

5 Status of performance management

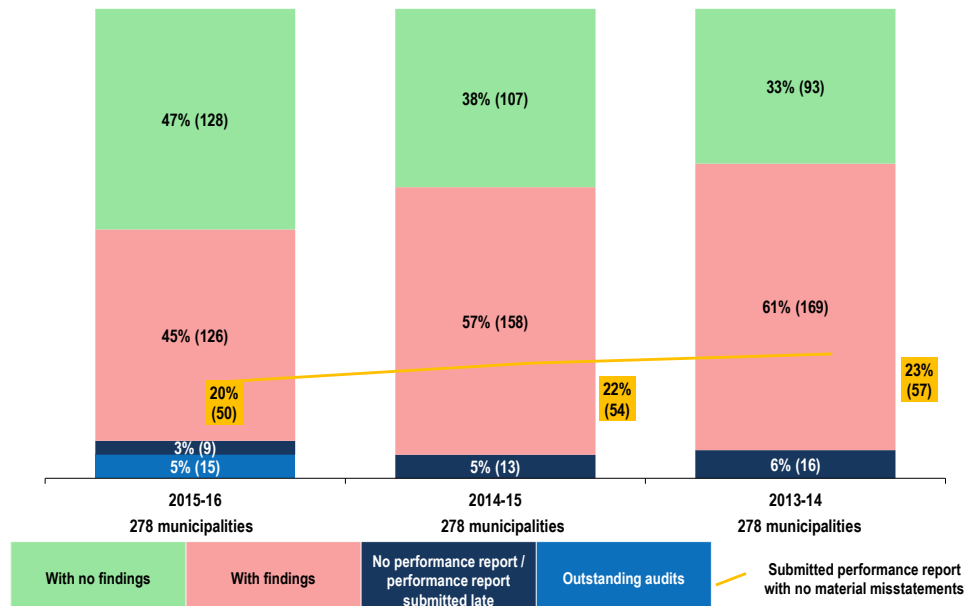
5. Status of performance management

The result of poor internal controls on performance management is reflected and demonstrated in this section.

5.1 Performance reports

Figure 1 provides an overview of audit outcomes on the performance reports, the performance reports submitted with no material misstatements (orange line), and the municipalities that did not submit performance reports or submitted them late over a period of three years.

Figure 1: Findings on performance reports and the quality and timeliness of submission for auditing



As depicted in figure 1, there had been a significant increase in the number of municipalities with **no material findings** on the quality of their performance reports since 2014-15. The main improvements during 2015-16 occurred in the Free State and Gauteng, while Mpumalanga slightly regressed.

Overall, 94 municipalities (36%) had **no material findings in the current and previous year**, which means that the controls and processes required to produce credible performance reports were in place to sustain the quality of performance reports. There had been a slight improvement in the **submission of performance reports** since 2014-15 when 5% of municipalities had either not prepared performance reports or not submitted them on time for the audit. The improvement was more noticeable in the Northern Cape over the two-year period.

The province still remained the highest contributor in this regard, with 23% of their municipalities not preparing performance reports due to performance management systems not being in place and a lack of skills and competencies at senior management level to implement systems and to produce credible performance reports. Some municipalities also focused more on the reporting of financial statements than on the reporting of performance information.



