

STATE OF LOCAL GOVERNMENT AUDIT OUTCOMES

The 2019-20 financial year on which we reflect in this report, marked the fourth year of the current administration's term. Our message over this period and specifically in the previous general report was Not much to go around, yet not the right hands at the till - indicative that the finances of local government are under severe pressure and are not being managed as they should.

Our message to the provincial and municipal leadership included the following:

- Drastic changes are needed to ensure that the dwindling funds available to deliver services to citizens are used in a prudent and effective manner and that there is credible and transparent reporting of such use to enable accountability.
- Short-term solutions such as the continued use of consultants for financial reporting will not bring about the change needed and are often costly and ineffective.
- The required level of supervision and monitoring by senior officials, municipal leadership and oversight is not evident – resulting in poor financial and performance management, waste and opportunities for transgressions.
- It is more effective to invest in preventative controls and measures than to deal with the impact of accountability failures, such as financial loss, fraud and corruption; the misuse of public resources; and service delivery failures. We also invited leadership and oversight to use our reports, briefings and engagements on the status-of-records reviews to identify the key areas that needed attention and that could benefit the most from preventative controls.
- There must be consequences for accountability failures. Over the past few years, we emphasised the need to create an environment in which transgressions and poor performance are dealt with appropriately to set the standards for the public service

and act as a deterrent to wrongdoing. We started implementing the material irregularity process in 2019 and we highlighted the value and importance of supporting this process to strengthen the accountability mechanism.

Despite our consistent warnings against the deterioration of accountability in local government, we see little evidence of our messages receiving the earnest attention they require. This is demonstrated through the audit outcomes that show an overall regression over the period of this administration. We continue to see a deterioration in the financial health of municipalities and a lack of consequences. The poor state of financial and performance management indicates that our recommendations remain unheeded and this is in direct contrast with the concepts of public interest and accountability entrenched in our country's Constitution and the legislation that governs local government.

The political leadership and municipal officials must achieve their municipalities' objectives while acting in the public interest at all times and consistently adhering to the requirements of legislation and government policies.

Accountability is critical and means that municipal leaders are answerable to local communities and should take responsibility for their actions, decisions and policies. Municipalities should be able to demonstrate the appropriateness of all of their actions and should have mechanisms in place to encourage and enforce adherence to ethical values and respect for the rule of law.

When going through our observations on the 2019-20 local government audit outcomes in the rest of this section, the following become clear:

- Local government finances continue to be under pressure.
- Credible financial statements are crucial to enable accountability and transparency, but municipalities are failing in this area.
- Short-term and costly solutions such as consultants are not addressing the lack of financial management and reporting skills.
- Unreliable performance reporting is adding to the challenge of poor service delivery.
- The lapse in oversight and lack of controls relating to compliance are evident in a number of areas, including supply chain management.
- Audit outcomes remain poor and have regressed over the four-year period.
- The state of internal controls is still not improving.
- Information systems and automated controls are not supporting accountability by accurately recording and processing financial and performance information.
- All role players must fulfil their assurance responsibilities.
- The root causes of the poor state of local government continue to be a slow response to our call to strengthen internal controls, vacancies and instability that hamper progress, and a lack of consequences for accountability failures.
- All should play their role to assist local government in becoming capable, efficient, ethical and development-oriented.

POOR STATE OF FINANCIAL MANAGEMENT

LOCAL GOVERNMENT FINANCES CONTINUE TO WORSEN

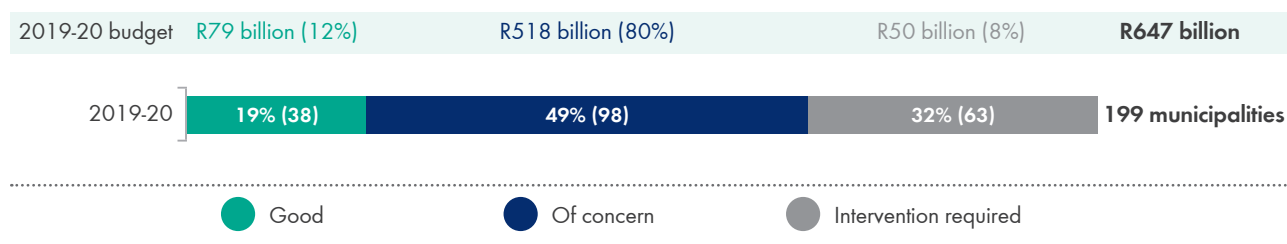
The financial statements of a municipality show how it spends its money, where its revenue comes from, its assets and the state of those assets, how much it owes creditors, how much is owed to the municipality, and whether it is expected that the money owed will be received.

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

The municipal managers of the 257 municipalities in the country managed an estimated expenditure budget of R719 billion in 2019-20.

We performed an analysis of the financial health of 199 municipalities based on their financial statements. The analysis shows **increasing indicators of a collapse in local government finances**. At 18 (9%) of the municipalities where the audits had been completed by the cut-off date of this report, the financial statements were not even reliable enough for analysis due to disclaimed (12 municipalities) or adverse opinions (six municipalities), while the financial statements of five were not submitted for auditing – more information on this later in the section. Section 4 of this report gives further details on municipalities with disclaimed audit opinions.

Financial health of municipalities in relation to their budget allocations



Our overall assessment of financial health was informed by the areas of **going concern, revenue, operating expenditure, capital expenditure, and expenditure management**, which we now look at in more detail.

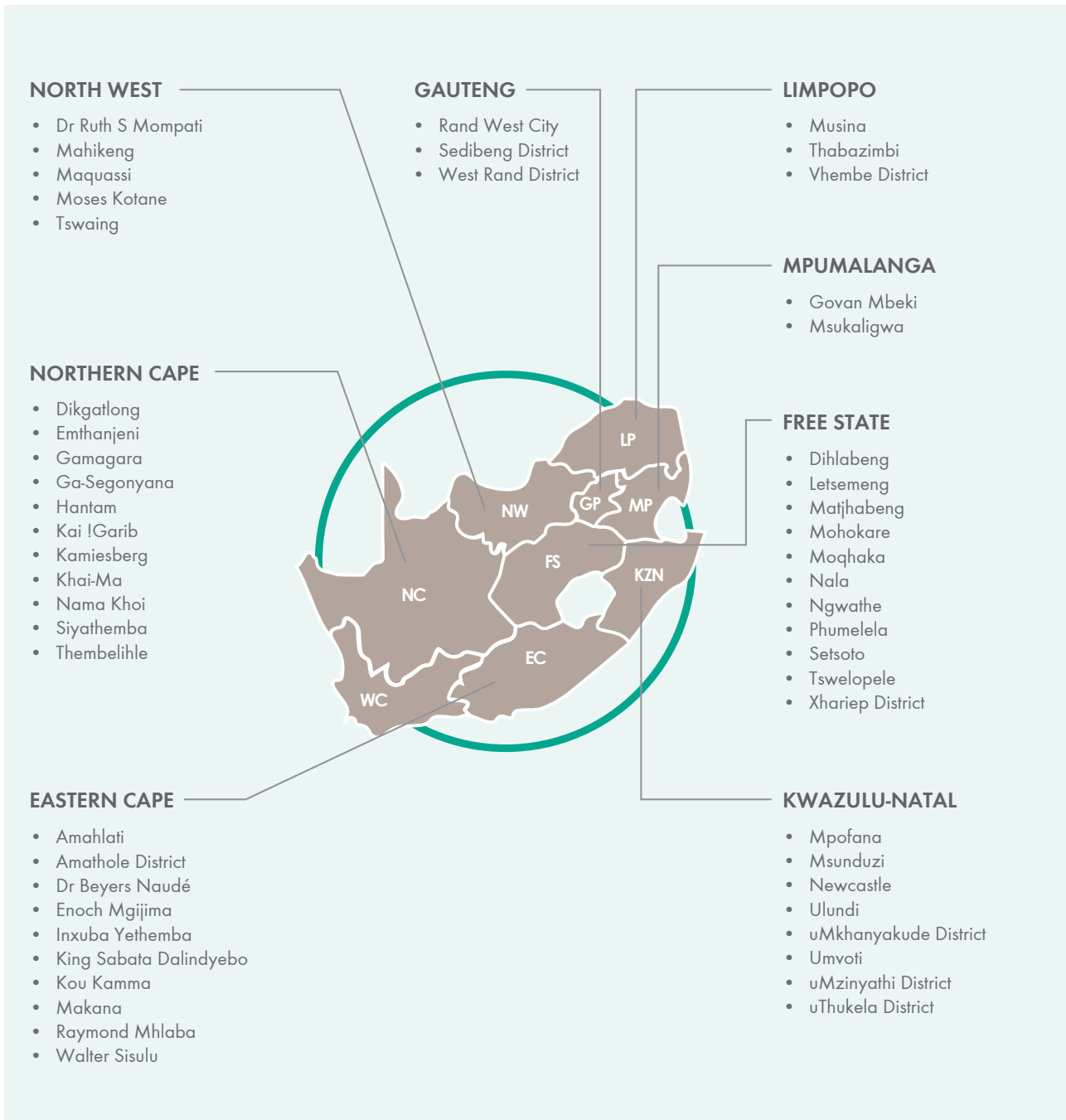
Going concern

Based on their financial position, municipalities are required to disclose in their financial statements if there is significant doubt that they will not be able to continue with their operations in the near future as a going concern. Such disclosure effectively means that municipalities do not have enough revenue to cover their expenditure and that they owe more money than they have, which means that they are dependent on the equitable share

provided by national government to continue operating.

In total, 53 municipalities (27%) responsible for 7% of the expenditure budget were in this dire financial position.

The map below shows the municipalities that disclosed significant doubt in their financial statements as to whether they will be able to continue operations in the near future.



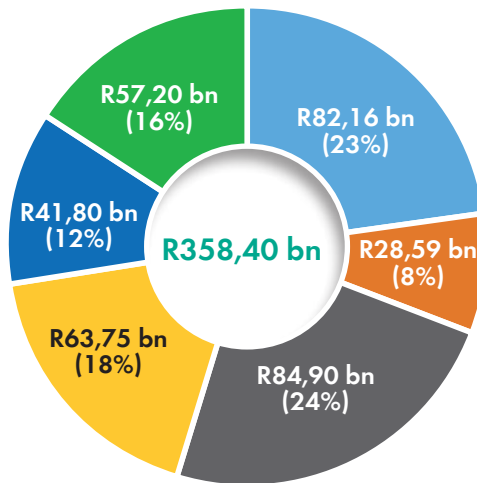
Revenue

Below we examine the revenue sources of municipalities and shortcomings in this regard.

Revenue sources

Total grant funding of R99 billion

- Equitable share
- Total grants recognised as revenue (excluding equitable share)



Total own revenue of R259,40 billion

- Property rates
- Service charges - electricity revenue
- Service charges - water revenue
- Other revenue (e.g. investment income, rentals, licences, traffic fines)

INDICATORS

*Average irrecoverable debt	63%
*Average debt-collection days	203 days
Debt written off in year	R39,35 billion

→ We estimate that only **R103,76 billion (40%)** of this revenue will be recoverable

* Excludes 18 municipalities whose financial statements were not reliable enough for financial analysis (i.e. those with adverse or disclaimed audit opinions)

The main source of revenue for most municipalities is the rates and taxes paid by property owners and consumers of municipal services (**own revenue**).

National government also provides **funding through grants**:

- The equitable share is a financial allocation that enables municipalities to provide basic services to poor households and to enable municipalities with limited own resources to afford basic administrative and governance capacity and perform core municipal functions.
- Conditional grants are provided to use for a specific purpose and in compliance with specified requirements.

The problem with own revenue is that municipal consumers are not paying what they owe – this has been a trend for many years and continues to worsen. Municipal debt recovery is expected to deteriorate further in 2020-21 because of the economic downturn in the wake of the covid-19 pandemic. This means that on paper the revenue of a municipality might look healthy but the money does not reach the bank – we estimate that only 40% (R103,76 billion) of own revenue is recoverable. Municipalities are therefore often dependent on the money they receive from national government to stay afloat.

But municipalities do not always play their part either – not all revenue owed is billed and poor debt-collection practices are common. In addition to raising these concerns through audit findings, we

also issued material irregularity notifications where municipalities were suffering material financial losses as a result.



Examples illustrating revenue challenges of municipalities



Nelson Mandela Bay Metro did not charge interest on debtors with long-term debt arrangements, which means that revenue was being lost. The estimated revenue lost amounted to R11,16 million. An investigation revealed that the accounting system had been incorrectly set up. The system was re-programmed and, from February 2020, interest is now raised on a monthly basis.



Msunduzi continued to have challenges in collecting old debt as evidenced by the high debt-collection period of 154 days. This led to the municipality not being able to recover R2,56 billion (57%) of the outstanding debt of R4,5 billion. The provision for impairment also increased by 28% from the previous year, indicating that consumers are struggling to settle their outstanding debts.



Due to rising costs to provide municipal services in a financially sustainable manner, **Drakenstein** had to increase its tariffs. The increases and electricity disconnection where payments could not be made resulted in community dissatisfaction and demonstrations. The indigent policy also had to be updated. The full equitable share grant is used for indigent services as 50% of the municipality's population is now indigent.

Operating expenditure

With limited cash in the bank, municipalities prioritise the payment of salaries and councillor remuneration. They then pay municipal suppliers with what is left, including Eskom and the water boards that are essential for the supply of basic services. At some municipalities, returns and payments to the South African Revenue Service are also delayed and there are even municipalities that do not transfer contributions to the pension funds of their employees.

The impact of such late payments is as follows:

- It affects the cash flow of local government suppliers, which is in sharp contrast with the objectives of stimulating the economy and supporting especially smaller businesses. Suppliers and contractors stop delivering to municipalities, resulting in projects not being completed and performance objectives not being achieved. However, Eskom and the water boards are in the difficult situation of being required to continue delivering services despite non-payment.

- Interest and penalties charged on late payments result in material financial losses, which can be ill afforded. We issued material irregularity notifications on these material financial losses. The situation can be turned around through credible funding plans, debt arrangements with suppliers and careful expenditure management; and by not taking on projects and commitments without the required funds being available.
- Apart from increasing the liabilities in the municipalities, if pension fund contributions are not paid, there is a potentially detrimental impact on the employees when they retire as funds may not be available to pay their pension benefits. Failure to pay employees' pension fund contributions to their respective funds is a transgression of section 13A of the Pension Fund Act.

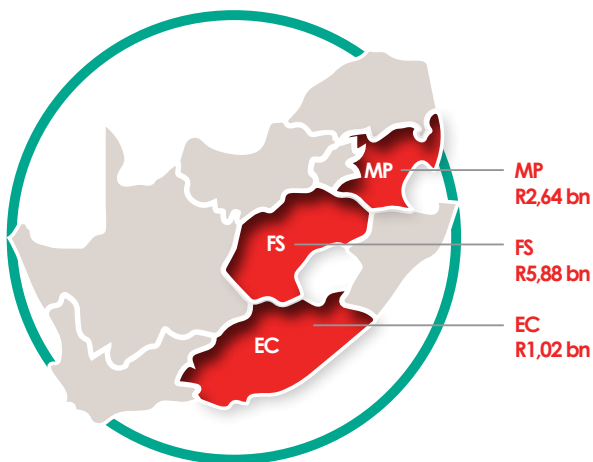
We further expand on the **expenditure challenges of municipalities** below.

