SECTION 1

Executive summary

AUDITOR-GENERAL'S OVERVIEW

The safe and clean hands that can be relied upon to look after the public's finances in local government are few and far between. This is found to be so in the custodial roles in financial management across a number of provinces.

Those that are required to supervise and monitor adherence to fiscal management laws are not doing so or are not effective in the steps they have taken so far. This problem is compounded by the indisputable reality that the money allocated to the delivery of certain specified outcomes is no longer in the bank and that for which it was earmarked has not been delivered or achieved. ***There is not much to go around, yet the right hands are not at the till.***

Services are rendered and goods are delivered to consumers in all municipalities with the expectation that they will pay for them. Yet there has been a growing trend of established businesses across the chain showing signs of diminishing ability to pay for these services, or completely refusing to pay. Individuals and households also feel the same pressures and are not forthcoming with payments for these consumed goods and services. To illustrate the prevalence and pervasiveness of this across the country, on average almost 60% of the revenue shown in the books will never find its way into the bank account. The accounts we are covering in this report already take into account the extent of this impairment. The system has generally been unsuccessful in converting debt into cash over a number of years, as evidenced by the age of the debt. However, this does not mean that the constant pursuit of this money should cease.

In the meantime, those that render services on behalf of the municipality or provide administrative and other functions continue to receive their income, largely and almost exclusively in some cases from the income that is raised from the national purse. This area of municipal finances is compounded by the fact that not all those that are part of the payroll were brought along with the intention to directly deliver the services that are part of the municipality's plans. This leaves the municipality with little else but to seek external help – even in areas where they already have warm bodies in employment. This comes at a significant cost. The common consequence of this is that those that provide goods and services with a promise to be paid in the future have to wait for new money to be allocated for future spending before they can be paid for past deliverables. The ultimate outcome of this is an inevitable downward spiral to a financial cul-de-sac that many of the local municipalities and districts have already reached across the whole country, with a few and limited exceptions.

Fundamentally, this is what characterises the outcomes of the audit of financial statements of local government across the country. It should be appreciated that there are some exceptions; a large number of which are concentrated in the Western Cape (although there are dotted areas of concern in the Central Karoo and Garden Route districts of this province).

When the different audit conclusions are analysed in this report, the above context must always be kept in mind. It is no longer about an accelerated drive to achieve a particular audit conclusion, but whether the municipality is investing in qualitative and preventative controls to avert this systematic decline in financial fortunes within a sphere where all matters. The value of this report should therefore not be about a clever, intelligent analysis of concepts where the temptation is to rationalise the problem as if to soften the blow or divert attention from the core issues. It should rather be about how firm steps are going to be taken to restore the integrity of these institutions and place them in a position to manage their finances towards the achievement of citizens' needs.

When looking across the board and after carefully analysing the financial statements we audited, we can safely conclude that local government does have sufficient money and assets to fulfil most of the basic needs and aspirations of its citizens. But a lot of work is needed to make sure that this is realised. Proper administration and superintendence over the financial affairs of local government were not exercised and were found, through this audit examination, to be seriously lacking with some devastating consequences already evident in certain identified areas.

Kimi Makwetu
Auditor-General

There is not much to go around, yet the right hands are not at the till

GENERAL OVERVIEW OF THIS REPORT

This general report gives an account of our audits and experiences in the different provinces and dives deeper into the stories told by the financial statements of the municipalities in those provinces.

The financial statements of a municipality tell the story of how well a municipality is managed. It can be a good story of disciplined spending that achieves value for money; meticulous billing and collecting practices; assets that are maintained and safeguarded; careful investments and savings for emergencies and future projects; and commitments to creditors and the community being honoured. The tale most often told in local government, however, is of municipalities crippled by debt and being unable to pay for water and electricity; inaccurate and lacklustre revenue collection; expenditure that is unauthorised, irregular, fruitless and wasteful; and a high dependence on grants and assistance from national government. Most concerning are those municipalities that cannot even prepare credible financial statements, even after paying millions to consultants for assistance and receiving sizeable support from national and provincial government. The financial statement stories of these municipalities remain untold or are unreliable, with their communities, creditors as well as current and future investors being left in the dark.