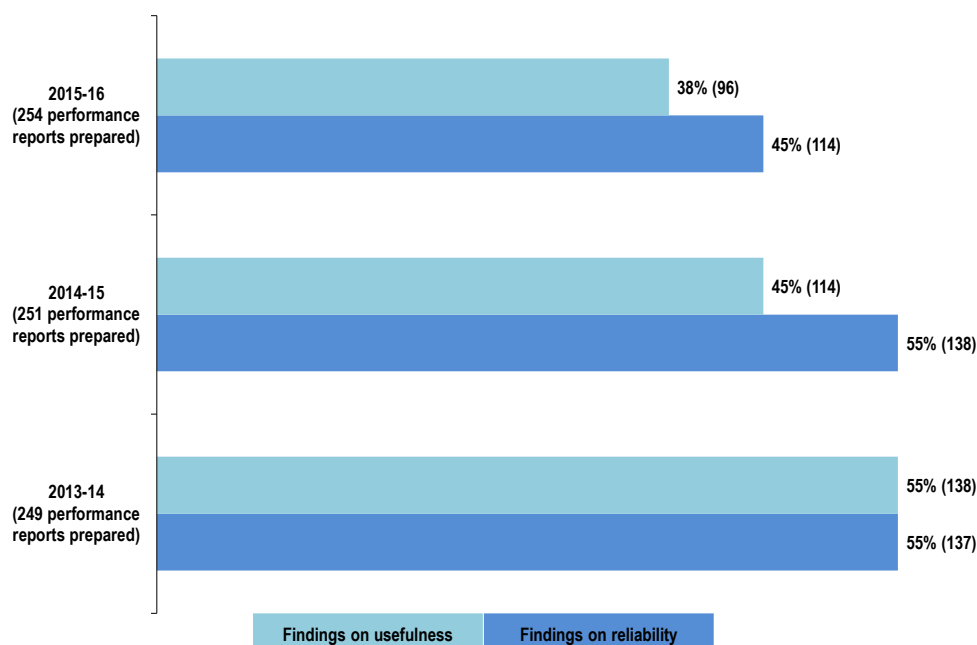
Examples of municipalities that did not prepare performance reports or did not submit them on time included the following:

- Eastern Cape (two): Tsolwana did not prepare a report this year, while Ikwezi failed to prepare a report in the current and previous year.
- Northern Cape (six): Hantam did not prepare a report this year, while Khai-Ma, Mier, Richtersveld, Thembelihle and Ubuntu failed to prepare a report in the current and previous year.
- Western Cape (one): Oudtshoorn failed to prepare a report in the current and previous year.

Figure 1 also shows a slight reduction since the previous year in the number of municipalities that submitted **performance reports that contained no material misstatements**. In total, 78 municipalities (31%) had no material findings on the quality of their performance reports in their 2015-16 audit report only because they **corrected all the misstatements** we had identified during the audit.

Figure 2 reflects the findings on the **usefulness and reliability of performance reports** over the three-year period for municipalities that had prepared and timeously submitted performance reports.

Figure 2: Findings on the performance reports prepared



As can be seen in figure 2, there had been an improvement in the **usefulness** of the information in the performance reports since 2014-15. The number of municipalities with findings on usefulness decreased by 7% from 114 to 96.

The most common findings on usefulness in 2015-16 were that municipalities reported on indicators that were not well defined (22%) or verifiable (19%); reported information was not consistent with the objectives, measures and/or targets (24%); and targets were not measurable (16%) or specific enough (15%) to ensure that the required performance could be measured and reported in a useful manner.

The usefulness of the reported information continued to improve, as municipalities corrected their performance indicators and targets as part of the annual planning and budget processes based on our recommendations and their increased understanding of the application of the requirements for performance planning.

Figure 2 also shows that there was an improvement in the **reliability** of performance reports in 2015-16. The processes and controls required to produce reliable information on performance had shown some improvement over the period.

Quality financial statements are an important accountability mechanism, as they enable oversight structures to assess the financial performance and position of a municipality. In the public sector, however, the focus of oversight is also on whether the municipality used its money and resources to deliver on its service delivery objectives and mandate. Performance reports that do not include useful information or that are unreliable hamper the ability of oversight structures to assess the performance of the municipality and call them to account. It also weakens decision-making at different levels, including the decisions made by the management of municipalities.

Performance planning, management and reporting are improving slightly every year, but overall the progress is too slow. This could affect the ability of communities to hold municipalities accountable and makes it difficult for provincial and national government to track progress towards the service delivery goals in the MTSF and the National Development Plan.

Municipal legislation defines a need for **community involvement in the development and review of municipalities' integrated development plans**. An integrated development plan is a five-year plan that municipalities must compile to determine their development needs. It guides and informs all planning, budgeting, management and decision-making in a municipality. In accordance with legislation, municipalities should have a new integrated development plan in place within the prescribed time frame. In the past two years, 25 municipalities (10%) either did not consult with the local community in reviews of these plans or did not grant the local community the prescribed period to comment on the reviews. We call on municipalities to ensure that there is public participation in the development of integrated development plans, to take into account the needs of local residents and enhance local government's transparency and accountability towards them.

