of the R3,47 billion wasted was due to interest and penalties for late payment of suppliers and creditors. This was the case for 69% of the municipalities, which, together, paid R1,35 billion in interest and penalties.

Another major source of fruitless and wasteful expenditure was claims and litigation against municipalities. This amounted to R400 million at 2% of the municipalities, and R58 million spent by 29% of the municipalities on payments to suspended employees and to write off assets that had never been used.

The next table shows the municipalities with the highest fruitless and wasteful expenditure in 2019-20.

MUNICIPALITY AND PROVINCE	AMOUNT OF FRUITLESS AND WASTEFUL EXPENDITURE
Emalahleni*, Mpumalanga	R0,33 billion
City of Tshwane Metro, Gauteng	R0,30 billion
Matihabeng, Free State	R0,28 billion
Emfuleni*, Gauteng	R0,23 billion
Govan Mbeki, Mpumalanga	R0,20 billion
Naledi, North West	R0,17 billion
Lekwa*, Mpumalanga	R0,12 billion
Nelson Mandela Bay Metro, Eastern Cape	R0,09 billion
Mopani District, Limpopo	R0,07 billion
Msukaligwa	R0,07 billion
Matlosana*, North West	R0,07 billion

*Audits still outstanding or finalised after cut-off date of report

Unauthorised expenditure reaches R22 billion … and counting

Many municipalities owed creditors more money than they had in the bank; therefore, they started using the following year's budget to cover expenditure in the current year. This expenditure was either not budgeted for or was taken from government grants – even though it did not meet the conditions of a grant.

Unauthorised expenditure totalling R22 billion occurred at 175 municipalities in 2019-20. Again, the actual amount could be higher because incomplete disclosure of this expenditure was the reason why 14 municipalities received qualified audit opinions.

The table below lists the top 10 municipalities with the highest amounts of unauthorised expenditure

MUNICIPALITY AND PROVINCE	AMOUNT OF FRUITLESS AND WASTEFUL EXPENDITURE
City of Tshwane Metro, Gauteng	R2,25 billion
eThekwini Metro, KwaZulu-Natal	R1,78 billion
Emfuleni*, Gauteng	R1,65 billion
Matihabeng, Free State	R1,50 billion
Mangaung Metro*, Free State	R1,17 billion
Vhembe District, Limpopo	R0,73 billion
Msunduzi, KwaZulu-Natal	R0,56 billion
Govan Mbeki, Mpumalanga	R0,55 billion
Enoch Mgijima, Eastern Cape	R0,48 billion
Matlosana*, North West	R0,48 billion

*Audits still outstanding or finalised after the cut-off date of report

Paying their water and electricity bills is not a top priority

For many cash-strapped municipalities with little money in the bank, the first priority is to pay staff salaries and councillor compensation. The total salary bill of the 200 municipalities we audited in 2019-20 was R74,40 billion, which represents 46% of their estimated recoverable revenue.

With what little money is left, they then pay their suppliers, including suppliers of essential services such as Eskom and the water boards. The arrear amounts that municipalities owed to Eskom amounted to about R12,41 billion in 2019-20, including interest owed of R2,26 billion. Almost two-thirds of their Eskom debt had been outstanding for over 120 days, adding to Eskom's own financial difficulties. As for their water bills, municipalities owed R8,78 billion, including interest of approximately R700 million. Most of this debt had been in arrears for over 120 days.

As the external auditors of municipalities, the AGSA is also affected by their cash flow challenges as the payments for our services are often late, potentially putting our own finances in jeopardy.

At some municipalities, there are delays in making payments to the South African Revenue Service and there are even municipalities that do not transfer pension contributions to the pension funds of their employees.

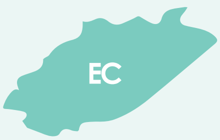
In the end, financially distressed municipalities have very little money to spare for service delivery, resulting in service delivery disruptions and protests.

SECTION 03

THE POSITION IN THE PROVINCES 03

Each of the country's nine provinces is unique, but when it comes to their municipal audit outcomes, they all have one thing in common: the need for leadership, municipal and provincial, to step up and turn the tide.

This is so even in the provinces whose outcomes improved. As the summaries below show, there is plenty of room for improvement in the control environments of most municipalities.



EASTERN CAPE

Improvement in outcomes, but this might not be sustainable due to poor control environments

The key message from our previous audit was the widespread lack of financial controls and project management within the Eastern Cape, contributing to the deteriorating state of financial affairs and accountability failures in local government. While there were a number of improved audit outcomes in 2019-20, this might not be sustainable, as most of these municipalities had not embedded the necessary preventative and detective controls.

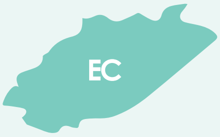
The majority of municipalities, including most of those with improved audit outcomes, submitted financial statements containing material misstatements, which required adjustments to achieve better outcomes. Management did not adequately implement and monitor action plans to improve the control environments; therefore, the lack of standardised processes, poor record management and inadequate review and reconciliation of financial and performance reports persisted.

A large number of municipalities did not apply strong financial discipline and then used consultants when there were municipal staff who should have performed some of these functions.

Material non-compliance was reported at 95% of the province's municipalities. Irregular expenditure also remained high at R3,6 billion. This amount may not be complete as 15 municipalities (41%) were qualified on the completeness of this disclosure. The vast majority of irregular expenditure stems from non-compliance with supply chain management prescripts.

Municipalities have not sufficiently dealt with the escalating irregular expenditure, as only R3,7 billion of the prior year's closing balance of R28,1 billion had been investigated and written off by the council. Nelson Mandela Bay Metro reported the highest closing balance for irregular expenditure at R17,7 billion.

The poor control environments and the leadership's inability to take action against transgressors led to the identification of material irregularities, which resulted in financial losses. These financial losses arose from not billing consumers for services rendered, making payments for goods that were not received and incurring interest due to late payments to Eskom and the South African Revenue Service.



The accountability failures also had a negative impact on service delivery. An example was a water supply scheme project which is now complete, but no water is available to the community concerned.

