

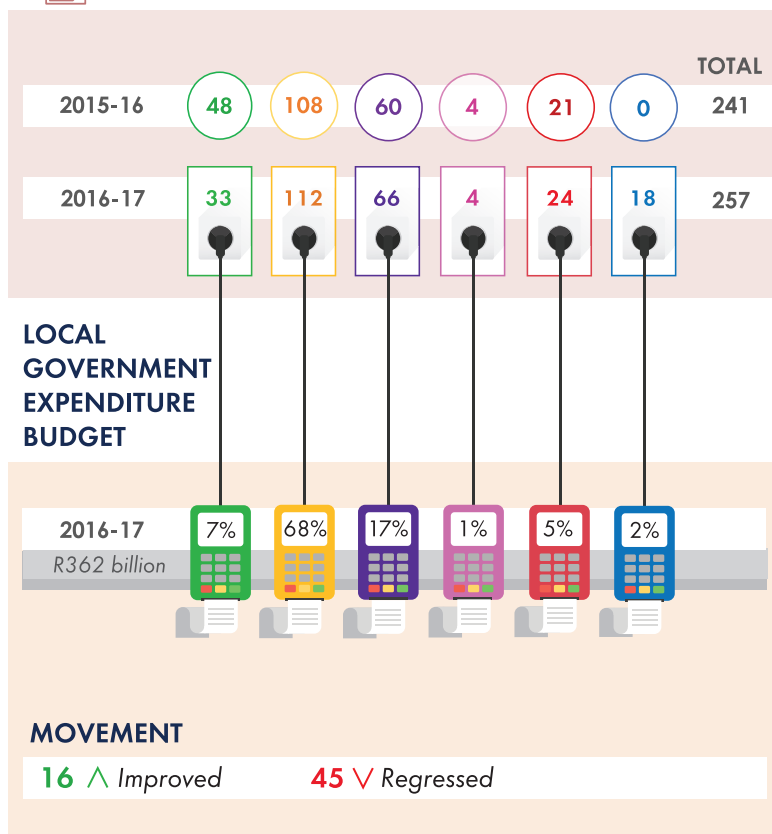
## // SECTION 4



*Summary of audit outcomes*



## OVERALL AUDIT OUTCOMES

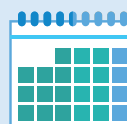


## CLEAN AUDIT MOVEMENTS



30	>	Remained clean
17	>	Regressed
3	>	New clean audits
1		Outstanding

## OUTSTANDING AUDITS



Cut-off date for inclusion of the audit outcomes in this report is **15 January 2018**

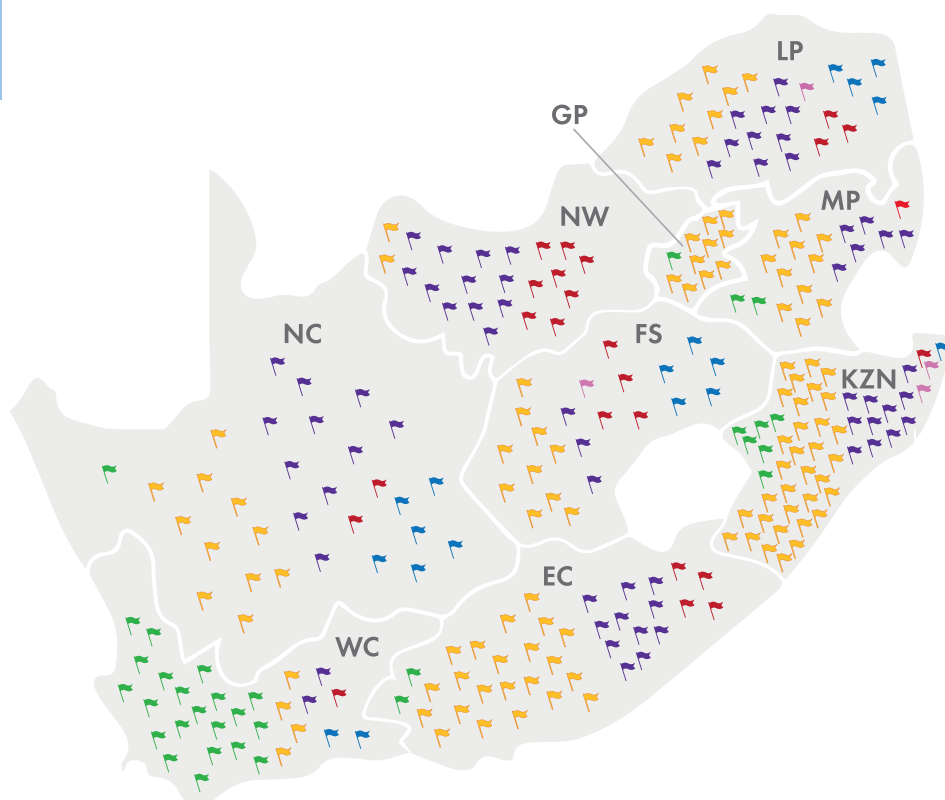
## REASONS FOR 18 OUTSTANDING AUDITS

Financial statements not submitted - 2 (11%)  
Financial statements submitted late - 15 (83%)  
Delay in the audit - 1 (6%)

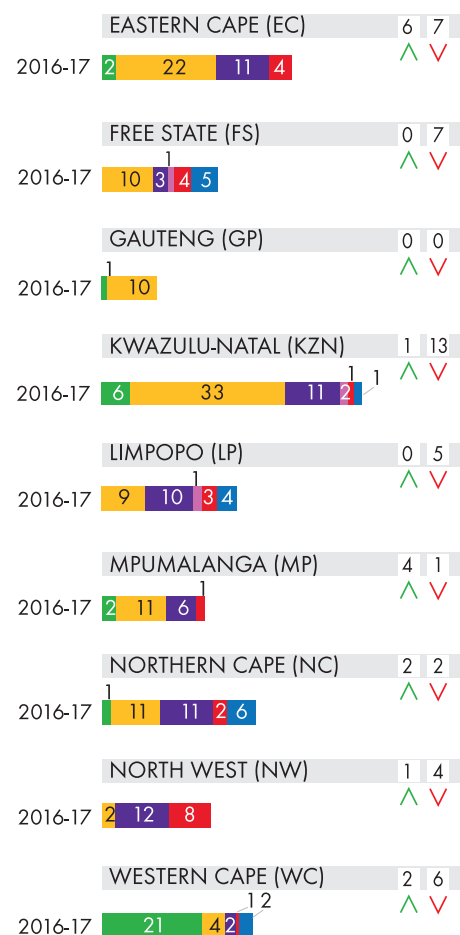
## RESULTS OF 11 AUDITS SUBSEQUENTLY FINALISED BEFORE DATE OF THIS REPORT



## PROVINCIAL AUDIT OUTCOMES AND MOVEMENTS



Unqualified with no findings
 Unqualified with findings
 Qualified with findings
 Adverse with findings
 Disclaimed with findings
 Outstanding audits





# FINANCIAL STATEMENTS



REGRESSION IN QUALITY  
OF FINANCIAL STATEMENTS



## TARGET

## MOVEMENT

## 2016-17

## 2015-16



Timely submission of financial statements



97% (231)

96% (217)



Quality of financial statements submitted for auditing



22% (53)

34% (76)



Quality of published financial statements



61% (145)

68% (153)

**92 municipalities (39%)**  
achieved unqualified  
audit opinions only  
because they **corrected**  
**all misstatements**  
identified during the  
audit

## QUALIFICATION AREAS

(on audited financial statements)

## MOVEMENT

## 2016-17

## 2015-16

Property, infrastructure, plant and equipment



27% (64)

20% (44)

Receivables



24% (57)

15% (34)

Revenue



23% (55)

18% (40)

Irregular expenditure



23% (54)

22% (49)

## AUDIT OPINIONS VS MEDIUM-TERM STRATEGIC FRAMEWORK (MTSF) TARGETS FOR 2019

### AUDIT OPINIONS

### MTSF TARGETS

### ACHIEVED?

Financially unqualified

61% (145)

65% or more



Qualified

27% (66)

Less than 20%



Adverse and disclaimed

12% (28)

Less than 15%



27

## PROVINCIAL VIEW

PROVINCE	TIMELY SUBMISSION OF FINANCIAL STATEMENTS		QUALITY OF FINANCIAL STATEMENTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED FINANCIAL STATEMENTS	
	Number	Movement from 2015-16	Number	Movement from 2015-16	Number	Movement from 2015-16
Eastern Cape	38 (97%)		4 (10%)		24 (62%)	
Free State	16 (89%)		1 (6%)		10 (56%)	
Gauteng	11 (100%)		4 (36%)		11 (100%)	
KwaZulu-Natal	53 (100%)		15 (28%)		39 (74%)	
Limpopo	20 (87%)		0 (0%)		9 (39%)	
Mpumalanga	20 (100%)		4 (20%)		13 (65%)	
Northern Cape	24 (96%)		1 (4%)		12 (48%)	
North West	22 (100%)		0 (0%)		2 (9%)	
Western Cape	27 (96%)		24 (86%)		25 (89%)	
<b>Total</b>	<b>231 (97%)</b>		<b>53 (22%)</b>		<b>145 (61%)</b>	





## PERFORMANCE REPORTS



REGRESSION IN QUALITY  
OF PERFORMANCE REPORTS



TARGET

MOVEMENT

2016-17

2015-16

	Performance reports prepared		98% (235)	97% (219)	<b>66 municipalities (28%)</b> had no material findings only because they <b>corrected all</b> <b>misstatements</b> identified during the audit
	Quality of performance reports submitted for auditing		10% (23)	19% (41)	
	Quality of published performance reports		38% (89)	50% (109)	

### FINDINGS ON PERFORMANCE REPORTS

MOVEMENT

2016-17

2015-16

Performance indicators and targets not useful		46% (108)	39% (86)
Achievement reported not reliable		51% (120)	45% (99)
No underlying records or planning documents	—	4% (10)	New focus area

### MOST COMMON USEFULNESS FINDINGS

**28%** Not well defined   **20%** Not consistent   **17%** Not verifiable   **16%** Not measurable   **14%** Not specific

