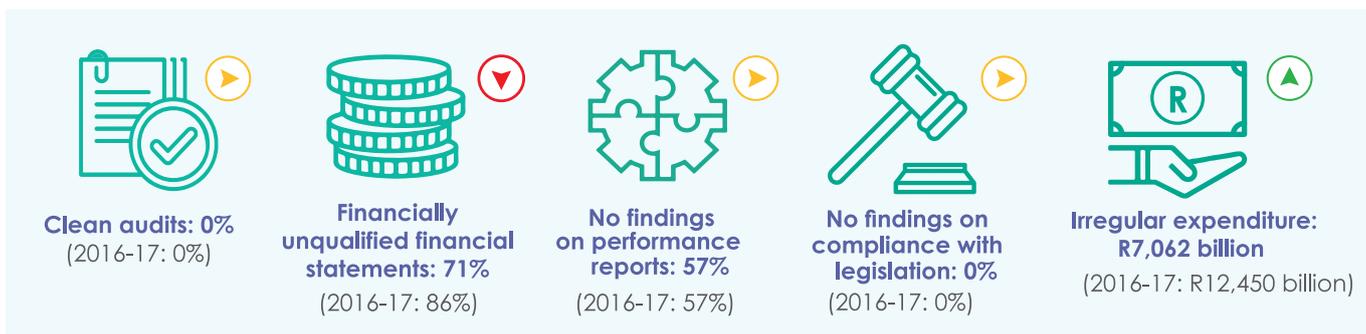




# SECTION 5



*Status of metros*



The eight metros play a significant role in the local government sphere for a multitude of reasons. These include the metros' strategic location across the country's various economic hubs, the vast number of people whom they serve in different cities across South Africa (20,3 million people representing 49% of the total population as per Statistics South Africa's 2011 Census), and the corresponding substantial budgets with which they are entrusted for service delivery.

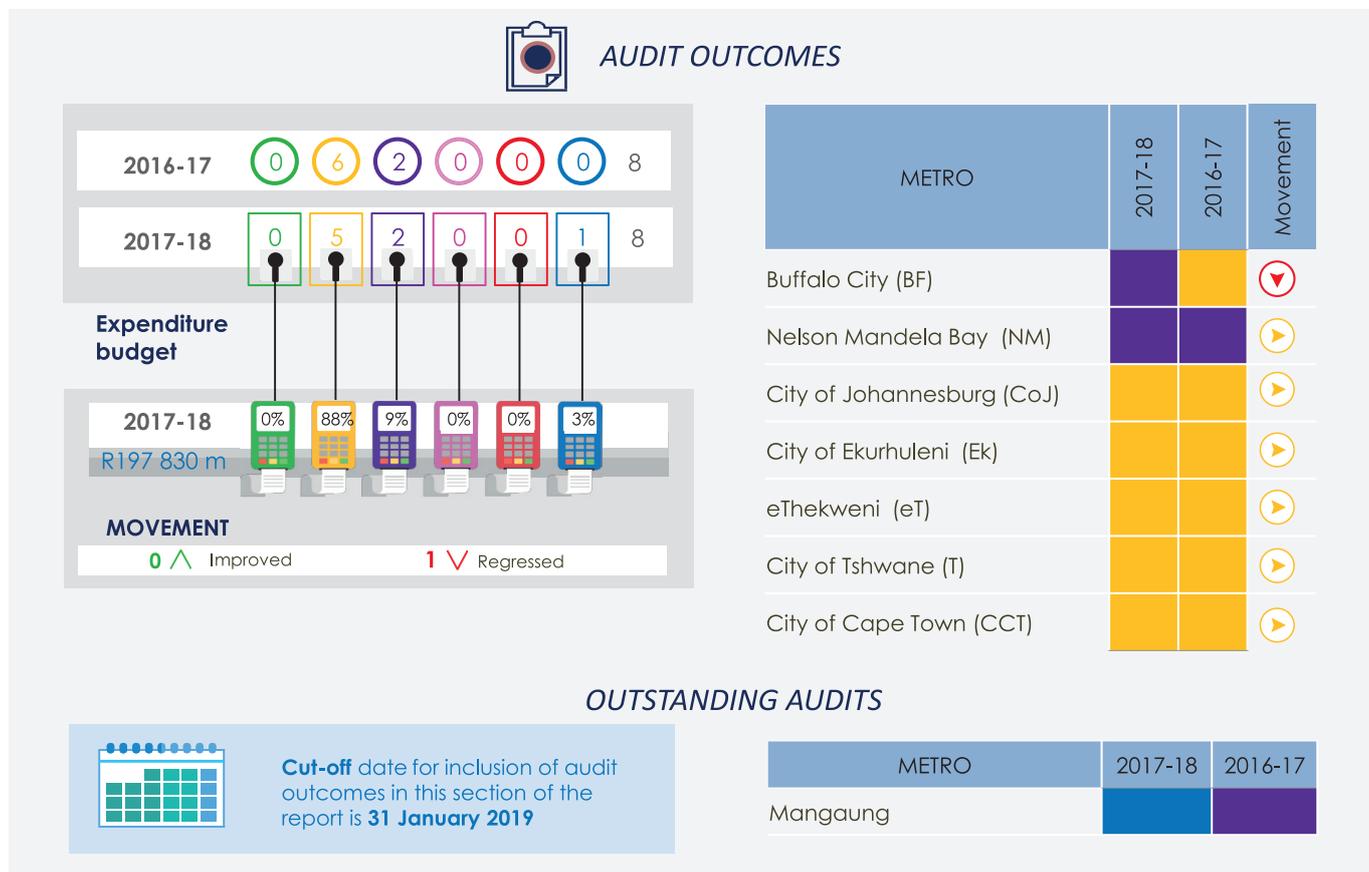
We have included the audit outcomes of seven of the eight metros in this report. The audit of Mangaung had not been finalised at the cut-off date of this report and the metro's outcome is therefore not included in the detailed outcomes analysis.

## OVERALL AUDIT OUTCOMES



The audit outcomes of the metros regressed from the previous year.

The results and movements are provided below.



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



The consolidated financial statements for Mangaung were only received on 18 February 2019 due to late amendments to the value of the employee benefit obligation in the consolidated financial statements. Mangaung has been submitting its consolidated financial statements late for auditing since 2014-15.

The financial statements are the mechanism through which the council demonstrates the financial position of the metro and accounts for the financial performance of the metro in the financial year.

## SUBMISSION AND QUALITY OF FINANCIAL STATEMENTS

	TARGET	MOVEMENT	2017-18	2016-17
 Timely submission of financial statements ( <b>all metros</b> )			88% (7)	88% (7)
 Quality submission for auditing			14% (1)	29% (2)
 Quality of published financial statements			71% (5)	86% (6)

**4 metros (57%)** achieved unqualified audit opinions only because they **corrected all misstatements** identified during the audit

### QUALIFICATION AREAS (on audited financial statements)

METRO	PROPERTY, INFRASTRUCTURE, PLANT AND EQUIPMENT	INTANGIBLE ASSETS	REVENUE FROM EXCHANGE TRANSACTIONS	IRREGULAR EXPENDITURE
Buffalo City			×	
Nelson Mandela Bay	×	×	×	×

We highlight the following with regard to the financial statements of the metros:

- Only **eThekweni** managed to submit financial statements that were free from material misstatements. This was due to competent, experienced staff and low vacancy rates at senior level within the metro's treasury unit, effective internal audit reviews of the financial statements throughout the year as well as the audit committee performing a review of the interim and final financial statements.
- The four metros below submitted financial statements for auditing with material misstatements and were able to achieve unqualified audit opinions only by correcting the misstatements in the areas indicated:
  - **City of Ekurhuleni:** Property, infrastructure, plant and equipment; trade and other payables; and statement of budget and actual comparison
  - **City of Johannesburg:** Assets, liabilities and disclosures
  - **City of Tshwane:** Cash flow statement, receivables, commitments and irregular expenditure
  - **City of Cape Town:** Revenue, receivables and commitments
- **Buffalo City** regressed to a qualified opinion from an unqualified opinion, as the sale of water was **not measured reliably** due to faulty water meters and inaccurate meter readings. Consequently, we were unable to determine whether any further adjustments were necessary to the **service charge revenue** from exchange transactions of **R436,6 million**.

