



SECTION 4



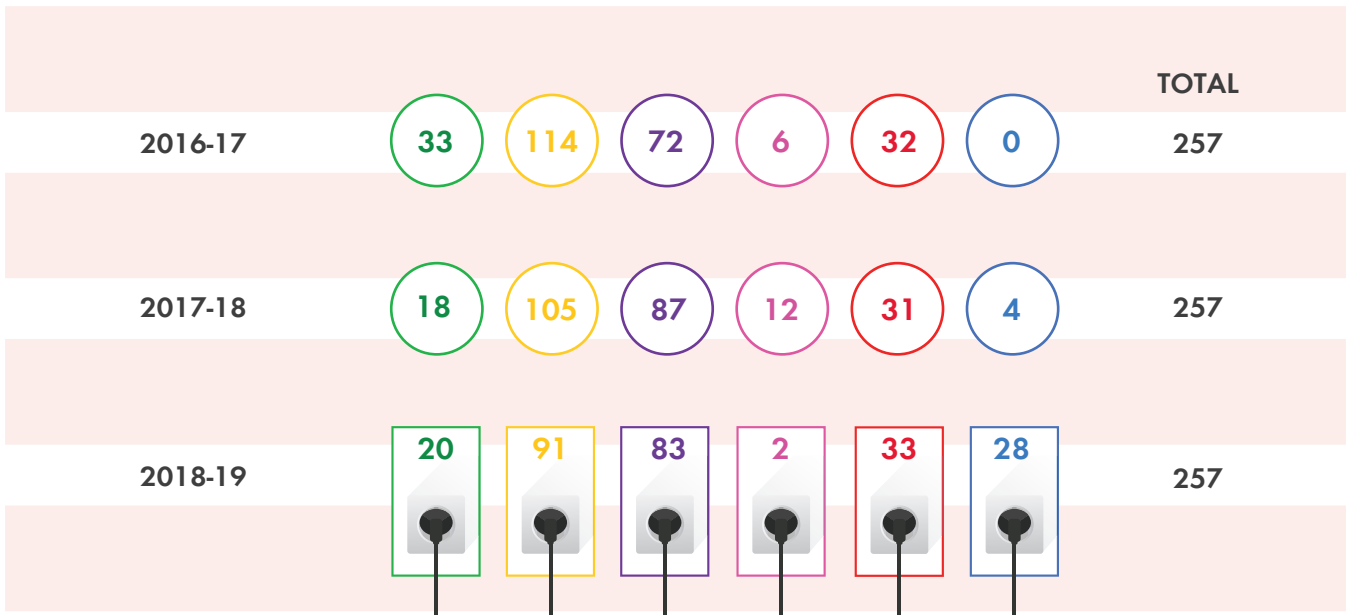
Summary of audit outcomes



OVERALL AUDIT OUTCOMES

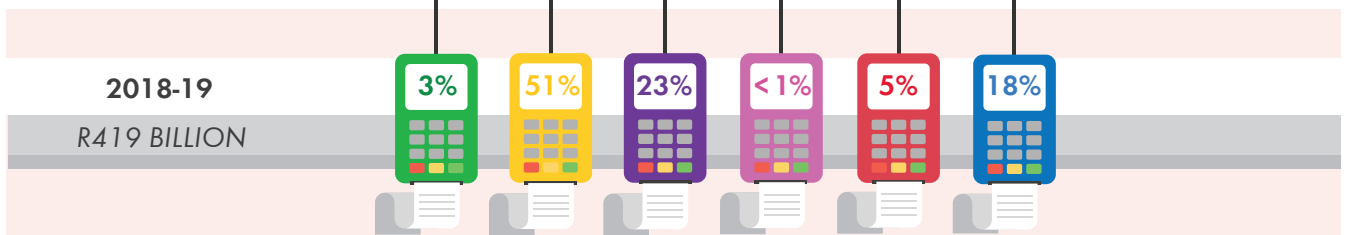


OVERALL REGRESSION
IN AUDIT OUTCOMES



EXPENDITURE BUDGET

146



MOVEMENT from 2017-18

33 \wedge Improved 46 \vee Regressed

MOVEMENT from 2016-17

31 \wedge Improved 76 \vee Regressed

20 of the 24 outstanding audits reported in 2017-18 were completed by the date of this report; the 4 still outstanding were Masilonyana (FS), Maluti-A-Phofung (FS), Phokwane (NC) and Renosterberg (NC)

CLEAN AUDIT MOVEMENTS



12 $>$ Remained clean

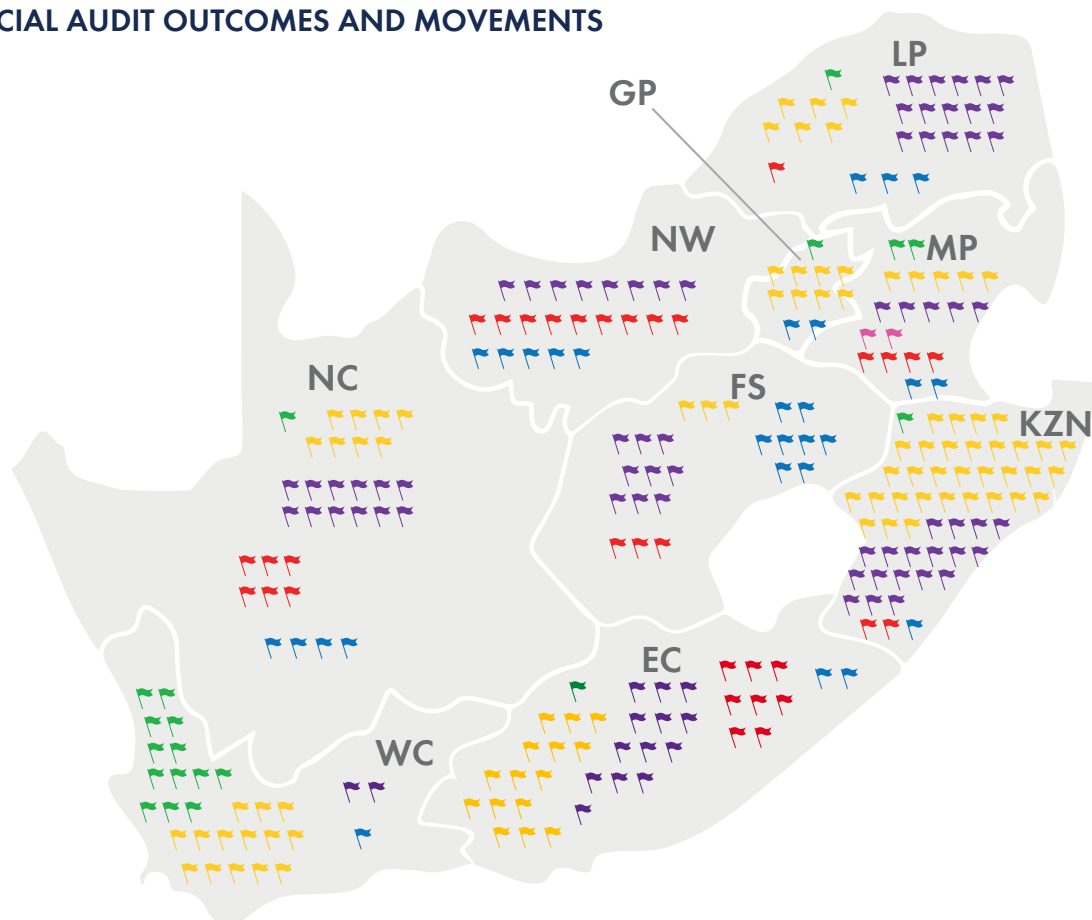
8 \wedge New clean audits

6 \vee Regressed

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



PROVINCIAL AUDIT OUTCOMES AND MOVEMENTS



Province	2018-19	2017-18	Change
EASTERN CAPE (EC)	1 Unqualified with no findings, 15 Unqualified with findings, 13 Qualified with findings, 8 Disclaimed with findings, 2 Outstanding audits	3 Unqualified with no findings, 13 Qualified with findings, 13 Disclaimed with findings	▲ 3 ▼ 13
FREE STATE (FS)	3 Unqualified with findings, 9 Qualified with findings, 3 Disclaimed with findings, 8 Outstanding audits	2 Unqualified with findings, 3 Disclaimed with findings, 4 Outstanding audits	▲ 2 ▼ 4
GAUTENG (GP)	1 Unqualified with no findings, 8 Unqualified with findings, 2 Outstanding audits	0 Unqualified with no findings, 0 Disclaimed with findings	▲ 0 ▼ 0
KWAZULU-NATAL (KZN)	1 Unqualified with no findings, 32 Unqualified with findings, 18 Qualified with findings, 2 Disclaimed with findings, 1 Outstanding audit	8 Unqualified with no findings, 7 Disclaimed with findings	▲ 8 ▼ 7
LIMPOPO (LP)	1 Unqualified with no findings, 6 Unqualified with findings, 16 Qualified with findings, 1 Disclaimed with findings, 3 Outstanding audits	6 Unqualified with findings, 3 Disclaimed with findings	▲ 6 ▼ 3
MPUMALANGA (MP)	2 Unqualified with no findings, 5 Unqualified with findings, 5 Qualified with findings, 2 Adverse with findings, 4 Disclaimed with findings, 2 Outstanding audits	2 Unqualified with no findings, 6 Disclaimed with findings	▲ 2 ▼ 6
NORTHERN CAPE (NC)	1 Unqualified with no findings, 8 Unqualified with findings, 12 Qualified with findings, 6 Disclaimed with findings, 4 Outstanding audits	3 Unqualified with no findings, 6 Disclaimed with findings	▲ 3 ▼ 6
NORTH WEST (NW)	8 Qualified with findings, 9 Disclaimed with findings, 5 Outstanding audits	2 Unqualified with findings, 3 Disclaimed with findings	▲ 2 ▼ 3
WESTERN CAPE (WC)	13 Unqualified with no findings, 14 Unqualified with findings, 2 Qualified with findings, 1 Outstanding audit	7 Unqualified with no findings, 4 Disclaimed with findings	▲ 7 ▼ 4

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

OUTSTANDING AUDITS



Cut-off date for inclusion of the audit outcomes in this report is 31 January 2020

REASONS FOR 28 OUTSTANDING AUDITS

Financial statements submitted late – 10 (36%)

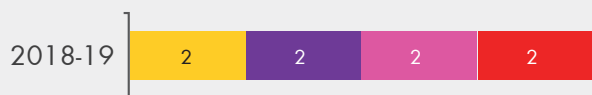
Financial statements not submitted – 6 (21%)

Material irregularity phased-in audit – 5 (18%)

Delay in the audit – 5 (18%)

Auditee delays – 2 (7%)

RESULTS OF 8 AUDITS SUBSEQUENTLY FINALISED AS AT 25 MARCH 2020



AUDITS SUBSEQUENTLY FINALISED AS AT 25 MARCH 2020	MOVEMENT FROM PREVIOUS YEAR'S AUDIT OUTCOME	2018-19 AUDIT OUTCOMES		
		Audit opinion	Performance reports	Compliance with legislation
Nelson Mandela Bay Metro (EC)	▶	Qualified with findings	Findings	Findings
City of Tshwane Metro (GP)	▶	Unqualified with findings	Findings	Findings
Inkosi Langalibalele (KZN)	▶	Adverse with findings	Findings	Findings
Thabazimbi (LP)	▲	Qualified with findings	Findings	Findings
Mamusa (NW)	▶	Disclaimed with findings	Findings	Findings
Naledi (NW)	▶	Disclaimed with findings	Findings	Findings
Ngaka Modiri Molema District (NW)	▲	Adverse with findings	Findings	Findings
Kannaland (WC)	▶	Unqualified with findings	Findings	Findings

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



FINANCIAL STATEMENTS

⬇️ SLIGHT REGRESSION IN QUALITY OF PUBLISHED FINANCIAL STATEMENTS



	MOVEMENT from previous year	2018-19	2017-18	MOVEMENT over 3 years	2016-17
Timely submission of financial statements (all municipalities)	▶️	88% (225)	88% (226)	⬇️	90% (232)
Quality of financial statements submitted for auditing	⬇️	18% (43)	20% (47)	⬇️	23% (54)
Quality of published financial statements	⬇️	48% (111)	52% (120)	⬇️	62% (142)

68 municipalities (30%) achieved unqualified audit opinions only because they **corrected all misstatements** identified during the audit

QUALIFICATION AREAS

(on audited financial statements)

	MOVEMENT from previous year	2018-19	2017-18	MOVEMENT over 3 years	2016-17
Property, infrastructure and equipment	⬇️	34% (79)	29% (67)	⬇️	25% (58)
Irregular expenditure	⬇️	33% (76)	25% (58)	⬇️	22% (51)
Receivables	⬇️	29% (66)	25% (57)	⬇️	22% (51)
Payables, accruals and borrowings	⬇️	28% (64)	26% (60)	⬇️	18% (41)

PROVINCIAL VIEW

PROVINCE	TIMELY SUBMISSION OF FINANCIAL STATEMENTS (all municipalities)		QUALITY OF FINANCIAL STATEMENTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED FINANCIAL STATEMENTS	
	Number	Movement from 2017-18	Number	Movement from 2017-18	Number	Movement from 2017-18
Eastern Cape	38 (97%)	▶️	3 (8%)	⬇️	16 (43%)	⬇️
Free State	12 (52%)	⬇️	0 (0%)	▶️	3 (20%)	▶️
Gauteng	11 (100%)	▶️	4 (44%)	⬆️	9 (100%)	▶️
KwaZulu-Natal	54 (100%)	▶️	7 (13%)	⬇️	33 (62%)	⬇️
Limpopo	26 (96%)	▶️	1 (4%)	▶️	7 (29%)	⬇️
Mpumalanga	17 (85%)	▶️	3 (17%)	⬆️	7 (39%)	⬇️
Northern Cape	26 (84%)	⬆️	4 (15%)	▶️	9 (33%)	⬇️
North West	12 (55%)	⬇️	0 (0%)	▶️	0 (0%)	⬇️
Western Cape	29 (97%)	⬆️	21 (72%)	⬇️	27 (93%)	⬆️
Total	225 (88%)	▶️	43 (18%)	⬇️	111 (48%)	⬇️





EFFECTIVE USE OF CONSULTANTS

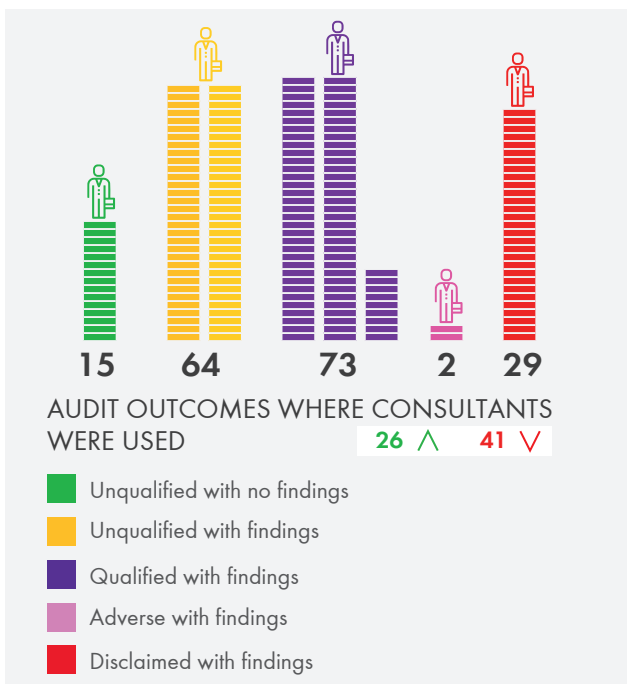
Local government spent an estimated **R3,4 billion** on consultancy services in 2018-19.

