SECTION 3

Accountability for financial and performance management continues to deteriorate

3 ACCOUNTABILITY FOR FINANCIAL AND PERFORMANCE MANAGEMENT CONTINUES TO DETERIORATE

In local government administration, the political leadership and municipal officials must achieve their municipalities' objectives while acting in the public interest at all times and consistently adhering to the requirements of legislation and government policies. **Accountability is critical** and means that municipal leaders are answerable to local communities and take responsibility for their actions, decisions and policies. Municipalities should be able to demonstrate the appropriateness of all of their actions and should have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law. These concepts of public interest and accountability are entrenched in the country's constitution and the legislation that governs local government.

The Medium-Term Strategic Framework (derived from the National Development Plan) defines the overall outcome for local government (outcome 9) to be '**a responsive, accountable, effective and efficient developmental local government system'**. This is the target that municipalities are working towards, with the support of national and provincial government and oversight.

The accountability that the municipal leadership must take for their actions, decisions and policies – including being answerable to local communities – is critical for financial and performance management as well as respect for the law in local government. However, over the past year, the regression in audit outcomes, continued lack of consequences, and increasingly difficult environment for auditing and other accountability mechanisms, show that accountability for these important functions continues to deteriorate.

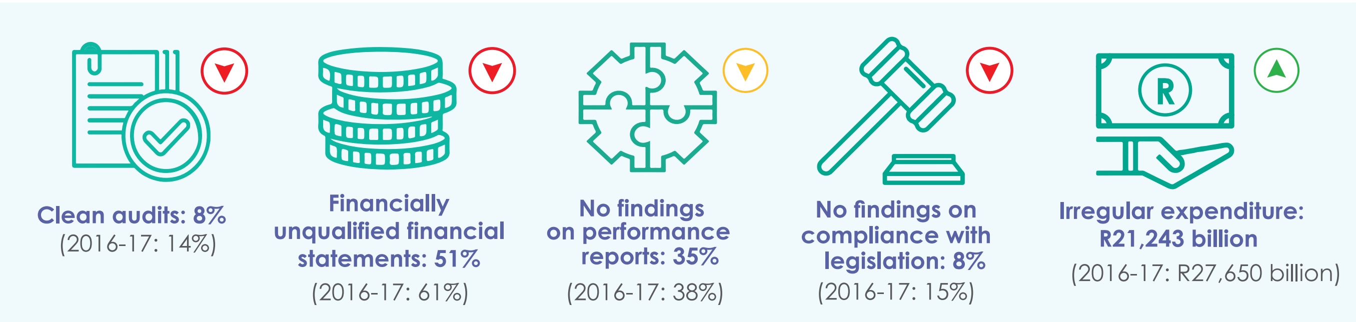
As in the previous year, we highlight the **indicators**, **impact** and **root causes** of deteriorating accountability in this section. The section also covers the **role of leadership** in addressing the deteriorating accountability, and the role we play in strengthening the accountability chain – also in future through **our expanded mandate**.

Additional information on the contents of this section is available in the summary of audit outcomes in section 4, the status of metros in section 5, and the provincial overviews in section 6.

THREE INDICATORS OF DETERIORATING ACCOUNTABILITY

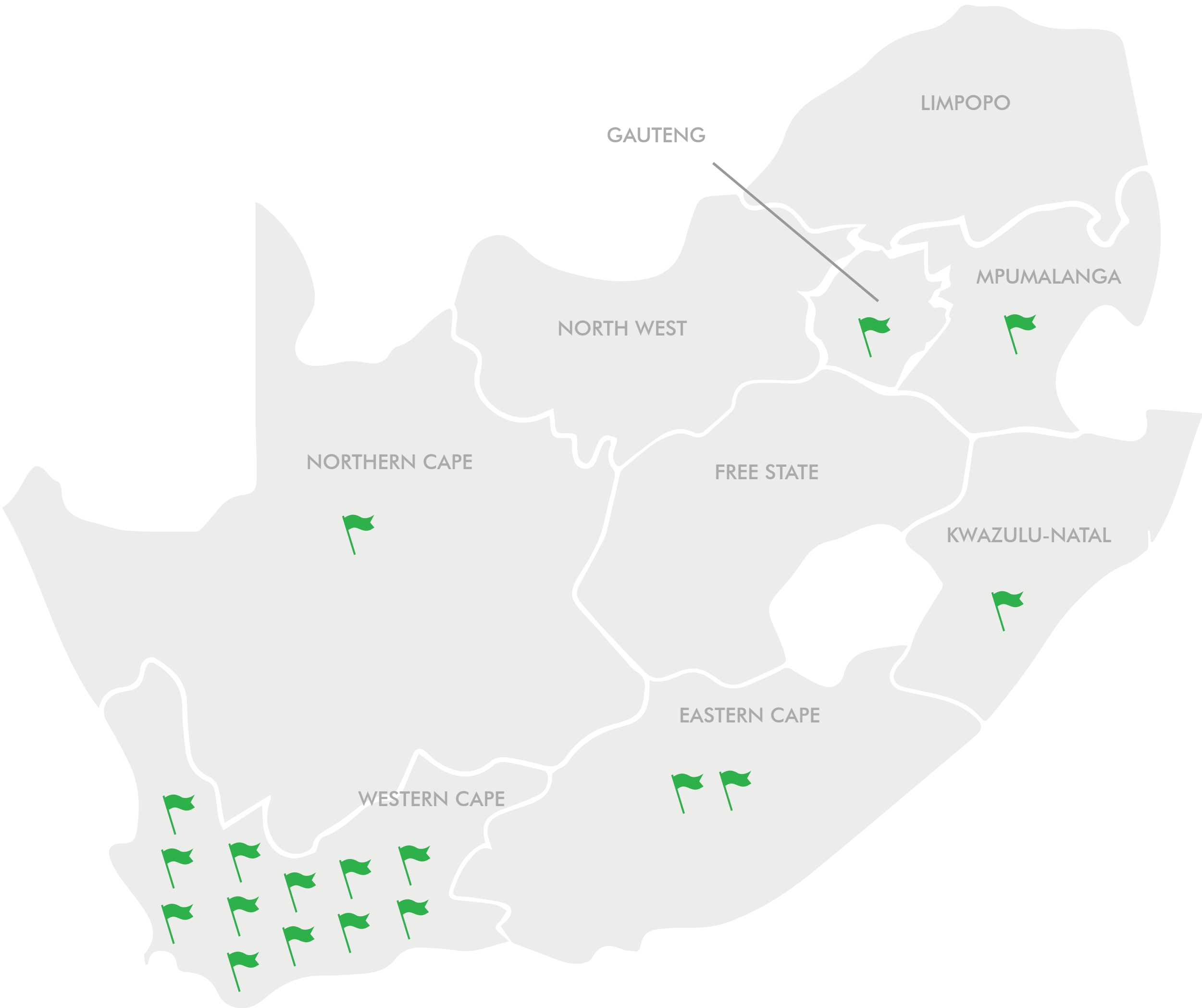
The key message that we can take from the results of the 2017-18 audits is that **accountability for financial and performance management continues to deteriorate**. There are three main indicators of deteriorating accountability, as detailed below.

INDICATOR 1: AUDIT OUTCOMES REGRESSED AND IRREGULAR EXPENDITURE REMAINS HIGH



The **audit outcomes of 27% of the municipalities regressed** (of which 7% were from a clean audit status) and those of only 9% improved. **Only 8% of the municipalities** managed to produce quality financial statements and performance reports and to comply with key legislation, thereby **receiving a clean audit**.