• **Nelson Mandela Bay** has been struggling to improve its audit outcome, as it has received a **qualified opinion for seven years** in a row since 2011-12. The following were the areas of qualification in the current year:

- **Revenue** from exchange transactions: Lack of evidence to support the number of prepaid electricity meters in use; and indigent debtors received subsidies that they were not entitled to.
- **Property, infrastructure, plant and equipment:** Inadequate assessment of the useful lives of assets; and limitations on our physical verification of assets.
- **Intangible assets:** Inadequate assessment of useful lives.
- **Irregular expenditure:** Not all irregular expenditure identified during the audit was disclosed.

The **Municipal Standard Chart of Accounts** project and resultant regulations are part of the National Treasury's ongoing budget and reporting reforms aimed at improving financial reporting. With effect from 1 July 2017, all municipalities (including metros) were required to capture all their financial transactions against a predefined classification framework, which will result in uniformity of line items in terms of revenue, expenditure, assets and liabilities.

The Municipal Standard Chart of Accounts had already been implemented before 2017-18 at four of the metros (eThekweni, City of Ekurhuleni, Buffalo City and City of Cape Town) as they were pilot sites. The remaining metros were not successful in implementing the Municipal Standard Chart of Accounts by the required date:



- **Nelson Mandela Bay** procured a Municipal Standard Chart of Accounts-compliant information technology system in 2015-16 to replace its legacy systems, but the contract with the supplier ended without the new system having been fully implemented. The payments to the supplier in spite of the full contractual obligation not having been settled were reported as fruitless and wasteful expenditure.

- Neither **City of Tshwane** nor **City of Johannesburg** had implemented the Municipal Standard Chart of Accounts yet, as their implementation requires a SAP system upgrade, which is only scheduled for July 2019. As a result, these metros performed a manual consolidation of financial information to report on Municipal Standard Chart of Accounts-compliant information to the National Treasury.

## SUBMISSION AND QUALITY OF PERFORMANCE REPORTS

TARGET	MOVEMENT	2017-18	2016-17
 Performance reports prepared		100% (7)	100% (7)
 Quality of performance reports submitted for auditing		29% (2)	29% (2)
 Quality of published performance reports		57% (4)	57% (4)

**2 metros (28%)** had no material findings only because they **corrected all misstatements** identified during the audit

### FINDINGS ON PERFORMANCE REPORTS

METRO	PERFORMANCE INDICATORS AND TARGETS NOT USEFUL	ACHIEVEMENT REPORTED NOT RELIABLE
Buffalo City	X	X
Nelson Mandela Bay		X
City of Johannesburg		X

We highlight the following with regard to the performance reporting of the metros:

- **City of Ekurhuleni** and **City of Cape Town** submitted performance reports that were free from material misstatements, as adequate reviews were performed.
- **eThekweni** and **City of Tshwane** had no material findings, as they managed to correct all misstatements identified during the audit.
- **Buffalo City:** For some indicators, including *percentage of households with access to basic solid waste removal, sanitation, electricity and water supply*, the reported achievements were not supported by sufficient appropriate audit evidence. In addition, a comparison per indicator between the performance for the current and the previous year was not included for any of the indicators in the performance report.
- **Nelson Mandela Bay:** There was inadequate source documentation to support the indicators and targets as reported for *percentage year-to-year reduction in electrical power outages and average response time to emergencies*. This was as a result of poor filing and record-keeping processes.

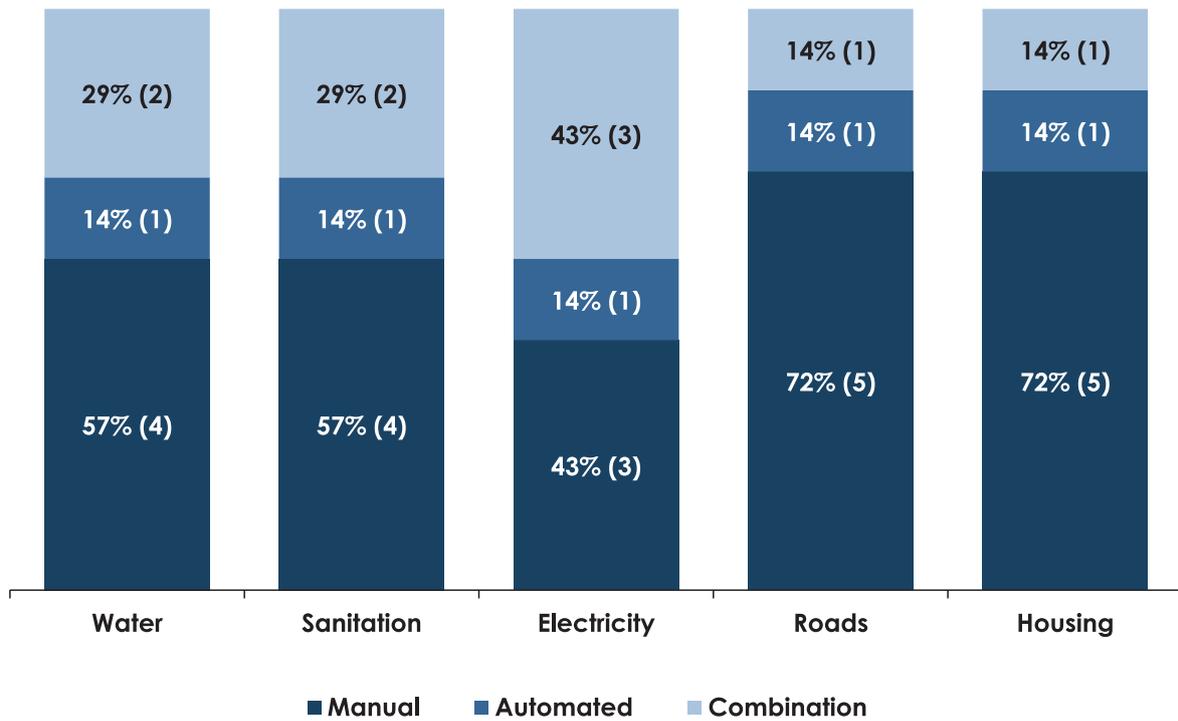
- **City of Johannesburg:** The reported performance was not reliable, as some achievements could not be verified, while others were not substantiated by sufficient appropriate audit evidence, including *percentage of reported potholes repaired within one week, number of hours to restore loss of electricity supply to traffic signals within 24 hours, and percentage of investigated matters resolved*.

Reliable reporting on achievements against targets remains the main challenge for metros. Metros have a complex environment and need to plan, monitor and report on the delivery of various services – good systems to support the gathering of reliable data is key to an effective performance management process.

