

PROVINCIAL OVERVIEWS

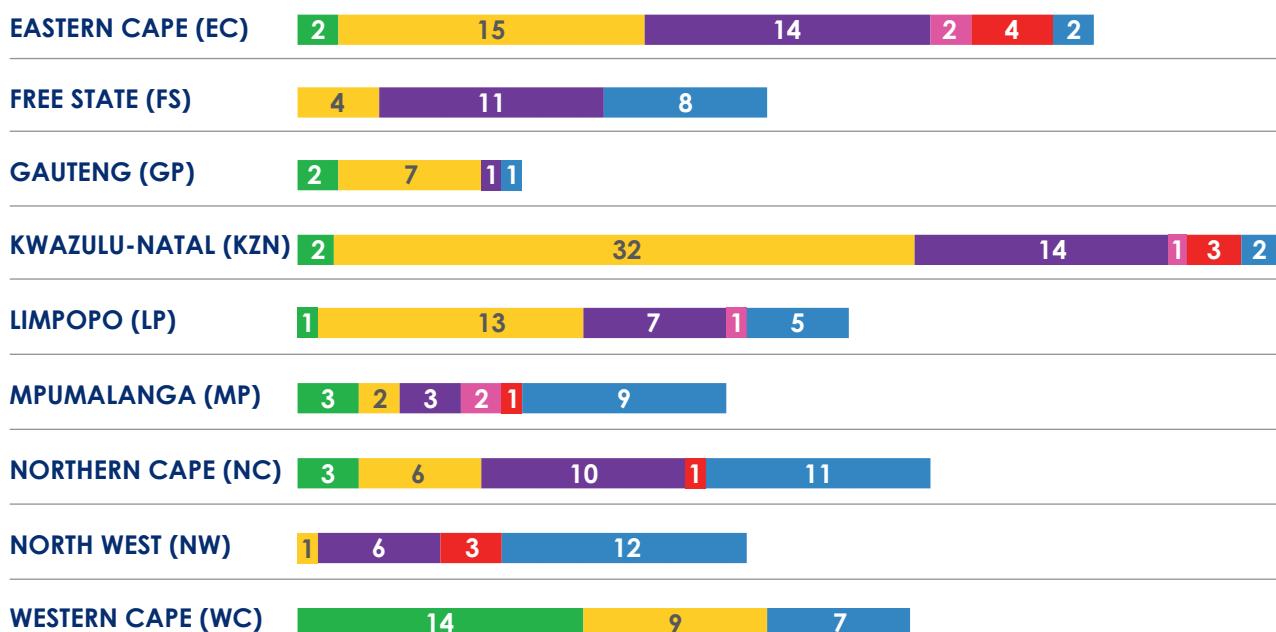
In this section, we provide an overview of the results and reflections per province with a focus on the current state of financial health as well as the financial and performance management of municipalities.

We include the following:

- Overall audit outcomes per province
- Status of outstanding audits and outcomes of those audits finalised after the cut-off date of 23 April 2021 up to 4 June 2021
- High-level summary of each province's performance, including audit outcomes per district

Every province has a unique set of circumstances and diverse solutions to their problems, but the need for leadership – also at provincial level – to step up and turn the tide, remains transversal.

AUDIT OUTCOMES PER PROVINCE



OUTSTANDING AUDITS



Cut-off date for inclusion of the audit outcomes in this report is 23 April 2021

REASONS FOR 25 OUTSTANDING AUDITS

Financial statements submitted late - 9 (36%)

Auditee delays - 10 (40%)

Financial statements outstanding - 5 (20%)

Audit delays - 1 (4%)

RESULTS OF 32 AUDITS SUBSEQUENTLY FINALISED AS AT 4 JUNE 2021



AUDITS SUBSEQUENTLY FINALISED AS AT 4 JUNE 2021	MOVEMENT	2019-20 AUDIT OUTCOMES		
		Audit opinion	Performance report	Compliance with legislation
EASTERN CAPE				
Great Kei	▲	●	●	
FREE STATE				
Mangaung Metro	▲	●	●	●
Mantsopa	▶	●		●
GAUTENG				
Emfuleni	▶	●	●	●
KWAZULU-NATAL				
Ugu District	▶	●	●	●
Nquthu	▼	●	●	●
LIMPOPO				
Mopani District	▶	●	●	●
Greater Tzaneen	▲	●	●	●
Lepelle Nkumpi	▲	●		●
MPUMALANGA				
Gert Sibande District	▼	●		●
Dipaleseng	▶	●	●	●
Emalahleni	▶	●	●	●
Lekwa	▶	●	●	●
Nkomazi	▶	●	●	●
Dr Pixley Ka Isaka Seme	▶	●	●	●
City of Mbombela	▲	●		●

▲ Improved ▶ Unchanged ▼ Regressed

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

AUDITS SUBSEQUENTLY FINALISED AS AT 4 JUNE 2021	MOVEMENT	2019-20 AUDIT OUTCOMES		
		Audit opinion	Performance report	Compliance with legislation
NORTHERN CAPE				
Magareng	▶	●	●	●
Richtersveld	▶	●	●	●
Ubuntu	▶	●	●	●
Umsobomvu	▶	●		●
Kgatelopele	▲	●	●	●
IKheis	▶	●	●	●
NORTH WEST				
Ngaka Modiri Molema District	▶	●	●	●
Matlosana	▶	●		●
Lekwa Teemane	▶	●	●	●
Madibeng	▶	●	●	●
Mamusa	▶	●	●	●
Ramotshere Moiloa	▶	●	●	●
WESTERN CAPE				
Beaufort West	▼	●	●	●
Kannaland	▼	●	●	●
Laingsburg	▶	●		●
Matzikama	▶	●		●

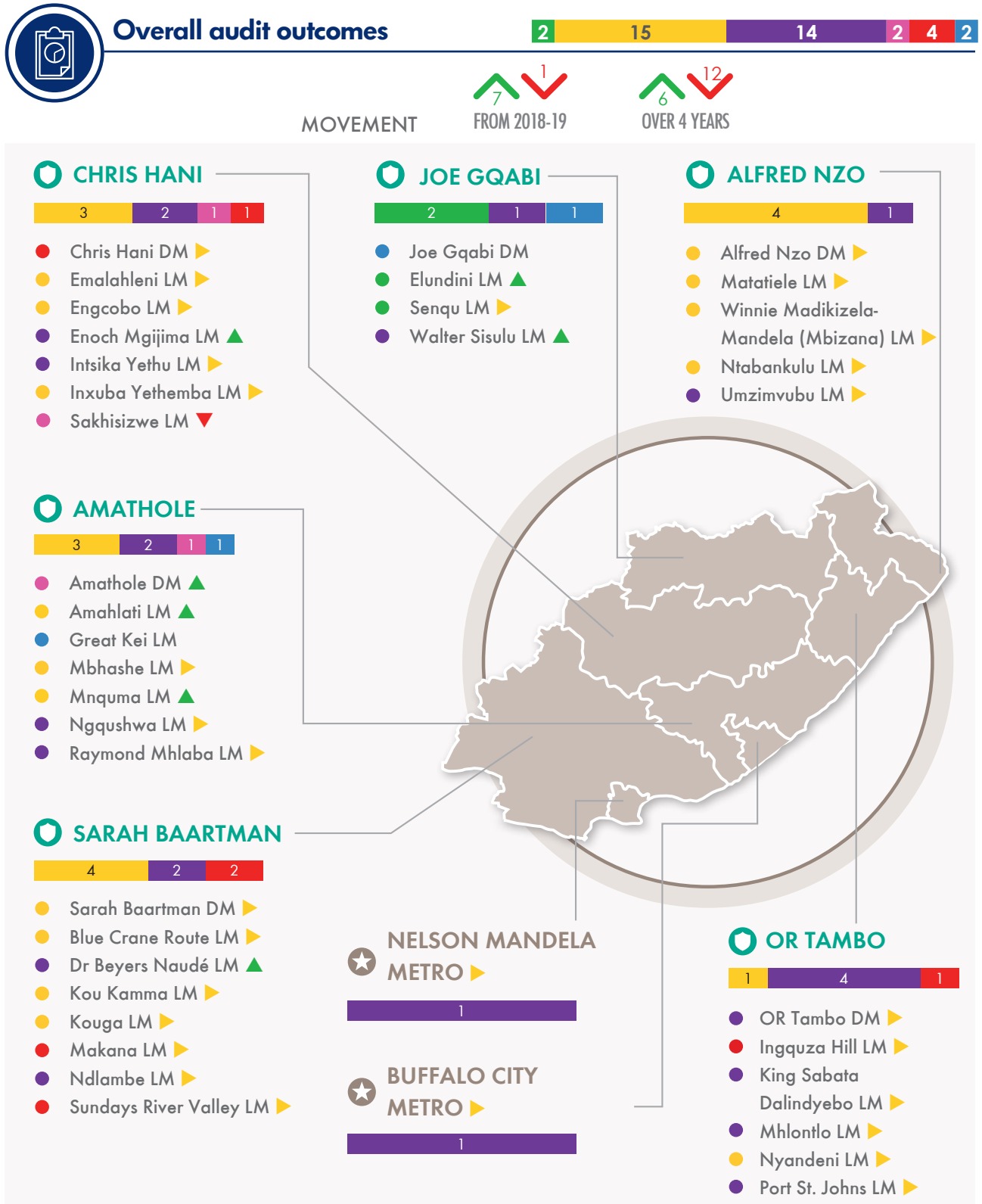
▲ Improved ▶ Unchanged ▼ Regressed

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

6.1 EASTERN CAPE

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 37 municipalities in the province. With the exception of unauthorised, irregular and fruitless and wasteful expenditure, the outcomes of the outstanding audits are not included in the snapshot.



★ Metropolitan municipality
 🟢 District
 DM District municipality
 LM Local municipality
 ▲ Improved
 ▶ Unchanged
 ▼ Regressed
 ● Unqualified with no findings
 ● Unqualified with findings
 ● Qualified with findings
 ● Adverse with findings
 ● Disclaimed with findings
 ● Outstanding audits



Financially unqualified financial statements

46% (17) 2018-19:
41% (15)

Financial statements submitted without material misstatements

16% (6)



No material findings on performance report

35% (13) 2018-19:
16% (6)

Reported achievement reliable

51% (19)



No material findings on compliance with legislation

5% (2) 2018-19:
3% (1)

No findings on compliance with supply chain management legislation

14% (5)



Material irregularities (MIs)

Notified by 11 June 2021

6 MIs with estimated financial loss of
R188,7 m at **4 municipalities** and
likely substantial harm to public sector institution at
3 municipalities with repeat disclaimers

NATURE

Payment for goods not received
Interest due to late payment
Not billing for services rendered
Full and proper records not kept (repeat disclaimer)



Unauthorised & fruitless and wasteful expenditure

Unauthorised expenditure **R1 752 m**

Fruitless and wasteful expenditure **R241 m**



Irregular expenditure

R3 550 m

2018-19: R6 684 m

Closing balance

R27 747 m

2018-19: R28 110 m

TOP THREE CONTRIBUTORS

Nelson Mandela Bay Metro	R1 372 m
OR Tambo District	R696 m
Buffalo City Metro	R302 m



Use of financial reporting consultants

R132 m – 30 municipalities

2018-19: R111 m – 33 MUNICIPALITIES

Recurring use of consultants at 76%
of municipalities

TOP THREE SERVICES

Financial statements review/preparation	R46,6 m
Tax services	R45,2 m
Asset management	R30,9 m



Financial health indicators

Going concern uncertainty	27% (10)
Deficit	R1 020 (12)
Average creditor-payment period	172 days
Eskom and water boards' debt in arrears	R1 037 m (11)
Creditors > cash available at year-end	45% (14)
Average municipal debt not recoverable	70% (31)
Average debt-recovery period	154 days

PROVINCIAL OVERVIEW

Each province has a unique story...

EC



Improvement in outcomes, but this might not be sustainable due to poor control environments

In our previous general report, the key message we communicated was the widespread lack of financial controls and project management within the province. This contributed to the deteriorating state of financial affairs and accountability failures in local government. We recommended that leadership be accountable for their actions to create a culture of zero tolerance for transgressions and non-compliance with legislation. We also stressed the importance of audit action plans, emphasising that these should provide a road map to address the root causes of audit findings and prevent the situation from spiralling further out of control.

During the current year, we followed up on the prior year recommendations. While there were a number of improved audit outcomes, we identified that this might not be sustainable as most of these municipalities had not embedded the necessary preventative and detective controls. The majority of municipalities, including most of those with improved audit outcomes, submitted financial statements containing material misstatements, which required adjustments to achieve better outcomes. Management did not adequately implement and monitor action plans to improve the control environments and therefore the **lack of standardised processes, poor record management and inadequate review and reconciliation of financial and performance reports persisted.**

A large number of municipalities did not apply strong financial disciplines and then used

consultants when there were municipal staff who should have performed some of these functions. We identified material errors in the financial statements at most of the municipalities where consultants were used. This was mainly due to ineffectiveness as municipalities had inadequate internal controls during the year, supplied unreliable information to the consultants, and did not monitor the deliverables of the consultants.

The contravention of legislative requirements that we reported in prior years continued to persist as material non-compliance was reported at 95% of the municipalities. Irregular expenditure incurred also remained high at R3,6 billion. This amount may not be complete as 15 municipalities (41%) were qualified on the completeness of this disclosure. The vast majority of irregular expenditure stems from non-compliance with supply chain management prescripts. Municipalities have not sufficiently dealt with the escalating irregular expenditure, as only R3,7 billion of the prior year closing balance of R28,1 billion had been investigated and written off by the council. Nelson Mandela Bay Metro reported the highest closing balance for irregular expenditure at R17,7 billion.

The province's **irregular expenditure continues to increase** as investigations are not always conducted to determine if any person is liable, which results in consequences not being enforced. The municipal public accounts committee has an oversight responsibility within the executive

functionaries of the council and must ensure good governance within the municipality. The inability to deal with the escalating irregular expenditure is a clear indication that these role players are not playing their part in strengthening oversight and accountability.

The poor control environments and leadership's inability to take action against transgressors led to material irregularities, which resulted in financial losses. These financial losses arose from not billing consumers for services rendered, making payments for goods that were not received, and incurring interest due to late payments to Eskom and the South African Revenue Service. Accounting officers should ensure that controls and oversight mechanisms are in place to proactively prevent or detect instances of non-compliance before they can lead to financial losses.

The **accountability failures also had a negative impact on service delivery.** Poor project management was particularly evident at OR Tambo District, where advance payments were made to implementing agents and other service providers for goods and services, but projects were not adequately monitored to ensure that value was derived from the payments made and that service delivery was achieved. The lack of monitoring these projects resulted in delays in the completion of some, while costs exceeded the initial contract price at others. Projects were also completed but not functional. We saw an example of this at a water supply scheme project where a project is now complete but no water is available to the community.

