



AUDITOR-GENERAL
SOUTH AFRICA



Consolidated general report on local government audit outcomes

MFMA 2020-21



Foreword from the auditor-general



The South African Constitution envisaged that citizens will live in cities, towns and settlements where they have access to clean water, sanitation, electricity, refuse services, and good roads and infrastructure. A country where their elected representatives in council will ensure that the rates and taxes they pay and the funds provided by national government for basic services and infrastructure development are accounted for and used for their intended purpose.

Sadly, this is not the lived reality of most citizens in the country. Local government is characterised by accountability and service delivery failures, poor governance, weak institutional capacity, and instability.

As a chapter 9 institution, my office has a role to play in strengthening our constitutional democracy, which aims to improve the quality of life of all citizens. We do this through our audits of local government, which give us unique insights into the failures, successes and challenges in local government and those that support them in national and provincial government. Armed with these learnings, we can contribute to much-needed improvement in local government by sharing our insights widely, making recommendations, and advocating for commitment by leadership at all levels of government to play their part.

The information and insights presented in this flagship publication of my office are aimed at empowering the new administration and all role players in the accountability ecosystem to focus on those issues that will enable good financial and performance management, compliance with legislation as well as service delivery by municipalities. This report also highlights the progress we have made in implementing the enhanced mandate granted to us by the amendments to the Public Audit Act. We report on the material irregularities identified, the progress made by municipal leadership towards resolving

them, and the instances where we had to invoke our new powers of enforcement when we were not taken seriously.

As an office, we are committed to doing our part to instil a culture of performance, accountability, transparency and integrity in local government, which will ultimately result in a better life for the people of South Africa. Only through accountability and enforcement can we build public trust in local government.

*I firmly believe that courageous, ethical, accountable and citizen-centric leadership is needed to turn the tide in local government. That is why the theme of this general report is **Capable leaders should demonstrate change by strengthening transparency and accountability.***

Lastly, I wish to thank the audit teams from my office and the audit firms that assisted with the auditing of local government for their diligent efforts in helping us fulfil our constitutional mandate, and for the manner in which they continue to strengthen cooperation with government leadership. I also wish to thank the leadership of all municipalities for working with us during the audit process.

 15/06/2022

Tsakani Maluleke

Auditor-General



MFMA 2020-21

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The South African Constitution envisages a local government system that provides services to communities in a sustainable manner, promotes social and economic development, and enables a safe and healthy living environment. This system is designed to be a democratic and accountable government for local communities, allowing communities and community organisations to be involved directly in the matters of local government through public participation processes.

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The country's aspirations to improve the quality of life of all citizens should be most evident at municipal level through the provision of water, sanitation, electricity, refuse services, roads and infrastructure, as well as through enabling economic development. Unfortunately, this is not the case.

Low levels of trust and public frustration at the lack of service delivery and financial mismanagement are high. The frustration finds expression in a number of ways, from service delivery protests to citizens opting out of public services in favour of providing their own services or using private services. Citizens have also resorted to litigating against municipalities for failure to deliver services. Businesses are moving out of municipal areas with poor service delivery, resulting in increased unemployment and a loss of municipal revenue in those areas.

In 2021, the Department of Cooperative Governance reported that 64 municipalities were dysfunctional. This dysfunction is rooted in poor governance, weak institutional capacity, poor financial management, corruption and political instability. In June 2017, eight municipalities were under administration or provincial intervention. By June 2021, 23 municipalities were

under administration or provincial intervention, which further increased to 33 municipalities by February 2022. This means that these municipalities had become so dysfunctional that national and/or provincial government had to step in to try and restore governance, financial management and service delivery. Administrators are then appointed by the national and/or provincial government to manage and oversee the day-to-day running of these municipalities.

Over the term of the previous administration, we were consistent in our messages about the progressive and sustainable improvements required to prevent accountability failures in local government and to deal with them appropriately when they do occur. We emphasised the need to strengthen the basic financial and performance management disciplines and to safeguard and maintain municipal assets and infrastructure to prevent mismanagement, transgressions, non-performance, fraud and financial loss. Unfortunately, these issues persist. Our message was always directed to leadership, imploring them to turn the tide in local government – as encapsulated in the theme of our 2019-20 general report, *Ethical and accountable leadership should drive the required change*.

This general report reflects on the municipal audit outcomes over the term of the previous administration and provides insight and information from our audits of the 2020-21 financial year. It presents a not-to-be-missed opportunity for the new administration to learn from the successes and failures of the past and heed our call to action to transform local government and improve people's lives.

We have a vision, shared by many, for this new administration to make significant strides towards instilling a culture of performance, accountability, transparency and integrity in local government. This is what the Constitution envisaged: municipalities that perform by delivering services and are transparent about their level of performance and management of municipal finances, which in turn will enable these municipalities to be accountable to the communities they serve. Above all, communities want to see their elected representatives and municipal officials act with integrity – being honest, ethical and incorruptible, and complying with legislation.

Our role is to audit every municipality and municipal entity in the country, report on what we have found, and share the insights to strengthen transparency and enable accountability. This is especially significant if one considers that municipalities and municipal entities were responsible for an estimated expenditure budget of R509 billion in 2020-21. It is not merely a matter of compliance for us but a genuine effort to ensure improvement and enforce accountability where it is lacking.

As part of our reporting, we inform councils of the quality of the financial statements and performance reports, the status of compliance with key legislation and any material irregularities identified. We specifically report to the councils as they are responsible for approving the budget and performance plans; in-year monitoring; and using the financial statements and performance report to determine whether the municipality achieved its service

delivery objectives, used the budget as intended and is in a good financial position. The council also plays a significant role in investigating and dealing with irregular, unauthorised, and fruitless and wasteful expenditure; fraud and corruption; and any transgressions and non-performance by the municipal manager and senior management. The accountability processes for municipal administration lie squarely within the domain of the council.

When a municipality receives a clean audit opinion, it means that its financial statements and performance report give a transparent and credible account of its finances and its performance against the targets that had been set. In other words, these accountability reports present a reliable picture of that municipality's performance – whether good or bad. This enables the council and everyone with an interest in the municipality – particularly communities, community organisations, and those in national and provincial government who need to oversee the municipality's performance and provide the support it needs to succeed – to judge how the municipality is doing and take action where necessary. A clean audit opinion also means that the municipality complied with the important legislation that applies to it and, where transgressions did occur, they were rare or not material.

A clean audit is not always an indicator of good service delivery and does not always correlate directly to the lived experience of all the communities in a municipal area. However, we have seen that municipalities with institutionalised controls and systems to plan, measure, monitor and account for their finances and performance, and to stay within the rules, often also have a solid foundation for service delivery. When this is the case, municipalities can focus on ensuring the delivery of quality services to all of their residents.

Through our audits, we also do work on areas that can contribute significantly to the success of a municipality, such as financial health, infrastructure development and maintenance, the control environment (including information technology controls), procurement and contract management, consequence management, and aspects of environmental management. We recently

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introduced realtime audits as well – with one of the first focusing on the financial management of local government’s covid-19 initiatives, which culminated in a special report tabled on 30 June 2021.

Through our expanded mandate, and the ensuing material irregularities in particular, we have enriched our insights and strengthened our ability to influence and enforce performance, accountability, transparency and integrity in local government. In response to the material irregularities we identified, municipalities are taking action to recover losses, prevent further losses and harm through strengthening internal controls, and effect consequences for transgressions. We do not hesitate to use our enforcement mandate if material irregularities are not responded to with the required seriousness and urgency. We included recommendations in the audit reports and the auditor-general invoked her additional powers of referral and remedial action.

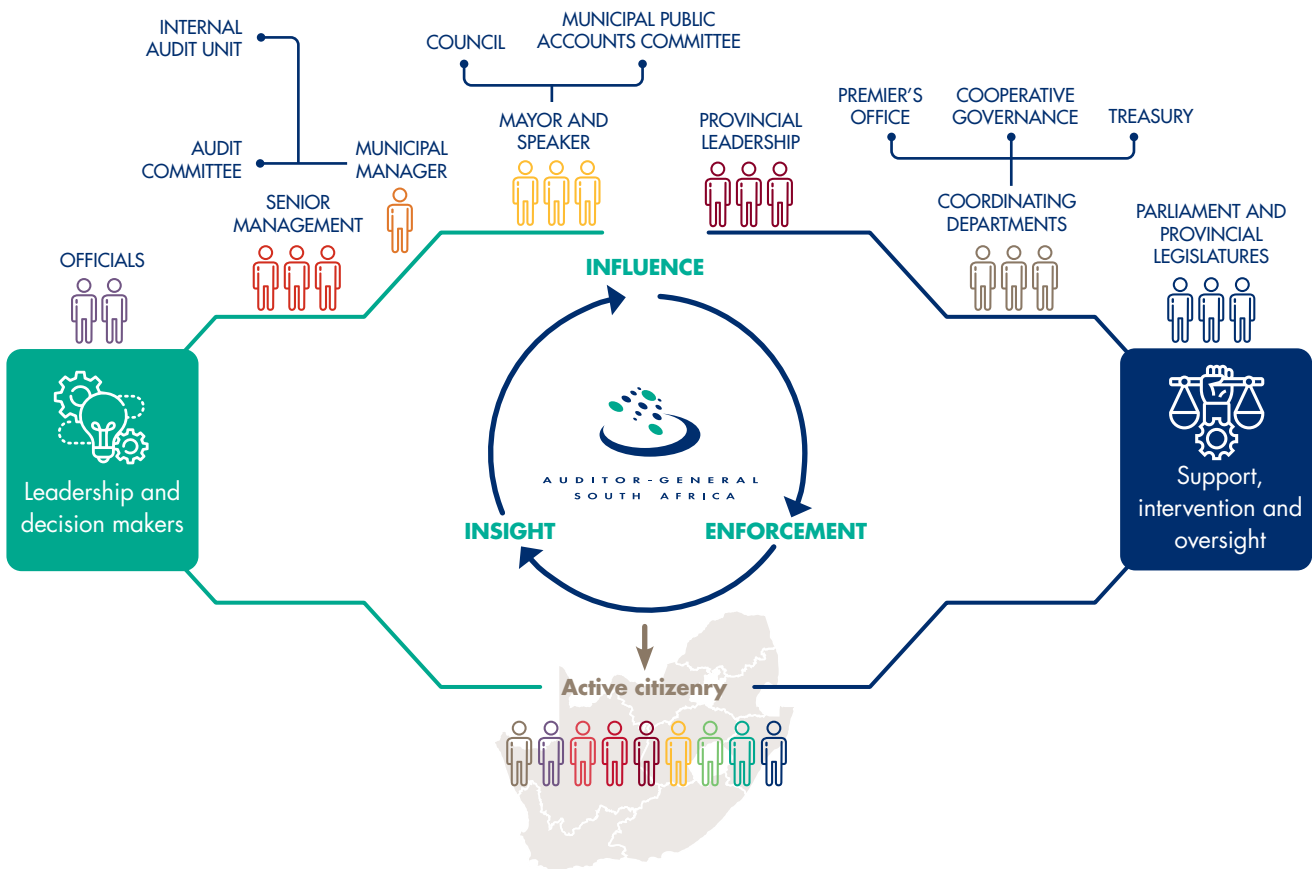
Ultimately, however, the municipal manager (supported by senior management) is responsible and accountable for the finances and performance of a municipality. This responsibility requires the establishment of institutionalised

management practices and disciplines as a foundation for planning, budgeting, financial management, asset management and service delivery. For example, if there are no plans for the maintenance of municipal infrastructure, money will not be allocated in the budget to fund maintenance, the projects will not be executed, and the infrastructure will deteriorate until it can no longer support service delivery – and even cause harm to communities. We found this state of affairs at municipalities with repeatedly disclaimed audit opinions, as detailed in section 2.7.

The audit committee and internal audit unit play an important role in providing the municipal manager with an independent view of the effectiveness of municipal controls and processes. As mentioned above, the council is the executive and legislative authority of the municipality.

But a municipality does not function in isolation – it is part of a bigger system of government. The Constitution requires national and provincial government to support and strengthen the capacity of local government. Active citizenry is also crucial to ensure that municipal leadership is accountable to communities.

Accountability ecosystem



The success of local government rests on the ability of this whole accountability ecosystem to work together: for all role players to not simply operate within their silos, but to function collaboratively with an awareness of how their respective roles influence and affect each other.

This report is therefore not intended for only local government leaders; it is equally important for

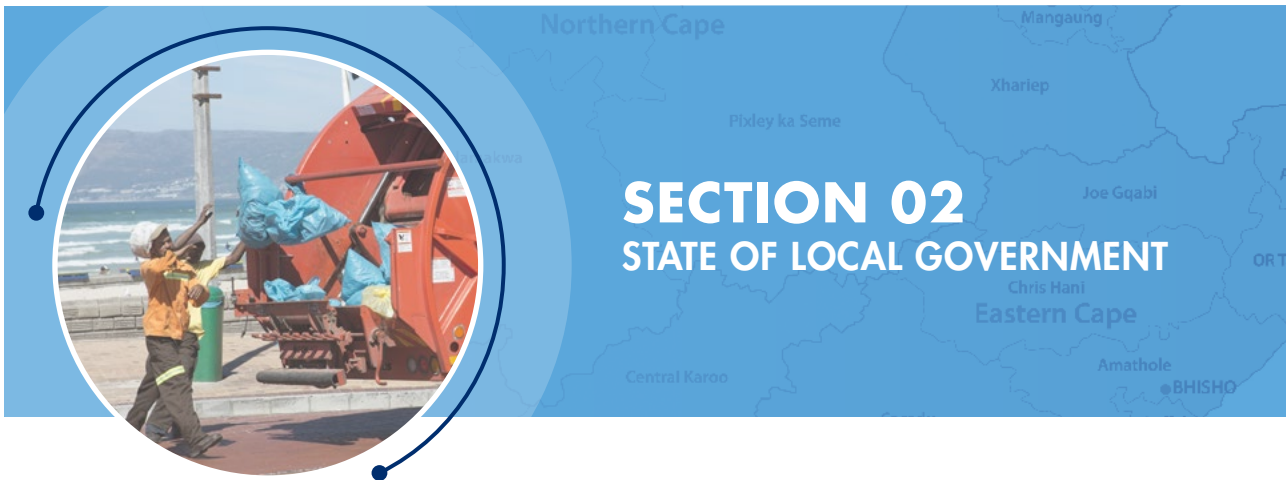
national and provincial leadership and community organisations. We have engaged with many role players to share our insights from the audits and we remain encouraged and positive about the commitments they have made to play their part in improving local government. We will monitor the implementation, effectiveness and impact of these commitments over the term of the new administration.

This report summarises our key messages covering the following areas (with the detail we used to include in previous editions now being available on our website):

1. We report on the state of local government over the term of the fourth administration, dealing with:
 - » Audit outcomes and material irregularities
 - » Financial reporting
 - » Financial health
 - » Information technology controls
 - » Service delivery – planning and reporting
 - » Service delivery – municipal infrastructure
 - » Service delivery – impact at disclaimed municipalities
 - » Procurement and payment transgressions and risks
 - » Accountability and consequences
2. We reflect on the contributions of key role players in the accountability ecosystem and share our recommendations and the commitments made as a call to action
3. We report on the state of local government in each of the nine provinces
4. We share information on the audits we performed and explain the numbers used in the report

In support of greater transparency that will enable accountability, our website – for the first time – now also includes the following information, covering each municipality, district and province in the country:

- » Audit outcomes and information per municipality
- » Key information on audit outcomes per district
- » An overview of audit outcomes and recommendations per province
- » A report on the material irregularities identified at municipalities and the status of these material irregularities



2.1 Audit outcomes and material irregularities

Audit outcomes

Audit outcomes are based on the audits we perform on the quality of financial statements and performance reports as well as on compliance with key legislation.

The outcomes fall into the following categories:

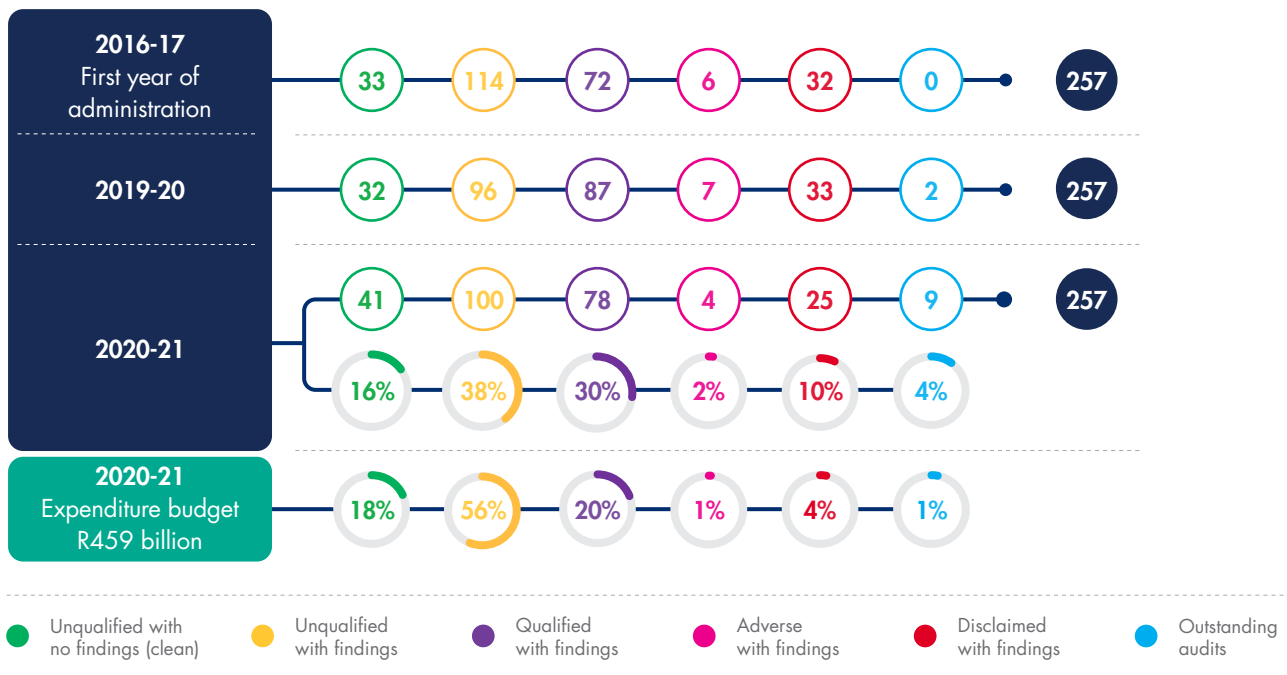
1. A **financially unqualified opinion with no findings (clean audit)** means the municipality:
 - » produced quality financial statements free of material misstatements (in other words, errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
 - » produced quality performance reports that measure and report on performance in a manner that is useful and reliable
 - » complied with key legislation.
2. A **financially unqualified opinion with findings** means the municipality was able to produce quality financial statements, but struggled to produce quality performance reports and/or to comply with all key legislation.
3. A **financially qualified opinion with findings** means the municipality's financial statements contained material misstatements that were not corrected

before the financial statements were published. The municipality also had challenges with the quality of the performance report and/or compliance with key legislation.

4. The financial statements of a municipality with an **adverse opinion with findings** included so many material misstatements that we disagreed with virtually all the amounts and disclosures in the financial statements. A municipality with a **disclaimed opinion with findings** could not provide us with evidence for most of the amounts and disclosures in the financial statements. We were therefore unable to conclude or express an opinion on the credibility of the financial statements. Municipalities with adverse and disclaimed opinions are typically also unable to provide sufficient supporting documentation for the achievements they report in their performance reports and do not comply with key legislation.

The audit outcomes were in a bad state when the previous administration took over in 2016-17 and this state has not improved since then. Some municipalities improved their audit outcomes, just to regress again in later years. Overall, only 61 municipalities now have a better audit outcome than in 2016-17, with 56 now having a worse audit outcome.

Audit outcomes – municipalities



It is encouraging that there has been a slight increase in the number of clean audits – 27 municipalities were able to maintain their clean audit status throughout the term of the previous administration, while 14 achieved a clean audit for the first time and six lost their clean audit status over the five-year period. Clean audits continue to represent less than a fifth of the local government budget.

Over the term of the previous administration, the submission of financial statements by 31 August for auditing worsened from 90% in 2016-17 to 82% in 2020-21. This not only delays the audit process but also the accountability processes.

By the date of this report, nine audits had not been completed as the municipal managers did not submit the financial statements for auditing by the legislated submission date. Two of the municipalities were from the Northern Cape and seven were from the Free State. We elaborate further on the worrying trend of late submissions in the Free State in section 4.

We received the financial statements of five of these municipalities from March to May 2022 and are busy with their audits. The financial statements of

Kopanong, Maluti-A-Phofung and Masilonyana in the Free State and Phokwane in the Northern Cape were still outstanding by the date of this report. The 2019-20 financial statements of Maluti-A-Phofung are also still outstanding.

We reached out to key role players in the accountability ecosystem (municipal mayors and speakers as well as provincial premiers and members of the executive councils for finance and local government) to intervene in the non-submission of financial statements. We also informed the provincial legislatures, Parliament and the National Treasury. Our audit leadership further repeatedly engaged with the municipal managers and chief financial officers of these municipalities to encourage submission. When all of this failed, we notified the affected municipal managers and the board of a municipal entity that the non-submission of the financial statements constitutes a material irregularity, as the delays in the accountability processes are causing substantial harm to these municipalities. The lack of transparency for the use of funds and the financial position of these municipalities should not be tolerated by councils, provincial and national leadership or oversight.

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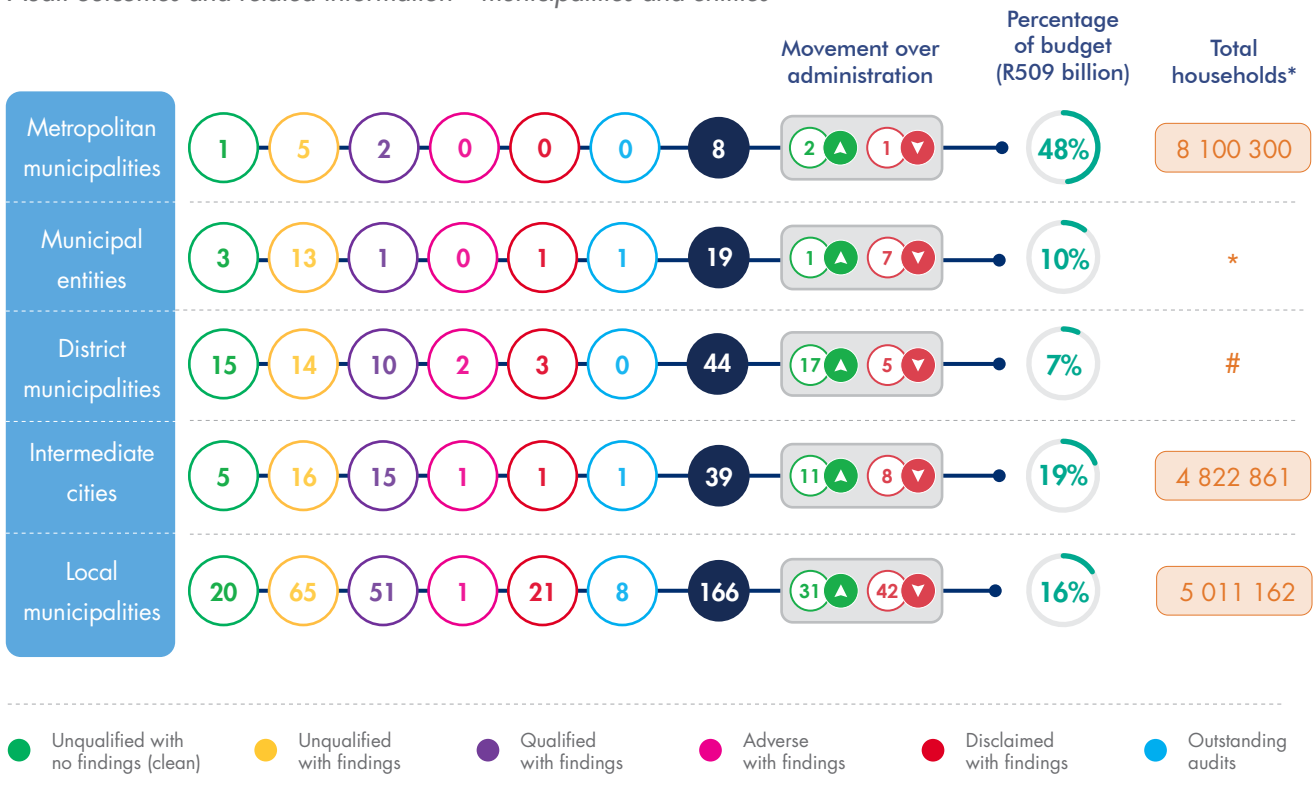
We are particularly concerned about the municipalities that repeatedly received disclaimed audit opinions over the term of the previous administration. Turn to section 2.7 for further detail on this concerning situation.

Local government comprises:

- » Metropolitan municipalities, commonly known as 'metros', which are large urban complexes with populations of more than one million people. They account for the largest portion of municipal expenditure and serve the highest number of households and thus most of the citizens in the country. They were responsible for a budget of R247,48 billion in 2020-21.
- » Intermediate cities, which are municipalities with large budgets (totalling R97,04 billion in 2020-21) and which also serve a substantial number of households.
- » Local municipalities, which can be large towns, small towns or rural areas; and which were responsible for a budget of R79,08 billion in 2020-21.
- » District municipalities, which perform certain functions on behalf of municipalities, such as integrated planning, infrastructure development, and the provision of electricity and public transport. A district municipality may or may not be a water services authority and may provide financial, technical and administrative support services to a local municipality within its area and to the extent that it has the capacity to do so. The 2020-21 budget for district municipalities totalled R35,52 billion.
- » Municipal entities, which are independent entities, that perform municipal services on behalf of a municipality. Their financial statements are consolidated into those of their parent municipalities and their audit outcomes are equally important. This is especially true in cases where they are responsible for a significant portion of the municipal expenditure and service delivery programmes, particularly in Gauteng. Municipal entities were responsible for a budget of R49,58 billion in 2020-21.

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Audit outcomes and related information – municipalities and entities



* Household numbers taken from the National Treasury's local government equitable share data and formula for 2020-21

* Household total for municipal entities is included under metropolitan municipalities

Household total for district municipalities comprises households under intermediate cities and local municipalities

Metros and intermediate cities manage two-thirds of the expenditure budget in local government and are responsible for delivering services to 72% of South Africa's households. As they typically have greater capacity, bigger budgets and can more easily attract suitably skilled and competent professionals, one would expect their audit outcomes to be much better than those of their smaller counterparts – but sadly this is not the case. Although 13 of these municipalities improved their audit outcomes over the term of the previous administration, nine are now in a worse state.

