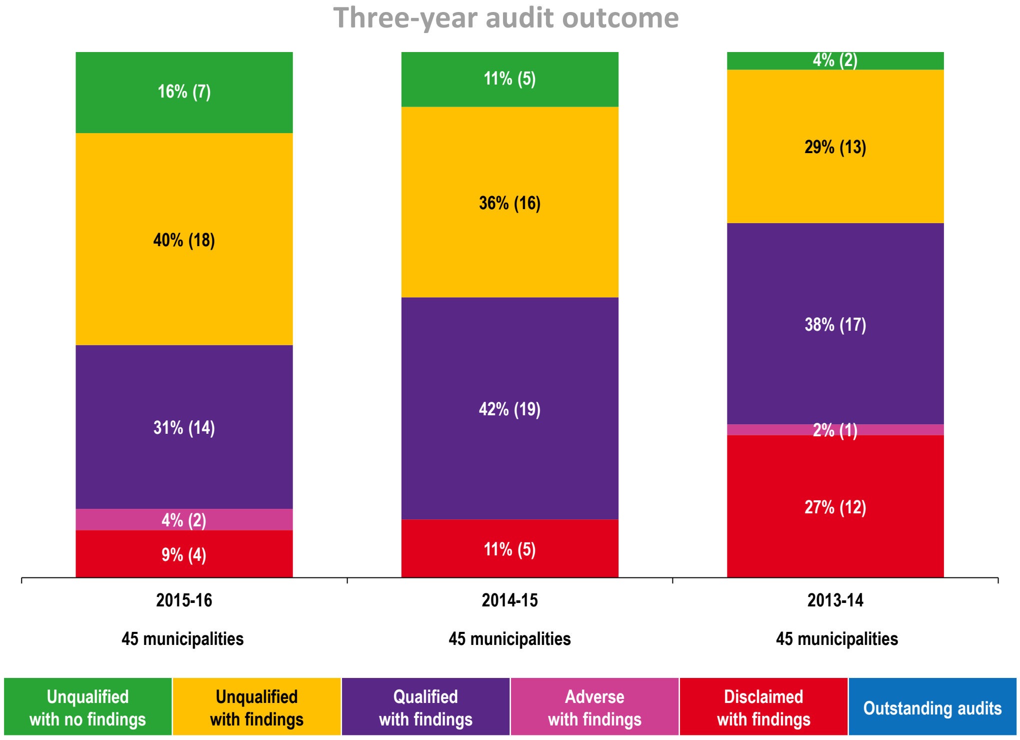
12 Provincial overviews

ACCOUNTABILITY = PLAN + DO + CHECK + ACT

12.1 Eastern Cape



The municipal leadership is accountable to the public for the equitable and efficient allocation of resources and for the planning, procurement and delivery of services in an effective, transparent and economical manner. In doing so, they contribute to improving the lives of the communities they represent. Good governance enhances accountability through the processes of decision-making and of then implementing those decisions. Such good governance includes the demonstration of effective leadership, robust and transparent financial and performance reporting, effective internal controls as well as strong oversight structures.

We are encouraged by the increased accountability and good governance shown by Engcobo, where we noted effective systems of budgeting and planning, efficient project and contract management, transparent and fair procurement processes, and appropriate reporting and record-management systems. This led to an improvement in the municipality's audit outcome from unqualified with findings on compliance matters to unqualified with no findings (also commonly referred to as a 'clean audit'). The municipality also better managed its infrastructure projects, as evidenced by the successful delivery of an electrification project. This project had a budgeted value of R8,5 million and was brought into use on time, at the required quality, and R1,6 million below budget. This project was supported by a proper business case, had a plan that was communicated to all role players allowing for proper coordination, had a clearly defined scope, followed all of the required SCM processes, was monitored regularly by the council, followed defined steps at completion, was appropriately reported on in the performance report, and was correctly recorded in the financial statements.

In contrast, the control environments of those municipalities that did not achieve clean audits remained at the same concerning levels as reported on in the previous year. Basic daily, weekly and monthly disciplines around financial and performance management were still not in place. Controls in the IT environment remained concerning and had improved only slightly from the previous year. These weak controls could expose municipalities in the province to the misappropriation of funds and lead to financial and performance reporting that is not credible. The slow response by accounting officers and senior managers to implement our recommendations relating to the poor status of record management, lack of a proactive risk-assessment process, as well as non-implementation of audit committee and internal audit recommendations, contributed to the poor control environments at most municipalities.

These poor control environments, ineffective and weak oversight structures and lack of leadership accountability resulted in findings on compliance with laws and regulations remaining at high levels (in particular, findings relating to the prevention and investigation of irregular expenditure as well as procurement and contract management). Consequences for poor performance and transgressions of legislation were not enforced. This created an emerging culture of discretion being applied to deviate from financial disciplines, internal controls and the laws and regulations governing the procurement of goods and services. This remained the biggest challenge facing local government in the province.

Irregular expenditure incurred during the year increased to R5,7 billion from R3,5 billion in the previous year. We observed this trend of increased irregular expenditure in all metros and municipal districts, other than in the Joe Gqabi district. The amount disclosed may furthermore not paint the full picture, as 19 municipalities were qualified as we could not confirm the completeness of the amount of irregular expenditure they had disclosed. Almost all (98%) of this irregular expenditure was caused by transgressions of SCM legislation.

We noted numerous examples of the inappropriate exercise of management's discretion to procure goods and services throughout the province. The accounting officers used their discretion in applying SCM regulation 36 to deviate from normal procurement processes to appoint targeted suppliers without ensuring that the requirements for valid deviations were met. One such example related to the upgrading of road infrastructure to the value of R222,5 million where the tender process was allowed to lapse, resulting in management deviating from the procurement processes in awarding the contract by going the deviation route.

At 27 municipalities, the accumulated prior year balance of irregular expenditure amounting to R7,7 billion was not investigated. Where investigations were done, they did not lead to disciplinary processes and/or the recovery of money.

The central focus of the MTSF is to ensure sustainable and reliable access to basic services. Weak control environments and a lack of accountability resulted in significant deficiencies relating to integrated and coordinated planning, project management as well as the economical use of resources in the delivery of municipal infrastructure.

The different spheres of government and other role players did not always conduct integrated and coordinated planning to determine the most appropriate options and to eliminate the duplication of effort and wastage. For example, the Ntabankulu water treatment project to the value of R39,6 million implemented by Alfred Nzo District had no water source and the flagship water supply project to the value of R23,1 million also implemented by the Alfred Nzo District could not function because it was not connected to electricity. These projects were not functioning at the time of our audit and will require additional resources and coordination to become fully functional in the near future.

Municipalities did also not always apply the principles of sound project management to their infrastructure projects, resulting in cost overruns, poor quality workmanship, and potential fruitless and wasteful expenditure. For example, the Lujazo bridge to the value of R5,1 million had to be abandoned when it was 25% complete due to inadequate planning, design defects and poor quality work, while the Jambeni access road to the value of R7,6 million was abandoned when it was 80% complete due to a lack of funding, inadequate supervision and poor quality workmanship. Both of these projects were implemented by Port St Johns.

Resources are used economically when goods and services are received at the right time, right place and right quality and at the lowest possible price. However, infrastructure projects were not always developed in the most economical way. An example in this regard related to phase 5 of the Fleet Street road project to the value of R27 million implemented by Buffalo City Metro, where a contractor had to be replaced due to inadequate supervision and poor quality workmanship. The initial contractor was paid R11,3 million for 18% of the work, whereas the replacement contractor was paid only R15,7 million for the remaining 82% of the work required.

The financial health of the municipalities in the province had deteriorated since the previous year due to inadequate processes to ensure sound financial management and worsening economic conditions. One district municipality and nine local municipalities had indicators that highlighted their inability to settle their liabilities as they fell due. Three of these local municipalities owed significant arrear amounts to Eskom, while one had also not paid over deductions from employees, including pension fund contributions. A further 21 municipalities, including two district municipalities that are water service providers, had concerning indicators that, if not acted upon and monitored closely, could result in an inability to maintain their current levels of service delivery. These indicators included the poor collection of receivables, excessive impairment of receivables, and insufficient cash on hand to settle liabilities timeously.

> There has been an improvement in the Eastern Cape audit outcomes. There's still significant work that needs to be done in respect of accounting systems, the control environment and record management.

We are encouraged by the net improvement of seven audit outcomes (16%) during 2015-16 and the overall improvement of 20 audit outcomes (44%) since 2013-14, as this supports the pursuit of sound financial and administrative management. This is significant because the financial statements of more than 50% of the municipalities in the province are now financially unqualified and goes a long way to achieving the target of 75% set out in the MTSF.

This net improvement is made up of 10 improved outcomes and three regressed outcomes. We are also encouraged by the improved outcomes at two of the 11 municipalities identified as requiring special intervention to unqualified with findings, as this shows that the actions taken are starting to have an impact. The improved outcomes can be attributed to better record keeping, the support provided by the provincial treasury and provincial Cogta, the leadership attending to audit recommendations, the implementation of the Municipal Regulations on Minimum Competency Levels, and the use of consultants.

Two of the regressions in the current year were at municipalities that had been amalgamated with other municipalities (Nxuba and Tsolwana) and were caused by the non-availability of personnel with institutional knowledge to deal with audit matters after the amalgamations.

Leadership stability, good internal controls, a leadership tone of intolerance towards control deviations, leadership commitment and recommendations that were acted upon were the common qualities of those municipalities that improved or achieved clean audit outcomes. The remaining municipalities in the province should strive to emulate this recipe for success.

Key role players did not provide the level of assurance over financial and performance reporting as well as compliance expected of them. Internal controls need to be improved if the expected levels of assurance that result in clean audit outcomes are to be achieved.

The vast majority (at least 80%) of municipal managers and CFOs had achieved both the minimum qualifications and minimum competencies prescribed by the Municipal Regulations on Minimum Competency Levels. However, this does not correlate with the continued use of consultants by 91% of municipalities and the poor quality of financial statements submitted by 69% of municipalities, and points to a lack of leadership and an absence of accountability rather than a shortage of skills and competencies.

The quality of the submitted financial statements had improved over the last three years; however, 69% of the municipalities still submitted financial statements that contained material misstatements. This can be attributed to a lack of in-year reporting and discipline relating to the reconciliation and recording of transactions on a daily, weekly and monthly basis. A total of 41 municipalities (91%) used consultants to prepare their financial statements, which cost local government in the province R147 million during the year under review. At least R39 million was paid to consultants by municipalities that had the internal capacity to prepare their financial statements themselves. Furthermore, 71% of the municipalities that used consultants still submitted financial statements that were of a poor quality, of which 46% received qualified, disclaimed or adverse opinions.

The quality of performance reports had improved marginally over the last three years due to improved record keeping relating to actual performance and the implementation of audit recommendations. However, 76% of the municipalities submitted reports that had usefulness findings and/or required material amendments. We reported findings on the usefulness of reported information at 38% of the municipalities, and reliability findings at 56% of the municipalities. The main cause of the usefulness findings was that those charged with governance did not adequately review planning documentation (integrated development plans and service delivery and budget implementation plans) for compliance with SMART principles (in other words, requiring performance criteria to be specific, measurable, achievable, relevant and time bound). The main reasons for the reliability findings were poor record-keeping practices and inadequate systems and processes to record information about actual performance.

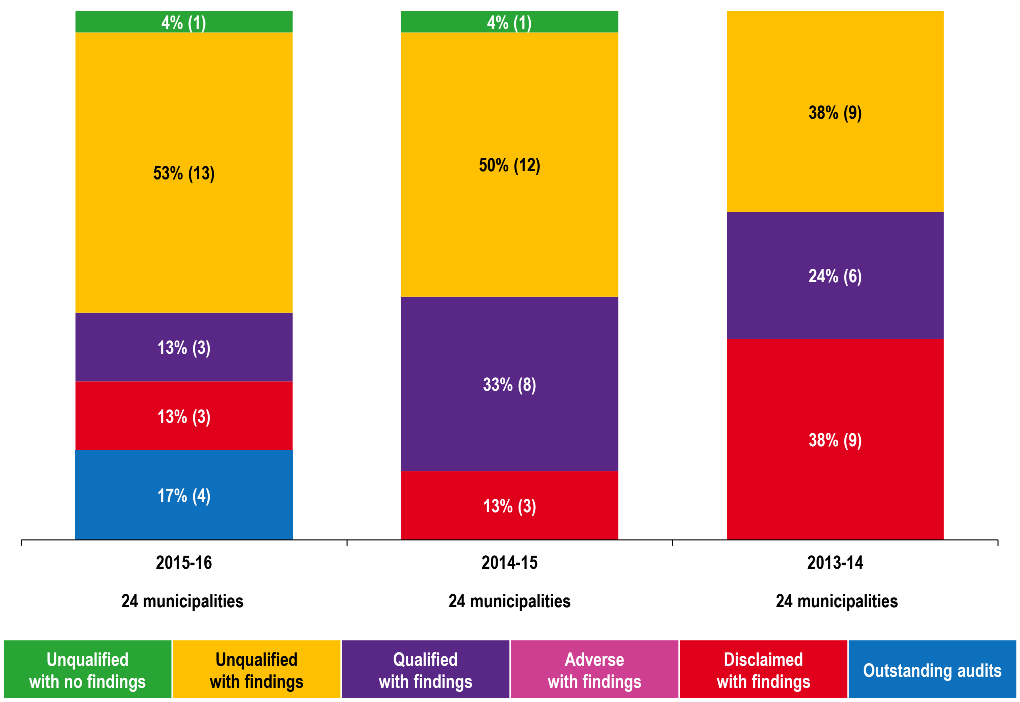
In response to the previous general report, we obtained commitments relating to inducting new councillors, eliminating disclaimed audit outcomes, strengthening district monitoring committees, providing intensified and coordinated support to 16 municipalities, and capacitating the municipal finance unit within the provincial treasury. At the date of this report, only the commitment relating to the induction of councillors had been implemented. Although the remaining commitments were still in progress, they had a positive impact on the audit outcomes. Further improvements are expected once these commitments have been fully implemented and councils implement the following recommendations:

- Embark on leadership, governance and financial skilling programmes to enable effective oversight of the administration and to lead communities and municipalities to prosperity within the complex and challenging local government environment in which citizens demand quality services and value for money.
- Create an environment that brings predictability and stability at administration level and where the best talent and professionals are attracted, retained and allowed to flourish. Good HR management and career-development practices to maximise human potential should be developed, adopted and applied.
- Implement proper performance management systems that recognise and reward good performance and apply consequences for non-performance and transgressions. The leadership tone should promote accountability, professional ethics and transparency. The inappropriate use of discretion to deviate from internal controls, financial disciplines and legislative requirements should not be tolerated and should be dealt with swiftly.
- Enforce a culture of basic financial management disciplines, records review and adherence to good controls. This includes preparing reliable monthly and quarterly financial and performance reports that are supported by daily and monthly reconciliations to ensure that all transactions, balances and disclosures are accurately and completely recorded. IT systems should also be customised for better and accessible service delivery. Further, the councils should scrutinise all service delivery plans, regularly monitor in-year service delivery reports, and take action where actual performance is below expectation.
- Develop, adopt and apply policies and procedures that promote local content, local economic development and small businesses. An environment in which local suppliers, small businesses and cooperatives are allowed to flourish should be created by maximising local procurement opportunities, paying all suppliers within 30 days, and ensuring effective town planning and efficient network and internet systems. This will grow the local economy and increase the municipal revenue base which, in turn, will lead to improved financial health.
- Adopt appropriate measures to ensure that infrastructure projects are properly planned, effective and well coordinated. Discretion that leads to biased procurement processes should be eliminated and effective oversight exercised to ensure that projects are delivered on time, at the right quality and at the lowest possible price. The premier's office, provincial treasury and provincial Cogta should provide appropriate support to municipalities to ensure that they have the technical skills to undertake infrastructure projects.
- Ensure that all unauthorised, irregular as well as fruitless and wasteful expenditure is investigated properly and that those responsible for incurring it are held accountable. The premier's office, provincial treasury and provincial Cogta should provide support to the investigations process and also monitor that investigations are instituted and concluded.

The newly elected councils have assumed responsibility for ensuring responsive, accountable, effective and efficient local government as set out in the MTSF. It is their responsibility to act in a manner that will build public trust. This will be achieved by efficiently managing the limited municipal resources at their disposal and extending quality basic services to millions of households while upholding the laws and regulations governing the municipal environment and promoting anti-corruption initiatives, thus contributing to improving the lives of the communities they represent.

12.2 Free State

Three-year audit outcome



The steady improvement in audit outcomes in the previous two years, which included a notable reduction in the number of disclaimed opinions in 2014-15, could not be sustained by the cut-off date for the inclusion of results in this report. This stagnation, as evident from the figure above, is demonstrated by four improvements and three regressions. Fezile Dabi District improved from an unqualified opinion with findings to a clean audit, while Xhariep District, Kopanong and Moqhaka improved from qualified opinions to unqualified opinions with findings. We are encouraged by the accountability shown by management to strengthen the key control environment at these municipalities where year-on-year improvements have been realised since 2013-14.

These improvements were diminished by the regression of Thabo Mofutsanyana District from a clean audit to an unqualified opinion with findings, while Naledi and Masilonyana regressed from qualified opinions to disclaimed opinions. At the municipalities that regressed, the leadership failed to continuously strengthen the foundation of internal controls and the monitoring thereof. An example of such a failure was at Masilonyana where there was instability in the municipal manager and CFO positions over the last three years. Naledi, which was amalgamated into Mangaung Metro, regressed as documentation was not available during the audit process, as staff had already taken up other employment due to uncertainty regarding their job security.

The audit results of Mangaung Metro (consolidated financial statements) and Maluti-A-Phofung, Matjhabeng and Phumelela, which represented 56% of the province's municipal budget, were not finalised before the cut-off date for this report. As the internal control environment remained weak, these municipalities submitted financial statements late in an attempt to improve or sustain their previous year's audit outcomes. All four audits were subsequently finalised. The audit outcomes of Mangaung Metro and Phumelela were unchanged at unqualified with findings. Maluti-A-Phofung and Matjhabeng improved from a disclaimed opinion to a qualified opinion and an unqualified opinion with findings, respectively. These improvements were mainly as a result of the leadership's commitment to address the previous year's audit findings and the focused interventions of consultants.

During the three years, the province struggled to make significant progress towards a clean audit status due to weaknesses in the internal control environment, especially in the area of compliance with legislation.
Most municipalities were content to stagnate at an unqualified opinion with findings. Furthermore, in 2013-14 we conducted roadshows at six of the nine municipalities that had received an unqualified opinion with findings to encourage the leadership to address the internal control weaknesses and enforce accountability. Despite these

engagements and continuous quarterly interactions thereafter, only Thabo Mofutsanyana District was able to improve to a clean audit status even though this was not sustained. The stagnation in audit outcomes at unqualified opinions with findings was due to the leadership's minimal effort to address transgressions regarding compliance with legislation and transparent reporting of performance information even where they knew the transgressors. This created an environment where these actions were tolerated.

The weak internal control environment was also evidenced by the significant number of material adjustments to the financial statements required at 85% of the municipalities. Had these adjustments not been made, only Setsoto, Fezile Dabi District and Lejweleputswa District would have received financially unqualified audit opinions. The poor quality of financial statements was due to municipalities being complacent, as they relied on the audit process and consultants to identify shortcomings and produce credible financial statements despite their CFOs meeting the minimum competency requirements. This indicates a lack of monitoring and supervision, as CFOs did not review the financial statements and the relevant supporting information before submission. Inadequate skills and/or vacancies in finance sections also contributed to the poor implementation of internal controls over accurate and complete financial information. This created an over-reliance on consultants in the province for a number of years, with limited review of their work. This was demonstrated where a service provider incorrectly updated the billing system, resulting in incorrect billings to customers and postings to the general ledger without the errors being detected by the CFO. This breakdown in controls resulted in a loss of revenue and material adjustments to the financial statements.

There was a noticeable improvement in the reported performance information, as 10 municipalities had material findings in the year under review compared to 15 in the previous year. However, six of the 10 municipalities with no findings required material adjustments to their performance reports to avoid findings. Despite the improvement, inadequate record management due to a lack of transparency to measure the municipalities' performance still resulted in material findings. This hampered the communities' ability to hold municipalities accountable.

The leadership failed to confront non-compliance with legislation, as we still raised material compliance findings at 95% of the municipalities. Findings on the prevention of unauthorised, irregular and fruitless and wasteful expenditure and findings on compliance with SCM prescripts continued to be obstacles to clean audits, which resulted in irregular expenditure of R361 million for the year under review. Apart from the reported high occurrence of irregularities, Mafube (which received a disclaimed opinion) did not disclose any irregular expenditure in the financial statements for 2015-16, which is an indication that the total amount of irregular expenditure could be higher. The main area of non-compliance with SCM prescripts that resulted in irregular expenditure was procuring without competitive bidding or quotation processes. There was an increased tendency of municipalities avoiding competitive bidding processes by approving deviations on the basis of it being an emergency, whereas it was in fact due to poor planning. Municipalities also increased the use of contracts secured by other organs of state without meeting the requirements as stipulated in SCM regulation 32, while the financial benefit from these contracts could not always be demonstrated. The continuous disregard for procurement processes by the administrative and political leadership, coupled with limited consequences for these transgressions, is concerning as it creates an environment conducive to the misappropriation and abuse of state funds. Despite the known levels of transgressions, councils at 11 municipalities did not investigate unauthorised, irregular and/or fruitless and wasteful expenditure.

The overspending of budgets, occurrence of fruitless and wasteful expenditure and lack of transparent procurement processes to ensure that the best prices were obtained, placed further pressure on an already weak financial position of local government. This, together with the leadership's lack of accountability for sound financial management, and the diverted attention to the upcoming elections, had a negative impact on municipalities' financial sustainability. Excluding the districts, municipalities' financial health deteriorated from a net current liability position (where current liabilities exceed current assets) of R1,4 billion to R1,9 billion. These municipalities faced significant cash-flow constraints, as they did not maximise the revenue from service charges and rates or the collection of amounts outstanding from consumers. Given these cash-flow constraints, municipalities fell behind in their payments to Eskom (R1,2 billion) and water boards (R404 million) for their bulk purchases of electricity and water, which were outstanding at 30 June 2016. Furthermore, a number of municipalities deducted amounts from employees' salaries, such as pay as you earn, medical aid and pension fund contributions, but did not pay these amounts over to the relevant third parties, which could result in litigation.

Municipalities were also responsible for infrastructure assets with a net book value of R14,7 billion. Based on the National Treasury's budget circular, municipalities should budget for 8% of their infrastructure assets' net book value as maintenance. However, municipalities only spent 1% (which amounted to R184 million) on maintenance, resulting in a shortfall of R1 billion. This had a negative impact on service delivery in the province. Municipalities further incurred significant electricity and water distribution losses of at least R420 million due to theft, illegal connections, poor monitoring of indigents' consumption, and poorly maintained infrastructure.

Due to the continued drought and lack of maintenance, water-related infrastructure projects were a main focus area in the province. The delays in the finalisation of projects and poor project management were concerning. We further noted the following:

- Continued water losses were incurred.
- No approved policy that addressed routine maintenance of water infrastructure existed.
- There was no plan for the maintenance of water infrastructure, which set specific time frames and targets.
- Conditional assessments of water infrastructure were not done to inform the routine water infrastructure maintenance plan and budget.
- The maintenance of water infrastructure was not budgeted for.
- Targets for the provision of water services were not achieved.
- Indicators for the provision of water were not planned or reported.
- Delays in completing water projects were noted.

An example of a delayed project was where the consulting engineer initially indicated that a pipeline could be built from a hill directly downwards towards the river, but then realised that the slope was too steep and the pipeline had to be built around the hill. This resulted in variation orders and delays. There were further delays in the next phase due to inadequate contract management, poor performance by contractors and disputes between contractors and the consulting engineer, resulting in the community still not having access to running water. Importantly, the required procurement processes were not followed in the appointment of some of the contractors and the consulting engineer, which resulted in irregular expenditure.

A lack of accountability was evident in the province, as the assurance providers in local government did not take ownership of their annual commitments to implement basic key controls to ensure a sound control environment and implement consequences for poor performance and transgressions. The practical challenges facing local government require the political and administrative leadership to take ownership of the current state of affairs and to build a public service characterised by accountability and transparent financial and performance reporting. They can do this by focusing on the following:

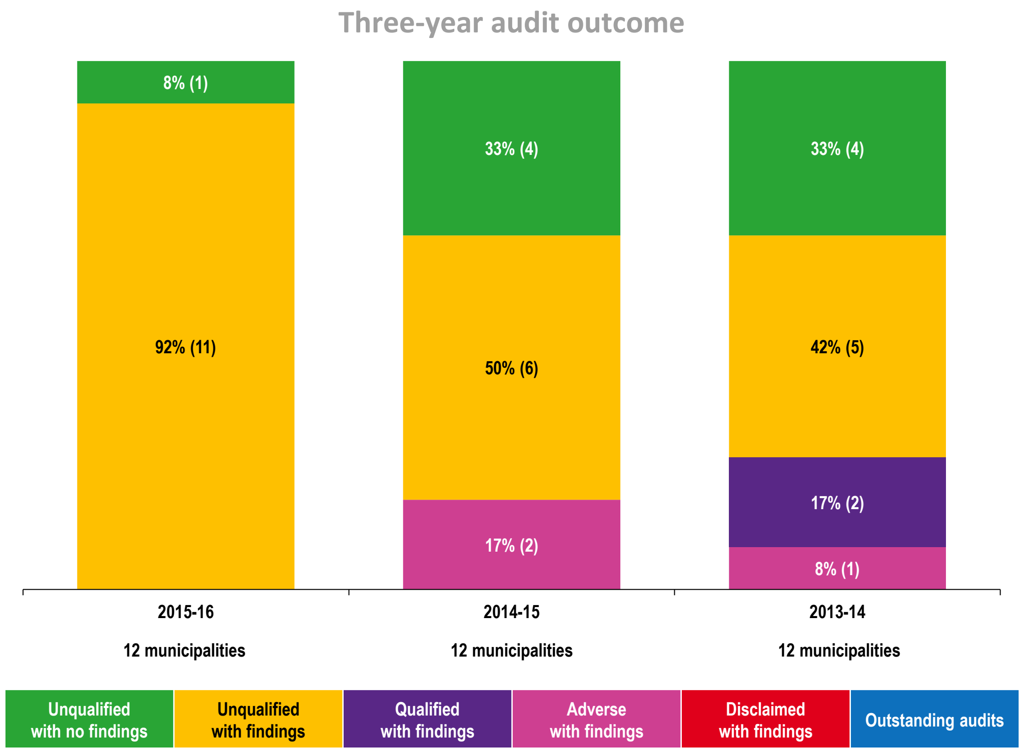
It is the responsibility of all key stakeholders to bring about accountability for improvements in all the disciplines to be realised. If care is taken in all these disciplines, there will be more funding available for service delivery.