When we share the audit outcomes and messages on the financial statements and financial management of municipalities, as in this report, it is a reflection of the picture the municipal administration themselves are also painting through their financial statements and performance reports.

Every province has a unique story that we summarise below, but we invite you to read the detailed stories of the different municipalities in the provincial overviews in section 2.

EACH PROVINCE HAS A UNIQUE STORY

EASTERN CAPE

*A **widespread lack of financial controls and project monitoring**, an ongoing culture of a lack of accountability as well as a tolerance of transgressions resulted in a further regression in audit outcomes in the province – improvements were rare and the general trend over the past three years remained negative. Eight municipalities were unable to adequately support the information reported in their financial statements and received disclaimed opinions.*

The cost of accountability failures is high as the province is hampered by poverty. Instead of the responsible and diligent financial management of the limited resources available, we see dysfunctional control environments, extensive disorder in accounting records, prolonged vacancies in key positions and instability in councils, poor procurement processes, no consequences for poor performance and transgressions, unreliable reporting on municipal finances and programmes, and accumulated irregular expenditure of just over R11 billion.

The impact is evident from the financial statements of municipalities – 83% had significant cash-flow constraints and could not pay their creditors on time. In total, 38% of the municipalities' expenses exceeded their revenue at year-end. At some municipalities, the equitable share (an unconditional grant that enables municipalities to provide basic services to poor households, afford basic administrative and governance capacity, and perform core municipal functions) was not enough to cover the salary bill. Revenue from service charges was used for the shortfall before paying for the costs of delivering the services – further exacerbating the impact on those supplying goods and services to the municipality. The development and maintenance of infrastructure and the delivery of basic services across the province suffered from poor planning, weak project management, and the mismanagement of conditional grants. Constant service delivery protests bear evidence of municipalities' failure to respond to the needs of their residents. Wastefulness and poor financial management will create a situation that will become untenable in the near future.

FREE STATE

The audit outcomes in the province continued to regress for the third consecutive year. Ten municipalities did not submit financial statements on time – even more than in prior years, which resulted in eight audits not having been completed by the time of this report. Additionally, three municipalities received disclaimed opinions. This means that almost half of the municipalities in the Free State have not yet accounted for the manner in which they used taxpayers' money in 2018-19 or did it so poorly that their financial statements cannot be trusted.

The outcomes were characterised by a lack of basic financial disciplines, an unwillingness to comply with legislation, and a general disregard for internal controls and accountability. Last year we reported on the total breakdown in internal control and poor leadership responses towards improving the situation. The trend continued this year, inevitably leading us to the conclusion that there is a ***deliberate lack of accountability by the political and administrative municipal leadership*** in the province. The failure of infrastructure projects and the lack of infrastructure maintenance are costing municipalities millions, with little consequences for the responsible officials and contractors and no effort to recover the losses, with communities suffering the most for the poor tone set by the leadership.

The use of consultants to do the work of municipal officials remained the order of the day – even for project management and normal financial activities such as reconciliations and the maintenance of registers. The investment of R29 million in consultants to assist with financial reporting had little impact on the quality of financial statements submitted for auditing, while the lack of skills transfer was evident by some officials not even being able to provide the most basic of financial information without the help of a consultant.

Some internal audit units and audit committees were dysfunctional, while the recommendations of others were not implemented to improve controls and audit outcomes. District municipalities did not have the capacity and resources to provide the required technical, administrative or financial support to their local municipalities, and did not transfer any good practices regarding financial and performance management. Provincial government interventions have failed, as evidenced by the continued inability of municipalities under administration to produce credible financial statements or deliver on their service delivery objectives.

The financial statements reflect the dire state of local government in the province. Municipalities will not be able to continue on their current path of financial maladministration, as their financial health has consistently deteriorated over the last five years to a point where 80% of municipalities are now in a vulnerable financial position. Current liabilities exceeded current assets by R2,1 billion and total expenditure exceeded total revenue by R2 billion. Poor financial discipline in the province had a significant impact on the country as a whole, as municipalities did not prioritise payments to Eskom and water boards, who were collectively owed R3,1 billion at year-end.