5.2 Provision of water and sanitation

The **provision of water and sanitation** to all citizens is a right enshrined in our country's constitution and a key government priority. This has received even more attention with the adoption of the sustainable development goals whereby all citizens should have access to water and sanitation by 2030. Historically, the country has had backlogs in providing access to water and sanitation, but the situation has significantly improved since 1994. According to the *General household survey, 2015* published by Statistics South Africa, 89% of households had off-site or on-site access to pipe or tap water in their dwellings, and 80% to sanitation facilities. Inequalities continue to persist, however, with residents in the Eastern Cape, KwaZulu-Natal and Limpopo most at a disadvantage.

The main role players in addressing the remaining backlog are the Department of Water and Sanitation (DWS) that is the custodian of dams and rivers as well as bulk infrastructure, the water boards that purify and distribute water, and the municipalities as the water service authorities.

There are 152 municipalities that are water service authorities. They are responsible for the distribution of water as well as for infrastructure development and maintenance, mostly funded by the MIG managed by the DCoG and grants from the DWS.

We tabled a stand-alone **performance audit report** in November 2016 on water infrastructure, which reported on the planning, management and implementation of 14 water infrastructure projects across six provinces. It was the result of a detailed audit of these projects, which highlighted weaknesses in areas of leadership and oversight, funding, project management, and intergovernmental coordination.

The reporting in this section focuses specifically on the responsibilities of municipalities with regard to the provision of water and sanitation. Different projects than those in our performance audit were included in our 2015-16 audits.

We audited the following at 151 municipalities that were responsible for the provision of water and/or sanitation services:

- Performance planning for, and reporting on, the provision of water and services
- The management of water and sanitation infrastructure projects
- The maintenance of water infrastructure and the extent of water losses

Performance planning and reporting

To ensure the proper implementation of government priorities for water and sanitation, each municipality responsible for the provisioning thereof must **plan, manage, monitor and report on their water and sanitation indicators and targets**.

In accordance with the Municipal Planning and Performance Management Regulations, municipalities should at least report on the percentage of households with access to a basic level of water and/or sanitation.

Our findings in this regard are the following:

- A total of 23 (15%) of the municipalities **did not include indicators and targets** for the provision of water and/or sanitation services in their integrated development plans or service delivery and budget implementation plans, and also did not report on it in their annual reports. These municipalities included 13 from the Northern Cape, which represented 62% of the water service providers in the province. The municipalities in the Northern Cape also did not report on a quarterly basis to the National Treasury on the progress they were making in addressing the water backlogs. The main reasons for these shortcomings were that six municipalities in the province did not submit their performance reports. Some municipalities did also not understand the legislation that guides the performance report in relation to how information should be collated, the method of collating, and how the information should be presented and disclosed.
- The information reported by 17 (11%) of the municipalities on the provision of the service **was not useful**, as it was not always consistent with what was planned; indicators were not well defined or verifiable; and/or targets were not specific, measurable or time bound.
- Eight municipalities **did not report** on the achievement of all the targets and indicators in their plans.
- The reported achievement of targets for the provision of water and/or sanitation was **not reliable** at 22 (15%) of the municipalities.
- Of the 129 municipalities that reported in a reliable manner on the provisioning of water and/or sanitation services, 119 (92%) **achieved their planned targets**.

Most municipalities responsible for water and sanitation are planning to provide the services, are reporting in a useful and reliable manner, and achieve their targets.

Water and sanitation infrastructure projects

The DWS made the eradication of basic water backlogs a national priority. The reason for the backlog is inadequate and aging infrastructure. The DCoG and the DWS made money available to fund infrastructure-related projects to address this backlog.

For audit purposes, we selected key basic water backlog projects in all nine provinces. We found that most grant funding for infrastructure projects was **used for its intended purpose**, with the exception of six municipalities.



The following are examples where grant funding was not used for its intended purpose:

- Thaba Chweu (Mpumalanga): The total amount of R16 million in funding received for water infrastructure projects was instead used for road projects.
- Zululand District (KwaZulu-Natal): Only 21% of the intended funding for water infrastructure was utilised.
- Alfred Nzo District (Eastern Cape): A total of R46 917 407 (50%) of the R93 289 899 in funding received for sanitation infrastructure projects was instead used for water projects, resulting in an underspending on sanitation.

