

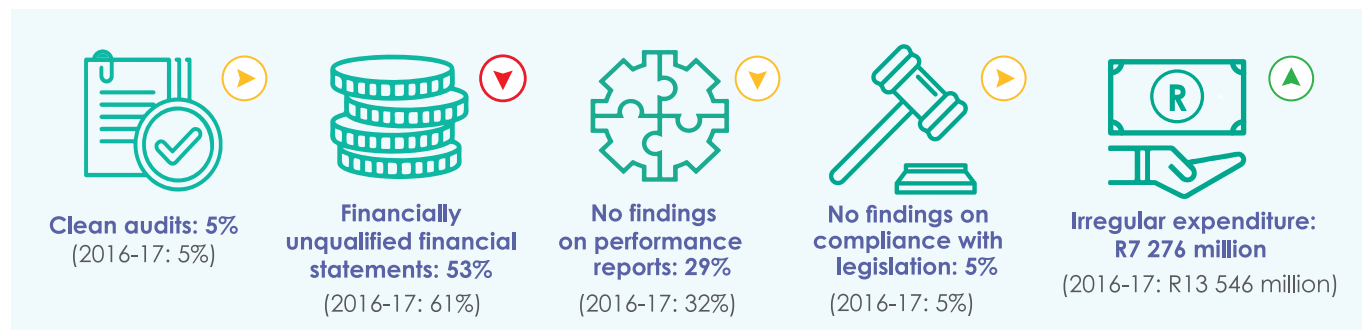
## // SECTION 6

> >

*Provincial overviews*  
(including how your municipality is doing)

## 6.1 EASTERN CAPE

## PROVINCIAL SNAPSHOT



The audit outcomes show a net regression, made up of five regressions and four improvements. These audit outcomes exclude Sakhisizwe, the audit of which was still in progress at the cut-off date of 31 January 2019 for inclusion in this report. Sakhisizwe submitted financial statements late as a result of service delivery protests and political instability. This was compounded by instability at senior manager level, with the municipal manager being suspended and the chief financial officer resigning. Senqu and Joe Gqabi District received unqualified opinions without findings (clean audit outcomes), with Senqu maintaining its outcome from prior years and Joe Gqabi District improving from an unqualified opinion with findings. The overall leadership and governance structures within these municipalities were working effectively and a commitment to a clean administration was also demonstrated.

Buffalo City Metro, which accounts for 20% of the local government spend in the province, was one of the five municipalities that regressed from an unqualified audit opinion with findings in the previous year to a qualified audit opinion. The reasons for the regressions in the province included vacancies in key positions at year-end and during the audit, inadequate in-year monitoring relating to financial and performance management, a slow response to our messages, and a failure to implement the audit intervention plan to address the root causes of prior year audit findings. On the other hand, the filling of key vacancies and the return to stability in key positions, particularly at chief financial officer level, contributed to the four improved audit outcomes.

The disregard for our messages by the leadership of most municipalities and the slow response by the leadership of the remaining municipalities contributed to the further deterioration in accountability for financial and performance management observed during the year. Some of the main contributors to the

inadequate response to our messages included action plans that either did not address the root causes of findings raised or were not implemented, inadequate oversight by the municipal managers, poor risk management practices, and inadequate information technology systems that resulted in inefficient and cumbersome manual processes being used to generate key information.

In prior years, we continually emphasised the role of the political leadership in ensuring that local government in the province moves towards accurate, accountable and transparent financial and performance reporting that is underpinned by sound internal controls and good human resource management practices, including effecting consequences and accepting greater personal accountability. We also emphasised the need to be diligent and decisive in dealing with transgressions of legislation. At the engagements on the status of records review, we provided early warning signals on the status of record keeping and basic internal controls relating to daily, weekly and monthly financial management disciplines, but most of the municipal leadership disregarded our messages or responded to these messages too slowly.

In response to the previous year's outcomes, the provincial leadership committed to stabilising local government, monitoring and dealing with the impact of the Municipal Standard Chart of Accounts, improving the oversight and monitoring of the local government sphere, and improving the responsiveness of provincial government when dealing with the issues raised by local government. Most of these commitments had not been implemented at year-end.

We are concerned about the inability of Nelson Mandela Metro, which is responsible for 27% of the municipal expenditure in the province, to improve on the qualified audit opinion that it has received for

a number of years. This lack of improvement can be attributed to political and administrative leadership instability within key positions. This instability has resulted in the leadership not effectively implementing oversight controls throughout the financial year to promote accountability and to drive improvement and sound risk management practices. We are also concerned about the inability of three of the four municipalities that were created in the previous year through mergers to achieve positive audit outcomes. These municipalities (Enoch Mgijima, Dr Beyers Naudé and Walter Sisulu) received repeat disclaimed opinions in the year under review, as they struggled with basic record keeping as well as accounting complexities resulting from the mergers that we previously warned them about.

The number of municipalities receiving modified (qualified, adverse or disclaimed) opinions increased from 39% in the previous year to 47% in the year under review. Furthermore, only five (13%) of the municipalities submitted financial statements that did not require adjustments during the audit. This was despite municipalities using consultants to assist them with their financial reporting responsibilities, with an associated cost of R166 million. Our concern is not the use of consultants but rather the over-reliance on them as a substitute for proper record keeping and implementing controls over daily and monthly processing and reconciling of transactions. Common qualification areas included revenue and receivables; property, plant and equipment; the disclosure of capital commitments and contingencies; and irregular expenditure.

Only 29% of the municipalities were able to produce performance reports that were useful and reliable – a slight regression on the already low base of 32% of the previous year. For a number of years, we have reported that the poor quality performance reports were due to inadequate planning and the lack of appropriate systems to collect, collate and report on information about actual performance. This area requires urgent leadership attention, as it affects the processes used to improve service delivery and may have a negative impact on the lives of citizens.

The disregard for requirements of legislation applicable to local government reported in prior years continued to persist during the year. This was due to a culture of impunity where the leadership tolerated deviations from the requirements of legislation instead of taking action against those responsible. Only two municipalities (5%) did not have material findings on key legislation.

This culture of impunity was most evident in supply chain management where goods and services were not always procured in a manner that was transparent, competitive, equitable, fair and cost-effective. As a result, the cumulative irregular expenditure balance grew from R22,1 billion from the previous year to

R25,5 billion at year-end. This amount includes R18,3 billion brought forward from the previous year that was not properly investigated or where the council did not take appropriate action based on the outcomes of the investigations. Such investigations should result in the irregular expenditure being recovered, condoned or written off. Only 40% of the municipalities investigated the irregular expenditure incurred in the previous year. Furthermore, no irregular expenditure was recovered from the officials responsible for incurring it. This lack of consequences further contributed to the culture of impunity referred to earlier. The amendments to the Public Audit Act are expected to result in stricter consequences where we identify instances of material irregularities that result in, or are likely to result in, financial losses and where rigorous investigations are not taking place or diligently performed.

Irregular expenditure of R7,3 billion was incurred during the year under review. Additionally, irregular expenditure of R34 million disclosed in the financial statements of Sakhisizwe, of which the audit was finalised late, was not included in the total disclosed value, thus increasing the total. This amount is significantly lower than the R13,6 billion disclosed during the previous year. However, it should be noted that the previous year's irregular expenditure amount included a once-off restatement of R10,5 billion during the 2016-17 financial year for OR Tambo District and Nelson Mandela Metro. If this amount were to be excluded from the previous year's irregular expenditure, the irregular expenditure amount for the year under review would be more than double the previous year's amount. Furthermore, nine municipalities were qualified on the disclosure of irregular expenditure, which means that the amount disclosed in the current year could be even higher.

The highest contributors to the current year's irregular expenditure of R7,3 billion were Nelson Mandela Metro, OR Tambo District, Alfred Nzo District, King Sabata Dalindyebo and Chris Hani District that collectively accounted for R5,6 billion (77%) of the total disclosed value. Included in the R7,3 billion irregular expenditure, is an amount of R4,8 billion paid on multi-year contracts that had been awarded irregularly in prior years. There is very little evidence that the municipal managers investigated the possibility of terminating the contracts that continue to be paid despite being deemed irregular. The remaining R2,5 billion related to contracts awarded irregularly during the year under review, which the municipal managers did not prevent.

The most common transgressions relating to the R7,3 billion irregular expenditure disclosed included the failure to invite competitive bids or written quotations without adequate justification, bid adjudication committees not complying with the minimum requirements, and the inadequate application of the preferential procurement requirements. For example, two contracts to the value of R10,3 million for access



roads were awarded by Mquma to two suppliers that did not score the highest points on evaluation. Another example is the deviation from competitive bidding processes by Amathole District to procure water services to the value of R3 million in Kolomani in circumstances that were not deemed to be justifiable.

The municipalities in the province are commended for spending 96% of the conditional grants that were allocated for infrastructure development. As part of our audits, we tested the infrastructure development cycle for certain key projects funded by these grants. We raised findings relating to project planning, project management and the oversight performed by management. The weaknesses reported resulted in delays in the completion of projects and variation orders that increased the overall project costs. For example, the scope of work on a sewerage project to the value of R46 million implemented by Alfred Nzo District did not include a filtering system, which was obtained through a variation order of R7 million. Another example is a wastewater treatment plant to the value of R49 million implemented by Joe Gqabi District that has been delayed by 36 months because of poor performance by the contractor, inadequate monitoring and supervision by the municipality, and a lack of enforcement of penalties contained in the construction contract for delays. The contractor has been paid R12,7 million to date for the work performed on this project.

The overall financial health of municipalities in the province regressed, as 76% of the municipalities had concerning financial health indicators or required intervention, compared to 66% in the previous year. Of these municipalities, 29% (2016-17: 21%) faced significant cash flow and viability challenges, which were emphasised in their audit reports. Continued weaknesses in the economy made it difficult for citizens to pay the amounts due for services rendered by municipalities. The collection of debt was also hampered by ineffective debt-collection systems and processes at most of the municipalities. Six of the local municipalities (Walter Sisulu, King Sabata Dalindyebo, Raymond Mhlaba, Enoch Mgijima, Dr Beyers Naudé and Makana) owed Eskom R607 million, of which R505 million related to arrear debts. In addition, three municipalities (Amathole District, Makana and OR Tambo District) owed their water providers R194 million, of which R174 million related to arrear debts. It is unlikely that these municipalities will be able to settle these debts with income that they generate themselves, which will put further pressure on their already precarious financial position. Furthermore, Enoch Mgijima was placed under administration in terms of sections 139(1) and 139(5) of the Constitution, as it faced a barrage of legal challenges that culminated in two auctions of municipal assets. Additionally, after year-end, Eskom threatened to cut off the municipality's electricity due to non-payment.

The control environment at municipalities as a whole regressed when compared to the previous year, while the information technology controls also showed very little improvement. This was caused by inadequate oversight by municipal managers; ineffective, slow and complicated manual processes; poor risk management; and ineffective governance. Only three municipalities had good internal controls relating to the areas of leadership, financial and performance management, and governance. As a result, the required daily, weekly, monthly and annual disciplines were not embedded in the systems and processes at most municipalities. Furthermore, the monitoring and the oversight of internal controls by assurance providers were not always effective and had a limited impact on improving the overall outcomes of local government in the province.

All assurance providers should therefore improve their monitoring and oversight to ensure that internal controls are effective and that further improvements in audit outcomes are achieved. In particular, the provincial leadership should monitor and follow up on the following:

- The restoration of stability to key positions and the filling of key vacancies.
- Investigations conducted into the balances of unauthorised, irregular as well as fruitless and wasteful expenditure. Councils should be required to report back on the progress of investigations as well as actions taken against those responsible for incurring such expenditure.
- Status reports on the implementation of audit action plans that address the root causes of the audit findings, including the implementation of controls.

The political and administrative leadership must strive to create a culture that will result in a responsive and accountable local government. The tone at the top must be focused on ethical leadership and good governance, supported by a well-capacitated administration with an emphasis on filling the municipal manager and chief financial officer roles with competent individuals in order to promote stability.



## EASTERN CAPE – How is your municipality doing?

Municipality	Indicators of accountability										Accountability impact						Key root causes										
	Overall audit outcomes		Financial statements		Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
			Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published performance reports	Quality of performance reports submitted for auditing	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred							
Metropolitan municipalities																											
Buffalo City Metro	→	Yes	R	→	Yes	R	R	R	R	N	213.3m	2 644.15m	N	No	90	35.9	160.5m	0.49m	Yes	No	44	Slow response	No	Yes			
Nelson Mandela Bay Metro	→	Yes	R	→	Yes	R	R	R	R	R	3 053.4m	12 379.41m	R	No	183	57.6	260.2m	2.7m	Yes	No	41	Slow response	Yes	Yes			
Alfred Nzo district																											
Alfred Nzo District	→	Yes	R	→	Yes	R	R	R	R	R	622.2m	1 099.56m	R	No	22	62.8	7.1m	0.96m	Yes	No	34	Slow response	No	No			
Matatiele	→	Yes	R	→	Yes	R	R	R	R	R	0.28m	2.23m	R	Yes	137	41.6	-	0.008m	Yes	Yes	N/A	Slow response	No	Yes			
Mbizana	→	Yes	A	→	Yes	A	R	R	R	R	5.9m	1.06m	N	No	98	34.9	52.8m	0.14m	Yes	Yes	N/A	Slow response	No	No			
Niabankulu	→	Yes	R	→	Yes	R	R	R	R	R	26.0m	83.83m	R	No	104	84.4	28.8m	0.54m	Yes	Yes	N/A	Slow response	Yes	Yes			
Umzimvubu	→	Yes	R	→	Yes	R	R	R	R	A	142.5m	15.09m	R	No	76	65.8	96.4m	-	Not audited	No	N/A	Slow response	No	Yes			
Amathole district																											
Amathole District	→	Yes	R	→	Yes	R	R	R	R	R	72.0m	89.7m	R	No	285	81.7	50.8m	1.8m	Yes	Yes	10	Slow response	No	No			
Amahlathi	→	Yes	R	→	Yes	R	R	R	R	N	17.0m	57.94m	R	Yes	85	68.1	13.3m	0.26m	Not audited	No	N/A	Slow response	No	Yes			
Great Kei	→	Yes	R	→	Yes	R	N	R	R	R	2.6m	16.69m	N	Yes	251	86	18.7m	1.9m	Yes	Yes	N/A	Slow response	Yes	Yes			
Mbashe	→	Yes	R	→	Yes	R	R	R	R	R	136.5m	539.03m	R	No	43	83.2	-	0.19m	Yes	No	N/A	Slow response	No	Yes			
Mnquma	→	Yes	R	→	Yes	R	R	R	R	R	150.8m	461.19m	R	No	Not audited	Not audited	31.2m	0.34m	Yes	Yes	N/A	No response	Yes	Yes			
Nqushwa	→	Yes	R	→	Yes	R	R	R	R	R	28.8m	11.16m	N	No	143	42	-	0.14m	Yes	Yes	N/A	Slow response	Yes	Yes			
Raymond Mhlaba	→	Yes	A	→	Yes	R	R	R	R	R	78.0m	236.58m	R	No	276	88	3.9m	12.8m	Not audited	Yes	N/A	Slow response	No	No			

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	Improved	Unchanged	Regressed	↓	↑	↓	↓	↓	↓	↓	↓	↓

Municipality	Indicators of accountability										Accountability impact						Key root causes														
	Overall audit outcomes			Financial statements		Performance report		Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas			Instability or vacancies in key positions or key officials lacking appropriate competencies			Inadequate consequences for poor performance and transgressions
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts					Irregular expenditure incurred (R million)	Accumulated outstanding balance on irregular expenditure at year-end (R million)	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred (R million)	Fruitless and wasteful expenditure incurred (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water							
Chris Hani district																															
Chris Hani District	↑	Yes	R	↑	Yes	R	R	R	R	R	229.5m	1 382.07m	R	No		69	92	0.66m	0.26m	Yes	Yes	59	Slow response	No	No	Yes	Yes				
Enalahleni	↑	Yes	N	↑	Yes	R	A	R	N	15.5m	15.47m		No		20	91	5.8m	0.01m	Yes	Yes	N/A	Slow response	No	No	Yes	Yes					
Engcobo	↓	Yes	R	↓	Yes	R	R	R	N	23.2m	23.17m		Yes		30	41.1	-	0.09m		Yes	Yes	N/A	Slow response	No	No	Yes	No				
Enoch Mgijima	↑	Yes	R	↑	Yes	R	R	R	R	26.8m	428.92m	R	Yes		Not audited	Not audited	14.0m	0.44m	Yes	Yes	N/A	Slow response	Yes	Yes	Yes	Yes					
Intsika Yethu	↑	Yes	R	↑	Yes	R	R	R	R	0.58m	0.61m	N	No		30	51.4	24.8m	0.04m	Yes	No	N/A	Slow response	Yes	Yes	Yes	No					
Inxuba Yethemba	↑	Yes	R	↑	Yes	N		R	R	65.6m	158.52m	R	No		358	81	66.6m	0.52m	No	No	N/A	Slow response	No	No	Yes	No					
Sakhisizwe		No											Yes																		
Joe Gqabi district																															
Joe Gqabi District	↑	Yes	A	↑	Yes	R	A	A		63.2m	63.22m		No		147	55	-	-	Yes	No	44		No	No	No	No					
Elundini	↓	Yes	N	↓	Yes	R		R	R	54.5m	0.33m		No		Not audited	Not audited	-	-	No	No	N/A	Slow response	No	No	No	No					
Senqu	↑	Yes		↑	Yes	R				-	-	-	No		16	75.1	-	0.03m	No	No	N/A		No	No	No	No					
Malter Sisulu	↑	Yes	R	↑	Yes	R	R	R	R	4.8m	52.93m	R	No		Not audited	Not audited	63.2m	14.9m	Yes	Yes	N/A	Slow response	Yes	Yes	Yes	Yes					

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Disclaimed	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	Improved	Unchanged	Regressed	↓	↑	↓	↑	↓	↑	↓	↑	↓