Most metros did not have fully automated performance management systems, but relied mainly on manual controls or a combination of automated and manual controls to record and report on performance, which increased the risk of data manipulation and errors.



The processes used by metros to report on performance on the main areas of service delivery are shown below.



The indicators and targets in the performance reports form an important tool for the council to keep metros accountable against set outcomes and goals. It is also used by the public to assess service delivery by the metro. Weaknesses in the performance reports therefore need to be addressed to ensure that the direction and the oversight provided by the council are clear and focus on the things that matter.



## COMPLIANCE WITH KEY LEGISLATION



Metros with material **findings on compliance with legislation remained unchanged** from previous year – 100%

The material compliance findings at metros are shown below, with an indication of the areas in which the compliance findings were raised and the movement from the previous year.

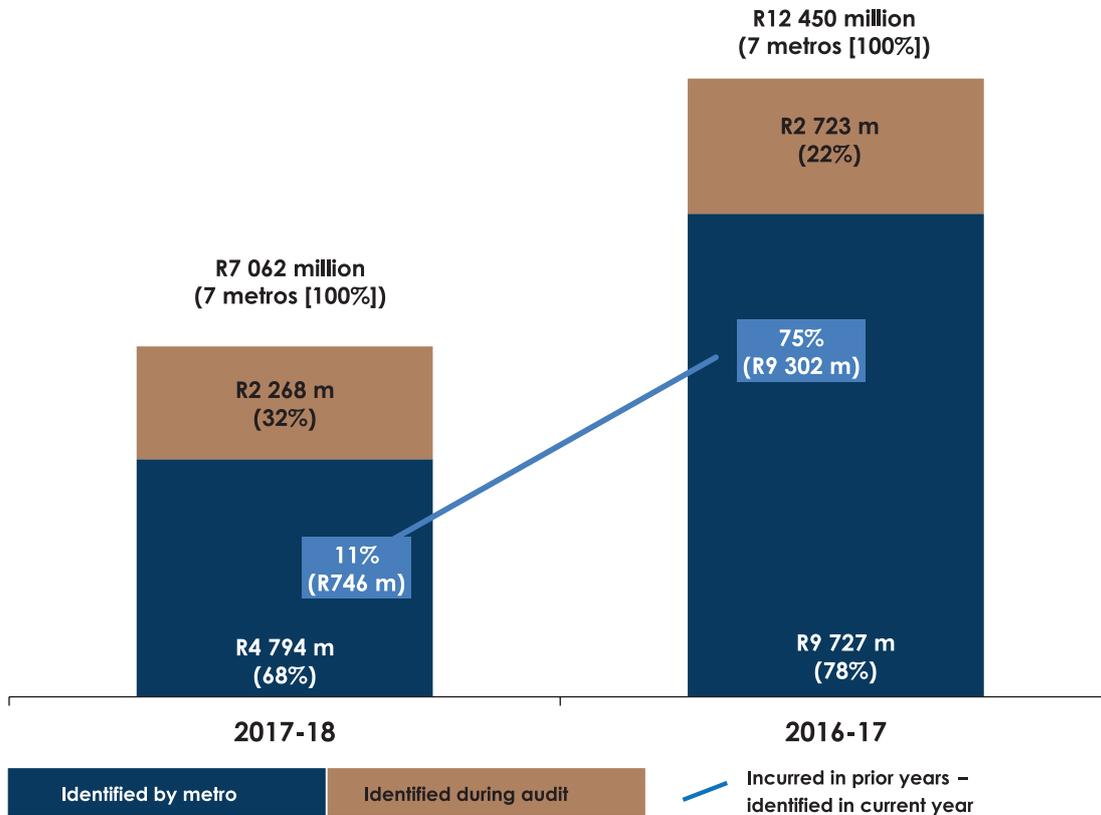
NON-COMPLIANCE AREA	MOVEMENT FROM PREVIOUS YEAR	FINDING	Buffalo City	Nelson Mandela Bay	City of Johannesburg	City of Ekurhuleni	eThekweni	City of Tshwane	City of Cape Town	
Quality of financial statements	▼	Material misstatements / limitations in submitted financial statements	X	X	X	X		X	X	
Procurement management	▼	Awards made to providers who did not submit declaration of interest / employment in state		X				X		
		Awards made to providers who are in service of municipality - persons with interest failed to disclose		X						
		Awards made to providers who are in service of other state institutions	X							
		Persons in service of municipality whose close family members had interest in provider not disclosed	X	X	X	X				
		Awards made to prohibited suppliers (as listed by the National Treasury)							X	
		Competitive bids not invited and/or deviations not justified				X	X		X	
		Bid specifications for the tender were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services								X
		Bid adjudication not always done by properly constituted adjudication committee			X	X				
		Criteria applied in evaluation differed from those originally specified / not specified at all					X			
		Points incorrectly allocated/calculated				X				
		Supplier scoring highest points not selected without justification			X					
		Performance of contractors not monitored on monthly basis			X	X				
		Inadequate contract performance monitoring measures			X	X				
		Contracts extended or modified without approval of accounting officer / delegated official			X					X
		Three written quotations not obtained and/or deviations not justified					X			
Thresholds for local content on designated sectors procurement not properly applied			X							

NON-COMPLIANCE AREA	MOVEMENT FROM PREVIOUS YEAR	FINDING	Buffalo City	Nelson Mandela Bay	City of Johannesburg	City of Ekurhuleni	eThekweni	City of Tshwane	City of Cape Town
Prevention of unauthorised, irregular, and fruitless and wasteful expenditure	▼	Irregular expenditure not prevented	X	X	X	X	X	X	X
		Unauthorised expenditure not prevented	X	X	X				
		Fruitless and wasteful expenditure not prevented		X					
Effecting consequences	▼	Irregular expenditure not investigated to determine if any person is liable		X	X	X			
		Irregular expenditure written off as irrecoverable without being certified or investigated		X					
		Fruitless and wasteful expenditure not investigated to determine if any person is liable	X	X	X			X	
		Unauthorised expenditure not investigated to determine if any person is liable		X	X				
Expenditure management	▶	Payments to creditors not settled within 30 days from receipt of invoice	X		X	X		X	
Revenue management	▶	Ineffective system of internal control	X	X				X	
		No/inadequate management, accounting and information system			X				
Asset management	▼	Ineffective system of internal control	X	X		X		X	
		Investments not limited to prescribed types of investments				X			
		Investments not made in accordance with investment policy			X				
		No/inadequate management, accounting and information system		X					
Strategic planning and performance management	▼	Performance management system and related controls not maintained / inadequate	X	X					
Utilisation of conditional grants	▼	Division of Revenue Act allocations not spent in accordance with applicable grant framework				X			
Human resource management	▼	Appointments made in posts not approved and/or funded or not on staff establishment						X	
		Appointments made in posts with no job descriptions						X	
		Municipal managers / senior managers did not disclose financial interests within 60 days from date of appointment						X	



## IRREGULAR EXPENDITURE AND SUPPLY CHAIN MANAGEMENT

Irregular expenditure incurred by metros decreased by 43%, mainly due to Nelson Mandela Bay's irregular expenditure decreasing by R5 131 million (63%). The irregular expenditure of this metro was very high in 2016-17 as a result of a once-off restatement after the metro revisited, investigated and restated the irregular expenditure incurred in prior years.



The above figure does not show the irregular expenditure of Mangaung. Based on the unaudited financial statements, this metro's irregular expenditure amounted to R95 million.