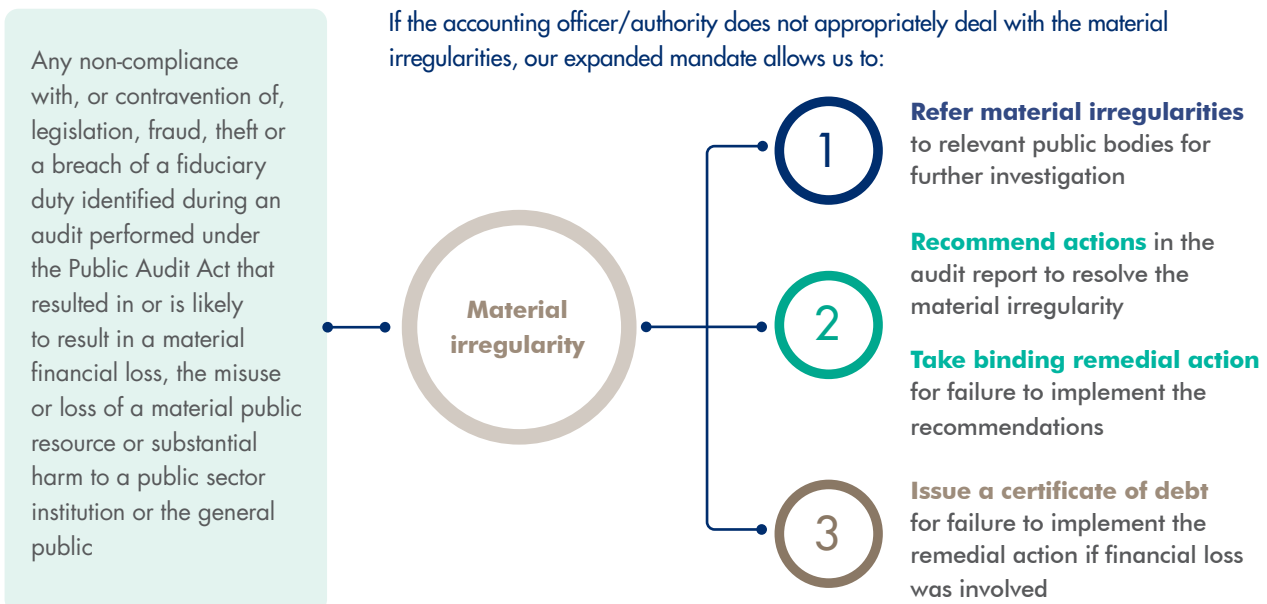
District municipalities showed significant improvement over the same period, but there is still work to be done – especially as they should be leading by example, with good audit outcomes. Local municipalities have the highest concentration of disclaimed opinions and, as with municipal entities, are now in a worse position than at the start of the previous administration's term. This reflects poorly on the support provided by district municipalities to their local municipalities and by parent municipalities (mostly metros) to their municipal entities.

Material irregularities

The audit outcomes, coupled with non-compliance with legislation, reflect the poor state of financial and performance management in local government. This situation resulted in material financial losses at some municipalities, as well as substantial harm where municipalities were unable to fulfil their mandate and deliver services to the public. Our audits have for many years highlighted that not only are irregularities and their resultant impact not prevented from happening, such instances are also not appropriately dealt with when they are identified.

This led to amendments to the Public Audit Act, which came into effect on 1 April 2019 and gave us the mandate to report on these matters as material irregularities and to take action if municipal managers do not deal with them appropriately.

Definition of a material irregularity and our expanded powers



The amendments were meant to establish a complementary enforcement mechanism to strengthen public sector financial and performance management so that these material irregularities can be prevented, or can be dealt with appropriately if they do occur.

The overall aim of our expanded mandate is to:

- » promote better accountability
- » improve the protection of resources
- » enhance public sector performance and encourage an ethical culture
- » ultimately, strengthen public sector institutions to better serve citizens.

By safeguarding and recovering resources, money saved or recovered can be redirected towards service delivery. We issue notifications of material irregularities to encourage the sustainability of auditees so that they can work towards service delivery.

Our expanded mandate did not change the role and responsibilities of accounting officers and authorities or the oversight and monitoring roles of the mayor and the council to prevent and deal with irregularities, such as non-compliance, fraud, theft and breaches of fiduciary duty. Through the material irregularity process, we strengthen them in this role.

Roles and responsibilities in material irregularity process



To strengthen the accountability mechanisms in the public sector

Accounting officer and authority

Have a legal obligation to **prevent all irregularities and take action if it did occur**



AGSA

- **Identify irregularities that could have significant impact** on auditee’s finances, resources and delivery
- Notify accounting officer/authority so they can **take appropriate steps in terms of legislation timeously**
- **Give space to accounting officer/ authority to take required actions** to deal with material irregularities before using our additional powers

Oversight and executive authority

Oversight and monitoring roles remain unchanged



AGSA

- By reporting material irregularities, we highlight **most material matters** and provide information to assist oversight and monitoring roles

Success is: swift action by accounting officer/authority to resolve material irregularities and prevent recurrence

Everyone in the accountability ecosystem has a crucial role to play. Our role is to notify and report on material irregularities, as we are doing. Preventing and resolving material irregularities are the responsibility of accounting officers and authorities. Councils, provincial leadership, oversight and national government also have their role to play and should seize the opportunity to contribute to an improved local government. We include our call to action to councils in section 3.

In this third year of carrying out our enforcement mandate in local government, we expanded our work significantly by implementing the process at more municipalities (94 in 2020-21, compared to 57 in 2019-20 and nine in 2018-19).

There has been a shift at municipalities: from a slow response to our findings and recommendations over the years to attention now being paid to what we report as material irregularities and actions being taken to resolve these. Steadily there has been a change in behaviour from inaction to action by municipal managers. Where municipal managers were not responsive and did not take action, we used our enforcement mandate to take further action.

Where municipal managers respond to our notifications with commitment and workable plans to implement appropriate action to resolve the material irregularity, the intended impact of the Public Audit Act amendments is achieved – the objective was not to issue certificates

of debt but to enable corrective action to resolve the material irregularity. A material irregularity is resolved if all steps have been taken to recover financial losses or to recover from substantial harm, when further losses and harm are prevented through strengthening internal controls, when there are consequences for the transgressions (which include disciplinary processes) and, if applicable, the matter has been handed over to a law-enforcement agency.

The impact achieved by the material irregularity process is evident from the actions taken by municipal managers to resolve the material irregularities that resulted in, or is likely to result in, financial loss. These include:

- » Addressing incorrect billing of municipal services, resulting in increased revenue.
- » Preventing financial losses even before it took place.
- » Improving systems, processes and controls and the safeguarding of assets as well as making payment arrangements to prevent any further financial losses.
- » Recovering financial losses or busy recovering financial losses.
- » Stopping supplier contracts where money was being lost.
- » Handing over matters to law-enforcement agencies.
- » Identifying responsible officials and instituting disciplinary processes.

On the next page we look at some of the material irregularities that have been fully resolved or are in the process of being resolved.



Examples of impact achieved

- » **Corrected billing (fully resolved):** Nelson Mandela Bay (Eastern Cape) did not charge interest in 2018-19 on debtors in arrears who had entered into long-term payment arrangements with the municipality, resulting in a financial loss of R11,2 million. The system deficiency was corrected and from February 2020 monthly interest is being charged.
- » **Corrected billing (fully resolved):** uMzinyathi (KwaZulu-Natal) corrected the problems around interest erroneously not being charged on long-outstanding debt, which resulted in a financial loss of at least R2,6 million being prevented.
- » **Prevented financial loss (fully resolved):** Emalahleni (Mpumalanga) did not make payments to a supplier on time, resulting in interest of R8,59 million being charged. The municipal manager engaged with the supplier, resulting in the interest being reversed and thus preventing the loss. Controls were also put in place to ensure the timeous payment of the supplier to avoid further interest charges.
- » **Prevented further financial loss (fully resolved):** Financial losses in 2019-20 as a result of late payments to Eskom by Newcastle (KwaZulu-Natal) were resolved through the municipal manager entering into a debt and repayment agreement with Eskom, suspending future interest charges. Controls were also implemented to prioritise the payment of Eskom accounts, resulting in no further losses as a result of interest charges in 2020-21.
- » **Prevented further financial loss (fully resolved):** Late payments to the South African Revenue Service by Newcastle (KwaZulu-Natal) and Ngwathe (Free State), resulting in penalties and interest, were resolved by improving payment controls to ensure that statutory payments are made in time.
- » **Contract stopped, disciplinary steps taken and matter handed over to law-enforcement agencies (busy being resolved):** Rustenburg (North West) entered into a contract for the provision of automated fleet and fuel management solutions during June 2018. The scope of work was extended during the price negotiation and items that were not part of the competitive bidding process, were included at higher than market-related prices. Disciplinary steps were taken against the responsible officials, who either resigned or were dismissed. The contract with the service provider was terminated in August 2019, based on a high court order, to prevent further financial loss. The matter has also been referred to the Hawks and legal action has been instituted against the supplier to recover the financial loss.
- » **Disciplinary processes, recovery and preventing further losses (busy being resolved):** The City of Johannesburg (Gauteng) incorrectly taxed gratuity payments to employees as severance benefit payments between 2014 and 2017. This resulted in the municipality having to pay an additional R9,2 million in employee tax and R6,3 million in penalties and interest charged by the South African Revenue Service. The officials responsible for the incorrect calculation have been referred to the council's disciplinary board, the money overpaid to existing and former employees is in the process of being recovered, and arrangements have been made for training by the South African Revenue Service to prevent a recurrence.

By 15 April 2022, we were dealing with 185 material irregularities at various stages in the process. We estimate the total financial loss of these material irregularities to be R3,9 billion, R1,6 billion of which was money lost by municipalities that had invested in VBS Mutual Bank.

Nature of material irregularities



These material irregularities emerged in areas that were not complex, but in which auditees should have basic disciplines and processes in place – to procure at the best price, to pay only for what was received and derive the intended benefit from the money spent, to make payments on time, to recover revenue owed to the state, to safeguard assets and investments, to prevent fraud, and to comply with legislation.

Poor record keeping and financial management disciplines also resulted in substantial harm to municipalities that have repeatedly received disclaimed audit opinions, as this affected their ability to deliver services to communities in a financially sustainable manner. In the past year, we also for the first time raised material irregularities where significant weaknesses in infrastructure and environmental management resulted in pollution that caused harm to the general public.

In section 2.9, we share the status of the material irregularities and how we have used our enforcement mandate, while section 3 includes recommendations to the new councils on their role. Throughout this report, we also provide examples of the material irregularities we have identified, their impact and whose responsibility they are.

2.2 Financial reporting

The municipal council uses financial statements to call the municipal manager to account and to make financial and related service delivery decisions. Creditors, banks and rating agencies use them to determine how much risk there is in extending debt to a municipality, and the public uses them to see how well the municipality is using the rates and taxes collected to provide services. Financial statements are a key instrument for accountability.

Financial reporting does not only happen at the end of the year but also takes place during the year in the

form of quarterly reports to councils and treasuries. These reports are used for decision making and to monitor spending, revenue generation and the use of conditional grants.

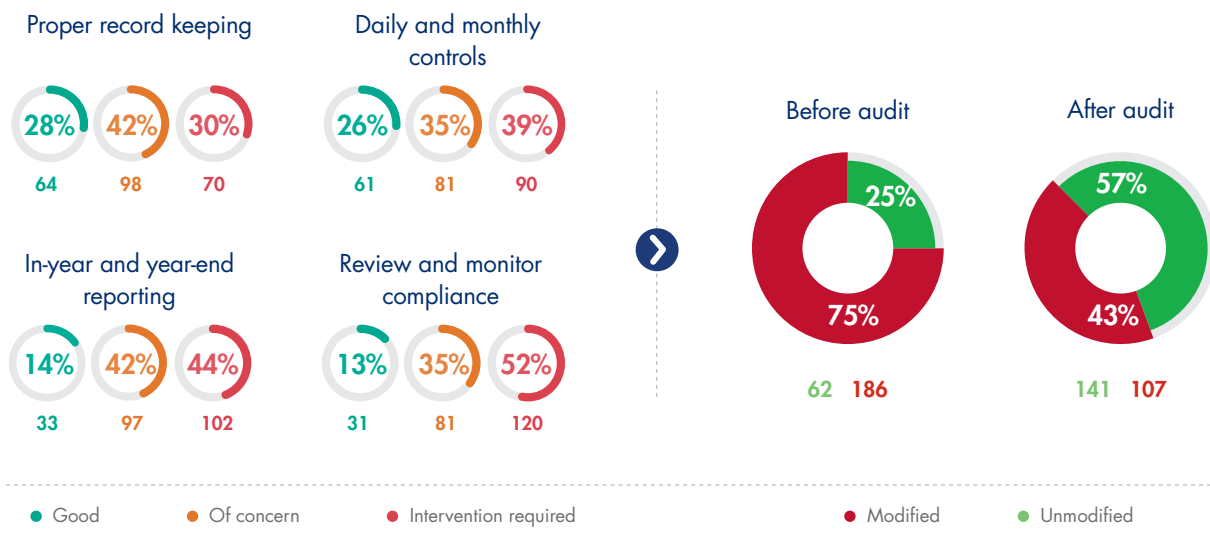
Municipal managers are responsible for credible and reliable in-year financial reports and for quality year-end financial statements that can be relied upon by the users of such financial statements. Municipal managers are supported by finance units led by chief financial officers, internal audit units and audit committees, consultants, and coordinating departments.

Overall, the average vacancy rate of the finance unit at municipalities was 20%, while chief financial officers were in their position for an average of 45 months. The salary cost for finance units totalled R10,41 billion in 2020-21. Internal audit units at 93% of municipalities and audit committees at 96% of municipalities reviewed the prepared financial statements, while national and provincial coordinating departments deployed specialist advisors to support finance units and provided tools to help ensure that financial reporting was credible. In addition, local municipalities can ask district municipalities to provide additional support for financial reporting. Financial reporting consultants have become permanent features in municipalities' financial reporting processes, with the cost of these consultants amounting to R1,26 billion in 2020-21. The cost of consultants doubled over the term of the previous administration.

When combining the money spent on finance units and consultants, it is clear that financial reporting carried a substantial price tag in 2020-21 of just over R11,67 billion.

Despite all of these resources and support, the key management controls of municipalities were not adequate to prevent material misstatements in the financial statements.

Status of key financial management controls and quality of financial statements before and after auditing



Despite us reporting shortcomings and providing recommendations over the years as well as numerous and costly national and provincial initiatives and interventions, the poor status of key financial management controls shows that municipalities have not yet mastered financial reporting – 75% of municipalities were not able to submit quality financial statements for auditing.

If we had not identified the material misstatements and allowed for corrections, only a quarter of municipalities would have produced financial statements that were reliable enough for the council and other decision makers to use. In total, 79 municipalities (32%) relied on the external audit process to identify misstatements, which allowed them to obtain an unqualified audit opinion. But this resulted in increased audit fees – a situation that could have been avoided.

The following were the main areas misstated in the financial statements of those municipalities with modified opinions (in other words, those with qualified, adverse or disclaimed opinions):

- » **Receivables (27%):** Municipalities did not know the correct amount due to them (receivables) and whether they were still entitled to receive the amounts due. In some cases, the value of the receivables recorded was not accurate.

- » **Property, infrastructure and equipment (27%):** Municipalities could not properly account for their assets because asset registers were not updated with assets purchased, under construction, disposed of, stolen or vandalised. In some cases, the value of the assets recorded was incorrect despite the use of consultants.
- » **Irregular expenditure (27%):** Municipalities did not report all irregular expenditure that should have been reported in their financial statements. In some cases, the amount of the irregular expenditure reported was incorrect.
- » **Revenue (27%):** Municipalities did not have adequate documentation to support the revenue billed; and not all of the revenue that should have been billed to residents for services rendered had been billed. In some cases, amounts billed for services rendered were recorded incorrectly.
- » **Expenditure (25%):** Municipalities did not have adequate documentation to support the expenditure reported. In some cases, they did not record all the expenditure that should have been recorded.

The poor quality of the financial statements submitted for auditing does not bode well for the credibility of municipalities’ in-year financial reporting, as it means that decisions, analyses and monitoring could be based on unreliable information.

The ineffective use of consultants for financial reporting

Financial reporting consultants cost local government R5,31 billion over the term of the previous administration and 70% of municipalities used consultants for every year of the term.

The National Treasury issued a circular to municipalities in 2016 dealing with cost containment, requiring municipal managers to only appoint consultants if a gap analysis confirmed that the requisite skills or resources are not available to perform the work. It also reminded municipalities of the legislated requirements to closely monitor contracts and the importance of transferring skills. The responsibility for the effective use of financial reporting consultants lies with the municipal manager and the chief financial officer.

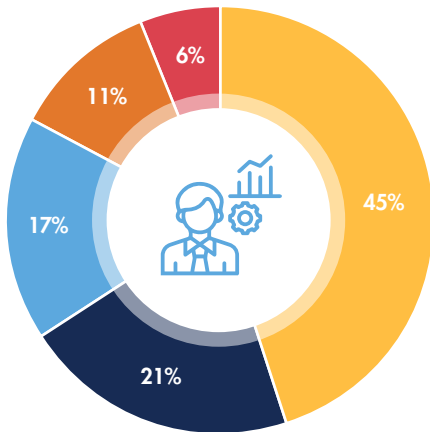
In 2020-21, only 7% of municipalities used consultants to bridge a vacancy gap and 62% appointed consultants to provide skills that the finance unit did not have. The remaining 31% used consultants because of both a lack of skills and a vacancy gap. The inability of these municipalities to master credible financial reporting means that they appoint consultants year

after year without ensuring that skills are transferred to municipal staff; hence, what was intended to be a short-term solution, continues indefinitely. In total, 79% of municipalities reappointed consultants used in the previous year.

Most of the 2020-21 consultant costs of R1,26 billion were used for asset management services (34%), followed by the preparation or review of financial statements (27%), and tax services (27%). Consultants appointed for asset management services were rarely used for complex accounting matters, but rather for basics such as the recording and valuation of assets, which are the fundamentals of good asset management.

The expected benefits of using consultants to enable quality financial statements were not always apparent. The financial statements submitted for auditing by 121 (59%) of the municipalities that used consultants had material misstatements in the areas in which the consultants did work. Even after corrections, 41% had modified opinions, including three municipalities with adverse opinions and 18 with disclaimed opinions. We share our observations on the use of financial reporting consultants at municipalities with disclaimed opinions in section 2.7.

Reasons consultants were not effective



- Inadequate / lack of records and documentation **55**
- Poor project management **26**
- Work of consultants not adequately reviewed **20**
- Consultants appointed too late **13**
- Consultants did not deliver **7**



Inadequate records and documentation

Inkosi Langalibalele (KwaZulu-Natal) was again disclaimed in 2020-21 despite consultants having been used each year during the term of the administration. After the amalgamation of uMtshezi and Imbabazane to form Inkosi Langalibalele, significant challenges in the credibility of the financial records (such as the accuracy of take-on balances) were not addressed due to a lack of records and inadequate skills. Although the finance unit was fully staffed, staff still did not have adequate skills – this despite the continued use of consultants and the appointment of an administrator since 2016-17. In 2020-21, the salary cost of the finance unit was R13,95 million and the municipality paid R28,35 million to financial consultants.

Late appointment of consultants

Nquthu (KwaZulu-Natal) appointed consultants only on 29 June 2021 for the 30 June 2021 year-end, despite the finance unit vacancy rate of 28% and the contract of the chief financial officer being terminated. The municipality again received a disclaimed audit opinion, as sufficient time was not afforded to the consultants throughout the year to try and improve the audit outcome.

At seven municipalities (6%) (one each in the Eastern Cape, North West, Northern Cape, Limpopo and KwaZulu-Natal as well as two in Mpumalanga), consultants were not effective because they did not deliver the required services. For example, consultants made adjustments to the accounting records that could not be supported or their work contained errors, and they could thus not produce financial statements without any material misstatements – the task for which they were appointed. Municipalities paid these consultants a total of R78,8 million.

We find it concerning that consultants were not effective in the remaining 94% of instances, as municipalities did not provide adequate records, appointed consultants too late, or did not effectively

manage consultants. Where municipalities did not review the work of consultants, they effectively outsourced their responsibilities. In these cases, consultants continue to accept appointments despite it being unlikely that they will add value to municipalities. The ethical code for professional accountants requires them to evaluate threats such as questionable financial reporting practices that might influence ethical principles before accepting any engagements. We plan to engage with consultants and the profession on ethical implications after the tabling of this report.

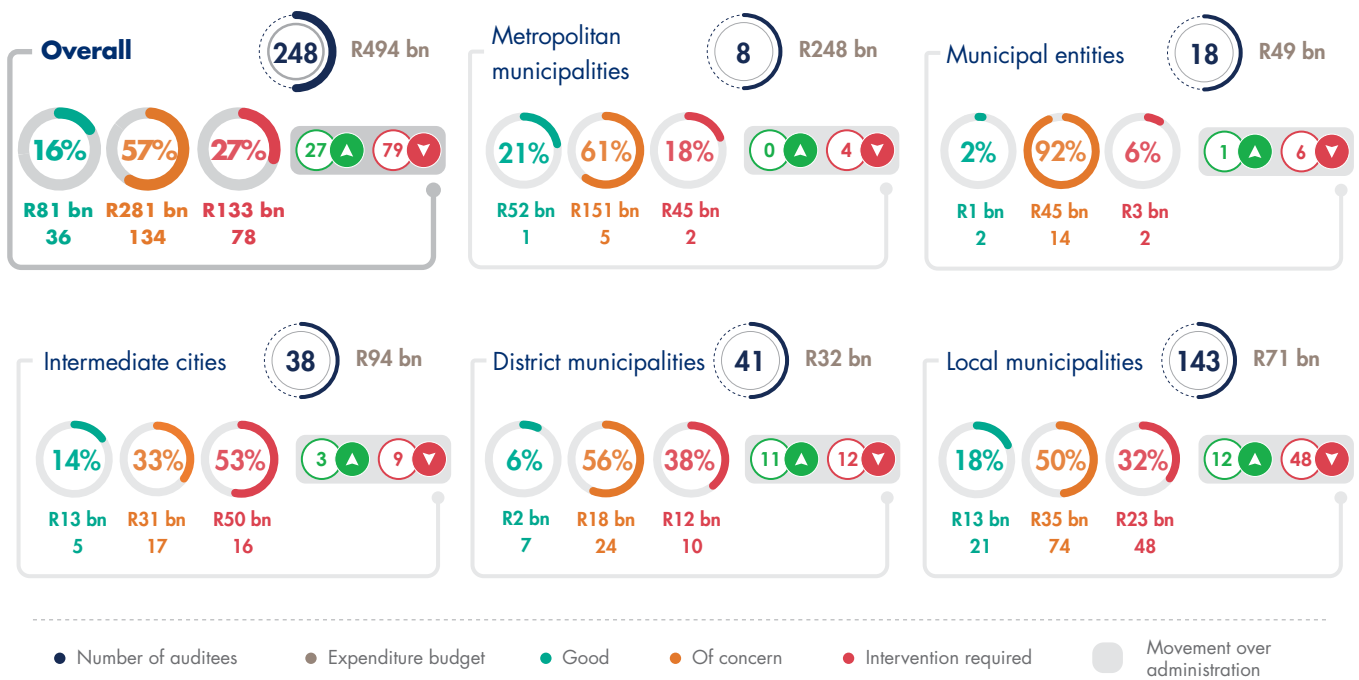
We are pursuing material irregularity notifications at municipalities where the ineffective use of financial reporting consultants resulted in material financial losses.

2.3 Financial health

Municipalities cannot continue to operate and provide services if financial health concerns remain. Yet local government finances remain under severe pressure due to non-payment by municipal debtors, poor budgeting practices, and ineffective financial management.

Our assessment of the financial health of 230 municipalities and 18 municipal entities based on their financial statements showed increasing indicators of a collapse in local government finances and continued deterioration over the term of the previous administration. At 22 municipalities and one municipal entity, the financial statements were not even reliable enough for us to analyse because of disclaimed or adverse audit opinions.

Status of financial health – overall and breakdown per municipal category



The financial health of metros is particularly concerning, as they serve the largest segment of the population and account for more than half of the local government expenditure budget.

METROS

The City of Tshwane (Gauteng), City of Johannesburg (Gauteng), City of Ekurhuleni (Gauteng), City of Cape Town (Western Cape) and Nelson Mandela Bay (Eastern Cape) were all downgraded to below investment grade by 30 June 2021. The downgrades put pressure on some of the metros to raise funding for capital expenditure, and they had to use internal savings from operational budgets to fund shortfalls. Most of the metros were put on review for further downgrades by the credit-rating agencies, meaning that they could plunge deeper into sub-investment territory if economic conditions worsen.

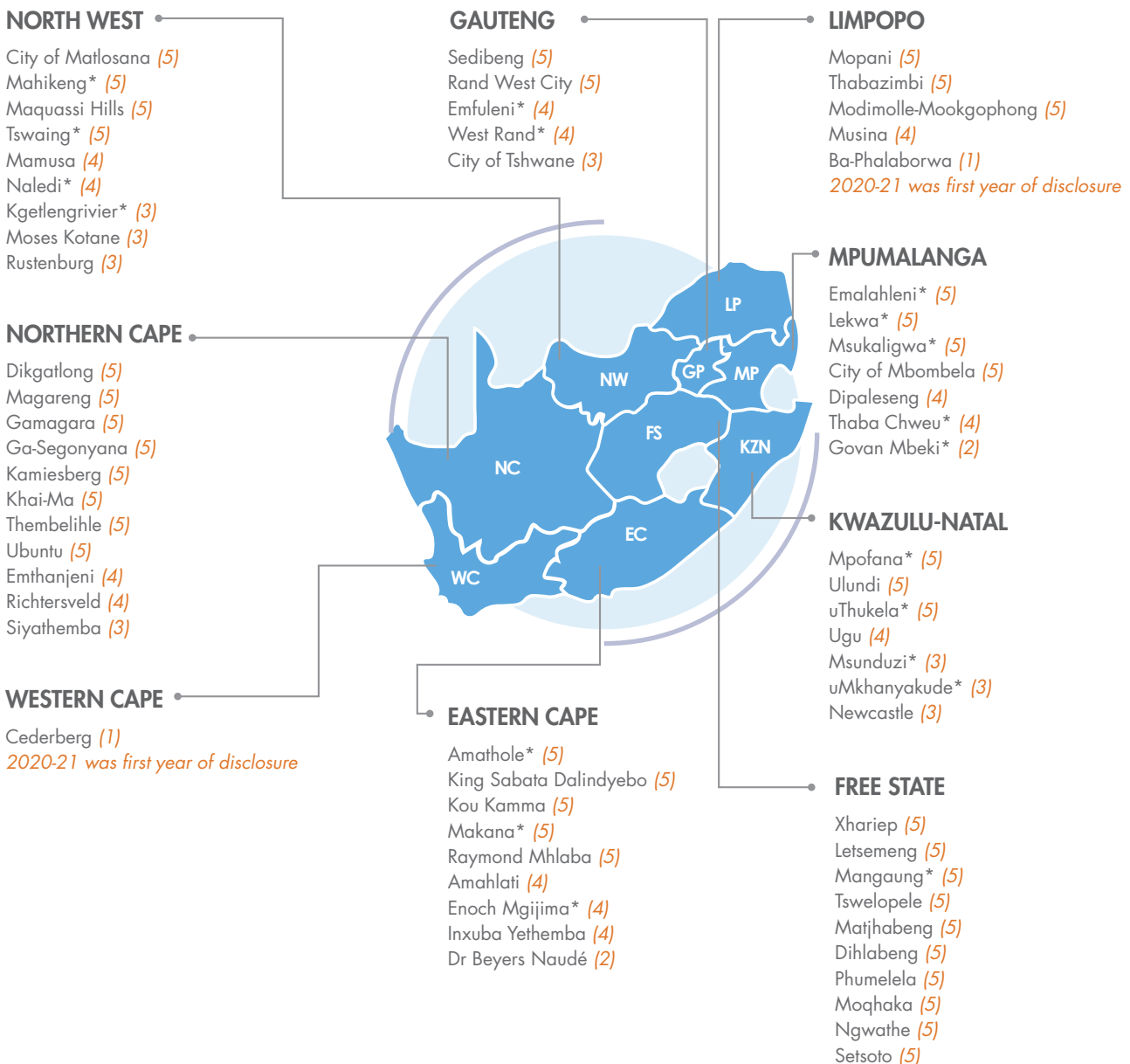
As cash-strapped consumers fall behind on paying municipal rates and taxes, credit-rating agencies are flagging an increased concern around the likelihood of metros being unable to meet their debt payments or source cash from capital markets to meet future obligations due to falling revenues. The debt of metros that is unlikely to be recovered in full ranged from 53% to 88%. Although some of these metros have cash reserves, its further use to make up revenue shortfalls will reduce the metros' capacity to meet future debt obligations as they fall due.