The financial health of municipalities continued to deteriorate, with an increase in the number of municipalities facing financial difficulties. Municipalities' inability to recover money from consumers for services rendered compounded these financial difficulties and resulted in delays in paying their creditors.

Our key message to municipal managers and senior management is that they should implement a proactive approach to identify risks affecting their municipalities and ensure that these risks are mitigated by implementing preventative controls. This will have a positive impact on strengthening their control environment.

Eastern Cape municipalities to watch for the right reasons

Elundini improved to a clean audit opinion from an unqualified opinion with findings, as basic internal control disciplines were entrenched in the daily and monthly activities, and reinforced by a strong tone set by the leadership through holding officials liable for their transgressions. Senqu continued to maintain its clean audit due the strong tone set by the leadership in addressing reported deficiencies and holding officials accountable for non-performance and transgressions.

Improve and focus on controls for sustainable outcomes

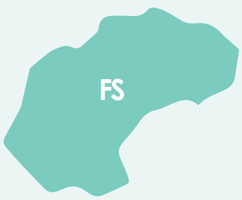
FREE STATE

A lack of accountability creates a perpetual disrespect for regulations, resulting in mismanagement of resources and a lack of service delivery.

Overall, the audit outcomes have regressed since 2016-17 and the province has not achieved a clean audit since Fezile Dabi District's clean audit in 2015-16. Some municipalities fluctuated between audit outcomes, improving one year, but then regressing the next. This confirmed that when audit outcomes improved, they were not sustainable or were due to an improvement in the underlying control environment.

It is also concerning that a number of municipalities had stagnated on qualified opinions for three consecutive years.

Reporting on performance information had not been prioritised, as most municipalities were still not able to report reliably on the achievement of their service delivery goals.



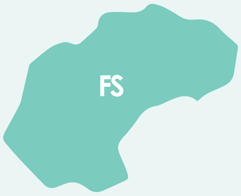
Municipalities' unwillingness to comply with legislation was confirmed by the fact that since 2016-17, we have raised material findings on non-compliance with legislation, mostly relating to supply chain management, at all 15 municipalities with completed audits. This clearly indicates a deliberate lack of accountability by political and administrative leadership to address the root causes of findings.

Since 2016-17, we have recommended that the leadership should set the correct tone from the top by implementing and adhering to good governance practices, enforcing a culture of ethical behaviour and effecting consequences for poor performance or misconduct, especially to curb pervasive non-compliance with legislation. We have engaged extensively with the collective management and municipal leadership, including their audit committees. In spite of all these efforts, the political and administrative leadership's inaction created a deliberate obstruction to the effective functioning of municipalities.

The lack of leadership tone contributed to an environment that was vulnerable to misappropriation, wastage and the abuse of state funds. The continued transgression of supply chain management prescripts was reflected in the significant amount of irregular expenditure incurred of R3,09 billion (2019: R2,2 billion).

The closing balance of irregular expenditure stood as R7,32 billion (2019: R5,79 billion), clearly indicating that the practice of incurring irregular expenditure was rising.

The poor state of financial management contributed to the continued deterioration in financial health. Eleven municipalities (73%) were assessed as having a material uncertainty relating to their going concern.



Municipalities continued to suffer extensive distribution losses, which were due to dilapidating infrastructure, unmetered consumption and theft. Municipalities also incurred deficits totalling R2,02 billion due to overspending of their approved budgets, while unauthorised expenditure of R4,39 billion (2019: R4,95 billion) was incurred.

To create sustainable improvements in the control environment and audit outcomes, political and administrative leaders should adopt a zero-tolerance approach when it comes to non-compliance with legislation and poor performance by implementing timely consequences, including disciplinary action.

Accountability can be realised through decisive leadership tone

GAUTENG

Despite pockets of improvements, inadequate monitoring of preventative controls resulted in stagnant outcomes and increasing levels of unauthorised, irregular, and fruitless and wasteful expenditure.

In the previous year (2018-19), as a result of a stable control environment, Gauteng municipalities had held steady with good audit outcomes. We had urged the provincial leadership to enhance good financial discipline, preventative controls and effecting consequences. In response, municipal audit outcomes were sustained in 2019-20, with the significant achievement of the City of Ekurhuleni Metro improving to a clean audit outcome due to addressing material procurement findings, thereby joining Midvaal, which maintained its clean audit outcome for the seventh consecutive year.

Gauteng municipalities had generally produced good quality published financial statements in the preceding three years and it was the only province without negative financial outcomes. However, the emergence of qualifications requires attention, with Rand West City regressing in the current year to a qualified opinion from an unqualified opinion with findings, due to various material errors in their financial statements.

The quality of financial statements at metros improved overall, except at the City of Tshwane Metro, which relied on the audit process to support revenue disclosed in the financials.

While compliance outcomes improved, the level of non-compliance remained high, particularly in relation to procurement management and the prevention of unauthorised, irregular, and fruitless and wasteful expenditure. We remain concerned about the high levels of irregular expenditure incurred, especially at City of Tshwane and City of Johannesburg metros, which contributed a combined R3,58 billion (83%) at municipal level, and the increased closing balances not yet dealt with due to the slow pace of investigations.

Outcomes on performance reporting improved significantly with the majority of municipalities reporting accurately on service delivery information. This was due to an improvement in the consistent implementation of controls relating to performance information.

Despite efforts made, the financial health of municipalities, including the metros as the economic hubs of the country, remained concerning and experienced even more strain due to covid-19. The pandemic worsened existing difficulties relating to poor revenue collection, debt write-offs and credit downgrades. The deteriorating financial position poses a risk to municipalities achieving their planned service delivery targets. This calls for greater financial prudence over the limited funds available and the elimination of wasteful expenditure and other losses.

Gauteng remained well positioned as a destination of choice for individuals with professional skills seeking employment in the country, with municipalities that have both attracted and retained staff with the right skills benefiting from this continuity. This had a positive impact on financial management and, in turn, on audit outcomes. The province's outcomes also demonstrated that focused attention by the political and administrative leadership to our messages has yielded some benefits, especially relating to compliance and performance reporting.