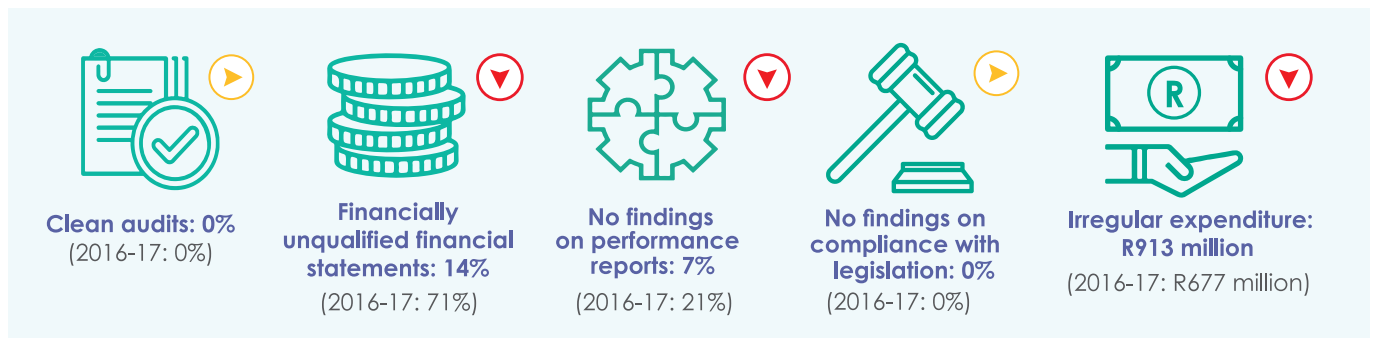


Municipality	Indicators of accountability										Accountability impact						Key root causes															
	Overall audit outcomes			Financial statements			Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas			Instability or vacancies in key positions or key officials lacking appropriate competencies		Inadequate consequences for poor performance and transgressions
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred (R million)	Accumulated outstanding balance on irregular expenditure as at year-end (R million)					Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred (R million)	Fruitless and wasteful expenditure incurred (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred							
OR Tambo district																																
OR Tambo District	↑	Yes	R	↑	Yes	R	↑	R	Yes	R	R	R	3 151,48m	R	No		188	89	-	3,1m	Yes	No	47	Slow response	Yes	No						
Inguza Hill	↑	Yes	N	↑	Yes	R	N	R	Yes	R	N	R	-		No		37	64,1	-	0,19m	Not audited	No	N/A	Slow response	Yes	No						
King Sabata Dalindyebo	↓	Yes	R	↓	Yes	R	R	R	Yes	R	R	R	889,59m	R	No		347	87	99,0m	17,6m	Yes	Yes	N/A	Slow response	No	Yes						
Mhlonlolo	↑	Yes	R	↑	Yes	R	↑	R	Yes	R	R	R	30,6m	N	Yes		33	82,6	4,6m	0,01m	Yes	Yes	N/A	Slow response	No	No						
Nyandeni	↑	Yes	R	↑	Yes	R	↑	R	Yes	N	R	R	105,7m		No		8	94,6	-	0,003m	No	No	N/A	Slow response	No	No						
Port St. Johns	↑	Yes	R	↑	Yes	R	R	R	Yes	R	R	R	132,32m	R	Yes		119	82,1	2,6m	0,69m	Yes	Yes	N/A	Slow response	Yes	Yes						
Sarah Baartman district																																
Sarah Baartman District	↑	Yes	A	↑	Yes	R	N	R	Yes	R	N	R	0,32m		No		60	30,8	-	-	Not audited	Not audited/N/A	N/A	Slow response	No	No						
Blue Crane Route	↑	Yes	R	↑	Yes	R	R	R	Yes	R	R	R	95,96m		Yes		62	52	1,6m	-	Yes	Yes	48	Slow response	No	No						
Dr Beyers Naudé	↑	Yes	R	↑	Yes	R	A	R	Yes	R	A	R	160,69m	R	Yes		Not audited	Not audited	17,8m	3,5m	Not audited	No	26	Slow response	Yes	Yes						
Kou Kamna	↑	Yes	R	↑	Yes	R	A	R	Yes	R	A	R	37,4m	R	No		333	75	16,1m	0,98m	Yes	Yes	37	Slow response	No	Yes						
Kouga	↑	Yes	R	↑	Yes	R	R	R	Yes	R	R	A	2,4m	R	No		79	65	-	0,5m	Yes	Yes	35	Slow response	No	No						
Makana	↑	Yes	R	↑	Yes	R	R	R	Yes	R	R	R	95,2m	R	No		435	92	104,9m	9,0m	Yes	Yes	76	Slow response	Yes	Yes						
Ndlambe	↓	Yes	R	↑	Yes	R	R	R	Yes	R	R	R	72,5m	R	No		103	84	45,3m	0,01m	Yes	Yes	50	Slow response	No	Yes						
Sundays River Valley	↑	No	R	↑	Yes	R	R	R	Yes	R	R	R	65,9m	R	No		176	72	40,4m	0,46m	Yes	Yes	63	Slow response	No	Yes						

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements		Improved	Unchanged	Regressed								

## 6.2 FREE STATE

### PROVINCIAL SNAPSHOT



The Free State local government environment displayed a total breakdown in internal controls as the province's political and administrative leadership, yet again, exhibited no response to improve their accountability for financial and performance management. The leadership did not implement our recommendation to ensure stability and the filling of vacancies in key positions, despite their commitment to do so. This resulted in the significant deterioration of municipal audit outcomes, service delivery and financial health. The required level of oversight by all assurance providers in the province was non-existent at most municipalities and we doubt if there is political will to do the right thing for the right reason, mainly due to political interference to the detriment of good governance.

The financial crisis in the province is becoming a critical concern. Although some municipalities had been placed under provincial intervention in terms of section 139(1) of the Constitution, it was not effective, as these municipalities' financial sustainability did not improve. Several municipalities in the province qualified for mandatory intervention by the provincial executive in terms of section 139(5) of the Constitution, which is applicable when a municipality is in a serious financial crisis and is in material breach of its obligations to provide basic services or to meet its financial commitments. However, no decisive action was taken by the provincial leadership to implement the constitutional prescripts. Consequently, municipalities' financial health continued to deteriorate from a net current liability position (where current liabilities exceed current assets) of R4,8 billion in the previous year to R6,1 billion in the current year.

In addition, municipalities faced significant cash-flow constraints, as they neither maximised the billing of revenue from service charges and rates, nor the collection of amounts outstanding from consumers. Municipalities had an opening debtors book of R6,8 billion and billed R4,3 billion for services and rates during the year, but collected only R3 billion. Given their cash-flow constraints, municipalities fell behind with their payments for bulk purchases of electricity to

Eskom by R3,9 billion (2016-17: R3,1 billion) and water to water boards by R2,9 billion (2016-17: R2,4 billion), which were outstanding at 30 June 2018. Of these amounts, 91% of the payments due to Eskom and 98% of those due to the water boards were outstanding for more than 90 days. Municipalities also incurred significant electricity and water distribution losses due to theft, illegal connections, poor monitoring of indigents' consumption, and poorly maintained infrastructure. Some municipalities failed to pay over contributions to third parties, such as pension funds and/or medical aids, which resulted in litigation and protest actions by affected employees.

Municipalities did not have reliable performance reports to empower communities to hold the political leadership accountable for the service delivery promised. The quality of performance information remained poor, as only Xhariep District did not have material findings. The district municipality was only able to achieve this through material adjustments to the performance report. A lack of adequate supporting documentation for reported key performance indicators relating to basic service delivery resulted in scope limitations at a number of municipalities, as performance reporting did not receive the necessary attention. Local government did not promote accountability for its spending in a manner that would have a positive impact on people's lives, and allowed money intended for the people to be misused. Conditional grants were not used for their intended purpose at Kopanong, Matjhabeng, Metsimaholo, Phumelela and Tokologo. Conditional grants were also materially underspent at Kopanong, Matjhabeng, Ngwathe, Phumelela, Tokologo and Tswelopele. Additionally, spending on key projects was riddled with shortcomings, as the municipalities did not always apply the principles of sound project planning and management. Consequently, key performance targets were not always achieved or were not accurately reported.

The impact of the lack of accountability for government spending at municipalities is further illustrated in the next three paragraphs.



Matjhabeng entered into a contract for the rehabilitation and restoration of the Witpan Wastewater Treatment Works in 2009. During construction, the site was flooded by water from a nearby pan, submerging the work-in-progress, and resulting in the project being halted and the contractor abandoning the site after being paid at least R1,9 million. A second contractor was appointed in June 2011 for R60,5 million. Total payments made to the second contractor amounted to R112,2 million, resulting in overspending of R51,7 million, while the project is still in progress. Additionally, the Department of Water Affairs advised the municipality in July 2016 that the Witpan Wastewater Treatment Works should be decommissioned, as it would only be usable for eight more years. Instead, they proposed that the municipality upgrade the Theronia or the Thabong wastewater treatment works. The municipality would obtain limited benefits from the rehabilitation and restoration of the Witpan plant, as most of the structures were run-down or old. However, notwithstanding the concerns raised by the department, the municipality still continued with the project. During a site visit, we also noted that one of the recently upgraded tanks was leaking, which may result in further cost on the project.

At Metsimaholo, the Refengkgotso Wastewater Treatment Works project was initially budgeted for an amount of R6 million and the consulting engineer was appointed in December 2014. The scope of the consulting engineer's work, based on the initial appointment, was expanded several times. During May 2017, the project's scope was further increased and the municipality issued a new appointment letter to the same consulting engineer for a budgeted amount of R15,9 million to oversee the revised project. A contractor was then appointed at a budgeted amount of R148,6 million with a planned completion date of November 2018. The municipality had made payments of R47,8 million to the consulting engineer and the contractor, but it could not be confirmed that services were actually received for all the payments made.

In another instance at Metsimaholo, 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 on the project as, except for a fence, no building structures were visible during a site visit.

Irregular expenditure disclosed in the financial statements increased from R677 million to R913 million, as all municipalities had material findings on procurement and did not prevent irregular expenditure as required by legislation. The continued disregard for procurement processes by the leadership that resulted in irregular expenditure, coupled with limited consequences for these transgressions, created

an environment vulnerable to misappropriation, wastage and the abuse of state funds. The main contributors to irregular expenditure were Matjhabeng (R377 million), Tokologo (R114 million), and Setsoto (R99 million). However, had the irregular expenditure of the four municipalities (29%) with qualifications on completeness as well as the irregular expenditure incurred by the municipalities with outstanding audits been included, the irregular expenditure incurred would have been significantly higher.

The most common supply chain management findings that resulted in irregular expenditure related to three quotations and competitive bids not being obtained or invited, suppliers not submitting declarations of interest, and a lack of tax clearance certificates. It is concerning that R298 million of the irregular expenditure incurred related to multi-year contracts entered into in prior years that had not been dealt with appropriately, with Matjhabeng contributing R147 million in this regard. Additionally, supporting documentation for contracts and quotations of R187 million at five municipalities could not be provided for audit purposes, which was a further illustration of the poor internal control environment. The closing balance of irregular expenditure for the province was R2,3 billion, which indicated that irregular expenditure was not always adequately investigated to identify the officials to be held accountable for the possible recovery of losses, resulting in the year-on-year increase in the balance. Where irregular expenditure was investigated, officials were seldom held accountable but amounts were written off. This continued culture of no consequences has been created through the leadership's involvement in the decision-making that led to transgressions, which complicates their role to call for action.

The amendments to the Public Audit Act would allow us to refer for investigation any irregular acts or omissions causing a material financial loss, the misuse or loss of material public resources, or substantial harm to a public sector institution or the general public; and could result in remedial action. The area that would be affected the most in the province is irregular expenditure, due to the substantial amount and the nature of the transgressions reported each year without the necessary investigations taking place. We therefore encourage management and the leadership to take a strong stance against the abuse of public funds by exercising their responsibility to ensure that transgressions are appropriately investigated by the relevant oversight structures and that any losses are recovered.

The province's audit outcomes have significantly regressed due to the continued deterioration in the accountability for financial and performance management, despite the new administration being in power for two years. Nine municipalities regressed from the previous year, while none were able to improve their audit outcomes nor to achieve a clean audit for the second consecutive year. Dihlabeng, Matjhabeng,



Metsimaholo, Nala, Phumelela, Setsoto, Thabo Mofutsanyana District and Tswelopele regressed from an unqualified audit opinion with findings to a qualified audit opinion. Ngwathe regressed from a qualified audit opinion to a disclaimed opinion. If we had not allowed any material audit adjustments, the audit outcomes would have been worse, as no municipality would have received a financially unqualified audit opinion. Instability and vacancies in key positions as well as staff supporting them contributed to the poor audit outcomes at most municipalities. Except for the municipal manager, there were no permanently appointed senior managers at year-end at Tokologo (which also received a disclaimed opinion and was one of the highest contributors to irregular expenditure). The local government audit outcomes will continue to deteriorate if the leadership does not set the right tone at the top, take accountability for addressing the root causes of the audit outcomes, and ensure transparent reporting of government spending.

It is concerning that nine of the 23 municipalities' audits had not been finalised by the cut-off date of this report of 31 January 2019, due to the late or non-submission of financial statements, delays in the audit process caused by service delivery protests at the municipality, and information systems-related issues such as the Municipal Standard Chart of Accounts conversion. There was a breakdown in internal controls, as daily, monthly and annual controls were not implemented and monitored throughout the year but remained a year-end effort. The nine municipalities of which the audit outcomes were outstanding, included Fezile Dabi District, Mangaung Metro, Mohokare and Nketoana that submitted financial statements late as well as Mafube, Maluti-A-Phofung and Masilonyana that had not yet submitted financial statements. Lejweleputswa District (consolidated financial statements) and Letsemeng submitted financial statements on time, but the audit process was delayed due to service delivery protests. These audits represent R9,2 billion (51%) of the total municipal budget, with Mangaung Metro being responsible for R5 billion. The metro should have led by example in the province to instil a strong control environment and good governance, which would have ensured the timely submission of financial statements. Although the audit outcomes are distorted by the nine outstanding audits, we anticipate that the picture in the province will not improve.

There has been an outcry for greater accountability in local government in the Free State. If the political and administrative leadership had displayed the will to respond to this, the picture in the province would not have deteriorated to such a low point. The leadership should lead the drive to change the current culture that will result in a responsive, accountable, effective and efficient local government. The fundamental principles needed to improve accountability for government spending require dedication by the leadership, backed by visible action and effective oversight.

Mechanisms to promote accountability, which were lacking, typically include the following:

- Proper planning and budgeting to prioritise critical services.
- Fiscal disciplines to promote the effective, efficient and economical use of resources.
- Managing the performance of staff and effecting consequences for poor performance and transgressions.
- Essential oversight by assurance providers, especially municipal managers, mayors, councils, municipal public accounts committees and provincial coordinating departments.
- Comprehensive risk assessments and a fully functional internal audit unit, which independently evaluates management's implementation of key controls and daily disciplines; and reports directly to the audit committee.

We remain committed in our efforts to be a value-adding assurance provider and have therefore extended our engagements to status of records reviews. These include an analysis of financial and non-financial information to identify key areas that may derail progress in compliance with legislation and the preparation of financial and performance reports. This process was necessitated by the non-responsiveness of the leadership to our messages, as reported in our management, audit and general reports, as well as our quarterly engagements with all assurance providers. However, there was an unwillingness to participate in, and a lack of accountability for, the status of records reviews. We will continue to engage with management and the leadership, and monitor the progress they make to address key challenges and risks identified during this review process. Municipalities that continue to lack commitment will be escalated to the provincial and national executive leadership, and a decision will be taken on whether to continue supporting those municipalities with the status of records review.

## FREE STATE – How is your municipality doing?

Municipality	Indicators of accountability										Accountability impact							Key root causes											
	Overall audit outcomes			Financial statements			Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred						
Metropolitan municipality																													
Mangaung Metro		No														No													
Fezile Dabi district																													
Fezile Dabi District		No														Yes													
Matube		No														No													
Metsimaholo	↑	Yes	R	↑	Yes	R	R	R	R	13.4m	255,06m	R	No	171	76,5	-	2,3m	Not audited	Yes	11	No response	Yes	Yes					Yes	
Moqhaka	↑	Yes	R	↑	Yes	R	N	R	R	46,6m	478,02m	R	Yes	347	75,2	146,4m	17,4m	Not audited	No	30	Slow response	No	No					Yes	
Ngwathe	↑	Yes	R	↑	Yes	R	R	R	R	97,1m	273,45m	R	Yes	Not audited	Not audited	168,1m	35,6m	Not audited	Yes	44	No response	Yes	Yes					Yes	
Lejweleputswa district																													
Lejweleputswa District		Yes											No																
Masilonyana		No											Yes																
Matjhabeng	↑	Yes	R	↑	Yes	R	R	R	R	376,7m	292,97m	R	Yes	1237	71	873,1m	169,2m	Not audited	Yes	55	Slow response	Yes	Yes					Yes	
Nala	↑	Yes	R	↑	Yes	R	R	R	R	45,3m	58,61m	R	Yes	1005	84	2,9m	5,1m	Not audited	Yes	37	No response	Yes	No				Yes		
Tokologo	↑	Yes	R	↑	Yes	R	R	R	R	113,6m	269,11m	R	No	Not audited	Not audited	169,2m	3,8m	Not audited	Yes	0	No response	Yes	Yes				Yes		
Tswelopele	↑	Yes	R	↑	Yes	R	R	R	R	12,1m	15,1m	R	No	295	58	4,2m	4,9m	Not audited	Yes	14	No response	Yes	No				Yes		

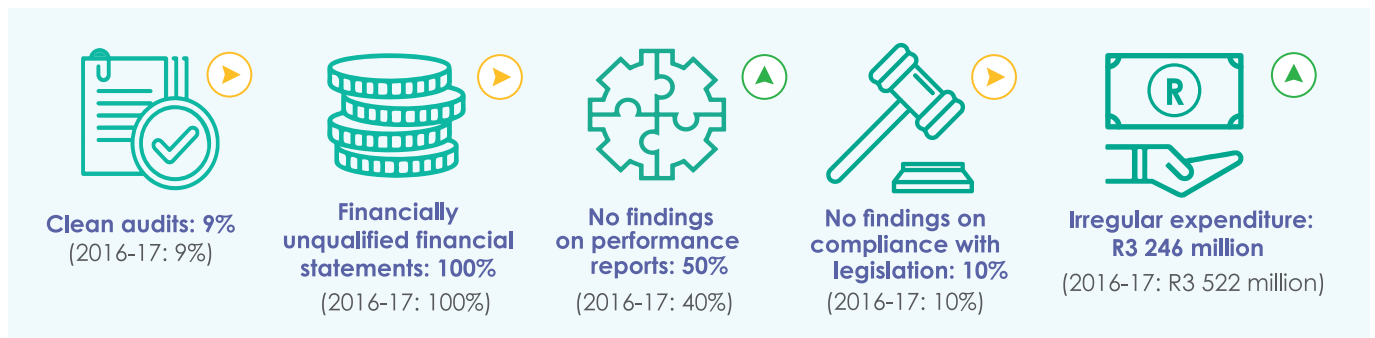
Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	↑	Improved	→	Unchanged	↓	Regressed						

Municipality	Indicators of accountability										Accountability impact						Key root causes																					
	Overall audit outcomes										Financial statements		Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas			Instability or vacancies in key positions or key officials lacking appropriate competencies		Inadequate consequences for poor performance and transgressions
											Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions					
Thabo Mofutsanyana district																																						
Thabo Mofutsanyana District	→	Yes	N	→	Yes	R	R	R	R	R	R	R	R	14.0m	18,39m	N	No	67	70.2	0,62m	0,22m	Not audited	Not audited/N/A	N/A	No response	Yes	Yes	Yes	Yes									
Dibabeng	→	Yes	R	→	Yes	R	R	R	R	R	R	R	R	37,1m	90,78m	R	Yes	540	92,3	170,6m	20,3m	Not audited	Not audited	32	No response	Yes	Yes	Yes	Yes									
Maluti-A-Phofung		No															Yes																					
Mantsope	→	Yes	R	→	Yes	R	R	R	R	R	R	R	R	11,1m	17,99m	R	Yes	450	77	169,8m	15,6m	Not audited	Yes	49	No response	Yes	Yes	Yes	Yes									
Nketoana		No															No																					
Phumelela	→	Yes	R	→	Yes	R	R	R	R	R	R	R	R	20,1m	177,68m	R	No	1163	93,9	69,1m	3,4m	Not audited	Yes	11	No response	Yes	Yes	Yes	Yes									
Seisoeto	→	Yes	R	→	Yes	R	N	R	R	R	R	R	R	99,1m	49,81m		Yes	154	42,6	17,3m	3,4m	Not audited	Yes	26	No response	Yes	Yes	Yes	Yes									
Xhariep district																																						
Xhariep District	→	Yes	R	→	Yes	R	R	R	R	R	R	R	R	1,7m	37,29m	R	No	244	74,6	1,8m	0,75m	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes	Yes	Yes									
Kopanong	→	No	R	→	Yes	R	R	R	R	R	R	R	R	24,9m	246,42m	R	Yes	1336	90	39,4m	28,3m	Not audited	Yes	50	No response	Yes	Yes	Yes	Yes									
Leisemeng		Yes															Yes																					
Mohokare		No															No																					

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date		Movement in audit outcomes and quality of published financial statements												

## 6.3 GAUTENG

### PROVINCIAL SNAPSHOT



The Gauteng local government sustained its audit outcomes in 2017-18, with one municipality obtaining a clean audit. The analysis of audit outcomes excludes Emfuleni, of which the audit had not been finalised by the legislated date due to safety concerns in the municipal area, which resulted in a temporary suspension of the audit process. We commend Midvaal for sustaining a clean audit outcome for the last five years. As highlighted in prior years, this was as a result of the municipality institutionalising a number of best practices (which should be replicated across the province), such as timeously monitoring the implementation of action plans to ensure that internal control deficiencies are addressed and effectively applying consequences.