Financial health trends

The financial position of 28% of South Africa's municipalities is so dire that there is significant doubt whether they will be able to continue operating as a going concern in the near future.

This effectively means that such municipalities do not have enough revenue to cover their expenditure and that they owe more money than what they have. Many of these municipalities have been in this dire financial position multiple times over the term of the previous administration.

Municipalities with going concern problems



● Number of years with going concern problems

* Under administration / provincial intervention - Mahikeng, Tswaing, Naledi and Kgetlengrivier were put under administration after 30 June 2021

The main source of revenue for most municipalities is the rates and taxes paid by property owners and consumers of municipal services (what we call 'own revenue'). The problem with own revenue is that municipal consumers (including government institutions) are not paying what they owe – this has been a trend for many years and has been made even worse by the economic downturn caused by the covid-19 pandemic. This means that while a municipality's revenue might look healthy on paper, the money does not reach the bank.

We estimate that only 36% (R109,64 billion) of own revenue was recoverable, and it took municipalities an average of 213 days to collect amounts due to them. In 2020-21 alone, municipalities wrote off R41,28 billion in debt because it was never paid to them.

Municipalities therefore often depend on the money they receive from national government in the form of an equitable share to stay afloat. This amounted to R80,26 billion in 2020-21, which is a substantial increase from the previous year's R67,83 billion.

While the economic downturn does affect revenue collection, municipalities do not always play their part either. Not all revenue owed is billed and poor debt collection practices are common. In addition to highlighting these concerns through audit findings, we also issued material irregularity notifications where municipalities were suffering material financial losses as a result of revenue owed not being billed or debt not being collected.

Material irregularities: revenue management



- » Buffalo City (Eastern Cape) did not bill a number of customers for water services provided during 2019-20, resulting in a likely financial loss of R9,6 million. This was caused by a number of control deficiencies, including a lack of integrated processes and systems between the municipality's directorates as well as delays in updating systems and registers that linked water meters per property. The deficiencies were addressed and billing commenced from 2020-21. The municipal manager also launched an investigation to identify the responsible officials and institute disciplinary action.
- » Money owed to the City of Matlosana (North West) by the fresh produce market was not collected due to a lack of internal controls. Investigations performed by the municipality identified the officials responsible for the transgressions, resulting in disciplinary processes, dismissals and potential legal action to recover the losses. The likely financial loss since 2017-18 adds up to R43,3 million.

With limited cash in the bank, municipalities prioritise the payment of salaries and councillor remuneration, which totalled R113,66 billion in 2021 – 60% of the estimated recoverable own revenue and equitable share allocation. They then use what is left to pay municipal suppliers, including Eskom and the water boards, which are essential for the supply of basic services. At some municipalities, returns and payments to the South African Revenue Service are also delayed, and there are even municipalities that do not transfer their employees' contributions to their pension funds.

Despite the requirement that creditors be paid within 30 days, 85% of municipalities took longer than 30 days to pay their creditors and just over half (51%) took much longer than 90 days to do so. On average, it took municipalities 240 days to pay their creditors, compared to 139 days in 2016-17. The late payments affect the cash flow of local government suppliers, which is in sharp contrast with the objectives of stimulating the economy and supporting especially smaller businesses. Due to these late payments, suppliers and contractors stop delivering to municipalities, resulting in projects not being completed and performance objectives not being achieved.

Eskom and the water boards are in the difficult situation of being required to continue delivering services despite non-payment. The arrears (including interest) payable to Eskom and the water boards by municipalities amounted to R25,37 billion and R13,29 billion, respectively.

The directors' report included in the Eskom annual financial statements for the year ended 31 March 2021 states the following:

- » The top 20 defaulting municipalities constitute 81% of total gross municipal overdue debt.
- » A total of 43 active payment agreements were in place with defaulting municipalities at year-end; however, only 10 of these agreements were being honoured and the interruption of supply remains a last resort. Eskom has been interdicted from interrupting supply to various defaulting municipalities.
- » Eskom lost two appeals to interrupt supply to two municipalities as the Supreme Court of Appeal concluded that the dire situation these municipalities faced obliged the national and provincial governments to intervene, in terms of the Constitution.

Further adding to these financial woes, is local government losing billions of rand each year because of interest and penalties. In 2020-21 alone, the fruitless

and wasteful expenditure resulting from interest and penalties totalled R1,22 billion. We issued material irregularity notifications where municipalities were suffering material financial losses as a result of such interest and penalties.

While we acknowledge that many municipalities are in financial distress, they do collect money for electricity services and receive funding from national government to subsidise electricity for indigents, but the Eskom accounts remain unpaid because these funds are used for other purposes. To influence an improvement in municipal policies, processes and arrangements with Eskom, we issued 22 material irregularities on interest payments (financial losses) as a result of non-payment of Eskom accounts. In response, some municipalities such as Newcastle (KwaZulu-Natal) and Emthanjeni (Northern Cape) entered into repayment agreements with Eskom, while others such as King Sabata Dalindyebo (Eastern Cape) ring-fenced electricity revenue to pay only Eskom. Some municipalities undertook projects to replace faulty electricity meters, including Letsemeng (Free State); correct debtors accounts, including Mpofana (KwaZulu-Natal); and review indigent registers, including Thaba Chweu (Mpumalanga). Some municipalities, such as Madibeng (North West), even settled the whole amount.

Material irregularities: interest and penalties



- » Ntabankulu (Eastern Cape) did not make payments to a pension fund as instructed by a court judgement, resulting in interest of R5,3 million.
- » Matjhabeng (Free State) did not pay over employee pay-as-you-earn deductions within seven days after the end of the month to which they relate, as required by the Income Tax Act, resulting in penalties of R1,9 million and interest of R0,6 million.

Despite the limited money available, we still find that municipalities do not diligently and carefully manage their funds. An indicator of the poor management of funds is the R1,96 billion in fruitless and wasteful expenditure incurred by 193 municipalities in 2020-21. Over the term of the previous administration, R14,13 billion in expenditure was fruitless and wasteful.

In 2020-21, 64% of municipalities incurred unauthorised expenditure totalling R20,45 billion, of which R13,25 billion was for non-cash items (we explain what this is in the next paragraph). This means that municipalities spent money that the council had not provided for in the approved budget or the spending did not meet the conditions of a particular grant.

Municipalities' budgets make provision for items that do not involve actual cash inflow or outflow. These 'non-cash items' include accounting entries such as reducing the value at which assets are reflected in the financial statements (asset impairments) and providing for other types of potential financial losses. This is not actual expenditure, but rather an accounting requirement that lets municipalities assess the true value of their assets (such as equipment or debtors). Municipalities must correctly budget for these non-cash items to show their true financial state and plan for the inevitable replacement of assets. The unauthorised expenditure related to non-cash items was caused by poor budget management.

By year-end, almost half of all municipalities (47%) owed creditors more money than they had available in the bank, as municipalities continued to spend money they did not have. The total deficit in local government amounted to R6,63 billion and the expenditure of 55 municipalities (26%) exceeded their revenue at year-end. As a result, municipalities were using the next year's budget to cover the current year's expenditure. This is evident from the fact that current liabilities were more than 50% of the 2021-22 budget at 29% of municipalities. This means that the 2021-22 budget will pay for spending that had already taken place in 2020-21 and prior financial years. In all likelihood, the cycle will

continue unless municipalities receive additional revenue, which is highly doubtful given the prevailing economic conditions and the overall economic outlook.

Municipalities should ensure that they are able to deliver services based on available resources, but they continue to promise a level of service delivery and projects they cannot fund, and to submit budgets to the council that balance but are effectively based on money that they will not be able to bring in (unfunded budgets). As a result, the spiral of non-delivery continues, the impact of which is felt directly by the communities and businesses the municipalities serve – particularly when it comes to inadequate access to basic services and the lack of economic development. This also places pressure on the country's finances overall, which we can ill afford. Municipalities must be prudent with the limited resources available and make the right choices to prioritise the communities they serve. Most importantly, municipalities need to develop and implement sustainable strategies to remain financially viable and ensure continuing service delivery.

It is encouraging that when communities raise their concerns about some of the financially distressed municipalities that struggle to deliver services to residents, national or provincial government intervenes by, among others, developing credible financial recovery plans.

In May 2021, the finance minister responded to issues raised by the community and placed Lekwa (Mpumalanga) under intervention through section 139(7) of the Constitution. A financial recovery plan was prepared by the National Treasury and approved by the finance minister in October 2021. The detailed plan included timelines for each planned activity, which was divided into three phases: the rescue phase, primarily focusing on restoring the cash position of the municipality; the stabilisation phase, expanding on the financial indicators to be monitored and emphasising key governance and institutional issues to be addressed simultaneously; and the sustainability phase, to ensure that indicators are developed to give effect to the long-term financial sustainability of the municipality. This approach was designed to ensure that financial recovery is not only achieved but also – more importantly – that progress is institutionalised and sustained within the municipality. We are already seeing some promising signs that the plan is being implemented and is having a positive impact. The plan will also go a long way in responding to the material irregularity we raised at this municipality in response to its repeatedly disclaimed opinion.



Such credible strategies should be replicated at other struggling municipalities as part of bigger institutional building processes to ensure that municipalities are properly equipped to sustainably address financial management and governance weaknesses. The National Treasury and provincial treasuries are well positioned to support municipalities with their financial recovery strategies through capacity-building programmes.

2.4 Information technology controls

Municipalities process critical business transactions and financial information using information systems. Our role is to assess the control environment supporting these systems to determine if there are any risks of unauthorised access to the systems and data, whether we can rely on the controls for audit purposes, and whether municipalities are deriving value from their investment in information and communication technology.

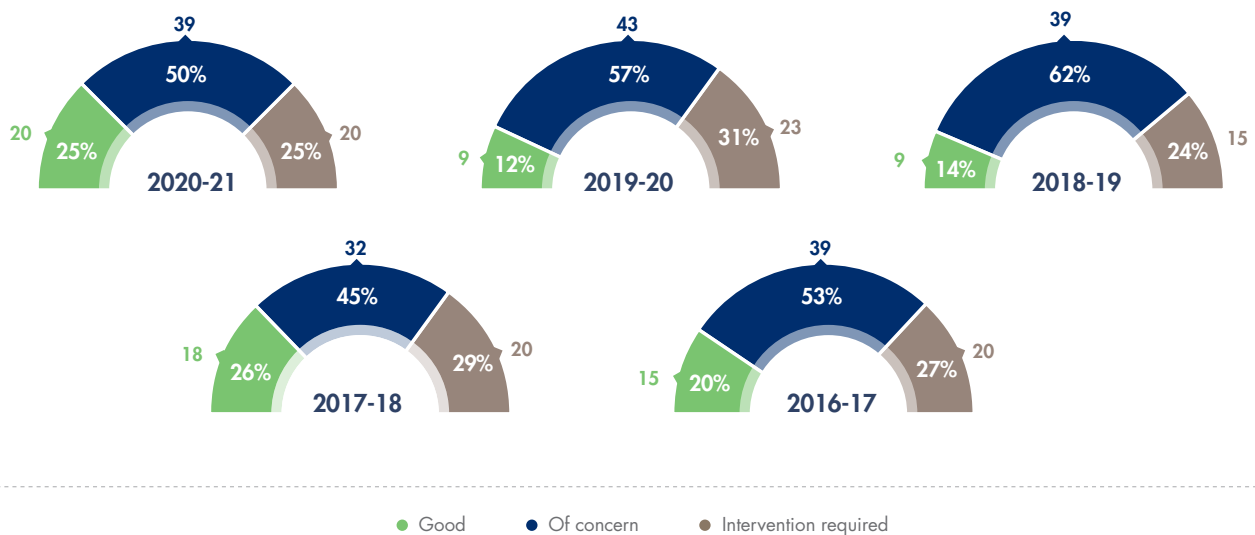
Over the years, we have identified significant control weaknesses in local government’s information systems

relating to areas such as information technology governance, system-related controls, information security, disaster recovery, information technology projects, and information technology contracts and licences.

Information technology governance

Information technology governance is an element of corporate governance, aimed at improving the overall management of information technology and deriving value from the investment made in technology. Good governance enables municipalities to manage information technology risks effectively and to ensure that information technology activities are aligned to overall business objectives.

Status of information technology governance over term of previous administration



Information technology governance improved at 10 municipalities and regressed at four over the term of the previous administration. Three-quarters of the 79 municipalities where we performed the assessment had ineffective governance processes.

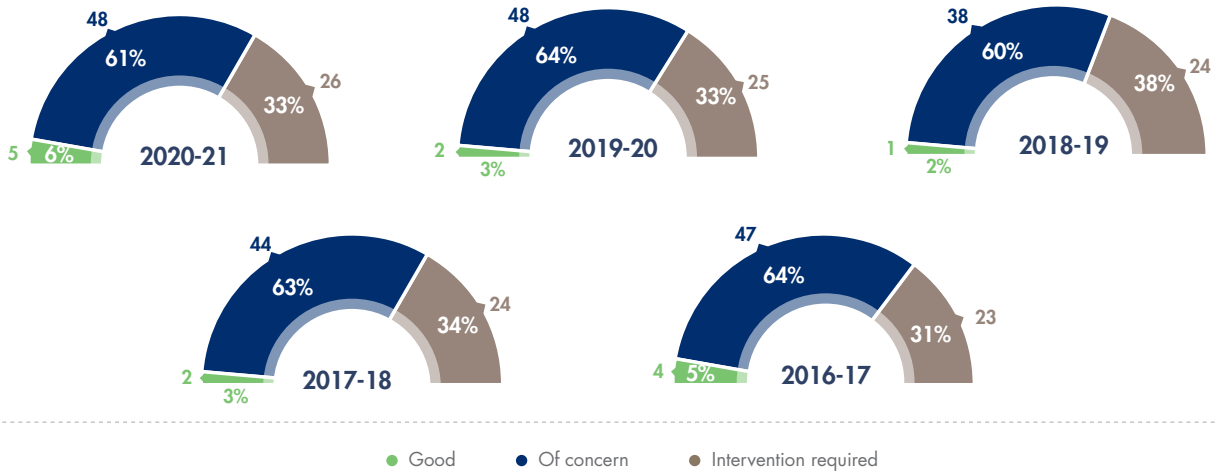
Impact: Ineffective information technology governance processes led to control environments that were vulnerable to abuse or misuse, runaway information technology projects that completely exceeded budget and time targets, and expenditure that was not justifiable, leading to value not being derived from the investments made in technology.

A few municipalities have implemented effective governance processes over time, translating into a good control environment, including the City of Cape Town (Western Cape) and the City of Mbombela (Mpumalanga).

System-related controls

Many local government systems process critical information and data that should support key business operations and financial management processes. These systems are used to process large volumes of data which, in principle, should make local government more efficient and economical.

Status of system controls over term of previous administration



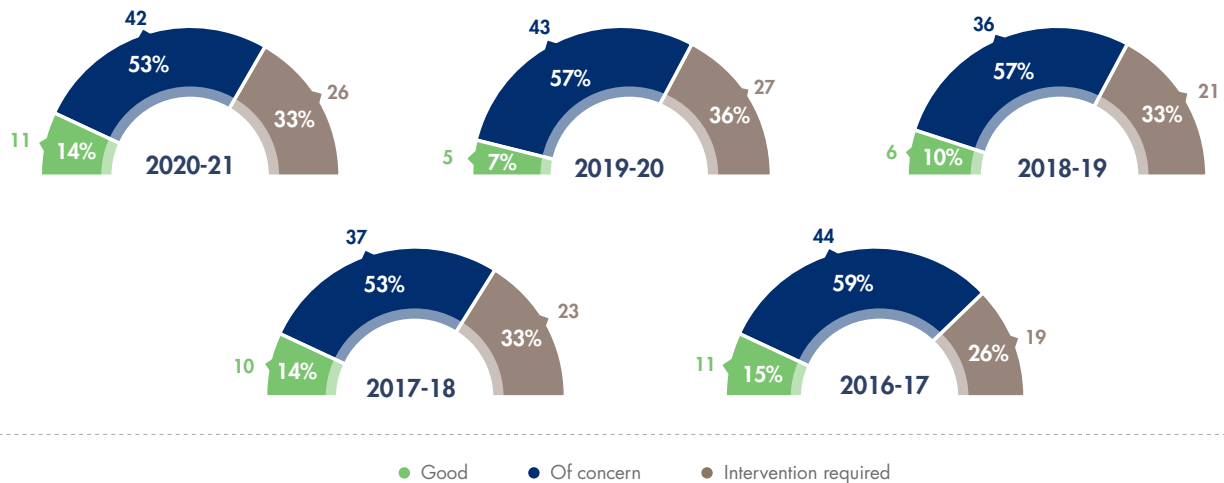
System controls were ineffective or inadequate to ensure the integrity of the information processed by the systems of 94% of the municipalities we audited.

Impact: Local government, especially metros and large municipalities, continued to spend large sums of money on new and advanced systems to streamline their processes. But as a result of significant weaknesses in these systems, we had to perform additional procedures around the transactions and data processed by such systems. In addition, these systems were vulnerable to misuse, abuse and fraud.

Information security

Information security measures are critical to ensure that information systems used by local government are not vulnerable to cyberattacks and to prevent staff from performing unauthorised system activities.

Status of information security over term of previous administration



Out of 79 municipalities, 68 (86%) had ineffective security controls.

Impact: Hackers were successful in exploiting the security weaknesses at some of the municipalities where we rated information technology security as weak. This resulted in some key local government services not being available for a prolonged period of time and, in some cases, hackers demanding ransom.

Security weaknesses were successfully exploited, demonstrating the need for the new administration to pay special attention to the strengthening of cybersecurity controls

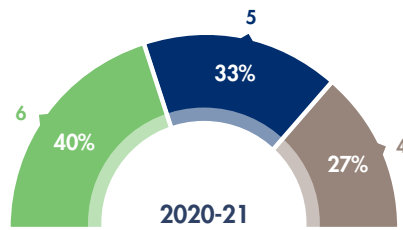


- » The City of Tshwane (Gauteng) was hacked in December 2019 and the metro was defrauded of R53 million meant for pension contributions. We notified the municipal manager of this material irregularity – investigations and prosecution are ongoing, with R23,1 million having been recovered to date. The system weaknesses have also been addressed.
- » The City of Johannesburg (Gauteng) was hacked in October 2019 and the hackers demanded a ransom. This resulted in the metro shutting down several customer-facing systems, including the metro's website, e-services and billing system as a precautionary measure. Operations were negatively affected and customers could not transact on e-services or log queries via the call centre or customer service centres.
- » Sol Plaatje (Northern Cape) was hacked in 2016-17 and the hackers demanded a ransom. In 2018-19, hackers again compromised municipal systems, resulting in supplier banking details being changed and R2,7 million being paid into the incorrect bank account.

Information technology projects

Information technology projects, especially system implementation projects, are notorious for not meeting time, cost and/or business expectations.

Status of information technology projects in 2020-21



● Good ● Of concern ● Intervention required

We reviewed 17 information technology implementation or system acquisition projects at 15 municipalities. At nine municipalities (60%), 11 of the projects (64%) did not meet time, cost, quality or business expectations. The value of the projects was R1,92 billion.

Impact: Poorly managed projects resulted in municipalities incurring costs that could have been avoided.



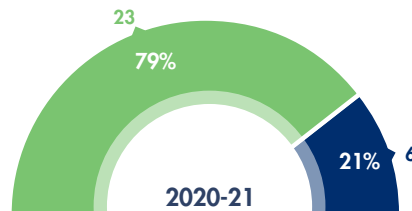
Projects that were poorly managed

- » The City of Johannesburg (Gauteng) spent R713 million on a SAP upgrade. The project was delayed significantly due to the imminent implementation of the Municipal Standard Chart of Accounts and the metro therefore did not derive the intended value from the project.
- » The City of uMhlathuze (KwaZulu-Natal) spent R266 million on SAP implementation. As a result of project delays, the total project budget increased by R184 million to R276 million and the municipality continued to use legacy systems with limited functionality. This impeded management’s ability to rely on system reports for financial reporting.
- » Msunduzi (KwaZulu-Natal) spent R129 million on SAP implementation and experienced project delays. As a result, the total project budget increased by R189 million to R279 million. The municipality is re-implementing the SAP system to align configurations according to business requirements, which have changed as a result of the project delays.

Information technology contracts and licences

As in all other areas of a municipality's operations, information technology contracts and licensing agreements are important as they outline the responsibilities of the parties to the contract to protect both the municipality and the supplier and to minimise risk.

Status of information technology contracts and licences in 2020-21



● Good ● Of concern ● Intervention required

We selected 38 contracts to audit at 29 municipalities and found that 10 contracts (26%) at six of them (21%) were not concluded in the best interest of the municipality as the intended value was not received.

Impact: Municipalities paid for software licences they did not need, resulting in expenditure that could have been avoided.

Information technology contracts concluded and licences purchased but full benefit was not derived from the money spent



29

- » The City of Johannesburg (Gauteng) spent R76 million towards maintenance and support on software licences as part of the SAP upgrade project mentioned earlier. Because the project was delayed, this could result in some of the licences not being used. A specialist will further assess the extent of non-usage in the next financial year.
- » Nelson Mandela Bay (Eastern Cape) procured R15 million worth of software licences but used only 1 000 of the 4 000 licences purchased.
- » The City of Tshwane (Gauteng) accrued R25 million towards maintenance and support for software licences that were not fully utilised as the payments were based on more than the required number of licences.
- » The City of Ekurhuleni (Gauteng) started implementing the Oracle HRMS system in 2017. The metro contracted for software licences valued at R3,5 million, but project delays may result in the licences not being used. The metro also paid R1,5 million for Payday software licences that were not used.

2.5 Service delivery – planning and reporting

Local government's delivery failures are not surprising if one considers municipalities' poor financial management and weak financial health and the state of their infrastructure. But most telling is municipalities' inability to plan for, and report on, their performance.

At the start of each new administration's term, municipalities establish an integrated development plan to inform all of their planning, budgeting, management and decision making, which can then be revised annually as required. Unique to local government is that the public participates in the process as a way to ensure that their needs will be met over the five-year term.

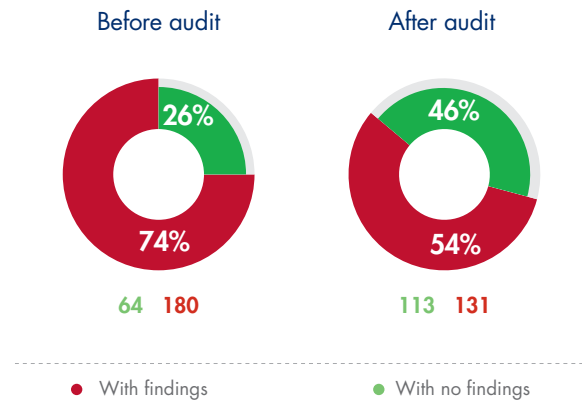
Municipalities are further required to plan in detail for what they must deliver every year and over the term of the administration. They do this in their service delivery and budget implementation plan to ensure proper alignment between the integrated development plan and the budget. They then account for whether they managed to achieve their targets in their annual performance report so that the council can call them to account and the public can see progress against the commitments made. Good planning, in-year performance management, monitoring, and reporting that is useful and reliable, are crucial for achieving the service delivery commitments made by the administration.

Every year, we audit specific service delivery information to determine whether the information in the performance reports is useful and reliable enough to enable the council, the public and other users of the reports to assess the municipality's performance. When we raise material findings on municipalities' performance reports, this means they generally struggled to:

- » align their performance reports to the predetermined objectives to which they had committed in their integrated development plan and service delivery and budget implementation plan

- » set clear performance indicators and targets to measure their performance against the objectives report reliably on whether they have achieved their performance targets.

Quality of performance reports before and after audit – municipalities



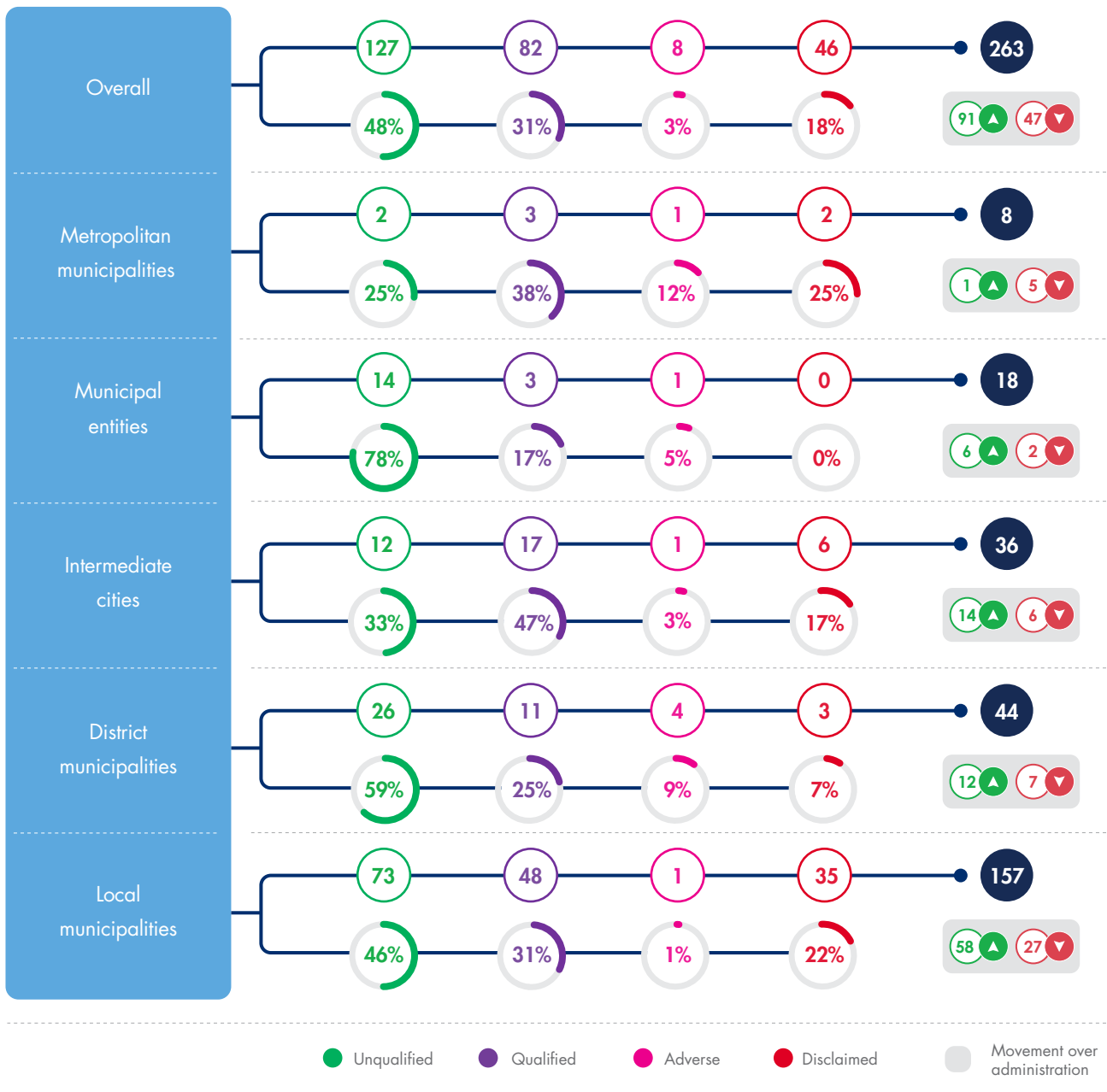
Khai-Ma (Northern Cape), Ubuntu (Northern Cape), Renosterberg (Northern Cape) and Tswaing (North West) did not prepare performance reports, which meant that there was no transparency on, or accountability for, their performance. It further does not bode well for service delivery that 74% of the 244 municipalities that prepared performance reports submitted poor-quality performance reports for auditing.

