

MUNICIPALITIES WITH A HISTORY OF DISCLAIMED AUDIT OPINIONS

04

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In this section, we highlight some of the worst-performing municipalities in local government and flag the urgent need for intervention.

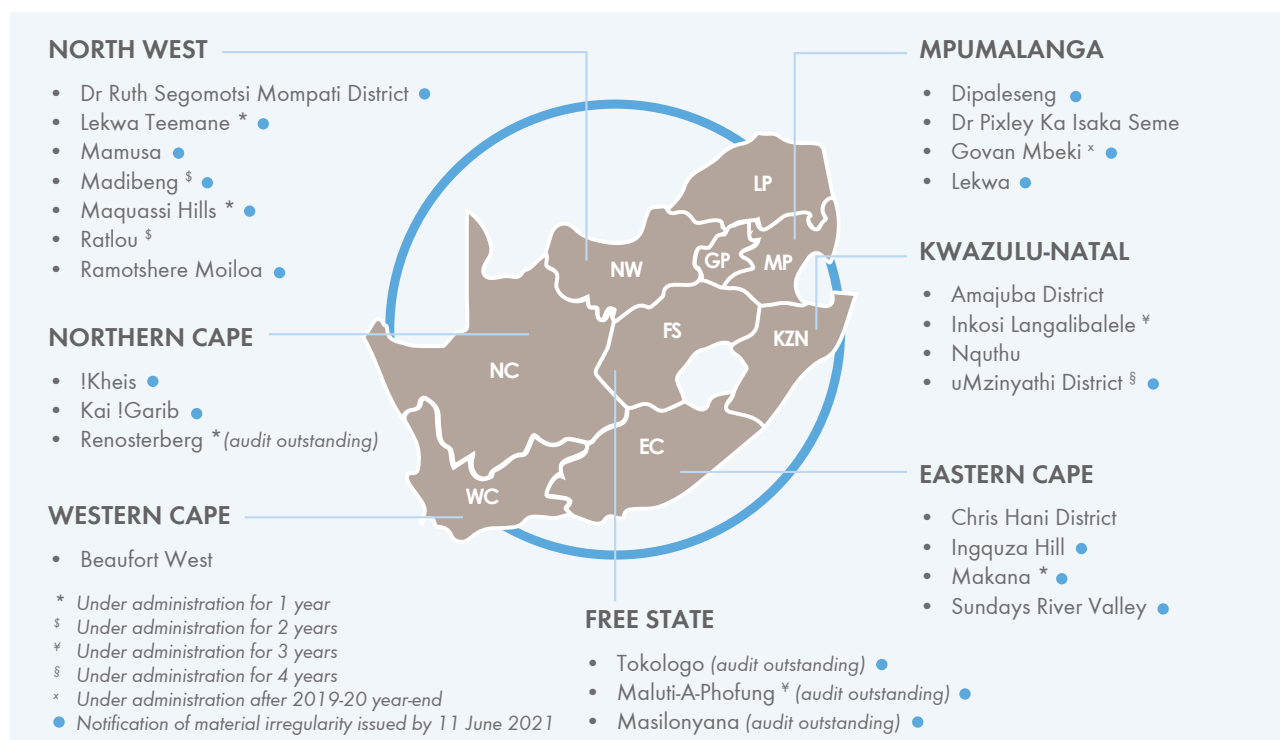
Over the years, we have called on the provincial leadership and oversight to direct their efforts towards municipalities that continue to receive disclaimed opinions. However, the inability of some municipalities to reverse the trend of negative audit outcomes points to a culture that is not responsive in dealing with control weaknesses flagged in prior years.

A disclaimed opinion means that a municipality could not provide us with evidence for most amounts and disclosures in their financial statements and we therefore could not express an opinion on the credibility of these financial statements. Municipalities with disclaimed opinions are also typically unable to provide supporting documentation for the achievements they report in their performance reports and do not comply with key legislation.

In 2019-20, 22 municipalities received disclaimed opinions. This includes 12 municipalities of which we had completed the audits by 23 April 2021 (the cut-off date of this report), and another 10 municipalities of which the audits were subsequently finalised up to 4 June 2021. Four municipalities (Tokologo, Maluti-A-Phofung and Masilonyana in the Free State as well as Renosterberg in the Northern Cape) that received

disclaimed opinions in the past have not yet submitted their financial statements. This means that the number of disclaimed municipalities for 2019-20 could still increase.

The map below lists the 22 disclaimed municipalities as well as the four previously disclaimed municipalities that have not yet submitted their financial statements for 2019-20.

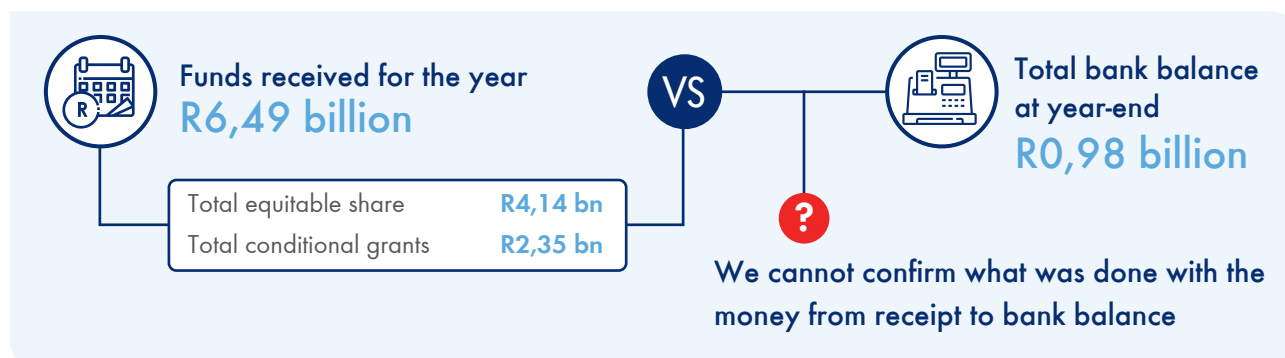


At least five of the disclaimed municipalities have been under administration for two years or more, yet we see a prolonged state of poor performance and therefore remain concerned about the effectiveness of the administration process. A further concern is that just over 77% of the disclaimed municipalities have shown a regression in their audit outcomes since 2016-17.

The high number of municipalities that received disclaimed opinions compelled us to consider the impact of full and proper records not being kept and the lack of credible financial reporting. We concluded that these lapses in accountability caused substantial harm to the majority of these municipalities, as their financial position was so poor that they disclosed in their financial statements a material uncertainty as to whether they can continue operations. Some of the municipalities were not able to deliver services as required and the Department of

Cooperative Governance determined them to be dysfunctional. In addition to the municipalities already highlighted, notifications on material irregularities were issued to three municipalities (Mafube in the Free State, and Ditsobotla and Kgetlengrivier in North West) where the audits were still outstanding at the date of this report. Further details on the notification of material irregularities identified are included in section 5 of this report.

The municipalities received funding during the year in the form of an equitable share of revenue raised nationally and grants to enable them to operate and deliver essential services to the communities they serve. However, we cannot confirm what was done with the money from receipt to what was left in the bank at year-end. We show these figures for the 22 municipalities where the audits had been completed below.



At most of these municipalities, we see instability at both political and administrative leadership level, weak oversight by councils, poor financial health, protests and strikes that disrupt and result in poor performance, a lack of consequences as well as interventions not being effective, all of which contribute to the poor audit outcomes.