Encouragingly, 100% of Gauteng municipalities have obtained a financially unqualified opinion for the past three years. Gauteng also remains the only province without any qualified or disclaimed opinions. However, the quality of financial statements as initially submitted for auditing regressed, as only 30% of the municipalities (2016-17: 40%), namely Midvaal, Merafong City and West Rand District, submitted financial statements without material misstatements. The poor quality of financial statements submitted for auditing at some municipalities was primarily due to a lack of accountability by chief financial officers and finance officials, who did not adequately review financial information during the year. We continue to highlight that reliance on auditors to identify errors in the financial statements, which are then corrected by municipalities, is not a sustainable practice.

Positively, the audit outcomes on reported performance information improved, as 50% of the municipalities (2016-17: 40%), namely Midvaal, City of Ekurhuleni Metro, City of Tshwane Metro, Merafong City and West Rand District, did not have findings on the usefulness and reliability of their performance reports. The municipalities that achieved this without reliance on the audit process and submitted a performance report without material misstatements also improved to 20%, namely City of Ekurhuleni Metro and West Rand District (2016-17: 10%). The above can be attributed to improved record keeping of portfolios of evidence and

enhanced reviews and oversight by monitoring and evaluation units. However, internal control deficiencies need to be addressed in a sustainable manner to avoid the regression in performance reporting that took place in prior years after similar improvements.

Compliance outcomes remained stagnant, as only Midvaal did not have material findings on compliance with legislation. The most common findings related to creditors not being paid within 30 days; procurement and contract management; and the prevention of unauthorised, irregular and fruitless and wasteful expenditure. Furthermore, West Rand District and Merafong City suffered losses of R126,4 million as a result of the impairment of investments made with VBS Mutual Bank, which were in contravention of the Municipal Investment Regulations. We continue to highlight that non-compliance with legislation remains the major obstacle preventing most municipalities in the province from achieving a clean audit.

Unauthorised expenditure in the province increased to R1,9 billion (2016-17: R1,4 billion) due to inadequate budget controls and monitoring. Irregular expenditure at municipalities decreased to R3,2 billion (2016-17: R3,5 billion). Irregular expenditure incurred by municipal entities increased to R1,3 billion (2016-17: R654 million), of which R1,2 billion was incurred by municipal entities of the City of Johannesburg Metro. The total irregular expenditure in the province therefore increased to R4,5 billion (2016-17: R4,2 billion). The high levels of irregular expenditure remain a concern in the province, especially at metro level.

The City of Tshwane Metro remained the largest contributor, with irregular expenditure of R1,7 billion (2016-17: R1,8 billion). Of this, R838 million (49%) was due to contracts awarded in prior years, including R600 million on the smart prepaid meter contract. The metro has since taken steps to reduce the irregular expenditure on this contract from the R1,3 billion reported in 2016-17, with the contract subsequently being terminated after year-end. The metro also incurred irregular expenditure of R318 million due to non-compliance relating to the procurement of



project management services under a contract secured by another organ of state. The City of Johannesburg Metro incurred irregular expenditure of R868 million, of which R628 million (72%) related to prior year contracts. The majority of the irregular expenditure incurred related to the procurement of fleet services and information technology services through invalid extensions and deviations instead of a competitive bidding process. The City of Ekurhuleni Metro incurred irregular expenditure of R275 million, of which R52 million (19%) related to prior year contracts. The majority of the irregular expenditure (R148 million) related to the incorrect application of section 110 of the Municipal Finance Management Act (procurement from another organ of state) on an information technology contract.

The province remained slow in effectively applying consequences, which was one of the root causes of the lack of accountability. The number of municipalities with material findings relating to effecting consequences remained stagnant on six municipalities. In particular, R12,7 billion of the R13,6 billion opening balance of unauthorised, irregular and fruitless and wasteful expenditure had not been dealt with during the financial year. This balance had increased to R17,7 billion at year-end. Considering the amendments to the Public Audit Act, municipalities should ensure that legislation is adhered to; oversight structures such as municipal public accounts committees appropriately investigate transgressions; unauthorised, irregular and fruitless and wasteful expenditure is condoned, recovered or written off where appropriate; and stringent consequence measures are applied.

Instability and vacancies in key positions continued to be a root cause that hindered an improvement in audit outcomes. At some municipalities, positions continued to be filled by acting officials, which created an environment that did not support effective performance management and consequences. Vacancies at year-end included the chief financial officer position at both the City of Johannesburg Metro and Sedibeng District, and the municipal manager position at Lesedi.

The current economic climate has resulted in municipalities' financial sustainability remaining constrained, as they continued to experience difficulties in collecting debt from municipal consumers. This was especially the case for the City of Tshwane Metro, as well as for local municipalities in the West Rand and Sedibeng regions, which had a negative impact on these municipalities' ability to pay providers for basic services. This was evidenced by the 80% of municipalities (2016-17: 60%) with material findings on non-payment of creditors within the required 30 days. At year-end, municipalities were in arrears of approximately R350 million and R65 million to providers of electricity and water, respectively. The expanding Gauteng population, as well as the resultant increased

infrastructure development and maintenance needs, has also placed a strain on capital expenditure spending. We continue to encourage municipalities to intensify debt-collection processes while embracing prudent and efficient financial spending to ensure that they are still able to provide essential services to their citizens.

The status of the information technology environment regressed, as most municipalities did not effectively implement information technology security and user access policies and procedures, and did not enforce monitoring and evaluation mechanisms. At the City of Johannesburg Metro and the City of Ekurhuleni Metro, service level agreements with some information technology service providers were not adequately managed, which resulted in municipal systems not having adequate data protection controls against potential threats. Vacancies at chief information officer and information technology manager level contributed to the instability and lack of accountability within the information technology environment. To address these recurring findings, information technology controls across all of the various municipal systems should be prioritised by municipal managers, and consequences should be applied where information technology commitments are not met.

Gauteng municipalities and their entities, primarily through the province's three metros, were responsible for R144,3 billion (35%) of South Africa's local government expenditure budget. This included R20 billion in capital expenditure. These funds were allocated to, among others, water and sanitation, electricity, roads and housing infrastructure projects; all of which are critical enablers to delivering essential services to communities. Our analysis of municipal grants and key infrastructure projects indicated that, encouragingly, 97% of the total municipal infrastructure grant funding of R371 million was spent and planned targets were achieved at 100% of the 10 projects funded by this grant. A total of 86% of the R2,6 billion public transport network grant funding was spent at the three metros, with planned targets achieved at 67% of the three projects funded by this grant. Similarly, the metros and Rand West City spent 97% of the R5,3 billion urban settlements development grant funding, but the planned targets were not achieved at 58% of the 12 projects funded by this grant. As highlighted in the previous year, this demonstrates that while grant funding was generally used adequately in the province, municipalities need to pay greater attention to achieving the planned targets, especially relating to the urban settlements development grant.

Our analysis of water infrastructure projects found that three municipalities (City of Johannesburg Metro, City of Ekurhuleni Metro and Mogale City) did not achieve targets for the provision of water services. Similarly, four municipalities (City of Johannesburg Metro, City of Tshwane Metro, Lesedi and Mogale City) did not achieve targets at sanitation projects. For both



routine water maintenance and sanitation, there were insufficient qualified engineers or technical staff to meet project needs or oversee consulting engineers at three municipalities (City of Tshwane Metro, Midvaal and Mogale City).

At the City of Johannesburg Metro, a number of infrastructure projects are implemented through its municipal entities. At Johannesburg Water, this included the Bushkoppies works balancing tank project funded by the urban settlements development grant. The project was delayed due to changes in the scope of works (via variation orders which escalated the cost from R70 million to R151 million) and unrest on site that prevented the contractor from accessing the site. In the previous year, we reported that the City of Tshwane Metro's R517 million Temba water purification plant project had experienced major delays and was behind schedule due to poor project planning. Our follow-up work found the project to be 99% complete and in the commissioning phase in 2017-18, but the project cost had escalated to R894 million. The delays resulted in warranties on project equipment expiring before the equipment could be installed.

Our analysis of housing projects in the province indicated similar examples of delays due to poor project management. At the City of Johannesburg Metro's R852 million South Hills mixed development housing project funded by the urban settlements development grant, planned timelines were not met as they were not clearly defined in the agreement with the developer. A total of 2 103 units were built, compared to the target of 2 190. Instances of poor quality workmanship were also noted due to inadequate monitoring of subcontractors. At the City of Ekurhuleni Metro, the phase 4 Palm Ridge X9 housing infrastructure project was not completed, as the contractor delayed the installation of water meters and rectification of 400 bathroom structures where the angle of the roof pitch had been incorrectly constructed. This was due to inadequate supervision of the project. The metro had also spent R22 million on 565 temporary residential structures for the Angelo informal settlement. Security costs of R7 million were incurred on this project before security was terminated due to budget constraints. All 565 structures were subsequently stolen. The above concerns indicate

that there is still significant room for improvement in the provisioning of housing infrastructure.

We did note instances of good project management, which should be replicated at all municipalities. At the City of Tshwane Metro, the R63 million upgrading of roads and stormwater systems in the Soshanguve Block GG Central project was completed within the contractual timelines and no quality deficiencies were noted. This was attributable to the monitoring and supervision of the work on site and the enforcement of adherence to timelines through regular communication with the contractor. We continue to emphasise the importance of the implementation of sound project management principles to ensure the efficient, effective and economical delivery of key basic services. Proper project planning and regular monitoring will assist municipalities to not only achieve their performance targets, but also improve their financial sustainability, reduce related non-compliance with legislation, and ultimately improve audit outcomes.

Although the overall audit outcomes have remained stagnant, we continue to interact regularly with stakeholders to discuss our management and audit reports; as well as through conducting status of records reviews, to highlight key areas requiring attention as part of efforts to improve accountability. We emphasised our recommendation to the political and administrative leadership that they should act decisively to address the various root causes contributing to stagnant outcomes. This includes the slow response by the administrative leadership to prioritise the implementation of action plans and address internal control deficiencies, which is reflected in the further regression in the level of assurance provided by senior management.

We continue to encourage key role players such as the provincial cooperative governance department and the provincial treasury to intensify the level of support provided to municipalities going forward, especially in the area of compliance with legislation. We will continue to monitor the impact and progress of commitments made, as they are critical enablers to improving the overall audit outcomes in the province.



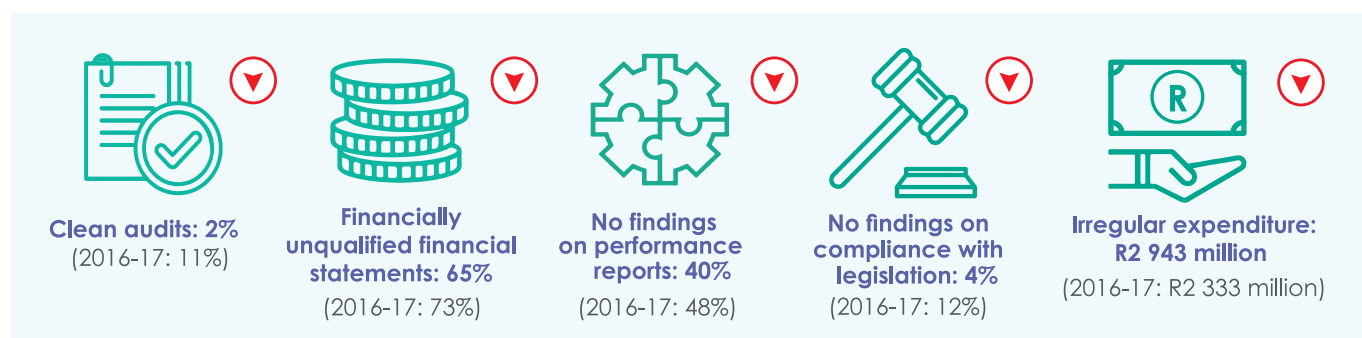
## GAUTENG – How is your municipality doing?

Municipality	Indicators of accountability										Accountability impact							Key root causes														
	Overall audit outcomes			Financial statements			Performance report				Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences			Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation			Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Status of financial health							Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred					
Metropolitan municipalities																																
City of Ekurhuleni	↑	Yes	R	↑	Yes	A	R	R	R	274,6m	1 515,12m	N	No	92	67,4	-	4,7m	Yes	No	30	slow response	Yes	Yes	Yes								
City of Johannesburg Metro	↑	Yes	R	↑	Yes	R	R	R	R	868,3m	2 724,27m	R	No	32	88	304,5m	9,1m	Yes	Yes	26	Slow response	Yes	Yes	No								
City of Tshwane Metro	↑	Yes	R	↑	Yes	R	R	R	R	1 683,9m	5 063,99m	R	Yes	74	70,9	1 138,3m	64,8m	Yes	Yes	28	Slow response	No	No	Yes								
Sedibeng district																																
Sedibeng District	↑	Yes	N	↑	Yes	R	R	R	R	9,4m	12,99m	N	No	143	87,2	6,4m	0,06m	Not audited	Not audited	N/A	Slow response	Yes	Yes	Yes								
Emfuleni		Yes											Yes						Not audited/N/A													
Lesedi	↑	Yes	R	↑	Yes	R	R	R	R	45,1m	208,51m	R	No	93	80	13,6m	0,29m	Yes	Yes	26	Slow response	Yes	Yes	Yes								
Midvaal	↑	Yes		↑	Yes	N				0,26m	-		No	14	50	4,4m	-	No	Yes	29		No	No	No								
West Rand district																																
West Rand District	↑	Yes	A	↑	Yes	A	R	R	R	21,1m	-		Yes	1055	21,6	51,1m	0,26m	Not audited	Not audited	N/A	Slow response	No	No	No								
Merafong City	↑	Yes		↑	Yes	R	R	R	A	22,5m	63,8m	A	No	360	87	35,5m	24,7m	Yes	No	47	Slow response	Yes	Yes	No								
Mogale City	↑	Yes	N	↑	Yes	R	R	R	R	171,2m	200,9m	A	Yes	115	85,1	-	9,5m	Yes	Yes	15	Slow response	No	No	No								
Rand West City	↑	Yes	R	↑	Yes	R	R	R	R	149,7m	212,59m	R	No	272	74,1	324,9m	11,5m	No	No	35	Slow response	No	No	Yes								

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date		Movement in audit outcomes and quality of published financial statements		← Improved	→ Unchanged	→ Regressed								

## 6.4 KWAZULU-NATAL

### PROVINCIAL SNAPSHOT



The audit outcomes continued to deteriorate in the second year following the election and appointment of the new political and administrative leadership. We again identified and reported that the leadership along with management was slow to respond, or did not respond at all, to the early warning risk signals and recommendations that we regularly communicated. The levels of tension, intimidation and threats, as well as pushback and hostility, increased during the execution and reporting phases of our audits, as the leadership and management were under pressure to achieve better audit outcomes.

The outcomes indicated a net overall regression of nine municipalities since the previous year, comprising 14 regressions and five improvements. There was a substantial decrease in the number of municipalities with unqualified audit opinions without findings (clean audits) from six to one, and an increase in the number of municipalities with modified audit opinions (qualified, adverse and disclaimed) from 14 to 18. The hostile environment and pushbacks at Msunduzi and Richmond resulted in the late finalisation of these audits; the outcomes of which are excluded from this report. If these outcomes had been considered, the province would still have displayed an overall regression.

eThekweni Metro, which accounted for R38,77 billion (54%) of the total local government budget of the province, remained stagnant on an unqualified opinion with findings on compliance matters. Irregular expenditure was not prevented and awards were made to suppliers without obtaining declarations of interest. Most of the irregular expenditure was due to invalid deviations and extensions to contracts. During the year, our leadership took a decision to suspend the audit process due to intimidation and threats, which made it difficult for us to test supplier contracts. The South African Police Service had to be used to escort audit staff to the metro. The municipality's leadership also had to intervene to restore calm and safety to enable the uninterrupted resumption of audit work.

The audit outcomes of district municipalities regressed when compared to the previous year. Of the 10 district municipalities, only ILembe District received an unqualified opinion with findings on compliance matters. Seven district municipalities received qualified opinions, while two received adverse opinions. These poor results were mainly due to control breakdowns in revenue and asset management, accounts receivable as well as the recording of disclosure items. Municipal managers did also not pay adequate attention to the deteriorating status of their records, as daily, weekly and monthly financial management disciplines were not implemented. Amajuba and uMkhanyakude district municipalities have received unfavourable audit opinions consecutively for the last five years. This trend demonstrated a continuous lack of accountability as well as indecisive leadership and direction in the management of the affairs of these municipalities.

The audit outcomes of 11 local municipalities (27%) regressed from the previous year. Two notable regressions included Mpofana and Nongoma. Mpofana regressed to a disclaimed opinion from a qualified opinion; and Nongoma to an adverse opinion from an unqualified opinion. Mpofana has also received unfavourable audit opinions consecutively for the last five years. The regressions and unfavourable outcomes at local municipalities stemmed from senior management's failure to take accountability and institutionalise the basic disciplines of record management, reconciliations and fundamental reviews in the areas of revenue and asset management, receivables, recording of disclosure items, as well as performance reporting and compliance with laws and regulations. The root causes of these findings included the slow response by management in implementing action plans, instability and vacancies in key positions, as well as a lack of understanding of the municipal financial and performance reporting requirements.

The poor quality of submitted financial statements persisted. The daily and monthly processing and reconciling activities undertaken by key finance support staff were not duly supervised and reviewed to allow for reporting processes to operate independently. Had corrections to the financial statements not been processed, 41 municipalities (79%) would have obtained modified opinions. A total of 23 municipalities (44%) avoided qualifications only because they corrected the material misstatements that were identified through the audit process. Municipalities continued to use consultants for financial reporting. This did not have a positive impact on audit outcomes at some municipalities, due to inefficiencies by the municipalities (such as the poor quality of the underlying data and poor project management). We remain concerned that 29 of the appointed chief financial officers had the relevant competency levels and professional qualifications to enable them to perform their duties, yet consultants were appointed to assist in financial reporting. This practice needs to be investigated, as it is not cost-effective and results in a drain on allocated funds that can be better utilised in other areas.

