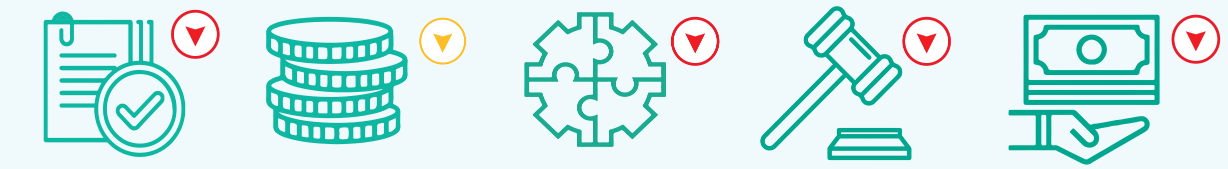
SECTION 5

Provincial overviews

5.1 EASTERN CAPE

PROVINCIAL SNAPSHOT



Clean audits: 5%
(2015-16: 20%)

Quality financial statements: 62%
(2015-16: 63%)

Quality performance report: 31%
(2015-16: 40%)

No findings on compliance with legislation:5%
(2015-16: 20%)

Irregular expenditure: R13 558 m
(2015-16: R5 428 m)

The Eastern Cape local government consists of 49 auditees, made up of 39 municipalities and 10 municipal entities. Ten municipalities reported on in the previous year were merged into four new municipalities at the beginning of the year under review. The 2015-16 percentages in the graphic above therefore exclude the 10 municipalities that were disestablished to ensure greater comparability of the information. In addition, the outcomes of the 10 municipal entities are excluded from this analysis, as they did not have a significant impact on the overall outcomes of local government in the province.

At the start of their term, we informed the political leadership of their roles and responsibilities in ensuring a responsive, accountable, effective and efficient local government that is characterised by robust and transparent financial and performance management systems and by resilient oversight and accountability mechanisms. During our engagements on the status of records review, we provided early warning signals on the need to maintain stability in the administrative leadership, fill vacancies timeously, and improve the status of records management and basic internal controls. In addition, we emphasised the need to be diligent and decisive in dealing with irregularities. The engagements were consistent and done in advance to assist in improving the audit outcomes (and sustaining the good outcomes) as well as to avoid a collapse in governance that could lead to accountability failures.

The municipal leadership did not heed our numerous warnings about the impact that changes at an administrative level and the failure to fill vacancies timeously would have on accountability. As a result, the improvements in audit outcomes seen over the past few years stalled. The overall outcomes reflect a net regression of one, made up of six improved and seven regressed audit outcomes. The seven regressions include five municipalities that had unqualified opinions with no findings in the prior year. The disregard for our messages and warning signals was most noticeable at Mnquma where there was a collapse in oversight and governance accompanied by a breakdown in internal controls, caused by leadership that was in conflict with itself, unrest and strikes. These accountability failures caused the municipality's outcome to regress from an unqualified opinion with findings to a disclaimed opinion as a result of it not being able to account for its financial affairs.

During previous years, we continuously warned the provincial leadership that the mergers were complex and needed leadership to drive the changes and manage the process. This would entail making sure that systems were tested for integration and alignment, that there were adequate resources including skilled and competent people to support the implementation of plans, and ensuring that core staff members were retained. Our warnings were ignored, resulting in three of the four merged municipalities not being able to account for their current year's financial affairs – as reflected by their disclaimed audit opinions.

The municipalities that received modified opinions were similar to last year at 39%. The most common qualification areas requiring attention to improve transparency included the disclosure of irregular expenditure; property, infrastructure and equipment; and receivables. During the year under review, we saw a reduction in the use of consultants to prepare financial statements. This reduction in both the number of municipalities using consultants and their associated cost is a positive response to our previous recommendations relating to building in-house capacity and reducing the reliance placed on external consultants to prepare financial statements. However, this resulted in a 21% regression in the quality of the financial statements submitted for auditing, as 90% of the municipalities required material adjustments to their financial statements in 2016-17.

It is encouraging to note that the provincial treasury capacitated its municipal finance unit and regularly engaged with municipalities on matters affecting their financial management. The provincial cooperative governance department supported municipalities in the key areas of action plans, back to basics, public participation, revenue enhancement strategies, human resource planning, and capacity building. Municipalities in the province are in the early stages of implementing the Municipal Standard Chart of Accounts, with the aim of improving financial reporting. Five municipalities adopted this early and we raised findings at three of them. We are worried about the province's readiness to implement the Municipal Standard Chart of Accounts, as we assessed the readiness of 28% of the municipalities as concerning and that of a further 8% as requiring intervention. We have raised these concerns with the provincial treasury.

The 9% increase in the number of performance reports with findings and 15% regression in the quality of the performance reports submitted for auditing were due to poor planning as well as a lack of systems to track performance and to collect, collate and record information about actual performance. The lack of improvement in this area by 69% of the municipalities, despite our reporting thereon for a number of years, ultimately affects the process that helps to improve performance and achieve positive results.

The 15% regression in compliance with legislation and overall high levels of non-compliance were due to a culture where leadership tolerated compliance deviations instead of taking appropriate action against those responsible for transgressions. When a municipality or its entities enter into contracts for goods and services, they must do so in a manner that is transparent, competitive, equitable, fair and cost-effective. For a number of years, we have expressed concern over the disregard for the requirements of our country's constitution in procuring goods and services. The culture of non-compliance and lack of consequences for legislative transgressions resulted in cumulative irregular expenditure of R22,9 billion at the end of the financial year under review. An amount of R9,4 billion in irregular expenditure brought forward from the prior period was neither written off after investigation nor recovered as required by legislation. Furthermore, we could not find evidence that 49% of the municipalities had investigated and followed up the irregular expenditure incurred by them in previous years.

Irregular expenditure increased due to instability, disregard for laws and regulations, and the absence of solid internal controls

An amount of R13,6 billion in irregular expenditure was incurred and disclosed during the year under review. This irregular expenditure may not be the full amount incurred, as 12 municipalities were qualified on the irregular expenditure disclosed by them. This amount included R7,2 billion identified as a result of the diligence applied by the new leadership in identifying payments made on contracts and quotations in the previous year that had been awarded irregularly and reclassified as irregular. A further R4,6 billion related to open contracts that were awarded irregularly in contravention of supply chain management legislation in previous years. There was very little evidence that councils had investigated the validity of these awards that continue to be paid despite having been deemed irregular. The remaining R1,8 billion related to contracts and quotations awarded irregularly in the year under review and not prevented by the accounting officers.

Most of the irregular expenditure disclosed was caused by supply chain management transgressions. One such common transgression was participating in contracts secured by other organs of state (in terms of supply chain management regulation 32) without ensuring that all of the conditions for participation were met. For example, one municipality used a contract secured by another municipality to appoint consultants to assist with financial reporting at a cost of R62 million over three years. The original contract stipulated a contract value of R7 million over 10 months, which the second municipality exceeded by R55 million and 26 months. Thus, this municipality did not comply with the requirements of regulation 32, as it was not participating in an existing contract but rather entered into a new contract with the supplier. Therefore, this contract was irregular and should have gone out on open tender.

The provincial cooperative governance department should assist municipalities to investigate prior year irregular expenditure and to deal with the large number of investigations required. Councillors should receive training on how to conduct investigations into irregular expenditure appropriately, which will ensure that oversight bodies take a strong stance against irregular expenditure and that transgressors face adequate consequences.

A municipality must strive, within its financial and administrative capacity, to achieve the objectives set out in our country's constitution. We are concerned about the financial sustainability of 24 municipalities in the province. They include five municipalities whose net current liabilities plus commitments and contingencies exceeded their entire budgets for 2017-18 and a further 19 municipalities where a large percentage of their 2017-18 budgets would be required to settle their current liabilities, commitments and contingencies. Four of the mentioned 24 municipalities had Eskom debts totalling R303 million that were significantly in arrears. The financial difficulties faced by these municipalities are an accumulation of various factors over a number of years. These include low revenue bases, inadequate cash-flow management, weak internal controls, poor governance, and accountability failures.

One of the key objectives of local government contained in the constitution is to promote social and local development – municipalities can do this by supporting small, medium and micro-sized enterprises. In order for such enterprises to flourish, they should be paid for the goods and services delivered by them within 30 days. However, 21 municipalities did not pay their suppliers within this stipulated period. This was due to 77% of the municipalities not including this requirement as a performance target and accounting officers not being held accountable.

South Africa needs to maintain and expand its electricity, water, transport and telecommunications infrastructure to support economic growth and social development goals. Our audits focused on the use of grants for their intended purposes and the effective implementation of road, water and sanitation infrastructure in local government. We found that the municipal infrastructure grant was used for its intended purposes, but that 22% of the municipalities underspent on their allocations by more than 10% and key milestones were not achieved on 36% of the projects.

Effective project management of infrastructure includes adequate planning that focuses on the needs of the community, clear scoping to allocate the right amount of work to successfully complete the project, and the use of competent service providers for the implementation of the project. An example where the needs of the community were not assessed is a municipality that provided two toilets (instead of one) to each household in a village while there was a backlog of 14 983 households that did not have access to sanitation services in other areas of the municipality.

We also noted poor project planning and implementation pointing to poor monitoring and evaluation practices throughout the project life cycle. For example, a contractor was appointed on a project valued at R54 million, and subsequently abandoned the site due to cash-flow problems and poor workmanship after he had been paid R15 million. As a result, a new contractor was appointed to carry out remedial work and to complete the project at a cost of R84 million. The completion of this project was delayed significantly, as it had a planned completion date of 30 June 2015 but was only 78% complete at 31 August 2017. This trend of delays was noted throughout the province as the work in progress balance increased from R10,8 billion to R12,5 billion during the year under review – R1,7 billion more than the previous year's balance.

Management was generally slow in implementing our recommendations to improve the control environment, including the controls in the information technology environment. This resulted in ineffective, slow and complicated manual processes, poor risk management, and ineffective governance. Very few municipalities had well-established and effective internal controls relating to the areas of leadership, financial and performance management, and governance. As a result, the required daily, weekly, monthly and annual disciplines were not embedded in the systems and processes at most municipalities. Furthermore, monitoring and oversight of the internal controls by all assurance providers were not effective and had a limited impact on the overall performance in the province.

At our numerous interactions with key role players in the province, we provided insights for them to take action on the issues reported relating to governance, financial management, performance management and oversight. We also conducted status of records reviews to provide the accounting officers with early warning signals on internal controls, irregular expenditure, the proactive auditing of service delivery and budget implementation plans, and financial viability. Despite these engagements being well received, the accounting officers were slow to act on our recommendations.

The amendments to the Public Audit Act could result in a shift in behaviour, culture, public trust and confidence. This will ultimately lead to local government institutions that are robust in providing basic municipal services, political leadership that does not interfere in operations (specifically relating to supply chain management and human resource appointment processes), municipalities being attractive to professionals thus retaining skills in the province, and transparent finances represented by good audit outcomes.

5.2 FREE STATE

PROVINCIAL SNAPSHOT

Clean audits: 0%
(2015-16: 4%)

Quality financial statements: 56%
(2015-16: 83%)

Quality performance report: 17%
(2015-16: 44%)

No findings on compliance with legislation: 0%
(2015-16: 6%)

Irregular expenditure: R675 m
(2015-16: R813 m)

The fundamental principles needed to improve prior year audit outcomes, break the cycle of impunity and ensure accountability, include proper planning, execution and supervision of internal controls as well as consequences for poor performance. Without these fundamental principles and leadership setting the right tone, the audit outcomes did not improve to the desired level, as the leadership did not address the root causes of audit findings, strengthen internal controls, or improve monitoring.

