



CONTENTS
PAGE



NEXT

CONSOLIDATED GENERAL REPORT ON
LOCAL GOVERNMENT AUDIT OUTCOMES
MFMA 2021-22



AUDITOR-GENERAL
SOUTH AFRICA



PREV



NEXT



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CONTENTS

Foreword from the auditor-general2

Executive summary4

SECTION 1 10

Introduction

SECTION 2 14

State of local government

Audit outcomes 14

Material irregularities 19

Financial planning and reporting..... 28

Information technology 36

Pressure on local government finances..... 39

Service delivery planning, reporting and achievement..... 48

Infrastructure for service delivery 62

SECTION 3 76

Continued spotlight on disclaimed municipalities

SECTION 4 88

Call to action

SECTION 5 98

Provinces

Overview 98

Eastern Cape 106

Free State 111

Gauteng 114

KwaZulu-Natal 117

Limpopo 121

Mpumalanga 124

Northern Cape 127

North West 130

Western Cape 133

SECTION 6 136

Audit fact sheet



PREV



NEXT



FOREWORD

FROM THE AUDITOR-GENERAL

Local government represents citizens across South Africa and carries the hopes and aspirations of communities to improve their lives and living conditions

Local government faces greater demands than ever before to regain the trust of South Africans and to provide essential services such as clean water, sanitation, electricity, waste management and well-maintained roads and infrastructure in a prompt and financially responsible manner.

However, for years local government has been characterised by deteriorating standards of living, service delivery failures, dysfunctional municipalities, council and administrative instability, financial mismanagement, service delivery protests and crumbling municipal infrastructure. Citizens continue to express their dissatisfaction and frustration through the media and other platforms, calling for urgent attention to address their plight.

My teams and I are determined to execute our constitutional mandate to instil a culture of performance, accountability, transparency and integrity in local government, which will ultimately result in a better life for the people of South Africa. We are using our enhanced powers to demand action where there is inaction and no accountability. We do this through our audits of municipalities and their entities, which give us unique insights into the successes, failures and challenges in local government, and into those that support them in national and provincial government. Armed with this information, we aim to contribute to the much-needed improvement in local government by sharing our insights widely, making recommendations, and advocating for leadership at all levels of government to play their part.

My previous general report was aimed at the new administration – the new mayors, speakers and council members elected to represent their communities. I called on them to provide courageous, ethical, accountable and citizen-centric leadership to overhaul a local government characterised by accountability and service delivery failures, poor governance, weak institutional capacity and instability.

The new administration was in place for only part of the 2021-22 financial year and there was inevitable instability in the transition, which worsened ongoing failures in accountability and performance at municipalities. However, there have been pockets of improvement and continued excellence at municipalities that maintained their clean audit status. There was also a strong showing of support to municipalities by provincial government, including the



PREV



NEXT



premier and the members of the executive councils responsible for local government and finance, which gives me hope for a better future. With the leaders in place and the tone being set for significant improvements and increased clean audits in local government, my call is for urgent action.

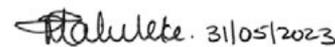
With the information and insights presented in this report, I aim to empower leaders and all roleplayers in the accountability ecosystem to focus on key issues that will enable good financial and performance management, compliance with legislation and, ultimately, enhanced service delivery by municipalities. My objective is to provide insights that can lead to corrective action and consequence management. My teams have also sharpened their focus on the very important aspect of planning for and reporting on service delivery and the actual service delivery experiences of ordinary South Africans.

This report further highlights the progress we have made in implementing the enhanced mandate granted to my office in terms of the Public Audit Act. We report on the material irregularities that we have identified as well as the progress made in enhancing and enforcing accountability and demanding action to address material failures.

I firmly believe that service delivery improvements will be enabled by stable, capable, cooperative, accountable and responsive municipalities delivering on their mandates to improve the lives of ordinary South Africans. Thus, the theme of this general report is '**A culture of accountability will improve service delivery**'.

I invite all South Africans to be active participants in improving local government and holding those responsible to account. All roleplayers in the accountability ecosystem must actively make local government their priority if improvement is to be realised.

Lastly, I wish to thank the audit teams from my office and the audit firms that assisted with the local government audits for their diligent efforts in helping us fulfil our constitutional mandate, and for the way they continue to strengthen cooperation with government leadership. I also wish to thank the leadership of all municipalities and provinces for working with us during the audit process.

 31/05/2023

Tsakani Maluleke
Auditor-General



PREV



NEXT



EXECUTIVE SUMMARY

A culture of accountability will improve service delivery

Our previous general report showed that the local government audit outcomes were in a poor state when the previous administration took over in 2016-17 and did not improve over its term. The administration was characterised by accountability and service delivery failures, poor governance, weak institutional capacity and instability. The behaviour and conduct of leaders and officials led to a local government culture that was largely devoid of performance, accountability, transparency and integrity.

The report provided insights on deteriorating financial health, ineffective financial reporting practices, procurement and payment transgressions, inefficient use of information technology systems, and a lack of consequences for wrongdoing. We also shared our observations on the status and impact of the material irregularity process. In addition, we showed how poor planning and reporting on basic services, failing municipal infrastructure and municipalities with disclaimed audit opinions negatively affected service delivery.

We reminded the newly elected political leaders about the renewed hope that communities had that they would address the pressing need for services, economic opportunities, and a safe and healthy living environment. Courageous, ethical, accountable, capable and citizen-centric leadership was needed. We called on all roleplayers in the accountability ecosystem (particularly the coordinating institutions made up of national and provincial cooperative governance departments and treasuries) to step in to support failing municipalities and focus specifically on improving service delivery, eradicating disclaimed audit opinions, effectively dealing with material irregularities, and stabilising and empowering the administration.

This general report builds on our previous messages with further insights on the first year of the new administration. The new administration was in power for only part of the 2021-22 financial year and instability resulting from the change in leadership was apparent – as had also been the case in the past when administrations changed. The new administration thus has had little impact on the audit outcomes and the state of local government. Overall, there has been little change, but in this report we highlight the pockets of improvement and the actions government has initiated to drive change as a message of hope for better outcomes and the resulting impact on the lived realities of all South Africans. We also continue to urge elected representatives to intensify their actions towards instilling a culture of performance, transparency and integrity and to be accountable to the communities they serve.



PREV



NEXT



Summary of key messages

- » **Audit outcomes** showed little improvement overall and the number of clean audits decreased. On the positive side, there were also fewer municipalities with disclaimed audit opinions. We saw the biggest improvements in KwaZulu-Natal and the Eastern Cape, and the highest net regressions in Gauteng and the Western Cape. While two metros improved their audit outcomes, this was offset by two other metros that regressed.
- » Municipalities with **clean audits** are characterised by sound financial and performance management disciplines and perform their functions in accordance with applicable legislation. They plan adequately, implement effectively and report on performance in a credible manner. They further manage projects effectively so that deficiencies are identified and rectified promptly and so that timelines, budgets and quality standards are adhered to. The well-functioning control environment and good systems present at these municipalities form a solid foundation from which councils can prioritise improving their performance and service delivery further. The municipalities that maintained their clean audit status continue to be an example of what is possible.
- » The **material irregularity process** is making an impact. Financial losses of an estimated R479,56 million have been recovered, are in the process of recovery or have been prevented because of this process. We used this enforcement tool to spur municipal managers into action to address the non-submission of financial statements, the pollution caused by neglected wastewater treatment plants, the non-payment of Eskom and water boards, the ineffective use of financial reporting consultants, the underlying causes and financial impact of disclaimed audit opinions, and to strengthen internal controls.
- » Most municipal managers are taking action to resolve material irregularities, but where the material irregularities were not dealt with swiftly or with the required seriousness, we included recommendations in audit reports, issued remedial action and referred matters to relevant public bodies for investigation, where appropriate. With the support of all roleplayers, including councils, this process could have an even greater impact.
- » We saw little improvement in the quality of **financial reporting**, continued overreliance on the audit process to identify and correct misstatements, and the ineffective use of consultants. Unfunded budgets and rising unauthorised expenditure clearly show the weaknesses in financial planning. However, we did note improvements where the treasuries and/or cooperative governance departments assisted struggling municipalities. Without investing in skills and capacity to ensure proper financial planning, controls and reporting, municipalities cannot deliver services and responsibly use and transparently account for taxpayers' money.
- » Municipalities should be using **information technology systems** to help them deliver efficient and effective services and to maintain accurate financial records. However, this is not what is happening, mainly because they are unable to design, implement and maintain key systems and controls. Ineffective information technology governance processes led to control environments that were vulnerable to abuse or misuse and to municipalities being



PREV



NEXT



exposed to cyberattacks. We did not see a return on investment for the substantial amounts that metros and large municipalities spent on new and advanced systems. Information technology projects were delayed, budgets were exceeded and projects did not always meet business expectations. Municipalities also paid for software licences they did not need or use, resulting in expenditure that could have been avoided.

- » The **financial health** of municipalities continued to deteriorate, partly because increased economic pressures meant that consumers were not paying their bills, but also because of poor financial management. Municipalities are losing money because they are not billing and collecting revenue, are using unfair and uncompetitive procurement practices, and are paying for goods and services that they either do not receive or do not use. Poorly managed local government finances directly affect municipalities' ability to deliver the promised services to their communities and place further pressure on the already constrained public purse.

Creditors are not paid within legislated timelines. Specifically, the debt owed to Eskom and water boards remains high and continues to increase due to interest and penalties incurred on late payments. If these debts are not paid, communities are left without access to basic services such as electricity and water. This also makes it difficult for businesses to operate optimally, which further affects the struggling economy. National and provincial government are increasing their interventions at financially distressed municipalities to help them deal with the challenges they are facing and get on the road to recovery.

- » Municipalities continue to neglect **municipal infrastructure** because of their reactive approach to planning and maintenance. They do not ensure that infrastructure projects (mostly funded by grants) are delivered on time, within budget and at the right quality; and they do not maintain existing infrastructure either.

However, municipalities with clean audits demonstrated sound project management disciplines through the effective use of grant funding and spent most of their infrastructure grants. Crumbling municipal infrastructure severely affects service delivery and causes harm to the public, who are exposed to safety and environmental hazards. Municipal infrastructure was severely damaged during the floods in April and May 2022 and the effects of the flooding were worsened by the lack of well-maintained infrastructure such as stormwater drainage. The challenges relating to infrastructure call for greater intergovernmental coordination.

- » When a municipality receives a **disclaimed audit opinion** (the worst audit opinion possible), this does not only mean it does not have accounting records to support its financial statements, it often also reflects a culture of very little accountability, transparency, performance or integrity. This is apparent in poor financial management practices, failing infrastructure, neglected wastewater treatment plants and poor waste disposal management, which cause harm to the public. While we have seen some improvements and increased support provided by provincial government to these municipalities, more needs to be done. Eradicating disclaimed audit opinions will help to improve the lived experience of communities.
- » **Service delivery** must be planned based on the needs of communities, and on the budgets and resources municipalities have available. It must also be managed throughout the year and the achievements (or lack thereof) should be reported in a credible and transparent manner. We continued to see municipalities that do not adequately plan for delivering key basic services and do not report credibly on that delivery, with many also not achieving their planned targets. In addition, accountability is hampered as there is little transparency on the true state of local government's delivery of key basic services such as water, sanitation, electricity and housing.



PREV



NEXT



Municipalities' inability to deliver basic services contributes to the deteriorating living conditions of communities and erodes trust in government's ability to deliver on its promises. These continuing failures in the most critical part of municipal operations are not receiving the necessary attention from councils, national and provincial government, and oversight structures. It is crucial for councils to have robust systems in place to plan, monitor and report on performance to enable them to prioritise and allocate resources to efficiently and effectively deliver services and build trust within their communities.

Root causes of problems underlying key messages

- » **Inadequate skills and capacity:** Limited skills and capacity in finance, information technology and technical units (which are responsible for infrastructure projects) led to municipalities relying heavily on consultants. Vacancies and instability in key positions such as those of municipal manager and chief financial officer contributed to the limited improvement in audit outcomes and delays in dealing with material irregularities and other transgressions.
- » **Governance failures:** A lack of institutionalised financial and performance management controls continued to leave municipalities ill-prepared to operate optimally during times of change and instability. Instability and disruption in councils, along with ineffective municipal public accounts committees, continued to limit the effectiveness of governance processes. Internal audit units and audit committees did not have the required impact, mostly because their recommendations were not implemented. The interventions and support initiatives provided by some coordinating institutions, and the reporting by the members of the executive council for local government to provincial legislatures, also had limited impact.

- » **Lack of accountability and consequences:** Equally important as appointing skilled officials is the need to ensure that they are disciplined and held accountable for their performance to create a culture that values excellence and supports continuous improvement. Limited, or even no action was taken against municipal officials and leadership for wrongdoing and poor performance. This can be seen most clearly where councils did not deal effectively with unauthorised, irregular, and fruitless and wasteful expenditure; and where municipal managers and senior management took limited action in response to our findings and to allegations by other parties of possible fraud, non-performance and the abuse of the supply chain management system.

What should be done?

Service delivery improvements and the responsible use of the limited funds available will only be enabled when municipalities are capable, cooperative, accountable and responsive, and when they deliver on their mandates. Municipal leadership, councils and mayors in particular, play a critical role in setting the tone for ethical behaviour, good governance and accountability; and in creating a culture that fosters trust and confidence in local government.

We provided municipal managers and senior management with recommendations on how to improve their specific audit outcomes during our audits. The call to action in this report is aimed at the broader accountability ecosystem and, in particular, councils (including mayors), legislatures, provincial leadership and coordinating institutions and their executive authorities.



PREV



NEXT



In short, it calls for the following:

Skills and capacity

- » Support the professionalisation of local government, in line with the newly adopted professionalisation framework.
- » Fill vacant positions with competent people, swiftly complete the appointment of municipal managers, continue to upskill municipal officials and council members, and develop and implement plans to reduce the high reliance on consultants and to ensure the transfer of skills.

Governance

- » Strengthen and institutionalise financial and performance management disciplines and information technology governance; and continue to invest in preventative controls.
- » Ensure stable and well-functioning councils and municipal public accounts committees as well as improved oversight and monitoring by mayors.
- » Derive full value from the expertise in internal audit units and audit committees by implementing their recommendations. Municipal managers to play a vital role in creating an environment where the roles of internal audit units and audit committees are effective and their recommendations are implemented.
- » Coordinating institutions to continue to collaborate and intensify efforts to assist struggling municipalities and tailor support to their specific needs.
- » Members of the executive council for local government to improve the quality and timing of their reports to provincial legislatures on municipalities' action plans and performance. Provincial legislatures to issue prompt resolutions in response to the reports and track the implementation of these resolutions.

Accountability and consequences

- » Properly monitor internal controls to enable early detection of financial and performance management failures.
- » Improve the implementation of the National Treasury guidance on dealing with unauthorised, irregular, and fruitless and wasteful expenditure; and adopt the National Treasury's Consequence Management and Accountability Framework.
- » Strengthen municipal public accounts committees, disciplinary boards and investigation processes.
- » Councils, municipal public accounts committees and provincial leadership and legislatures to monitor and support the resolution of material irregularities by accounting officers.

The leadership in national and provincial government made commitments in response to our previous general report, as well as during our engagements with them in the build-up to tabling this report, to improve accountability and service delivery in local government. Various initiatives are being implemented such as increased interventions, support and financial recovery plans for dysfunctional and financially distressed municipalities, and the implementation of the district development model. We will continue to monitor and report on these developments.

We appreciate that it is not always easy to deal with the challenges in the local government space, and we are encouraged by the strides being made to improve municipalities' performance, most notably the decrease in the number of municipalities with disclaimed audit opinions.



PREV



NEXT



Where we did see improvements in either audit outcomes or action taken to resolve long-standing issues, it was often due to the deliberate steps that municipalities took to improve and strengthen their internal control environments, and through the support and interventions of coordinating institutions. The material irregularity process also triggered actions, such as the submission of long-outstanding financial statements, traction on dealing with poor-quality infrastructure and wastewater treatment works, and interventions from coordinating institutions that enabled municipalities to improve their internal control environments.

We remain committed to partnering with and supporting the local government accountability ecosystem through insights from our audits, the material irregularity process, and regular and impactful engagements with all roleplayers.



PREV



NEXT





1

SECTION 1 INTRODUCTION

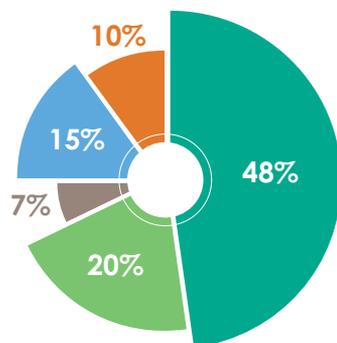
This report reflects on the audit outcomes of local government and presents our observations and insights from the audits of the financial year ended 30 June 2022, which covers the first year of the new administration

Local government is the sphere of government that is closest to ordinary South Africans because it provides the basic services that have a direct impact on their lives. It is meant to be an inclusive, democratic and accountable system, with communities and community organisations acting as shareholders who

are directly involved in local government matters through public participation processes.

In 2021-22, local government had an estimated expenditure budget of R539,13 billion to operate and deliver services.

Local government budget and system



R262,92 billion
Metropolitan municipalities (MM)

R105,39 billion
Intermediate cities (ICM)

R35,60 billion
District municipalities (DM)

R83,21 billion
Local municipalities (LM)

R52,01 billion
Municipal entities (ME)

Metropolitan municipalities commonly known as 'metros', are large urban complexes with populations of more than one million people. They account for the largest portion of municipal expenditure and serve the highest number of households and thus most of the people in the country.

Intermediate cities are municipalities with large budgets that also serve a substantial number of households. They are responsible for all municipal functions not assigned to the district – in particular, local service delivery.

District municipalities perform certain functions on behalf of local municipalities, such as integrated planning, infrastructure development, electricity provision and public transport. A district municipality may be a water services authority and may also provide financial, technical and administrative support services to a local municipality within its area as far as it can.

Local municipalities can be large towns, small towns or rural areas. Just like intermediate cities, they are responsible for all municipal functions not assigned to the district, particularly service delivery to the residents in their designated geographical area. These municipal functions include water and sanitation services, electricity supply, refuse removal and road maintenance.

Municipal entities are independent entities that perform municipal services on behalf of a municipality. Their financial statements are consolidated into those of their parent municipalities. Their audit outcomes are also important as they are responsible for a significant portion of municipal expenditure and service delivery programmes.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL GOVERNMENT

3

CONTINUED SPOTLIGHT ON DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET



Low levels of trust and public frustration at the lack of service delivery and financial management are continuing and are getting worse in many places. Some municipalities are unable to address the basic needs of communities, such as access to clean drinking water. Over the past year, the number of municipalities that the Department of Cooperative Governance reported as dysfunctional has increased from 64 to 66, while the National Treasury reported that 43 municipalities are in financial and service delivery crisis because of political infighting, weak oversight by councils, serious financial problems and general service delivery failures. While the country is in the midst of an electricity crisis, municipalities' debt to Eskom has increased from R25,74 billion to R36,36 billion. This has led to court orders to attach or seize municipal assets because of non-payment of electricity bills.

Against this background, this report shows serious accountability failures and signs of collapse. However, it also highlights some of the positive strides made that resulted in pockets of improvement, showing that if those responsible put in the required effort, positive change can be achieved.