Only six of the nine provinces had municipalities with clean audits, as illustrated below.



Credible financial statements and performance reports are crucial to enable accountability and transparency, but **municipalities are failing** in these areas.

WHY ARE THE FINANCIAL STATEMENTS IMPORTANT?

The financial statements of a municipality show how it spends its money, where its revenue comes from, its assets and the state of those assets, how much it owes creditors, how much is owed to the municipality, and whether it is expected that the money owed will be received.

It also provides crucial information on how the budget was adhered to, the unauthorised, irregular and fruitless and wasteful expenditure incurred as well as the overall financial position of the municipality – whether its operations are financially sustainable.

The financial statements are used by the municipal council to call the municipal manager to account and to make decisions on the financial management of the municipality. It is also used by creditors, banks and rating agencies to determine the level of risk in extending debt to a municipality and by the public to know how well the municipality is using the rates and taxes they pay to provide services.

WHAT DID WE FIND?

Not only did the overall quality of the financial statements regress, the **financial statements provided to us for auditing were even worse than in prior years**. Only 19% of the municipalities could give us financial statements without material misstatements.

This means that if we had not identified the misstatements in the submitted financial statements for the municipalities and allowed them to correct these, 81% of the municipalities would have published financial statements that were not credible. All municipalities in Limpopo and North West have had material misstatements for two years in a row.

The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Over the years, this has placed undue pressure on the audit teams to meet the legislated deadlines for the completion of the audits, with an accompanying impact on the audit fees.

In the current year, 11% of the municipalities did not submit their financial statements by the legislated date – a slight regression from the previous year's 10%. As at 31 January 2019, the audit outcomes of 24 municipalities were outstanding and eight municipalities had still not submitted their financial statements for auditing. Late or non-submission means that councils cannot apply their oversight function to call municipal managers to account within the period prescribed by legislation and that there is no transparency in the management of municipal finances.

This poorly reflects on the financial management capabilities in local government. Even bringing in consultants at a cost of R907 million to prepare financial statements and underlying records did not have the desired impact. At 66% of the municipalities, the financial statements submitted for auditing included material misstatements in the areas in which consultants did work, mainly due to ineffectiveness and poor project management on the part of municipalities.

WHY IS THE PERFORMANCE REPORT IMPORTANT?

The performance report describes the progress made on commitments to the community on services and developments through the integrated development plan for the five-year term of the administration. In its simplest form, this is where election promises are accounted for.

Municipalities determine how the progress will be measured (through performance indicators) and what the annual targets will be. The budget of a specific year is then matched to what the municipality needs to achieve for that year. This annual performance plan is included in the service delivery and budget implementation plan prepared by the municipality.

The performance report shows the performance measures, planned targets and achievements for the year. The municipal council represents the community's interest as its elected officials – council members use this report to determine if the municipality achieved the objectives for the year, make decisions on the next year's budget, and hold the administration to account for any failings in delivery. This is also the report that the public uses to assess delivery by the municipality.

WHAT DID WE FIND?

The poor results mean that the **performance reports of 65% of the municipalities had material flaws and were not credible enough for the council or the public to use.**

At 55% of the municipalities, these flaws were caused by poor planning as evidenced by performance indicators that were not well defined or verifiable; and targets that were not measurable or specific enough to ensure that the required performance could be measured and reported in a useful manner. We also found municipalities reporting on indicators or targets that differed significantly from what was in their plans.

At 53% of the municipalities, the achievement reported was not reliable – we either found evidence that disputed what was reported or could not find evidence for the reported achievements.

Six municipalities did not even prepare reports, while seven prepared a report but could not give us the plans or any evidence in support thereof.

As with the financial statements, we had to point out misstatements in the submitted performance reports and allowed municipalities to correct these. If we had not done so, 89% of the municipalities would have published performance reports that were not credible.

The poor planning, management and reporting of performance do not bode well for the delivery of services and the achievement of commitments contained in integrated development plans.

We reported **material non-compliance with key local government legislation at 92%** of the municipalities. This is the **highest percentage** of non-compliance since 2011-12.

Local government continues to **blatantly disregard compliance with key legislation**.

The non-compliance was common in most of the areas for which the municipal manager is accountable, as shown in the table below.

MOST COMMON NON-COMPLIANCE AREAS	MOVEMENT	2017-18	2016-17
Management of procurement and contracts	▼	81% (189)	72% (168)
Quality of financial statements	▼	81% (188)	77% (179)
Prevention of unauthorised, irregular and fruitless and wasteful expenditure	▼	74% (173)	70% (164)
Effecting consequences	▼	60% (139)	55% (127)
Creditors not paid within 30 days	▼	54% (125)	50% (117)
Management of assets	▼	47% (109)	39% (91)

Although the Western Cape had the highest regression in clean audits, it still performed better than the other provinces with 57% of their municipalities having material non-compliance findings, while 90% or more of the municipalities in all the other provinces had material non-compliance findings. The Free State, North West and Limpopo were the worst in the country, with 100% of their municipalities having material non-compliance findings in both the current and the previous year.

Municipalities with **material non-compliance findings on procurement and contract management increased** from 72% to 81%. This is the **highest percentage** of non-compliance since 2011-12.

With the exception of Gauteng and Limpopo (both of which improved), all other provinces regressed or 100% of their municipalities again had material findings on non-compliance with procurement legislation.

At 77% of the municipalities, the material findings related to **uncompetitive and unfair procurement processes** – the most common findings being municipalities not inviting quotations or competitive bids.

Often the reasons cited for these deviations were that it was an emergency or that no other suppliers were available – but the real reasons were either poor planning or a deliberate attempt to favour a specific supplier. When procuring goods and services through contracts secured by other organs of state, municipalities must comply with the prescribed requirements, such as demonstrating the discounts or benefits derived from following this process and that contracts have been validly procured by means of a competitive bidding process. Non-compliance with these requirements became more widespread, as detailed in the infographic on the effective use of consultants in section 4 as well as in section 5 that deals specifically with metros.

Often findings on uncompetitive and unfair procurement processes are viewed and commented on as procedural issues. However, the possibility of fraud and potential for losses are often overlooked. Less competition can lead to **higher prices**, resulting in possible financial losses.

Although prohibited by legislation, we identified that contracts and quotations worth R79 million were **awarded to suppliers in which employees and councillors have an interest**. Legislation also prohibits awards to any suppliers in which any **state official has an interest** – we identified such awards worth R921 million.

Often this non-compliance was caused by **suppliers falsely declaring** that they have no connection to anyone at the municipality or any other state institution or to their close family members – we identified such false declarations by 824 suppliers, while such declarations were not even submitted as part of the procurement processes at 86 municipalities.

The aim of the Preferential Procurement Regulations is to support socio-economic transformation. The public sector should lead by example in its procurement processes to achieve this goal, but we again found municipalities failing in this area. Countrywide, 36% of the municipalities did not apply – or incorrectly applied – the **preference point** system, while 68% of the 116 municipalities where we audited **local content** did not comply with the requirements to procure certain commodities from local producers.

We identified material non-compliance with legislation on **contract management** at 38% of the municipalities – the most common finding being municipalities not monitoring the performance of contractors on a monthly basis. If performance is not monitored, it opens up the state to losses, while inadequate contract management might also have a negative impact on service delivery.

We were **unable to audit** the procurement processes of contracts and quotations worth R1 216 million at 49 municipalities, as the required documentation was missing or incomplete. There was no evidence that these municipalities had followed a fair, transparent and competitive process for all awards. We could not determine whether these awards were irregular and, as a result, could not determine the true extent of irregular expenditure.