FINANCIAL REPORTING SERVICES

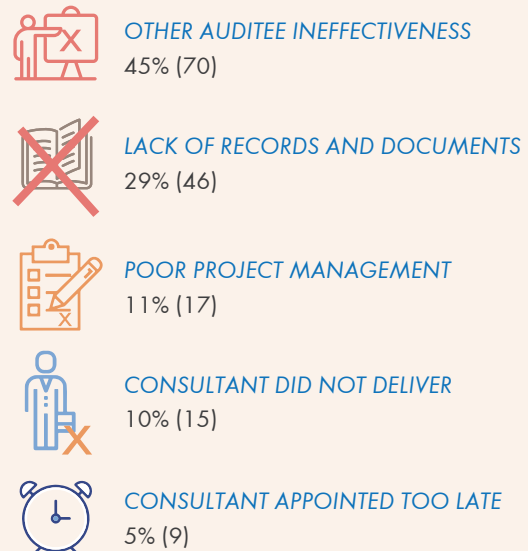
183 municipalities used consultants for financial reporting services at a cost of **R741 million** (2017-18: R794 million). This amount excludes **R522 million** relating to outstanding audits for which financial statements were received. Of the R741 million, only **R51 million (7%)** was as a result of vacancies in municipal finance units.

Note: The above costs include financial reporting costs paid by other institutions amounting to **R29 million** (2017-18: R24 million)

PROVINCE	EC	FS	GP	KZN	LP	MP	NC	NW	WC
Cost (R million) - completed audits	116	29	29	94	122	95	35	180	41
Cost (R million) - outstanding audits	2	17	312	1	127	3	12	47	1



REASONS WHY CONSULTANTS WERE INEFFECTIVE



59% (134) OF THE FINANCIAL STATEMENTS SUBMITTED FOR AUDITING INCLUDED MATERIAL MISSTATEMENTS IN THE AREA IN WHICH CONSULTANTS DID WORK

PROVINCE	EC	FS	GP	KZN	LP	MP	NC	NW	WC
Financial statements submitted with material misstatements in areas in which consultants did work	25	12	1	24	18	13	18	16	7

10% (24) of the municipalities did not follow proper procurement procedures when appointing consultants, resulting in irregular expenditure of **R95 million**

Consultants at **21% (5)** of these municipalities were appointed through a contract secured by another municipality without following the prescribed process

ALL SERVICES

208 municipalities used consultants for a variety of services – at **65%**, significant management weaknesses were identified in the following areas:

- 51%** Performance management and monitoring
- 47%** Transfer of skills
- 30%** Planning and appointment processes



PERFORMANCE REPORTS



SLIGHT REGRESSION IN QUALITY OF PUBLISHED PERFORMANCE REPORTS



TARGET

	MOVEMENT from previous year	2018-19	2017-18	MOVEMENT over 3 years	2016-17
Performance reports prepared		99% (226)	97% (222)		98% (224)
Quality of performance reports submitted for auditing		12% (27)	12% (26)		11% (24)
Quality of published performance reports		33% (75)	37% (82)		40% (89)

48 municipalities (21%) had no material findings only because they **corrected all misstatements** identified during the audit

FINDINGS ON PERFORMANCE REPORTS

	MOVEMENT from previous year	2018-19	2017-18	MOVEMENT over 3 years	2016-17
Performance reporting not useful		50% (114)	52% (116)		57% (128)
Achievement reported not reliable		48% (109)	50% (112)		48% (108)
No underlying records or planning documents		9% (20)	4% (9)		6% (14)

Most common usefulness findings

28% Not consistent	24% Not well defined	13% Not verifiable	13% Not measurable
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PROVINCIAL VIEW

PROVINCE	PERFORMANCE REPORTS PREPARED		QUALITY OF PERFORMANCE REPORTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED PERFORMANCE REPORTS	
	Number	Movement from 2017-18	Number	Movement from 2017-18	Number	Movement from 2017-18
Eastern Cape	37 (100%)		2 (5%)		7 (19%)	
Free State	15 (100%)		0 (0%)		2 (13%)	
Gauteng	9 (100%)		1 (11%)		1 (11%)	
KwaZulu-Natal	53 (100%)		9 (17%)		23 (43%)	
Limpopo	24 (100%)		1 (4%)		6 (25%)	
Mpumalanga	18 (100%)		2 (11%)		7 (39%)	
Northern Cape	24 (89%)		1 (4%)		6 (25%)	
North West	17 (100%)		0 (0%)		0 (0%)	
Western Cape	29 (100%)		11 (38%)		23 (79%)	
Total	226 (99%)		27 (12%)		75 (33%)	





COMPLIANCE WITH KEY LEGISLATION

SLIGHT DECREASE IN NON-COMPLIANCE FROM **92% (210)** TO **91% (209)**

MOST COMMON NON-COMPLIANCE AREAS

	MOVEMENT from previous year	2018-19	2017-18	MOVEMENT over 3 years	2016-17
Quality of financial statements		81% (186)	79% (182)		76% (174)
Procurement and contract management		79% (181)	81% (186)		71% (163)
Prevention of unauthorised, irregular and fruitless and wasteful expenditure		75% (171)	73% (168)		68% (155)
Effecting consequences		61% (139)	60% (137)		53% (122)
Expenditure management		53% (122)	56% (128)		54% (123)

OTHER NOTABLE NON-COMPLIANCE AREAS

	MOVEMENT	2018-19	MOST COMMON FINDINGS PER AREA
Asset management		39% (89)	Ineffective system of internal control for assets - 28% (65)
Strategic planning and performance management		39% (90)	Performance management systems and related controls not maintained or inadequate - 23% (53)
Human resource management		34% (77)	Policies and procedures not in place to monitor, measure and evaluate staff performance - 23% (52)
Revenue management		32% (73)	Ineffective system of internal control for revenue - 26% (60)
Annual financial statements and annual report		21% (49)	Oversight report not adopted by council within 2 months of annual report tabling - 8% (18)

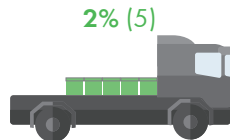
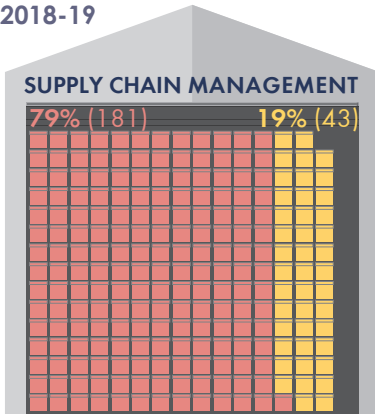
PROVINCIAL VIEW

MUNICIPALITIES WITH NO FINDINGS ON COMPLIANCE

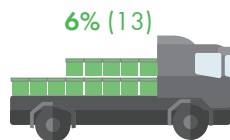
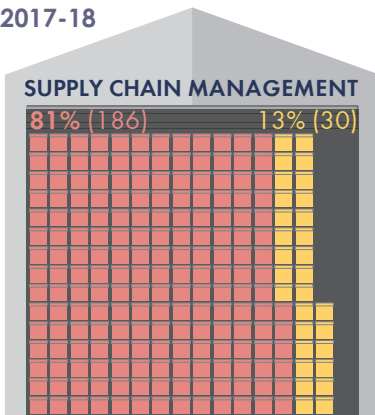
	EC	FS	GP	KZN	LP	MP	NC	NW	WC
NUMBER	3% (1)	0% (0)	11% (1)	2% (1)	4% (1)	11% (2)	4% (1)	0% (0)	45% (13)
MOVEMENT from 2017-18									
Total 9% (20)									



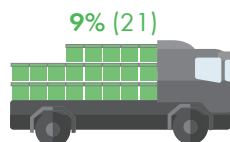
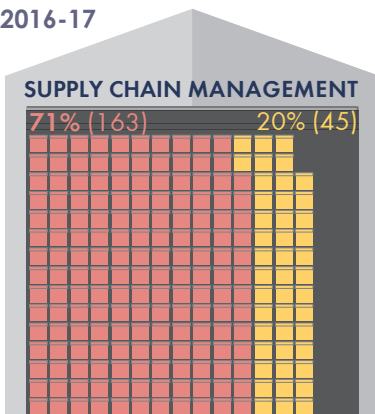
2018-19



2017-18



2016-17



■ With no findings
 ■ With findings
 ■ With material findings

Not able to audit procurement of **R361 million** due to **missing or incomplete information** at 31 municipalities (14%)

Highest contributors (**70% of rand value**) were:

- **Dr Ruth S Mompoti District (NW) – R67 million:** Poor record management relating to various contracts due to instability in key positions.
- **Msukaligwa (MP) – R55 million:** Not all supporting documents were provided for auditing due to poor record management and inadequate controls.
- **Lekwa (MP) – R47 million:** All tender documents were kept in the municipal manager’s office and could not be submitted for audit purposes within the agreed turnaround time. These submission challenges persisted even after discussions with the municipal manager in audit steering committee meetings, in which she committed that officials must retrieve and submit the requested tender documents to her office. Some tender documents were subsequently submitted, but these could not be audited because they did not contain all the required information such as scoring sheets and advertisements.
- **uMzinyathi District (KZN) – R42 million:** As nine bidding documents were not provided for auditing, the bidding / SCM process could not be tested – more than 80% of the expenditure related to the provision of water and sanitation in the district.
- **Chief Albert Luthuli (MP) – R40 million:** The municipality submitted the wrong documents or could not submit supporting documents for transactions relating to quotations and tenders selected from the awards register for auditing, due to – amongst others – the incorrect capturing of details in the awards register.



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

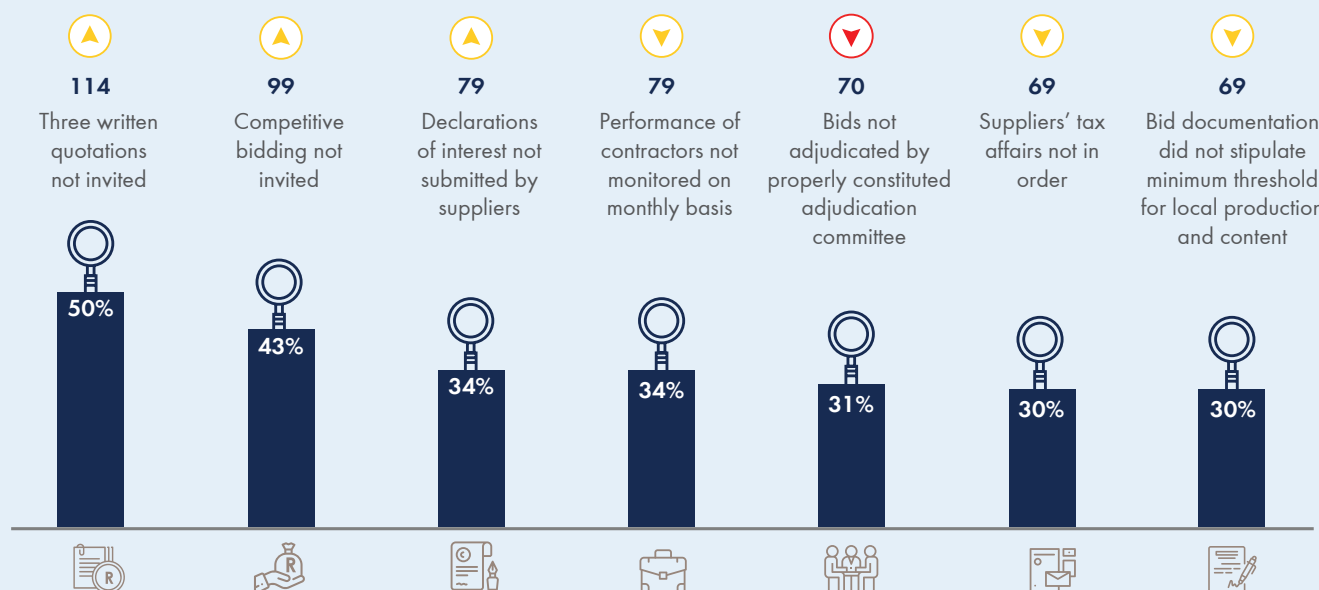
FINDINGS	MOVEMENT FROM PREVIOUS YEAR	MOVEMENT FROM 2016-17	NUMBER OF MUNICIPALITIES WITH AWARDS	AMOUNT
Prohibited awards to other state officials	▼	▼	62% (141)	R1 282 million
Prohibited awards to employees and councillors	▼	▼	17% (40)	R30 million
At 11 municipalities (5%), awards were made to councillors				
Awards to close family members of employees	▶	▼	34% (77)	R474 million
At 21 municipalities (9%), awards to close family members were not disclosed in the financial statements as required				

UNCOMPETITIVE OR UNFAIR PROCUREMENT PROCESSES AND CONTRACT MANAGEMENT

Findings on **uncompetitive and unfair procurement processes** at **90%** of the municipalities, of which 76% was material non-compliance. This is a slight regression from 88% in the previous year and a regression from 80% in 2016-17.

Findings on **contract management** at **49%** of the municipalities, of which 40% was material non-compliance. This is a slight regression from 48% in the previous year and a regression from 42% in 2016-17.

Most common findings were the following:



At **42 municipalities (18%)**, goods and services were procured through contracts secured by other organs of state without complying with prescribed requirements.

The aim of the Preferential Procurement Regulations is to support socio-economic transformation. The public sector should lead by example to achieve this goal, but the preference point system was incorrectly applied or not applied at all.

At **65 municipalities (28%)**, the preference point system was found to be incorrectly applied or not applied.

LOCAL PROCUREMENT

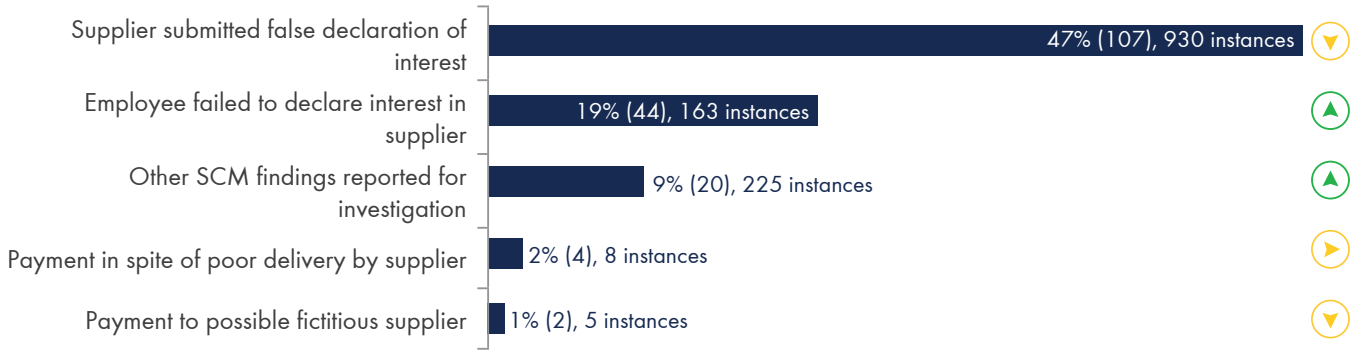
Municipalities are required to procure certain commodities from local producers; **78 municipalities (54%)** out of 144 where we audited local content failed to comply with regulation on promotion of local producers on awards amounting to **R731 million**

FALSE DECLARATIONS BY SUPPLIERS AND NON-DISCLOSURE BY EMPLOYEES

FINDINGS	MOVEMENT FROM PREVIOUS YEAR	MOVEMENT FROM 2016-17	NUMBER OF MUNICIPALITIES	NUMBER OF SUPPLIERS/EMPLOYEES	AMOUNT
Suppliers owned or managed by employees of another state institution made false declarations	▲	▲	31% (71)	533	R481 million
Suppliers owned or managed by employees and councillors of the municipality made false declarations	▼	▲	6% (14)	44	R13 million
Suppliers owned or managed by close family members of employees of the municipality made false declarations	▲	▲	12% (28)	112	R67 million
Employees of the municipality failed to declare their own interest either as part of the procurement processes or through annual declarations	▲	▼	5% (11)	27	R2 million
Employees of the municipality failed to declare their family members' interest	▲	▲	10% (23)	88	R81 million