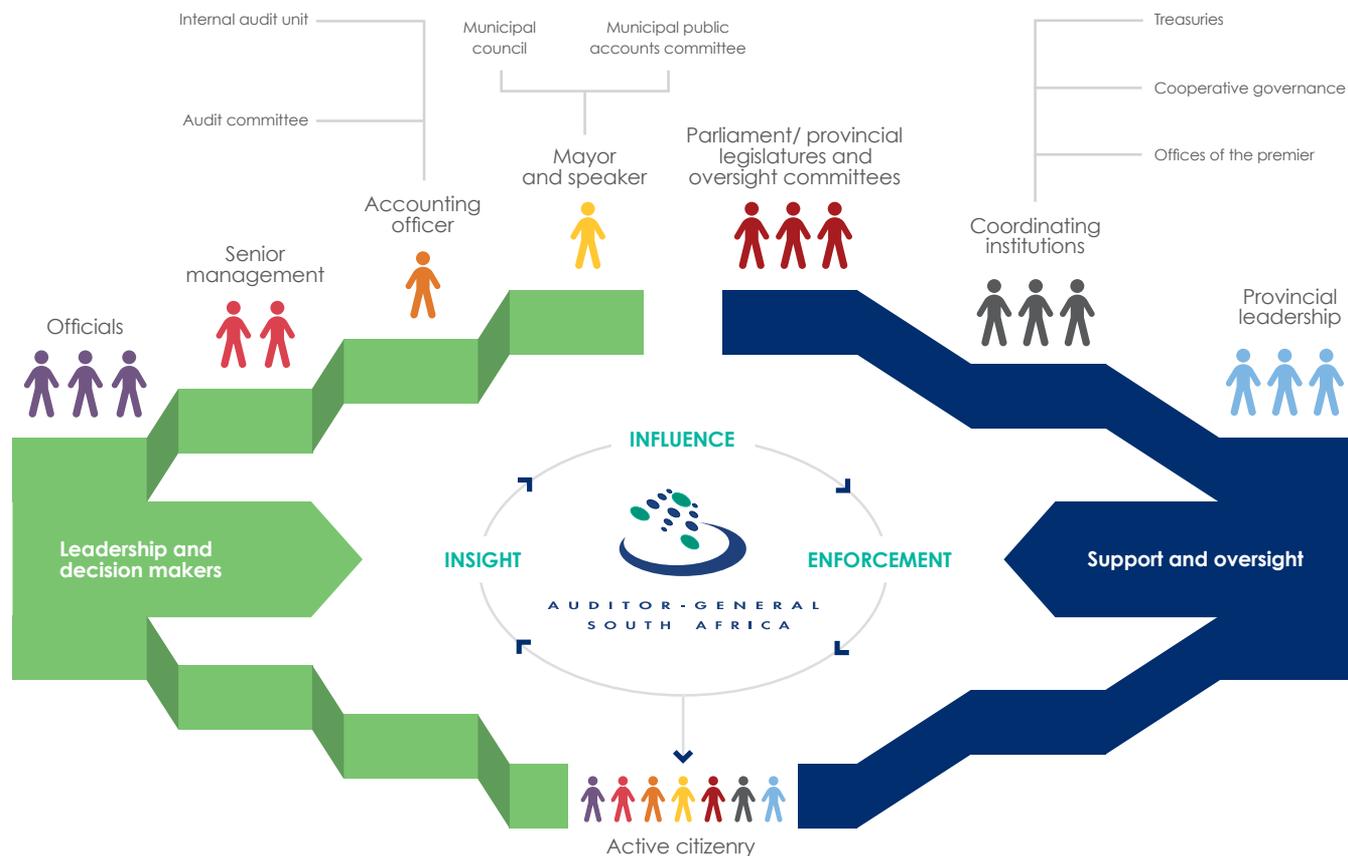
Local government accountability ecosystem

In this report, we again refer to the accountability ecosystem that we reflected on in our previous general reports. The accountability ecosystem is made up of all the roleplayers in national, provincial and local government that have a part to play in enabling a culture of performance, accountability, transparency and integrity. This includes the Auditor-General of South Africa as the country's supreme audit institution, as well as the people of South Africa.



PREV

Accountability ecosystem for local government



NEXT



The different roleplayers in the accountability ecosystem all have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and insist on public sector accountability.

Mayors have a monitoring and oversight role at both municipalities and municipal entities. They have specific oversight responsibilities in terms of legislation and can bring about improvement by being actively involved in key governance matters and by managing the performance of municipal managers.

Councils need to make strategic decisions, monitor the implementation of these decisions, and guide and support municipalities towards reaching their objectives. For the council to effectively perform its oversight and monitoring role, the municipal manager and senior managers must provide them with regular reports on the financial and service delivery performance of the municipality.

Municipal managers, supported by senior management, are responsible and accountable for ensuring that municipalities use their finances for the benefit of all their residents. They also play a significant role in setting an ethical tone for municipal officials and ensuring accountability and consequences. Audit committees and internal audit units play an important role in providing an independent view of how effective municipal controls and processes are.

A municipality does not function in isolation – it is part of a bigger system of government. The Constitution requires national and provincial government to support and strengthen the capacity of local government. In our previous general report, we highlighted the important

role played by coordinating institutions, which comprise the legislatures, led by the speakers, national and provincial cooperative governance departments and treasuries, the ministers and members of the executive council responsible for those departments, and the provincial premiers and their offices.

Failure by any part of the ecosystem to effectively play its unique role, has a detrimental impact on the effectiveness of the ecosystem as a whole. It also tends to undermine the ability of other stakeholders to effectively play their roles given the additional burden of responsibility they are required to carry over and above that which falls within their particular scope and mandate.

This report is therefore directed to all these roleplayers and summarises the insights and recommendations that we have already shared with them for further action.

Our audits

Our role is to audit every municipality and municipal entity in the country and report on what we have found. Through our reports, we inform councils of the quality of auditees' financial statements and performance reports, the status of their compliance with key legislation, and whether we have identified any material irregularities.

We specifically report to the councils as they are responsible for approving the municipalities' budget and performance plans; for monitoring their performance throughout the year (in-year monitoring); and for using the financial statements and performance reports to determine whether the municipalities achieved their service delivery



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

objectives, used their budget as intended and are in a good financial position. The council also plays a significant role in investigating and dealing with unauthorised, irregular, and fruitless and wasteful expenditure; fraud and corruption; and any transgressions and non-performance by the municipal manager and senior management. The accountability processes for municipal administration lie squarely within the domain of the council.

Through our audits, we also look at areas that can contribute significantly to a municipality's success, such as financial health, infrastructure development and maintenance, the control environment (including information technology controls), procurement and contract management, consequence management, and aspects of environmental management.

We continued to audit the funds used to provide relief to communities in flood-ravaged areas of KwaZulu-Natal and the Eastern Cape. We report on the follow-up work we have done since August 2022 in their overviews in the section on the provinces.

Through our expanded mandate, and the ensuing material irregularity process, we have enriched our insights and strengthened our ability to influence and enforce performance, accountability, transparency and integrity in local government. In response to the material irregularities we raised, municipalities are taking action to recover losses, prevent further losses and harm by strengthening internal controls, and implement consequences for wrongdoing. We will table a detailed report on material irregularities in local government after the tabling of this general report.

Content of the report

This report summarises our key messages in the following areas:

1. The **state of local government** in the fifth administration, dealing with:
 - » Audit outcomes
 - » Material irregularities
 - » Financial planning and reporting
 - » Information technology
 - » Pressure on local government finances
 - » Service delivery planning, reporting and achievement
 - » Infrastructure for service delivery
2. A continued spotlight on the state of **disclaimed municipalities**.
3. A **call to action** for all roleplayers in the accountability ecosystem to address the root causes of municipal failures, including our recommendations and the commitments made in response.
4. The state of local government in each of the **nine provinces**.
5. An **audit fact sheet** that provides information on the audits we performed and an explanation of the numbers used in this report.

In support of greater transparency that will enable accountability, our report website (mfma-2022.agsareports.co.za) also includes the following information, covering each municipality, district and province in the country:

- » Audit outcomes and information per municipality
- » Key information on audit outcomes per district
- » Overview of audit outcomes and commitments per province



PREV



NEXT

SECTION 2 STATE OF LOCAL GOVERNMENT

2

Little change overall but pockets of improvement offer hope

Audit outcomes

Audit outcomes are based on our audits of the financial statements and performance reports of municipalities, as well as their compliance with key legislation.

The audit outcomes were in a bad state at the end of the previous administration's term, and this state did not improve in 2021-22. Overall, 33 municipalities now have a better audit outcome than they did in 2020-21, while 29 have a worse outcome.

Audit outcomes – municipalities

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
2020-21 Last year of previous administration	41	100	83	4	26	3	257
2021-22	38	104	78	6	15	16	257
2021-22 Percentage of budget for municipalities (R487,12 billion)	15%	40%	30%	2%	6%	7%	
2021-22 Percentage of budget for municipalities (R487,12 billion)	29%	35%	21%	10%	3%	2%	

Clean audits

Municipalities with a clean audit status managed 29% of the expenditure budget of local government. Two metros fall in this category, namely City of Cape Town in the Western Cape and City of Ekurhuleni in Gauteng. The total number of municipalities with clean audit opinions decreased slightly, as more municipalities lost their clean audit status than improved to a clean audit status. The regressions were due to instability as well as inadequate monitoring and review of controls relating to compliance. The Western Cape continued to lead with the most municipalities with clean audit opinions.

1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

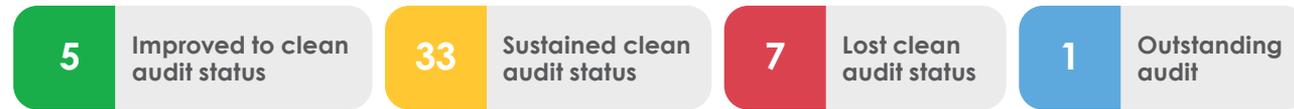
PROVINCES

6

AUDIT FACT SHEET



Movement in clean audit status – municipalities



The municipalities that maintained their clean audit status continue to be an example of what is possible.

Municipalities that sustained clean audit status and number of years clean

Eastern Cape (2)

Joe Gqabi DM	(2 years)
Winnie Madikizela-Mandela LM	(2 years)

Gauteng (2)

City of Ekurhuleni MM	(3 years)
Midvaal LM	(9 years)

KwaZulu-Natal (3)

King Cetshwayo DM	(2 years)
Okhahlamba LM	(8 years)
uMhlathuze LM	(3 years)

Limpopo (1)

Waterberg DM	(2 years)
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Mpumalanga (2)

Ehlanzeni DM	(3 years)
Nkangala DM	(4 years)

Northern Cape (4)

Frances Baard DM	(3 years)
Hantam LM	(2 years)
Namakwa DM	(2 years)
ZF Mgcawu DM	(3 years)

Western Cape (19)

Bergriver LM	(7 years)
Breede Valley LM	(3 years)
Cape Agulhas LM	(9 years)
Cape Winelands DM	(9 years)
Drakenstein LM	(4 years)
Garden Route DM	(2 years)
George LM	(2 years)
Hessequa LM	(9 years)
Langeberg LM	(4 years)
Mossel Bay LM	(3 years)
Overberg DM	(3 years)
Overstrand LM	(10 years)
Saldanha Bay LM	(4 years)
Stellenbosch LM	(3 years)
Swartland LM	(3 years)
Swellendam LM	(3 years)
Theewaterskloof LM	(4 years)
West Coast DM	(12 years)
Witzenberg LM	(10 years)

When a municipality receives a clean audit opinion, it means that its financial statements and performance report give a transparent and credible account of both its finances and its performance against service delivery targets. In other words, these accountability reports present a reliable picture of that municipality's performance – whether good or bad. This

enables the council and everyone with an interest in the municipality – particularly communities, community organisations, and those in national and provincial government who need to oversee the municipality's performance and provide the support it needs to succeed – to judge how the municipality is doing and to take action where necessary.

PREV

NEXT

A clean audit opinion also means that the municipality complied with the important legislation that applies to it and, where transgressions did occur, they were rare or not material.

A clean audit is not always an indicator of good service delivery and does not always correlate directly to the lived experience of all the communities in a municipal area. However, a clean audit opinion positions a municipality to transparently communicate to communities on whether and when their needs will be met through accurate records, which also enables informed decisions by the different roleplayers in the accountability ecosystem. We have further seen that municipalities with institutionalised controls and systems to plan, measure, monitor and account for their finances and performance, and to stay within the rules, often also have a solid foundation for service delivery. These municipalities further

demonstrate sound project management disciplines and effectively use infrastructure grant funding.

When this is the case, municipalities can focus on ensuring that they deliver quality services to all their residents. We provide further insights on how municipalities with clean audits have managed service delivery in the section on service delivery planning, reporting and achievement.

Submission of financial statements

The number of municipalities that submitted their financial statements by the legislated date improved from 81% in the previous year to 91% in 2021-22. This was largely due to provincial government's concerted efforts to support municipalities as well as the impact of our enforcement mandate.

Status of previous year's outstanding audits (2020-21) due to financial statements submitted late or not submitted

Province	Status		Audits outstanding at date of 2020-21 general report	Audits subsequently finalised	Audits not yet finalised
	Submitted late	Not submitted			
Eastern Cape	2	0	0	0	0
Free State	10	2	7	4	3
Gauteng	1	0	0	0	0
KwaZulu-Natal	3	0	0	0	0
Limpopo	2	0	0	0	0
Mpumalanga	1	0	0	0	0
Northern Cape	11	0	2	2	0
North West	12	0	0	0	0
Western Cape	4	0	0	0	0
Total	46	2	9	6	3

We issued material irregularity notifications to the municipal managers of the nine municipalities whose financial statements were outstanding, as the resultant delays in the accountability processes caused substantial harm to these municipalities. In response, seven municipalities submitted their outstanding 2020-21 financial statements and we

have completed the audits of six of these. The audit of Kopanong Local Municipality in the Free State has not been finalised yet due to delays caused by the municipality. We have not yet received the financial statements of Masilonyana and Maluti-a-Phofung local municipalities in the Free State.



2021-22 audits not yet finalised due to financial statements submitted late or not submitted

Province	Status		
	Submitted late	Not submitted	Audits outstanding due to late/no submission
Eastern Cape	2	0	2
Free State	6	3	8
Gauteng	0	0	0
KwaZulu-Natal	1	0	1
Limpopo	1	0	0
Mpumalanga	0	0	0
Northern Cape	5	0	2
North West	4	1	2
Western Cape	0	0	0
Total	19	4	15

By 17 February 2023 (the cut-off date to be included in this report), the 2021-22 audits of 16 municipalities had not been completed. One audit from the Eastern Cape was delayed due to disputes on technical audit matters. The audits of the other 15 municipalities were not completed because the municipal managers had not submitted the financial statements for auditing by the legislated submission date. Where financial statements remained outstanding, we continued to reach out to all key roleplayers in the accountability ecosystem to intervene and we again used our enforcement mandate for the non-submission of the 2021-22 financial statements at 15 municipalities.

In response, we received the financial statements of 12 of these municipalities, including three in 2023 which we are busy auditing. Both the 2020-21 and 2021-22 financial statements of Masilonyana and Maluti-a-Phofung local municipalities in the Free State, and the 2021-22 financial statements of Ditsobotla Local Municipality in North West and Kopanong Local Municipality in the Free State, were still outstanding by the date of this report.

Disclaimed and adverse opinions

Overall, the number of municipalities with **disclaimed** audit opinions decreased. If the municipalities with outstanding audits also receive disclaimed audit opinions, the improvement in this area will be less significant, but should still be acknowledged. We provide further detail on the municipalities that improved as well as those that either moved into or remained within this worst possible category of audit opinion in the section on disclaimed municipalities.

If a municipality receives an **adverse** audit opinion, this means that it submitted financial statements that are so unreliable that they cannot be used for oversight and decision-making. Six municipalities received adverse audit opinions in 2021-22. Emakhazeni Local Municipality in Mpumalanga and Ngaka Modiri Molema District Municipality in North West have been in this position for four consecutive years, while three municipalities regressed to this position: City of Tshwane Metro (Gauteng) from an unqualified opinion with findings and both uMzinyathi District Municipality (KwaZulu-Natal) and Laingsburg Local Municipality (Western Cape) from a qualified opinion. Walter Sisulu Local Municipality in the Eastern Cape had a disclaimed opinion in the previous year.





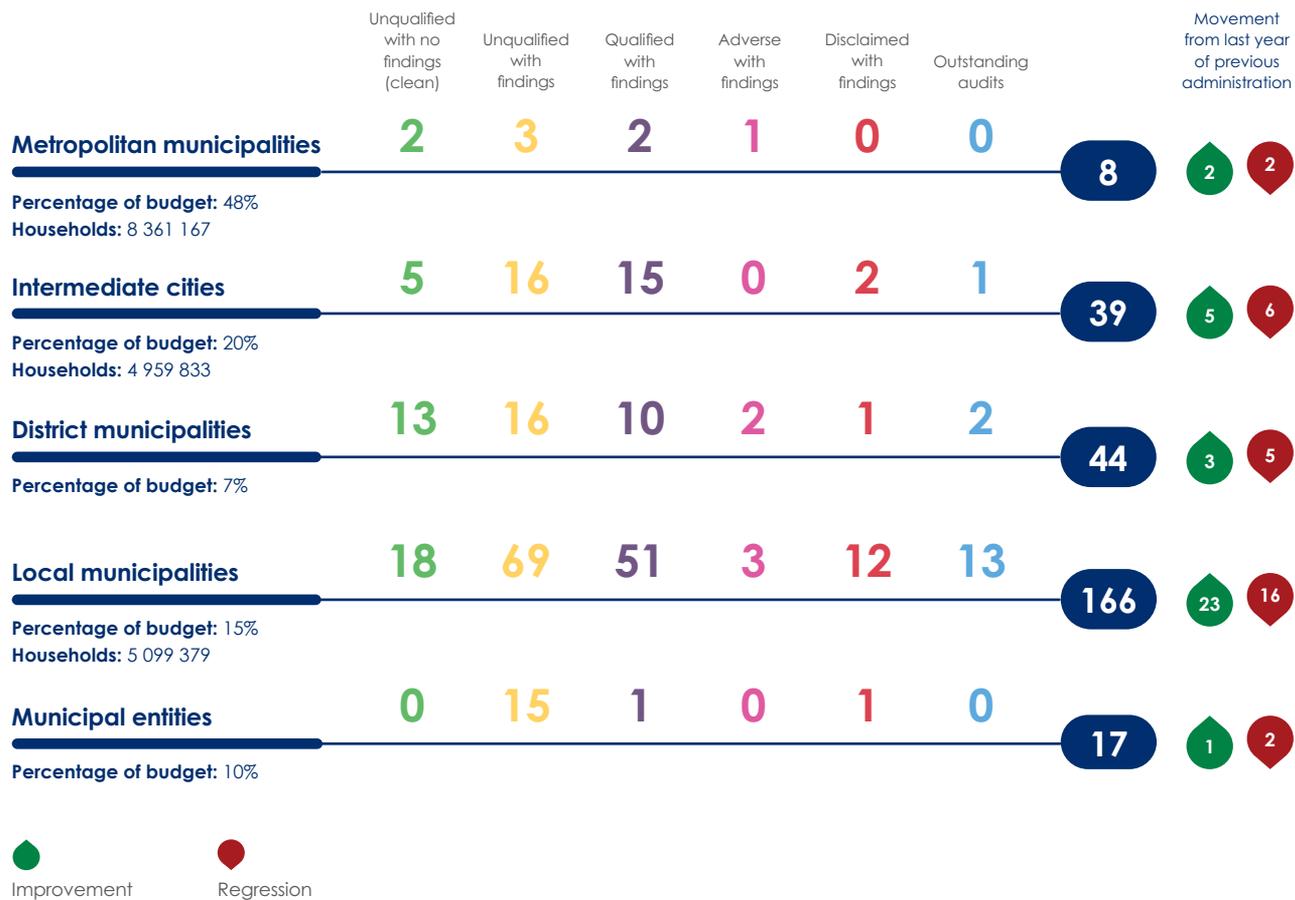
There is little transparency and accountability on how these municipalities use their funds. As is the case with municipalities that receive disclaimed audit opinions, national and provincial leadership and coordinating institutions should offer support and, where necessary, intervene. Of the municipalities that received adverse audit opinions, only uMzinyathi District Municipality in KwaZulu-Natal is under provincial intervention. Despite this intervention having begun in October 2016, it has had little impact.