There remains a need for further improvement, and we urge oversight structures to monitor and hold municipal managers accountable, particularly regarding the worrying emergence of qualified financial outcomes; the high levels of unauthorised, irregular, and fruitless and wasteful expenditure; and ensuring adequate consequences for poor performance and transgressions.

Improve monitoring of preventative controls

KWAZULU-NATAL

Stagnation in audit outcomes – effective accountability and consequences not consistently enforced

In 2018-19, we urged the leadership to respond to our constant calls for the effective implementation and monitoring of preventative controls and recommendations to positively influence accountability and basic control disciplines. The overall stagnation in audit outcomes in 2019-20 demonstrates complacency by management and the leadership when it comes to effectively and decisively addressing key matters of concern.

The City of Umhlatuze's improvement to a clean audit was a step in the right direction and attributed to management implementing an action plan to address prior year audit recommendations and to the internal audit unit performing risk-based audits on supply chain management processes. The finance team was sufficiently resourced and skilled, which allowed them to prepare the financial statements themselves.

In contrast, the financial statements of Umzinyathi, Amajuba and Inkosi Langalibalele were not supported by sufficient audit evidence, resulting in their disclaimed opinions. This stemmed from senior management's failure to take accountability and institutionalise the basic disciplines of record management, reconciliations and fundamental reviews in financial reporting.

The quality of financial statements submitted reflected an improvement due to the leadership's commitment to implement and maintain robust transaction level controls. However, the consistent poor quality of submitted financial statements remains concerning, as municipalities continued to rely on the audit process to identify misstatements.

Many municipalities also continued to rely on consultants even though officials were appointed to perform these functions. Despite the excessive amounts spent on consultants for financial reporting, only seven (21%) of the 33 municipalities reflected improved audit outcomes.

Fewer auditees had material findings on their reported performance information, although material adjustments had to be made to the submitted performance reports. The improvement could mainly be attributed to enhanced record-keeping practices and detailed reviews and oversight by the internal monitoring and evaluation units.

Compliance with key legislation remained a challenge due to inadequate consequences for transgressions and a failure to implement supervisory checks and controls. Non-compliance with supply chain management prescripts contributed to more than 90% of the total irregular expenditure incurred of R4,86 billion.

Although some efforts have been made to deal with the prior year irregular expenditure closing balance of R13,47 billion, progress in investigating this balance was slow. Irregular expenditure of R4,55 billion was written off as no officials were found to be liable for these transgressions.

Financial sustainability remained under stress, which was aggravated by economic pressures and austerity measures announced by the government. Nine auditees reported going concern challenges. At some municipalities, ineffective debt-collection systems and processes hampered the collection of debt.

As municipalities are at the forefront of service delivery and have a direct impact on the lives of citizens, it is critical that they have sound internal control systems and effective governance structures to achieve their goals. Management needs to ensure that the understanding and application of preventative controls is entrenched in day-to-day activities.

Municipal managers must also promote a culture of accountability by monitoring corrective actions based on our recommendations and enforcing consequences for officials who fail to comply with applicable legislation.

Upscale implementation of preventative controls and drive consistent consequences

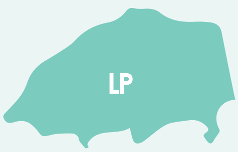
LIMPOPO

Improvement in audit outcomes, which is mainly consultant driven and not supported by equivalent improvement in a sustainable key control environment.

There has been a significant improvement in audit outcomes under the current administration whose term began in 2016. Under the leadership of this administration, Capricorn District sustained its clean audit status and concerted efforts were made to eliminate disclaimers. While these efforts are commendable, there were still a number of municipalities with qualified opinions.

The improvements were largely due to the assistance of appointed consultants and not necessarily as a result of an improvement in the control environments of these municipalities. The quality of performance reporting remained a challenge, with 16 municipalities (73%) having material findings in their audit reports in this area, mostly around the reported information not being reliable.

Municipalities continued to be over-reliant on consultants for financial reporting. In addition to the R539 million spent on salary costs in the finance units, the province spent R176 million on consultants for financial reporting purposes in 2019-20, which cannot be justified.

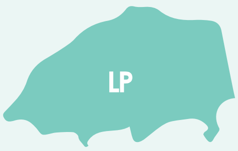


There is a dire need to intensify efforts towards strengthening internal controls around financial and performance reporting processes. The municipal leadership needs to take strong actions against those who undermine the efforts to create a robust internal control environment.

Complying with laws and regulations remained a challenge. We raised recurring non-compliance findings on material misstatements in the financial statements and weaknesses in procurement management and unauthorised, irregular, and fruitless and wasteful expenditure.

The administrative leadership and senior management were slow to implement corrective actions to address the root causes of these findings. Irregular expenditure continued to rise, with R2,3 billion incurred in the current year. A significant portion was due to non-compliance with supply chain management prescripts. The province had an irregular expenditure budget balance of R8,1 billion that had not been dealt with.

A lack of consequences was an enabler of unwanted expenditure. It is alarming that we reported non-compliance with legislation on effecting consequences at most municipalities. We call upon the provincial leadership to ensure that those responsible are held accountable; if they fail to do so, it will ultimately adversely affect service delivery.



The status of financial health continued to deteriorate, with three municipalities reported to be in a vulnerable financial position and three recording a deficit due to their expenditure exceeding their total revenue.

Municipalities continued to struggle with debt collection, with 73% of the debt balance in the province provided for as irrecoverable. This resulted in suppliers being paid late, which put pressure on suppliers' finances and sustainability, especially small and medium suppliers, which then had an adverse effect on the economy of the province. This trend needs to be curbed as it results in money earmarked for service delivery being used to pay interest on overdue accounts, resulting in fruitless and wasteful expenditure. Payments of R170 million were made as a result of interest and penalties charged by suppliers.

To improve the financial health of municipalities in the province, the political and administrative leadership must intervene to ensure the implementation of proper debt-collection strategies.

In addition, there must be appropriate terms of reference to provide for the transfer of skills to municipal personnel when consultants are appointed. To ensure the successful transfer of skills, appropriately qualified officials must be appointed in key financial management positions.