Elundini improved to a clean audit from an unqualified opinion with findings, as basic internal control disciplines were entrenched in the daily and monthly activities, and reinforced by a strong tone set by leadership through holding officials liable for their transgressions. Senqu continued to maintain its clean audit due the strong tone set by leadership in addressing reported deficiencies and holding officials accountable for non-performance and transgressions. The stability at municipal manager and chief financial officer level, coupled with their vast experience in the local government sphere, further contributed to the strong control environment. The implementation of preventative controls in procurement and other compliance processes assisted in them again not having any findings on non-compliance with legislation. Senior management also worked well with the

internal audit unit and the audit committee, which strengthened controls and improved oversight.

The financial health of municipalities continued to deteriorate, with an increase in the number of municipalities facing financial difficulties. Municipalities' inability to recover money from consumers for services rendered compounded these financial difficulties and resulted in delays in paying their creditors. At 14 municipalities, the creditors due at year-end exceeded the cash in the bank, which meant that some of the revenue they will receive in the next year will first have to be used to settle outstanding creditor accounts before being used for initiatives planned for that year. Amathole District, which is currently under administration, is an example of a municipality facing financial difficulties. The municipality spent R761 million on employee remuneration in the current year, which exceeded the equitable share of R462 million. Revenue of R372 million was billed for services rendered, but this could not fund the shortfall as most of the debt was impaired. The municipality was unable to pay its creditors of R563 million as their debt fell due because it only had R192 million in the bank at year-end.

We had numerous interactions with municipal leadership, at 'MuniMecs' (technical and political provincial interactions between municipalities and members of the executive council), with the South African Local Government Association, and through various oversight engagements where we provided recommendations for improvement. We presented guidelines for strengthening the control environment to the provincial legislature, which included the member of the executive council for cooperative governance, and discussed these in our regular engagements with the oversight departments and municipalities. We also held regular technical committee meetings with the provincial treasury and the provincial cooperative governance department to escalate audit challenges and disputes in order to resolve them as soon as possible. **Despite these interventions, we continued to identify poor-quality financial statements, unreliable performance reports and transgressions of legislation.**

The provincial treasury and the provincial cooperative governance department provided guidance to the municipalities under administration in order to address the financial difficulties and the root causes of poor audit outcomes. This contributed to the improvement in the audit outcome of Enoch Mgijima. Makana, however,

retained its disclaimed audit opinion as the municipality continued to battle with its dysfunctional internal control environment. There is also an ongoing court case by the citizens of Makana requesting that the council be dissolved due to poor service delivery and the lack of infrastructure maintenance. The provincial treasury and the provincial cooperative governance department also provided support to all municipalities with adverse and disclaimed audit opinions by monitoring their action plans, providing technical assistance and assessing their readiness to submit financial statements before the due date. These interventions contributed to the improvement in audit outcomes at Dr Beyers Naudé, Walter Sisulu, and Amathole District. Despite these interventions, Chris Hani District, Ingquza Hill and Sundays River Valley were again disclaimed, as adhering to controls on a daily and monthly basis was not ingrained in the culture of these municipalities due to the vacancies in the municipal manager and chief financial officer positions.

Our key message to municipal managers and senior management is that they should **implement**

a proactive approach to identify risks affecting their municipalities **and ensure that these risks are mitigated by implementing preventative controls.**

This will have a positive impact in strengthening their control environment. Audit action plans must be developed, based on our recommendations, and then be diligently implemented and monitored to address poor financial and performance management controls. Leadership must promote a culture of zero tolerance for transgressions and non-compliance with legislation, and must continuously monitor the control environment. Municipal councils and municipal public accounts committees must be effective and instil order, institute investigations to determine if anyone is liable for irregular expenditure incurred, and take the necessary corrective action against transgressors. It is imperative that political and administrative leaders support each other and play their roles in creating an environment that is conducive to effectively accounting for the funds allocated to municipalities to ensure that the required services are delivered to citizens.

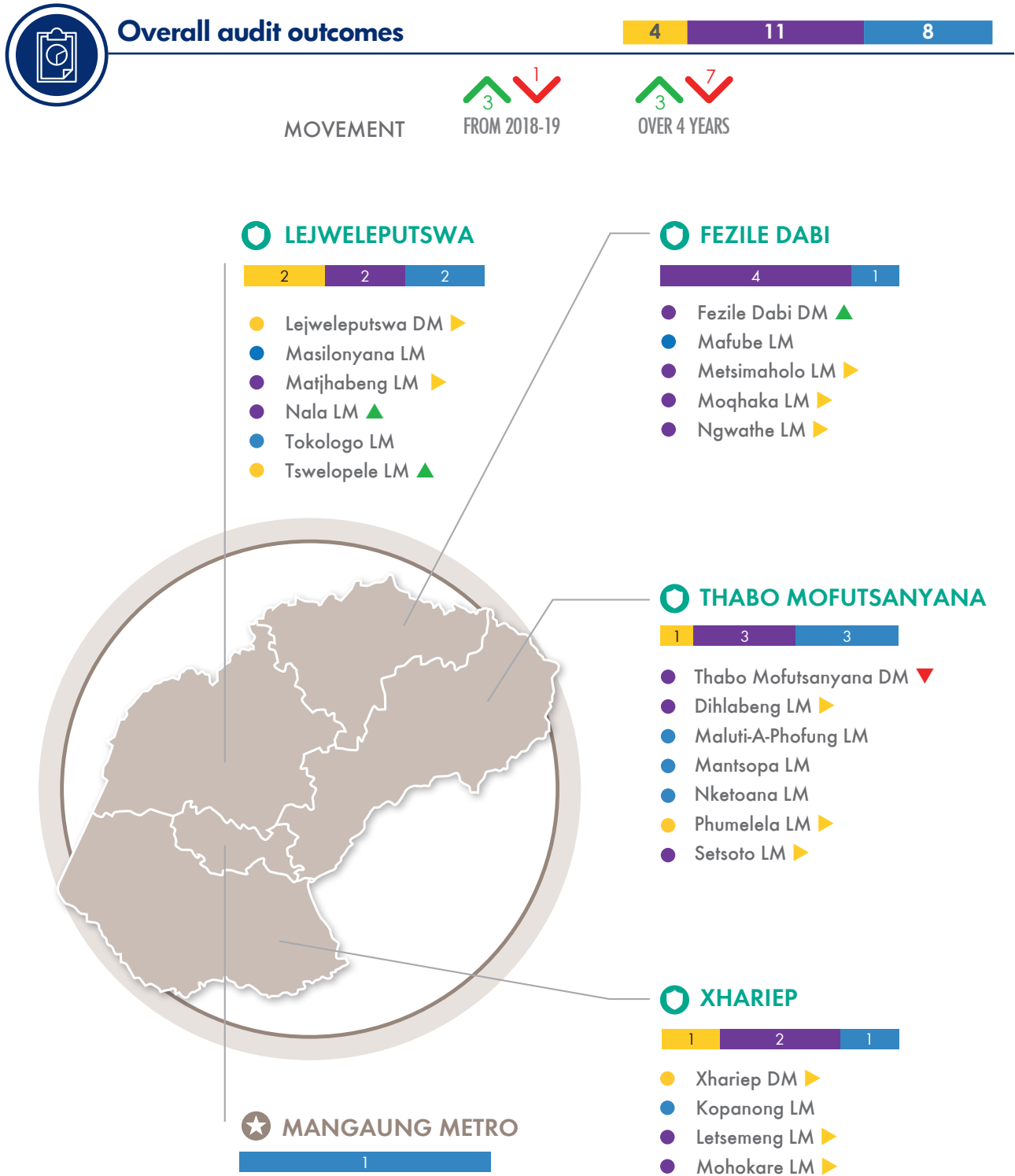


Improve and focus on controls for sustainable outcomes

6.2 FREE STATE

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 15 municipalities in the province. With the exception of unauthorised, irregular and fruitless and wasteful expenditure, the outcomes of the outstanding audits are not included in the snapshot.



★ Metropolitan municipality
 🛡️ District
 DM District municipality
 LM Local municipality
 ▲ Improved
 ▶ Unchanged
 ▼ Regressed

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



Financially unqualified financial statements

27% (4) 2018-19:
27% (4)

Financial statements submitted without material misstatements

7% (1)



No material findings on performance report

29% (4) 2018-19:
13% (2)

Reported achievement reliable

29% (4)



No material findings on compliance with legislation

0% (0) 2018-19:
0% (0)

No findings on compliance with supply chain management legislation

0% (0)



Material irregularities (MIs)

Notified by 11 June 2021

14 MIs with estimated financial loss
of **R304 m** at **5 municipalities** and
likely substantial harm to public sector institution
at **4 municipalities** with repeat disclaimers

NATURE

Interest and penalties payable to South African Revenue Service	5
Interest on Eskom account	4
Full and proper records not kept (repeat disclaimer)	4
Payments for infrastructure assets not received	1



Unauthorised & fruitless and wasteful expenditure

Unauthorised expenditure **R4 392 m**

Fruitless and wasteful expenditure **R603 m**



Irregular expenditure

R3 089 m

2018-19: R2 201 m

Closing balance

R7 319 m

2018-19: R5 602 m

TOP THREE CONTRIBUTORS

Matjhabeng	R340 m
Setsoto	R184 m
Mohokare	R183 m



Use of financial reporting consultants

R47 m – 14 municipalities

2018-19: R31 m – 13 MUNICIPALITIES

Recurring use of consultants at 79%
of municipalities

TOP THREE SERVICES

Financial statements review/preparation	R32 m
Asset management	R7 m
Tax services	R6 m



Financial health indicators

Going concern uncertainty	73% (11)
Deficit	R2 020 m (11)
Average creditor-payment period	507 days
Eskom and water boards' debt in arrears	R10 027 m (10)
Creditors > cash available at year-end	67% (10)
Average municipal debt not recoverable	71% (15)
Average debt-recovery period	558 days

PROVINCIAL OVERVIEW

Each province has a unique story...



Lack of accountability creates a perpetual disrespect for regulations, resulting in mismanagement of resources and lack of service delivery

Overall, the audit outcomes have regressed since 2016-17, and the province has not achieved a clean audit since Fezile Dabi District's clean audit in 2015-16. Some municipalities fluctuated between audit outcomes, improving one year, but then regressing the next, confirming that when audit outcomes improved, it was not sustainable or due to an improvement in the underlying control environment. It is also concerning that a number of municipalities had stagnated on qualified opinions for three consecutive years. Reporting on performance information had not been prioritised, as most municipalities were still not able to report reliably on the achievement of their service delivery goals. Municipalities' unwillingness to comply with legislation is confirmed by the fact that since 2016-17, we have raised material findings on non-compliance with legislation at all 15 municipalities of which the audits had been completed – mostly relating to supply chain management. This clearly indicates a deliberate lack of accountability by political and administrative leadership to address the root causes of findings.

Since 2016-17, we have recommended that leadership set the correct tone from the top. We advocated that leadership implement and adhere to good governance practices, enforce a culture of ethical behaviour to strengthen systems and processes, implement preventative controls, and effect consequences for poor performance

or misconduct – especially to curb pervasive non-compliance with legislation. We engaged with the collective management and municipal leadership, including their audit committees, in various platforms, with the aim of supporting local government leadership to establish sustainable good governance practices. This we did by sharing audit outcomes and the root causes that prevented municipalities from attaining the desired outcomes, providing practical recommendations to improve the control environment, as well as focusing on preventative controls. We further engaged the management and leadership of individual municipalities on the progress of their audit action plans and the key risks identified through our status-of-records reviews, thereby providing them with an early warning system. Sessions were held with chief financial officers and supply chain managers focusing on supply chain management matters, including the weaknesses we identified in procurement and contract management.

In spite of all these efforts, the political and administrative **leadership's inaction created a deliberate obstruction to the effective functioning of municipalities**. Our assessment since 2016-17 has shown that there had been a regression in the assurance provided by political and administrative leadership. None of the assurance providers offered

the required level of assurance and the majority of them provided limited or no assurance at all. There was a lack of responsiveness to implement and monitor the audit action plans to enable the implementation of effective accountability. These outcomes were due to no one being held accountable for their actions by those they report to. Mayors did not hold councils accountable for the lack of improvement at poorly operating municipalities, with the lack of accountability cascading to all municipal levels as councils did not hold municipal managers and the senior managers that report to them accountable for not fulfilling their duties.

Also worth mentioning are the municipal public accounts committees. There had been a visible regression in their effectiveness since 2016-17, notwithstanding the investment we made through facilitating training during the member inductions as well as additional on-the-job training by the provincial treasury and the South African Local Government Association. These committees conducted limited or no investigations. Where investigations were conducted, they were not properly performed to enable the council to hold the responsible officials accountable. Ineffective internal audit units and audit committees, combined with the disregard of their contributions by management, also contributed to the poor control environment. Furthermore, the councils did not adequately assess the required legislative reports to set the right tone for prudent financial management and clearly articulate the strategic priorities to improve service delivery.

Municipalities continued to implement ineffective, short-term solutions to address shortcomings in their underlying controls, through the use of consultants – with a limited transfer of skills. Other than Thabo Mofutsanyana District, all municipalities appointed consultants for financial reporting at an aggregate cost of R46,83 million (2018-19: R30,88 million). These consultants performed tasks such as monthly reconciliations, asset verifications and updating irregular and fruitless and wasteful expenditure registers. This situation is even more concerning as there were already people employed to perform such tasks. The chief financial officers relied on the consultants to provide audit support and to assist with the responses to audit findings, even on non-technical matters, instead of municipal staff – in spite of paying R280,28 million in finance unit salaries.

The provincial treasury supported municipalities in clearing audit findings by deploying officials to attend audit steering committee meetings. This support did not yield visible results, however, due to it being reactive in nature instead of coming in the form of proactive support to improve the control environment. Nine of the 23 municipalities (39%) did not submit their financial statements within the legislated deadline, as opposed to 10 in the previous year; yet neither the provincial cooperative governance department nor the provincial treasury intervened to ensure timely submissions.

Since 2016-17, five municipalities have been placed under administration. We were unable to confirm that administrators had developed and implemented sustainable systems and preventative controls to ensure the effective functioning of these municipalities once they left. Consequently, audit outcomes did not improve and stability was not created even though three of them were under administration for at least three years (by the cut-off date of this report, these three municipalities were no longer under administration). They were not able to submit all the outstanding financial statements – even for the period of administration. These municipalities all received a disclaimed audit opinion on their last submitted financial statements, and experienced service delivery challenges over a prolonged period.

The lack of leadership tone for accountability contributed to **an environment that was vulnerable to misappropriation, wastage and the abuse of state funds**. The continued transgression of supply chain management prescripts was reflected in the significant amount of irregular expenditure incurred of R3,09 billion (2018-19: R2,2 billion). The closing balance of irregular expenditure stood at R7,32 billion (2018-19: R5,79 billion), clearly indicating that the practice of incurring irregular expenditure was rising. Another contributing factor to the significant amounts of irregular expenditure was the seven municipalities (47%) that either had a vacancy in the head of supply chain position or did not have such a position on their organogram. Municipalities should ensure that these positions are filled with people who have the required skills, respect the rule of law, are ethical, and can implement controls that would prevent irregular expenditure.