In the rest of this section, we share some examples of the worst performing of these municipalities across four provinces, namely the Free State, Mpumalanga, Northern Cape and North West.

We provide insights on the following:

- Location of municipalities and communities they serve
- Municipalities' audit outcome history, insights on why they are disclaimed as well as interventions undertaken and why these are not bearing fruit
- Impact of poor financial and performance reporting and management on service delivery
- What must be done to turn around the poor audit outcomes of these municipalities



MALUTI-A-PHOFUNG



Funds received for the year

Total equitable share **R600 m**
Total conditional grants **R278 m**

VS



Total bank balance at year-end
R42 m

?



Audit outcomes

2019-20 **Outstanding audit**
2018-19 **Outstanding audit**

2017-18 **Disclaimed**
2016-17 **Disclaimed**



Previously under administration

FEBRUARY 2018 TO JULY 2020 (27 MONTHS)



Use of financial reporting consultants

(2016-17)

R20 m



Total salary cost of finance unit

Audit outstanding

Maluti-a-Phofung is located in Phuthaditjhaba in the Thabo Mofutsanyana district and has a population of 353 452 people. The municipality, which borders the picturesque Golden Gate National Park, was named after the Drakensberg mountains (known as 'Maluti' in Sesotho) and the Sentinel peak in Qwaqwa (known as 'Phofung' in Sesotho).

The municipality received a disclaimed opinion in 14 of the last 15 years. It was only able to avoid a disclaimed opinion in 2015-16 by delaying the submission of its financial statements to address prior year audit matters and appointing two consultants for the whole year. However, the next year it again received a disclaimed opinion as this short-term solution was not sustainable and it did not improve the internal control environment. After the local government elections in 2016, the newly elected political leadership inherited a dysfunctional municipality. This status has unfortunately continued, as the new leadership

has not been able to address the municipality's prevailing shortcomings.

Significant political instability led to some councillors being expelled and the mayor being removed. This resulted in the council no longer having a quorum for council meetings and being unable to make key decisions and provide the leadership and oversight required to deliver municipal services to the local community. The municipality received R600 million in equitable share funding and R278 million in conditional grants in 2019-20. However, it was not able to use these funds effectively to ensure that water and electricity were consistently supplied to its residents, which led to a number of service delivery protests. Residents had to rely on water tanks for their daily use. In addition, only R42 million remained in the municipality's bank account and it was not able to account for the spending of the grants it had received. These grants were also used to fund the operations of its

municipal entity, Maluti-a-Phofung Water, which has equally poor financial management, making it impossible to determine whether the funds received were used for their intended purpose.

Due to its dire financial situation, the municipality failed to pay its creditors. In January 2019, the municipality's movable assets were attached by some creditors, which intensified the challenges it faced. For example, since the assets attached by the creditors included laptops and computers, the municipality was not able to bill its consumers, resulting in a loss of revenue. At the same time, it was still obliged to pay for bulk purchases of electricity and provide free water through tankering services. This had a negative impact on revenue and cash flow, as consumers would not pay bills they had not received.

The municipality has consistently failed to submit its financial statements by the legislated deadline. It only submitted its 2018-19 financial statements on 11 December 2020 after a new municipal manager and chief financial officer were appointed. The 2019-20 financial statements will only be compiled once the 2018-19 audit has been finalised. The closing balance of irregular expenditure disclosed in the 2017-18 financial statements was R465,24 million. However, we could not determine the full extent of this irregular expenditure as municipal officials did not provide supporting documents for the contracts that were awarded. Therefore, we could not confirm that the municipality had complied with procurement prescripts and that contracts had been properly awarded.

In February 2018, the municipality was placed under administration in terms of section 139(1)(b) of the Constitution. Two different administration teams were appointed and neither team completed a year at the municipality. This, together with instability in both political and administrative leadership at the municipality, made it difficult for administrators to hold municipal officials accountable for poor, or a lack of, performance. There were also no consequences when municipal officials did not make information available to support transactions that had been processed. This created a culture in which it was normal for supporting documentation not to be maintained and retained. While the municipal manager and chief financial officer positions have subsequently been filled, there has not been any significant improvement in municipal operations. Administrators did not develop and implement sustainable systems and preventative controls, and this lack of proper guidance resulted in them not being able to work effectively with municipal officials.

To improve the situation at the municipality, the incoming council should set a strong and ethical leadership tone to ensure that leadership and officials are held accountable for their day-to-day responsibilities. The focus should be on cleansing the municipality of the culture of non-performance and lack of consequences.



MASILONYANA



Funds received for the year

Total equitable share **R119 m**
Total conditional grants **R109 m**

VS



Total bank balance at year-end
R2 m

?



Audit outcomes

2019-20 **Outstanding audit**
2018-19 **Outstanding audit**

2017-18 **Outstanding audit**
2016-17 **Disclaimed**



Previously under administration

MAY 2017 TO NOVEMBER 2019 (31 MONTHS)



Use of financial reporting consultants

(2016-17)

R5 m



Total salary cost of finance unit

Audit outstanding

Masilonyana is located in Theunissen, a small town in the Free State with a population of approximately 62 770 people. The municipality is surrounded by small farms and is predominantly a mining community for diamonds and gold.

In 2015-16, the municipality regressed from a history of qualified opinions to a disclaimed opinion after a prolonged period of instability in its municipal manager and chief financial officer positions. **Despite the municipality having been placed under administration for 31 months, its financial and performance reporting had not improved, which is reflected in the poor service delivery in the area.** The administrator had not developed and implemented sustainable systems and preventative controls. Due to financial statements not being submitted for a number of years, we are currently busy with the 2017-18 audit, as those financial statements were only submitted on 7 December 2020.

The municipal manager position was vacant due to the council's decision to remove the incumbent, while the chief financial officer had been acting in the position for a number of years. In addition, there was instability in the finance unit, which resulted in several transactions, balances and disclosures captured in the 2017-18 financial statements that could not be supported by appropriate evidence. For example, accurate monthly bank reconciliations were not performed and reviewed, which resulted in numerous reconciling items that could not be supported. This included payments that were confirmed on the bank statements but could not be traced to the general ledger because they were receipts from the daily cash-ups, but were recognised as outstanding payments on the bank reconciliation. Some transactions were also recorded as payable without any supporting documentation.

The provincial cooperative governance department appointed consultants to prepare the 2016-17 financial statements at a cost of R2,3 million. However, the consultants did not cooperate with the municipal staff and thus had a limited impact on the audit outcome. When the consultants were appointed, four of the five senior manager positions at the municipality were vacant. Since the consultants were appointed by the department, they felt that they were stepping into the senior management roles and did not have to report to the lower-level municipal staff. The consultants were also not available to discuss and address errors identified during the audit, as they reported back to the department and not to the municipal manager.

The municipality incurred a net loss of R136,22 million for the year ended 30 June 2017, with its current liabilities exceeding its current assets by R131,96 million at that year-end. Despite receiving R228 million in equitable share funding and conditional grants, the municipality has nothing to show for it, with only R2 million remaining in its bank account at 30 June 2020. In addition, the municipality continues to owe Eskom huge amounts that are long overdue. Our analysis in 2016-17, which is the last financial year we audited, showed that deductions from employees for pension and medical aid contributions could not be traced as having been paid over to third parties. We were also unable to vouch for several disclosures in the financial statements as supporting documentation was not available. This was because proper controls were not maintained when the finance unit moved from one building to another, to make sure that all documentation was accounted for. Therefore, when we requested documentation, no one knew where to start looking for it. We were also unable to audit the usefulness and reliability of the selected key performance area, as the performance report was presented without accurate and complete underlying performance records. This hampers any decisions the council needs to make as it does not have a current set of reliable financial and performance information on which to base its decisions.