Continued lack of accountability and leadership failures were the main causes of government failures, which led to a significant regression in audit outcomes

During 2015-16, we urged the political and administrative leadership to take accountability for, and address control weaknesses to improve, the audit outcomes. Notwithstanding the provincial leadership's continued commitments every year to implement basic key controls to ensure a sound control environment and implement consequences for poor performance and transgressions, these commitments have not yet been realised. Assurance providers did not prioritise the need to get the basics right, nor did they implement fundamental key controls such as monitoring compliance with legislation, adequate records management, daily and monthly processing and reconciling controls as well as accurate and regular financial and performance reporting.

This continued lack of accountability and leadership failures were the main causes of governance failures, which led to a significant regression in audit outcomes from the prior year. Seven municipalities regressed while no auditees were able to improve. Fezile Dabi District regressed from a clean audit to an adverse opinion. Kopanong and Mangaung Metro regressed from an unqualified audit opinion with findings to a qualified audit opinion. Mohokare and Tokologo regressed from unqualified audit opinions with findings to disclaimed opinions. Letsemeng and Nketoana regressed from qualified audit opinions to disclaimed opinions. Furthermore, five outstanding audits had not been finalised by the cut-off date for inclusion in this report due to the municipalities' late or non-submission of financial statements in an attempt to improve or sustain their previous year's audit outcome, namely Lejweleputswa District (consolidated financial statements), Mafube, Maluti-A-Phofung, Masilonyana, and Ngwathe.

If we had not allowed any audit adjustments, only Thabo Mofutsanyana District would have received a financially unqualified audit opinion. Municipalities relied on the audit process and consultants to identify shortcomings and to produce credible financial statements, despite most chief financial officers meeting the minimum competency requirements. This points to a lack of leadership and supervision, as chief financial officers did not review the financial statements and the relevant supporting information before submission for auditing. Inadequate skills and/or vacancies in finance departments contributed to the poor implementation of internal controls, thus creating a continued over-reliance on consultants in the province. The 12% increase in the senior management vacancy rate also contributed to the regression in audit outcomes. Despite us raising concerns during quarterly engagements with the political and administrative leadership about municipal manager contracts expiring shortly after the local government elections, as well as the vacancies and instability in senior management positions and the staff supporting them, very limited action was taken.

The slow response by the political and administrative leadership to address the weak control environment, a lack of consequences, and the continued disregard for legislative prescripts resulted in findings on compliance with legislation at all 18 municipalities. The main findings related to material adjustments to the financial statements, the inadequate management of expenditure as well as unauthorised, irregular and fruitless and wasteful expenditure not being prevented. Additionally, there was a noticeable regression in the quality of the reported performance information, as 15 municipalities had material findings, compared to 10 in the previous year. If we had not allowed audit adjustments, all municipalities would have had findings on their performance information. Performance reporting did not receive the necessary attention to enable accountability for, and transparency on, the performance against the political leadership's promises to citizens.

Despite information systems being critical to the integrity and availability of financial and performance information to enable reliable reporting, the information technology environment remained weak at most of the municipalities. There were also no dedicated strategies at any of the municipalities to implement an information technology platform to assist in reporting on performance information. At Mohokare and Tokologo, the weak information technology environment contributed to us raising material findings in their audit reports. Mohokare migrated to a new financial system without a proper system changeover process; while the system at Tokologo was breached by a virus and adequate backups were not available to restore reliable data. Most municipalities have not yet finalised their migration and mapping to the Municipal Standard Chart of Accounts; and where it had been done, challenges are still being experienced. The general information technology control environment, including the full implementation of the Municipal Standard Chart of Accounts, should be prioritised to ensure that complete and accurate financial information is available for the 2017-18 audit of the financial statements.

Irregular expenditure disclosed in the financial statements decreased from R813 million to R675 million. The decrease was due to Matjhabeng reporting irregular expenditure of R534 million in 2015-16, of which R228 million related to prior years, to address a qualification. The main contributors to irregular expenditure were Matjhabeng (R327 million), Tokologo (R57 million), and Letsemeng (R56 million). The most common instances of irregular expenditure related to competitive bids not being invited, bid adjudication committees not being composed properly, and the use of contracts secured by other organs of state without meeting the requirements of supply chain management regulation 32. It is concerning that R227 million of the irregular expenditure incurred related to multi-year contracts entered into in previous years that had not yet been dealt with appropriately, with Matjhabeng contributing R164 million. In 2016-17, the newly elected administration incurred R413 million of the total irregular expenditure. The closing balance of irregular expenditure stood at R2,5 billion for the province, which indicated that irregular expenditure was not always adequately investigated to identify the officials to be held accountable for the possible recovery of losses, resulting in the year-on-year increase in the balance.
A culture of no consequences has been created through leadership's involvement in the decision-making that led to transgressions. As a result, where irregular expenditure was investigated, officials were seldom found liable and amounts were written off. The continued disregard for procurement processes by the administrative and political leadership that resulted in irregular expenditure, coupled with limited consequences for these transgressions, is creating an environment open to misappropriation, wastage and the abuse of state funds.

The Medium-Term Strategic Framework calls for the establishment of an accountable, effective and efficient local government that promotes accountability for government spending in a manner that will have a positive impact on people's lives. In spite of this, unauthorised expenditure of R2,9 billion (2015-16: R2,5 billion) was incurred. At Letsemeng, Mohokare and Tswelopele, the municipal infrastructure grant was not used for its intended purpose. Spending on key projects relating to water and sanitation was riddled with shortcomings, as the municipalities did not always apply the principles of sound project planning and management, resulting in poor quality workmanship and delays in the completion of projects. Consequently, key performance targets were not always achieved or were not accurately reported.

An example of poor project planning and management was the construction of the Thabong T16 waterborne sanitation project of 1 300 stands in Matjhabeng, which started in 2014-15 at a budgeted amount of R62 million. The municipality prioritised the construction of the toilet structures, plumbing and internal sewers ahead of the bulk network at the pump station, while the sewer pipeline was also not connected to the pump station. This resulted in sewage overflow around the area of construction, which caused pollution and which could potentially compromise the health and safety of the Thabong residents. The appointment of the contractors was irregular and the project was still in progress. To date, R54 million had been spent on this contract. The municipality also entered into an agreement for the upgrading of the Nyakallong wastewater treatment works in 2012 for R52 million. A contractor was appointed in 2012, but a new contractor had to be appointed in 2016 – the municipality did not provide the reason for the change in contactor. This was done without following competitive bidding processes, which resulted in irregular expenditure. To date, R30 million had been spent on this contract. The significant delays in completing the project resulted in an unbearable odour for residents due to sewage overflowing in the street.

At Mangaung Metro, there were delays in various projects where significant amounts had been spent on planning and feasibility studies in previous years. For example, since the start of a project in 2012-13 for the planning and establishment of the airport development (N8) node with the purpose of establishing a new township development area, the municipality had spent R141 million on planning and establishment costs. However, no further progress had been made on this project and approval for the township establishment had not been obtained from the relevant planning tribunal.

Leadership's lack of accountability for sound financial management had a negative impact on municipalities' financial sustainability. Municipalities' financial health deteriorated from a net current liability position (where current liabilities exceed current assets) of R2,9 billion in the prior year to R4 billion in the current year. Municipalities faced significant cash-flow constraints, as they did not maximise the revenue from service charges and rates nor the collection of amounts outstanding from consumers. Municipalities also incurred significant electricity and water distribution losses of R1 billion (2015-16: R851 million) due to theft, illegal connections, poor monitoring of indigents' consumption, and poorly maintained infrastructure. Given these cash-flow constraints, municipalities fell behind with their payments for bulk purchases of electricity and water to Eskom by R2,5 billion (2016: R1,6 billion) and water boards by R2,5 billion (2015-16: R1,8 billion), which were outstanding at 30 June 2017. These late payments contributed to most of the fruitless and wasteful expenditure of R324 million (2015-16: R275 million), due to penalties and interest. The deterioration in municipalities' financial health was due to leadership not considering the budget when committing to strategic projects, not always paying the best price for goods and services, and wastage caused by poor planning. Without improved fiscal disciplines for the more effective, efficient and economical use of resources, municipalities' financial health and service delivery will continue to deteriorate.

Effective monitoring and oversight by all assurance providers are essential to break the cycle of impunity and to improve internal controls. The administrative and political leadership should create a culture that will result in a responsive, accountable, effective and efficient local government as envisaged in the Medium-Term Strategic Framework. Mechanisms to promote accountability typically include proper planning and budgeting; basic daily and monthly checks and balances on compliance as well as financial and performance information; ensuring stability in key positions; managing the performance of staff; and implementing consequences for poor performance and transgressions. Mayors and councillors should critically assess information, such as procurement deviations, before making decisions. 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.

We remain committed in our efforts to be a value-adding assurance provider through continuous engagements with the political and administrative leadership. We have reported the weaknesses in internal control and the risks that required attention in our management, audit and general reports. We provided root causes for audit findings and recommendations to address those root causes. We ensured that our messages were heard through quarterly engagements with all assurance providers. These actions have not had the desired impact and management was not always open and honest about key challenges. We have now extended our engagements to status of records reviews. These include an analysis of financial and non-financial information to identify key areas that may derail progress in the compliance with legislation and in the preparation of financial and performance reports. This could assist management to implement measures and action plans well in advance to lessen risks and the consequential regression in audit outcomes.

There has been an increased call for greater accountability in local government in the Free State. Our audits have consistently identified instances where accountability mechanisms in local government have failed. We trust that the proposed amendments to the Public Audit Act, once approved, will have a positive impact on implementing consequences. These amendments would deal with issues of recovery where losses have been suffered and enforcing accountability against officials responsible for such losses.

The fundamental principles needed to improve the audit outcomes require a commitment by leadership. They should therefore instil a culture of accountability and enforce adequate consequences where accountability failures occurred.

5.3 GAUTENG

PROVINCIAL SNAPSHOT

Clean audits: 9%	Quality financial statements: 100%	Quality performance report: 36%	No findings on compliance with legislation: 9%	Irregular expenditure: R3 653 m
(2015-16: 10%)	(2015-16: 100%)	(2015-16: 60%)	(2015-16: 20%)	(2015-16: R1 291 m)

The Gauteng local government sustained its audit outcomes in 2016-17 with one municipality (9%) obtaining a clean audit. These outcomes are based on a reduced number of 11 municipalities due to the establishment of Rand West City, following the merger of Randfontein and Westonaria after the local government elections in 2016. We commend Midvaal for sustaining a clean audit outcome for the last four years. This was as a result of the municipality institutionalising a number of best practices (which should be replicated across the province), such as timeously monitoring the implementation of action plans to ensure that internal control deficiencies are addressed, maintaining stability in key positions, and effectively applying consequences.

In the previous year, we commended the province on the significant milestone of all municipalities obtaining an unqualified opinion and emphasised the importance of Rand West City maintaining this achievement following the merger. While the sustainability of this achievement in the current year was encouraging, the quality of the financial statements submitted for auditing regressed as only 36% of the municipalities (2015-16: 50%), namely Midvaal, Sedibeng District, Merafong City and Mogale City, submitted financial statements without material misstatements. The continued poor quality of financial statements at some municipalities was the result of a lack of accountability by chief financial officers and finance officials who did not adequately review financial information during the year. We continue to highlight that reliance on auditors to identify errors in the financial statements, which are then corrected by municipalities to avoid qualifications, is not a sustainable practice.

Auditees should enhance measures to address control deficiencies, as these pose a risk to the sustainability of positive audit outcomes

The audit outcomes on reported performance information regressed, as only 36% of the municipalities (2015-16: 60%), namely Midvaal, City of Ekurhuleni Metro, Merafong City and West Rand District, did not have findings on the usefulness and reliability of their performance reports. However, only Midvaal achieved this without reliance on the audit process and submitted a performance report without material misstatements. The poor quality of performance reports is concerning and indicates that previous actions to address internal control deficiencies were not implemented in a sustainable manner. The political and administrative leadership should hold heads of monitoring and evaluation units accountable for the accurate reporting of performance information. This, in turn, will allow 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 only Midvaal did not have material findings on compliance with legislation. The most common finding related to procurement and contract management at 82% of the municipalities. We continue to highlight that non-compliance with legislation remains the major obstacle preventing most municipalities in the province from attaining a clean audit.