A total of 96% of the municipalities had material findings on compliance with legislation, predominantly on matters related to procurement and contract management; material misstatements in submitted financial statements; unauthorised, irregular, and fruitless and wasteful expenditure; as well as effecting consequences. The levels of irregular expenditure continued on an upward spiral from R2,33 billion to R2,94 billion, despite legislation requiring municipal managers to take reasonable steps to prevent such expenditure.

The blatant disregard for legislation continued to erode accountability, public trust and governance, especially when systems and processes were intentionally abused. Six municipalities failed to disclose the full extent of their irregular expenditure, indicating that the value could be even higher. eThekweni Metro, uThukela District, uMzinyathi District, uMkhanyakude District and Ugu District collectively accounted for R1,76 billion (60%) of the total disclosed value. Additionally, irregular expenditure of R213 million disclosed in the financial statements of the municipalities of which the audits had been finalised late (Msunduzi and Richmond) was not included in the total disclosed value. The main areas of non-compliance with Supply Chain Management Regulations that resulted in irregular expenditure included deviations from competitive bidding and quotation processes that were not approved, supported and/or justified as well as emergency criteria that had been incorrectly applied.

The political and administrative leadership were not serious about enforcing accountability for those who were responsible for irregular expenditure, as evidenced by the high cumulative closing

balance of R8,35 billion. Investigations into irregular expenditure of the previous year did not take place at some municipalities. Where investigations did take place, they were not conducted properly or not completed within a reasonable time in some instances. Additionally, where investigations had been completed, effective disciplinary steps (based on recommendations arising from these investigations) were not always taken against officials. The lack of consequences and the non-recovery of money from officials responsible for incurring the irregular expenditure were concerning.

During the year, community protests and turmoil continued to spike due to failures in service delivery promises and the poor state of accountability at municipalities. This also links to the number of municipalities that underspent their grant funding for key service delivery targets by R601 million as at 30 June 2018. In many instances, we could not verify the validity, accuracy and completeness of the reported achievements of municipalities. Overall, 31 municipalities (60%) had material findings on their performance report, compared to 27 municipalities (52%) in the previous year. Furthermore, only six municipalities (12%) produced quality performance reports before audit adjustments. Weak record management, inadequate standard operating procedures, and a poor understanding of the required source documents for performance reporting continued to be obstacles.

The multi-year integrated rapid public transport infrastructure system for the GO!Durban project at eThekweni Metro with an actual spend of R2,96 billion as at 30 June 2018 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 (in other words, contracts in which costs to fulfil the terms of the contract are higher than the economic benefit that is received), whereby payments would be made if there was any delay on the part of the municipality. This resulted in payments being made where no construction work was being performed. The delays experienced on this project could negatively affect citizens due to safety concerns, increased travelling costs and traffic congestion.

Targets for the provision of water services were not met at eight (57%) of the municipalities authorised to provide such services. This was due to poor performance by contractors, insufficient qualified engineers and technical staff to meet project needs, and drought conditions. Additionally, many local municipalities struggled with the implementation of effective road asset management practices, which resulted in deteriorating road infrastructure. Due to management's slow response to address the previous year's audit findings and poor project management disciplines, municipalities did not adopt the

standard for infrastructure procurement and delivery management; develop and/or approve road renewal and maintenance plans; and perform conditional assessments.

The financial health of municipalities showed a weakening trend. The drought that has been ravaging the province since 2015 has not let up in many areas and had a negative impact on financial health. Additionally, poor revenue and debt management practices contributed to the concerning status of financial health. The extended debt-collection periods placed the cash flow of municipalities under strain and many failed to pay money owed within 30 days. Concerning is that 42 municipalities (89%) had current liabilities that were greater than 10% of their budgets for the next year. Committing a substantial portion of future budgets in the current year hampers service delivery in future periods under declining economic conditions. Some municipalities struggled to make payments for bulk purchases of water and electricity and entered into agreements with suppliers to pay off outstanding amounts over a specified period. The total arrears in this regard for water and electricity were R348 million and R83 million, respectively, as at 30 June 2018. Municipalities also continued to lose money through water (R1,23 billion) and electricity (R976 million) distribution losses. These losses were mainly due to illegal connections and poorly maintained infrastructure.

The information technology environment improved; however, some municipalities continued to struggle with the implementation of information technology security and user access management controls due to inadequate policies and procedures as well as a lack of skilled staff.

The provincial cooperative governance department and the provincial treasury continued to support municipalities with the implementation of initiatives through the municipal support programme. The provincial treasury implemented support initiatives over multiple years and most of these are still in progress. Municipalities did not have major challenges with the implementation of the Municipal Standard Chart of Accounts, due to the provincial treasury's direction, support and oversight. However, further improvements can still be made on the training and transfer of skills to municipal officials through the coordination of efforts with the provincial cooperative governance

department and the South African Local Government Association. The provincial cooperative governance department swiftly intervened at six municipalities with maladministration by appointing administrators. However, the interventions by the administrators did not have a significant impact on audit outcomes, mainly due to their late appointment, resistance by municipal officials, and vacancies in key positions.

The repetitive nature of audit findings demonstrated that audit committees did not adequately direct the scope of internal audits, resulting in the latter not responding to core challenges and risks. Additionally, most municipal councils and municipal public accounts committees did not exercise oversight over issues we raised in terms of section 131 of the Municipal Finance Management Act. To some extent, these structures could not fulfil their responsibilities effectively due to senior management and municipal managers not providing credible information at a number of municipalities.

The political, municipal and provincial leadership should prioritise the filling of key positions with competent people, deal with transgressions and poor performance decisively, and sufficiently monitor the implementation of action plans to address prior year findings. Oversight structures (the council and its committees) should be more robust and persuasive in their quest for quality and credible information, and hold officials accountable where they have consistently failed to fulfil their mandated responsibilities.

Many of the challenges across local government are vast and require attention and a long-term solution. Equally, there are basic lapses that are sometimes overlooked, which can be fixed easily and quickly by addressing the building blocks of a sound system of internal control and combined assurance. The amendments to the Public Audit Act are expected to focus greater attention by accounting officers to the importance of accountability, personal liability and legislated fiduciary responsibilities so that auditees under their helm are soundly managed. Importantly, an improvement in audit outcomes is also largely dependent on the political will of elected officials as well as the diligent collaboration and commitment of all key assurance role players to strengthen local government administration and accountability.





## KWAZULU-NATAL – How is your municipality doing?

Municipality	Indicators of accountability										Accountability impact						Key root causes								
	Overall audit outcomes		Financial statements		Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			
																Status of financial health		Average creditor-payment period (days)		Percentage of debt irrecoverable		Unauthorised expenditure incurred Amount (R million)		Fruitless and wasteful expenditure incurred Amount (R million)	
Metropolitan municipality																									
eThekweni Metro	↑	Yes	↑	Yes	Yes	N	↑	R	N	733.0m	1 283.0m	Yes	Yes	75	49	-	29.5m	Not audited	Yes	32	Slow response	No	No	Yes	
Amajuba district																									
Amajuba District	↑	Yes	R	↑	Yes	R	R	R	R	2.7m	53.61m	R	No	269	71	40.6m	0.21m	Yes	Yes	51	No response	Yes	Yes	Yes	
Dannhauser	↓	Yes	R	↓	Yes	R	R	R	A	12.7m	9.09m	R	Yes	8	20.7	-	-	Not audited	No	N/A	Slow response	No	No	No	
eMahlangueni	↑	Yes	N	↑	Yes	R	R	R	R	7.8m	58.2m	R	No	79	36	21.9m	0.02m	No	No	N/A	Slow response	No	No	No	
Newcastle	↑	Yes	R	↑	Yes	R	R	R	R	95.7m	283.34m	R	No	230	64	124.2m	8.5m	Not audited	Yes	48.8	Slow response	Yes	Yes	Yes	
Harry Gwala district																									
Harry Gwala District	↑	Yes	R	↑	Yes	R	N	R	R	117.6m	460.04m	R	No	169	88	148.5m	0.52m	Yes	Yes	38.2	Slow response	No	No	Yes	
Dr Nkosazana Dlamini Zuma	↑	Yes	R	↑	Yes	R	R	R	R	10.9m	70.43m		No	61	50.1	-	0.01m	No	Yes	N/A	Slow response	Yes	No	No	
Greater Kokstad	↑	Yes	R	↑	Yes	R	A	R	R	28.6m	47.58m	A	No	32	41	-	0.02m	No	No	N/A	Slow response	No	No	No	
Ubuhlebezwe	↓	Yes	R	↓	Yes	R	R	R	R	12.2m	12.66m	N	Yes	174	65.4	-	0.003m	No	Yes	N/A	Slow response	No	No	Yes	
uMzimkhulu	↑	Yes	A	↑	Yes	A	A	R	R	2.6m	2.49m		No	12	49	-	-	Not audited	No	N/A	Slow response	No	No	No	

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date		Movement in audit outcomes and quality of published financial statements		Improved	Unchanged	Regressed								





Municipality	Indicators of accountability										Accountability impact						Key root causes																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
	Overall audit outcomes			Financial statements		Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
Ilembe district																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						</

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	Improved	Unchanged	Regressed	↓	↑	↓	↓	↓	↓	↓	↓	↓	↓

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements			↑	→	↓								

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements			Improved	Unchanged	Regressed								
									↑	→	↓								



Municipality	Indicators of accountability										Accountability impact						Key root causes										
	Overall audit outcomes		Financial statements		Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
			Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred (R million)	Accumulated outstanding balance on irregular expenditure as at year-end (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred (R million)	Fruitless and wasteful expenditure incurred (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred					
uMzinyathi district																											
	↑	Yes	R	↑	Yes	R	R	R	R	267.8m	1 010.46m	R	No		Not audited	Not audited	176.6m	0.04m	Yes	Yes	56	Slow response	Yes	No			
uMzinyathi District	↑	Yes	N	↑	Yes	N	R	R	R	16.6m	25.41m	A	Yes		29	86	10.8m	0.007m	No	No	N/A	Slow response	Yes	No			
Endumeni	↑	Yes	R	↑	Yes	R	R	R	R	9.5m	9.53m	A	Yes		11	88	-	0.83m	No	Yes	N/A	Slow response	Yes	No			
Msinga	↑	Yes	N	↑	Yes	R	R	R	R	6.1m	6.12m	A	No		74	32	-	0.008m	No	Yes	N/A	Slow response	No	No			
Nquthu	↑	Yes	R	↑	Yes	R	R	R	R	35.6m	9.94m	A	No		46	44.3	-	0.23m	Not audited	Yes	Yes	Slow response	Yes	Yes			
Umvoti	↑	Yes	R	↑	Yes	R	R	R	R																		
uThukela district																											
	↑	Yes	R	↑	Yes	R	R	R	R	399.8m	329.3m	R	Yes		118	75	71.0m	0.21m	Yes	Yes	77	Slow response	No	Yes			
uThukela District	↑	Yes	R	↑	Yes	R	R	R	R	15.5m	183.98m	R	Yes		58	53	16.6m	0.1m	Yes	Yes	N/A	Slow response	No	Yes			
Alfred Duma	↑	Yes	R	↑	Yes	R	R	R	R	78.0m	249.04m	N	Yes		Not audited	Not audited	18.1m	2.2m	Not audited	No	N/A	Slow response	Yes	Yes			
Inkosi Langalibalele	↑	Yes	R	↑	Yes	R	R	R	R	-	13.52m		No		33	38.8	-	0.04m	No	No	N/A		No	No			
Okhahlamba	↑	Yes		↑	Yes																						
King Cetshwayo district																											
	↑	Yes	N	↑	Yes	R	R	R	A	-	-	A	No		79	53	-	-	No	No	23	Slow response	No	No			
King Cetshwayo District	↑	Yes	R	↑	Yes	R	R	R	N	15.4m	88.9m	A	Yes		109	16	26.3m	0.2m	No	Yes	N/A	Slow response	No	No			
Mfolozi	↑	Yes	A	↑	Yes	R	R	R	R	36.2m	110.56m		No		51	56.5	1.5m	0.06m	Not audited	Yes	N/A	Slow response	No	No			
Mthonjaneni	↑	Yes	A	↑	Yes	R	R	R	R	10.7m	86.86m	N	No		57	63.7	11.4m	1.7m	Not audited	No	N/A	Slow response	No	No			
Nkandla	↑	Yes	A	↑	Yes	R	R	R	N	3.0m	3.04m		Yes		75	5	-	-	No	Yes	21	Slow response	No	No			
uMhathuze	↑	Yes		↑	Yes	R	R	R	R				Yes		38	42.2	14.8m	1.8m	Not audited	Yes	N/A	Slow response	No	No			
Umlalazi	↑	Yes	A	↑	Yes	A	R	R	N	3.1m	1.42m		No														

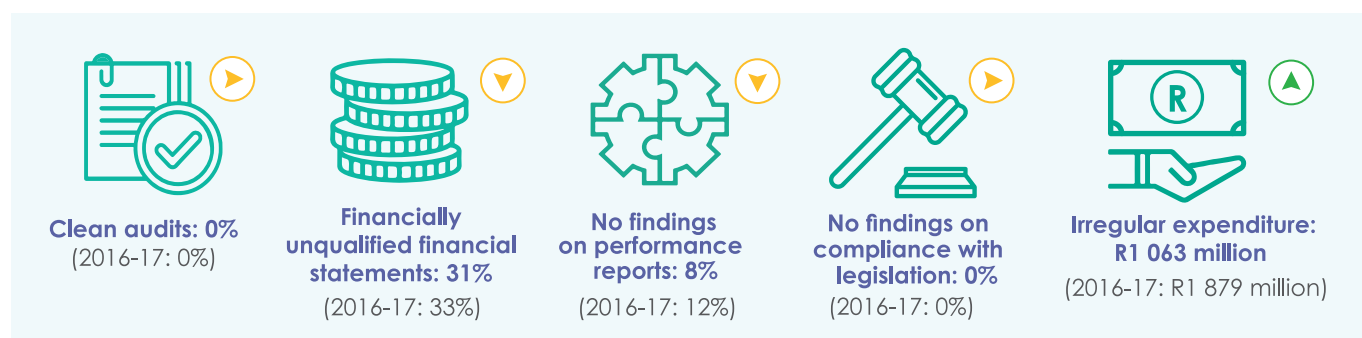
Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑

Municipality	Indicators of accountability										Accountability impact						Key root causes															
	Overall audit outcomes			Financial statements		Performance report		Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas			Instability or vacancies in key positions or key officials lacking appropriate competencies		Inadequate consequences for poor performance and transgressions		
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts					Irregular expenditure incurred (R million)	Accumulated balance on irregular expenditure at year-end (R million)	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred (R million)	Fruitless and wasteful expenditure incurred (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water								Percentage of water losses incurred
Zululand district																																
Zululand District	↑	Yes	R	→	Yes	R	N	R	R	122.9m	307.91m	N	No	No		70	86	-	0.04m	Not audited	No	9	Slow response	No	Yes							
AbaQulusi	↑	Yes	R	↑	Yes	A	A	R	R	41.9m	158.99m	N	Yes	Yes		168	43.8	108.5m	18.7m	Not audited	Yes	48	Slow response	No	Yes							
eDumbe	↑	Yes	R	↑	Yes	R	R	R	A	1.7m	71.51m	R	No	No		350	8	7.9m	1.2m	Not audited	Yes	N/A	Slow response	Yes	Yes							
Nongoma	→	Yes	R	→	Yes	R	A	R	R	3.2m	66.5m	R	No	No		Not audited	Not audited	17.4m	0.002m	Yes	Yes	N/A	Slow response	No	Yes							
Ulundi	↑	Yes	N	↑	Yes	R	R	R	R	55.8m	111.25m	R	No	No		315	50.3	-	5.6m	Not audited	Yes	N/A	Slow response	No	Yes							
uPhongolo	↑	Yes	R	↑	Yes	R	A	R	N	38.3m	121.04m	N	No	No		98	46	-	0.42m	Not audited	Yes	N/A	Slow response	No	Yes							

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	Improved	Unchanged	Regressed	↓	↑	↓	↓	↓	↓	↓	↓	↓

## 6.5 LIMPOPO

### PROVINCIAL SNAPSHOT



In its second year, the administration of the Limpopo local government realised a slight improvement in the overall audit outcomes in 2017-18 with a net improvement of two municipalities. However, this improvement was consultant-driven rather than as a result of a concerted effort by the leadership to address internal control deficiencies. Following the improved audit outcomes in 2015-16, which was also consultant-driven, we warned against the over-reliance on consultants that put the sustainability of improved audit outcomes at risk. Our warnings were not taken seriously – consequently, this improvement was not sustainable in 2016-17 as the overall audit outcomes regressed.

At the cut-off date of 31 January 2019 for inclusion in this report, the audit outcomes of two municipalities (Modimolle-Mookgophong and Thabazimbi) were still outstanding and are thus excluded from this provincial overview. Modimolle-Mookgophong only submitted financial statements in January 2019, while Thabazimbi had not yet submitted financial statements. This is the second consecutive year that both these municipalities have failed to submit their financial statements by the legislated deadline. Both municipalities required service providers to assist in the preparation of the financial statements due to capacity constraints in their finance units. However, the service providers were appointed very late in the financial year, resulting in the late submissions. The chief financial officer of Thabazimbi resigned at year-end and the provincial treasury placed Modimolle-Mookgophong under administration on 30 May 2018, which also contributed to the delays. The late completion of the audits at these municipalities has a resultant impact on the work of the various oversight bodies that rely on the audit reports to execute their responsibilities.

The continued over-reliance on consultants as a short-term remedy rather than focusing on attracting and empowering officials with adequate skills and competencies to improve the control environment for sustained improved outcomes, is indicative of the breakdown in internal controls, as daily, monthly and annual controls were not implemented and monitored throughout the year but remained a year-end effort.

A total of 24 municipalities (96%) used consultants for financial reporting at a cost of R177 million (2016-17: R123 million) due to a lack of skills and/or vacancies in key positions, especially in the finance units. Notwithstanding the investment made through the appointment of consultants, the financial statements still contained material misstatements that were identified during the audit. Only three municipalities (Greater Tzaneen, Capricorn District and Sekhukhune District) did not have material misstatements in the areas for which the consultants were appointed. The most common reason for misstatements at the remaining municipalities was auditee inefficiencies, which included providing consultants with insufficient supporting documents to prepare credible financial statements.

None of the municipalities were able to improve their audit outcomes to achieve a clean audit for the second consecutive year of the current administration. The eight municipalities that obtained unqualified audit opinions all used consultants at a cost of R43 million (24%), of which Elias Motsoaledi contributed R25 million. Municipalities that obtained qualified audit opinions spent R78 million (44%), with Polokwane contributing the most at R35 million; while municipalities with adverse or disclaimed opinions spent R56 million (32%), with Mopani District, Vhembe District and Collins Chabane contributing R24 million, R19 million and R13 million, respectively. The cumulative amount spent on consultants by Polokwane, Elias Motsoaledi, Mopani District, Vhembe District and Collins Chabane over the past two years amounted to R159 million; yet skills were not transferred adequately, as management continued to appoint consultants for the preparation of the financial statements.

Over the years, we have recommended that the first level of assurance providers (management, municipal managers and mayors) develop strategies to address deficiencies in the internal control environment and to implement effective action plans to address the root causes of our findings. The consistent poor quality of financial statements confirms that the leadership did not timeously respond to matters we raised in 2016-17; that municipalities are yet to



implement controls to ensure the improved quality of financial statements submitted for auditing; and that municipalities continue to rely on the audit process to identify misstatements. These shortcomings were further enabled by an environment in which there were inadequate consequences for poor performance.