FINDINGS REPORTED FOR INVESTIGATION AT 121 MUNICIPALITIES (53%) – AN IMPROVEMENT FROM 62% IN 2017-18

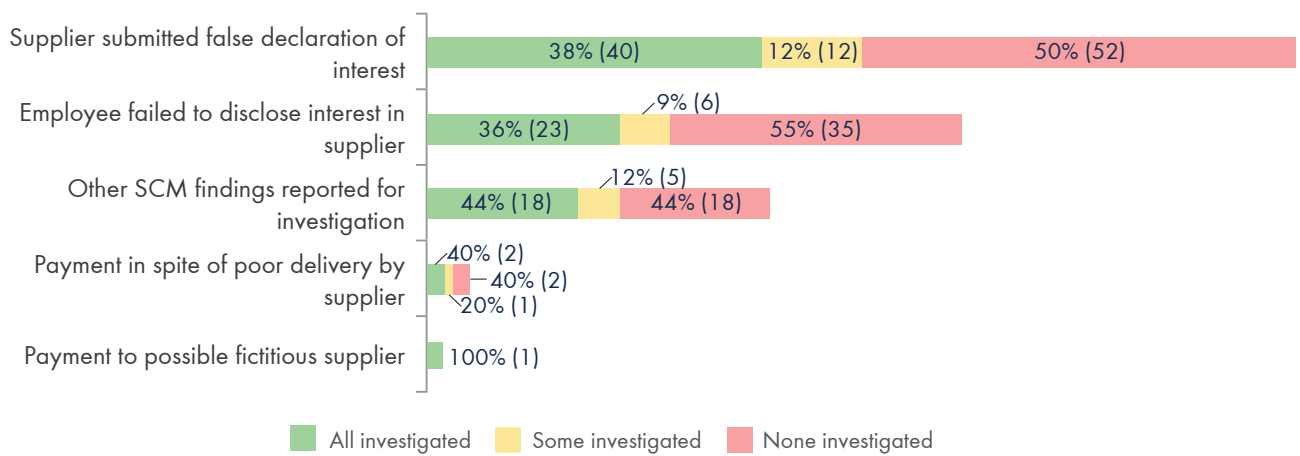


88 (62%) of the 143 municipalities that had such findings in 2017-18 had similar findings in 2018-19

FOLLOW-UP OF SUPPLY CHAIN MANAGEMENT FINDINGS REPORTED FOR INVESTIGATION AT 143 MUNICIPALITIES IN PREVIOUS YEAR

54 (38%) of these municipalities investigated all the findings we reported, 26 (18%) investigated some of the findings, and 63 (44%) investigated none of the findings

49 (61%) of the 80 municipalities that investigated all or some findings, satisfactorily resolved these investigations, but the remaining 39% did not (for example, the investigation recommended that contracts in which employees failed to declare their interest be cancelled, but the municipality did not do so)





UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE (UIFW)

Note: The entire analysis excludes the outstanding audits unless otherwise indicated (*)	Irregular Non-compliance with legislation in process leading to expenditure	Unauthorised Expenditure more than budget or not in accordance with grant conditions	Fruitless and wasteful Expenditure made in vain – could have been avoided if reasonable care was taken
How much was disclosed in 2018-19?	<p>R21,46 billion at 220 municipalities (96%)</p> <p>29% increase from R16,63 billion in 2017-18</p> <p>* Irregular expenditure of outstanding audits based on unaudited financial statements as well as audits subsequently finalised – R10,60 billion (2017-18: R7,75 billion)</p> <p>* The combined irregular expenditure for both completed and outstanding audits is R32,06 billion</p> <p style="text-align: center;">▼</p>	<p>R11,98 billion at 147 municipalities (64%)</p> <p>35% increase from R8,88 billion in 2017-18</p> <p>* Unauthorised expenditure of outstanding audits based on unaudited financial statements as well as audits subsequently finalised – R3,93 billion (2017-18: R5,76 billion)</p> <p>* The combined unauthorised expenditure for both completed and outstanding audits is R15,91 billion</p> <p style="text-align: center;">▼</p>	<p>R2,07 billion at 200 municipalities (87%)</p> <p>101% increase from R1,03 billion in 2017-18</p> <p>* Fruitless and wasteful expenditure of outstanding audits based on unaudited financial statements as well as audits subsequently finalised – R1,05 billion (2017-18: R0,78 billion)</p> <p>* The combined fruitless and wasteful expenditure for both completed and outstanding audits is R3,12 billion</p> <p style="text-align: center;">▼</p>
Is all of it 2018-19 expenditure?	<p>No</p> <p>R6,55 billion (31%) was expenditure in prior years only uncovered and disclosed in 2018-19</p> <p>R14,91 billion (69%) was expenses in 2018-19, which included payments made on ongoing contracts irregularly awarded in prior years – R4,33 billion (29%); and R10,58 billion (71%) representing non-compliance in 2018-19</p>	<p>Yes</p>	<p>No</p> <p>R0,32 billion (16%) was expenditure in prior years only uncovered and disclosed in 2018-19</p> <p>R1,75 billion (84%) was expenses in 2018-19</p>
How much of the 2018-19 budget does it represent?	<p>4%</p>	<p>3%</p>	<p>1%</p>
Is this the total amount?	<p>No</p> <p>126 municipalities (55%) were qualified on the completeness of their disclosure and/or did not know the total amount and were still investigating to determine the total amount</p> <p>We could also not audit procurement processes for contracts valued at R0,36 billion due to missing or incomplete documentation – it is not known whether any part of this amount might represent irregular expenditure</p>	<p>No</p> <p>26 municipalities (11%) were qualified on the completeness of their disclosure</p>	<p>No</p> <p>12 municipalities (5%) were qualified on the completeness of their disclosure</p>



	Irregular	Unauthorised	Fruitless and wasteful
What was main cause?	<p>Non-compliance with supply chain management legislation (93%) – related to:</p> <ul style="list-style-type: none"> • Procurement without following a competitive bidding or quotation process – R5,47 billion (27%) • Non-compliance with procurement process requirements – R12,34 billion (62%) • Inadequate contract management – R2,16 billion (11%) 	<p>Overspending of budget (99%) – R11,87 billion:</p> <ul style="list-style-type: none"> • R5,03 billion (42%) related to actual payments in excess of budget • R6,84 billion (58%) related to non-cash items, representing the poor estimation of, for example, asset impairments 	<p>Penalties and interest on overdue accounts and late payments (86%) – R1,78 billion</p> <p>Litigation and claims (< 1%) – < R0,01 billion</p> <p>Other (14%) – R0,29 billion</p> <p>The main causes are included in the top 10 contributor table</p>
Did the municipalities detect this expenditure?	<p>69% was identified by municipalities and the remainder in the audit process</p> <p>Many municipalities put processes in place to fully uncover irregularities of prior years – partly to address prior year qualifications on irregular expenditure (R1,28 billion) but also to correct and address past irregularities</p>	<p>91% was identified by municipalities and the remainder in the audit process</p>	<p>88% was identified by municipalities and the remainder in the audit process</p>
Does it mean this money was wasted?	<p>Possibly – it can only be determined through a council investigation</p> <p>Goods and services were received for R16,86 billion (84%) of the expenditure related to supply chain management, but were not received for R0,06 billion (< 1%), while we did not audit the remaining 16%</p> <p>We cannot confirm if value for money was received for all of these goods and services</p>	<p>No</p>	<p>Yes</p>
How much of the current and prior year expenditure has not yet been dealt with (what is the closing balance)?	<p>R65,59 billion</p>	<p>R46,20 billion</p>	<p>R4,92 billion</p>

TOP 10 CONTRIBUTORS – IRREGULAR EXPENDITURE

All of these municipalities incurred irregular expenditure **for the past 3 years** except George

Municipality	Disclosed (R billion)	Incurred in 2018-19 (R billion)	Main non-compliance	Key projects / contracts affected (R billion)	Grants * affected (R billion)
eThekweni Metro (KZN)	R2,34	R1,36 (58%)	54% related to non-compliance with procurement process requirements	Construction of ablution facilities at informal settlements and schools, and development of revenue management system	USDG (amount is unknown due to limitation)
OR Tambo District (EC)	R0,98	R0,98 (100%), of which R0,41 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	96% related to non-compliance with procurement process requirements	Water and sanitation related services	R0,55 (MIG)
City of Cape Town Metro (WC)	R0,95	R0,36 (38%)	69% related to procurement without following competitive bidding or quotation processes	Legal services procurement – R0,24	
Rustenburg (NW)	R0,92	R0,42 (45%), of which R0,15 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	73% related to non-compliance with procurement process requirements	Rustenburg Rapid Transport project	R0,05 (PTNG)
Mangaung Metro (FS)	R0,84	R0,84 (100%), of which R0,01 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	41% related to non-compliance with non-procurement legislation such as the Division of Revenue Act, while 33% related to non-compliance with legislation on contracts Non-compliance with Division of Revenue Act was mainly due to conditional grants that were not cash-backed	Mainly related to water services and infrastructure projects, such as Vista Park 2 & 3 development and realignment of bulk water and sewer projects	R0,24 (USDG) R0,06 (PTNG) R0,04 (MDG)
City of Johannesburg Metro (GP)	R0,82	R0,82 (100%), of which R0,64 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	100% related to procurement without following competitive bidding or quotation processes	Legacy information technology contracts – R0,13 Fleet management contracts – R0,33	
JB Marks (NW)	R0,68	R0,18 (27%), of which R0,07 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	74% related to non-compliance with procurement process requirements	Water services related infrastructure projects, such as bulk water supply in Boikhutso	R0,01 (MIG) R0,02 (WSIG)
George (WC)	R0,62	R0,26 (42%), of which R0,26 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	100% related to non-compliance with procurement process requirements		



Municipality	Disclosed (R billion)	Incurring in 2018-19 (R billion)	Main non-compliance	Key projects / contracts affected (R billion)	Grants * affected (R billion)
Mopani District (LP)	R0,51	R0,20 (39%)	100% related to non-compliance with procurement process requirements	Water and sanitation related projects	
uMkhanyakude District (KZN)	R0,49	R0,08 (17%)	79% related to non-compliance with legislation on contracts	Various contracts ranging from catering of events to water projects	MIG & WSIG (R0,29)
Total for top 10	R9,15	<p>This constitutes 43% of the total irregular expenditure disclosed in 2018-19</p> <p>R4,75 billion (52%) of the top 10 value resulted from non-compliance with procurement process requirements, while R2,02 billion (22%) related to procurement without following competitive bidding or quotation processes</p> <p>Excluded from these top contributors is irregular expenditure of Nelson Mandela Bay Metro (EC), City of Tshwane Metro (GP), Ngaka Modiri Molema District (NW) and Mogalakwena (LP) amounting to R4,17 billion, R2,88 billion, R1,56 billion and R0,55, respectively – the amounts are based on either unaudited financial statements or audited financial statements of audits completed after the cut-off date of this report</p>			

* MDG – municipal disaster grant

* MIG – municipal infrastructure grant

* PTNG – public transport network grant

* USDG – urban settlements development grant

* WSIG – water services infrastructure grant

TOP 10 CONTRIBUTORS – UNAUTHORISED EXPENDITURE

All of these municipalities incurred unauthorised expenditure **for the past 3 years** except Rustenburg, Vhembe District and Bitou

Municipality	Disclosed (R billion)	Nature
Mangaung Metro (FS)	R1,36	Overspending of budget R0,43 billion (43%) related to non-cash items
Rustenburg (NW)	R1,04	Overspending of budget R0,43 billion (42%) related to non-cash items
Setsoto (FS)	R0,62	Overspending of budget R0,56 billion (90%) related to non-cash items
Vhembe District (LP)	R0,57	Overspending of budget R0,28 billion (50%) related to non-cash items
Emalahleni (MP)	R0,52	Overspending of budget R0,50 billion (97%) related to non-cash items
City of Johannesburg Metro (GP)	R0,48	Overspending of budget Almost 100% related to non-cash items
Mnquma (EC)	R0,42	Overspending of budget All related to non-cash items
City of Mbombela (MP)	R0,27	Overspending of budget R0,08 billion (29%) related to non-cash items
Mkhondo (MP)	R0,26	Overspending of budget None related to non-cash items
Bitou (WC)	R0,25	Overspending of budget All related to non-cash items
Total for top 10	R5,79	This constitutes 48% of the total unauthorised expenditure Excluded from these top contributors is unauthorised expenditure of Matjhabeng (FS), City of Tshwane Metro (GP), Polokwane (LP) and Govan Mbeki (MP) amounting to R1,54 billion, R0,45 billion, R0,44 billion and R0,29 billion, respectively – the amounts are based on either unaudited financial statements or audited financial statements of audits completed after the cut-off date of this report



TOP 10 CONTRIBUTORS – FRUITLESS AND WASTEFUL EXPENDITURE

All of these municipalities incurred fruitless and wasteful expenditure for the past 3 years except Ditsobotla

Municipality	Disclosed (R billion)	Nature
Emalahleni (MP)	R0,40	Nearly 100% related to interest and penalties, which included Eskom interest of R0,39 billion and water boards interest of R0,01 billion
Ditsobotla (NW)	R0,15	All related to interest and penalties, which included Eskom interest of R0,06 billion
Lekwa (MP)	R0,12	All related to interest and penalties, which included Eskom interest of R0,11 billion
City of Johannesburg Metro (GP)	R0,11	Mostly related to information and communication technology licences not utilised and discontinued projects R600 000 related to Eskom interest
Ngwathe (FS)	R0,11	Nearly 100% related to interest and penalties, which included Eskom interest of R0,10 billion and water boards interest of R0,01 billion
Mopani District (LP)	R0,10	All related to interest and penalties, which included water boards interest of R0,10 billion and Eskom interest of R64 000
City of Matlosana (NW)	R0,07	All related to interest and penalties, which included Eskom interest of R0,04 billion and water boards interest of R0,03 billion
Rand West City (GP)	R0,05	Mostly related to interest and penalties, which included Eskom interest of R0,02 billion and water boards interest of R340 353
Modimolle-Mookgophong (LP)	R0,05	All related to interest and penalties, which included Eskom interest of almost R0,05 billion
Thaba Chweu (MP)	R0,04	All related to interest and penalties, which included Eskom interest of R0,04 billion
Total for top 10	R1,21	<p>This constitutes 58% of the total fruitless and wasteful expenditure</p> <p>R0,81 billion (67%) of the top 10 value related to Eskom interest and R0,15 billion (12%) to water boards interest</p> <p>Excluded from these top contributors is fruitless and wasteful expenditure of Emfuleni (GP), Matjhabeng (FS), Govan Mbeki (MP), City of Tshwane Metro (GP) and Kopanong (FS) amounting to R0,36 billion, R0,28 billion, R0,16 billion, R0,10 billion and R0,04 billion, respectively – the amounts are based on either unaudited financial statements or audited financial statements of audits completed after the cut-off date of this report</p>

INVESTIGATION AND FOLLOW-UP OF PRIOR YEAR UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

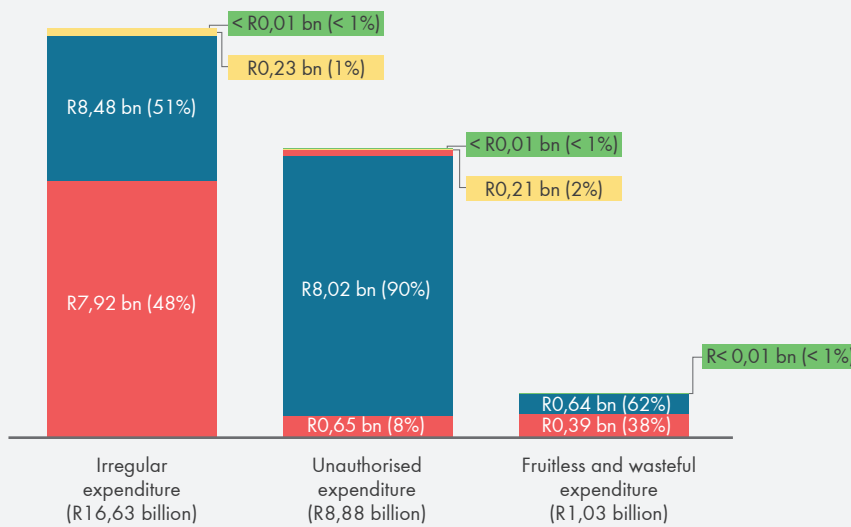


Investigations by auditees of all prior year instances slightly regressed from **39%** to **37%**

UIFW disclosed must be investigated to determine its impact and who is responsible. Based on the outcome of the investigation, the next steps can include condonement/authorisation, recovery, or write-off. It may also include the cancellation of contracts irregularly awarded.