The effect of deteriorating accountability on procurement and contract management can be seen in the following examples:

Alfred Nzo District – Ntabankulu sewer upgrade (Eastern Cape)

The purpose of the project was to improve the provision of water and sanitation in rural areas. The project with a total value of R47 million started on 11 October 2013, and despite having a planned completion date of 19 June 2015, it was still in progress at year-end. The municipality did not adequately monitor the performance of the contractor on a monthly basis as prescribed by legislation, and did not appropriately respond to the delays, as no penalties were invoked.

In addition, variation orders amounting to R7 million relating to a filtering system were approved. The portion of R3 million already spent on these variation orders resulted in irregular expenditure.

Mopani District – construction of VIP toilets (Limpopo)

The project related to the construction of 381 VIP toilets, with a planned completion date of 30 June 2018. However, the completion date was revised to 22 August 2018 due to delays in the procurement processes, caused by non-compliance with supply chain management legislation on the constitution of the bid adjudication committee.

Drakenstein – construction work for Paarl wastewater treatment works (Western Cape)

The municipality did not comply with supply chain management legislation, as it did not follow a competitive bidding process to appoint a contractor for construction on the Paarl wastewater treatment works project, but instead extended the existing contracts of the Wellington wastewater treatment works by 20%, even though the projects were unrelated. This resulted in irregular expenditure of R46 million and an unfair and uncompetitive procurement process.

Additional examples are included in sections 5 and 6.

The annual **irregular expenditure** disclosed by municipalities **decreased** by 23% but **remains high**.

Annual irregular expenditure decreased from R29,7 billion to R25,2 billion*

[Included in these figures is irregular expenditure of R4 billion (2016-17: R2,08 billion) as disclosed in the unaudited financial statements of the ***24 municipalities of which the audit outcomes were outstanding****]*

*The figure is not complete because:

46% of the municipalities either were qualified on the incomplete disclosure of irregular expenditure or disclosed in the financial statements that they did not know the full extent of irregular expenditure

Annual irregular expenditure

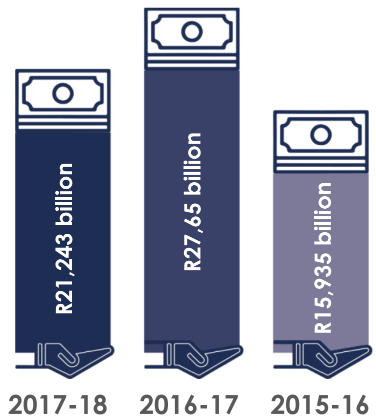
(as per audited financial statements)

The number of municipalities incurring irregular expenditure slightly increased from 211 to 219

- **81%** (R17,262 billion) were payments or expenses in 2017-18
  - **R10,819 billion** represents non-compliance in 2017-18
  - **R6,443 billion** is expenditure on ongoing multi-year contracts
- **19%** (R3,981 billion) were payments or expenses in prior years only uncovered and disclosed in 2017-18

How can irregular expenditure on multi-year contracts be reduced?

Through **investigation**, followed by **condonement** or **cancellation**, as provided for in the legislation of contracts irregularly awarded



In the first year of the newly elected administration (2016-17), municipalities made a concerted effort to identify and transparently report on irregularities of prior years, which resulted in the significant increase from 2015-16. For example, the irregular expenditure of Nelson Mandela Bay Metro and OR Tambo District in the Eastern Cape increased by 536% and 96%, respectively, as a result of a once-off restatement with a combined value of R10,5 billion, as the irregular expenditure incurred in prior years was revisited, investigated and restated.

The decrease in irregular expenditure in the current year can partly be attributed to the **decrease in the restatement of irregular expenditure** (in other words, payments or expenses in prior years only uncovered and disclosed in the current year). This portion of irregular expenditure decreased from R14,578 billion in the previous year to R3,981 billion in the current year.

The Eastern Cape, Limpopo and Mpumalanga had the biggest decreases, ranging between 32% and 46%, mostly as a result of the cancellation of irregular contracts at City of Mbombela (MP), the expiry of a few big contracts at Bushbuckridge (MP), Mkhondo (MP) and Polokwane (LP) as well as a decrease in the irregular expenditure at OR Tambo District (EC) and Nelson Mandela Bay Metro (EC).

INDICATOR 2: LACK OF CONSEQUENCES

Accountability means that those performing actions or making decisions are answerable for them, but also that there should be consequences for transgressions, a lack of action and poor performance. Municipalities should institute **consequences** against officials who fail to comply with legislation, continuously underperform, are negligent in performing their duties, or whose actions and decisions cause financial losses. A less tolerant approach should be taken by all parties, including those charged with governance and oversight, which will result in accountability being enforced and consequences instituted against those who intentionally fail to comply with legislation.

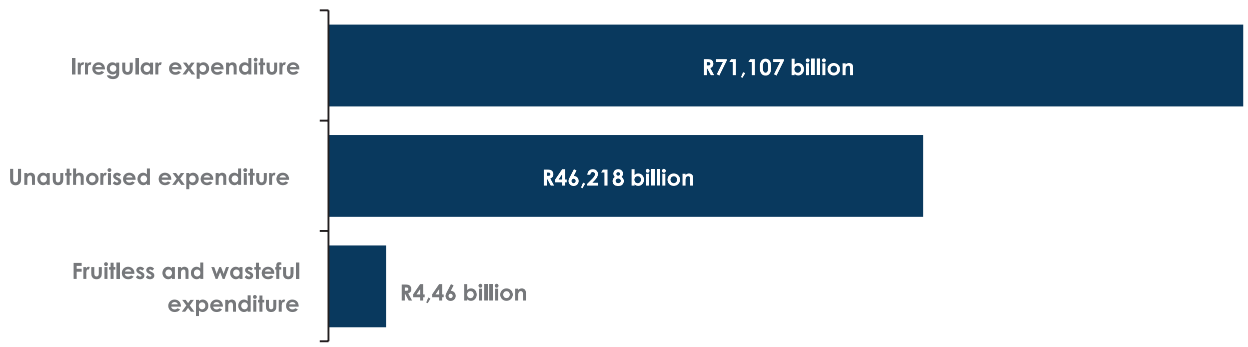
We reported **non-compliance** with legislation on the **implementation of consequences at 68%** of the municipalities. At 60%, we reported **material non-compliance** with this legislation – a **regression** from 54% in the previous year.

Our audits showed that 45% of the municipalities **did not have all the required mechanisms for reporting and investigating transgressions or possible fraud.** This contributed to 74% of the municipalities having findings on the **inadequate follow-up of allegations of financial and supply chain management misconduct and fraud** – a slight regression from 70% in the previous year. The findings included allegations not being investigated (26%) and investigations that took longer than three months (40%).

We report all our findings on supply chain management non-compliance and weaknesses to management for follow-up. If there are **indicators of possible fraud or improper conduct in the supply chain management processes**, **we recommend that management conduct an investigation**. These findings include the false declarations of interest submitted by suppliers, employees failing to declare their interest in suppliers, payments in spite of poor delivery by suppliers, and payments to possible fictitious suppliers. We reported these types of findings at 63% of the municipalities – a slight increase from 61% in the previous year. In total, 74% of the municipalities that had such findings in the previous year, again had similar findings in the current year.

Municipalities **did again not adequately follow up the supply chain management findings** we reported at 143 municipalities in the previous year. Although 33% of the municipalities investigated all of the findings reported for investigation in the previous year, 52% investigated none of the findings and 15% only some of the findings. It is concerning that 34% of the municipalities that either investigated all or some of the findings failed to satisfactorily resolve all of the investigations conducted. For example, the investigation recommended that contracts in which employees failed to declare their interest be cancelled, but the municipality did not do so.