We remain extremely concerned about the status of compliance with legislation, as all municipalities (100%) in the province had material findings due to non-compliance with legislation. The most common compliance findings related to the quality of financial statements submitted for auditing (100%), municipalities not preventing unauthorised, irregular and/or fruitless and wasteful expenditure (92%), non-compliance with supply chain management prescripts (76%), effecting consequences (68%), and revenue and expenditure management (56%). The number of findings in most of these categories increased in the year under review. It is evident that the deteriorating accountability for financial and performance management is not being addressed, as there are no consequences for those who fail to comply with legislation. Oversight mechanisms such as the municipal public accounts committees need to strengthen their focus on compliance matters. It is also vital that members of these committees have sufficient knowledge of legislation to interact meaningfully on matters of compliance and thus adopt effective resolutions. With the amendments to the Public Audit Act, the leadership must ensure that municipalities have sound internal controls and that there are consequences for transgressions with laws and regulations and poor performance.

Although the irregular expenditure incurred in the current year decreased from R1 879 million to R1 063 million, it is still unacceptably high with 96% (2016-17: 100%) of the municipalities reporting instances of irregular expenditure. Additionally, the amount is likely to be significantly higher, as 10 municipalities were qualified on the completeness of the irregular expenditure disclosed in their financial statements and the irregular expenditure of the two municipalities with outstanding audits is not included in the total. The entire R1 063 million was incurred as a result of non-compliance with supply chain management prescripts. Of this total, R1 024 million (96%) related to payments or expenses incurred in the 2017-18 financial year, while R39 million (4%) was identified in the 2017-18 financial year but related to prior years.

Five municipalities incurred 68% of the total irregular expenditure, namely Mogalakwena (R374 million), Greater Letaba (R96 million), Polokwane (R89 million), Elias Motsoaledi (R83 million), and Fetakgomo Tubatse (R77 million). The cumulative balance of irregular expenditure as at 30 June 2018 was R5 563 million, of which 83% (R4 618 million) relating to prior financial years, had not yet been dealt with by the councils. This is an indication that not all irregular expenditure was investigated to identify if there are any officials

from whom these losses can be recovered. This is further supported by the reported compliance findings above on effecting consequences at 68% of the municipalities, as investigations into unauthorised, irregular and fruitless and wasteful expenditure were not performed.

Municipal investment regulation 6 requires municipalities to invest with banks registered in terms of the Banks Act. As at 30 June 2018, eight municipalities (Greater Giyani, Makhado, Elias Motsoaledi, Lepelle-Nkumpi, Ephraim Mogale, Vhembe District, Collins Chabane, and Fetakgomo Tubatse) had investments amounting to R1 191 million with VBS Mutual Bank. The funds invested in VBS Mutual Bank were a combination of conditional grants, equitable share and own revenue. The bank was placed under curatorship by the South African Reserve Bank on 11 March 2018 and the North Gauteng High Court ordered its liquidation on 13 November 2018. Due to the pending liquidation process, the recoverability of the R1 191 million is highly unlikely. We reported non-compliance with the applicable Municipal Investment Regulations in the audit reports of all eight municipalities. Two municipalities, namely Collins Chabane and Vhembe District, were also qualified on the VBS Mutual Bank investment balances disclosed in their financial statements. Collins Chabane failed to impair the balance as required by the applicable accounting standards and Vhembe District did not disclose the entire balance invested with the bank.

The impact of these losses was evidenced by service delivery protests at some of the municipalities. At Fetakgomo Tubatse, where part of the funds invested came from the integrated national electrification programme grant, certain villages were not electrified. The basic service delivery and infrastructure development and the local economic development objectives were not fully met due to a lack of funds. Furthermore, the municipality was unable to pay its service providers subsequent to year-end and has since been placed under administration in terms of section 139 of the Constitution. Greater Giyani was unable to start and complete some infrastructure projects, which will now be implemented in phases (over three years); and Vhembe District was unable to perform repairs and maintenance of water pipes and boreholes due to insufficient funds. For the remaining four municipalities (excluding Elias Motsoaledi where the remaining balance is R48 000), the impact of the losses will in all likelihood have a negative effect on service delivery objectives in the coming years. The provincial treasury appointed a service provider to investigate the root causes that led to the unlawful investments at the mutual bank and the investigation is in progress.

The financial health of municipalities regressed due to the municipalities' inability to collect money owed for serviced rendered, which was made worse by the losses suffered by the eight municipalities that invested



with VBS Mutual Bank. Fifteen municipalities (71%) failed to collect debts owed to them within 90 days. The province incurred unauthorised expenditure amounting to R2 832 million – a huge increase from the R1 393 million in the previous year. The increase was due to non-cash items that were not appropriately budgeted for and the investments with VBS Mutual Bank that had to be impaired at year-end. Eleven municipalities (52%) realised a deficit at year-end, as their expenses exceeded their income. Two municipalities were placed under administration, namely Modimolle-Mookgophong and Fetakgomo Tubatse, due to poor revenue collection, which had an impact on their ability to pay creditors (such as the water board and Eskom) on time. Municipalities need to tighten their spending, improve their debt-collection strategies, and properly manage their budgets to honour their financial obligations and provide for basic services.

In addition, significant amounts are owed by municipalities to Eskom and the water board. The total outstanding balance as at 30 June 2018 for these utilities amounted to R1 567 million, which can be broken down as follows:

- Eskom – R366 million (R206 million is between 0 and 30 days old)
- Water board – R1 201 million (R715 million is older than 120 days)

The status of the reported performance information slightly regressed from the previous year. We did not report material findings on performance information at only two municipalities (8%), namely Greater Giyani and Capricorn District (2016-17: 12%). We previously recommended that municipalities design and implement standard operating procedures for collating, recording and reporting on their performance. Our recommendations were not implemented, as evidenced by the lack of improvement in these outcomes. At the root of this regression was the slow response by management, due to those officials responsible for performance reporting lacking the required knowledge and skills. Even with the establishment of a performance management forum by the provincial cooperative governance department, municipalities continued to have material findings on their reported performance information. Attendance of the forum by key officials is usually very poor, and instead officials who do not have the required knowledge on performance reporting are often delegated to attend meetings of this forum.

We audited 56 projects funded by conditional grants and raised findings on 25 projects, as detailed below:

- Sixteen projects were not completed by the planned completion dates.
- Six projects were awarded without complying with supply chain management prescripts.

- Goods and services were not received at one project.
- Misstatements were identified at two projects.

An example of how the lack of accountability negatively affected service delivery can be seen in the Nandoni RWS: construction of bulk pipeline from Nandoni to Muraga via Mangondi project in Vhembe District. This project was started in 2016 and was still not 100% complete at year-end, due to ineffective monitoring, management and supervision. The municipality has to date incurred R81 million on the project, with a total contract value of R160 million. At Mopani District, the contractor failed to complete the tours bulk water scheme project with a contract value of R34 million by the planned date of 30 April 2018. The completion date was revised to 28 February 2019, due to the ineffective monitoring of the project. At the time of writing this report, the project was 92% complete and R30 million had already been paid to the contractor. Delays in the completion of water infrastructure projects had resulted in a number of service delivery protests in the district, which continues to be plagued by water shortages and aged infrastructure.

Our review of information technology covered user access management, security management, information technology governance, and information technology continuity. The province's information technology audit outcomes regressed. Common findings included disaster recovery plans not being in place or approved at nine municipalities (36%), a lack of monitoring and review of system administrator or controller access at eight municipalities (32%), information technology security policies and procedures not being in place or approved, and inadequate security settings that were not in accordance with best practices at 11 municipalities (44%). In addition, municipalities still relied on information technology vendors to support their application systems, and internal audit units did not actively follow up the implementation of information technology controls. These weaknesses had a direct impact on the credibility of information produced by these systems and subsequently the information submitted for auditing.

The lack of appropriate skills at chief financial officer level and the over-reliance on consultants are becoming obstacles to the sustainability of improved audit outcomes. It is critical that the current vacancies at both chief financial officer and municipal manager level are filled by competent personnel with relevant experience. We continue to encourage key role players such as the provincial cooperative governance department and the provincial treasury to intensify the level of support provided to municipalities going forward.

To assist in improving the quality of the financial statements, the provincial cooperative governance department conducted a financial statements



readiness assessment programme and reviewed the financial statements prior to submission for auditing. The challenge, however, was that most municipalities submitted their draft financial statements to the department too late to have had the desired impact. The lack of urgency by the political and administrative leadership to address audit findings is a concern. On the same note, we also conducted status of records reviews to provide the accounting officers with early warning signals on internal controls. Despite these engagements being well received, accounting officers were slow to act on our recommendations.

We once again encourage the leadership in the province to ensure that a culture of accountability is cultivated and that all levels of management and leadership accept responsibility for improving audit outcomes. It is critical that the municipal public accounts committees and municipal councils are adequately capacitated, especially in the area of compliance, to effectively exercise their oversight roles. This will help to prevent a situation where municipalities incur unnecessary financial losses, such as making unlawful investments.

The tone has to be set at the top (by senior managers, municipal managers and mayors) that there is zero tolerance for poor performance and transgressions. This will not only improve audit outcomes but will have a positive impact on service delivery as well.

## LIMPOPO – How is your municipality doing?

Municipality	Indicators of accountability										Accountability impact						Key root causes																									
	Financial statements			Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences			Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation			Financial health						Infrastructure development and maintenance																			
																	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred (R million)	Fruitless and wasteful expenditure incurred (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred																		
Overall audit outcomes																						Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred (R million)	Accumulated outstanding balance on irregular expenditure at year-end (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation							Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Capricorn district																																										
Capricorn District	↑	Yes	R	↑	Yes	A	R	R	0,07m	43,94m	No	11	34	-	0,4m	No	No	38	Slow response	Yes	No																					
Blouberg	↑	Yes	R	↑	Yes	R	R	R	14,0m	13,96m	Yes	127	20	-	0,29m	No	No	N/A	Slow response	Yes	No																					
Lepelle Nkumpi	↑	Yes	R	↑	Yes	R	R	R	71,0m	272,33m	Yes	14	62,8	-	0,005m	No	Not audited/N/A	N/A	Slow response	Yes	Yes																					
Molemole	↑	Yes	R	↑	Yes	R	R	R	0,05m	3,52m	No	42	41	1,4m	0,05m	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes																					
Polokwane	↑	Yes	R	↑	Yes	R	R	A	89,5m	562,54m	No	60	51	411,1m	0,1m	Yes	No	14	Slow response	Yes	Yes																					
Mopani district																																										
Mopani District	↑	Yes	R	↑	Yes	R	R	R	10,7m	197,0m	R	Not audited	Not audited	154,2m	17,9m	Yes	Yes	69	No response	Yes	Yes																					
Ba-Phalaborwa	↑	Yes	R	↑	Yes	R	R	R	37,4m	325,58m	R	64	69	68,7m	0,24m	Yes	No	N/A	Slow response	Yes	Yes																					
Greater Glyani	↑	Yes	R	↑	Yes	R	R	R	2,9m	15,93m	N	61	63,9	206,5m	0,17m	No	Yes	N/A	Slow response	Yes	Yes																					
Greater Lelaba	↑	Yes	R	↑	Yes	R	R	R	96,4m	124,39m	R	199	64	51,2m	0,1m	Yes	Yes	N/A	Slow response	Yes	Yes																					
Greater Tzaneen	↓	Yes	R	↓	Yes	R	R	R	12,3m	104,83m	A	89	10	111,9m	6,2m	No	No	N/A	No response	Yes	Yes																					
Maruleng	↑	Yes	R	↑	Yes	N	R	R	5,2m	27,67m	Green	54	76,5	-	-	Yes	Yes	N/A	Slow response	Yes	Yes																					

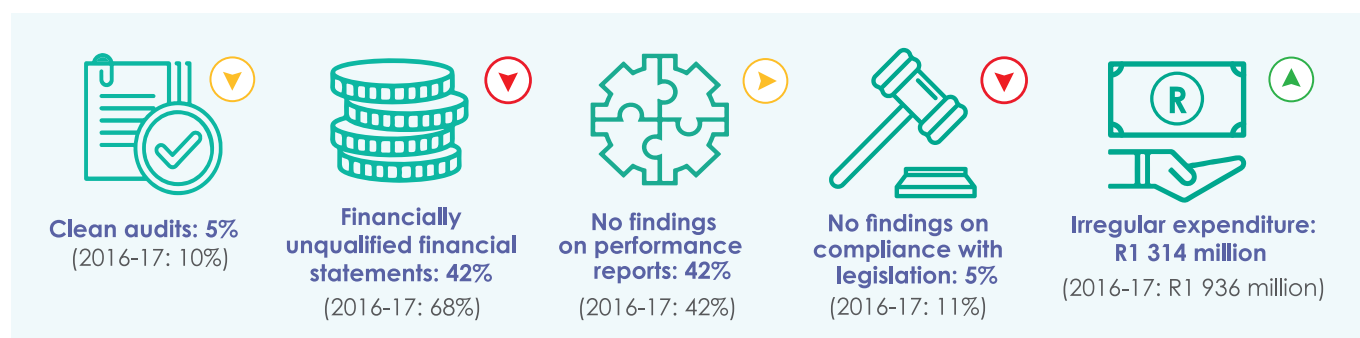
Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	Improved	Unchanged	Regressed	↓	↑	↓	↑	↓	↑	↓	↑	↓

Municipality	Indicators of accountability										Accountability impact						Key root causes															
	Overall audit outcomes		Financial statements			Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions				
			Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred										
Sekukhune district																																
Sekukhune District	↑	Yes	R	→	Yes	R	R	R	R	A	26.6m	1 217.29m	R	No	No	167	54.3	0.11m	Not audited	No	0	Slow response	Yes	Yes	Yes							
Elias Mokoaledi (Greater Groblersdal)	↑	Yes	R	↑	Yes	R	R	R	R	R	82.6m	167.14m	R	Yes	Yes	73	85.3	0.42m	No	No	N/A	Slow response	Yes	Yes	Yes							
Ephraim Mogale	↑	Yes	R	↑	Yes	R	R	R	R	R	21.0m	20.97m		No	No	30	56.6	-	No	No	N/A	Slow response	Yes	Yes	Yes							
Fetakgomo Tubatse	→	Yes	R	→	Yes	R	R	R	R	R	77.3m	191.41m	N	Yes	Yes	191	81.1	297.7m	Not audited	Yes	N/A	Slow response	Yes	Yes	Yes							
Makhudutlana	↓	Yes	R	↓	Yes	R	R	R	R	N	-	74.9m	N	No	No	56	93	48.0m	Not audited	No	N/A	Slow response	Yes	Yes	Yes							
Vhembe district																																
Vhembe District	→	Yes	R	→	Yes	R	R	R	R	R	0.17m	0.17m	R	Yes	Yes	Not audited	Not audited	-	Yes	Yes	15	Slow response	Yes	Yes	Yes							
Collins Chabane	→	Yes	R	→	Yes	R	R	R	R	R	45.4m	53.35m		Yes	Yes	Not audited	Not audited	5.0m	Yes	Yes	N/A	Slow response	Yes	Yes	Yes							
Makhado	↓	Yes	R	↑	Yes	R	R	R	R	A	33.5m	3.17m		No	No	101	55.6	164.3m	No	No	N/A	Slow response	Yes	Yes	Yes							
Musina	↓	Yes	R	↓	Yes	R	R	R	R		21.7m	146.88m	R	Yes	Yes	494	15	-	Yes	Yes	N/A	Slow response	Yes	Yes	Yes							
Thulamela	↑	Yes	R	→	Yes	R	R	R	R	R	0.89m	64.75m	N	No	No	59	93	32.2m	No	No	N/A	Slow response	Yes	Yes	Yes							
Waterberg district																																
Waterberg District	→	Yes	R	→	Yes	R	N	R	R	R	0.33m	20.31m	R	No	No	92	0	-	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes	Yes							
Bela-Bela	→	Yes	R	→	Yes	R	R	R	R	R	31.9m	6.44m		No	No	168	87.8	15.1m	Not audited	Yes	8	Slow response	Yes	Yes	Yes							
Lephalale	↓	Yes	R	↓	Yes	R	R	R	R	R	8.9m	186.95m	R	No	No	91	29.9	17.6m	Yes	Yes	29	Slow response	Yes	Yes	Yes							
Modimolle-Mookgophong		No												No	No																	
Mogalakwena	→	Yes	R	→	Yes	R	R	R	R	R	373.7m	1 717.84m	R	No	No	Not audited	Not audited	2.6m	Not audited	Yes	21	Slow response	Yes	Yes	Yes							
Thabazimbi		No												No	No																	

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements		Improved	Unchanged	Regressed									

## 6.6 MPUMALANGA

### PROVINCIAL SNAPSHOT



The province has 20 municipalities, which include two consolidations (City of Mbombela and Thaba Chweu). Section 122(2) of the Municipal Finance Management Act requires consolidated financial statements to be prepared. Thaba Chweu and its entity (Thaba Chweu Local Economic Development Agency) submitted only their separate draft annual reports for auditing on time but not the consolidated financial statements. This meant that the municipality was unable to table the consolidated annual report on time, as required by the Municipal Finance Management Act. As the audit was still in progress at the cut-off date of this report, the consolidated results of Thaba Chweu have been excluded from this overview.

Despite our strong message in prior years, calling on both the local government and the provincial leadership to deal decisively with the accountability failures by stabilising local government (through filling vacancies and capacitating local government) and implementing consequences, the province did not heed this message. We also performed status of records reviews during the year to highlight weaknesses that might get in the way of improved audit outcomes. This effort yielded very little benefit, however, as management was slow to respond or in some instances did not implement our recommendations, resulting in unfavourable outcomes due to qualifications on the balances on which we identified weaknesses during these reviews. As a result, the province was unable to sustain the improved audit outcomes from 2016-17 and instead experienced a significant net regression in 2017-18. This continuing deterioration of accountability for financial and performance management is illustrated in the paragraphs below.

Only Gert Sibande District improved its audit outcome – from unqualified with findings to a clean audit. Nine municipalities regressed from the previous year, with the worst regression being Govan Mbeki from an unqualified opinion with findings to a disclaimed opinion. The main driver of the regression was the lack of sufficient and effective institutionalised internal controls, which

resulted in an unstable control environment. At some municipalities, vacancies and instability in key positions as well as at support staff level further contributed to the unstable control environment. In addition, even though the chief financial officer position was filled at some municipalities, there was a lack of technical competency skills to appropriately interpret, analyse and report the financial and performance information in compliance with relevant frameworks and legislation. These vacancies, instabilities and competency gaps resulted in the province heavily relying on consultants, with little or no monitoring nor any transfer of skills. Despite 17 municipalities (89%) spending R134 million on consultants for financial reporting during the year, this had no impact on the outcomes except at Gert Sibande District.

As a result of these accountability failures, only one municipality (5%) – which managed 3% of the local government budget in the province – produced credible financial and performance reports and complied with key legislation, while municipalities entrusted with 97% of the budget failed to achieve clean administration. Furthermore, only eight (42%) of the municipalities had quality published performance reports in terms of both reliability and usefulness. The reliability of these reports improved from eight municipalities (44%) to 10 municipalities (56%), while 10 municipalities (56%) still struggled with the usefulness of the information in these reports. Since Dr JS Moroka was unable to submit its underlying supporting documents, we could not test reliability and the municipality was excluded from our reliability analysis. Municipalities prepared performance reports merely to comply with legislation rather than to use these reports as tools to measure performance, ensure clear accountability, and continually improve reporting on service delivery. This has been a trend that we have been highlighting to management and leadership over the past years.