A total of R6 720 million (95%) of the irregular expenditure was as a result of non-compliance with supply chain management legislation – 16% thereof related to competitive bidding or quotation processes not having been followed, 77% to non-compliance with other procurement process requirements, and 7% to non-compliance with legislation on contract management. A total of 66% of the irregular expenditure incurred by metros related to ongoing multi-year contracts irregularly awarded in prior years.

Sufficient steps were not taken to recover, write off, approve or condone irregular expenditure, and the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with, totalled R25 883 million.

All metros incurred irregular expenditure in the past three years. The table below includes details of the irregular expenditure disclosed, how much was actual expenditure in the current year (in other words, not prior years' irregular expenditure identified in the current year) as well as the accumulated irregular expenditure to date.

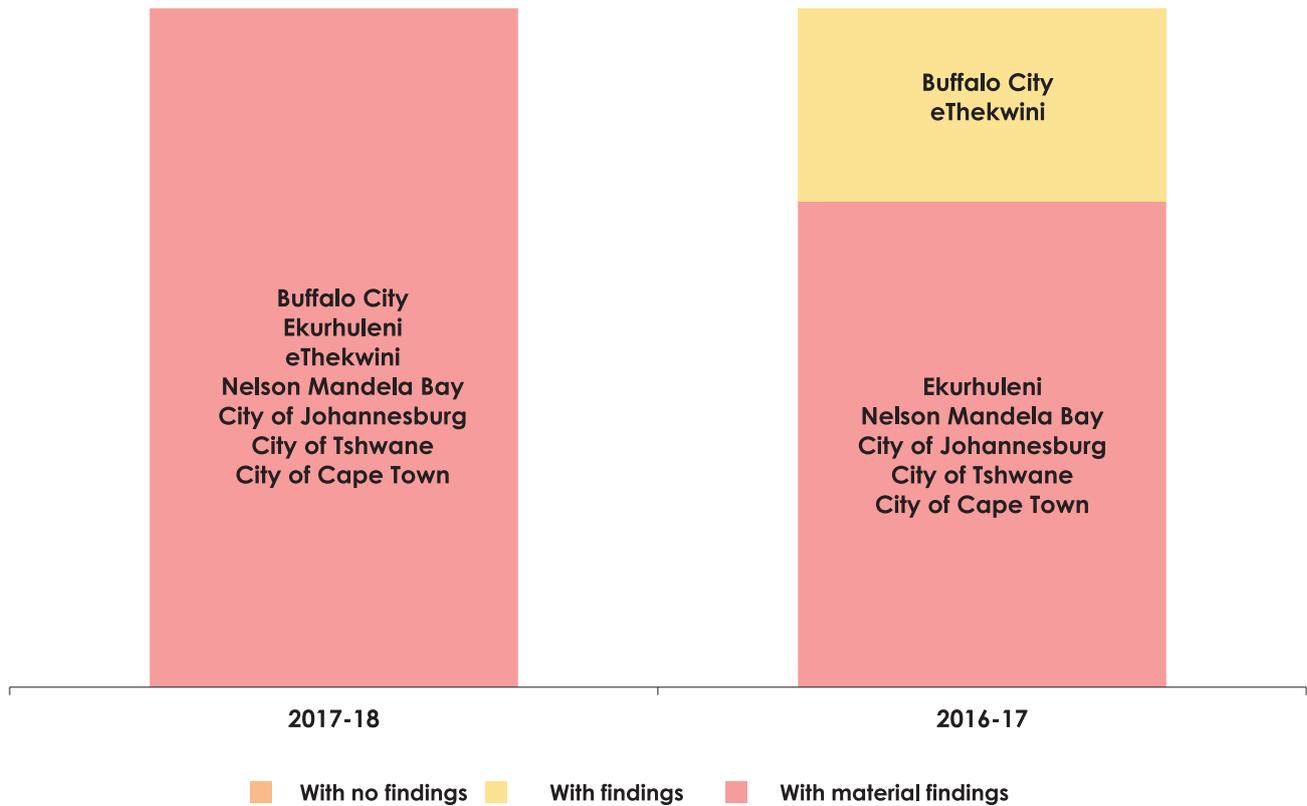
METRO	DISCLOSED AMOUNT	NATURE OF NON-COMPLIANCE	INCURRED IN CURRENT YEAR	INCURRED IN CURRENT YEAR AS PERCENTAGE OF TOTAL METRO BUDGET	ACCUMULATED IRREGULAR EXPENDITURE
<b>Nelson Mandela Bay</b>	R3 053 million (2016-17: R8 184 million)  Qualified on completeness of disclosure	84% related to non-compliance with other procurement process requirements	R2 712 million (89%) – R2 579 million on ongoing multi-year contracts awarded in prior years	26%	R12 379 million
<b>City of Tshwane</b>	R1 684 million (2016-17: R1 825 million)	65% was as a result of non-compliance with other procurement process requirements	R1 684 million (100%) – R838 million on ongoing multi-year contracts awarded in prior years	5%	R5 054 million
<b>City of Johannesburg</b>	R868 million (2016-17: R706 million)	99% was as a result of non-compliance with other procurement process requirements	R707 million (81%) – R466 million on ongoing multi-year contracts awarded in prior years	3%	R2 724 million
<b>eThekweni</b>	R733 million (2016-17: R514 million)	43% was as a result of non-compliance with legislation on contracts and 37% related to non-compliance with other procurement process requirements	R573 million (78%)	1%	R1 283 million
<b>City of Ekurhuleni</b>	R275 million (2016-17: R591 million)	80% was as a result of procurement without competitive bidding	R275 million (100%) – R52 million on ongoing multi-year contracts awarded in prior years	1%	R1 515 million
<b>City of Cape Town</b>	R236 million (2016-17: R47 million)	51% was as a result of non-compliance with legislation on contracts and the remainder was due to non-compliance with other procurement process requirements	R153 million (65%)	< 1%	R283 million
<b>Buffalo City</b>	R213 million (2016-17: R584 million)	92% was as a result of non-compliance with other procurement process requirements	R213 million (100%) – R208 million on ongoing multi-year contracts awarded in prior years	3%	R2 644 million





There was a **regression in the overall status of supply chain management.**

The following graphic depicts the status of supply chain management at metros in the current and previous year:



The following were the most common findings on uncompetitive procurement processes and inadequate contract management:





The following examples illustrate the supply chain management non-compliance:

**City of Cape Town – traffic contravention services**

The contracts relating to traffic contravention services were extended three times without following the prescribed process, resulting in irregular expenditure of R65 million. The total value of the extensions represented 87% of the original contract value.