The municipality has a history of being unable to support all awards made and demonstrating that procurement prescripts had been followed. It has not implemented consequences, as evident from the lack of investigations into irregular expenditure and allegations of financial misconduct. The municipal public accounts committee and audit committee were not functional and did not meet. Due to management instability, the working environment has prevented the municipality from recovering from the financial challenges of the last few years. This has been worsened by the council's failure to prioritise and fill the vacancies in leadership positions that could help the municipality recover.

Despite our continued efforts to influence positive improvement through our audit recommendations and engagements with provincial leadership, there has been no visible impact. This could be attributed to long-term vacancies in key senior management positions. The instability in political and administrative leadership has left employees with a sense that they are not accountable because there is no corrective action for poor performance and transgressions.

The lack of service delivery has resulted in protest actions over several issues, including the appointment of the municipal manager and mayor, who were subsequently removed from their positions in May 2021.

Financial and performance management at the municipality has been in a dire state for a number of years. Although the current council inherited an already dysfunctional municipality, it is leaving the municipality in a state that is just as bad, if not worse. To improve the situation at the municipality, the incoming council should prioritise filling key vacant leadership positions, especially those of the municipal manager and senior managers. These incumbents, with support from the council, should prioritise rebuilding the municipality, instilling in municipal staff the culture and will to perform their daily duties, and implementing consequences for poor performance.



Funds received for the year

Total equitable share **R55 m**
Total conditional grants **R222 m**

VS



Total bank balance at year-end **R8 m**

?



Audit outcomes

2019-20 **Outstanding audit**
2018-19 **Disclaimed**

2017-18 **Disclaimed**
2016-17 **Disclaimed**



Currently/previously under administration



Use of financial reporting consultants

R19 m

(2016-17, 2017-18 & 2018-19)



Total salary cost of finance unit

Audit outstanding

Tokologo is one of five municipalities in the Lejweleputswa district in the western Free State, accounting for almost a third of its geographical area. The municipality, which includes the towns of Boshof, Dealesville and Hertzogville, services a population of approximately 29 149 people. It is bordered by the Northern Cape and North West provinces and the Xhariep district.

In 2016-17, the municipality regressed to a disclaimed opinion after its financial system was breached by a virus that destroyed most of its information. Since adequate backups were not available, the municipality was unable to restore reliable data and it continued to operate using unreliable information. This is reflected in its audit outcomes on all financial statements submitted for auditing.

In 2017-18, the municipality again received a disclaimed opinion as, except for the municipal manager, there were no permanently appointed

senior managers to assist in rebuilding the municipality's financial system after the breach.

In 2018-19, the municipality received a disclaimed opinion for the third consecutive year, as it could not submit supporting evidence for most of the material line items in the financial statements. In addition, the documentation for infrastructure assets and work in progress was removed from the municipality's archives in 2017-18, which placed a significant limitation on the audit. These missing documents are alleged to have been stolen from the municipality by the previous technical manager, and the municipal manager has opened a criminal case in this regard. There was also a complete disregard for supply chain management prescripts.

After the local government elections in 2016, the newly elected political leadership inherited a dysfunctional municipality. However, unlike the previous council, the leadership did not ensure

that financial statements were submitted by the legislated deadlines and is thus leaving the municipality in an even worse state. In addition, the leadership did not fill the vacancies of the chief financial officer and other senior managers.

The municipality operates in crisis mode. A water pipeline between the municipality's three towns, which includes their reservoirs, had not been completed over several years, despite contractors having been paid approximately R17,48 million (59% of the total contract value of R29,59 million). As a result, the municipality had to source water from its own boreholes as well as those belonging to residents to provide communities with water. Because the municipality did not generate revenue from services, such as providing water and removing refuse, it did not have the funds to maintain the cemetery, parks, roads and storm-water drainage. Municipal infrastructure at landfill sites had broken down due to projects not being completed. Landfill sites were neither maintained nor rehabilitated and had no fencing around them, creating a safety hazard and health risk to the community. The municipality received equitable share funding of R55 million and conditional grants of R222 million even though it could not account for what the money was spent on, and on 30 June 2020 it had only R8 million in its bank account.

The municipality is characterised by a lack of commitment from management to resolve prior year findings, numerous vacancies, and inadequate knowledge in the technical unit. Financial and performance reporting was not continuously monitored, and record keeping and filing were not done. In essence, there was no evidence that anyone in the municipality does what they are supposed to do, due to a lack of will and a lack of consequences for any wrongdoing. Support from the provincial treasury and the provincial cooperative governance department was limited to deploying officials to attend the audit steering committee meetings. However, this has not yielded positive results as the municipality requires help to create an environment focused on implementing controls that will detect and prevent errors before they occur.

To improve the situation at the municipality, the political and administrative leadership should set the right tone from the top by implementing and adhering to good governance practices, and enforcing a culture of ethical behaviour. They should also prioritise filling vacancies with competent and dedicated staff as well as implementing consequences for poor performance, especially non-compliance with supply chain management prescripts.



GOVAN MBEKI



Funds received for the year

Total equitable share	R284,50 m (2018-19: R257,24 m)
Total conditional grants	R143,71 m (2018-19: R126,2 m)

VS



Total bank balance at year-end

R202,4 m
(2018-19: R113,3 m)

?



Audit outcomes

2019-20	Disclaimed	2017-18	Disclaimed
2018-19	Disclaimed	2016-17	Unqualified with findings



Currently under provincial administration

NOVEMBER 2018 TO DATE



Use of financial reporting consultants

(2018-19 & 2019-20)

R1,5 m*



Total salary cost of finance unit

R50,02 m
(2018-19: R47,52 m)

* 2019-20: Consultants were used for TAX SERVICES ONLY

Govan Mbeki is the smallest of seven municipalities in the Gert Sibande district, covering an area of 2 955 square kilometres. The municipality services a community of approximately 340 091 people in 108 894 households. It is mainly agricultural, with three urban areas, namely Leandra, Greater Secunda and Bethal / eMzinoni.

The municipality has been on a downward trajectory for the past few years, having regressed from a financially unqualified audit opinion in 2016-17 to consecutive disclaimed opinions for the past three financial years. In 2019-20, the municipality received R428,21 million in equitable share funding and conditional grants, but only R202,4 million remained in its bank account at year-end. We could not confirm how the funds were used, as the municipality was unable to provide us with the supporting documentation or explanations we needed to formulate any conclusion. Bank and cash was one of the items for which the municipality could not

provide sufficient records or explanations. The municipality struggled to prepare proper periodic reconciliations to ensure that the bank balances on the accounting system matched up with the balances held by the bank, which resulted in reconciliation items that management could not explain or support at year-end.

The Municipal Standard Chart of Accounts was first implemented during 2017-18, and the municipality never fully resolved some of the significant challenges it experienced with migrating to the new system. This resulted in material misstatements that have still not been fixed, especially for bank and cash as well as revenue. The billing system is also plagued with weaknesses relating to the credibility of the revenue masterfile. For example, some consumer debtors had never been billed but were using the services provided by the municipality. These challenges undermined the credibility of the financial statements. The assistance from consultants appointed during

the 2018-19 financial year to correct the previous year's errors and prepare the municipality's financial statements did not bear fruit. The municipality then used its in-house finance staff to prepare the 2019-20 financial statements, which did not improve the audit outcomes, as we continued to experience unreliable and insufficient information to support the restated opening balances and current year transactions. This was because the municipality did not engage the developers of Munsoft early enough to interrogate the system and adequately address the shortcomings.