Encouragingly, unauthorised expenditure in the province decreased from R3,2 billion to R2 billion due to improved budget controls and monitoring, particularly at the City of Tshwane Metro, where unauthorised expenditure decreased by R1,3 billion. However, irregular expenditure increased significantly to R3,7 billion (2015-16: R1,3 billion) due to increased supply chain management non-compliance, as well as irregular expenditure on contracts awarded in previous years (so-called legacy contracts). The majority of the irregular expenditure (R2,4 billion: 66%) related to expenditure on legacy contracts, which were still under investigation. The City of Tshwane Metro was the largest contributor with irregular expenditure of R1,8 billion (50%), of which R1,6 billion (87%) was due to legacy contracts (including R1,3 billion on the smart prepaid meter contract). The City of Johannesburg Metro incurred R706 million of the irregular expenditure, of which R313 million related to legacy contracts. The City of Ekurhuleni Metro incurred R591 million of the irregular expenditure, of which R224 million related to legacy contracts (including R209 million relating to the bus rapid transport project). The majority of municipal investigations relating to these contracts were still ongoing and should therefore be prioritised.

The province's high levels of non-compliance with legislation and resultant irregular expenditure, increase the risk of possible losses of public resources. The proposed amendments to the Public Audit Act are well timed, as some municipalities in the province have already started implementing stringent consequences. In the context of these amendments, we therefore encourage all municipalities to take a strong stance against the abuse of public funds by ensuring that oversight structures, such as municipal public accounts committees, appropriately investigate transgressions.

The slow response by the administrative leadership, as reflected in the regression in the level of assurance provided by senior management, was largely due to senior officials not prioritising the timeous implementation of the action plans they had committed to. This included senior management's failure to perform credible reviews of financial and performance information and a failure to set a strong tone against acts of non-compliance. Municipal managers should hold senior management accountable for the timely and diligent implementation of action plans. In addition, at large metros with many municipal entities, management in the different departments and entities within the municipal group should work in an integrated manner to resolve audit findings and take joint accountability to improve the control environment.

Instability and vacancies in key positions were root causes that hindered an improvement in audit outcomes. At some municipalities, the contracts of senior managers, who are typically appointed for five years coinciding with local government elections, had recently expired. The resulting vacuum was filled by acting officials, which created an environment that did not support effective performance management and the enforcement of consequences. Instability in the political environment also contributed to the slow response by the administrative leadership; for example, Mogale City had four mayors in the previous financial year, which hindered the appointment of the municipal manager and the chief financial officer. At the City of Tshwane Metro, City of Ekurhuleni Metro and Mogale City, chief financial officers were appointed towards the end of the financial year, while the chief financial officer position was filled by an acting official at the City of Johannesburg Metro, Emfuleni and Rand West City. Three municipalities, namely Emfuleni, Lesedi and Merafong City, did not have a permanent municipal manager at year-end, while all other municipalities except Midvaal and West Rand District appointed new municipal managers during the financial year. This instability at municipal level resulted in a loss of institutional knowledge and good practices already implemented due to key controls being more closely linked to individuals than to established municipal processes.

In the context of the current economic climate, characterised by low economic growth, municipalities' financial sustainability remained constrained, as they continued to experience difficulty in collecting debt from municipal consumers for basic services. This was especially the case for local municipalities in the West Rand and Sedibeng regions, which had a negative impact on these municipalities' ability to pay providers for basic services. In a province characterised by an expanding population with resultant increased infrastructure development and maintenance needs, this also placed a strain on capital expenditure spending. Municipalities should therefore intensify debt-collection processes and embrace prudent and efficient financial spending to ensure that they are still able to provide essential services to their citizens.

The status of the information technology environment regressed, as most municipalities did not adequately implement basic information technology security and user access policies and procedures, and did not enforce monitoring and evaluation mechanisms. At most municipalities, user functions were not adequately segregated, which compromised the integrity of revenue systems. At the City of Johannesburg Metro, service level agreements with some information technology service providers were not adequately managed while some information technology contracts were irregularly awarded. The implementation of the Municipal Standard Chart of Accounts remained a concern, as most municipalities continued to experience delays and challenges. Vacancies at chief information officer and information technology manager level contributed to the instability and lack of accountability within the information technology environment. To address these recurring findings, consequences should be applied where information technology commitments are not met.

Gauteng municipalities and their entities, primarily through the province's three metros, were responsible for R145 billion (36%) of South Africa's local government expenditure budget. This included R21 billion in capital expenditure (30% of the total local government capital expenditure). These funds were allocated to, amongst others, water and sanitation, electricity, road and housing infrastructure projects; all of which are critical enablers to delivering essential services to communities. Our analysis of municipal grants and key infrastructure projects indicated that, encouragingly, 95% of the total municipal infrastructure grant funding of R464 million was used and planned targets were achieved at 94% of the 17 projects funded by this grant. A total of 94% of the R2,5 billion public transport network grant funding was spent at the three metros; similarly, the metros spent 95% of the R5,3 billion urban settlement development grant funding and achieved the planned targets at 40% of the five projects funded. This demonstrates that while grant funding is generally used adequately in the province, the municipalities need to pay greater attention to achieving the planned targets, especially relating to the urban settlement development grant.

Our analysis of water infrastructure projects found, amongst others, that the planned completion dates of projects were not achieved at three municipalities (City of Ekurhuleni Metro, City of Johannesburg Metro, and Lesedi), while the planned targets for the maintenance of water infrastructure were not achieved at two municipalities (City of Tshwane Metro and Lesedi). At the City of Johannesburg Metro, a number of infrastructure projects are implemented through its municipal entities, including Johannesburg Water, City Power Johannesburg, and Johannesburg Roads Agency. At Johannesburg Water, the R25 million Doornkop West / Protea Glen water infrastructure upgrade project was six months behind schedule at year-end, which contributed to the underspending of the urban settlement development grant as highlighted above. However, penalties were instituted against the contractor, which is a good example of how to implement consequences. The City of Tshwane Metro's R516 million Temba water purification plant project experienced major delays and is a few years behind schedule due to poor project planning, including delays in obtaining authorisation from the relevant authorities such as the national Department of Water Affairs. These project management deficiencies resulted in late payments to the contractor, which contributed to an expenditure management non-compliance finding, losses due to idle time and interest paid, and resultant fruitless and wasteful expenditure of R42 million.

Our analysis of housing projects in the province indicated similar examples of delays due to poor project management. At the City of Johannesburg Metro, the R221 million Elias Motsoaledi mixed development housing project funded by the urban settlement development grant was due to be completed in March 2016, but one phase of the work was found to be only 55% complete at year-end as the contractor had abandoned the site. Further, a contractor was paid R22 million in excess of the original contract amount due to additional scope of work, for which no evidence or approval could be provided. These concerns contributed to delays in the completion and handover of houses, which subsequently resulted in service delivery protests. At the City of Ekurhuleni Metro, the R85 million phase 3 Palm Ridge X9 housing infrastructure project was delayed by six months due to design deficiencies that required certain structures to be rebuilt. These shortcomings indicate that there is significant room for improvement in the provisioning of housing infrastructure.

The condition of roads has an impact on all citizens and, as such, remains a key focus area for local government. At the Johannesburg Roads Agency, poor performance by the contractor on the M1/M2 road upgrade resulted in delays and the termination of the supplier's contract. The appointment of a new contractor was estimated to result in increased project costs of R43 million, which highlights the negative impact of poor performance.

However, we also found good project planning and management at some projects, which should be embraced at all municipalities. This includes City Power Johannesburg, where progress on the Sebenza power station was found to be on schedule. This was attributable to the appointment of contractors with the required competencies and experience and adhering to sound project disciplines such as holding regular project meetings.

Considering the specific examples of poor project management at various key projects audited, which contributed to delays and in some instances resulted in financial loss, there is a great opportunity for the province to prioritise the implementation of sound project management principles to ensure the efficient, effective and economical delivery of key basic services. This includes proper planning, regular monitoring and, as mentioned above, effectively enforcing consequences. By getting the basics right, municipalities will be better placed to avoid financial losses, improve financial sustainability, reduce related non-compliance with legislation, and ultimately improve audit outcomes.

As part of our contribution to improve accountability, we interacted regularly with stakeholders to discuss our management and audit reports and to highlight key areas requiring attention. We also performed status of records reviews as part of the 2016-17 financial year audit. These engagements assisted auditees to identify areas requiring attention early on, including the disclosure of contracts on which irregular expenditure was incurred. At Rand West City, this also assisted the municipality to sustain an unqualified opinion after the merger. The initiative was received positively by auditees and will be rolled out to all municipalities during the 2017-18 financial year audit.

Further improvement in clean administration remains achievable for the province as was demonstrated in 2014-15 when four municipalities (40%) obtained clean audits. We continue to encourage key role players such as the provincial cooperative governance department and the provincial treasury to intensify the level of support provided to municipalities going forward, especially in the areas of compliance and procurement. This will translate into improved audit outcomes across the province. We will continue to monitor the impact and progress of commitments made, as they are critical enablers to improving the overall audit outcomes in the province.

5.4 KWAZULU-NATAL

PROVINCIAL SNAPSHOT

Clean audits: 11% (2015-16: 20%)	Quality financial statements: 74% (2015-16: 88%)	Quality performance report: 47% (2015-16: 71%)	No findings on compliance with legislation: 11% (2015-16: 20%)	Irregular expenditure: R2 449 m (2015-16: R2 071 m)

We continued to highlight the importance of accountability in our messages to leadership following the August 2016 local government elections. We emphasised that the newly elected councils should implement specific actions to improve audit outcomes as well as that the leadership should regularly monitor these actions to increase accountability and consequences for transgressions at all levels, and to instil a culture of financial discipline and prudence. The audit outcomes again demonstrated complacency and a lack of commitment by leadership to decisively address key matters of concern and to follow through on undertakings made by former accounting officers and councils. The results of these accountability failures are described in the paragraphs below.

The regression in the 2016-17 audit outcomes confirms that leadership did not embrace accountability for key internal controls and monitoring of action plans with vigour and diligence to achieve credible and reliable reporting. A concerning regression was Msunduzi, which moved from a clean audit in 2014-15 to a disclaimed opinion in 2016-17. This municipality was characterised by a leadership and senior management team that paid little attention to the importance of key internal controls as well as the timely resolution of important audit matters. Another regression from a clean audit, in this case to a qualified audit opinion, was that of the consolidated audit of King Cetshwayo District, resulting from material misstatements due to a lack of sufficient evidence to support assets and expenditure at its municipal entity, Uthungulu Fresh Produce Market.

The outcomes are based on 54 municipalities (49 existing and five newly established municipalities) following the re-determination of municipal boundaries, which decreased the number of municipalities from the previous year's 61. The audit of one newly formed municipality, Inkosi Langalibalele, was not finalised by the cut-off date for inclusion in this report, as their financial statements were late and only received on 15 December 2017. Insofar as the other new municipalities are concerned, Alfred Duma received a qualified audit opinion, both Dr Nkosazana Dlamini-Zuma and Big Five Hlabisa received unqualified audit opinions with findings, and Ray Nkonyeni received an unqualified audit opinion with no findings (clean audit).

We do not include the outcomes of any of the municipal entities in this report, but they are published in the annexures available on our website. Although the number of clean audits would have increased from 11% to 19% by these inclusions, the overall results for the province would still have reflected a regression.