The **grant funding** was fully utilised at 118 (78%) of the municipalities. In total, 19% underspent grants by more than 10%, of which six municipalities did not utilise their grant funding at all.



An example of such a municipality is Mafube in the Free State – the funding was used to finance operating expenditure, which resulted in the intended project being significantly delayed.

Table 1 shows our key findings from the audit of water infrastructure projects (at 148 municipalities), while table 2 shows our key findings on sanitation infrastructure projects (at 150 municipalities). The tables show the number and percentage of municipalities in a province with findings as well as further relevant information.

Table 1: Key findings on water infrastructure projects

Province	Water infrastructure projects					
	Total municipalities audited	Municipalities where projects exceeded planned completion date		Municipalities where projects had significant findings on SCM		Municipalities where projects did not address the cause of the backlog reported
		Number of municipalities	Average number of days exceeded	Number of municipalities	Number of projects	
Eastern Cape	15	9 (60%)	147	7 (47%)	17	4 (27%)
Free State	16	3 (19%)	189	4 (25%)	7	5 (31%)
Gauteng	10	1 (10%)	378	1 (10%)	1	
KwaZulu-Natal	15	2 (13%)	81	3 (20%)	5	2 (13%)
Limpopo	9	3 (33%)	187	1 (11%)	17	4 (44%)
Mpumalanga	18	12 (67%)	127	8 (44%)	14	2 (11%)
Northern Cape	21	4 (19%)	62	3 (14%)	5	4 (19%)
North West	19	6 (32%)	77	5 (26%)	9	8 (42%)
Western Cape	25	1 (4%)	118			1 (4%)
Total	148	41 (28%)	130	32 (22%)	75	30 (20%)

Table 2: Key findings on sanitation infrastructure projects

Province	Sanitation infrastructure projects					
	Total municipalities audited	Municipalities where projects exceeded planned completion date		Municipalities where projects had significant findings on SCM		Municipalities where projects did not address the cause of the backlog reported
		Number of municipalities	Average number of days exceeded	Number of municipalities	Number of projects	
Eastern Cape	14	8 (57%)	146	5 (36%)	9	5 (36%)
Free State	16	4 (25%)	428	4 (25%)	5	3 (19%)
Gauteng	10	1 (10%)	179	1 (10%)	1	
KwaZulu-Natal	16			2 (13%)	4	1 (6%)
Limpopo	9	2 (22%)	289	1 (11%)	12	4 (44%)
Mpumalanga	18	9 (50%)	157	5 (28%)	7	4 (22%)
Northern Cape	21			3 (14%)	2	2 (10%)
North West	19	6 (32%)	95	7 (37%)	11	7 (37%)
Western Cape	27	4 (15%)	155			1 (4%)
Total	150	37 (25%)	169	28 (19%)	51	27 (18%)



Below are some examples of the infrastructure projects where we had found weaknesses.

Projects exceeded planned completion date and did not address backlogs

- Alfred Nzo District (Eastern Cape) – Ntabankulu wastewater treatment works (R39,6 million)

The project was 17 months behind the original completion date. An extension of 194 days was recorded as having been granted, but no evidence to this effect could be provided. This moved the completion date to 3 January 2016. The construction of the multimillion rand project commenced without the availability of a water source, which meant that the project did not address the root cause of the sanitation backlog at the municipality. It further implies that this project would not be operational on completion, possibly resulting in fruitless and wasteful expenditure and the non-delivery of the promised services.

Projects over budget or with significant findings on supply chain management

- Bushbuckridge (Mpumalanga)