Furthermore, to curb the increase in transgressions of laws and regulations, the leadership must set the correct tone at the top and act in a consistent and deliberate manner against those officials who intentionally fail to comply with legislation.

Active leadership supervision will lead to a sustainable key control environment

MPUMALANGA

The state of internal controls, coupled with a lack of consequences for transgressions and weakened oversight, is at the centre of the deteriorating accountability in our local government.

Over the past four years, the control environment continued to collapse at most of the municipalities in the province due to the ineffectiveness of the various assurance providers.

Senior management, including most municipal managers, did not fulfil their responsibility to develop and effectively implement the basic controls that form the foundation of a sound control environment.

In response to our recommendations made in the previous year, the provincial leadership committed to establish a practical intervention strategy to strengthen the local government control environment. This included capacitating and skilling the administration and oversight committees of councils and implementing consequences.

However, since these commitments had not been implemented effectively by the end of the 2019 20 financial year, the status worsened. The root cause was that most municipalities failed to develop or implement effective preventative internal controls that would have detected or prevented misstatements in the financial and performance information, non-compliance and significant losses.

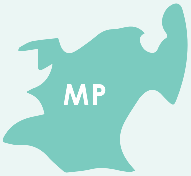
The municipalities seemed to have accepted the gaps in the control environment and, rather than addressing them, used consultants to assist with the responsibilities of the chief financial officers and finance personnel. Despite all chief financial officer positions having been filled and finance unit salary costs amounting to R251,9 million, municipalities still spent R63,7 million on procuring the skills for financial reporting.

After we had completed seven more audits after the cut-off date, the total finance unit salary bill increased to R667,7 million and the total cost for consultants increased to R112,5 million. However, due to the weak controls around records and document management, as well as a lack of commitment from management, consultants did not bring any sustainable improvement to the outcomes.

The financial health of most municipalities in the province continued to deteriorate despite our consistent message in prior years calling on the executive authority and provincial leadership to attend to the financial crisis.

Municipalities were unable to accurately bill for the sale of basic services. As an example, Emakhazeni issued negative billings to customers, billed developed properties as vacant, did not bill some properties according to their classification in the valuation roll, and billed some properties that we could not trace to the valuation roll.

Municipalities also faced significant challenges with debt collection, leading to municipalities having limited cash flow to pay for their operations. Thus, municipalities took an average of 279 days to pay their suppliers, attracting interest of about R327,3 million, mostly on the Eskom account. Municipalities also suffered significant water and electricity losses from leakages, unmetered consumption and illegal connections, which crippled an already strained financial system.



Due to non-adherence to laws and regulations as well as a lack of consequences, the province continued to struggle to prevent unauthorised, irregular, and fruitless and wasteful expenditure.

Because of the internal control weaknesses highlighted above, only three municipalities improved their audit outcomes for the 2019 20 financial year. Even after taking into account the audits that we signed off after the cut-off date, this number increased to only four.

Despite the improvement we saw this year from some of the municipalities, most of the financial and performance reports submitted for auditing were of poor quality. The financial health of the province's local government continued to worsen.

Our message, which is similar to the one we delivered in prior years, is a call for provincial leadership to take urgent action to restore the failed accountability, as only this will bring about the desired change.

There is a need for leadership to act on accountability to bring about the desired change.

NORTHERN CAPE

The benefits derived from implementing preventative controls are evident but there is still a lot to be done to address undesirable audit outcomes.

In our previous year's message, we emphasised that the province was in a prolonged state of undesirable audit outcomes, with six regressions and three improvements reported for that year. We urged political and administrative leadership to focus on putting appropriate preventative control measures in place, respond to the lack of capacity in critical positions, improve on the assurance provided by internal audit units and audit committees, and implement strong accountability to ensure better audit outcomes.

It is encouraging that some of these recommendations were responded to and that this contributed to the overall improvement in audit outcomes for the province. Another contributing factor to the improvement was the revival of the operation clean audit committee driven by the premier. The tone from the premier in improving audit outcomes played a key role in ensuring that municipal leadership and staff take the audit process seriously.

Our recommendations for strengthening internal controls and effecting consequences were implemented by some municipal managers and bodies providing oversight. Where municipalities implemented consequences and held their officials accountable, audit outcomes improved and a clean audit status was maintained. However, the province still has a long way to go in implementing strong accountability at the rest of the municipalities.

Although the audit outcomes improved in the current year, the poor state of internal controls at many municipalities raises questions about the sustainability of the improvements. The state of internal controls in the areas of leadership, financial and performance management indicate that the province will struggle to maintain the current audit status if these are not attended to.

Furthermore, we remain extremely concerned about the status of compliance with legislation. Almost all municipalities were plagued by findings on non-compliance and we are particularly worried about the fact that 85% of municipalities had findings on the quality of financial statements submitted for auditing.

Additionally, we raised findings on supply chain management in our all audits. This is concerning as experience has shown that clean audits can regress when recurring compliance findings become material.

The financial health of municipalities in the province remained in a dire state, with more than half being in a vulnerable financial position. More than half of the municipalities were operating with an unfunded budget, meaning that they committed more than they can generate in revenue and, as a result, failed to pay their creditors.

Congratulations are due to the three municipalities (Frances Baard, John Taolo Gaetsewe and ZF Mgcawu) that obtained clean audits. They took our previous year's message on the importance of preventative controls to heart and put appropriate actions in place to prevent material audit findings.

A clean audit is merely a building block towards good service delivery and should not be seen as a measure of how well services are being delivered. An accurate and complete annual performance report may be a good source of information pertaining to the real state of service delivery at a municipality. In this regard, more than half of the municipalities in the province had material findings on their performance reports, casting doubt on the usefulness and reliability of these reports.

The rise in the cost of using consultants to, for example, prepare financial statements and update asset registers is concerning as the province is not receiving a return on this investment. Most municipalities that used consultants had material misstatements in the area of the consultants' responsibility.