There were material inconsistencies between the indicators and targets in the planning documents and those reported in the performance report. The municipality was also unable to support some of the reported targets and achievements, making it impossible for us to conclude on the credibility of the reported performance. This brings into question the municipality's decisions during the year as neither the financial nor performance information was credible. Furthermore, the municipality did not effectively manage its infrastructure projects. For example, the construction of a new wastewater treatment works in Charl Cilliers, valued at R15,85 million, commenced on 17 October 2019 with a planned completion date of 30 June 2020, which was extended to 30 November 2020. However, a progress report dated 30 October 2020 indicated that only 35% of the work amounting to R6,41 million had been done. During a site visit in December 2020, we observed that the project had still not been completed. This meant that the residents of Charl Cilliers had still not received much-needed sanitation services.

All the issues raised above show that management and those charged with governance were unable to effectively run the municipality, which had a dire impact on service delivery. As a result, service delivery protests continued in the 2019-20 financial year, highlighting the dissatisfaction of the communities this municipality serves. Some of the service delivery protests during the year were because of the lack of electricity provided to Bethal, eMzinoni and eMbalenhle.

During the 2019-20 financial year, the municipality reported irregular expenditure of R222,1 million, compared to R251,2 million in 2018-19, due to non-compliance with procurement process requirements. This accumulated into a closing balance of R880,05 million at year-end. The poor

status of the municipality's record keeping resulted in limitations in our audit of procurement and contract management, as we could not audit awards to the value of R37,5 million and R12,6 million for 2019-20 and the previous two years, respectively, because the requested contracts and quotations were not provided for auditing. We were therefore not able to conclude on whether the municipality had complied with all applicable laws and regulations. The municipal council did not provide effective oversight throughout its term, especially in this regard, as it failed to investigate the irregular expenditure of prior years. The council therefore created a culture of high tolerance for non-compliance without any consequences.

These deficiencies were mainly due to the following vacancies and instability in key management positions, which led to a complete breakdown in internal controls:

- Instability in the municipal manager position over the past three years. The municipal manager was suspended after the 2019-20 financial year-end on allegations of maladministration and poor performance.
- The chief financial officer was in the position for the last three years, but was suspended after the 2019-20 financial year-end on allegations of supply chain management fraud.
- The executive mayor resigned after the 2019-20 financial year-end.
- The finance unit had a vacancy rate of 36% in 2019-20, compared to 32% in 2018-19, which affected its ability to perform daily and monthly preventative internal controls.

While the municipality did attempt to fill these key positions with acting personnel, they did not have the skills required to fulfil the roles as intended. The district municipality also assisted by seconding officials to fill the municipal manager and chief financial officer positions; however, this did not translate into improved audit outcomes because of the unstable control environment.

The municipality's governance structures (municipal public accounts committee, internal audit unit and audit committee) did not provide the required level of assurance to significantly improve governance and the control environment. The internal audit unit was inadequately staffed and the recommendations from the audit

committee were not fully implemented. The mayor and municipal council were slow to respond to these challenges.

The municipality has been under mandatory provincial intervention in terms of section 139(1)(a) of the Municipal Finance Management Act since November 2018. The provincial cooperative governance department assisted the municipality with developing a financial recovery plan and the provincial treasury helped the municipality to implement the plan, but this did not yield any improvements, mainly due to weaknesses in the billing and collection processes. The provincial cooperative governance department also established a cash-flow committee to rotate payments to suppliers so as to alleviate excessive interest on late payments. Unfortunately, this committee was rendered ineffective by limited cash resources due to challenges around billing and debt recovery.

In the 2018-19 financial year, the municipality was also placed under section 106(1)(b) of the Municipal Systems Act, which relates to non-performance and maladministration. The investigation report was finalised after year-end (October 2020) and the outcome of the investigation led to the mayor resigning days after the report was issued. The council is in the process of implementing the report's recommendations.

The municipality's financial health remained vulnerable during the financial year under review. The council approved an unfunded budget (the budgeted operating expenditure of R2,4 billion exceeded the operating revenue of R2 billion), which already meant that it would not realise its planned indicators and targets. The municipality struggled to maximise its revenue from the services rendered and failed to maximise its debt collection. This negatively affected the payment

of suppliers, especially Eskom and Rand Water. The municipality does not have any payment agreements in place with bulk suppliers, resulting in R199,5 million of the total fruitless and wasteful expenditure of R202 million relating to interest on late payments to these two suppliers. This is one of the very few amounts disclosed in the financial statements that we were able to audit. Such leakages in the public purse could have been used for much-needed service delivery.

We continue to urge the leadership of the province and the municipality to work together to achieve the following:

- Fill vacancies in key positions in order to stabilise the municipality.
- Ensure that the appointed municipal manager and team implement a solid system of internal control, including monitoring controls, to ensure that the internal controls are implemented and function as intended.
- Ensure that policies and procedures on individual performance management are implemented so that appointed individuals step up and take accountability for the municipality's results.
- Engage the system developers of Munsoft earlier so that they can interrogate the system and adequately address the shortcomings – this must be done in collaboration with someone skilled in accounting to ensure that the challenges with the accounting system are addressed in line with the accounting principles.

When these recommendations have been implemented, accountability will improve, which will have a positive effect on both service delivery and the credibility of the municipality's financial and performance information.



!KHEIS



Funds received for the year

Total equitable share	R22,7 m (2018-19: R23,1 m)
Total conditional grants	R15,3 m (2018-19: R23,2 m)

VS



Total bank balance at year-end

R0,77 m
(2018-19: R1,94 m)

?



Audit outcomes

2019-20	Disclaimed
2018-19	Disclaimed

2017-18	Disclaimed
2016-17	Qualified



Currently/previously under administration



Use of financial reporting consultants

(OVER 4 YEARS)

R3,6 m



Total salary cost of finance unit

R6,3 m
(2018-19: R4,7 m)

!Kheis is one of five municipalities in the ZF Mgcawu district, accounting for 11% of its geographical area. It services around 4 307 households in the towns of Groblershoop, Boegoeberg, Opwag, Topline and Wegdraai, and the surrounding farming communities. The Orange River runs from the southeast of the area through to the northwest, contributing to the cultivation of table grapes, which are marketed and exported.

The municipality's audit outcome regressed to a disclaimed opinion during the current administration's term. Apart from the accounting officer, who joined the municipality during the previous financial year, key staff members were employed over the four-year period. Despite this, there were still inadequate competence and capability, which ultimately resulted in the deterioration of the internal control environment as basic internal control processes were not implemented. Such controls included monthly reconciliations, proper record keeping

for invoices, and frequent updating of the registers for contracts, commitments as well as unauthorised, irregular and fruitless and wasteful expenditure. The municipality also failed to show an understanding of specific financial framework requirements by recording certain transactions on a cash basis rather than via the accrual basis of accounting. These poor practices being the norm, raises the question of how management and the council can make strategic decisions that best serve the community using such incomplete and inaccurate information.

There were also deficiencies in how internal controls were designed and implemented to ensure that there was evidence available to support the targets of some of the performance indicators reported in the performance report. As a result, we could not conclude on the reliability of the reported achievement of these performance indicators. In prior years, we repeatedly reported the lack of adequate systems to ensure the

safekeeping of documentation in support of the financial statements and the performance report. However, leadership failed to implement an audit action plan to address these internal control weaknesses, resulting in repeat findings and widespread material misstatements.