SALARIES AND WAGES#	
Salaries and wages (including councillor remuneration)	R74,40 billion
In total, 46% of the estimated recoverable revenue and equitable share allocation was used to pay salaries and wages as well as councillor remuneration	
ESKOM ARREARS#	
Total arrears (including interest owed of R2,26 billion)	R12,41 billion
In arrears over 120 days	R9,84 billion
Interest paid to Eskom during the year	R4,43 billion
<i>(Municipal managers were notified of 12 material irregularities in this regard)</i>	
WATER BOARDS ARREARS#	
Total arrears (including interest owed of R0,07 billion)	R8,78 billion
In arrears over 120 days	R7,46 billion
Interest paid to water boards during the year	R0,01 billion
<i>(Municipal managers were notified of 3 material irregularities in this regard)</i>	
CREDITORS*	
Average creditor-payment period	209 days
Creditor-payment period > 30 days	158 (87%)
INFRASTRUCTURE ASSETS#	
Value of infrastructure assets that should be maintained and safeguarded	R366,33 billion
Expenditure on maintenance (only 2% of expenditure budget, as opposed to norm of 8%)	R13,61 billion

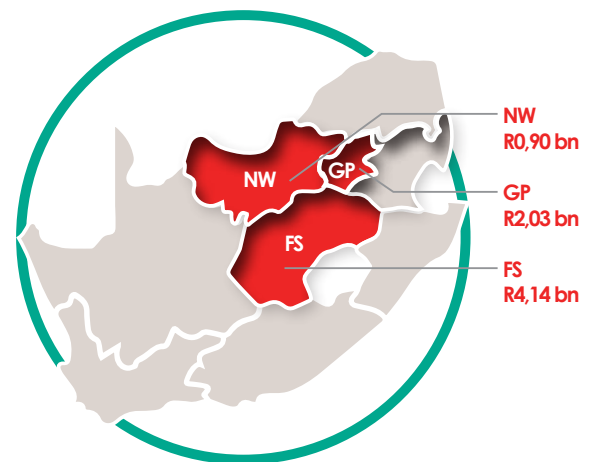
Excludes 57 outstanding audits

* Excludes 18 municipalities where the financial statements were not reliable enough for financial analysis (i.e. those with adverse or disclaimed audit opinions)

Highest contributors to Eskom arrears – R12,41 bn



Highest contributors to water boards arrears – R8,78 bn



Example reflecting expenditure challenges of municipalities



Amathole District was assessed by consultants appointed under the previous municipal manager to be a category 7 municipality from a category 6 municipality in 2017. This assessment was approved by the council, resulting in an additional 936 positions being available on the municipality's organogram as well as some staff being paid at a higher level. In 2019, the assessment of the municipality as category 7 was confirmed to be incorrect. The municipal manager and senior managers are now being paid outside the upper limits for remuneration packages set out in the Government Gazette because of this incorrect categorisation.

Capital expenditure

The majority of capital expenditure (the money government spends on buying, maintaining or improving fixed assets) is financed through conditional grants. Although there is a great need for these grants to finance infrastructure projects, they are often underspent, mostly because of

poor project management. In some cases, the money is also not used for its intended purposes. The underspending on these grants means that valuable infrastructure assets meant for service delivery are not maintained, resulting in a deterioration in the quality of services to citizens, who continue to be frustrated with inadequate service delivery.

Management of infrastructure grants

AVAILABLE TO SPEND (PERCENTAGE OF FUNDS SPENT)	UNDERSPENDING BY MORE THAN 10%	USED FOR INTENDED PURPOSE
MUNICIPAL INFRASTRUCTURE GRANT - 168 MUNICIPALITIES		
R10,84 billion (88%)	63 municipalities (38%)	154 municipalities (92%)
PUBLIC TRANSPORT NETWORK GRANT - 10 MUNICIPALITIES		
R5,2 billion (78%)	5 municipalities (50%)	10 municipalities (100%)
URBAN SETTLEMENTS DEVELOPMENT GRANT - 7 METROS		
R11,61 billion (87%)	4 metros (57%)	7 metros (100%)
REGIONAL BULK INFRASTRUCTURE GRANT - 26 MUNICIPALITIES		
R1,74 billion (74%)	11 municipalities (42%)	23 municipalities (88%)
WATER SERVICES INFRASTRUCTURE GRANT - 62 MUNICIPALITIES		
R3,42 billion (80%)	31 municipalities (50%)	51 municipalities (82%)

Overall, 83% of municipalities materially complied with the Division of Revenue Act in the management of the infrastructure grants.

The municipalities that underspent grants by more than 60% are provided next. Except where otherwise indicated, the remaining funds were cash-backed (meaning that it was still in the bank at year-end).

MUNICIPAL INFRASTRUCTURE GRANT	
Eastern Cape	Amahlathi (69%) Enoch Mgijima (67%)
KwaZulu-Natal	Mandeni (60,1%)
North West	Ratlou (77%)
Western Cape	George (80%) Prince Albert (73%)

The only municipality that underspent the public transport network grant by more than 60% was Nelson Mandela Bay Metro, with underspending of 70%.

REGIONAL BULK INFRASTRUCTURE GRANT	
Free State	Mohokare (70%) (remaining funds not fully cash-backed)
Limpopo	Mogalakwena (71%) (remaining funds not fully cash-backed)
Mpumalanga	Msukaligwa (95%)
Western Cape	Witzenberg (99%)

WATER SERVICES INFRASTRUCTURE GRANT	
Free State	Setsoto (79%) (remaining funds not fully cash-backed) Metsimaholo (60,2%)
Gauteng	Merafong City (81%)
Mpumalanga	Bushbuckridge (65%)
Northern Cape	Nama Khoi (86%) Gamagara (66%) Kamiesberg (63%) (remaining funds not fully cash-backed)
Western Cape	Cederberg (86%) (remaining funds not fully cash-backed)

The planned completion dates for 74 of the 362 projects funded by the municipal infrastructure grant were not met and/or the project stage of completion was not assessed. We also identified supply chain management findings at 130 of these projects.



Example showing how poor project management has a negative effect on service delivery



The council of **OR Tambo District** suspended the municipal manager in June 2020 on allegations of financial misconduct, which included the approval of advance payments to an implementing agent and other service providers for goods or services not received relating to the delivery of water and sanitation infrastructure projects for the district. The projects amounting to R105 million were funded by the municipal infrastructure and regional bulk infrastructure grants. The municipality did not adequately monitor the performance of the contactors responsible for the construction of these projects. This resulted in some projects not being completed on time and other projects exceeding the contract values. The quality of the infrastructure projects is a further concern, as some of the projects were reported as being complete but no water services were supplied to the communities and some projects were not working as intended. At the Qokolweni water supply scheme project, no feasibility study was performed to identify that there was water in the area before the project commenced. The project was reported as complete but was non-functional, leaving the community without water.

Expenditure management

Although there are limited funds available, we still find municipalities not diligently and carefully managing funds (as is apparent from the material irregularities identified on payments for goods and services not received, as detailed in section 5 of this report). Many municipalities also do not follow the required procurement processes to ensure that the best price is paid for goods and services – the details of which are provided later on in this section.

Another **indicator of the poor management of funds is the fruitless and wasteful expenditure incurred**, which has grown to R3,47 billion this year (including R1,50 billion of municipalities of which the audits had not been completed by the cut-off date of this report). The fruitless and wasteful expenditure incurred by the municipalities of which the audits had been completed by the cut-off date amounted to R1,97 billion, of which R1,83 billion

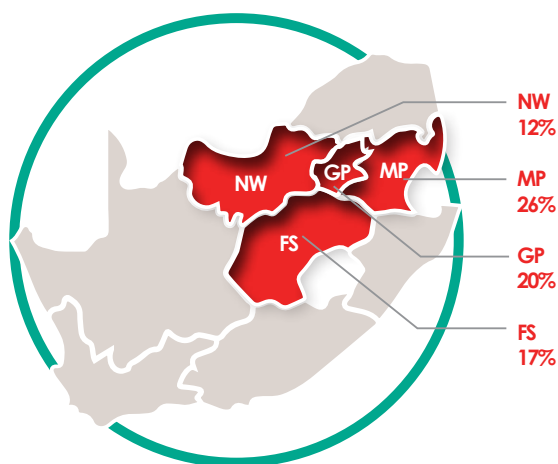
represented 2019-20 expenditure. The expenditure incurred in 2019-20 constituted 0,3% of the total expenditure budget.

The fruitless and wasteful expenditure incurred by 174 municipalities of which the audits had been completed by the cut-off date of this report, was due to the following:

- Interest and penalties (69%) – R1,35 billion
- Litigation and claims (2%) – R0,04 billion
- Other (e.g. payments to suspended employees and write-off of assets that were never used) (29%) – R0,58 billion

The fruitless and wasteful expenditure could be higher because nine (5%) of the 200 municipalities where we had completed audits were qualified on the **incomplete disclosure** of fruitless and wasteful expenditure.

Highest contributors to fruitless and wasteful expenditure – R3,47 bn



TOP CONTRIBUTORS TO FRUITLESS AND WASTEFUL EXPENDITURE

Emalahleni (MP) – R0,33 billion *
City of Tshwane Metro (GP) – R0,30 billion
Matjhabeng (FS) – R0,28 billion
Emfuleni (GP) – R0,23 billion *
Govan Mbeki (MP) – R0,20 billion
Naledi (NW) – R0,17 billion *
Lekwa (MP) – R0,12 billion *
Nelson Mandela Bay Metro (EC) – R0,09 billion
Mopani District (LP) – R0,07 billion *
Msukaligwa (MP) – R0,07 billion
Matlosana (NW) – R0,07 billion *

* Audits still outstanding or finalised after cut-off date of report

IMPACT OF POOR FINANCIAL MANAGEMENT

Stemming from the financial health woes experienced, there were many municipalities that owed creditors more money than what was available in the bank. As a result, these municipalities had to dig into the next year's budget to cover the current year's expenditure. The total deficit in local government was R7,44 billion, and expenditure exceeded revenue at year-end at 55 municipalities.

Below we look at a couple of the **specific effects of poor financial management** in local government.

CREDITORS GREATER THAN AVAILABLE CASH	
Creditors > available cash at year-end	89 (49%)
Total creditors at year-end	R60,93 billion
Cash available at year-end	R44,76 billion
Municipalities with highest percentages of creditors greater than available cash:	
<ul style="list-style-type: none"> Phumelela (FS) – 322 985% (creditors = R278 823 227; cash available at year-end = R86 327) Emthanjeni (NC) – 45 991% (creditors = R95 880 042; cash available at year-end = R208 475) Victor Khanye (MP) – 36 282% (creditors = R511 391 499; cash available at year-end = R1 409 487) 	
CURRENT LIABILITIES GREATER THAN 10% OF NEXT YEAR'S BUDGET*	
Current liabilities > 10% of next year's budget at year-end (next year's budget will therefore pay for expenditure of prior years)	176 (97%)
Current liabilities > 50% of next year's budget at year-end	52 (29%)
UNAUTHORISED EXPENDITURE	
Unauthorised expenditure (including R7,39 billion based on outstanding audits at cut-off date)	R22 billion
Unauthorised expenditure incurred by 104 municipalities relating to non-cash items#	R9,27 billion
Unauthorised expenditure could be higher as 14 (7%) of the 200 municipalities where we had completed audits were qualified on the incomplete disclosure of unauthorised expenditure	

Excludes 57 outstanding audits

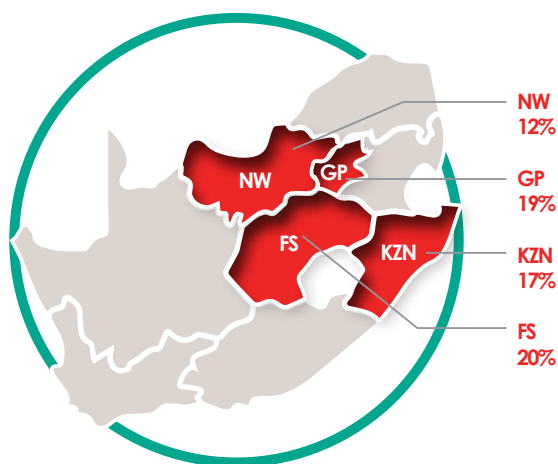
* Excludes 18 municipalities where the financial statements were not reliable enough for financial analysis (i.e. those with adverse or disclaimed audit opinions)

Further exploring the unauthorised expenditure, we see that 175 municipalities incurred such expenditure (this includes 40 with outstanding audits based on unaudited financial statements as well as audits subsequently finalised). This means that municipalities incurred **expenditure without the council having made provision for it in the approved budget or the spending did not meet the conditions of a grant.**

As mentioned earlier, most of the expenditure related to non-cash items. Municipalities' budgets

make provision for items that do not involve actual cash inflow or outflow. We term these 'non-cash items', which include accounting entries such as reducing the value at which assets are reflected in the financial statements (asset impairments) and providing for other types of potential financial losses. This is not actual expenditure but rather an accounting requirement that enables municipalities to assess the true value of their assets (such as equipment or debtors). It is important for municipalities to correctly budget for these non-cash items to show their true financial state.

Highest contributors to unauthorised expenditure – R22 bn



Municipalities should ensure that they can deliver services based on available resources; yet they continue to promise a level of service delivery and projects they cannot fund and to submit budgets to the council that balance but are effectively based on money that they will not be able to bring in. As a result, the spiral of non-delivery

TOP CONTRIBUTORS TO UNAUTHORISED EXPENDITURE

City of Tshwane Metro (GP) – R2,25 billion
eThekweni Metro (KZN) – R1,78 billion
Emfuleni (GP) – R1,65 billion *
Matjhabeng (FS) – R1,50 billion
Mangaung Metro (FS) – R1,17 billion *
Vhembe District (LP) – R0,73 billion
Msunduzi (KZN) – R0,56 billion
Govan Mbeki (MP) – R0,55 billion
Enoch Mgijima (EC) – R0,48 billion
Matlosana (NW) – R0,48 billion *

* Audits still outstanding or finalised after cut-off date of report

continues. The impact of this is felt directly by the communities and businesses the municipalities serve – particularly when it comes to inadequate access to basic services and the lack of economic development. This also places pressure on the country's finances overall – which in this economic climate, we can ill afford.



Examples illustrating impact of poor financial management



Amathole District had outstanding payables at year-end amounting to R563 million, which exceeded the cash available of R192 million. The outstanding creditors represented one-third of the next year's budget of R1,6 billion, which will now be used to pay those creditors instead of funding new service delivery priorities.



The unauthorised expenditure of **Msunduzi** increased by 232% (from R170 million to R565 million). The unauthorised expenditure was a result of poor budgeting, specifically relating to the increase in debt impairment due to the impact of the covid-19 pandemic. Currently the municipality would not be able to meet its existing obligations with the funds available.



Gamagara took an average of 172 days to collect money owed by customers, placing pressure on its ability to pay creditors. The municipality took 487 days to pay suppliers, ultimately affecting its ability to meet the service delivery needs of the community. The current creditors balance exceeded the current cash balance by 805,8%, indicating that the municipality will not be able to settle most of its short-term obligations.