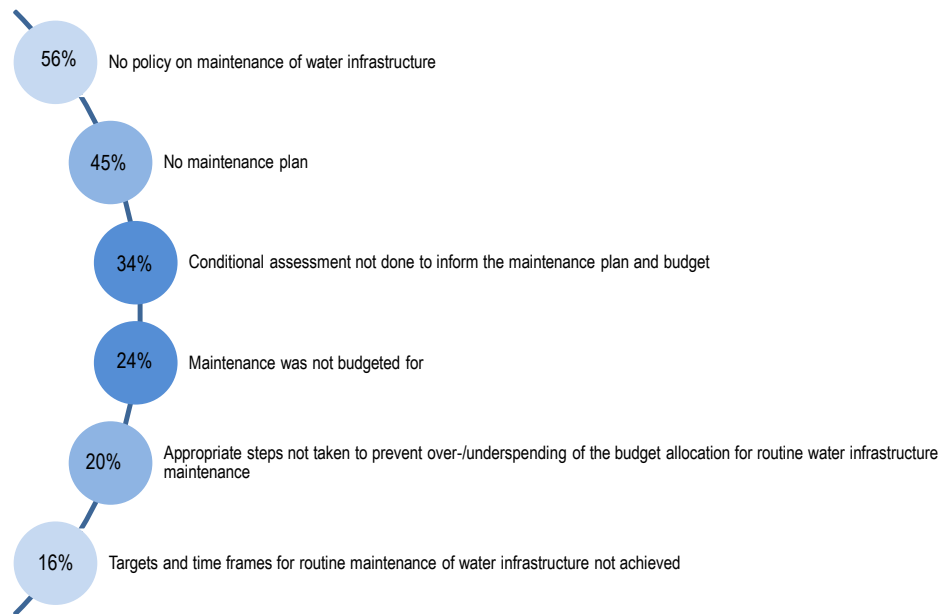
Two contractors were unfairly awarded a tender for the provision of water supply infrastructure and borehole maintenance (turnkey projects), as they did not have the experience to do the project: they were consultants who would then have to appoint suppliers to do the work on their behalf. This largely contributed to the high irregular expenditure of R569 504 824 incurred by the municipality.

Section 4.2.1 provides further details on the most common SCM findings.

Maintenance of water infrastructure and extent of water losses

Maintenance is necessary to allow water infrastructure to be used over its full lifespan and to prevent water losses and poor quality of water. Figure 1 shows our key findings on the maintenance of water infrastructure at the 148 municipalities where we audited this.

Figure 1: Findings on maintenance of water infrastructure



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Over half of the municipalities did not have basic policies and plans to ensure that maintenance took place. Even more concerning is that just over a third did not assess the condition of their infrastructure to determine when and where maintenance was required. Maintaining water infrastructure comes at a cost and the lack of budgeting for this at 24% of the municipalities is another indication that the maintenance of water infrastructure is being neglected. The municipalities in the Free State, the Northern Cape and North West had the most findings on infrastructure maintenance.



The following are examples of the result of poor maintenance:

- Kamiesberg (Northern Cape) – Garies bulk water infrastructure project

The municipality did not have an approved policy that addressed the routine maintenance of water infrastructure, nor did they plan for the maintenance of water infrastructure by setting specific time frames and targets in this regard. The project began in 2016 to eradicate the use of septic tanks and ventilated pit latrines within the small towns around Garies. The servicing of septic tanks became increasingly demanding, particularly during the peak holiday season when the current septic tank system had to be emptied more frequently. This affected progress with no completion in sight.

- Mafube (Free State) – Qalabotjha wastewater treatment plant

An amount of R35 845 709 had originally been budgeted for this project in 2012-13. The aim of the project was to alleviate the dire sanitation situation in Qalabotjha and Villiers and to assist in the eradication of 1 261 bucket toilets. This project has been delayed significantly, with the estimated cost escalating to R65 million. The contractor did poor quality work, as observed during our site inspection (e.g. steel structures and the steel ring reinforcement were exposed and showed signs of corrosion). The municipality did also not perform proper feasibility studies and costing for the project. The following photos illustrate the absence of maintenance on the project.



- Ngwathe (Free State) – Phiritona sport complex

The condition of the complex facility had not been maintained, as was evident during our site inspection. The complex had been completed more than a year ago at an approximate cost of R3,3 million, but had not been brought into use yet.