The municipality's financial health is in a dismal state due to issues such as the information required for a proper analysis being incomplete. As a result of cash-flow challenges, the municipality could not meet all of its financial obligations and could not settle supplier accounts within 30 days of receiving invoices. On average, the municipality took 643 days to pay creditors and 648 days to collect revenue. Its current liabilities exceeded its current assets, and the R0,7 million cash it had available in the bank at year-end was not enough to pay the R30 million owed to municipal creditors. This means that the following year's budget is being used to pay for prior year expenses. Municipal suppliers bore the brunt of late payments, which negatively affected their businesses.

The municipality failed to implement both sound financial reporting consistent with the financial reporting framework and accountability for the conditional grants it received. As a result, its equitable share allocation was reduced and it was not permitted to roll over unspent conditional grants that were not cash-backed, further compromising its ability to meet service delivery expectations. This has caught the attention of the Public Protector, who is currently investigating the municipality's management of conditional grants. A large portion of the municipality's expenses are made up of salaries and councillor remuneration, which are paid first from the little available cash. Salaries and wages paid to employees amounted to 70% of cash receipts from operations, leaving only 30% to fund operational expenses and deliver services. The lack of controls around billing revenue and recording receivables, combined with the poor revenue collection for services rendered, adds to the municipality's dismal financial situation.

We also remain extremely concerned about the status of the municipality's compliance with legislation. As reported in prior years, the municipality has been unable to support all awards made and we cannot confirm the full extent of irregular expenditure. The Municipal

Finance Management Act requires municipalities to recover irregular expenditure from the person liable for the expenditure, unless – after investigation by a council committee – the council certifies the expenditure as irrecoverable and writes it off. The municipality wrote off irregular expenditure without investigating why it was incurred or determining whether disciplinary steps needed to be taken against liable officials, which resulted in staff not being held accountable for transgressions. This should be of great concern to the council as well as the oversight departments in the province.

Despite our continued efforts to influence positive improvement through our audit recommendations and engagements with provincial leadership, there has been no visible impact. This could be attributed to the tone set by leadership and management, which created a culture of employees not caring about their responsibilities. There is no accountability and no corrective action is taken against poor performers and transgressors. For example, every year, most of the prior period adjustments to the financial statements cannot be explained or accounted for. We could not derive any assurance from the municipality's established assurance providers, which led to the current dire state of governance and accountability at the municipality and points to the failure of the combined assurance model. This was not helped by the slow response from the provincial cooperative governance department and the provincial treasury to support the municipality, as interventions did not commence in time to have a positive impact on the compilation of the 2019-20 financial statements. The audit committee experienced the same slow response, which also affected its ability to provide assurance.

The situation can be remedied by leadership, as a starting point, instilling in municipal staff the culture and will to perform their daily duties. Leadership should also use training interventions to ensure that staff understand the basic disciplines. The council should intensify the level of support offered to the municipal leadership so that a proper tone is set from the top. A lot of work needs to be done to cleanse the municipality of the culture of non-performance and lack of consequences.



RENOSTERBERG



Funds received for the year

Total equitable share	R24,7 m
Total conditional grants	R16,9 m

VS



Total bank balance at year-end

R0,7 m
(AS PER UNAUDITED ANNUAL FINANCIAL STATEMENTS NOTE)

?



Audit outcomes

2019-20	Outstanding audit
2018-19	Outstanding audit

2017-18	Disclaimed
2016-17	Qualified



Currently under administration

7 SEPTEMBER 2020 TO DATE



Use of financial reporting consultants

(2016-17 & 2017-18)

R5,5 m



Total salary cost of finance unit

Audit outstanding

Renosterberg is the smallest of eight municipalities in the Pixley ka Seme district, accounting for only 5% of its geographical area. The municipality services a population of fewer than 12 000 people in the towns of Philipstown, Petrusville and Vanderkloof. Philipstown and Petrusville are known for their unique Karoo architecture, with many homes still in their original state, while Vanderkloof has the second-largest dam (by volume) in the country.

We are currently auditing the municipality's financial statements for the past two years, which were not submitted on time, and the audit outcomes are thus still outstanding. **The late submission of financial statements shows a lack of leadership accountability and a blatant disregard for legislative timelines and oversight processes.** Without an audit, it is difficult for oversight structures to adequately hold leadership accountable for the municipality's performance.

During the municipality's last audit (for the 2017-18 financial year), the state of its financial records and

internal control processes had weakened to such an extent that its audit outcome regressed. This was mainly due to vacancies in key management positions, poor record keeping, and a lack of accountability and consequences.

In certain instances, the municipality did not timeously implement basic internal control practices, including monthly bank reconciliations; proper record keeping for invoices; and regular updating of registers for contracts, commitments as well as unauthorised, irregular and fruitless and wasteful expenditure. As a result, management could not adequately report on the municipality's financial affairs and service delivery performance. The municipality also had inadequate processes in place to account for funds received and payments made, which ultimately affected its decision-making ability.

There was widespread non-compliance by the municipality, most notably in the areas of procurement and contract management, revenue management, and strategic planning

and performance management. We experienced continuous limitations during our audit of procurement and contract management, as management could not provide information relating to the procurement processes followed. The extent of the municipality's non-compliance with Municipal Supply Chain Management Regulations and officials' inability to apply the principles of fairness, competitiveness, equality and transparency as enshrined in the Constitution, warrant great scrutiny and should concern the council as well as other oversight departments in the province. Management could not quantify the municipality's irregular expenditure and no consequences were instituted against officials found to have been negligent in their duties.

There were inadequate processes in place to ensure that creditors were accounted for when goods and services were received, that suppliers were paid within 30 days of invoices being received, that receivables were recognised when services had been rendered to the community, and that strategies were developed to enhance debt collection. Amounts deducted from employees on behalf of third parties for pension contributions and pay-as-you-earn were not paid over within seven days, as required.

As mentioned earlier, we are still performing the audit for the 2018-19 period, and it is concerning that the municipality incurred a deficit for the year of R35,4 million (an increase of R13,8 million from the previous year) and reflected a net current liability position. This indicates that the municipality is unable to meet its short-term obligations, showing its dire financial situation.

The municipality has been plagued by political and administrative challenges. The significant number of vacancies in key management positions also hindered its ability to exercise accountability due to the continuous vacancies and rotation of staff acting in these positions. The positions of municipal manager and chief financial officer have been vacant for a number of years, contributing to the municipality's instability and lack of accountability. An acting municipal manager and chief financial officer were in place during the 2017-18 period. However, the detrimental effect of having a vacant chief financial officer position during 2017-18, along with other key senior management positions, resulted in the municipality being heavily dependent on consultants to prepare the financial statements. This situation was made even worse as the money

spent on consultants did not yield any return on investment.

The municipality also had no audit committee, internal audit unit or municipal public accounts committee. Furthermore, the council failed to exercise its duties and enforce accountability within the municipality. This created an environment where staff continued to transgress without any consequence due to inefficient and ineffective oversight structures.

The provincial member of the executive council for cooperative governance dissolved the municipality due to its continued dysfunction and lack of clear leadership, and it has been under administration since 7 September 2020. The provincial cooperative governance department, provincial treasury, Pixley ka Seme District and respective members of the executive council intervened to monitor and support the municipality, but these interventions were unfortunately not very successful. The municipal council failed to implement and support the National Treasury's discretionary financial recovery plan that ran from 2018 until November 2019. The municipality also refused to cooperate with, accept, support or subject itself to monitoring by two other arms of government, namely the National Treasury and the provincial legislature.