**City of Tshwane – capital project management contract**

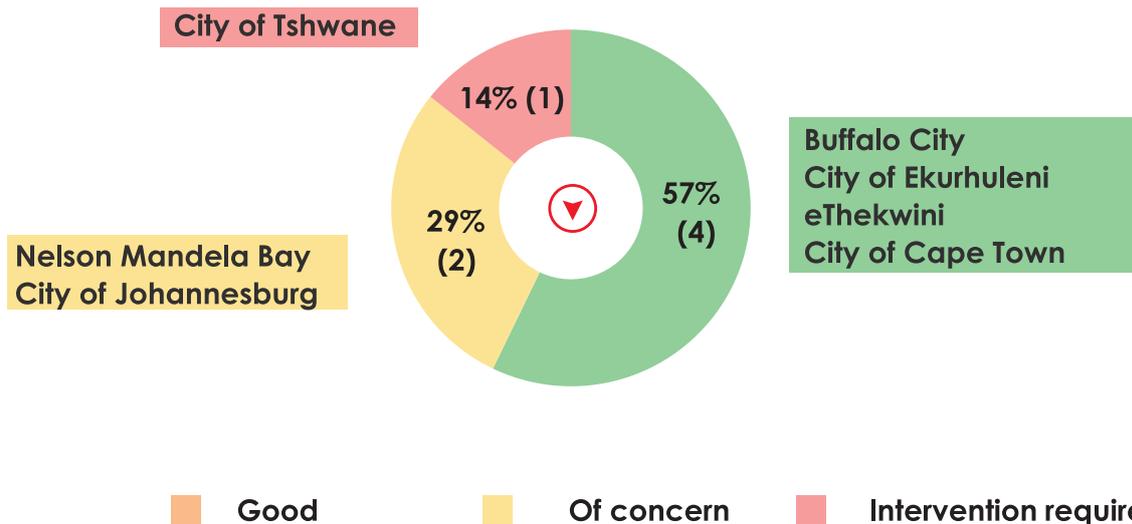
The capital project management contract was obtained through contracts secured by other organs of state without complying with the prescribed requirements. The total value of the contract was R3 778,45 million. The irregular expenditure incurred with regard to this contract in the current year amounted to R318 million.

**FINANCIAL SUSTAINABILITY**



The **financial health of metros regressed** from the previous year.

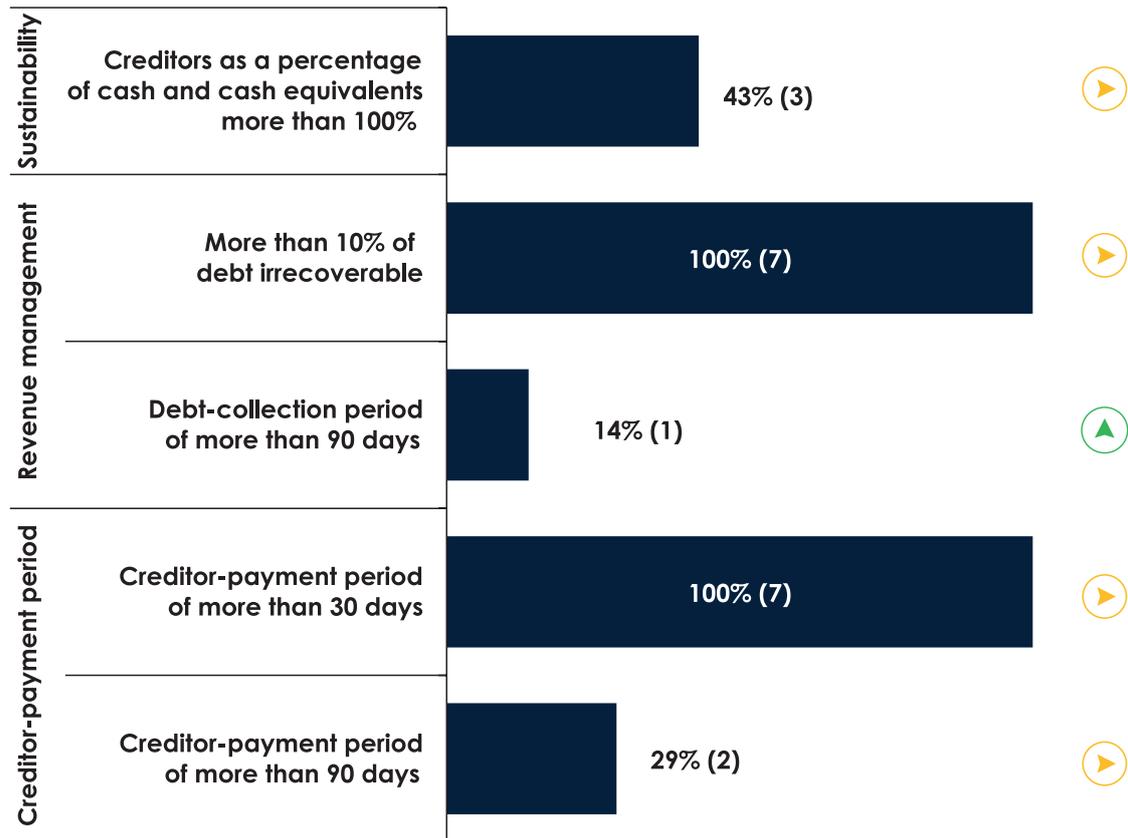
Metros are responsible for delivering services efficiently within their communities, as well as playing a role in combating poverty and supporting local economic development. In order to achieve this, there is a need for adequate financial resources that should be monitored through good governance. Our audits focused on some key aspects of the financial health of metros. Our assessment of the financial health of the metros is shown below.



We assessed the **financial health** of three metros (43%) as either concerning or requiring intervention. The movement was solely due to City of Tshwane regressing from a concerning status to a financial health status that required intervention.



Below is an overview of the key financial indicators.



Average creditor-payment period: 89 days

Average debt-collection period: 74 days

The financial health assessment and key indicators per metro are shown in the following table:

METRO	OVERALL ASSESSMENT		INDICATORS					
	2017-18	Movement	Creditor-payment period	Debt-collection period	Percentage of debt irrecoverable	Creditors as a percentage of cash and cash equivalents	Current liabilities as a percentage of following year's budgeted resources	Current liabilities exceed current assets
Buffalo City	Green	Yellow play button	90	174	35,9	37,3	35,5	No
Nelson Mandela Bay	Yellow	Yellow play button	183	67	57,6	87,9	19,5	No
City of Johannesburg	Yellow	Yellow play button	32	23	88	133	57,9	No
City of Ekurhuleni	Green	Yellow play button	92	82	67,4	132	21	No
eThekweni	Green	Yellow play button	75	66	49	74,6	33	No
City of Tshwane	Red	Red down arrow	74	78	70,9	663	42	Yes
City of Cape Town	Green	Yellow play button	78	26	68,9	87	29	No

Good      Of concern      Intervention required

All metros had a surplus and achieved a net asset position (which means that their total assets exceeded their total liabilities) by year-end. Metros account for an estimated 53% of the total local government expenditure budget, which places them in an ideal position to have a positive impact on the local economy as well as on employment. We therefore encourage metros to continuously monitor their financial state to ensure that their financial health status remains within the positive parameters.

The **unauthorised expenditure** also provides a view of the financial health of metros, as it shows whether metros budgeted correctly and spent within the approved budgets. The unauthorised expenditure incurred by metros increased from R1 650 million to R1 863 million since the previous year. All of the unauthorised expenditure was a result of the overspending of budgets.

Metro budgets make provision for items that do not involve actual cash inflow or outflow. We term these 'non-cash items', which include accounting entries such as reducing the value at which assets

are reflected in the financial statements (asset impairments) and providing for other types of potential financial losses. This is not actual expenditure but rather an accounting requirement that enables municipalities to assess the true value of their assets (such as equipment or debtors). It is important for metros to correctly budget for these non-cash items to show the true financial state of the municipality.

In total, 94% of the overspending that had caused the unauthorised expenditure did not represent actual payments in excess of the budget, but rather these estimates that had been incorrectly budgeted for. At year-end, these amounts are audited and are thus shown at the correct value, which then results in unauthorised expenditure.

The table below includes details of the unauthorised expenditure incurred in the current year and the percentage of the unauthorised expenditure that had been caused by non-cash items. All of these metros incurred unauthorised expenditure for the past three years.