GAUTENG

The picture in Gauteng held steady with all municipalities again maintaining their good audit outcomes for completed audits. This was the only province in which all the municipalities had unqualified audit opinions, but as in prior years only Midvaal obtained a clean audit opinion. This continued to elude the other municipalities as we observed ***good financial accounting but inadequate monitoring of the preventative controls*** *necessary to ensure compliance with legislation and accurate reporting on service delivery achievements.*

Municipalities that have both attracted and retained staff with the right skills have benefited from this continuity and managed to maintain good audit outcomes. Midvaal has benefited from a high level of institutional knowledge as key management officials such as the municipal manager, chief financial officer and head of supply chain management have been at the municipality for at least five years. By contrast, municipalities characterised by instability in political or administrative leadership, such as the City of Tshwane and City of Johannesburg metros, were unable to improve their outcomes.

The current economic climate has resulted in municipalities' financial sustainability remaining under pressure, as they continued to experience difficulties in collecting debt from residents. This had a negative impact on these municipalities' ability to pay suppliers timeously for basic services, which in turn led to non-delivery or delays in municipal services. The expanding Gauteng population, as well as the resultant increased infrastructure development and maintenance needs, has also placed a strain on municipal finances, as there are limited funds for the various desired projects. It is further becoming apparent that the financial model for district municipalities is not sustainable and needs to be reconsidered. The operational expenses (mainly salaries) of the two district municipalities were very high due to a large staff structure relative to the limited functions they performed.

KWAZULU-NATAL

There was ***little change in the audit outcomes of the province, accountability was not adequately practised and enforced by leadership, and the failure of key controls continued.***

Most district municipalities continued to struggle with basic financial and performance management processes, displayed a lack of responsiveness to implement and monitor action plans, and had weak governance structures that did not enable effective accountability. Some municipalities were unable to avoid setbacks when vacancies arose and were in a constant state of volatility due to failed preventative controls. Municipalities continued to place high reliance on consultants without adequate assurance from internal audit units, audit committees and municipal public accounts committees.

Leadership did not always influence robust systems of internal control to drive good governance and discipline – more focus must be placed on exercising political oversight and addressing the aspirations of citizens. The impact is evident in the increasing irregular expenditure (from R3 billion to R6,5 billion) in the province – eThekwini Metro incurred R2,34 billion of this irregular expenditure.

The financial statements showed low debt-collection levels, which in turn affected municipalities' ability to pay creditors on time. Some municipalities depended heavily on the equitable share to pay for salaries and councillor remuneration. The dire financial health of municipalities was made even worse by high water losses due to ageing infrastructure.

LIMPOPO

Six municipalities in the province improved their audit outcomes and three regressed. The improvements were mostly consultant-driven, but despite the province having spent R122 million on consultants for financial reporting purposes, many municipalities continued to receive qualified opinions. There was a high reliance on consultants, skills were not transferred, and some officials became complacent when consultants were appointed and did not perform the jobs they were appointed to do, raising questions about municipalities paying for officials and consultants to do the same job. ***Millions were spent to improve the outcomes, but there were no consequences for poor performance.***

Conditional grants provided for infrastructure development and maintenance were not always used for their intended purposes or were poorly managed. The province further reported water losses of R341 million due to poor management and monitoring.

The impact of the R1,2 billion loss following the liquidation of VBS Mutual Bank is still being felt by the municipalities concerned, where service delivery has been affected. Cost-containment measures and recovery plans have been introduced in the hope of recovering from this huge financial loss. The process of identifying the responsible parties and implementing consequences is still ongoing, with chief financial officers and municipal managers being suspended or resigning and mayors being recalled. Various court cases are underway and the provincial treasury's investigation report has been handed over to the Directorate for Priority Crime Investigation (Hawks) for further action.

The financial woes of the province are also reflected in municipalities' inability to pay creditors on time (the average payment period was approximately six months) – which put a significant strain on service providers, especially upcoming businesses. Poor debt collection and revenue management were at the root of these financial health challenges. Amounts owed to Eskom and water boards at year-end increased significantly to R1 billion and R2 billion, respectively.