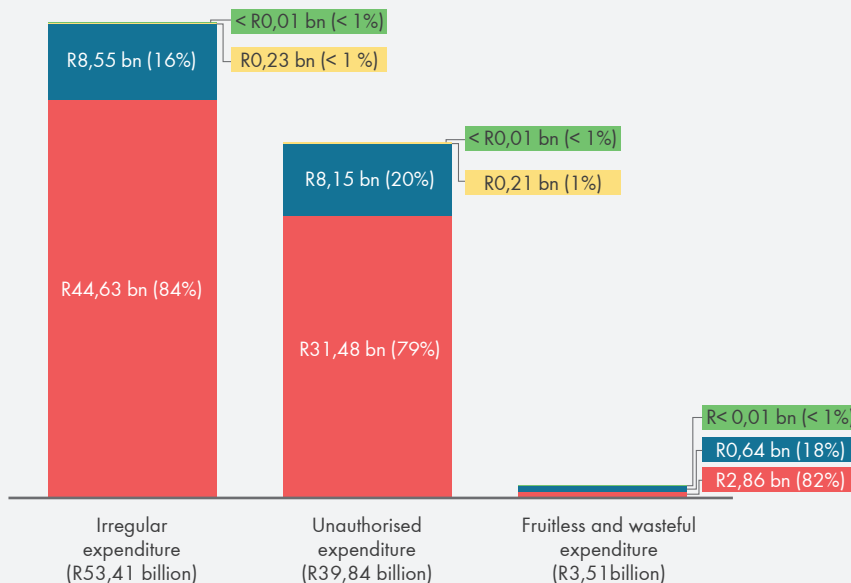
Sufficient steps were not taken to recover, write off, approve or condone UIFW. As a result, the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with totalled R65,59 billion, while that of unauthorised expenditure was R46,20 billion and that of fruitless and wasteful expenditure was R4,92 billion.

HOW HAS THE COUNCIL DEALT WITH UIFW INCURRED IN 2017-18?



HOW HAS THE COUNCIL DEALT WITH ALL PRIOR YEAR UIFW TO DATE?

Note: Figures below are expressed as percentage of previous year closing balance



■ Money recovered or in the process of recovery
 ■ Condoned or authorised
 ■ Written off
 ■ Not dealt with



GROWING BALANCE OF IRREGULAR EXPENDITURE NOT DEALT WITH



Top 5 contributors to accumulated irregular expenditure (constitutes 26% of R65,59 billion), which also **did not investigate all instances** of prior year irregular expenditure:

- Rustenburg (NW) – R5,13 billion
- City of Johannesburg Metro (GP) – R3,51 billion
- City of Matlosana (NW) – R3,00 billion
- Buffalo City Metro (EC) – R2,78 billion
- uMkhanyakude District (KZN) – R2,33 billion

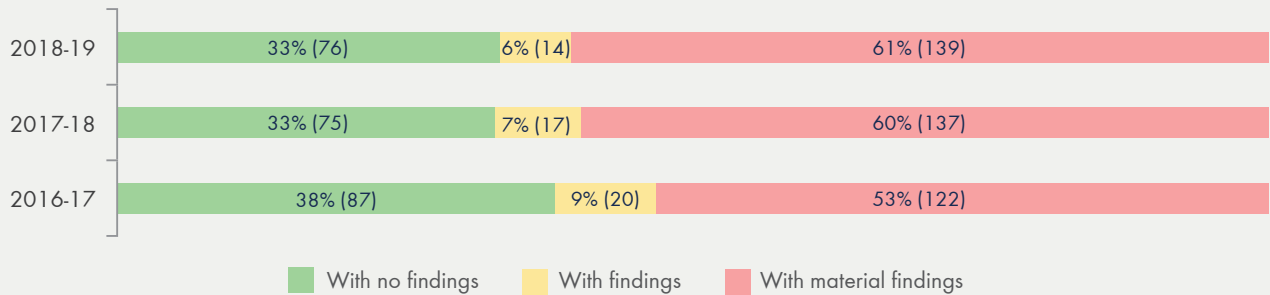


FRAUD AND LACK OF CONSEQUENCES



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

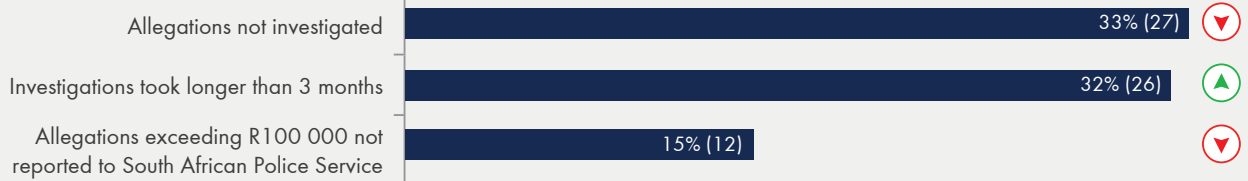
NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES



Most common findings were the following:

- Irregular expenditure identified in previous year was not investigated at **125 municipalities (55%)**
- Fruitless and wasteful expenditure identified in previous year was not investigated at **116 municipalities (51%)**
- Unauthorised expenditure identified in previous year was not investigated at **111 municipalities (48%)**

INADEQUATE FOLLOW-UP OF ALLEGATIONS OF FINANCIAL AND SUPPLY CHAIN MANAGEMENT MISCONDUCT AND FRAUD – TESTED AT 82 MUNICIPALITIES



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



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



ILLUSTRATIVE EXAMPLES

Strong preventative controls reduce the risk of fraud. Investing in preventative controls is more effective than having to deal with the consequences thereof, including costly and lengthy investigations, court cases and financial loss. This is demonstrated through the examples that follow.



APPOINTMENT OF ADVISORY PANEL FOR IMPLEMENTATION OF SECURITY OF REVENUE PROJECT



RESPONSIBLE MUNICIPALITY: City of Tshwane Metro



AIM

Appointment of service provider to panel for financial and legal advisory services through open tender process in 2012 for implementation of security of revenue project



FINDINGS

Panel member appointed to advisory panel was used to implement actual technology needed for technology project instead of for original purpose (advisory services)

Procurement process contravened following prescripts:

- Municipal Finance Management Act (section 112) and Constitution (section 217) requiring tender process to be fair, transparent, competitive and cost-effective
- Supply chain management regulation 27 dealing with ins and outs of bid specification processes
- Supply chain management regulations 28 and 29 dealing with composition and functions of bid evaluation committee and bid adjudication committee
- Municipal Finance Management Act [sections 33 and 120(6)(c)] and public-private partnership regulation 4 relating to need and mechanisms for conducting feasibility study and public participation
- Public Audit Act [section 15(a)] requiring proper retention of appropriate documentation
- Supply chain management regulation 36 relating to prescribed deviation process – use of deviation led to appointment of alternative service provider, which resulted in irregular expenditure



IMPACT

- Irregular expenditure of approximately R2,72 billion disclosed during 2014-15 to 2017-18 financial years
- High Court of South Africa declared contract with service provider as constitutionally invalid and unlawful in October 2017



REASONS

Management did not exercise oversight responsibility by:



Implementing adequate record keeping of procurement documentation for audit purposes



Ensuring compliance with above prescripts



Planning properly to ensure viability of project, as feasibility study was not conducted



CURRENT STATUS

Metro has since instituted investigation into procurement process followed in awarding service provider contract to implement technology project. Investigation was concluded in April 2019 and recommended that the council recover irregular expenditure incurred from the service provider, erstwhile city manager and chief financial officer.



APPOINTMENT OF CONTRACTOR TO UPGRADE SUBSTATION AND ASSOCIATED EQUIPMENT



RESPONSIBLE MUNICIPAL ENTITY: City Power



TIMELINE

FEBRUARY 2015:

City Power appoints supplier (main contractor) through open tender process for substation project for period of three years at a cost of R126 million (excluding VAT)

APRIL 2015:

Consulting engineering supplier (consultant) appointed to project

APRIL 2017:

Community stops construction work, locks gates and instructs contractors to vacate project site, by which time main contractor had already been paid R64 million

2016-17 AUDIT CYCLE:

AGSA selects project for auditing during audit planning process

MAY 2017:

City of Johannesburg Metro institutes investigation into substation project

AUGUST 2017:

Two arrests made for alleged fraud and corruption but National Prosecuting Authority withdraws case, for reasons unknown to AGSA

NOVEMBER 2017:

City Power cancels contract with main contractor

FEBRUARY 2018:

Investigation finalised

2017-18 AUDIT PROCESS:

Project had not resumed

MARCH 2019:

City Power dismisses project manager for gross misconduct

JUNE 2019:

Sub-contractors of main contractor appointed to complete project in accordance with terms of engineering construction contract



AIM Replace existing substation and construct new substation



FINDINGS

Investigation found:

- Main contractor submitted fraudulent bank guarantee in relation to advance payment made to them by City Power
- City Power official amended consultant's contract by removing clause requiring work completion certificates to be signed by consultant as confirmation of delivery of goods and services
- City Power official also signed off on work completion certificates and captured amounts due on the system for payment

Procurement process contravened following prescripts:

- Constitution (section 217) requiring tender process to be fair, transparent, competitive and cost-effective
- Municipal Finance Management Act [section 62(1)(d)] dealing with responsibilities of municipal entity to prevent unauthorised, irregular or fruitless and wasteful expenditure by ensuring that payments are made for goods and services received
- Public Audit Act [section 15(a)] requiring proper retention of appropriate documentation

Management did not exercise oversight responsibility for:

- Adequate record keeping of procurement documentation for audit purposes
- Ensuring compliance with above prescripts
- Adequate project and contract management over main contractor
- Ensuring payments were duly approved by City Power in accordance with original terms and with project manager's sign-off
- Adequate supervision and segregation of duties for certification of work completion certificates and generating purchase orders for payment
- Appropriate consequence management



REASONS



CURRENT STATUS

- During 2018-19 audit process, City Power was required to disclose fruitless and wasteful expenditure of R28 million for payments made to main contractor
- Main contractor has taken City Power to court over unpaid claims – legal process is pending



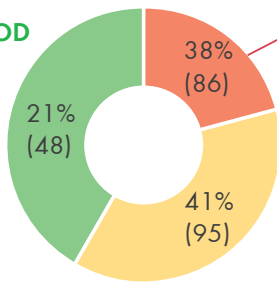


FINANCIAL HEALTH



CONTINUED REGRESSION
IN FINANCIAL HEALTH

GOOD



OF CONCERN

INTERVENTION REQUIRED

This means the municipality:

- is in a vulnerable financial position and might be unable to continue operating and/or
- received a disclaimed or adverse opinion, which means the financial statements were not reliable enough for analysis [35 (15%) municipalities]

VULNERABLE FINANCIAL POSITION

31% (72)
30% (68)

Fruitless and wasteful expenditure of **R1,47 billion** incurred in current year by those in vulnerable financial position

■ 2018-19 ■ 2017-18

SUSTAINABILITY INDICATORS	CREDITOR PAYMENTS	REVENUE AND DEBT MANAGEMENT INDICATORS
<p>NET CURRENT LIABILITY POSITION</p> <p>39% (76) 37% (65) </p>	<p>CREDITOR-PAYMENT PERIOD > 30 DAYS</p> <p>89% (173) 85% (152) </p>	<p>BREAKDOWN OF REVENUE</p> <p>Municipal revenue was R324 billion:</p> <ul style="list-style-type: none"> - R226 billion (70%) own revenue - R55 billion (17%) equitable share - R43 billion (13%) other conditional grants
<p>DEFICIT (expenditure exceeded revenue)</p> <p>34% (65) 32% (57) </p> <p>Consolidated deficit of R6,29 billion</p> <p>Major contributors from:</p> <ul style="list-style-type: none"> Free State – R1,57 billion (25%) Gauteng – R1,10 billion (17%) North West – R0,98 billion (16%) <p>78% (51) of municipalities with deficits also incurred unauthorised expenditure of R7,30 billion</p>	<p>CREDITOR-PAYMENT PERIOD > 90 DAYS</p> <p>49% (96) 45% (80) </p> <p> AVERAGE CREDITOR-PAYMENT PERIOD</p> <p>180 DAYS 146 DAYS </p>	<p>MORE THAN 10% OF DEBT IRRECOVERABLE</p> <p>93% (181) 90% (161) </p> <p>An average of 59% of municipal debt was not recoverable – at 55 municipalities more than 80% could not be recovered</p>
<p>CREDITORS GREATER THAN AVAILABLE CASH AT YEAR-END</p> <p>51% (98) 51% (90) </p> <p>Total creditors: R53,52 billion Cash available at year-end: R43,20 billion</p> <p>Highest percentages incurred by:</p> <ul style="list-style-type: none"> Magareng (Northern Cape) – 54923% Musina (Limpopo) – 37667% Tswaing (North West) – 21179% 	<p>ESKOM ARREARS *</p> <p>R18,91 billion outstanding as at 30 June 2019 with R11,31 billion in arrears #</p> <p># R0,15 billion was not aged by municipalities</p> <p>WATER BOARDS ARREARS *</p> <p>R9,74 billion outstanding as at 30 June 2019 with R6,24 billion in arrears #</p> <p># R1,37 billion was not aged by municipalities</p> <p>* These amounts have been taken from municipalities' financial statements, some of which are misstated</p>	<p>DEBT-COLLECTION PERIOD > 90 DAYS</p> <p>51% (99) 53% (94) </p>
<p>CURRENT LIABILITIES GREATER THAN 10% OF NEXT YEAR'S BUDGETED RESOURCES</p> <p>97% (188) 94% (167) </p> <p>The next year's budget will pay for expenditure of the previous year(s) – at 26% of municipalities it will be more than half of their budgets</p>	<p> AVERAGE DEBT-COLLECTION PERIOD</p> <p>181 DAYS 157 DAYS </p>	

EXPENDITURE

- Salaries and wages (including councillor remuneration) was **R91,30 billion**, which represents 40% of own revenue and 166% of equitable share
- The value of infrastructure assets municipalities should maintain and safeguard is **R317,68 billion** but the expenditure on maintenance was only **R8,5 billion**



PROVINCIAL VIEW – FINANCIAL HEALTH

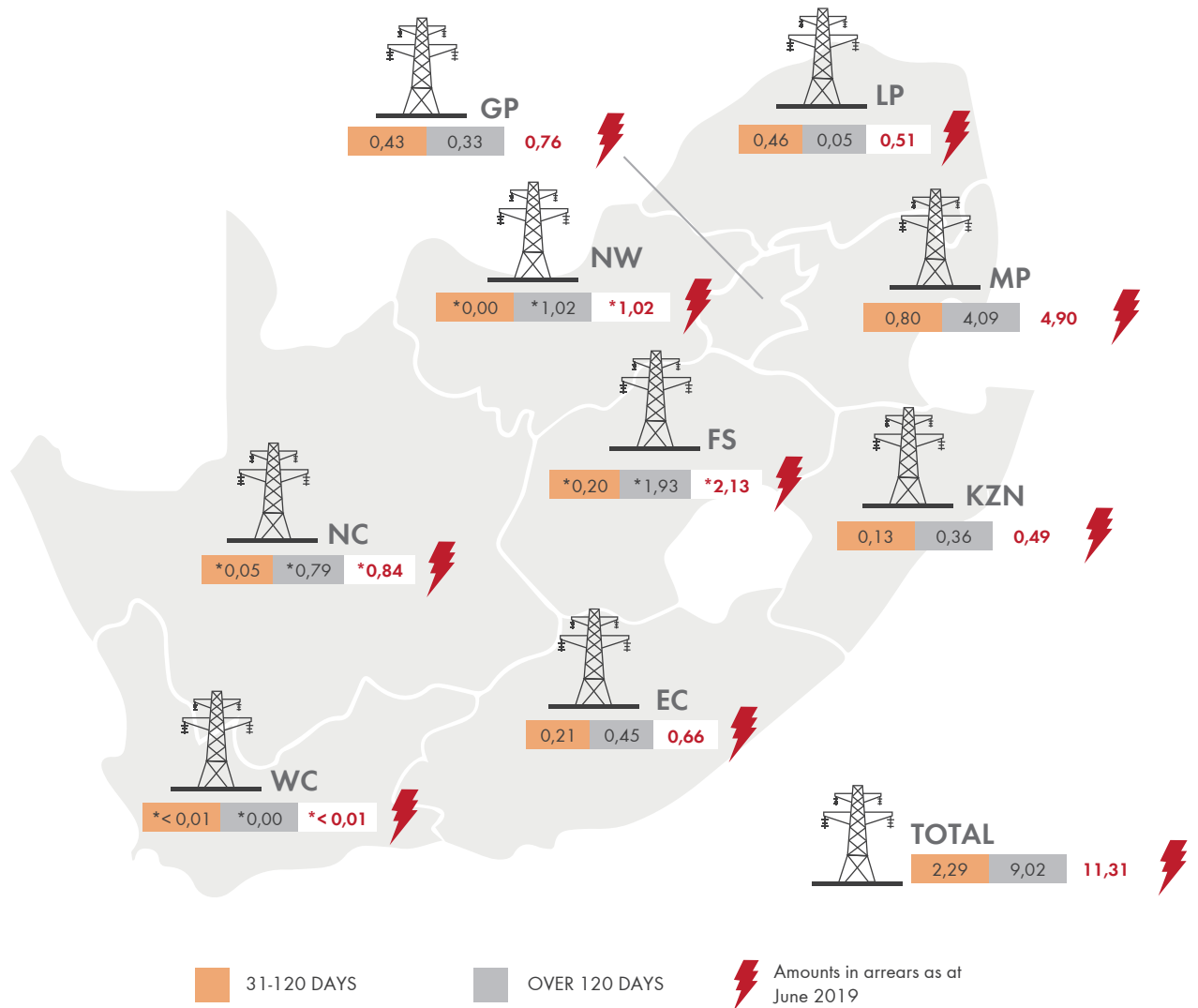
PROVINCE	OVERALL ASSESSMENT *			MOVEMENT FROM PREVIOUS YEAR	VULNERABLE POSITION *	
	Good	Of concern	Intervention required			
Eastern Cape	19% (7)	43% (16)	38% (14)	▼	27% (10)	▲
Free State	0% (0)	13% (2)	87% (13)	▼	80% (12)	▲
Gauteng	12% (1)	44% (4)	44% (4)	▼	44% (4)	▶
KwaZulu-Natal	15% (8)	68% (36)	17% (9)	▼	15% (8)	▼
Limpopo	8% (2)	79% (19)	13% (3)	▲	13% (3)	▲
Mpumalanga	28% (5)	17% (3)	55% (10)	▼	39% (7)	▼
Northern Cape	11% (3)	26% (7)	63% (17)	▲	56% (15)	▲
North West	6% (1)	12% (2)	82% (14)	▼	65% (11)	▼
Western Cape	72% (21)	21% (6)	7% (2)	▼	7% (2)	▼
TOTAL	21% (48)	41% (95)	38% (86)	▼	31% (72)	▼