Our messages during leadership and senior management engagements at municipalities that regressed focused on basic internal controls. These controls were compromised by ineffective operational policies and procedures as well as instability and vacancies in accounting and chief financial officer positions. Moreover, we experienced challenges as municipalities obtained their own legal opinions that did not agree with our accounting and legal interpretations. This delayed audit responses, as there was provincial leadership pressure to improve outcomes. The time taken by senior management to adequately implement action plans and recommendations to allow for remedial steps to be instituted swiftly, continued to hamper progress and caused the majority of the regressions.

The continued reliance on auditors to identify errors in the financial statements remains a concern. A total of 24 municipalities (45%) avoided qualifications only because they corrected the material misstatements that we identified during the audit process. The nature of the misstatements in financial reporting demonstrated a lack of understanding by key officials and support staff on what they needed to do. In addition, daily and monthly activities undertaken by key support staff were not closely supervised and reviewed. Many municipalities remained reliant on consultants at a cost of R93,9 million (2015-16: R132,9 million) for financial reporting, mainly as a result of a lack of skills. Of the 39 municipalities that made use of consultants, 17 still required material corrections in areas that were within the consultants' scope of work. The recurring appointment of consultants indicates that skills are not transferred to officials due to inadequate monitoring and also contributes to lower levels of accountability in the financial reporting cycle.

There was a lapse in the reporting of performance information, as 28 municipalities (53%) had material findings in the year under review compared to 14 municipalities (29%) in the previous year. There was also a significant regression of 24% in the quality of performance reports produced. Weak records management, inadequate standard operating procedures and a poor understanding of the required documents to support reported performance resulted in performance reports not being useful and reliable.

Material findings on compliance increased in the year under review. In addition to the poor quality of submitted financial statements, the prevention of unauthorised, irregular and fruitless and wasteful expenditure as well as non-compliance with procurement processes remained as key areas of non-compliance.

Accountability failures continued to be reflected in the high levels of irregular expenditure and the lack of effectively enforcing consequences

The levels of irregular expenditure continued to balloon despite the warning signals we raised with accounting officers to implement appropriate preventive and detection measures. eThekwini Metro, KwaDukuza and Umzinyathi District were responsible for R1 billion (41%) of the total irregular expenditure incurred in 2016-17. Of the total irregular expenditure of R513 million incurred by eThekwini Metro, R386 million was due to the awarding of a contract for the construction of housing units that was not adjudicated by the bid adjudication committee. We identified that R379 million (38%) of the irregular expenditure at the above three municipalities related to mainly multi-year construction contracts. The new councils at these municipalities made little effort to prevent repetitive multi-year irregular expenditure.

Municipalities continued to abuse supply chain management regulation 36, as deviations from competitive bidding and quotation processes were not supported and the emergency criteria were incorrectly applied. In addition, suppliers were awarded contracts without providing tax clearance and broad-based black economic empowerment certificates, while local content thresholds were also not applied. The province had a cumulative closing balance of R7 billion in irregular expenditure, which had not yet been dealt with or was in the process of being dealt with by municipal councils. Where councils did not investigate non-compliance related to unauthorised, irregular and fruitless and wasteful expenditure, it could result in possible financial losses through excessive expenditure (uneconomical use of funds). This trend will persist if not vigorously addressed.

Most grant funding was used with no significant underspending, with the exception of Msunduzi that materially underspent the public transport development grant by R165 million (45%) due to delays in appointing contractors. Although most of the municipalities achieved their planned targets for the municipal infrastructure grant, nine did not achieve targets although they had spent most of the grant funding. These included Umkhanyakude, Harry Gwala and Uthukela district municipalities that are responsible for the provision of water and sanitation to underdeveloped rural areas. These district municipalities were plagued by budget constraints and poor project management, which included the late appointment and poor monitoring of contractors. Delays in the maintenance and development of water and sanitation infrastructure contributed to service delivery protests by citizens in these districts.

Although road infrastructure was being developed, we identified two instances at Alfred Duma and Umngeni where payments were made to contractors for incomplete roads. This was due to management not adequately monitoring these projects. In addition, many local municipalities struggled with the implementation of effective road asset management practices. In this regard, policies and project plans for road renewal and maintenance were not applied due to poor budgeting and project management disciplines, resulting in deteriorating road infrastructure.

eThekwini Metro – with a R36,7 billion budget, being the largest share of the total local government budget – had no material findings on their performance report. Projects with a total value of R5,8 billion for the western and northern aqueduct, ablution in-situ upgrade and integrated rapid public transport infrastructure system were progressing well and should significantly improve the lives of citizens when completed. Good practices implemented by the metro included regular monitoring of projects and monthly inspections of sites. Necessary action was taken for inferior work and payments were withheld and/or contracts were terminated when contractors defaulted.

Financial health remained a challenge, with material going concern uncertainties reported at 10 municipalities (19%). Key factors affecting financial health were poor debt-collection practices and reduced revenue flows due to water restrictions at municipalities affected by the severe drought conditions. The extended debt-collection periods placed the cash flow of municipalities under strain and many failed to pay money owed within 30 days, as required by legislation. This contributed to R20 million of the fruitless and wasteful expenditure incurred due to interest and penalties. In most cases, however, municipalities did pay Eskom debts on time to ensure the continued supply of essential services to communities.

A major obstacle to municipalities improving their information technology management was a lack of technically skilled individuals to support the information technology systems and infrastructure in use. Municipalities continued to experience challenges with vacancies in information technology positions, system functionality limitations, adherence to established information technology controls, and resolving prior year information technology audit findings. Although most municipalities made use of the National Treasury's transversal tender, we are concerned about the 30 municipalities (57%) that had control weaknesses as well as the three municipalities (6%) that did not demonstrate readiness for the implementation of the Municipal Standard Chart of Accounts. This was despite R64 million having been spent on consultants at 28 municipalities to manage the Municipal Standard Chart of Accounts migration process.

The provincial treasury and the provincial cooperative governance department continued to support municipalities with the implementation of the municipal support and back-to-basics programme.

However, the premier's coordinating forum and the provincial cooperative governance department's operation clean audit meetings need to be more effective to support municipalities. A new director-general was appointed on 1 August 2017, after a two year vacancy, which should further assist in the coordination of the planned support initiatives to promote intergovernmental relations and good governance. Although some progress was made in honouring the commitments by the coordinating departments, their efforts did not have the desired impact. This was mainly due to poor planning and inadequate support provided by these departments to facilitate a smooth transition between the former and new councils.

We had several interactions with stakeholders to improve accountability, which included discussing our management reports and audit reports with accounting and chief financial officers, speakers, municipal public accounts committees and councils. Our engagements also included an in-depth review of the status of municipal records to identify challenges and warning signals. These engagements were well received by accounting officers for purposes of risk identification and rigorous monitoring of action plans with a view to respond proactively to key areas of concern.

Accountability failures had a major impact on the local government outcomes in the province and will continue indefinitely if not addressed by leadership and those charged with governance. Where material irregularities occur, such as the bypassing of the supply chain management process leading to financial losses, the extension of our mandate to refer such matters will assist in restoring public confidence and solidifying accountability and ethical behaviour.

The political leadership and senior management need to own the business of local government and be accountable for their actions and those delegated to their subordinates to curb the regressions and address the root causes of unfavourable audit outcomes. Consequences must be enforced for officials who fail to comply with applicable legislation and strict corrective action must be taken against transgressors. The understanding and application of policies and procedures need to be entrenched in daily and monthly activities through appropriate reviews, monitoring, corrective action and credible reporting by designated officials. The adequate transfer of skills and succession planning are also vital because it can be expected that officials change over time. Risk management and internal control are integral parts of a financial, performance management and compliance system and crucial to the achievement of favourable outcomes. A strong system with combined assurances from internal audit units and municipal public accounts committees is essential to ensure the implementation of government policies and the achievement of intended outcomes. This will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

5.5 LIMPOPO

PROVINCIAL SNAPSHOT

- **Clean audits: 0%** (2015-16: 0%)
- **Quality financial statements: 39%** (2015-16: 57%)
- **Quality performance report: 13%** (2015-16: 14%)
- **No findings on compliance with legislation: 0%** (2015-16: 0%)
- **Irregular expenditure: R1 317 m** (2015-16: R1 324 m)

The province's audit outcomes regressed with no single auditee being able to improve their audit outcome. Auditees with unqualified audit opinions decreased, while disclaimed opinions increased and adverse opinions remained the same. We reported in the 2015-16 general report that the premier had made a number of commitments to deal with poor-performing municipalities in his state of the province address and in our engagements with him. Unfortunately, these were not followed by the required actions to turn around the declining state of good governance in the province.

At the cut-off date of 15 January 2018 for inclusion of outcomes in this report, there were four outstanding audits, namely those of Greater Giyani, Mogalakwena, Thabazimbi, and Modimolle-Mookgophong. The financial statements of Greater Giyani were received by the legislated date but the audit could not be finalised by the reporting date of 30 November due to poor data-migration controls when the municipality was implementing the Municipal Standard Chart of Accounts, which had a significant impact on the quality of the financial statements. We received the financial statements of Mogalakwena after the legislated deadline. We subsequently completed these audits with both auditees obtaining adverse audit opinions. Thabazimbi and Modimolle-Mookgophong had not yet submitted their financial statements at the cut-off date for inclusion in this report.

The 2016-17 audit outcomes represent the results of the first cycle of the newly elected councils following the local government elections in August 2016. The boundary re-determinations saw a new municipality being established (Collins Chabane) as well as the mergers of Fetakgomo and Tubatse, and Modimolle and Mookgophong. Aganang and Mutale were disestablished, with Aganang being incorporated into Polokwane and Blouberg, and Mutale into Collins Chabane, Thulamela and Makhado. The overall impact was a reduction in the number of municipalities from 30 to 27, made up of five district municipalities and 22 local municipalities.

We gave a presentation on our role as well as the importance of the new deliverables in the accountability cycle during the councillor induction programme of the South African Local Government Association. Our message to the new councillors focused on the importance of instilling good governance practices that would ensure accountability at municipalities. We shared the poor state of financial management practices in local government, which had resulted in the province not achieving a clean audit outcome since 2011-12. We further emphasised concerns over the high dependency on consultants for financial reporting; the failure to fill critical vacancies timeously leading to a lack of ownership by those appointed in acting positions; and the high levels of unauthorised, irregular as well as fruitless and wasteful expenditure without adequate consequences. We recommended to the new leadership that they should hold officials accountable through the development of sound and robust internal controls to ensure that there is an improvement in the province's overall audit outcomes and ultimately in the service delivery to communities.

The municipalities did not take our repeated recommendations and warnings seriously, resulting in the province reporting five regressions, with no improvement in the audit outcomes. These outcomes were as a result of the failure by the first-level assurance providers (senior management, municipal managers and mayors) to develop strategies to address deficiencies in the internal control environment, implement effective action plans to address the root causes of poor audit outcomes, and use effective cash-management practices. This was made even worse by the failure of the second and third level of assurance providers to rigorously review the information submitted through the effective use of internal audit units, audit committees and municipal public accounts committees; and to ensure that there were consequences for those officials responsible for transgressions and poor performance.

The provincial outcomes can be categorised into three classes:

1. Complacent auditees consistently receiving unqualified opinions with findings, without any improvement in internal controls to address shortcomings in the areas of performance reporting and compliance. These municipalities lacked the will to move to a clean audit status.

2. Underperformers that continue to receive qualified audit outcomes because of their failure to deal with repeat qualifications.