At 62% of the municipalities, the **council failed to conduct the required investigations into all instances** of unauthorised, irregular and fruitless and wasteful expenditure reported in the previous year – a slight regression from 60% in the previous year. A total of 83% of the municipalities that did not conduct investigations in the previous year, again did not do so in the current year. **Sufficient steps were not taken to recover, write off, approve or condone** unauthorised, irregular and fruitless and wasteful expenditure as required by legislation. As a result, the year-end **balance of unauthorised, irregular and fruitless and wasteful expenditure** that had accumulated over many years and had not been dealt with **remained high**, with a combined value of R121,785 billion, as indicated in the figure below.



INDICATOR 3: INCREASINGLY DIFFICULT ENVIRONMENT FOR AUDITORS AND OTHER ROLE PLAYERS IN ACCOUNTABILITY

The **audit environment became more hostile** with increased contestation of audit findings and pushbacks that continued in the current year, whereby our audit processes and the motives of our audit teams were questioned.

It is acceptable for municipalities to question and challenge the outcome of audits based on evidence and solid accounting interpretations or legal grounds. We further acknowledge that many of the accounting and legal matters dealt with in the audits are complex and often open to interpretation. But at some municipalities, **pressure is placed on audit teams to change conclusions purely to avoid negative audit outcomes or the disclosure of irregular expenditure** – without sufficient grounds.

Often the findings are communicated throughout the audit and even from prior years, but only at the end of the audit when outcomes become apparent does the contestation arise. Some municipalities also used delaying tactics whereby information and evidence were not provided as requested.

The number of municipalities where we experienced unreasonable **contestations** increased, with the highest number in KwaZulu-Natal and the Western Cape. Instances of **intimidation** were experienced in most of the provinces, with the highest number in Gauteng and North West.

The contestations and intimidation related mainly to audits where there was a regression in the audit outcome or disagreements with audit findings, or where the expectation of a good audit outcome did not materialise even after the municipality had implemented mechanisms to improve its audit outcome.

Service delivery protests have become a regular occurrence in South Africa, with an alarming number of protests and confrontations often turning violent. All provinces experienced protests, with KwaZulu-Natal leading in the number of municipalities affected, followed by the Free State and the Eastern Cape. These protests had a direct impact on the audit process at some of the municipalities in predominantly five of the provinces. From an audit perspective, these **protests resulted** in delays in, or interruptions to, the audit process as we could not always obtain access to municipal records. In some cases, teams were also removed from municipal premises for their own safety. In addition, this caused delays in the submission of financial statements as well as the late sign-off of audit reports.

Our previous reports highlighted that the **slow response** by management to our messages was one of the main root causes of poor audit outcomes. This trend continued, with a slow pace evident at 81% of those municipalities with poor audit outcomes and 16% of the municipalities **not responding at all**.

As part of our **early warning systems**, we continuously engage with municipal managers through the **status of records review** to alert them to the areas that might get in the way of improved audit outcomes. This effort yielded little or no benefit at most of the municipalities because of the slow response by management to implement the recommendations highlighted through these reviews.

The increasingly **difficult environment** not only **affected** the **auditors**, but also extended to **other accountability mechanisms,** such as the internal audit units, audit committees and municipal public accounts committees.

Councils, municipal managers and senior managers should implement the recommendations of internal audit units and audit committees and use the opportunity to interact with these bodies to assist in improving governance and control. At some municipalities, the **recommendations of the internal audit units and audit committees were not implemented** or no interaction took place, which reduced the impact of these assurance providers on the control environment and the audit outcomes.

Internal audit units had a positive impact on the audit outcomes at only 35% of the municipalities. In some cases, the limited impact of these units can be attributed to them having to work with unreliable information as a result of the poor quality of financial and performance reporting by municipalities. More than half of the audit committees had a positive impact on the audit outcomes. However, in some cases, poor risk assessments and poor performance by internal audit units hampered the effectiveness of the audit committees. Also, at some municipalities, the reporting mechanisms were not adequate to ensure that management adequately addressed the concerns raised by the audit committee on the review of the annual financial and performance reports as well as internal audit reports before financial statements and performance reports were submitted for auditing.

While the guidelines for **municipal public accounts committees** are clear about the mandate, roles and responsibilities of these committees, they **lack the legal mandate to enforce their recommendations** on municipalities, as this is not included in legislation. Therefore, the recommendations of the committees were implemented at only some municipalities. Because of the inadequate legal mandate of the committees, they also experienced challenges at some municipalities where municipal managers refused to attend hearings, respond to questions or supply required information. The Department of Cooperative Governance has embarked on a review of the Municipal Structures Act, with the aim of clarifying roles and responsibilities.

The above challenges contributed to the difficult environment in which internal audit units, audit committees and municipal public accounts committees had to carry out their responsibilities.

Treasuries and cooperative governance departments are key role players in influencing positive audit outcomes and favourable service delivery initiatives. It is therefore concerning that municipalities are failing to implement the programmes initiated by these important role players. Examples of such initiatives include the **Municipal Standard Chart of Accounts, minimum competency levels** and **back-to-basics programme**. At year-end, some municipalities had not yet fully complied with the requirements of these initiatives.

The Standard Chart of Accounts for Local Government Regulations were gazetted on 22 April 2014. These regulations require the **Municipal Standard Chart of Accounts** to be implemented at all municipalities with effect from 1 July 2017 to enable the uniform recording and collection of local government budget, financial and non-financial information. At the end of the current year, some municipalities had **not yet fully implemented** this important initiative, including three metros (City of Tshwane, Nelson Mandela Bay and City of Johannesburg).

The **minimum competency levels** are regulated by the Municipal Regulations on Minimum Competency Levels issued by the National Treasury on 15 June 2007. The regulations provided for a phasing-in period for staff currently in those positions to obtain the minimum competency levels through academic studies and experience and by addressing any gaps in competencies through training and development. The phasing-in period should have ended on 1 January 2013 but a number of extensions were granted, with the most recent one being a further extension of 18 months on 3 February 2017. The **continued extensions** further **aggravated the shortage of skills and competencies** in the local government sphere.

The **back-to-basics programme** was introduced in 2014. It is a key initiative of the Department of Cooperative Governance that involves the proposed actions for support to local government to improve its functioning. It is therefore critical for municipalities to provide their back-to-basics feedback for the programme to succeed. In total, 16% of the municipalities did not report monthly on this initiative. Overall, the programme **had not been able to achieve the desired impact,** as noted from the declining financial health of municipalities, intentional or negligent non-compliance with key legislation as well as regressions in audit outcomes.

IMPACT OF DETERIORATING ACCOUNTABILITY

The deteriorating accountability in local government results in municipalities not achieving their objectives, which in turn has a negative impact on the lives of citizens. Our audits highlighted **two key areas of impact**: the financial health of municipalities and the delivery and maintenance of municipal infrastructure.

EFFECT OF DETERIORATING ACCOUNTABILITY ON MUNICIPAL FINANCES

Our analysis of financial health shows a continued weakening in local government finances at a time when municipalities are under increasing pressure to provide services while financial resources are dwindling.

There are increasing indicators of a collapse in local government finances – the **financial health status of 76% of the municipalities is concerning or requires intervention.**

Revenue management	The **inability to collect debt** from municipal consumers was widespread – 91% of the municipalities expected that more than 10% of their debt will not be recovered, while 64% expected that 50% or more of the amounts owed by their customers will not be collected. Amounts owed to municipalities by customers totalled R129 billion by year-end *(source: National Treasury database)*. The average debt-collection period was 169 days.