Although there are performance management and reporting frameworks that clarify definitions and standards for performance information, including the requirements for integrated structures, systems and processes to manage performance information, most municipalities did not have adequate systems to collate and report on their performance information. Performance management and reporting requirements were also not properly applied.

The poorly prepared performance reports and significant activity to make corrections in response to the audit also raise questions about the credibility of in-year reporting and the effectiveness of performance reporting throughout the year. Poor monitoring and corrective action throughout the year contribute to municipalities being unable to achieve their performance targets or reliably report on their

performance. Councils and oversight bodies (such as municipal public accounts committees) also use in-year reporting for monitoring purposes; without reliable information, their monitoring process will be ineffective.

Opinions on performance reports – overall and breakdown per municipal category



The most prevalent material findings on these performance reports at municipalities were that the information provided was not reliable (42%). In other words, either we had proof that the achievement as reported was not correct, or we could not find evidence to support the reported achievements. This means that fewer achievements than reported could have been attained or that the reported achievements might not have taken place at all.

At 40% of municipalities, the indicators and targets used to plan and report on achievements were not useful. This means that what was reported had little relevance to the municipalities’ original commitments in their planning documents, and anyone attempting to establish whether the commitments had been honoured would struggle to get a credible answer from the report.

The main reason for the unreliable performance reports was that manual processes were used to gather data, which are prone to human error that may not be detected and corrected in time. When municipalities do not have credible data and information, it also reduces their ability to plan for service delivery, respond to any challenges that could arise, and to make decisions. For example, if a municipality cannot reliably measure the number of households that has access to sanitation facilities, the municipality may end up with either too few or too many sanitation facilities.

The indicators of some municipalities did not cover all communities, which made it easier for them to report good achievements. For example, Knysna (Western Cape) did not report on access to sanitation for households from informal settlements, which make up a significant percentage of households in the municipal area. In such instances, the performance report might reflect that targets had been achieved when, in reality, basic services were not provided to all citizens.

Municipalities have similar objectives to be achieved and services to be delivered, such as providing water and electricity and maintaining roads. One would then expect local government to use consistent

performance indicators for planning and reporting; however, this is not the case. This makes it very difficult to compare the performance of municipalities and for national and provincial government to monitor and report on government programmes. Although there is a framework for performance reporting, it provides some leeway for municipalities to decide on what they want to measure and how they want to measure it.

This resulted in some municipalities measuring what was done (input) and not what was delivered (output) or what was achieved (outcome). The Department of Cooperative Governance is responsible for providing additional guidance and providing support to enable a consistent approach at municipalities, but the department has made little progress in this area. The National Treasury, being responsible for supporting metropolitan municipalities, took steps to address this problem at metros.

Below we look at the impact of this initiative and discuss other findings related to service delivery at metros. We provide insight into how even the well-capacitated metros struggle with planning and reporting on service delivery.

METROS

Public participation in the development of integrated development plans remains a pivotal aspect of the performance planning process in local government, and gives communities an opportunity to influence the strategic course and direction of the municipality to ultimately benefit the people it serves. These processes took place at metros even when covid-19 restrictions were in place by, for example, using social media platforms.

We acknowledge that not all concerns of citizens can be addressed in the integrated development plan – metros need to prioritise services based on the available budget. Community needs do not always fall within the mandate of the metro, such as Eskom-related functions.

This often leads to dissatisfaction with the level of delivery by metros if they do not provide adequate feedback.

The intent of public participation was not consistently realised, however, as some metros did not achieve the targets set for service delivery indicators. For example, the City of Tshwane (Gauteng) reported a zero achievement for three indicators relating to the provision of water, sanitation and construction.

In addition, the reports of civil society organisations should be a key input to the planning processes of metros to ensure that the needs of communities are appropriately responded to. We also consider these

reports for risk assessment purposes and to obtain insights into how communities experience metro service delivery. Where the reports of civil society organisations were relevant to indicators contained in planning documents, we found that most metros met these considerations.

As briefly mentioned earlier, the National Treasury reviewed, rationalised and streamlined the planning and reporting requirements for metros in response to the challenge of inconsistent planning and reporting and a lack of focus on outcomes. The National Treasury introduced common indicators on which all metros should report from 2018-19, but implementation has been slow. Only the City of Ekurhuleni (Gauteng) and eThekweni (KwaZulu-Natal) have fully implemented the requirements, while the other six metros are implementing them in a phased approach.

The benefits of this initiative have not been realised yet. There were still significant inconsistencies, as some metros did not include the common indicators in their planning documents, while others included only selected indicators. Some metros also treated and applied outcome indicators differently for planning and reporting. The implementation challenges were mainly due to a lack of supporting systems and processes.

Some metros did their planning and reporting 'off the books'. In other words, they did not include all of their indicators in their planning documents and annual performance report, despite reporting to the National Treasury quarterly and annually on the indicators. By excluding these indicators from the annual performance report, they were then not subjected to an audit of their reliability. This also affected the accountability and monitoring processes of the council, as the decisions they made during the year were not based on complete information and reflective of the needs of citizens.

We have observed that there is a correlation between a good performance management system and service delivery but that the correlation weakens if the incorrect performance measures and targets are managed.

For example, the City of Cape Town (Western Cape) has received consistently good audit opinions on performance reporting, yet this does not translate into decent service delivery to all residents within the metropolitan area.

This illustrates shortcomings in the planning and initial setting of indicators and targets in the respective integrated development plans and service delivery and budget implementation plans. So, for example, performance reporting indicators might measure performance based on the number of taps installed, but not whether the taps installed are actually working – which is a service delivery matter.

Where metros are getting it right, the impact is also felt by the community. The City of Ekurhuleni (Gauteng) received a clean audit outcome for the second year in a row, with no material findings on their performance planning and reporting. We audited the indicators relating to water and sanitation and found that the good achievements reported were reliable and that the metro was responsive to concerns raised by citizens. To illustrate, the metro prioritised problems highlighted during the public participation processes relating to flooding due to dilapidated infrastructure, included these in the service delivery and budget implementation plan, and achieved the targets in this regard (e.g. the metro constructed 60 stormwater systems against the target of 28). Also worth mentioning is that the metro overachieved on the target to resolve 85% of water and sanitation complaints within 48 hours – 90% of water-related complaints and 87% of sanitation-related complaints were resolved within 48 hours.

Weaknesses in metro performance planning and reporting not only affect service delivery and reliable reporting but reduce the council's ability to monitor and make meaningful contributions to the achievement of the promises made to communities in the integrated development plan. Coordinating departments (treasuries and cooperative governance departments) and national delivery departments (e.g. the Department of Water and Sanitation) also do not have consistent and reliable information to properly plan, monitor and report on service delivery by metros.

2.6 Service delivery – municipal infrastructure

Municipal infrastructure plays a key role in supporting service delivery. A lack of infrastructure and the inadequate maintenance of infrastructure not only negatively affect service delivery, but often also cause harm to communities and the environment.

We reported on weaknesses in infrastructure projects and inadequate maintenance and management of infrastructure assets throughout the term of the previous administration. We further included these areas in the work we did as part of the real-time covid-19 audits. Yet we continue to identify the same issues year after year – which is especially concerning as one of the key initiatives in the South African Economic Reconstruction and Recovery Plan is aggressive infrastructure investment.

In support of this initiative, national government provides infrastructure grants to municipalities to enable infrastructure development and maintenance. Although these grants are sorely needed to finance infrastructure

projects, they are often underspent, mostly because of poor project management. For instance, the metros had to return R235,82 million in unspent infrastructure funds (from the urban settlements development grant and the public transport network grant) to the National Treasury, with funding of a further R70,72 million from the mentioned grants possibly having to be returned if the National Treasury does not approve the rollover of these funds.

Money was also not always spent in accordance with the grant framework.

The underspending and inappropriate spending of these grants mean that valuable infrastructure assets meant for service delivery are not maintained and planned projects are not delivered. This leads to a deterioration in the quality of services delivered to citizens, who continue to be frustrated with inadequate service delivery.

In our audits, we paid specific attention to infrastructure delivery across the project life cycle, focusing on 517 key municipal projects, including water and sanitation services, road construction, and recreational facilities. Read on to see what we found.

The **planned completion dates were not achieved** at some infrastructure projects.

A project at uMkhanyakude (KwaZulu-Natal) for the refurbishment and upgrade of wastewater works, with an original completion date of June 2018, was significantly delayed for more than 41 months. The project was still incomplete by February 2022. The delays were caused by inadequate planning, poor milestone monitoring and a lack of qualified project managers to monitor and oversee project implementation. This meant that 3 280 households did not have access to much-needed sanitation facilities.



We reported non-compliance with supply chain management regulations at some projects. Inadequate procurement and payment practices, uncompetitive and unfair procurement processes as well as **inadequate contract management** remained prevalent. In some instances, payments were approved for work that had not been done, while other payments exceeded the market value of the infrastructure assets.



JB Marks (North West) embarked on a project to construct a flood-line water canal. The municipality did not exercise adequate care by ensuring that the project was adequately budgeted for and that sufficient funds were available to finance the project to its completion. This lack of careful planning resulted in the municipality commencing with construction of the flood-line canal and incurring expenditure, only to later abandon the project due to a lack of funds. During the period that the project was effectively abandoned, the work done up to July 2017 deteriorated to such an extent that all work had to be redone. We notified the municipal manager that this constitutes a material irregularity. The lack of maintenance on the flood-line canal after commissioning resulted in continued infiltration of sewage, which adversely affected the environment and the health of citizens.

Municipalities incurred fruitless and wasteful expenditure because they did not pay contractors on time.



At Buffalo City (Eastern Cape), a bulk regional sewage project for Bisho, King William's Town and Zwelitsha incurred interest of R2,5 million due to unpaid payment certificates. The metro incurred a further R1,2 million in contractor standing time costs as they submitted drawings and other information late, as well R655 402 because the contractor claimed for abnormal weather conditions without supplying proper proof.

The value of infrastructure assets that should be maintained and safeguarded totalled R491,70 billion. Municipalities need to budget for repairing and maintaining these assets based on their annual asset maintenance plan. The National Treasury dictates that municipalities should spend at least 8% of the value of infrastructure assets on the repair and maintenance of those assets. However, the total spending on repairs and maintenance across all municipalities amounted to R16,82 billion, which is only 3% of the value of infrastructure assets. It is particularly concerning that nearly half (40%) of all municipalities spent 1% or less on repairing and maintaining their infrastructure assets.

One of the most misstated areas in the financial statements was infrastructure assets. In these cases, municipalities did not have credible and reliable data for managing their infrastructure assets. This is despite municipalities spending more on consultants for asset management services than on any other financial service.

The lack of maintenance by municipalities resulted in lower service level standards, excessive costs for replacing or upgrading infrastructure and equipment, and an increasing risk of mechanical breakdowns. It also posed a risk to the health of citizens and harm to the environment. Turn to section 2.7 to see what we found in this regard at municipalities with repeatedly disclaimed audit opinions.

Citizens have the right to clean drinking water and proper sanitation, making the provision of water a key service delivery area for municipalities. Yet this scarce and valuable resource is not properly managed. An acceptable norm for water distribution losses is between 15% and 30%, with anything above 30% indicating that water infrastructure is not being well managed. The average water loss across the country above the 30% norm stood at 50%. Altogether, 84% of the 114 municipalities that are water services providers incurred water distribution losses totalling R9,82 billion. Some municipalities disclosed water losses in kilolitres

instead of rand values, while other municipalities did not disclose water losses at all.

Apart from scarce water resources potentially being wasted, the water losses add to the significant amounts that are payable to the water boards but that cannot be billed to consumers to earn revenue. This contributes to ongoing cash flow problems and further delays the provision of quality services to communities.

This caused harm to the communities using the water on a daily basis and to farmers who used the water for irrigation and their livestock. The situation at some of these municipalities is well known and has been the subject of investigations by the Human Rights Commission and court cases, but little has been done to rectify the problem.

The likely substantial harm to the general public caused by the contamination of water sources meets the definition of a material irregularity. By 15 April 2022, we had issued notifications to the municipal managers responsible for eight of the wastewater treatment plants, with more to follow.

Our environmental inspections of wastewater treatment plants at selected municipalities confirmed that the neglect of municipal infrastructure and ineffective environmental management resulted in polluted water sources, including the underground water.

Material irregularities: environmental management



- » The Rooiwal wastewater treatment works of the City of Tshwane (Gauteng) operated over capacity without the necessary repairs and maintenance being done. Over a number of years, this resulted in continued spilling and discharge of effluent into the Apies River and Leeuwkraal Dam, which is the extraction point of the Temba water treatment plant.
- » Ngaka Modiri Molema (North West) is responsible for the Lichtenburg/Blydeville wastewater treatment works, which was not functional due to poor management, inadequate security (leading to vandalism and theft), and equipment not being repaired and maintained. This resulted in raw sewage overflowing from manholes before reaching the plant due to blocked pipes. The wastewater received at the plant was discharged into the nearby wetlands and river without being treated first. This state of affairs was unchanged from previous site visits and our reporting in 2019 and 2020. Other plants in the district are in a similar state of disrepair.

METROS

Our audits at the eight metros concluded that not all of them had prioritised maintaining their infrastructure assets. Instead of focusing on preventative maintenance, most metros were reactive, only repairing assets after they had broken down.

- » The City of Johannesburg (Gauteng) acknowledged that most of its infrastructure assets have passed their useful life and cannot be salvaged through repairs and maintenance.
- » Mangaung (Free State) did not have any maintenance plan in place and only repaired assets when they had already broken down.



As the City of Cape Town (Western Cape) prioritised preventative maintenance, we did not raise any findings on the maintenance of infrastructure assets at the metro.

Due to financial difficulties, metros underbudgeted for repairs and maintenance, even though most of them had ageing infrastructure.

The City of Tshwane (Gauteng) reprioritised funds to maintain operations instead of using these funds for repairs and maintenance due to liquidity challenges.



In the next section, we provide more information on our environmental findings and material irregularities at municipalities that repeatedly received disclaimed audit opinions.

2.7 Service delivery – impact at disclaimed municipalities

A disclaimed opinion is the worst audit opinion a municipality can get, as it means that the municipality could not provide us with evidence for most amounts and disclosures in its financial statements. We could therefore not express an opinion on the credibility of these financial statements or determine what had been done with the funds the municipality had received for the year. Municipalities with disclaimed opinions are further typically unable to provide supporting documentation for the achievements they report in their performance reports and also do not comply with key legislation. Disclaimers also mean that residents living in these municipal areas are robbed of service delivery.

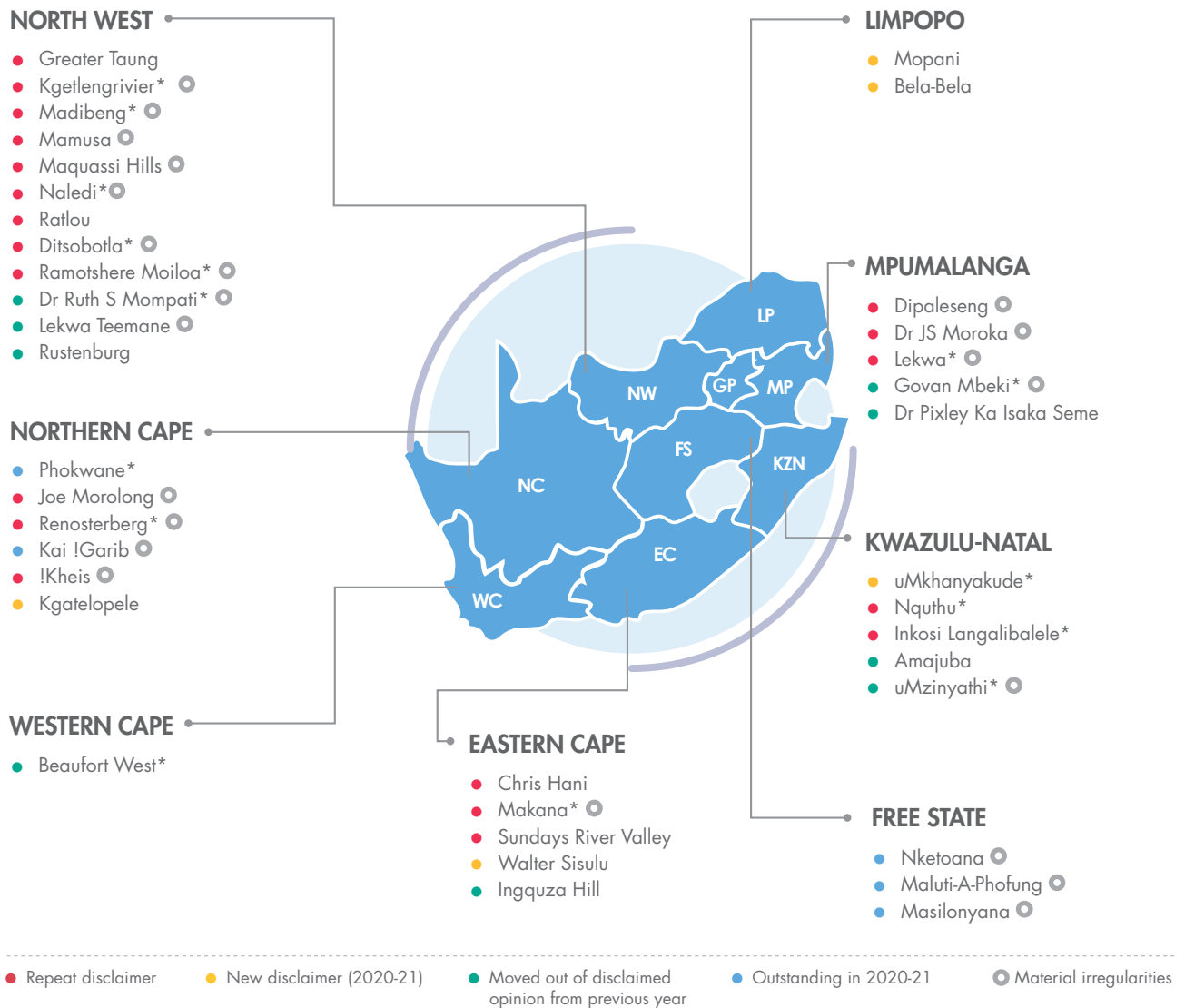
In 2020-21, 25 municipalities received disclaimed audit opinions – almost 10% of all municipalities. The audits of five municipalities that had received disclaimed opinions in the past are still outstanding. This means that the number of disclaimed municipalities for 2020-21 could still increase.

In spite of all our messages, as well as initiatives by national and provincial government and even municipalities being placed under administration, little improvement was evident over the term of the previous administration. Only 18 municipalities improved from previously disclaimed opinions, while 17 regressed to disclaimed outcomes over the period. Eight municipalities that received disclaimed opinions in the first year of the previous administration's term, are still disclaimed.

In 2020-21, only Gauteng and the Western Cape did not have municipalities with disclaimed opinions. Most of the municipalities that repeatedly received disclaimed opinions are in North West.

In 2019-20, our general report and engagements specifically focused on the urgent intervention needed at municipalities with a history of disclaimed opinions. We placed the spotlight on our inability to audit how the funds these municipalities received (through the equitable share and conditional grants) were used because of the limitations we experienced.

Municipalities with disclaimed opinions



*Under administration / provincial intervention as at February 2022

Material irregularities – disclaimers

The high number of municipalities that received disclaimed opinions compelled us to consider the impact of full and proper records not being kept and the lack of credible financial reporting, which constitutes non-compliance with the Municipal Finance Management Act. These lapses in accountability caused substantial harm to most of these municipalities, as their financial position was so poor that they disclosed in their financial statements that they were uncertain whether they could continue operating. In other words, they were unable to

demonstrate that they would be able to ensure that their communities had access to basic services in a financially sustainable manner. This constitutes a material irregularity in terms of the Public Audit Act.

By 15 April 2022, we had notified the municipal managers of 24 municipalities of this material irregularity. (The map above shows only 22, as the audits of two municipalities that had received disclaimed opinions in 2018-19 and qualified opinions in 2019-20 and 2020-21 were still outstanding when we issued the notifications.)

We gave the municipal managers sufficient time and support to respond to the notifications and, in some cases, had to re-issue notifications when the municipal managers changed or municipalities were placed under administration. The responses we received on the notifications were telling. Most of the municipal managers were unable to determine and articulate the root causes of the lack of proper municipal records and the financial problems being experienced and/or they could not identify appropriate actions with clear timelines to address these matters.

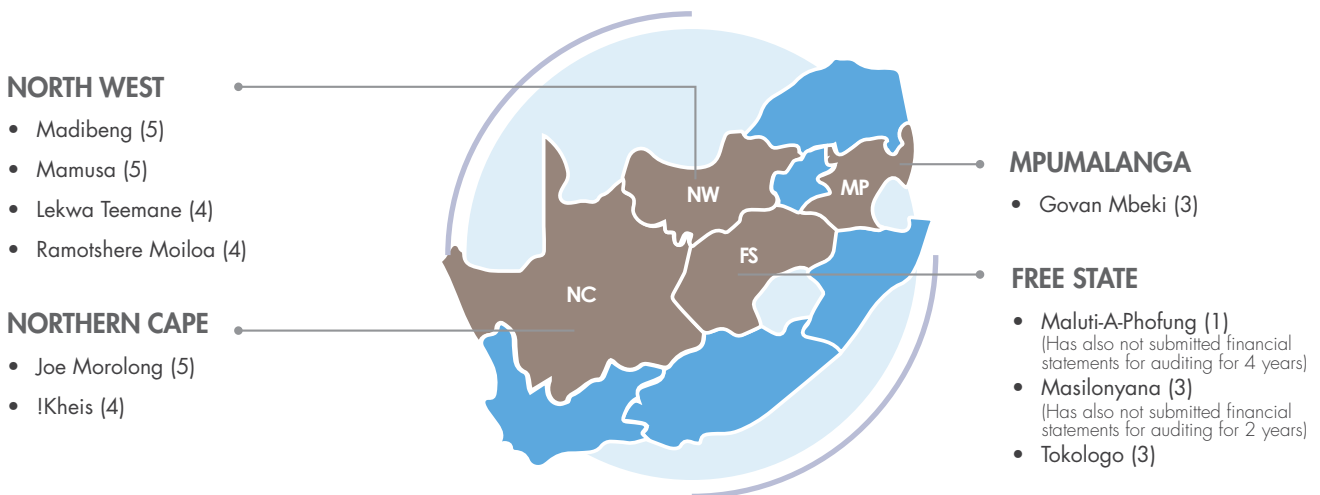
We assessed that only five (21%) of the municipal managers are taking appropriate action to address

the material irregularity. We took further action and included recommendations in the 2020-21 audit reports of 14 municipalities (58%). These recommendations urged the municipal managers to investigate what and who had caused the non-compliance and to establish credible action plans to address the lack of full and proper records and improve the financial position of the municipality. If these recommendations are not implemented within the stipulated period, we will issue binding remedial action. For the remaining municipalities, we are either awaiting a response to the notification or assessing responses and determining whether appropriate action is being taken.

Repeatedly disclaimed municipalities

In our 2019-20 general report, we told the story of 10 municipalities that had received disclaimed audit opinions to illustrate what went wrong, what it means and the impact it has on residents.

Audit focus: 10 disclaimed municipalities (number of years disclaimed included in brackets)



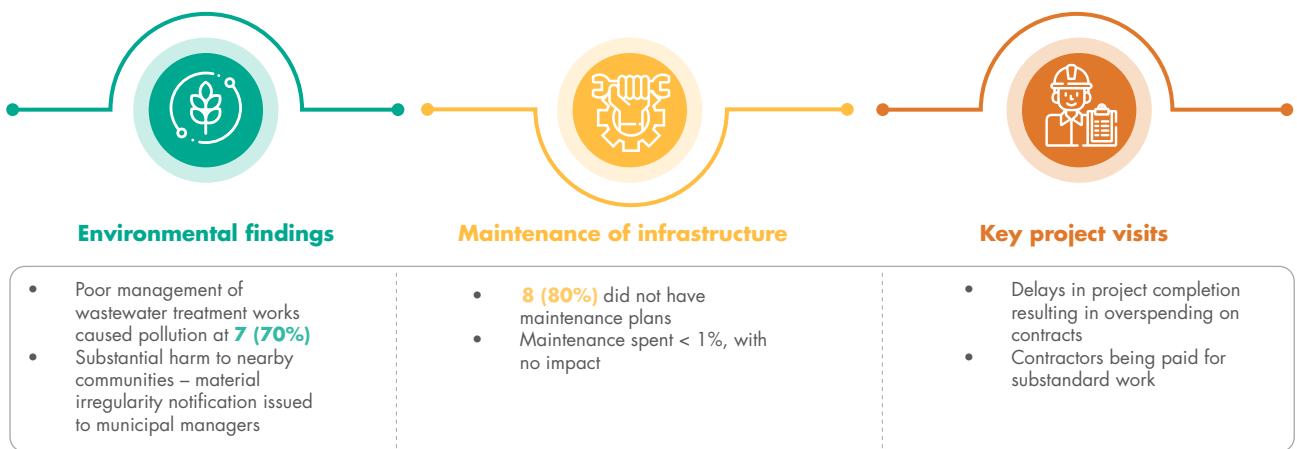
At most of these municipalities, we observed leadership instability (both at political and administrative level), poor oversight by councils, significant financial health problems, protests and strikes, a lack of consequences, and interventions that were not effective.

During our 2020-21 audits, we continued to focus on these 10 municipalities to gather insight into the matters that may be hampering progress and service delivery, and to enhance our messages and improve accountability.

We performed detailed work on specific focus areas, including infrastructure assets, environmental impact, payment profiles, and the use of consultants. Read on to see what we found.

Infrastructure assets

Findings on infrastructure



The lack of proper asset registers and records limited our ability to confirm that the values and information disclosed on municipal infrastructure assets in the financial statements of most of these municipalities were correct. This is not just a financial statement issue. It means that these municipalities could not properly account for the existence and state of their infrastructure assets, which should be used to provide water, sanitation, electricity, refuse removal and roads to communities.

Overall, 80% of these municipalities did not have maintenance plans to plan and budget for the routine maintenance of assets, including infrastructure assets. None of the municipalities budgeted for, or spent close to, the 8% specified in the National Treasury norms on

maintenance, with most municipalities spending less than 1% of their infrastructure asset value on maintenance.