- Strengthening key controls so that they become institutionalised, thus creating an environment conducive to sustainable positive audit outcomes.
- Setting a tone that informs the seriousness and urgency with which appropriate action plans and initiatives are implemented and monitored.
- Taking decisive steps and showing zero tolerance for deviations from SCM processes.
- Ensuring the effective, efficient and economical use of resources for service delivery.

The coordinating departments play a key role in ensuring that sound financial and performance management principles are implemented, thereby building trust and credibility, as well as institutionalising accountability in local government. In this respect, the provincial treasury and provincial Cogta need to continue their assistance and support to municipalities with a history of disclaimed opinions where audit outcomes subsequently improved to ensure the sustainability of these improvements. Furthermore, the coordinating departments should urgently intervene at Mafube, as it has received disclaimed audit opinions for more than a decade.

Effective monitoring and oversight by all assurance providers are essential to break the cycle of impunity and improve fundamental internal controls. The newly elected political leadership should ensure that municipal staff accept responsibility for their actions and should prompt for a responsive, accountable, effective and efficient local government as set out in the MTSF. Mechanisms to promote accountability typically include basic daily and monthly checks and balances on compliance and financial and performance information, managing the performance of staff, and implementing consequences for poor performance and transgressions. Accountability and transparency are considered the main pillars of good governance. Sustainable clean audits will only be achieved through a strong foundation of good governance.

12.3 Gauteng



The Gauteng local government audit outcomes regressed in 2015-16, with one municipality (8%) obtaining a clean audit outcome compared to four municipalities (33%) in both 2014-15 and 2013-14.

Three municipalities (Ekurhuleni Metro, Sedibeng District and Mogale City) regressed in 2015-16 from a clean audit to an unqualified opinion with findings. The regression at Ekurhuleni Metro and Mogale City was due to compliance with SCM prescripts not being monitored adequately, while the regression at Sedibeng District was as a result of a lack of adequate processes to ensure the usefulness and reliability of reported performance information.

Midvaal is commended for obtaining a clean audit outcome in 2015-16 and for sustaining this outcome for the last three years. This was as a result of the municipality institutionalising a number of best practices, which should be replicated across the province, such as monitoring the implementation of action plans to ensure that internal control deficiencies are addressed, maintaining stability in key positions, ensuring that governance structures are effective, and effectively applying consequence management. This in effect created a culture of accountability.

With transparency having been introduced, limited resources will be utilised more effectively.

Commendably, Gauteng is moving in the right direction as 100% of municipalities obtained an unqualified opinion. The achievement of this significant milestone was due to two municipalities in the West Rand district (Randfontein and Westonaria) improving from adverse opinions with findings to unqualified opinions with findings, thereby joining the ranks of the other 10 municipalities in the province that had obtained unqualified opinions over the last few years. The political leadership of these two municipalities held the administrative leadership accountable for implementing action plans that were responsive to internal control deficiencies and root causes. This was significantly influenced by the effective use of consultants (with the assistance of coordinating departments such as the provincial treasury and provincial Cogta) to assist in resolving the previous year’s qualification areas, particularly relating to assets at both municipalities. The administrative leadership of Rand West City, which was established following the merger of Randfontein and Westonaria after the recent local government elections, should ensure that there is an adequate transfer of skills to sustain the unqualified opinion.

Although metros and district municipalities should lead by example in the local government sphere, all three metros and both district municipalities obtained unqualified opinions with findings. The City of Johannesburg Metro remained stagnant with an unqualified opinion with findings due to a number of control deficiencies relating to record management and the processing, reporting and reconciling of transactions. Furthermore, action plans did not address the root causes, resulting in repeat findings on, among others, material misstatements in the financial statements, non-compliance with legislation (including SCM prescripts) and inadequate performance reporting. Similarly, the City of Tshwane Metro remained stagnant with an unqualified opinion with findings. Although there was an improvement in performance reporting, there were repeat findings on material misstatements in the financial statements and non-compliance with legislation. This was due to inadequate review processes by finance officials and inadequate monitoring of compliance with SCM legislation. To enable the province to improve its audit outcomes, the political leadership should hold the administrative leadership accountable for the institutionalisation of internal controls and basic financial management practices. Furthermore, a culture of accountability together with timely and effective consequence management for non-performance and transgressions should be enforced.

Consistent with previous years, all municipalities (100%) submitted their financial statements for auditing on time. The quality of the financial statements can be improved, as seven municipalities (58%) had material misstatements in their financial statements that were identified and corrected during the audit. This was as a result of CFOs and finance officials not taking responsibility for implementing basic financial disciplines, such as regular reviews of financial information during the year, to ensure the credibility of the reported financial information. The continued reliance on auditors to identify errors in the financial statements, which are then corrected by municipalities to avoid qualifications, is not a sustainable practice.

The audit outcomes on reported performance information improved, as the number of municipalities with findings on the usefulness and reliability of their performance reports decreased from seven (58%) in 2014-15 to four (33%) in 2015-16. The quality of the performance reports submitted also improved, as the number of municipalities that submitted performance reports with material misstatements decreased from nine (75%) in 2014-15 to seven (58%) in 2015-16. This improvement in reporting on the extent of service delivery was due to municipalities implementing recommendations to ensure that their performance criteria were SMART (specific, measurable, achievable, relevant and time bound) and the stringent internal verification of reported performance information. The political and administrative leadership should continue to hold heads of monitoring and evaluation units accountable for the accurate reporting of performance information. This, in turn, allows residents to hold elected officials accountable for the service delivery targets contained in their approved service delivery and budget implementation plans.

Compliance outcomes regressed, as the number of municipalities with findings on compliance with legislation increased from eight (67%) in 2014-15 to 10 (83%) in 2015-16, with the most common findings relating to procurement and contract management, the prevention of unauthorised, irregular and fruitless and wasteful expenditure, and the quality of submitted financial statements. This was due to the slow response, diverted leadership attention due to the elections and lack of urgency by the administrative leadership to address compliance findings relating to uncompetitive or unfair procurement processes. As highlighted in the previous year, non-compliance with legislation remained the major obstacle preventing most municipalities from attaining clean audit outcomes.

Irregular expenditure remained high at R1,5 billion (2014-15: R1,5 billion). Systems to detect and record irregular expenditure continued to be a concern, as only 18% of the irregular expenditure was identified by the municipalities. The three metros were the highest contributors to irregular expenditure, accounting for R976 million (65%). The administrative leadership should be held accountable for strengthening the controls necessary to adhere to SCM prescripts and to prevent irregular expenditure. SCM officials should also be further trained on the application of SCM regulation 36, which is often incorrectly applied across the local government sphere. Where irregular expenditure is incurred, it should be properly investigated and appropriate consequence management should be instituted against transgressors.

The municipal entities' audit outcomes regressed from 11 clean audits (52%) in 2014-15 to nine (41%) in 2015-16. Two entities of the City of Johannesburg Metro, namely Pikitup Johannesburg and Johannesburg

Roads Agency, could not sustain their clean audits of the previous year and regressed to an unqualified opinion with findings in 2015-16. This was due to material non-compliance with legislation, particularly in respect of material misstatements in the financial statements and inadequate contract management.

In the context of the current economic climate, municipalities' financial health remained constrained, as they experienced difficulty in collecting debt from municipal consumers for basic services. Municipalities should focus particularly on improving debt-collection processes and prudent financial spending to ensure that they are still able to provide essential services to their citizens.

The status of the IT environment remained a concern, as municipalities still experienced challenges with implementing basic IT security and user access policies and procedures. CIOs and municipal managers should prioritise the implementation of these controls and ensure that action is taken where there are repeat findings. We are also concerned that none of the municipalities had demonstrated that they will be ready for the implementation of the mSCOA project by the set implementation date of July 2017. This should be prioritised to enable the province to meet the implementation date.

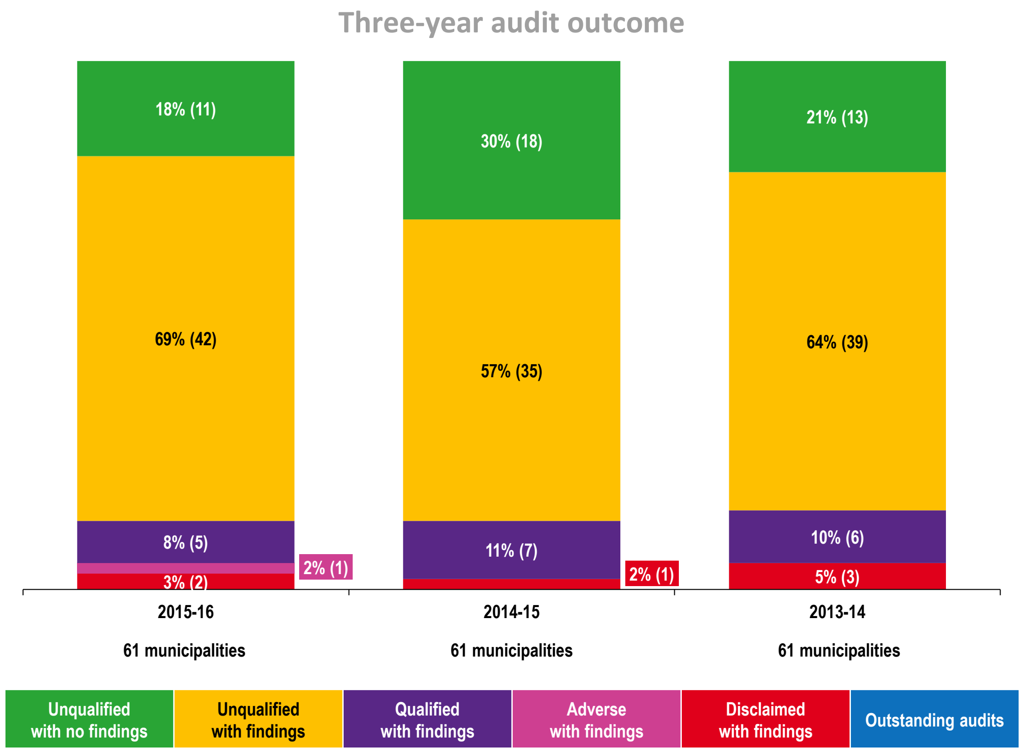
Our analysis of water infrastructure found, among others, that conditional assessments to inform the water infrastructure maintenance plan and budget were not performed at two municipalities (City of Tshwane Metro and Westonaria). There were also no approved water infrastructure maintenance policies at three municipalities (City of Johannesburg Metro, City of Tshwane Metro and Lesedi). These weaknesses could have an adverse impact on these municipalities' ability to deliver key basic services.

Large-scale infrastructure projects such as the integrated rapid public transport network at the metros had generally been successfully implemented and goods and services were received for the money spent. However, some quality issues were identified during site visits, such as the deterioration of bus lanes due to a lack of maintenance and the use of poor-quality materials in the construction of lanes at the City of Tshwane Metro. At Ekurhuleni Metro, a large number of variation orders were issued due to poor planning and designs. Other capital projects visited included Fleurhof at the City of Johannesburg Metro, which is the biggest housing project in the province, with approximately 11 000 mixed development units being constructed. Overall, the units built were of the required basic quality with an improvement in the standard of workmanship noted from the previous year.

The level of assurance provided regressed across the majority of role players. Senior management's slow response to implementing internal control disciplines and vacancies in key positions were root causes of municipalities not achieving a clean audit. Municipal managers should take ownership of the audit outcomes by holding senior management accountable for implementing the required controls to ensure compliance with legislation and to enable credible financial and performance reporting.

Key role players continued to be committed to improving the level of support provided to municipalities and intensifying oversight. Coordinating departments contributed to improved audit outcomes at Randfontein and Westonaria where commitments were implemented. We encourage key role players to sustain and intensify the support provided to other municipalities in the province going forward. This will translate into improved audit outcomes across the province as demonstrated by the impact of the intervention at the two municipalities in the West Rand district. We will therefore continue to monitor the impact and progress of the commitments made, as they are critical enablers to improving the overall audit outcomes in the province.

12.4 KwaZulu-Natal



The KwaZulu-Natal local government audit outcomes regressed in 2015-16 after a notable improvement in 2014-15. Eleven municipalities (18%) received clean audit opinions compared to 18 (30%) in 2014-15 and 13 (21%) in 2013-14. In terms of the budget, municipalities with clean audits represented 13% of the total provincial municipal expenditure budget of R66 billion for 2015-16. Municipalities with unqualified opinions constituted 76% of that budget, while those with qualified opinions represented 9% and those with adverse and disclaimed opinions accounted for 2%.

eThekwini Metro regressed from a clean audit to an unqualified audit opinion with findings on compliance. The metro's routine monitoring controls over procurement processes were not sufficient to prevent repeat instances of irregular expenditure. Zululand District also regressed to an unqualified opinion with findings in 2015-16 after retaining consecutive clean audits for the previous two years. This was due to a lack of oversight and review procedures over compliance with legislation and a failure to implement daily and monthly controls for processing and reconciling transactions. Msunduzi regressed from a clean audit to a qualified audit opinion with findings due to a systemic breakdown of key controls, as the municipality implemented a new organisational structure and decentralised key finance functions. The audit outcomes of five of the municipalities that were affected by the re-demarcation also regressed. The overall regression in the province was due to management not decisively responding to the breakdown in key control activities due to a lack of understanding of applicable financial and reporting requirements. Some municipalities also lacked clear lines of accountability and decisive direction due to vacancies in key positions, such as municipal manager posts that were not filled in good time to promote a sound control environment. Furthermore, the leadership did not act swiftly to ensure that commitments in the action plans were monitored regularly, as attention was diverted by the upcoming elections.