* Includes municipalities with disclaimed/adverse opinions

PROVINCE	INDICATORS #					
	Creditor-payment period > 30 days		More than 10% of debt irrecoverable		Deficit (expenditure exceeded revenue)	
Eastern Cape	83% (24)	▼	100% (29)	▼	38% (11)	▼
Free State	92% (11)	▶	100% (12)	▶	58% (7)	▼
Gauteng	89% (8)	▶	100% (9)	▶	44% (4)	▶
KwaZulu-Natal	90% (46)	▼	100% (51)	▼	27% (14)	▼
Limpopo	96% (22)	▼	96% (22)	▼	22% (5)	▲
Mpumalanga	92% (11)	▼	83% (10)	▶	42% (5)	▶
Northern Cape	100% (21)	▼	76% (16)	▼	57% (12)	▲
North West	100% (8)	▼	88% (7)	▼	75% (6)	▼
Western Cape	76% (22)	▶	86% (25)	▼	3% (1)	▲
TOTAL	89% (173)	▼	93% (181)	▼	34% (65)	▼

Excludes municipalities with disclaimed/adverse opinions

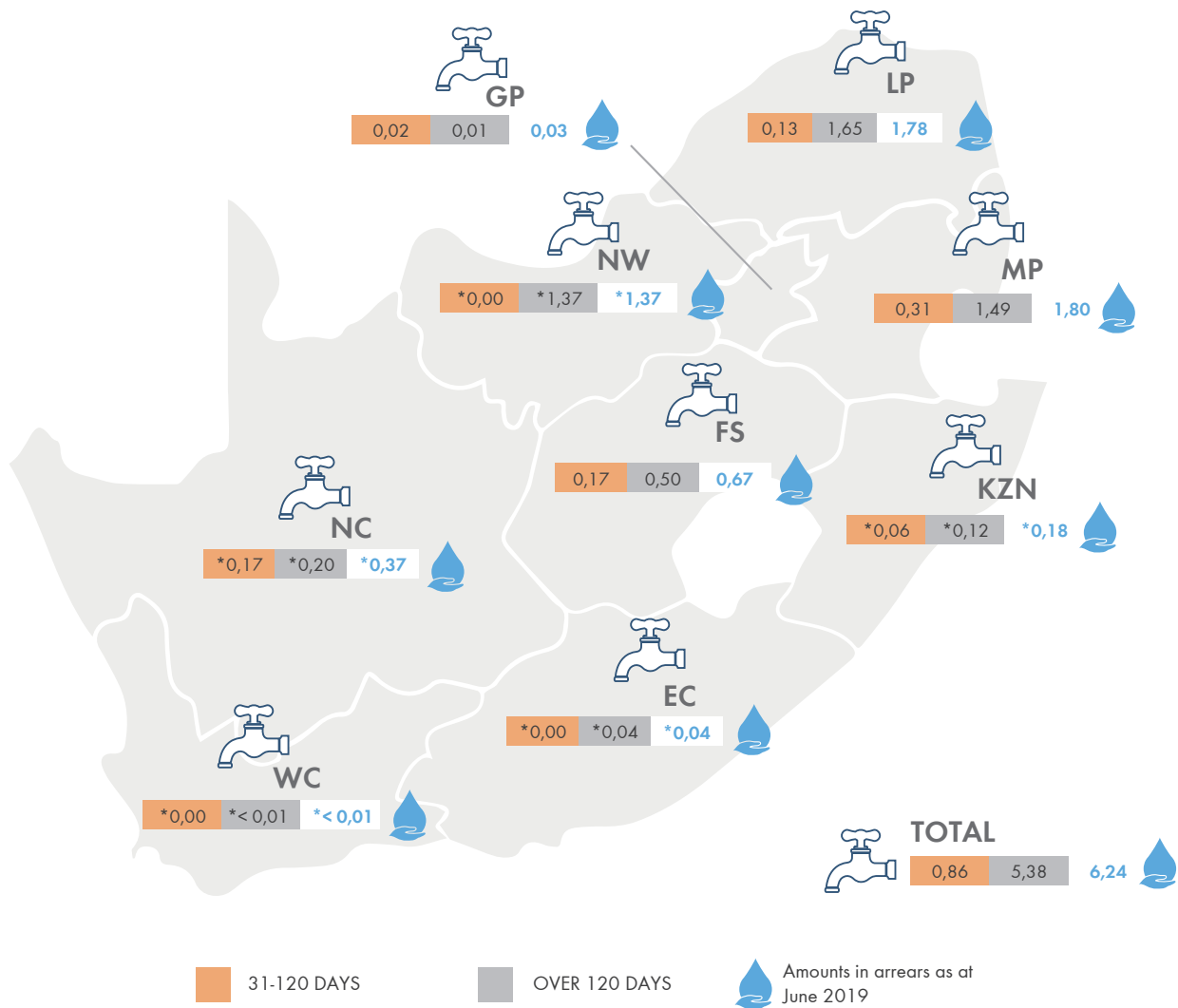
IMPACT OF FINANCIAL HEALTH ON PAYMENT OF UTILITIES – ESKOM (R BILLION)



TOP 3 CONTRIBUTORS TO OUTSTANDING AMOUNTS IN ARREARS (R BILLION)

Municipality	31 - 120 days	Over 120 days	Amounts in arrears as at June 2019
Emalahleni (MP)	0,33	2,44	2,77
Ngwathe (FS)	0,07	0,97	1,04
Lekwa (MP)	0,12	0,68	0,80

IMPACT OF FINANCIAL HEALTH ON PAYMENT OF UTILITIES – WATER BOARDS (R BILLION)



*Ageing could not be determined completely on all completed audits

TOP 3 CONTRIBUTORS TO OUTSTANDING AMOUNTS IN ARREARS (R BILLION)

Municipality	31 - 120 days	Over 120 days	Amounts in arrears as at June 2019
Mopani (LP)	0,09	0,84	0,93
Vhembe (LP)	0,02	0,81	0,83
Msukaligwa (MP)	0,14	0,54	0,68



INFRASTRUCTURE DEVELOPMENT AND MAINTENANCE

PROJECT MANAGEMENT WEAKNESSES REMAINED WIDESPREAD



MANAGEMENT OF INFRASTRUCTURE GRANTS



Compliance with Division of Revenue Act slightly increased to **85%**

 FUNDING	 MUNICIPAL INFRASTRUCTURE GRANT (MIG) 193 municipalities	 PUBLIC TRANSPORT NETWORK GRANT (PTNG) 10 municipalities	 URBAN SETTLEMENTS DEVELOPMENT GRANT (USDG) 6 metros	 REGIONAL BULK INFRASTRUCTURE GRANT (RBIG) 26 municipalities	 WATER SERVICES INFRASTRUCTURE GRANT (WSIG) 87 municipalities
	Available to spend (percentage of funds spent)	R13,23 billion (94%)	R5,31 billion (74%)	R8,82 billion (95%)	R1,89 billion (71%)
Underspending by more than 10%	43 municipalities (22%)	7 municipalities (70%)	2 metros (33%)	12 municipalities (46%)	41 municipalities (47%)
Used for intended purpose	175 municipalities (91%)	8 municipalities (80%)	5 metros (83%)	25 municipalities (96%)	80 municipalities (92%)

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 FINDINGS (per audited project funded by grant)	 MUNICIPAL INFRASTRUCTURE GRANT (MIG) 341 projects	 PUBLIC TRANSPORT NETWORK GRANT (PTNG) 15 projects	 URBAN SETTLEMENTS DEVELOPMENT GRANT (USDG) 18 projects	 REGIONAL BULK INFRASTRUCTURE GRANT (RBIG) 32 projects	 WATER SERVICES INFRASTRUCTURE GRANT (WSIG) 101 projects
	Planned completion date for project not achieved and/or project stage of completion not assessed	75 (22%)	5 (33%)	10 (56%)	7 (22%)
Supply chain management findings	59 (17%)	3 (20%)	3 (17%)	8 (25%)	28 (28%)

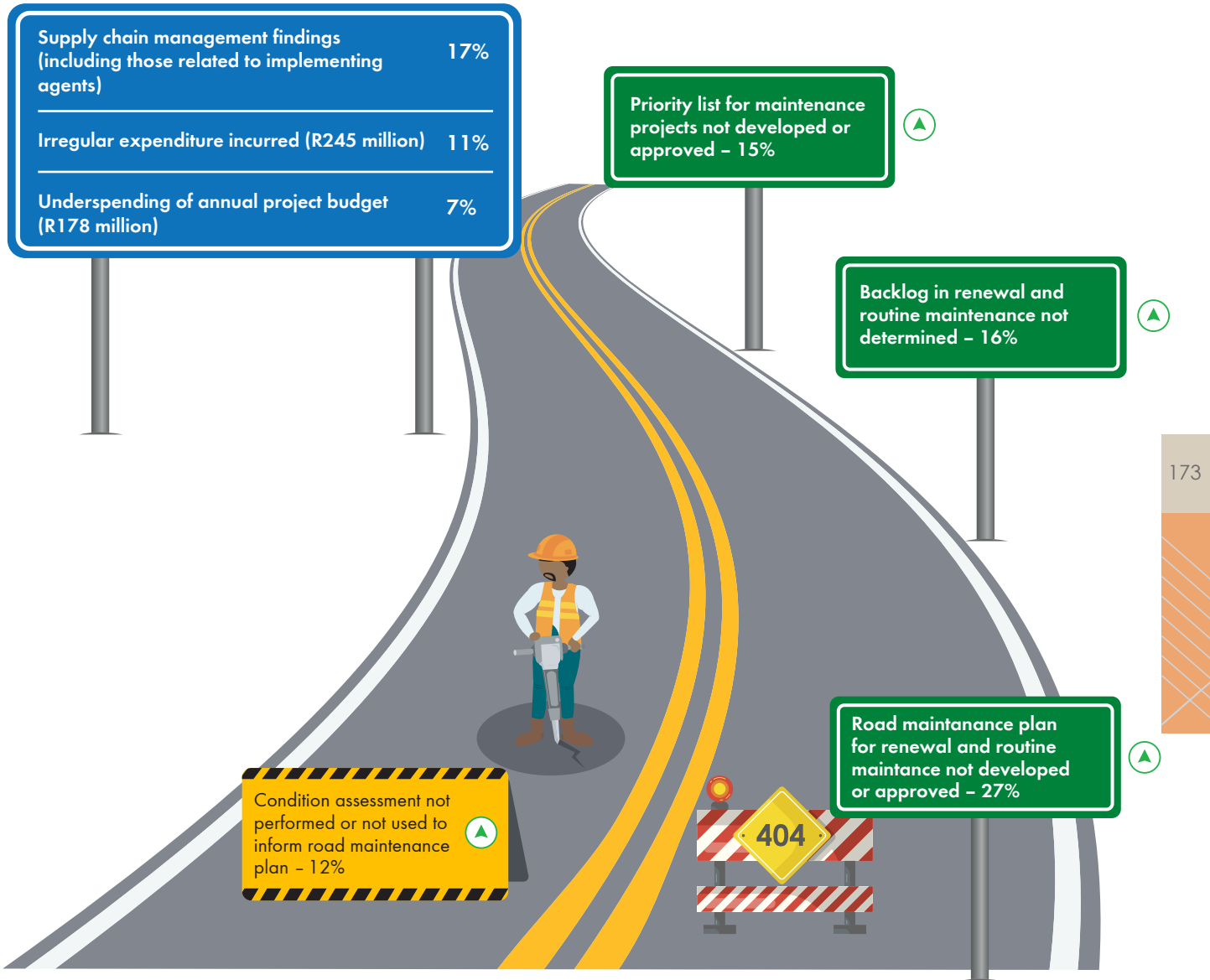




ROAD INFRASTRUCTURE – 171 municipalities responsible for road infrastructure

PROJECT-RELATED FINDINGS – 233 PROJECTS AUDITED

FINDINGS ON MAINTENANCE OF ROAD INFRASTRUCTURE



Performance reporting and other service delivery concerns on one or more projects audited	Number of municipalities with findings or concerns
Targets not achieved	29% (50)
Targets not reliable	23% (40)
Targets not measurable	9% (15)
Targets not relevant	4% (7)



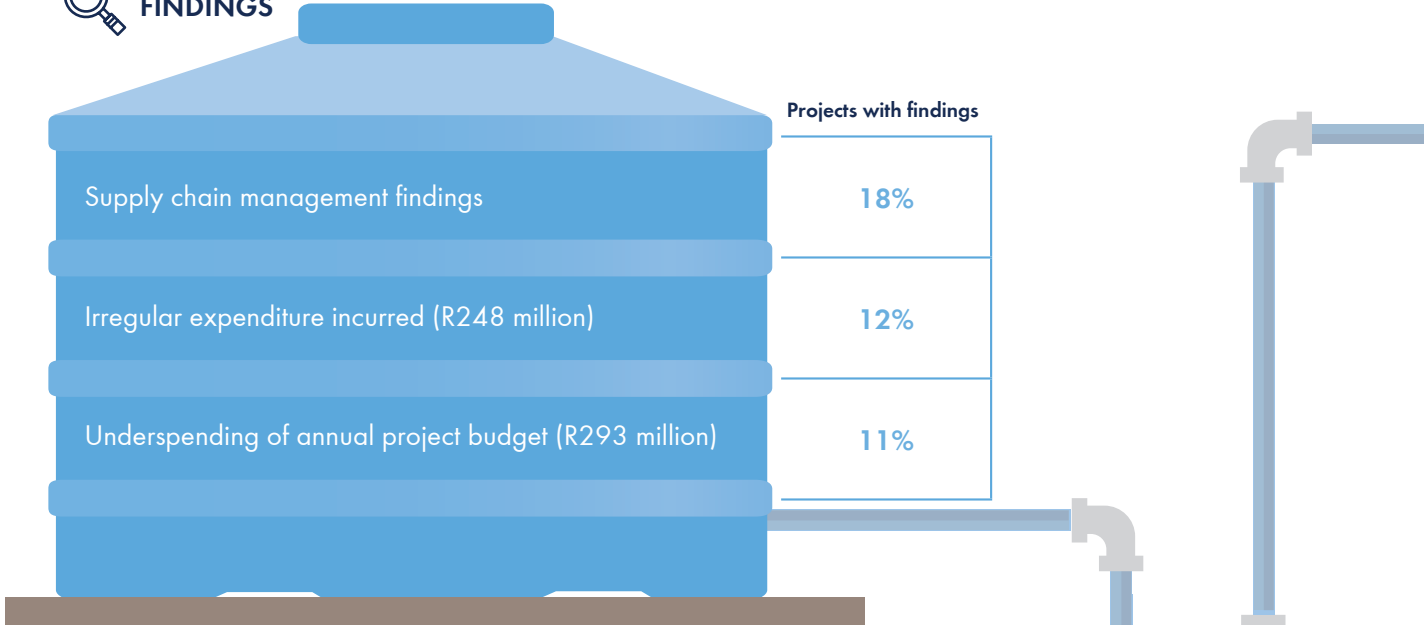


WATER INFRASTRUCTURE AND EXTENT OF WATER LOSSES – 122 municipalities responsible for water infrastructure