SERIOUS WEAKNESSES IN FINANCIAL REPORTING

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

Financial statements are credible, and thus reliable, when they are free of material misstatements (errors or omissions). However, 72% of municipalities submitted financial statements of a poor quality for auditing. These municipalities place reliance on the external audit process to identify misstatements. The poor quality of the financial statements received also reflects poorly on the credibility of in-year financial reporting and monitoring.

Notwithstanding the extended timelines granted for submitting financial statements in the current year, 11% of municipalities could not submit their financial

statements on time. This is a slight increase from the 9% of municipalities that did not submit their financial statements on time at the beginning of the current administration's term. **The late submission of financial statements is one of the main reasons for the late finalisation of audits.**

Twelve of the municipalities of which the audits had been completed by the cut-off date of this report, obtained disclaimed audit opinions. These municipalities could not provide us with evidence for most of the amounts and disclosures in their financial statements. We were therefore unable to conclude or express an opinion on the credibility of their financial statements. The financial statement stories of these municipalities remain untold or are unreliable, with their communities and creditors left in the dark with regards to their financial affairs. This is what makes a disclaimed opinion the worst audit opinion a municipality can get. In section 4 of this report, we focus on some municipalities with a history of disclaimed opinions.

TIMELY SUBMISSION AND QUALITY OF FINANCIAL STATEMENTS

Submission of financial statements by legislated date (all auditees)	89%
Quality submission for auditing	28%

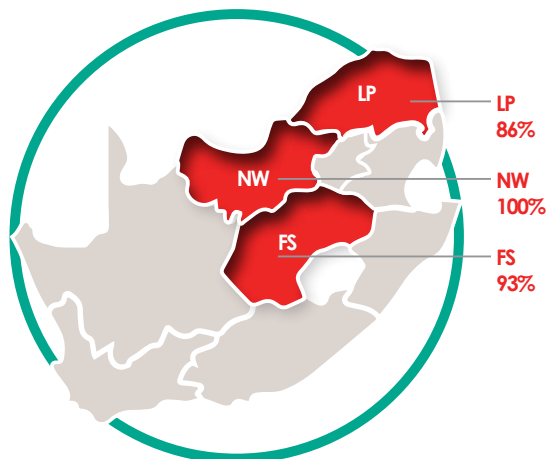
MATERIAL MISSTATEMENTS IN FINANCIAL STATEMENTS

Irregular expenditure	28%
Property, infrastructure and equipment	25%
Receivables	25%
Expenditure	25%
Revenue from exchange transactions	24%

MUNICIPALITIES THAT HAD NOT SUBMITTED THEIR 2018-19 FINANCIAL STATEMENTS FOR AUDITING BY 23 APRIL 2021

Free State	Maluti-A-Phofung, Masilonyana and Tokologo
Northern Cape	Phokwane and Renosterberg

Provinces that submitted poorest quality financial statements



THE HIGH COST OF POOR FINANCIAL MANAGEMENT AND REPORTING

Most municipalities appoint consultants for financial reporting as their own finance employees lack the skills required to prepare financial statements and schedules in support of those financial statements. The inability of these municipalities to master credible financial reporting means that they appoint consultants year after year, without ensuring that skills are transferred to municipal staff – and so the cycle never ends. This over-reliance on consultants leads to a high total cost of financial reporting.

Despite our warnings throughout the past four years, there is **little evidence suggesting that over-reliance on consultants will soon be a thing of the past**. In 2019-20, 156 municipalities (78%) appointed financial reporting consultants; an increase from 124 municipalities (62%) that used consultants at the beginning of the current administration's term. Consultants are also not rotated, as shown by the same consultants used in the previous year being re-appointed at 74% of the municipalities. In some

cases, consultants continue to accept appointments although it is unlikely that they will add value to the municipalities; for example, where there is a lack of or inadequate records and documents or they are appointed too late. Consultants should therefore be cognisant of the circumstances at a municipality and evaluate whether their services will be effective before accepting any engagements.

Over R5 billion was spent on financial management and reporting for the year – this includes only

the salary cost of finance units and the cost of consultants used for financial reporting services. In addition, the multiple interventions by national and provincial government, including placing municipalities under administration, are costly exercises. However, the return on investment is not yet apparent and we remain concerned about the high amount spent on consultants to support financial reporting – especially at municipalities where finance units are fully resourced.

Cost of financial reporting = R5 594 million

Salary cost of finance units (**R4 567 million**) + cost of consultants used by 172 municipalities for financial reporting services (**R1 027 million**)

Consultant cost constitutes 18% of total financial reporting cost



The table below reflects the financial reporting costs per province. In four provinces, consultant costs constituted more than 20% of the total financial reporting costs.

Province	Financial reporting consultant cost	Finance unit salary cost	Total financial reporting cost	Consultants as percentage of total financial reporting cost
Eastern Cape	R117,18 million	R601,80 million	R718,98 million	16%
Free State	R46,83 million	R280,28 million	R327,11 million	14%
Gauteng	R230,21 million *	R1 270,25 million	R1 500,46 million	15%
KwaZulu-Natal	R146,23 million	R717,02 million	R863,25 million	17%
Limpopo	R172,53 million	R511,05 million	R683,58 million	25%
Mpumalanga	R63,73 million	R189,65 million	R253,38 million	25%
Northern Cape	R97,16 million	R184,05 million	R281,21 million	35%
North West	R122,88 million	R168,24 million	R291,12 million	42%
Western Cape	R30,61 million	R644,76 million	R675,37 million	5%
Total	R1 027,36 million	R4 567,10 million	R5 594,46 million	18%

* R198,43 million relates to City of Tshwane Metro

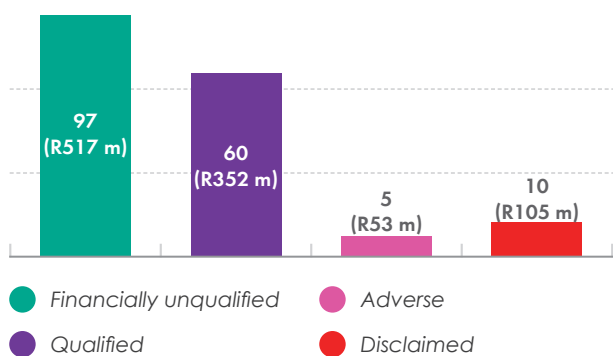
Most of the consultant costs were incurred on asset management services (R417,95 million by 96 municipalities), followed by the preparation or review of financial statements (R297,54 million by 127 municipalities) and tax services (R167,44 million by 51 municipalities).

Municipalities used consultants for the following reasons:

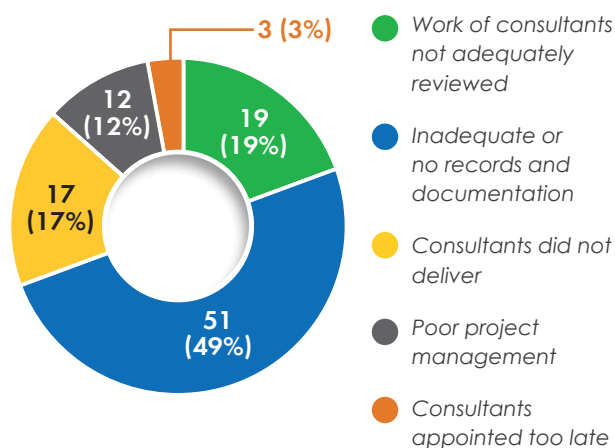
- Lack of skills at 117 municipalities (68%)
- Combination of lack of skills and vacancies at 52 municipalities (30%)
- Vacancies at 3 municipalities (2%)

As indicated earlier, the expected benefits from using consultants are not always apparent. We identified material misstatements in 59% of the submitted financial statements and/or supporting schedules that had been prepared by consultants. Below we detail the financial statement audit outcomes where consultants were used and look at why they were not effective.

Financial statement outcomes where consultants were used



Reasons why consultants were ineffective



The over-reliance on consultants and the high total cost of financial reporting can be seen in the examples below.



Inkosi Langalibalele paid R13,9 million to consultants in the 2019-20 financial year, most of which was for the preparation and review of financial statements and the fixed asset register. The combined annual salary of finance staff employed for the same functions was R14,22 million. Consultants were mainly utilised due to a lack of skills within the municipality's finance unit. Repeat material misstatements were identified in the consultants' area of responsibility. This was because consultants did not deliver on the services for which they were engaged by the municipality. The use of consultants did therefore not have a positive impact on the audit outcome as the municipality regressed to a disclaimed audit opinion.



Sekhukhune paid R24,75 million to consultants in the 2019-20 financial year, most of which was for financial reporting services. This despite the finance staff of the municipality also being paid combined annual salaries of R70,84 million. There were enough officials to perform some of the duties performed by consultants, which would have reduced the consultant cost. However, officials lacked the appropriate skills, with no skills transfer taking place from consultants to staff, as consultants are appointed year after year. We assessed the municipality's finance unit as requiring intervention to prepare regular, accurate and complete financial and performance reports that were supported by reliable information, yet this was the main area of operation for the consultants. The involvement of consultants did therefore not improve the audit outcome as the municipality remained qualified.



However, some municipalities do effectively use consultants, as can be seen in the example below.



What works well at **Bergrivier** is the level of review performed by the chief financial officer and the accessibility of the consultant. Although consultants are responsible for the overall preparation of financial statements, any audit issues are addressed by the chief financial officer. The chief financial officer also does an overall review of all journals posted by the consultant and reviews the financial statements with the consultant. The templates used by the consultant are logical, easy to review, and included in an audit file.

UNRELIABLE PERFORMANCE REPORTING – ADDING TO THE CHALLENGE OF POOR SERVICE DELIVERY

Municipalities are required to measure and report on their actual service delivery performance against the objectives and targets that have been predetermined in their integrated development plan and/or service delivery and budget implementation plan.

However, most municipalities had inadequate systems to collate and report on their performance information and officials did not understand or could not apply the performance management

and reporting requirements. Four municipalities did not submit performance reports for auditing and only 24% of municipalities were able to submit performance reports without material misstatements or limitations.

Performance reports with material flaws are not credible enough for the council or the public to use in holding municipalities accountable for the service delivery promises they make in their strategic planning documents.

Status of performance reporting

Outcomes



● No material findings

● Material findings

PREPARATION AND QUALITY OF PERFORMANCE REPORTS

Preparation of performance reports	98%
Quality submission for auditing	24%

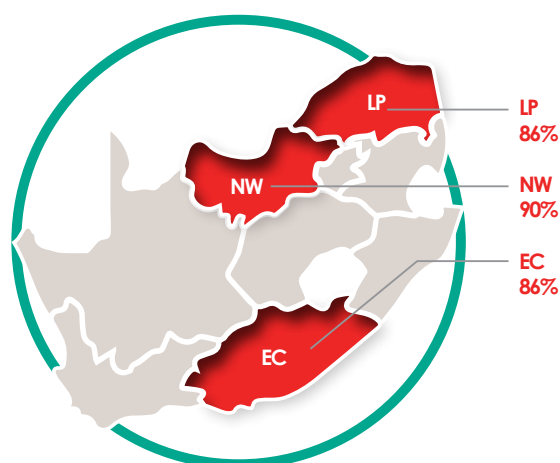
FINDINGS ON PERFORMANCE REPORTS

Achievement reported not reliable	41%
Performance indicators and targets not useful	39%
No underlying records or planning documents	4%

MOST COMMON USEFULNESS FINDINGS

18% Indicators/targets not consistent	17% Indicators/targets not well-defined	13% Indicators/targets not verifiable	10% Measures taken to improve performance not corroborated
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Provinces that submitted poorest quality performance reports



The following seven municipalities (4%) submitted performance reports without complete and accurate underlying records. As a result, we could not validate the services delivered as reported by these municipalities in their performance reports.

Eastern Cape	Sundays River Valley and Sakhisizwe
Mpumalanga	Thembisile Hani
Northern Cape	Nama Khoi, Khai-Ma, Kai !Garib and Karoo Hoogland



Examples showing link between unreliable performance planning and reporting and inadequate service delivery



At **Metsimaholo**, a project to construct the Refeng Kgotso sports complex was awarded in December 2019 with a planned project duration of 36 months and a budgeted cost of R7,54 million. The actual project expenditure at 30 June 2020 stood at R5,17 million; and additional payments of R1,86 million were made up to May 2021. During a site visit in February 2021, discrepancies were identified between the actual work done and the work certified as complete, although most of the project costs had been paid. For example, some invoices indicated that the fence around the complex and the tennis courts in the complex had been completed, but upon physical inspection these items were still in the early stages of construction.



At **Kai !Garib**, the reported achievements against planned service delivery objectives, indicators and targets as contained in the performance report could not be supported by underlying records. This includes an approved service delivery and budget implementation plan that was not submitted for auditing. As a result, we could not verify that what was reported as planned services was correct and we could not confirm that the reported achievements actually occurred. The lack of a proper performance planning and management system is one of the contributing factors to the current service delivery challenges experienced by the municipality. For example, the municipality has limited water pumps that are working due to poor maintenance and the community continues to struggle with water shortages.

WIDESPREAD NON-COMPLIANCE WITH LEGISLATION

Legislation serves to set parameters within which local government budget allocations may be utilised, with a view to stretch resources optimally, thereby enhancing service delivery to citizens. It sets out the dos and don'ts that every official entrusted with the financial affairs of local government ought to observe to ensure the realisation of service delivery promises.

Yet, **municipalities and their staff continue to disregard compliance with legislation**. We identified non-compliance with legislation at 172 municipalities (86%). The lapse in oversight and lack of controls relating to compliance were evident in a number of areas, including

procurement and contract management; the quality of financial statements; and the prevention of unauthorised, irregular and fruitless and wasteful expenditure.

Municipalities therefore need to have mechanisms in place to identify applicable legislation as well as changes to legislation, assess the requirements of legislation, and implement processes to ensure and monitor compliance with legislation to enable sound financial management practices. Municipal managers ought to provide effective and ethical leadership, exercise oversight of compliance with legislation, and effect consequences against officials responsible for non-compliance.

Status of compliance with legislation



MOST COMMON AREAS OF NON-COMPLIANCE

Procurement and contract management	74%
Quality of financial statements	73%
Prevention of irregular expenditure	72%
Prevention of unauthorised as well as fruitless and wasteful expenditure	60%
Effecting consequences	57%

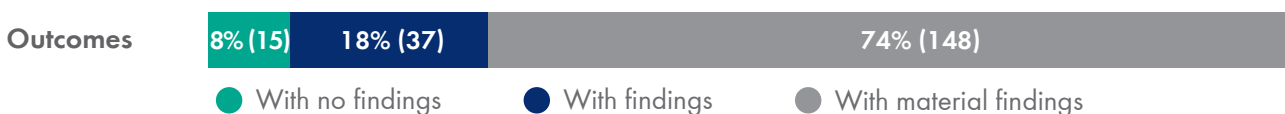
OTHER NOTABLE NON-COMPLIANCE AREAS	MOST COMMON FINDINGS	
Expenditure management at 49% of municipalities	Payments to creditors not settled within 30 days from receipt of an invoice	45% (90)
	No or inadequate management, accounting and information system for expenditure	9% (18)
Strategic planning and performance management at 40% of municipalities	Performance management system and related controls not maintained or inadequate	28% (55)
	No performance management system established	5% (10)
Asset management at 36% of municipalities	Ineffective system of internal control for assets	29% (57)
	No or inadequate management, accounting and information system for assets	11% (21)
Revenue management at 28% of municipalities	Ineffective system of internal control for revenue	22% (44)
	No or inadequate management, accounting and information system for revenue	10% (20)

We now look in more detail at three specific areas of non-compliance, namely **supply chain management**, **irregular expenditure**, and **effecting consequences**.