Newcastle notably improved its audit outcome from a qualified opinion with findings to an unqualified opinion with findings for the first time since 2007-08. This improvement stemmed from resolute leadership and a decisive approach to oversight and monitoring, especially of key financial statement account reconciliations and previously reported significant control deficiencies.

Three of the 10 district municipalities (Ilembe, uThungulu and Umgungundlovu) led by example in retaining their clean audits since 2013-14. These municipalities were characterised by leadership's zero tolerance for poor performance and commitment to good governance, coupled with institutionalised sound financial management disciplines and internal controls.

The provincial treasury, provincial Cogta and premier's office provided intensive support to Newcastle, Jozini, Hlabisa, Amajuba District, uThukela District and uMkhanyakude District that had displayed persistent control weaknesses. The support strengthened the overall state of governance and administration of these councils and resulted in five municipalities improving their audit outcomes since 2013-14, while uMkhanyakude District displayed a slight regression.

The quality of submitted financial statements remained a challenge, as management and oversight structures did not diligently and intensively review the financial statements on time for material omissions and misstatements. A total of 26 municipalities (43%) avoided qualifications only because they corrected the material misstatements that we identified during the audit process. Their reliance on auditors to identify errors is not a sustainable practice and municipalities should be proactive in addressing weaknesses in their internal annual financial reporting processes. Overall, 51 municipalities (84%) used consultants for their financial reporting at a total cost of R158 million, compared to the R117 million spent by 50 municipalities (82%) in 2014-15. These amounts exclude consultants paid by the provincial Cogta and provincial treasury. Of these, the financial statements of 19 municipalities (37%) still required material corrections in areas that were within the consultants' scope of work. To derive the most value from the use of consultants, they should be appointed on time, provided with the required records, and managed effectively.

Eight municipalities received qualifications in some areas of their financial statements, mainly because they did not provide supporting documentation. Furthermore, changes in leadership and key vacancies in the finance section, coupled with political infighting and the late involvement of consultants, were additional contributors at those municipalities that received disclaimed or adverse opinions. These qualifications largely related to expenditure, revenue and irregular expenditure.

Reporting on performance information improved, as 18 municipalities (30%) had material findings in 2015-16, compared to 24 municipalities (39%) in 2014-15. Daily and monthly checks and balances, regular and accurate reporting as well as effective oversight and risk management resulted in improved performance reporting. However, 26 municipalities (43%) avoided findings on reported performance by correcting the misstatements that we identified during the audit process. The municipalities that could not provide credible performance reports managed R8 billion (12%) of the total provincial local government budget. To further improve the quality of performance reports, accounting officers should provide effective oversight and hold the responsible officials accountable for the preparation of credible performance reports.

Senior management's response to implementing action plans was slower than expected, resulting in material non-compliance with legislation at 50 municipalities (82%) in 2015-16, compared to 42 (69%) in 2014-15. A significant contributor to this regression was the increase in material findings on the lack of consequence management, from 16 municipalities (26%) in the previous year to 25 (41%) in 2015-16. Disciplinary boards had not been set up to deal with and investigate instances of fraud and misconduct. In addition, policies and procedures to deal with consequences and performance management were not strictly applied, and investigations into unauthorised, irregular and fruitless and wasteful expenditure were unduly delayed. This created an environment where poor performance was tolerated, which was not conducive to good governance and accountability. Other common findings related to the quality of submitted financial statements, the prevention of unauthorised, irregular and fruitless and wasteful expenditure, and SCM.

The status of SCM and related controls regressed, with 56 municipalities (92%) reporting findings in 2015-16, compared to 52 (85%) in 2014-15. Procurement without competitive bidding or proper quotation processes, and general non-compliance with procurement processes, saw irregular expenditure levels increasing from R1,60 billion in the previous year to R2,43 billion in 2015-16. Pre-submission compliance checklists were not always reviewed and monitored before goods and services were procured. Five municipalities (uThukela District, uMkhanyakude District, uMzinyathi District, eThekwini Metro and Msunduzi) contributed R1,24 billion (51%) to the total irregular expenditure. The main cause of this irregular expenditure was deviations that were either not approved or not justifiable. Of the R1,50 billion in irregular expenditure audited, 95% of the goods and services were confirmed as received, despite the normal procurement processes not having been followed.

Unauthorised expenditure increased from R1,13 billion in 2014-15 to R1,62 billion in 2015-16. The majority of this was caused by non-cash items, such as depreciation and impairment of debtors, being incorrectly estimated during the budget process. Five municipalities (Newcastle, uMhlathuze, Ugu District, uThukela District and Harry Gwala District) contributed to R1,10 billion (68%) of the total unauthorised expenditure.

The slow collection of debt had a negative impact on municipalities' financial health. In total, 72% of the municipalities (2014-15: 64%) estimated that more than 10% of the amounts owed to them would not be paid and had an average debt-collection period of over 90 days. The severe drought in the province also resulted in revenue from water decreasing due to water restrictions being imposed. The drought crisis was made even worse by the high amount of water losses reported. Water losses can be reduced by effectively maintaining water infrastructure, addressing maintenance backlogs and replacing assets at proper intervals.

Road infrastructure projects in the province were mostly completed on time and within budget. Where projects were not completed or started, this was as a result of budget constraints. Many municipalities did not have an approved policy for the planning, management and reporting of road infrastructure projects and an approved road maintenance plan or priority list for the renewal and routine maintenance of roads.

Basic controls are still not being embedded in daily and monthly processes to prevent non-compliance with legislation.

The drivers of key controls relating to leadership and to financial and performance management regressed while those in respect of governance were stagnant. The leadership did not monitor the implementation of action plans to address compliance with legislation and was slow to fill critical vacancies. Record management, and processing and reconciling key accounts and transactions, also showed weaknesses. These areas are fundamental to supporting credible and reliable financial and performance reporting as well as strengthening accountability.

The dominant root cause of most of our findings was management's slow response. The leadership was slow in filling vacancies in key positions and support staff positions. This had a negative impact on outcomes as daily and monthly controls were not adequately performed, which resulted in control environments that did not contribute to accountability and good governance. Additionally, financial constraints at smaller municipalities and municipal demarcation changes contributed to positions remaining vacant. Some municipalities also failed to implement adequate succession planning, which resulted in a loss of institutional knowledge and a lack of embedded controls.

mSCOA, to be implemented on 1 July 2017, was piloted at two municipalities in the province (Umgungundlovu District and Umhlathuze) in the 2015-16 financial year. mSCOA has an impact on how information will be recorded and classified in the 2017-18 financial statements of all municipalities. Neither piloted municipality had material findings on their financial statements. While municipalities demonstrated improvements in IT controls, most have not fully attuned their systems and processes for mSCOA. Therefore, the leadership must direct concerted attention to addressing the mSCOA implementation risks.

The level of assurance provided by the executive and administrative leadership as well as senior management regressed. Mayors at 43 municipalities (70%) provided some or limited assurance. Their oversight of the credibility of reporting was not effective and their responses to honouring commitments made to address the previous year's audit findings were slow.

A majority of accounting officers (82%) did not adequately oversee the preparation of financial and performance reports or compliance with legislation. Their involvement was also limited when it came to monitoring the implementation of internal and external audit recommendations in a manner that created an environment of accountability. In addition, senior management at 49 municipalities (80%) did not stringently and diligently review the credibility of financial, performance and compliance reports.

Internal audit units and audit committees at 29 municipalities (48%) did not ensure that their reviews of financial and performance reports and compliance with legislation were sufficient to detect material errors, omissions and non-compliance. In most instances, senior management did not implement internal audit and audit committee recommendations, resulting in the internal control environment not being strengthened.

Overall, 66% of municipal councils and MPACs did not oversee officials and hold them accountable for verifying the credibility and reliability of financial and performance reports as well as compliance with SCM and other legislation. Findings recurred as a result of the outgoing councils not honouring commitments.

The provincial Cogta's initiatives to improve compliance monitoring did not reduce unauthorised, irregular and fruitless and wasteful expenditure. However, the provincial treasury's municipal support programme did assist some districts to reduce the number of compliance findings reported and improve the quality of performance reporting. The district mayors' coordinating forums should have reported their progress and concerns to the premier's coordinating forums, but some of the planned meetings did not take place.

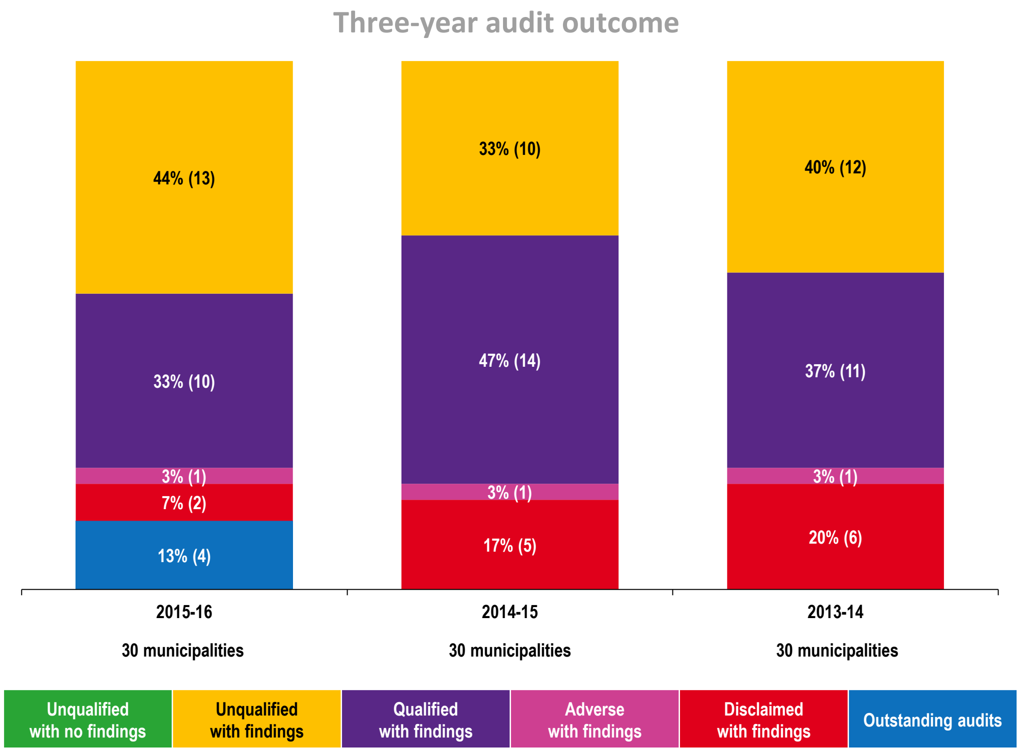
The provincial Cogta, provincial treasury and premier's office must diligently monitor the implementation of the support programmes at district level. This will assist municipalities to build and maintain sound institutional and administrative capabilities. These coordinating departments must also work together intensively to forge impactful relations and provide targeted training and support to municipalities in dire need.

The newly elected councils should implement the actions below to improve audit outcomes. The leadership should regularly monitor these actions to increase accountability and consequences for transgressions at all levels, and to instil financial discipline and prudence.

- The leadership should ensure that competent people are employed in financial and SCM positions. These individuals should embrace accountability and take responsibility for their actions, coupled with a comprehensive understanding of key policies, processes and procedures.
- The administrative and political leadership should set a tone of zero tolerance for transgressing legislation. Punitive action should be taken against those that breach legislative requirements.
- Both the administrative and political leadership must monitor engagements with new councils on the status of key controls, including previous commitments made that have a direct impact on the audit outcomes.
- Councillors need to fully understand their oversight responsibilities to be effective in their roles. The provincial Cogta and Salga need to intensify induction and training programmes for councillors and MPACs for these oversight structures to be effective.
- Audit committees, internal audit units and risk committees need to strengthen their roles in risk oversight and review to fortify governance, accountability and the sustainability of controls.

In order for local government to position itself to achieve the goals as set out in the MTSF, it is vital that the leadership and management diligently execute their responsibilities – resulting in a professionalised local government that embraces the concepts of transparency and accountability. The enabling role of the accounting officer and the oversight functions of councils will play an important part in creating an environment where effective, efficient and economical service delivery and a clean audit are natural products of performing the correct actions.

12.5 Limpopo



The local government in Limpopo consists of 33 auditees, made up of five district municipalities, three municipal entities and 25 local municipalities. At the cut-off date of 15 January 2017, the audit outcomes of four auditees were still outstanding and are therefore not included in this provincial summary. To date, Thabazimbi had not submitted its financial statements for auditing. Mogalakwena and Mutale submitted financial statements after the legislated date of 31 August and received an adverse and qualified opinion, respectively. Although Greater Giyani submitted its financial statements on time, the audit had not been finalised by the legislated deadline of 30 November due to a number of audit issues relating to property, plant and equipment and the cash flow statement that had to be addressed. The audit was subsequently finalised and the municipality again received a qualified audit opinion.