3. Consistent poor performers with high levels of transgressions and no consequences.

None of the auditees could submit financial statements that were free of material misstatements. The province spent R96 million (2015-16: R93 million) on consultants for the preparation of financial statements, but the quality thereof remained consistently poor. Seven of the nine auditees that obtained unqualified audit opinions made use of consultants at a total cost of R25 million, with Sekhukhune District incurring the highest consultant cost at R15 million (60%). Auditees that obtained qualified audit opinions spent R52 million on consultants in total, with Polokwane contributing the most with R19 million (37%); while municipalities with adverse or disclaimed opinions spent R19 million, with Vhembe District being responsible for most of this amount at R13 million (68%). It is encouraging that Makhudutamaga and Musina obtained unqualified opinions with findings without making use of a consultant. This proves that basic financial reporting disciplines that lead to reliable financial reporting can be developed and sustained. The return on investment of expenditure on consultants in the form of reliable reporting and a reduction in the number of qualified municipalities is concerning, while the use of consultants has also not led to an improvement in the basic internal controls. The cumulative amount spent on consultants to assist with financial reporting over the past three years exceeded R290 million.

Only three of the 23 auditees, namely Waterberg District, Maruleng and Molemole, had no findings on either the usefulness or the reliability of their reported performance information. Of these three, only Maruleng did not require adjustments to their performance report to achieve this. Until standardised key performance indicators for basic service delivery are developed, and the collation and record keeping of information for performance reporting are improved, municipalities will continue to have findings on performance information. Generally, the level of service delivery in the province needs to be improved, as evidenced by the various service delivery protests that took place during the year under review.

The level of unauthorised, irregular as well as fruitless and wasteful expenditure remained very high at R1,1 billion, R1,3 billion and R243 million, respectively. Poor planning, budgeting and expenditure controls were at the root of the continuous incurrence of unauthorised expenditure – of which more than 50% related to non-cash items such as depreciation and the impairment of receivables. This was the result of municipalities not considering the actual costs reported in previous years when budgeting, as well as a lack of a deeper understanding and analysis of cost drivers. Vhembe District incurred the highest amount at R375 million, of which R250 million related to non-cash items. The unauthorised expenditure on cash items amounted to R125 million – most of which was incurred on water-related expenditure that had not been adequately budgeted for.

As a result of accountability failures, irregular expenditure on supply chain management transactions remained high at R1,3 billion (95%) of the total irregular expenditure incurred. The highest contributors to the irregular expenditure were Sekhukhune District, Vhembe District and Polokwane, which incurred R333 million, R226 million and R199 million, respectively, totalling R758 million. Of this amount, R326 million was from multi-year contracts and R432 million was incurred under the new administration. The nature of the transgressions remained the same as in previous years. Mopani District and Vhembe District – the consistent poor performers with repeat adverse or disclaimed audit opinions – had an accumulated irregular expenditure closing balance of R186 million and R882 million, respectively. These two district municipalities did not appropriately investigate the irregular spending, resulting in none of the money being recovered from the liable persons or written off by the council. In this regard, the underlying root cause was the lack of corrective action by the first level of assurance providers and the failure by third-level assurance providers to implement a culture of accountability and consequences through investigating transgressions, particularly relating to the procurement of goods and services. Furthermore, all auditees had findings on compliance with laws and regulations. Both the political and the administrative leadership need to have action plans that deal directly with non-compliance to move municipalities out of this state of lawlessness.

Municipalities also did not consistently apply the principles of sound project management, as evident by the fact that we raised 34 findings on 54 key projects selected for testing relating to the municipal infrastructure grant. Shortcomings included planned targets for projects not being achieved (13), incorrect performance reporting (seven), performance of the project not being evaluated (six), non-compliance with supply chain management prescripts (six), and misstatements relating to the incorrect reporting of achievements (two).

There is no use in having action plans without them being implemented, validated and monitored – the current trend is taking the province backwards

The financial health of municipalities slightly regressed from the previous year and continued to be a concern. The inability of municipalities to collect money owed for services rendered is an ongoing challenge. Twelve auditees could not collect debts owed to them within 90 days. Seventeen auditees had to significantly impair their receivables balance due to doubt over the recoverability of these amounts. Municipalities struggled to effectively manage their working capital, with four municipalities being in a net current liability position and eight municipalities having creditors balances greater than the actual cash on hand. At Musina, the creditors balance as a percentage of cash and cash equivalents was a staggering 16 021%. The provincial treasury had to intervene and provided additional funding to settle debt owed to creditors at Musina (R10 million to Eskom) and Thabazimbi (R25 million, including Eskom debt) as at 30 June 2017.

The information technology audit outcomes improved due to the inclusion of information technology matters in the action plans. The province saw an improvement in the four information technology focus areas of governance, security management, user access management, and service continuity. The key information technology initiative carried out by municipalities was system upgrades and/or replacements in preparation of financial systems that would comply with the Municipal Standard Chart of Accounts, with the aim of quality data on which to base budgets and financial statements. However, most municipalities did not follow the project implementation guidelines, resulting in poor change management processes. This was quite evident at Greater Giyani where we were unable to complete the audit in time as mentioned earlier, due to the poor quality of the financial statements. Failure by municipalities to urgently and effectively manage this transition could result in their audit outcomes regressing in the next financial year.

We noted a number of new initiatives being implemented by the coordinating departments and the South African Local Government Association to improve financial and performance reporting as well as the compliance levels at municipalities. We are pleased to note the launch of a provincial municipal public accounts committee forum by the provincial cooperative governance department. This forum aims to promote capacity building for municipal public accounts committee members to better equip committees in improving service delivery and municipal performance, and – more importantly – holding municipalities accountable for the use of municipal funds. The initiatives previously developed had limited or no impact due to a lack of commitment to rigorously implement these initiatives and develop sound monitoring mechanisms to evaluate the progress made. Both the political and the administrative leadership should commit to taking part in developing, managing and monitoring such initiatives to bring them into fruition.

Our office is implementing status of records reviews at all municipalities. These reviews will replace the previous quarterly key control discussions and are aimed at providing municipal managers and mayors with tools to proactively address significant risks. Through these reviews, we will be able to identify key risks that may derail the auditee towards achieving improved audit outcomes, assess progress made on the implementation of action plans, and follow up on leadership commitments.

There has been a general call for greater accountability to deal with the recurring findings we report, which could come about through amendments to the Public Audit Act. We believe that these amendments, once approved, will have a positive impact on dealing with issues of recovery where losses have been suffered and on enforcing consequences and accountability against officials responsible for such losses. We encourage leadership in the province to ensure that a culture of accountability is cultivated that will ensure that all levels of management and leadership accept responsibility for improving audit outcomes. We are also of the belief that once better audit outcomes are achieved, it will lead to better service delivery in the province.

5.6 MPUMALANGA

PROVINCIAL SNAPSHOT

Clean audits: 10% (2015-16: 16%)

Quality financial statements: 65% (2015-16: 47%)

Quality performance report: 40% (2015-16: 37%)

No findings on compliance with legislation: 10% (2015-16: 16%)

Irregular expenditure: R1 996 m (2015-16: R1 467 m)

In its first year, the new administration of the Mpumalanga local government saw an improvement in the 2016-17 audit outcomes. There has been a notable improvement in the reduction of disclaimed audit opinions over the past three years from four municipalities to only one; as well as a reduction in the number of qualified audit opinions in 2016-17.

Notwithstanding this good progress, improvements in audit outcomes as well as in the quality of financial statements were often as a result of over-reliance on the audit process to identify misstatements and thereafter make corrections to the submitted financial statements. This is an indication that daily accounting disciplines have still not been institutionalised. Over the past years, we have highlighted the following indicators of accountability failures and urged management, leadership and oversight to take actions that would stimulate sustainable good governance:

- Weakening internal controls around basic financial, performance and project management due to the slow response by management to implement sustainable long-term solutions.
- Reliance on consultants with little or no monitoring and transfer of skills, instead of stabilising the municipalities by filling key positions and investing in training programmes to enhance skills and competencies of staff.
- Lack of commitment to prevent, or deal with the accumulated balances of, unauthorised, irregular and fruitless and wasteful expenditure as well as management failure to implement recommendations and resolutions of the various assurance providers, such as internal audit units, audit committees and municipal public accounts committees, due to leadership not implementing consequences for poor performance and transgressions.

These indicators of accountability failures continued to prevail in the year under review. Even the envisaged benefits one would have expected from the amalgamation of Mbombela and Umjindi, being the improvement of managerial effectiveness to improve service delivery, had not yet been realised. The new City of Mbombela retained the same unqualified audit outcome with findings on service delivery reporting against predetermined objectives. Furthermore, we saw the regression of Steve Tshwete from a clean audit status to an unqualified opinion with findings on compliance with legislation.

As a result of these accountability failures, only two municipalities (10%) – which managed 4% of the local government budget in the province – produced credible financial and performance reports and complied with key legislation, while municipalities entrusted with 96% of the budget failed to achieve clean audits. Furthermore, only eight (40%) of the municipalities had quality performance reports. However, the usefulness of the information in these reports slightly improved from nine (47%) to 11 (55%) municipalities, while 12 municipalities (60%) still struggled to report reliably on service delivery. This indicates that municipalities prepared performance reports merely to comply with legislation rather than to use these reports as tools to measure performance, ensure clear accountability, and continually improve reporting on service delivery. There is also a risk that the in-year monitoring, oversight and decision-making processes might have been based on information that was not credible, which might explain the negative impact on service delivery in some areas of the province.

In addition, municipalities reported underperformance on their planned projects. Of the R1,9 billion municipal infrastructure grant allocation, R128 million (7%) was not spent – mainly due to delays in procurement processes and disputes with contractors. A total of 17 municipalities were responsible for the delivery of water, sanitation and road services in the province. We selected 46 key projects at these municipalities for auditing, of which 15 (33%) were not awarded in accordance with supply chain management regulations and prescripts; and 20 (43%) were behind schedule and did not meet their planned target dates. We also noted poor quality workmanship at some of the projects, which is an indication of potential fruitless and wasteful expenditure.

The upgrading of the Embalenhle X18 sewer reticulation network project in Govan Mbeki costing R25 million, is an example of the delays and poor workmanship highlighted above. The project was abandoned for two years due to the contractor's inability to perform the work, yet the contract with the contractor was not terminated. This meant that the municipality could not appoint another contractor to rectify the defects and complete the project. The effect of these delays was that the infrastructure already installed did not function properly, resulting in sewage flowing in the streets and between houses in the township.

The province still struggled to improve the management of procurement and contracts; and to prevent unauthorised, irregular and fruitless and wasteful expenditure. The irregular expenditure for the current year increased to R1 996 million (of which R1 989 million related to non-compliance with supply chain management legislation) from R1 467 million in the previous year. We noted numerous examples of the inappropriate exercise of management's discretion to deviate from the normal procurement processes and to allow multiple extensions of contracts without following the legislated processes, which are meant to ensure fair, equitable and transparent procurement. There was also an increasing trend of not properly applying local content requirements to source a certain percentage of intermediate goods used in the production processes from domestic manufacturers.

Daily financial disciplines had still not been institutionalised

Bushbuckridge and City of Mbombela continued to be the highest contributors to irregular expenditure in the province with R493 million and R348 million, respectively, joined in 2016-17 by Mkhondo with R236 million. A total of 70% of the irregular expenditure for the current year related to multi-year contracts, which were awarded irregularly in previous years. Despite our efforts to proactively engage with municipal managers and mayors during our quarterly interactions on the process to deal with the irregular expenditure balance, they have been slow in investigating such irregular expenditure. In addition, R523 million of the 2016-17 closing balance (R6 459 million) of irregular expenditure was as a result of the use of the provincial supplier database with Rand Water as the implementing agent, three years ago, to fast-track the construction of water infrastructure. This R523 million has not yet been investigated even though it has been at the centre of our engagements with the provincial leadership.