The poor state of financial management contributed to the continued deterioration in

financial health. Eleven municipalities (73%) were assessed as having a material uncertainty relating to their going concern. The 15 municipalities of which the audits had been completed, had a net current liability position of R8,57 billion (2018-19: R6,73 billion). This means that their current liabilities exceeded their current assets. Local municipalities were in arrears of R10,03 billion (2018-19: R7,70 billion) with Eskom and the water boards. Some municipalities also failed to pay over contributions deducted from employees' salaries to third parties, such as medical aids and pension funds. We confirmed nine material irregularities at five municipalities relating to the late payment of Eskom and South African Revenue Service accounts, mainly due to municipalities' inability to pay their creditors on time, which resulted in interest and penalties of R296,82 million.

Municipalities continued to suffer extensive distribution losses, which were due to dilapidating infrastructure, unmetered consumption and theft. Municipalities also incurred deficits totalling R2,02 billion due to overspending of their approved budgets, while unauthorised expenditure of R4,39 billion (2018-19: R4,95 billion) was incurred.

Poor budgeting practices and overspending hamper service delivery as municipalities are unable to build up reserves that would help them continue to provide services in future, such as maintaining or replacing infrastructure assets.

Matjhabeng serves as an example where the continued disregard for supply chain management prescripts and poor financial disciplines have led to the municipality being in a dire financial position, which in turn negatively affected service delivery.

The municipality owed Eskom and Sedibeng Water R3,34 billion and R3,68 billion, respectively. In addition, the municipality lost R462,84 million (76%) of the water purchased from Sedibeng Water due to leakages, burst pipes, line losses, tampering and theft. The water lost added to the significant amounts payable to the water boards but could not be billed to consumers to earn revenue. This contributed to the vicious cycle of poor cash flows, leading to further delays in the municipality's ability to render quality services to the community. Also at Matjhabeng, a material irregularity was identified relating to the construction of the Nyakallong storm-water system. The contract of R13,74 million was awarded in April 2017 and the project was to be completed by May 2018. However, the project was found to be incomplete during a site visit, with the contractor abandoning the project site and the work performed not being of the required quality. Estimated payments of R7,21 million were made for an attenuation dam to contain and manage storm water but the dam had not been constructed. This material irregularity was in the process of being referred to a public body for investigation.

Accountability can be realised through a decisive leadership tone. To create sustainable improvements in the control environment and audit outcomes, political and administrative leaders should therefore adopt a zero-tolerance approach when it comes to non-compliance with legislation and poor performance by implementing timely consequences, including disciplinary action. This will change the current culture and set an ethical and service-orientated tone for an enabling environment.



Accountability can be realised through decisive leadership tone

6.3 GAUTENG

PERFORMANCE SNAPSHOT

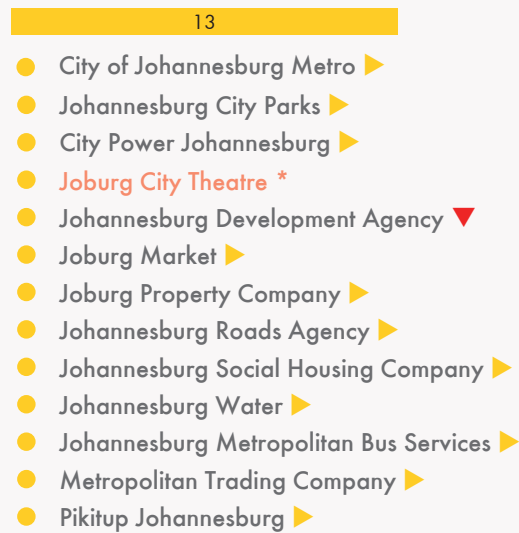
The snapshot shows the audit outcomes of 10 municipalities and 14 municipal entities in the province. The audit outcomes of municipal entities are included due to the significance thereof in the province. The figures for unauthorised, irregular and fruitless and wasteful expenditure include Emfuleni, which is an outstanding audit.



Overall audit outcomes



★ JOHANNESBURG



★ TSHWANE



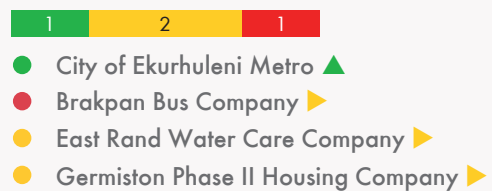
🏘️ WEST RAND



🏘️ SEDIBENG






★ EKURHULENI



* These represent small auditees that are excluded from this report



	Financially unqualified financial statements	90% (9) ^{2018-19: 100% (10)}	93% (13) ^{2018-19: 93% (13)}
	Financial statements submitted without material misstatements	50% (5)	29% (4)
	No material findings on performance report	80% (8) ^{2018-19: 20% (2)}	71% (10) ^{2018-19: 57% (8)}
	Reported achievement reliable	80% (8)	93% (13)
	No material findings on compliance with legislation	20% (2) ^{2018-19: 10% (1)}	0% (0) ^{2018-19: 7% (1)}
	No findings on compliance with supply chain management legislation	10% (1)	0% (0)

 **Material irregularities (MIs)** Notified by 8 June 2021

9 MIs with estimated financial loss of **R208,45 m** at **2 municipalities**

NATURE

Assets – 2 prior year MIs (R9,43 m estimated loss)
 Interest and penalties – 2 MIs (R22,59 m estimated loss)
 Revenue management (interest not charged on outstanding consumer debt) – 1 MI (R9,99 m estimated loss)
 Payments – 4 MIs (R166,44 m estimated loss)

 **Unauthorised & fruitless and wasteful expenditure**

Unauthorised expenditure **R4,24 bn** ^{2018-19: R2,25 bn}  Fruitless and wasteful expenditure **R756,93 m** ^{2018-19: R749,90 m}  

 **Irregular expenditure** Closing balance

★ R4,31 bn + **○ R2,96 bn** = **R7,27 bn** **R21,16 bn**

2018-19: R4,98 bn 2018-19: R1,76 bn 2018-19: R6,74 bn 2018-19: R16,28 bn

TOP THREE CONTRIBUTORS 

City of Tshwane Metro **R2,53 bn**
 City of Johannesburg Metro **R1,05 bn**
 Emfuleni (outstanding) **R309,61 m**

TOP THREE CONTRIBUTORS 

City Power **R1,40 bn**
 Johannesburg Water **R735,13 m**
 Johannesburg Roads Agency **R316,04 m**

 **Use of financial reporting consultants**



R230,21 m – 6 municipalities

2018-19: R242,42 m – 6 MUNICIPALITIES
 Recurring use of consultants at 83% of municipalities

TOP THREE SERVICES

Asset management **R224,88 m**
 Tax services **R4,47 m**
 Financial statements review/preparation **R0,86 m**

 **Financial health indicators**

Going concern uncertainty	30% (3) 	– 
Deficit	R3,21 bn (4)	R83,56 m (2)
Average creditor-payment period	300 days	191 days
Eskom and water boards' debt in arrears	R2,77 bn (5)	–
Creditors > cash available at year-end	80% (8)	69% (9)
Average municipal debt not recoverable	65% (10)	46% (13)
Average debt-recovery period	119 days	215 days

 Municipalities  Municipal entities

PROVINCIAL OVERVIEW

Each province has a unique story...



Despite pockets of improvements, inadequate monitoring of preventative controls resulted in stagnant outcomes and increasing levels of unauthorised, irregular and fruitless and wasteful expenditure

Reflecting on the previous year, Gauteng municipalities had held steady with good audit outcomes sustained in 2018-19 as a result of a stable control environment. We had urged the provincial leadership to enhance good financial discipline, preventative controls and the effecting of consequences. In response, municipal audit outcomes were sustained in 2019-20, with the significant achievement of the City of Ekurhuleni Metro improving to a clean audit outcome due to addressing material procurement findings, thereby joining Midvaal that maintained its clean audit outcome for the seventh consecutive year.

Gauteng municipalities had generally produced good-quality published financial statements in the preceding three years and was the only province without negative financial outcomes. However, **the emergence of qualifications requires attention**, with Rand West City regressing in the current year to a qualified opinion from an unqualified opinion with findings, due to various material errors in its financial statements. Municipalities should work towards strengthening preventative controls to avoid reliance on the audit process to identify and correct errors, particularly in relation to accounting for assets.

The quality of financials at metros improved overall except at the City of Tshwane Metro, which relied on the audit process to support revenue disclosed in the financials. This was due to the practice of estimating service charges for excessive periods. In

addition, material errors on assets were identified and corrected, despite the metro spending R198,43 million (2018-19: R213,14 million) on consultants to verify and correct the fixed asset register. While the province used public funds efficiently by using mostly internal staff to prepare financial statements, care should be taken to ensure that the limited available public funds are spent in an effective manner in all instances.

While compliance outcomes improved, the current level of non-compliance remains high, particularly in relation to procurement management and the prevention of unauthorised, irregular and fruitless and wasteful expenditure. **We remain concerned about the high levels of irregular expenditure** incurred, especially at City of Tshwane and City of Johannesburg metros (which contributed a combined R3,58 billion (83%) at municipal level), and the increased closing balances not yet dealt with due to the slow pace of investigations.

Outcomes on performance reporting improved significantly with the majority of municipalities reporting accurately on service delivery information. This was due to an improvement in the consistent implementation of controls relating to performance information. Municipalities should build on this, and use it as an opportunity to improve the achievement of performance targets and – in turn – service delivery. This is especially significant in the context of the covid-19 pandemic, as the period of lockdown

as well as budget constraints had a negative impact on the achievement of planned performance targets in the province. Municipalities should also ensure that controls implemented around the key service delivery programmes audited are replicated across all programmes to sustain positive performance information outcomes going forward and, most importantly, ensure that citizens receive quality services.

Despite efforts made, the financial health of municipalities, including the metros as the economic hubs of the country, remained concerning and fell under further strain due to covid-19. The pandemic worsened existing difficulties relating to poor revenue collection, debt write-offs and credit downgrades. The deteriorating financial position poses a risk towards municipalities achieving their planned service delivery targets. This calls for greater financial prudence over the limited funds available and the elimination of wasteful expenditure and other losses. This will ensure that municipalities are able to provide adequate services to the expanding Gauteng population. While efforts were made to stabilise municipalities, including provincial intervention at West Rand District and Emfuleni, **the implementation of financial improvement strategies** remains in progress and **should be accelerated**.

Notwithstanding some improvements, the combined assurance model is still not as effective as it should be. We encourage all role players – especially accounting officers, senior management (together with internal audit units and audit committees) and executive authorities – to ensure that they contribute positively towards providing assurance regarding the control environment. These controls include regular and accurate reviews of financial and performance reports, proper procurement planning and contract management, and the use of compliance checklists.

In addition, increased oversight by councils and municipal public accounts committees would be instrumental in holding municipal leaders accountable, including ensuring that investigations into unauthorised, irregular and fruitless and wasteful expenditure are done timeously. We also continue to encourage the provincial cooperative governance department, the provincial treasury and the premier to intensify the level of support provided to municipalities going forward, especially in the area of compliance with legislation and the quality of published financial statements.

Gauteng's service delivery model is fairly unique in the country, with a number of specialised municipal entities administered by municipal boards and responsible for a significant portion of the province's municipal expenditure and service delivery programmes. **The overall negative trend in municipal entity outcomes**, primarily due to non-compliance with legislation, **continued** in the current year as the Johannesburg Development Agency regressed from a clean audit outcome, which it had sustained for three years, to an unqualified opinion with findings. This was due to material errors in the submitted financials (which were subsequently corrected), caused by inadequate reviews of the financial statements and supporting schedules. In addition, the Brakpan Bus Company remained disclaimed for the second year, due to instability in the accounting officer and financial manager positions, inadequate record-management controls, and a lack of basic financial disciplines. All other municipal entities sustained their outcomes of unqualified with material findings, including the four largest municipal entities by budget, namely City Power Johannesburg, Johannesburg Water, Pikitup Johannesburg and Johannesburg Roads Agency, which were responsible for a combined R36,13 billion of the total municipal entity budget of R42,8 billion. In the context of the municipal entity administrative model, we reiterate our previous year's recommendation that the municipal leadership and oversight structures pay closer attention to the governance of entities under their control to reverse the negative trend in audit outcomes.

We expanded our implementation of the amended Public Audit Act to four auditees, and identified nine material irregularities at two metros, namely City of Tshwane and City of Johannesburg. The material irregularities related to the current and prior years, indicating that municipalities should prioritise monitoring the implementation of stringent controls over expenditure to ensure that payments are made only when goods and services are received, and that municipal assets are adequately safeguarded. Accounting officers have been responsive towards the process and are taking corrective steps to address the irregularities identified. However, oversight and executive authorities should also continue to monitor the progress made to both address and prevent such material irregularities, thereby ensuring that public funds are only spent for their intended purpose.

Gauteng remains well positioned as a destination of choice for individuals with professional skills 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. The province's outcomes have also demonstrated that focused attention by the political and administrative leadership to our messages has yielded some benefits, especially relating to compliance and performance reporting. There remains a need for further improvement, and **we therefore urge oversight structures to monitor and hold accounting officers accountable**, particularly regarding the worrying emergence of qualified financial outcomes; the high levels of

unauthorised, irregular and fruitless and wasteful expenditure; and the effecting of adequate consequences for poor performance and transgressions.

While the covid-19 pandemic has brought new challenges to the auditing sphere, we will continue to focus on supporting the public sector to provide the tools to those responsible to strengthen the municipal control environment. This we will do through our ongoing engagements with the political and administrative leadership of the province, including through our communication of key recommendations and guidance on preventative controls.