The 2014-15 financial reporting period was concluded with a stern warning by the premier to all mayors, municipal managers and CFOs that disclaimed and adverse audit opinions would not be tolerated. He made it clear that drastic action would be taken against municipalities that continued to receive such audit opinions. The premier further insisted that an addendum be attached to the performance contracts of all municipal managers to include audit outcomes as a performance indicator in order to ensure accountability. A number of resolutions were also made, which included commitments by the coordinating departments (provincial treasury, provincial Cogta and premier's office) to provide assistance to municipalities where skills and capacity constraints remained a challenge.

Following the warning issued by the premier, we noted an increased focus by municipalities to resolve audit findings that had led to qualifications. Our office held a number of engagements to explain the root causes of audit findings and to develop strategies to resolve these findings. As a result, we saw an improvement in the number of auditees that received unqualified audit opinions with findings from 12 to 16 and a decrease in disclaimers from four to two (excluding the outstanding audits of Mogalakwena and Thabazimbi that had been disclaimed in the prior year). Improvements at most municipalities were consultant-driven, rather than as a result of a concerted effort by the leadership to address internal control deficiencies. The continued reliance on consultants is unsustainable due to the continued instability in leadership positions.

Instability, highlighted by the number of vacancies at administrative leadership level at the 2015-16 year-end, particularly at the level of municipal manager (five vacancies) and CFO (nine vacancies), is a serious concern that contributes to a poor internal control environment. We noted that a number of positions were vacant for most of the year and were only filled at year-end. At a number of municipalities with vacancies at municipal manager and/or CFO level, we also noted a trend of appointing senior managers to act in these positions on a rotation basis (every three months to avoid compliance findings on acting positions). Such acting positions are not normally accompanied by the required commitment and accountability that constitute good governance. We further observed that during acting periods, non-compliance with legislation increased, particularly in the area of SCM. For example, at Vhembe District most of the officials at senior manager level were acting in their positions, while the posts of municipal manager and CFO had been vacant for 18 and 14 months, respectively. This instability contributed to the irregular expenditure of R181 million incurred by the municipality in the year under review.

As long as we have such high levels of irregular expenditure, with no consequences for responsible officials, we will not be able to deliver the required level of services to our people.

The instability in leadership also had an impact where municipalities implemented water projects without conducting proper feasibility studies, resulting in large infrastructure assets not being used after commissioning and left idle, increasing the risk of vandalism. Some of the contributing factors were poor planning, a lack of accountability and very limited or no consequence management. In the Mopani and Vhembe districts, for example, boreholes were sunk and completed, but on commissioning, the infrastructure could not operate as there was no underground water or electricity.

The accumulated amounts of unauthorised, irregular as well as fruitless and wasteful expenditure totalled R2 billion, R4 billion and R135 million, respectively. These amounts have been accumulating over a number of years and it is likely that information relating to the nature or cause of this expenditure may be lost due to poor record management and loss of institutional knowledge due to staff turnover or changes in the political landscape. The problem was made even worse by the instability at administrative leadership level, which could make it almost impossible to hold officials accountable. We identified poor planning resulting in ad hoc decisions, with no consideration of legislation, as a root cause in this regard. This was made even worse by a weak internal control environment, because the administrative leadership failed to set the right tone by enforcing adherence to legislation and holding officials accountable. At the root of this was the delay by councils to conduct and conclude their investigations, together with a lack of adequately capacitated oversight structures (such as MPACs), which play a critical role in the accountability cycle.

To address these matters, we recommend the following:

- The appointment of officials in acting positions should be based on the performance of officials and not merely be done for compliance purposes. Municipalities should request assistance from the coordinating departments if resources are not available internally.
- The provincial Cogta and the provincial treasury should provide a platform from where MPACs can source the necessary skills on technical issues, including legal competencies housed in these departments and other spheres of government.
- The administrative leadership (accounting officers and senior management), the political leadership (mayors and councils) as well as oversight bodies (MPACs and portfolio committees) should respond with the required urgency to our consistent messages about accountability, consequence management and improving internal controls.
- A culture of accountability and consequence management must be entrenched at leadership level to prevent non-compliance that could result in potential financial losses.

As we have reported in the previous general reports, the quality of the financial statements and performance reports submitted for auditing continued to pose a challenge at almost all auditees. Consultants were more commonly used for functions relating to financial reporting rather than performance reporting, with 27 auditees using consultants for financial reporting and only one using consultants for performance reporting. Municipalities spent R106 million (2014-15: R110 million) on consultants to assist with the preparation of financial statements, asset registers and other finance-related functions such as bank, creditor or debtor reconciliations. One would expect that municipalities would use consultants to address their skills and competency gaps; however, we found that consultants were responsible for the total financial reporting function to such an extent that they became responsible for responding to audit queries raised during the audits. It is concerning that consultants are appointed to do work which in fact forms part of the role and responsibilities of CFOs and finance staff employed by municipalities. This lack of ownership of the financial reporting cycle is becoming a trend at most of the municipalities in the province. The administrative leadership should ensure that a culture of basic financial management discipline and adherence to good controls is entrenched and that consultants are appointed to bridge the skills gap with a practical skills transfer plan that is monitored regularly to ensure sustained performance.

There was no improvement in reporting on performance information, with municipalities still unable to set useful indicators and targets at the beginning of the financial year and to reliably report on actual achievement against these targets at year-end. Overall, 20 auditees had findings on the usefulness and 21 on the reliability of their reported performance information. The lack of standardised key performance indicators for basic service delivery functions performed by all municipalities resulted in inconsistencies in setting indicators and targets that were useful. The continued failure of municipalities to report reliably on performance information was due to inadequate systems and processes to integrate reporting of performance information into the financial reporting process.

The provincial Cogta hosts a quarterly performance monitoring and evaluation forum to discuss issues relating to reporting on performance. We also attend this forum and have observed that municipal officials do not take the forum seriously and do not implement resolutions adopted or guidance given. Where municipalities fail to implement the resolutions, we recommend that the MEC responsible for cooperative governance engage with the leadership so that officials who are failing in their duties are held accountable and face consequences. We also recommend that the provincial Cogta assist the municipalities by developing standard key performance indicators to be included in the service delivery and budget implementation plan of all municipalities. Municipalities should further document standard operating procedures, which should detail the documents required for reporting and the process of filing for record keeping.

A lack of effective and efficient debt-collection processes was evident at 26 municipalities, where a high percentage of debtor balances (ratepayers and consumers of water and electricity) had to be impaired. A total of 22 municipalities faced challenges with timely debt collection, with the average collection period exceeding 90 days. Most municipalities appointed debt collectors on a contingent-fee basis to improve their cash-flow position. We also noted a concerning arrangement at Ba-Phalaborwa where a debt collector was appointed to recover current debt (30 days), which pointed to a lack of accountability by the leadership and the relevant municipal officials for the efficient use of consultants.

The inability of municipalities to effectively plan their IT function to enable other administrative functions to discharge their responsibilities contributed to a weak internal control environment. Shortcomings in the IT environment had a direct impact on the sustainability and improvement of audit outcomes and on the achievement of service delivery objectives. The chairperson of Salga in Limpopo has stressed the need for one transversal financial management system to be used at all municipalities in the province. The provincial treasury is looking into this initiative to determine its benefits and viability.

The level of assurance provided by key role players regressed, particularly at the levels of senior management and municipal manager. This was due to vacancies and the lack of ownership of the financial and performance reporting process, as evident in the high reliance placed on consultants to perform finance functions. This confirms our overall assessment that key internal controls remained weak and that the administrative leadership had not developed processes to strengthen them.

The assessment of the council and MPAC as second- and third-level assurance providers, respectively, remained a concern. This was because instances of unauthorised, irregular as well as fruitless and wasteful expenditure were not timeously investigated to determine whether any person was liable for the expenditure. In addition, findings raised by internal audit units and recommendations provided by audit committees were not taken seriously. For the councils to effectively discharge their oversight role, it is critical that they engage with audit committees on risks and internal controls.

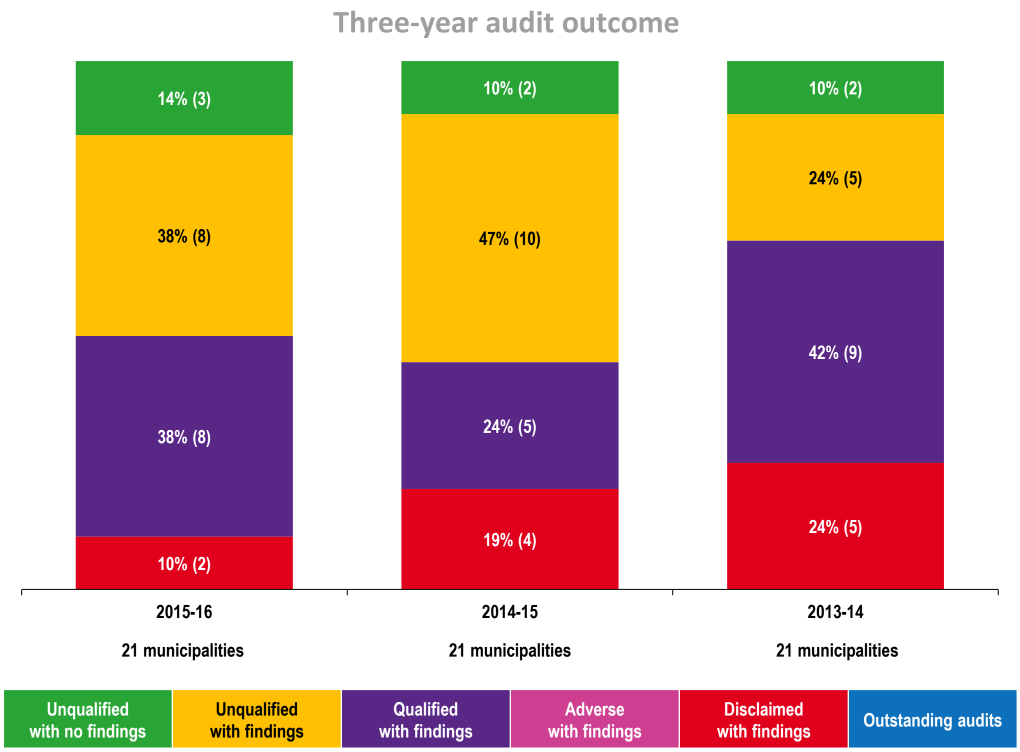
During the Limpopo local government summit in February 2017, the premier reiterated that persistent compliance findings and disclaimed audit opinions would not be tolerated. He made it very clear that not only would officials face consequences for disclaimed opinions, but that councils would also be held accountable. He also noted that vacant positions must be filled by people with skills and qualifications that were relevant to their positions. We will track the implementation of these commitments during the 2016-17 audit process to determine whether they have translated into tangible action, and report thereon.

The overall improvement in the audit outcomes is indeed encouraging but there are still significant deficiencies in the internal control environment, which should be given serious attention to bring about sustainable improvements. Once again, this was evident in the overall key control environment that had not improved in line with the improvement in audit outcomes. The municipal leadership needs to understand that the use of consultants will only be effective if a sound underlying control environment exists.

We commend those municipalities that have demonstrated the willingness, commitment and political will to improve their outcomes and financial administration. Fetakgomo is a point in case, as it has gradually improved from a disclaimer in 2013-14 to an unqualified opinion with findings in 2015-16. The political and administrative leadership was visibly involved throughout the audit process and during our in-year engagements. This proves that positive changes can be brought about if the tone at the top is governed by a culture of accountability and the political will to improve financial administration, which would ultimately benefit the citizens of Limpopo through improved service delivery.

The coordinating departments play a key role in ensuring that sound financial and performance management principles are implemented. Several commitments and resolutions were made at the provincial executive council lekgotla to eradicate maladministration and foster good governance. The premier further alluded to the importance of good governance and taking accountability in achieving clean audits. The success of the outcomes of these resolutions depends on effective and regular monitoring by these coordinating departments as well as the commitment of the municipal leadership. In this way, the level of governance and accountability required from local government in the province can be built.

12.6 Mpumalanga



Accountability is central to the attainment of clean administration. This involves defining and setting targets for achieving the strategic goals set in the integrated development plan, implementing basic internal controls with increased levels of supervision, adequate monitoring by all assurance providers, and instituting consequences for transgressions and a lack of action. The political leadership's acceptance of the responsibility to turn around the status quo at municipalities is central to the improvement of audit outcomes, which will in turn have a positive impact on the lives of citizens.

A strong and stable internal control environment provides a foundation for accountability, transparency and governance in the public sector. The administrative leadership had not prioritised the strengthening of internal controls at their institutions, but sought to implement short-term solutions to avoid qualified or disclaimed audit opinions. One such short-term measure was the appointment of consultants, the cost of which increased from R64,9 million in 2014-15 to R103 million in the current period. In addition, Salga and the National Treasury paid R18,4 million for consultants to assist with financial reporting.

This continued reliance on consultants, with little or no transfer of skills, remained one of the biggest challenges in the province. A total of 19 auditees (90%) used consultants to assist them in financial reporting, of which 52% still had poor audit outcomes due to significant weaknesses in internal control. While we acknowledge the need to appoint consultants to assist the public service, this must be needs-driven, with an emphasis on value for money, proper planning and monitoring, and the transfer of skills.