Outcomes per category

The different categories of auditees show different levels of performance.

In the next graphic, the percentage allocation is based on the total local government budget of R539,13 billion. The number of households has been taken from the National Treasury's local government equitable share data and formula for 2021-22. The household total for district municipalities comprises the households under intermediate cities and local municipalities, while the total for municipal entities is included under metropolitan municipalities.

Audit outcomes, budget and households – municipalities and entities



Metros and intermediate cities manage just over two-thirds of the local government expenditure budget and are responsible for delivering services to 72% of South Africa's households. As such, they have access to greater resources than their smaller counterparts. Since they typically have greater capacity and bigger budgets and can more easily attract suitably skilled and competent professionals, one would expect their audit outcomes to be much better than those of the smaller and more remote municipalities, but this is not the case. Although seven of these municipalities improved their audit outcomes over the last year of the previous administration, eight are now in a worse position.

The audit outcomes of district municipalities regressed from last year. Since these municipalities should lead by example and support local municipalities, they must perform better. Local municipalities have the highest concentration of disclaimed audit opinions and outstanding financial statements. More local municipalities regressed than improved, which reflects poorly on the support district municipalities provide to their local municipalities. The audit outcomes of municipal entities have also worsened overall, similarly reflecting inadequate support and oversight from parent municipalities (mostly metros).

Material irregularities (MIs)

The audit outcomes, along with non-compliance with legislation and the insights from our audits as detailed in this report, reflect the concerning state of financial and performance management in local government. This situation resulted in some municipalities suffering material financial losses, while others caused substantial harm to people because they could not fulfil their mandates and deliver services to the public. For many

years, our audits have highlighted that not only are irregularities – and the resulting impact – not prevented from happening; when they do happen, they are not properly dealt with.

This state of affairs led to amendments to the Public Audit Act in April 2019, which gave us the mandate to report on MIs and to take action if accounting officers and authorities do not deal with them appropriately.

Definition of material irregularity and expanded powers

Any **non-compliance** with, or **contravention** of, legislation, **fraud**, **theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in or is likely to result in a material financial loss**, the **misuse or loss of a material public resource**, or **substantial harm to a public sector institution** or the **general public**



If the **accounting officer/authority** does not appropriately deal with material irregularities, our expanded mandate allows us to:

- Material irregularity**
- 1 **Refer material irregularities** to relevant public bodies for further investigations
 - 2 **Recommend actions** in the audit report to resolve the material irregularity
Take binding remedial action for failure to implement recommendations
 - 3 **Issue certificate of debt** for failure to implement remedial action if financial loss was involved





The amendments established a complementary enforcement mechanism to strengthen public sector financial and performance management so that irregularities such as non-compliance, fraud, theft and breaches of fiduciary duties, and the resulting impact, can be either prevented or dealt with appropriately.

The overall aim of our expanded mandate is:

- » to promote better accountability
- » to improve the protection of resources
- » to enhance public sector performance and encourage an ethical culture
- » ultimately, to strengthen public sector institutions to better serve the people of South Africa.

We issue notifications of MIs to accounting officers and authorities so that they can correct deficiencies, protect public finances and improve the performance of the institutions for which they are responsible. If auditees protect and recover resources, they can redirect the money saved or recovered to delivering much-needed services to communities.

This year, we expanded our work significantly by implementing the MI process at 170 auditees – up from 94 last year. We plan to increase this number to 276 auditees next year.

The rest of this section reflects on the impact of the MI process, the nature and status of the MIs we identified, and the responsibilities for preventing and resolving MIs. After tabling this report, we will also publish a separate report on the status of the MIs in local government. The MI report will detail every MI raised and its status, offer a comprehensive analysis with examples of the impact of the MI process, and highlight the obstacles we encounter.

Impact of material irregularity process

Last year, we reported that we are starting to see a shift at municipalities and municipal entities, which have gone from responding slowly to our findings and recommendations to now paying attention to the MIs we report and taking action to resolve them. Over the past year, we continued to see greater responsiveness from most municipalities.

We have found that issuing an MI notification to an accounting officer often jolts them into acting to address irregularities and transgressions that they should have dealt with previously – until we issued notifications, nothing was being done to address 87% of the irregularities we identified.

When accounting officers respond to our notifications with commitment and workable plans for how they will take appropriate action to resolve the MI, the intended impact of the Public Audit Act amendments is achieved. The main objective of these amendments was to enable those responsible to take corrective action to resolve the identified MIs and to prevent similar ones from occurring in future.

An MI is resolved when all necessary steps have been taken to recover financial losses or to recover from substantial harm, when internal controls have been strengthened to prevent further losses and harm, when there are consequences (including disciplinary processes) for any wrongdoing and, if applicable, when the matter has been handed over to a law-enforcement agency.

Through the MI process, accounting officers have taken action to prevent or recover financial losses of R479,56 million, with some of this amount still in the process of being recovered. These actions have included:

- » addressing incorrect billing of municipal services, resulting in increased revenue
- » making payment arrangements or negotiating with suppliers that are charging interest and penalties on late payments
- » improving systems, processes and controls, and protecting assets to prevent any further financial losses
- » recovering financial losses from suppliers
- » stopping supplier contracts where money was being lost
- » implementing consequences against parties that caused the financial losses, including handing over matters to law-enforcement agencies, and identifying the officials responsible and starting disciplinary processes against them.

Municipalities and their entities can now direct these recovered funds towards service delivery, enabling government to achieve its strategic priorities.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

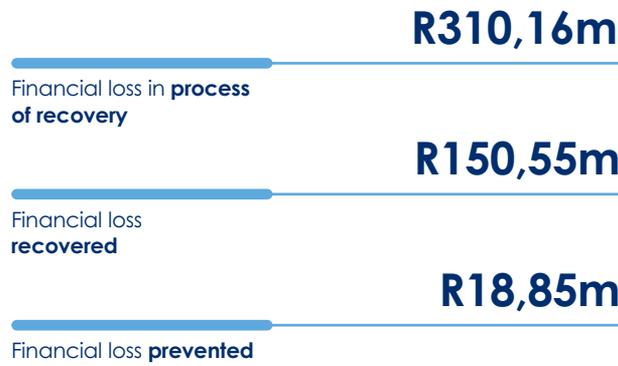
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PROVINCES

6

AUDIT FACT SHEET

Actions taken to address financial loss



58

Responsible officials identified and **disciplinary process** completed or in process

46

Internal controls improved to prevent recurrence

14

Fraud/criminal investigations instituted

1

Supplier contracts stopped where money was being lost

We are also starting to see auditees pay attention to matters we have been raising for years and which are causing substantial harm to a public sector institution (in this case, a municipality or municipal entity) or the general public. In the sections on audit outcomes and disclaimed municipalities, we highlight the impact the MI process has had on dealing with those municipalities that did not submit their financial statements on time or whose financial statements were repeatedly disclaimed because they did not keep proper records and maintain financial discipline.

In some instances, even if MIs have not been fully resolved, issuing them has led municipalities to pay attention to matters that have negatively affected the public for years. We raised the first MI on significant harm caused to the general public

in 2021, in local government. Our focus in this area has been on environmental pollution, and we give more detail on the positive responses we have already received on this type of MI in the sections on infrastructure for service delivery and disclaimed municipalities.

Nature of material irregularities

From 1 April 2019 (when the amendments to the Public Audit Act became effective and we began implementing the MI process) until 15 January 2023 (the cut-off date for MIs to be included in this report), we identified 268 MIs, mostly relating to non-compliance with legislation. We estimate the total financial loss of the 194 MIs that involved a material financial loss to be R5,19 billion, with R1,6 billion of that being lost by municipalities that invested in VBS Mutual Bank.



PREV



NEXT



Nature of material irregularities

Procurement and payment

9

Non-compliance in procurement processes resulting in **overpricing of goods and services procured or appointed supplier not delivering**

3

Uneconomical procurement resulting in overpricing of goods and services procured

38

Payment for **goods or services not received/of poor quality/not in line with contract** or to **ineligible beneficiaries**

Resource management

19

Assets not safeguarded resulting in loss

13

Loss of investments

17

Inefficient use of resources resulting in no/limited benefit derived for money spent

Revenue management

22

Revenue not billed

2

Debt not recovered

Interest and penalties

49

Eskom, water boards, lenders and suppliers **not paid on time** resulting in interest

18

Payroll and value-added tax returns **not paid on time or incorrectly calculated** resulting in South African Revenue Service interest and penalties

Fraud and compliance

3

Suspected fraud resulting in loss

1

Non-compliance resulting in penalties

Harm to general public

24

Non-compliance with environmental legislation resulting in **pollution of water resources**

5

Landfill site mismanagement resulting in harm to public

Harm to public sector institution

24

Full and proper records not kept as evidenced by **repeat disclaimed opinions** resulting in substantial harm to municipalities

21

Non-submission of financial statements



These MIs do not relate to complex matters, but rather to the basic disciplines and processes that should be in place at auditees to:

- » procure at the best price
- » pay only for what was received
- » make payments on time to avoid unnecessary interest or penalties
- » recover revenue owed to the state
- » safeguard assets and investments
- » effectively and efficiently use the resources of the state to get value for the money spent
- » prevent fraud
- » comply with legislation.

We have highlighted all these areas of vulnerability for several years, including in previous general reports and the special reports we tabled on the management of government's covid-19 and flood-relief initiatives. Throughout this report, we include examples of the MIs we have identified to show just how harmful their impact can be.

Status of material irregularities

In this report, we cover the status of 182 of the 268 MIs we had identified up to 15 February 2023.

Of the 86 MIs that we do not report on, six were resolved in prior years; 25 were recently identified and, by 15 February 2023, the responses on the notifications were not yet due; and for 55 the responses to the notifications or the subsequent actions taken by the accounting officers were being evaluated.

Resolved material irregularities

We consider an MI resolved only when all possible steps have been taken to recover financial losses or remove or address any harm caused; to implement consequences against those involved; and to prevent any further losses and harm.

Of the 29 resolved MIs, 16 were resolved by the auditee submitting outstanding financial statements, as detailed in the section on audit outcomes. The other 13 MIs were resolved by preventing or recovering financial losses and by implementing consequences.

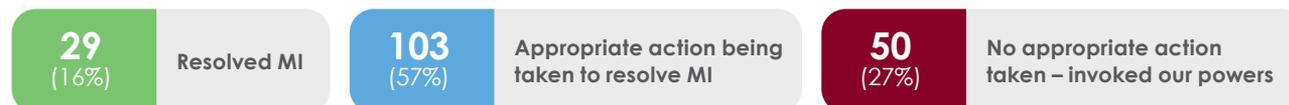
Appropriate action

Appropriate action means that we have assessed the steps being taken to resolve the MI and are comfortable that once these have been fully implemented, the MI will be resolved.

Different MIs need different actions (and sometimes a combination of actions) to resolve. Some require financial losses to be recovered while others also require further financial losses to be prevented. Some require consequences to be implemented against responsible officials, while others also require fraud or criminal investigations, the outcomes of which must be reported to the South African Police Service.

Although the 103 MIs where appropriate action is being taken have not yet been fully resolved, accounting officers have made some progress in implementing their proposed actions. By 15 February 2023, the average 'age' of these 103 MIs was 16 months from date of notification.

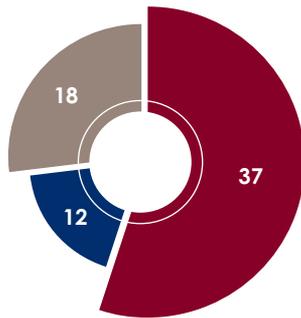
Status of 182 material irregularities



Status of material irregularities requiring specific actions to resolve

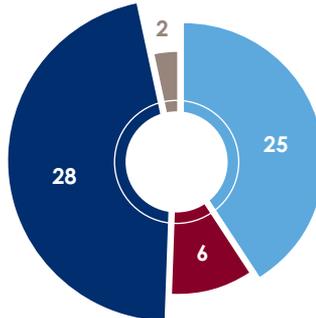
Recovery of financial loss

67 MIs



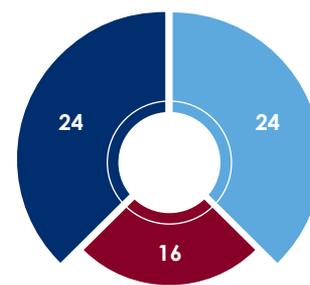
Prevention of further losses

61 MIs



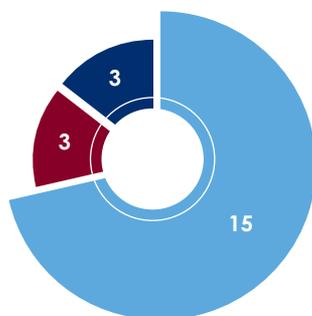
Responsible officials identified through investigation

64 MIs



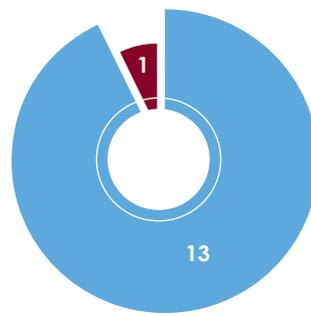
Disciplinary process against responsible officials

21 MIs



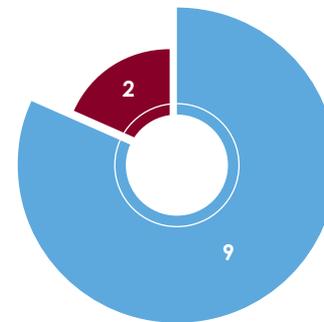
Fraud/criminal investigation

14 MIs



Reporting officials or other parties to South African Police Service in the case of fraud/criminal activities

11 MIs



● Completed
 ● In progress
 ● Partially completed
 ● Not completed/started

How long it takes to resolve an MI depends on how many delays there are in taking the necessary action. Generally, it takes longer to recover financial loss than to implement other actions, as the matter first needs to be investigated, suppliers might have been liquidated, and it takes time to establish liability and submit civil claims.

Some MIs can be resolved relatively quickly, while others require municipalities to correct deep-rooted issues or quantify financial loss that occurred across multiple years, which will take a lot longer. For example, in the case of the MIs issued to municipalities that have repeatedly received disclaimed audit opinions, these municipalities





1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

need to address long-standing problems of poor record keeping and internal controls, as well as the resulting financial instability. Municipalities with severely neglected infrastructure might also need several financial years to conduct repairs, depending on the funds they have available and the assistance they get from national and provincial government.

Not all of these delays are avoidable, and where we assessed them to be reasonable, we did not invoke our powers. However, the delayed resolution of MIs highlights the following **challenges in local government**:

- » Some MIs can only be resolved once external parties have completed their investigations and processes. Prolonged investigations or delays by public bodies make it difficult for accounting officers to act swiftly to recover financial losses and to implement consequence management processes and criminal proceedings.
- » The speedy recovery of lost funds is often hampered by suppliers being liquidated or the loss-recovery processes taking a long time to complete. For example, in our previous general report we highlighted the slow recovery of the money lost by municipalities that invested in VBS Mutual Bank in 2018.
- » Instability at accounting officer level continues to affect how quickly MIs can be resolved. If the original person is no longer in the position or an administrator takes on the accounting officer role after we have issued an MI notification, we often have to reissue the notification or the progress of resolving the MI comes to a halt. In our previous general report, we shared the examples of continued delays caused by the instability at Mangaung Metro in the Free State and uMkhanyakude District Municipality in KwaZulu-Natal.

- » We often see delays when it comes to disciplining the officials responsible for MIs. Either the investigation to identify the responsible officials takes too long, or the disciplinary processes against implicated officials are delayed. Often, officials resign before they can be disciplined.

Accounting officers, with the support of their councils, must focus on shortening the resolution period of MIs. They should prioritise addressing these matters to prevent further losses or harm, especially since any delays make it less likely that funds will be recovered. Swift consequences are also needed to instil a culture of accountability.

Invoking our powers

We are fully committed to implementing the enhanced powers given to our office – without fear, favour or prejudice. If accounting officers, supported by their political leadership, meet their legislated responsibilities and commit to taking swift action when we notify them of an MI, there is no need for us to use our remedial and referral powers. If, however, they do not deal with MIs with the required seriousness, we do not hesitate to use these powers.

In the 50 cases where accounting officers did not appropriately address the MIs we reported to them, we used our expanded mandate to include recommendations in the audit reports or the auditor-general invoked her additional powers of referral and remedial action. We have also taken the first steps towards issuing a certificate of debt.

The municipalities where we took further action, are also those that are typically slow to respond to our findings and to improve the control environment.



PREV



NEXT



Further action taken

Recommendations in audit report

as accounting officer took little or no action to address MI

- Beaufort West LM (WC)
- City of Matlosana LM (NW) – 2
- City of Mbombela LM (MP) – 2
- Dr Ruth Segomotsi Mompoti DM (NW)
- Emalaheni LM (MP) – 2
- Inxuba Yethemba LM (EC)
- Matjhabeng LM (FS)
- Ngaka Modiri Molema DM (NW) – 2
- Raymond Mhlaba LM (EC)
- uMkhanyakude LM (KZN) – 6
- Various municipalities with disclaimed opinions – 14

Remedial action issued

as our recommendations were not implemented

- City of Tshwane MM (GP) – 3
- JB Marks LM (NW)
- Msunduzi LM (KZN)
- Ngaka Modiri Molema DM (NW) – 4

Notice of certificate-of-debt process

- Ngaka Modiri Molema DM (NW) – 2

Referral to public bodies for further investigation

- Chris Hanani DM (EC)
- Emalaheni LM (MP)
- Matjhabeng LM (FS)

Recommendations in audit report and referral to public bodies

- Amajuba DM (KZN)
- Ngaka Modiri Molema DM (NW) – 2

The **recommendations** we include in the audit reports are not the usual recommendations that we provide as part of our audits. Instead, they deal with the actions that accounting officers should take to resolve a specific MI. They typically deal with the following:

- » Recovery: Steps that should be taken to recover financial and public resource losses or to recover from harm.
- » Prevention: Steps that should be taken to strengthen internal controls to prevent further losses and harm.
- » Consequences: Steps that should be taken to impose consequences for wrongdoing, including disciplinary processes and, if applicable, handing the matter over to a law-enforcement agency.

We included recommendations on 36 MIs in the audit reports of 24 municipalities.

If an accounting officer does not implement our recommendations, we issue **remedial action** that covers the same areas of recovery, prevention and consequences. Remedial action is a binding (obligatory) instruction issued by the auditor-general. If the MI caused a financial loss for the

state, the remedial action also includes a directive to calculate and recover the financial loss.

Last year, we reported on the remedial action issued for three MIs at Ngaka Modiri Molema District Municipality in North West and that further actions would be taken if the municipality did not take appropriate action. One of these MIs is still at the remedial action stage, as the accounting officer completed an investigation and started to recover the loss through a legal process. However, the accounting officer did not take appropriate action to implement the remedial action and directive for the other two MIs, where the financial losses stemmed from a construction contract that was not properly monitored and from assets that were lost because they were not properly protected.