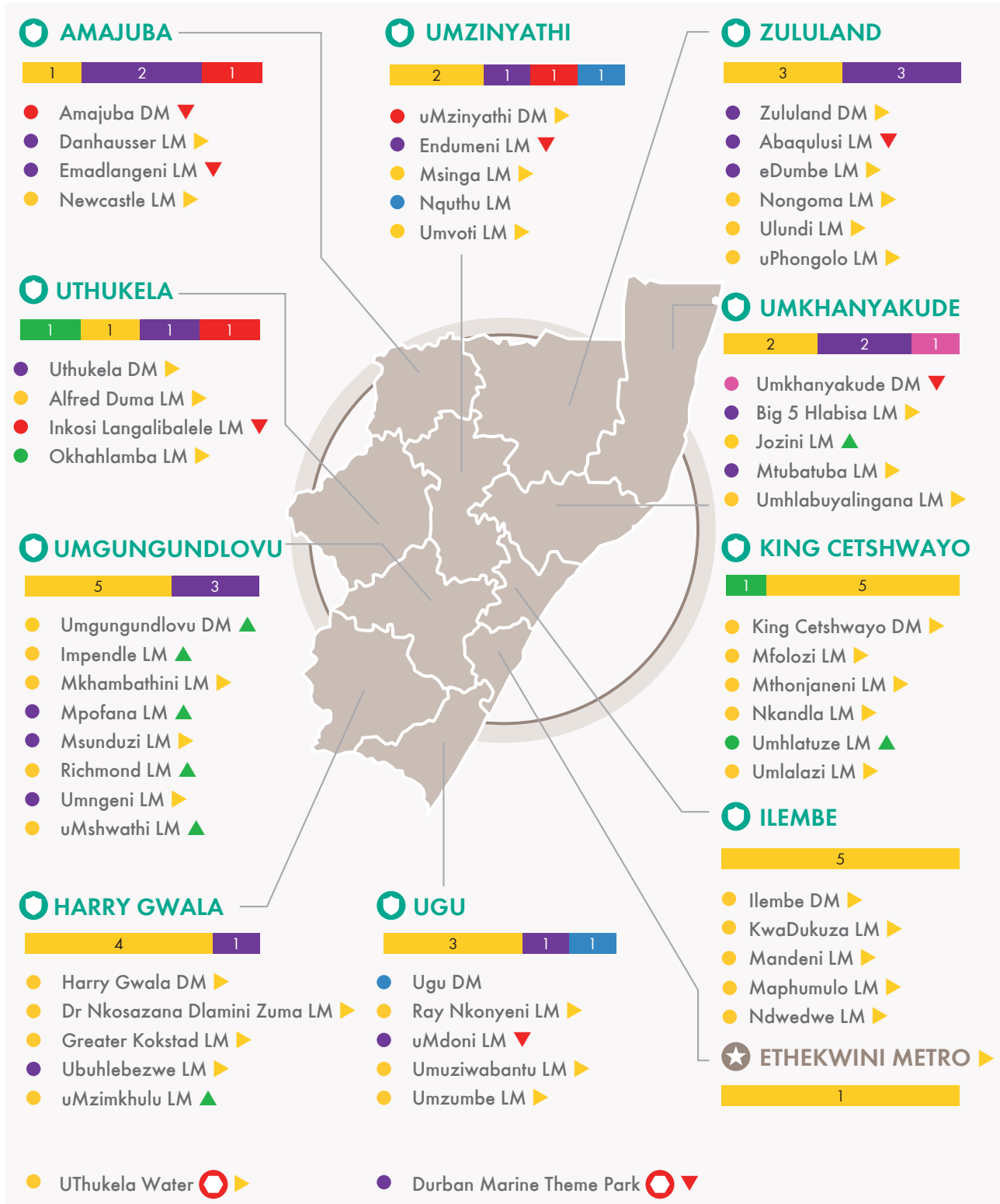


Improve monitoring of preventative controls

6.4 KWAZULU-NATAL

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 52 municipalities and 2 entities. With the exception of unauthorised, irregular and fruitless and wasteful expenditure, the outcomes of the outstanding audits are not included in the snapshot.



★ Metropolitan municipality
 ○ District
 ◯ Municipal entity
 DM District municipality
 LM Local municipality
 ▲ Improved
 ▶ Unchanged
 ▼ Regressed
 ● Unqualified with no findings
 ● Unqualified with findings
 ● Qualified with findings
 ● Adverse with findings
 ● Disclaimed with findings
 ● Outstanding audits

MUNICIPALITIES



MUNICIPAL ENTITIES



Overall audit outcomes



Financially unqualified financial statements

65% (35) 2018-19: 63% (34)

Financial statements submitted without material misstatements

24% (13)



No material findings on performance report

59% (32) 2018-19: 46% (25)

Reported achievement reliable

74% (40)



No material findings on compliance with legislation

4% (2) 2018-19: 4% (2)

No findings on compliance with supply chain management legislation

2% (1)



Material irregularities (MIs)

Notified by 7 June 2021

18 MIs with estimated financial loss of **R248,36 m** at **5 municipalities**

NATURE

Interest and penalties	R18,03 m
Assets not safeguarded	R64,58 m
Revenue not billed/collected	R161,24 m



Unauthorised & fruitless and wasteful expenditure

Unauthorised expenditure **R3 666,37 m** Fruitless and wasteful expenditure **R138,94 m**



Irregular expenditure

R4 861,81 m

2018-19: R6 521,57 m

Closing balance

R13 511,10 m

2018-19: R13 467,46 m

TOP THREE CONTRIBUTORS

eThekweni Metro	R1 072,03 m
Umkhanyakude	R476,42 m
uMzinyathi	R298,37 m



Use of financial reporting consultants

R109,88 m – 33 municipalities

(excluding amounts paid by other institutions)

2018-19: R93,37 m – 44 MUNICIPALITIES

Recurring use of consultants at 76% of municipalities

TOP THREE SERVICES

Asset management	R38,67 m
Financial statements preparation	R32,26 m
Other financial reporting services	R18,95 m



Financial health indicators

Going concern uncertainty	17% (9)
Deficit	R660,41 m (10)
Average creditor-payment period	136 days
Eskom and water boards' debt in arrears (municipalities only)	R1 098,94 m (16)
Creditors > cash available at year-end	42% (21)
Average municipal debt not recoverable	56% (50)
Average debt-recovery period	196 days

PROVINCIAL OVERVIEW

Each province has a unique story...



Stagnation in audit outcomes – effective accountability and consequences not consistently enforced

In 2018-19, we urged leadership to respond to our constant calls for the effective implementation and monitoring of preventative controls and recommendations to positively influence accountability and basic control disciplines. The overall stagnation in audit outcomes demonstrates complacency from management and leadership when it comes to effectively and decisively addressing key matters of concern. Slow responses by management, coupled with leadership's lack of action in implementing action plans and failure to implement consequences for poor performance, remained the main factors that negatively affected the audit outcomes.

The City of Umhlatuze's improvement to a clean audit was a step in the right direction, attributed to management implementing an action plan to address prior year audit recommendations and to the internal audit unit performing risk-based audits on supply chain management processes. The finance team was sufficiently resourced and skilled, which allowed them to prepare the financial statements in-house. In contrast, the financial statements of Umzinyathi, Amajuba and Inkosi Langalibalele were not supported by sufficient audit evidence, resulting in their **disclaimed opinions**. This **stemmed from senior management's failure to take accountability and institutionalise the basic disciplines** of record management, reconciliations and fundamental reviews of financial reporting.

The quality of the submitted financial statements reflected an improvement at some municipalities due to leadership's commitment to implement and maintain robust transactional level controls. However, there are still a large number of municipalities (76%) that submitted poor-quality financial statements. Municipalities continued to rely on the audit process to identify misstatements, as evident by the 41% of auditees that received an unqualified audit opinion only because material audit adjustments were allowed.

Many municipalities also **continued to rely on consultants even though officials were appointed to perform these functions**. Despite the excessive amounts spent on consultants for financial reporting, only seven (21%) of the 33 municipalities reflected improved audit outcomes, while we identified material misstatements in the consultants' area of responsibilities at 17 municipalities (52%). The poor quality of the underlying data, coupled with poor project management and monitoring of the consultants' work, limited their impact and effectiveness on quality financial reporting.

Fewer auditees had material findings on their reported performance information, although material adjustments had to be made to the submitted performance reports. The improvement could mainly be attributed to enhanced record-keeping practices and detailed reviews and

oversight by the internal monitoring and evaluation units. Useful and reliable performance reporting provides communities with credible information that they can use to assess service delivery and hold municipalities accountable. It also allows national and provincial government to track progress towards service delivery goals.

Compliance with key legislation remained a challenge due to inadequate consequences for transgressions and a failure to implement supervisory checks and controls. Non-compliance with supply chain management prescripts contributed to more than 90% of the total irregular expenditure incurred of R4,86 billion. Although some efforts were made to deal with the prior year irregular expenditure closing balance of R13,47 billion, progress in investigating this balance was slow. Irregular expenditure of R4,55 billion was written off as no officials were found to be liable for these transgressions. Municipal councils did not always ensure that investigations were adequately performed to determine if a person was liable before approving the write-off of irregular expenditure.

Financial sustainability remained under stress, aggravated by economic pressures and austerity measures announced by government. Nine auditees reported going concern challenges. At some municipalities, the collection of debt was hampered by ineffective debt-collection systems and processes. This was made even worse by the impact of the covid-19 pandemic and resulted in municipalities struggling to pay outstanding creditors, such as Eskom and water boards, on a timely basis. Municipalities also struggled to practise sound financial management and budget monitoring, as 20% of them reported deficits for the year. The poor financial management practices affected some municipalities' ability to provide adequate service delivery to citizens. Unauthorised expenditure amounted to R3,67 billion in the current year, mostly due to overspending on non-cash items. Non-cash items such as debt-impairment provisions were higher because the covid-19 pandemic affected citizens' ability to pay for services rendered. There was also unplanned additional expenditure due to the pandemic. On a positive note, the City of Umhlatuze (which obtained a clean audit) has, over a number of years, demonstrated the prudent financial management of funds, which has contributed to the achievement of service delivery initiatives.

The material irregularities we identified at five municipalities demonstrate that, in addition to the challenges faced by municipalities relating to poor financial management practices, financial losses were incurred largely as a result of payments for goods or services not received, failure to safeguard assets, fruitless and wasteful expenditure incurred in the form of interest and penalties, as well as the non-billing and collection of revenue due.

The provincial cooperative governance department swiftly intervened at municipalities with maladministration by appointing administrators. However, there were no significant improvements in audit outcomes, mainly due to the late appointment of the administrators, resistance by municipal officials, and vacancies in key positions. Of the seven municipalities that were under administration in the previous year, only two reflected an improved audit outcome, while two regressed and three remained unchanged on unfavourable audit outcomes. Through the municipal support programme, the premier's office (in conjunction with the provincial cooperative governance department and the provincial treasury) helped municipalities to reduce the number of compliance findings and the amount of irregular expenditure reported, and to improve the quality of performance reporting. However, a detailed analysis of the impact of these initiatives, together with the stringent monitoring of their implementation (including the transfer of skills), must be further intensified to trigger sustainable improvements.

As municipalities are at the forefront of service delivery and have a direct impact on the lives of citizens, it is critical that they have sound internal control systems and effective governance structures for them to achieve their goals. Management needs to ensure that the understanding and application of preventative controls is entrenched in day-to day activities through appropriate reviews, monitoring, corrective action and credible reporting by appropriately skilled officials. Municipal managers must also promote a culture of accountability by monitoring corrective action based on our recommendations. Consequences must be enforced for officials who fail to comply with applicable legislation, and strict corrective action must be taken against transgressors.

We continue to encourage key role players such as the provincial cooperative governance department and the provincial treasury to intensify the level of support provided to municipalities going forward, especially in the areas of compliance with legislation and financial management. These coordinating departments need to work efficiently

and use a collaborative approach when assessing and responding to the myriad of risks affecting local government. To improve sustainably, **leadership in local government should enforce a culture of ethical behaviour and adhere to good governance practices** in order to strengthen accountability and transparency.



Upscale implementation of preventative controls and drive consistent consequences

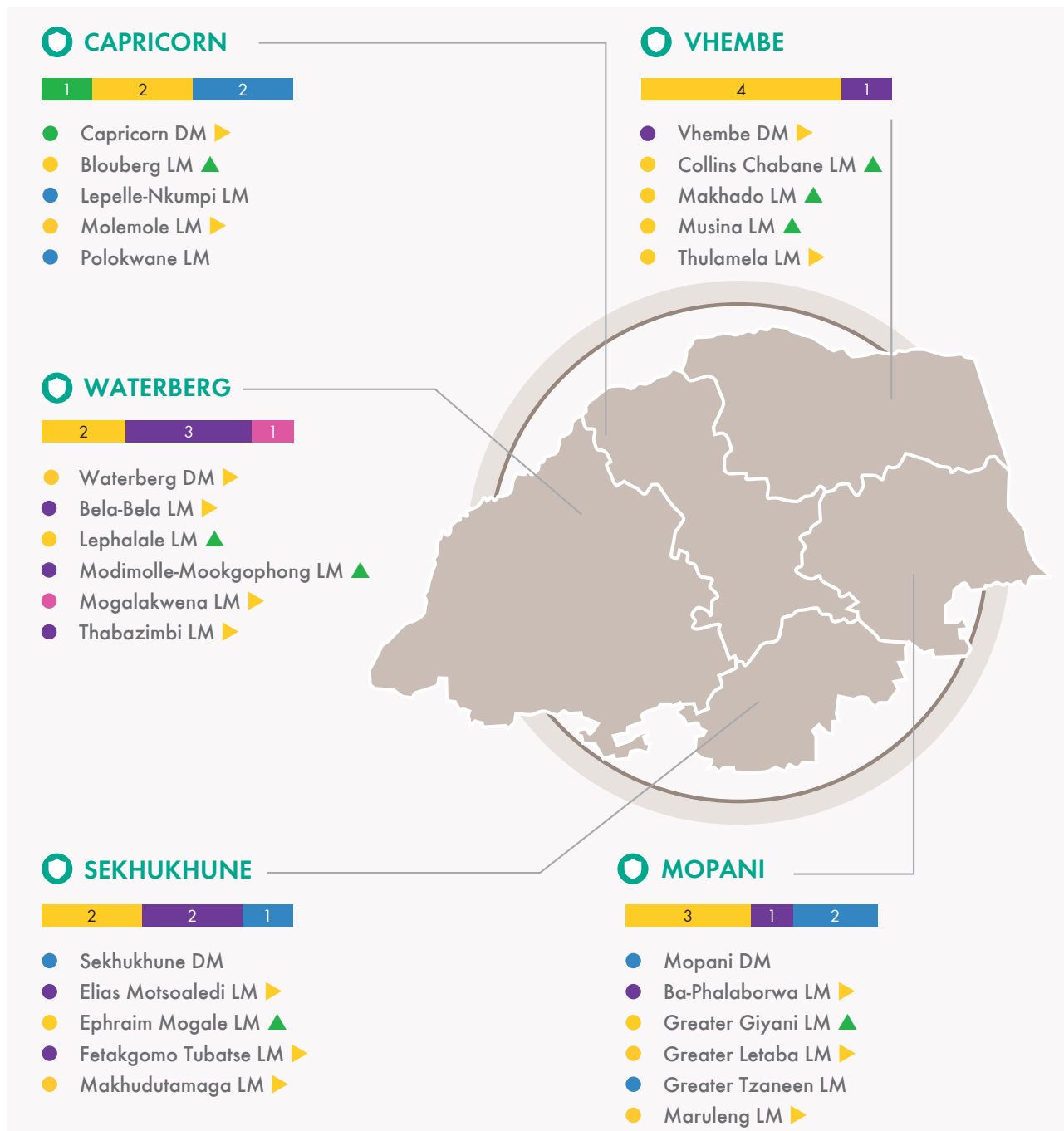
6.5 LIMPOPO

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 22 municipalities in the province. With the exception of unauthorised, irregular and fruitless and wasteful expenditure, the outcomes of the outstanding audits are not included in the snapshot.