### PROVINCIAL VIEW

PROVINCE	 PERFORMANCE REPORTS PREPARED		 QUALITY OF PERFORMANCE REPORTS SUBMITTED FOR AUDITING		 QUALITY OF PUBLISHED PERFORMANCE REPORTS	
	Number	Movement from 2015-16	Number	Movement from 2015-16	Number	Movement from 2015-16
Eastern Cape	39 (100%)		2 (5%)		12 (31%)	
Free State	18 (100%)		0 (0%)		3 (17%)	
Gauteng	11 (100%)		1 (9%)		4 (36%)	
KwaZulu-Natal	53 (100%)		7 (13%)		25 (47%)	
Limpopo	23 (100%)		1 (4%)		3 (13%)	
Mpumalanga	20 (100%)		2 (10%)		8 (40%)	
Northern Cape	22 (88%)		0 (0%)		6 (27%)	
North West	21 (95%)		0 (0%)		2 (9%)	
Western Cape	28 (100%)		10 (36%)		26 (93%)	
<b>Total</b>	<b>235 (98%)</b>		<b>23 (10%)</b>		<b>89 (38%)</b>	



## COMPLIANCE WITH KEY LEGISLATION



INCREASE IN NON-COMPLIANCE  
FROM 79% (177) TO 86% (206)

### MOST COMMON NON-COMPLIANCE AREAS

### MOVEMENT

2016-17

2015-16



Quality of financial statements



78% (186)

66% (149)



Management of procurement and contract management



73% (175)

62% (140)



Prevention of unauthorised, irregular and fruitless and wasteful expenditure



72% (171)

72% (161)



Effecting consequences



56% (134)

50% (112)

Non-compliance by 78% (186) of municipalities can potentially lead to a financial loss

### OTHER NOTABLE NON-COMPLIANCE AREAS

2016-17

### MOVEMENT

### MOST COMMON FINDINGS PER AREA



Expenditure management

55% (132)



Creditors not paid within 30 days - 51% (121)



Asset management

39% (94)



Ineffective system of internal control for assets - 32% (77)



Strategic planning and performance management

36% (86)



No performance management system established or adopted - 10% (24)



Human resource management

33% (79)



No policies/procedures to measure/evaluate staff performance - 23% (54)



Revenue management

30% (71)



Revenue due not recorded - 23% (56)

29

## PROVINCIAL VIEW

PROVINCE	MUNICIPALITIES WITH NO FINDINGS ON COMPLIANCE	
	Number	Movement from 2015-16
Eastern Cape	2 (5%)	
Free State	0 (0%)	
Gauteng	1 (9%)	
KwaZulu-Natal	6 (11%)	
Limpopo	0 (0%)	
Mpumalanga	2 (10%)	
Northern Cape	1 (4%)	
North West	0 (0%)	
Western Cape	21 (75%)	
Total	33 (14%)	

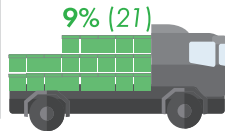
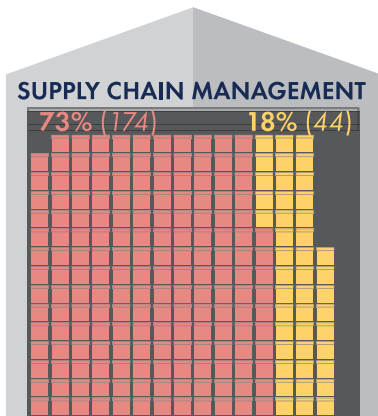




## SUPPLY CHAIN MANAGEMENT (SCM)



MORE MUNICIPALITIES COMPLIED WITH SCM LEGISLATION, BUT INCREASE IN MATERIAL NON-COMPLIANCE FINDINGS FROM 63% (141) TO 73% (174) LED TO OVERALL REGRESSION



Not able to audit procurement of **R1 296 million** due to **missing or incomplete information** at 52 municipalities (22%)

Most common in:

- Gauteng (R830 million)
- North West (R155 million)
- Mpumalanga (R106 million)



With no findings



With findings



With material findings

### AWARDS TO EMPLOYEES, COUNCILLORS, CLOSE FAMILY MEMBERS AND OTHER STATE OFFICIALS

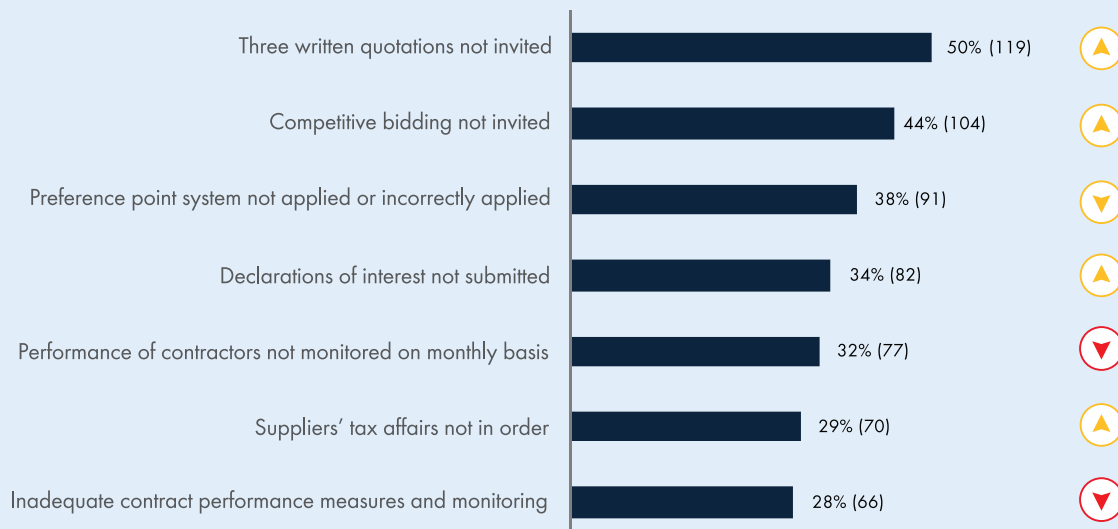
FINDINGS	MOVEMENT	NUMBER OF MUNICIPALITIES WITH AWARDS	AMOUNT (R MILLION)
Prohibited awards to other state officials	▼	64% (153)	R2 075
Prohibited awards to employees and councillors	▲	21% (49)	R15
At 22 municipalities, awards valued at <b>R7,92 million</b> were made to councillors, with the values ranging from <b>R4 200</b> to <b>R4,07 million</b> per councillor			
Awards to close family members of employees	▼	41% (99)	R320
At 26 municipalities (11%), awards to close family members were not disclosed in the financial statements as required			

### UNCOMPETITIVE OR UNFAIR PROCUREMENT PROCESSES AND CONTRACT MANAGEMENT

Findings on **uncompetitive and unfair procurement processes** at **81%** of the municipalities, of which 67% was material non-compliance

Findings on **contract management** at **44%** of the municipalities, of which 33% was material non-compliance

Most common findings were the following:



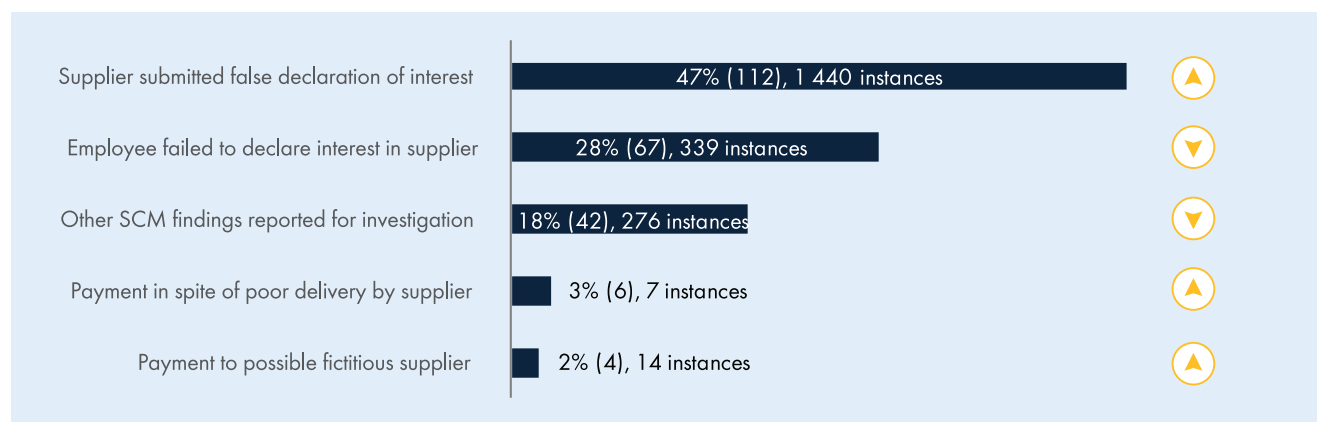
## LOCAL PROCUREMENT

Municipalities are required to procure certain commodities from local producers; **58 municipalities** (57%) out of 102 where we audited local procurement failed to comply with regulation on promotion of local producers on awards amounting to **R587 million**

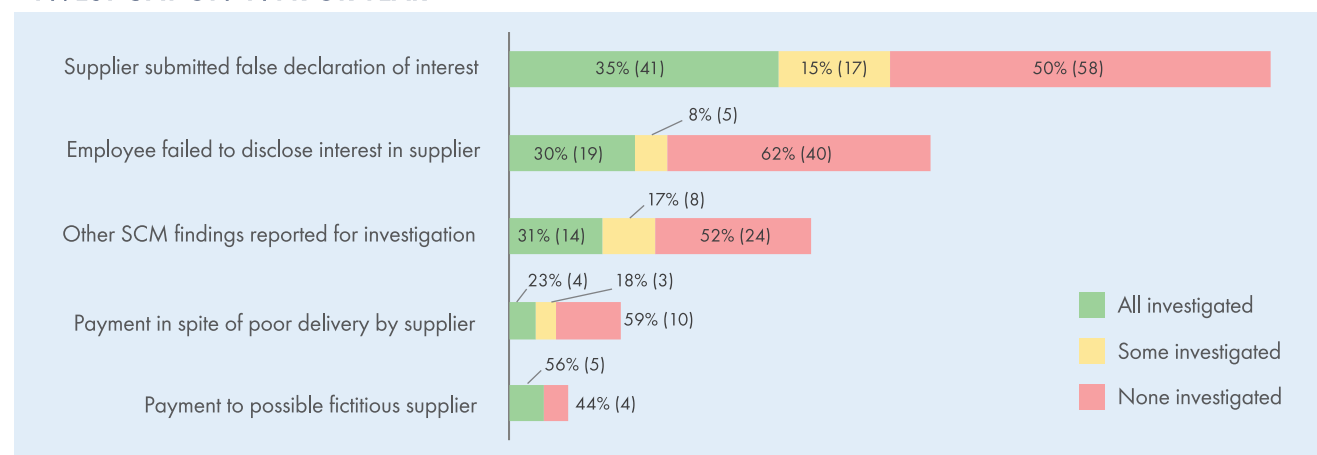
## FALSE DECLARATIONS BY SUPPLIERS AND NON-DISCLOSURE BY EMPLOYEES

FINDINGS	MOVEMENT	NUMBER OF MUNICIPALITIES	NUMBER OF SUPPLIERS/EMPLOYEES	AMOUNT (R MILLION)
Suppliers owned or managed by <b>employees of another state institution</b> made false declarations	▲	41% (98)	1 232	R1 495
Suppliers owned or managed by <b>employees and councillors of the municipality</b> made false declarations	▼	8% (18)	49	R2
Suppliers owned or managed by <b>close family members of employees</b> of the municipality made false declarations	▲	10% (23)	173	R24
<b>Employees</b> of the municipality <b>failed to declare their own interest</b> either as part of the procurement processes or through annual declarations	▼	12% (29)	77	R9
<b>Employees</b> of the municipality <b>failed to declare their family members' interest</b>	▼	19% (46)	254	R88