The municipal public accounts committees were not adequately capacitated and were still uncertain about their role, which led to them not providing adequate assurance by, for example, investigating unauthorised, irregular and fruitless and wasteful expenditure. This ultimately affected the accountability cycle.

MPUMALANGA

***Deteriorating accountability and financial management coupled with weakened oversight is at the centre of the significant regressions in audit outcomes** in the province – six municipalities regressed and only two improved. There was a breakdown in internal control across various municipalities, which included basic financial disciplines such as record keeping, reconciliations and verifications.*

Only two municipalities that made use of consultants improved their audit outcomes despite consultants being used to do the work of employed staff at a cost of R95 million across the province. This was mainly due to management not being effectively involved and monitoring the work of consultants, which would have enabled them to implement consequences for non-performance. Instead, chief financial officers did not take accountability but rather delegated their responsibilities for the financial statements to consultants.

A trend of underspending on conditional grants reflects poor planning by municipalities – a total of R154,3 million was unspent. We also continued to see a blatant disregard for compliance with key legislation without any consequences. Only a small portion of the previously reported unauthorised, irregular and fruitless and wasteful expenditure was investigated and dealt with by the council. This also points to the ineffectiveness of most municipal public accounts committees, who did not receive enough assistance in the form of further research on the reports referred to them and did not have appropriate competencies to successfully execute their responsibilities.

Apart from very few exceptions, the political and administrative leadership did not demonstrate decisiveness in dealing with the deteriorating internal control environment and had – for far too long – allowed unethical behaviour, misconduct and a culture of no consequences despite recommendations from various assurance providers on how to deal with this.

The financial statements show that financial resources continued to dwindle at a time when municipalities are under increasing pressure to provide services. Challenges with maintaining reliable valuation rolls, deficiencies in billing systems, and high distribution losses affected the ability of municipalities to increase their revenue capacity to meet planned spending. The low revenue-collection rate made it difficult for municipalities to honour their financial commitments. At some municipalities, the amount spent on salaries far exceeded what consumers were billed for the sale of basic services such as service charges and property rates. This means that these municipalities had to use the equitable share to be able to service the whole wage bill, taking away from what was allocated to basic services.

NORTHERN CAPE

The province is in a ***prolonged state of undesirable audit outcomes****, with yet another overall regression – six municipalities regressed and only three improved. As in prior years, not all the audits were completed on time for inclusion in this report, as the financial statements were submitted late.*

The breakdown in the control environment continued with little response by the leadership to our messages to implement preventative controls. The result has been an environment in which supply chain management processes are abused, bank accounts are not properly scrutinised, revenue is lost due to system failures and transactions that are recorded twice, and proper reconciliations are not performed.

Over the years, municipal managers and chief financial officers remained slow in responding to the challenges faced by their municipalities. Vacancy rates contributed to this, as over a fifth of municipalities did not have a chief financial officer and/or a municipal manager. Where these positions were filled, incumbents struggled to perform their required duties despite having the necessary qualifications. At many municipalities, internal audit units and audit committees did not provide the required level of assurance, while the lack of capacity in municipal public accounts committees and councils contributed to municipal officials not being held accountable.

In total, R42 million was spent on consultants for financial reporting services – yet their skills were not transferred to municipal staff and they prepared unreliable financial statements due to the poor financial information received. Consultants were appointed at municipalities with a full finance unit complement, which can only mean that some finance officials are not able to perform their required duties.

Service delivery was severely hampered by the dire state of municipal finances. Most municipalities were crippled by poor and aged infrastructure, resulting in them struggling to render services to their communities. Salaries and councillor remuneration were substantially more than the equitable share received. The shortfall between own revenue and expenditure severely affected municipalities' ability to ensure service delivery and pay service providers. Pressure on the cash flow resulted in some municipalities using conditional grants to fund their operations, which means that funds earmarked for infrastructure development and maintenance were misspent.

Despite the overall poor performance of municipalities in the province, a handful of municipalities continued to deliver good audit results, such as the John Taolo Gaetsewe District which achieved a clean audit outcome. It is a pleasure to audit at the municipality – the officials are disciplined and the control environment is sound. The municipal manager has set the correct ethical tone, is highly involved in the audit process, and holds staff members accountable for audit findings.