- Mahikeng (North West) – wastewater treatment plant

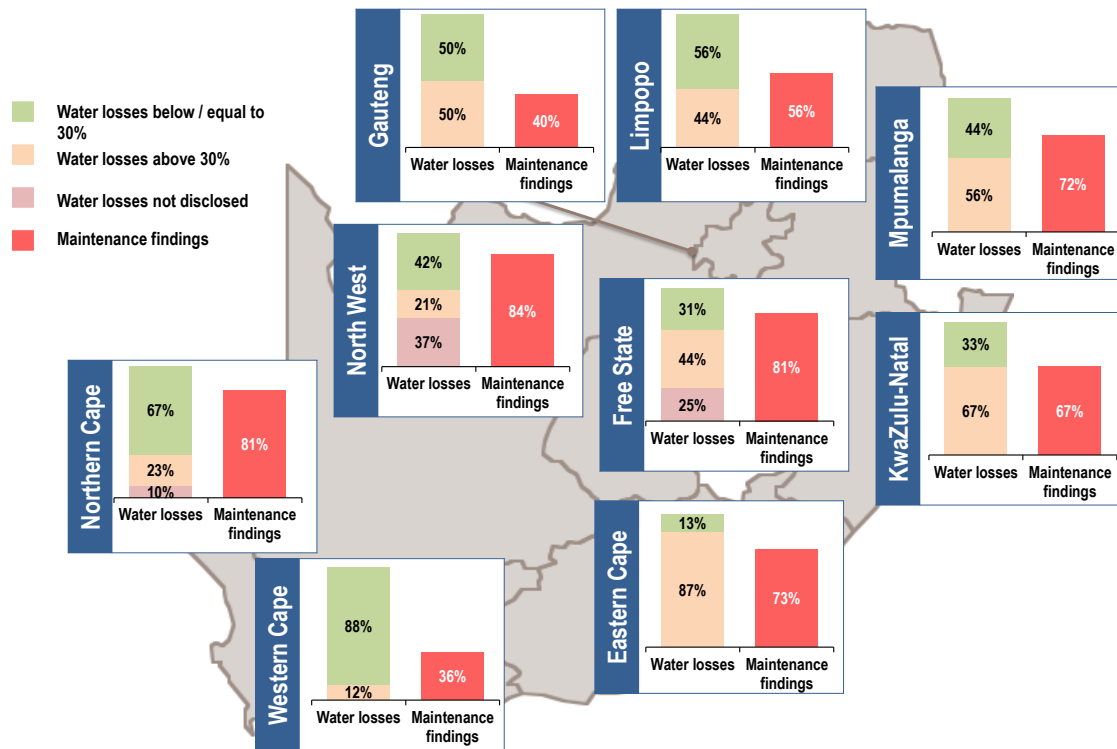
Pumps and other equipment were out of order (in some instances for more than a year), while no cleaning or maintenance was evident. This resulted in wastewater overflowing and raw sewerage leaking directly into the river.

Water losses should be known, monitored and disclosed to enable municipalities to control and manage their losses and ultimately limit the loss of revenue and poor service delivery. The National Treasury introduced a target to limit water losses to below 30% in 2014.

Only 74 municipalities (50%) could keep their water losses below 30% in 2015-16. In total, 13 (9%) did not disclose their water losses in their financial statements as required. The water losses of the remaining 61 municipalities (41%) were on average 52% and ranged from 30,6% to 94%.

Figure 2 shows the occurrence of water losses and the percentage of municipalities that had maintenance weaknesses as listed in figure 1.

Figure 2: Water losses and the percentage of municipalities with weaknesses



The provision of sustainable water and sanitation services is at the core of service delivery to communities. Although funding is available to address the backlogs and the maintenance of infrastructure, the management thereof needs immediate attention at the municipalities authorised to provide these services.

5.3 Road infrastructure

The MTSF states that there will be a focus on ensuring that municipalities provide and properly maintain an adequate core set of basic services, including water, sanitation, electricity, municipal roads, refuse removal and traffic lights. According to the MTSF, government has expanded access to basic services over the past 20 years but backlogs remain and the quality of services is uneven.

According to a survey conducted in 2016 by the South African Institute of Race Relations, the country has approximately 535 000 kilometres of urban and non-urban roads that are managed by the different spheres of government. Local government therefore also has a role to play in managing the road network.

We again focused on **road infrastructure** during 2015-16 due to its importance for growth and development. Our audits focused on the planning, budgeting and delivery of road maintenance. We finalised the audits of 217 road authorities nationwide.