SUPPLY CHAIN MANAGEMENT

It is of great concern that material non-compliance with supply chain management legislation by municipalities is still very high.

Status of compliance with supply chain management legislation



Limitations

We were unable to audit procurement of R1 433 million due to missing or incomplete information at 29 municipalities (15%).

The impact of these limitations included the following:

- It is not known whether any part of the R1 433 million might represent irregular expenditure or material irregularities.

- There was no evidence that municipalities had followed a fair, transparent and competitive process for all awards. Should unsuccessful bidders request information on the process, also for possible litigation purposes, it would not be available.
- Poor record management created an environment in which it was easy to commit and conceal improper or illegal conduct.

The municipalities where we experienced the biggest limitations, accounting for 84% of the R1 433 million, were:

- Mogalakwena (LP) – R893 million: Contract management documents relating to 46 contracts were not provided for auditing due to a lack of adequate record keeping. The most significant contracts related to water services projects (R755 million), sports stadium projects (R71 million), and professional engineering services relating to supervision on water treatment and concrete work projects (R67 million).
- City of Tshwane Metro (GP) – R103 million: Inadequate record management as the contract with the service provider responsible for maintaining copies of all issued bids had expired and a new contract had not yet been concluded.
- Kagisano-Molopo (NW) – R73 million: Tender documents relating to six contracts and 25 quotations were not provided for auditing due to poor record management. The most significant of these contracts related to security services (R34,7 million), Municipal Standard Chart of Accounts implementation (R17,0 million), and the Vragas sports facility (R16,9 million).
- Dr Ruth Segomotsi Mompati District (NW) – R73 million: Bidding documents relating to five tenders or contracts were not provided

for auditing due to a lack of an adequate record-keeping system. The most significant contracts related to the Mamusa drought-relief programme (R23,8 million), equipping of boreholes and tankering provision (R23,6 million), and professional engineering services for Taung (R11,3 million).

- Siyathemba (NC) – R64 million: Tender documents pertaining to three contracts could not be provided as a result of poor record keeping by management.

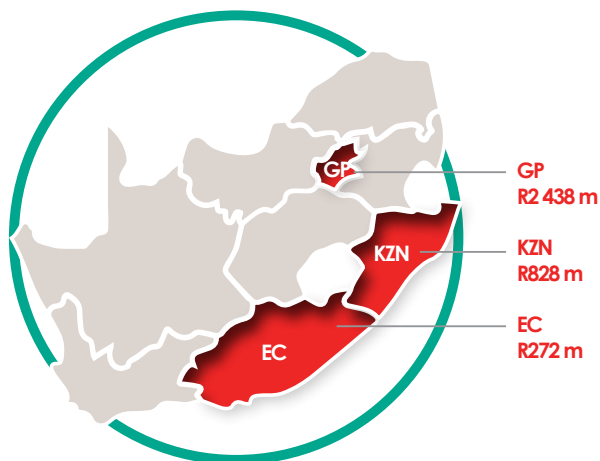
Awards to employees, councillors, close family members and other state officials

The Municipal Supply Chain Management Regulations prohibits the awarding of contracts to, and acceptance of quotations from, employees, councillors or other state officials, or entities owned or managed by them, if they are in the service of the municipality or any other state institution.

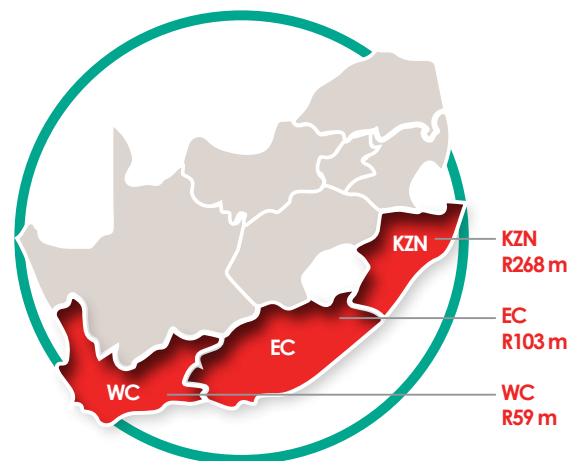
Awards to close family members of persons in the service of the state, whether at the municipality or another state institution, are not prohibited. However, such awards of more than R2 000 must be disclosed in the financial statements of the auditee for the sake of transparency and as required by supply chain management regulation 45. Furthermore, such awards might create conflicts of interest for employees or councillors.

AWARDS/FINDINGS	Number of municipalities with awards	Amount
Prohibited awards to other state officials	52% (104)	R3 619 million
Prohibited awards to employees and councillors	15% (29)	R19 million
At five municipalities (3%), awards were made to councillors		
Awards to close family members of employees	36% (71)	R527 million
At 16 municipalities (8%), awards to close family members were not disclosed in the financial statements as required		

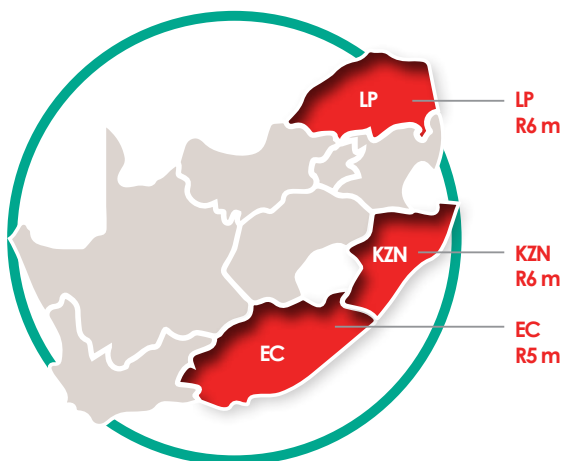
Highest contributors to prohibited awards to other state officials – R3 619 m



Highest contributors to awards to close family members – R527 m



Highest contributors to prohibited award to employees and political office-bearers – R19 m



False declarations by suppliers and non-disclosure by employees

Despite raising concerns year after year about contracts being awarded to employees and their families, we still find that awards are made without the necessary declarations of interest.

FINDINGS	Number of municipalities	Number of suppliers/employees	Amount
Suppliers owned or managed by employees of another state institution made false declarations	23% (45)	350	R882 million
Suppliers owned or managed by close family members of employees of municipality made false declarations	16% (32)	225	R249 million
Suppliers owned or managed by employees and councillors of municipality made false declarations	5% (9)	24	R4 million
Employees of municipality failed to declare family member's interest	17% (34)	169	R79 million
Employees of municipality failed to declare own interest either as part of procurement processes or through annual declarations	7% (13)	41	R5 million



Examples of how municipalities are dealing with awards made without necessary declarations of interest



As there were weaknesses in the preventative controls of the **City of Ekurhuleni Metro**, the municipality depended on our computer-assisted audit techniques to identify conflicts of interest. Municipal employees flagged in this way subsequently resigned from being directors of companies doing business with the state. As the municipality did not have access to a database of companies for which family members of employees worked, it was not possible to identify conflicts of interest relating to family members.



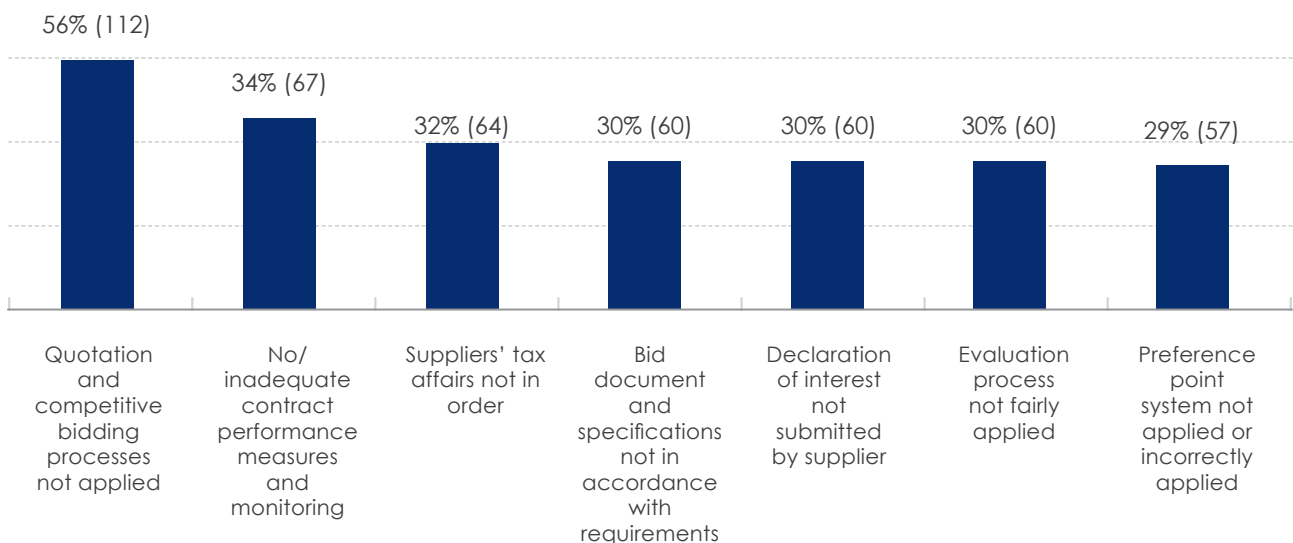
Umhlatuze relied on the submission of declarations and supply chain database reports for all procurement to identify any interests and act in accordance with its policy. Where we flagged suppliers to management for investigation of false declarations through our computer-assisted audit techniques, management issued a letter to the supplier regarding the interest and gave them 30 days to respond; failing which, the municipality did not make awards to them in future.

Uncompetitive and unfair procurement processes and inadequate contract management

Uncompetitive and unfair procurement processes and inadequate contract management were still common. Often findings on non-compliance with supply chain management legislation are viewed and commented on as procedural issues or possible fraud. However, the potential for losses to government due to the correct processes not being followed is often overlooked. Less

competition often leads to higher prices being paid for goods and services while non-compliance relating to contract management can open up the state to losses when contracts are not in place or performance is not monitored.

We reported findings (of which 70% was material) on uncompetitive and unfair procurement processes at 84% of municipalities, and contract management findings (of which 35% was material) at 44% of municipalities.



The aim of the Preferential Procurement Regulations is to support socio-economic transformation. The public sector should lead by example to achieve this goal, but we again found that some municipalities are failing in this area. At 57 municipalities (29%), the **preference point system was not applied or was incorrectly applied.**

The Preferential Procurement Regulations also requires municipalities to procure certain commodities from local producers. Municipalities failed in this regard as well, as 69 of the

136 municipalities (51%) where we audited local content **did not comply with the regulation on promotion of local producers** on awards amounting to R603 million.

In addition, 54 municipalities (27%) were awarded **contracts without properly constituted bid adjudication committees**, resulting in irregular expenditure of R3 310 million. At eight municipalities (4%), goods and services were procured through **contracts secured by other organs of state without complying with the prescribed requirements.**



Example illustrating effect of contract management shortcomings



Kagisano-Molopo did not have adequate controls in place to monitor the work done by contractors to ensure that it was in line with the contract. For example, the municipality contracted a supplier to construct a 1,8 km road to the value of R9,2 million in Tseoge Village. The contractor constructed only 1,63 km of the road but was paid for 1,8 km, resulting in the municipality overpaying the contractor.

PREVENTION OF IRREGULAR EXPENDITURE

Irregular expenditure is **expenditure that was not incurred in the manner prescribed by legislation.**

Such expenditure does not necessarily mean that money had been wasted or that fraud had been committed. It is an indicator of non-compliance in the process that needs to be investigated by management to determine whether it was an unintended error, negligence, or done with the intention to work against the requirements of legislation (which, for example, require that procurement should be fair, equitable, transparent, competitive and cost-effective).

Through such investigation, it is also determined who is responsible and what the impact of the non-compliance is. Based on the investigation, the next steps are determined. One of the steps

can be condonement if the non-compliance had no impact and negligence was not proven. Alternatively, if negligence was proven, the steps can be disciplinary action, the recovery of any losses from the implicated officials, or even cancelling a contract or reporting it to the police or an investigating authority. This responsibility rests with the council, who should be supported by the municipal public accounts committee in this regard.

Irregular expenditure remained high at R26 billion and municipalities still did not deal with it speedily. Of the R19,31 billion in irregular expenditure incurred by municipalities of which the audits had been finalised by the cut-off date of this report, R14,5 billion was incurred in 2019-20 and represented 2% of the total expenditure budget.



* Annual irregular expenditure

R26 billion incurred by **246 municipalities** (consisting of R6,43 billion and R19,31 billion incurred by municipalities with outstanding audits and completed audits, respectively)

#But irregular expenditure is not complete

73 municipalities (37%) were qualified on completeness of their disclosure and/or did not know total amount and were still investigating to determine this

We could not audit procurement processes for selected contracts valued at **R1,43 billion**

#When did transgressions take place?