NORTH WEST

The regression in audit outcomes completes a three-year downward trajectory in the province: nine municipalities received disclaimed opinions and eight received qualified opinions. The availability of documents or evidence to support financial activities remained a vast challenge across the municipalities, as evidenced by the number of repeat disclaimed opinions. The inability of the province to reverse the trend of negative audit outcomes points to a culture that is not proactive in dealing with control weaknesses flagged in prior years.

Accountability failures by senior management, municipal managers, mayors, internal audit units, audit committees, municipal public accounts committees and councils are indicative of a ***systemic breakdown in the discipline of financial control.*** Ten municipalities submitted their financial statements after the legislated deadline and not a single municipality was able to achieve a financially unqualified audit outcome. The political leadership failed to set the right tone for clean administration by creating an environment conducive to accountability, good governance and the effecting of consequences. The intervention by the provincial treasury and cooperative governance department was riddled with political infighting and caused further instability within the municipalities, which also had a negative impact on service delivery.

The cost of using consultants increased significantly to R180 million, with municipalities paying their staff and the consultants for the same service without any value being realised and resulting in a waste of scarce public resources. Even when consultants were used to prepare financial statements, they would not be credible because the in-year preventative controls (such as proper record keeping and daily and monthly reconciliations) were not in place to enable reliable and timeous financial reporting. In spite of spending the most on consultants of all the provinces, North West was the only province without a single unqualified financial audit outcome.

The total unresolved balance of irregular expenditure stood at R17,8 billion, demonstrating that compliance was not proactively monitored, transgressions and poor performance were not dealt with decisively, and proper investigations into the expenditure were not conducted.

The high number of municipalities with disclaimed and qualified opinions on their financial statements makes it difficult to analyse the financial health of local government in the province. What can be observed, however, is cause for concern: the deficit increased by 243% to R2,3 billion and the equitable share, which enables municipalities to provide basic services to poor households and perform core municipal functions, did not even cover salaries. Financial management was characterised by poor budgeting, lack of in-year monitoring, and inadequate cash-flow management.

WESTERN CAPE

The largest concentration of clean audits remained in the Western Cape (45%), with 93% of the province's municipalities receiving unqualified opinions on their financial statements. Eight municipalities retained their clean audit status – six of which have maintained this status for the past five years or longer.

Municipalities that sustained their clean outcomes are characterised by control environments that are institutionalised, preventative in nature and reinforced by a strong tone set by leadership. This includes operational controls that are institutionalised within their systems independent of individuals, which implies that staff turnover will not result in the failure of controls. In addition, there is a low tolerance by management for audit findings and a high level of accountability; and all the relevant assurance providers know their roles and do their part in the control environment. In these instances, municipalities focus on their own processes by incorporating robust risk analysis into their action plans, thus enabling audit outcomes to be a by-product.

While the province showed ***improved outcomes, concerns remain*** at municipalities where controls were not institutionalised, possibly leading to regressions; and at municipalities with dysfunctional control environments, which could lead to even worse audit outcomes than the already poor ones.

The financial statements generally correlated with the socio-economic climate of the respective municipalities as well as our assessment of financial discipline. More municipalities struggled to collect their debt, but overall the financial health of Western Cape municipalities was the strongest of all the provinces.

WHAT DO THE OVERALL TRENDS, OUTCOMES AND OBSERVATIONS TELL US?

Our audits of the 2018-19 financial year did not have a much different outcome than in prior years. Now in the third year of this administration, there was again a regression in the audit outcomes. Over the three-year period, the audit outcomes of 76 municipalities regressed with those of only 31 improving.