Municipalities made progress in addressing some of the challenges relating to the planning and budgeting of road maintenance, such as:

- performing condition assessments of infrastructure
- budgeting for routine maintenance of road infrastructure
- compiling an approved road maintenance plan or priority list for renewal and routine maintenance.

However, all nine provinces had municipalities where we again raised the same findings as in previous years, pointing to a **lack of consequence management** where corrective action had not been implemented. Figure 1 indicates the number of municipalities with findings on road infrastructure in the current and prior year, while figure 2 gives a provincial overview.

Figure 1: Progress at municipalities affecting the delivery of road infrastructure

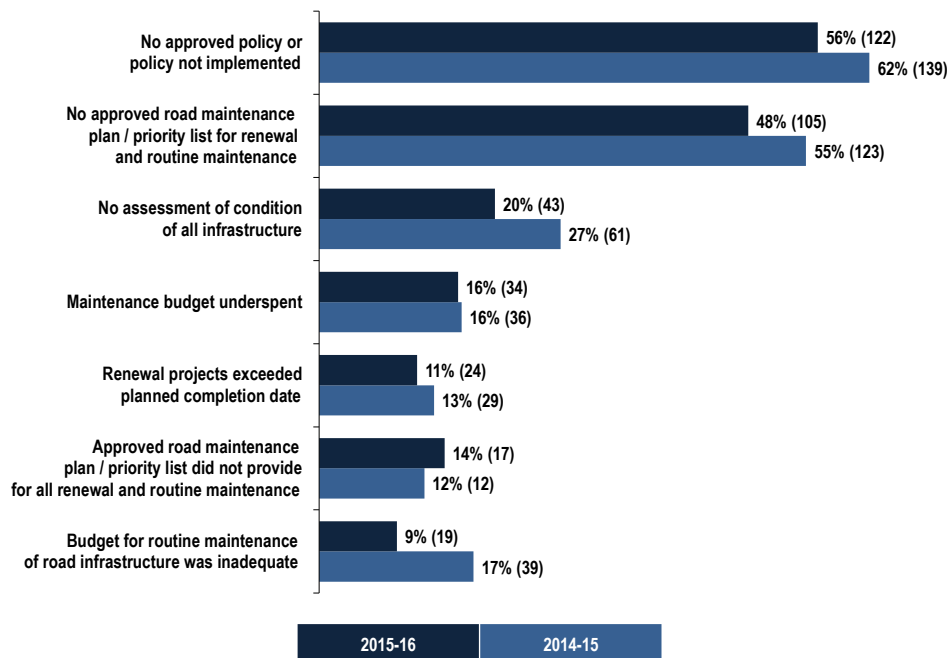
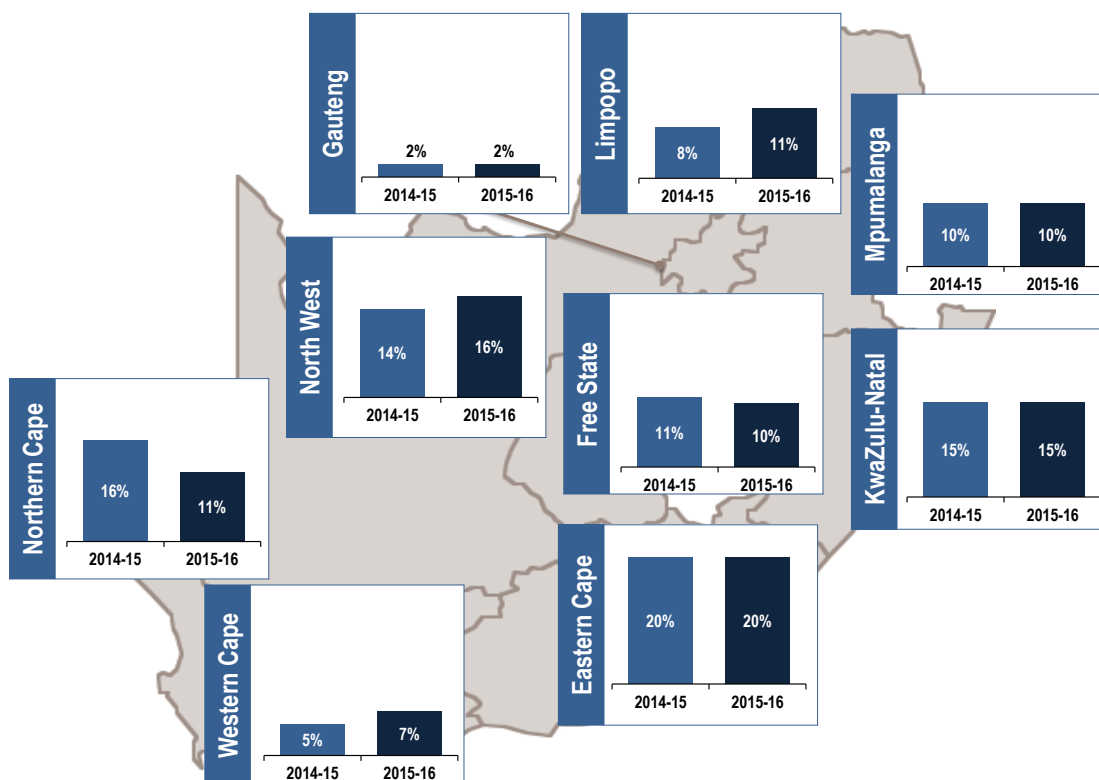