In summary, there is still a lot to be done to address undesirable audit outcomes. Best practices at municipalities that achieved clean audits should be replicated throughout the province, while the efforts of the operation clean audit committee should be continued and enhanced further.

Sustainable change starts with the leadership's will to drive it.

NORTH WEST

Total neglect of internal control discipline, resulting in operational and financial collapse, weakened governance and lack of accountability.

In our previous report, we shared our insights with the political and administrative leadership of municipalities, noting our many concerns over the systemic breakdown in the disciplines of financial controls and widespread non-compliance with legislation. The leadership was unresponsive, which led to poor audit outcomes over a period of four years. These audit outcomes reflect a total neglect of internal control disciplines, and resulted in a financial and operational collapse, weakened governance and a lack of accountability.

One of the areas of non-responsiveness was evident in the regression of audit outcomes and submission of financial statements over a four-year period. We completed the 2019-20 audits of only 10 of the 22 municipalities by the cut-off date for inclusion in this report. This was primarily due to the late submission of financial statements, with only 55% of municipalities submitting their financials on time, which was the same percentage as in 2018-19. This is in sharp contrast to 2016-17 when all municipalities had submitted financial statements by the legislated date.

By 16 May 2021, we had finalised and signed off five additional audit reports; however, the outcomes of all five of those municipalities remained unchanged from the previous year, with four being disclaimed opinions and one a qualified opinion. This regression in audit outcomes and the rate of non-submission of financial statements showed a deterioration in accountability and transparency. Therefore, the leadership's persistent lack of responsiveness and non-implementation of preventative controls require urgent attention.

In the current year, the money spent on consultants at 10 municipalities increased to R122,9 million from R93,2 million in the previous year, while the salary bill of the finance units amounted to R168 million. The use of consultants was a futile exercise, as it yielded no tangible value due to the prevailing issues of proper governance structures not being instituted, poor control environments, persistent lack of proper record keeping and a disregard for in-year control activities.

The financial health of municipalities remains a concern, with 57% of municipalities being insolvent and unable to meet their financial obligations when they are due. This was evident at the 60% of municipalities that implemented unfunded budgets due to financial challenges.

Concerns remain regarding the inability to implement and manage credit control and debt collection, which resulted in an average of 79% of all billings being impaired. Consequently, critical suppliers such as Eskom, water boards and the

AGSA as external auditors are not paid in a timely manner. In certain instances, municipalities were struggling to pay statutory deductions and benefits because of cash-flow challenges.

The lack of funds for service delivery was most evident in the ever-increasing backlog in the maintenance required to keep infrastructure operational, which led to these assets being in a dilapidated state at most municipalities. This caused significant water and electricity distribution losses at municipalities and had a detrimental impact on the environment.

A follow-up of the environmental impact performed at 118 water and wastewater treatment plants, infrastructure and landfill sites in the province showed a distinct shift from fair or concerned assessments to operating systems and processes that were in a critical state or have collapsed.

Unauthorised, irregular, and fruitless and wasteful expenditure incurred by municipalities was increasing gradually each year. The unresolved balance of irregular expenditure amounted to R25,5 billion due to the culture of non-compliance with procurement and contract prescripts.

Most of the municipalities did not take appropriate action to investigate, recover or write off irregular expenditure incurred during prior years.

We reiterate the need for the provincial and the incoming local government leadership to focus on implementing preventative controls, with governance structures insisting on in-year preparation and submission of accountability reports. New councils must set a leadership tone that is exemplary and must implement corrective actions and consequences, where necessary.

To bring about accountability, leadership must be aligned and must lead actively.

WESTERN CAPE

Good financial accounting controls but inadequate preventative controls over compliance.

In our 2018-19 message, we highlighted three broad categories of municipalities within the province. They were those where controls are institutionalised, those that are reactive or susceptible to change, and those with dysfunctional control environments with a weak leadership tone at the top. Recommendations were based on the category into which municipalities had been classified. Overall, all municipalities should ultimately strive to attain levels where control environments and robust risk-assessment processes are institutionalised with clean audits as a by-product.

Despite difficult circumstances, nine municipalities were able to sustain their clean audit outcome while five municipalities improved to a clean audit status. These municipalities heeded our request to self-assess, as embedded in the previous year's status-of-records reviews. Our recommendations to institutionalise preventative controls were also taken to heart and cultivated an environment of good governance and clean administration, which formed the foundation to drive service delivery.

In addition, clean audit outcomes were achieved where:

- internal control environments were continually strengthened, institutionalised, preventative in nature and reinforced by a strong tone set by leadership, resulting in fewer deficiencies reported
- the financial statements and performance report submitted for auditing were of a good quality and were free from material misstatements
- implemented action plans were credible in that audit findings identified in one year were generally addressed in the following year.

However, the current provincial picture was slightly distorted due to the seven outstanding audits. A complete reflection will only emerge once these audits have been finalised. The main drivers contributing to the outstanding audits were the effects of covid-19, specifically the second wave, which caused delays in the audit process, and audit findings that were disputed and required further technical deliberations and consultation with the National Treasury.

From a financial health perspective, it is extremely positive that none of the municipalities reported on were in a financially vulnerable position. It is also encouraging that unauthorised expenditure decreased from R434 million in 2018-19 to R195 million in 2019-20. This decrease was underpinned by strong budgeting processes (particularly when budgeting for non-cash items) and effective expenditure control relative to budgets.

While none of the municipalities were in a financially vulnerable position, there are some concerns around the financial sustainability of municipalities. On average, 51% of the revenue due to municipalities for services rendered was deemed to be irrecoverable. The non-collection of money for services rendered can have a negative impact on the longer-term financial sustainability of municipalities and their ability to settle obligations. It also contributed to the overall increase in the number of municipalities with unfavourable financial health indicators from 2018-19 to 2019-20.

While there was an improvement in the audit outcomes, only some of our recommendations from the previous year were implemented. Work was still required on the implementation of sound preventative controls in the area of compliance with laws and regulations, especially relating to procurement and contract management.