Our audits of key water, sanitation and road infrastructure projects funded by conditional grants found that half of these municipalities struggled with project management, resulting in delays in project completion, overspending on contract amounts, and contractors being paid for substandard work. These municipalities already struggle financially and cannot afford to waste the limited resources available to fund basic service delivery initiatives. Poor project management was largely due to a lack of technical skills and vacancies in the technical departments and in positions responsible for signing off on work done in the project management units.

Infrastructure project shortcomings



- » A water pipeline between the three towns of Boshof, Dealesville and Hertzogville making up Tokologo (Free State), including their reservoirs, had not been completed for a number of years, despite contractors having been paid approximately R17,5 million (59% of the total contract value of R29,6 million). Although there was no confirmation of financial loss, the delays led to a water crisis. The municipality resorted to providing water through boreholes to the affected communities.
- » Although the water purification plant and the internal road and stormwater projects for Schweizer-Reneke wards 2, 4 and 6 in Mamusa (North West) were completed in 2020-21, the work was substandard. At the water purification plant, poor-quality components were used and some components were bypassed (e.g. the electrical modules that regulate algae filtration were not functioning correctly). At the roads and stormwater project, damaged paving bricks resulted in stormwater not being directed properly and stormwater drains being blocked by debris, posing a safety hazard to the community.

Environmental impact

Our environmental specialist inspected the wastewater treatment works and landfill sites for which the municipalities are responsible. When these sites are not properly operated, there is a significant likelihood that both service delivery and the environment could be affected negatively. This is the case when untreated sewage is discharged into water sources or refuse is illegally dumped or not properly compacted and treated at suitable sites.

We identified poor or ineffective environmental management, limited environmental monitoring and enforcement as well as defective management and delivery of wastewater and solid waste services at 60% of the municipalities.

Wastewater treatment and operations were severely affected by serious and ongoing vandalism, including the theft of property, equipment, electricity cables and

lines to and from the infrastructure and pump stations. The sites lacked proper access controls, with palisade fences being stolen or knocked down to gain access to equipment such as new pumps and motors. This resulted in new parts having to be purchased to replace stolen ones. Once sites have been vandalised or are not properly maintained, plants are often left non-operational for years before any repairs or refurbishments are done, which becomes costly because of the additional disrepair caused by neglect. It also poses serious risks to the environment and the health and safety of citizens, as untreated wastewater is disposed into the immediate environment and water sources.

The picture at landfill sites is not any better. Municipalities continued to contravene or fail to comply with all the norms and standards of landfill operation, monitoring and rehabilitation. Uncoordinated and illegal refuse dumping was rife, and waste was not properly treated, compacted and disposed of at designated landfill sites.



Impact of infrastructure neglect on service delivery



Lehurutse wastewater treatment works has been in a state of disrepair since at least 2019, with no action being taken (Ramotshere Moiloa, North West)



Phuthaditjhaba wastewater treatment works is non-functional due to serious vandalism, resulting in sewage overflows in the area (Maluti-A-Phofung, Free State)



Impact of infrastructure neglect on service delivery



Sewage overflows at Evander wastewater pump station due to vandalism (Govan Mbeki, Mpumalanga)



Mothohtlung wastewater treatment works has been completely demolished due to vandalism and theft, but still receives sewage inflows that are discharged without being treated (Madibeng, North West)



Raw sewage overflows at Boegoeberg wastewater pump station due to blocked manholes (!Kheis, Northern Cape)



Brandfort wastewater treatment works has totally collapsed and been non-functional for years due to vandalism and stolen equipment (Masilonyana, Free State)

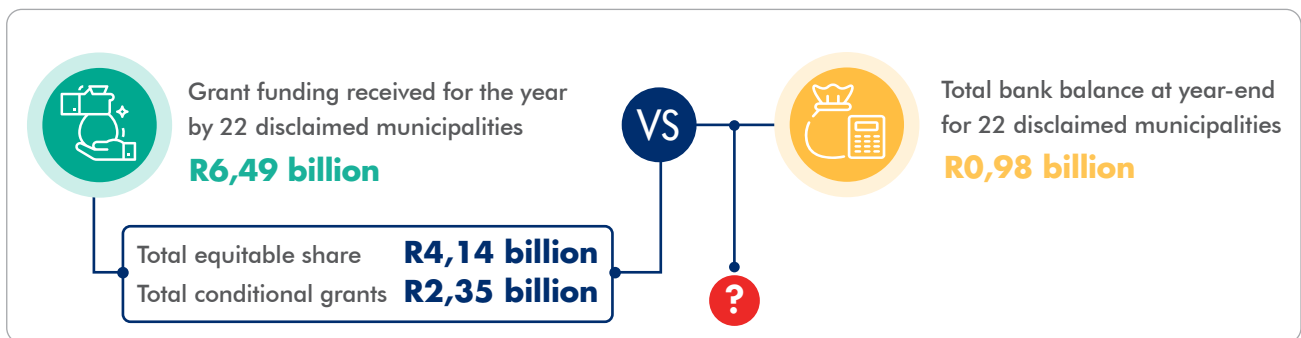
The National Environmental Management Act and the National Water Act require reasonable measures to be taken to prevent, minimise and rectify pollution. The substantial harm being caused, or that is likely to be caused, to the general public by pollution meets the definition of a material irregularity. We notified the municipal manager of Maluti-A-Phofung (Free State) of material irregularities at four of its sites. In May 2022, we also notified the municipal manager of Ngaka Modiri Molema (North West) – the district municipality responsible for the maintenance and operation of wastewater treatment sites – of material irregularities at three sites in Ramotshere Moiloa. We are further considering material irregularities for the wastewater treatment sites of the other repeatedly disclaimed municipalities.

The Department of Water and Sanitation should play its part in the accountability ecosystem by intervening urgently at municipalities where water services are in a state of total collapse.

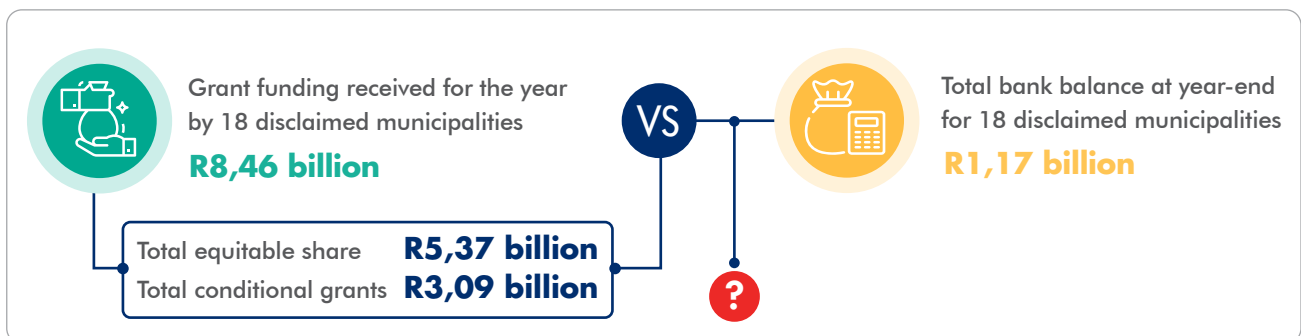
Payment profiles

In our 2019-20 general report, we shared our concern that disclaimed municipalities receive funding from national government through an equitable share and conditional grants, but that the lack of proper records makes it difficult to confirm what had been done with this money between receipt and what was left in the bank account at year-end, as illustrated below.

2019-20



2020-21



To determine what happened to this money, we performed payment profile data analytics by matching the actual payments in the bank statements to the payments recorded in the municipality's financial system (which is the basis for the financial statements).

Six municipalities did not use unique identifiers such as payment descriptions and descriptive references for bank payments to enable meaningful matching and analysis between the bank statements and the financial system. This will make it difficult for these municipalities to perform bank reconciliations. Bank reconciliations are an important internal control to

detect payments of which municipalities may be unaware or which have not been recorded in the general ledger. In such cases, fraudulent activities could go undetected and funds meant for service delivery could be misappropriated without being picked up. We reported this significant risk to the municipal managers and will continue to follow up on whether it has been addressed. We also requested the Financial Intelligence Centre to obtain information on the banking transactions of these municipalities, which will enable us to analyse the payments to identify any suspicious transactions. We are expecting this information in June 2022.

We did further analysis at four municipalities and could trace between 67% and 89% of the expenditure recorded on the financial system to bank statements. The R6,03 billion spent by these municipalities was used for employee costs, bulk purchases, payments to service providers as well as statutory and other payments. Payments to service providers pose the biggest risk. For example, we could not confirm whether goods and services were received by Madibeng (North West) for all payments to suppliers, as the municipality could not provide evidence of basic controls and records (such as delivery notes or invoices signed by delegated officials) to indicate that services had, in fact, been provided. This could mean that payments were made for goods and services not received, which we will be considering as potential material irregularities.

Use of consultants

Despite our persistent messages on the ineffective use of consultants, various weaknesses in the appointment process of consultants were common. These included a lack of a proper needs or gap analysis before consultants were appointed, the absence of long-term plans to reduce the overreliance on consultants, consultants building a system of dependency, and consultants' work not being incorporated accurately into the financial statements. In some instances, little benefit was derived from the appointment of consultants. For example, no or limited supporting documentation could be made available for work done by consultants on the financial statements of Masilonyana (Free State).

Prior year limitations were inherited from previously used consultants, making it difficult for newly appointed consultants to address these limitations if proper record management was not in place throughout the year. At some municipalities, consultants were appointed too late to make any meaningful contribution. Overall, municipalities did not have plans in place to use consultants effectively and to transfer skills, which ultimately increased their dependency on consultants.

Conclusion

It is clear from our audits that these repeatedly disclaimed municipalities are not fulfilling their mandate of ensuring quality service delivery to communities. The challenges faced by some municipalities are significant due to the long period of neglect and lack of action.

The national departments that provide grant funding for infrastructure projects should improve their assessments of the ability of these municipalities to execute their planned projects – not only based on the business plans submitted but also their history of project failures, our findings on infrastructure and the underlying root causes of the problems experienced. Improved monitoring by these departments to ensure strict adherence to the grant conditions and swift action (including withholding funds) in response to non-compliance is key to ensuring that grants are used for their intended purpose. The overreliance on external consultants such as engineers for monitoring and reporting on the quality and progress of key infrastructure projects should also be addressed. This can be done by capacitating municipalities and the monitoring units of national departments with the required technical skills and competencies to improve monitoring and instil effective project management disciplines.

Where municipalities are unable to address their challenges without outside intervention, such as dealing with their financial distress, coordinating departments will need to provide support and/or intervention. These departments, including provincial treasuries and cooperative governance departments, should help municipalities to develop and implement comprehensive financial recovery plans to address their cash flow challenges.

Councils should also intensify the level of support offered to municipal leadership so that a proper tone is set from the top.

2.8 Procurement and payment transgressions and risks

Fair and competitive procurement processes enable local government to get the best value for the limited funds available and give suppliers fair and equitable access to government business. When work has been awarded to suppliers, the contracts must be actively managed to ensure that these suppliers deliver at the right time, price and quality before any payments are made. Such requirements are not only standard financial management practices, they are also included in the Municipal Finance Management Act – which makes municipal managers responsible for ensuring that the required processes and controls are implemented.

In local government, failures in these areas often affect communities directly if contractors are not performing, poor-quality goods are provided, and money is lost through overpricing or paying for goods or services not received. The procurement and payment process is also where the risk of fraud is highest.

To mitigate the risks arising from public procurement, we pay particular attention in our audits to procurement and contract management. The risk of fraud and the mismanagement of funds was significantly heightened under the covid-19 conditions and, as a result, this was a key focus of our real-time covid-19 audits.

Our key findings from the covid-19 audits included deficiencies in the procurement and contract management processes for personal protective equipment and infrastructure projects, as well as inadequate controls to ensure that payments were made only for goods and services that were delivered at the right time, price and quality. We were particularly concerned about unfairness in the awarding of government business and that sufficient care was not taken to protect against overpricing, as we identified a number of instances where municipalities paid excessive prices for goods and services. We also identified a number of fraud indicators.

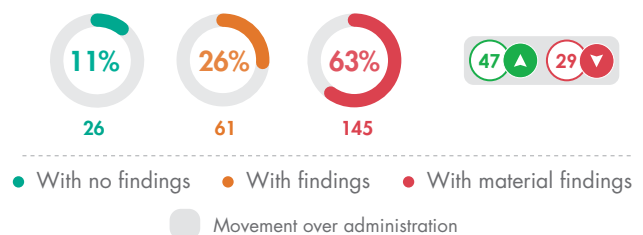
We shared our data on potential fraud in local government with the Fusion Centre in October 2021 for further analyses and steps to be taken – as was the

case with the information we had previously provided on national and provincial government.

Our real-time covid-19 audits were hampered by payment and procurement documentation not being provided for auditing. This is a recurring theme in local government, where our ability to audit is often limited by claims that documents are missing or by a lack of response to our requests. In 2020-21, we were unable to audit R1,22 billion worth of contracts because of limitations on the audit of awards selected for testing (meaning that the relevant information was missing or incomplete).

Our findings and recommendations on procurement and payments and the four material irregularities we issued where material financial losses were suffered as a result are still being addressed by the affected municipalities.

Status of compliance with supply chain management legislation



Compliance with supply chain management legislation improved slightly over the term of the previous administration, but remains low.

Uncompetitive and unfair procurement processes and inadequate contract management were still common. We reported findings (54% of which were material) on uncompetitive and unfair procurement processes at 79% of municipalities and contract management findings (35% of which were material) at 42% of municipalities.

At some municipalities, uncompetitive and unfair procurement processes resulted in (or is likely to result in) financial losses as the goods and services procured could have been obtained at a lower price or a contractor was appointed who could not deliver. We notified the municipal managers of these material irregularities.



Material irregularities: procurement

- » Dr Ruth Segomotsi Mompati (North West) awarded a tender in the 2019-20 financial year for value-added tax recovery services, according to which a percentage-based commission fee would be paid to the supplier for value-added tax refunds. A bidder that quoted a commission fee percentage that was lower than that of the winning supplier, was incorrectly disqualified at the functionality stage, despite having submitted the required information. The municipality would have paid a lower commission fee and would thus have saved an estimated R2 million for the total value-added tax refund had the functionality criteria been correctly applied during the bidding process. The contract was cancelled after the court determined it to be invalid.
- » eThekweni (KwaZulu-Natal) procured face masks at prices higher than those recommended by the National Treasury. This procurement at excessive prices resulted in financial losses for the municipality. The municipality is investigating the matter.

The aim of preferential procurement legislation is to support socio-economic transformation. The public sector should lead by example to achieve this goal, but we again found that some municipalities are failing in this area. At 59 municipalities (25%), the preference point system was not applied or was applied incorrectly. Municipalities must also procure certain commodities from local producers. Municipalities failed in this area as well, as 82 of the 160 municipalities (51%) at which we audited local content did not comply with the regulation on promoting local producers for awards amounting to R790 million.

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Legislation further prohibits awarding contracts to, and accepting quotations from, employees, councillors or other state officials, or entities owned or managed by them, if they are in the service of the municipality or any other state institution. This is intended to prevent conflicts of interest. We identified these prohibited awards throughout the term of the previous administration. The value of awards to employees and councillors was R10 million (39 municipalities) in 2016-17, R14 million (34 municipalities) in 2019-20, and R27 million (28 municipalities) in 2020-21. The awards to other state officials totalled R1 906 million (140 municipalities) in 2016-17, R3 709 million (116 municipalities) in 2019-20, and R254 million (90 municipalities) in 2020-21.

Prohibited awards

At Makhado (Limpopo), catering services (R43 471) and information services (R978 000) were awarded to suppliers in which councillors had an interest.



Awards to close family members of employees and councillors are not prohibited. However, legislation requires the municipality to disclose any such awards of more than R2 000 in its financial statements for the sake of transparency, as such awards could create conflicts of interest for employees or councillors. The value of awards to close family members was R201 million (68 municipalities). At 22 municipalities, the awards to close family members were not disclosed in the financial statements as required – the value of these undisclosed awards was R13 million.

We further remain concerned about widespread shortcomings such as the overpayment of suppliers; payments to incorrect suppliers or beneficiaries; contractor payments for incomplete or non-existent construction; the extension of construction contracts, resulting in higher costs; and payments for services not rendered. In many cases, this resulted in material irregularities due to the financial losses incurred.



Material irregularities: payments

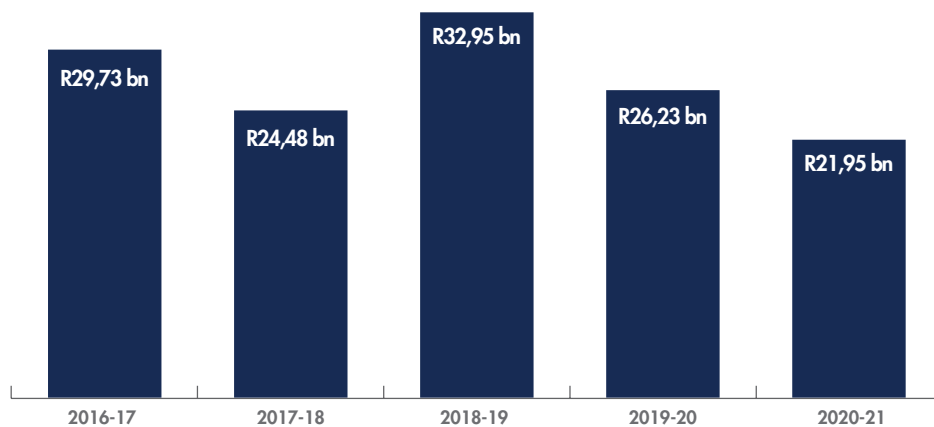
- » Nelson Mandela Bay (Eastern Cape) paid two contractors R20,2 million in December 2018 for the provision of stormwater drain cleaning services that were not rendered. The Hawks are investigating the matter.
- » OR Tambo (Eastern Cape) paid R57 million to Amatola Water (an implementing agent for water projects) for goods and services that had not been delivered. Disciplinary processes are taking place and the Hawks are investigating the matter.
- » The City of Tshwane (Gauteng) paid salaries of R88,4 million to employees between November 2019 and October 2020 without any work being allocated to these employees.

Non-compliance with supply chain management legislation remained the biggest contributor to the irregular expenditure incurred.

In 2020-21, R21,10 billion of the irregular expenditure incurred at local government level was due to non-compliance with supply chain legislation. However,

the total amount could be even higher, as 31% of municipalities received qualified audit opinions because the amount they disclosed was incomplete and/or they had incurred irregular expenditure but the full amount was not known. As mentioned earlier in the report, we could also not audit contracts worth R1,22 billion because of missing or incomplete information.

Irregular expenditure over term of previous administration



The total irregular expenditure fluctuated over the term of the previous administration. Irregular expenditure represented 5% of the R459 billion expenditure budget managed by municipalities in 2020-21.

Accurately disclosing irregular expenditure is an important step in the accountability chain, as we explain in section 3.

2.9 Accountability and consequences

Over the past few years, we have made continued calls for accountability. But what does this actually mean? There are two components to accountability:

- » Firstly, those who take actions or make decisions must take responsibility for these actions and decisions.
- » Secondly, those who do wrong (transgress), do nothing (fail to act) or perform poorly should face consequences.

Instituting consequences against officials responsible for non-compliance helps municipalities to recover losses incurred by those officials and deter other officials from contravening legislation. In this way, municipalities demonstrate their commitment to prudent financial management practices. However, 60% of municipalities did not comply with legislation on effecting consequences. At 54% of municipalities, the non-compliance was material.

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The most common findings involved irregular, unauthorised, and fruitless and wasteful expenditure not being investigated. This means that the municipalities

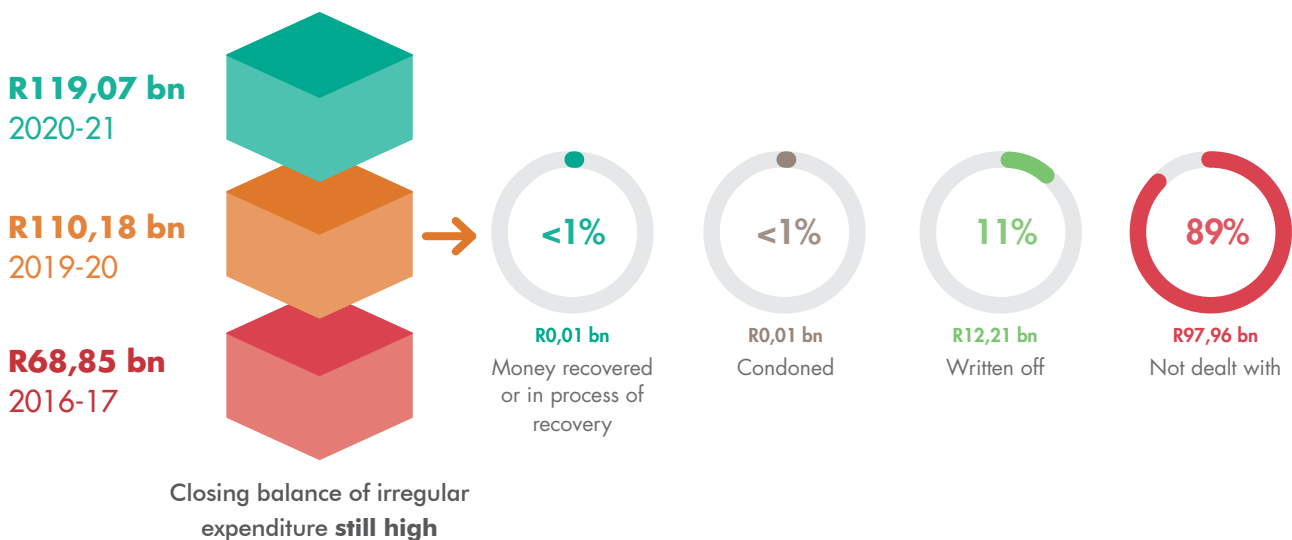
did not take sufficient steps to recover, write off, approve or condone such expenditure. In total, 51% of municipalities did not investigate the previous year's irregular expenditure, 42% did not do so for unauthorised expenditure, and 41% failed to do so for fruitless and wasteful expenditure.

As a result, the year-end balances of these types of unwanted expenditure continue to grow. At the 2020-21 year-end, the balance of irregular expenditure that had accumulated over many years and had not been dealt with totalled R119,07 billion, unauthorised expenditure stood at R86,46 billion, while fruitless and wasteful expenditure amounted to R11,04 billion.

The Municipal Finance Management Act requires councils to objectively and diligently investigate such expenditure. Neither councils (through their municipal public accounts committees) nor treasuries should write off or condone such expenditure without making sure that no losses had been suffered or that any losses suffered cannot be recovered.

Taking irregular expenditure as an example, very little had been done by the 2020-21 year-end about the 2019-20 year-end balance of R110,18 billion.

How councils dealt with prior year irregular expenditure



The first step the council must take is to investigate the non-compliance – why did it happen, who is responsible, was money lost, and – if money was lost – can that money be recovered? These investigations were not performed at more than half of the municipalities. Where action was taken, it was mostly to write off the irregular expenditure. This means that the council considered the matter to be resolved, yet we identified instances where these investigations were not appropriately performed. Investigations also very seldom found any officials liable.

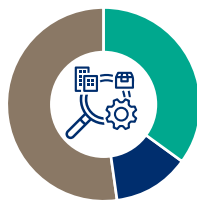
If these matters continue to be ignored or such expenditure is written off without proper consideration, the accountability process envisaged in the Municipal Finance Management Act (through identifying and disclosing irregular, unauthorised, and fruitless and wasteful expenditure) is not functioning as intended.

One would also expect accountability to come into play where there have been allegations of financial and supply chain misconduct and fraud. We audited 78 municipalities to see whether this was the case and found the following:

- » At 51% of municipalities, investigations took longer than three months to complete.
- » At 14% of municipalities, allegations were not investigated.
- » At 5% of municipalities, sanctions were not imposed or recommendations were not implemented based on completed investigations.

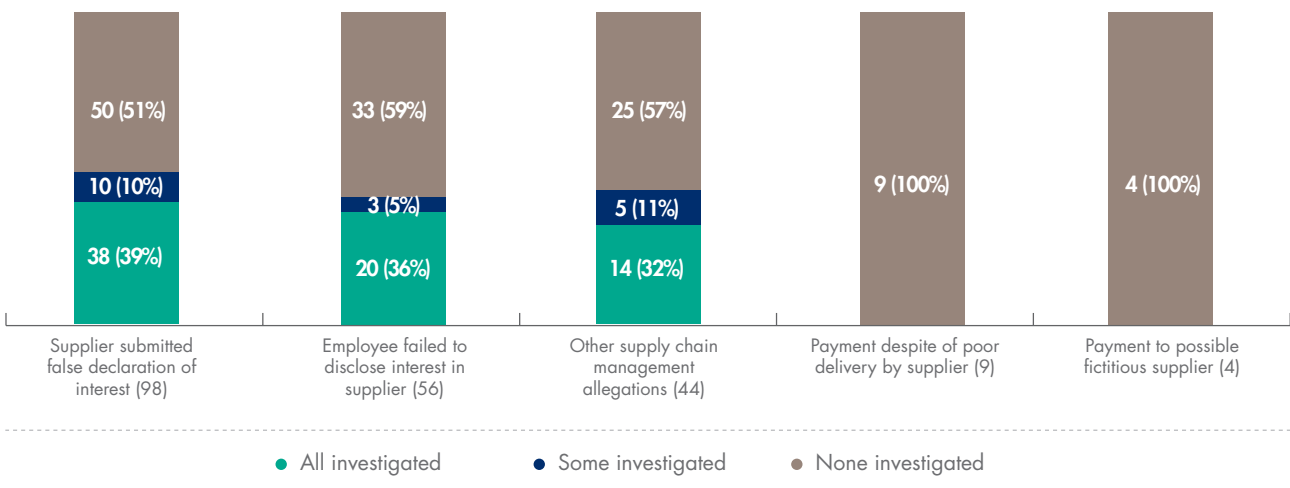
Every year, we also report indicators of possible fraud or improper conduct in supply chain management processes and recommend that management further investigate these matters. In 2019-20, we reported such indicators at 128 municipalities for follow-up.

Status of investigations into fraud or improper conduct in supply chain management processes



45 (35%) municipalities investigated **all** of the findings reported
16 (13%) municipalities investigated **some** of the findings reported
67 (52%) municipalities investigated **none** of the findings reported

Of the 61 municipalities that investigated some or all findings, **39 (64%)** satisfactorily resolved these investigations, while **36%** did not (e.g. the investigation recommended that contracts in which employees failed to declare their interest be cancelled, but the municipality did not do so)



There is a definite need for these investigations to be finalised faster so that potential fraudulent activities can be stopped and the necessary criminal investigations can start – to ultimately prevent further transgressions and recover any financial losses.

The lack of consequences remains one of the key root causes of municipalities’ poor audit outcomes (49%) and we continue to advocate for municipal leadership

to implement adequate consequences swiftly, bravely and consistently.

When it comes to irregularities, we play an integral part in the accountability process – even more so in recent years through the powers granted to us as part of our expanded mandate and the identification of material irregularities (which we commonly refer to as ‘MIs’).

Status of material irregularity process

In our 2019-20 general report, we reported that we had identified and notified municipal managers of 96 MIs. By 15 April 2022 (which was the cut-off date for MIs to be included in this report), we had notified municipal managers and the board of a municipal entity of a further 91 MIs and closed two MIs based

on information subsequently received. This brings us to a total of 185 active MIs. We only recently notified accounting officers and authorities of 35 of these MIs, and by 15 April 2022 their responses were not yet due. At that date, we were also still evaluating the responses to 39 of the newly identified MIs.