The following serious weaknesses in the financial management of local government had not been addressed over the past three years:

- Credible financial statements and performance reports are crucial to enable accountability and transparency, but municipalities are failing in these areas. Countrywide, 32 municipalities submitted their financial statements late and the financial statements of six were outstanding by 25 March. Not only did the unqualified opinions on the financial statements continue to show a steady decrease from 47% to only 43% (and a significant drop from 58% in 2016-17), but the quality of the financial statements provided to us for auditing again showed no improvement from the previous year. Only 18% of the municipalities could give us financial statements without material misstatements. In addition, the performance reports of 67% of the municipalities that produced such reports had material flaws and were not credible enough for the council or the public to use.
- Municipalities spent R1,26 billion on consultants for financial reporting services, of which only 7% was as a result of vacancies in municipal finance units. This amount includes R522 million for consultant costs at municipalities with outstanding audits where financial statements were received. Only 14% of the municipalities using consultants showed an improvement in their audit outcomes, while 22% regressed.
- The financial statements show increasing indicators of a collapse in local government finances – we assessed 79% of the municipalities as having a financial health status that was either concerning or requiring urgent intervention. Just under a third of the municipalities were in a particularly vulnerable financial position.

  The inability to collect debt from municipal consumers was widespread. In these circumstances, it is inevitable that municipalities will struggle to balance the books. Overall, 34% of the municipalities disclosed a deficit (in other words, their expenditure exceeded their income) – the total deficit of these municipalities amounted to R6,29 billion.

  The financial woes of local government also weighed heavily on municipal creditors. The average creditor-payment period was 180 days. At year-end, R53,52 billion was owed to municipal creditors but the cash available amounted to only R43,20 billion. The money owed to Eskom by year-end was in arrears of R11,31 billion, of which R9,02 billion had already been outstanding for more than 120 days. The water boards also struggled to collect money owed by municipalities – their accounts were R6,24 billion in arrears, of which R5,38 billion was for more than 120 days.

While the poor economic climate does play a role in the deterioration of municipalities' financial health, many are just not managing their finances as well as they should.

- Government cannot afford to lose money because of poor decision-making, neglect or inefficiencies. However, we continued to see a rise in fruitless and wasteful expenditure, with 200 municipalities losing R2,07 billion in the current year. Over the three-year period, R4,27 billion of government expenditure was fruitless and wasteful.

- In total, 91% of the municipalities did not comply with legislation. The outcome is similar to the previous year and slightly higher than the 85% in 2016-17. The lapse in oversight and lack of controls relating to compliance were evident in a number of areas, including supply chain management.

- The compliance with supply chain management legislation regressed since 2016-17. We remain concerned that only 2% of the municipalities are fully complying. This is in spite of all the reporting we have done in this area, the red flags we have raised, and the many recommendations we have made. Uncompetitive and unfair procurement processes and inadequate contract management were common.

- Irregular expenditure increased to R32,06 billion from the R25,2 billion we reported last year. It includes the irregular expenditure (R10,60 billion) of those municipalities of which the audits were completed after the cut-off date for this report (31 January) as well as the unaudited amounts disclosed in the financial statements of the municipalities whose audits were still outstanding by the date of this report. The amount could be even higher, as 55% of the municipalities were qualified because the amount they disclosed was incomplete and/or they disclosed that they had incurred irregular expenditure but that the full amount was not known. In addition, we could not audit R0,36 billion worth of contracts due to missing or incomplete information. The top 10 contributors to irregular expenditure were responsible for 43% of the total amount of irregular expenditure disclosed in 2018-19.

  Municipalities have a poor track record of dealing with irregular expenditure and ensuring accountability. The year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with (through recovery, condonement or write-off) stood at R65,59 billion.

- Our audits again identified a number of shortcomings in the development and maintenance of infrastructure. Infrastructure development projects displayed widespread underspending of budgets, delays in project completion, non-compliance with supply chain management legislation, and irregular expenditure.

  A key concern is the lack of attention being paid to water and sanitation infrastructure – the condition of water and/or sanitation infrastructure was not assessed at over a third of the responsible municipalities; and 41% of the municipalities did not have policies for maintenance. It is not unexpected then, that 36% of the municipalities responsible for water services and related infrastructure disclosed water losses of more than 30%. The overall water losses disclosed amounted to R6,56 billion.

  The maintenance of roads did show some improvement, but 27% of the municipalities did not develop or implement approved road maintenance plans for renewal and routine maintenance. We also continued to see a backlog in renewal and routine maintenance at 16% of the municipalities.