Overall audit outcomes





Financially unqualified financial statements

64% (14) 2018-19:
32% (7)

Financial statements submitted without material misstatements

14% (3)



No material findings on performance report

27% (6) 2018-19:
27% (6)

Reported achievement reliable

41% (9)



No material findings on compliance with legislation

5% (1) 2018-19:
5% (1)

No findings on compliance with supply chain management legislation

14% (3)



Material irregularities (MIs)

Notified by 14 December 2019

1 MI with estimated financial loss
of **R13 m** at **1 municipality**

NATURE

Payments made for services not rendered



Unauthorised & fruitless and wasteful expenditure

Unauthorised expenditure **R2 120 m**

Fruitless and wasteful expenditure **R313 m**



Irregular expenditure

R2 286 m

2018-19: R2 109 m

Closing balance

R8 118 m

2018-19: R7 038 m

TOP THREE CONTRIBUTORS

Fetakgomo Tubatse	R458 m
Mogalakwena	R437 m
Elias Motsoaledi	R83 m



Use of financial reporting consultants

R176 m – 21 municipalities

2018-19: R141 m – 21 MUNICIPALITIES

Recurring use of consultants at
100% of municipalities

TOP THREE SERVICES

Financial statements review/preparation	R77 m
Tax services	R57 m
Asset management	R33 m



Financial health indicators

Going concern uncertainty	14% (3)
Deficit	R48 m (3)
Average creditor-payment period	215 days
Eskom and water boards' debt in arrears	R961 m (8)
Creditors > cash available at year-end	50% (10)
Average municipal debt not recoverable	73% (20)
Average debt-recovery period	206 days

PROVINCIAL OVERVIEW

Each province has a unique story...



Improvement in audit outcomes, which is mainly consultant driven and not supported by equivalent improvement in sustainable key control environment

We noted a significant improvement in audit outcomes under the current administration whose term began in 2016. Under the leadership of this administration, Capricorn District sustained its clean audit status and concerted efforts were made to eliminate disclaimers. Whilst these efforts are commendable, there are still a number of municipalities with qualified opinions. The improvements were largely due to the assistance of consultants, not necessarily as a result of an improvement in the control environments of these municipalities. The quality of performance reporting remained a challenge, with 16 municipalities (73%) having material findings in their audit reports in this area, the majority of which related to the reported information not being reliable. The inadequate effecting of consequences continued to be an enabler of non-compliance with legislated prescripts.

Since the onset of the current administration's term, we consistently reported that **municipalities are over-reliant on consultants for financial reporting;** and the year under review was no exception. The province spent R176 million on consultants for financial reporting purposes in addition to the R539 million spent on salary costs in the finance units, which cannot be justified. We recommended that the performance of consultants be properly monitored by management and audit committees to hold consultants accountable for findings raised in the areas for which they were appointed. Due to municipalities' failure to monitor and take ownership of the work that consultants performed, officials

could not respond to audit findings and instead referred findings to the consultants. In addition, consultants did not transfer skills to capacitate officials in the finance units. In response to our recommendations, the premier and the members of the executive council for the provincial treasury and for cooperative governance committed to ensure that municipalities design controls to manage the transfer of skills by consultants.

There is a dire need to intensify efforts towards strengthening internal controls around financial and performance reporting processes. Leadership must set the tone for a sound system of financial management to ensure sustainable improvement in the quality of the financial information available for decision-making and submitted for auditing. Senior management did not provide the required assurance over basic financial disciplines and accounting officers failed to take action against poor performance. **The municipal leadership needs to take strong actions against those who undermine the efforts to create a robust internal control environment.**

Complying with laws and regulations remained a challenge. We raised recurring non-compliance findings on material misstatements in the financial statements, weaknesses in procurement management as well as unauthorised, irregular and fruitless and wasteful expenditure. The administrative leadership and senior management were slow to implement corrective actions to address the root

causes of these findings. Irregular expenditure continued to rise, with R2,3 billion incurred in the current year. A significant portion was as a result of non-compliance with supply chain management prescripts. The province had a balance of R8,1 billion in irregular expenditure that had not been dealt with.

A lack of consequences was an enabler of unwanted expenditure, and casts doubt on the ability of municipal public accounts committees and municipal councils to conduct timely investigations to ensure that the responsible officials are held accountable. It is alarming that we reported non-compliance with legislation on effecting consequences at most municipalities. We call upon the provincial leadership to ensure that those responsible are held accountable; if they fail to do so, it will ultimately adversely affect service delivery.

Unauthorised expenditure slightly decreased, with R2,1 billion incurred in the current year. The overspending was as a result of poor budget management as municipalities failed to appropriately budget for their cash and non-cash items. There is a need for municipalities to properly manage their budget and control their expenditure. The provincial treasury can play its part by providing guidance when budgets are either initially prepared or adjusted.

The status of financial health continued to deteriorate, with three municipalities reported to be in a vulnerable financial position and three municipalities recording a deficit due to their expenditure exceeding their total revenue. Municipalities continued to struggle with debt collection, with 73% of the debt balance in the province provided for as irrecoverable. **Poor debt collection coupled with the financial impact of covid-19 caused financial challenges for municipalities**, which resulted in suppliers being paid later than the prescribed 30 days and an increase in the average creditor-payment period.

The late payment of suppliers puts pressure on their finances and sustainability, especially small and medium suppliers, which then has an adverse effect on the economy of the province. This trend needs to be curbed as it results in **money earmarked**

for service delivery being used to pay interest on overdue accounts, resulting in fruitless and wasteful expenditure. Payments of R170 million were made as a result of interest and penalties charged by suppliers. This clear wastage of resources is alarming considering the service delivery shortages due to budget constraints in the province.

We followed up on a material irregularity identified in the 2018-19 financial year at Mogalakwena involving a payment of R13 million. This payment was made for work not performed, as effective internal controls were not in place for the approval and processing of payments. Once the irregularity had been communicated, the accounting officer acted swiftly by instituting an investigation into the matter, which resulted in the suspension of two officials. Disciplinary processes are underway. We will follow up on this material irregularity in the 2020-21 audit cycle.

The premier tasked the members of the executive council for the provincial treasury and for cooperative governance to investigate and find solutions to curb the rising trend in irregular expenditure. In addition, the provincial treasury was tasked to identify the root causes of the excessive reliance on consultants in the province, specifically focusing on those municipalities who, despite using consultants year on year, show no improvement in their audit outcomes. The progress of these initiatives will be followed up in the next financial year.

To improve the financial health of municipalities in the province, the political and administrative leadership (including the oversight structures) must intervene to ensure the implementation of proper debt-collection strategies. In addition, there must be appropriate terms of reference to provide for the transfer of skills to municipal personnel when consultants are appointed. To ensure the successful transfer of skills, appropriately qualified officials must be appointed in key financial management positions. Furthermore, to curb the increase in transgressions of laws and regulations, **leadership must set the correct tone at the top and act in a consistent and deliberate manner** against those officials who intentionally fail to comply with legislation.

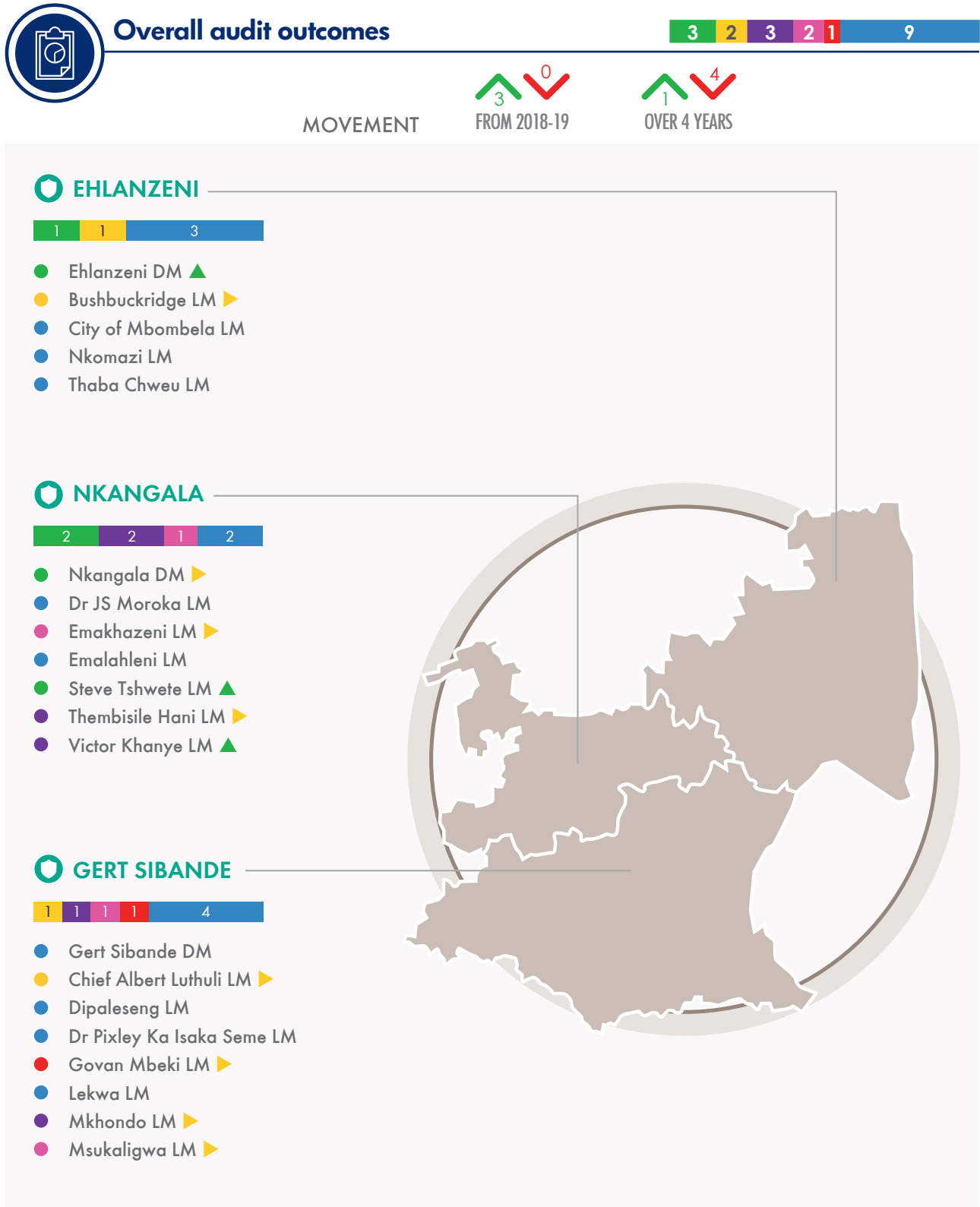


Active leadership supervision will lead to sustainable key control environment

6.6 MPUMALANGA

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 11 municipalities in the province. With the exception of unauthorised, irregular and fruitless and wasteful expenditure, the outcomes of the outstanding audits are not included in the snapshot.



★ Metropolitan municipality
 📍 District
 DM District municipality
 LM Local municipality
 ▲ Improved
 ▶ Unchanged
 ▼ Regressed

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



Financially unqualified financial statements

45% (5)

2018-19:
45% (5)

Financial statements submitted without material misstatements

27% (3)



No material findings on performance report

36% (4)

2018-19:
36% (4)

Reported achievement reliable

50% (5)



No material findings on compliance with legislation

27% (3)

2018-19:
9% (1)

No findings on compliance with supply chain management legislation

0% (0)



Material irregularities (MIs)

Notified by 11 June 2021

7 MIs with estimated financial loss of
R255,23 m at **4 municipalities**

and likely substantial harm to public sector institution

at **3 municipalities** with repeat disclaimers

NATURE

Interest and penalties

Full and proper records not kept (repeat disclaimer)



Unauthorised & fruitless and wasteful expenditure

Unauthorised expenditure **R2 190,3 m**

Fruitless and wasteful expenditure **R885,03 m**



Irregular expenditure

R1 556,19 m

2018-19: R1 594,15 m

Closing balance

R6 677,09 m

2018-19: R6 569,46m

TOP THREE CONTRIBUTORS

Bushbuckridge	R411,91 m
Govan Mbeki	R222,05 m
Emakhazeni	R104,84 m



Use of financial reporting consultants

R63,73 m – 9 municipalities

2018-19: R67,14 m – 9 MUNICIPALITIES

Recurring use of consultants at 67%
of municipalities

TOP THREE SERVICES

Tax services	R25,42 m
Financial statements review/preparation	R21,43 m
Asset management	R14,18 m



Financial health indicators

Going concern uncertainty	18% (2)
Deficit	R318,05 (5)
Average creditor-payment period	279 days
Eskom and water boards' debt in arrears	R3 042,5 m (6)
Creditors > cash available at year-end	63% (5)
Average municipal debt not recoverable	62% (7)
Average debt-recovery period	253 days

PROVINCIAL OVERVIEW

Each province has a unique story...



The state of internal controls, coupled with lack of consequences for transgressions and weakened oversight, is at the centre of the deteriorating accountability in our local government

Over the past four years, the control environment continued to collapse at most of the municipalities in the province due to the ineffectiveness of the various assurance providers. Senior management, including most accounting officers, did not fulfil their responsibility to develop and effectively implement the basic controls that form the foundation of a sound control environment. In response to the recommendations we made in the previous year, provincial leadership committed to establish a practical intervention strategy to strengthen the local government control environment. This included capacitating and skilling the administration and oversight committees of councils and implementing consequences. However, since these commitments had not been effectively implemented by the end of the 2019-20 financial year, the status of the internal control environments worsened.

As detailed in the rest of this section, we have categorised the challenges facing the Mpumalanga local government into four key areas that need urgent attention in order to improve accountability and, consequently, service delivery. These four key areas are:

- ineffectiveness of preventative controls
- deteriorating financial health
- ineffective infrastructure project management and monitoring
- non-adherence to laws and regulations as well as lack of consequences.

The root cause of the outcomes is that **most municipalities have failed to develop or implement effective preventative internal controls** that would have detected or prevented misstatements in the financial and performance information, non-compliance and significant losses. There was a lack of the skills required to accurately apply the relevant accounting standards. There was also no commitment to daily and monthly controls such as document management, proper independent review of work performed, reconciliations, asset verifications, and periodic reporting.

The municipalities seem to have accepted the gaps in the control environment and, rather than addressing them, procured the services of consultants to assist with the responsibilities of the chief financial officers and finance personnel. Despite all chief financial officer positions having been filled, and finance unit salary costs amounting to R251,9 million, municipalities still spent R63,7 million on procuring the skills for financial reporting. After we had completed seven more audits after the cut-off date of this report, the total finance unit salary cost increased to R667,7 million and the total cost for consultants to R112,5 million. However, due to the weak controls around record and document management, as well as a lack of commitment from management, consultants did not bring any sustainable improvement to the outcomes.

Emakhazeni continued to rely on consultants, and paid R2,8 million to have them do bank reconciliations, assist with managing the asset register and prepare financial statements, despite having individuals employed in the finance unit to do so. Management did not perform adequate reconciliations during the year, which resulted in unexplained differences between the financial statements and the municipality's accounting records. The accounting officer also tasked consultants with preparing value-added tax returns. The consultants proposed that management use journals to correct errors; however, since management did not process the journals, the external audit process picked up the same material errors.