Sustainability	In these circumstances, it is inevitable that municipalities will **struggle to balance the books**. Overall, 34% of the municipalities disclosed a deficit – the total deficit for these municipalities amounted to R5,8 billion. This means that their expenditure exceeded their income. Although local government is not profit-driven, municipalities should still ensure that they can deliver services based on available resources. Deficits may also point to other problems, including unjustified revenue bases, unsustainable sources of revenue, and inefficient expenditure management. The ability of municipalities to adequately budget for revenue and expenses is concerning, as 112 municipalities started the year with unfunded budgets (source: National Treasury database). This means that they did not have enough cash resources to cover financial obligations. This is also supported by the fact that 104 (53%) did not have sufficient cash on hand to cover the amounts owed to their creditors by year-end.

Creditor payments and liabilities	The financial woes of local government weighed heavily on municipal creditors. In total, 87% of the municipalities exceeded the 30-day payment period to their creditors – the average payment period was 174 days. The late or non-payment of valid invoices is likely to have a negative impact on the sustainability of small businesses by creating undue cash-flow constraints, ultimately negatively affecting service delivery and employment. Additionally, 39% of the municipalities had more current liabilities than current assets, which means that they will not be able to pay their creditors as these payments fall due.

Creditor payments and liabilities *(continued)*	The impact of this **inability to pay creditors** was most evident in the huge sums owed for the provision of bulk electricity and water. Eskom was owed R18,2 billion (R9,12 billion in arrears by year-end, including R7,5 billion that had been outstanding for more than 120 days) and implemented power cuts at some non-paying municipalities. At the same time, the water boards were owed R9,05 billion, with R5,9 billion in arrears – of which R4,4 billion had been outstanding for more than 120 days. *(The amounts for Eskom and water boards were from the municipalities' financial statements and might be misstated for some of the municipalities that failed to produce credible financial statements.)* Some of the reasons behind the inability to pay creditors may stem from weak internal controls in revenue billing and collection. Customers, organs of state, households and businesses owed municipalities an estimated R17,5 billion for electricity and R37,3 billion for water by year-end *(source: National Treasury database)*.

Municipalities in vulnerable position	A combination of various factors, including poor revenue and budget management and the non-payment of creditors, led to 31% of the municipalities either disclosing in their financial statements that they are in a **vulnerable financial position or receiving a qualified opinion because such disclosures were not included**. These municipalities also incurred fruitless and wasteful expenditure of R1 billion in the same period – mostly as a result of penalties and interest on the late or non-payment of creditors such as Eskom.

The following are examples of the financial challenges faced by some municipalities:

Matjhabeng (Free State)

The municipality incurred a deficit of R821 million for the year, and current liabilities exceeded current assets by a very concerning R3 408 million. The municipality has been deducting pension, medical aid and pay as you earn from employees' salaries, but has been unable to pay over R58 million of these amounts deducted to the relevant third parties. In addition, the municipality owes long-outstanding amounts to Eskom and Sedibeng Water of R1 896 million and R2 299 million, respectively. Immediate intervention is required as it is unlikely that the municipality will be able to pay its debts based on its current financial status.

West Rand District (Gauteng)

The municipality is plagued by severe cash-flow constraints, with the impairment of funds of R76 million invested with VBS Mutual Bank severely straining its already burdened cash-flow position. The deficit for the year increased by R46 million (100%) and the municipality was technically insolvent. Accounts payable increased by R36 million (118%), negatively affecting the average creditor-payment period, which increased to 1 055 days. Total liabilities exceeded assets by R126 million. The municipality is currently struggling to cover the payroll expense on a month-to-month basis and its year-end bank balance was in an overdraft of R6 million.

Merafong (Gauteng)

The municipality incurred a deficit of R162 million and current liabilities exceeded current assets by R357 million. The financial difficulties faced by the municipality were mainly due to customers not paying for municipal services, with only 13% of the customer debt expected to be recovered.

While the poor economic climate does play a role in the deterioration of financial health, many municipalities are just not managing their finances as well as they should. They do not produce credible financial statements and in-year reports (which are essential for good financial management), their budgets are underfunded, and their expenditure is not controlled within the budget (leading to the R12,9 billion in unauthorised expenditure). Many have poor revenue collection systems, with billing systems and debtor registers (including indigent registers) that are not credible.

Municipalities also lose money, which they can ill afford. Fruitless and wasteful expenditure amounted to R1,3 billion. It is difficult to say how much money is lost through irregular processes, as this needs to be determined through an investigation, but the non-compliance we reported at 78% of the municipalities can potentially lead to a financial loss.

The impact of deteriorating accountability on municipal financial management is felt directly by the communities and businesses the municipalities serve – particularly so when it comes to inadequate access to basic services and the lack of economic development. It also puts pressure on the country's finances overall, as national and provincial government have to contribute through grants to keep the municipalities functioning.

RESULT OF DETERIORATING ACCOUNTABILITY ON MUNICIPAL INFRASTRUCTURE

Municipalities are responsible for developing and maintaining infrastructure to ensure that municipal services are delivered. Funding of infrastructure projects is a challenge for most municipalities and as such they receive infrastructure grants from national government.

Our audits again identified a number of **shortcomings in the development and maintenance of infrastructure**. These are symptoms of the larger problem that local government has with managing finances, performance and projects and with taking accountability for outcomes.

Through the **municipal infrastructure grant**, municipalities received R14,27 billion to fund projects to build and upgrade municipal infrastructure. Almost a fifth of the municipalities that received the grant underspent more than 10% of the grant money – the biggest underspending was at Siyancuma in the Northern Cape (57%). Overall, R736 million of the municipal infrastructure grant was not spent. Some municipalities used grant money for operating expenditure due to cash-flow constraints, such as Kopanong and Tokologo in the Free State.

Delays in appointing contractors, poor project and contract management as well as project delays due to contractors not being paid as well as labour, political and community unrest were the main contributors to the underspending. These aspects also contributed to project failures – the planned completion milestones for the year were not achieved or were not even assessed at 27% of the projects we audited. Non-compliance with supply chain management legislation was identified at almost a quarter of the projects.

A total of 38% of the projects we audited that were funded by the **public transport network grant** (which includes the rapid bus transport projects at metros) did also not achieve their planned milestones or did not even assess whether the milestones were achieved. Four of the 10 municipalities that received this grant underspent it by 30% or more, with the biggest underspending at Buffalo City Metro in the Eastern Cape (47%).

As in prior years when similar findings were reported, our audit of infrastructure projects and maintenance of **municipal roads** found infrastructure project delays at a fifth of the 186 projects we audited; underspending on project budgets of R3 154 million; and supply chain management non-compliance at a fifth of the projects, resulting in irregular expenditure of R297 million. In addition, the condition of the roads was not assessed at 23% of the municipalities responsible for road infrastructure. In total, 41% of these municipalities did not have a road maintenance plan, and 26% did not have a priority list for maintenance projects.

Access to **water and sanitation** is a basic right and a key government priority, but weaknesses in the development and maintenance of the infrastructure required to provide these basic services remain widespread.

As reported in the 2017-18 general report on national and provincial audit outcomes, the Department of Water and Sanitation is not achieving its targets for water infrastructure development. Our audits of the water infrastructure projects managed by the department identified serious weaknesses as a result of poor planning, inadequate financial management and monitoring, and a breakdown in controls. The department funds water and sanitation infrastructure projects at local government level through the **regional bulk infrastructure grant** and the **water services infrastructure grant**.