The municipality requires strong and stable leadership to instil a culture of discipline, consequences and effective preventative controls. We also urge the municipality to embark on a systematic process to ensure that its financial statements are submitted for auditing on time, and oversight structures to hold the municipal leadership accountable for its performance.

We are encouraged that steps have been taken to bring stability to the municipality, as the provincial cooperative governance department seconded an acting municipal manager and the provincial treasury an acting chief financial officer for a one-year period effective March 2021 and April 2021, respectively. Filling these key positions will, in the short term, help the municipality to achieve stability, provide the necessary leadership and enable consequence management. We do, however, encourage the municipality to embark on a recruitment process to permanently fill these positions as soon as possible, to ensure that the short-term stability benefits will be maintained after these secondment periods end.



LEKWA TEEMANE



Funds received for the year

Total equitable share	R46,4 m (2018-19: R44,9 m)
Total conditional grants	R34,7 m (2018-19: R22,8 m)

VS



Total bank balance at year-end

R6,1 m
(2018-19: R1,7 m)

?



Audit outcomes

2019-20	Disclaimed	2017-18	Disclaimed
2018-19	Disclaimed	2016-17	Disclaimed



Previously under administration

1 JULY 2019 – 30 JUNE 2020 (12 MONTHS)



Use of financial reporting consultants

R11,9 m
(2018-19: R5,5 m)



Total salary cost of finance unit

R11,1 m
(2018-19: R12,9 m)

Lekwa Teemane is located in the Dr Ruth Segomotsi Mompati district, accounting for approximately 7,75% of its geographical area. The municipality, which services 14 930 households, is situated in Christiana – an agricultural town on the banks of the Vaal River – and also includes the town of Bloemhof. The area is known for the discovery of diamonds in the river banks, but today the main economic activity is agriculture.

The municipality obtained a disclaimed opinion for 13 of the past 14 years (92%). In the past four years, the municipality faced serious challenges, including the accounting officer being suspended due to allegations of irregularities and the chief financial officer position being vacant. This resulted in a significant breakdown of basic financial disciplines as well as poor record keeping. As we reported in prior years, the financial statements that were submitted did not agree to the general ledger and sub-ledgers. During 2019-20, management was able to submit financial statements that agreed to

the general ledger, but was still unable to provide evidence for the recorded transactions.

One of the reasons for the continued disclaimers is the numerous changes to consultants. Although the chief financial officer position was filled in March 2019, the municipality does not have adequate technical proficiency and there is a lack of basic understanding of the financial reporting framework. Basic key controls, such as monthly and asset reconciliations, meter readings and transaction reviews, are not done throughout the year. The municipality then relies heavily on consultants to source these records, compile registers and perform reconciliations, which only happens after year-end. However, because consultants are appointed late and enter an environment with weak or no financial controls, a lack of supporting evidence and a shortage of technical proficiency, neither improvements nor skill transfers are realised. It is extremely concerning that even though the vacancy rate in the finance

unit was only 3% and the chief financial officer position was filled, the municipality was unable to implement basic key financial controls and instead relied on consultants to do so.

Due to the disclaimed opinion, we could not confirm that the entire total expenditure budget of R318 million, made up of R290 million operational and R28 million capital expenditure, had been appropriately spent on service delivery. The municipality is in serious financial distress with high uncertainty about whether it will be able to adequately fund its operations in future. This is evident in the municipality implementing an unfunded budget and overspending by R172 million, of which R41 million was on cash items.

The municipality is characterised by poor cash-flow management, increasing outstanding debt and payments to creditors, and excessive supplier-payment periods. The municipality relies heavily on the equitable share and is not able to pay key suppliers such as Eskom and the Department of Water Affairs and Sanitation. In addition, the department took the municipality to court, claiming R173 million for extracting water from the Vaal River. The matter was referred to the North West High Court on 9 December 2019 and is still ongoing. Due to these financial challenges, the municipality is unable to replace ageing and dilapidated infrastructure, resulting in high water and electricity losses. Furthermore, the roads around Christiana are in a poor state due to a lack of maintenance over several years. During our visit to the solid waste disposal sites in Bloemhof and Christiana, we noted that the fencing had been vandalised, resulting in no access control to these sites. Looking at these matters, it is then not surprising that community protests demanding service delivery and the removal of the municipal manager are common.

The municipality's irregular expenditure balance was qualified due to material differences between the amount reported in the financial statements and the amount contained in the underlying records. The irregular expenditure is underpinned by many procurement and contract management weaknesses, such as:

- awards to service providers who are also employees of the municipality or in the service of other state institutions

- supply chain management role players with interests in suppliers participating in the contract process
- competitive bids not being invited and deviations not being justified
- weak or no contract management, including contractors not being monitored.

The municipality was placed under administration per section 139(1)(b) of the Constitution from July 2019 to June 2020. However, this did not yield positive results due to conflicts between the administrator, the mayor and the municipal manager. This infighting created an environment in which management did not heed our call to action, including implementing our recommendations, which resulted in a missed opportunity to turn around the municipality's performance. The culture of non-performance has become the accepted norm and no corrective action is taken against transgressors and poor performers. The weak political tone created dysfunctional council committees, with no appetite to take corrective action. This not only resulted in the municipality not collecting revenue, but also diverted the focus of the administrator, who could not implement proper action plans to improve the municipality's performance.

The administrative leadership should prioritise putting the basics in place, including filling and stabilising key positions and capacitating current staff. The new council should prioritise appointing a qualified accounting officer who has experience in the local government sphere to oversee the implementation of basic controls, set the right tone, and implement corrective action for poor performance and transgressions. The accounting officer, once appointed, should be supported by the provincial treasury and provincial cooperative governance department to address prior year matters and institutionalise internal controls. The internal audit unit and the audit committee must support the municipality by ensuring that the action plan is regularly reviewed and monitored. The municipal public accounts committee must be capacitated to monitor the implementation of consequences.



MADIBENG



Funds received for the year

Total equitable share	R695,6 m (2018-19: R624,9 m)
Total conditional grants	R165,9 m (2018-19: R235,0 m)

VS



Total bank balance at year-end

R260,7 m
(2018-19: R51,6 m)

?



Audit outcomes

2019-20	Disclaimed
2018-19	Disclaimed

2017-18	Disclaimed
2016-17	Disclaimed



Previously under administration

1 JULY 2019 – 30 JUNE 2020 (12 MONTHS)



Use of financial reporting consultants

R23,7 m
(2018-19: R35,4 m)



Total salary cost of finance unit

R32,7 m
(2018-19: R33,6 m)

Madibeng is located within the Bojanala Platinum district and serves approximately 554 000 people across urban and rural areas, including villages, farms and an established industrial area. The municipality is known for its diversified economy, with the predominant economic activities being mining, manufacturing, agriculture and tourism.

The current administration inherited a dysfunctional municipality and has done little to improve its status, as reflected in the four consecutive disclaimed opinions received since 2016-17. Current leadership has failed to implement basic controls, including key reconciliations, on a regular and timely basis. Transactions were processed without valid supporting documents and the lack of proper review and supervision allowed such instances to go undetected. Despite the interventions of both the provincial treasury and the National Treasury, the culture of complacency persists.