Figure 2: Provincial overview of findings affecting the delivery of road infrastructure



Policies are important to ensure proper planning and decision-making so that the desired outcomes are achieved for the management of road infrastructure. However, the main problem at 56% of the municipalities was that they had no approved policy or that the policy had not been implemented.

In addition, 48% of the municipalities did not have an approved road maintenance plan or priority list to inform the renewal and routine maintenance of road infrastructure. Furthermore, at 14% of those municipalities that had an approved maintenance plan or priority list, it did not provide for all renewal and routine maintenance.

Although there had been an improvement in conducting condition assessments, 20% of the municipalities still did not assess the condition of all road infrastructure to inform the road maintenance plan or priority list. This road maintenance plan or priority list is important to provide for all renewal and routine maintenance, as well as the allocation of adequate funds for maintenance activities.

The goal of maintenance is to **preserve the asset**. Unlike major road works, maintenance must be done regularly. Transport Note No. TRN-4 issued by the World Bank states that road maintenance comprises 'activities to keep pavement, shoulders, slopes, drainage facilities and all other structures and property within the road margins as near as possible to their as-constructed or renewed condition'.

At 16% of the municipalities, the **maintenance budget was underspent**. In addition, the budget for routine maintenance of road infrastructure was inadequate at 9% of the municipalities. According to the mentioned transport note, where road improvements and infrastructure are not maintained adequately, it may lead to further deterioration and result in high direct and indirect costs. This will affect the current backlogs, which will have an impact on service delivery. A lack of maintenance can also cause damage to vehicles and affect the safety of road users.

Furthermore, at 11% of the municipalities, the renewal and routine maintenance projects had exceeded their **planned completion dates** by between 2 and 529 days. This could result in an increase in project costs and a delay in the delivery of the project.

As also stated in the mentioned transport note, road improvements bring immediate and sometimes dramatic benefits to road users through improved access to hospitals, schools and markets; improved comfort, speed and safety; and lower vehicle operating costs. For these benefits to be sustained, however, road improvements must be followed by a well-planned programme of maintenance.



Conclusion

Sustainable improvements in performance management and service delivery can be achieved if the leadership clearly defines the targets to be achieved by using, among other, the new integrated development plan, service delivery and budget implementation plan, annual budget as well as maintenance and project plans (**PLAN**).

The basic disciplines of proper record keeping and standard daily and monthly controls built on a foundation of effective and efficient leadership and stability in key positions will enable a robust performance management system (**DO**).

Regular, credible in-year reporting monitored by, and acted upon, senior management, the municipal manager, the mayor as well as reports and recommendations on performance management from the internal audit unit and the audit committee will enable corrective action to be taken if targets are not achieved or if transgressions or poor performance is identified (**CHECK**).

Consistently investigating indicators or allegations of transgressions and poor performance and applying consequence management will ensure that a culture of accountability prevails (**ACT**).

These improvements in performance management will enable better audit results, but more importantly contribute to a better life for all citizens (**IMPACT**).