In October 2022, the auditor-general notified the accounting officer of her **intention to pursue certificates of debt** and requested a written response, in line with the MI regulations that give accounting officers an opportunity to respond officially. At the time of this report, we were deciding on the next steps based on the final written responses and information we received.



PREV



NEXT

For six MIs at five auditees, we took the decision to **refer the matters to public bodies for investigation**, namely the Special Investigating Unit, the Directorate for Priority Crime Investigation (the Hawks) and the Public Protector.

Conclusion

When the auditor-general invokes her powers of referral, remedial action and, in future, issuing certificates of debt, it not only reflects poorly on

the accounting officer, but also means that other players in the accountability value chain have failed to fulfil their responsibilities.

Our expanded mandate did not change the roles and responsibilities of accounting officers, or the oversight and monitoring roles of the mayor and the council, to prevent and deal with irregularities such as non-compliance, fraud, theft, and breaches of fiduciary duty. Through the MI process, we strengthen them in this role.

Roles and responsibilities in material irregularity process

 **To strengthen accountability mechanisms in public sector**

Accounting officers

Have legal obligation to **prevent all irregularities and take action when they occur**

AGSA

- **Identify irregularities that could have significant impact** on auditee's finances, resources and delivery
- **Notify accounting officer** so they can take appropriate steps in terms of legislation timeously
- **Give space to accounting officer to take required actions** to deal with MIs before using our additional powers

Oversight and executive authorities

Oversight and monitoring roles of councils, mayors, provincial legislatures and national and provincial government remain unchanged

AGSA

By reporting MIs, we **highlight most material matters** and provide information to **assist oversight and monitoring roles**

 **Success is: swift action by accounting officer to resolve MIs and prevent recurrence**

Everyone in the accountability ecosystem has a crucial role to play in the MI process. Our role is to notify accounting officers of MIs and to report on their status, and to use our expanded powers where needed, as we are doing. Accounting officers are responsible for preventing and resolving MIs. Councils, provincial leadership, legislatures and national government also have a role to play

and should seize the opportunity to contribute to improving local government through this mechanism.

We include our call to action to these roleplayers in the section on activating the accountability ecosystem.





Financial planning and reporting

Most municipalities need to generate their revenue from the rates and taxes paid by property owners and consumers of municipal services. National government also provides funding through an equitable share and various conditional grants. Municipalities must budget and carefully plan how they will use these limited funds to operate and deliver services. The municipal manager should account for both how the municipality uses its budget and the financial management decisions it makes.

The council uses financial statements to hold the municipal manager to account and to make decisions related to financial management and service delivery. Creditors, banks and rating agencies use them to determine how much risk there is in lending money to a municipality, and the public uses them to see how well the municipality is applying the rates and taxes collected to provide services. It is clear that financial statements are a key instrument for accountability.

Financial reporting does not only happen at the end of the year; it also takes place during the year. This in-year reporting takes the form of quarterly reports, which councils and provincial treasuries use to make decisions and to monitor how municipalities are spending their budgets, generating revenue and using conditional grants.

Municipal managers are responsible for providing credible and reliable in-year financial reports and good-quality year-end financial statements that users can rely on. They are supported by finance units, led by chief financial officers, as well as by internal audit units and audit committees, consultants and coordinating institutions. In our previous general report, we reported significant weaknesses in financial planning and reporting by municipalities over the term of the previous administration.

In the remainder of this section, we report that weaknesses in the areas of financial planning, controls and reporting have not been adequately

addressed, and that consultants continued to be used ineffectively. We also look at the impact of vacancies and instability on the financial management of municipalities.

Poor financial planning

Municipalities must manage their budgets effectively to ensure they have the necessary financial resources to continue operating and deliver services. The National Treasury assessed that 112 municipalities (44%) are operating with an unfunded budget, which means that while the approved budget shows that there is enough revenue to fund its spending for the year, the revenue projections are overstated and the revenue will not be collected. As a result, these municipalities cannot pay their creditors because they spend more money than they can generate. Even though the amount owed to these municipalities is increasing while the amount they collect is decreasing, they continue to spend based on the initially overstated revenue projections.

The National Treasury found that one of the triggers of financial distress in a municipality is an unfunded budget. Most municipalities with such budgets are now experiencing varying degrees of financial problems.

The National Treasury and its provincial counterparts have institutionalised processes to assist municipalities, including assessing municipal budgets during March and May each year and advising correction before adoption. Those that ignore this advice and adopt unfunded budgets are requested to correct this position during the adjustments budget period in February of the following year. If this is also not done, the National Treasury may withhold the second instalment of the equitable share allocation in December to ensure compliance with the Municipal Finance Management Act. If a municipality does not achieve a funded budget position within a year or two due to the extent of the problem, such as high



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

Eskom debt, the National Treasury has created an opportunity for municipalities to adopt a credible funding plan to ensure an improvement in its funding position. The National Treasury monitors the implementation of these plans through quarterly reports submitted by municipalities.

Municipalities are also spending funds they have not budgeted for, which results in unauthorised expenditure. In 2021-22, 68% of municipalities incurred a combined R25,47 billion in unauthorised expenditure, with R13,03 billion being for non-cash items. This means that municipalities spent money that the council had not provided for in the approved budget, or that the spending did not meet the conditions of a particular grant.

Municipalities' budgets provide for items that do not involve actual cash flowing in or out. These 'non-cash items' include accounting entries such as reducing the value at which assets are reflected in the financial statements (asset impairments) and providing for other types of potential financial losses. This is not actual expenditure, but rather an accounting requirement that lets municipalities assess the true value of their assets such as equipment or debtors. Municipalities must correctly budget for these non-cash items to show their true financial state and to plan for the replacement of assets that have reached the end of their useful life.

When municipalities adopt unfunded budgets or overspend their budgets, this shows that they are unable to budget properly and stay within that budget. These practices not only pose an imminent threat to the sustainability of municipalities, but also perpetuate the spiral of non-delivery. Often, the mayor and municipal manager submit a budget for spending that cannot be funded or force-balance a budget to appease the residents by showing that the projects and services they are asking for will be delivered. In such cases, the council must ensure financial discipline by carefully reviewing and assessing the proposed budget to determine whether it is financially viable and sustainable.

Municipalities should use the integrated development plan to coordinate their work with

other spheres of government, guided by good public participation, to improve the quality of life for all their residents. However, because municipalities do not always adequately budget for infrastructure projects meant to enable service delivery, these plans do not address their intended purpose. Consequently, spending needed to deliver services, such as maintaining ageing infrastructure assets, is also compromised. We discuss examples of this in the section on infrastructure for service delivery.

Inadequate financial controls and unreliable reporting

Internal controls help municipalities to achieve their objectives by mitigating the risks of human error, incorrect decisions, fraud, abuse and loss. These controls also prevent financial losses, wastage and transgressions; and significantly improve financial and performance management and reporting. Despite the resources and support municipalities had available to enable sound financial management and reporting, their processes and controls were not adequate to prevent material misstatements in the financial statements.

Investing in and progressively building a disciplined control culture is the sustainable solution local government needs to transparently report on its financial status and to do more with the limited funds at its disposal.

Over the years, we have consistently said that municipalities must institutionalise a culture of compliance and controls. For example, they should implement standardised, effective accounting processes for daily and monthly accounting disciplines; ensure proper record keeping and document control; perform independent reviews and reconciliations of accounting records; and ensure that in-year reporting and monitoring take place. However, we can see from the status of these key financial management controls that this solution is not receiving the necessary attention.

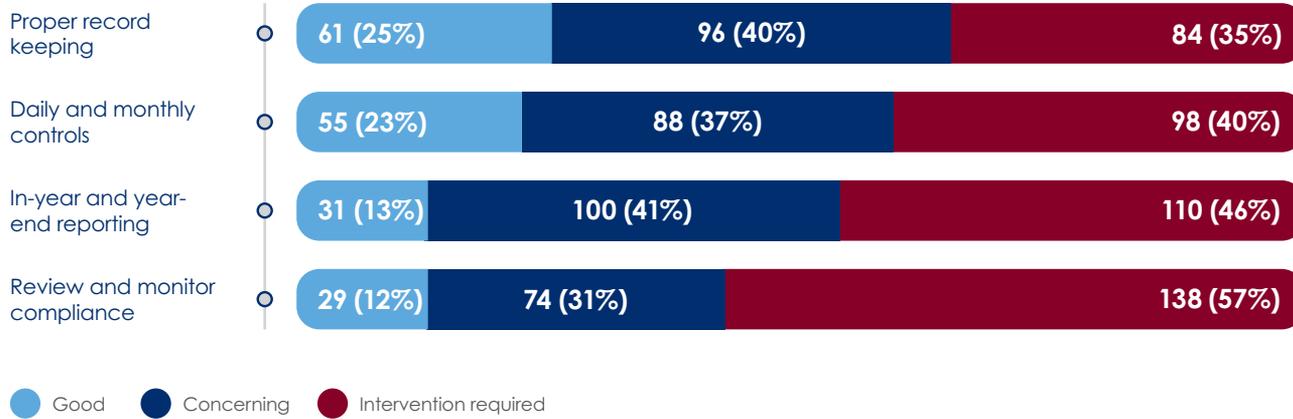


PREV



NEXT

Status of key financial management controls



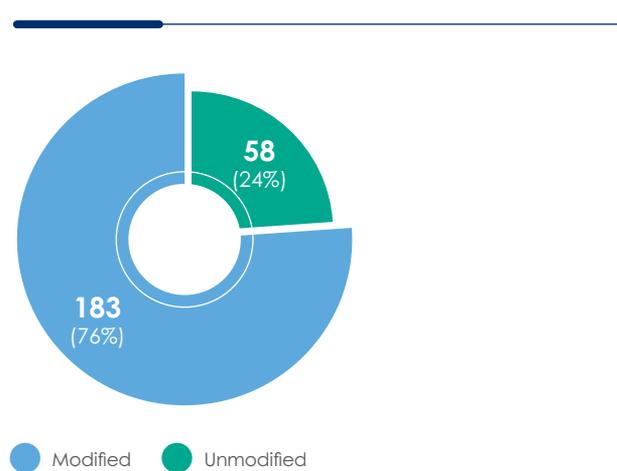
The information systems that municipalities use to manage their finances and to enable financial reporting and monitoring also have significant control weaknesses, making them vulnerable to intentional and unintentional manual override and manipulation. We discuss these deficiencies in more detail in the section on information technology.

Over the years, we have not seen much improvement in the status of key financial management controls, and thus in the quality of financial reporting, despite us reporting shortcomings and providing recommendations, many costly national and provincial initiatives and interventions, and increasing amounts paid to consultants for financial reporting.

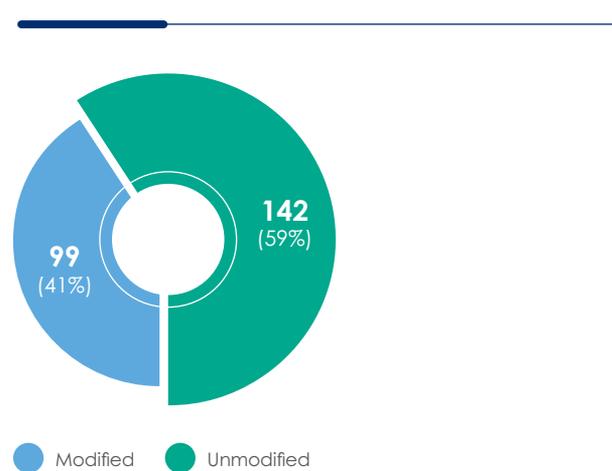


Quality of financial statements before and after auditing

Before audit adjustments



After audit adjustments





1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

If we had not allowed municipalities to correct the identified material misstatements, only a quarter would have produced financial statements that were reliable enough for the council and other decision makers to use. In total, 84 municipalities (35%) relied on the audit process to identify misstatements that they then corrected to obtain an unqualified audit opinion.

The main areas that were misstated in the financial statements of municipalities that received modified audit opinions (in other words, those with qualified, adverse or disclaimed opinions) were:

- » Revenue: 40% of municipalities did not have adequate documentation to support the revenue they billed; and they had not billed all the revenue they should have for services rendered. In some cases, amounts billed for services rendered were recorded incorrectly.
- » Receivables: 28% of municipalities did not know the correct amount owed to them and whether they were still entitled to receive those amounts. In some cases, the amounts recorded were not accurate.
- » Property, infrastructure and equipment: 24% of municipalities could not properly account for their assets because they had not updated their asset registers with assets that they had bought, were busy building or had disposed of, or that had been stolen or vandalised. In some cases, the value of the assets recorded was incorrect despite consultants being used to assist.
- » Irregular expenditure: 24% of municipalities did not report all the irregular expenditure they should have in their financial statements. In some cases, the amount of the irregular expenditure reported was incorrect.
- » Expenditure: 23% of municipalities did not have adequate documentation to support the expenditure they reported. In some cases, they did not record all the expenditure they should have.

The poor quality of the financial statements submitted for auditing does not bode well for the credibility of municipalities' in-year financial reporting, as it means that decisions, analyses and monitoring on key matters such as service delivery could be based on unreliable information, which would have a negative impact on communities. Accounting officers have responded positively to the material irregularities we issued on the non-submission of financial statements, but increased effort is still needed to improve the quality of the submitted financial statements.

The poor financial management controls and the practice of municipalities relying on the audit process to identify misstatements are unsustainable and result in delays in finalising the audit process. To make managers and leadership more accountable, we have adopted a stricter approach when considering adjustments to the financial statements after submission for auditing and in response to our findings.

Ineffective use of consultants for financial reporting

The National Treasury circular on cost containment recommends that municipal managers only hire consultants if a gap analysis shows that they lack the skills or resources they need. Municipal managers should therefore be aware of their legal obligation to closely monitor both consultant contracts and skills transfer.

In 2021-22, 220 municipalities used financial reporting consultants. More than half of these municipalities (53%) used consultants to provide skills that their finance units did not have. Overall, 40% hired consultants for specific skills and to bridge a vacancy gap, while 7% used consultants purely to compensate for vacancies.

Because these municipalities cannot master credible financial reporting, they appoint consultants year after year without ensuring that skills are transferred to municipal staff, and what was intended to be a short-term solution, continues indefinitely. In total, 81% of municipalities reappointed the consultants used in the previous year, slightly more than the 78% that did so in 2020-21.



PREV



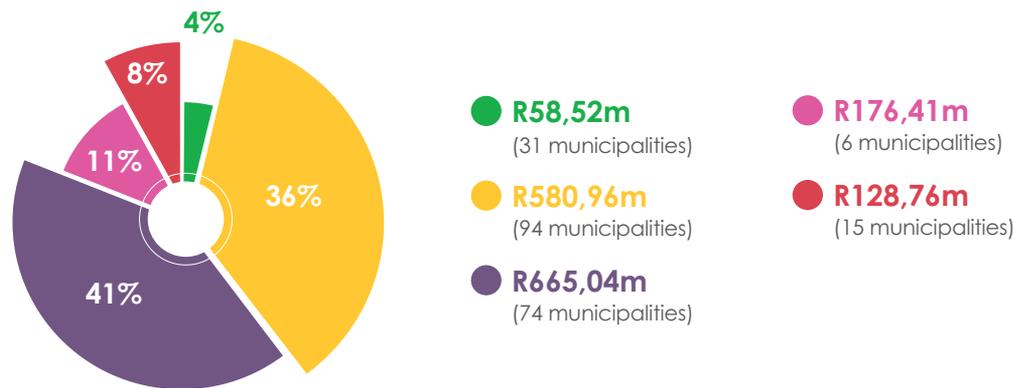
NEXT



In 2021-22, municipalities spent R1,61 billion on consultants to help with financial reporting – an increase by almost a fifth from R1,36 billion in 2020-21. Consultants were mostly used for asset management services (34%), tax services (29%), and the preparation or review of financial statements (26%).

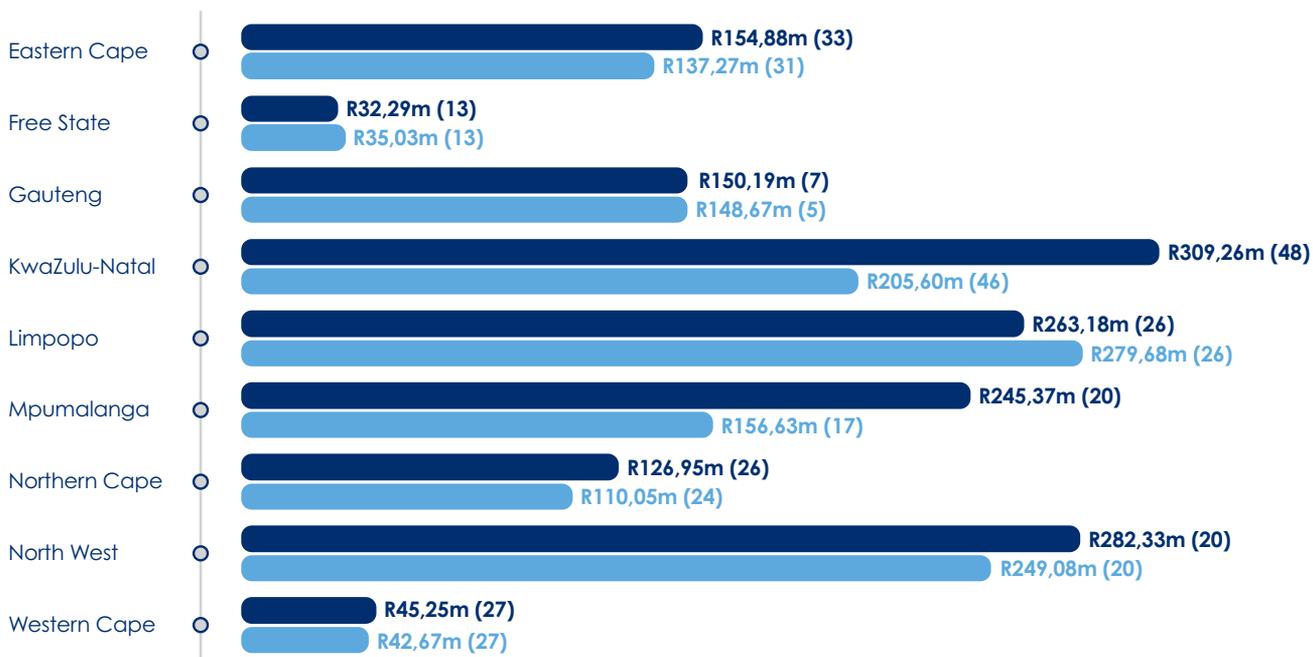
Next we break down consultant cost per audit outcome and per province.

Consultant cost per audit outcome category



Consultant cost per province

(number of municipalities using consultants shown in brackets)



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

Despite the amount spent on consultants to ensure good-quality financial statements, we could not always see the expected benefits. The financial statements submitted for auditing by 137 of the municipalities that used consultants (62%) had material misstatements in the areas in which the consultants did work. Even after we allowed for corrections, nearly two-thirds (64%) of these municipalities received modified audit opinions – 66 received qualified opinions, six received adverse opinions and 15 received disclaimed opinions.

We share further observations on the use of financial reporting consultants at municipalities with

disclaimed opinions in the section spotlighting those municipalities.

While asset management services can include complex accounting matters, consultants appointed in this area were rarely used for such matters, but rather for basic services such as recording and determining the value of assets. These are fundamental skills needed for good asset management and should already have been embedded in the control environments of municipalities.