PROJECT-RELATED FINDINGS – 155 PROJECTS AUDITED

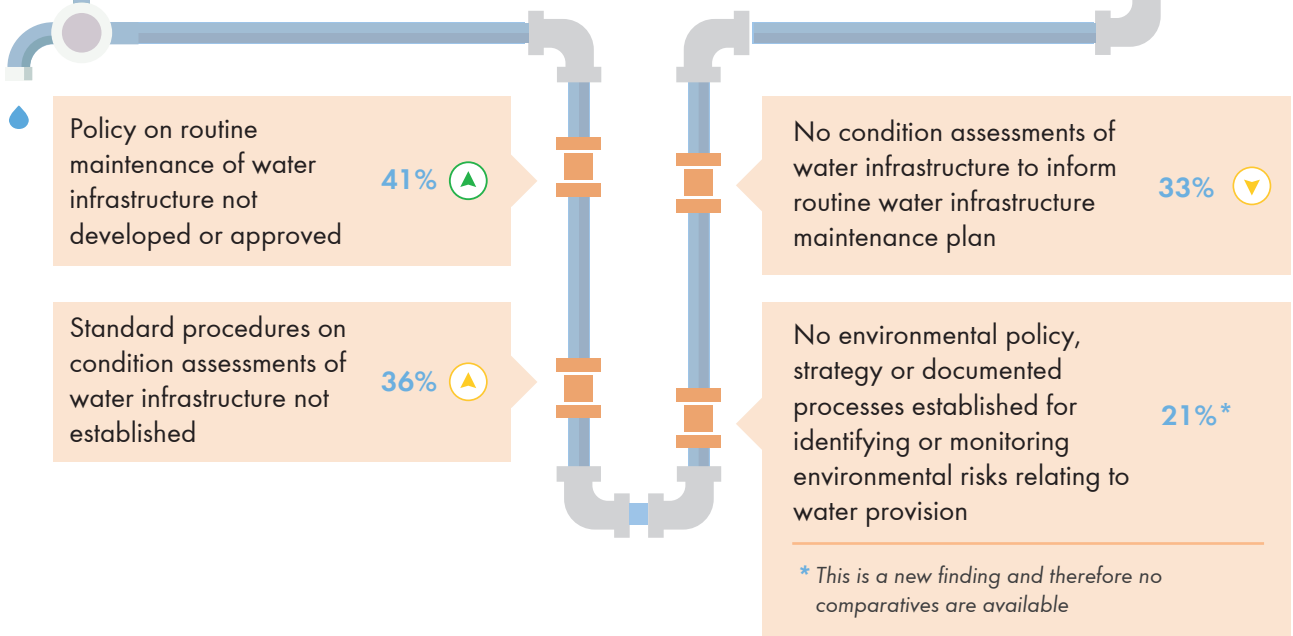


FINDINGS



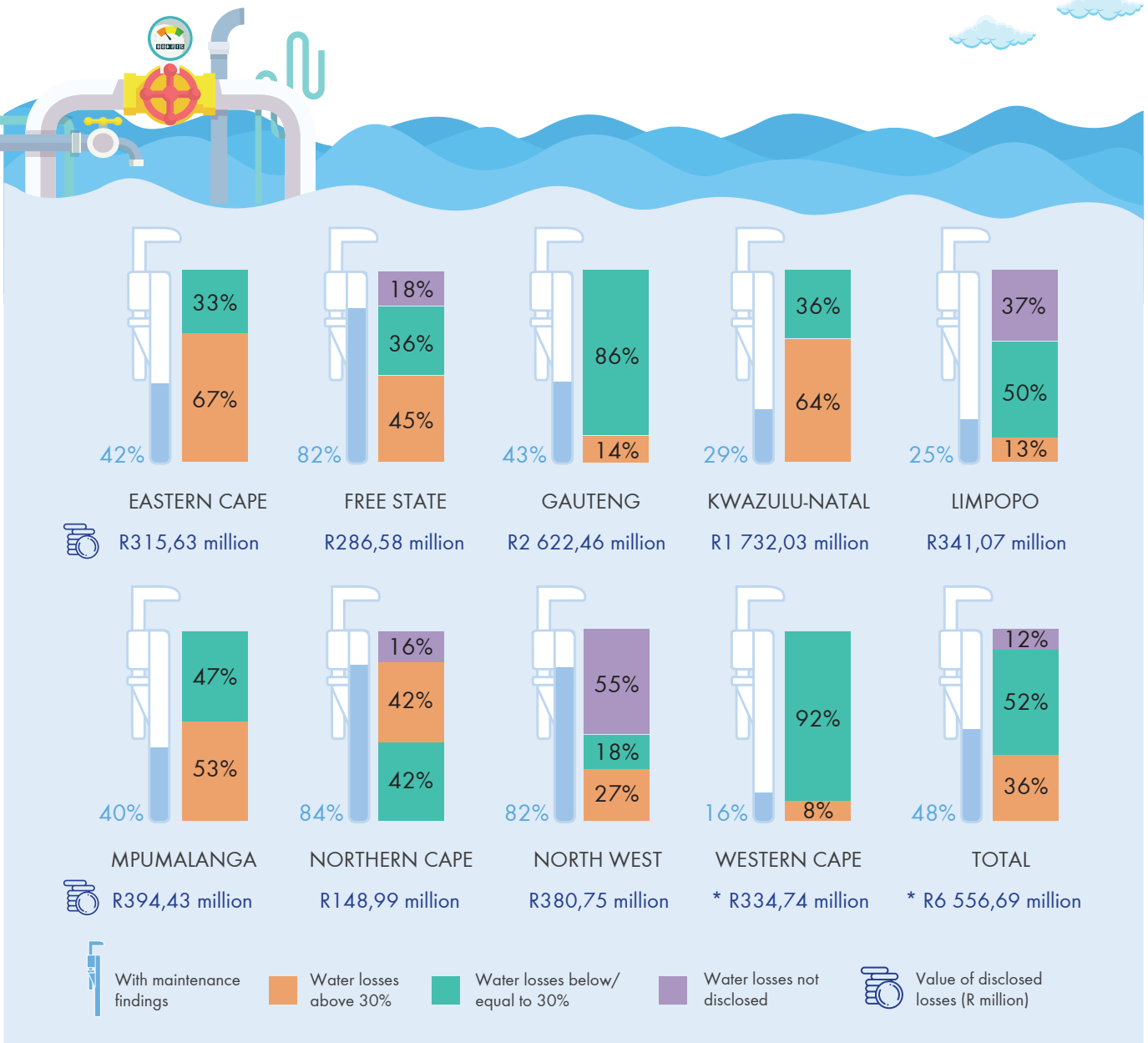
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FINDINGS ON MAINTENANCE OF WATER INFRASTRUCTURE



MAINTENANCE WEAKNESSES AND WATER LOSSES

According to Circular 71 issued by the National Treasury, the purpose of the water losses indicator/ratio is to determine the percentage loss of potential revenue from water services through kilolitres of water purchased but not sold as a result of losses through theft (illegal connections), no or incorrect metering, or wastage as a result of deteriorating water infrastructure. The acceptable norm is water losses between 15% and 30%. If the ratio exceeds the norm, it could indicate challenges such as ageing water infrastructure or poor management by the municipality.

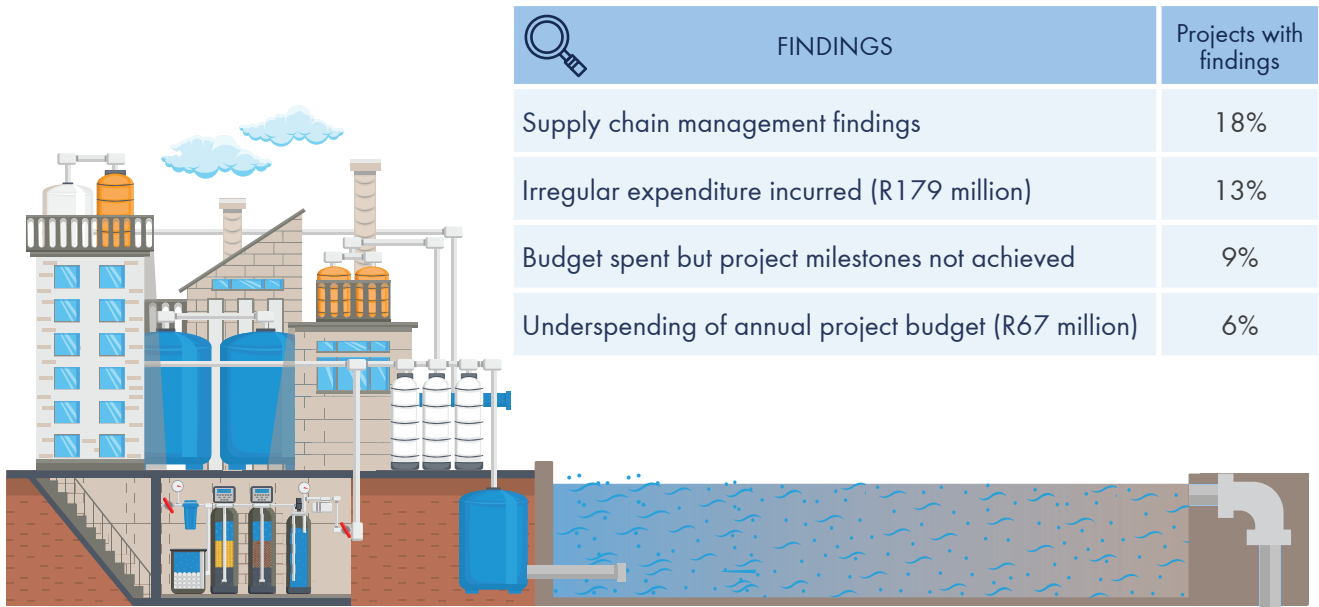


* Some municipalities disclosed water losses in kilolitres instead of in rand value

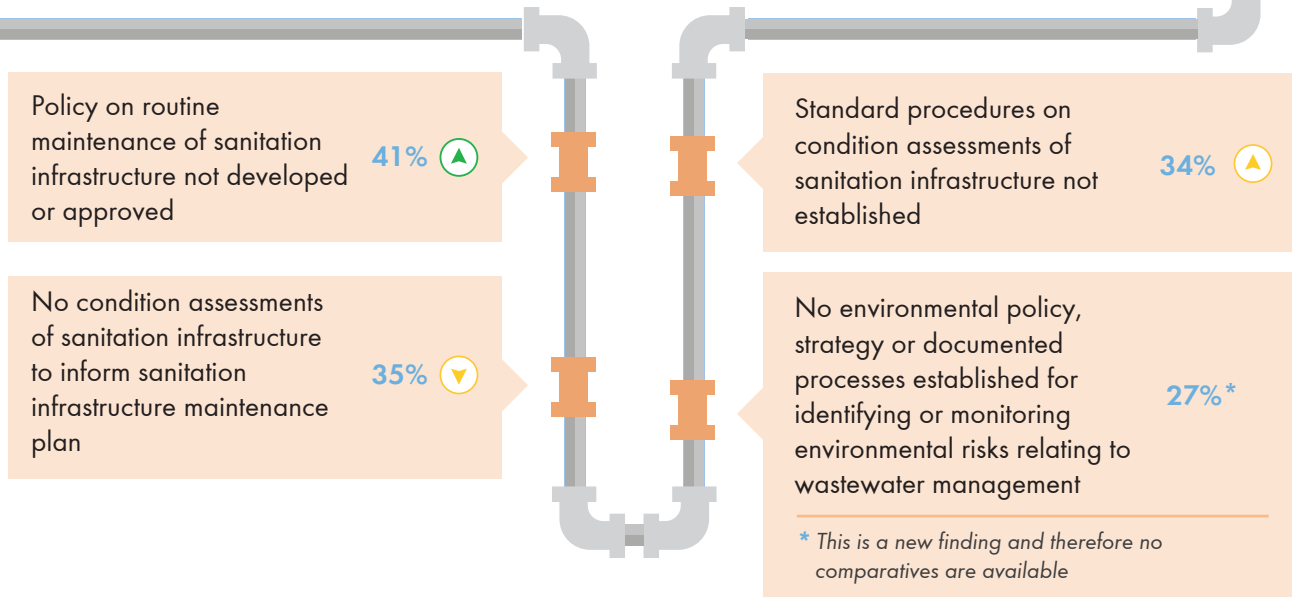
Performance reporting and other service delivery concerns on one or more projects audited	Number of municipalities with findings or concerns
Targets not achieved	35% (43)
Targets not reliable	33% (40)
Targets not measurable	19% (23)
Targets not relevant	8% (10)

 **SANITATION INFRASTRUCTURE – 119 municipalities responsible for sanitation infrastructure**

PROJECT-RELATED FINDINGS – 115 PROJECTS AUDITED



176  FINDINGS ON MAINTENANCE OF SANITATION INFRASTRUCTURE



Performance reporting and other service delivery concerns on one or more projects audited	Number of municipalities with findings or concerns
Targets not achieved	36% (43)
Targets not reliable	35% (42)
Targets not measurable	18% (21)
Targets not relevant	9% (11)



EXAMPLES OF INFRASTRUCTURE DEVELOPMENT AND MAINTENANCE FAILURES

Shortcomings in the development and maintenance of infrastructure are symptoms of a larger problem that municipalities have with managing finances, performance and projects and taking accountability for outcomes. This is demonstrated through the examples that follow.