Current year = R8,73 billion (45%)

Prior year = R4,81 billion (25%) (only uncovered and disclosed now)

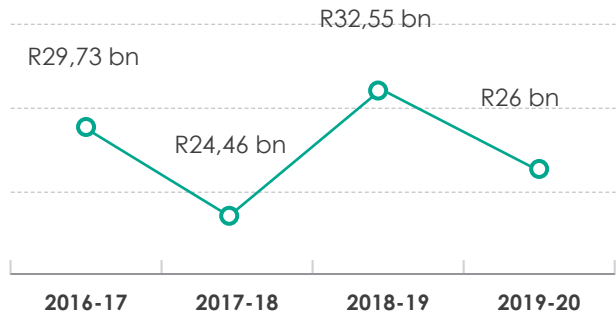
Multi-year contracts = R5,77 billion (30%)

*Includes 57 outstanding audits

#Excludes 57 outstanding audits

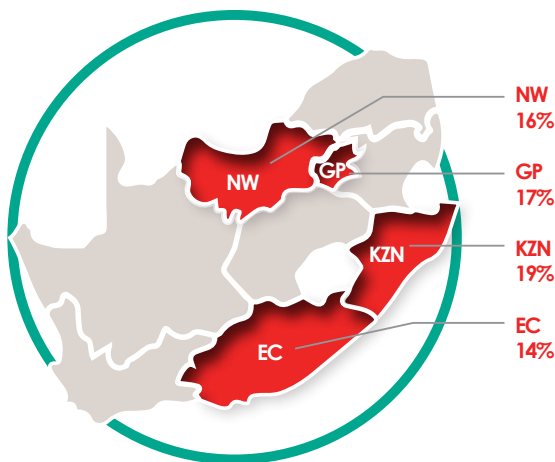
Non-compliance with supply chain management legislation remained the main cause of irregular expenditure, with R18,70 billion (97%) of the irregular expenditure incurred by municipalities of which we had completed the audits, relating to non-compliance with supply chain management legislation as follows:

* Movement over 4 years



- Non-compliance with other procurement process requirements (such as preference points not being applied or procurement from suppliers who had not submitted valid tax clearance certificates) – R10,78 billion (58%)
- Procurement without following a competitive bidding or quotation process – R4,77 billion (25%)
- Inadequate contract management – R3,15 billion (17%)

Highest contributors to irregular expenditure – R26 bn



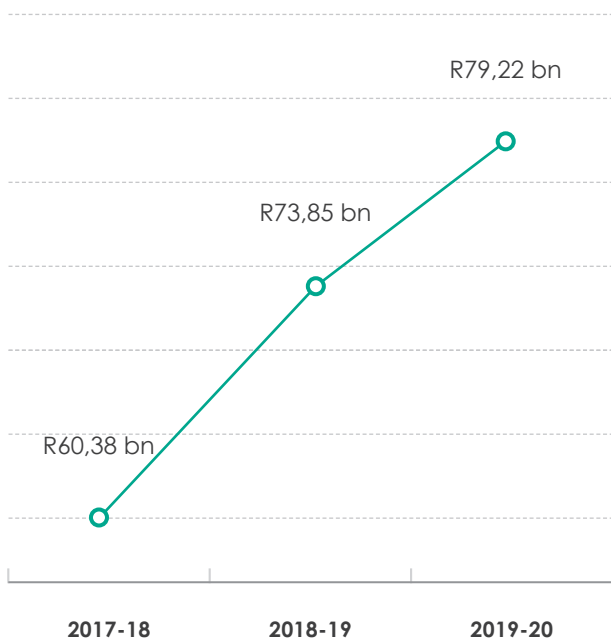
TOP CONTRIBUTORS TO IRREGULAR EXPENDITURE

- City of Tshwane Metro (GP) – R2,53 billion
- Mangaung Metro (FS) – R1,60 billion *
- Nelson Mandela Bay Metro (EC) – R1,37 billion
- eThekweni Metro (KZN) – R1,07 billion
- City of Johannesburg Metro (GP) – R1,05 billion
- Ngaka Modiri Molema District (NW) – R0,87 billion *
- OR Tambo District (EC) – R0,70 billion
- City of Cape Town Metro (WC) – R0,67 billion
- Moses Kotane (NW) – R0,62 billion
- Rustenburg (NW) – R0,57 billion *

* Audits still outstanding or finalised after cut-off date of report

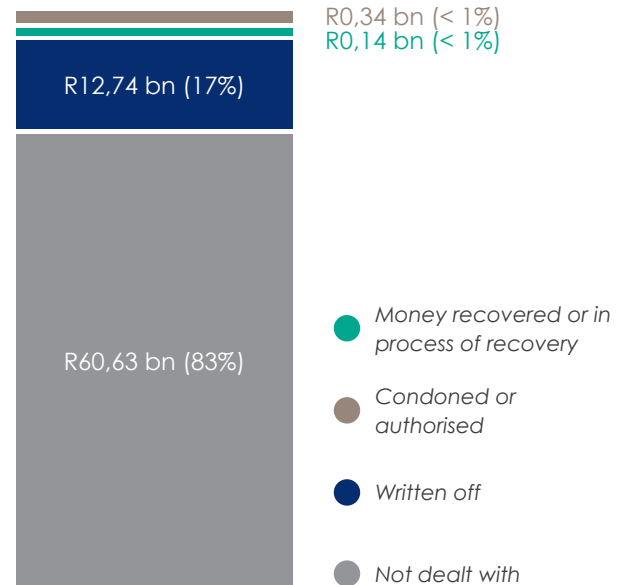
By looking at what municipalities have done with the 2018-19 irregular expenditure, it becomes clear that the pace at which this type of expenditure is being dealt with, remains very slow.

Closing balance of irregular expenditure continues to increase

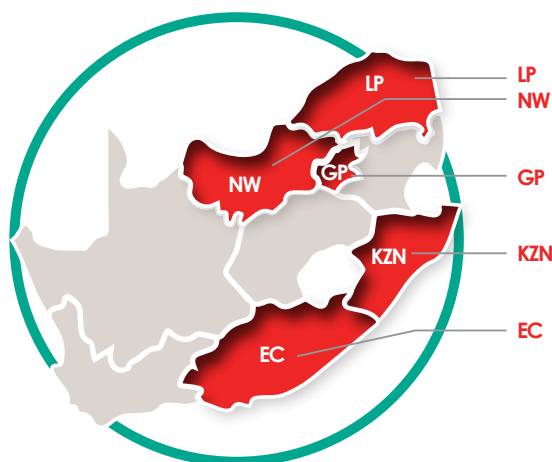


Yet municipalities are slow in dealing with it

(Figures are expressed as percentage of previous year's closing balance of R73,85 bn)



Top contributors to irregular expenditure – R37,93 bn



TOP CONTRIBUTORS (R37,93 BILLION) TO IRREGULAR EXPENDITURE NOT DEALT WITH – CONSTITUTES 63% OF R60,63 BILLION

- Nelson Mandela Bay Metro (EC) – R16,54 billion
- City of Tshwane Metro (GP) – R3,97 billion
- City of Johannesburg Metro (GP) – R3,48 billion
- eThekweni Metro (KZN) – R2,44 billion
- uMkhanyakude District (KZN) – R2,33 billion
- JB Marks (NW) – R2,17 billion
- Buffalo City Metro (EC) – R2,08 billion
- Mogalakwena (LP) – R1,86 billion
- City of Ekurhuleni Metro (GP) – R1,71 billion
- OR Tambo District (EC) – R1,35 billion



Examples illustrating challenges municipalities face in adequately investigating irregular expenditure



The **City of Tshwane Metro** had a backlog of investigations into allegations of possible fraud, corruption as well as unauthorised, irregular and fruitless and wasteful expenditure. This was due to internal capacity constraints and funding challenges caused by budget cuts that hindered the municipality from contracting external consultants to assist with investigations.



At **JB Marks**, the municipal public accounts committee was not adequately resourced to enable them to properly investigate irregular expenditure to determine if the municipality had suffered any losses and if any person was liable for such losses. As a result, the council mandated the audit committee to investigate the irregular expenditure, but this committee could also not implement the requirements prescribed by section 32 of the Municipal Finance Management Act, mainly due to a lack of adequate procurement documentation. In addition, the supply chain management unit was not adequately capacitated. The audit committee was terminated on 10 March 2020 and new members were only appointed on 28 September 2020, which further hampered the investigation of irregular expenditure. The council had also not been able to adopt the oversight report for the previous financial year, contributing to a lack of monitoring of recommendations made with regard to irregular expenditure.

EFFECTING CONSEQUENCES

It is of great concern that more than 60% of municipalities did not materially comply with legislation relating to effecting consequences.

Status of compliance with legislation on effecting consequences



The most common findings involved the lack of investigation of unauthorised, irregular as well as fruitless and wasteful expenditure. This means that sufficient steps were not taken to recover, write off, approve or condone such expenditure. In total, 96 municipalities (48%) did not investigate the previous year's irregular expenditure, 88 (44%) did not do so for fruitless and wasteful expenditure, and 80 (40%) failed to investigate the previous year's unauthorised expenditure.

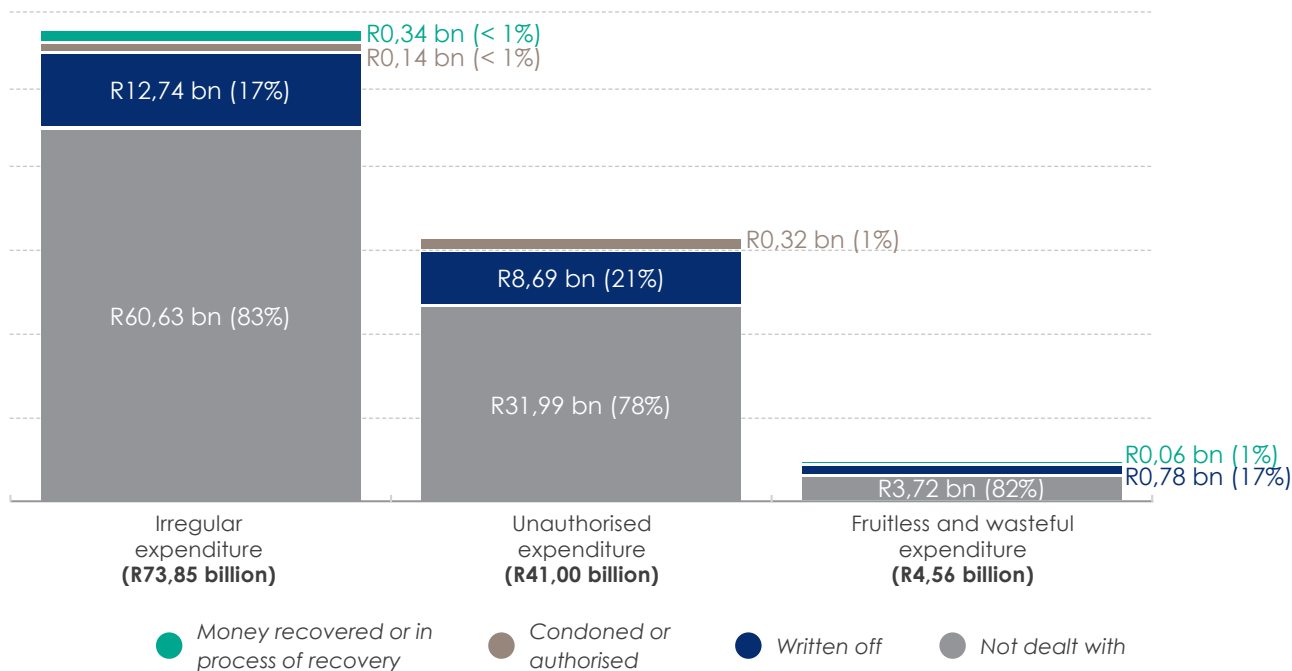
As a result, **the year-end balances of these types of unwanted expenditure continue to grow.** The

year-end balance of irregular expenditure that had accumulated over many years (inclusive of outstanding audits) and had not been dealt with totalled R108,24 billion, while that of unauthorised expenditure stood at R71,76 billion, and the fruitless and wasteful expenditure added up to R9,28 billion.

Investigations into these types of expenditure should be done in an objective and diligent manner. Councils should not write off or condone such expenditure without making sure that losses had not been suffered or that any such losses cannot be recovered.

How did the council deal with all prior year unauthorised, irregular and fruitless and wasteful expenditure to date?

Figures are expressed as percentage of previous year's closing balance



Example showing effect of municipalities' failure to investigate prior year irregular expenditure



OR Tambo District did not effectively investigate all instances of irregular expenditure as required by legislation, which had accumulated to R1,98 billion at year-end. Furthermore, controls were lacking to prevent or detect errors in financial and performance information as well as non-compliance with legislation, resulting in the municipality's stagnation on a qualified audit opinion.

We further tested whether **allegations of financial and supply chain management misconduct and fraud** had been adequately followed up at 70 municipalities. We found the following:

- Investigations took longer than three months to complete at 25 municipalities (36%)
- Allegations were not investigated at 19 municipalities (27%)
- Allegations were not properly investigated at five municipalities (7%)

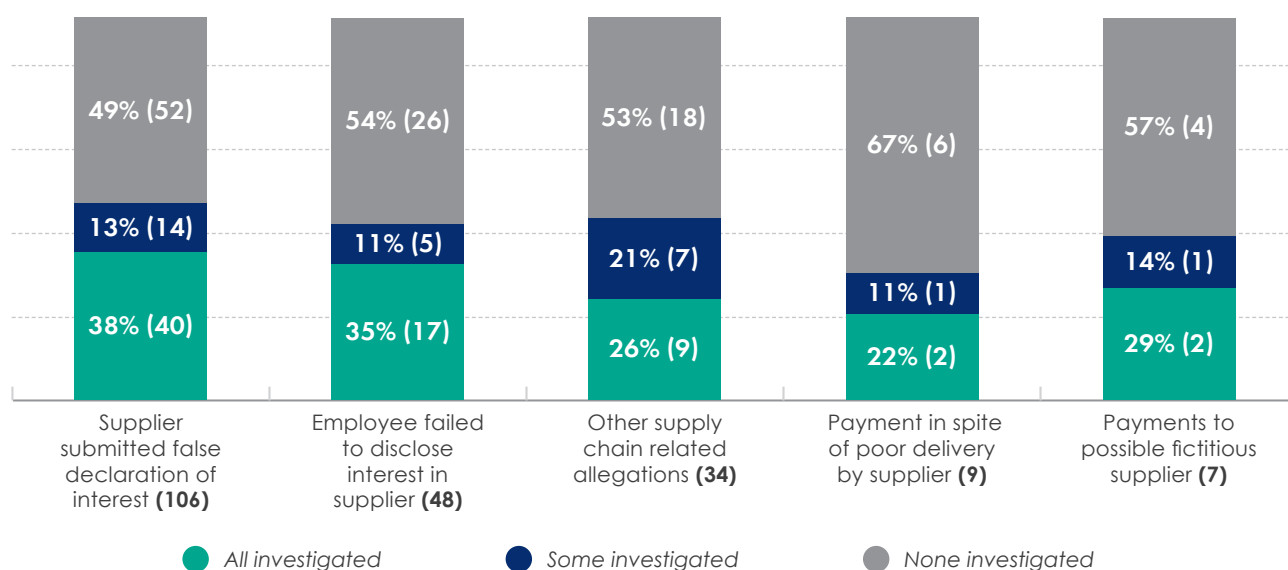
We also report indicators of possible fraud or improper conduct in the supply chain management processes, and recommend that management further investigate these matters. In 2018-19, we reported such indicators at 121 municipalities for follow-up. There is a definite need to increase the momentum in finalising these investigations.

Status of investigations into indicators of possible fraud or improper supply chain management conduct



- 35% (42)** municipalities investigated all the findings we reported
- 21% (26)** municipalities investigated some of the findings we reported
- 44% (53)** municipalities investigated none of the findings we reported

43 (63%) of the 68 municipalities that investigated all or some findings, satisfactorily resolved these investigations, but the remaining 37% did not (for example, the investigation recommended that contracts in which employees failed to declare their interest be cancelled, but the municipality did not do so)



POOR AUDIT OUTCOMES REMAIN THE NORM

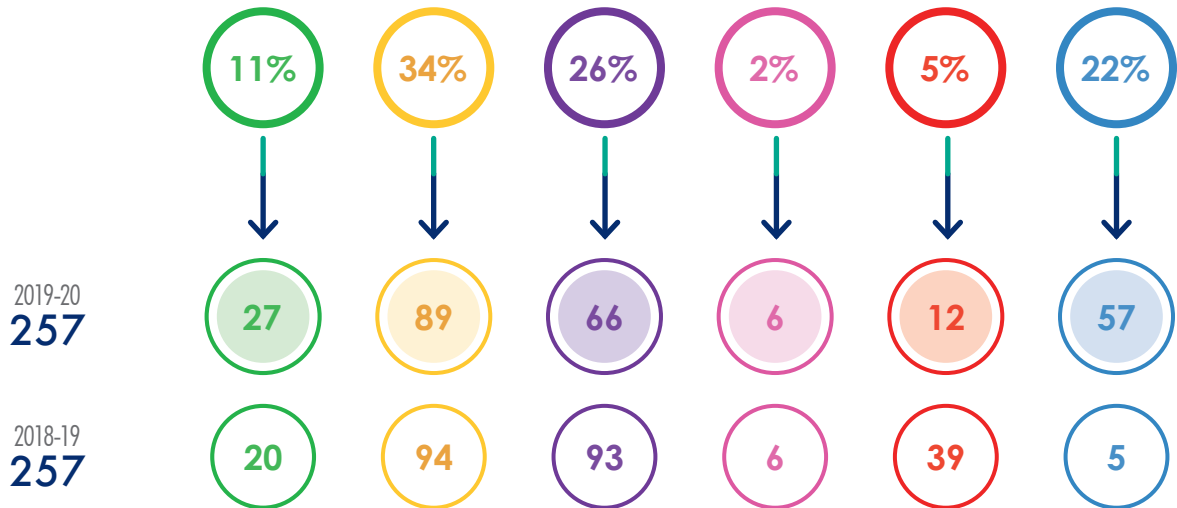
The financial statements and the performance report of a municipality tell the story of how well a municipality is managed. It can be a good story of disciplined spending that achieves value for money and commitments to creditors being honoured.