Examples of municipalities not using consultants effectively

- » **City of Tshwane Metro** (Gauteng) spent R114,19 million (2020-21: R121 million) on consultants to compile the metro's fixed asset register by identifying assets not previously recorded as well as valuating assets. Despite the large budget and size of the metro, it did not have sufficient staff within its asset management unit with skills to carry out valuations on infrastructure assets or the capacity to perform verifications of the entire asset base. Material misstatements were identified in the work performed by the consultants while delays in the project also resulted in the consultants' contracts being extended.
- » **Inkosi Langalibalele Local Municipality** (KwaZulu-Natal) spent R12,09 million (2020-21: R12,57 million) on consultants to update the fixed asset register and value assets due to a lack of skills. While there was some improvement in ensuring that municipal assets were recorded, the valuation of these assets remained problematic. We could not confirm that a proper needs assessment had been conducted to support the areas in which consultants were appointed and we identified material misstatements in the work for which the consultants were responsible. An evaluation was also not performed to determine whether skills had been transferred to municipal staff to reduce future reliance on consultants.



Example of effective use of consultants

- » **Witzenberg Local Municipality** in the Western Cape is a good example of a municipality effectively using consultants. The municipality has a well-capacitated and competent finance unit that works together with technical units (including engineers) to account and componentise infrastructure projects when they are completed. The use of consultants is only considered if skills are not found in the municipality. The municipality also recently appointed a staff member as part of planning ahead for when senior finance officials retire.

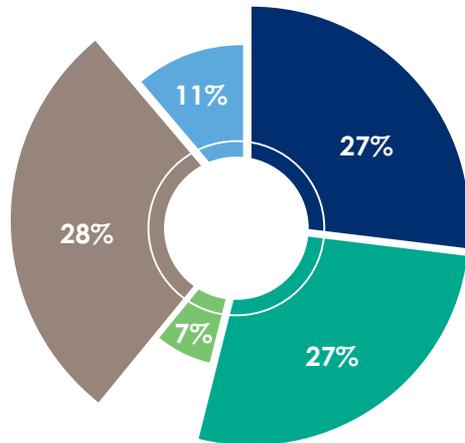


PREV



NEXT

Reasons consultants were not effective



- **37**
Work of consultants not adequately reviewed
- **37**
Inadequate or lack of records and documentation
- **10**
Consultants did not deliver
- **39**
Poor project management
- **14**
Consultants appointed too late

In only 7% of the cases, consultants did not deliver as required. This was the case at 10 municipalities (four in Mpumalanga, two in Gauteng, two in Limpopo, one in the Northern Cape and one in North West). Municipalities paid these consultants a total of R225,60 million. In the other 93% of cases, the municipalities did not use consultants effectively. When the municipal manager appoints consultants late or when records and documentation are not available to enable financial reporting – and the municipality will thus get no benefit from the appointment – they are not performing their legal duty of ensuring that the municipality's limited funds are used effectively and economically. Through poor project management and a lack of review and monitoring, the municipal manager and chief financial officer are effectively outsourcing their financial management responsibilities.

In our previous general report, we indicated that we would be pursuing material irregularities where the ineffective use of consultants resulted in material financial losses. By 15 February 2023, we had notified the municipal managers of 11 municipalities of such material irregularities, and had already started to see the first signs of positive impact at some municipalities.



PREV



NEXT



Examples of material irregularities due to inefficient use of consultants

- » In May 2019, **Joe Morolong Local Municipality** (Northern Cape) appointed consultants to compile financial statements despite not having proper records for the consultants to work with, resulting in an estimated financial loss of R2,7 million. The municipality continued to receive a disclaimed audit opinion for the 2018-19 to 2020-21 financial years. In response to the material irregularity, the municipal manager developed a plan to reduce the use of consultants, filled some key positions in the finance unit and started an investigation into the MI.
- » In July 2020, **Bushbuckridge Local Municipality** (Mpumalanga) appointed consultants to provide value-added tax recovery and review services for 24 months. The consultants were not appointed on time, or on a cost basis, but rather on a contingency basis of 11% commission on the value-added tax refund. This type of appointment is likely to result in an estimated financial loss of over R9 million as the municipality did not assess whether the commission-based contingency basis would be the most cost-effective method to use. We recently notified the municipal manager that the arrangement used in the appointment of the consultants constitutes a material irregularity.



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

Consultants continued to accept appointments even when it was unlikely that they would be able to add value to municipalities. The International Code of Ethics for Professional Accountants requires that, before accepting any engagements, they evaluate threats such as questionable financial reporting practices that might influence ethical principles. We have met and continue to engage with representatives of various professional bodies and accountancy firms about the widespread use of consultants. During these engagements, we highlight the importance of observing the relevant ethical codes. We also make them aware of our intention to continue using our enforcement powers to encourage auditees to use consultants responsibly.

The national and provincial treasuries and cooperative governance departments committed to help municipalities reduce their reliance on consultants in the Eastern Cape, Limpopo, the Northern Cape and North West. We monitored these commitments throughout the year and found that some of the coordinating institutions met with the mayors, speakers and chief whips of municipalities to discuss their reliance on consultants as well as to share the lessons learnt from using consultants in the past.

Some provincial treasuries (such as in the Northern Cape) developed a plan to reduce municipalities' use of consultants by deploying officials at various municipalities to assist with daily financial management functions such as performing reconciliations and managing records. Provincial treasuries also planned to strengthen their departmental capacity by appointing senior managers and other officials who would be responsible for each district and could provide support to municipalities within that district.

The premier's office in Limpopo was unsuccessful in reducing the cost of consultants at municipalities by 60% as envisaged, because finance officials lacked skills and were not capacitated to address internal control deficiencies, which would be crucial for reducing the reliance on consultants.

Some municipalities, such as Matjhabeng Local Municipality in the Free State, appointed qualified financial staff to prepare financial statements

in-house without using consultants, which helped to reduce the municipality's overall consultant costs by R8,74 million.

While we commend municipalities for the steps they have already taken to reduce the reliance on consultants, some of these measures are only short term in nature and they should now start focusing on building their capacity as a sustainable solution to the problem.

Impact of vacancies and instability

Municipal managers, chief financial officers, senior managers and municipal officials are responsible for implementing and maintaining effective and efficient systems of internal control. Positions must be filled with people who have the required competencies. Municipalities should have capacitated and competent finance units led by experienced chief financial officers who can provide stability and direction.

At year-end, municipal finance units had an average vacancy rate of 18%. Overall, 22% of municipalities (2020-21: 15%) had a vacant chief financial officer position, with the rate rising to 47% at municipalities with disclaimed audit opinions. Chief financial officers held their positions for an average of 49 months, or 32 months at municipalities with disclaimed audit opinions. The municipal manager position was vacant at 32% of municipalities, significantly higher than the 17% in 2020-21. These vacancies were most common in KwaZulu-Natal, the Northern Cape and Limpopo. Municipalities found it difficult to recruit and retain qualified individuals in some rural provinces such as the Northern Cape, while instability in councils and political interference also played a role in the high vacancy rates.

Councils are responsible for approving municipalities' budgets, conducting in-year monitoring, and using the financial statements to determine whether municipalities used their budgets as intended and are in a good financial position. However, in many cases the councils could not adequately fulfil their oversight role because of a lack of stability and political uncertainty, resulting in delayed consequence management processes.



PREV



NEXT



For example, at City of Johannesburg Metro in Gauteng, instability at council and mayoral level resulted in the late tabling of investigation reports because of delayed council sittings – in turn, delaying the accountability processes as well. Instability at council level also hampered council approval and decision-making on important strategic and operational matters.

Conclusion

Poor financial management controls, municipalities continuing to rely on the audit process to identify

misstatements and the ongoing dependency on consultants for financial reporting are unsustainable and only short-term solutions. The impact of vacancies and instability on financial planning and reporting needs urgent attention to ensure that the required skills and capacity are in place.

The weaknesses highlighted in this section result in residents not being provided with assurance that public funds are being accounted for correctly, indicating a lack of accountability, transparency and integrity.

Information technology (IT)

We live in an age of digital transformation. Local government should thus be looking at how it can deliver services in smarter, more efficient ways. To provide reliable and accurate information and services, municipalities need to invest in IT systems that will adequately meet the needs of the communities they serve and increase the efficiency of their operations.

Over the years, we have identified significant control weaknesses in local government's IT environment, which compromise the accuracy of local government's financial records and interrupt service delivery.

In this section, we report on the ongoing shortcomings in the areas IT governance, information security, and IT projects and contracts.

Information technology governance for a good control environment

The goal of IT governance is to improve the overall management of the investment in information and technology, and to make sure that value is derived from such investment. If done correctly, this will help local government to effectively manage its IT risks and ensure that IT-associated activities are aligned with overall business objectives.

Although the situation has improved since last year, almost three-quarters of the 79 municipalities that we selected for IT audits (57 municipalities, or 72%) still had ineffective IT governance processes that were concerning or required intervention. Without an effective IT governance framework, control environments will be vulnerable to abuse or misuse. An ineffective framework also increases the risk of runaway IT projects that take longer and are more costly than planned.

While we are seeing some municipalities take steps towards improving IT governance, a lot more needs to be done to make the processes effective. We noticed that IT governance frameworks were well defined, but still needed to be implemented or were not operating as effectively as they should. Although IT steering committees had been established, they were not yet effective due to a lack of representation. Most concerning, however, is that accounting officers, senior managers and councils did not fulfil their responsibilities to ensure that municipalities improve in this area.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

As a result of these shortcomings:

- » municipal IT budgets were not properly monitored to ensure that expected business value and benefits were delivered
- » municipalities relied too much on vendors to provide IT services and spent more on consultants due to vacancies or a lack of skilled IT staff
- » management did not get the assurance it needs because the internal audit functions did not have enough IT resources, skills or capacity to evaluate the internal IT control environment, perform IT risk management and evaluate governance processes
- » most of the 79 municipalities (71 municipalities, or 90%) lacked appropriate controls despite some having implemented expensive enterprise resource planning systems that can automate controls in their financial management, human resource and procurement processes.

Information security for safe systems

Information security governance is a component of IT governance and is therefore prone to the same shortcomings highlighted above. We pay special attention to weaknesses in this area because of the risk of cyberattacks on municipalities.

As we reported in our previous general report, hackers successfully exploited the security weaknesses at some of the municipalities that we rated as weak over the past few years. This resulted in key local government services not being available for some time, hackers demanding ransom and significant fraud being perpetuated.

Currently, 56 of the 79 municipalities (71%) still have ineffective information security controls. Although this is an improvement from last year, most of South Africa's municipalities continue to be at serious risk.

The main reasons for a lack of basic security controls were that management did not:

- » periodically review firewall activities, violations and rules
- » enforce implementation of internal controls
- » monitor access and audit logs
- » enforce appropriate IT risk management practices and standards of good practice, such as network and operating system security and firewall configuration
- » have appropriate tools to respond to cybersecurity risks.

Management of information technology projects and contracts

At 40% of the municipalities that we audited, ineffective project management and an inability to determine key requirements resulted in IT projects (on which R45,2 million had been spent since they began) failing to meet time, cost, quality or business expectations. IT contracts were also not always concluded in the best interest of the municipalities that we audited, with the contracts selected at 33% of municipalities not delivering the intended value.

As with most of the projects that we describe in the section on infrastructure for service delivery, the IT projects and contracts that we audited were plagued by poor project and consequence management, with accounting officers not fulfilling their responsibilities to oversee these areas.

In addition, we identified the following causes of failing IT projects and contracts:

- » In many cases, system implementation projects were delegated to IT management without adequate project governance and oversight.
- » There were no proper consequences for failed or delayed projects.
- » There were no valid or feasible business cases for projects or contracts.
- » Projects were not adequately governed and overseen.



PREV



NEXT



- » Contracts were either not signed or not available to us for auditing due to a lack of management intervention and involvement.
- » Municipalities contracted for more software licences than they required because service providers offered bulk discounts for procuring many licences at a time.
- » Municipalities did not always have service-level agreements in place with third parties; or where they did exist, services were not monitored in line with the agreements.



Examples of IT project and contract management failures

- » **Sekhukhune District Municipality** (Limpopo) planned to implement a payroll system by November 2022, but did not have an approved business case or establish a formal project management committee to monitor the implementation of the project. We identified several weaknesses related to poor project governance that can negatively affect the success of the project in terms of timelines, budget and deliverables. As this project was still ongoing at the time of our audit, we will evaluate the possible impact of the weaknesses during the next audit cycle.
- » **Buffalo City Metro** (Eastern Cape) planned and started a system implementation project valued at R7 million. Although the metro had drawn up and specified the business requirements, there was no approved business case and the metro had already spent R552 198 on the project during the year. In addition, the metro did not have any monitoring tools to monitor the use of software licences it paid for, resulting in payments of an estimated R2,6 million for licences it did not use.
- » In 2019, **City of Johannesburg Metro** (Gauteng) procured software licences with the goal of implementing the Municipal Standard Chart of Accounts and doing an overall upgrade of its financial system. Although the implementation was delayed, the metro continued to pay for these software licences despite not using all of them. We notified the municipal manager of this material irregularity in November 2022.
- » **Nelson Mandela Bay Metro** (Eastern Cape) procured more licences for its operating system software than it needed and paid an estimated R50 million for licences and products that it did not use. The metro disclosed the spending on unused licences as fruitless and wasteful expenditure. We notified the municipal manager of this material irregularity in November 2022.
- » **Emfuleni Local Municipality** (Gauteng) spent R35 million on supporting and maintaining the system it uses for billing revenue and generating statements without having a signed contract with the vendor, which resulted in irregular expenditure.



PREV



NEXT

Conclusion

Local government should be using information and technology to deliver services efficiently and effectively to the people of South Africa, and to maintain accurate financial records. However, local government's information systems are fraught

with inadequate governance disciplines, weak security controls, poor project and consequence management, and insufficient oversight, which could lead to information being compromised and service delivery being interrupted.

Pressure on local government finances

In our previous general report, we reported on the financial deterioration in local government over the term of the previous administration. This downward trend continued in the first year of the new administration, putting further pressure on the ability of municipalities to operate and provide services.

This section shows that local government is financially distressed due to reduced revenue and funding and because municipalities are not prudently spending the limited funds available.

Local government is financially distressed

Municipalities must assess their financial position at year-end using criteria included in the accounting standards. They do this by analysing their financial information and making calculations to conclude on whether their revenue is more than their expenditure (in other words, if they made a profit), they have more assets than liabilities, there is enough money in the bank to pay their debt, and they foresee sufficient funding in future to cover what it will cost to deliver services.

If, based on this assessment, they have serious concerns about their ability to perform their functions and honour their financial and performance commitments in future with the funds they have (or can get), they must disclose this in their financial statements.

The financial position of 70 (29%) of the 241 municipalities where we completed our audits was so dire that they had to disclose significant doubt about their ability to fully operate in future. These municipalities included City of Tshwane and Mangaung metros in Gauteng and the Free State, respectively, which together were responsible for 10% of the total local government budget and for service delivery to 9% of the households in the country.

Many of these municipalities made this disclosure multiple times over the term of the previous administration. It means that they were not fully operational for many years because of their financial position. Typically these are the municipalities that do not pay Eskom and water boards on time and do not deliver services at the required level.



PREV



NEXT

*Municipalities in concerning financial position and consecutive years in this position***Eastern Cape (10)**

Amahlati LM	5
Blue Crane Route LM	1
Dr Beyers Naudé LM	3
Enoch Mgijima LM	5
Inxuba Yethemba LM	5
King Sabata Dalindyebo LM	>5
Kou-Kamma LM	>5
Makana LM	>5
Raymond Mhlaba LM	>5
Walter Sisulu LM	1

Limpopo (5)

Bela-Bela LM	1
Greater Letaba LM	1
Modimolle-Mookgophong LM	>5
Musina LM	3
Thabazimbi LM	>5

Mpumalanga (5)

City of Mbombela LM	>5
Emalaheni LM	>5
Govan Mbeki LM	3
Lekwa LM	>5
Thaba Chweu LM	5

Free State (11)

Dihlabeng LM	>5
Letsemeng LM	>5
Mangaung MM	>5
Matjhabeng LM	>5
Moqhaka LM	>5
Nala LM	>5
Ngwathe LM	>5
Phumelela LM	5
Setsoto LM	>5
Tswelopele LM	>5
Xhariep DM	>5

Northern Cape (14)

!Kheis LM	>5
Dikgatlong LM	>5
Emthanjeni LM	5
Hantam LM	1
Gamagara LM	>5
Kamiesberg LM	>5
Khâi-Ma LM	>5
Magareng LM	>5
Nama Khoi LM	>5
Renosterberg LM	1
Siyathemba LM	3
Thembelihle LM	>5
Ubuntu LM	>5
ZF Mgcawu DM	1

Gauteng (6)

City of Tshwane MM	2
Emfuleni LM	3
Merafong City LM	1
Rand West City LM	>5
Sedibeng DM	>5
West Rand DM	5

North West (7)

City of Matlosana LM	>5
Kgetlengrivier LM	4
Lekwa-Teemane LM	>5
Maquassi Hills LM	>5
Naledi LM	4
Ramotshere Moiloa LM	4
Tswaing LM	>5

KwaZulu-Natal (9)

Impendle LM	1
Mpofana LM	>5
Msunduzi LM	4
Newcastle LM	4
Nkandla LM	1
Ugu DM	5
Ulundi LM	>5
uMzinyathi DM	1
uThukela DM	>5

Western Cape (3)

Beaufort West LM	>5
Cederberg LM	2
Kannaland LM	4



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

When we analysed the financial statements of the 217 municipalities with audit opinions other than disclaimed or adverse, we found 56% of them to have indicators of financial strain. If not attended to, this can result in significant doubt about their ability to continue operating.

By year-end, just over half of all municipalities (52%) owed their creditors more money than they had available in the bank as they continued to spend money they did not have. The total deficit in local government for the year amounted to R11,87 billion, while 79 municipalities (36%) had spent more money than they had generated.

As a result, municipalities were using their budget for the next year to cover their spending in the current year. At 32% of municipalities, their current liabilities were more than 50% of their next year's revenue budget. This means that the 2022-23 budget will pay for spending that had already taken place, either in 2021-22 or in prior financial years. This cycle is likely to continue unless municipalities reduce expenditure and generate additional revenue, which is highly doubtful given the prevailing economic conditions and overall economic outlook.

Reduced revenue and funding

The main source of revenue for most municipalities is the rates and taxes paid by property owners and consumers of municipal services (what we call 'own revenue'). The problem with own revenue is that municipal consumers (including government institutions) are not paying municipalities what they owe – this has been a trend for many years and has been made even worse by the continuing economic downturn. This means that while a municipality's revenue might look healthy on paper, the money does not reach the bank.

We estimate that municipalities will be able to recover only 34% (R112,88 billion) of own revenue. Municipalities took an average of 231 days to collect the amounts they were owed. In 2021-22 alone, municipalities wrote off R39,63 billion in debt that was not paid to them. Municipalities therefore often depend on the money they receive from national government in the form of an equitable share to stay afloat. In 2021-22, this amounted to R77,84 billion.

While the economic downturn does affect revenue collection, municipalities do not always play their part either – they do not always bill all the revenue they are owed and poor debt-collection practices are common. In addition to highlighting these concerns through our audit findings, we also issued material irregularity notifications where municipalities were suffering material financial losses because of these practices.



PREV



NEXT



Examples of material irregularities because of poor revenue management

- » **Vhembe District Municipality** (Limpopo) did not bill a significant number of consumers for the water they used because meters were not read monthly. This unbilled revenue resulted in an estimated financial loss of R92 million. The non-billing continued in 2021-22.
- » **uMkhanyakude District Municipality** (KwaZulu-Natal) did not take any steps to collect long-outstanding debt for services provided, resulting in an estimated financial loss of R115,89 million.
- » From June 2020 to July 2021, **Buffalo City Metro** (Eastern Cape) did not calculate revenue for refuse removal services for several properties that should have been billed, resulting in a likely financial loss of R23,73 million.