A NEW CHAPTER: FIRST-TIME IMPLEMENTATION OF THE MATERIAL IRREGULARITY PROCESS

The amendments to the Public Audit Act became effective on 1 April 2019 and we started implementing the material irregularity process at nine selected municipalities. We completed six of these audits by the date of this report. In this first year, we focused on non-compliance with legislation that resulted in, or is likely to result in, a material financial loss.

We identified a total of six material irregularities at three of the municipalities, which resulted in a financial loss of R24 499 866: R2 421 897 is known as the municipal manager quantified the loss, and the remainder is an estimate of the loss. The most material irregularities (three) were identified at Ngaka Modiri Molema District in North West.

The material irregularities we identified and reported are not complex accounting or procurement issues and could have been prevented through basic controls. It related to assets not being safeguarded resulting in theft or vandalism, payments for goods and services not received, and an unfair procurement process that resulted in overpricing.

Municipal managers reacted positively to the notifications they received of the material irregularities we identified, and all of them are taking appropriate action to address these. Some had already started taking action within the 20 working days we gave them to respond to our notification. This demonstrates that municipal managers understand what they are required by legislation to do when they become aware of irregularities and that they are willing and able to take on these responsibilities. It also signals a behavioural change towards responding in a decisive and timely manner to our findings.

HOW CAN PREVENTATIVE CONTROLS IMPROVE THE PICTURE?

Internal controls are the preventative mechanisms, rules and procedures implemented by a municipality to ensure the integrity of financial and accounting information, to promote accountability, and to prevent fraud and error. Besides complying with legislation, and protecting the entity's assets from theft or preventing fraudulent activities, preventative controls can help increase operational efficiency by improving the accuracy and timeliness of financial reporting.

These mechanisms, rules and procedures include the separation of duties – separating the preparer, reviewer and approver roles; access controls – limiting access to certain information and assets to specific individuals; physical verification – checking whether what is recorded in the books actually exists; documentation standardisation and management – ensuring that each transaction is supported by valid documents; regular reporting – updating the ledger and trial balances on a daily or weekly basis in order to provide regular insight into the state of the system, allowing management to discover and investigate discrepancies; periodic reconciliations – to ensure that balances in the accounting system match up with balances in accounts held by other entities, including banks, suppliers and credit customers; and approval authority – requiring specific managers to authorise certain types of transactions to add a layer of responsibility to accounting records by proving that transactions have been seen, analysed and approved by appropriate authorities.

Preventing poor-quality financial statements and performance reports, non-compliance and material irregularities is more effective than having to deal with the consequences thereof – money and time are lost, costly investigations have to be instituted, and officials are subjected to the discomfort and anxieties associated with these processes – which often take a number of years.

Our message has been consistent over the years that a strong control environment and processes are the key to achieving strategic objectives, addressing risks, ensuring compliance with legislation, and managing public sector funds to the benefit of citizens. We acknowledge that it takes time to institutionalise good preventative controls, especially in large and complex environments, but municipal managers – supported by their political leadership – need to build their institutions towards accomplishing this in a deliberate manner.

The detail on the weaknesses in internal control and identified risks that we include in our management, audit and general reports, will assist in identifying the other areas that need attention. The status of records reviews we perform and engage on with municipal managers also provide an early warning system whereby they are alerted to matters that can potentially lead to undesirable audit outcomes. All of these measures are aimed at assisting the leadership to prevent accountability failures, or to provide them with information on how to deal with such failures where they have occurred.

Councils can also play an important role in strengthening preventative controls through the municipal public accounts committees. A proactive approach aimed at identifying risks and requiring assurance from municipal managers that these risks are being mitigated through preventative controls will have a positive impact on the control environment of municipalities. Our reports and briefings will be a good source of information in this regard, but we also strongly encourage engagement with the chair of the audit committee and the head of the internal audit unit on their perspective, as they have a key responsibility towards risk management and the implementation of controls at municipalities.

We remain committed to working tirelessly within our new mandate to strengthen financial and performance management in local government in South Africa, emphasising the need for accountability and doing the basics right. We encourage the municipal leadership and all stakeholders involved in local government to intensify their efforts to ensure that communities experience an improvement in the way their municipalities operate.