The provincial treasury continued to provide support with budget, revenue and debt management, as well as by implementing financial recovery plans at financially distressed municipalities and training bid committees, disciplinary boards and municipal public accounts committees. They were also available during the audit process to provide technical guidance to municipalities. The provincial cooperative governance department continued to offer support in building capacity, aligning the service delivery and budget implementation plan with the integrated development plan, implementing back-to-basics initiatives, addressing community concerns, and maintaining functional committees. Unfortunately, this support did not yield its intended benefits, mainly because of the systemic challenges around internal control environments and the instability at some municipalities.

The financial health of most municipalities in the province continued to deteriorate despite our consistent message in prior years calling on the executive authority and provincial leadership to attend to the financial crisis. Consequently, some municipalities did not achieve their service delivery indicators and targets, which negatively affected citizens' quality of life. The province has also seen a new trend, observed at two municipalities (five if we include audits finalised after the cut-off date for this report), where the respective councils approved unfunded budgets for the financial year under review. At the time of budget approval, the municipalities expected their budgeted expenditure of R1,6 billion to exceed their projected revenue of R1,4 billion. These amounts increase to R9,3 billion and R7,9 billion, respectively, when we include the audits signed off after the cut-

off date. This was already an indicator that the projected financial resources were not adequate to achieve the planned priorities. This resulted in operating losses of R142 million (R691,8 million if we include audits that were subsequently signed off), the under-achievement of some service delivery targets, and unauthorised expenditure of R372,1 million (R1,1 billion if we include audits that were subsequently signed off).

Adding to the unfunded budget crisis is municipalities' inability to accurately bill for the sale of basic services. During the 2019-20 financial year, the 11 municipalities covered in this report billed a total of R4,7 billion from the sale of basic services and property rates. This amount increases to R9,9 billion if we include the seven audits that were signed off after the cut-off date. The challenges around the billing system undermined the credibility of these amounts, resulting in eight municipalities being qualified on the inadequacy of controls around the billing function. As an example, Emakhazeni struggled with revenue billing – the municipality issued negative billings to customers, billed developed properties as vacant, did not bill some properties according to their classification in the valuation roll, and billed some properties that we could not trace to the valuation roll. The municipality also did not bill service charges (water, electricity and refuse) for some accounts and for some months, and did not charge interest on late accounts for six months in the financial year under review. All of this took away from potential revenue that would have contributed to funding the budget.

Municipalities also faced significant challenges with debt collection, as only R1,5 billion of the R7,3 billion balance of receivables from the sale of basic services and property rates was recoverable at the end of the 2019-20 financial year. If we consider the seven audits that were signed off after the cut-off date, the picture gets even worse, with only R4,6 billion of the total balance of such receivables of R14,8 billion being considered recoverable. Poor debt collection led to municipalities having limited cash flow to pay for their operations. Thus, municipalities took an average of 279 days to pay their suppliers, attracting interest of R327,3 million, mostly on Eskom accounts. This amount, which increases to R837,9 million when we include the seven audits that were signed off after the cut-off date, resulted in fruitless and wasteful expenditure. Consequently, we issued

seven material irregularity notifications to the accounting officers at four municipalities relating to interest incurred due to not paying suppliers within 30 days or the agreed time frames.

Leakages due to unmaintained and deteriorating infrastructure, unmetered consumption and illegal connections crippled an already strained financial system. This resulted in municipalities suffering significant water and electricity losses.

As at 30 June 2020, the municipalities on which we report had creditors amounting to R6 billion and cash of only R1,3 billion. These figures increase to R15,1 billion and R1,8 billion, respectively, if we take into account the seven audits signed off after the cut-off date. The available cash at year-end could not settle the current municipal debt, which means that the next year's budget will have to finance the existing debt, jeopardising the municipalities' ability to realise the next year's priorities.

Limited progress has been made at the municipalities that the province put under its mandatory intervention three years ago, in terms of section 139(1)(a) of the Municipal Finance Management Act. The provincial cooperative governance department and the provincial treasury assisted the municipalities with developing and implementing financial recovery plans. However, this did not bring about any improvements, mainly due to weaknesses in the billing system and a lack of commitment by municipal leadership and management to respond appropriately to the weaknesses.

The management and monitoring of infrastructure projects was ineffective. A total of R1,5 billion in conditional grants (R2,8 billion if we include the seven subsequently completed audits) for infrastructure development was allocated to municipalities. However, accounting officers did not effectively monitor the related spending and performance of contractors in order to derive the intended efficiencies and quality. This indicated that the project management units did not function as expected. At Emakhazeni, we identified deficiencies in the project for the phased closure and rehabilitation of the existing waste disposal site and the commissioning of a waste disposal site at Belfast, valued at R16,5 million. After conducting a site visit, we noted project deficiencies such as overclaiming certain items on the payment certificate, items claimed in excess of the bills of quantities, quantities paid but not found on site, and overpayments for fencing materials and installation.

The deficiencies translated into fruitless and wasteful expenditure of R4,7 million. Although the contractor had completed the project at year-end, the landfill site had not yet been decommissioned and quality defects had not been corrected, leading to waste being dumped illegally. The municipality will incur additional costs to remove the illegally dumped waste from the site, which could have been avoided had the implementation of the infrastructure project been adequately monitored.

Due to **non-adherence to laws and regulations as well as a lack of consequences**, the province continued to struggle with preventing unauthorised, irregular and fruitless and wasteful expenditure. Municipalities procured some goods and services without adhering to relevant supply chain management legislation, which contributed to the irregular expenditure balance. The province has yet to deal with a high balance of R3,5 billion in irregular expenditure, of which R874,9 million related to the current year. This balance increases to R5,4 billion (of which R1,3 billion relates to the current year) if we take into account the seven audits subsequently finalised.

Most municipalities do not have controls to enable adherence to the relevant legislation, let alone to detect any non-adherence. The covid-19 pandemic also put a spotlight on the weak controls around procurement processes. This was evident at four municipalities (eight if we take into account those audits subsequently completed) that were not able to accurately account for their irregular expenditure amounts and that had irregular expenditure as one of the modification paragraphs in their audit reports as a result. While we continued to report on the non-adherence that gave rise to undesirable expenditure, some councils did not investigate the unauthorised, irregular and fruitless and wasteful expenditure reported in prior years. In most instances where councils had investigated such expenditure, they had concluded that no one was liable. While we acknowledge the effort that the councils are starting to put in to address the unauthorised, irregular and fruitless and wasteful expenditure balances, we remain concerned that the process might be superficial, as most of these investigations are not resulting in any consequences being implemented.

Because of the internal control weaknesses highlighted above, only three municipalities improved their audit outcomes for the 2019-20 financial year. Even after taking into account the audits that we signed off after the cut-off date, this

number increases to only four. The improvement speaks to the four municipal managers and their teams, who committed to strengthening the internal controls within their municipalities. Two of these municipalities (Ehlanzeni District and Steve Tshwete) reclaimed their clean status. They generally had strong controls but battled with compliance matters, which they managed to address during the year under review. For that reason, and due to the increased number of disclaimed and adverse audit opinions over the past four years, we acknowledge the overall improvement with reservations.

All of these challenges indicate that a culture of 'doing things right' is not embedded at most of the municipalities. Despite the improvement we have seen this year at some of the municipalities,

most of the financial and performance reports submitted for auditing were of a poor quality. The financial health of the province's local government continues to worsen. The provincial treasury and provincial cooperative governance department, working with the municipal managers, need to perform a proper analysis to identify the systemic challenges that municipalities face, and then develop a practical intervention strategy that will address the gaps and ensure sustained improvement.

Our message, which is similar to the one we have delivered in prior years, is a call for provincial leadership to take urgent action to restore the failed accountability, as only this will bring about the desired change.

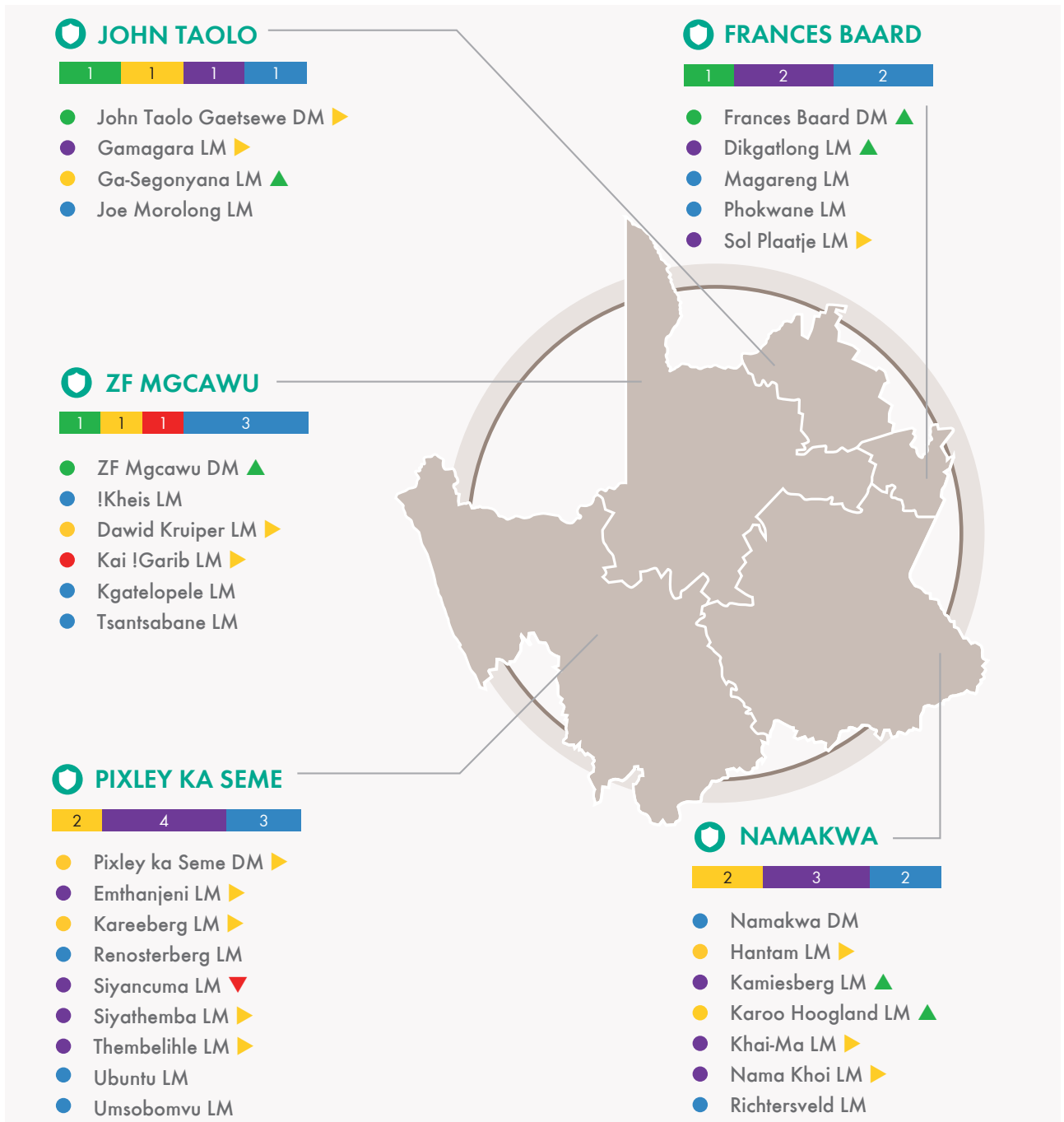
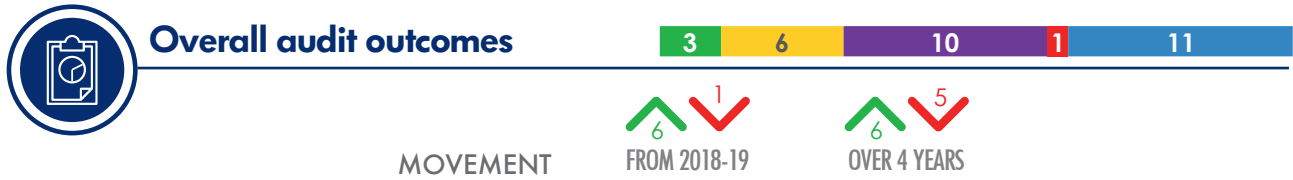


A need for leadership to act on accountability to bring about the desired change

6.7 NORTHERN CAPE

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 20 municipalities in the province. With the exception of unauthorised, irregular and fruitless and wasteful expenditure, the outcomes of the outstanding audits are not included in the snapshot.



	Financially unqualified financial statements	45% (9)	2018-19: 40% (8)
	Financial statements submitted without material misstatements	15% (3)	

	No material findings on performance report	47% (8)	2018-19: 29% (5)
	Reported achievement reliable	62% (8)	

	No material findings on compliance with legislation	15% (3)	2018-19: 5% (1)
	Findings on compliance with supply chain management legislation at 100% of municipalities where audits had been completed		

	Material irregularities (MIs)	Notified by 11 June 2021							
	3 MIs with estimated financial loss of R12,1m at 3 municipalities and likely substantial harm to public sector institution at 2 municipalities with repeat disclaimers	<table border="1"> <thead> <tr> <th colspan="2">NATURE</th> </tr> </thead> <tbody> <tr> <td>Eskom not paid on time, resulting in interest</td> <td>3</td> </tr> <tr> <td>Substantial harm to public sector institution (based on repeat disclaimer)</td> <td>2</td> </tr> </tbody> </table>		NATURE		Eskom not paid on time, resulting in interest	3	Substantial harm to public sector institution (based on repeat disclaimer)	2
NATURE									
Eskom not paid on time, resulting in interest	3								
Substantial harm to public sector institution (based on repeat disclaimer)	2								

	Unauthorised & fruitless and wasteful expenditure		
	Unauthorised expenditure	R836,3 m	Fruitless and wasteful expenditure R184,39 m

	Irregular expenditure										
	R810,71 m										
	2018-19: R771,38 m										
	Closing balance										
	R1 926,9 m										
	2018-19: R2 414,11 m										
		<table border="1"> <thead> <tr> <th colspan="2">TOP THREE CONTRIBUTORS</th> </tr> </thead> <tbody> <tr> <td>Sol Plaatje</td> <td>R258,03 m</td> </tr> <tr> <td>Gamagara</td> <td>R135,69 m</td> </tr> <tr> <td>Hantam</td> <td>R59,87 m</td> </tr> </tbody> </table>		TOP THREE CONTRIBUTORS		Sol Plaatje	R258,03 m	Gamagara	R135,69 m	Hantam	R59,87 m
TOP THREE CONTRIBUTORS											
Sol Plaatje	R258,03 m										
Gamagara	R135,69 m										
Hantam	R59,87 m										

	Use of financial reporting consultants										
	R99,04 m – 17 municipalities										
	2018-19: R37,34 m – 17 MUNICIPALITIES										
	Recurring use of consultants at 100% of municipalities										
		<table border="1"> <thead> <tr> <th colspan="2">TOP THREE SERVICES</th> </tr> </thead> <tbody> <tr> <td>Financial statements review/preparation</td> <td>R41,8 m</td> </tr> <tr> <td>Asset management</td> <td>R21,3 m</td> </tr> <tr> <td>Other financial reporting services</td> <td>R16,9 m</td> </tr> </tbody> </table>		TOP THREE SERVICES		Financial statements review/preparation	R41,8 m	Asset management	R21,3 m	Other financial reporting services	R16,9 m
TOP THREE SERVICES											
Financial statements review/preparation	R41,8 m										
Asset management	R21,3 m										
Other financial reporting services	R16,9 m										

	Financial health indicators	
	Going concern uncertainty	55% (11)
	Deficit	R116,87 m (6)
	Average creditor-payment period	350 days
	Eskom and water boards' debt in arrears	R1 210,69 m (11)
	Creditors > cash available at year-end	74% (14)
	Average municipal debt not recoverable	58% (18)
	Average debt-recovery period	228 days

PROVINCIAL OVERVIEW

Each province has a unique story...