Municipalities in the province continued to underperform on their planned projects. Of the R1.9 billion municipal infrastructure grant allocation, R177 million (9%) was not spent – mainly due to delays



in procurement processes and in the appointment of contractors, resulting mainly from not preparing procurement plans. We selected 67 key water, sanitation and road infrastructure projects for auditing at the 16 municipalities responsible for the delivery of water, sanitation and road services in the province. Of these projects, 26 (39%) were not awarded in accordance with Supply Chain Management Regulations and prescripts, while 21 (31%) were behind schedule and did not meet their planned target dates. We also raised concerns on the accounting for 13 (19%) of the projects and on quality deficiencies at one project, namely the upgrading of existing infrastructure to augment the borehole water supply in Bundu tested at Govan Mbeki.

We raised material findings on compliance with legislation at 18 municipalities (95%) due to the continued disregard for legislative prescripts. The most common compliance findings reported in the province related to material misstatements in the financial statements at 17 municipalities (89%); management of procurement and contracts at 17 municipalities (89%); the prevention of unauthorised, irregular and fruitless and wasteful expenditure at 15 municipalities (79%); expenditure management at 13 municipalities (68%); and effecting consequences at 13 municipalities (68%).

The above clearly shows that the province continued to struggle with procurement and contract management – weaknesses in this area contributed to more than 99% of the total irregular expenditure of approximately R1 314 million. This amount consisted of R1 034 million incurred in the current year and R280 million incurred in prior years but identified in the current year. Of the R1 034 million incurred in the current year, R572 million related to expenditure on multi-year contracts and R462 million represented non-compliance in 2017-18. Although the irregular expenditure had decreased when compared to the R1 936 million incurred in the previous year, the decrease was due to some of the bigger contracts at Bushbuckridge and Mkhondo expiring in 2017-18 and the City of Mbombela cancelling irregular contracts that were not linked to capital projects. The highest contributors to the current year irregular expenditure were Dr JS Moroka (R278 million), Bushbuckridge (R217 million), City of Mbombela (R187 million), and Emalahleni (R135 million). It was further disappointing that Ehlanzeni District had lost its clean audit status due to non-compliance with the Preferential Procurement Regulations.

Although some efforts were made to deal with the R6,2 billion prior year closing balance of irregular expenditure, the progress made to investigate this balance was slow. During the year, 10 municipalities wrote off irregular expenditure amounting to R2,8 billion. The City of Mbombela (R1,1 billion) and Bushbuckridge (R1,1 billion) contributed to 79% of the total write-off. Of the total R2,8 billion written off, R753 million at Bushbuckridge and R35 million at

Steve Tshwete related to irregular expenditure incurred by Rand Water as an implementing agent on behalf of the municipalities through the rapid intervention unit of the provincial government. As such, no officials were found liable for these transgressions, as this decision was taken at provincial leadership level and approved by the respective councils. We urge the provincial leadership to abstain from administrative decision-making but rather to strengthen their effectiveness through consistent and timeous monitoring and oversight.

The information technology environment continued to improve, with six municipalities implementing sound information technology controls, as compared to four in 2016-17. Notwithstanding these improvements, the shortcomings in the information technology environment at 13 municipalities (68%) should not be ignored, as poor controls in this environment increase the risk of fraud and data manipulation, which can affect the credibility of information used for decision-making. The full implementation of the Municipal Standard Chart of Accounts in 2017-18 presented some challenges, especially relating to the timely submission as well as the quality of financial statements. One municipality (Govan Mbeki) could not produce financial statements on time, as the municipality changed the Municipal Standard Chart of Accounts service provider during the year, which was a major setback in the preparation of the financial statements. Steve Tshwete, Emakhazeni, Msukaligwa, Dr JS Moroka and Bushbuckridge submitted financial statements of such poor quality that we could not audit the initial submission, as the financial statements did not reconcile to the trial balance due to misclassifications.

The local government leadership's lack of accountability for sound financial management had a negative impact on municipalities' financial viability. At three municipalities (16%), the financial information was not reliable enough to analyse financial viability (as they had adverse or disclaimed opinions). A further four municipalities were in a vulnerable financial position; three of these disclosed a material financial uncertainty in their financial statements, while one was qualified for not disclosing this. Given the already weak financial position in local government, we are very concerned about the overspending at 13 municipalities, resulting in unauthorised expenditure of R1,3 billion – mainly caused by the municipalities' inability to budget properly. A total of 10 municipalities took longer than 90 days to collect debt, while 13 municipalities were unable to pay their debts as they became due within 30 days. Eskom remained the highest creditor in the province, with municipalities owing the electricity provider R4 billion. Some municipalities have entered into payment arrangements with Eskom but the bill remains high. The late payment of creditors contributed to fruitless and wasteful expenditure of R396 million, most of which was due to penalties and interest.



The financial crisis in local government raged even more fiercely after year-end when four municipalities (Msukaligwa, Emalahleni, Govan Mbeki and Lekwa) were subjected to mandatory provincial intervention in terms of section 139(1)(a) of the Municipal Finance Management Act. Task teams led by the provincial treasury and provincial cooperative governance department, including specialists in elements of financial management, had been dispatched to these municipalities. We will continue to follow up and engage both the municipalities and the leadership of the province on the progress and impact of this intervention.

We acknowledge the efforts by the provincial treasury and provincial cooperative governance department to support and capacitate municipalities, but these efforts were not sustainable to have the desired long-term impact. The support relating to financial accounting and reporting as well as compliance with laws and regulations could be more proactive in ensuring that municipalities have the necessary technical skills. The municipal manager vacancies at nine municipalities (47%) and chief financial officer vacancies at four municipalities (21%) further contributed to the accountability failures indicated above.

As the control environment deteriorated, the audit environment became more hostile and risky. Our auditors experienced subtle threats at two municipalities, while we also experienced significant delays in the submission of requested information due to service delivery protests at two municipalities. Another concerning trend was municipalities submitting falsified audit evidence to the auditors in order to avoid audit findings. We have engaged the leadership of the respective municipalities on these matters and urged them to set the right behavioural tone.

Many of the challenges that we have flagged above, can be turned around through strong, ethical and courageous leadership in the administration and council, with the support of provincial government. There is a need to strengthen the oversight mechanism in the province, specifically the council committees established in terms of sections 79 and 80 of the Municipal Structures Act as well as the audit committees. While implementing the additional powers provided to the auditor-general through the amended Public Audit Act, we will also consistently and insistently advise and caution those charged with local governance and oversight to implement the basic principles of accountability, which are built around strong internal control and good governance. This is the only way municipalities can be geared to live up to the expectations of the communities they serve.



Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	Improved ←	Unchanged →	Regressed ↓										

[illegible]

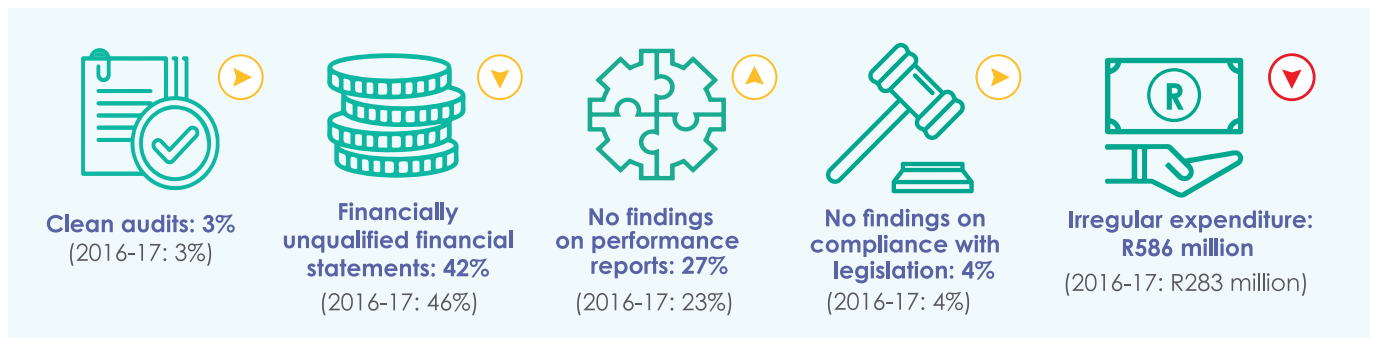


Municipality	Indicators of accountability										Accountability impact						Key root causes										
	Overall audit outcomes		Financial statements		Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
			Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred					
Nkangala district																											
Nkangala District	→	Yes	N	→	Yes	R	→	3.5m	3,55m	No	No	14	0	-	-	Not audited	Not audited	Not audited	N/A	Slow response	Yes	Yes	No				
Dr. JS Moroka	→	Yes	R	→	Yes	R	→	277.8m	551.8m	No	No	Not audited	Not audited	14.9m	0.43m	Yes	Yes	Yes	16	Slow response	Yes	Yes	Yes				
Emakhazeni	→	Yes	R	→	Yes	A	→	40.6m	96.6m	No	No	675	73.4	5.5m	5.1m	Yes	Yes	Yes	4	No response	No	No	Yes				
Emalahleni	→	Yes	R	→	Yes	R	→	135.3m	323.61m	No	No	847	82	222.0m	110.2m	Yes	Yes	Yes	40	Slow response	No	No	Yes				
Steve Tshwete	→	Yes	N	→	Yes	R	→	8.4m	5,91m	No	No	32	14	26.0m	-	Yes	Yes	No	19	Slow response	Yes	Yes	No				
Thembisile Hani	→	No	R	→	Yes	R	→	34.9m	25,06m	No	No	22	95	-	9.1m	Yes	Yes	Yes	18	Slow response	Yes	Yes	Yes				
Victor Khanye	→	Yes	R	→	Yes	R	→	9.1m	26,44m	No	No	270	60	32.7m	6.4m	Yes	Yes	Yes	70	Slow response	Yes	Yes	Yes				

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	Improved	Unchanged	Regressed	↓	↑	↓	↓	↓	↓	↓	↓	↓

## 6.7 NORTHERN CAPE

### PROVINCIAL SNAPSHOT



The Northern Cape province consists of 31 municipalities, five district municipalities and 26 local municipalities. The audits of five local municipalities had not been completed by the cut-off date of 31 January 2019 for inclusion in this report, as the financial statements were submitted late due to a combination of leadership instability and internal control deficiencies.

The 2017-18 audit outcomes regressed, with three municipalities moving from an unqualified audit opinion to a qualified audit opinion, and two municipalities moving from a qualified audit opinion to a disclaimed audit opinion. Included in this regression are Sol Plaatje and Gamagara, two of the municipalities with the largest budgets in the province. The overall regression confirms that the message of accountability that we intensely focused on during the past two years has not been heeded yet. This message entailed that mayors, municipal managers and senior managers need to hold each other and their subordinates accountable. As this did not happen, similar findings are reported year after year in many instances, confirming that accountability for financial and performance management continues to deteriorate as highlighted in this overview. This deterioration in accountability is further confirmed by the re-occurrence of concerns we also highlighted in the previous year, as outlined below.

The quality of the submitted financial statements continued to be poor, with only two municipalities (8% [2016-17: 4%]) being able to submit quality financial statements in the year under review. We had also previously highlighted the fact that most municipalities relied heavily on the external auditors to identify misstatements in their financial statements. This was again evident, as 35% of the municipalities achieved unqualified audit opinions only because they corrected all misstatements identified during the audit. The poor quality, despite the use of consultants as detailed below, confirms that the leadership did not respond to the matters we had raised in 2016-17, and that municipalities had still not implemented controls that were meant to ensure quality financial statements.

The use of consultants has become the norm, with 21 municipalities utilising consultants for financial reporting purposes at a cost of R40 million. Our concern is not the use of consultants, but rather the province not receiving a return on investment, as all 21 municipalities had material misstatements in the area of the consultants' responsibility. Nine of the 21 municipalities (43%) corrected the misstatements and thereby obtained an unqualified audit opinion, but the remaining 12 municipalities (57%) still had either a disclaimed or a qualified opinion.

Performance reporting remained an area showing limited progress, with 73% of the municipalities (2016-17: 77%) being unable to produce performance reports that were useful and reliable – clearly indicating that this area was still not receiving the necessary attention. If we had not allowed audit adjustments, all municipalities would have had findings on their performance reports. Most municipalities were unable to provide supporting documents for their reported results, due to poor record management and a lack of controls to timeously and reliably report on their performance.

The status of compliance with legislation was still a concern, with only 4% of the municipalities avoiding findings on compliance (2016-17: 4%) – reconfirming that the municipal leadership was not taking this area seriously. The most common compliance findings related to managing procurement and contracts (96%); the quality of financial statements submitted for auditing (92%); and the prevention of unauthorised, irregular and fruitless and wasteful expenditure (88%).

The level of irregular expenditure significantly increased from the previous year and amounted to R586 million (2016-17: R283 million). However, this figure is incomplete as 10 municipalities were qualified on the completeness of their irregular expenditure, while another 10 were investigating the completeness of their irregular expenditure. Ga-Segonyana was the main contributor to irregular expenditure in the current year, accounting for R256 million or 44% of the total amount incurred. Of the R586 million, 86% resulted

from instances of non-compliance with the Supply Chain Management Regulations. The most common supply chain management findings related to uncompetitive or unfair procurement processes (92%) and inadequate contract management (69%).

During the year, municipalities wrote off irregular expenditure amounting to R572 million. This represents only 40% of the prior year irregular expenditure balance of R1 423 million. The fact that no irregular expenditure was recovered from the liable person, indicates that investigations are either not taking place or not rigorous enough to reduce this balance. Of further concern is that the two main contributors to the irregular expenditure balance, namely Gamagara (R360 million) and Nama Khoi (R198 million), did not investigate their irregular expenditure in the current year. This lack of accountability and consequences was consistently reported in prior years, but no progress had been made in this regard.

The extent and nature of supply chain management findings increased, pointing to a disregard for compliance with legislation. We are extremely concerned about this culture, as it exposes municipalities to the widespread misuse of public funds. The following are some of the indicators of the deterioration in accountability when it comes to supply chain management:

- We could not audit procurement of R138 million due to missing or incomplete information.
- False declarations of interest were made by 15 suppliers at 10 municipalities.
- Close family members of employees and councillors received R41 million in awards.

The financial health of the province remained a concern, with 64% of the municipalities considered to be in a financially vulnerable position (2016-17: 54%). This excludes four municipalities with disclaimers where the financial information was not accurate enough to perform a detailed assessment of their financial health. Current liabilities exceeded 10% of the next year's budget at all municipalities assessed. The municipalities did not collect debt from consumers, which in turn resulted in their inability to pay suppliers on a timely basis, which had a negative impact on these suppliers. This resulted in an average suppliers' payment period of 297 days, compared to the legislated requirement of 30 days. The cash-flow difficulties experienced by many municipalities were also evident from the fact that 13 local municipalities were in arrears with Eskom, while eight were in arrears with water service providers. Local municipalities in the province owed these suppliers R1 024 million as at 30 June 2018, of which R548 million was older than 120 days and the ageing for an amount of R230 million could not be determined.

The audit outcomes continue reflecting the poor state of internal controls, with only 4% of the municipalities (2016-17: 4%) being assessed as having good leadership as well as financial and performance management controls. The province will struggle to create stable and strong municipalities until municipal councils, municipal managers and senior managers prioritise the improvement of internal controls by ensuring that key positions are filled with skilled and competent staff. Vacancies and instability in key positions remained problematic. Eight municipalities (31%) did not have a permanently appointed municipal manager and six (23%) did not have a permanent chief financial officer. The environment created by these vacancies was a significant contributor to the continued poor quality of financial and performance reporting and did not enable accountability, as acting officials lacked the authority to take the necessary action.

As part of our audits, we tested 61 key projects relating to water, sanitation and road infrastructure. Most of these projects were poorly managed, as illustrated by the findings below:

- Irregular expenditure on the projects amounted to R197 million.
- We raised supply chain management findings at 39% of the projects.
- Budgets at 23% of the projects were over- or underspent.

In addition, 47% of the municipalities disclosed water losses of more than 30% in their financial statements. This is concerning considering that the province has been crippled by a drought over the past few years with taps running dry in some places. We also noted that 68% of the municipalities had no policy on water maintenance.

The implementation of the Municipal Standard Chart of Accounts during the year, exposed information technology weaknesses at many municipalities in the province. Although the implementation did not directly contribute to the regression in audit outcomes, the municipal leadership needs to seriously consider the need to capacitate information technology units and the adequacy of current information technology controls. A total of 31% of the municipalities in the province had not implemented this chart of accounts yet; and of those that had implemented it, only three (17%) made use of the National Treasury's transversal tender.

The main root causes that hindered progress in the province were as follows:

- The slow, or lack of, response by management and the political leadership to improve key controls and address risk areas.



- Inadequate consequences for poor performance and transgressions.
- Instability and vacancies as well as the inadequate application of knowledge and skills.

Considering the above, the municipal leadership – as the first level of assurance – must reconsider their current approach and instil a culture of discipline over the implementation and proper monitoring of internal controls. The message of accountability should be emphasised and the leadership must deal decisively with those who do not follow policies and procedures. While we noted an improvement in the assurance provided by internal audit units and audit committees, the impact of this has been hampered by management's failure to implement their recommendations.

In addition, the administrative and executive leadership should accept responsibility for their actions and should create a culture that will result in a responsive and accountable local government. Over the years, we have received numerous commitments from the executive leadership, but the impact of these commitments was minimal as very little was done to implement and monitor them. There were also no consequences when the responsible officials did not ensure that these commitments translated into actions and results.

To improve audit outcomes and strengthen accountability in the province, the provincial leadership should do the following:

- Set the correct tone at the top – focused on ethical leadership, good governance and accountability.
- Capacitate and stabilise administration – focused on filling municipal manager and chief financial officer vacancies with competent individuals.
- Enable and insist on robust financial and performance management systems.

Deterioration in accountability has become an embedded culture in the province that undermines the basic principles of transparency and good governance, which affects the level of public confidence in local government. The political leadership both at the provincial and municipal level and within the administration of municipalities must work together to resolve the current challenges faced by municipalities to create a culture that will result in a responsive and accountable local government.