Further to over-reliance on consultants, seven of the 11 auditees that received unqualified audit outcomes made material amendments to their initially submitted financial statements as a result of errors identified during the audit process. This reliance on both consultants and the audit process to identify misstatements indicates that basic financial disciplines were not implemented throughout the year. The sustainability of the positive audit outcomes attained by these municipalities is therefore uncertain.

Basic financial management disciplines and observing controls, such as the prompt processing of transactions to ensure that accounting records are updated immediately, were still not in place at these auditees.
The weaknesses in internal control and poor financial management did not only affect the opinion on the financial statements, but also had an impact on the financial viability of these municipalities and resulted in an increase in unauthorised expenditure.

Poor revenue management by municipalities as well as a lack of implementation of controls to collect debts owed to them resulted in R6,9 billion (73% of the total debtors) being provided as doubtful debts during the 2015-16 financial period. This led to a delay in paying creditors (including Eskom), with an average creditor-payment period of 312 days, resulting in interest being charged. This was a major contributor to the fruitless and wasteful expenditure of R257 million (2014-15: R236 million). The lack of payments to Eskom does not only affect the finances of municipalities but ordinary citizens as well due to potential power outages by Eskom, thus affecting service delivery. This also puts further financial strain on municipalities, as evidenced by the increase in the net current liability position from R3,5 billion in 2014-15 to R4,4 billion in 2015-16.

The serious weaknesses in internal control and poor financial management were as a result of the slow response by management to implement sustainable long-term solutions aimed at strengthening the internal control environment. This was made worse by employees tasked to execute some of the measures to improve audit outcomes, lacking the required competencies to do so. The political leadership was also slow to ensure that consequences for poor performance and transgressions were instituted, thus creating an environment in which poor performance was seen to be tolerated. This was evidenced by the unauthorised expenditure and irregular expenditure that accumulated to a closing balance of over R4 billion each.

The effectiveness of the work performed by the assurance providers, such as internal audit units and audit committees, was hampered significantly by management's failure to implement their recommendations and resolutions. The role of councils also remained stagnant, as they did not insist on getting accurate financial and performance reports, which had a negative impact on the oversight responsibilities they needed to perform. In addition, MPAC resolutions were not tracked, monitored or implemented.

The implementation of the integrated municipal support plan developed by the provincial treasury, provincial Cogta, Salga and district municipalities was not monitored at the right level. The lack of coordination and concerted effort to implement the plan by these institutions made it difficult for the province to yield the desired outcomes of better financial management and service delivery.

The province's performance in 2015-16 can best be described as 'murky waters beginning to clear', as there was a net improvement in the audit outcomes. Steve Tshwete improved from unqualified with findings to unqualified with no findings, Bushbuckridge improved from qualified to unqualified with findings, Msukaligwa improved from disclaimed to qualified with findings, and Emakhazeni (which submitted financial statements late) was able to improve from disclaimed to qualified with findings. These improvements were negatively offset by the regression of Gert Sibande District and Chief Albert Luthuli from unqualified audit opinions with findings to qualified audit opinions.

The level of commitment, initiatives and investment poured by the province into the improvement of local government audit outcomes is not commensurate with the MFMA audit outcomes.

The continued weaknesses in the internal control environment of auditees resulted in the province struggling to improve its compliance with legislation for the past three years, most notably relating to the prevention of unauthorised, irregular as well as fruitless and wasteful expenditure and the poor quality of the financial statements submitted for auditing. This was further worsened by inadequate controls over the monitoring of compliance with legislation and a lack of timely and decisive action against transgressors.

Non-compliance with SCM legislation was the main cause of the escalating irregular expenditure, representing R2,263 billion (99%) of the total irregular expenditure of R2,279 billion in 2015-16. This was a significant increase from the R704 million reported in 2013-14. Mbombela and Bushbuckridge were the highest contributors in the province with irregular expenditure of R755 million and R570 million, respectively. The increase in irregular expenditure was mainly due to deviations from the normal procurement processes on the basis of emergencies and the multiple extension of contracts. In addition, there was an increasing trend in the number of contracts awarded through participating in contracts awarded by other municipalities (by using SCM regulation 32).

This was also now used for construction contracts that had not been the case in the past. As the principles in the regulation were incorrectly applied, it often led to irregular expenditure. The province's centralisation of the provision of water services to an implementing agent further contributed to the increased irregular expenditure in 2015-16, as the implementing agent did not follow a competitive bidding process in awarding the contracts on behalf of the municipalities concerned. These high levels of irregular expenditure indicated that disciplines to ensure that awards were made in a fair, equitable and transparent manner had not been institutionalised, which made the auditees susceptible to the risk of fraud.

The results on the reported performance information showed an improvement of 14% over the past three years, as 13 auditees (62%) reported findings in 2015-16 compared to 16 auditees (76%) in 2013-14. However, six auditees (29%) managed to avoid findings on their reported performance in 2015-16 because they corrected misstatements identified during the audit process. Auditees' inability to set quality indicators and to accurately report on their performance may have a negative impact on citizens' ability to accurately measure the performance of their municipalities and to hold their elected representatives accountable. Daily and monthly checks and balances, regular and accurate reporting as well as effective oversight and risk management are essential for improved performance reporting.

Despite this increase in transparency in reporting on performance information, the management of infrastructure projects such as water and road infrastructure remained a challenge in the province. A total of 18 municipalities are responsible for the delivery of water services in the province. At 12 auditees (67%), water infrastructure projects were not finalised on time, which resulted in the provision of water services being interrupted and the delivery of much-needed infrastructure to communities being delayed.

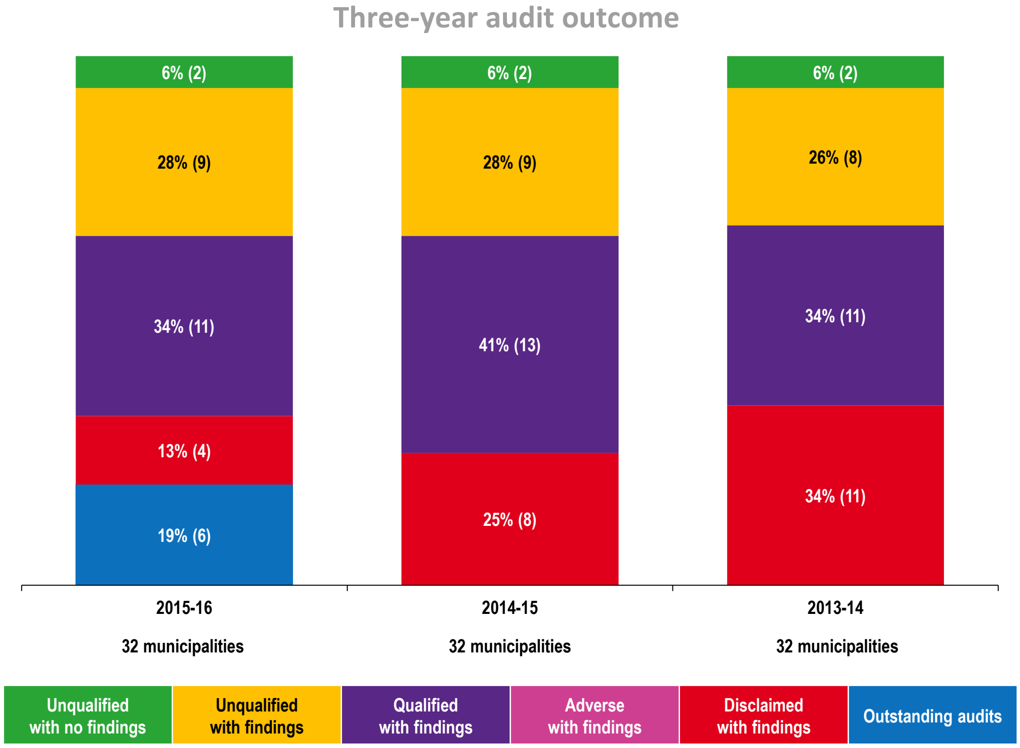
Furthermore, municipalities did not have proper plans to maintain the existing water infrastructure. Nine auditees (50%) did not perform conditional assessments, while eight (44%) did not have plans for the maintenance of infrastructure. This led to continuous pipe bursts and the interruption of basic services, which resulted in substantial water losses of R470 million (2014-15: R472 million). These losses added to the financial strain on municipalities.

It has been shown that those municipalities that progressed to, or maintained their previous, clean audits had adopted or gone back to the basics of clean governance. These include basic tasks such as the following:

- Political leadership and senior management that own the business of local government and are accountable for their actions and those of their subordinates.
- Leadership with clear responsibility and strategic direction for managing human resources, such as employing and retaining staff with the required level of technical competence and experience. Performance management is also cascaded to all employees of the institution.
- Leadership that institutes consequence management to address issues of non-compliance with key legislation and modifies compliance checklists based on past deficiencies.

By implementing these simple practical steps, substantially improved financial management and performance reporting in local government can be brought about. This is a goal within reach and a key ingredient in building trust in the credibility and accountability of local government and its capacity to deliver services to citizens.

12.7 Northern Cape



The overall audit outcomes of the Northern Cape stagnated over the past three years, with 11 municipalities achieving unmodified audit outcomes (unqualified with no findings and unqualified with findings) in 2015-16 compared to 10 in 2013-14. During the current year, two municipalities (Joe Morolong and Ubuntu) regressed from qualified audit opinions to disclaimed audit opinions. One municipality (Kgatelopele) managed to improve its audit outcome in the current year by moving from a disclaimed to a qualified audit opinion.

The areas in which municipalities struggled most over the past three years were to correctly measure and disclose property, infrastructure and equipment, receivables and revenue in the financial statements. The most common qualification area remained property, infrastructure and equipment, with 54% of municipalities being qualified in this regard (2014-15: 46%).

Most municipalities were still heavily reliant on the external auditors to identify misstatements in their financial statements, as only 23% (2014-15: 23%) were able to submit quality financial statements that did not require material adjustments. Most municipalities also remained heavily reliant on consultants although officials were available at these municipalities to perform the functions for which consultants were hired. The recurring appointment of consultants indicates that skills were not being transferred to the officials due to inadequate monitoring and/or the unwillingness of officials to acquire these skills.

The cost of using consultants for financial reporting (excluding consultants paid by other institutions) amounted to R38 million, compared to R42 million in 2014-15. Of concern is that we identified material misstatements at 75% of the 24 municipalities where consultants assisted with financial reporting (2014-15: 75%).

The timely submission of financial statements for auditing remained a concern, with 84% of municipalities submitting their financial statements on time compared to 88% in 2014-15. Oversight structures should intensify their efforts to monitor the municipalities that struggle every year to submit their financial statements on time.

The status of compliance with legislation remained of concern, with only 8% of municipalities avoiding findings on compliance (2014-15: 8%). This reconfirms that the area of compliance with legislation is not receiving the necessary attention from the municipal leadership. The most common compliance findings related to preventing unauthorised, irregular and fruitless and wasteful expenditure (88% of municipalities), managing procurement and contracts (85% of municipalities), and the quality of financial statements submitted for auditing (77% of municipalities).

The level of irregular expenditure, which had decreased since the previous year, amounted to R287 million (2014-15: R491 million). Of the R287 million, 97% resulted from instances of non-compliance with SCM legislation. The most common SCM findings related to uncompetitive or unfair procurement processes (88% of municipalities) and inadequate contract management (38% of municipalities).

The number of municipalities that incurred irregular expenditure remained high at 85% (2014-15: 85%). Eleven municipalities were still investigating the full extent of their irregular expenditure, confirming that the R287 million disclosed as irregular expenditure incurred in 2015-16 was understated. It is probable that a large portion of irregular expenditure may be disclosed in future years.

SCM findings, allegations of financial misconduct and unauthorised, irregular and fruitless and wasteful expenditure should all be investigated by the council and only written off after a proper investigation. During the current year, municipalities had to write off and condone irregular expenditure amounting to R609 million, but in no instance was any amount recovered from a liable person. The council should ensure that rigorous investigations are conducted and, where possible, steps are taken to recover losses.

The financial health of the province remained a concern, with a material uncertainty regarding the financial health of 50% of municipalities (2014-15: 54%). We favourably assessed only three municipalities (Frances Baard, Kareeberg and Sol Plaatje) on their financial health. We are concerned that 73% of municipalities were in a net current liability position at year-end, which meant that their total current liabilities exceeded their total current assets. Three municipalities were unable to meet their third-party obligations (such as to the South African Revenue Service, pension funds and medical aids) as they became due.

The year-end debtor balances of 92% of the municipalities included more than 10% of debt that should be considered irrecoverable. This is concerning considering that significant debtor balances had already been written off during the year. Poor debt collection from consumers places strain on municipalities' ability to pay creditors, as confirmed by the fact that 69% of municipalities had a creditor-payment period of more than 120 days. Consequently, municipalities run the risk of key suppliers discontinuing their services, which is likely to have a significant impact on service delivery going forward.

Predetermined objectives remained an area where progress was lacking, and 81% of municipalities (2014-15: 88%) were unable to produce performance reports that were useful and reliable – clearly indicating that this area was still not receiving the necessary attention.