The benefits derived from implementing preventative controls are evident, but there is still a lot to be done to address undesirable audit outcomes

In our previous year's message, we emphasised that the province was in a prolonged state of undesirable audit outcomes, with six regressions and three improvements reported for that year. We urged political and administrative leadership to focus on putting appropriate preventative control measures in place, respond to the lack of capacity in critical positions, improve on the assurance provided by internal audit units and audit committees, and ensure strong accountability to ensure better audit outcomes.

It is encouraging that some of these recommendations were responded to and that this contributed to the overall improvement in audit outcomes for the province. Another contributing factor to the improvement was the revival of the operation clean audit committee driven by the premier. The tone from the premier in improving audit outcomes has played a key role in ensuring that municipal leadership and staff take the audit process seriously. This was evident in the definite improvement in the responses from management and leadership during the audit process.

We further noted that our recommendations on strengthening internal controls and effecting consequences were implemented by some accounting officers and those providing oversight of the respective municipalities. **Where municipalities implemented consequences and are holding their officials accountable, audit outcomes improved and a clean audit status was maintained.** However, the

province still has a long way to go in implementing strong accountability at the rest of the municipalities.

Although the audit outcomes improved in the current year, the poor state of internal controls at many municipalities raises questions about the sustainability of the improvements. Sustaining improved audit outcomes is only possible if they are based on a strong internal control environment characterised by regular monitoring and review as well as leadership holding staff accountable for their actions. The state of internal controls relating to the areas of leadership as well as financial and performance management further indicate that the province will struggle to maintain the current audit status, thus limiting the opportunity for further improvement if this fundamental matter is not attended to. We therefore urge oversight, both at municipal and provincial level, to continue ensuring that accounting officers strengthen preventative controls. The prevention and detection of irregular expenditure continues to be a key aspect that accounting officers should pay particular attention to.

Furthermore, **we remain extremely concerned about the status of compliance with legislation.** Almost all municipalities were plagued by findings on non-compliance and we are particularly worried about the fact that 85% of municipalities had findings on the quality of financial statements submitted for auditing. This confirms that municipalities are still relying on the audit process to identify material

misstatements that need to be corrected. Six municipalities achieved unqualified opinions only because they corrected all misstatements identified during the audit. Additionally, we raised findings on supply chain management in all our audits. This is concerning as experience has shown that clean audits can regress when recurring compliance findings become material.

The financial health of municipalities in the province remained in a dire state, with more than half being in a vulnerable financial position. More than half are also operating with an unfunded budget, meaning that they commit more than they can generate in revenue and, as a result, fail to pay their creditors. The impact of this is clear from the large arrear amounts pertaining to Eskom and the water boards, which then resulted in significant interest charges. The adoption of unfunded budgets not only poses an imminent threat to the sustainability of municipalities, but also affects their ability to deliver services.

We would like to congratulate the **three municipalities** (Frances Baard, John Taolo Gaetsewe and ZF Mgcawu) that **obtained clean audits**. They took our previous year's message on the importance of preventative controls to heart and put appropriate actions in place to prevent material audit findings. While obtaining a clean audit remains a significant achievement for any auditee, we want to clarify the relationship between clean audits and service delivery.

A clean audit is merely a building block towards good service delivery and should not be seen as a measure of how well services are being delivered. An accurate and complete annual performance report may be a good source of information pertaining to the real state of service delivery at a municipality. In this regard, we noted that more than half of the municipalities in the province had material findings on their performance reports, casting doubt on the usefulness and reliability of these reports.

The rise in the cost of using consultants to, for example, prepare financial statements and update asset registers is concerning. Our concern is not the use of consultants itself, but rather that the province is not receiving a return on investment, as most municipalities (82%) that used consultants had material misstatements in the area of the consultants'

responsibility. In addition, 10 of the 17 municipalities (59%) that used consultants still had either a disclaimed or a qualified opinion. All 17 municipalities indicated the reason for using consultants as a lack of skills. Both provincial and municipal oversight thus need to take cognisance of the critical need to employ skilled individuals at municipalities across the province.

We continued to support local government through our status-of-records reviews at selected municipalities and engagements with stakeholders at various levels, and by identifying findings and providing recommendations to assist in responding to the findings. We also continued to implement our extended powers following the amendment of the Public Audit Act and implemented these amendments at six municipalities.

The material irregularity raised at Ga-Segonyana in the previous year, was closed in the current year after the municipality provided additional information. In the current year, we raised five material irregularities and notified the relevant accounting officers of them. The irregularities related to interest payments to suppliers, resulting in fruitless and wasteful expenditure; as well as to causing substantial harm to a public sector institution, based on receiving a repeat disclaimed opinion. In addition, we are currently assessing four potential material irregularities. One of these also relates to interest payments to suppliers resulting in fruitless and wasteful expenditure; one to losses due to the non-billing of customers; one to the disposal of municipal property without following the appropriate process; and one to possible losses due to fraudulent payments. We **encourage the accounting officers** at the relevant municipalities to take the necessary action on the material irregularities raised and **to do everything in their power to build an environment that is free from material irregularities**.

In conclusion, we again recognise the benefits to be derived from implementing preventative controls, but acknowledge that there is still a lot to be done to address undesirable audit outcomes. Best practices at municipalities that achieved clean audits should be replicated throughout the province, while the efforts of the operation clean audit committee should be continued and further enhanced.

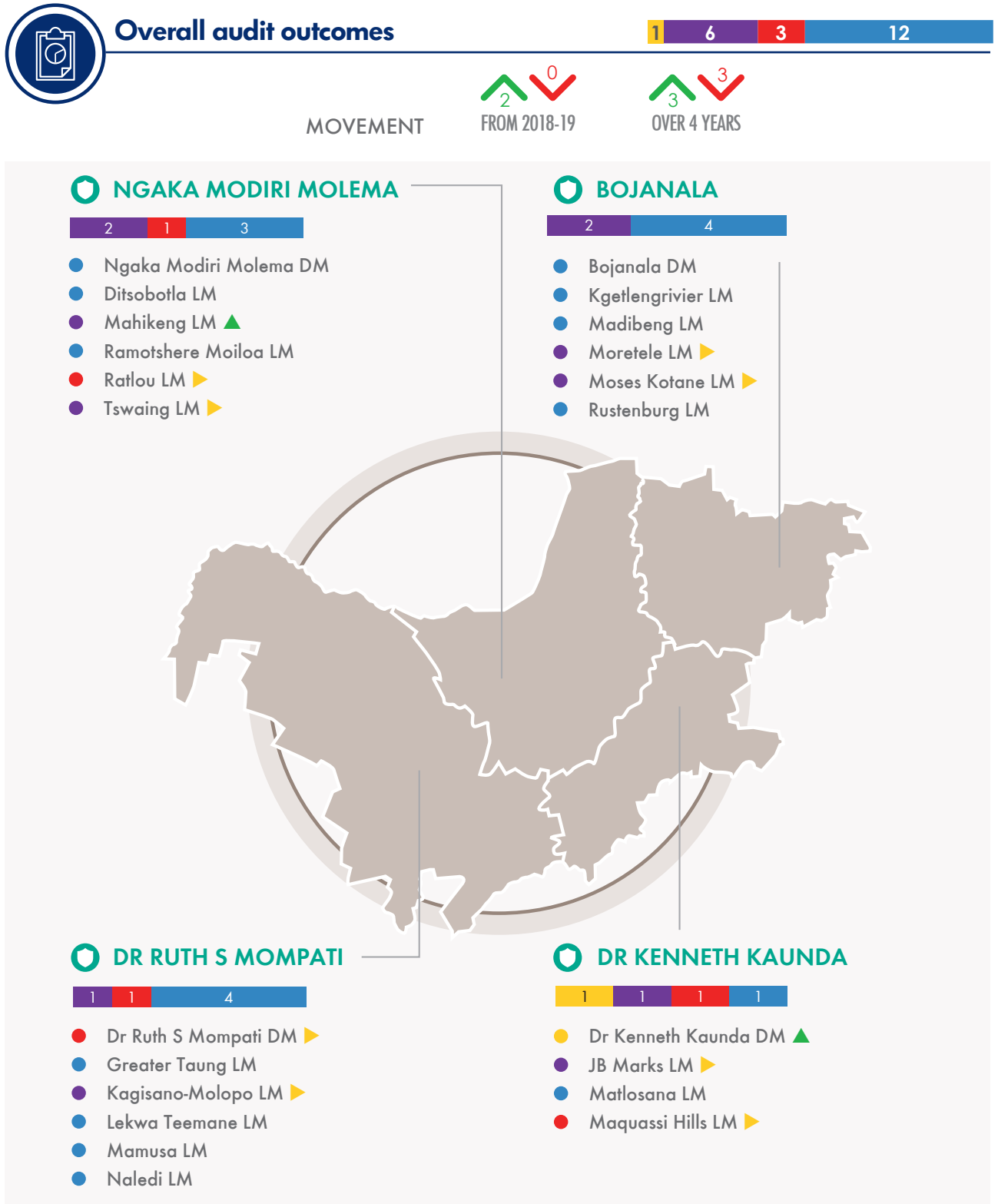


Sustainable change starts with the leadership will to drive it

6.8 NORTH WEST

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 10 of the 22 municipalities in the province. With the exception of unauthorised, irregular and fruitless and wasteful expenditure, the outcomes of the outstanding audits are not included in the snapshot.



★ Metropolitan municipality
 🏘️ District
 DM District municipality
 LM Local municipality
 ▲ Improved
 ▶ Unchanged
 ▼ Regressed

🟢 Unqualified with no findings
 🟡 Unqualified with findings
 🟣 Qualified with findings
 🟠 Adverse with findings
 🔴 Disclaimed with findings
 🔵 Outstanding audits



Financially unqualified financial statements

10% (1)

2018-19:
0% (0)

Financial statements submitted without material misstatements

0% (0)



No material findings on performance report

10% (1)

2018-19:
0% (0)

Reported achievement reliable

10% (1)



No material findings on compliance with legislation

0% (0)

2018-19:
0% (0)

No findings on compliance with supply chain management legislation

0% (0)



Material irregularities (MIs)

Notified by 11 June 2021

17 MIs with estimated financial loss of **R451 m** at **7 municipalities** and likely substantial harm to public sector institution at **8 municipalities** with repeat disclaimers

NATURE

Investments and assets	R308 m (6)
Interest and penalties	R94 m (6)
Revenue management	R33 m (1)
Procurement and payments	R16 m (4)



Unauthorised & fruitless and wasteful expenditure

Unauthorised expenditure **R2 603 m**

Fruitless and wasteful expenditure **R422 m**



Irregular expenditure

R4 171 m

2018-19: R5 421 m

Closing balance

R25 510 m

2018-19: R21 596 m

TOP THREE CONTRIBUTORS

Moses Kotane	R624 m
Dr Ruth S Mompati District	R366 m
JB Marks	R345 m



Use of financial reporting consultants

R123 m – 10 municipalities

2018-19: R93 m – 10 MUNICIPALITIES

Recurring use of consultants at 80% of municipalities

TOP THREE SERVICES

Asset management	R39 m
Financial statements preparation	R37 m
Tax services	R24 m



Financial health indicators

Going concern uncertainty	50% (5)
Deficit	R127 m (3)
Average creditor-payment period	308 days
Eskom and water boards' debt in arrears	R1 025 m (6)
Creditors > cash available at year-end	86% (6)
Average municipal debt not recoverable	79%
Average debt-recovery period	205 days

PROVINCIAL OVERVIEW

Each province has a unique story...



Total neglect of internal control disciplines, resulting in financial and operational collapse, weakened governance and lack of accountability

In our previous report, we shared our insights with the political and administrative leadership of municipalities. We attempted to simplify the root causes and drivers underpinning the poor audit outcomes to enable the provincial leadership to address and improve accountability and the audit outcomes. We also emphasised the systemic breakdown in the disciplines of financial controls, which required urgent attention. Our call to action was that leadership should pay attention to the lack of discipline to submit quality financial statements by the legislated deadline. We urged them to attend to the persistent use of consultants for financial reporting without any improvement in the quality of the financial statements. We elevated our concerns around the ineffective governance structures, including the lack of political will and support for provincial interventions. We concluded our call to action by emphasising that there was a dire need to prevent non-compliance with supply chain management prescripts. This included attending to financially distressed districts, as their role affects service delivery and the maintenance of operations. The leadership was unresponsive, which led to poor audit outcomes over a period of four years that are underpinned by similar root causes. These audit outcomes reflect a total neglect of internal control disciplines, and have resulted in a financial and operational collapse, weakened governance and a lack of accountability.

The non-responsiveness is evident in the regression of audit outcomes and submission of financial

statements over the four-year period. We completed the 2019-20 audits of only 10 of the 22 municipalities by the cut-off date for inclusion in this report. This was primarily due to the late submission of financial statements, with only 55% of municipalities submitting their financials on time, which is the same percentage as in 2018-19. This is in sharp contrast to 2016-17 when all municipalities submitted financial statements by the legislated date. By 16 May 2021, we had finalised and signed off five additional audit reports; however, the outcomes of all five of those municipalities remained unchanged from the previous year, with four being disclaimed opinions and one a qualified opinion. This regression in audit outcomes and the rate of non-submission of financial statements show a deterioration in accountability and transparency. Therefore, **leadership's persistent lack of responsiveness and non-implementation of preventative controls require urgent attention.**

In the current-year, the money spent on consultants at 10 municipalities increased to R122,9 million from R93,2 million in the previous year, while the salary bill of the finance units amounted to R168 million. **The use of consultants was a futile exercise as it yielded no tangible value** due to the prevailing issues of proper governance structures not being instituted, poor control environments, persistent lack of proper record keeping, and a disregard for in-year control activities. This has resulted in municipalities continuing to rely on the audit process to identify and correct errors in the financial statements. The

accounting officers will have to examine the root causes of this wastage, which would ensure that consultants are used in conducive environments where financial control activities allow, and there is adequate support and transfer of skills. This will require key positions to be filled, as well as stability at senior management level.