Municipalities did not spend R713 million of the R5,13 billion in funding received, due to similar reasons as the ones stated above relating to the municipal infrastructure grant. In total, 36% of the municipalities underspent the regional bulk infrastructure grant by more than 10% – Kgentlengrivier in North West did not spend any of the grant funding and Kareeberg in the Northern Cape spent only 14%. Similarly, 37% of the municipalities underspent the water services infrastructure grant by more than 10% – the biggest underspending was at Matjhabeng in the Free State (80%), Siyancuma in the Northern Cape (79%), and Cederberg in the Western Cape (79%).

We identified similar weaknesses during our audit of 200 water and sanitation infrastructure projects at municipalities as at those managed by the department – project delays at 14% resulted in underspending of R693 million of the multi-year project budgets, supply chain management non-compliance at 30% of the projects led to R1 988 million in irregular expenditure, and 12% incorrectly accounted for the projects in their financial statements.

Of even greater concern is the lack of attention being paid to the maintenance of water and sanitation infrastructure. The condition of the infrastructure was not assessed to inform the maintenance plans for water (30%) and sanitation (31%). Just over 10% of the municipalities also did not have their own qualified technical staff (such as engineers) to manage projects and maintenance. Almost half of the municipalities did not have policies for the maintenance of water and sanitation infrastructure, and just over a third did not have adequate procedures for doing conditional assessments.

Considering these weaknesses in maintaining water infrastructure, it is not unexpected that 39% of the municipalities reported water losses of more than 30%, resulting in an overall loss of R2 624 million. These figures are likely to be even higher, as 10 municipalities (of which six are in North West) did not disclose their water losses as required.

As detailed in section 5, metros also struggled to deliver on infrastructure projects. For example, housing infrastructure projects displayed weaknesses in budget management, completion milestones, supply chain management, and the quality of houses delivered.

The effect of deteriorating accountability on municipal infrastructure can be seen in the following examples:

Metsimaholo – Oranjeville sports complex (Free State)

The construction of the Oranjeville sports complex was budgeted for an amount of R21,9 million. The municipality had spent R21,7 million relating to this project, which is 99,1% of the budgeted amount. It could not be confirmed that services were actually delivered for all the amounts paid as, except for a fence, no building structures were visible during a site visit.

Kareeberg – construction of water pipeline from Carnarvon to Vanwyksvlei (Northern Cape)

The construction of a water pipeline to improve the provision of basic services (water) in rural areas was budgeted for an amount of R14 million. The project was funded through the regional bulk infrastructure grant and was supposed to begin in July 2017, with a planned completion date of three years from the start of construction. However, at year-end no construction had started due to a court case involving an unsuccessful bidder who had lodged a grievance against the municipality's tender processes. The court case is still in progress and the municipality decided not to budget for the project in the next financial year pending the outcome of the case. The delay in the project resulted in an underspending of the grant and a delay in providing proper water services to the residents of Vanwyksvlei.

Mahikeng – upgrading of First and South streets (North West)

The project was completed six months late, mainly due to a lack of communication and coordination from the start of the project between the various role players, including the municipality, consulting engineer, contractor, ward councillor and community. We also noted during our site visit that the actual distance of road completed was less than that stipulated in the contract. Irregular expenditure of R4,2 million was incurred on the project.

Amathole District – construction of prefabricated and precast concrete VIP toilet systems in Raymond Mhlaba (Eastern Cape)

The purpose of the project was to reduce the huge sanitation backlog and provide significant opportunities for employment within the local municipality. The project started on 21 August 2017 and was still in progress at year-end. There is no evidence that the municipality conducted a geotechnical study to determine the soil properties, including the water absorption rate of the site, before starting to construct VIP toilets in the Nkonkobe 3A region. The spring water is therefore at risk of being polluted, which could have a detrimental effect on the health of the residents using this water.

In the approved municipal infrastructure grant application, it was estimated that each VIP toilet would cost R780 to construct. However, each contractor was appointed at a cost of R2 500 per toilet, resulting in a total variance of R21 million to construct all 12 388 toilets. There was no variation order for the escalated figures and it was not stipulated from where the additional funds would be sourced. All of this points to poor planning and budgeting.

Mopani District – replacement and resizing of asbestos cement pipes in Lulekani (Limpopo)

The project had a planned completion date of 30 June 2018, which was revised to 15 January 2019 due to delays in the procurement processes that resulted in the project only being awarded towards year-end. In addition, the municipality did not comply with supply chain management legislation, as the bid adjudication committee that made the award was not properly constituted.

Additional examples are included in the provincial overviews in section 6.

Although funding and support are generally available from national government for the development and maintenance of municipal infrastructure, the non-delivery thereof at some municipalities and the impact on communities are the issues that need the most focused attention by all role players to ensure that the objectives of a better life for all are achieved.

The VBS Mutual Bank scandal – an example of the impact of deteriorating accountability

Municipalities are mostly funded through rates and taxes as well as grants from national government. Most municipalities are struggling financially and often do not have enough money to pay their creditors, maintain their infrastructure or deliver services. As custodians of taxpayers' money that is sorely needed for municipal delivery, municipalities should take a conservative and cautious approach towards investments.

The Municipal Investment Regulations, published in 2005, go as far as prescribing what investments are permitted and make it clear that all investments must be made with primary regard for the safety of the investment. The regulations permit deposits only with banks registered in terms of the Banks Act, namely commercial banks – and not mutual banks, such as VBS Mutual Bank.

In spite of such investments not being permitted, 16 municipalities invested money with VBS Mutual Bank in the 2016-17 and 2017-18 financial years. The bank was placed under curatorship from 11 March 2018 and the North Gauteng High Court ordered its liquidation on 13 November 2018. Two of the municipalities managed to withdraw their funds in time, but the remaining 14 municipalities lost their investments and have disclosed impairments (meaning that they wrote off these investments) totalling R1,6 billion in their current year financial statements.

The bulk of the loss (72%) involved investments made by eight municipalities in Limpopo (Makhado, Greater Giyani, Collins Chabane, Elias Motsoaledi, Vhembe District, Ephraim Mogale, Fetakgomo Tubatse and Lepelle-Nkumpi). Four municipalities suffered losses in North West (Dr Ruth S Mompati District, Mahikeng, Moretele and Madibeng), and two in Gauteng (West Rand District and Merafong).

An estimated 32% of the money lost was from grants intended to fund infrastructure projects.

The impact of these losses includes the following:

- Projects that were to be funded by the invested money could not begin. For example, Fetakgomo Tubatse was unable to electrify certain villages as initially planned; and Vhembe District could not repair and maintain water pipes and boreholes.
- Projects were delayed or completed late, such as two water and sanitation projects at Dr Ruth S Mompati District, and road infrastructure and maintenance projects at Greater Giyani.
- Future projects will also be affected, as some of the funds were earmarked for longer term capital projects.
- The financial position of the municipalities weakened significantly, leading to unauthorised expenditure, deficits, bank overdrafts, and insufficient funds to cover their liabilities.

At first, the municipalities were slow to effect consequences against those responsible for not complying with legislation and the resultant loss, but the process gathered momentum following the huge public backlash and calls for accountability and with the intervention of the treasuries.

The provincial treasury in Limpopo appointed investigators at all the implicated municipalities. Investigations were taking place at the time of the audit at all of the municipalities in North West, except at Dr Ruth S Mompati District where the chief financial officer resigned shortly after the media starting reporting on VBS Mutual Bank. At the time of the audit, an investigation was also underway at Merafong, but no action had been taken at West Rand District.