REHABILITATION OF TOP TOWN ACCESS ROADS



RESPONSIBLE MUNICIPALITY: JOZINI (KZN)



COST: R13,03 million funded through municipal infrastructure grant



AIM

Improve and upgrade road network through construction and rehabilitation of 4,45 km of gravel roads to paved roads with sidewalks and drainage



TIMELINE



JUNE 2011

Project commences



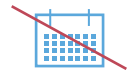
17 JULY 2012

Planned completion date



26 APRIL 2019

Municipality signs certificate that project has been completed



OCTOBER 2019

Audit team finds that project has not been completed

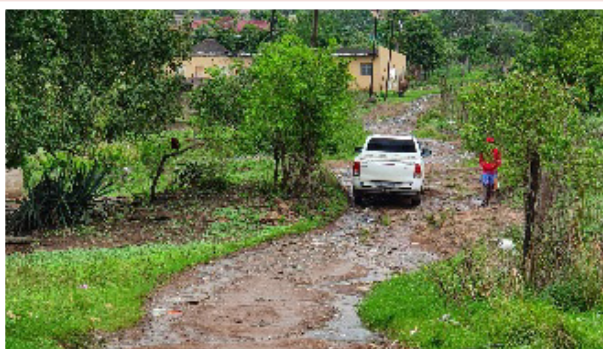


FINDINGS

- Only 38% of road kilometres completed
- Only 50% to 80% of road width (tested at various points on different roads) constructed
- No sidewalks constructed
- Some roads were without drains to discharge rain water



Road 6 incomplete



Road 7A not upgraded



IMPACT

- Poor condition will compromise long-term functionality of roads
- Safety of road users not guaranteed



REASONS

PROJECT PLANNING



- Scope of work and project deliverables not adequately defined (e.g. survey not undertaken to determine location and extent of road reserve)
- Existing items of infrastructure below road surface (leaking potable supply and sewer network) not determined

PROJECT MANAGEMENT



- Due diligence not exercised in approving payment certificates as precondition for payment to ensure that construction took place as per agreed specifications

CONTRACT MANAGEMENT



- Contractor not paid within agreed time, negatively affecting contractor's cash flow
- Remedial action clauses in service level agreement not enforced for poor performance by contractor





CONSTRUCTION OF HOUSING UNITS IN PEELTON



RESPONSIBLE MUNICIPALITY: Buffalo City Metro (EC)



COST: R33,70 million (Nkqonkqweni) + R48,25 million (Majali) funded through human settlements development grant



AIM

Provide adequate housing to people living in Peelson by building 268 houses in Nkqonkqweni and 385 in Majali



TIMELINE



2015

Project commences



15 MONTHS LATER

Planned completion date



4 YEARS LATER

Project significantly delayed and still ongoing



FINDINGS

- Construction of housing units delayed by approximately four years with project still only 83% to 85% complete
- Actual project expenditure exceeded: R4,22 million more than approved contract value had been spent at Nkqonkqweni by October 2019



IMPACT

- Not all housing units were occupied upon completion, as some beneficiaries no longer needed the houses or others had since passed on
- Unoccupied houses were vandalised



Incomplete houses vandalised



REASONS



PROJECT MANAGEMENT

- Slow performance, limited capacity and over-commitment of contractor
- Contractor entered into cession agreement to sub-contract work to another contractor



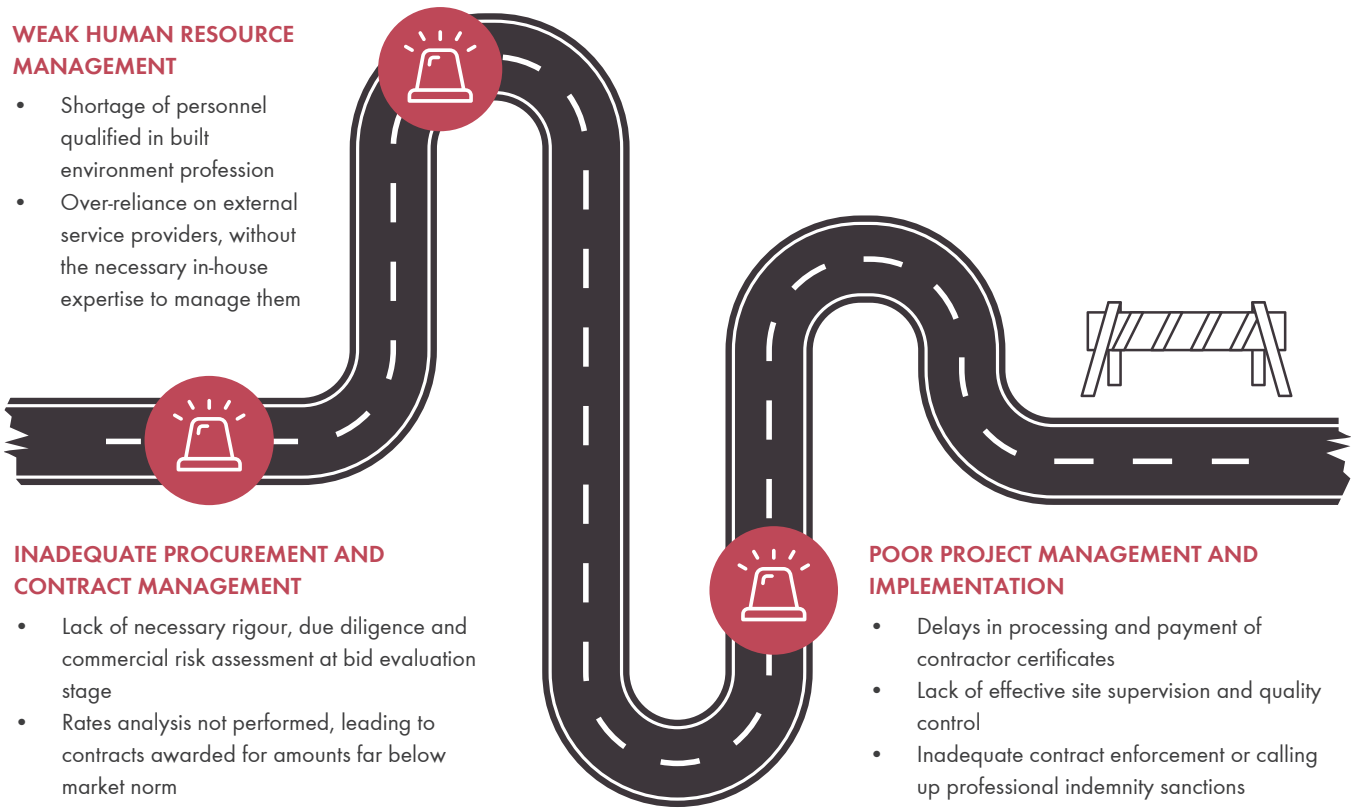
CONTRACT MANAGEMENT

- Contractor not paid within agreed time, leading to contractor eventually abandoning project



WEAK HUMAN RESOURCE MANAGEMENT

- Shortage of personnel qualified in built environment profession
- Over-reliance on external service providers, without the necessary in-house expertise to manage them



INADEQUATE PROCUREMENT AND CONTRACT MANAGEMENT

- Lack of necessary rigour, due diligence and commercial risk assessment at bid evaluation stage
- Rates analysis not performed, leading to contracts awarded for amounts far below market norm
- Lack of standard service level agreements

POOR PROJECT MANAGEMENT AND IMPLEMENTATION

- Delays in processing and payment of contractor certificates
- Lack of effective site supervision and quality control
- Inadequate contract enforcement or calling up professional indemnity sanctions
- Failure to monitor and update beneficiary list, resulting in unoccupied houses being vandalised



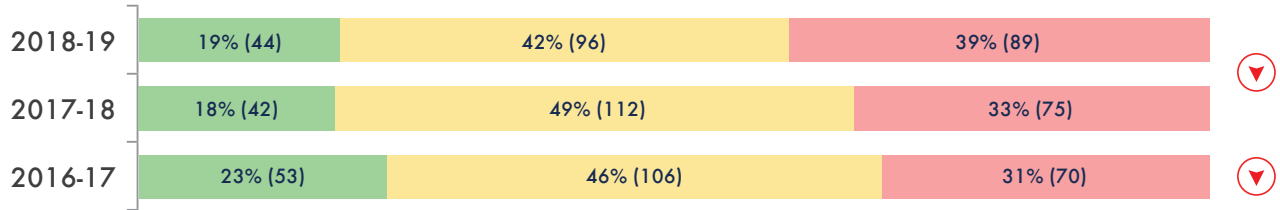


INTERNAL CONTROL



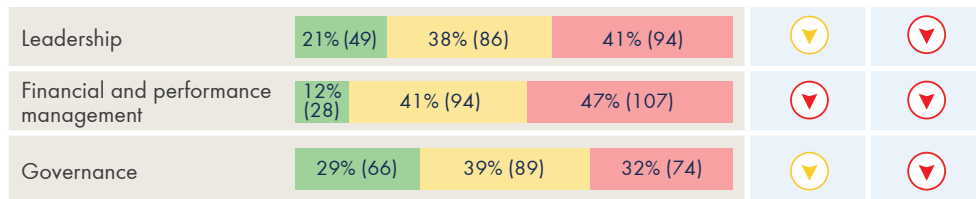
REGRESSION IN OVERALL STATUS OF INTERNAL CONTROL

OVERALL STATUS OF INTERNAL CONTROL



DRIVERS OF INTERNAL CONTROL

MOVEMENT FROM
2017-18 2016-17

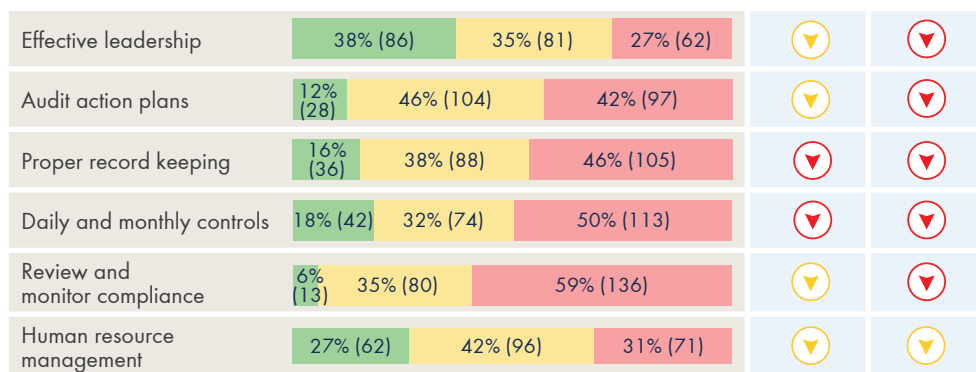


Good internal control is the key to ensuring that municipalities deliver on their priorities in an effective, efficient and economical manner

It will also ensure that municipalities produce quality financial statements and performance reports, and comply with applicable legislation

BASIC CONTROLS

MOVEMENT FROM
2017-18 2016-17



Analysis shows 6 of the 7 basic controls that should receive specific attention to improve and sustain audit outcomes

Refer to information technology (IT) controls section for IT governance controls

Good Of concern Intervention required

PROGRESS MADE IN IMPROVING DRIVERS OF INTERNAL CONTROL

IN LOCAL GOVERNMENT OVER THREE YEARS

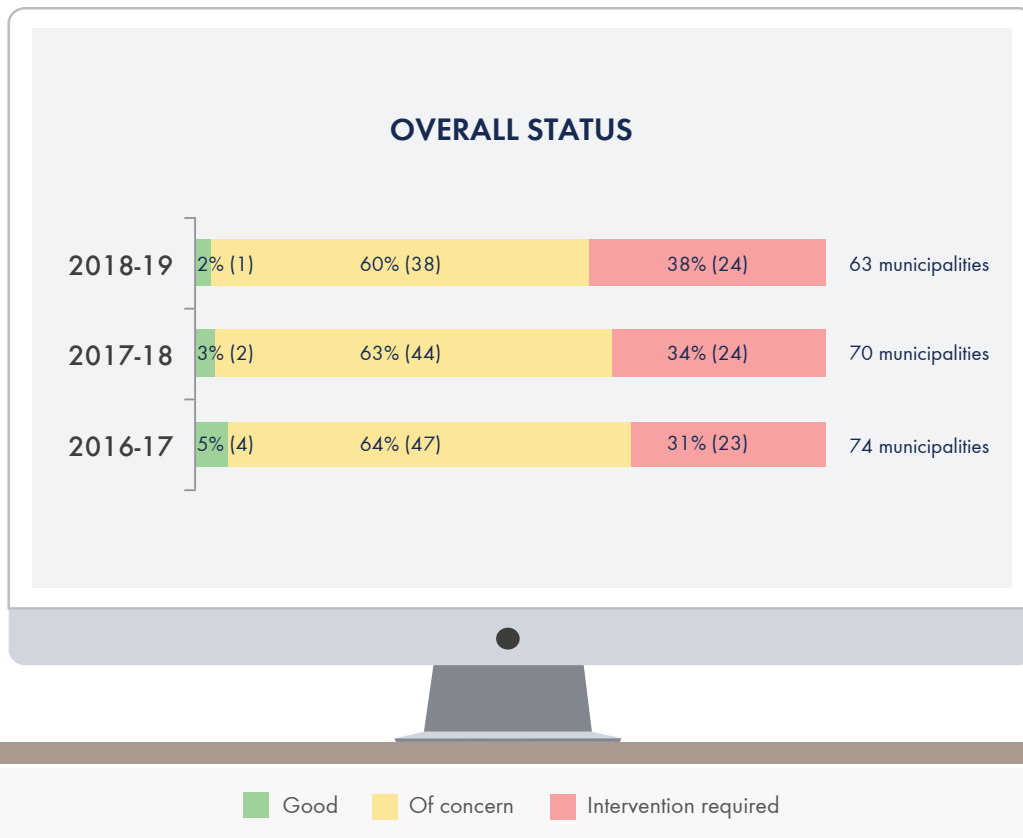
Municipalities must invest in preventative controls to strengthen their control environment

Province	Leadership	Financial and performance management	Governance
Eastern Cape	⬇️	⬇️	⬇️
Free State	⬇️	⬇️	⬇️
Gauteng	⬇️	⬇️	⬇️
KwaZulu-Natal	⬇️	⬇️	⬇️
Limpopo	⬆️	⬆️	⬆️
Mpumalanga	⬇️	⬇️	⬇️
Northern Cape	⬇️	⬇️	⬇️
North West	⬇️	⬇️	⬇️
Western Cape	⬇️	⬇️	⬇️
Total	⬇️	⬇️	⬇️





Information systems in the public sector are used to record and process data, and to report on financial and business information. Various stakeholders (including executives and oversight committees) rely on that information to make critical decisions.



STATUS OF GENERAL CONTROLS

IT general controls provide assurance to stakeholders as to whether they can rely on the IT systems used to record and process financial and business transactions. A weak control environment makes those systems susceptible to unauthorised manipulation of financial data and/or transactions, and increases the risk of fraud.

63 of the 211 municipalities where we audited general controls are highly dependent on IT systems for many of their core financial and business processes. The control environment of those municipalities has continued to deteriorate over the years.

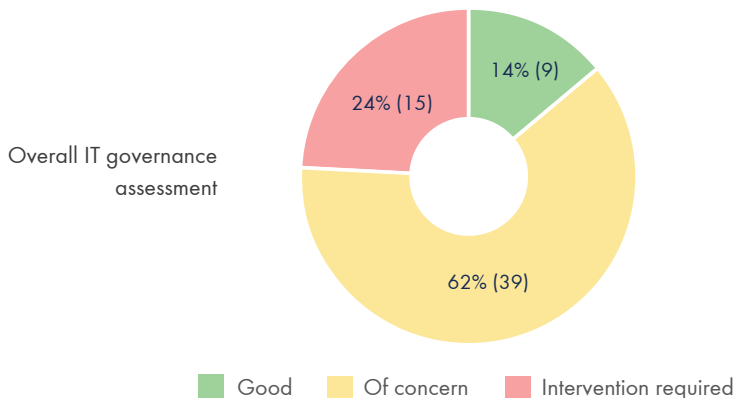


EFFECTIVENESS OF INFORMATION TECHNOLOGY GOVERNANCE

(63 municipalities highly dependent on IT systems for core financial and business processes)

IT governance is a set of organisational processes that ensures executive oversight of IT spending in relation to value for money; the effectiveness of IT risk management; and the allocation of adequate IT resources to deliver on business goals.

The accounting officer, internal auditors and audit committee are generally accountable for effective IT governance processes at municipalities.