Status of remaining 111 material irregularities



The six **resolved MIs** dealt with financial losses incurred or money that would have been lost if action had not been taken. It was resolved through improvements in systems, payment processes and payment arrangements, which resulted in the losses, or any further losses, being prevented. The details of these MIs are included in section 2.1 as examples of the impact achieved through the MI process.

Appropriate action means that we have assessed the steps being taken to resolve the MI and are comfortable that these, when fully implemented, will result in the MI being resolved. An MI is only resolved after all steps have been taken to recover financial losses or to recover from substantial harm, when further losses and harm are prevented through strengthening internal controls, when there are consequences for the transgressions (which include disciplinary processes) and when, if applicable, the matter has been handed over to a law-enforcement agency.

Some MIs can be resolved within a short period, but many MIs require a municipality to correct deep-rooted issues, which will obviously take longer to address. For example, the MIs issued to repeatedly disclaimed municipalities require the long-standing problems of poor record keeping and internal controls, as well as the resultant financial instability, to be addressed. The infrastructure neglect at some municipalities can also require multiple financial years to correct, depending on the availability of funds. In addition, the resolution of some MIs is dependent on the completion of investigations and processes by external parties, further adding to the timelines.

The average ‘age’ of the MIs that are in the process of being resolved is 10 months (from date of notification).

The ageing of MIs is influenced by delays in implementing the necessary action – even just responding to the notifications. Where we assessed

such delays to be reasonable (e.g. as a result of covid-19, instability or budgetary restrictions), we did not invoke our powers. However, this has again highlighted the many challenges in local government – some of which we describe below.

Instability at municipal manager level is having a significant impact. After we have issued an MI notification, we often have to re-issue the notification as the original person is no longer in the position or an administrator has taken over the municipal manager role.

- » We notified the municipal manager of Mangaung (Free State) of an MI on 8 March 2021. He was suspended on 21 May 2021 and then resigned on 31 July 2021. From 21 May 2021 to date, four different officials have acted in the position of municipal manager.
- » We issued eight MIs at uMkhanyakude (KwaZulu-Natal), to which the municipal manager responded in June 2021. This municipal manager was suspended in July 2021 and an acting municipal manager was appointed. In September 2021, we were informed that the original municipal manager had returned to his position as the correct process had not been followed to suspend him. Then in October 2021, we were informed that the suspension would be upheld and that we should work with the acting municipal manager. In addition, the municipality was placed under administration and the administrator started responding to the MIs as well. In December 2021, the term of the acting municipal manager ended and a new person was appointed in an acting capacity. The new acting municipal manager had no knowledge of the MIs and we had to brief him and allow for additional time to resolve the MIs to be procedurally fair. All of this is significantly delaying the resolution of the multiple MIs at the municipality.



The recovery of financial losses and the completion of disciplinary processes are dependent on the **timeous completion of investigations** – the longer it takes, the more unlikely it becomes that these processes will be successful.

- » The recovery of money lost by municipalities through investing in VBS Mutual Bank in 2018 is being hampered by the liquidation of the bank. Payouts from the liquidators of the bank only commenced in February 2022 and it is clear that not all money will be recovered from the liquidation process. The potential recovery of the remainder of the losses from liable officials is being delayed by Hawks investigations not having been concluded yet and liable officials resigning from municipalities, putting them out of reach of disciplinary processes.
- » The payment system of the City of Tshwane (Gauteng) was hacked, resulting in payments to an incorrect beneficiary. The matter was reported to the Hawks in September 2019, but the investigation is still in progress, with the municipal manager awaiting the outcome before taking action against the implicated officials.



As mentioned earlier, the council is responsible for investigating irregularities and losses and for recommending further actions. **Councils not completing investigations or timeously making final decisions** delay the implementation of actions by municipal managers.

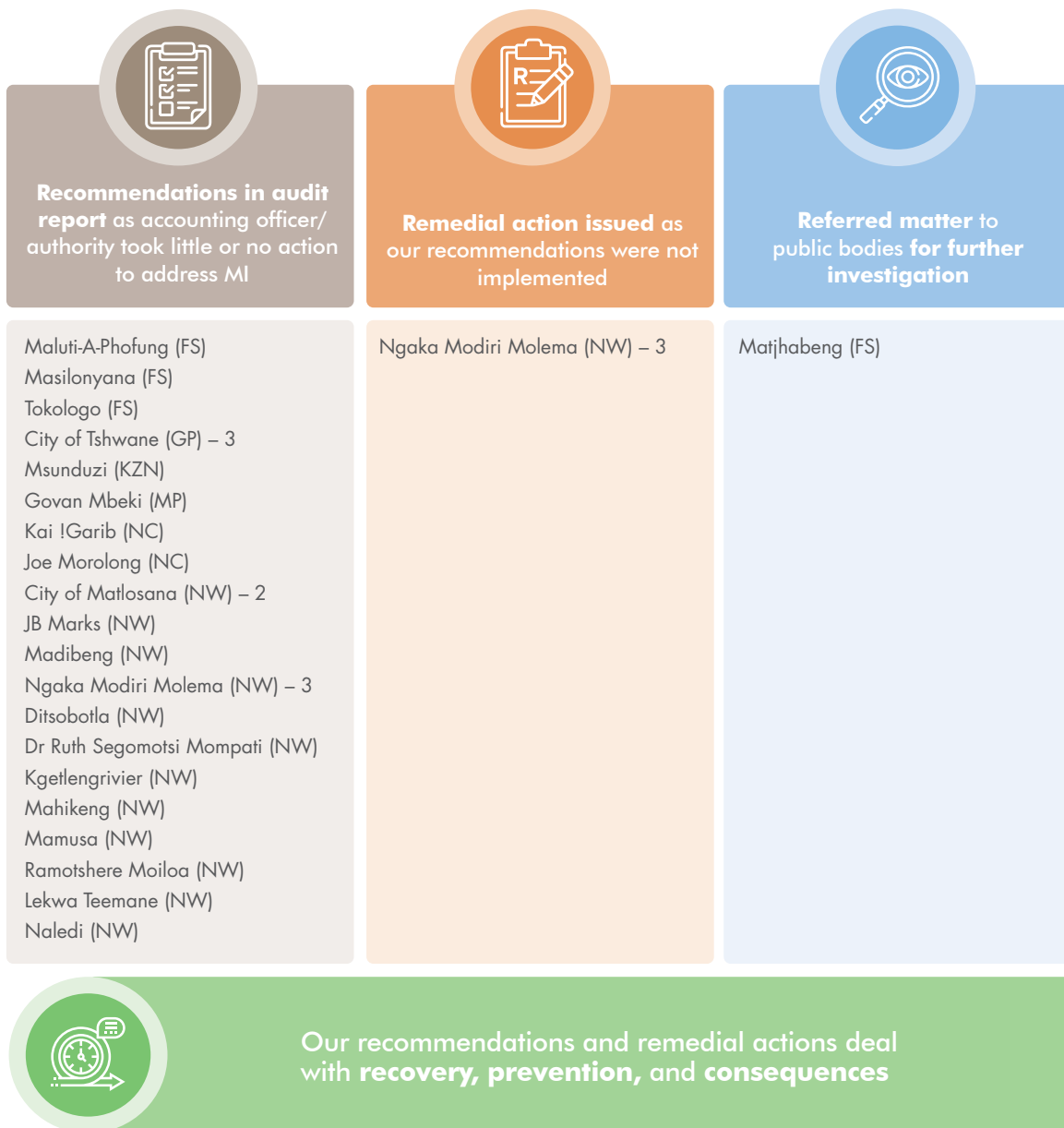
At Matjhabeng and Setsoto (Free State), investigations by the municipal public accounts committees into financial losses have been delayed as the committees need to be reconstituted after new councils were elected in 2021.



We are fully committed to implementing the enhanced powers given to our office – without fear, favour or prejudice. If accounting officers and authorities, supported by their political leadership, fulfil their legislated responsibilities and commit to taking swift action when we notify them of an MI, there is no need for us to use our remedial and referral powers. Yet we do not hesitate to use these powers when accounting officers or authorities do not deal with MIs with the required seriousness.

In 29 cases where municipal managers did not appropriately address the MIs we reported to them, we used our expanded mandate by including recommendations in the audit reports or the auditor-general invoked her additional powers of referral and remedial action. The municipalities where we took further action (as detailed in the following graphic), are also where we typically experience a slow response to our findings and to improving the control environment.

Further action taken



The circumstances of the **referral** we made to a public body are as follows:



Matjhabeng (Free State) paid an estimated R7,2 million between April 2017 and June 2019 for the construction of an attenuation (flood-protection) dam on the Nyakallong stormwater system after it had been certified as complete. However, a site visit confirmed that the attenuation dam had not been constructed, resulting in overpayments on the project.

The municipal manager could not provide sufficient and appropriate evidence of actions taken in response to being notified of the MI. The actions taken were also considered inadequate.

As a result, we referred the MI to the Hawks for investigation in June 2021. The investigation is currently in progress.

The **recommendations** we include in the audit reports are not the normal recommendations we provide as part of our audits but instead deal with the actions a municipal manager should take to resolve a specific MI. It typically deals with the following:

- » **Recovery:** Steps to be taken to recover financial losses or to recover from substantial harm.
- » **Prevention:** Steps to be taken to strengthen internal controls to prevent further losses and harm.
- » **Consequences:** Steps to be taken to effect consequences for the transgressions. This includes disciplinary processes and, if applicable, handing over the matter to a law-enforcement agency.

We included recommendations on 25 MIs in the audit reports of 20 municipalities. Most of the recommendations dealt with the MIs we raised because of repeated disclaimers. Section 2.7 includes the information on these MIs and the recommendations we made. Below is an example of the recommendations we provided for another type of MI.

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The City of Tshwane (Gauteng) overpaid three suppliers of fuel due to a lack of an effective internal control system relating to expenditure management. Appropriate actions were not taken to resolve the MI. We notified the municipal manager of the following recommendations, which should be implemented by August 2022:

- The investigation that commenced must be finalised.
- The financial losses should be recovered from the suppliers.
- Disciplinary or, if appropriate, criminal proceedings should commence against all responsible officials.

SECTION 02

If the recommendations are not implemented, we include remedial actions that cover the same areas of recovery, prevention and consequences. If the remedial actions are not implemented and the MI involves a financial loss, we can move towards the certificate of debt stage.

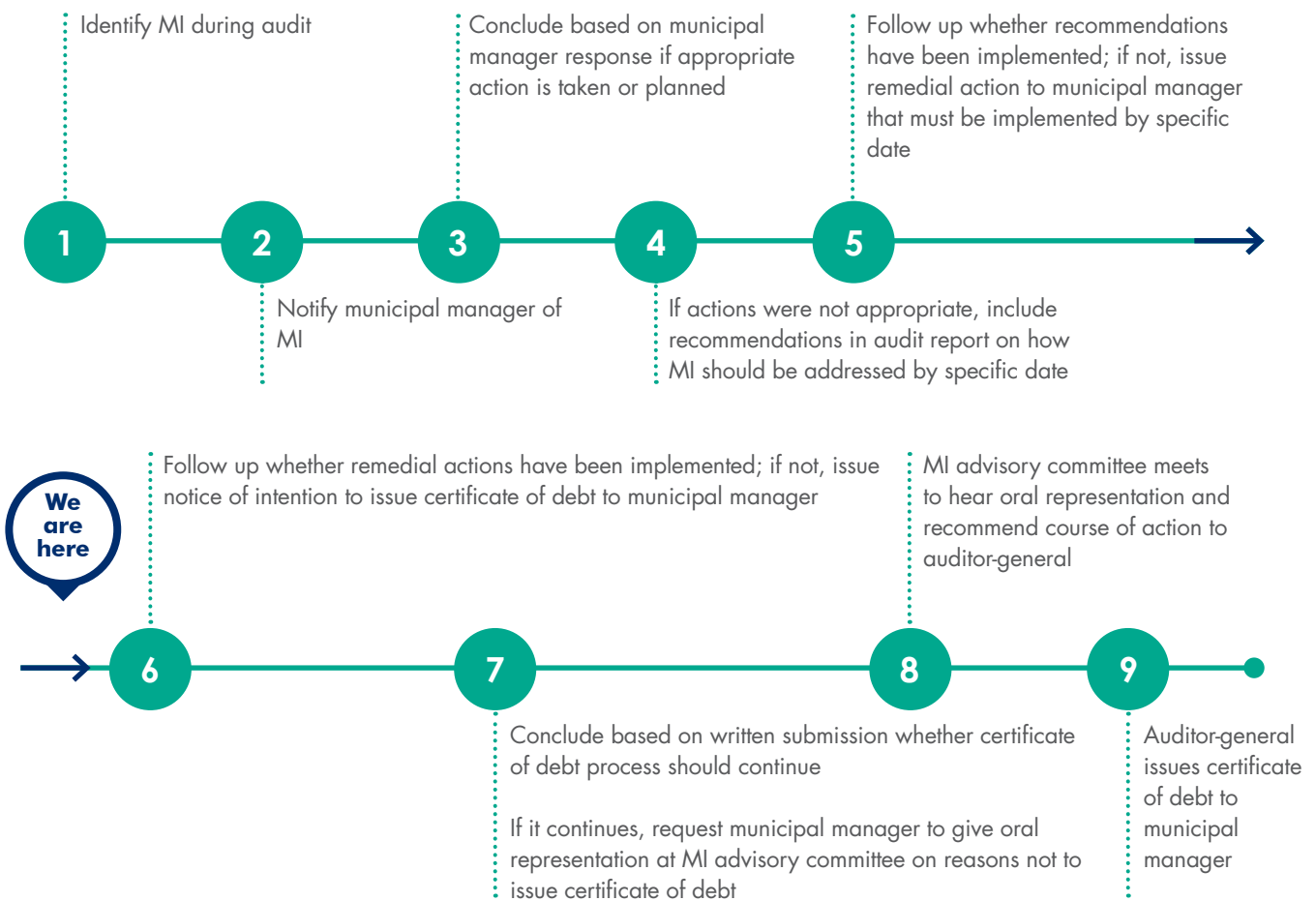
We issued **remedial action** for three of the MIs at Ngaka Modiri Molema (North West); below we share one such example.



The municipality failed to monitor a contract for construction work to the municipal office building and gate house, resulting in a contract extension that included items already paid for as part of the original contract. The original contract was awarded in 2012-13 and said extension was done in March 2019. The municipal manager failed to make progress with the implementation of the recommendations and the auditor-general approved the issuing of a directive for the financial loss to be quantified and recovered and for remedial action to ensure that consequences are effected. The municipality has made some progress to finalise an investigation into this matter to recover the loss from the responsible parties and to take disciplinary action. We gave the municipal manager until 1 August 2022 to fully implement the remedial action.

Process from identifying a material irregularity to issuing a certificate of debt – where are we now with Ngaka Modiri Molema?

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We have not issued any certificates of debt to date. However, if the three MIs of Ngaka Modiri Molema currently in the remedial phase are not appropriately dealt with, the auditor-general can invoke the certificate of debt process.

A culture of responsiveness, consequences, good governance and accountability is not just our goal; it is a shared vision for all involved in local government.

Therefore, we urge all role players in local government to play their part in the accountability ecosystem by also supporting, monitoring and overseeing the resolution of MIs. When the auditor-general invokes her powers of referral and remedial action (and the issuing of certificates of debt in future), it not only reflects poorly on the municipal manager, but also means that the whole accountability value chain had failed, including the mayor, council, provincial leadership and oversight.



SECTION 03

ACTIVATING THE ACCOUNTABILITY ECOSYSTEM – A CALL TO ACTION

The poor audit outcomes and inadequate service delivery by many municipalities during the term of the previous administration were the result of a pattern of behaviour and conduct by leaders and officials that led to a local government culture in which performance, accountability, transparency and integrity were not prevalent.

Local government now has new political leaders, elected by communities to represent their interests and address their pressing need for services, economic opportunities, and a safe and healthy living environment. There is renewed hope in cities and towns across the country that have been let down by their municipalities in the past. It is now time to activate the accountability ecosystem to shift the culture in local government through courageous, ethical, accountable, capable and citizen-centric leadership.

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Leadership, decision makers and support at municipal level

The municipal managers and boards of municipal entities know what must be done – they have received our messages and recommendations for many years. We gave them reports, notified them of material irregularities and regularly engaged with them to share risks to be addressed and good controls to be implemented. Yet, a slow – or even no – response by municipal managers and senior management to our recommendations on improving controls and addressing risk areas was the most common root cause of poor audit outcomes during the term of the previous administration.

We particularly emphasised that the direction, supervision and review role of senior management must be strengthened – in our assessment, the senior management of only 11% of municipalities was fully effective. More municipalities regressed than improved in this area over the term of the previous administration.

Vacancies and instability at senior management level had an impact on the effectiveness of management functions. Instability at municipal manager level was also common, which affected decision making; the completion of action plans, projects and initiatives; and consequence management.

Internal audit units should provide independent assurance to the municipal managers on the implementation of controls and the mitigation of risk. The units work under the oversight of the audit committee, which includes independent experts who can advise the municipal manager and council. In our assessment, internal audit units and audit committees had been established and were operational, and the vast majority performed all the functions required by legislation, including evaluating the reliability of financial and performance information and

compliance with legislation. However, the audit outcomes showed that the work of these governance structures had little impact, as the quality of the financial statements and performance reports we received for auditing remained poor. We assessed that the assurance these structures provided was sufficient at just over a third of municipalities for internal audit units and 42% for audit committees, but the value that can be derived from their independent assurance has not materialised at the remaining municipalities. The question is – why?

In our assessment, the internal audit units at half (50%) of the municipalities were at least having some impact on financial and performance management and compliance with legislation. At the other half, they had little to no impact, mainly (35%) because management was just not implementing their recommendations. The internal auditors experienced the same frustrations we have as external auditors in this regard. The remainder of the internal audit units were not adequately capacitated and/or not effective. Audit committees were slightly more effective, with 58% having some impact and 30% experiencing that management did not implement their recommendations.

Internal audit units and audit committees are a big investment for municipalities – the professionals employed as internal auditors or who serve as members of the committees are expensive. In our experience, the vast majority of these professionals are competent and committed to serving local government with their skills. It is regrettable that the value they can bring to financial

and performance management is not fully realised – their influence will always depend on the internal control environment created by the municipal manager and senior management.

Political instability and ineffective governance processes at council level were apparent throughout the term of the previous administration. This also affected the establishment and operation of municipal public accounts committees. These committees were introduced as a committee of the council to evaluate the extent to which our recommendations and those of the audit committee have been implemented as well as to promote good governance, transparency and accountability in how municipal resources are used. These committees also play a key role in investigating irregular, unauthorised, and fruitless and wasteful expenditure and in instituting consequences for wrongdoing. There is tremendous potential for improved audit outcomes and accountability processes if these committees are functioning well and are supported by the council. Unfortunately, this potential was not realised during the term of the previous administration – this is most apparent in the area of consequence management.

A call to action

Our first call to action in this report is to the newly formed councils, to the speakers and mayors, and to the members of the municipal public account committees. We encourage them to pay attention to the following during their term:

Focus areas for new administration



The support of the mayor, council and municipal public account committees is also sought for the swift resolution of material irregularities to the betterment of the municipality and the community it serves.

In particular, we recommend that the municipal manager report to the council on a quarterly basis on material irregularities identified and the progress made in resolving them. The municipal manager should be held to account for any unreasonable delays. Support should be provided where the council has a role to play in the resolution process, such as through the timely finalisation of investigations into irregular and fruitless and wasteful expenditure by the municipal public account committees as well as investigations and disciplinary processes for financial misconduct by the municipal manager or senior management.

Our second call to action is for the larger accountability ecosystem to be fully activated to support and capacitate councils and municipal administrations to implement these recommendations – and, where a municipality fails, to intervene with a greater rate of success. Intergovernmental relationships need strengthening to ensure appropriate, swift and impactful interventions and support.

Over the years, and again leading up to the tabling of this report, we have had multiple engagements with the provincial leadership – the premier and members of the executive council for local government and finance. The state of local government is different in each province and each province faces different challenges. Our recommendations to them and the commitments they make therefore differ, as can be seen when paging through the provincial stories in the next section.

This year, we specifically focused on unpacking the important role of the coordinating ministries – the ministers of finance and cooperative governance, their counterparts in the provinces and the departments they head.

The role of the coordinating ministries is to monitor, support and strengthen the capacity of municipalities, which includes intervening and enforcing legislative requirements. The members of the executive council responsible for local government also have a legal obligation to report to the provincial legislature on whether municipalities have adequately addressed our audit report findings (through audit action plans) and on the performance of municipalities, including remedial action to address underperformance.

We shared our specific findings on the reporting by members of the executive council and the effectiveness of provincial support and intervention. Overall, we have seen that these role players in the accountability ecosystem can perform better and in a more coordinated manner, and can also have a greater impact on local government. To help them achieve this, our overall recommendations include the following:

- » The members of the executive council for local government must strengthen the processes for compiling reports to the provincial legislatures so that these effectively address the challenges at municipalities. These reports should cover both audit action plans as required by section 131 of the Municipal Finance Management Act (so-called MFMA section 131 reports) and remedial action to address non-performance in terms of section 47 of the Municipal Systems Act (so-called MSA section 47 reports). To improve the quality of these reports, they should be based on a thorough diagnostic analysis with an annual reflection on prior year actions. Provincial legislatures must strengthen the process of engaging on these reports, including formulating and following up on resolutions.
- » The Department of Cooperative Governance and the National Treasury must monitor the implementation of support initiatives already in place to ensure that there is a multi-stakeholder approach to supporting local government, with clear roles and responsibilities. Municipal support intervention

plans must be specific and must ensure that the interventions are tailored for each municipality. Cabinet is responsible for monitoring the success of these plans at the 64 dysfunctional municipalities, while the provincial executives are responsible for doing so at the remaining municipalities. Role players should ensure that actions and activities have the desired impact and should therefore be held accountable for their role in the plans to ensure that there are consequences for non-performance.

- » The provincial cooperative governance departments need to monitor how municipalities use consultants, which includes having a clear understanding of the needs analyses performed, creating plans to reduce the overreliance on consultants, and ensuring that value is derived from the use of consultants. These role players should focus on closing the skills and capacity gaps at local government level to improve the internal control environments.

The district development model aims to facilitate integrated planning, delivery and monitoring of government's development programmes by introducing the concept of a joint 'one plan' for 52 spaces across the three spheres of government. The model can contribute to improving service delivery and audit outcomes but its successful implementation will require a fully functioning local government characterised by proper governance and financial management. We will continue to monitor developments and progress relating to this model through regular engagements with the Department of Cooperative Governance.

We will also continue to report on coordinating ministries as an integral part of the ecosystem to advocate for full implementation of their mandates and legal obligations, and to engage on the effectiveness of their initiatives in local government.

Our third call is to communities and community organisations. Active citizenry is crucial to ensure that the needs of communities are heard and acted on, and that municipal leaders are held accountable for their actions. We call on all citizens to participate in the public processes of determining and reviewing the integrated development plan and the tabling of the annual report. Citizens should also take part in ward committees, get involved in community organisations, and use the available channels to report any indicators of abuse, mismanagement, fraud and service delivery failures.

A culture of performance, accountability, transparency and integrity should be a shared vision for all involved in local government.

We urge all role players to fulfil their designated roles in the accountability ecosystem and to play their part effectively and without fear or favour to ensure accountability for government spending and improvement in the lives of our country's citizens.

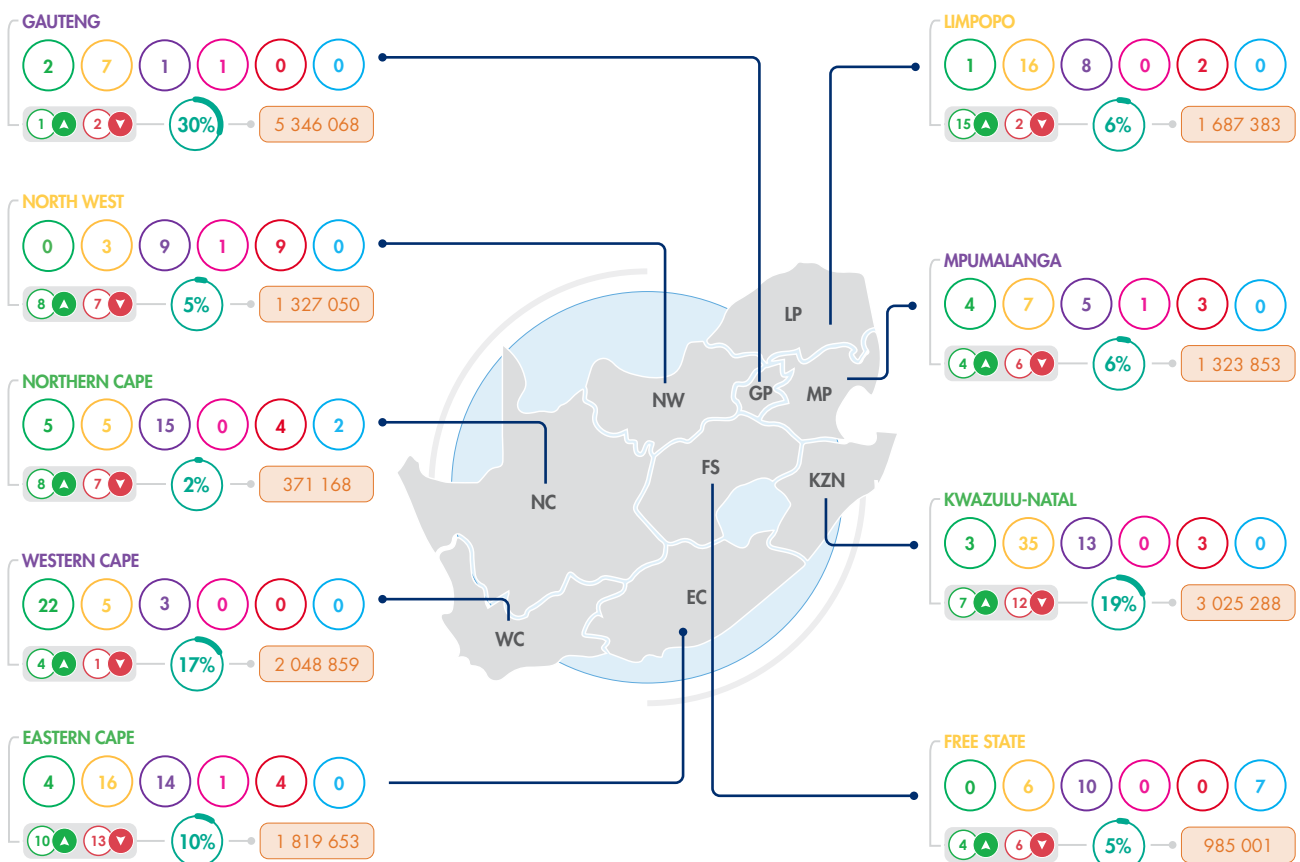
We trust that the insights and recommendations included in this report will be of value in this pursuit.



Every province has a unique story and the provincial outcomes often reflect what people in the province have experienced from their local government.

This section focuses on the state of local government in each province, how this state is affecting or will affect provincial residents, what should be done to improve the situation and by whom, and the commitments made by those with whom we engage. For more details on each municipality and district, rolled up to each province in the country, visit www.mfma-2021.agsareports.co.za.