Although municipalities continue to lose money because they do not bill revenue, when we notified them of material irregularities, they improved their systems and revenue management practices to prevent further financial losses. We provide more details on this in the section on material irregularities.

Every year, municipalities lose significant revenue because of the water and electricity distribution losses that they suffer due to ageing infrastructure and poor maintenance, as detailed in the section on infrastructure for service delivery. These losses put even more pressure on municipal finances.

An acceptable norm for water distribution losses is between 15% and 30%, with anything above 30% indicating that water infrastructure is not being managed well. More than half of the municipalities across the country (53%) recorded an average water loss above the norm. In total, 93% of the 139 municipalities that are water service providers incurred water distribution losses of R11,91 billion, although some municipalities disclosed their water losses in kilolitres rather than in rands. We elaborate further on infrastructure management and maintenance in the section on infrastructure for service delivery.

Rating agencies use financial statements as an instrument to help them determine how much risk there is in lending money to a municipality. The credit rating assigned to a municipality can affect both its ability to borrow money and the cost of doing so. Poor credit ratings lead to higher borrowing costs, which place more pressure on the public purse. By 30 June 2022, at least one rating agency had downgraded the credit ratings of four metros – Nelson Mandela Bay (Eastern Cape), City of Johannesburg (Gauteng), City of Ekurhuleni (Gauteng) and City of Cape Town (Western Cape). If economic conditions get worse, more metros could be downgraded, which could lead to reduced funding or increased borrowing costs, especially for key infrastructure projects needed to deliver services to the public. As cash-strapped consumers fall behind on paying municipal rates and taxes, credit-rating agencies are increasingly concerned that because of falling revenue, metros may not be able to repay their debt or source cash from capital markets to meet future obligations.

Lack of prudence in spending limited funds

Local government is losing billions of rand each year because of poor decisions, neglect or inefficiencies. Fruitless and wasteful expenditure has continued to increase. In 2021-22, it more than doubled, rising from R2,15 billion to R4,74 billion. Since 2019, we have also identified non-compliance and fraud through our material irregularity process, resulting in an estimated R5,19 billion in financial loss.

The main reasons municipalities are losing money include:

- » poor payment practices when paying suppliers of goods and services
- » unfair or uncompetitive procurement practices when procuring goods and services
- » no or limited benefit received for money spent
- » fraud committed by officials.

Poor payment practices

With limited cash in the bank, municipalities prioritise paying salaries and councillor remuneration, which came to R121,47 billion in 2021-22, or 64% of municipalities' estimated recoverable own revenue and the equitable share allocation they receive from national government. They then use what is left to pay municipal suppliers, including Eskom and the water boards, which are essential for the supply of basic services.

Contracts awarded to suppliers must be actively managed to ensure that the suppliers deliver at the right time, price and quality before municipalities make any payments. Municipalities must also pay their bills on time to avoid interest and penalties. Not only is it standard financial management practice to implement controls and processes to manage payments, it is also required by the Municipal Finance Management Act.



PREV



NEXT



Examples of material irregularities on goods and services not received or because of overpayments

- » From July 2019 to June 2022, employees at **King Sabata Dalindyebo Local Municipality** (Eastern Cape) received both housing and rental allowances of R1,41 million in contravention of municipal policy. The accounting officer has taken action by investigating the matter, updating the payroll system to prevent further losses from taking place and instituting disciplinary processes against officials in response to the notification we issued in November 2022.
- » In April 2019, **Intsika Yethu Local Municipality** (Eastern Cape) paid R18 million to a service provider for road construction materials that were not delivered and for construction work that was not performed. The accounting officer has taken action by investigating the matter to determine the disciplinary processes that should take place in response to the notification we issued in November 2021.
- » During June 2020, **uMkhanyakude District Municipality** (KwaZulu-Natal) paid suppliers R1,75 million based on invoices relating to covid-19 infrastructure projects without confirming whether the goods had been received before the payment was made. Instability in the accounting officer position resulted in action not being taken to address this matter in response to the notification we issued in April 2021.

Although municipalities are required to pay their creditors within 30 days, most (84%) took longer than this to pay their creditors. On average, it took municipalities 258 days to pay their creditors, up from 249 days in the previous year. The late payments affect the cash flow of local government suppliers, which is in sharp contrast to the objectives of stimulating the economy and supporting smaller businesses in particular. Due to these late payments, suppliers and contractors stop delivering to municipalities, which results in projects not being completed and performance objectives not being achieved.

Eskom and the water boards are in the difficult situation of being required to continue delivering services despite not being paid. By year-end, municipalities owed Eskom and the water boards R36,36 billion and R14,34 billion (including interest), respectively.

Adding to these financial woes, local government is losing billions of rand each year because of interest and penalties. In 2021-22 alone, the fruitless and

wasteful expenditure resulting from this came to R3,58 billion. Where municipalities were suffering material financial losses because of such interest and penalties, we issued material irregularity notifications.

While we acknowledge that many municipalities are in financial distress, they do collect money for electricity services and receive funding from national government to subsidise electricity to those unable to pay for basic services. However, the Eskom and water boards accounts go unpaid because municipalities use these funds for other purposes.

Some municipalities, such as Setsoto Local Municipality (Free State), Ugu District Municipality (KwaZulu-Natal), Dr Beyers Naudé Local Municipality (Eastern Cape) and Merafong City Local Municipality (Gauteng), improved their processes for addressing arrears by entering into debt and repayment agreements with essential service providers. This has resulted in a decrease in future interest charges as well as improved controls to prioritise paying essential service providers.





Examples of material irregularities because of interest and penalties

- » In 2019-20, **City of Mbombela Local Municipality** (Mpumalanga) racked up R31,31 million in interest because it did not pay Eskom on time.
- » From July 2019 to April 2020, **Raymond Mhlaba Local Municipality** (Eastern Cape) was charged interest and penalties because it did not pay over tax of R1,73 million deducted from employees to the South African Revenue Service within seven days of the month in which it had been deducted.

Unfair or uncompetitive procurement practices

Local government needs fair and competitive procurement processes to get the best value for its limited funds and to give suppliers fair and equitable access to government business.

In local government, failures in these areas often affect communities directly if contractors are not

performing, suppliers are providing poor-quality goods, and municipalities are losing money due to overpricing. The procurement process is also where the risk of fraud is highest, which is why we pay particular attention to this area during our audits.

Status of compliance with supply chain management legislation



We continued to identify and report shortcomings because of municipalities not complying with procurement and contract management legislation, which in some cases resulted in irregular expenditure.

Uncompetitive and unfair procurement processes and inadequate contract management remained widespread. We reported findings (62% of which were material) on uncompetitive and unfair procurement processes at 83% of municipalities, and contract management findings (39% of which were material) at nearly half of all municipalities (47%). At some municipalities, uncompetitive and unfair

procurement processes resulted in (or are likely to result in) financial losses because the goods and services procured could have been obtained at a lower price or because a contractor was appointed that could not deliver. We notified the municipal managers of these material irregularities.

The aim of preferential procurement legislation is to support socioeconomic transformation. The public sector should lead by example to achieve this goal, but we again found that some municipalities are failing in this area. At 71 municipalities (29%), the preference point system was either not applied or not applied correctly. Municipalities are also





1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

supposed to procure certain commodities from local producers as per the Preferential Procurement Regulations. Municipalities failed in this area as well, with 92 of the 181 municipalities (51%) at which we audited local content not complying with the regulation on promoting local producers for awards totalling R4,5 billion.

Legislation prohibits municipalities from awarding contracts to, and accepting quotations from, employees, councillors or other state officials, or entities owned or managed by them, if they are in the service of the municipality or any other state institution. This is intended to prevent conflicts of interest. We identified these prohibited awards throughout the term of the previous administration, and this practice continued in 2021-22. We identified that awards totalling R250,15 million had been made to employees and councillors at 19 municipalities, and that awards totalling R2,49 billion had been made to other state officials at 134 municipalities.

While municipalities are not prohibited from making awards to close family members of employees and councillors, legislation does require the municipality to disclose any such awards of more than R2 000 in its financial statements for the sake of transparency, as they could create conflicts of interest for employees or councillors. We identified R920,02 million in awards to close family members at 68 municipalities, while 18 municipalities did not disclose awards to close family members valued at R218,49 million in their financial statements as required.

This and other forms of non-compliance with supply chain management legislation remained the biggest contributor to the irregular expenditure municipalities incurred in 2021-22.

Municipalities disclosed a total of R30,34 billion in irregular expenditure in 2021-22 – significantly more than the R22,40 billion in the previous year. The biggest contributors to this huge increase were Buffalo City Metro in the Eastern Cape (R6,21 billion increase), uMkhanyakude District Municipality in KwaZulu-Natal (R1,33 billion increase) and King Sabata Dalindyebo Local Municipality in the Eastern Cape (R1,30 billion increase), mainly because they disclosed irregular expenditure incurred in prior years.

This amount could be even higher, as 31% of municipalities did not report all the irregular expenditure they should have reported in their financial statements. In other cases, the amount of irregular expenditure reported was incorrect. We also could not audit contracts worth R2,42 billion because of missing or incomplete information. City of Tshwane Metro (Gauteng) was the municipality with the most missing information – the metro could not provide supporting documents for the award of four tenders (mostly for public lighting infrastructure and professional engineering services on construction projects) worth R0,89 billion because it did not have proper document management in place.

As part of our audits, and to point oversight and municipal public accounts committees in the direction of areas where they should focus their attention, we assessed the impact of the irregular expenditure incurred. We found that R26,57 billion arose from breaches of legislation. In cases where procurement was not fair, transparent, competitive and cost effective, municipalities acquired goods and services worth R21,79 billion at prices that may have been higher than necessary because they either did not adequately test market prices or choose the most cost-effective options. Unfair procurement could also lead to municipalities being exposed to litigation due to breaches of procurement processes and, as a result, funds intended for service delivery might be diverted to pay legal fees. The remaining R4,78 billion related to procurement that was not equitable; for example, municipalities did not advance previously disadvantaged individuals and small businesses.

We also assessed whether municipalities got value for the money they spent in cases where they incurred irregular expenditure. We identified goods and services worth a total of R43,44 million that were of poor quality or for which the prices charged were above market value. Where these instances resulted in a material financial loss, we notified municipal managers of material irregularities or were busy assessing the matters as potential material irregularities.



PREV



NEXT



Examples of material irregularities due to higher prices paid

- » In February 2020, **Emalahleni Local Municipality** (Mpumalanga) awarded a contract for updating and maintaining its immovable asset register to a bidder that did not score the most points in the evaluation process. The municipality ended up paying higher prices than it should have, which resulted in an estimated financial loss of R6,78 million. The accounting officer did not appropriately address the material irregularity in response to the notification we issued in December 2021 and we referred the matter to the Public Protector in November 2022.
- » In January 2020, **Amajuba District Municipality** (KwaZulu-Natal) awarded a contract for the construction of a reservoir and associated infrastructure. However, the municipality did not evaluate a bidder that submitted a lower price and did not provide any objective reasons for having done so. The discarded bidder's price was R2,46 million lower than the price of the bidder that was awarded the contract. Although the accounting officer committed to investigate the matter in response to the notification we issued in February 2022, the material irregularity was not appropriately addressed due to delays in completing the investigation as well as in implementing the actions stemming from the investigation. We included recommendations on the next steps to be taken in the municipality's 2021-22 audit report.

No or limited benefit received for money spent

For municipalities to get the most from their contracts with suppliers, they must make decisions that are economical and in their own best interest. Some municipalities received limited benefit for the money they spent, which resulted in (or is likely to result in) financial losses because they did not need and should not have acquired the goods and

services. We notified municipal managers of these material irregularities.

Some of these material irregularities related to the use of financial reporting consultants, as covered in the section on financial planning and reporting. We give some other examples next.



Examples of material irregularities as no or limited benefit was derived from cost

- » **Amajuba District Municipality** (KwaZulu-Natal) terminated the construction of a disaster management centre that began in 2014 based on the contractor's poor performance. The municipality then appointed a service provider and started installing information and communication technology equipment in the building. Due to the construction delays, the equipment could not be used in 2019-20, resulting in a likely financial loss of R2,8 million.
- » From July 2020 to June 2021, **Chris Hani District Municipality** (Eastern Cape) paid a contractor R20 million for an extension-of-time claim even though the contractor had caused the delays.
- » In May 2020, **Ngaka Modiri Molema District Municipality** (North West) acquired four generators at prices that were not market related, resulting in an estimated financial loss of R1,17 million.



PREV



NEXT

Fraud

One of the key responsibilities of municipal managers, chief executive officers, senior managers and municipal officials is to implement and maintain effective and efficient systems of internal control. At some municipalities, the lack of basic controls, including those relating to good record keeping,

payment approvals and information technology systems, created an environment in which it was easy to commit fraud – which then resulted in (or is likely to result in) financial losses. We notified municipal managers of these material irregularities.



Example of material irregularity because of losses due to fraud

- » Between May 2018 and January 2020, **eThekweni Metro** (KwaZulu-Natal) paid R21 million to a service provider for consultation services without any evidence that the services had been received.

Interventions

The Department of Corporate Governance identified 66 municipalities as dysfunctional in 2021-22, at which interventions are ongoing. According to the National Treasury's 2021 report on the state of local government finances and financial management, the High Court directed national government to intervene in Lekwa Local Municipality in Mpumalanga because of an ongoing financial and service delivery crisis.

The president then directed the National Treasury to identify municipalities that are in a similar situation. To ensure that municipal failures are addressed consistently, the National Treasury in consultation with the Department of Cooperative Governance prepared an assessment that considered four pillars of sustainability – financial health, service delivery, institutional arrangements and governance. They identified 43 municipalities that were in a state of financial and service delivery crisis, thus requiring immediate attention.

The National Treasury and the Department of Cooperative Governance have implemented various initiatives to assist these municipalities, such as placing them under intervention and rolling out the municipal finance improvement programme, which includes support and capacity-building initiatives. National Treasury intervention is also now taking place at two more municipalities – Mangaung Metro in the Free State and Enoch Mgijima Local Municipality in the Eastern Cape. However, often interventions come far too late. The problems at municipalities that are in a financial and service delivery crisis did not happen overnight but are the result of a steady breakdown in basic services over several years. Without proper maintenance, coupled with inadequate oversight, these municipalities deteriorated to a state of complete crisis.



PREV



NEXT



Examples of municipalities under intervention

- » At **Lekwa Local Municipality** (Mpumalanga), the National Treasury prepared a credible financial recovery plan that was approved by the finance minister in October 2021 and is still in place. Every month, the municipality submits the progress it has made against this plan to the National Treasury. Based on our assessment, the implementation process is slow as the municipality is still busy implementing the rescue phase, which is the first phase of the plan.
- » **Mangaung Metro** (Free State) was placed under provincial intervention from January 2020 to April 2022, without achieving the desired effect. In April 2022, the finance minister placed the metro under national intervention. The National Treasury determined that the financial recovery plan prepared during the provincial intervention was outdated and a new plan was developed. Although several interventions are still underway, the situation at the metro is unlikely to improve in the short term due to instability in the council, which has resulted in the city manager's position remaining vacant from July 2021 and an overall high vacancy rate across the metro.
- » The finance minister placed **Enoch Mgijima Local Municipality** (Eastern Cape) under national intervention in April 2022. The intervention team ensured that the council adopt a financial recovery plan in January 2023, while the provincial treasury has confirmed that the municipality's budget is funded.



Conclusion

National and provincial government are starting to intervene to address the financial and service delivery crisis within local government. However, credible turnaround plans and strategies are only successful if they focus on addressing the underlying root causes, namely the slow response when it comes to implementing intervention plans,

lack of political will, insufficient capacity, and resistance to change. If these matters are not addressed, local government will not be able to successfully manage financial pressures. Not only will municipalities find themselves in an untenable financial position, but service delivery will also be compromised.

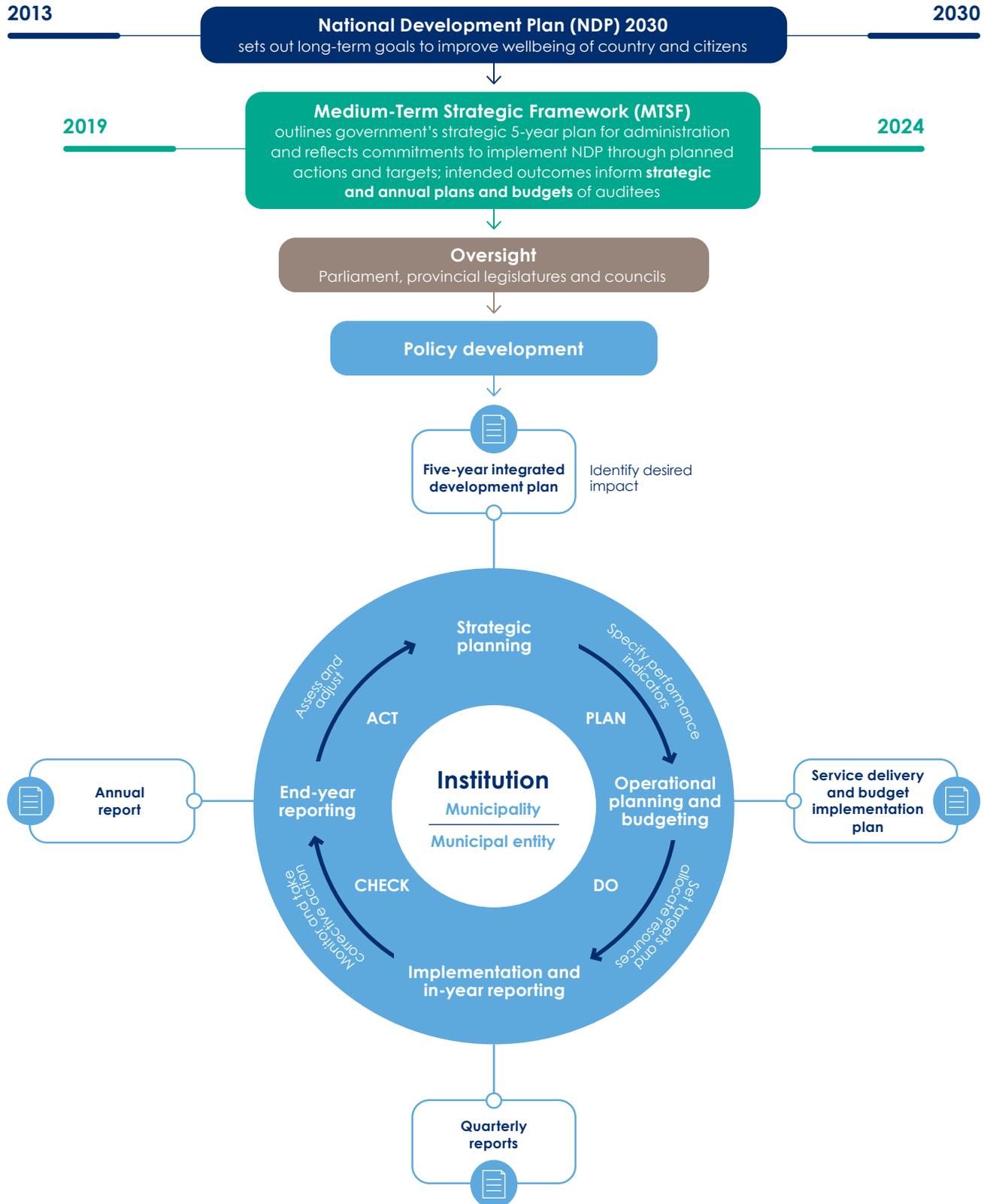


Service delivery planning, reporting and achievement

Public frustration at the lack of service delivery is high, as reported by various civil society organisations and as can be seen from the frequent service delivery protests. Businesses are closing because of persistent challenges with water, electricity and road infrastructure, further hampering economic development.