From July 2019 to June 2020, while the municipality was under administration, the make-up of the administration team was constantly changing, going through two municipal managers and three chief financial officers in that period. This instability has made it difficult for the municipality to implement appropriate and timely consequences and instil financial disciplines. Despite a substantial investment in personnel within the finance unit, we noted an increase in the reliance on consultants to prepare financial statements over the past two years, raising questions about the commitment, competence, and skill levels within the unit. Additionally, the consultants' task of compiling credible statements and upskilling finance staff was made impossible by the poor status of the municipality's underlying records. The same consultants were used to prepare the financial statements for the current and prior years. The onus is on the current leadership to critically assess whether any value is derived from these engagements given the lack of progress being made.

The municipality has operated with less than half of its required senior managers for the past four years. The impact of this is evident in its inability to perform and report against key delivery targets. Due to the complete lack of processes to collect the required financial and performance information, we were unable to determine whether allocated funds had been used for their intended purposes. The lack of improvement despite repeat findings and recommendations echoes the lack of accountability and commitment to quality reporting embedded in this environment.

We could not assess the full extent of irregularities within the procurement processes, as we were not provided with all relevant information. We also could not determine if goods and services had been procured at reasonable prices through an unbiased and fair process. This situation persists because there appears to be no fear of consequences, as most previously identified irregular and fruitless and wasteful expenditure was not investigated.

The municipality relies heavily on the equitable share to provide services to the community. However, the municipality is unable to obtain regular meter readings due to broken meters and resistance from community members, who sometimes prevent municipal officers from accessing the meters. This hostility stems from what some communities consider to be unfulfilled promises made during the 2016 election campaign. As a result, the municipality has, in some instances, relied on estimates as old as five years for billing water, electricity and sewerage. The inaccuracies in billing also contributed to the municipality's inability to collect the money it is owed for these services, and as at 30 June 2020, the municipality did not expect to collect R2,3 billion (89%) of its R2,6 billion in debt. By not issuing demand letters, handing over accounts and disconnecting services, the municipality failed to effectively implement its credit policy.

In November 2020, the National Treasury warned the municipality about its late payments to bulk suppliers. Reported payables amounted to R1,4 billion at year-end, with cash reserves amounting to only R260 million. As reported in 2018-19, an overdue loan of R163 million, due to

the Public Investment Corporation, was again not included in the payables despite the municipality having lost its appeal contesting this amount in the Supreme Court of Appeal.

The impact of the continuing deterioration of the internal control environment and the resultant financial strain placed on the municipality can be seen in the growing number of service delivery complaints. Many of these stem from the frequent interruptions in the water supply and the inadequacy of storm-water and sewerage systems. Another serious concern is the poor or non-existent maintenance of wastewater infrastructure, treatment and disposal, with some plants and pump stations completely non-functional. Wastewater overflows and spillage pollute the environment and pose serious health risks to the receiving communities.

A forensic investigation into previously reported financial losses of R31,5 million due to an investment in VBS Mutual Bank has been finalised, but the recommendations have yet to be implemented. The accounting officer has been notified of a material irregularity resulting from the loss. We will assess the adequacy of planned actions to strengthen controls and implement consequences once we have received a response to the notification. Unauthorised debit orders to pay accounts of private individuals, detected in 2018-19, continued in 2019-20 despite the matter having been reported for police investigation.

The persistent disregard of our recommendations and lack of consequences against officials responsible for areas with repeat material findings are concerning. For audit outcomes to improve, there needs to be stability in key leadership positions to bring about a much-needed cultural change. A tone of zero tolerance for poor performance and transgressions has to be set at the top by the administrative team, mayor, municipal manager and senior managers. Senior management must ensure that basic financial internal controls are implemented and reviewed regularly. If critical leadership challenges are not addressed, the municipality runs the risk of further deteriorating and continuing to provide poor services to its residents.



Funds received for the year

Total equitable share	R55,9 m (2018-19: R51,2 m)
Total conditional grants	R39,2 m (2018-19: R25,8 m)

VS



Total bank balance at year-end

R5,2 m
(2018-19: -R0,3 m)

?



Audit outcomes

2019-20	Disclaimed
2018-19	Disclaimed

2017-18	Disclaimed
2016-17	Disclaimed



Previously under administration

2 MAY 2019 – 31 JANUARY 2020 (9 MONTHS)



Use of financial reporting consultants

R11,8 m
(2018-19: R10,1 m)



Total salary cost of finance unit

R9,4 m
(2018-19: R7,6 m)

Mamusa is located in the Dr Ruth Segomotsi Mompati district, accounting for 7,8% of its total geographical area. The municipality services 15 473 households in the town of Schweizer-Reneke and the surrounding agricultural area. The town is rich in diamond deposits and is also sometimes referred to as the City of Sunflowers. **The municipality holds the unenviable record for the most consecutive disclaimed opinions in the province, which now stands at 12 years.**

The outgoing political leadership took over a municipality lacking both an effective record-management system and respect for daily control activities. We have repeatedly reported this lack of an adequate system to protect documentation that supports the financial statements and performance report. Financial information was also lost due to a fire in June 2017, which occurred when a municipal building and a library were torched by residents protesting the removal of the acting municipal manager. Since then, the situation has only deteriorated. For example, there is no established

basic foundation for properly safeguarding records, such as structured furniture for filing. As a result of there being no proper record-management system, leave records and employee files could not be found or made available for audit purposes.

In 2019-20, the municipality incurred a net loss of R39,6 million, its current liabilities exceeded its current assets by R173,2 million, and it operated under an unfunded budget. The financial plan adopted by the council was therefore inadequate to implement the identified priorities for the year and is a leading indicator of impending financial distress. The municipality does not receive as much conditional grants as other municipalities because the district municipality, as water services authority, receives the bulk of the grants for infrastructure development.

The municipality did receive municipal infrastructure grant funding of R15,6 million, of which R13,5 million was spent. However, we were unable to vouch for normal general expenditure, which included limitations on employee-related costs. Due to

limitations during our audit, we could not confirm what this grant had been spent on and whether the spending was in line with the conditions of the grant.

As reported in prior years, the municipality has been unable to support awards made and thus we cannot confirm the full extent of irregular expenditure. Most of the time, the municipality did not follow adequate procurement processes, ensure that competitive bidding was observed, and that records to prove compliance with supply chain management prescripts were retained. The irregular expenditure balance has been qualified for the last 12 years.

Unfortunately, while the outgoing political leadership inherited a dysfunctional municipality, it is leaving the municipality in a similar – or even worse – state. With so many years of limitations, it is difficult to identify specific areas of concern due to the cumulative effect of poor record keeping and non-adherence to supply chain management policies and procedures. The municipality has also not effected any consequences, as evidenced by the lack of investigations into irregular expenditure and allegations of financial misconduct. The municipal public accounts committee is not functional and the municipality has a backlog of oversight reports spanning 10 financial years. The working environment and political infighting are preventing the municipality from recovering from years of financial challenges.

The failure of municipal political leadership to exercise oversight resulted in the provincial executive committee resolving to invoke an intervention in terms of section 139(1)(b) of the Constitution from 2 May 2019. The municipality had two administrators over the period of this intervention before the provincial executive committee ultimately resolved to dissolve the council in terms of section 131(1)(c) of the Constitution on 25 September 2019. The first administrator resigned due to death threats and constant intimidation by community members, allegedly in support of a particular faction.

The skills required to operate a municipality as mandated have been absent for many years, as evident in the senior management vacancy rate of 60%. The vacancies at senior management level and allegations of misconduct against those in management positions show that municipal staff have been deprived of an exemplary leadership tone.