Audit outcomes, percentage of budget and households per province



- Unqualified with no findings (clean)
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Outstanding audits
- Movement over administration
- Percentage of budget
- Households



EASTERN CAPE

Overall, the audit outcomes in the province regressed over the term of the previous administration. Management did not adequately promote transparency and accountability or safeguard the public purse against all possible abuses. As a result, we notified municipal managers of 27 material irregularities with an estimated financial loss of R254 million to date. **Efforts to institutionalise preventative controls have not yielded the desired outcomes.**

While outcomes improved in the last two years of the five-year period, these improvements might not be sustainable. Despite using consultants, most municipalities (including those with improved audit outcomes) submitted financial statements for auditing that contained material misstatements, which required correction to achieve better outcomes. Municipalities spent R154 million on consultants in 2020-21 and R663 million over the past five years. The main reason given was inadequate skills, although municipalities were generally adequately capacitated with a 17% vacancy rate in the finance units. Municipalities derived limited value from this spending as it did not lead to improved audit outcomes, mainly due to inefficiencies on the part of municipalities (e.g. a lack of, or inadequate, records to support transactions). The financial challenges faced by the province mean that municipalities cannot continue to rely on consultants and must use their resources more responsibly.

We saw evidence of overreliance on consultants at Walter Sisulu, which appointed consultants to prepare financial statements. However, these consultants left during the audit, taking with them information and data, which contributed to the municipality's disclaimed audit opinion. We saw similar overreliance at Chris Hani, which spent R34 million for value-added tax submissions.

Chris Hani, Makana, Sundays River Valley and Walter Sisulu received disclaimed audit opinions because they could not account for funds allocated to them due to inadequate record keeping. These municipalities had to

repay prior year unspent funds allocated for infrastructure projects, which shows how poor discipline leads to poor financial management – ultimately hampering desperately needed service delivery to citizens. Makana had been disclaimed for the past three years, and we notified the municipal manager of a material irregularity relating to substantial harm due to the municipality's inability to deliver on its service delivery mandate.

Poor financial management practices continued to plague municipalities. We reported a material uncertainty relating to the financial sustainability of nine municipalities. At seven of these municipalities, we notified the municipal managers of material irregularities based on excessive interest relating to late payments of Eskom and the South African Revenue Service. The salary bill for all of the municipalities within the province exceeded the equitable share of R11,2 billion received from national government, and competed with service delivery for the limited government funds. Despite the financial constraints, municipalities still did not use allocated funds responsibly. For example, we notified the municipal manager at Intsika Yethu of a material irregularity with an estimated financial loss of R18 million because a contractor was paid for the construction of a gravel road and related material that were not completed or delivered.

Municipalities' continued failure to contract for goods and services in compliance with legislation placed further pressure on the public purse. We identified 24 municipalities (62%) that transgressed procurement

legislation mostly by opting not to follow a competitive bidding process but instead using deviations that were not justifiable. This increased the risk that they might have paid a higher price than what they should have for goods or services. Municipalities also incurred irregular expenditure of R3,1 billion during 2020-21, adding to the irregular expenditure incurred in prior years of R24,1 billion that had not been investigated. This resulted in a lack of accountability and allowed the responsible individuals to continue to contravene legislation. Nelson Mandela Bay incurred 44% of the irregular expenditure (R1,4 billion), mainly due to awarding contracts based on deviations that were not justifiable. The metro also did not investigate most of the prior years' irregular expenditure, ending with a closing balance of R17,7 billion. The municipal public accounts committee's last sitting to deal with irregular expenditure was in November 2019.

The quality of performance information remains a concern, with management failing to implement the necessary preventative controls linked to service delivery reporting. Most municipalities (56%) had material findings on their performance reports, including Buffalo City, which did not have adequate systems to report on the common indicators determined for metros by the National Treasury.

Although the province was plagued by droughts over the five-year term, it did not respond to this with the necessary urgency. The provision of water services rests with the two metros and five district municipalities, as well the seven local municipalities in the Sarah Baartman district. According to their records, these water service providers produced 476 million kilolitres of water compared to 464 million kilolitres in the previous year, but most of them could not reliably report on their performance for water service delivery. Municipalities also did not adequately maintain their ageing infrastructure, spending only 1% of their total expenditure on repairs and maintenance – far less than the norm of 8%. In OR Tambo, we identified water infrastructure projects that were not functioning, even though they were reported as complete in the annual performance report. Nelson Mandela Bay did not set any indicators in its service delivery and budget implementation plan for key projects to address

the continuing drought and water shortages. Alfred Nzo, Dr Beyers Naudé and Ndlambe were the only municipalities to report that they had achieved all of their water service delivery targets. The water service providers incurred water losses of R546 million in 2020-21, putting further pressure on water delivery, with 10 of the 14 water service providers incurring water losses above the norm of 30%.

The premier's office, the provincial cooperative governance and traditional affairs department and the provincial treasury collaborated on a number of initiatives to help local government build capacity, improve administrative and financial management, and monitor and report on performance. However, these initiatives did not yield the desired results, as municipalities did not cooperate with these support departments and were slow to implement their recommendations. Interventions by the provincial government at Makana, Enoch Mgijima and Amathole have not yielded any noticeable progress.

Through the material irregularity process, management has shown that municipalities can deal appropriately with irregularities. We observed improvements in internal controls, responsible officials being identified, disciplinary processes being initiated, and criminal investigations being referred to public bodies where there were elements of theft or fraud.

Provincial **leadership must take swift action to strengthen the control environment and instil accountability** to ensure that objectives within the province are met. In this vein, the premier has committed to ensure that political appointees have the necessary qualifications for their positions and not just political standing; that accountability is taken more seriously, with a greater focus on addressing underperformance, poor financial reporting and irregular expenditure; and that focused attention is given to disclaimed audit opinions, saying it is unacceptable for a municipality to be unable to account for its finances. The provincial treasury has committed to identifying skills gaps at municipalities and providing assistance where necessary, particularly when it comes to preparing financial statements. The provincial treasury will also continue to assist with compiling audit improvement plans and monitoring their implementation.



The audit outcomes of the province regressed over the term of the previous administration. During the five-year period, the province did not achieve any clean audits. **Inaction by political and administrative leadership continued to be a deliberate obstruction to municipalities' effective functioning.** The provincial leadership should be very concerned about this state of affairs.

Municipalities did not have the discipline to submit their financial statements by the legislated date. In 2020-21, only 52% of municipalities submitted their financial statements on time, compared to 80% in 2016-17. By the date of this report, the audits of seven municipalities had not been completed as a result of the late or non-submission of financial statements. We escalated the non-submission to the relevant councils and the provincial leadership, but their response was ineffective. We notified the responsible accounting officers and authority that the non-submission of financial statements constitutes a material irregularity, as delays in the accountability processes are causing substantial harm to these municipalities. The lack of transparency for the finances and performance of these auditees should not be tolerated by councils, provincial leadership or oversight.

Poor financial management disciplines and in-year financial reporting processes meant that none of the municipalities could prepare credible financial statements in 2020-21. They continued outsourcing their responsibility by appointing consultants after year-end to prepare the financial statements and to construct and correct the underlying information. A total of R254 million had been spent on consultants since 2016-17. The reliance on the audit process to identify errors in the poor-quality financial statements submitted for auditing also continued. All auditees needed to make significant adjustments to correct material errors in the figures presented. If this had not

been allowed, another seven auditees (41%) would have received qualified audit opinions.

Four municipalities have a history of disclaimed opinions and their 2020-21 financial statements were not submitted or only recently submitted for auditing. When a municipality receives a disclaimed opinion, it means that we could not determine if public funds were appropriately accounted for due to a lack of adequate record keeping and credible financial reporting. This state of affairs has systematically destroyed these institutions, contributing to their poor financial health and negatively affecting their ability to deliver basic services. We issued material irregularity notifications to the applicable municipal managers based on the substantial harm caused to these municipalities.

We performed additional audit work on the infrastructure and payment profiles of Masilonyana, Maluti-A-Phofung and Tokologo. We determined that only Masilonyana had a plan and budget for the routine maintenance of infrastructure assets, while Maluti-A-Phofung and Tokologo had no plan to ensure that their infrastructure assets were properly maintained. The municipalities were not fulfilling their service delivery mandates. For example, all seven wastewater treatment works at Maluti-A-Phofung collapsed and the plants were not operational due to a combination of poor management, theft and vandalism. This resulted in raw sewage being discharged into the environment. We issued notifications of material irregularities for four of these plants due to the likely substantial harm to the

public. In addition, our data analytics revealed that these municipalities were exposed to the risk of not being able to detect fraudulent activities because they did not use unique identifiers for transactions in the bank statements and the general ledger.

Municipalities have gone backwards in meeting project deadlines for infrastructure projects. In 2016-17, only 10% did not meet project deadlines, but this had increased to 60% in 2020-21. For example, at Metsimaholo, the project for installing 4 000 sewer connections was delayed by almost two years due to poor planning. During the course of the project, additional houses needing sewer connections were also identified and additional time was needed for repairs.

Most municipalities struggled to perform preventative maintenance and safeguard their infrastructure assets, because they spent only 1% of their infrastructure value on repairs and maintenance, compared to the norm of 8%. Repairs were only done after assets had broken down. For example, a wastewater treatment plant that was earmarked to be decommissioned in Moqhaka continued to be used while design challenges on the new plant were being addressed. Due to the lack of maintenance over a number of years, the plant was not functioning effectively, resulting in sewage spillage that contaminated the Vals River.

Financial health continued to deteriorate across the province. Eleven auditees (73%) disclosed (or should have disclosed) a material uncertainty whether they would be able to meet their financial obligations as they became due. The debt of these municipalities exceeded what they can convert to cash to pay for it by R8,69 billion (2019: R7,41 billion). The amounts they owed to Eskom and the water boards continued to increase, reaching R12,45 billion (2019: R10,52 billion). Unmetered consumption, theft and a lack of maintenance resulted in average water losses of 49% and electricity distribution losses of 20%.

On 1 January 2020, the provincial executive intervened at Mangaung by imposing, and assuming responsibility for, a recovery plan that aimed to secure the metro's ability to provide basic services and meet its financial commitments. The National Treasury

withheld conditional grant funding of R429,02 million due to underspending that resulted from delays in completing grant-funded projects. This placed further strain on the metro's financial health and also had a negative impact on service delivery. The metro spent less than 2% of its infrastructure budget on repairs and maintenance, resulting in infrastructure such as roads and water networks further deteriorating. Service delivery protests increased as residents grew increasingly dissatisfied with pothole-riddled roads, having to go for days without water, and refuse sometimes not being collected for weeks. Although the metro held public participation sessions where the needs of the community were received and planned for, many of the planned targets were not achieved because they were not prioritised and/or because of a lack of funding. Since projects were not completed, the communities' needs were not addressed, which negatively affected their lives.

We continued to identify and report material findings on compliance with legislation at all auditees, including in the area of procurement and contract management. Irregular expenditure remained high – the closing balance increased from R7,63 billion to R9,18 billion because the municipal public accounts committees did not perform timeous investigations. The lack of consequences has created a culture of impunity and a complete disregard for the rule of law at all levels of municipal officials.

In a province where there is such dire need for service delivery, continued waste, disregard for legislation and a lack of consequences are unacceptable. Every rand spent is a precious resource that should be used wisely.

We notified municipal managers of 24 material irregularities. Material irregularities issued for late payments to Eskom resulted in the affected municipalities negotiating payment plans, as well as increased scrutiny of accounts received to ensure that they were accurately billed, significantly reducing the amount of interest incurred. Municipalities also took action where late payments were made to the South African Revenue Service for pay-as-you-earn deductions. Although most municipal managers are taking the material irregularity process seriously, in some

cases they were slow to implement the planned actions. This led to one material irregularity being referred to a public body for investigation. Intervention and council oversight are vital to ensure that these material irregularities are addressed and do not recur.

Urgent action to strengthen controls is required to achieve the desired outcome. All role players should be dedicated to rebuilding strong and credible municipalities with high levels of transparency, integrity and accountability. The provincial treasury, the MEC for local government and the provincial cooperative governance and traditional affairs department should intensify interventions to support and strengthen the capacity of municipalities. The MEC must also

strengthen the processes of compiling MFMA section 131 and MSA section 47 reports. These reports were not effective as they did not determine whether municipalities had adequately addressed all the findings reported in the audit report or proposed remedial action to address the findings.

The incoming councils should set the correct tone at the top. They have the opportunity to deal with years of impunity and lack of consequences and to champion improved audit outcomes. They should ensure that there is stability in administrative leadership vacancies are filled, and officials are capacitated to perform their duties. This will ensure service delivery and earn the trust of their communities.



In 2016-17, we reported on the stagnant audit outcomes in the province, with most municipalities receiving unqualified opinions with findings and only Midvaal securing a clean audit. We previously also highlighted that despite pockets of improvement, inadequate monitoring resulted in stagnant outcomes and increasing levels of unauthorised, irregular, and fruitless and wasteful expenditure. **Effective monitoring of preventative controls is key for favourable audit outcomes.** Therefore, we emphasised that auditees need to implement sound internal controls and that oversight structures need to hold municipal managers accountable for addressing the stagnant audit outcomes and for implementing consequences promptly.

In the first two years of the previous administration’s term, municipalities produced good-quality financial statements and Gauteng was the only province without negative financial outcomes. However, over the past three years we have seen a concerning emergence of qualifications. In 2020-21, Rand West City received a qualified opinion for the second consecutive year, while Merafong City did not submit financial statements by the legislated date and regressed to an adverse opinion. It is commendable that the City of Ekurhuleni sustained a clean audit outcome for the past two

years, and Midvaal for the past eight, as this indicates sound governance practices and effective preventative controls.

The province’s service delivery model is unique, with a number of specialised municipal entities responsible for a significant portion of the province’s municipal expenditure and service delivery programmes. While the four largest entities by budget allocation, namely City Power Johannesburg, Johannesburg Water, Pikitup Johannesburg and Johannesburg Roads Agency,

sustained their unqualified audit opinions with findings, it is concerning that the audit outcomes of six other entities had regressed since 2016-17.

Despite the province having access to an abundance of skilled personnel, especially at metro level, eight municipalities continued to rely on the audit process to produce quality financial statements. This negatively affected the ability of municipal managers to make key service delivery decisions in good time – to the detriment of citizens. In addition, since 2016-17, the province had spent R919,11 million on consultants for financial reporting. Most of this amount was spent by the City of Tshwane to produce a compliant fixed asset register that would allow the metro to manage all of its assets properly, which is key to service delivery. However, material corrections had to be made to the work of consultants in the submitted financial statements. Municipalities need to ensure that they do not waste their limited funds on consultants without deriving benefits, including adequate skills transfer from consultants to officials.

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As part of their service delivery objectives, municipalities engaged residents through public participation sessions; however, they did not ensure that they addressed all service delivery concerns in their service delivery and budget implementation plans. Only the City of Ekurhuleni fully implemented the common performance indicators determined by the National Treasury. Municipalities also did not achieve all of the targets set, which negatively affected service delivery to residents. Despite ongoing reforms, eight municipalities did not publish credible performance reports, which negatively affected the ability of both municipalities and residents to properly assess services committed to by the administration.

We remain concerned about non-compliance with legislation in the province, with little improvement year-on-year. Consequently, the closing balances of unauthorised, irregular, and fruitless and wasteful expenditure continued to increase, mainly due to additional amounts being incurred and the previous balances not being investigated promptly and resolved. The irregular expenditure incurred remained high, with the City of Johannesburg and the City of Tshwane

incurring a combined R3,82 billion (85% of the total at municipal level). City Power, a municipal entity of the City of Johannesburg, incurred R1,03 billion (50% of the total at municipal entity level). These amounts represented 5%, 19% and 20% of these auditees' adjusted total capital and operational budgets (excluding expenditure on salaries and bulk purchases), respectively. Irregular expenditure increased the risk of funds meant for service delivery being misused. We again call on oversight structures to ensure that they promote a culture of accountability and consequences by fast-tracking investigations into unauthorised, irregular, and fruitless and wasteful expenditure, and holding those who are liable to account.

The financial health of all municipalities remained concerning, as revenue collection remained poor despite post-covid-19 recovery measures being implemented. In recent years, the three metros, which are responsible for 88% (R120,54 billion) of the provincial local government budget and service approximately 4,82 million households, have used listed bonds as part of their funding model. However, these metros were recently downgraded by ratings agencies, which will make it more difficult and costly for them to obtain the capital they need for key infrastructure projects.

The poor financial position of some municipalities also contributed to low levels of spending on the maintenance of infrastructure assets (below the norm of 8%). Most of these assets were nearing or exceeding their useful lives, which negatively affected the quality of services received by citizens. Some municipalities did not spend their full grant allocations despite having only limited funds at their disposal. In some instances, they had to surrender funds to the National Treasury, which contributed to performance targets not being achieved and much-needed services not being delivered to citizens. Considering their poor financial position, municipalities should ensure that they spend their limited funds efficiently. They also need to eliminate losses from fruitless and wasteful expenditure, which reached the billion rand mark, to remain on track with rolling out critical services and infrastructure, as well as maintaining key service delivery assets.

We issued 15 material irregularities linked to various instances of non-compliance in the province, with an estimated financial loss of R390,14 million. We are beginning to see the impact of our material irregularity process, as most municipal managers have implemented corrective steps and initiated disciplinary processes, and are in the process of recovering financial losses. However, at the City of Tshwane, we included three recommendations in the audit report due to the slow progress made on committed actions. We also issued one material irregularity notification based on harm to the public due to the poor quality of water supplied to Hammanskraal residents.

Provincial leadership needs to **embed preventative control monitoring and timeous consequence management to improve audit outcomes**. We urge the incoming councils and municipal public accounts committees to hold municipal managers accountable so that funds are used to enable quality basic service delivery. The provincial legislature and portfolio

committees should closely monitor any remedial action required for underperforming municipalities based on the MFMA section 131 and MSA section 47 reports of the MEC for local government.

Going forward, we will closely track the commitments made by key provincial leaders. This includes the premier’s commitments to provide greater oversight of municipalities through the provincial cooperative governance and local government department and the provincial treasury, to establish a war room focusing on improving municipal outcomes, and to use the premier’s coordinating council to drive consequence management and accountability with the goal of having a sustained impact on service delivery. The provincial treasury has also committed to conducting internal audit reviews at municipalities, training supply chain management officials and municipal public accounts committee members, and intensifying support to struggling municipalities.



The audit outcomes reflect a net regression over the term of the previous administration. This was partly due to inadequate leadership action in responding to key risk areas, political infighting and instability in key positions. **The lack of enforcement of accountability and consequence management by leadership also persisted amid some improvements in audit outcomes since the previous year.**

In 2020-21, eThekweni, which accounted for 53% (R47 billion) of the local government budget in the province, retained its unqualified opinion with findings. To improve its audit outcome, the metro should focus on strengthening its monitoring and review of procurement and consequence management. Four district municipalities (Amajuba, Ugu, uMzinyathi and Uthukela) received a qualified opinion and one (uMkhanyakude) received a disclaimed opinion. District

municipalities with qualified opinions continued to struggle with basic financial management. Political instability, inexperienced officials and system-related challenges led to the poor opinions at the three disclaimed municipalities, all of which were under administration. Inkosi Langalibalele, which was formed when uMtshezi and Imbabazane merged in 2016-17, was again disclaimed in 2020-21. The amalgamation created significant challenges with the credibility of

the financial records, which the municipality is still grappling with despite using consultants and having an administrator in place since 2016-17. Although three municipalities obtained a clean audit opinion, this did not always translate into effective and efficient service delivery, as they did not achieve all of their key service delivery targets. Sustainably improving provincial audit outcomes will require a committed and stable political and administrative leadership with experienced and competent officials who are actively involved in creating a strong control environment.

Despite adequately capacitated and skilled finance units and support from consultants and coordinating departments, the consistent poor quality of financial statements remains concerning. The quality of the submitted financial statements regressed over the five-year period. Although municipalities paid R698 million to financial reporting consultants over this period, there was only limited improvement in control environments and audit outcomes. Management did not adequately implement and monitor action plans to improve the control environment. In addition, the lack of standardised processes, poor record management and inadequate review and reconciliation of financial reports persisted. Consultants should only be used in favourable control environments, with adequate support being provided and skills being transferred to ensure that the limited public funds are spent effectively and responsibly.

Poor financial management practices, such as ineffective revenue and debt collection processes, continued to plague municipalities. This had a negative effect on service delivery, as municipalities struggled to pay outstanding creditors on time. The accounts of Eskom and the water boards were R1,85 billion in arrears. Municipalities also struggled to practise sound financial management and budget monitoring, as 15% of them reported deficits for the year. The metro has plans to secure new borrowings by issuing R1 billion in bonds, which will help to improve its liquidity and fund service delivery initiatives.

The reliability of performance reporting improved over the five-year term, but remained a challenge at some municipalities. Unreliable performance reporting

does not provide a true reflection of service delivery and may contribute to service delivery protests. For example, uMkhanyakude had material findings on its annual performance report and was plagued by going concern challenges, which affected its ability to provide services. This, in turn, resulted in community protests. Municipalities must improve their record-keeping practices and the efficiency of their systems and processes for collating and reporting performance information to ensure that the achievements they report for key service delivery infrastructure projects are credible. While most of the province's infrastructure funding was spent, poor project management resulted in quality defects on housing, water, sanitation and other projects. Municipalities should diligently monitor key infrastructure projects to ensure that resources are used economically and effectively to help the economy grow. The current state of disaster due to the recent floods in the province is likely to exacerbate the challenges municipalities face in completing planned infrastructure projects.

Most municipalities (89%) still struggled to implement preventative controls over supply chain management processes, which contributed to the high levels of irregular expenditure. The closing balance of irregular expenditure incurred more than doubled over the term of the previous administration, from R7,19 billion in 2016-17 to R14,45 billion in 2020-21. Consequences were not implemented effectively, which created a culture of tolerance for transgressions as most municipalities did not deal sufficiently with the increasing irregular expenditure. Councils investigated and wrote off 17% of the prior year closing balance, with most of these investigations having concluded that no official was liable. To reduce irregular expenditure, municipalities need to implement and monitor effective and standardised processes, including procurement checklists, to ensure that officials adhere to supply chain management legislation. The new administration should focus on enabling council committees to ensure robust and timeous investigations that will result in consequences being enforced against responsible officials.

We issued notifications for material irregularities relating to unfair procurement processes, payment for

goods or services not received or not used, interest on late payments, revenue not billed, and assets not safeguarded. Most of the municipal managers are taking appropriate action in response to the notifications, but the timeliness of these actions could be improved.

The support provided by the coordinating departments helped to improve the control environments at some municipalities. We urge these departments to collaborate consistently with management; conduct proactive risk assessments; and perform a thorough diagnostic analysis of audit outcomes, quality of action plans and corrective action taken. This will ensure the greatest impact on audit outcomes. The provincial leadership has committed to implementing our recommendations and insights by working closely with municipalities, especially those with disclaimed

or qualified audit opinions. Leadership will direct financial experts assigned to municipalities towards key areas reported on and will address the adequacy of resources at municipalities to reduce the load on allocated administrators. The speaker of the provincial legislature also committed to collaborate with all role players through internal working sessions to improve oversight and accountability.

Preventative controls and consequence management need to be further strengthened to trigger sustainable audit outcomes. Leadership and management must also pay closer attention to service delivery – and to transparency in reporting on service delivery – to ensure that funds are used efficiently to maximise service delivery and ultimately improve the lived reality of citizens.



During the term of the previous administration, we saw a notable improvement in audit outcomes, especially in the adverse and disclaimed opinions of municipalities such as Mogalakwena, Thabazimbi and Modimolle-Mookgophong. As we highlighted in our 2019-20 general report, we remained concerned about how sustainable this was, as the **improvements were driven by an overreliance on consultants and audit adjustments with little to no improvements in the control environment.**

Municipalities spent more than R971 million on consultants for financial reporting over the five-year period. This included R245 million in 2020-21, despite municipalities employing officials who should have performed some of the functions. These funds could have been spent to help individuals in key positions obtain the required skills, improve the control environment, and address service delivery challenges. Despite the excessive use of consultants, we identified material errors in the financial statements submitted for auditing by all municipalities except Waterberg. These

errors were due to deficiencies in internal control, unreliable information supplied to consultants, and inadequate controls to monitor consultants' deliverables.

Municipalities continued to contravene legislation and we reported material non-compliance at most municipalities. The most common findings related to material misstatements in the financial statements; unauthorised, irregular, and fruitless and wasteful expenditure; and procurement and contract management. Municipalities incurred R1,8 billion in

irregular expenditure in 2020-21, mostly resulting from non-compliance with supply chain management legislation. Municipalities also did not sufficiently investigate and resolve 83% (R5 billion) of the prior year irregular expenditure closing balance of R6 billion, which thus increased to R9 billion. This excessive increase in irregular expenditure heightens the risk of funds intended for service delivery being misused. Oversight structures must set a strong tone and cultivate a culture of holding officials accountable for transgressions.

The province's financial health continued to deteriorate despite our consistent calls for the provincial leadership to attend to the crisis. As a result, we identified five municipalities (Ba-Phalaborwa, Musina, Mopani, Thabazimbi and Modimolle-Mookgophong) as being in a vulnerable financial position, with the latter three having been in this state for five years. This indicates that the provincial interventions deployed at these municipalities were ineffective. The municipalities could not recover money from consumers for services rendered. Together with ineffective budgetary management processes, this led to delays in paying creditors. This state of affairs can be seen in the large outstanding debt amount of R3,2 billion, which includes interest owed to Eskom and the water boards; the average creditor payment period of 166 days; and the low spending on infrastructure maintenance and resultant dilapidated infrastructure assets and poor service delivery. In addition to the substantial amount of irregular expenditure, municipalities incurred R3,6 billion in unauthorised expenditure – a significant increase from the previous year and an indication of inadequate budgetary processes. To curb this deterioration in financial health, we urge the provincial treasury and the provincial cooperative governance, human settlements and traditional affairs department to help municipalities improve their budget and cash flow management processes, and to develop and implement strategies that will improve revenue and debt collection.

We issued 10 material irregularities with an estimated financial loss of R1,2 billion. Seven of these material irregularities related to prohibited investments made, one to revenue not billed, one to payments for work not

done, and one to non-qualifying customers receiving free basic electricity. Overall, we find it encouraging that municipal managers were responsive and took appropriate action to ensure that no further financial losses were suffered, including enhancing the internal control environment, investigating the irregularities and holding the responsible officials accountable. Municipalities also updated their investment policies to prevent prohibited investments from recurring.

It is concerning that all municipalities except Waterberg and Capricorn had to make adjustments to the performance reports they submitted for auditing. These misstatements occurred because corrective action was not taken to address identified control weaknesses and reviews were not adequate, which resulted in differences between the performance reported and the relevant supporting documentation. If municipalities cannot account for their performance, we cannot conclude that services are being delivered consistently and at the required quality. Without relevant and measurable performance plans, municipalities may be unable to appropriately address the key needs of the citizens they serve.

In a province facing water service delivery challenges, it is concerning to note delays in projects such as upgrading the Vondo water treatment works and constructing the Phiphidi reservoir in the Vhembe district. Both of these projects were planned to have been completed by July 2020 and the delays have denied citizens their basic right to a fresh water supply. We also noted that the original scope of work increased significantly, which could lead to irregular expenditure in future. Ultimately, the impact of these delays is a continued shortage of infrastructure, delayed services to citizens, and the deterioration of existing infrastructure. Leadership needs to increase oversight of project management and implement consequences for those responsible for failings.