## NORTHERN CAPE – How is your municipality doing?

Municipality	Indicators of accountability										Accountability impact							Key root causes										
	Overall audit outcomes		Financial statements			Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions		
			Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)			Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred							
Frances Baard district																												
Frances Baard District	↑	Yes	R	↑	Yes	R	R	N	3.9m	3.55m	No	No	33	9,3	-	0,19m	Not audited	Not audited/N/A	N/A	Yes	No							
Dikgatlong		No									Yes	Yes																
Magareng	↑	Yes	R	↑	Yes	R	R	R	22,8m	51,1m	No	R	1010	92,6	30,5m	8,0m	No	Yes	40	Yes	Yes	Slow response	Yes					
Phokwane		No									No	No																
Sol Plaatje	↓	Yes	R	↓	Yes	R	R	R	15,9m	15,87m	No	No	58	36,6	-	-	Yes	Yes	53	Yes	Yes	Slow response	Yes					
John Taolo Gaetsewe district																												
John Taolo Gaetsewe District	↑	Yes	R	↑	Yes	R	R	R	0,37m	21,0m	A	No	105	4,1	12,5m	2,3m	Not audited	Not audited/N/A	N/A	Yes	No							
Gamagara	↓	Yes	R	↓	Yes	R	R	R	23,3m	359,5m	R	No	Not audited	Not audited	-	6,7m	Yes	Yes	18	Yes	Yes	Slow response	Yes					
Ga-Segonyana	↑	Yes	R	↑	Yes	R	R	R	255,5m	167,26m	A	No	251	45,1	41,2m	5,2m	Yes	Yes	68	Yes	No	Slow response	No					
Joe Morolong	↑	Yes	R	↑	Yes	R	R	R	37,2m	125,95m	R	No	Not audited	Not audited	55,1m	0,49m	Not audited	Not audited/N/A	N/A	Yes	Yes	No response	Yes					

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date		Movement in audit outcomes and quality of published financial statements		Improved	Unchanged	Regressed								



Municipality	Indicators of accountability										Accountability impact						Key root causes												
	Overall audit outcomes			Financial statements		Performance report		Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions		
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure Amount (R million)	Accumulated outstanding balance on irregular expenditure at year-end Amount (R million)			A	No	70	0	-	Not audited	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of debt irrecoverable				Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)
Namakwa district																													
Namakwa District	↑	Yes	R	↑	Yes	R	R	N	0.44m	0.44m	A	No											Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes	
Hantam	↑	Yes	R	↑	Yes	R	A	R	81.9m	9.46m	R	No											Yes	Yes	11	Slow response	Yes	No	
Kamiesberg	↓	Yes	R	↓	Yes	R	R	R	7.3m	21.87m	R	No											Yes	Yes	16	Slow response	Yes	Yes	
Karoo Hoogland	↓	Yes	R	↑	No	NPR	NPR	R	6.5m	39.36m	R	No											Yes	No	8	No response	No	Yes	
Khai-Ma	↓	Yes	R	↓	No	NPR	NPR	R	11.8m	11.84m	R	Yes											Yes	Yes	58	Slow response	No	Yes	
Nama Khoi	↑	Yes	R	↑	Yes	R	R	R	39.9m	197.5m	R	No											Yes	Yes	15	Slow response	Yes	Yes	
Richtersveld	↑	Yes	R	↑	No	NPR	NPR	R	-	57.55m	R	No											Yes	Yes	14	No response	Yes	Yes	
Pixley Ka Seme district																													
Pixley Ka Seme District	↑	Yes	A	↑	Yes	R	R	R	2.8m	4.53m	R	No											Not audited	Not audited/N/A	N/A	Slow response	No	Yes	
Enthanjeni	↑	Yes	R	↑	Yes	R	R	R	28.2m	36.76m	R	No											Yes	Yes	36	Slow response	No	Yes	
Kareeberg	↑	Yes	R	↑	Yes	R	R	N	0.48m	-		No											Yes	Yes	0	Slow response	No	No	
Renosterberg		No										No																	
Siyancuma	↑	Yes	R	↑	Yes	R	R	R	7.0m	6.98m	A	No											Yes	No	11	Slow response	Yes	Yes	
Siyathemba		No										No																	
Thembehlhe	↑	Yes	R	↑	No	NPR	NPR	R	1.3m	112.87m	R	No											Yes	Yes	63	Slow response	Yes	Yes	
Ubututu	↑	No	R	↑	No	NPR	NPR	R	3.9m	55.87m	R	No											No	Yes	1	Slow response	Yes	Yes	
Umsobomvu	↑	Yes	R	↑	Yes	R	R	N	6.5m	7.31m	R	No											Yes	Yes	37	Slow response	No	Yes	

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	Improved	Unchanged	Regressed	↓	↑	↓	↓	↓	↓	↓	↓	↓

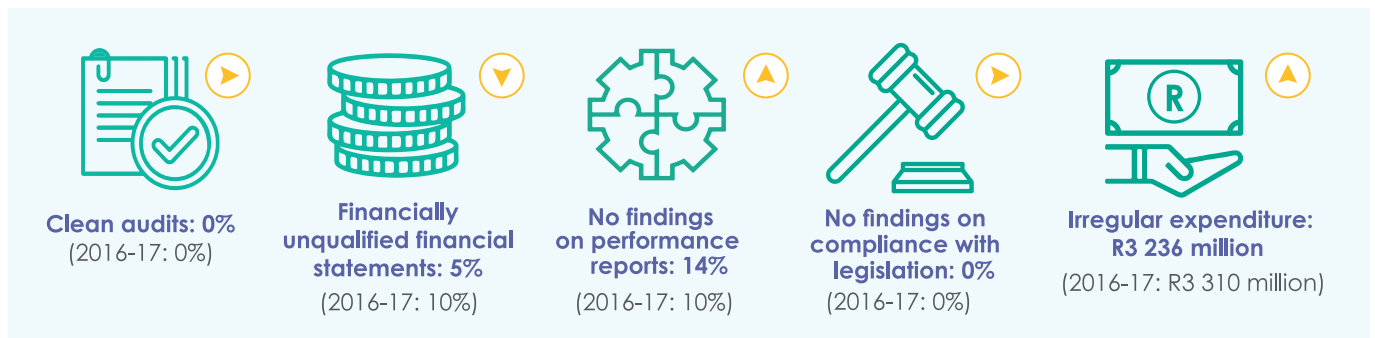


Municipality	Indicators of accountability										Accountability impact						Key root causes													
	Overall audit outcomes			Financial statements			Performance report				Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred (R million)	Accumulated outstanding balance on irregular expenditure as at year-end (R million)	Status of financial health					Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred (R million)	Fruitless and wasteful expenditure incurred (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred					
ZF Mgcawu district																														
ZF Mgcawu District	↑	Yes	↑	Yes	↑	Yes	Yes	R	↑	0,68m	0,68m	0,68m	No	No	144	0	-	0,01m	Not audited	Not audited/N/A	N/A	No	No	No	No					
iKhels	↓	Yes	↓	Yes	R	↓	Yes	R	R	4,8m	4,82m	R	No	No	Not audited	Not audited	3,8m	0,05m	Yes	Yes	0	Yes	Yes	Yes	Yes					
David Kruiper	↑	Yes	↑	Yes	R	↑	Yes	R	A	7,7m	3,59m	R	No	No	92	45,2	50,9m	0,002m	Yes	No	42	No	No	No	No					
Kai I'Garib	↑	No	↑	Yes	R	↑	Yes	R	R	7,8m	69,37m	R	No	No	558	73,7	76,5m	20,0m	Yes	Yes	7	Yes	No response	Yes	Yes					
Xgatelopele	↑	Yes	↑	Yes	R	↑	Yes	R	R	7,9m	51,77m	R	No	No	Not audited	Not audited	-	4,1m	Not audited	Not audited/N/A	N/A	Yes	Slow response	Yes	Yes					
Tsantsabane		No											No	No																

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	↑	↑	↑	↓	↓	↓	↓	↓	↓	↓	↓	↓

## 6.8 NORTH WEST

### PROVINCIAL SNAPSHOT



The province's downward spiral continued with another significant regression in the local government audit outcomes, despite us highlighting to the political and administrative leadership the importance of implementing and monitoring action plans to improve accountability and consequences for transgressions at all levels, and to instil a culture of financial discipline and prudence. These audit outcomes, the worst since 2012-13, are a clear indication of the deteriorating accountability, a blatant disregard of our messages and recommendations, complacency and a lack of commitment to decisively address key areas of concern as well as a lack of political will to effect consequences. Despite the commitments made by the leadership to address root causes and control deficiencies, they did not respond with the required urgency to our messages about addressing risks and improving internal controls. The political instability in the province and the tone of those charged with governance have created an environment that is not conducive to accountability, good governance and effecting consequences.

In response to the poor state of financial management, service delivery, governance and oversight in municipalities, the provincial executive invoked sections 137 and 139(1) of the Municipal Financial Management Act at eight of the 22 municipalities. Section 137 provides for discretionary provincial interventions and section 139(1) for mandatory provincial interventions arising from financial crises. The intervention in terms of section 137 was at Ngaka Modiri Molema District, Naledi and Mahikeng, while the intervention in terms of section 139(1)(b) was at Ditsobotla, Kgetlengrivier, Ramotshere Moiloa, Maquassi Hills and Kagisano-Molopo. A further indicator of the lack of accountability was the resistance of the intervention at Maquassi Hills and Kagisano-Molopo, where the legality of the process was initially questioned. Due to the provincial intervention only happening in August 2018, it has not had any positive impact on the audit outcomes.

Our audit environment has become more hostile, with increased contestations of audit findings, pushbacks and subtle threats by municipalities where the auditors'

integrity is questioned. Municipalities may question and challenge the outcome of audits based on evidence and solid accounting interpretations or legal grounds. However, this continuing trend was often a tactic to divert attention away from the fact that there were no grounds for factual disagreement with our findings. Incidents at Madibeng and Moretele resulted in the withdrawal of the audit teams and necessitated the involvement of the South African Police Service for protection and the investigation of the Moretele incident.

Overall, the 2017-18 audit outcomes showed a significant regression. Not a single municipality attained a clean audit opinion, while the number of financially unqualified opinions decreased from two to only one and the number of disclaimed opinions increased from eight to 13. The audit outcomes of seven municipalities regressed, with only two municipalities improving. The improvements were at Matlosana, which improved from a qualified opinion to being the only municipality in the province with a financially unqualified opinion with findings; and JB Marks, which improved from a disclaimed opinion to a qualified opinion. The sustainability of these improvements is doubtful, however, as there was still an over-reliance on consultants, not all vacancies in the finance units were filled, and weaknesses in the control environment were not addressed during the year. We remain concerned by the lack of responsiveness by management and the provincial leadership in implementing basic internal controls.

All municipalities continued to submit poor quality financial statements for auditing. Rustenburg and Matlosana did not submit financial statements on 31 August 2018 as required by legislation, due to challenges with their financial systems. These financial statements were subsequently submitted for auditing, but the audit of Rustenburg had not yet been finalised by the cut-off date of 31 January 2019 for inclusion in this report. All municipalities continued to rely on consultants to assist with the preparation of financial statements at a cost of R124,4 million (2016-17: R93,9 million), yet all of the financial statements submitted for auditing contained material



misstatements. None of the municipalities would have obtained an unqualified opinion, if we had not given them the opportunity to correct the misstatements identified during the audit process. Key controls that enable reliable and timeous financial reporting, such as proper record keeping and daily and monthly reconciliations, had still not been implemented and monitored to avoid relying on audits to identify misstatements at year-end.

The quality of the reported performance information also remained poor, with only three municipalities (14%) having no material findings (2016-17: two – 10%). If we had not allowed audit adjustments, all municipalities would have had findings on their performance information. Most municipalities were unable to provide supporting documents for their reported results, due to poor record management and a lack of controls to timeously and reliably report on their performance.

The vacancies and instability in key positions, which we also identified as a root cause in prior years, had still not been addressed. Five municipalities (24%) did not have a permanently appointed municipal manager and 10 (48%) did not have a permanent chief financial officer. The average vacancy rate at senior management level was 43%, with seven municipalities having a senior management vacancy rate of 50% or more. The environment created by these high vacancy rates significantly contributed to the continued poor quality of financial and performance reporting. It also hampered the promotion of accountability, as acting officials lacked the authority to take the necessary action.

As in the previous year, all municipalities had material findings on compliance with legislation, specifically in the areas of unauthorised, irregular and fruitless and wasteful expenditure as well as procurement and contract management. A further R3,2 billion in irregular expenditure incurred during 2017-18 was disclosed in the financial statements, bringing the total unresolved irregular expenditure to R12,1 billion as at 30 June 2018 (30 June 2017: R9,5 billion). The five municipalities that contributed 63% to this balance were Matlosana (R2,7 billion), JB Marks (R1,5 billion), Madibeng (R1,4 billion), Ngaka Modiri Molema District (R1,2 billion), and Moretele (R906 million). This balance is not complete, however, as 16 municipalities (76%) were qualified on the incomplete disclosure of irregular expenditure in the financial statements.

Irregular expenditure from prior years was not dealt with through investigations. Contrary to the Supply Chain Management Regulations, instances of uncompetitive and unfair procurement processes were identified at all the municipalities, which resulted in irregular expenditure. We were unable to audit procurement amounting to R33 million at four municipalities, due to missing or incomplete information. The lack of complete irregular expenditure

registers to support the accumulated irregular expenditure balances made it difficult to investigate irregular expenditure, which in turn also hampered the oversight structures' ability to do so, and in some cases influenced the willingness to implement consequences.

The municipal public accounts committees were not functional in most cases due to not being empowered and capacitated to effectively implement consequences. The coordinating provincial cooperative governance department and provincial treasury should enhance their capacitation programmes of municipalities, especially for the municipal public accounts committees, to empower them to discharge their oversight responsibilities as envisaged by legislation.

Financial health remained a challenge, with material going concern uncertainties reported at 15 municipalities (2016-17: 13). The municipalities did not collect debt from consumers, which in turn resulted in their inability to pay suppliers on a timely basis, which affected the sustainability of suppliers. The average payment period was 148 days, while legislation requires payment within 30 days. These suppliers included Eskom where the total amount due had increased from R987 million as at 30 June 2017 to R1,5 billion as at 30 June 2018; and water boards where the amount due had increased from R1,3 billion as at 30 June 2017 to R1,4 billion as at 30 June 2018. However, in most cases the municipalities did not even have adequate records of the amounts due to suppliers, as evidenced by the fact that 18 municipalities (86%) were qualified on payables and accruals. Municipalities incurred further fruitless and wasteful expenditure of R164,2 million (2016-17: R191,5 million), of which R143,4 million related to interest and penalties due to the late payment of suppliers. Given the already vulnerable financial position, it is concerning that 15 municipalities overspent their budgets by R1,8 billion. The overspending was as a result of inadequate budget processes and a lack of in-year monitoring of actual spending.

Of the grant allocation to municipalities for infrastructure of R1,5 billion (including the municipal infrastructure, the water services infrastructure and the regional bulk infrastructure grants), R273,4 million (18%) was not spent. Cash-flow constraints as well as the investments made by five municipalities during the year with VBS Mutual Bank contributed to the underspending. An estimated 42% of these investments were from grant funding. Investments with mutual banks not registered in terms of the Banks Act are prohibited in terms of the Municipal Investment Regulations. The five municipalities that invested a total of R551,2 million with VBS Mutual Bank were Madibeng, Dr Ruth Segomotsi Mompati District, Dr Kenneth Kaunda District, Moretele and Mahikeng. Despite some withdrawals during the year (including all of the funds invested by Dr Kenneth Kaunda District), the balance invested by the remaining four municipalities, which is



considered to be irrecoverable, stood at R316,7 million on 30 June 2018. In addition, these financial losses gave rise to difficulties in paying for operational expenses and affected municipalities' ability to start or complete projects and thus affected service delivery. Decisive action to effect consequences in the four municipalities that incurred losses has not been taken.

We tested 19 key municipal infrastructure projects during the year. At 58% of the projects tested, planned targets or milestones were not achieved; and we raised supply chain management findings at 53% of the projects. For example, a project with an estimated cost of R21,5 million for the construction of a sewer network and pump station and the decommissioning of septic tanks at Maquassi Hills was only 80% complete at the time of the audit, despite the planned completion date being 25 May 2018. Irregular expenditure of R14,7 million was identified as a result of shortcomings in the procurement for this project, and the planned target for the project of '12 000 metres of sewer lines to be installed' was not achieved. We raised procurement findings, which resulted in irregular expenditure of R4,2 million, at another project with an estimated cost of R4,7 million for the upgrading of First and South streets in Mahikeng. This project was also completed six months late. It was further identified during our site visit that the actual distance of road completed was 120 metres less than the planned 220 metres per the contract. The rural sanitation programme at Dr Ruth Segomotsi Mompati District was still on track to be completed by the planned date of 19 December 2019, but to date R84 million has been overspent on the project due to a lack of capacity in the water unit. These examples of project management deficiencies demonstrate the impact of the widespread accountability failures on service delivery.

We continued to focus on environmental management at municipalities, specifically the management of solid waste landfill sites, the quality and availability of water as well as sewage treatment and effluent disposal. Despite management's awareness of the environmental concerns, little has been done to address the findings. Non-compliance, specifically at landfill sites, wastewater treatment plants and illegal dumping areas, is not only threatening the environment and sustainability of scarce resources but also has a severe impact on service delivery and the basic needs of communities.

Despite our message in prior general reports that the provincial executive leadership and oversight structures should aspire to develop a comprehensive assurance model, including strong and effective governance structures, this has still not happened. The fact that no progress has been made in addressing information technology findings remains a concern.

None of the assurance providers, specifically internal audit units, audit committees and municipal public accounts committees, provided the required level of assurance. The provincial treasury also did not fully fulfil its role as an assurance provider for the province, although in some instances it deployed staff to certain municipalities or appointed consultants to assist with the preparation of financial statements. Similar to the previous year, these appointments were not appropriately monitored to ensure that they had the desired impact. None of the previous year's commitments made by the provincial executive leadership have been implemented to date. Until such time that there is political will at the executive leadership level to lead by example and enforce compliance and consequences, the situation in the province is unlikely to change.

The amendments to the Public Audit Act empower us to refer material irregularities to relevant public bodies for further investigation, take binding remedial action for failure to implement our recommendations for material irregularities, and issue a certificate of debt for failure to implement the remedial action if a financial loss was incurred. Our audits continued to identify instances where the accountability mechanisms in local government have failed. In the context of these amendments, we encourage accounting officers to strictly discharge their responsibilities in terms of the Municipal Finance Management Act by taking a strong stance against the abuse of public funds.

We will keep on promoting accountability by continuing to provide recommendations and having regular and rigorous engagements with our auditees and relevant stakeholders. The political and administrative leadership will have to come up with extraordinary measures and efforts to address the deteriorating state of local government. We are hopeful that the inter-ministerial task team together with the provincial leadership can create a culture of a responsive and accountable government, which can be used as a foundation for effecting consequences, including the investigation of all instances of irregular expenditure.