Although irregular expenditure decreased from R2,6 billion in 2018-19 to R1,4 billion in 2019-20, we remain concerned about the findings raised on contract and supply chain management and the resultant irregular expenditure at the majority of municipalities, as past experience has shown that even clean municipalities are susceptible to regressions when recurring compliance findings become material.

Although the quality of performance reports improved from 2018-19, it remains concerning that some municipalities again submitted performance reports that contained material misstatements. Two of these municipalities were unable to correct the material misstatements during the audit process.

Generally, municipal managers and mayors provided the required level of assurance by instilling an effective leadership culture and oversight. At senior management level, there was room for improvement, as the majority of senior managers were rated as providing only some assurance because of non-material findings at clean auditees and material findings at other municipalities.

The area of supply chain management and the resultant irregular expenditure must be given increased attention by proactively addressing the issues identified, thereby reducing non-compliance and such unwanted expenditure.

The premier, in conjunction with the coordinating provincial local government department and provincial treasury, should continue their oversight through the municipal governance review outlook processes and other initiatives aimed at achieving clean administration across the province. Extra effort and intervention were required at Beaufort West, Kannaland and Laingsburg, which had been previously categorised as municipalities with control environments that were dysfunctional, as their audit outcomes remained the same or regressed.

Improvement but concerns remain

Outcomes are poor but there is evidence of behaviour change

The poor state of financial and performance management in local government resulted in material financial losses at some municipalities and substantial harm to their ability to deliver on their mandate. Where municipal managers do not take the appropriate action to deal with such matters, we use the material irregularity process in an effort to strengthen the accountability mechanisms.

This process was introduced on 1 April 2019 when amendments to the Public Audit Act (which governs the AGSA) came into effect.

In the first year of implementing the material irregularities process, we selected nine auditees with a history of irregular expenditure and poor audit outcomes. We focused on six material irregularities we had identified during their audits and which had resulted in, or could result in, material financial losses.

In the second year of the process (2019-20), we significantly expanded our work and, by 11 June 2021, had issued notifications for a total of 96 material irregularities at 57 auditees.
Of these, 75 related to non-compliance with legislation, resulting in, or likely to result in, a material financial loss totalling an estimated R2,04 billion. The irregularities were in four key areas: procurements and payments, interest and penalties, revenue management and investments and assets.
The other 21 material irregularities were in municipalities that had repeatedly received disclaimed audit opinions. The failure to keep proper records and do credible financial reporting caused substantial harm to the municipalities, as was clear from their poor financial position.

Of the 96 material irregularities identified so far, 10 were reported in detail in the audit reports issued by 11 June 2021 of the auditees concerned.

The following is a summary of where these 10 material irregularities stand:

6 Implementation of appropriate actions by the municipal managers was in progress. The municipalities affected are Mogalakwena in Limpopo (one material irregularity), the City of Tshwane (two material irregularities) and Nelson Mandela Metropolitan Municipality with three material irregularities. (See the table headed "Actions taken and progress made".)

3 Lack of progress by the municipal manager, resulting in recommendations issued. The municipality was Ngaka Modiri Molema, whose municipal manager has not implemented the actions committed to. (See the table headed "Lack of progress in some cases".)

1 Referred for investigation to a public body. The municipality concerned is Matjhabeng, whose municipal manager has not taken or planned appropriate actions in response to being notified of the material irregularity.

For the remaining 86 material irregularities, we notified the municipal managers concerned. The process with these municipalities will continue to unfold. Details of these material irregularities and the actions taken to resolve them will be included in the 2020-21 audit and general reports.

In the meantime, as the material irregularity process is continuous, we are also looking at a high number of other potential material irregularities relating to the government's covid-19 initiatives.

Based on the progress made so far to resolve the material irregularities reported in the previous year, we were beginning to see signs of a positive behavioural change. The municipal managers concerned mostly responded decisively and promptly to our findings. That said, the support of mayors and councils was crucial, but this is an area where we have not yet observed any significant uptake or commitments.

Actions taken and progress made

AUDITEE AND YEAR REPORTED	DESCRIPTION	ACTIONS BEING TAKEN BY AUDIT REPORT DATE
Mogalakwena (LP) **2018-19**	**Payments** to contractor **for construction work not done** at Moshate stadium. **Financial loss:** R13 million **Notified:** 14 December 2019	Investigation completed in August 2020 confirmed the financial loss and recommended that officials responsible be charged with misconduct. Disciplinary proceedings were underway and attorneys were appointed in February 2021 to recover money from contractor.
City of Tshwane Metro (GP) **2018-19**	**Assets stolen and vandalised** at the Annlin reservoir project in January 2018, as not all reasonable steps were taken to safeguard the assets. **Financial loss:** R5,5 million **Notified:** 11 December 2019	An investigation by the internal forensic division was completed by June 2020. The investigation did not cover adherence to the asset management policy, the verification and quantification of the financial loss or whether there was any fraud, corruption or misconduct related to the material irregularity. The municipal manager committed to conclude the investigation covering the entire scope by 1 July 2021, and will take action against responsible officials and steps to recover financial loss based on the outcome. Steps were taken to improve security at the site, but the appointment of a security company was delayed by the covid-19 lockdown measures. The new date committed to was 30 June 2021. The matter was reported to the South African Police Service for investigation on 11 January 2018 but had not yet been concluded.
City of Tshwane Metro (GP) **2018-19**	**Assets stolen and vandalised** at the Baviaanspoort wastewater treatment works in February 2016, as not all reasonable steps were taken to safeguard the assets. **Financial loss:** R3,9 million **Notified:** 17 December 2019	The matter was reported to the South African Police Service – arrests were made and the perpetrators sentenced. An investigation by the internal forensic division was completed by June 2020. The investigation did not cover adherence to the asset management policy, verification and quantification of the financial loss as well as whether there was any fraud, corruption or misconduct related to the material irregularity. The municipal manager officer committed to conclude the investigation which covered the entire scope by 1 July 2021, and will take action against responsible officials and steps to recover financial loss based on the outcome. Steps were taken to improve security at the site, but the appointment of a security company was delayed by the lockdown measures in response to the covid-19 pandemic. The new committed date was 30 June 2021.