However, the tale that is unfolding is of many municipalities being crippled by debt and being unable to pay for water and electricity; expenditure that is unauthorised, irregular, fruitless and wasteful; and a high dependence on grants and assistance from national government. Most concerning are those municipalities that cannot even prepare credible financial statements, even after paying millions to consultants for assistance and receiving sizeable support from national and provincial government.

The lapses in financial and performance management are apparent from the overall audit outcomes.

Although there was an overall improvement in the audit outcomes from the previous year, most municipalities are now in a worse position than at the beginning of the current administration, with 41 improving and 51 regressing over this period as at 23 April 2021. It is essential that focused and urgent attention is given to municipalities with a history of disclaimed audit opinions. We provide further detail on these struggling municipalities in section 4 of this report.

Audit outcomes



First year of administration



Movement from previous year



Movement from 2016-17



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

The provinces with the most regressions over the four-year period of the current administration are the Eastern Cape (12), Free State (seven), KwaZulu-Natal (15) and Northern Cape (five).

We urge the provincial leadership of these provinces in section 6 to reverse this negative trajectory as follows:

Eastern Cape	Improve and focus on controls for sustainable outcomes
Free State	Accountability can be realised through decisive leadership tone
KwaZulu-Natal	Upscale implementation of preventative controls and drive consistent consequences
Northern Cape	Sustainable change starts with the leadership will to drive it

On a positive note, some municipalities were able to maintain their clean audit status over the four-year period.

MUNICIPALITIES WHO SUSTAINED THEIR CLEAN AUDIT STATUS OVER FOUR YEARS

Eastern Cape	Senqu
Gauteng	Midvaal
KwaZulu-Natal	Okhahlamba
Western Cape	Witzenberg, Cape Agulhas, Cape Winelands District and Overstrand



Below we share some of the best practices at these municipalities – struggling municipalities should emulate them in pursuit of improved audit outcomes.



Senqu established a structure within the municipality to segregate responsibilities to ensure that officials could be held responsible. The timeous filling of vacancies resulted in review processes being executed effectively and errors and concerns being identified and corrected early on. The municipality had a functioning internal audit unit that implemented standardised controls in the procurement processes and other areas where compliance plays a significant role, thereby preventing compliance findings. Even though the municipality did not draft interim financial statements, it concluded a clear preparation plan mid-year and followed the plan through up until the preparation of financial statements, ensuring that the correct processes were followed. The municipality had an experienced leadership team with both the municipal manager and chief financial officer having 15 years' experience in local government. The fully functional municipal public accounts committee probed municipal affairs and solicited relevant answers from management. The municipality also had an efficient disciplinary board, including members of the provincial treasury and legal services, which held officials to account for their actions and responsibilities.



Midvaal had institutionalised the daily disciplines of financial performance and compliance controls. These controls were embedded in the control environment and the effect of the covid-19 pandemic thus did not prevent the municipality from sustaining its clean audit outcome for the past seven years. The finance unit is adequately capacitated with competent staff who produce quality financial statements. There is good synergy between those responsible for service delivery on the ground and those responsible for monitoring the key performance indicators, resulting in performance information that is valid, accurate and complete. Compliance with laws and regulations is strictly enforced and monitored, which allows for early detection, correction and prevention of possible breaches of compliance. The internal audit function plays a vital role of ensuring that the design and implementation of key controls are working effectively and that key recommendations and action plans are appropriately implemented. Those charged with governance provide the necessary level of assurance and oversight and hold the administrative leadership accountable. The municipality is well supported by the provincial treasury and provincial cooperative governance department in the areas of finance and compliance. The municipality also leads the province by sharing best practices with other local municipalities in terms of the operation clean audit project. The political and the administrative leadership work well together and have a culture of high performance.



The institutionalisation and monitoring of key controls, commitment to accountability, and reliance on the contributions of an adequately resourced internal audit unit and audit committee – by the municipal manager and senior management – were key in **Okhahlamba** retaining its clean audit for the past six years. The municipal manager also fostered a strong control environment and tone that promoted clean administration. Furthermore, systems of internal control relating to record management, review and reporting processes as well as continuous monitoring of compliance with legislation and policies were embedded in the day-to-day activities by an adequately resourced finance team who understood what needed to be done. Additionally, quarterly financial statements were prepared and reviewed by the internal audit unit and audit committee.



Witzenberg is an example of a municipality with a strong leadership tone at the top and active involvement by the municipal manager in all areas of the municipality, including the audit process, which enabled a strong control environment and contributed to a culture of accountability. The municipality had its own well-capacitated internal audit unit – the importance of which was evidenced by management’s responsiveness to the internal and external audit findings. The audit committee had the appropriate skills and the municipality ensured that committee members had the required experience in financial, legal and information technology areas as a minimum. The municipality also had an adequately functioning municipal public accounts committee and an effective council. Processes and procedures had been institutionalised to ensure clean administration. These included policies and procedures that were regularly updated, job descriptions that were well defined, and staff members who were aware of their individual roles and had good institutional knowledge of the municipality. Consequences were timeously effected as adequate disciplinary action was taken against transgressors.

The main reasons for the sustained clean audit outcome at **Cape Agulhas** for so many years, were that the municipality took all audit findings seriously and timeously put the necessary processes in place to resolve audit findings and address the internal control deficiencies that gave rise to the findings. The municipal manager and the chief financial officer were fully engaged and provided extensive support to the audit process, which motivated staff to do the same. The management team and staff have remained stable for a number of years, which ensured continuity and high-level institutional knowledge. This was also evident by the fact that the change in municipal manager during the 2019-20 financial year had no impact on the municipality’s operations, activities and ability to maintain a clean administration. Management and staff did not consider the audit outcome as a threat, but as a ‘management tool’ to improve themselves.



Cape Winelands District sustained its clean audit outcome through the close monitoring of the control environment by management and those charged with governance to ensure the effective implementation of policies and procedures. This was further strengthened by the active involvement of those charged with governance throughout the audit process and the willingness of management together with leadership to address audit findings, which were monitored through management's action plans. Those charged with governance actively engaged management on the progress of the action plans on a quarterly basis in order to strengthen the control environment. As a result of the proactive attitude of senior management and those charged with governance, the municipality was able to avoid repeat findings within the control environment.

The continued clean audit outcome at **Overstrand** was made possible by the assurance provided by management and those charged with governance through the implementation of sound and effective policies and procedures. The necessary internal financial controls had also been institutionalised, which inherently created an environment of effective leadership over financial governance, performance and compliance with legislation. The use of governance structures assisted the municipality to adequately respond to key risk areas and proactively address identified deficiencies, which were effectively monitored through management's action plans.

The audit outcomes of seven provinces improved from the previous year, Gauteng's outcomes remained the same, and KwaZulu-Natal showed a slight improvement as at the cut-off date of this report. Section 6 of this report shows the overall audit outcomes per province and then deals with the outcomes of the individual provinces in more detail.

Overall movement from previous year in audit outcomes as well as per audit opinion

AUDIT OUTCOME	MOVEMENT			
	43 Improved	144 Unchanged	13 Regressed	57 Outstanding audits
Unqualified with no findings = 27	12	15		3
Unqualified with findings = 89	19	68	2	8
Qualified with findings = 66	1 10	48	7	22
Adverse with findings = 6	1	3	2	2
Disclaimed with findings = 12		10	1 1	22

Twelve municipalities improved their audit outcome to financially unqualified with no findings, bringing the total number of clean audits to 27 in 2019-20. Fifteen municipalities were able to retain their clean audit status from the previous year, but two municipalities could not do so.

We set the cut-off date for inclusion of the audit outcomes in this report as 23 April 2021. By this date, 57 audits were still outstanding, of which

32 were subsequently finalised. For five of the nine outstanding audits for which the financial statements were submitted late (two each in the Free State and North West, and one in the Northern Cape), the main reason for the late submission of financial statements is the backlog of audits as the 2018-19 financial statements were also submitted late.

We list the outcomes of the subsequently finalised 32 municipalities in section 6 of this report.

Status of audits not finalised by cut-off date of report



RESULTS OF 32 AUDITS SUBSEQUENTLY FINALISED



MAIN REASONS FOR DELAY

- Financial statements submitted late – 9
- Financial statements outstanding – 5
- Delays by auditee – 10
- Delays in audits – 1

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

STATE OF INTERNAL CONTROLS STILL NOT IMPROVING

Our message has been consistent throughout this administration and before: municipalities must have a strong control environment with practical, automated and routinely executed internal controls.

Internal controls support the achievement of municipal objectives by mitigating the risks of human error, incorrect decisions, fraud, abuse and loss. Such controls also prevent financial losses,

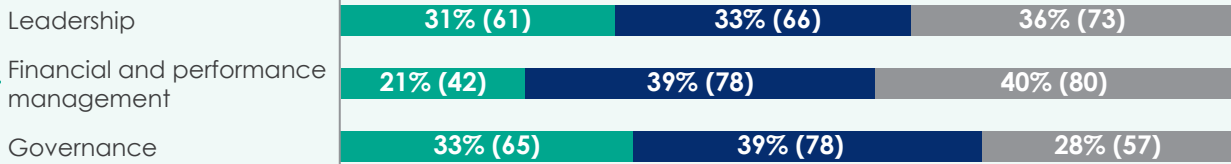
wastage and transgressions, and significantly improve financial and performance management and reporting.

Investing in and progressively building a disciplined control culture is the sustainable solution that local government requires to do more with the limited funds at its disposal. However, the status of local government controls shows that this solution is not receiving the necessary attention.

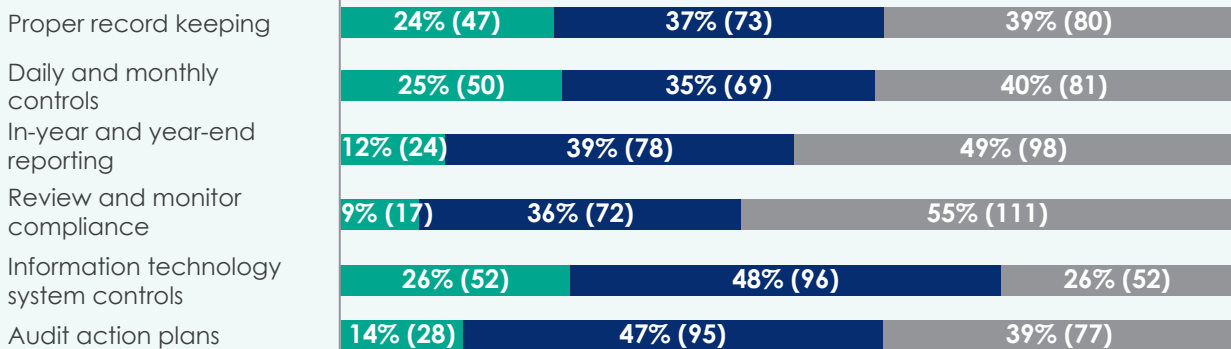
Overall status of internal control



Drivers of internal control



Financial and performance management



● Good ● Of concern ● Intervention required

Over the four years of the current administration, 34 municipalities improved their overall internal controls, but 37 are now in a worse state. The status of the financial and performance management controls answers the question of what is wrong at municipalities:

- Many still struggle with basic and routine daily transactional disciplines and monthly controls such as reconciliations. These disciplines and controls are also not supported consistently and effectively by information technology system controls, as elaborated on further below.
- We rarely find municipalities with good, built-in processes to monitor and review that all transactions, procurement, payments and decision-making comply with legislation, practices and policies.
- The lack of proper record keeping of financial and performance information is the key

reason why we struggle to audit at some municipalities. It also weakens the potential for credible in-year reporting to enable municipal leaders to monitor performance and make well-informed decisions. At year-end, financial statements and performance reports are then consequently full of misstatements.

- Even our consistent call for audit action plans to address the root causes of audit findings is not getting the required attention, with plans being developed but then not executed.

Where sound systems of internal control are lacking, it could lead to a regression in audit outcomes. The provinces with the most unfavourable controls are also the provinces with the most regressions in audit outcomes over the four-year period.

Provinces with the most unfavourable controls



Example illustrating the effect of inadequate controls



The lack of adequate controls is not only linked to non-adherence to legislation but some municipalities also struggled with controls around their expenditure. **Msukaligwa** could not fully account for its general expenditure and also recorded some of the general expenditure relating to the previous year in the current year. **Emakhazeni** did not have an adequate document management system and as a result could not provide us with evidence in relation to expenditure transactions. All of these accounting challenges are an indication that the building blocks of a good control system are not in place. There is a lack of skills to accurately apply the relevant accounting standards and there is no commitment to daily and monthly controls such as document management, proper independent review of work performed, reconciliations, asset verifications or periodic reporting in order to ensure credible financial reporting.

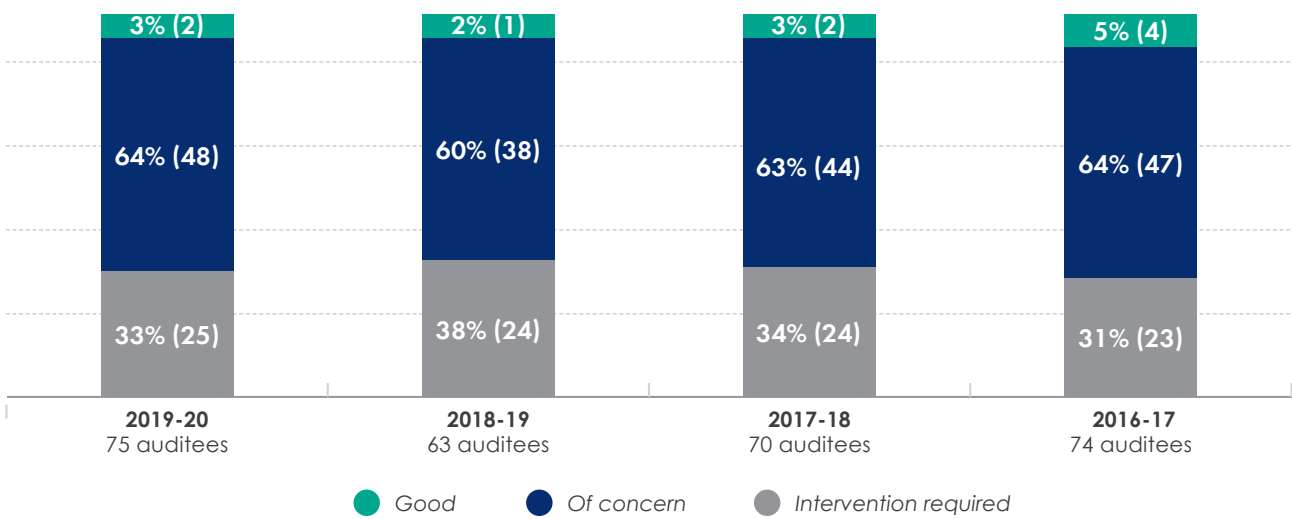
INFORMATION TECHNOLOGY CONTROLS

Information technology (commonly known as IT) refers to the information systems and automated controls municipalities use for recording, processing and reporting financial and non-financial transactions. Despite a slight improvement in the

status of IT controls, the confidentiality, integrity and availability of municipal and metro information still cannot be ensured and effective service delivery is not enabled.