## FINDINGS REPORTED FOR INVESTIGATION DURING THE AUDIT PROCESS IN CURRENT YEAR



## FOLLOW-UP OF PREVIOUS YEAR'S SUPPLY CHAIN MANAGEMENT FINDINGS REPORTED FOR INVESTIGATION IN PRIOR YEAR





## UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE (UIFW)

	IRREGULAR <i>Non-compliance with legislation in process leading to expenditure</i>	UNAUTHORISED <i>Expenditure more than budget or not in accordance with grant or budget conditions</i>	FRUITLESS AND WASTEFUL <i>Expenditure made in vain – could have been avoided if reasonable care was taken</i>
How much was disclosed in 2016-17?	<b>R28,376 billion at 215 municipalities (90%)</b>  75% increase from R16,212 billion in 2015-16 	<b>R12,603 billion at 161 municipalities (67%)</b>  9% decrease from R13,814 billion in 2015-16 	<b>R1,526 billion at 204 municipalities (85%)</b>  71% increase from R890 million in 2015-16 
Is all of it 2016-17 expenditure?	<b>No</b>  R15,026 billion (53%) was expenditure in previous years only uncovered and disclosed in 2016-17  R13,35 billion (47%) was expenses in 2016-17, which included payments on ongoing contracts irregularly awarded in a previous year  Based on analysis of top 26 contributors, <b>16% (± R4,5 billion) represented non-compliance in 2016-17</b>	<b>Yes</b>	<b>No</b>  R280 million (18%) was expenditure in previous years only uncovered and disclosed in 2016-17  <b>R1,246 billion (82%) was expenses in 2016-17</b>
How much of the 2016-17 local government budget does it represent?	4%	4%	< 1%
Is this the total amount?	<b>No</b>  80 municipalities (33%) did not know total amount and were still investigating to determine full amount  53 municipalities (22%) were qualified on the <b>completeness</b> of their disclosure  We could also not audit procurement processes valued at R1,296 billion due to missing or incomplete documentation – it is not known whether any part of this amount might represent irregular expenditure	<b>No</b>  17 municipalities (7%) were qualified on the <b>completeness</b> of their disclosure	<b>No</b>  8 municipalities (3%) were qualified on the <b>completeness</b> of their disclosure



	IRREGULAR	UNAUTHORISED	FRUITLESS AND WASTEFUL
What was main cause?	<b>Non-compliance with supply chain management legislation (99%), related to:</b> <ul style="list-style-type: none"> <li>• Procurement without following a competitive bidding or quotation process – R8,322 billion (30%)</li> <li>• Non-compliance with procurement process requirements – R18,092 billion (64%)</li> <li>• Inadequate contract management – R1,738 billion (6%)</li> </ul>	<b>Overspending of budget (99,5%)</b>  Of the R12,54 billion overspent, R5,055 billion (40%) related to actual payments in excess of the budget  R7,485 billion (60%) related to non-cash items, representing the poor estimation of, for example, asset impairments	<b>Penalties and interest on overdue accounts and late payments (74%)</b> – mostly as a result of municipalities' poor financial health
Did the municipalities detect this expenditure?	<b>79% identified by municipality and remainder by audit process</b>  Many municipalities implemented processes to fully uncover irregularities of previous years – partly to address prior year qualifications on irregular expenditure (R7,476 billion) but also to correct past irregularities	<b>79% identified by municipality and remainder by audit process</b>	<b>93% identified by municipality and remainder by audit process</b>
Does it mean this money was wasted?	<b>Possibly – it can only be determined through a council investigation</b>  Goods and services were received for R23,265 billion (83%) of the expenditure related to supply chain management, but were not received for R12 million (< 1%), while we did not audit the remaining 17%  We cannot confirm if value for money was received for all of these goods and services	<b>No</b>	<b>Yes</b>



## PROVINCIAL VIEW

	IRREGULAR (R BILLION)	UNAUTHORISED (R BILLION)	FRUITLESS AND WASTEFUL (R BILLION)
Eastern Cape	R13,558 48% of total 35% of provincial local government budget	R1,446 12% of total 4% of provincial local government budget	R0,179 12% of total < 1% of provincial local government budget
North West	R4,294 15% of total 22% of provincial local government budget	R1,185 9% of total 6% of provincial local government budget	R0,192 13% of total 1% of provincial local government budget
Gauteng	R3,653 13% of total 3% of provincial local government budget	R2,009 16% of total 2% of provincial local government budget	R0,204 13% of total < 1% of provincial local government budget
KwaZulu-Natal	R2,449 9% of total 4% of provincial local government budget	R1,545 12% of total 2% of provincial local government budget	R0,051 3% of total < 1% of provincial local government budget
Mpumalanga	R1,996 7% of total 10% of provincial local government budget	R1,334 11% of total 7% of provincial local government budget	R0,273 18% of total 1% of provincial local government budget
Limpopo	R1,317 5% of total 7% of provincial local government budget	R1,068 8% of total 6% of provincial local government budget	R0,243 16% of total 1% of provincial local government budget
Free State	R0,675 2% of total 5% of provincial local government budget	R2,899 23% of total 21% of provincial local government budget	R0,325 21% of total 2% of provincial local government budget
Northern Cape	R0,261 1% of total 4% of provincial local government budget	R1,034 8% of total 16% of provincial local government budget	R0,055 4% of total 1% of provincial local government budget
Western Cape	R0,173 < 1% of total < 1% of provincial local government budget	R0,083 1% of total < 1% of provincial local government budget	R0,004 < 1% of total < 1% of provincial local government budget

Expenditure of 5% or higher of the provincial local government budget is highlighted in red

## TOP 10 CONTRIBUTORS – UNAUTHORISED EXPENDITURE

All of these municipalities have incurred unauthorised expenditure for the past 3 years, except Msunduzi and Enoch Mgijima

MUNICIPALITY	DISCLOSED (R BILLION)	NATURE
Matjhabeng (FS)	R1,031	Overspending of budget R0,474 million (46%) related to non-cash items
Mangaung Metro (FS)	R0,722	Overspending of budget R0,671 million (93%) related to non-cash items
City of Tshwane Metro (GP)	R0,62	Overspending of budget R0,168 million (27%) related to non-cash items
Emfuleni (GP)	R0,595	Overspending of budget R0,217 million (36%) related to non-cash items
City of Johannesburg Metro (GP)	R0,502	Overspending of budget R0,113 billion (22%) related to non-cash items
Nelson Mandela Bay Metro (EC)	R0,432	Overspending of budget R0,432 billion (100%) related to non-cash items
Msunduzi (KZN)	R0,4	Overspending of budget R0,336 billion (84%) related to non-cash items
Vhembe District (LP)	R0,375	Overspending of budget R0,249 billion (66%) related to non-cash items
Gamagara (NC)	R0,374	Overspending of budget R0,364 billion (97%) related to non-cash items
Enoch Mgijima (EC)	R0,323	Overspending of budget R0,323 billion (100%) related to non-cash items
<b>Total for top 10</b>	<b>R5,374</b>	This constitutes 43% of the total unauthorised expenditure R3,347 billion (62%) of top 10 value related to non-cash items



## TOP 10 CONTRIBUTORS – IRREGULAR EXPENDITURE

All of these municipalities have incurred irregular expenditure for the past 3 years

MUNICIPALITY	DISCLOSED (R BILLION)	INCURRED IN 2016-17 (R BILLION)	MAIN NON- COMPLIANCE	KEY PROJECTS AFFECTED	GRANTS AFFECTED* (R BILLION)
Nelson Mandela Bay Metro (EC)	R8,184	R0,045 (0,5%)	99% related to non-compliance with procurement process requirements	Water infrastructure, road infrastructure, and housing	R1,318 (USDG)
OR Tambo District (EC)	R3,082	R0,680 (22%), of which R0,097 (14%) represents non-compliance in 2016-17	99% related to procurement without following competitive bidding or quotation processes	Water infrastructure	R0,713 (MIG/RBIG)
City of Tshwane Metro (GP)	R1,825	R1,211 (66%), of which R0,231 (19%) represents non-compliance in 2016-17	83% related to procurement without following competitive bidding or quotation processes	Smart prepaid contract (R0,699 billion), Wi-Fi contract (R0,079 billion), and fleet management contract (R0,130 billion)	N/A
Rustenburg (NW)	R0,984	R0,540 (55%) The portion that represents non-compliance in 2016-17 could not be determined due to poor document management at municipality	100% related to non-compliance with procurement process requirements	Rustenburg rapid transport (various sub-contracts)	R0,145 (PTNG)
Ngaka Modiri Molema District (NW)	R0,828	R0,164 (20%) The portion that represents non-compliance in 2016-17 could not be determined due to poor document management at municipality	80% related to procurement without following competitive bidding or quotation processes	Water infrastructure and sanitation	R0,015 (MIG)