It is concerning that 23% of municipalities (2014-15: 35%) did not submit performance reports in 2015-16. The main reason for the non-submission of performance reports was that at some municipalities there were no performance management systems in place or senior management lacked the skills and competencies to implement systems and to produce credible performance reports. At some municipalities, the focus was more on financial statements than on performance information, while officials were also not held accountable. The premier's office, provincial treasury, provincial Cogta and provincial legislature, as part of provincial oversight, need to consider rolling out training to reiterate the importance of performance information and to ensure that all municipalities understand the process to be followed when reporting on performance information. The internal auditors need to verify the accuracy of quarterly reports, while the state of record-keeping systems should be assessed.

We assessed the status of internal controls by considering the areas of leadership, financial and performance management, and governance. All three areas stagnated compared to the previous year and although new internal audit units and audit committees were established, only 31% of municipalities (2014-15: 27%) were assessed as having good governance controls.

Outcomes stagnated as the underlying internal control weaknesses had still not been addressed; the provincial leadership must pay attention to this.

The audit outcomes reflect the poor state of internal controls, with only 8% of municipalities (2014-15: 8%) being assessed as having good leadership controls, while only 12% (2014-15: 8%) were assessed as having good financial and performance management controls. The province will struggle to create stable and strong municipalities until senior management ensures that officials attain relevant skills and competencies to perform and produce work of the required quality. Senior managers must also ensure that the recommendations from audit committees, internal auditors and external auditors are taken seriously and given the necessary attention.

The assessment of vacancies in key positions (municipal manager, CFO and head of the SCM unit) showed regression over the past three years. The remoteness of most municipalities in the province remained a challenge and made it very difficult to attract skilled individuals to these municipalities in most instances. This meant that positions often remained vacant for a long period or were filled by a candidate with insufficient experience.

The majority of municipalities experienced challenges with the design of IT controls. These municipalities failed to design adequate controls to address the risks associated with IT security management, user access management and IT service continuity management. The regression can be attributed to a lack of accountability at various levels to ensure that the previous year's IT findings were resolved. Some municipalities had action plans in place to address the findings; however, due to inadequate oversight by CFOs and municipal managers, a lack of commitment from the IT unit as well as a shortage of skills and competence, also in the IT unit, no progress was made and no steps were taken to resolve these issues.

Sol Plaatje, being the only mSCOA pilot site in the province, made good progress in ensuring that the municipality would be in a better position to implement mSCOA by the due date of 1 July 2017. Although the municipality had implemented the new standard chart of accounts, we are concerned over the level of integration between asset management and financial systems. In addition to Sol Plaatje, 28% of the non-pilot municipalities were also assessed as making good progress, while 32% were assessed as making little progress.

A total of 40% of the non-pilot municipalities had made no progress towards mSCOA implementation. A lack of funds significantly contributed to these municipalities' inability to make progress, while mSCOA project governance policies, change communication plans, risk registers, data migration plans and data cleansing plans were not developed. The leadership at these municipalities, as well as the oversight structures, should become involved in this process to ensure that a plan is developed and implemented to enable municipalities to be ready to implement mSCOA on 1 July 2017.

As part of our audits, we performed procedures to evaluate the state of water management at municipalities. The number of findings that were raised is concerning. The following were the most common findings:

- No approved policy was in place to address routine maintenance of water infrastructure (71%).
- Backlogs in the provision of water services were not reported to the National Treasury in the section 71 reports (71%).
- No plan, with specific targets and time frames, was in place for the maintenance of water infrastructure (62%).

The key root causes that hindered progress were inadequate consequences for poor performance and transgressions (92%) (2014-15: 83%), a slow response by the political leadership (83%) (2014-15: 83%), and a slow response by management (79%) (2014-15: 71%).

The high occurrence of the root cause of inadequate consequences indicates that neither management nor staff are held accountable for non-performance. This brings into question the council's capacity to exercise oversight at the municipality. The slow response and inadequate attention (as a result of the upcoming election) by all relevant stakeholders highlighted above directly translated into inadequate assurance being provided at the expected levels.

These lower-than-expected levels of assurance, as well as management's slow response, are clearly evident where:

- municipal managers and senior managers are not holding their subordinates accountable for the quality of their work
- the recommendations of internal audit units and audit committees are not implemented, resulting in the external auditors raising the same findings highlighted by these governance structures
- due to a lack of capacity, the municipal councils and MPACs are not holding senior municipal officials accountable, resulting in a lack of consequences at most municipalities.

As recommended in previous years, district municipalities need to play a leading role in sharing their internal audit units and audit committees with local municipalities that do not have the means to establish their own.

During our meetings with oversight structures after the conclusion of the 2014-15 audit cycle, they committed to the following:

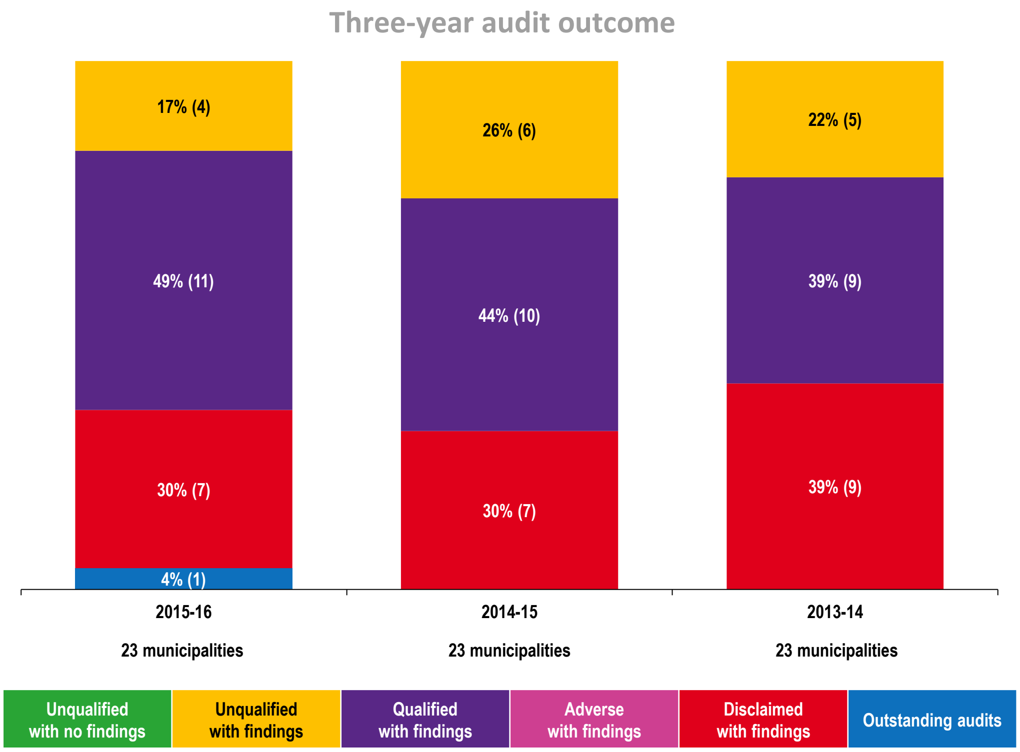
- Create capacity and an understanding of issues that the new councillors should be driving.
- Ensure that an action plan is in place to clear prior year findings.
- Promote a culture of accountability at municipalities.
- Increase the level of oversight at municipalities, focusing on SCM issues.

Limited progress was made with the implementation of the above commitments. If oversight structures want to have a meaningful impact on local government, they need to start tracking their commitments.

After the municipal elections in August 2016, new councils were formed and new mayors were elected. The challenge for the new political leadership would be to learn from their predecessors and lead the municipalities they are serving and the community they are representing to an improved state.

Mayors need to accept responsibility and be prepared to hold officials accountable for failing to improve audit outcomes and bettering the lives of citizens. This can only be achieved if mayors remain focused on achieving the goals they set for their municipalities, ensuring that accountability is clear to all levels of staff, and consequences follow if staff members do not perform as required.

12.8 North West



After the local government elections in August 2016, there was significant movement in the political leadership at the municipalities in the province, with new speakers at all municipalities except one, new mayors at 14 municipalities, and 61% newly elected councillors overall. During our interactions with the new leadership at councillor induction sessions and introductory meetings, the new councillors were eager to accept responsibility and to hold officials accountable. Increased accountability, specifically by those that manage resources intended for service delivery, will lead to improved controls and proper implementation and monitoring of municipal programmes intended to improve the lives of citizens.

The audit outcomes of municipalities regressed in 2015-16, with only four municipalities receiving unqualified audit opinions with findings. This was underpinned by the volatility in audit outcomes with five improvements offset by six regressions. The audit of Rustenburg had not been finalised by 15 January 2017, which was the cut-off date for inclusion in this report. The audit outcomes of the municipal entities in the province reflect a similar trend, with two remaining on unqualified with findings and one regressing to qualified with findings. The one outstanding audit and the three municipal entities are excluded from the further analysis in this section.

The fact that not a single municipality was able to achieve a clean audit outcome again highlights the lack of accountability by municipal management and other key role players in the province responsible for monitoring and assisting local government. The slow response by the political leadership to address the underlying root causes of continued poor audit outcomes will have to be countered with decisive action to hold officials accountable and implement consequence management for poor performance.

One of our key concerns is the poor quality of submitted financial statements. All municipalities continued to rely on consultants for financial reporting, including preparing financial statements at a cost of R126,9 million (2014-15: R130,9 million), yet all the financial statements submitted for auditing had material misstatements. Had the four unqualified municipalities not been given the opportunity to correct the misstatements identified by auditors during the audit process, none of the municipalities in the province would have obtained an unqualified opinion. Key controls that enable reliable and timeous financial reporting, such as proper record keeping, daily and monthly reconciliations and regular reporting, need to be institutionalised during the year without relying on the auditors to identify misstatements after year-end.

All municipalities again had material findings on compliance with key legislation. These include material misstatements in submitted financial statements, procurement and contract management findings, not preventing unauthorised, irregular and fruitless and wasteful expenditure, a lack of consequence management, and strategic and performance management findings. This is indicative of a leadership that lacks the political will to intervene and take decisive action against repeat offenders and transgressors.

A further R2,5 billion of irregular expenditure was incurred during 2015-16, which mostly related to SCM transgressions. This brings the total balance (excluding Rustenburg) of unresolved irregular expenditure as disclosed in the financial statements at 30 June 2016 to R7,4 billion. In addition, 15 of the 22 municipalities were qualified due to the irregular expenditure disclosed being either misstated or incomplete, while there was a further limitation of R283,8 million as contracts could not be provided for auditing. In terms of legislation, all irregular expenditure needs to be quantified and each transaction needs to be investigated. This did not happen, however, which reinforced a culture of non-compliance, transgression and no consequences, which in turn created an environment conducive to fraud and corruption.

Unauthorised expenditure of R2 billion was incurred in 2015-16, mainly as a result of overspending the approved budgets because of a general lack of understanding of the budget process and inadequate monitoring of spending. Furthermore, expenditure being incurred when it was known that the cash flow to fund this expenditure would not be collected from consumers, contributed to our assessment of 13 of 22 municipalities (59%) being in financial distress. At the end of June 2016, approximately R6,2 billion (84%) of the consumer debt of R7,4 billion due to municipalities in the province was expected to be irrecoverable. This could then result in municipalities not being able to pay their suppliers, including R874,9 million to Eskom and R923,5 million to bulk water providers.

Of the MIG allocation of R1,4 billion to municipalities, R146,4 million (11%) was not spent. Cash-flow constraints contributed to underspending, as in some cases the grant allocations were used to fund operational expenditure. Of the 60 key projects selected for auditing, most of the ones related to water, sanitation and road projects were behind schedule or completed late and therefore did not achieve the planned targets. We also raised SCM findings in the awarding of the contracts for the majority of these projects. Furthermore, most municipalities did not have approved policies for the maintenance of water, sanitation and road infrastructure and also did not perform conditional assessments of these infrastructure assets to inform the repair and maintenance budgets. As a result, dilapidated infrastructure due to a lack of maintenance was the main cause of pollution to the environment and resulted in water and electricity distribution losses in excess of R295,3 million and R542,3 million, respectively.

Only one municipality (5%) reliably reported on its performance against predetermined objectives. Another four municipalities were allowed to make material adjustments to their performance reports to achieve this. Most municipalities were unable to provide support for their reported results, due to poor record management and a lack of institutionalised controls to timeously and reliably report on their performance. Management should ensure that internal control weaknesses in financial and performance reporting are properly addressed in action plans, which should in turn be timeously monitored for compliance.

There was little improvement in the IT control environment of municipalities; and they need to attend to the IT control weaknesses as a matter of urgency. These weaknesses not only increase the risk of fraud, but also increase the risk of consumer accounts and IT systems being manipulated through unauthorised access as well as undermine the business continuity of municipalities. Concerns were raised at most municipalities regarding the readiness to implement mSCOA and SCM reforms of the National Treasury, including the use of the centralised supplier database and the eTender portal.

Municipal managers, CFOs and senior management were not always able to focus on their core responsibilities, as the environment in which they work made it easy for these individuals to be discouraged. Leadership attention was also focused on the upcoming election instead of driving improvements in the control environment. The culture of low performance and non-compliance together with the lack of effective political leadership and oversight should be turned around so that officials feel motivated to do their jobs well and take accountability for their performance. This will only happen if consequence management is implemented against non-performing officials at all levels and when the tone at the top encourages accountability. Where vacant positions were filled, some of the incumbents did not meet the required minimum competency levels or were not adequately supported by appropriately resourced and skilled units. This means that the province needs to invest in building and retaining capacity over the long term.