INFORMATION SYSTEMS AND AUTOMATED CONTROLS

Status of automated controls at 67 municipalities and 8 metros



We assessed the IT controls supporting key financial systems, including supply chain, at 75 municipalities with more complex IT environments. The IT controls of 65 of these municipalities and eight metros had failed.

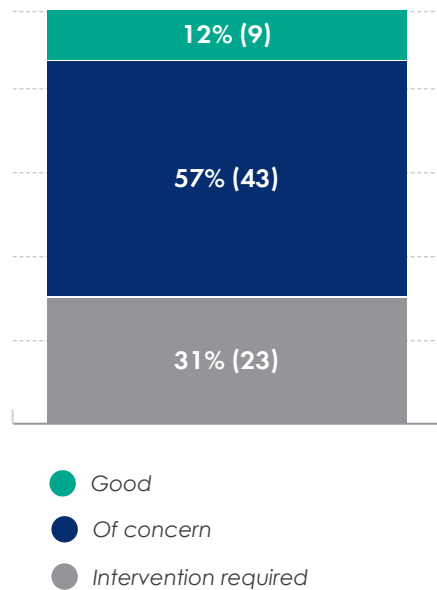
Although we had reported weak IT controls for the last four years, only 10 municipalities showed some improvement from the previous year. All metros remained stagnant. With little or no improvement in the general controls environment, minimum reliance can thus be placed on the application

systems processing financial information. As a result, there is an increased risk that unauthorised transactions and changes can be processed on such application systems.

The eight metros operated modern enterprise resource planning systems such as SAP, Solar and JDEdwards. Although these systems had the functionality to be fully automated, it was not enabled, which increased the risk of data manipulation, fraud and errors.

IT GOVERNANCE

Status of IT governance at 67 municipalities and 8 metros – overall IT governance assessment



We assessed IT governance processes and controls at 75 municipalities (including eight metros). IT governance controls had failed at 59 of the municipalities and seven of the metros, demonstrating a lack of accountability in relation to the economical, efficient and effective use of IT resources. Governance processes were not effective in preventing and detecting the abuse or misuse of IT resources, resulting in the following:

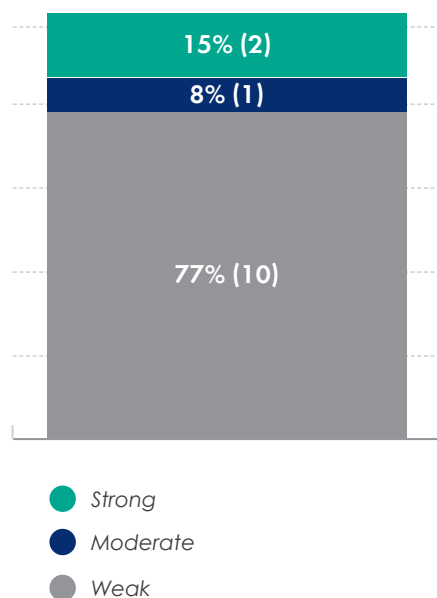
- Many of the municipalities did not derive value from their IT expenditure and, in some cases, this led to possible fruitless and wasteful expenditure.
- Management had not taken corrective action over a number of years, in spite of an increase in expenditure on IT programmes. Overall, 88% of municipalities and metros had weak IT governance practices compared to 86% in the previous year.

We identified weaknesses in the following key areas of IT governance:

- 31 municipalities (41%) and three metros (4%) had IT strategic plans that were inadequate and/or they did not manage funds and resources effectively; 59% were repeat findings.
- 24 municipalities (32%) and four metros (5%) had IT steering committees that were not operating effectively and as a result action plans were not monitored and implemented; 67% were repeat findings.
- Only 17 (23%) of the 75 municipalities (which included four metros) performed IT audits through their internal audit function.

CYBERSECURITY VULNERABILITIES AND THREATS

Status of cybersecurity posture at 5 municipalities and 8 metros – IT security controls



We performed IT security reviews at 13 large municipalities (including the eight metros) and found that 85% of them failed their IT security controls. As a result, data processed by their systems and the integrity of their information have a high risk of being compromised.

It is of concern that the status of 77% of these municipalities had stagnated or regressed compared to the previous year.

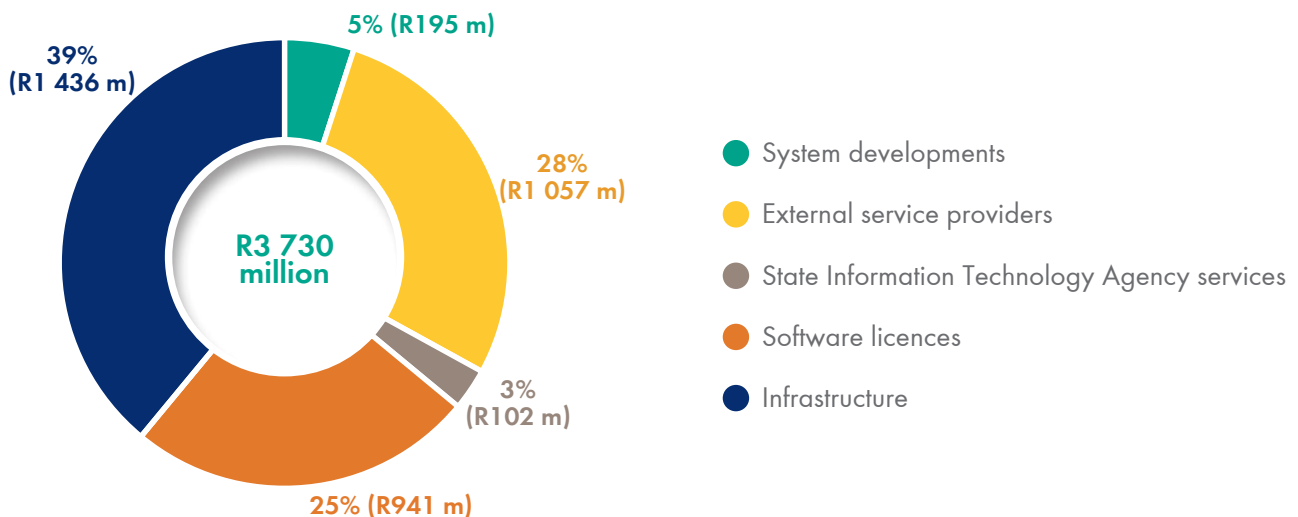
A lack of improvement in the area of IT security management at two metros led to cybersecurity breaches of their networks during the period of review, which resulted in the disruption of services.

The main contributing factors leading to failed IT security controls were the following:

- Long-standing shortage of IT security skills.
- Ageing/legacy IT infrastructure and lack of adequate investment in cyberdefence mechanisms.
- Lack of network monitoring controls to detect issues in time.

IT EXPENDITURE

Status of IT expenditure at 67 municipalities and 8 metros



Countrywide, 75 municipalities (with a total IT spend of R3 730 million), including the eight metros where R2 754 million was spent on IT, had more complex environments that were highly dependent on information systems to process financial transactions and support core business operations.

We tested software licences at these 75 municipalities and found that the City of Johannesburg Metro paid R95 million and the City of Ekurhuleni Metro paid R3 million for licences. However, licences worth R75 million at Johannesburg and R3 million at Ekurhuleni, were not used.

We selected six projects valued at R1 053 million for auditing at two municipalities and four metros, and identified the following concerns:

- R600 million was spent by the City of Johannesburg Metro on a SAP upgrade. The project scope and budget were not well managed, which led to this project absorbing more money than the value it created.
- R1 906 million was spent by the City of Ekurhuleni Metro on a Solar upgrade. As a consequence of not having well-defined criteria for deliverables, the metro spent R1 906 million from an original budget of R842 million.

Although a lot of money is spent on IT, the necessary controls surrounding IT investment and IT governance are not always implemented to ensure the effective and efficient functioning of IT systems in local government.

ALL ROLE PLAYERS MUST FULFIL THEIR ASSURANCE RESPONSIBILITIES

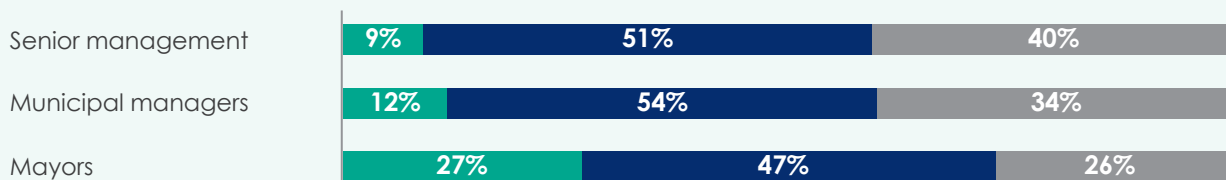
Our reporting and the oversight processes reflect on history, as they take place after the financial year. Many other role players contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

We assess the level of assurance provided by role players in local government based on the status

of municipalities' internal controls and the impact of the different role players on these controls. In the current environment, which is characterised by inadequate internal controls, corrected and uncorrected material misstatements in financial and performance information, and widespread non-compliance with legislation, all role players must fulfil their assurance responsibilities. As shown below, however, this is unfortunately not the case.

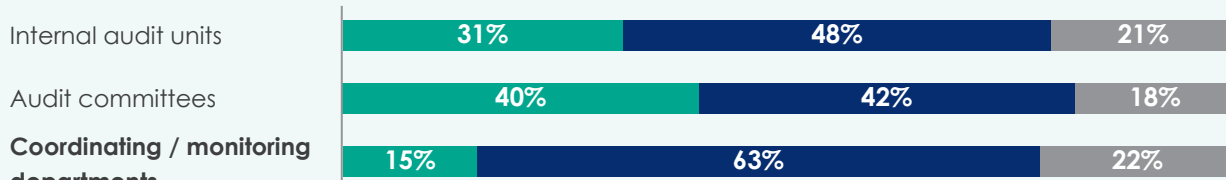
Management / leadership assurance

(Assurance providers directly involved in municipal management)



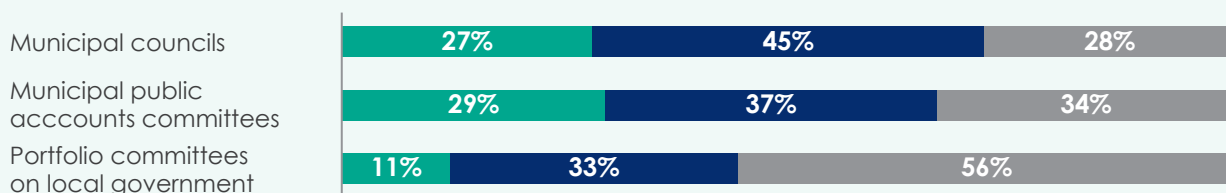
Internal independent assurance and oversight

(Assurance providers performing oversight or governance functions, either as an internal governance function or an external monitoring function)



External independent assurance and oversight

(Independent assurance providers objectively assessing municipal reporting)



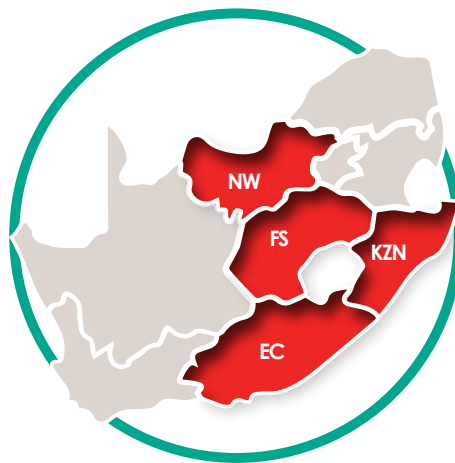
● Provides assurance ● Provides some assurance ● Provides limited/no assurance

A key element of internal control is monitoring by the different assurance providers to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved. Low levels of assurance show that there is a breakdown in a crucial element of the accountability chain. The provinces below fared the poorest in this regard.

Management/leadership assurance



Internal independent assurance and oversight



External independent assurance and oversight



Where the required level of assurance is not provided, it could negatively affect the audit outcome of a municipality, as illustrated below.



At **Fezile Dabi**, management did not implement controls to ensure the timeous capturing and maintenance of employees' leave transactions or the maintenance of commitment and asset registers. Although there were employees to do this work, consultants performed these functions at year-end as part of the financial statement preparation processes. The internal audit unit also did not help with the implementation of internal controls, as they did not monitor the implementation of the municipality's action plan. In fact, they defended management and their wrongdoing when we raised findings.



The following example illustrates the opposite: where the required level of assurance and assistance is provided by role players, the situation at municipalities can be turned around.



Elundini improved to an unqualified opinion with no findings from the previous year's unqualified opinion with findings. This was due to the municipal manager and senior management effectively implementing and monitoring action plans. They also demonstrated a strong commitment towards a clean administration and effected consequences for prior year transgressions. This resulted in the municipality instituting processes to recover some of the irregular as well as fruitless and wasteful expenditure previously incurred. The audit committee, through the internal audit function, provided independent assurance of municipal controls. The municipality ensured that key positions were filled with competent personnel, with stability in the finance unit positively contributing to the improved audit outcome.

ROOT CAUSES OF POOR STATE OF LOCAL GOVERNMENT

Below we look at two of the root causes of the poor state of local government, namely a **slow response** to our call to municipal leadership to strengthen internal controls, as well as **vacancies and instability** that slow down – or even reverse – any gains. We

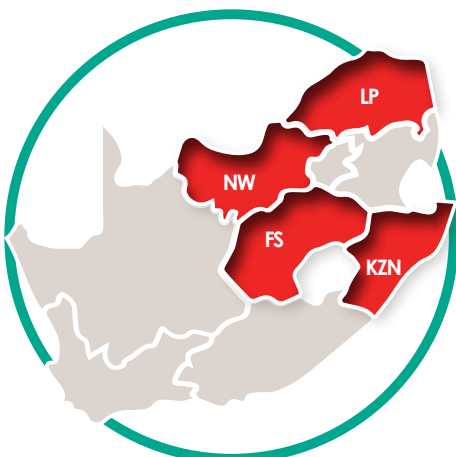
have already discussed a third root cause, namely the continuing culture of a **lack of consequences**, under *Widespread non-compliance with legislation* earlier on.