MUNICIPALITY	DISCLOSED (R BILLION)	INCURRED IN 2016-17 (R BILLION)	MAIN NON- COMPLIANCE	KEY PROJECTS AFFECTED	GRANTS AFFECTED* (R BILLION)
City of Johannesburg Metro (GP)	R0,706	R0,706 (100%), of which R0,393 (56%) represents non-compliance in 2016-17	100% related to non-compliance with legislation on contracts	ICT - SAP upgrade	N/A
City of Ekurhuleni Metro (GP)	R0,591	R0,367 (62%)	59% related to non-compliance with procurement process requirements	Refuse removal, housing infrastructure (e.g. housing, dwelling and lifts projects), chemical toilets (i.e. sanitation), and road infrastructure	R0,420 (PTNG)
Buffalo City Metro (EC)	R0,584	R0,287 (49%), none of which represents non-compliance in 2016-17	77% related to non-compliance with procurement process requirements	Multi-year contract for road infrastructure	R0,532 (USDG)
Madibeng (NW)	R0,562	R0,562 (100%), of which R0,504 (90%) represents non-compliance in 2016-17	80% related to non-compliance with procurement process requirements	Water infrastructure and sanitation	R0,051 (MIG)
Moretele (NW)	R0,557	R0,139 (25%) The portion that represents non-compliance in 2016-17 could not be determined due to poor document management at municipality	100% related to non-compliance with procurement process requirements	Water infrastructure and sanitation	R0,019 (MIG)
<b>Total for top 10</b>	<b>R17,903</b>	This constitutes 63% of the total irregular expenditure disclosed in 2016-17  R11,265 billion (63%) of top 10 value resulted from non-compliance with procurement process requirements, while R5,617 billion (31%) related to procurement without following competitive bidding or quotation processes			

\*MIG: municipal infrastructure grant  
 PTNG: public transport network grant  
 RBIG: regional bulk infrastructure grant  
 USDG: urban settlement development grant



## TOP 10 CONTRIBUTORS – FRUITLESS AND WASTEFUL EXPENDITURE

All of these municipalities have incurred fruitless and wasteful expenditure for the past 3 years, except Rand West City (new municipality)

MUNICIPALITY	DISCLOSED (R BILLION)	NATURE
Matjhabeng (FS)	R0,187	Eskom interest of R0,182 billion; remainder relating to penalties and interest – Sars and other creditors
Mopani District (LP)	R0,164	Payment for work that had to be redone due to poor quality
Nelson Mandela Bay Metro (EC)	R0,11	Mostly payments to rectify faulty work and for damages awarded in court
Emalahleni (MP)	R0,079	Eskom interest of R0,078 billion
Emfuleni (GP)	R0,06	Penalties and interest on late payment of accounts
Rand West City (GP)	R0,055	Mostly related to interest: Eskom – R0,02 billion, Sars – R0,01 billion, and Rand Water – R606 807
Lekwa (MP)	R0,043	Eskom interest of R0,04 billion; remainder relating to penalties and interest – Sars, AGSA and Telkom
City of Tshwane Metro (GP)	R0,042	Mostly related to standing time, interest and re-application of licence at Temba water purification plant
Msukaligwa (MP)	R0,041	Eskom interest of R0,02 billion and Department of Water Affairs interest and penalties of R0,021 billion
Ditsobotla (NW)	R0,037	Eskom interest of R0,024 billion; remainder relating to penalties and interest – Sars and AGSA
<b>Total for top 10</b>	<b>R0,818</b>	<p>This constitutes 54% of the total fruitless and wasteful expenditure</p> <p>R0,365 billion (45%) of top 10 value related to interest on late payments to Eskom</p>

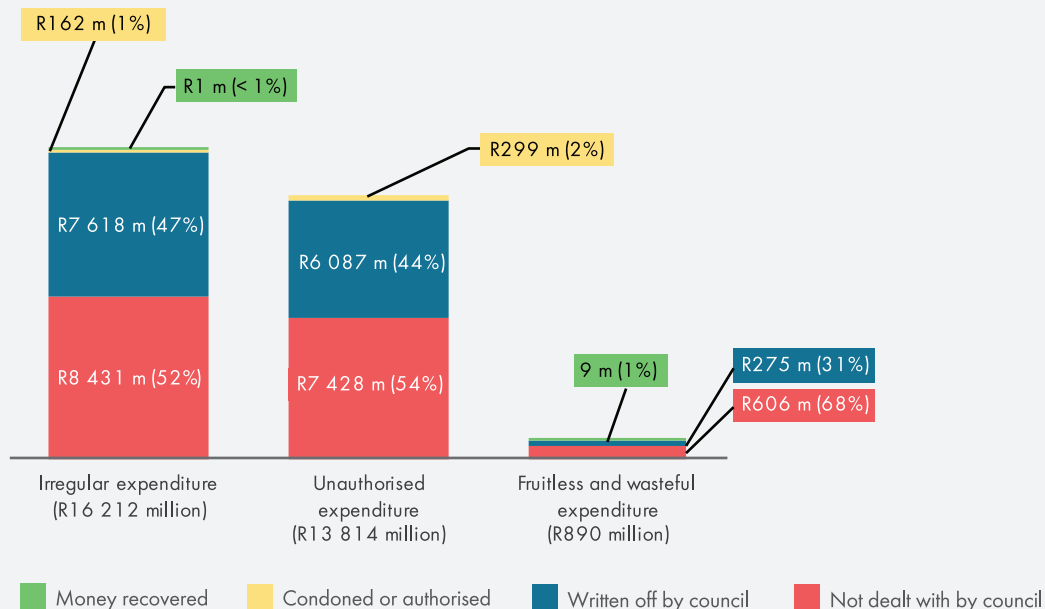
## INVESTIGATION AND FOLLOW-UP OF PRIOR YEAR UIFW



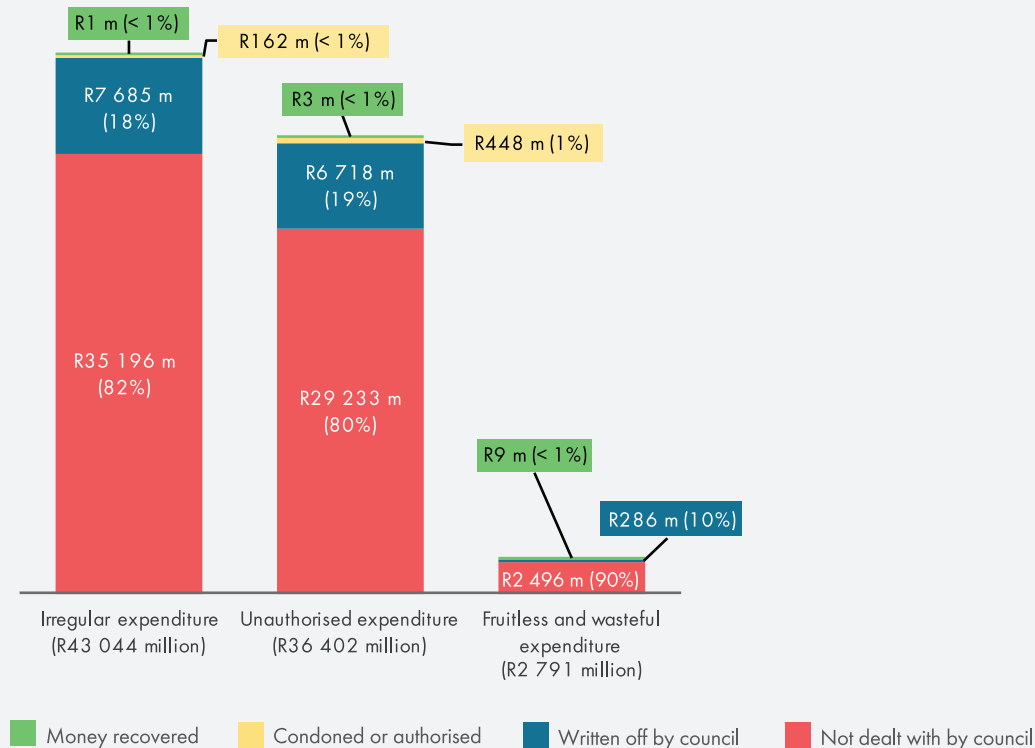
Investigations by municipalities of all prior year instances regressed from 103 (48%) to 84 (39%)

UIFW disclosed must be investigated by the council to determine impact and responsible person/s. Based on the outcome of the investigation, the next steps can include condonement/authorisation, recovery or write-off.

### HOW HAS COUNCIL DEALT WITH THE 2015-16 UIFW?



### HOW HAS COUNCIL DEALT WITH ALL THE UIFW TO DATE?



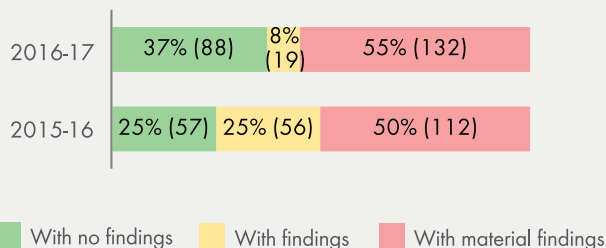


## FRAUD AND LACK OF CONSEQUENCES



SLIGHT INCREASE IN MATERIAL NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES

### NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES



Most common findings were the following:

- Irregular expenditure identified in prior year was not investigated at 122 municipalities (51%)
- Fruitless and wasteful expenditure identified in prior year was not investigated at 114 municipalities (48%)
- Unauthorised expenditure identified in prior year was not investigated at 100 municipalities (42%)

### MECHANISMS TO DEAL WITH LACK OF CONSEQUENCES



**Inadequate mechanisms for reporting and investigating transgressions and possible fraud at 82 municipalities (34%)**

Most common findings were the following:



Disciplinary board not established at 56 municipalities (23%)



No policies regarding investigations of allegations and disciplinary procedures at 46 municipalities (19%)



No hotline or other process to report fraud at 32 municipalities (13%)

### INADEQUATE FOLLOW-UP OF ALLEGATIONS OF FINANCIAL AND SUPPLY CHAIN MANAGEMENT MISCONDUCT AND FRAUD

Allegations not investigated

34% (29)



Investigations took longer than 3 months

33% (28)



Allegations not properly investigated

7% (6)



CONTRIBUTE TO

AND



**Unauthorised, irregular and fruitless and wasteful expenditure (UIFW)** not followed up and dealt with – refer to section on UIFW



**Supply chain management (SCM) findings** we reported to management for investigation not followed up – refer to section on SCM

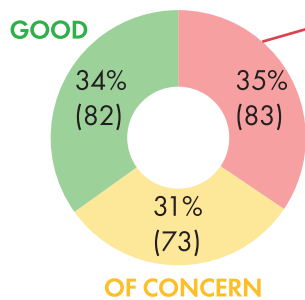




## FINANCIAL HEALTH



SLIGHT REGRESSION  
IN FINANCIAL HEALTH



### INTERVENTION REQUIRED

- This means the municipality:
- is in a vulnerable financial position and might be unable to continue operating and/or
  - received a disclaimed or adverse opinion, which means the financial statements were not reliable enough for analysis