METRO	AMOUNT	NON-CASH ITEMS
<b>City of Tshwane</b>	R1 138 million (2016-17: R620 million)	R1 084 million (95%)
<b>City of Johannesburg</b>	R305 million (2016-17: R502 million)	R242 million (80%)
<b>Nelson Mandela Bay</b>	R260 million (2016-17: R432 million)	R259 million (99,6%)
<b>Buffalo City</b>	R160 million (2016-17: R96 million)	R158 million (99%)

The following are some of the financial health **challenges** faced by the metros:

**City of Tshwane:** The metro disclosed in its financial statements that a material uncertainty existed, which might cast doubt on its ability to continue operations for the next 12 months without financial assistance. This was due to multiple negative financial indicators, including a net current liability position, with current liabilities exceeding current assets by R2 169 million. The metro deemed that R8 172 million of the amounts owed by their customers would not be recovered – a significant increase from the previous year. Although the metro was already in a poor financial position, it still wanted to acquire bonds from the market.

**Nelson Mandela Bay:** The average time taken by the metro to pay creditors increased from 139 days to 183 days. The slow payment of suppliers may be detrimental to the economic growth of local businesses, as they may struggle to operate effectively because of this.

**City of Johannesburg:** The metro expected that 88% of the total consumer debt would not be recovered – this high provision poses a cash-flow risk for the metro. Creditors as a percentage of cash and equivalents increased to 133% from 88%. The inability to collect the outstanding amounts due has led to the metro having to borrow money to fund service delivery projects.

**City of Ekurhuleni:** Although the metro reflects a good financial health status, the creditor-payment period remained high at 92 days, driven by trade payables of R4 656 million. The long-outstanding payments to suppliers are likely to have a negative impact on the sustainability of small businesses, which will ultimately have a negative impact on service delivery. The metro also continued to experience challenges with the collection of consumer debts, based on the high allowance for impairment losses totalling 67% of the gross debtors.



Except for eThekweni and City of Cape Town, all metros incurred **fruitless and wasteful expenditure** in the past three years. In the current year, all metros incurred fruitless and wasteful expenditure as indicated in the table below.

METRO	AMOUNT	NATURE
<b>City of Tshwane</b>	R65 million (2016-17: R42 million)	Mostly related to the upgrade of the city hall, which did not comply with National Heritage Council requirements
<b>eThekweni</b>	R29 million (2016-17: none)	100% related to penalties and interest
<b>City of Johannesburg</b>	R9 million (2016-17: R0,87 million)	Deposits paid for the rental of office space that was never occupied, with the remainder relating to penalties and interest
<b>City of Ekurhuleni</b>	R5 million (2016-17: R8 million)	Value for money not obtained, as money was paid for work not done or the work done was not equal to the value paid
<b>Nelson Mandela Bay</b>	R3 million (2016-17: R110 million)	Salaries paid as a result of disciplinary processes not commencing in time, acting allowances paid for work not performed, catering not used, flight cancellations, and training not attended by all those as planned  19% related to penalties and interest
<b>Buffalo City</b>	R0,5 million (2016-17: R0,09 million)	93% related to penalties and interest
<b>City of Cape Town</b>	R0,3 million (2016-17: R0,02 million)	100% related to penalties and interest

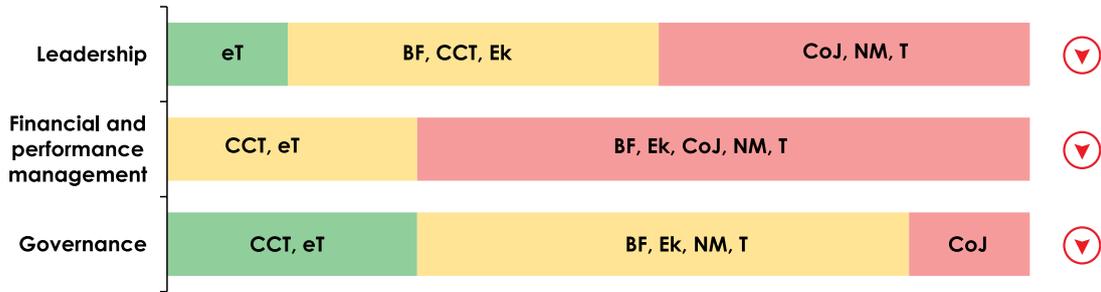
# GOVERNANCE AND CONTROL

As part of our audits, we considered the leadership, financial and performance management as well as governance of municipalities to identify the possible root causes of poor audit outcomes, irregular expenditure and financial health concerns.

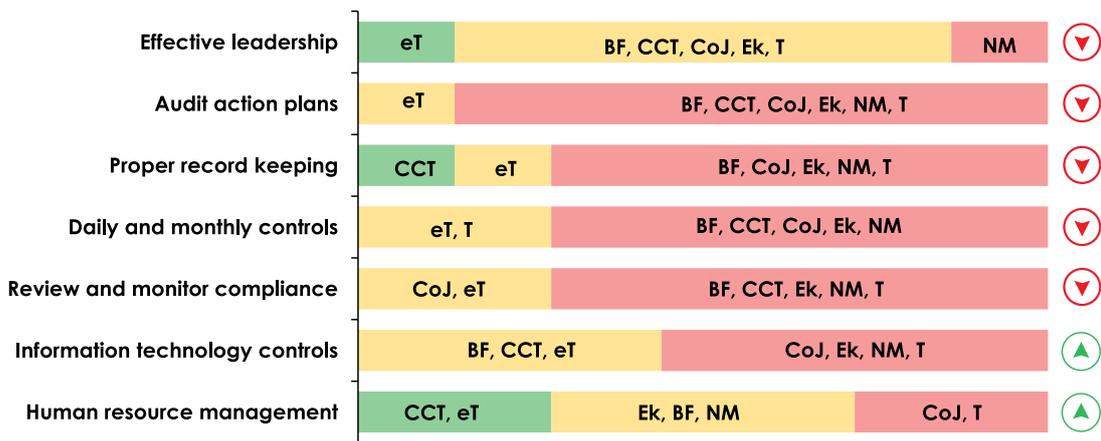


Our assessment of the **internal control of metros indicates a regression** in all of the drivers of internal control. This correlates with the regression in the audit outcomes of metros and their inability to move towards a clean audit status.

## Drivers of internal control



## Basic controls



■ Good     
 ■ Of concern     
 ■ Intervention required

The main reasons for the inadequate internal control at metros were the slow response by management to our recommendations and the general lack of consequences for poor performance and transgressions. Our assessment per driver of internal control was informed by the following:

**Leadership:** At City of Johannesburg, City of Tshwane, Buffalo City and Nelson Mandela Bay, our assessment was mainly due to inadequate monitoring and implementation of audit action plans, a slow response to implement audit recommendations, and a lack of consequences for non-performance and transgressions. In the case of Ekurhuleni, our assessment of leadership culture and oversight responsibility

remained concerning. At City of Tshwane, a number of human resource non-compliance findings were raised in relation to the appointment processes. City of Cape Town was not able to achieve all commitments by their target dates, specifically for the contract management guidelines that support the city's contract management framework due to insufficient monitoring and oversight by its leadership. Remedial actions to address findings by management needed to be assessed collectively by all line departments in an effective manner to ensure that the internal control deficiencies identified in the previous year were addressed. This could have prevented similar instances of non-compliance being reported in the current year, especially relating to contract management.