## NORTH WEST – How is your municipality doing?

Municipality	Indicators of accountability										Accountability impact						Key root causes												
	Overall audit outcomes			Financial statements			Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred						
Bojanala Platinum district																													
Bojanala Platinum District	↑	Yes	R	→	Yes	R	R	R	R	R	R	95,5m	304,18m	R	No		Not audited	-	4,8m	Not audited	Not audited/N/A	N/A	No response	Yes	Yes				
Kgetlengrivr	→	Yes	R	→	Yes	R	R	R	R	R	R	14,2m	69,1m	R	No		Not audited	-	4,6m	No	No	0	Slow response	Yes	Yes				
Madibeng	→	Yes	R	→	Yes	R	R	R	R	R	R	61,2m	1 385,61m	R	Yes		Not audited	-	21,5m	Not audited	No	0	No response	Yes	Yes				
Moretele	↑	Yes	R	↑	Yes	R	R	R	R	R	R	166,1m	906,05m	R	Yes	270	84,6	132,1m	8,7m	Yes	Yes	5	No response	Yes	Yes				
Moses Kotane	→	Yes	R	→	Yes	R	R	R	R	R	R	14,9m	436,4m	R	No		Not audited	151,3m	-	Yes	Yes	0	No response	Yes	Yes				
Rustenburg		No													No														
Dr Kenneth Kaunda district																													
Dr Kenneth Kaunda District	↑	Yes	R	↑	Yes	R	R	R	R	R	R	53,2m	129,79m	R	No		59	0	17,5m	0,16m	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes			
JB Marks	↑	Yes	R	↑	Yes	R	R	R	R	R	R	1 270,3m	1 492,6m	R	No	Not assessed	Not audited	168,6m	3,7m	Not audited	No	29	Slow response	Yes	Yes				
Maquassi Hills	→	Yes	R	→	Yes	R	R	R	R	R	R	105,2m	302,05m	R	Yes		Not audited	156,9m	0,53m	Yes	Yes	0	No response	Yes	Yes				
Matlosana	↑	No	R	↑	Yes	R	R		R	R	R	355,8m	2 748,11m	R	No		247	87	140,9m	52,2m	Yes	Yes	39	Slow response	Yes	Yes			

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date		Movement in audit outcomes and quality of published financial statements		Improved	Unchanged	Regressed								

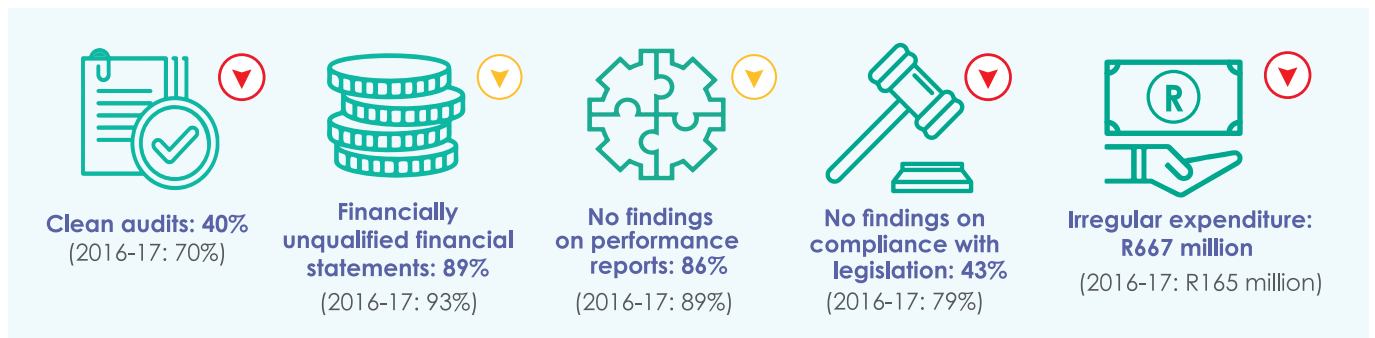


Municipality	Indicators of accountability										Accountability impact						Key root causes						
	Financial statements			Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance		
							Quality of financial statements submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts					Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure at year-end Amount (R million)	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)			
Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Dr Ruth S Mompoti district																							
Dr Ruth S Mompoti District	→	Yes	R	→	Yes	R	R	R	R	381,5m	878,83m	R	No	59	0	163,7m	0,04m	Yes	Yes	0	Slow response	Yes	Yes
Greater Taung	→	Yes	R	→	Yes	R	A	R	R	55,5m	201,87m	R	No	34	71,6	0,12m	0,92m	Not audited	Yes	N/A	Slow response	Yes	Yes
Kagisano-Molopo	→	Yes	R	→	Yes	R	N	R	R	111,2m	387,81m	R	No	Not audited	Not audited	25,0m	0,06m	Not audited	Yes	N/A	No response	Yes	Yes
Lekwa-Teemane	→	Yes	R	→	Yes	R	R	R	R	1,2m	64,34m	R	Yes	Not audited	Not audited	-	4,2m	Not audited	No	31	Slow response	Yes	Yes
Mamusa	→	Yes	R	→	Yes	R	R	R	R	6,7m	152,92m	R	No	Not audited	Not audited	5,8m	10,3m	Not audited	No	0	No response	Yes	Yes
Naledi	→	Yes	R	→	Yes	R	R	R	R	67,8m	226,82m	R	No	Not audited	Not audited	62,0m	29,7m	Yes	Yes	0	Slow response	Yes	Yes
Ngaka Modiri Molema district																							
Ngaka Modiri Molema District	→	Yes	R	→	Yes	R	R	R	R	151,2m	1 171,4m	R	No	Not audited	Not audited	595,8m	4,2m	Not audited	Not audited/N/A	N/A	No response	Yes	Yes
Disobolia	→	Yes	R	→	No	NPR	NPR	R	R	-	-	R	No	Not audited	Not audited	-	-	Not audited	No	0	No response	Yes	Yes
Mahikeng	→	Yes	R	→	Yes	R	R	R	R	211,1m	803,11m	R	Yes	Not audited	Not audited	107,6m	2,4m	Yes	Yes	14	No response	Yes	Yes
Ramotshere Moiloa	→	Yes	R	→	Yes	R	R	R	R	12,5m	153,14m	R	No	Not audited	Not audited	23,3m	6,0m	Not audited	Yes	0	Slow response	Yes	Yes
Railou	→	Yes	R	→	Yes	R	A	R	R	43,3m	109,11m	R	No	37	43	-	0,49m	Yes	Yes	N/A	Slow response	Yes	Yes
Tswaing	→	Yes	R	→	Yes	R	R	R	R	57,2m	223,25m	R	Yes	332	84	66,2m	9,7m	Yes	Yes	0	Slow response	Yes	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	↑	Improved	→	Unchanged	↓	Regressed							

## 6.9 WESTERN CAPE

### PROVINCIAL SNAPSHOT



The province's audit outcomes reflect a significant regression compared to 2016-17 due to material compliance findings, which largely related to procurement. The regression can be attributed to municipalities' slow response to implement our recommendations and not taking heed of the emerging risks that we reported. This indicates that the required levels of accountability and governance were not always demonstrated.

In 2016-17, our message was 'To improve the audit outcomes, leadership should take audit findings seriously (including management report findings) and develop detailed action plans to address recurring findings relating to financial statements, performance reports and compliance with key legislation (including supply chain management prescripts)'. We also raised concerns with regard to the assurance provided at senior management level (including actions to ensure the credibility of financial statements and performance reports as well as compliance with legislation) where we said 'We rated senior management at various auditees with clean audit opinions as providing only some assurance. This was due to compliance findings reported in the management report (although these findings were not material in 2016-17, they could become so in future if not appropriately dealt with by senior management)'. We anticipate that some municipalities would be in a position to improve their audit outcome in the next financial year, as the regression in the current year is not indicative of a breakdown of the internal control environment.

Despite our message that management report findings could easily escalate to the audit report, management failed to take heed of our message and the regression in the 2017-18 audit outcomes clearly illustrates this. Nine municipalities (30%) regressed, all of which had a clean audit outcome in the previous year. However, the audit outcome of the metro (City of Cape Town) remained unchanged on an unqualified opinion on the financial statements with material compliance findings. The audit outcomes of two municipalities (7%), namely Laingsburg and Kannaland, are still outstanding. The analysis below therefore does not include these municipalities.

The quality of the financial statements submitted for auditing regressed, with the financial statements of six municipalities (21%) requiring material adjustments, compared to three (11%) in 2016-17. The common area that required corrections was disclosure notes, specifically the disclosure of commitments, due to controls that were lacking over the reconciliation of supplier contracts to the commitments listing, resulting in the incomplete disclosure of commitments. Three municipalities (11%) were able to correct their financial statements and obtained an unqualified opinion. Despite corrections made, Beaufort West, George and Oudtshoorn still obtained qualified opinions.

As in the previous year, the number of performance reports that required material adjustments remained concerning. A total of 13 municipalities (46%) submitted performance reports that required material adjustments to avoid reliability findings, compared to 16 (57%) in the previous period. In 2016-17, we expressed concern with municipalities' reliance on the audit process to identify these adjustments, but this trend continued in 2017-18. Four municipalities (14%) had material findings on their performance report, with Beaufort West, George and Oudtshoorn having material findings on both usefulness and reliability, and Stellenbosch having material findings on usefulness.

Non-compliance with laws and regulations was the main contributor to the overall unfavourable audit outcomes in the province. The main areas of non-compliance related to procurement, the prevention of irregular expenditure, and the failure to submit financial statements that were free of material misstatements. In 2017-18, 16 municipalities (57%) had material compliance findings, compared to six (21%) in 2016-17. Of the nine (32%) regressions overall, seven municipalities (25%) regressed as a result of material supply chain management findings. Despite our previous recommendation to the leadership to address these recurring findings – which were not material and thus raised only at management report level – failure to take accountability and corrective action inevitably led to these findings escalating to the audit report, which resulted in the regression.



Irregular expenditure increased to R667 million, compared to R165 million in 2016-17, of which 84% was identified during the audit process. The increase was largely due to the inappropriate application of legislative prescripts, mainly in the area of supply chain management. Non-compliance with procurement prescripts contributed to R665 million of the irregular expenditure incurred. The main areas of non-compliance within supply chain management related to findings on local content requirements, unjustifiable deviations in terms of supply chain management regulation 36, and the incorrect allocation and/or calculation of preference points resulting in incorrect suppliers winning awards.

Of concern is our assessment of the assurance provided at municipal manager and senior management level. The assurance provided regressed from 2016-17 and was assessed as 'provides some assurance' at most of the municipalities. This was due to the number of compliance findings and material adjustments that were required to correct the financial statements and performance reports. The main root causes of the deteriorating levels of accountability and the unfavourable audit outcomes were inadequate consequences as well as a lack of understanding and varied interpretations of supply chain management requirements, causing the improper application thereof during the procurement process. In addition, challenges with the implementation of the Municipal Standard Chart of Accounts arising from a late update to their financial systems resulted in us raising a material compliance finding on the late submission of financial statements at three municipalities (11%), namely Langeberg, Mossel Bay and Swartland.

The number of municipalities that had no significant information technology audit findings regressed slightly from two in the previous year, to one in the current year. Six municipalities still experienced challenges in implementing controls for all three focus areas (user access management, security management, and service continuity management). This was due to limited financial and human resources being available for strategic information technology initiatives and limitations in system functionality. In addition, municipalities' continued focus on the implementation of both the Municipal Standard Chart of Accounts and the Municipal Corporate Governance of Information and Communication Technology Policy Framework contributed to the challenges experienced. Many municipalities continued to outsource certain information technology security components to third-party service providers, as a result of limited resources and specialist information technology skills, and relied on these vendors to implement the required information technology controls, standards, processes and procedures.

Local government in the Western Cape is responsible for an expenditure budget of R58 billion. The overall status of financial health remained the same as in 2016-17, with four municipalities (14%) reporting unfavourable financial health indicators in both years. Beaufort West reported a material uncertainty as to its ability to continue operating as a going concern. The main reasons for the unfavourable indicators included current liabilities exceeding current assets and the high percentage of debt write-offs.

As part of our audit process, we evaluated selected key infrastructure projects, mainly relating to water, sanitation and road infrastructure. We tested 38 projects across 10 municipalities (36%) by determining whether the expenditure was appropriately accounted for in the financial statements, the reporting of achievements against predetermined targets for the project was reliable, and compliance requirements were adhered to (with regard to supply chain management prescripts and the utilisation of conditional grants for their intended purposes). We identified non-compliance with supply chain management requirements relating to procurement on projects at two municipalities (7%), namely the City of Cape Town and Drakenstein. At the City of Cape Town, the finding related to contract performance and monitoring measures being ineffective and contract extensions without the necessary approvals. At Drakenstein, the finding related to appointing a supplier by expanding an existing contract with additional work at a different site instead of following a competitive bidding process.

There was a regression in the overall status of internal controls. This was mainly due to the deteriorating accountability within the leadership culture, a slow response to implement our recommendations, and inadequate controls to ensure that laws and regulations were complied with. The leadership needs to undertake a key and proactive role to ensure that audit recommendations are effectively implemented and rigorously monitored through action plans. Audit findings at management report level must also be addressed and treated with the necessary importance to ensure that these findings do not recur or escalate to the audit report in future.

The premier, in conjunction with the coordinating provincial cooperative governance department and provincial treasury, recommitted to increased oversight and an acceleration of provincial initiatives through the municipal governance review outlook processes for the achievement of clean administration across the province. The recommitment is in response to the regression in the audit outcomes, which has resulted in a renewed oversight focus on identified emerging risks and other important matters highlighted in the management reports to be rigorously monitored through municipal action plans.

Some of the best practices we identified at those municipalities that retained their clean audit outcome included continuous monitoring of action plans to improve on the status of the drivers of internal control, addressing findings that were previously raised, and the close monitoring of emerging risks that allowed for a proactive approach to be followed, such as the implementation of the Municipal Standard Chart of Accounts. In addition, the continuous efforts of leadership and effective governance and oversight structures promoted a strong control environment at these municipalities.

To improve the audit outcomes, we encourage municipalities to implement these practices, together with acting on management report findings with the necessary vigour to prevent an elevation thereof to the audit report. Improved audit outcomes as a result of strong accountability, good governance and mature fiscal discipline, will result in the effective, efficient and economical use of resources – and ultimately translate into improved service delivery to the citizens.



## WESTERN CAPE – How is your municipality doing?

Municipality	Indicators of accountability										Accountability impact						Key root causes								
	Overall audit outcomes	Financial statements			Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
		Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)			Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred				
Metropolitan municipality																									
City of Cape Town Metro	↑	Yes	N	↑	Yes	Yes				R	R	236.0m	283.06m	A	Yes	78	68.9	-	0.31m	Yes	No	15		No	Yes
Cape Winelands district																									
Cape Winelands District	↑	Yes		↑	Yes	A						0.16m	0.16m		Yes	11	8.4	-	0.43m	Not audited	Not audited/N/A	N/A		No	No
Breede Valley	↑	Yes		↑	Yes	R						-	-		Yes	48	54.7	-	-	Not audited	No	14		No	No
Drakenstein	↓	Yes		↑	Yes					N	N	47.8m	47.85m		Yes	29	38.7	0.99m	-	Yes	Yes	15		Yes	No
Langeberg	↓	No		↑	Yes	R				N	N	0.84m	0.84m		Yes	61	40.1	6.4m	0.04m	Not audited	Yes	14	Slow response	No	No
Stellenbosch	↓	Yes		↑	Yes	R				N	N	29.3m	41.81m	N	Yes	88	22.1	-	-	No	No	26		Yes	No
Witzenberg	↑	Yes		↑	Yes	N						-	-		Yes	37	67.4	-	-	Not audited	No	18		No	No
Central Karoo district																									
Central Karoo District	↑	Yes	A	↑	Yes	R				R	A	3.0m	15.77m	A	No	46	1.8	4.5m	0.07m	Not audited	Not audited/N/A	N/A		No	No
Beaufort West	↑	Yes	R	↑	Yes	R				R	R	52.2m	105.16m	R	No	82	80	20.5m	0.56m	Not audited	Yes	42	Slow response	Yes	Yes
Laingsburg		No													No										
Prince Albert	↓	Yes			Yes	A				N	N	0.77m	0.02m		No	24	82	5.1m	0.001m	Not audited	Yes	17	Slow response	No	No

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	Improved	Unchanged	Regressed	↓	↑	↓	↓	↓	↓	↓	↓	↓



Municipality	Indicators of accountability										Accountability impact						Key root causes									
	Overall audit outcomes			Financial statements		Performance report		Compliance		Irregular expenditure		Material non-compliance with legislation		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health			Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions		
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water				Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred
Garden Route district																										
Garden Route District	↑	Yes	↑	Yes	↑	↑	Yes	↑	R	R	56.8m	96.06m		No			28	79	28.3m	0.02m	Not audited	Not audited/N/A	N/A	Slow response	No	No
Blitou	↑	Yes	↑	Yes	R	↑	Yes	↑	R	R	16.7m	16.4m		No			73	71	58.3m	-	Not audited	No	21	Slow response	No	No
George	↓	Yes	N	Yes	N	↓	Yes	R	N	N	11.7m	11.85m	N	Yes			59	60	62.3m	-	No	Yes	27	Slow response	No	No
Hessequa	↑	Yes	↑	Yes	N	↑	Yes				1.7m	0.08m		No			78	39,8	0.86m	0.41m	Not audited	Yes	11		No	No
Kannaland		No												No												
Krystna	↑	Yes	N	Yes	R	↑	Yes	↑	N	A	18.5m	30.22m		Yes			55	66	9.2m	0.001m	Not audited	Yes	29		Yes	No
Mossel Bay	↓	No	↑	Yes		↑	Yes		N		22.4m	22.45m		Yes			33	11,7	0.8m	-	No	Yes	10	Slow response	No	No
Oudshoorn	↑	Yes	R	Yes	R	R	Yes	↑	R	R	47.4m	328.02m	N	Yes			43	58	-	0.48m	Not audited	Yes	18	Slow response	Yes	No
Overberg district																										
Overberg District	↑	Yes	↑	Yes			Yes				0.7m	1.1m		No			22	5.4	2.7m	0.23m	Not audited	Not audited/N/A	N/A		No	No
Cape Agulhas	↑	Yes	↑	Yes	R		Yes				0.25m	0.25m		No			44	47	2.9m	0.11m	Not audited	No	14		No	No
Overstrand	↑	Yes	↑	Yes			Yes				0.02m	0.22m		Yes			35	20,6	-	-	No	No	19		No	No
Swellendam	↑	Yes	↑	Yes	R		Yes				4.7m	4.52m		Yes			75	67,1	10.0m	-	No	No	23		No	No
Theewaterskloof	↓	Yes	↑	Yes	N		Yes		N		18.9m	18.47m		Yes			59	77	-	-	No	No	18	Slow response	No	No

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date		Movement in audit outcomes and quality of published financial statements		Improved	Unchanged	Regressed								

Municipality	Indicators of accountability										Accountability impact						Key root causes										
	Overall audit outcomes			Financial statements		Performance report		Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences		Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation		Financial health						Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
				Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts					Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water			
West Coast district																											
West Coast District	↑	Yes	↑	Yes	Yes	Yes	Yes	Yes	Yes	1,1m	1,07m	No	No	15	1,4	-	0,38m	Not audited	Not audited/N/A	N/A	No	No	No	No	No		
Bergvriev	↑	Yes	↑	Yes	A	Yes	Yes	Yes	Yes	-	-	No	No	24	30,6	-	0,009m	No	No	7	No	No	No	No	No		
Cederberg	↑	Yes	↑	Yes	N	Yes	N	Yes	Yes	51,2m	51,18m	No	No	120	67,1	0,64m	0,12m	Not audited	No	12	No	No	No	No	No		
Matzikama	↑	Yes	↑	Yes	R	Yes	Yes	Yes	Yes	-	-	No	No	104	69	-	-	Not audited	Yes	0	No	No	No	No	No		
Saldanha Bay	↓	Yes	↑	Yes	A	Yes	N	N	Yes	44,4m	44,39m	Yes	Yes	49	59	23,2m	0,02m	No	No	8	Slow response	No	No	No	No		
Swartland	↓	No	↑	Yes	A	Yes	N	N	Yes	-	-	Yes	Yes	74	7,8	6,7m	0,003m	Not audited	No	19	Slow response	No	No	No	No		

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date	Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)	Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators	Expenditure	Improved	Regressed
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	Movement in audit outcomes and quality of published financial statements	Improved	Unchanged	Regressed	↓	↑	↓	↓	↓	↓	↓	↓	↓	↓