To improve the overall control environment at municipalities, leadership must set the tone for sound financial disciplines and must strengthen detective and preventative controls. Municipal public accounts committees and councils should lead by example and ensure that there are consequences for accountability

failures. The provincial treasury and provincial cooperative governance department must help municipalities to develop appropriate action plans that address the root causes identified through our audits. Municipalities must also fill key vacancies and capacitate their finance units through skills transfer and training programmes, with the support of the premier's office, provincial treasury and provincial cooperative governance department. Municipalities should embrace the support provided and increase the skills of their own personnel in the process. To improve the quality of the information submitted for auditing, municipal managers and the provincial treasury must drive a process of preparing credible in-year financial statements and performance reports.

encouraged by the premier's commitment that the provincial treasury will help municipalities build capacity within their finance units, as well as his instruction to municipalities to reduce their consultant spending by 60% and his call for municipalities to implement consequences for wrongdoing immediately. We also acknowledge the commitments made by the provincial legislature and provincial cooperative governance department to capacitate councillors through training programmes so that they can better understand their roles as an oversight body. We call upon the provincial leadership to closely monitor the implementation of these commitments, to ensure a positive impact on both the state of local government and the lives of the people of Limpopo.

Capacitation of officials in key positions is required for sustainable improvements. We are therefore



Overall, audit outcomes regressed over the term of the previous administration due to a lack of institutionalised preventative controls. Municipal managers and senior management did not fulfil their responsibility to develop and effectively implement the basic controls that form the foundation of a sound control environment. Although we commend the province for the improvement in the 2020-21 audit outcomes, the improvements are not sustainable because **weak control environments and a lack of decisive action to address transgressions persist.**

There are four key areas that need to be managed urgently and effectively to improve accountability and service delivery at municipalities – an effective control environment, sustainable financial health, effective infrastructure project planning and management, and compliance with legislation, especially as it relates to procurement and consequences. Neither the administrative nor the political leadership invested in sustainable solutions to manage these areas.

Municipalities invested a total of R832 million in financial reporting. This amount included money spent on salaries for staff in municipal finance units and on consultants to assist with producing financial statements. Municipalities had stable finance units (18% vacancy rate on average) with stability in chief financial officer positions (35 months on average). They also had internal audit units and audit committees to review the financial statements and received assistance from

coordinating departments. Despite this, only four municipalities (20%) were able to submit credible financial statements for auditing. Municipalities continued to rely on the audit process to identify misstatements, as we can see from the 35% (7) that received an unqualified audit opinion only after correcting misstatements we identified during our audit.

The number of disclaimed opinions increased over the five-year period. Disclaimed and adverse audit outcomes are inevitable if fundamental management principles, such as effective preventative controls and appropriately skilled staff, are not embedded. Municipalities such as Lekwa, Dipaleseng and Dr JS Moroka, which again had disclaimed opinions, and Emakhazeni, which again had an adverse opinion, are typical examples of this.

Govan Mbeki improved from its previously disclaimed opinion to a qualified opinion in 2020-21. The municipal manager and the chief financial officer ensured that they reconciled bank and cash successfully. Despite this improvement, the municipality struggled to use its funds to deliver quality services to communities, as illustrated in the significant deficiencies we identified when visiting the Evander wastewater treatment works. The municipality spent only 4% of its infrastructure value on infrastructure maintenance in 2020-21, which is below the norm of 8%, further adding to the dilapidation of infrastructure.

Lekwa was one of the municipalities that the finance minister placed under administration through section 139(7) of the Constitution. While the municipality created a credible financial recovery plan to address the identified deficiencies, the impact was not evident in the 2020-21 audit outcomes. This was due to the late appointment of the administrator (which occurred one month before the 2020-21 financial year-end), the widespread challenges that the plan seeks to address, and the lack of cooperation from key members of management.

Ineffective financial and asset management, especially around budgeting, revenue generation and revenue collection, further illustrates the lack of fundamental management disciplines. Thirteen municipalities (65%)

overspent their budgets, resulting in unauthorised expenditure during the year under review. This poor financial discipline continued to cripple municipalities' financial health and seven municipalities (35%) disclosed significant doubt about their ability to continue operating as a going concern in the near future. Due to the lack of financial resources, municipalities did not budget enough for infrastructure asset maintenance, which resulted in ageing infrastructure, significant water and electricity losses, and – consequently – the underachievement of service delivery targets. Municipalities were also unable to accurately bill residents for basic services and did not collect as much as possible of what they had billed, with 60% of the debt balance in the province provided for as irrecoverable. This led to municipalities relying more on grant funding than on own revenue. Without adequate cash flows and cash reserves, municipalities continued to struggle to pay their creditors and used the following year's budget to settle the outstanding bills, jeopardising future service delivery initiatives. Overdue accounts also attracted interest and penalties, which contributed to fruitless and wasteful expenditure. We issued two material irregularities in this regard.

The ineffective financial management system and control environment negatively affected the delivery of infrastructure projects to communities. While municipalities spent 98% of the R2,56 billion earmarked for infrastructure development during the year, the spending sometimes happened without following procurement legislation, contributing to the R1,26 billion in irregular expenditure. Poor project management also led to major project delays, payments for goods and services not received, and overpricing. We issued five material irregularity notifications relating to these areas at four municipalities, with estimated financial losses totalling R15,9 million. Although the province took steps to deal with irregular expenditure, the consequence management wheel continued to turn very slowly as investigations were either not done or not done promptly, or action was not taken against officials who had permitted the irregular expenditure.

Although some of the targeted municipalities have started seeing improvements from the support initiatives provided by coordinating departments, we will only

be able to fully assess the impact of the support provided in next year's audit due to the timing of the interventions. **Sustainable solutions are required by leadership to improve control environments and enforce consequence management.** The premier has outlined and committed to specific actions that provincial leadership will implement, through the integrated municipal support plan. The plan aims to strengthen the internal control environment and improve financial health, planning and monitoring of infrastructure projects, and compliance with legislation. The speaker of the provincial legislature has committed to strengthen the work of the portfolio committee on cooperative

governance and traditional affairs, the premier's office and the local government oversight committees through the provincial speaker's forum. To improve audit outcomes and the quality of service delivery, all role players in the local government accountability ecosystem, including coordinating ministries, must perform their roles effectively by finding sustainable solutions to the four key matters described above. These solutions should include leadership setting the correct tone at the top, stabilising and capacitating the administration, insisting on strong preventative controls, and ensuring that strong measures are in place to institute consequences where there are accountability failures.



Overall, audit outcomes improved over the five-year term of the previous administration, mainly due to district municipalities improving their outcomes by addressing compliance findings. However, we find it concerning that the outcomes of most local municipalities remained unfavourable and that the number of disclaimed municipalities did not decrease – pointing to leadership not adequately responding to our audit findings. The service delivery challenges that citizens face continued or became even worse during the five-year period. **The weak control environment at most local municipalities contributed to the undesired audit outcomes, which negatively affected service delivery.**

The timeous submission of financial statements was a concern throughout the five-year period and only 65% of municipalities submitted financial statements on time in 2020-21. The late submissions were mostly due to the poor state of accounting records caused by weaknesses in internal control. The quality of financial statements submitted for auditing also remained poor – only 17% of municipalities submitting good-quality financial statements, while a further 17% received unqualified audit opinions only because they corrected all misstatements we identified. This confirms that municipalities continued to rely on the audit process to achieve good-quality financial statements. Most municipalities had sufficient staff in their finance units,

but many lacked the required skills. As a result, municipalities appointed consultants year after year to perform some of their work. The total cost for these consultants over the five-year period came to R282 million, with the cost in 2020-21 amounting to R62 million. Because of their own inefficiencies, municipalities did not necessarily derive value from these consultants. These inefficiencies included errors on the part of the municipality and a lack of credible information for preparing financial statements. Consequently, most municipalities that appointed consultants received a qualified audit opinion. Municipalities need to perform a proper needs analysis to ensure that consultants are used efficiently and effectively.

Performance reporting was also a concern over the term of the previous administration. In 2020-21, 6% of municipalities could not produce credible performance reports that contained reliable and useful information. Five municipalities had no findings on their performance reports only because they corrected all the findings we identified during the audit. Once again, this points to municipalities continuing to rely on the audit process. In some cases, the scope of our audit was limited because municipalities could not provide sufficient and appropriate audit evidence to support their reported achievements. Municipalities thus had still not designed proper processes to ensure that credible performance information was readily available. Municipalities often omitted indicators that focus on service delivery when preparing their performance plans, which contributed to deteriorating municipal infrastructure. This, in turn, led to communities experiencing frequent service interruptions; delays in getting deficiencies such as burst pipes, blockages and failures fixed; and the poor state of roads – all of which are affecting citizens' quality of life and safety.

Municipalities' financial health remained dire, with 11 municipalities reporting significant doubt about whether they would be able to continue to operate, further limiting their ability to provide much-needed services to citizens. Poor debt collection (69% of debt was provided for as irrecoverable) and the practice of spending part of the following year's budget in the current year (with 70% of municipalities spending more than half of their following year's budgets in this way) resulted in municipalities being unable to pay their service providers (average creditor payment period of 527 days). This is reflected in the large arrears owing to Eskom (R1,5 billion) and water boards (R316 million).

Most municipalities focused more on managing their cash flow to pay salaries at the end of the month than on maintaining their infrastructure and service delivery assets. This is evident from the municipal salary bill (including councillor remuneration), which amounted to R2,5 billion, representing 46% of total revenue (excluding conditional grants). This means that only a limited portion of the municipal budget was available for other priorities. The result was the gross deterioration

of infrastructure, such as roads, water networks and sewerage plants, as well as municipalities neglecting their responsibility to deliver basic services to their communities. For example, Sol Plaatje did not have indicators to monitor key service delivery aspects, which contributed to the poor state of roads and water infrastructure in the municipality, resulting in damage to vehicles and communities often being left without water.

We identified uncompetitive and unfair procurement processes at 87% of the municipalities. This largely contributed to the increase in irregular expenditure of the municipalities of which the audits had been completed to date, which increased to R1,1 billion from R806 million in the previous year. Only 26% of the prior year irregular expenditure balance was dealt with in the current year. Municipal managers and municipal public accounts committees need to do more to not only prevent and detect irregular expenditure, but also to investigate this unwanted expenditure when it does occur and ensure that consequences follow so that financial management can be improved and potential fraud can be prevented. When every rand is precious and value for money must be achieved through every transaction to improve service delivery, irregular expenditure is unacceptable – especially when it recurs year after year.

In 2020-21, we performed additional audit work at two municipalities (Joe Morolong and !Kheis) that had repeatedly received disclaimed opinions. At !Kheis, we could not confirm the completeness of transactions in the cash book as the relevant module on the accounting system was not activated. This created a significant risk that payments could be made to suppliers that had not performed work for the municipality. Another key observation was that both municipalities lacked proper and credible maintenance plans, which contributed to the poor state of their assets. Both municipalities spent less than 1% of their budget on asset maintenance, far below the norm of 8%. This explains the visible dilapidation we found during our visits to municipal infrastructure sites.

We identified five material irregularities in 2020-21, most of which related to full and proper records not being kept. Municipal managers in general have been

responsive to our notifications and we urge them to focus on the area of compliance to prevent material irregularities. Where the material irregularities were caused by non-compliance, they should ensure that there are consequences for those involved.

The MEC for local government has not yet tabled either the MFMA section 131 report or the MSA section 47 report to the provincial legislature, which would provide valuable insight into the state of local government in the province. Provincial oversight has committed to ensuring that municipalities' service delivery and budget implementation plans are reviewed for the relevance, clarity and credibility of performance information. The role of councillors as part of the accountability ecosystem will be elevated to enhance consequence management, and municipal managers will be engaged in an effort to improve the submission of financial statements. In addition, there

will be a focus on disclaimed audits and pressure will be placed on municipal managers to ensure that these opinions improve. In the past, we have noted that provincial leadership and oversight tend to make good commitments, but regularly found that these were not honoured due to limited systems to monitor the commitments made. Coordinating departments need to implement a mechanism to ensure that progress on commitments is properly tracked and, where progress is lacking, that steps are taken to rectify the situation.

Turning the tide will be no easy task and will require a combined effort by both municipal leadership and municipal and provincial oversight. We **call** on municipal leadership **to act by strengthening the basic control environment and accountability**. Audit outcomes will only improve if the relevant role players implement basic controls, nurture a culture of doing things right the first time, and curb wastage.



In our 2019-20 general report, we drew attention to the total neglect of internal control disciplines in the province, which resulted in financial and operational collapse, weakened governance and a lack of accountability. We have since seen some municipalities heeding the call to action and focusing on reversing negative trends, as evidenced by improvements at five municipalities. Unfortunately, the state of local government over the term of the previous administration was characterised by **leadership instability, which resulted in a lack of accountability, a general state of disarray and little to no service delivery**. Financial governance weaknesses, ineffective provincial interventions, lack of institutionalised preventative controls, compromised accountability and general poor performance further weakened service delivery.

Despite year-on-year improvement, the overall audit outcomes were stagnant over the five-year period. In the first year (2016-17), the dominant audit outcomes were qualified opinions at 54% (12) and disclaimed opinions at 36% (eight) of auditees. This picture did not change significantly, with 41% of auditees

(nine) receiving qualified opinions and another 41% (nine) receiving disclaimed opinions in 2020-21. Therefore, we continue to urge the executive leadership and oversight structures to hold municipal managers and officials accountable for poor audit outcomes and to implement consequences promptly where required.

The submission of financial statements for auditing by the legislated date decreased from 100% in 2016-17 to only 45% in 2020-21. This downward spiral shows a worsening culture of accountability over the period. The quality of performance reporting is also concerning, especially since most municipalities reported that they had not achieved their set targets, indicating inadequate service delivery. These critical accountability tools must be properly reviewed by internal audit units and audit committees. They must also be submitted on time. The coordinating departments should customise support interventions for each municipality to improve and monitor submissions and financial management capabilities.

Municipalities continued to flout legislated requirements, which resulted in irregular expenditure. Compliance transgressions remained widespread and were reported at 100% of the municipalities with completed audits. The irregular expenditure closing balance was very high at R28,7 billion and continued to grow significantly every year, with the current year amount being R3,99 billion. This is because irregular expenditure was not properly investigated and there were no consequences for transgressions. An estimated 42% of all spending on procurement was irregular. At eight municipalities, more than 50% of their expenses were irregular, raising the question of whether value for money was achieved.

Municipalities' financial health was dire. Most municipalities could not pay critical suppliers, such as Eskom and water boards, on time. These financially distressed municipalities depended on equitable share allocations, most of which went towards paying salaries and leaving little available for service delivery. The lack of a strong and effective accountability ecosystem will continue to result in cash-strapped municipalities that fail to account for the resources entrusted to them. The unauthorised expenditure incurred by municipalities indicates that budgeting processes were inadequate and expenditure was not monitored to ensure that it stayed in line with the approved budgets. Management should take prompt action and use budget adjustments to accommodate key project deliverables. The

provincial treasury should assist municipalities with financial recovery plans, revenue enhancement strategies and budgetary control initiatives.

Despite their financial difficulties, municipalities spent R238 million on financial reporting consultants, bringing the total spent since 2016-17 to R989 million. Consultants were brought in to capacitate finance units with weak internal control environments, making it very difficult for the consultants to be effective. Despite using consultants, the quality of financial statements remained poor, with not a single municipality submitting a credible set of financial statements for auditing. This expensive, short-term solution is not sustainable.

We performed additional work at four selected municipalities with repeatedly disclaimed opinions. Through this work, we established that these municipalities did not have credible maintenance plans, resulting in dilapidated service delivery assets. These municipalities, on average, spent less than 3% on maintenance, compared to the norm of 8%. The failing infrastructure, as evident in pothole-riddled roads across the province and failing water and sanitation treatment plants, is likely to result in significant harm to the general public. We issued three material irregularities in this regard. When fully addressed, this should result in better-functioning infrastructure assets and improved service delivery.

Most of the disclaimed municipalities were financially distressed and did not have money to spend on service delivery initiatives. It is important to track every rand spent by cash-strapped municipalities. We planned to analyse the actual payments made by these municipalities in the bank statements against the transactions recorded in the financial statements, but some municipalities did not use unique payment identifiers in the bank statements to enable meaningful matching and analysis. This lack of unique identifiers could lead to payments not being detected, increasing the risk of fraudulent transactions and the misappropriation of funds. We are collaborating with the relevant government institutions to source the information needed to enable further analysis, which will form part of our follow-up audit.

We issued nine material irregularities to repeatedly disclaimed municipalities because of their lack of records and poor financial sustainability. Municipal managers are responding positively to financial recovery plan assistance and are developing action plans to address potential or actual harm.

Overall, the state of municipalities obliged us to issue 38 material irregularities to municipal managers, with an estimated total financial loss of R627,2 million. We find it encouraging that some municipalities are recovering financial losses, with R22 million having been recovered to date and a further R121,9 million in the process of being recovered. Financial losses are also being prevented and internal controls are being improved to prevent harm and losses from recurring. However, we remain concerned about the lack of progress at some municipalities, which resulted in recommendations being included in the audit reports and three material irregularities moving to the remedial action stage. We will continue to play our part by providing the respective leaders with the insights they need to hold municipal managers accountable. We also urge the councils to pay attention to the material irregularity process, especially where municipal managers are not implementing our recommendations. This should prevent matters from escalating to the point where they require remedial action or a certificate of debt to be issued.

The lack of consequences for those who neglect their duties has not only created uncommitted and unaccountable officials, but also normalised poor performance. This calls for decisive commitments and actions, which we will track as part of the key commitments of the provincial executives. The premier,

through the provincial executive council, will interrogate the reports from coordinating departments to do an impact assessment of the initiatives implemented at municipalities. The provincial legislature will deliberate and consider the effectiveness of action plans and remedial action in the reports on municipalities' performance received from the MEC for local government. The provincial treasury will strengthen the processes aimed at monitoring municipalities' compliance with the Municipal Finance Management Act and the preparation of budgets, and has committed to act on the monthly outcomes of those budgets. The provincial cooperative governance department will reinforce the processes of compiling MFMA section 131 and MSA section 47 reports by basing them on thorough diagnostic analysis to ensure that they effectively address challenges at municipalities. Coordinating departments will formulate and customise municipal support intervention plans for each municipality – provincial executives should set clear processes to monitor the success of these plans.

The lives and experiences of the citizens of North West were negatively affected by instability in political and administrative leadership, which had a detrimental effect on service delivery. All role players in the province should thoroughly and honestly reflect on the initiatives implemented during the term of the previous administration. **Establishment of preventative controls remains key** and only a concerted effort to apply tailored approaches for problems that are unique to the province will take local government forward. Municipal leadership and oversight structures will need to be exemplary in the accountability value chain and effect consequences for accountability failures, swiftly and consistently.



Overall, the province continued on an upward trajectory, with a year-on-year improvement in audit outcomes. From 2016-17, the previous administration continued to build on the foundation laid by its predecessors. The **firm leadership tone and strong control environment contributed to positive outcomes** and the new administration should continue in this vein to sustain the positive outcomes and drive improved service delivery. Audit committees and municipal public accounts committees should continue providing oversight and governance to sustain the improvement, and the province should maintain focus on effective financial management disciplines to support the good financial health at most municipalities.

In 2020-21, 18 municipalities sustained their clean audit outcome, with seven of these remaining clean since the first year of the previous administration. All of the district municipalities except Garden Route sustained their clean audit outcome from the previous year, with Cape Winelands and West Coast having achieved this outcome for the past five years. The poor outcomes of some municipalities within the Central Karoo and parts of the Garden Route were due to instability in political and administrative leadership and an inability to attract and retain suitably skilled staff due to their geographic location.

These factors further led to the delayed completion of the Beaufort West, Kannaland and Laingsburg audits because their financial statements were submitted late (over the past four years, Kannaland and Laingsburg had submitted their financial statements late at least twice). All three of these municipalities received qualified opinions and had material findings on their performance reports. The reported performance was not supported by sufficient evidence and performance targets were changed without the required approval. The unreliability of performance information at these municipalities affected the delivery of services to communities, as decisions about targets and budgets were made based on information that was not credible.

Strong, institutionalised financial reporting disciplines were a hallmark of all the municipalities that received an unqualified opinion on their financial statements, with only Bitou and Prince Albert requiring material corrections to achieve this outcome. These municipalities were supported by capacitated and competent finance units under the direction of chief financial officers who had occupied the position for at least three years, enabling the required stability and direction. The support provided by the provincial treasury in the form of workshops and reviews also enhanced the quality of financial reporting. Consultants were appointed to assist with the financial reporting process at 25 municipalities at a cost of R32 million. Over the term of the previous administration, R161 million was spent on consultants and 20 municipalities made use of these services annually. Most municipalities used consultants for matters that were highly technical and required specialised skills.

Generally, the quality of performance reports was good; however, leadership (particularly at council level) needs to pay more attention to formulating and monitoring the implementation of indicators and targets that address the service delivery needs of all residents. Our audit visits to municipalities showed continuing service delivery challenges, particularly relating to informal households. This is because municipalities did not have adequate

systems and processes to accurately measure the number of informal households within their boundaries. The quality of service delivery was also not reported on; for example, municipalities reported on the number of taps installed but not whether the taps were actually working. The common set of indicators for metros (as determined by the National Treasury) was not fully implemented at the City of Cape Town due to a lack of systems and processes, with the achievement of some indicators and targets being set and reported as zero.

Irregular expenditure, which was incurred at 27 municipalities, decreased to R1,23 billion from R1,38 billion in the previous year. Non-compliance in the area of procurement caused almost all of the irregular expenditure and the material findings we raised on compliance. Municipalities should continue to focus on this area and develop detailed procurement plans to prevent findings, particularly those relating to deviations from competitive procurement processes. They should also continue investigating and dealing with irregular expenditure – the closing balance decreased from R2,66 billion in the previous year to R1,50 billion in the current year.

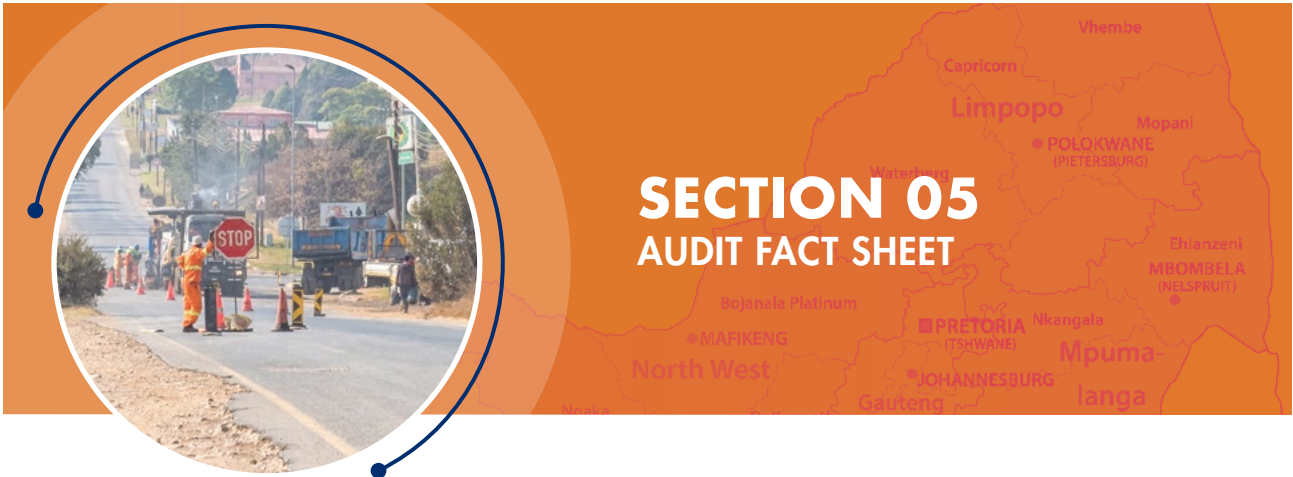
Over the term of the previous administration, the City of Cape Town regressed from a clean audit outcome to a financially unqualified opinion with findings on compliance with legislation relating to supply chain management and the prevention of irregular expenditure. The metro's outcome remained unchanged from 2018-19 to 2020-21. We commend the metro on the quality of its financial statements and performance report that were free from material misstatements. The metro spent R2,68 billion on reparing and maintaining of its assets (valued at R53 billion). At 5% of the value of the assets, the spending was below the norm of 8%. This resulted in the metro not meeting its spending performance target on reparing and maintaining of 95%, which will affect the long-term service delivery potential of these assets. The metro continued to face service delivery challenges and some community concerns were not incorporated into the integrated development plan. We saw instances where container toilets were in an unhygienic

condition and in need of maintenance because they were not being serviced at the required intervals. Additionally, final effluent at wastewater treatment plants did not comply with licence requirements; and the minimum limits for chloride, suspended solids and E-coli were significantly exceeded.

We issued two material irregularity notifications to the City of Cape Town – one for payments to service providers for goods and services not received, and one for paying external contractors for excessive standby hours because a needs analysis was not performed. Upon receiving the notifications, the municipal manager initiated a forensic investigation and is currently implementing recommendations.

To improve in the area of compliance and to prevent possible material irregularities, municipal managers and senior managers need to lead by example, cultivate a culture of compliance, and ensure that consequences for accountability failures are effected swiftly, bravely and consistently.

During a recent engagement, the premier committed to intensify support to municipalities with defective control environments and service delivery challenges. This will include considering and collaborating on strategic initiatives to address skills shortages as well as enhancing current support initiatives, particularly the municipal governance review and outlook, technical integrated municipal engagements, and a joint district and metropolitan approach. These initiatives cover the implementation of municipal strategic and operational plans, and their alignment to good governance practices; and the strengthening of coordination with the provincial treasury, local government and other partners in the accountability ecosystem so that service delivery and the lived experience of citizens are continuously focused on and improved. The MECs for finance and local government should look at strategic ways to improve revenue collection at municipalities and we encourage them to intervene and influence municipal leadership. **The intervention of coordinating ministries and leadership stability are encouraged to address unfavourable outcomes.**



SECTION 05 AUDIT FACT SHEET

There are 257 municipalities and 62 municipal entities in local government.

This report focuses on the results of the 257 municipalities. The results of the municipal entities are consolidated with those of their parent municipalities and these outcomes are shown for consolidated municipalities.

However, the outcomes of 19 municipal entities are included in the information on audit outcomes, financial health, and service delivery planning and reporting. Eight dormant and 35 small municipal entities are not reported on.

The numbers and percentages in this report are calculated based on the completed audits of 248 municipalities, except for:

- » **Consultants:** Based on 206 municipalities that used consultants
- » **Performance reporting:** Based on 244 municipalities that submitted performance reports
- » **Unauthorised, irregular, and fruitless and wasteful expenditure:** Based on all 257 municipalities (including outstanding audits)
- » **Supply chain management and internal controls:** Based on 232 municipalities that were assessed

- » **Financial health:** Based on 230 municipalities that were assessed
- » **Infrastructure development and maintenance:** Based on 232 municipalities unless it relates to specific infrastructure grants and water losses:
 - Municipal infrastructure grant: 181
 - Public transport network grant: 13
 - Urban settlements development grant: 8
 - Regional bulk infrastructure grant: 28
 - Water services infrastructure grant: 82
 - Water losses: 114
- » **Assurance providers:** Based on 218 municipalities, excluding municipalities at which a reduced audit approach was applied
- » **Internal audit units:** Based on 215 municipalities where internal audit units had been established
- » **Audit committees:** Based on 214 municipalities where audit committees had been established

To determine the movements over the administration, the results of the completed audits for municipalities are compared to their results in 2016-17.





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