### VULNERABLE FINANCIAL POSITION

31% (73)  
26% (59)



Fruitless and wasteful expenditure of **R1,1 billion** incurred by those in vulnerable financial position

2016-17 2015-16

### SUSTAINABILITY INDICATORS

#### NET CURRENT LIABILITY POSITION

43% (90)  
40% (83)



#### BANK IN OVERDRAFT

3% (7)  
2% (4)



#### DEFICIT (expenditure exceeded revenue)

31% (66)  
33% (68)



**Consolidated deficit of R5,6 billion**

Major contributors from:

- Mpumalanga - **R1,8 billion (32%)**
- Free State - **R1 billion (19%)**
- Gauteng - **R1 billion (19%)**

**86% (57)** of those with deficits also incurred unauthorised expenditure amounting to **R5,8 billion**

### CREDITOR PAYMENTS

#### CREDITOR-PAYMENT PERIOD > 30 DAYS

87% (183)  
82% (170)



#### CREDITOR-PAYMENT PERIOD > 90 DAYS

47% (100)  
42% (87)



#### AVERAGE CREDITOR-PAYMENT PERIOD

161 DAYS  
140 DAYS



#### ESKOM ARREARS - R9,4 billion

**71%** of arrears concentrated in Free State (**49%**) and Mpumalanga (**22%**)

Source - Eskom annual report: March 2017

#### WATER BOARD ARREARS - R6,5 billion

Free State contributed R2,6 billion (40%) to total

Source - Treasury database: 30 September 2017

### REVENUE MANAGEMENT INDICATORS

#### MORE THAN 10% OF DEBT IRRECOVERABLE

92% (195)  
95% (196)



#### DEBT-COLLECTION PERIOD > 90 DAYS

55% (115)  
51% (106)



#### AVERAGE DEBT-COLLECTION PERIOD

187 DAYS  
178 DAYS



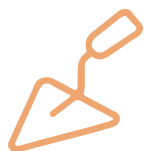
## PROVINCIAL VIEW

PROVINCE	OVERALL ASSESSMENT*				INDICATORS*							
	GOOD	OF CONCERN	INTERVENTION REQUIRED		VULNERABLE FINANCIAL POSITION		CREDITOR-PAYMENTS > 30 DAYS		MORE THAN 10% OF DEBT IRRECOVERABLE		DEFICIT	
Eastern Cape	32% (12)	42% (16)	26% (10)	▼	24% (9)	▼	86% (30)	▼	94% (33)	▲	26% (9)	▲
Free State	0% (0)	0% (0)	100% (18)	▼	94% (17)	▼	100% (13)	▲	100% (13)	▼	85% (11)	▼
Gauteng	18% (2)	46% (5)	36% (4)	▼	45% (5)	▼	91% (10)	▼	82% (9)	▲	45% (5)	▲
KwaZulu-Natal	47% (25)	30% (16)	23% (12)	▼	19% (10)	▼	86% (43)	▼	100% (50)	▲	10% (5)	▲
Limpopo	39% (9)	39% (9)	22% (5)	▼	9% (2)	▲	89% (17)	▼	89% (17)	▲	21% (4)	▲
Mpumalanga	25% (5)	50% (10)	25% (5)	▲	20% (4)	▼	89% (17)	▼	89% (17)	▼	42% (8)	▼
Northern Cape	8% (2)	36% (9)	56% (14)	▼	56% (14)	▼	96% (22)	▼	87% (20)	▲	65% (15)	▼
North West	14% (3)	27% (6)	59% (13)	▼	45% (10)	▲	86% (12)	▲	86% (12)	▲	50% (7)	▼
Western Cape	86% (24)	7% (2)	7% (2)	▲	7% (2)	▲	70% (19)	▲	89% (24)	▲	7% (2)	▲

\*including municipalities with disclaimed/adverse opinions

\*excluding municipalities with disclaimed/adverse opinions





## INFRASTRUCTURE DEVELOPMENT AND MAINTENANCE



COMPLIANCE WITH DIVISION OF REVENUE ACT REMAINED UNCHANGED AT 87%, BUT PROJECT MANAGEMENT WEAKNESSES REMAINED WIDESPREAD



### MANAGEMENT OF INFRASTRUCTURE GRANTS

<b>FUNDING</b>	MUNICIPAL INFRASTRUCTURE GRANT (MIG) 518 projects (209 municipalities)	PUBLIC TRANSPORT NETWORK GRANT (PTNG) 15 projects (10 municipalities)	URBAN SETTLEMENT DEVELOPMENT GRANT (USDG) 30 projects (8 municipalities)
Available to spend (percentage of funds spent)	R15,09 billion (94%)	R5,85 billion (93%)	R11,14 billion (96%)
Underspending by more than 10%	46 municipalities (22%)	4 municipalities (40%)	2 municipalities (25%)
Used for intended purpose	198 municipalities (95%)	10 municipalities (100%)	8 municipalities (100%)

<b>FINDINGS</b> (per project)	MUNICIPAL INFRASTRUCTURE GRANT (MIG)	PUBLIC TRANSPORT NETWORK GRANT (PTNG)	URBAN SETTLEMENT DEVELOPMENT GRANT (USDG)
Targets not achieved/ not evaluated	38% (199)	47% (7)	23% (7)
Reported achievements not reliable	14% (70)	13% (2)	7% (2)
Supply chain management findings	27% (142)	13% (2)	20% (6)
Not correctly accounted for in financial statements	5% (26)	None	17% (5)



### ROAD INFRASTRUCTURE

<b>ROAD INFRASTRUCTURE DELIVERY FINDINGS</b>	2016-17	2015-16
No approved road maintenance plan/priority list for renewal and routine maintenance	55% (107)	50% (89)
No assessment of condition of all infrastructure	27% (53)	18% (32)

**43% (84)** of the municipalities did not implement corrective action to address all findings raised in the previous year



## ROAD PROJECT PLANNING FINDINGS

**31% (61)** - No standard for infrastructure procurement and delivery management

**13% (25)** - No needs/cost estimates for road projects

**12% (23)** - No detailed project plan completed during planning phase

**11% (21)** - No feasibility study conducted



## ROAD PROJECT MANAGEMENT FINDINGS

**26% (51)** - Road projects exceeded planned completion date

**12% (24)** - No penalties imposed for projects not completed on time

**9% (18)** - No processes for project progress reporting

**9% (17)** - Construction sites not timeously handed over to contractors

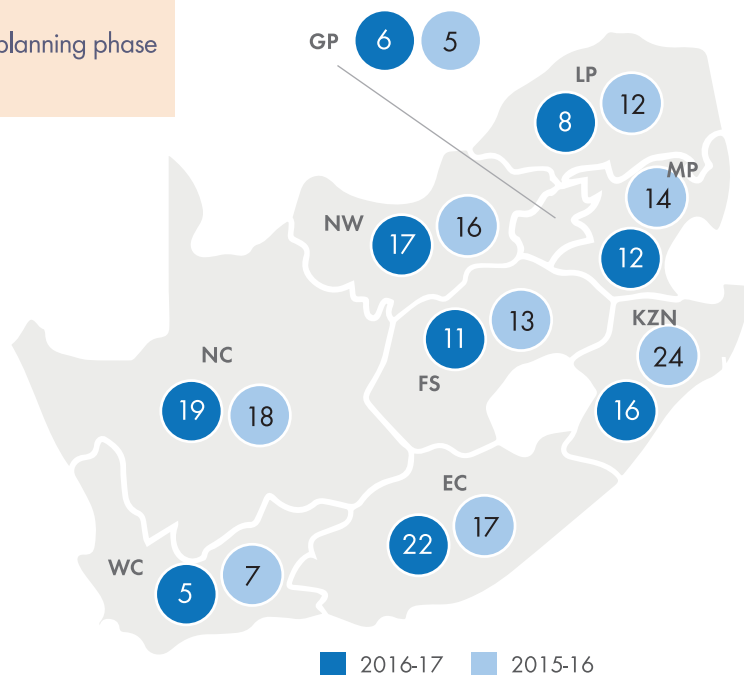
**8% (16)** - Work completed not verified prior to payment

## PROVINCIAL VIEW



### FINDINGS

AFFECTING DELIVERY OF ROAD INFRASTRUCTURE



## PROVISION OF WATER AND SANITATION

### PERFORMANCE PLANNING AND REPORTING BY MUNICIPALITIES THAT ARE WATER AUTHORITIES

	WATER		SANITATION	
Indicators not planned in SDBIP/IDP*	6% (8)	▲	8% (11)	▲
Indicators and targets not useful	4% (5)	▲	4% (5)	▲
Reported achievements not reliable	9% (13)	▲	10% (14)	▶
Targets for indicators not achieved	11% (15)	▲	6% (8)	▲

### WATER AND SANITATION INFRASTRUCTURE PROJECTS

KEY FINDINGS ON INFRASTRUCTURE PROJECTS	WATER		SANITATION	
Exceeded completion date	26% (36)	▲	22% (30)	▲
With significant supply chain management findings	21% (29)	▲	17% (24)	▶
Project did not address cause of backlog	18% (25)	▲	16% (21)	▲
FUNDING	WATER		SANITATION	
Used for intended purpose	95%	▼	97%	▼
Not fully utilised	27%	▼	16%	▼
Underspending more than 10%	17%	▼	10%	▲