The high levels of instability and vacancies at the key levels of municipal manager and senior management resulted in inadequate assurance being provided by this first level of assurance providers to enable credible and reliable financial and performance reporting. This then directly contributed to the insufficient assurance provided by internal audit units and audit committees, whose recommendations were in most cases not implemented by management. The provincial coordinating departments also did not have the desired impact in assisting municipalities to address the root causes of poor audit outcomes, ensure that vacancies in key positions were addressed, make sure that consequence management was implemented, or otherwise intervene when it was necessary to do so.

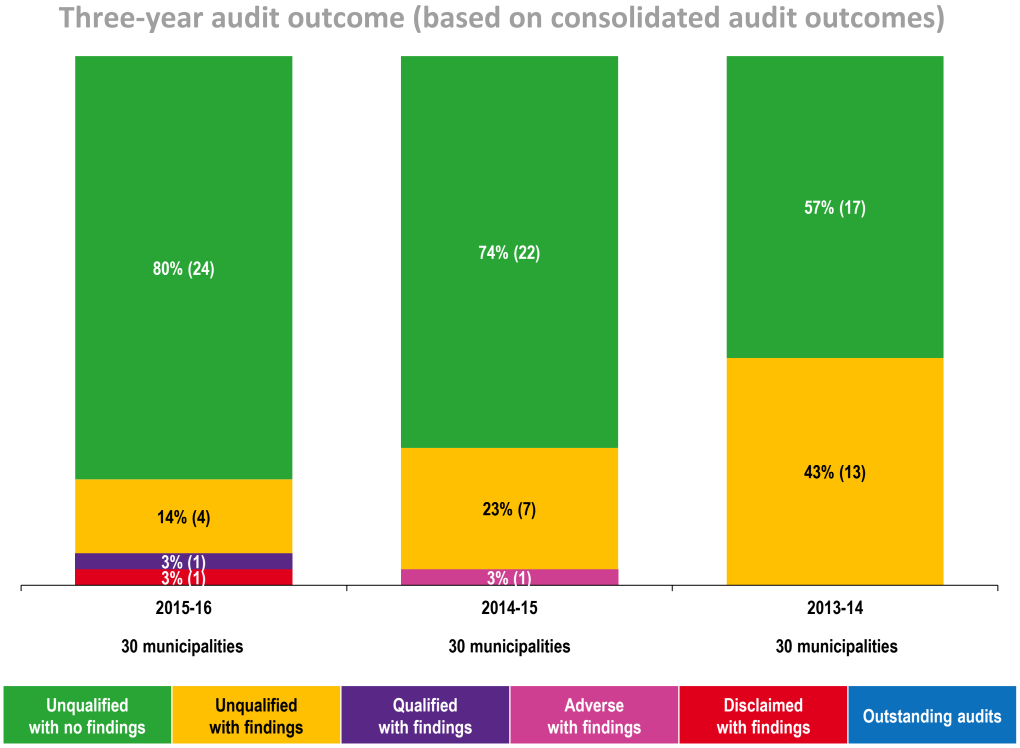
A few individuals with personal commitment to perform well in their jobs were able to exercise good practices, such as investigating and clearing irregular expenditure as well as improving the audit outcomes. However, if these good practices are not institutionalised, it is easy for audit outcomes to regress when these individuals leave.

Consequence management, accountability and action by the leadership in addressing root causes are the key cornerstones to improve audit outcomes.

The newly elected mayors and councillors, together with the provincial executive leadership, can step up and take accountability by understanding the root causes of poor audit outcomes and implementing the key controls required to improve these outcomes. To achieve this, we recommended that a provincial turnaround strategy be developed. The premier committed during our roadshow in March 2017 to develop a 10-point plan to address the identified root causes and key control weaknesses. This plan will also include mechanisms on consequence management, a fraud hotline, and policies on investigations and disciplinary procedures.

We will continue to engage with management and the political leadership to make recommendations for improvement and track the progress of commitments made.

12.9 Western Cape



After the local government elections in August 2016, there was significant movement in the political leadership at the municipalities in the province, with new speakers at 25 municipalities, new mayors at 22 municipalities, and 55% newly elected councillors overall. Our interactions with the new leadership at councillor induction sessions and introductory meetings indicated that they were eager to accept responsibility and drive accountability.

The progress towards clean audits had slowed down when compared to the previous year and had improved when compared to 2013-14. This was due to leadership focus being on the upcoming election and not driving the improvement plans as strongly as before. Of significant concern is the regression of Kannaland, which received a disclaimer in the current year compared to a financially unqualified opinion with findings in 2014-15. On a positive note, those municipalities that achieved a clean audit outcome in the previous year maintained the same outcome for 2015-16. Bergrivier improved from financially unqualified with findings to a clean audit outcome, while Oudtshoorn improved from an adverse opinion to a financially qualified opinion with findings. Central Karoo District's consolidated outcome improved to clean, but the individual municipality's audit outcome remained unchanged on financially unqualified with findings.

The quality of submitted financial statements improved considerably, with only five sets (17%) of financial statements requiring material adjustments compared to seven (23%) in 2014-15, as a result of continuous effort to improve the control environment.

Non-compliance with the MFMA and in particular SCM regulations continued to be one of the main obstacles to increasing the number of clean audits in the province. Six auditees (20%) had material findings on compliance with procurement processes, compared to five (17%) in 2014-15. It is concerning that the Central Karoo district continued to be plagued by material findings on compliance with SCM regulations, with three of the five municipalities in the district attracting such findings. The district municipality itself regressed, with seven material findings relating to procurement compared to none in 2014-15. Notable, however, was that Prince Albert improved significantly by reducing the eight material compliance findings they received in 2014-15 to only one, namely in the area of the prevention of irregular expenditure. This was as a result of the diligent implementation and monitoring of their action plan to address prior year matters.

A lack of understanding of SCM prescripts, vacancies, instability and a lack of SCM processes and procedures contributed to non-compliance with procurement processes. The incorrect application of SCM regulation 36 relating to deviations was one of the most common findings. SCM officials require further training, while consequence management must be implemented in instances of non-compliance with legislation.

Irregular expenditure decreased from R344 million in 2014-15 to R210 million in 2015-16. A total of 55% of this expenditure was identified by auditors in 2015-16 compared to 54% in 2014-15. Overall, allegations of misconduct and unauthorised, irregular and fruitless and wasteful expenditure were investigated by the council and related expenditure or losses were recovered or written off as irrecoverable if no one was found to be liable. At four municipalities (13%), investigations were not performed to determine whether any person was liable for the expenditure. At one municipality, irregular expenditure was not properly investigated.

On the issue of financial health, we also draw attention to the importance of casting an eye on the issues that could cause financial pressure, especially when it comes to the management of working capital at municipalities.

The status of financial health at five municipalities (17%) remained a concern. This was due to difficulty in collecting debt from consumers as well as weak financial management, especially at municipalities within the Central Karoo district and the inland municipalities in the Eden district. These districts have a much poorer economic outlook when compared to the rest of the province. Plans that are currently in place at these municipalities include filling key vacancies within the finance unit, which will result in better financial management, as well as the implementation of financial management plans (also relating to debt collection), which are supported by the provincial treasury and local government, with the aim of improving cash-flow management.

The quality of submitted performance information remained a concern, as 19 (63%) of the municipalities relied on the audit process to identify adjustments needed to the performance report, compared to 14 (47%) in 2014-15. The usefulness of performance information is now at a mature level, as municipalities have in the main ensured that their planning documents meet the SMART criteria (in other words, indicators are specific, measurable, achievable, relevant and time bound) and processes are in place to report on actual achievements. Oudtshoorn did not submit performance information for auditing, while Kannaland was the only municipality that still had audit report findings on usefulness and reliability.

Of concern is that six municipalities (20%) did not have approved policies for the maintenance of water infrastructure. Seven municipalities (23%) did not have a plan with specific time frames and targets for the maintenance of water infrastructure. The lack of policies and plans for the maintenance of water infrastructure could have a negative impact on the reliability and sustainability of future water services. Water and sanitation projects at Kannaland did not address the cause of backlogs. Furthermore, the budget allocated to water and sanitation infrastructure projects was underspent by 45% and 76%, respectively. Three municipalities (10%) reported water losses above the acceptable norm of 30%.

Municipalities continued to rely on consultants for financial and performance reporting. The number of municipalities using consultants for performance information decreased from 15 in 2014-15 to 12 in 2015-16. There was no change in the number of municipalities using consultants for financial reporting, which can be attributed to the vacancies at municipalities and the extent to which municipalities continued to rely on the skills of consultants. We identified areas for improvement in the appointment and management of consultants at nine (35%) of the 26 municipalities that used consultants. Some of the more common issues included the absence of a strategy or policy for the use of consultants (27%), a lack of measures to monitor contract performance and failure to define and/or implement delivery (23%), and failure to implement measures to monitor the transfer of skills according to the contract (19%). The total amount spent on consultants decreased by R3,8 million to R42,2 million in 2015-16.

The status of key controls remained mostly unchanged, which is consistent with the audit outcomes. There was a slight deterioration in the assessment of controls in the areas of leadership and of financial and performance management, which was largely driven by the regression of Kannaland, as well as an increase in the number of municipalities that required material adjustments to their performance reports to prevent material findings relating to performance information.

Of concern is the regression in the assurance provided by municipal managers and senior management overall, while the audit outcomes remained largely unchanged. The senior management at various auditees with clean audits was rated as ‘provides some assurance’ due to the following:

- Material corrections to performance reports to avoid material findings on performance information in the audit report.
- Compliance findings reported in the management report. Although these findings were not material in 2015-16, it is possible that material findings on compliance may be raised in future years if the underlying issues are not appropriately addressed by senior management.

If appropriate actions are not taken by senior management to remedy the situation, those municipalities could regress in future years.

The overall assessment of the IT control environment improved, with certain municipalities maintaining their status of no IT audit findings in the general control environment of the prior year. A few municipalities still experienced challenges in implementing IT controls, with significant IT risks identified in the areas of user access management, security management and IT service continuity management. This was as a result of the lack of skilled IT resources at these municipalities and limited financial resources available for strategic IT initiatives. We performed a high-level checklist exercise on the mSCOA readiness of municipalities in the province, looking at aspects such as governance structures, project planning, change management, data migration plans and risk management. Overall, 23 municipalities (77%) made good progress in getting ready for mSCOA implementation, four municipalities (13%) had some gaps which caused concern, while three municipalities (10%) had made little progress.

In line with the prior year commitments, the premier continued to use the premier’s coordinating forum to coordinate and monitor provincial oversight as well as her interactions with MECs on a monthly basis to determine what progress had been made towards clean administration.

The provincial executive renewed its commitment to ensure that operation clean audit, coordinated by the ministries of provincial treasury and local government (Troika), remained a standing agenda item of the premier’s coordinating forum for monitoring and evaluating municipalities’ key controls and commitments, and sharing best practices to achieve sustainable clean audit outcomes.

In addition to the above commitments, the premier and all role players again pledged their support for the municipal governance review and outlook process, which will address the remaining shortcomings in the province. These processes will be followed through at the premier’s coordinating forum. The premier and the provincial executive, together with the coordinating ministries of provincial treasury and local government, also undertook to focus intensively on Central Karoo District, which continued to display significant weaknesses in basic financial and performance management controls and disciplines, including a lack of proper record keeping, daily processing of transactions, reconciliations as well as effective review and monitoring of compliance.

While we are satisfied with the improvement in the oversight demonstrated by councils at an overall level, we remain concerned about the need for continued improvement and the sustainability of oversight. Of particular concern is our assessment at four municipalities (13%) where the municipal councils provided limited/no assurance. In all instances we encourage councils to periodically review progress made by municipal management in addressing external audit findings and to take timeous action in instances of identified weaknesses or failure by management and staff to perform their statutory duties.

The audit outcomes that had not progressed to clean are a reflection of the root causes below that were common at these auditees. These require attention from all role players to improve the audit outcomes:

- A slower-than-expected response by management (weak operational plans) to implement commitments and action plans relating to the quality of financial statements, performance information and compliance at four auditees (13%).
- Key officials lacking competencies and/or instability at four municipalities (13%).
- Lack of consequences at two municipalities (7%), which remained unchanged from 2014-15.

Going forward, the following are recommended:

- Develop detailed action plans to address the recurring findings relating to the financial statements, performance reports and compliance with key legislation (including SCM).
- Establish or enhance the function to monitor and review action plans, with appropriate consequence management for non-adherence.
- Focus on upskilling staff to ensure that basic daily and monthly financial, performance and compliance disciplines are implemented to ensure proper record keeping, timely processing of transactions, reconciling of transactions, and regular monitoring of compliance.

Accountability can be seen as the core principle where municipalities are answerable to the public and accept responsibility for their actions, decisions and policies, which can be closely linked to good governance. Governance is the establishment of policies and the continuous monitoring of their proper implementation. It includes the mechanisms required to balance powers and a primary duty of enhancing the prosperity and viability of the organisation.

In the Western Cape, many municipalities have demonstrated accountability and good governance, which has led to an overall outcome of clean audits for the majority of municipalities. A further indication of accountability is the implementation of consequences for transgressions. Many municipalities have instituted disciplinary action, resulting in the dismissal of employees and recovery of losses, thereby setting the tone from the top that action will be taken where transgressions occur.

All municipalities should keep striving to improve accountability, good governance and consequence management to attain or maintain clean administration.

NOTES