This is not unexpected when one considers municipalities' poor financial management and weak financial health and the failing state of their infrastructure. A key contributing factor is also municipalities' inability to plan for, monitor and report on their performance. These continuing weaknesses in the most critical part of municipal operations are not receiving the necessary attention.

Planning, budgeting, monitoring and reporting process





Some of the **specific roles** in this process are:

- » **Municipal managers:** Responsible for planning and budgeting for service delivery and ensuring that internal controls are in place to account for performance through credible reporting (*sections 62, 69 and 72 of Municipal Finance Management Act and section 55 of Municipal Systems Act*).
- » **Mayors:** Responsible for approving planned service delivery and budget implementation and holding the municipal manager accountable through performance management processes (*sections 52, 53 and 54 of Municipal Finance Management Act and section 30 of Municipal Systems Act*).
- » **Councils:** Responsible for approving the budget, adopting planned service delivery and budget implementation and monitoring quarterly performance reports (*section 16 of Municipal Finance Management Act and section 4 of Municipal Systems Act*).
- » **Audit and/or performance audit committees:** Responsible for assisting council with its in-year monitoring responsibilities (*section 166 of Municipal Finance Management Act and Municipal Planning and Performance Management Regulation 14*).
- » **Members of executive councils for local government:** May assist municipalities with monitoring and support during the preparation of planning documents and must submit reports on the performance of municipalities to the provincial legislature and cooperative governance minister (*sections 31 and 47 of Municipal Systems Act*).

At the start of each new administration's term, municipalities establish an integrated development plan to inform all their planning, budgeting, management and decision-making, which can be revised every year if needed. Unique to local government is that the public participates in the process as a way of ensuring that their needs will be met over the five-year term.

Municipalities must also plan in detail for what they have to deliver every year and over the term of the administration. They do this in their service delivery

and budget implementation plan to ensure that the integrated development plan and the budget are properly aligned. They then record how well they have achieved their targets in their performance report so that the council can hold municipal managers responsible and the public can hold council accountable when comparing the progress they have made against their commitments. Good planning, in-year performance management, consistent monitoring, and useful and reliable reporting, are crucial for the administration to achieve its service delivery commitments.

Even though there are well-designed processes with defined responsibilities for planning, achieving and reporting on how municipalities deliver on their mandates and their integrated development plans, these processes are neglected and poorly implemented and the public continues to experience a lack of delivery across all municipal categories.

In the rest of this section, we focus on the areas where this poor implementation is most visible – inadequate annual planning, poor in-year monitoring, unreliable reporting, and service delivery failures.

Inadequate planning

A key part of the performance planning process in local government is public participation in the development of integrated development plans, which gives communities an opportunity to influence the strategic direction of a municipality to ultimately benefit the people it serves.

We assessed the public participation at all eight metros and eight selected municipalities across the country that received clean audits in the previous year to confirm whether such participation took place and how successful these municipalities were in collating the needs of citizens as a mechanism to enable service delivery. The eight municipalities we selected were Winnie Madikizela-Mandela (Eastern Cape), Midvaal (Gauteng), Okhahlamba (KwaZulu-Natal), Steve Tshwete (Mpumalanga), Hantam (Northern Cape), Drakenstein and Overstrand (Western Cape) local municipalities as well as Waterberg District Municipality (Limpopo).



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

While we observed that the public took part in the process to develop the plans, the intent of public participation was not always achieved. For example, municipalities did not always distinguish between formal and informal households in their performance indicators and budgets, which prevented them from effectively addressing the service delivery challenges within informal communities and from ensuring that resources were equitably distributed.

Integrated development plans cannot on their own address all the concerns of the people of South Africa – municipalities need to prioritise services based on the available budget. Community needs do not always fall within the municipalities' mandate, such as in areas where Eskom provides electricity directly. This often leads to dissatisfaction with municipalities if they do not provide adequate feedback on service delivery expectations.

The Public Audit Act requires us to annually audit the performance reports of every municipality and municipal entity in the country to provide the user of the reports with some assurance that the information in the report is a true reflection of the institution's performance against its planned objectives. This mandate given to us by Parliament is testament to the importance of performance reporting – placing it at the same level as financial statements.

Every year, we audit specific service delivery information to determine whether the information in the performance reports is useful enough to enable the council, the public and other users of the reports to assess the municipality's performance. When we raise material findings on municipalities' performance reports, this means they generally struggled to:

- » align their performance reports to the predetermined objectives they had committed to in their integrated development plan and their service delivery and budget implementation plan
- » set clear performance indicators and targets to measure their performance against the reported objectives.

Our main findings on planning for service delivery follow.

Incomplete annual service delivery plans

In our audits, we assess the completeness of the performance indicators municipalities include in their service delivery and budget implementation plans to determine if all municipalities are planning to deliver on their core functions (such as providing water and sanitation, electricity and waste management services and enabling local and economic development).

In total, 26 municipalities did not include all the performance indicators in their plans that were relevant to their core function. A target that is not measured is not funded and is unlikely to be delivered, further contributing to service delivery backlogs.

We report the findings on incomplete planning to municipal managers and do not include them in the audit report as material findings, which means that it does not have an impact on a municipality's audit outcome. We plan to elevate these findings to the audit report in future to further compel municipalities to address the significant shortcomings in the planning process.

In response to the challenge of inconsistent planning and reporting, as well as a lack of focus on outcomes, the National Treasury reviewed, rationalised and streamlined the planning and reporting requirements for metros, introducing common performance indicators in 2018-19, which metros had to use for planning and reporting. But implementation has been slow and significant inconsistencies remain. Some metros did not include the common performance indicators in their planning documents, while others included only selected performance indicators. The implementation challenges were mainly because of a lack of budget, capacity, supporting systems and processes. The benefits of this initiative have therefore not yet been realised.



PREV



NEXT



Only Nelson Mandela Bay (Eastern Cape), Mangaung (Free State) and City of Tshwane (Gauteng) included all common performance indicators in their service delivery and budget implementation plans, while the other five metros are phasing in these indicators. City of Cape Town (Western Cape) did not include

all the performance indicators in its plan and performance report, despite reporting to the National Treasury quarterly and annually on these indicators. Where metros did not include these indicators in their performance report, the reliability of the reported achievements was not audited, which limits transparency and accountability.

Examples of core functions not included in service delivery and budget implementation plans

Metro	Basic services	Performance indicator
Buffalo City (Eastern Cape) City of Ekurhuleni (Gauteng) City of Cape Town (Western Cape)	Water and sanitation	Frequency of unplanned water service interruptions
Buffalo City (Eastern Cape) City of Cape Town (Western Cape)		Percentage of wastewater samples compliant with water use licence conditions
City of Cape Town (Western Cape)	Energy and electricity	Percentage of unplanned outages that are restored to supply within industry standard timeframes
City of Johannesburg (Gauteng) City of Ekurhuleni (Gauteng) City of Cape Town (Western Cape)	Housing and community facilities	Percentage of households living in adequate housing
City of Ekurhuleni (Gauteng) City of Cape Town (Western Cape)		Number of informal settlements assessed (enumerated and classified)



PREV



NEXT

Fully adopting the common performance indicators will help metros to plan and report uniformly and credibly on key areas relevant to communities and will also improve accountability for performance, which will contribute to improved service delivery. While there are still challenges when it comes to implementing the planning and reporting reforms, metros (through government intervention) are responding to the challenge of inconsistent planning by using sector technical working groups more to discuss the relationship and impact of performance indicators on service delivery and by benchmarking their own performance against those of their peers.

Performance indicators not measurable or relevant, and annual targets set at zero

The performance indicators that municipalities include in their plans should be measurable so

that the required performance can be easily understood, and consistently and accurately reported. These indicators should also be relevant so that municipalities can be held accountable for achieving the outcomes for which they are responsible. The targets for these indicators should be informed by the desired level of performance and the allocated budget and should be directed towards achieving the municipality's integrated development plan.

In total, 45% of municipalities included performance indicators in their service delivery and budget implementation plans that were not measurable or for which they did not have systems to collect the data needed for reporting, creating an opportunity for unreliable reporting. In addition, the performance indicators and targets included did not always relate logically to each other.

Examples of performance indicators that are not measurable

Municipality	Performance indicator	What we found
Enoch Mgijima Local Municipality (Eastern Cape)	Percentage of complaints/callouts responded to within 24 hours – sanitation/wastewater Percentage of complaints/callouts responded to within 24 hours – water	There were no systems in place to record complaints received to determine whether the callouts were responded to within 24 hours.
City of Tshwane Metro (Gauteng)	Number of informal settlements with access to rudimentary water	Indicators were not well defined as it was not clear what constitutes access to water/ water services delivered. The systems in place could only confirm that water was paid for. The municipality indicated that it measured access based on the number of times water was provided daily, but this was not evident. There were also no systems in place to collect data to report on the indicator.
Rustenburg Local Municipality (North West)	Percentage of drinking water samples complying with SANS 241	The method of calculating the percentage was not clear as it did not specify the number of samples collected, the dates they were collected and the number of reports received from the laboratory.



Examples of targets that are not relevant (i.e. there is no logical link between indicators and targets)

Municipality	Performance indicator	Target
Newcastle Local Municipality (KwaZulu-Natal)	To finalise and submit the environmental impact assessment report to the Department of Economic Development, Tourism and Environmental Affairs for approval of the landfill site	Discussion with estate agent
Richmond Local Municipality (KwaZulu-Natal)	Collection of planned refuse removal	Number of signed weekly schedules



Some metros set targets of zero so that they could claim compliance with the requirement to include the common performance indicators.



Examples of metro targets set at zero

- » **eThekweni Metro** (KwaZulu-Natal) set targets of zero for seven performance indicators and then reported a zero achievement against these targets. These included three targets to provide housing, community facilities and local economic development, and one target related to the environment and waste management.
- » **Nelson Mandela Bay Metro** (Eastern Cape) set targets of zero for five performance indicators for which an achievement of zero was then also reported. These included hectares of land acquired for human settlements in priority housing development areas and the number of informal settlements assessed.

Limited support and intergovernmental coordination

Municipalities do not plan in isolation, as government was intended to work together across the national, provincial and local spheres. Planning is done within municipalities, provincial departments and other transferring departments. Little impact has been achieved through the support that provincial departments provide to local government to ensure that municipalities improve their planning and reporting so that they can achieve their service delivery targets.

For example, the member of the executive council responsible for local government in the Northern Cape committed to review the service delivery and budget implementation plans of municipalities in the province. However, because the provincial department did not properly understand what had been committed to, it reviewed the performance agreements of senior managers instead.

Another example is Richmond Local Municipality in KwaZulu-Natal, which requested support from the cooperative governance department to review its performance management system processes, including reviewing its service delivery and budget implementation plans and quarterly reports. However, the support was provided too late to have an impact.

It is expected that once the district development model has been implemented, all three spheres of government will coordinate and integrate development plans and budgets and mobilise the capacity and resources of government.



Reporting on delivery not credible

Every year, we audit specific service delivery information to determine whether the information in the performance reports is useful and reliable enough to enable the council, the public and other users of the reports to assess the municipality's performance. When we raise material findings on municipalities' performance reports, this means they generally struggled to report reliably on whether they have achieved their performance targets.

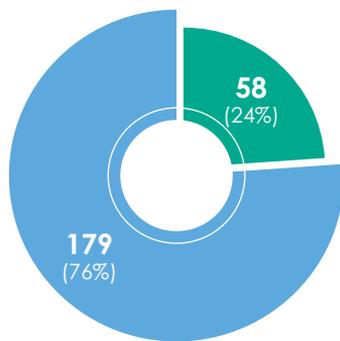
Renosterberg, Siyancuma, Siyathemba and Ubuntu local municipalities in the Northern Cape did not prepare performance reports, which meant that there was no transparency on, or accountability for, their performance – to the detriment of their residents.

The situation at Renosterberg is particularly dire: the municipality has not prepared a performance report for the past 13 years. It also did not have an approved integrated development plan or a service delivery and budget implementation plan. The municipality has been dysfunctional for many years with a 100% vacancy rate at senior manager level, a weak control environment, and most employees lacking appropriate skills and competencies. Performance management responsibilities have also not been allocated to any official.

It does not bode well for service delivery that over three-quarters (76%) of the 237 municipalities that prepared performance reports submitted poor-quality reports for auditing.

Quality of performance reports before and after auditing – municipalities

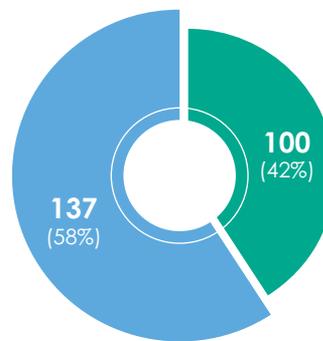
Before audit adjustments



● With findings ● With no findings

Although there are performance management and reporting frameworks that clarify definitions and standards for performance information, including the requirements for integrated structures, systems and processes to manage performance information, most municipalities did not have adequate systems to collect and report on their performance information and did not properly apply performance management and reporting requirements.

After audit adjustments



● With findings ● With no findings

The poorly prepared performance reports and significant activity to make corrections in response to the audit also raise questions about the credibility and effectiveness of in-year performance reporting. Poor monitoring and corrective action throughout the year contribute to municipalities being unable to achieve their performance targets or reliably report on their performance. Councils and oversight bodies (such as municipal public accounts committees) also use in-year reporting for monitoring purposes; without reliable information, their monitoring process will not be effective.





Opinions on performance reports – overall and breakdown per municipal category

	Unqualified	Qualified	Adverse	Disclaimed		Movement from last year of previous administration
Overall	104 42%	93 38%	11 5%	36 15%	244	28 (Improvement) 40 (Regression)
Metropolitan municipalities	2 25%	2 25%	2 25%	2 25%	8	0 (Improvement) 1 (Regression)
Intermediate cities	11 29%	22 58%	0 0%	5 13%	38	4 (Improvement) 5 (Regression)
District municipalities	21 56%	11 30%	1 3%	4 11%	37	1 (Improvement) 5 (Regression)
Local municipalities	60 41%	53 37%	8 6%	23 16%	144	23 (Improvement) 26 (Regression)
Municipal entities	10 59%	5 29%	0 0%	2 12%	17	0 (Improvement) 3 (Regression)

 Improvement
  Regression





1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

The declining quality of performance reporting was due to management's slow response to address weaknesses raised in the previous year, performance plans and reports not being adequately reviewed, and vacancies in key positions. This mainly occurred at district and local municipalities and at municipal entities and was most prevalent in Gauteng, North West, KwaZulu-Natal, Mpumalanga and the Eastern Cape.

The main reason for the unreliable performance reports was that municipalities were using manual processes to gather data, and these processes are prone to human error that may not be detected and corrected in time. The required levels of review did also not take place, including those by audit committees and internal audit units. We saw little evidence that senior officials, municipal leadership and oversight were supervising and monitoring quarterly reporting, which resulted in inadequate monitoring and management throughout the year.

When municipalities do not have credible data and information, it reduces their ability to plan for service delivery, to respond to any challenges that could arise, and to make decisions. For example, if a municipality cannot reliably measure the percentage of complaints or callouts responded to within 24 hours for sanitation and wastewater, it may end up with either too few or too many staff members or standby teams to respond to complaints and callouts.

We also found inconsistencies between the performance indicators and targets municipalities included in their service delivery and budget implementation plans and what they reported in their performance reports.

Examples of inconsistency between planning and reporting

Municipality	Planned performance indicator and target	Reported performance indicator and target
City of Johannesburg Metro (Gauteng)	Total water losses – 27%	Total water losses – to be determined
Rustenburg Local Municipality (North West)	Percentage of known informal settlements receiving basic refuse removal services by 30 June 2022 – 83%	Percentage of weekly solid waste removal by 30 June 2022 – 83%
!Kheis Local Municipality (Northern Cape)	Number of single residential properties with access to basic level of sanitation – 2 800 residential properties	Number of single residential properties with access to basic level of sanitation – 183 households



PREV



NEXT

We could not always obtain evidence for the achievements municipalities reported because of a lack of complete and accurate information. Where evidence was provided, it did not always

support the achievement reported. This means that municipalities could have achieved less than they reported, or even that the reported achievements might not have taken place at all.

Examples of achievements reported without sufficient evidence

Municipality	Performance indicator	Target	Reported achievement*
Nelson Mandela Bay Metro (Eastern Cape)	Percentage of complaints/callouts responded to within 24 hours – sanitation/wastewater	100%	23,78%
Mangaung Metro (Free State)	Percentage of total water connections metered	100%	81,1%
City of Tshwane Metro (Gauteng)	Percentage of known informal settlements receiving basic refuse removal services	86%	92%
eThekweni Metro (KwaZulu-Natal)	Percentage of valid customer applications for new electricity connections processed in terms of municipal service delivery standards	50%	46%

* We could not audit the reported achievements due to a lack of credible information and/or processes

The development of the municipal performance module of the District Development Model Information Management System is an ongoing initiative of the Department of Cooperative Governance to support provincial cooperative governance departments. When completed, the system is expected to automate the performance reporting of standardised local government performance indicators at both municipalities and provincial cooperative governance departments to enable consistent and credible reporting.

While most internal audit units and audit committees performed their legislated functions, including evaluating the reliability of performance information, this was not effective as the quality of the performance reports we received for auditing remained poor.



PREV



NEXT

Services not delivered

Municipalities did not achieve the targets set for the year, resulting in the expected services not being delivered. The non-achievement of planned targets should serve as basis for accountability conversations by the different roleplayers in the accountability ecosystem.



Examples of zero achievements of planned targets

- » **Mangaung Metro** (Free State) achieved only 13% of the planned targets for the key performance area related to basic service delivery. It reported an achievement of zero for seven performance indicators relating to the provision of water and sanitation. One of these indicators was the percentage of wastewater treatment capacity unused. The wastewater treatment works of the metro were not functional because of inadequate and poorly maintained infrastructure. The planned upgrades at Sterkwater had not been started and the new treatment works at Maselspoort had not been completed due to excessive delays. This means that the wastewater treatment works could not increase their capacity, improve wastewater quality and reduce foul odours, creating a hazard to the environment and the surrounding communities.
- » **City of Tshwane Metro** (Gauteng) reported a zero achievement for the percentage of households it provided with basic refuse removal services. The metro also did not achieve planned targets related to key service delivery performance indicators on water, sanitation and electricity.



PREV



NEXT

Examples of underachievement of planned targets

Municipality	Performance indicator	Target	Reported achievement	Percentage underachieved
Buffalo City Metro (Eastern Cape)	Number of dwellings provided with connections to the mains electricity supply	780	643*	17,56%
Nelson Mandela Bay Metro (Eastern Cape)	Number of dwellings provided with connections to the mains electricity supply by the municipality	1 260	590	53,17%
City of Ekurhuleni Metro (Gauteng)	Percentage of callouts resolved within 24 hours – water	85%	18%	79,76%
eThekweni Metro (KwaZulu-Natal)	Electricity losses (technical and non-technical) as a percentage of electricity purchases	≤8,5%	11,28%	32,71%
City of Cape Town Metro (Western Cape)	Number of human settlements opportunities provided (formal sites serviced)	1 940	1 423	26,65%

* The underachievement should be considered in the context of the reported achievement also not being reliable



Some municipalities are responsible for providing water, either directly as water services authorities or by managing water service provision through local municipalities that operate as water service providers. In 2022, the Department of Water and Sanitation reported in the national Blue Drop risk rating that just over a third (34%) of the country's water supply systems were in the high risk or critical risk category, raising potential health concerns for the consumers who receive water from these supply systems.