Investigations are only the first step in the process of identifying the culprits and recovering the losses incurred – often these investigations go on for a long time and the council does not always act on the findings from the investigations. The political will for accountability and consequences will be tested by the VBS Mutual Bank fall-out. We will continue to track the progress of the investigations and the implementation of consequences as part of our audit and reporting process.

ROOT CAUSES OF DETERIORATING ACCOUNTABILITY

Our message on the **root causes of poor audit outcomes** has remained consistent over the years, but we saw a **regression in the rate at which municipalities are addressing some of these root causes**.

In order to achieve sustainable good governance, the municipal leadership must understand the **underlying reasons** for not progressing in order to ensure that corrective actions address the real issues. We assessed the following to be the most common reasons for the deteriorating accountability:

Lack of credible financial statements

- Leadership, senior management and officials **failed** to develop, implement and monitor effective systems and processes of internal control, including corrective action.
- **Vacancies and instability in key positions** slowed down systematic and disciplined improvements and affected the ability of councils to hold individuals accountable.
- Key officials **lacking** appropriate **skills** and competencies in financial reporting led to over-reliance on consultants and had a negative impact on financial planning, record keeping and reporting.
- Leadership did not take our **repeated recommendations** and warnings of risks for which they needed to prepare seriously.

Poor quality of performance reports

- Inadequate or **a lack of review and monitoring processes** as well as officials **not** being **held accountable** for poor performance.
- No or **inadequate systems** and processes to collate and report credible performance information.
- **Vacancies and instability** in key positions, which had an impact on the monitoring and reporting process, ultimately affecting service delivery.
- Officials **lacking** the necessary **skills**, **competencies** or appropriate understanding of the management and reporting requirements for performance information.
- Inadequate implementation of **action plans** to address the previous year's external audit findings.

Non-compliance with legislation (including supply chain management laws and regulations) and high irregular expenditure

- Leadership and municipal officials deliberately or negligently ignored their duties and disobeyed legislation, which was **not decisively** dealt with through mechanisms for **enforcing consequences** for transgressions.
- Processes or monitoring tools were not developed, implemented, monitored or consistently applied to **identify** applicable legislation and changes to legislation, including appropriate **assessments** of legislative **requirements**, as well as to detect or prevent non-compliance.
- Inadequate **skills** or **competencies** to appropriately **interpret** legislative requirements negatively affected municipalities' ability to comply with key regulations.

THE ROLE OF LEADERSHIP IN ADDRESSING THE DETERIORATING ACCOUNTABILITY

The leadership sets the tone at the top at any organisation. If an organisation's leaders are unethical; have a disregard for governance, compliance and control; and are not committed to transparency and accountability, it will filter through to the lower levels of the organisation. Inevitably, a culture of poor discipline, impunity and non-delivery will develop, leading to the collapse of the organisation.

The leaders in local government should therefore steer their municipalities to success. They should take responsibility for the deteriorating accountability in municipalities and it is their duty to turn the situation around. Local government leadership includes the **municipal manager and his/her senior managers** who are responsible for the administration and service delivery of the municipality; the **political leadership** (mayor and council members) who oversees the functioning of the municipality and takes key decisions; and the **provincial leadership** (premier, members of the executive council, and heads of provincial departments that support local government). The provincial legislature also has a leadership role to play as part of its oversight function.

Municipal leadership

Municipal managers and their senior managers need to focus on the financial and performance management of the municipality.

Senior managers should significantly improve the processes and controls to ensure that municipal objectives are achieved through good planning, people management, project management, monitoring and effecting consequences. They should also prioritise basic control disciplines to prevent, detect and correct errors, transgressions, non-compliance and poor performance.

Municipal managers should create an environment in which accountability, high performance and ethical behaviour can flourish. They can do so by setting an example and ensuring that enough competent and committed people are employed and perform their work within a set of rules defined in policies and procedures.

Political leadership

In comparison with departments and public entities, the political leadership has a direct relationship with, and impact on, the municipal administration. This model provides for a more participative government whereby community members can oversee and direct their municipality through their elected council members.

Unfortunately, political infighting at council level at some municipalities directly affected the administration of municipalities, with councils delaying decision-making and neglecting their oversight duties in pursuit of a political agenda. We also observed political inference in the administration of some municipalities.

The focus of mayors and council members should be on capacitating, stabilising, supporting and overseeing municipal administration to the benefit of the community that elected them. But – in turn – they then need to be respected and empowered with information that allows them to effectively monitor and oversee the activities of the municipality. This is why they must insist on credible financial and performance information – not just in the annual report, but throughout the year to determine if the municipality is achieving its objectives within the budget and within the requirements of legislation. The mayor, council and municipal public accounts committee are entitled in terms of legislation to report on matters such as supply chain management deviations, non-compliance, financial misconduct, losses and shortfalls throughout the year.

As representatives of the people that elected them, the mayor and council members should consistently display ethical and courageous leadership and champion transparency and accountability.

Provincial leadership

Failures in the political and administrative leadership led to the provincial leadership intervening or taking over the administration of 18 municipalities across five provinces during the past year. The reasons for these interventions ranged from maladministration, dysfunctional councils and governance failures to spiralling debt, collapsing infrastructure and an inability to pay creditors.

The need for provincial leadership to pay close attention to municipalities in the manner required by legislation is becoming crucial – often action is only taken after a municipality has deteriorated to a point of collapse.

The level of provincial leadership support to municipalities differed across the provinces.
The most successful provinces (in terms of audit outcomes) have in common a premier that provides leadership and direction on local government matters in a consistent manner and follows through on commitments in this regard. We also see strong provincial treasuries and cooperative governance departments working together to support and guide municipalities. But municipalities also need to respond to the provincial and national support and interventions in a positive and timeous manner.
The same applies to our findings and recommendations as well as the support and recommendations provided by internal audit units and audit committees.

In summary, the leadership at all three levels should focus on the following key matters:

- Tone at the top – ethical leadership, good governance and accountability
- Capacitate and stabilise administration – free from political interference
- Enable and insist on robust financial and performance management systems
- Consistent, appropriate and swift consequences for irregularities

MUNICIPALITIES REQUIRING SPECIAL INTERVENTION

In 2015-16, we reported that 52 municipalities required special intervention from national and provincial role players to improve their audit outcomes. The provincial leadership responded to this message to varying degrees, but it is encouraging that 34 of these municipalities have since showed an improvement in their audit outcomes.

Based on the current year's audit outcomes, we identified 48 municipalities (19%) that require special intervention from national and provincial role players. This includes some of the municipalities of which the audit outcomes were still outstanding at the cut-off date of this report. Although most of these municipalities were assisted by the provincial treasuries, provincial departments of cooperative governance and/or offices of the premier with their financial reporting, this assistance had little or no impact on the audit outcomes.

Over the last three years, these municipalities continued to receive disclaimed or adverse audit opinions; or had material findings on their financial health assessment; or incurred unauthorised, irregular and fruitless and wasteful expenditure.

We call on the provincial leadership and oversight and the national government support programmes to direct their efforts towards these 48 municipalities to stem the deteriorating accountability before it is too late. A total of 37 of these municipalities were also determined by the Department of Cooperative Governance to be distressed or dysfunctional *(source: List of prioritised municipalities for intervention by the Department of Cooperative Governance in 2018)*.

Those municipalities shown in **red** below are already receiving attention from the provincial leadership through provincial interventions and/or administration. The municipalities shown in **blue** or which include an asterisk (*) denote municipalities that also required intervention in 2015-16.