**Financial and performance management:** This remained the weakest area of internal control. We assessed Buffalo City, City of Johannesburg, City of Tshwane, City of Ekurhuleni and Nelson Mandela Bay as requiring intervention in this area, mainly due to senior management not implementing adequate control disciplines over financial and performance reporting and compliance with key legislation. At the root of City of Cape Town's compliance difficulties was the poor implementation of contract management processes. Controls within the project management process were not designed to identify legislative requirements and did not require council approval of amendments to projects. Additionally, management did not identify the misalignment between the Generally Recognised Accounting Practice requirements and the accounting practices adopted by the metro as a result of council policies through its risk assessment process. This resulted in the misstatement of revenue recognised in the financial statements, which was subsequently corrected.

The following basic controls need the most attention in the area of financial and performance management:

- Institutionalising the use of audit action plans to address audit findings from external and internal audits to ensure that the root causes of audit findings are addressed.
- Processes to improve compliance with legislation and supply chain management prescripts, including ensuring that metros are aware of all the legislation they need to comply with as well as implementing controls such as checklists to enable compliance and the monitoring thereof.
- Information technology system controls.
- Controls to ensure that transactions are accurate, complete and processed in a timely manner, including supervisory reviews of captured information, and independent monthly reconciliations of key accounts.

Although the financial and performance controls at eThekweni were not assessed as requiring intervention,

proper controls over compliance with legislation were of concern, as officials were not appropriately disciplined for transgressions as consequences were not strictly enforced.

**Governance:** We assessed City of Johannesburg as requiring intervention, as the internal audit processes did not always identify internal control deficiencies and recommend appropriate corrective action effectively and timeously as well as the internal audit unit having capacity constraints. At City of Ekurhuleni, the internal audit function weakened, internal audit targets were not achieved, and management was slow in responding to the findings raised. At City of Tshwane, the audit committee recommendations were not always implemented and the internal audit unit had capacity issues relating to information technology audits.

**Stability in key leadership positions** plays a critical role in enabling financial and performance management. The metros generally fare better in attracting and retaining competent officials – by year-end, all the positions of municipal managers and heads of supply chain were filled; and the chief financial officer position at only City of Johannesburg and Nelson Mandela Bay was vacant at year-end. There were some new appointments in key positions in the past year, but overall there has been stability in key leadership positions at metros – municipal managers spent an average of 15 months, chief financial officers 92 months, and heads of supply chain 46 months in their positions. All municipal managers, chief financial officers and heads of supply chain met the minimum competency requirements, except for the municipal manager of City of Cape Town.

Apart from these key leadership positions, various other role players should also ensure effective governance and control at a metro and thereby provide assurance that the financial statements and performance reports are credible and that the metro complies with legislation. As shown on the following page, we assessed most of these assurance providers as providing only some assurance.

### ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP

Senior management	CCT, eT	BF, NM, CoJ, Ek, T	⬇️
Municipal managers	CCT, eT, BF, CoJ, Ek, T	NM	⬇️
Mayors	eT	CCT, BF, NM, CoJ, Ek, T	➡️

### INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

Internal audit units	CCT, eT	BF, NM, Ek, T	CoJ	⬇️
Audit committees	CCT, eT	BF, NM, CoJ, Ek, T		⬇️

### EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

Municipal councils	CCT, eT	BF, NM, CoJ, Ek, T	⬇️
Municipal public accounts committees	CCT, eT	BF, NM, CoJ, Ek, T	⬇️

FINDINGS	INTERNAL AUDIT UNITS	AUDIT COMMITTEES
Fully compliant with legislation	100% (7) ➡️	100% (7) ➡️
Positive impact on audit outcomes	29% (2) ⬇️	71% (5) ⬇️
Evaluates reliability of financial information	100% (7) ➡️	100% (7) ➡️
Evaluates reliability of performance information	100% (7) ➡️	100% (7) ➡️
Evaluates compliance with key legislation	100% (7) ➡️	100% (7) ➡️
Interacts with executive authority	N/A	100% (7) ➡️

■ Provides assurance     
 ■ Provides some assurance     
 ■ Provides limited/no assurance

Senior management continued to provide the least assurance – the impact of this was evident in the poor quality of the financial and performance information submitted to us for auditing. The fact that all metros had material findings on compliance with legislation further exemplifies the lack of assurance provided by senior managers. Our recommendations were also not adequately implemented, as senior management did not provide the necessary oversight to enable the implementation thereof.

The political infighting at Nelson Mandela Bay influenced our assessment of the assurance provided by the municipal manager, which affected in-year monitoring and interactions relating to the audit

progress, resulting in the oversight of management and internal controls not being effective.

As the internal audit unit at City of Johannesburg was not adequately resourced, the internal auditors could not perform some of their key planned audits and the unit could not ensure that reviews were done by individuals with the necessary skills and competence. We assessed that the internal audit units of only eThekweni and City of Cape Town had a positive impact on the audit outcomes, whereas the audit committees at Nelson Mandela Bay, City of Ekurhuleni, eThekweni, City of Tshwane and City of Cape Town had a positive impact on the audit outcomes.

## KEY PROJECTS AND MANAGEMENT OF GRANTS

As part of auditing what matters most, guided by identified government priorities and areas of public spending most relevant to the well-being of citizens, we audited infrastructure projects at metros using integrated teams that included infrastructure specialists. We looked at the following areas:

-  Broadband
-  Road infrastructure
-  Electricity
-  Water
-  Housing infrastructure
-  Sanitation
-  Integrated rapid public transport networks

Our procedures covered project planning, procurement, project management, project delivery, and reporting.

We identified the following common findings on the infrastructure projects funded by grants, such as the urban settlements development grant and the public transport network grant, or the metro's own funds:

- Projects were delayed beyond their planned completion dates.
- Projects had quality issues caused by inadequate monitoring and supervision by the metros.
- Contractors were replaced, which resulted in significantly increased costs.

- Planning documentation did not include indicators and targets to measure the performance of projects.
- Actual reported performance could not be supported or was not reliable.
- Procurement processes were not adequately followed, resulting in the expenditure incurred on projects being disclosed as irregular expenditure.
- Misstatements were identified in the recording of the projects in the financial statements. In particular, the items relating to property, plant and equipment; work in progress; retention liabilities; and commitments were misstated.

Sections 3 and 4 provide more detail on some of the shortcomings relating to grants, while the details of findings per project type are summarised in the tables below.



### Broadband projects – two projects audited

Spending	Achievement of targets or other findings and project management deficiencies
No over- or underspending of budgets	One project at <b>City of Cape Town</b> was <b>not correctly accounted</b> for in the financial statements



### Electricity projects – five projects audited

Spending	Achievement of targets or other findings and project management deficiencies
<b>Overspending</b> of annual budget at one project in <b>Buffalo City</b> by <b>R0,48 million</b>	At two projects in <b>City of Cape Town</b> , the <b>annual targets</b> were <b>not achieved</b> ; while at <b>City of Johannesburg</b> , the <b>multi-year targets</b> for two projects were <b>not achieved</b>  Two projects at <b>City of Johannesburg</b> were <b>not correctly accounted</b> for in the financial statements



### Housing infrastructure projects – nine projects audited (this is a continuation of the message on housing in the previous general report on national and provincial audit outcomes, with shortcomings at local government level discussed here)