The information technology environment improved, with four municipalities implementing sound information technology controls as compared to none in 2015-16. While we welcome this improvement, shortcomings in the information technology environment at 16 municipalities (80%) in 2016-17 should not be ignored, as poor information technology controls increase the risk of fraud and data manipulation, which can affect the credibility of information used for decision-making. In addition to the information technology challenges identified, the implementation of the Municipal Standard Chart of Accounts on 1 July 2017 will have an impact on how information is recorded and classified if this project is not properly executed. Only Nkangala District and City of Mbombela were ready for full implementation; 13 municipalities experienced challenges with implementation specifically relating to the payroll function, assets and inventory management; and five municipalities were not ready for implementation by 1 July 2017 as they had major challenges, most notably with billing. Six municipalities (30%) used consultants at a cost of R8,8 million for information technology services, including Municipal Standard Chart of Accounts implementation.

We advised the provincial treasury to remind the leadership to direct concerted effort and attention to addressing all Municipal Standard Chart of Accounts implementation risks (including the monitoring of the consultants who are assisting with the project) so as not to jeopardise the credibility of the financial records.

The financial health of the municipalities in the province keeps deteriorating each year. To illustrate, 15 (75%) of the local municipalities were unable to settle their liabilities when they fell due. Nine municipalities continued to spend more than their available resources, thus incurring a net deficit. The financial situation of five of the municipalities became severe, as they continued to owe significant amounts to their creditors, including R2,3 billion to Eskom as at 30 June 2017. The province already had to intervene to prevent disconnection by major suppliers such as Eskom and the national Department of Water and Sanitation. This led to some municipalities (for instance, Emalahleni and City of Mbombela) entering into payment plans with the suppliers to enable the continued delivery of basic services.

This poor state of financial health also has a negative impact on the province meeting its socio-economic goals. As a consequence, the province experienced excessive water and electricity distribution losses of over R1 258 million due to aging infrastructure assets, unmetered sites, and illegal connections. As we have been doing over the past few years, we again warned leadership to take immediate actions to address this situation.

The effects of financial constraints were particularly visible at City of Mbombela and Govan Mbeki where delays in payments to service providers resulted in delays in the finalisation of projects. This caused major damage to existing municipal property through violent service delivery protests. Linked to the state of financial health indicated above, is municipalities' inability to budget properly – which led to unauthorised expenditure of R1 333 million in 2016-17. Non-cash items such as depreciation and impairment continued to contribute to the unauthorised expenditure. Despite the fact that unauthorised expenditure slightly decreased from R1 650 million in 2015-16, this will continue to put pressure on the province's severely constrained cash flow.

We continue to urge the political leadership of the province to focus on instilling stability at local government level. Municipal managers and chief financial officers were often rotated among municipalities, some even during the audit. Together with political tensions in some cases, this disrupted the effectiveness of municipal administration – including the audit process. During our interactions, some of the mayors expressed concern that the deployment system delayed appointment processes. Most municipal public accounts committees, which are tasked with oversight responsibilities, still did not have adequate capacity and resources to fulfil these responsibilities. This has been at the centre of discussions at meetings of the speakers' forum; however, municipal councils have been very slow to address this matter. This negatively affected the effectiveness of the oversight these committees provide.

While we acknowledge the efforts by the provincial treasury to assist municipalities, this support is mainly reactional in response to errors we identify during the audits. Going forward, the provincial treasury needs to consider proactive mechanisms to make sure that their support to municipalities is effective. The portfolio committee responsible for cooperative governance and traditional affairs in the province should evaluate the impact of its oversight visits to the three districts to conduct hearings on underperforming municipalities and follow up on the implementation of the resolutions taken at those hearings.

We take note that the provincial leadership consistently expressed their intolerance for poor audit outcomes, especially the disclaimed audit outcomes. However, this must include setting the right tone for solid ethical behaviour that will support a responsible, accountable, effective and efficient local government system. The unintended consequences of the said intolerance coupled with accountability failures were dire during the 2016-17 financial year, as they led to unethical behaviour by some municipal officials. All these instances, which we reported to the leadership of the respective municipalities, put pressure on the audit process.

As part of our continuous contribution to accountability and good governance in the public sector, we introduced the status of records review and implemented this project at three municipalities in the province. Our efforts produced positive results at Emalahleni, where the municipality has already started implementing our recommendations in preparation for the 2017-18 year. Although progress may be slow, we are hopeful that as we continue engaging with all municipalities, this initiative will translate into even more positive audit outcomes in 2017-18 – provided that our recommendations are implemented. Furthermore, if the proposed amendments to the Public Audit Act are approved, we will be able to refer cases for further investigation when accounting officers do not deal with some of the issues we raise during our audits, such as unauthorised, irregular and fruitless and wasteful expenditure. Had the Public Audit Act amendments already been effected in 2016-17, at least three municipalities could possibly have been referred, as the accountability mechanisms at these municipalities had failed. We continue to urge the collective leadership in the province to deal decisively with the accountability failures by stabilising local government and implementing consequences. This will not only improve audit outcomes but will have a positive impact on service delivery in the province.

5.7 NORTHERN CAPE

PROVINCIAL SNAPSHOT

Clean audits: 3%	Quality financial statements: 48%	Quality performance report: 24%	No findings on compliance with legislation: 4%	Irregular expenditure: R261 m
(2015-16: 7%)	(2015-16: 46%)	(2015-16: 17%)	(2015-16: 8%)	(2015-16: R457 m)

The stagnated audit outcomes of local government in 2016-17 confirm that the previous year's commitments by the provincial oversight to ensure the clearing of prior year findings, promote a culture of oversight and increase the level of oversight with a focus on supply chain management, were not sufficiently implemented. The stagnation also confirms that our previous year's message that mayors, municipal managers and senior management need to hold each other and their subordinates accountable, was not taken seriously, resulting in many instances where similar findings were raised during the audit process.

The key root causes that contributed to these failures were inadequate consequences for poor performance and transgressions (80% [2015-16: 83%]), the slow response by management (80% [2015-16: 75%]), and the slow response by the political leadership (72% [2015-16: 71%]). The results of these accountability failures are outlined below.

A number of municipalities submitted their financial statements after the legislative deadline. This does not only have a knock-on effect on the completion of the audits of these municipalities, but also on the work of the various oversight bodies that rely on the audit reports to perform their duties. The late submission of financial statements by six municipalities (Kai !Garib, Kgatelopele, Phokwane, Renosterberg, Tsantsabane, and Ubuntu) resulted in their audits not being finalised in time for inclusion in this report.

Despite previously raising concerns about the quality of the financial statements, only ZF Mgcawu District (4% [2015-16: 25%]) was able to submit quality financial statements in the year under review. We had also previously highlighted the fact that most municipalities relied heavily on the external auditors to identify misstatements in their financial statements. The regression in 2016-17 confirms that leadership did not respond to the matters we had raised in 2015-16, and that municipalities had still not implemented controls that were supposed to ensure the quality of financial statements submitted for auditing. Municipalities spent R70 million on consultants for financial reporting (excluding consultants paid by other institutions), compared to R36 million in 2015-16. Worryingly, the financial statements of 54% of the 24 municipalities that used consultants for financial reporting were still disclaimed or qualified.

Predetermined objectives remained an area where progress was lacking, with 76% of the municipalities (2015-16: 83%) being unable to produce performance reports that were useful and reliable, indicating that there was a lack of capacity and understanding of the performance reporting process. These constraints were further evidenced by the fact that none of the municipalities were able to submit quality performance reports for audit purposes, as all the municipalities were left with material misstatements or made amendments to avoid material findings.

We remain extremely concerned about the status of compliance with legislation by municipalities in the province. A total of 96% of the municipalities (2015-16: 92%) had material findings due to non-compliance with legislation. This was the one audit area that had been in a dire position for a long time and leadership continued to ignore the need to hold staff accountable. Municipal managers need to prioritise the enforcement of accountability where officials allow non-compliance, as they are currently not dealing decisively with offenders. The most common compliance findings related to the quality of financial statements submitted for auditing (96%); preventing unauthorised, irregular and fruitless and wasteful expenditure (88%); and the management of procurement and contracts (80%).

Irregular expenditure decreased from R457 million in the previous year to R261 million in the year under review. Of the R261 million, R105 million (40%) related to multi-year contracts that were reported as irregular expenditure in 2015-16 as well. A total of 97% of the irregular expenditure in 2016-17 resulted from instances of non-compliance with supply chain management regulations. The most common supply chain management areas on which we raised findings related to procurement without competitive bidding or quotation process (56%) and non-compliance with the procurement process (42%). Despite the decrease in the amount of irregular expenditure, the number of municipalities incurring such expenditure remained high at 80% (2015-16: 83%). Fourteen municipalities were still investigating the full extent of their irregular expenditure, meaning that the R261 million disclosed as irregular expenditure in 2016-17 was in all likelihood understated. It is probable that a large portion of irregular expenditure may be uncovered and still be disclosed in future years.

During the year under review, municipalities wrote off or condoned irregular expenditure amounting to only R110 million. The fact that there was only one insignificant instance where irregular expenditure was recovered from the liable person indicates that investigations either are not taking place or are not rigorous enough to resolve the significant balance of irregular expenditure recorded by the province. This lack of accountability and consequences was consistently reported in previous years, but no progress had been made in this regard.

The level of unauthorised expenditure increased since the previous year and amounted to R1 034 million (2015-16: R713 million) – all of which was due to budget overspending, with 70% relating to non-cash items that had not been budgeted for. Gamagara again incurred the most unauthorised expenditure in the province, amounting to R374 million (2015-16: R179 million). In addition, the level of fruitless and wasteful expenditure again increased and amounted to R54 million (2015-16: R33 million). Of the R54 million, 94% related to interest and penalties mainly due to the late payment of suppliers, including Eskom, water service providers and the South African Revenue Service.

The financial well-being of the province remained a concern, with a material uncertainty regarding the financial health of 56% of the municipalities (2015-16: 50%). The cash-flow difficulties experienced by many municipalities were evident from the fact that 13 municipalities (65%) struggled to pay Eskom, while six (30%) were struggling to pay water service providers. The electricity was cut at four municipalities (20%) during the year and three of them subsequently entered into payment arrangements with Eskom to avoid further cuts, while seven (35%) avoided electricity cuts by making payment arrangements with Eskom from the start.

The audit outcomes are a reflection of the poor state of internal controls, with only 4% of municipalities (2015-16: 8%) being assessed as having good leadership and good financial and performance management controls. Improved audit outcomes that are sustainable will only be possible if they are based on a strong internal control environment characterised by regular monitoring and review as well as leadership holding staff accountable for their actions. It is worrying that the first level of assurance (made up of senior managers, the municipal manager and the mayor) of only one municipality (4%) provided the necessary assurance. Overall, the level of assurance provided by all three levels of assurance providers showed little movement, with internal audit units being the only assurance provider that regressed. Municipal managers and senior managers need to monitor the effectiveness of internal controls as well as consider the status, functioning and capacity of internal audit units and ensure that their findings are responded to.

As part of our audits, we assessed progress on infrastructure projects as well as infrastructure maintenance. This assessment focused on key municipal infrastructure projects currently underway, and highlighted the following concerns:

- Water losses were not disclosed (85%) or resulted in a qualification (10%).
- 75% of the municipalities did not have a plan for the maintenance of water infrastructure that set specific time frames and targets.
- Planned targets or key milestones were not achieved at 50% of the municipal infrastructure grant projects.
- 50% of the municipalities did not perform an assessment of the condition of water infrastructure.
- 45% of the road projects were completed later than planned.

The above findings confirm the need for better budget management, project planning and progress monitoring to ensure the timely delivery of quality municipal services.

The implementation of the Municipal Standard Chart of Accounts, aimed at improving financial reporting, was set to be finalised by 1 July 2017. Municipalities made use of external service providers to implement systems that would comply with this chart of accounts. Overall, 16 municipalities (64%) implemented the Municipal Standard Chart of Accounts by the deadline, with another two (8%) subsequently implementing it. However, we are worried about the seven municipalities (28%) that had not implemented it to date. This concern is made even worse by the fact that five (20%) of these municipalities were unable to confirm their planned implementation date.