Eastern Cape (7)

- Dr Beyers Naudé
- Enoch Mgijima
- Inxuba Yethemba
- Makana
- Mbizana
- Raymond Mhlaba
- Walter Sisulu

Free State (11)

- Kopanong
- Letsemeng
- Mafube
- Maluti-A-Phofung
- Mantsopa
- Matjhabeng
- Masilonyana
- Nala
- Ngwathe
- Nketoana
- Phumelela

Gauteng (1)

- Rand West City

KwaZulu-Natal (4)

- AbaQulusi
- Inkosi Langalibalele
- Mpofana
- uMkhanyakude District

Limpopo (6)

- Fetakgomo Tubatse
- Modimolle-Mookgophong
- Mogalakwena
- Mopani District
- Thabazimbi
- Vhembe District

Mpumalanga (2)

- Emalahleni *
- Thaba Chweu *

Northern Cape (7)

- Ga-Segonyana
- Joe Morolong
- Kamiesberg
- Magareng
- Nama Khoi
- Renosterberg
- Tsantsabane

North West (8)

- Bojanala Platinum District
- Ditsobotla *
- Lekwa-Teemane
- Madibeng
- Mahikeng
- Mamusa
- Moses Kotane
- Ngaka Modiri Molema District

Western Cape (2)

- Kannaland
- Laingsburg

AUDITING AND REPORTING FOR ACCOUNTABILITY – OUR EXPANDED MANDATE

The responsibilities of all levels of leadership in local government – in particular the municipal manager as accounting officer – are clearly set out in the Municipal Finance Management Act and its regulations. The municipal manager's legal obligations include establishing internal control; preventing unauthorised, irregular and fruitless and wasteful expenditure as well as losses; keeping full and proper records of the financial affairs of the municipality; and implementing key policies. The legislation also clearly details what is expected from the municipal manager in response to allegations of financial misconduct and how to deal with corruption and the abuse of the supply chain management system. In addition, municipal managers have to report to the council and the mayor on these matters as per the legislation.

Our responsibility as auditors is to report to the council and its committees on the credibility of the financial statements and performance reports and on whether the municipality complied with key legislation. It is the role of these oversight structures to use our audit report to determine whether they can rely on the financial statements and performance reports for oversight and decision-making purposes and to call the administration to account for matters we report in the audit report.

But as public sector auditors with a keen interest in seeing local government succeed, we have **always done more than just report**.

Through our management, audit and general reports, we have been reporting the **weaknesses in internal control and the risks that need attention** in local government. We have consistently highlighted the need to address the following:

- Quality of financial statements and performance reports submitted for auditing
- Compliance with legislation, supply chain management and irregular expenditure
- Vacancies and instability
- Effecting consequences
- Internal controls

In our reports, we provide **root causes** of audit findings and **recommendations** to address the root causes. We ensure that our messages are heard through **engagements** with senior officials, municipal managers, mayors, municipal public accounts committees, and councils.

In the past year, we have increased our efforts even further through extending our engagement with municipal managers to a **status of records review**. Such a review is an assessment of records, risks and progress made by the municipality to address prior year issues early in the financial year. This provides an early warning system whereby municipal managers are alerted to matters that can potentially lead to undesirable audit outcomes.

We warned municipal managers of the risks we identified during our reviews and the control weaknesses that need urgent attention to either maintain good audit outcomes or improve poor audit outcomes. As not all municipal managers acted on our warning signals, however, some municipalities lost their clean audit status, regressed or showed little improvement in their audit outcomes.

The municipal managers at some of the municipalities used the results of the status of records review and our engagements with them as an opportunity to be better informed of the status of their municipalities and to get advice from us on addressing risks and weaknesses identified.

The examples below highlight some positive results flowing from the implementation of our status of records review:

JB Marks (North West)

We held numerous meetings with the municipal manager in May and July 2018 to discuss the areas that require intervention. The discussions focused on the previous year's qualifications that were mainly due to a lack of or insufficient documentation for audit purposes. This resulted in management being able to locate the supporting documents for the previous year's journals relating to the merger of Tlokwe and Ventersdorp. The municipality improved from a disclaimed to a qualified audit opinion.

Matatiele (Eastern Cape)

The focus of our engagements was on resolving the previous year's qualifications. Although the municipality was slow at first to implement actions to address these matters, the potential implications of the unaddressed matters that we communicated to them resulted in them hiring a consultant to do a complete clean-up of their asset reconciliations as well as revaluation and impairment assessments. Through this initiative, the municipality managed to resolve the previous year's qualifications and improved to a financially unqualified audit opinion in the current year.

In the previous year, we raised a general concern regarding the excessive use of deviations from normal supply chain management processes by the municipality, which resulted in irregular expenditure being identified during the audit. We recommended the use of a deviation analytical tool, updates to the supply chain management policy to provide clarity on circumstances that may lead to deviations, as well as establishing a process for managing deviations. By year-end, the municipality's use of deviations had dropped drastically and no instances of irregular expenditure as a result of the use of deviations were reported or identified during the audit.

All of the measures we introduced were aimed at assisting the municipal leadership and the council to prevent accountability failures, or to provide them with information on how to deal with such failures where they have occurred in accordance with their legislated responsibilities.

The accountability mechanisms in local government are not working as they should, however, and there have been continued calls for more to be done – particularly by us as the Auditor-General of South Africa. Through the support of our parliamentary oversight committee, the Public Audit Act was amended to provide us with **more power to improve accountability in the public sector.**

The intent of the amendments is not to take over the functions of the municipal manager, the mayor or the council, as their accountability responsibilities are clear in municipal legislation. It is rather to step in where those **responsibilities are not fulfilled** in spite of us alerting leadership of material irregularities that need to be investigated and dealt with.

The amendments provide us with an expanded mandate, which includes the **power to refer** material irregularities to appropriate public bodies to investigate as well as with the **power to issue binding remedial actions** to ensure material irregularities are addressed, including the recovery of money lost as a result of the irregularities.

WHAT ARE MATERIAL IRREGULARITIES?

Material irregularities include any non-compliance with legislation, fraud or theft, or a breach of fiduciary duty that caused or is likely to cause a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public. These types of irregularities are commonplace at some municipalities and, as we reported earlier on in this section, little is done to ensure that there are accountability and consequences for them.

We have been engaging with mayors, municipal managers and council members on the amendments and its impact as part of our roadshows. We have highlighted that the introduction of the concept of material irregularities was **not an attempt to bring in another punitive measure** but rather a complementary mechanism for strengthening financial and performance management, which in turn will contribute to improved accountability in the public sector.

We also shared with them that by identifying material irregularities, **we will support municipal managers** by bringing to their attention the irregularities that could have a significant impact on municipal finances, resources and delivery as well as empowering them to take the appropriate steps timeously in terms of legislation. This will lessen the negative impact of such irregularities on municipalities, set the right tone for accountability, and highlight the need for consequences. We will report the material irregularities in the audit report, which will also **enable councils to perform their oversight function** – focusing on the most material matters affecting municipalities.

If the municipal managers, supported by their political **leadership**, **adhere to their legislated responsibilities and commit to taking swift action** when we notify them of a material irregularity, there will be no need for us to use our remedial and referral powers. Municipal managers also need to **respond to the initiatives we have implemented to assist them in preventing material irregularities**. They should act on our recommendations for strengthening their internal controls and the early warning signals we share with them as part of the status of records review.

The extension of our mandate will assist in restoring public confidence, solidifying accountability, and entrenching the ethical behaviour that is expected of entrusted officials and elected representatives. It will also mean that our reports will be taken seriously – we could start to see an improvement in the audit outcomes and a definite shift towards municipalities living up to the expectations of the communities they serve.

NOTES