Spending	Achievement of targets or other findings and project management deficiencies
<b>Underspending</b> of annual budget at one project in <b>eThekweni</b> by <b>R2,09 million</b>	The <b>annual targets</b> were <b>not achieved</b> at four projects: <b>City of Ekurhuleni (one)</b> , <b>City of Johannesburg (two)</b> and <b>City of Tshwane (one)</b>  The <b>multi-year targets</b> were <b>not achieved</b> at four projects: <b>Buffalo City (one)</b> , <b>City of Johannesburg (two)</b> and <b>City of Tshwane (one)</b>  We identified non-compliance with <b>supply chain management requirements</b> at one project in <b>City of Johannesburg</b> , resulting in <b>irregular expenditure</b>  We noted <b>concerns regarding the quality of goods and services</b> at three projects: <b>City of Johannesburg (two)</b> and <b>City of Tshwane (one)</b>



## Integrated rapid public transport networks projects – six projects audited

Spending	Achievement of targets or other findings and project management deficiencies
<b>Underspending</b> of annual budget at one project in <b>eThekweni</b> by <b>R306,58 million</b>	The <b>annual targets</b> were <b>not achieved</b> at two projects in <b>City of Cape Town</b>
<b>Overspending</b> of total project budget (multi-year) at two projects in <b>City of Cape Town</b> by <b>R106,27 million</b>	The <b>multi-year targets</b> were <b>not achieved</b> at three projects: <b>City of Cape Town (two)</b> and <b>City of Ekurhuleni (one)</b>
	We identified non-compliance with <b>supply chain management requirements</b> at two projects in <b>City of Cape Town</b> , resulting in <b>irregular expenditure</b>
	<b>The quality of goods and services</b> delivered did not agree to the initial requirements at one project in <b>City of Cape Town</b>
	One project at <b>eThekweni</b> was <b>not correctly accounted</b> for in the financial statements



## Road infrastructure projects – six projects audited

Spending	Achievement of targets or other findings and project management deficiencies
No over- or underspending of budgets	The <b>annual targets</b> were <b>not achieved</b> at three projects: <b>Buffalo City (one)</b> , <b>City of Ekurhuleni (one)</b> and <b>City of Johannesburg (one)</b>
	Two projects at <b>Nelson Mandela Bay</b> were <b>not correctly accounted</b> for in the financial statements



## Water projects – 13 projects audited

Spending	Achievement of targets or other findings and project management deficiencies
<b>Underspending</b> of annual budget at two projects in <b>City of Tshwane</b> by <b>R17,69 million</b>	The <b>annual targets</b> were <b>not achieved</b> at eight projects: <b>City of Cape Town (three)</b> , <b>City of Ekurhuleni (one)</b> , <b>City of Johannesburg (one)</b> , <b>City of Tshwane (two)</b> and <b>Nelson Mandela Bay (one)</b>
<b>Underspending</b> of annual budget at two projects in <b>City of Cape Town</b> by <b>R183,50 million</b>	The <b>multi-year targets</b> were <b>not achieved</b> at six projects: <b>City of Cape Town (three)</b> , <b>City of Tshwane (two)</b> and <b>Nelson Mandela Bay (one)</b>
	We identified non-compliance with <b>supply chain management requirements</b> at two projects: <b>City of Cape Town (one)</b> and <b>Nelson Mandela Bay (one)</b> , resulting in <b>irregular expenditure</b>
	We identified <b>non-compliance with legislation on implementation of consequences</b> at three projects: <b>City of Cape Town (one)</b> (the metro did not properly implement consequences where the consulting engineer and the contractor failed to adhere to their contract management responsibilities) and <b>City of Tshwane (two)</b>
	Two projects at <b>Nelson Mandela Bay</b> were <b>not correctly accounted</b> for in the financial statements





## Sanitation projects – four projects audited

Spending	Achievement of targets or other findings and project management deficiencies
No over- or underspending of budgets	<p>The <b>annual targets</b> were <b>not achieved</b> at three projects: <b>City of Johannesburg (one)</b> and <b>Nelson Mandela Bay (two)</b></p> <p>The <b>multi-year targets</b> were <b>not achieved</b> at two projects in <b>Nelson Mandela Bay</b></p> <p>We identified non-compliance with <b>supply chain management requirements</b> at two projects in <b>Nelson Mandela Bay</b>, resulting in <b>irregular expenditure</b></p> <p>Two projects at <b>Nelson Mandela Bay</b> were <b>not correctly accounted</b> for in the financial statements</p>



The following examples illustrate some of the project management weaknesses:

### City of Cape Town – Cape Flats aquifer project

This project with a total value of R247 million, which was partly funded by the urban settlements development grant, related to the construction of aquifers (including drilling and the provision of steel tanks and treatment equipment) to provide a continued water source to residents of the province as a result of the drought crisis. Significant delays occurred and infrastructure work planned for completion by June 2018 had still not been completed by year-end. In addition, bid specifications did not specify the minimum threshold for local content and production as required by the Preferential Procurement Regulations, resulting in irregular expenditure of R8 million.

### eThekweni – GO!Durban project

The integrated rapid public transport infrastructure system for this project is aimed at developing a city-wide public transport system that is safe and affordable for citizens. The multi-year project with an actual spending of R2 960 million at year-end was not progressing as intended. The delays were caused by negotiations by the metro with community and business forums. The metro entered into onerous contracts with suppliers for this project (that is, contracts in which costs to fulfil the terms of the contract are higher than the economic benefit that is received). If there are delays on the part of the metro, the payments will still have to be made, resulting in payments being made for construction work that has not been performed. The delays experienced on this project could negatively affect citizens due to safety concerns, increased travelling costs and traffic congestion.

### City of Johannesburg – South Hills mixed development

The project funded through the urban settlements development grant did not achieve the planned completion date, due to planning delays relating to environmental authorisations and township establishment. The timelines of this project were not clearly defined and the costs related to project implementation were not included in the agreement between the metro and the developer. More time and additional funding for the completion of the development were in the process of approval at the time the audit was concluded. In addition, we noted that some of the built blocks were not of the required quality, due to a lack of monitoring of sub-contractors. Furthermore, the target of 2 190 mixed housing opportunities constructed was not achieved, as only 2 103 units were built.

## CONCLUSION

Sustainable improvements in financial and performance management can be achieved if the leadership at metros clearly defines the targets to be achieved in terms of audit outcomes, project delivery and financial health by using, among others, audit action plans, integrated development plans, service delivery and budget implementation plans, annual budgets and project plans.

We recommend the following:

1. The budget and performance planning processes should be informed by a solid analysis and forecast, based on **credible historical information and knowledge of the funding constraints** and expected performance pressures.
2. The **implementation of audit action plans** and the **quarterly monitoring thereof** should be prioritised to support financial management and governance at metros.
3. The basic disciplines of **proper record keeping and standard daily and monthly controls** should be applied, built on a foundation of effective and efficient leadership and stability in key positions to enable a robust financial management system.
4. A key element of internal control is **monitoring by the different assurance providers** to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved. Metros should ensure that all the assurance providers understand their roles, are equipped to perform their functions and are given the authority their role requires, and that the outcome of their monitoring and oversight is appropriately responded to.
5. Regular, credible in-year reporting as well as reports and recommendations on financial management and compliance from the internal audit unit and the audit committee should be monitored and acted on by senior management, the municipal manager and the mayor. This will enable **corrective action** to be taken if targets are not achieved or if transgressions or poor performance is identified.
6. Accountability means that those performing actions or making decisions are answerable for them, but also that there should be **consequences for transgressions**, lack of action and poor performance. Metros should implement consequences against officials who fail to comply with applicable legislation, while appropriate and timely action must be taken against transgressors. A less tolerant approach should be followed by all parties, including those charged with governance and oversight, which will result in accountability being enforced and consequences being instituted against those who intentionally fail to comply with legislation.