A SLOW RESPONSE TO OUR MESSAGES ON OVERALL INTERNAL CONTROLS

The most common reason for municipalities not achieving clean audits is that they are slow in responding to our recommendations, or do not even respond to our recommendations at all.

2019-20	91% (157)	2018-19	90% (183)
		Slow response	No response
Slow response by management		123	29
Slow response by political leadership		40	14
Slow response by oversight		18	9

Provinces where no response is most common





The following examples illustrate how weak internal controls compromised the internal control environment, resulting in poor audit outcomes.



Nelson Mandela Bay Metro stagnated on a qualified opinion due to the slow response by management to address all prior year findings, combined with leadership instability. The senior management vacancy rate was high at 38% and the municipality continued to operate without a municipal manager for the third successive year. A chief financial officer was appointed late in the year, with the result that not all prior year findings could be resolved in time. The vacancies compromised the internal control environment over a prolonged period and resulted in a lack of effective consequences. The municipality continued to operate without fully integrated information technology systems, which put further pressure on its control environment.



Mogalakwena had an extremely weak internal control environment when it came to all three drivers of internal control, namely leadership, financial and performance management, and governance. This was evident in poor service delivery due to the mismanagement of resources and the poor state of records, for which municipal officials were not held accountable. The municipality failed to resolve prior year audit findings, resulting in many repeat findings in 2019-20. The municipality even lacked the basic controls of ensuring that the financial statements were supported by accurate and underlying records, due to the poor record-keeping controls.



On the flipside, good controls result in favourable audit outcomes, as illustrated below.



Municipalities such as **Capricorn District, Greater Giyani, Molemole and Thulamela** had good internal controls in place. These municipalities had improved their controls over record keeping, processing and/or reconciling and reporting. All these municipalities received unqualified audit opinions, with Capricorn District in the spotlight for maintaining its clean audit opinion. The good control environment enabled Greater Giyani to improve its audit opinion from qualified in 2018-19 to unqualified in 2019-20. These municipalities had put in place controls around financial, performance and compliance areas to enable strong reporting systems that produced credible information. The attitude of their management and oversight structures towards creating an environment characterised by good internal controls further contributed to the good audit outcomes in the current financial year.

VACANCIES AND INSTABILITY CONTRIBUTE TO POOR AUDIT OUTCOMES

Vacancies and instability in key positions significantly contributed to municipalities achieving poor audit outcomes. For example, at 63 municipalities (36%), instability and vacancies in key positions was a root cause that hindered them from improving and sustaining their audit opinion. In contrast, stability in key positions such as those of municipal manager and chief financial officer has enabled municipalities to obtain better audit outcomes.

Overall, the average vacancy rate at municipalities was 21%, while that of both senior management and finance units was 18%. We assessed the resourcing of 92 finance units (46%) as either concerning or requiring intervention. In addition, there was instability at council level at 13 municipalities (7%).

Vacancies and stability in key positions

POSITIONS	VACANCIES			AVERAGE NUMBER OF MONTHS IN POSITION
	Vacant for less than 6 months	Vacant for 6 months or more	Total vacancies	
Municipal manager	5% (9)	9% (17)	13% (26)	42 months
Chief financial officer	3% (6)	13% (26)	16% (32)	42 months

Stability* in key positions produces better audit outcomes

*AVERAGE MONTHS IN POSITION	CLEAN AUDIT	UNQUALIFIED WITH FINDINGS	QUALIFIED WITH FINDINGS	ADVERSE/ DISCLAIMED WITH FINDINGS
Municipal manager	71	36	41	22
Chief financial officer	60	45	37	21

Provinces where instability or vacancies in key positions are most prominent





The following examples show how vacancies and instability contribute to municipalities struggling to improve their audit outcomes – or even regressing.



Instability in the chief financial officer position had a negative impact on **Rand West City's** audit outcome. The municipality had three different chief financial officers from the start of the financial year up to the date of the audit report, which contributed to the regression from an unqualified audit opinion with findings to a qualified audit opinion.



Mogalakwena again received an adverse opinion. The chief financial officer position was vacant throughout the financial year. Although the municipality appointed consultants to prepare financial statements, they were not effective as evidenced by underlying records that substantially differed from what was disclosed in the financial statements. The instability at council level compromised the effectiveness of the council's oversight of municipal matters. This resulted in the audit opinion not improving.



Moretele again received a qualified audit opinion with findings. The chief financial officer and municipal manager positions were vacant throughout the year and neither an audit committee nor an internal audit unit had been established. This compromised the preparation and review of the financial statements and resulted in the audit opinion not improving. Although the municipality appointed consultants to prepare financial statements, they were not effective as evidenced by underlying records that could not be made available for auditing.



Conversely, stability in key positions enables municipalities to obtain better audit outcomes.



Mnquma received an unqualified opinion with findings, consistently improving over the years from a disclaimed opinion in 2016-17, an adverse opinion in 2017-18, and a qualified opinion in 2018-19. The municipality ensured that vacancies were filled and that the finance unit was adequately capacitated with competent staff. The municipal manager and senior managers took ownership of the financial and performance management of the municipality by taking appropriate action to respond to prior year recommendations. This led to an improvement in record keeping and the strengthening of daily and monthly reconciliation and processing controls.



Gauteng remains a destination of choice for professionals seeking employment in the country, with municipalities that have both attracted and retained staff with the right skills benefiting from this continuity. This has had a positive impact on financial management and – in turn – audit outcomes. One such example is the **City of Ekurhuleni Metro**. The municipality is adequately capacitated with experienced staff who have the right skills, contributing to improved financial and performance reporting and compliance over recent years.

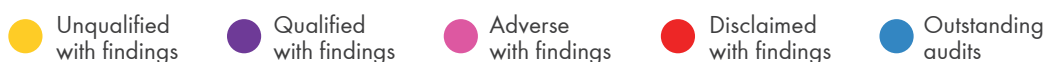
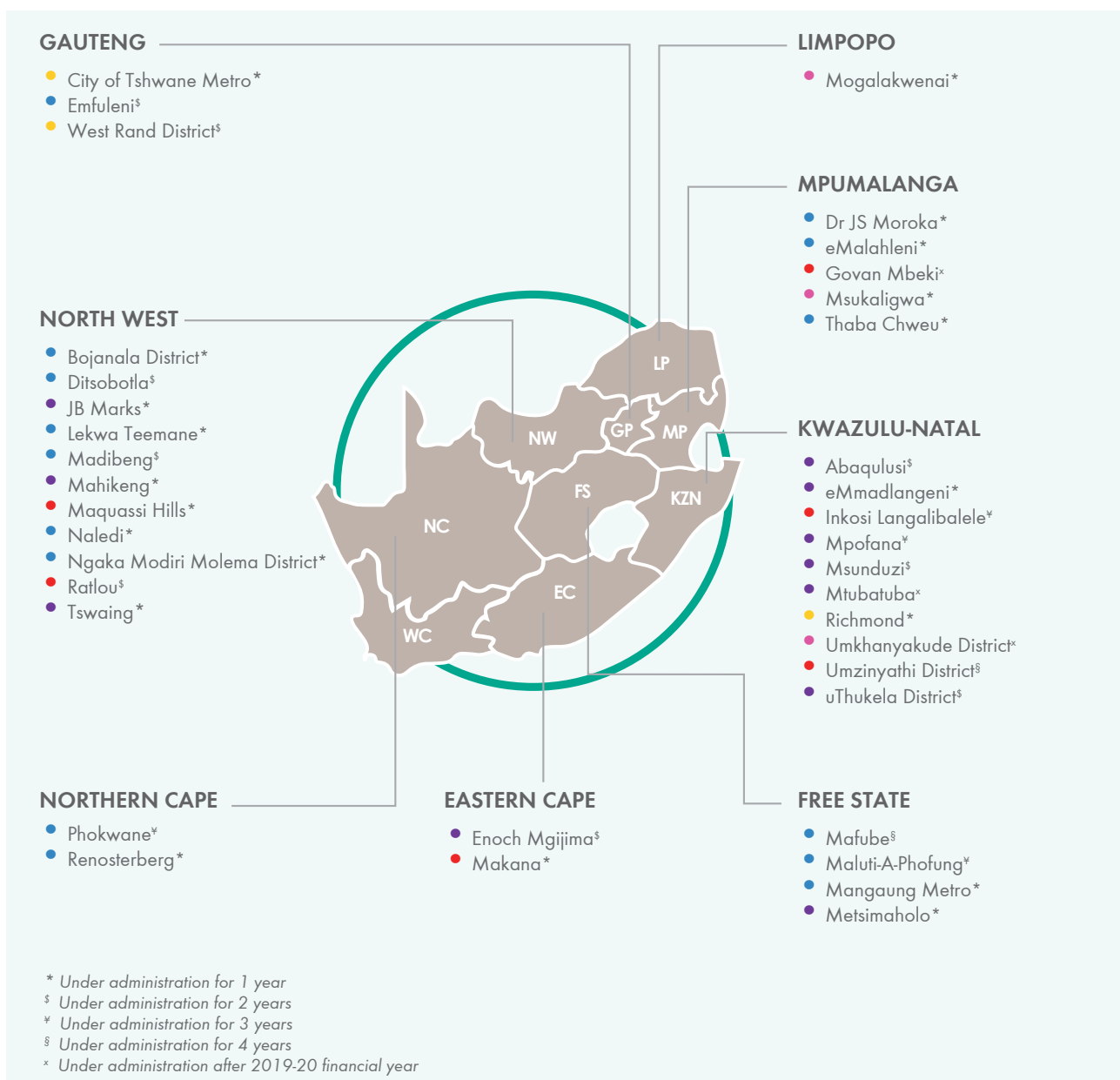
SHORT-TERM SOLUTIONS ARE NOT HAVING THE DESIRED IMPACT

Local government cannot be turned around through short-term solutions. A case in point is the **continued use of financial reporting consultants** as discussed earlier – what was meant to temporarily bridge the skills gap, has now become a permanent and expensive solution.

At some municipalities, there has been a total collapse of internal control, severe financial health problems, and a complete lack of accountability. Where municipalities have become

so dysfunctional, some provinces stepped in to place those **municipalities under administration** in an effort to restore good governance and sound financial management. This essentially means that the administrator manages and oversees the day-to-day running of the municipality.

Below we show which municipalities are under administration – some of which for as long as four years.



Unfortunately, there is little evidence yet that these supposedly short-term solutions are leading to wholesale improvements in the status of these municipalities.



As the following example illustrates, however, this need not be the case as the unfavourable situation can be turned around with the necessary assistance of various role players.



Although **Msunduzi** received a qualified audit opinion, the number of qualification areas decreased to only one, namely expenditure. The improvement is partly attributable to the assistance received from the provincial cooperative governance department and the National Treasury in the period of administration over the past two years. The National Treasury also made resources available in an effort to improve the audit outcome of the municipality.

Additional examples of municipalities under administration are included in section 4 of this report as part of our discussion on disclaimed municipalities.

MOVING TOWARDS AN IMPROVED LOCAL GOVERNMENT

Finding and implementing sustainable solutions for the crisis in the municipal landscape should be a common goal for all in local government. The relevant role players should work together to strengthen the capacity, processes and controls of municipalities, which will enable credible financial

and performance reporting, compliance with key legislation, sound financial management, and improved service delivery.

We are committed to continue playing our part in improving local government audit outcomes.

OUR ROLE – AUDITING AND REPORTING FOR ACCOUNTABILITY

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

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

Through our management, audit and general reports, we **report the weaknesses in internal control and the risks that need attention**.

In our reports, we **provide root causes** for audit findings and **recommendations** to address these root causes. As part of our expanded mandate, we also report on **material irregularities** (section 5 of this report details our work in this regard).

In addition, we began a **real-time audit** in May 2020 of the key covid-19 initiatives introduced by government and of the management of the relief funding made available to respond to the pandemic.

We ensure that our messages are heard through **impactful engagements** with senior officials, municipal managers, mayors, municipal public accounts committees, and councils. Our engagements have been extended over the past two years to also include a **status-of-records review**

that comprises an assessment of records, risks and progress made by the municipality to address prior year issues early in the financial year. This provides an early warning system whereby municipal managers can be alerted to matters that can potentially lead to undesirable audit outcomes.

We further aim to capacitate municipal leadership and oversight through our reports and engagements. We have provided **preventative control guidance and awareness** on good financial

and performance management practices and also participate in specific **capacitation initiatives** such as induction sessions for councillors.

All of these measures are aimed at assisting the municipal leadership and the council to prevent accountability failures. However, in most cases there is a failure to act on our warning signals and as a result we continue to find the vast majority of municipalities in need of intensive care.

THE ROLE OF LEADERSHIP – STEERING MUNICIPALITIES TO SUCCESS

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

The leaders in local government should therefore take responsibility for the deteriorating accountability in municipalities – it is their duty to turn the situation around. **Ethical and accountable leadership should drive the desired change.**

Local government leadership includes the municipal manager and his/her senior managers who are responsible for the administration and service delivery of the municipality; the political leadership (mayor and council members) that oversees the functioning of the municipality and takes key decisions; and the provincial leadership (premier, members of the executive council, and heads of provincial departments that support local government). The provincial legislature also has a role to play as part of its oversight function.

Below we set out the responsibilities that leadership should pay attention to.

Municipal leadership

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

Senior managers should significantly improve the processes and controls to ensure that municipal objectives are achieved through good planning, people management, project management,

monitoring, and effecting consequences. They should also prioritise basic control disciplines to prevent, detect and correct errors, transgressions, non-compliance and poor performance.

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

Political leadership

The political leadership in the local government sphere has a direct relationship with, and impact on, the municipal administration. This model provides for a more participative government whereby community members can oversee and direct their municipality through their elected council members.

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

The focus of mayors and council members should be on capacitating, stabilising, supporting and overseeing municipal administration to the benefit of the community that elected them. But – in turn – they then need to be respected and empowered with information that allows them to effectively monitor and oversee the activities of the municipality. This is why they must insist on credible financial and performance information – not just in the annual

report, but throughout the year to determine if the municipality is achieving its objectives within the budget and within the requirements of legislation. The mayor, council and municipal public accounts committee are entitled in terms of legislation to report on matters such as supply chain management deviations, non-compliance, financial misconduct, losses and shortfalls throughout the year.

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

Provincial leadership

The need for provincial leadership to pay close attention to municipalities in the manner required

by legislation is becoming crucial – often action is only taken after a municipality has deteriorated to a point of collapse.

The levels of provincial leadership support to municipalities differed across the provinces. The most successful provinces (in terms of audit outcomes) have in common a premier that provides leadership and direction on local government matters in a consistent manner and follows through on commitments in this regard. We also see strong provincial treasuries and cooperative governance departments working together to support and guide municipalities.

In turn, municipalities need to respond to the provincial and national support and interventions in a positive and timeous manner.

The leadership at all three levels should focus on the following key matters:



Tone at the top – ethical leadership, service-orientation, good governance and accountability



Capacitate and stabilise administration – free from political interference/changes



Enable and insist on strong control environment with practical, automated and routinely executed internal controls that prevent financial loss, wastage and transgressions; and significantly improve financial and performance management and reporting



Consistent, appropriate and swift consequences for accountability failures

Only a capable, efficient, ethical and development-oriented state can deliver on the commitment to improve the lives of the people of this country.

- President Cyril Ramaphosa