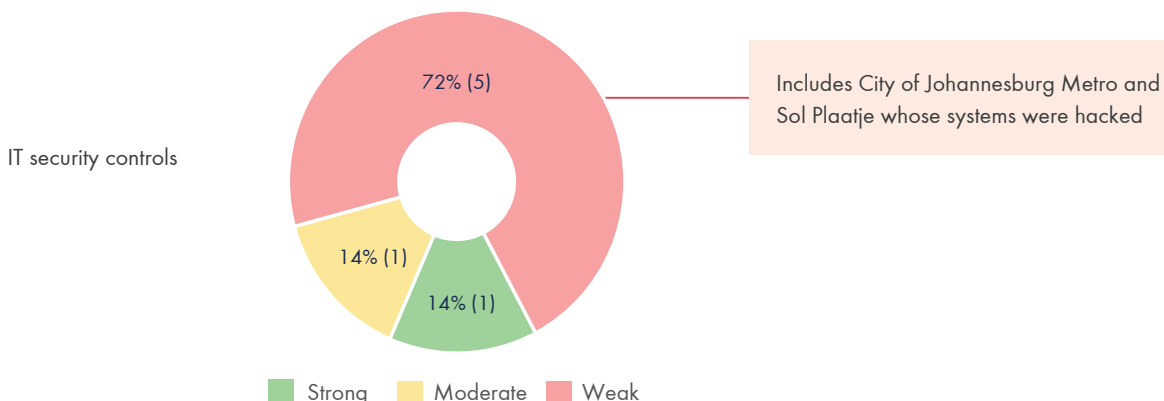
FINDINGS

- IT governance framework: No IT governance framework or effective IT governance processes (33%)
- Benefits delivery: Project benefits realisation (e.g. IT spend on infrastructure, software, external service providers and system developments) not identified and/or monitored (47%)
- Risk management: Internal auditors did not perform IT audits and/or provide proactive assurance on IT projects as part of internal system of control (43%)
- Resources optimisation: IT resource structures inadequate to deliver and support current and future business needs (25%)

CYBERSECURITY

CYBERSECURITY POSTURE (STRENGTH)

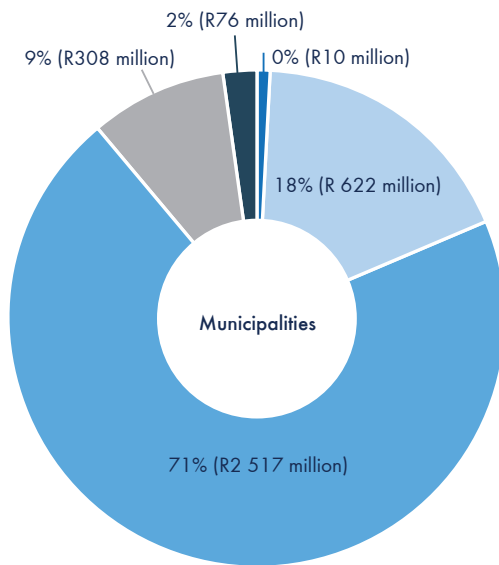
(7 municipalities where IT security reviews were performed)



Cybersecurity is ranked the number one business risk facing companies in South Africa and globally (according to the Allianz Global Corporate & Speciality risk barometer published in 2020). Similarly, municipalities are facing a growing number of cyber challenges, including larger and more expensive data breaches, an increase in ransomware and business email compromise (spoofing) incidents, as well as the prospect of litigation after a major security breach.

EXPENDITURE ON INFORMATION TECHNOLOGY

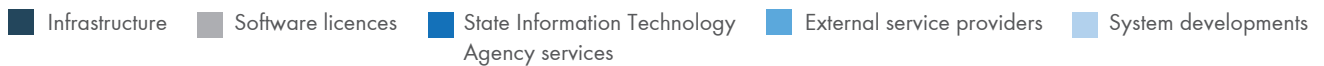
(63 municipalities highly dependent on IT systems for core financial and business processes)



Total R3 533 million

R3 533 MILLION SPENT ON:

- R622 million (18%): 18 system implementation projects
- R2 517 million (71%): external service providers



FINDINGS AT 18 PROJECTS AUDITED



Municipalities paid for systems not in use or not fully utilised:

- Amathole District (EC): R111 million spent on system implementation not used and current contract has expired
- Newcastle (KZN) and Harry Gwala District (KZN): R8 million and R941 250 spent, respectively, on system implementation not utilised



Msunduzi (KZN):

- Project with contract amount of R129 million not used due to defects that had to be resolved by service provider; municipality is disputing R54 million of the amount spent



The metros, Mangaung (FS), eThekweni (KZN), City of Johannesburg (GP), City of Ekurhuleni (GP), Buffalo City (EC): Payments were made on contracts but municipalities did not derive value for money; for example:

- City of Ekurhuleni (project with contract value of R100 million): Only one out of five modules implemented, but 70% of budget already spent
- Buffalo City (contract to the value of R14 million): Fully paid for system implementation not utilised and not all modules implemented



The metros, Mangaung, City of Johannesburg, City of Ekurhuleni, Buffalo City: Paid for software licences not used or did not have process to ensure control over utilisation of software licences; for example:

- City of Johannesburg: Paid R45 million for software licences not utilised





The national Department of Cooperative Governance (DCoG) and the Municipal Infrastructure Support Agent (Misa) have an important support and oversight role to play in local government as part of the Medium-Term Strategic Framework's outcome 9 (a responsive, accountable, effective and efficient developmental local government system).

NATIONAL PRIORITY SUPPORT INITIATIVES

In 2014, the back-to-basics (B2B) initiative was launched to improve service delivery. The B2B programme, aimed at building functional municipalities, assisted in identifying and agreeing on critical and priority challenges. In May 2018, DCoG identified 87 priority dysfunctional or distressed municipalities for specific support interventions based on their regressing audit outcomes, reduced revenue, and use of grants or reserves for operational expenditure.

Provinces not providing the required support to municipalities

FINDINGS	PROVINCE								
	EC	FS	GP	KZN	LP	MP	NC	NW	WC
Number of dysfunctional/ distressed municipalities per province	14	7	6	18	13	4	8	10	7
Outstanding audits included in the 87 dysfunctional municipalities per province	1	5	1	1	1	1	2	1	1
Municipal support plans not developed for all municipalities	No finding	Finding	No finding	No finding	No finding	No finding	Finding	Finding	Finding
Municipal support plans not adequately drafted to address key challenges at all municipalities	No finding	No finding	No finding	No finding	No finding	No finding	No finding	Finding	No finding
Support initiatives not implemented at all municipalities	Finding	No finding	No finding	No finding	No finding	No finding	No finding	No finding	No finding
B2B multi-sectoral provincial task teams not established	No finding	No finding	No finding	Finding	No finding	No finding	No finding	No finding	No finding
Municipalities not supported in development of community engagement plans and processes/ Limitation to determine whether support was provided	Finding	No finding	No finding	No finding	No finding	No finding	No finding	Finding	No finding

■ Finding ■ No finding

The lack of support and support plans resulted in the specific roles and responsibilities of the various role players, deliverables and time frames not being clearly defined, making it difficult to identify and address key matters. The inability to adequately implement support initiatives at the identified municipalities hampered progress towards clean administration and improved service delivery.

The overall regression in audit outcomes stresses the necessity for improved support interventions. To obtain sustainable outcomes with the desired impact in the long term, support should be enhanced and take the form of a preventative control in the place of the current reactive support approach.

MISA'S SUPPORT INITIATIVES

Misa identified 85 municipalities requiring support due to service or infrastructure delivery challenges. Misa purchased an asset management system (the municipal infrastructure performance management information system) during 2013-14 at a cost of R34 million. It is encouraging that the number of municipalities not using Misa's system decreased from 80 in 2017-18 to 35 in 2018-19.

Municipalities not using Misa's asset management system

Gauteng is excluded from the analysis below: while the province did not use Misa's system, it also did not have any qualifications on assets.

FINDINGS	YEAR	TOTAL	PROVINCE												
			EC	FS	KZN	LP	MP	NC	NW	WC					
Number of municipalities not using Misa's system to encourage infrastructure maintenance and asset management	2017-18	80	19	5	7	10	8	20	8	3					
	2018-19	35	3	2	3	2	1	20	1	3					
Audit outcomes	2018-19	35	2	1	1	1	2	2	1	4	10	6	1	1	2
Number of municipalities not using Misa's system with qualification on assets	2018-19	21	2	2	3	2	0	10	1	1					
Number of municipalities that moved to Misa's system but still had asset qualification areas	2018-19	21	6	3	2	3	3		4						

■ Unqualified with no findings
 ■ Unqualified with findings
 ■ Qualified with findings
 ■ Adverse with findings
 ■ Disclaimed with findings

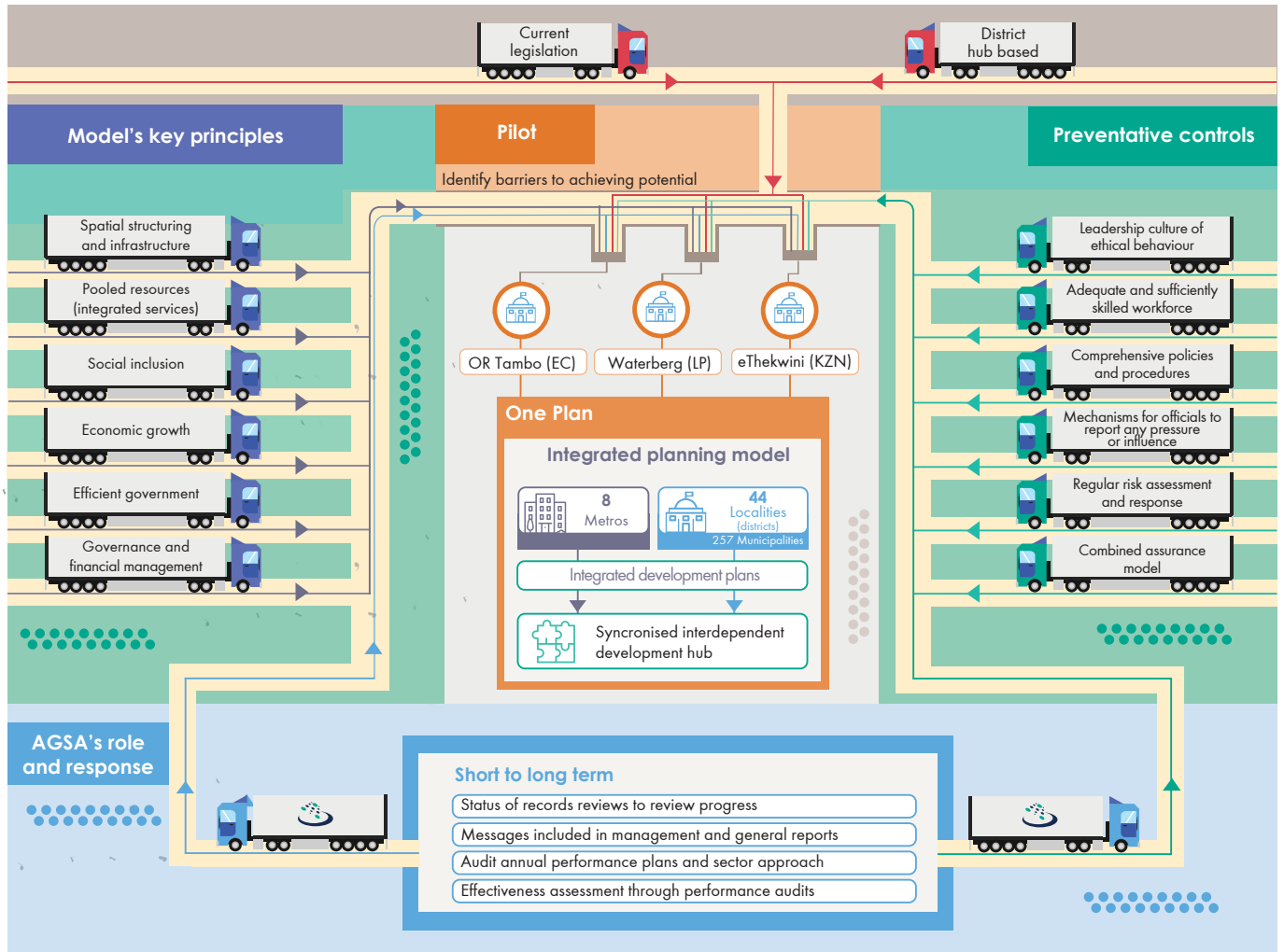
Although more municipalities started using Misa's system, this did not translate into direct improvements in the audit outcomes as evident in the number of municipalities that moved to the system but still had qualifications on assets. This will necessitate municipalities to strengthen the effective use of the system, where necessary, to systematically monitor the planning, development, maintenance and management of municipal infrastructure. Furthermore, the system should be implemented in a manner that is linked to its intended objectives and the achievement of the envisaged goals.



DISTRICT DEVELOPMENT MODEL

In response to earlier initiatives such as B2B proving not to be as successful, the district coordinated development model was launched in 2019 to improve service delivery through breaking down silos in government, synchronising planning by all spheres of government, and moving closer to citizens and civil society, with the ultimate aim of eradicating poverty, unemployment and inequalities.

Overview of the district coordinated development model



The high-level principles of the model were extracted from the concept note 'Towards a district coordinated development model' dated September 2019

It is envisaged that the model will strengthen cooperative governance and lead to the implementation of well-coordinated and coherent national programmes. The envisioned 'One Plan' is a potential game changer in various areas of government. However, the success of the model will depend on a system that includes the proactive monitoring of key municipal actions and the reporting of poor performance, irregularities and deficiencies to structures with the power and will to enforce corrective action.

Our expected role and response will be anchored around existing processes within our mandate, including auditing, status of records reviews, messaging and stakeholder engagements. As depicted in the graphic, our preventative controls approach is going to be a key ingredient in supporting government to achieve the envisaged goals of the model. The implementation of these controls should assist government and the district hubs to tighten the levels of accountability.



ASSURANCE PROVIDERS



SLIGHT REGRESSION IN ASSURANCE PROVIDED BY ROLE PLAYERS

ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP

MOVEMENT FROM
2017-18 2016-17

Role	Provides assurance	Provides some assurance	Provides limited/no assurance	2017-18	2016-17
Senior management	5%	49%	46%	Down	Down
Municipal managers	7%	58%	35%	Down	Down
Mayors	25%	50%	25%	Down	Down

INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

Entity	Provides assurance	Provides some assurance	Provides limited/no assurance	Not established	2017-18	2016-17
Internal audit units	25%	53%	20%	2%	Down	Down
Audit committees	31%	50%	18%	1%	Down	Down
COORDINATING/MONITORING DEPARTMENTS	4%	66%	30%		Down	Up
Treasuries		78%	22%		Down	Down
Offices of the premier	11%	56%	33%		Up	Up
Cooperative governance departments		67%	33%		Up	Up

EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

Entity	Provides assurance	Provides some assurance	Provides limited/no assurance	2017-18	2016-17
Municipal councils	26%	47%	27%	Up	Down
Municipal public accounts committees	27%	41%	32%	Down	Down
Portfolio committees on local government		44%	56%	Down	Down

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

FINDINGS	INTERNAL AUDIT UNITS	AUDIT COMMITTEES
Fully compliant with legislation	81% (174) ▲	84% (183) ▲
Evaluates reliability of financial information	92% (198) ▲	93% (201) ▲
Evaluates reliability of performance information	88% (189) ▲	88% (190) ▼
Evaluates compliance with key legislation	88% (189) ▶	89% (194) ▼
Interacts with executive authority	N/A	92% (199) ▶
Positive impact on audit outcomes	36% (78) ▲	53% (114) ▶

Internal audit units and audit committees were established and performed the functions required by legislation. However, these assurance providers did not have a positive impact on the audit outcomes and the assurance provided was low. The main reason was that their recommendations were not implemented and at some municipalities the quality of the work performed was not at the required level.



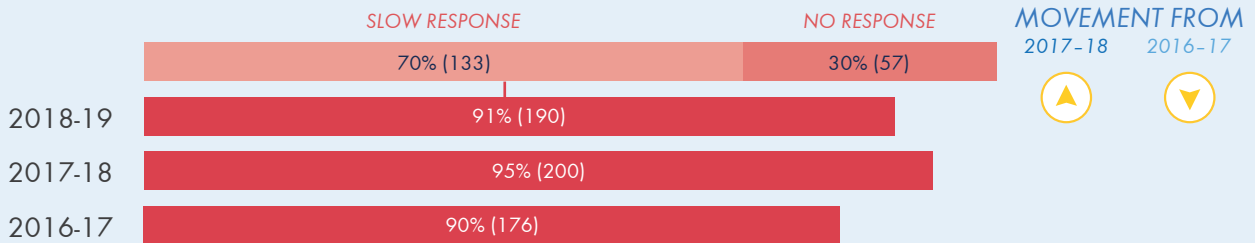


ROOT CAUSES OF LIMITED IMPROVEMENT

SLOW OR NO RESPONSE IN IMPROVING INTERNAL CONTROLS AND ADDRESSING RISK AREAS



No response most evident in North West (14 municipalities), Limpopo (10 municipalities) and Free State (10 municipalities)



INADEQUATE CONSEQUENCES FOR POOR PERFORMANCE AND TRANSGRESSIONS



Lack of consequences most common in North West (100%), Free State (93%) and Northern Cape (81%)



INSTABILITY OR VACANCIES IN KEY POSITIONS OR KEY OFFICIALS LACKING APPROPRIATE COMPETENCIES



Vacancies, instability or lack of competencies most prominent in North West (100%), Free State (80%) and Northern Cape (58%)



ACCOUNTABILITY



=

SLOW/NO RESPONSE
BY MANAGEMENT