AUDITEE AND YEAR REPORTED	DESCRIPTION	ACTIONS BEING TAKEN BY AUDIT REPORT DATE
Nelson Mandela Bay Metro (EC) **2019-20**	Interest not charged in 2018-19 on debtors in arrears who had entered into long-term arrangement agreements with the municipality. **Financial loss:** To be quantified by municipal manager **Notified:** 9 December 2019	Preliminary investigation completed in February 2020 by the billing coordination division, in consultation with the debtor management division. Outcome of investigation indicated that the material irregularity was the result of a system deficiency. Accounting system was programmed for February 2020 to ensure that raising interest every month is an inherent part of the system. The municipal manager planned to submit a proposal to the budget and treasury standing committee in June 2021 and to the council for consideration and approval that interest on arrangements were not raised retrospectively for the period when the accounting system did not raise such interest.
Nelson Mandela Bay Metro (EC) **2019-20** (2 material irregularities)	Payments in 2018-19 to two suppliers for provision of storm-water drain cleaning services that were not received. **Financial loss:** To be quantified by municipal manager **Notified:** 13 December 2019	Investigation into matter by the provincial Hawks unit commenced in January 2020. The municipal manager planned to recover losses incurred and effect consequences against responsible official(s).

Lack of progress in some cases

<table>
<tr><th>AUDITEE AND YEAR REPORTED</th><th>MATERIAL IRREGULARITY</th><th>RECOMMENDATION/
REFERRAL AS REPORTED IN AUDIT REPORT</th></tr>
<tr><td>Ngaka Modiri Molema (NW)
2018-19</td><td>Failure by the municipality to monitor contract for construction work to municipal office building and gatehouse resulted in contract extension that included items already paid for as part of original contract. These costs could have been avoided.

Financial loss:
To be quantified by municipal manager
Notified:
14 November 2019</td><td>The municipal manager failed to implement the planned actions.

Recommendations to be implemented by 1 October 2021:
The financial loss should be quantified.
Any person liable for the loss should be identified and appropriate action should commence to recover the financial loss.
The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offense in terms of chapter 15 of the Municipal Finance Management Act.
Disciplinary or, when appropriate, criminal proceedings should commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the Municipal Finance Management Act and in the manner prescribed by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
If it appears that the municipality suffered the financial loss through fraud, this should be reported to the South African Police Service, as required by section 32(6)(b) of the Municipal Finance Management Act.</td></tr>
<tr><td>Ngaka Modiri Molema (NW)
2018-19</td><td>Overpayment in 2018-19 to supplier for water-tankering services to communities as a result of the municipality not having an effective system of expenditure control.

Financial loss:
To be quantified by municipal manager
Notified:
28 November 2019</td><td>The municipal manager failed to implement the planned actions.

Recommendations to be implemented by 18 November 2021:
The financial loss in the form of overpayments should be quantified and appropriate action should commence to recover the loss from the supplier.
A system of expenditure control should be implemented, as required by section 65(2)(a) of the Municipal Finance Management Act, for the provision of water-tankering services, to prevent over invoicing of kilometres and hours.
The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of chapter 15 of the Municipal Finance Management Act.
Disciplinary or, when appropriate, criminal proceedings should commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the Municipal Finance Management Act and in the manner prescribed by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.
If it appears that the municipality suffered the financial loss through fraud, this should be reported to the South African Police Service, as required by section 32(6)(b) of the Municipal Finance Management Act.</td></tr>
</table>

AUDITEE AND YEAR REPORTED	MATERIAL IRREGULARITY	RECOMMENDATION/ REFERRAL AS REPORTED IN AUDIT REPORT
Ngaka Modiri Molema (NW) **2018-19**	Loss of assets due to a lack of internal control system to safeguard assets. **Financial loss:** To be quantified by municipal manager **Notified:** 9 December 2019	The municipal manager failed to implement the planned actions. Recommendations to be implemented by 1 October 2021: • The asset verification and investigation process should be completed and the financial loss quantified. • Any person liable for the loss should be identified and appropriate action should commence to recover the financial loss. • Reasonable steps should be taken to safeguard these municipal assets from any further losses, as required by section 63(1) of the Municipal Finance Management Act. • The non-compliance should be investigated to determine if any official might have committed an act of financial misconduct or an offence in terms of chapter 15 of the Municipal Finance Management Act. • Disciplinary or, when appropriate, criminal proceedings should commence against any official who has allegedly committed an act of financial misconduct or an offence, as required by section 62(1)(e) of the Municipal Finance Management Act and in the manner prescribed by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings. • If it appears that the municipality suffered the financial loss through fraud, this should be reported to the South African Police Service, as required by section 32(6)(b) of the Municipal Finance Management Act.

Referred to a public body to investigate

AUDITEE AND YEAR REPORTED	MATERIAL IRREGULARITY	RECOMMENDATION/ REFERRAL AS REPORTED IN AUDIT REPORT
Matjhabeng (FS) **2019-20**	Payments made for construction of attenuation (flood protection) dam on Nyakallong storm-water system not constructed, resulting in overpayments on project. **Financial loss:** To be quantified by municipal manager **Notified:** 5 May 2020	Municipal manager could not provide sufficient and appropriate evidence of actions taken in response to being notified of the material irregularity. Actions taken were also considered to be inadequate. As a result, the material irregularity is being referred to a public body for investigation.

Ways for citizens to participate actively

When government spending is irregular, unauthorised or fruitless and wasteful, it is citizens' tax money that is being misused.

If you as a taxpaying citizen of South Africa are unhappy with the way any municipality or municipal entity is spending public funds, you have the right and the power to speak up and demand accountability to ensure that public funds are utilised responsibly.

Here are a few suggestions about what you can do:

Attend and ask questions during Parliament's public meetings such as Taking Parliament to the People (TPTTP). TPTTP is run by the National Council of Provinces and is held in a different province every year. It includes public meetings where citizens can talk about their experiences of government service delivery and related matters.