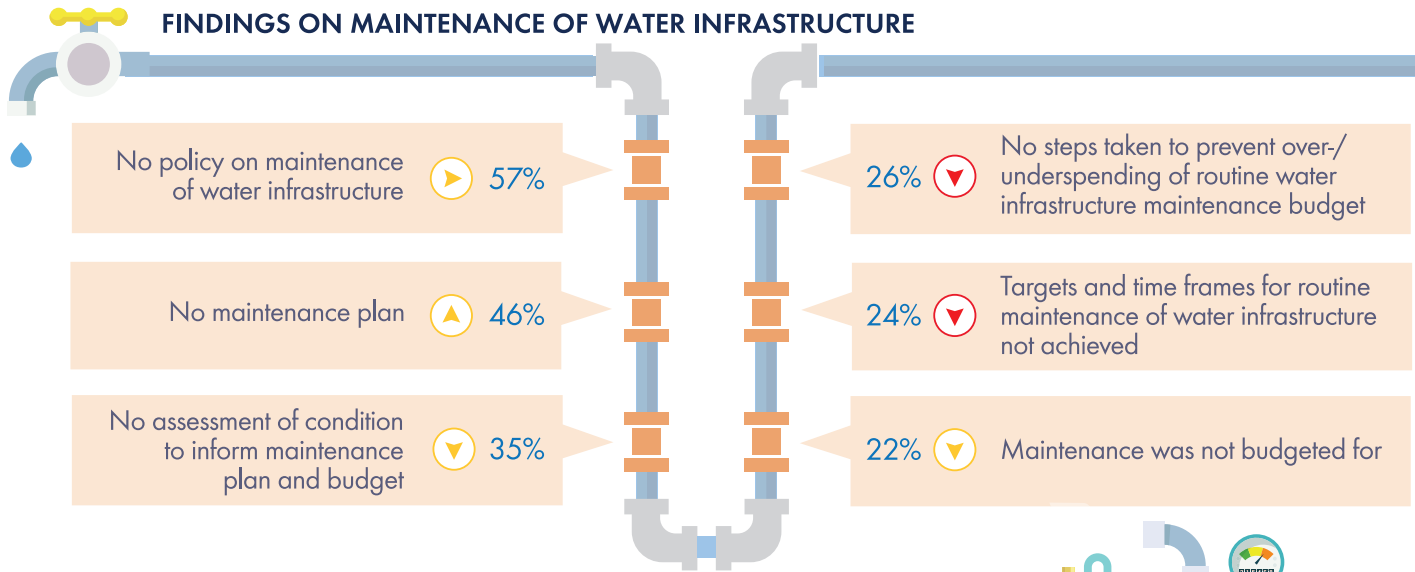
\*SDBIP/IDP: service delivery and budget implementation plan/integrated development plan



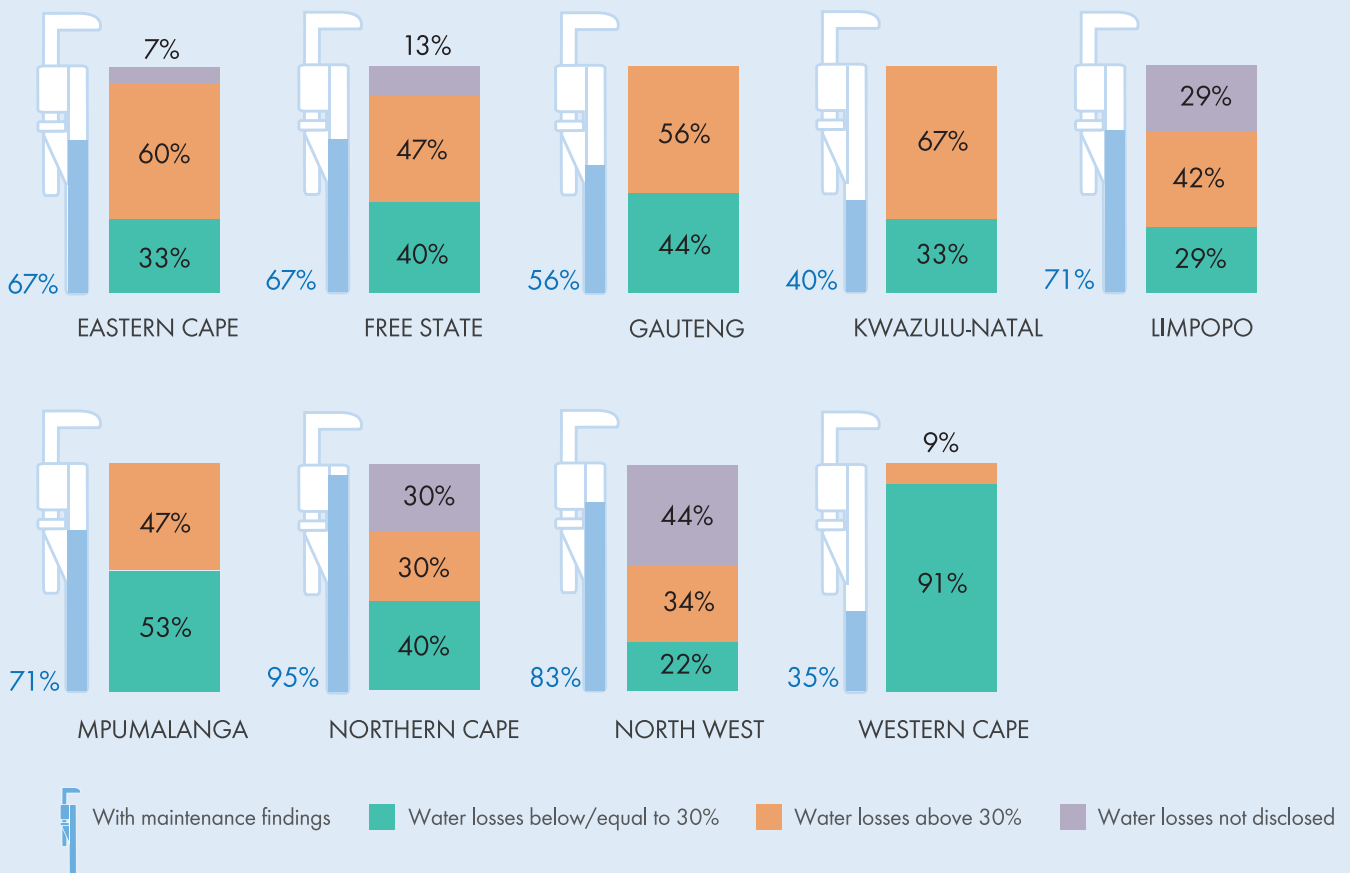


## MAINTENANCE OF WATER INFRASTRUCTURE AND EXTENT OF WATER LOSSES

### FINDINGS ON MAINTENANCE OF WATER INFRASTRUCTURE



### MAINTENANCE WEAKNESSES AND WATER LOSSES





# HUMAN RESOURCE (HR) MANAGEMENT



SLIGHT REGRESSION IN GOOD  
HR MANAGEMENT CONTROLS -  
FROM 28% (62) TO 24% (58)

## AVERAGE VACANCY RATES

OVERALL **21%**

SENIOR MANAGEMENT **28%**

FINANCE UNITS **18%**

Resourcing of 48% (114) of the finance units assessed as either concerning or requiring intervention

## KEY POSITIONS - VACANCIES, STABILITY AND ACHIEVEMENT OF COMPETENCY REQUIREMENTS

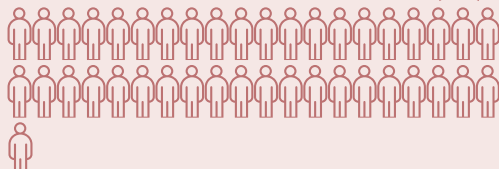
### MUNICIPAL MANAGER

VACANCIES **27% (65)**

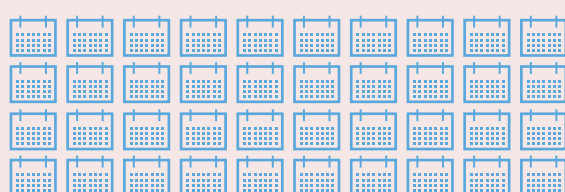
VACANT for less than 6 months - **10% (24)**



VACANT for 6 months or more - **17% (41)**



STABILITY **40 months** (Average number of months in position)



COMPETENCY **10% (17)**

Did not meet minimum requirements - **6% (11)**



Minimum competencies not assessed/  
limitations - **4% (6)**



### CHIEF FINANCIAL OFFICER

VACANCIES **28% (68)**

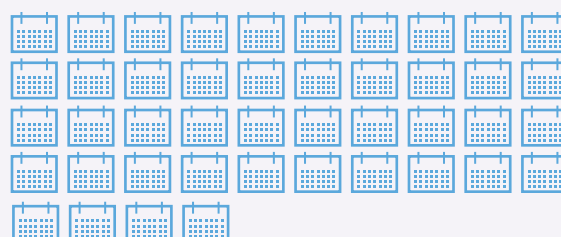
VACANT for less than 6 months - **7% (17)**



VACANT for 6 months or more - **21% (51)**



STABILITY **44 months** (Average number of months in position)