As an office, we have been influencing improved audit outcomes by preparing management reports that clearly highlight the various weaknesses at municipalities. Our reports are not limited to findings, but include root causes as well as recommendations. During the audits, we invest time on explaining the various findings to our auditees, thereby ensuring that all findings are properly understood and that management has a clear view on what needs to be done to address the findings.

Leadership's inaction created a culture of 'no consequences'

The provincial treasury assisted by seconding staff to struggling municipalities, and helping with Municipal Standard Chart of Accounts readiness assessments and data cleansing. These efforts assisted some municipalities in improving in specific areas, but the initiatives of the other oversight departments did not have a meaningful impact on the audit outcomes. The premier's office drove the process to ensure that a memorandum of agreement to coordinate the efforts of the provincial treasury and the provincial cooperative governance department was developed, but the late implementation of this agreement meant that little progress was made on previous commitments made by provincial role players.

We briefed the oversight departments on the outcomes of the audits after the completion of the audit cycle so that they could respond effectively to the issues raised. In addition, the municipal leadership gets the opportunity to interact with the auditor-general and senior leadership in the province during the annual Municipal Finance Management Act roadshow. During these sessions, municipal oversight and leadership also get the opportunity to raise any concerns they may have relating to the audit process. The above initiatives have not resulted in an improvement in the audit outcomes due to implementation delays at the various levels.

To improve audit outcomes and strengthen accountability in the province, the following should happen:

- The tone has to be set from the top (by senior managers, the municipal manager and the mayor) that there is zero tolerance for poor performance and transgressions.
- Municipal councils have to be fully capacitated to effectively exercise their oversight role.
- Municipalities should strive towards sound records management.
- The vigorous implementation and execution of action plans need to be at the forefront of all initiatives.

To further contribute to accountability in the province, we are phasing in status of records reviews at certain municipalities. This initiative identifies key areas of concern and serves as an early warning system to both management and the political leadership. Management has welcomed this initiative and was willing to engage with the auditors, but it is too early to measure the impact thereof. We will expand these reviews to all municipalities in our 2018-19 financial year.

The proposed amendments to the Public Audit Act will lead to stricter consequences where we identify instances that are likely to result in financial losses. The area that would be affected the most in the province is irregular expenditure, due to the substantial amount being reported every year without necessary and rigorous investigations taking place. Once accountability has been established, it will lead to improved audit outcomes that would hopefully have a positive effect on service delivery in the province.

5.8 NORTH WEST

PROVINCIAL SNAPSHOT

Clean audits: 0%
(2015-16: 0%)

Quality financial statements: 9%
(2015-16: 19%)

Quality performance report: 9%
(2015-16: 24%)

No findings on compliance with legislation: 0%
(2015-16: 0%)

Irregular expenditure: R4 294 m
(2015-16: R3 186 m)

The North West province consists of 22 municipalities and three municipal entities. The number of municipalities changed from 23 to 22 due to the merger of Tlokwe City Council and Ventersdorp after the local government elections in August 2016. The overall 2016-17 audit outcomes for the province regressed, with the number of municipalities with financially unqualified opinions decreasing from four (19%) to two (9%) and the number with disclaimed opinions increasing from six (29%) to eight (36%). 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 who are 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 actions to hold officials accountable and implement consequences for poor performance.

Our audit environment has become more hostile, with increased contestations of audit findings, pushbacks and subtle threats by auditees where they would question the auditors' integrity. It is acceptable for auditees to question and challenge the outcome of audits based on evidence and solid accounting interpretations or legal grounds, but this trend pointed to the lack of accountability and was often a tactic to divert attention away from the fact that there were no grounds for factual disagreement with our findings. There were also two instances where community protests and strikes prevented our auditors from accessing the municipal premises for extended periods, which delayed our audits. The lack of accountability and consequences for the undesirable audit outcomes should have been a priority of the provincial executive leadership, as highlighted in the previous year's general report. Despite the continued reinforcement of our messages during the year through quarterly interactions with the leadership of municipalities and the province, there were no interventions to minimise key risks identified or to implement our recommendations. Most audit findings were repetitive in nature and no actions were taken to address the internal control deficiencies that resulted in these findings.

The vacancies and instability in key positions, which we identified as a root cause in previous years, were also not addressed. Twelve municipalities (55%) did not have a permanently appointed municipal manager and 14 (64%) did not have a permanent chief financial officer. The average overall vacancy rate at senior management level was 60%, with 16 municipalities having a senior management vacancy rate of 50% or more. The environment created by this high vacancy rate did not enable accountability, as the officials in an acting capacity lacked the authority to take the necessary actions. As highlighted in previous years, the province needs to invest urgently in building and retaining capacity in these key positions over the long term.

The poor quality of submitted financial statements remains one of our foremost concerns. All municipalities continued to rely on consultants to assist with the preparation of financial statements at a cost of R96,2 million (2015-16: R118,7 million), yet all the financial statements submitted for auditing still contained material misstatements. None of the municipalities in the province would have obtained an unqualified opinion, if we had not given them an opportunity to correct the misstatements identified during the audit process. Key controls that enable reliable and timeous financial reporting, such as proper record keeping and daily and monthly reconciliations, need to be institutionalised through effective training and ongoing monitoring to avoid relying on the auditors to identify misstatements after year-end. However, this will only be possible once vacancies in key positions have been filled.

There was a notable regression in the quality of the reported performance information, as 20 municipalities had material findings, compared to 18 in the previous year. If we had not allowed audit adjustments, 21 municipalities would have had findings on their performance information. Most municipalities were unable to provide supporting documents for their reported results, due to poor records management and a lack of institutionalised controls to timeously and reliably report on their performance.

Of the grant allocation of R2,3 billion to municipalities for infrastructure development, R194,8 million (8%) was not spent. Cash-flow constraints contributed to underspending, as in some cases the grant allocations were used to fund operational expenditure. Due to underspending in previous years, the National Treasury withheld an additional R296,1 million (2015-16: R466,1 million) in grant funding for the year under review. We audited 56 grant-funded projects in terms of the municipalities' key service delivery objectives and most of them were characterised by poor project management. Of these 56 projects, 28 (50%) were behind schedule or completed late. In 22 cases (39%), the reported achievement in the performance reports of the municipalities did not reflect the actual progress at year-end. One such project was the Rustenburg rapid transport system, with an estimated cost of R3 billion. Construction started in 2012 and the first phase of the project was expected to be completed by December 2016. However, phase 1C of the project was still only about 40% complete by June 2017. Records management for the project was a major concern and as a result we could not reliably measure the costs incurred to date. Another example is the upgrade of the wastewater treatment works at Tlhabologang in the Ngaka Modiri Molema region. The project started in 2011-12 and was initially expected to be completed in May 2014. As at June 2017, the budget had been increased to R106,4 million (from the original R67,8 million) but the upgrade was still not complete due to the service provider not having been paid, which led to the contractor suspending work.

All municipalities still had findings on compliance with legislation, specifically in the areas of unauthorised, irregular as well as fruitless and wasteful expenditure; procurement; and contract management. A further R4,29 billion (2015-16: R3,19 billion) in irregular expenditure was disclosed in the financial statements of the 22 municipalities for the year under review, bringing the total unresolved balance of irregular expenditure to R12,2 billion as at 30 June 2017. The three municipalities that contributed 55% in this regard were Rustenburg (R983,5 million), Ngaka Modiri Molema District (R827,8 million), and Madibeng (R561,9 million). In addition, 17 municipalities were qualified due to the disclosed irregular expenditure either being misstated or incomplete. At 20 municipalities, the irregular expenditure of prior years was not investigated at all or not properly investigated. This lack of investigations and consequences was the main driver of the increase in irregular expenditure, which then heightened the culture of non-compliance; in turn creating an environment susceptible to fraud and corruption.

We are concerned about instances where supply chain management regulations were deliberately contravened. For example, 11 municipalities (50%) participated in contracts arranged by other organs of state without complying with the requirements of supply chain management regulation 32 (we identified 48 such contracts amounting to R414,4 million during 2016-17). Fifteen municipalities (68%) did also not submit tender documents for auditing. Furthermore, fraudulent credit cards were opened in the name of the municipality at Madibeng and unauthorised monthly deductions were made from the municipality's bank account. These transactions were not identified by the municipality's system of internal control, such as the monthly bank reconciliations.

The proposed amendments to the Public Audit Act would allow us to refer – for investigation – any acts or omissions causing a loss of public resources or resulting in public resources not being used for its lawful purpose. Our audits identified instances where the accountability mechanisms in local government had failed. In the context of these amendments, we encourage all municipalities to take a strong stance against the abuse of public funds by ensuring that oversight structures, such as municipal public accounts committees, appropriately investigate transgressions. The lack of accountability for sound financial management by the leadership had a negative impact on municipalities' financial viability. At eight (35%), the financial information was not reliable enough to analyse financial viability (as they had disclaimed opinions), while a further 20% were in a vulnerable financial position. Given the already vulnerable position of local government, we are very concerned about the overspending of budgets by 16 municipalities, resulting in unauthorised expenditure of R1,19 billion. The unauthorised expenditure was as a result of inadequate budget processes and a lack of in-year monitoring of the actual spending. In addition, of the gross outstanding consumer debtors balance of R12,9 billion for the province as at 30 June 2017, R10,5 billion (82%) was unlikely to be recovered. The inability to collect money from consumers resulted in the net current liability position of 12 municipalities (55%) deteriorating. This means that the current liabilities exceeded the current assets by R1,9 billion in the province. The total outstanding payables for the province increased by 23% to R5,4 billion from the previous year. Included in this amount was R1,1 billion owed to Eskom and R1,3 billion to bulk water service providers. The strain on cash resources was evidenced by municipalities taking an average of 240 days to pay outstanding payables (in other words, the persons or companies they owe money to), despite the Municipal Finance Management Act requiring payment within 30 days, which then resulted in further penalties and interest of R187,2 million. The financial viability of municipalities needs to be urgently addressed as it has a direct impact on their ability to continue rendering services.

Consequences, accountability and action by the provincial leadership are the key to turning around poor governance in local government

We continued to focus on environmental management at municipalities, specifically focusing on the management of solid waste landfill sites, the quality and availability of water as well as sewage treatment and effluent disposal. Despite the improved awareness and understanding of environmental management and sustainability, most municipalities had not made much progress in combating non-compliance with environmental laws and related requirements. Some of our key findings included illegal waste disposal and raw or untreated sewage being improperly discharged into the immediate environment and water resources, which may potentially affect the health and well-being of citizens. This was mostly as a result of overloaded or run-down infrastructure due to a lack of maintenance. Based on the National Treasury's budget guidelines, repairs and maintenance cost must be 8% of the carrying value of infrastructure assets. There was a shortfall of approximately R1,6 billion in actual repairs and maintenance at municipalities during 2016-17. This poorly maintained infrastructure also resulted in water losses in excess of R561,1 million or 65 627 906 kilolitres for the year. With the current water scarcity and drought in South Africa, such losses are unacceptable and need to be addressed urgently to prevent a possible disaster in future.

Slow progress in addressing information technology findings remains a concern, as little or no actions were taken to address these concerns. We are specifically concerned about the required implementation of the Municipal Standard Chart of Accounts by 1 July 2017 with the aim to strengthen accountability, facilitate budget reporting, and add value to the budget process to ultimately improve service delivery. Our readiness assessment indicated that the Municipal Standard Chart of Accounts was fully implemented at only four municipalities, while the implementation had not yet started at two municipalities, notwithstanding consultants being paid R71,9 million to assist with its implementation during 2016-17. There was a lack of data migration plans and in most cases mapping had not yet been completed. After year-end, implementation problems with the Municipal Standard Chart of Accounts became more evident at some municipalities. For example, Matlosana had to revert back to the previous system and consumer accounts had not been sent out due to problems with the new system.