Participate in the integrated development plan (IDP) consultation meetings in your region and engage with your municipality's leadership on service delivery issues and infrastructure developments as well as service delivery plans for your ward.

Participate at local government level by attending ward committee meetings.

Participate in civil society or community-based organisations' meetings.

SECTION 04

FREQUENTLY ASKED QUESTIONS 04

What is the extended mandate of the auditor-general (AG)?

The AG has the power to:

- refer material irregularities to the relevant public bodies for further investigation in accordance with their mandate
- take binding remedial action for failure to implement the AG's recommendations regarding material irregularities
- issue a certificate of debt for failure to implement the remedial action if financial loss was involved.

What is a material irregularity (MI)?

An MI is any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act (PAA) which resulted in, or is likely to result in, a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.

What process will be followed when material irregularities are identified during an audit?

- Identify the MI during the normal regularity audit.
- Notify the accounting officer (AO) or accounting authority (AA) of the MI and provide 20 working days for them to respond on actions taken and/or planned.
- Conclude based on the AO/AA response whether appropriate action was taken or is planned to be taken.
- If actions were not appropriate, include recommendations in the audit report on how the MI should be addressed by a specific date (e.g. within 6 months).
- Follow up to determine whether the recommendations have been implemented. If not, issue a notice for remedial action to the AO/AA which must be implemented by a specific date (e.g. within 3 months).

How will the referral process work?

- Identify appropriate public body and submit referral and supporting documents.
- Receive acknowledgement of receipt and an indication of whether referral is accepted, with a commencement date.
- Notify AO/AA and engagement manager of referral.
- Receive progress updates from public body.
- Receive report on outcome of investigation.
- Public body publishes the report or findings.
- The AGSA will include the progress on referrals in its accountability reports.

How long is the referral process?

The PAA does not prescribe specific timelines within which the public bodies must conduct the investigations referred to them by the AG. The duration of an investigation depends on a number of factors. Each investigation must be assessed on its own merits by considering, among others, the following: nature and extent of allegations; scope of investigation (if allegations relate to multiple periods); complexity of matters to be investigated; and availability of information and systems. Therefore, the duration of a referred investigation cannot be determined by following a blanket, one-size-fits-all approach.

Why does it take that long?

The process includes several steps meant to ensure that the rights of the AO/AA are fully protected and that their right of reply is respected. When MIs are identified, the AG will at all times afford the AO/AA an opportunity to address the MI in line with the provisions of applicable legislation. The AG's powers only kick in if the MI is not addressed. These safeguards add to the time spent on dealing with MIs.

When does the AG issue remedial action?

Remedial action is triggered by the lack of implementation of the recommendations included in the audit reports.

What process will be followed when issuing a certificate of debt (CoD)?

- Determine financial loss if not determined or inaccurately determined by the AO/AA and notify the AO or individual members of the AA who had failed to implement remedial actions of the intent to issue a CoD and request written representation within 20 days.
- Receive written representation and assess whether the AG should continue with CoD.
- Notify the AO or individual members of the AA of the intent to issue a CoD and invite them to make an oral presentation to the advisory committee (an external independent committee) by the stipulated date.
- Receive recommendations from advisory committee, consider the recommendations, make a decision and inform the AO or individual members of the AA accordingly.
- Serve the CoD on the AO or individual members of the AA in a prescribed form, signed by the AG, and present a copy thereof on the executive authority, who should recover the debt and provide feedback on progress.

What is the difference between a material irregularity and irregular expenditure?

- An MI is any non-compliance with, or contravention of legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA which resulted in, or is likely to result in, a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.
- Irregular expenditure is expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation.

What is the difference in value between irregular expenditure and a material irregularity?

- Irregular expenditure: The value is the expenditure to date.
- MI: An MI does not necessarily have to have a value. If the MI relates to financial loss, it will be the value of the loss suffered.

Will the certificate of debt issued to the accounting officer be paid from public funds?

No, the amount on the CoD will be paid by the AO in his/her personal capacity using his/her own funds. The money is paid to the state and will become available to spend on matters that benefit the public.

What is the role of the minister after the certificate of debt has been issued to the accounting officer?

Section 5B(2) of the PAA provides that the responsible minister must collect the amount specified in the CoD from the AO in terms of the applicable debt-recovery processes. Therefore, the role of the minister is to collect the money and to keep the AG informed of the recovery progress. It is important to note that the responsible minister's efforts to collect the money will be monitored and reported to Parliament. This is done in the AGSA's general reports and annual reports. Regulation 20 of the MI Regulations deals in detail with the collection of the amount specified in the CoD.

To access the content of this report on our website, simply use the **QR Code scanner** on your mobile phone or tablet to scan the code.

ANNEXURES

The annexures containing information on the following are available on www.agsa.co.za (our website):

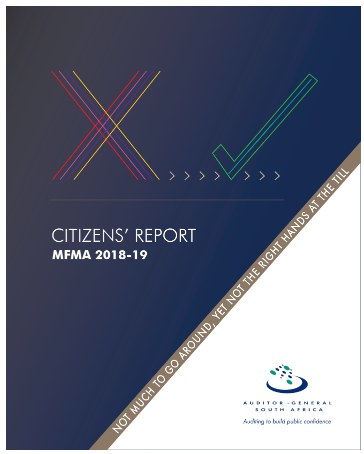
- **Annexure 1:** Auditees' audit outcomes: areas qualified; and findings on performance reports, compliance, specific risk areas and unauthorised, irregular as well as fruitless and wasteful expenditure
- **Annexure 2:** Auditees' financial indicators, supply chain management findings and root causes
- **Annexure 3:** Auditees' audit opinions over the past five years
- **Annexure 4 :** Assessment of auditees' key controls at the time of the audit

PRODUCTS OF THE AGSA

The AGSA annually produces audit reports on all government departments, public entities, municipalities and municipal entities.

Over and above these entity specific reports, the audit outcomes are analysed in the general reports that cover both the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) cycles.

The AGSA tables reports to the legislature with a direct interest in the audit, namely Parliament, provincial legislature or municipal councils. The reports are then used in accordance with their own rules and procedures for oversight.



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