The financial health of municipalities remains a concern, with 57% of municipalities being insolvent and unable to meet their financial obligations as they fall due. This is evident at the 60% of municipalities that implemented unfunded budgets due to financial challenges. Concerns remain regarding the inability to implement and manage credit control and debt collection, which resulted in an average of 79% of all billings being impaired. Consequently, critical suppliers such as Eskom and water boards (as well as us as external auditors) are not paid in a timely manner. In certain instances, municipalities are struggling to pay statutory deductions and benefits because of cash-flow challenges. Municipalities are dependent on the equitable share allocations, most of which go towards paying salaries, leaving these financially distressed municipalities with minimal funds for service delivery. The provincial treasury will have to assist the municipalities with revenue-enhancement strategies and budgetary control initiatives, where applicable.

The **lack of funds for service delivery** is most evident in the ever-increasing backlog in the maintenance required to keep infrastructure operational, which has led to these assets being in a dilapidated state at most municipalities. This **has caused significant water and electricity distribution losses at municipalities and had a detrimental impact on the environment.** A follow-up of the environmental impact study performed at 118 water and wastewater treatment plants, infrastructure and landfill sites in the province showed a distinct shift from fair or concerned assessments to operating systems and processes that are in a critical state or that have collapsed. Sites that are in a dire state or on the verge of collapse must be given urgent attention to ensure continued basic service delivery.

Unauthorised, irregular and fruitless and wasteful expenditure incurred by municipalities is gradually increasing each year. The unresolved balance of irregular expenditure now amounts to R25,5 billion due to the culture of non-compliance with procurement and contract prescripts. Most of the municipalities did not take appropriate

action to investigate, recover or write off irregular expenditure incurred during prior years. To redress this, the new political leadership must guard against political fluidity and infighting, and must adequately capacitate council committees to ensure robust and timely investigations and consequences against responsible individuals.

The amendments to the Public Audit Act were implemented at seven municipalities during 2019-20, in environments where there is already severe pressure on available resources and cash flow. **Municipalities cannot afford to make investments that cannot be withdrawn, to have assets vandalised or stolen, or to incur penalties and interest charges** on amounts owed to suppliers. Despite this, we notified accounting officers of 14 new material irregularities during the year, in addition to the three raised in the previous year. Most of the material irregularities related to VBS Mutual Bank investments, asset management losses as well as interest and penalties paid. The accounting officers were not very responsive to this process and, in some cases, did not respond to the notifications at all. Where commitments were made, as in the case of the three material irregularities at Ngaka Modiri Molema in the previous year, these were not implemented, which resulted in further losses because of the same matters recurring in the current year. The nature of the irregularities supports the key message on the deteriorating state of affairs in local government. The non-compliance that resulted in these material irregularities must be given attention and addressed across local government, as it is also prevalent at other municipalities in the province. In addition, the executive authorities and oversight structures should hold the accounting officers accountable to ensure that swift action is taken to resolve these material irregularities and prevent them from recurring.

In the previous report, we noted inconsistencies and a lack of clarity on the roles and responsibilities of the appointed administrators as one of the root causes of the section 139 interventions not bearing fruit. While the member of the executive council for cooperative governance has addressed the issue, the lack of acceptance of the interventions by political leadership resulted in these initiatives having little impact. In certain instances, there were no close-out reports for any of the interventions, and we have not seen a change in the state of the municipalities as a result of these interventions. For sustainable solutions, the councils should focus on making sure that there are competent accounting

officers in place at all municipalities and then hold them accountable to turn around the sorry state of financial and performance management, as is required of them in terms of the Municipal Finance Management Act. It is encouraging that the members of the executive council for finance and for cooperative governance have indicated that they will intensify their support to municipalities in terms of section 154(1) of the Constitution in an attempt to improve financial reporting and management challenges at municipalities, as section 139 has not achieved the desired impact.

We reiterate the need for the provincial and the incoming local government leadership to focus on implementing preventative controls, with governance structures insisting on in-year preparation and submission of accountability reports. New councils must set a leadership tone that is exemplary and must implement corrective action and consequences where required. To bring about accountability, leadership must be aligned and actively lead.

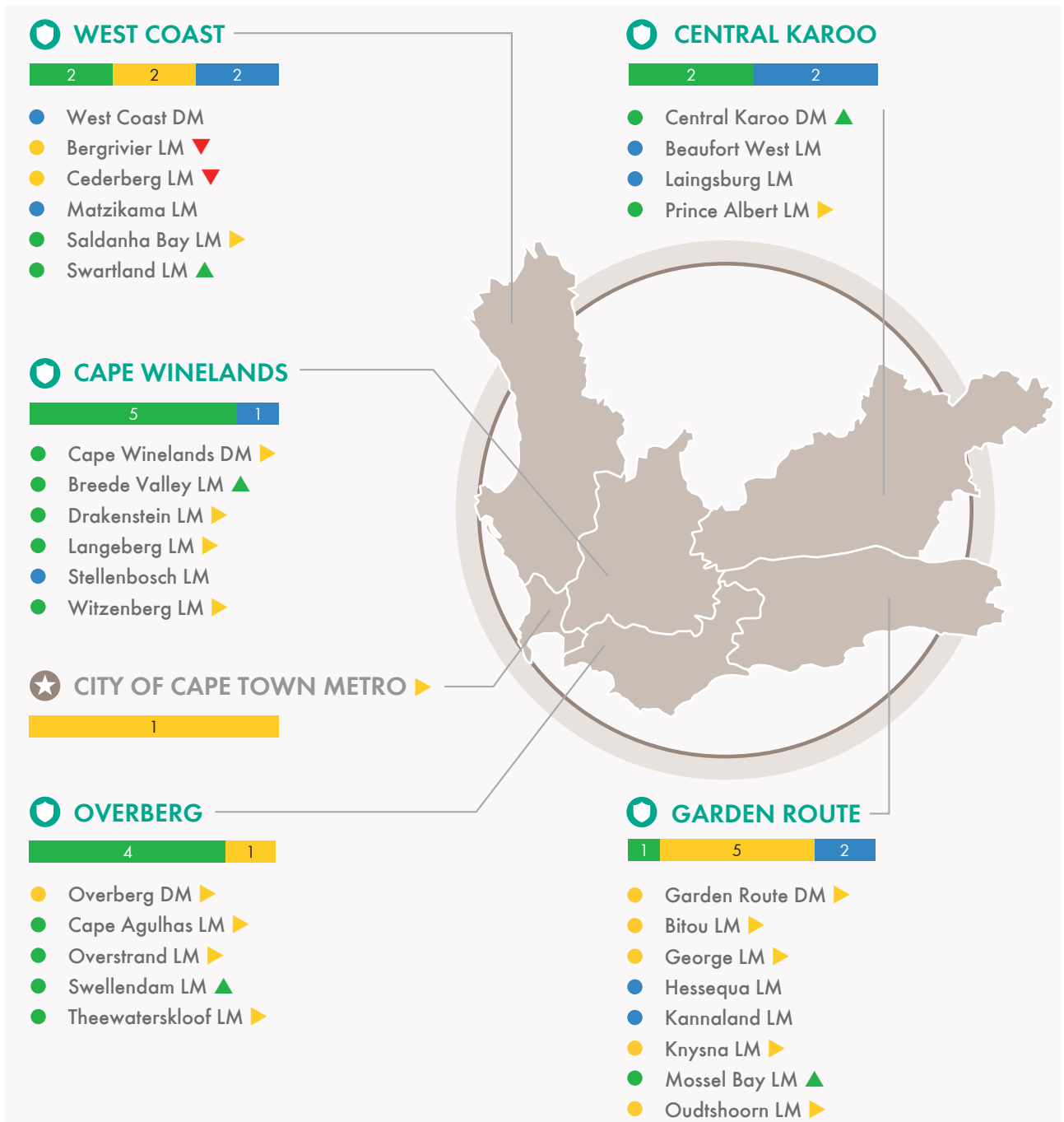


To bring about accountability, leadership must be aligned and actively lead

6.9 WESTERN CAPE

PERFORMANCE SNAPSHOT

The snapshot shows the audit outcomes of 23 municipalities in the province. With the exception of unauthorised, irregular and fruitless and wasteful expenditure, the outcomes of the outstanding audits are not included in the snapshot.





Financially unqualified financial statements

100% (23) 2018-19:
100% (23)

Financial statements submitted without material misstatements

96% (22)



No material findings on performance report

91% (21) 2018-19:
83% (19)

Reported achievement reliable

91% (21)



No material findings on compliance with legislation

65% (15) 2018-19:
48% (11)

No findings on compliance with supply chain management legislation

30% (7)



Material irregularities (MIs)

Notified by 24 May 2021

2 MIs with estimated financial loss
of **R9 m** at **1 municipality**

NATURE

Payments for services not received	1
Overpricing of goods and services procured	1



Unauthorised & fruitless and wasteful expenditure

Unauthorised expenditure **R195 m**

Fruitless and wasteful expenditure **R10 m**



Irregular expenditure

R1 407 m

2018-19: R2 692 m

Closing balance

R2 660 m

2018-19: R3 337 m

TOP THREE CONTRIBUTORS

City of Cape Town Metro	R669 m
Bitou	R119 m
Matzikama	R100 m



Use of financial reporting consultants

R30 m – 20 municipalities

2018-19: R29 m – 17 MUNICIPALITIES

Recurring use of consultants at 79%
of municipalities

TOP THREE SERVICES

Financial statements review/preparation	R22 m
Asset management	R3 m
Accounting services	R2 m



Financial health indicators

Going concern uncertainty	0% (0)
Deficit	R18 m (3)
Average creditor-payment period	59 days
Eskom and water boards' debt in arrears	R74 m (5)
Creditors > cash available at year-end	13% (3)
Average municipal debt not recoverable	51%
Average debt-recovery period	51 days

PROVINCIAL OVERVIEW

Each province has a unique story...



Good financial accounting controls but inadequate preventative controls on compliance

In our 2018-19 message, we highlighted three broad categories of municipalities within the province. They were (1) those where controls are institutionalised, (2) those that are reactive or susceptible to change, and (3) those with dysfunctional control environments with a weak leadership tone at the top. Recommendations were based on the category into which municipalities had been classified. All municipalities should ultimately strive to attain levels where control environments and robust risk-assessment processes are institutionalised – with clean audits as a by-product.

Despite difficult circumstances, nine municipalities were able to sustain their clean audit outcome while five improved to a clean audit status.

These municipalities heeded our request to self-assess, as embedded in the previous year's status-of-records reviews. Our recommendations to institutionalise preventative controls were also taken to heart and cultivated an environment of good governance and clean administration, which formed the foundation to drive service delivery.

In addition, clean audit outcomes were achieved where:

- internal control environments were continually strengthened, institutionalised, preventative in nature and reinforced by a strong tone set by leadership, resulting in fewer deficiencies reported
- the financial statements and performance report submitted for auditing were of a good

- quality and free from material misstatements implemented action plans were credible in that audit findings identified in one year were generally addressed in the following year.

The current provincial picture is, however, slightly distorted due to the seven outstanding audits.

A complete reflection will only emerge once these audits have been finalised. The main drivers contributing to the outstanding audits were the effects of covid-19, specifically the second wave, which caused delays in the audit process; and audit findings that were disputed and required further technical deliberations and consultation with the National Treasury.

From a financial health perspective, it is extremely positive that none of the municipalities reported on were in a financially vulnerable position. It is also encouraging that unauthorised expenditure decreased from R434 million in 2018-19 to R195 million in 2019-20. This decrease was underpinned by strong budgeting processes (particularly when budgeting for non-cash items) and effective expenditure control relative to budgets.

While none of the municipalities were in a financially vulnerable position, we have some concerns with regard to the financial sustainability of municipalities. On average, 51% of the revenue due to municipalities for services rendered was deemed to be irrecoverable. The non-collection of money for services rendered can have a negative impact on the longer term financial sustainability of

municipalities and their ability to settle obligations. It furthermore contributed to the overall increase in the number of municipalities with unfavourable financial health indicators over the last year.

The material irregularity process was expanded in the period under review to include a further six municipalities in addition to the City of Cape Town Metro. At the time of finalising the audit reports, no material irregularity notifications had been issued. Two material irregularity notices were issued to the City of Cape Town subsequent to the audit report being finalised. These irregularities related to one contract where payments were made for services not received as well as payments for goods and services that were in excess of the rates stipulated in the contract.

While there has been an improvement in the audit outcomes, only some of our recommendations from the previous year were implemented. **Work is still required on the implementation of sound preventative controls in the area of compliance with laws and regulations**, especially relating to procurement and contract management. Although irregular expenditure decreased from R2,6 billion in 2018-19 to R1,4 billion in 2019-20, we remain concerned about the findings raised on contract and supply chain management and the resultant irregular expenditure at the majority of municipalities, as past experience has shown that even clean municipalities are susceptible to regressions when recurring compliance findings become material.

Factors that contribute to the continued reporting of supply chain management findings include the following:

- Municipalities considering procurement legislation to be onerous with many requirements to be complied with and differences in the interpretation of prescripts in some instances.
- The attitude of management in that they believe compliance with all legislative prescripts stifles their ability to deliver services efficiently and effectively.
- Compliance controls failing due to human error or omission.

Although the quality of performance reports improved from 2018-19, it remains concerning that some municipalities again submitted performance

reports that contained material misstatements. Two of these municipalities were unable to correct the material misstatements during the audit process. These misstatements were due to corrective action not being implemented to address the control weaknesses identified, a lack of standard operating procedures, and inadequate reviews resulting in differences between the performance reported and the relevant supporting documentation.

Municipalities that were able to maintain their clean audit outcomes for two or more consecutive years are encouraged to continue focusing on the maintenance and improvement of their control environments, inclusive of robust risk assessments to maintain compliance with laws and regulations. Municipalities that were not able to attain this level should implement action plans to improve their control environments as well as design and implement controls that are preventative in nature.

Generally, accounting officers and mayors provided the required level of assurance by instilling an effective leadership culture and oversight. At senior management level there is room for improvement, as the majority of senior managers were rated as providing only some assurance as a result of non-material findings at clean auditees and material findings at other municipalities.

The area of supply chain management and the resultant irregular expenditure must be given increased attention by proactively addressing the issues identified, thereby reducing non-compliance and such unwanted expenditure.

The premier in conjunction with the coordinating provincial local government department and provincial treasury should continue with their oversight roles through the municipal governance review outlook processes and other initiatives aimed at achieving clean administration across the province. **Extra effort and intervention are required at Beaufort West, Kannaland and Laingsburg**, which had been previously categorised as municipalities with control environments that are dysfunctional as their audit outcomes remained the same or regressed.

We remain committed to support all institutions in the drive to embed preventative controls and good governance as a culture in the province.



Improvement but concerns remain