The provincial coordinating departments, which include the premier's office, provincial treasury and provincial local government department, did not adequately assist municipalities to address root causes and internal control deficiencies previously identified. The provincial treasury in some instances deployed staff to certain municipalities or appointed consultants to assist with the preparation of financial statements. However, these appointments were not appropriately monitored to ensure that they had the desired impact. During March 2017, the premier committed to develop a 10-point plan to address root causes and key control weaknesses. This plan was to include mechanisms to enforce consequences and policies on investigations and disciplinary procedures. Despite the plan having been developed, it had not been implemented or rolled out to the intended users. No progress had been made in implementing consequences either. Until such time as there is political will at provincial executive level to lead by example and enforce compliance, this is unlikely to change.

The province's downward spiral will further continue until the vacancies in key positions are addressed and individuals in these positions all step up and accept accountability to address the root causes of poor audit outcomes. The province needs to build on the few individuals with personal commitment to perform well in their jobs, coupled with effective political leadership, to turn around the current situation so that officials feel motivated to do well in their jobs and take accountability for their performance. We are committed to continue providing further recommendations for improvement to management through our reporting messages and status of records reviews, and by tracking and providing feedback to the political leadership on the progress made.

5.9 WESTERN CAPE

PROVINCIAL SNAPSHOT

Clean audits: 70%
(2015-16: 80%)

Quality financial statements: 89%
(2015-16: 96%)

Quality performance report: 93%
(2015-16: 96%)

No findings on compliance with legislation: 75%
(2015-16: 82%)

Irregular expenditure: R173 m
(2015-16: R174 m)

There was a significant regression in the audit outcomes of local government in the province when compared to 2015-16. This can be attributed to some municipalities not taking our messages and recommendations seriously as well as not demonstrating the required levels of accountability and governance. Three municipalities lost their clean audit status, namely Bitou, Eden District and – of serious concern due its significance in the province – the City of Cape Town Metro. This was due to material non-compliance with supply chain management regulations at all three municipalities, irregular expenditure not being prevented at Bitou, and weaknesses in the implementation of consequences and revenue management at the City of Cape Town Metro. Accountability at both the political and administrative level is a core principle for municipalities where they are answerable to the public and responsible for decisions, actions and policies. If effectively demonstrated, this may have a positive impact on audit outcomes. Continued improvements in the levels of accountability and governance contributed to the ability of auditees to sustain their clean audit outcomes and assisted Cederberg and Prince Albert to achieve a clean audit opinion for the first time. These levels of accountability also contributed to Knysna and Kannaland receiving an unqualified opinion with findings and a qualified opinion, respectively. Their outcomes are excluded from our analysis, however, as their audits were finalised after the cut-off date for inclusion in this report due to the late submission of their financial statements.

The overall quality of submitted financial statements regressed slightly with four sets of financial statements (14%) requiring material adjustments to avoid qualifications, compared to three (11%) in the previous year. Only one of the four auditees was able to successfully correct their misstatements and attain an unqualified opinion on their financial statements. As a result, two auditees regressed from financially unqualified opinions with findings to a disclaimed opinion (Beaufort West) and a qualified opinion (Laingsburg), while Oudtshoorn again received a qualified opinion.

We remain concerned that the municipalities relied on the audit process to identify adjustments needed to their performance reports, with 18 performance reports (64%) requiring material corrections in 2016-17 compared to 17 (63%) in 2015-16. 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 (with indicators that are specific, measurable, attainable, realistic and time bound) and processes are in place to report on actual achievements, except for Beaufort West where the performance information did not meet the usefulness criteria. For the first time in years, Oudtshoorn submitted a performance report, but a lack of supporting documents led to material findings on the reliability of their performance information.

Accountability failures resulted in regression

Non-compliance with the Municipal Finance Management Act, in particular supply chain management regulations, continued to be one of the main obstacles to increasing the number of clean audit opinions in the province. Seven auditees (25%) had material findings on compliance with procurement processes, compared to five (18%) in 2015-16. It is concerning that the Central Karoo district continued to be plagued by material findings on compliance with supply chain management regulations, with three of the four municipalities in the district attracting such findings.

A lack of understanding of supply chain management prescripts, vacancies at supply chain management practitioner level, instability as well as the absence of appropriate supply chain management processes and procedures contributed to non-compliance with procurement processes. The total irregular expenditure incurred in the Western Cape was R173 million (2015-16: R174 million), of which R163 million related to non-compliance with supply chain management regulations. A total of 98% of the irregular expenditure related to supply chain management involved current year transgressions; and these transgressions can be isolated to unjustifiable deviations in terms of supply chain management regulation 36, the extension of contracts without the necessary approvals, and non-compliance with local content prescripts. At Oudtshoorn, a multi-year contract relating to consultancy services resulted in irregular expenditure of R4 million (2016: R1,3 million), which was not appropriately dealt with due to a lack of proper contract management systems. At Eden District, a multi-year contract was awarded in the year under review and resulted in irregular expenditure of R24 million, as the contract was not advertised for the minimum stipulated period. As this was the first year the contract was active, we will now have to assess whether any actions are taken in the following years to mitigate the irregular expenditure incurred. Supply chain management officials require further training on the application of local content prescripts.

Generally, allegations of misconduct and unauthorised, irregular and fruitless and wasteful expenditure were investigated by the council and the related expenditure was written off as irrecoverable if no one was found to be liable. At three municipalities (11%), however, investigations were not performed to determine whether any person was liable for such expenditure. Consequences must be implemented to deal with all instances of non-compliance with legislation as required.

The overall assessment of the information technology control environment remained unchanged at municipalities where our information systems auditors performed audit work. One municipality, Swartland, have had no significant information technology audit findings for the past two years. Eight municipalities still experienced challenges in implementing controls relating to all three focus areas, namely user access management, security management, and service continuity management. This was due to information technology operations being prioritised over the implementation of information technology controls, limitations in system functionality, and municipalities' continued focus on the implementation of the Municipal Standard Chart of Accounts. The majority of municipalities had implementation plans in place for the Municipal Standard Chart of Accounts. Formal post-implementation reviews had not yet been performed, but issues were being identified, reported and resolved on an ongoing basis. However, municipalities continued to rely on vendors for support. Some municipalities indicated that the service providers had not written all the modules and as a result they could not print certain reports, while some municipalities were running two systems concurrently. Two municipalities migrated to a new financial system due to vendors no longer providing support on their existing systems.

Municipalities also continued to rely on consultants for financial and performance reporting. The number of municipalities using consultants for performance information decreased slightly from 12 (43%) in 2015-16 to 11 (26%) in 2016-17. There was also a slight decrease in the number of municipalities using consultants for financial reporting from 23 (82%) in 2015-16 to 22 (79%) in 2016-17, which can be attributed to the filling of vacancies at municipalities. However, measures to monitor contract performance and delivery were not defined and/or implemented, and measures to monitor the transfer of skills were not in place, which we raised as findings at six and five municipalities, respectively. The total amount spent on consultants decreased from R37 million in 2015-16 to R30 million in 2016-17. Municipalities should continue with their efforts to ensure the transfer of skills from consultants to municipal officials to further reduce reliance on the consultants where possible.

The number of municipalities with an unfavourable financial health assessment decreased from seven (25%) in 2015-16 to four (14%) in 2016-17. Some municipalities' financial recovery plans included entering into agreements with suppliers, such as Eskom, according to which they agreed to pay off outstanding amounts over a specified period. The suppliers would then write off the interest if the municipalities honoured the agreements, which would improve municipalities' cash flow and help to avoid fruitless and wasteful expenditure. This initiative led to some municipalities successfully settling their overdue Eskom accounts. The concerning financial position of municipalities resulted from difficulty in collecting debt from consumers and weak financial management.

Considering the water crisis that the Western Cape is experiencing, it is concerning that six municipalities (21%) did not have approved policies for the routine maintenance of water infrastructure. Four municipalities (14%) also did not have a plan with specific time frames and targets for the maintenance of water infrastructure. The lack of policies and plans in this regard could pose a serious challenge in overcoming the water crisis. Two municipalities (7%), namely Beaufort West and Laingsburg, reported water losses above the acceptable norm of 30%.

Overall, the status of financial and performance key controls remained mostly unchanged. Further improvements in controls at municipalities that maintained their clean audit opinions from the previous year were unfortunately offset by municipalities where outcomes regressed. To improve the audit outcomes, leadership should take audit findings seriously (including management report findings) and develop detailed action plans to address recurring findings relating to financial statements, performance reports and compliance with key legislation (including supply chain management prescripts).

The accountability failures we noted can be attributed to, among others, political instability, instability in municipal manager and chief financial officer positions, and a failure to sufficiently monitor and implement action plans to address prior year findings. The August 2016 municipal elections brought about a significant change in the political landscape in the Western Cape, resulting in an intake of new mayors and speakers as well as an overall change of municipal councils at most municipalities. In addition, two new municipal managers (7%) and two new chief financial officers (7%) took up positions at municipalities as a result of the elections. Due to these changes, the focus of municipalities was largely on training, attempts to bring about stability, the appointment of municipal and senior managers, and the filling of other critical posts occupied by staff in an acting capacity. Focus on good governance, sound financial practices and the implementation and monitoring of audit action plans was not always evident, despite our warnings in this regard in the previous year's general report. Instability at political and senior management level often led to overall accountability failures at individual auditees, resulting in findings in all three our audit areas (financial statements, performance reports, and compliance with key legislation).

Of concern is the regression in the assurance provided by senior management overall, as they are the custodians of the day-to-day financial activities at municipalities. We rated senior management at various auditees with clean audit opinions as providing only some assurance. This was due to compliance findings reported in the management report (although these findings were not material in 2016-17, they could become so in future if not appropriately dealt with by senior management). Additionally, material corrections to the performance report as well as misstatements in the financial statements corrected during the audit process contributed to us assessing senior management as providing only some assurance.

The City of Cape Town Metro illustrates perfectly what happens when audit findings and messages are not acted upon with the necessary rigour. The metro lost its clean audit status mainly as they did not report all allegations against senior management to the council as well as ineffective controls over the revenue cycle that we had previously reported as an emerging risk.

Staff from our provincial office attended various forums, including the premier's coordinating forum, municipal manager forum, chief financial officer forum and supply chain management forum, to communicate messages related to the outcomes of prior years, the causes of undesired outcomes, emerging risks, and possible responses to the risks identified. We also embarked on a status of records review process at various municipalities. The results of the engagements were mixed and can also be linked to the overall root causes. At auditees where there was instability at leadership level, engagements took place but management did not respond to the issues raised. At the two auditees that improved to clean audit opinions, we noted signs of steady improvement over the past two or three years, including stability and competence at senior levels. These auditees also took our recommendations and discussions seriously, as was the case for the entire audit process.

The proposed amendments to the Public Audit Act would allow the enforcement of consequences in certain circumstances, such as investigations into undesirable audit outcomes. Municipalities are encouraged to implement action plans to address repeat supply chain management non-compliance that results in irregular expenditure.

Key role players continued to be committed to improve the level of support to municipalities and to intensify such support, as was evidenced by the back-to-basics and governance programmes at Cederberg and Prince Albert that obtained clean audits for the first time. Going forward, we encourage all key role players to intensify their support to the municipalities in the Central Karoo district as well as to renew their focus at municipalities whose audit outcomes had regressed. This enhanced level of support could translate into improved audit outcomes across the province. We will continue to monitor the impact and progress of commitments made, as they are critical enablers to improving the overall audit outcomes in the province. In addition, the municipal leadership is encouraged to embrace the status of records reviews, as this initiative provides for a system of early warning and identification of key areas of concern that may compromise financial and performance management and compliance with legislation.

All municipalities should keep striving to improve levels of accountability, good governance and consequences to attain or maintain clean administration.