COMPETENCY **11% (19)**

Did not meet minimum requirements - **8% (14)**



Minimum competencies not assessed/  
limitations - **3% (5)**



## STABILITY\* IN KEY POSITIONS PRODUCED BETTER AUDIT OUTCOMES

### MUNICIPAL MANAGER

\*Average number of months in position



### CHIEF FINANCIAL OFFICER

\*Average number of months in position



Unqualified with no findings



Unqualified with findings



Qualified with findings



Adverse and disclaimed with findings

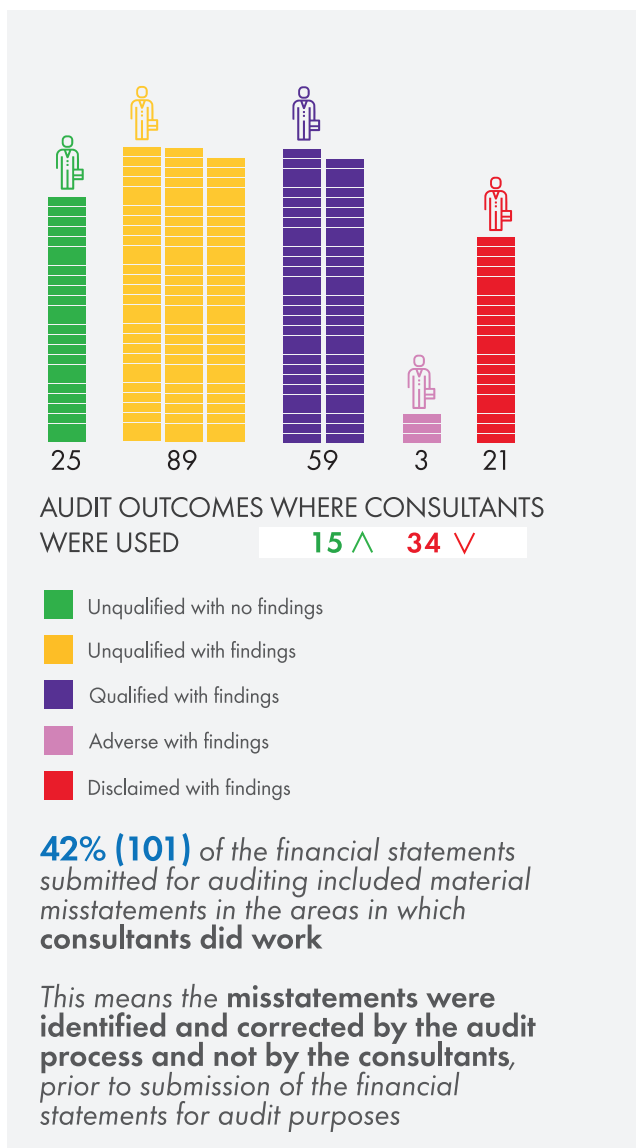




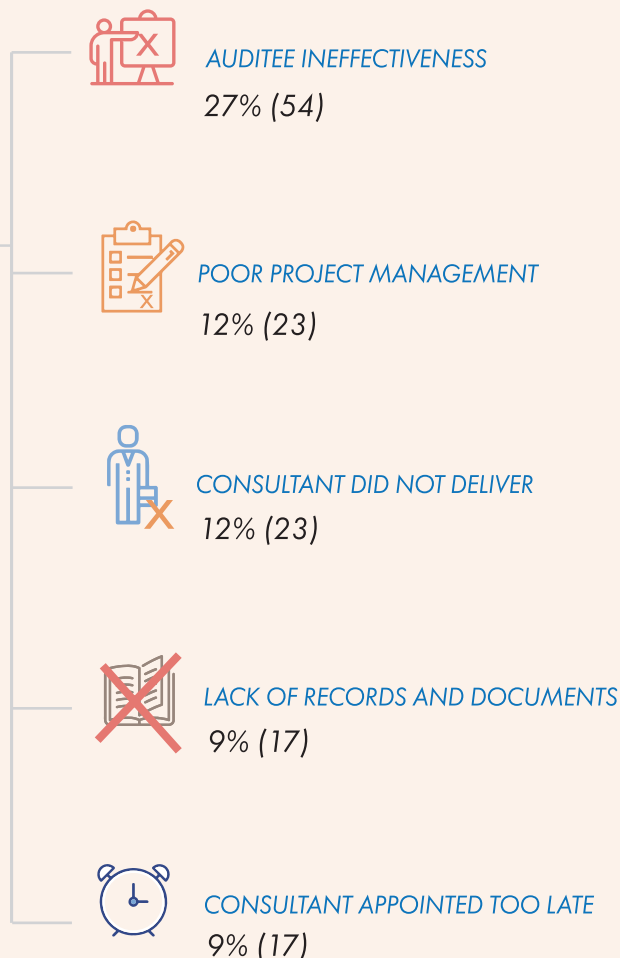
## EFFECTIVE USE OF CONSULTANTS

Local government spent an estimated **R2 772 million** on consultancy services in **2016-17**

### CONSULTANTS USED FOR FINANCIAL REPORTING SERVICES - R757 million (2015-16: R752 million)



### REASONS WHY FINANCIAL REPORTING CONSULTANTS WERE INEFFECTIVE



### MANAGEMENT OF CONSULTANTS - ALL SERVICES

At **69%** of the **227** municipalities that used consultancy services, significant weaknesses were identified in the following areas:

- 54%** Performance management and monitoring
- 48%** Transfer of skills
- 31%** Planning and appointment process

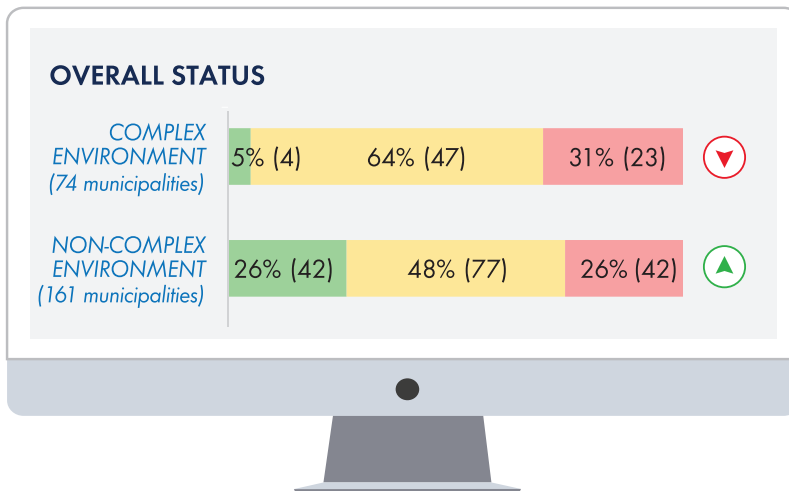


## INFORMATION TECHNOLOGY (IT) CONTROLS



SLIGHT IMPROVEMENT  
IN IT CONTROLS

An inherent part of the control environment at municipalities is the status of their IT controls. IT controls ensure the **confidentiality, integrity** and **availability** of state information, enable **service delivery**, and promote **security** in local government.



Municipalities with a **complex IT environment** have sophisticated hardware (e.g. more than one server and operating system) and software (e.g. customised applications); employ advanced technologies and transact online; and rely heavily on IT controls for financial and performance information.

Municipalities with a **non-complex IT environment** use less sophisticated hardware and software (i.e. commercial off-the-shelf infrastructure and applications), while key controls over financial and performance information do not overly rely on IT.

### COMPLEX ENVIRONMENT



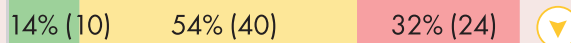
#### INFORMATION TECHNOLOGY FOCUS AREAS



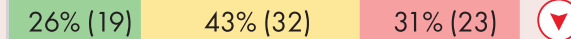
##### SECURITY MANAGEMENT



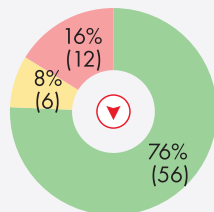
##### USER ACCESS MANAGEMENT



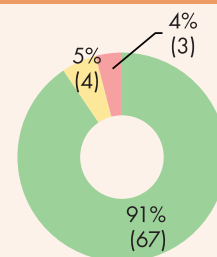
##### IT CONTINUITY



#### QUALIFICATIONS AND EXPERIENCE – chief information officers or IT managers



#### USE OF IT CONSULTANTS

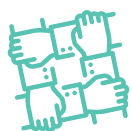


Good Of concern Intervention required

At the 74 municipalities with complex IT environments, only 9% appointed IT consultants due to a shortage of skills or to fill vacant positions. Although the other 91% did not appoint IT consultants to fill vacant positions, they were still using IT consultants to support them. The total approximate cost for IT consultants at these municipalities was R540 million.







## SUPPORT TO LOCAL GOVERNMENT

### PROGRESS TOWARDS IMPLEMENTATION OF SUB-OUTCOMES OF REVISED MEDIUM-TERM STRATEGIC FRAMEWORK INITIATIVES

#### SUB-OUTCOME 1: MEMBERS OF SOCIETY HAVE SUSTAINABLE AND RELIABLE ACCESS TO BASIC SERVICES

##### Programme management office and municipal asset management

Municipalities not utilising municipal asset management system



Municipalities not receiving related assistance from Department of Cooperative Governance (DCoG)



PROVINCE	EASTERN CAPE	FREE STATE	GAUTENG	KWAZULU-NATAL	LIMPOPO	MPUMALANGA	NORTHERN CAPE	NORTH WEST	WESTERN CAPE
Municipalities not utilising municipal asset management system	5% (2)	28% (5)	0% (0)	0% (0)	0% (0)	5% (1)	16% (4)	14% (3)	0% (0)
Municipalities not receiving related assistance from DCoG	3% (1)	6% (1)	0% (0)	0% (0)	0% (0)	0% (0)	20% (5)	5% (1)	0% (0)

53% (8) of those not utilising Municipal Infrastructure Support Agent's asset management system or similar were also qualified on assets

#### SUB-OUTCOME 3: DEMOCRATIC, WELL-GOVERNED AND EFFECTIVE MUNICIPAL INSTITUTIONS CAPABLE OF CARRYING OUT THEIR DEVELOPMENTAL MANDATE AS PER THE CONSTITUTION

##### Public participation

PROVINCE	EASTERN CAPE	FREE STATE	GAUTENG	KWAZULU-NATAL	LIMPOPO	MPUMALANGA	NORTHERN CAPE	NORTH WEST	WESTERN CAPE	TOTAL
Ward-level improvement plans not submitted for auditing	3	1	0	1	0	0	2	1	0	8
Ward-level improvement plans not developed	9	5	0	0	0	5	11	5	3	38
Ward-level improvement plans did not address basic concerns	0	1	0	0	0	2	1	2	0	6
Ward committees not established for each ward	7	0	2	1	0	0	3	2	1	16

#### SUB-OUTCOME 4: SOUND FINANCIAL AND ADMINISTRATION MANAGEMENT

##### Implementation of back-to-basics (B2B) programme

⬇️ SLIGHT REGRESSION IN NUMBER OF MUNICIPALITIES NOT REPORTING ON A MONTHLY BASIS

##### No monthly reporting on B2B

2016-17 15% (37)

2015-16 14% (32)

PROVINCE		EASTERN CAPE	FREE STATE	GAUTENG	KWAZULU-NATAL	LIMPOPO	MPUMALANGA	NORTHERN CAPE	NORTH WEST	WESTERN CAPE
No monthly reporting on B2B	2016-17	41% (16)	22% (4)	0% (0)	6% (3)	0% (0)	10% (2)	12% (3)	32% (7)	7% (2)
	2015-16	23% (8)	39% (7)	0% (0)	0% (0)	5% (1)	21% (4)	33% (8)	19% (4)	0% (0)
	Movement	<div>▼</div>	<div>▲</div>	<div>▶</div>	<div>▼</div>	<div>▶</div>	<div>▲</div>	<div>▲</div>	<div>▼</div>	<div>▼</div>