Years of continuous neglect of financial affairs, good governance and sound accountability have left the municipality's financial health in a dire state and service delivery in a state of disaster. The National Treasury has repeatedly threatened to withhold the equitable share from the municipality, while Eskom has threatened to suspend the electricity supply due to non-payment. Over the past two years, various court orders have allowed private companies to attach both movable assets and the municipal bank account as a result of debt commitments not being honoured.

Performance planning and reporting is merely a compliance exercise, with the promised services not being delivered as evident in our performance reporting findings on a lack of information and unreliable reporting. The water and sanitation infrastructure has continued to deteriorate despite our detailed reports and recommendations. Some wastewater treatment facilities and infrastructure are dilapidated and not properly operated or maintained, resulting in raw, untreated sewage flowing directly into adjacent rivers and water resources.

Despite our continued efforts to influence positive improvement through our audit recommendations and engagements with provincial leadership, this has had no visible impact. This could be due to the long-term vacancies at the municipality. The tone set by leadership and management is weak and unstable, which has created a culture in which employees do not care and have no sense of accountability, as they do not face corrective action for poor performance and transgressions. For example, every year, most of the prior-period adjustments to the financial statements cannot be explained or accounted for.

The provincial treasury seconded consultants to assist in preparing the financial statements and resolving the long-time qualification findings. However, these consultants had a limited impact on the audit outcomes due to the unreliable underlying financial records provided to them and the weak control environment. Every year, consultants adjust the opening balances on the financial statements in an unsuccessful attempt to resolve issues, as the underlying supporting information is not, and will likely never be, available. Sadly, the trend of unsupported transactions extends to each new financial year without any improvement in record keeping. The inadequately staffed finance unit did not allow for

any transfer of skills or support to consultants. The chief financial officer position was vacant for the last nine months of the 2019-20 financial year and the finance unit has had a vacancy rate of 20% or more over the past five years.

As a starting point, filling key vacant leadership positions will help to begin the long process of rebuilding the municipality and instilling in municipal staff the appropriate culture of diligence and performance.



MAQUASSI HILLS



Funds received for the year

Total equitable share	R128,4 m (2018-19: R111,1 m)
Total conditional grants	R36,6 m (2018-19: R63,1 m)

VS



Total bank balance at year-end

R24,2 m
(2018-19: R16,3 m)



Audit outcomes

2019-20	Disclaimed
2018-19	Disclaimed

2017-18	Disclaimed
2016-17	Qualified



Previously under administration

1 SEPTEMBER 2018 – 31 AUGUST 2019 (12 MONTHS)



Use of financial reporting consultants

R15,1 m
(2018-19: R6,7 m)



Total salary cost of finance unit

R15,8 m
(2018-19: R14,6 m)

Maquassi Hills is one of three municipalities in the Dr Kenneth Kaunda district, accounting for a third of its geographical area. The municipality services about 16 333 households in the main towns of Leeudoringstad, Makwassie, Witpoort and Wolmaransstad. The latter is a maize-farming town between Johannesburg and Kimberley, and an important diamond-mining area.

The municipality regressed from a qualified opinion to a disclaimed opinion in 2017-18 because the consultant that helped the municipality prepare the financial statements did not have well-trained resources who understood the Municipal

Standard Chart of Accounts. As a result, the financial statements submitted for auditing contained balances and transactions that could not be supported. The municipality terminated the consultant's contract based on the poor-quality financials, which led to further disputes between the two parties.

The situation at the municipality is worsening each year as the control environment remains weak.

The municipal manager position was vacant from 2017-18 until it was filled on 1 March 2019. Due to leadership challenges and infighting, however, the appointed municipal manager

was suspended in March 2021. Instability in the accounting officer position resulted in a failure to implement and regularly monitor basic financial controls, the absence of an adequate action plan, and an environment that accommodated poor performance.

The municipality is under financial distress and relies heavily on the equitable share. A significant portion (61%) of the equitable share was spent on employee costs, with the remainder going to bulk purchases. It is therefore concerning that the municipality incurred fruitless and wasteful expenditure of R4 million on interest and penalties, and paid exorbitant consultant costs for financial reporting services, which equate to 96% of the finance staff salary bill.

Based on the disclaimer and concerns about the accuracy, validity and completeness of the performance information, we cannot confirm that the entire total expenditure budget of R446 million, made up of R415 million operational and R30 million capital expenditure, was appropriately spent on service delivery. For example, for one project to upgrade a gravel road in Lebaleng, the municipality terminated the contract with a service provider before the project was completed but after the full amount of R4,12 million had already been paid. A new service provider then had to be appointed. A significant portion of revenue could not be recovered and there was no leadership will to implement a robust collection process. The municipality also provided for a substantial portion of revenue (98%) to be written off as it is highly unlikely to be recovered.

In November 2020, the National Treasury warned the municipality about late payments to bulk suppliers. These late payments resulted in water supply shortages and numerous community protest actions around service delivery. Our site visits confirmed the continuing deterioration of wastewater treatment plants, pump stations, landfill sites and illegal dumping hotspots, which could severely affect the health and safety of the surrounding communities. Our current audit also shows shortcomings in this area. For example, we qualified bulk water purchases due to inadequate supporting documents for the expenses disclosed in the financial statements. The disastrous state of the roads around Wolmaransstad and in Kgakala, as well as the fact that the municipality's reported achievements against the predetermined service delivery objectives were not supported by

evidence, clearly illustrate the poor state of service delivery.

The municipality relies on consultants to prepare the financial statements each year. Disappointingly, despite our key message in the previous year about the late appointment of consultants, they were again appointed well after year-end. They were also expected to produce financial statements in a weak control environment characterised by a lack of reconciliations and poor record keeping. For example, the municipality does not have a centralised, access-controlled location for record keeping. As a result, most of the documents required for audit purposes could not be located. Consultants were paid R15,1 million in the current year. This is equivalent to 96% of the finance unit staff cost of R15,8 million, which covers more than 60 employees, including a chief financial officer position that was filled for 10 months of the year. The cost of consultants therefore comes down to expenditure incurred in vain, as it did not result in any improvement in the audit outcome.

The increasing irregular expenditure balance remains a concern and we raised a qualification on the completeness of the irregular expenditure as not all incurred irregular expenditure was included. Shortcomings include contracts that were extended or modified without the appropriate approval, a lack of monitoring of contractors, and local content requirements not being properly applied. The instability in the accounting officer position, the dysfunctional municipal public accounts committee and the lack of political will by the council to take action, contributed significantly to the increased irregular expenditure and the fact that it was not investigated.

The poor audit outcomes and service delivery issues were made worse by infighting at leadership level. The provincial leadership intervened through section 139(1)(b) of the Constitution and placed the municipality under administration during 2018 and 2019. However, the appointed administrator could not intervene and experienced significant pushback from the council, including several court cases. At times, the administrator was not even allowed access to the municipal premises. As a result, most of the audit issues were not responded to and supporting documents were not submitted. The resistance to the interventions demonstrated the lack of political will to change the status quo and improve accountability. This muddled accountability totally disrupted not only the audit

process, but also the municipality's operations, as no decisions could be made or actioned.

The new political and administrative leadership will have to put in place a proper turnaround strategy. This must include a functional oversight structure (council), audit committee and municipal public accounts committee to ensure stability. The new

council will have to avoid political instability and stabilise the position of the accounting officer, who must ensure that basic financial controls are implemented and monitored regularly. The poor performance culture at the municipality must be addressed by implementing robust performance management and corrective action through effecting consequences.