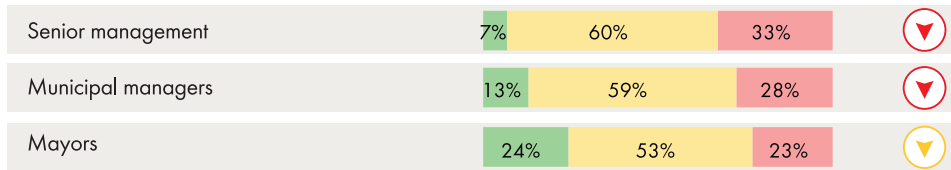


## ASSURANCE PROVIDERS



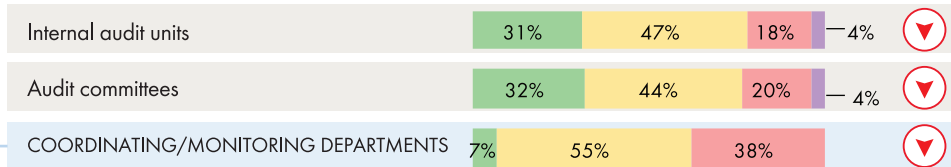
OVERALL REGRESSION IN ASSURANCE PROVIDED BY ROLE PLAYERS

### ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP

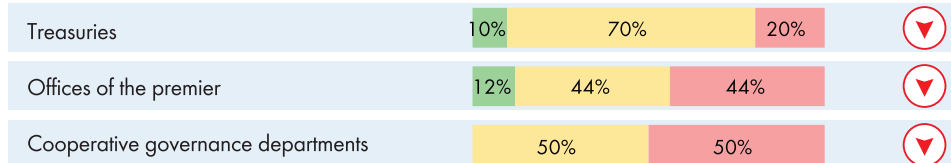


Low levels of assurance show a breakdown in a crucial element of the improvement cycle, being the monitoring to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved

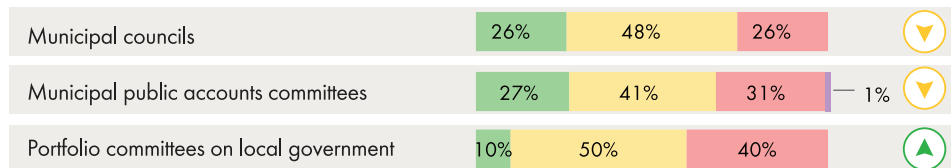
### INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT



FINDINGS	INTERNAL AUDIT UNITS	AUDIT COMMITTEES
Fully compliant with legislation	83% (190)	82% (188)
Positive impact on audit outcomes	39% (89)	53% (121)
Evaluates reliability of financial information	87% (200)	89% (204)
Evaluates reliability of performance information	84% (194)	86% (198)
Evaluates compliance with key legislation	89% (205)	88% (203)
Interacts with executive authority	N/A	90% (207)

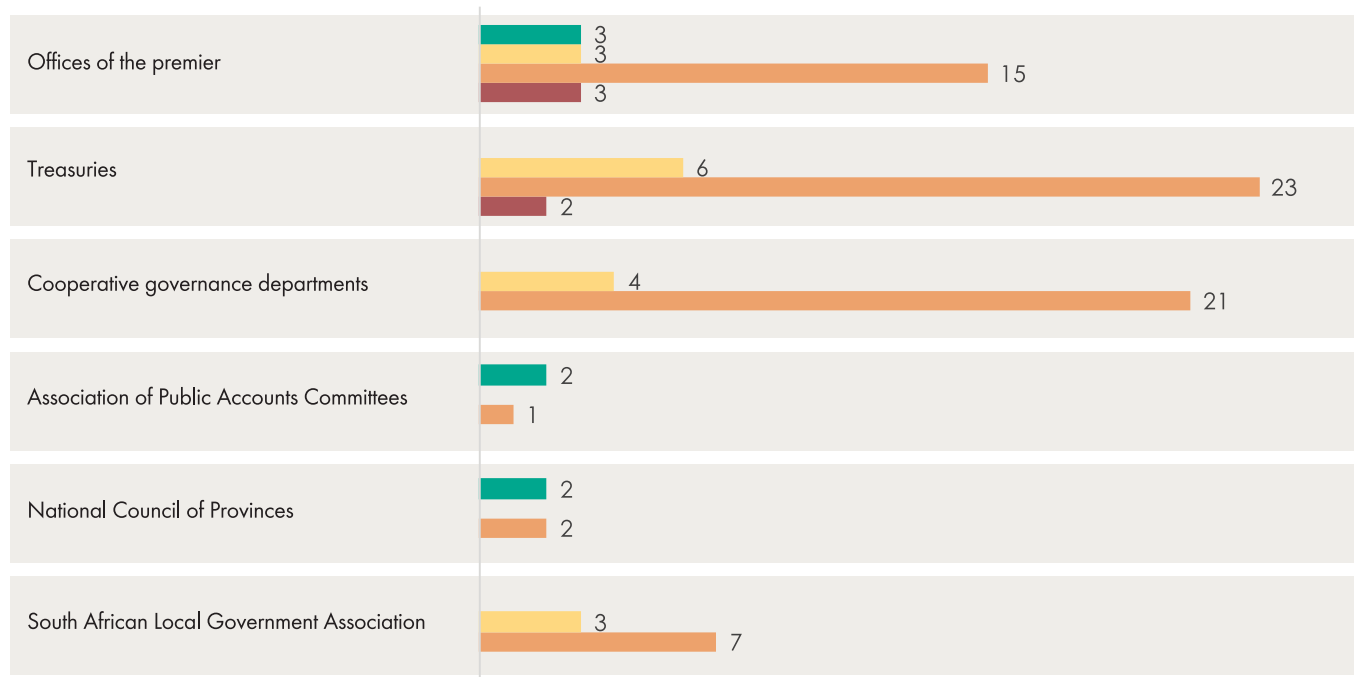


### EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT



Provides assurance 
 Provides some assurance 
 Provides limited/no assurance 
 Not established

### STATUS OF COMMITMENTS MADE IN PREVIOUS YEARS BY NATIONAL AND PROVINCIAL ROLE PLAYERS TO SUPPORT LOCAL GOVERNMENT



Completed - significant impact 
 Completed - limited impact 
 In progress 
 Not implemented





## STATUS OF METROS

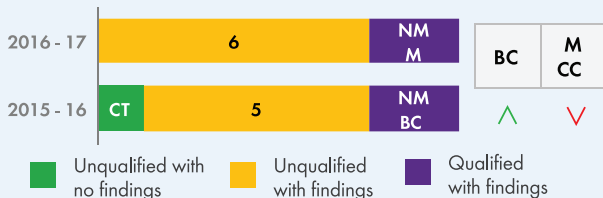


OVERALL REGRESSION IN AUDIT OUTCOMES

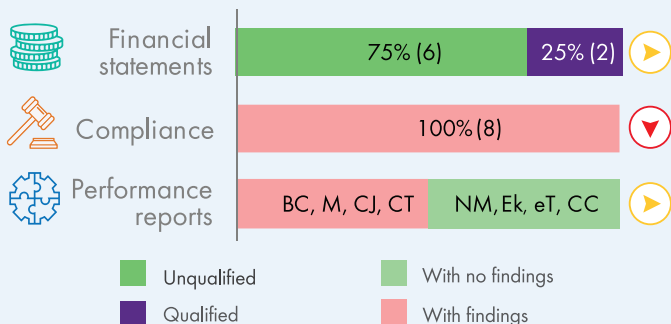


### AUDIT OUTCOMES

Almost 55% (R195 billion) of the total municipal expenditure budget of R362 billion was managed by metros



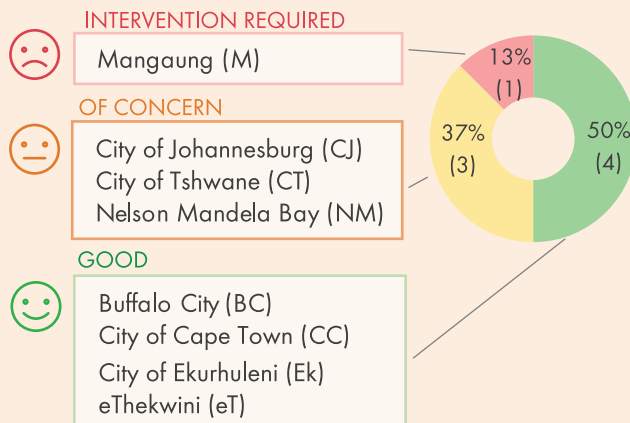
### AUDIT OUTCOMES ON THREE KEY AREAS



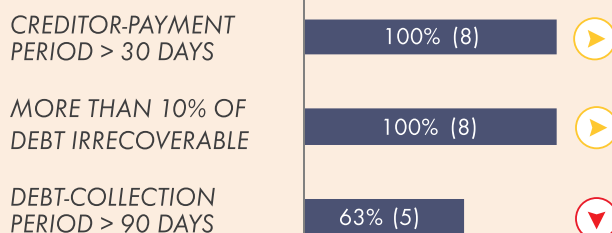
eThekweni and City of Cape Town submitted their financial statements and performance reports with no material misstatements



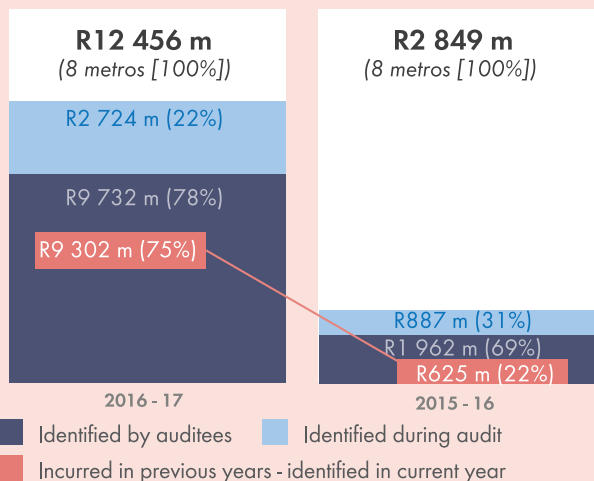
### FINANCIAL HEALTH



### FINANCIAL HEALTH INDICATORS



### IRREGULAR EXPENDITURE



### VACANCIES AND STABILITY

	MUNICIPAL MANAGER	CHIEF FINANCIAL OFFICER
Vacancies at year-end	None	CJ*
Stability (Average number of months in position)	23	63

\*Vacant for less than 6 months



### FINDINGS ON SUPPLY CHAIN MANAGEMENT

METROS	UNCOMPETITIVE PROCESS	INADEQUATE CONTRACT MANAGEMENT	AWARDS TO CLOSE FAMILY MEMBERS	LIMITATION	AWARDS TO EMPLOYEES
Buffalo City Metro					
City of Johannesburg Metro					
City of Tshwane Metro					
City of Ekurhuleni Metro					
eThekweni Metro					
Mangaung Metro					
Nelson Mandela Bay Metro					
City of Cape Town Metro					

With no findings With findings With material findings