Similarly, municipalities are responsible for a range of environmental functions, including waste management, pollution control and the management of natural resources such as land and water. The National Environmental Management Act and the National Water Act require municipalities to take reasonable measures to prevent, minimise and rectify pollution.

Examples of underachievement against planned waste management and water quality targets

Municipality	Performance indicator	Target	Reported achievement	Percentage underachieved
Richtersveld Local Municipality (Northern Cape)	Percentage of water quality level obtained as per SANS 241 physical and micro parameters as at 31 December 2021 and 30 June 2022	95%	0% – No monthly reports done	100%
Blue Crane Route Local Municipality (Eastern Cape)	Number of bacteriological water samples and chemical water samples taken	96 bacteriological water samples and 4 chemical water samples taken	87 bacteriological water samples and 3 chemical water samples taken	9,38% (bacteriological water samples) 25% (chemical water samples)
Bela-Bela Local Municipality (Limpopo)	Percentage of work completed for the construction of sewer outfall from Aventura pump station to wastewater treatment works	86%	67%	22,09%

Municipal managers do not ensure that in-year monitoring controls and project management disciplines are in place so that planned service delivery targets can be achieved on time, within budget and at the right quality. We discuss this in more detail in the section on infrastructure for service delivery.

Where municipalities are getting service delivery right, the impact is also felt by the community. We found that the common denominators across these municipalities were that they had invested in complaint management systems that are accessible and user friendly and that they acted

swiftly to resolve any faults reported. For example, at Hantam Local Municipality in the Northern Cape, most complaints were resolved on the same day or within a day or two at most.

Next we share examples of some of the practices we observed at municipalities with clean audit outcomes. There is not always a direct correlation between a clean audit outcome and good service delivery, but a clean audit allowed these municipalities to focus on also improving their service delivery planning, reporting and achievement.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET



Examples of service delivery practices and delivery at municipalities with clean audits

- » **Midvaal Local Municipality** (Gauteng) sustained a clean audit outcome for the ninth consecutive year and achieved 89% of its basic service delivery targets. The municipality has embedded strong internal controls and has linked good financial and operational practices to constantly improve service delivery. The municipality has rigorous community participation in the drafting of its performance plans and community needs are considered. Funding is directed appropriately due to sound budgeting principles and basic service delivery targets are met. Its municipal area is characterised by proper road infrastructure, clean sidewalks and safe walkways, a clean community pool, and well-maintained water and sanitation infrastructure. The municipality is largely able to collect its consumer debt as residents are willing to pay their municipal bills in recognition of the services they receive.
- » **Hantam Local Municipality** (Northern Cape) maintained a clean audit status for the second year and achieved 79% of its basic service delivery targets due to strong financial controls and senior management driving a culture of accountability, governance and performance. The municipality is able to provide quality services to the surrounding communities despite its limited resources. Road infrastructure is maintained and informal settlements are provided with water and sanitation services. The municipality has a robust public participation process that affords residents the opportunity to provide inputs into the municipality's performance plans. Budgets are aligned to the strategic objectives of the municipality, which also considers informal households.
- » **City of Ekurhuleni Metro** (Gauteng) received a clean audit for the third year in a row and achieved 77% of its basic service delivery targets. The metro prioritises problems highlighted during public participation processes. For example, in response to the community raising concerns relating to flooding caused by dilapidated infrastructure, the metro included this matter in its performance plan and delivered on its commitments by building 26 stormwater systems against the target of 17.



PREV



NEXT

Conclusion

Councils, national and provincial government and oversight structures are not paying enough attention to addressing the continuing failures in municipalities' service delivery planning, reporting and achievement. If those responsible continue to neglect these challenges, this will severely affect local government's ability to deliver basic services, which will further erode public trust. In the next section, we focus on the importance of infrastructure, and infrastructure maintenance, as a key enabler for improved service delivery.

We recommend the following to enable complete annual service delivery planning and reporting, accountability for effective reporting and the achievement of planned service delivery:

- » Municipal managers should ensure that service delivery plans include all the required performance indicators and insist on in-year monitoring controls and project management disciplines so that planned service delivery is achieved on time, within budget and at the required quality.



- » Mayors and councils should be more persuasive in their quest for good-quality and credible service delivery plans and performance reports. They should also hold municipal managers and senior managers accountable for failing to fulfil their responsibilities.
- » Councils should ensure that budgets and service delivery plans are responsive to the needs of the community. They should further use in-year monitoring to confirm whether the mayor and municipal manager are taking corrective steps to address poor performance.
- » Audit and/or performance audit committees should interrogate the planning documents and quarterly performance reports of municipalities with the necessary vigour to effectively fulfil their oversight role – thereby assisting councils to make informed decisions.
- » The members of the executive council for local government should ensure that good-quality section 47 reports are submitted to the provincial legislatures and the cooperative governance minister on time so that these reports can be used to facilitate the necessary interventions to address any shortcomings in service delivery.
- » National and provincial departments of cooperative governance should support municipalities to improve their planning and reporting of key performance indicators through capacitation and monitoring.
- » Municipalities must have policies, procedures and monitoring mechanisms in place for proper record keeping and a sound control environment to ensure that complete, relevant and accurate information is accessible and available to support performance reporting and to enable senior management to hold staff accountable for their actions.



PREV

Infrastructure for service delivery



NEXT

Municipal infrastructure plays a key role in supporting service delivery. During the floods in the Eastern Cape and KwaZulu-Natal in April and May 2022, lives were lost, livelihoods were destroyed and service delivery infrastructure was severely damaged. The effects of the flooding were worsened by the lack of well-maintained infrastructure such as stormwater drains and water services development plans, which also reduced government's ability to help people with basic services and restoration.

The basic services that the people of South Africa are entitled to receive – access to clean water, sanitation, electricity, refuse removal services, public transport and good roads – cannot be delivered without infrastructure. The country's existing infrastructure must also be properly maintained to ensure that it remains in a workable and safe condition throughout its lifespan. However,

the existing infrastructure has not kept pace with the growing demands in the country and there is a backlog in both building new infrastructure and maintaining the existing infrastructure needed to provide basic services.

Government has responded to these needs with aggressive infrastructure investment programmes. Infrastructure investment is also a key component of the Economic Reconstruction and Recovery Plan that was introduced in 2020 to improve economic growth. According to the National Treasury's 2022 budget review report, government budgeted R62,1 billion in 2021-22 for infrastructure spending in local government.

Every year, we audit infrastructure and report to municipal managers on the status of selected infrastructure projects, as well as on deficiencies and inadequate infrastructure maintenance.

We focus on critical infrastructure such as water, wastewater treatment, electricity, housing, public transport and roads, as failure to deliver on the promised new infrastructure in these areas directly affects the public and deprives them of the basic services they are entitled to receive. Despite this, we have seen little change and we continue to identify the same issues every year.

In the remainder of this section, we share the findings, insights and root causes from our audits of grant management, infrastructure project delivery and infrastructure maintenance.

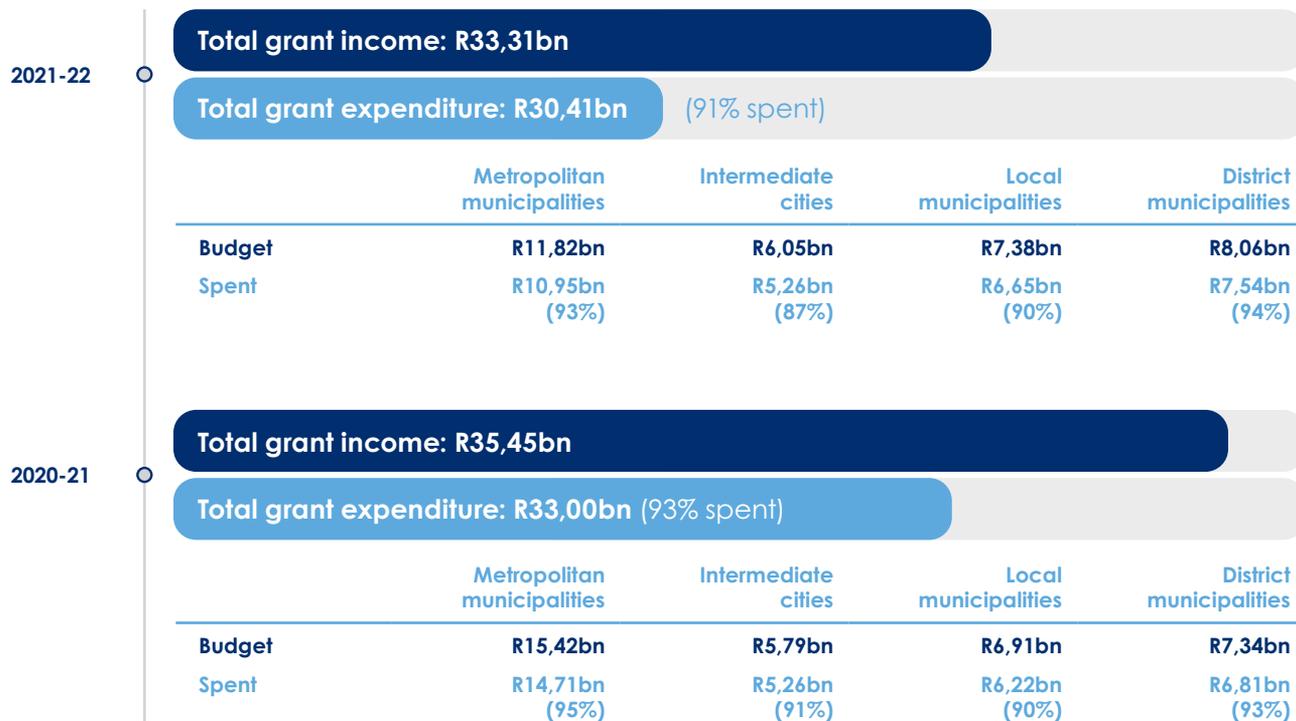
Grant management

National government provides municipalities with grants for infrastructure development and maintenance.

Although municipalities sorely need these grants to finance their infrastructure projects, they often do not spend all the grant funding, and in 2021-22 they did not spend a total of R2,91 billion (9%). Municipalities can apply to roll over any unspent funds, but if this is not approved, the unspent grant funding is returned to the department that provided the grant.

In 2021-22, metros had to return a total of R0,65 billion in unspent urban settlements development and public transport network grant funding to the National Treasury, more than double the R0,24 billion they returned in the previous year. The underspending contributed to projects being delayed or not implemented, and to planned completion milestones not being achieved.

Management of infrastructure grants



Underspending on infrastructure grants

	Grant	Spent	Unspent	Underspent by more than 10%
Municipal infrastructure grant (190 municipalities)				
Purpose of grant: Fund projects to build and upgrade municipal infrastructure				
Transferring national department: Cooperative Governance				
Clean municipalities	R1,11 billion	R1,10 billion	1%	42 municipalities (22%)
Disclaimed municipalities	R0,64 billion	R0,57 billion	11%	
Other municipalities	R12,61 billion	R11,77 billion	7%	
Total	R14,37 billion	R13,44 billion	6%	
Municipalities with highest underspending				
Emthanjeni Local Municipality (NC)		70%	Caused by: Delays in appointing contractors, poor project and contract management, and project delays due to contractors not being paid	
Nama Khoi Local Municipality (NC)		68%		
Matjhabeng Local Municipality (FS)		57%		
Urban settlements development grant (8 metros)				
Purpose of grant: Fund projects to assist in improving households' access to basic services through providing bulk and reticulation infrastructure as well as urban land production to support broader urban development and integration				
Transferring national department: Human Settlements				
Clean metros	R2,12 billion	R2,08 billion	2%	1 metro (13%)
Other metros	R5,40 billion	R5,07 billion	6%	
Total	R7,52 billion	R7,15 billion	5%	
Metro with highest underspending				
Mangaung Metro (FS)		34%	Caused by: Planned projects funded from other sources, and no other projects selected	



PREV



NEXT

Underspending on infrastructure grants (continued)

	Grant	Spent	Unspent	Underspent by more than 10%
Public transport network infrastructure grant (11 municipalities)				
Purpose of grant: Fund accelerated construction and improvement of public and non-motorised transport infrastructure				
Transferring national department: Transport				
Clean municipalities	R1,83 billion	R1,80 billion	2%	5 municipalities (45%)
Other municipalities	R3,22 billion	R2,49 billion	23%	
Total	R5,05 billion	R4,29 billion	15%	
Municipalities with highest underspending				
City of Mbombela Local Municipality (MP)		75%	Caused by: Delays in projects, funds being received late, delayed approval processes for work to start, and termination of contract for poor performance	
Mangaung Metro (FS)		41%		
Polokwane Local Municipality (LP)		40%		
Regional bulk infrastructure grant (36 municipalities)				
Purpose of grant: Fund projects to develop new – and refurbish, upgrade and replace ageing – water and wastewater infrastructure of regional significance, which connects water resources to infrastructure serving extensive areas across municipal boundaries, or large regional bulk infrastructure serving numerous communities				
Transferring national department: Water and Sanitation				
Clean municipalities	R0,12 billion	R0,12 billion	0%	9 municipalities (25%)
Disclaimed municipalities	R0,06 billion	–	100%	
Other municipalities	R2,75 billion	R2,38 billion	13%	
Total	R2,93 billion	R2,50 billion	15%	
Municipality with highest underspending				
Kgatelopele (NC)		100%	Caused by: Poor planning processes, which contributed to delays in appointing contractor	



**Underspending on infrastructure grants (continued)**

	Grant	Spent	Unspent	Underspent by more than 10%
Water services infrastructure grant (96 municipalities)				
Purpose of grant: Facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services, especially in rural municipalities				
Transferring national department: Cooperative Governance				
Clean municipalities	R0,44 billion	R0,43 billion	2%	39 municipalities (41%)
Disclaimed municipalities	R0,11 billion	R0,09 billion	18%	
Other municipalities	R2,89 billion	R2,50 billion	13%	
Total	R3,44 billion	R3,02 billion	12%	
Municipalities with highest underspending				
Siyancuma Local Municipality (NC)	94%	Caused by: Delays in appointing contractors, and poor project and contract management		
Govan Mbeki Local Municipality (MP)	92%			
Rustenburg Local Municipality (NW)	84%			



PREV

Overall, the main reasons for underspending on infrastructure grants were poor planning, delays in appointing contractors and inadequate contract management. The underspending of these key infrastructure grants shows that the affected municipalities have failed to deliver on the promises they made to their residents. To better understand the root causes behind this underspending, we unpack the results from our site visits to infrastructure projects later in this section.

Money was also not always spent in accordance with the grant framework. For example, 14 municipalities that received municipal infrastructure grant funding (7% of recipients) did not use the funds for their intended purpose. The same was true for three municipalities receiving regional bulk infrastructure grant funding (8% of recipients) and 12 municipalities receiving water services infrastructure grant funding (13% of

recipients). Collectively, grant funding was not spent for its intended purpose at three disclaimed municipalities. Some municipalities, such as the Ngwathe, Dihlabeng and Letsemeng local municipalities in the Free State and Dikgatlong Local Municipality in the Northern Cape, used grant money to fund their operations because of their cash-flow constraints. Some municipalities, such as the Kgatelopele and Khâi-Ma local municipalities in the Northern Cape, did not have sufficient controls in place when making payments using grant funding, such as evidence to support the payments made.

The inappropriate spending and underspending of these grants contributed to the delays in completing infrastructure projects that would have improved service delivery to residents, such as access to water, housing and public transport.



NEXT

Infrastructure project delivery

Municipal infrastructure projects are financed through a combination of the conditional grants mentioned above and municipalities' own funds. To determine how these funds were used, our audit work included site visits to 249 infrastructure projects with a combined value of R18,8 billion located across 81 municipalities (including all eight metros) and three municipal entities. Twenty of the projects were funded through municipal revenue, while the rest were funded by the infrastructure grants. We focused on critical water, sanitation, housing, transport and electricity infrastructure needed to deliver basic services to the public.

We reported findings on more than half (55%) of the projects we visited. We found that, all too often, infrastructure delivery projects have been delayed, are costing more than planned or are of poor quality, while newly built infrastructure is not put into use as quickly as it should be.

Delays in projects

Of the projects we selected for auditing, 31% were completed late or were still under construction after the contractual completion dates. The average delay on these projects was 15 months.

Average delay in completion of projects

(period between planned and actual completion date, or project is still ongoing)





Examples of project delays

- » **Harry Gwala District Municipality** (KwaZulu-Natal) was charged standing time in March 2020 by a contractor for delays incurred during the construction of the Gala bulk pipeline, which resulted in a financial loss of R8,09 million. The delays were because the supplier responsible for supplying the pipes required for the project delivered them six months later than planned. We issued a notification of a material irregularity on this matter to the municipal manager, who is taking appropriate action in response.
- » The rapid transport project of **Rustenburg Local Municipality** (North West) aimed to provide a reliable public transport system by 2020, but by September 2022 the project still had not been completed, with multiple contractors having been appointed because previous contracts were terminated. During our site visit, we observed that some of the partly completed construction work had deteriorated and had been vandalised. By year-end, the municipality had spent R3,51 billion on the project since it started. The municipality had also paid contractors more than it should have for the work done and had not recovered the funds after the contracts were terminated. The quantity surveyor calculated that the first and second contracts were overpaid by R8,10 million and R25,12 million, respectively. We recently notified the municipal manager that the overpayment constitutes a material irregularity.
- » In September 2009, **City of Johannesburg Metro** (Gauteng) appointed an implementing agent for the Lehae housing development project, which was to be completed within three years. However, at the time of our site visit 13 years later, only 1 420 (70%) of the 2 023 planned houses had been completed and handed over to beneficiaries. The remaining 552 serviced stands and 51 houses that were still under construction were illegally occupied. The metro could not confirm whether the remaining houses had been completed and we could not get confirmation on whether and when houses would be allocated to the 603 qualifying beneficiaries (from informal settlements such as Dlamini Camp, Mshenguville, Old Vista, Thembelihle, Kapok, Orlando Coal Yard and Eikenhoff), who have been waiting for their houses since the project began in 2010. Because the metro had never finalised the memorandum of agreement with the implementing agent, project costs nearly doubled from the initial R636,87 million to R1,21 billion. We are busy assessing the matter as a possible material irregularity.



PREV



NEXT

Infrastructure projects are often completed behind schedule because municipalities do not allocate enough capital expenditure in their budgets to

cover construction costs. This results in the projects being stopped or delayed until the municipalities can secure additional funding.

Examples of infrastructure projects delayed or stopped because of insufficient budgeting

Metro	Project name	Contract value	Impact on service delivery
City of Tshwane Metro (Gauteng)	Flooding backlog: network 3A, Kudube unit 9	R10 million	The area is vulnerable to flooding and the delay will have an impact when there are heavy rains
City of Johannesburg Metro (Gauteng)	Construction of roads in Braamfontein as part of nodal regeneration	R21 million	Daily public commuting and movement of goods and services will be affected

Cost overruns

Delays and poor contract management often cause project costs to increase, as can be seen in the examples on project delays. Contractors did not always make adequate progress during the term of their contract; and replacing them resulted in significant project delays and escalating project costs.



Example of cost overruns

- » In February 2021, **Emakhazeni Local Municipality** (Mpumalanga) started a project to refurbish and upgrade the Machadodorp water treatment works at a cost of R35,37 million. By the end of the 2021-22 financial year, the municipality had already spent R31,37 million and the project was not yet complete. In July 2022, the municipality terminated the contractor's services. Because of poor contract management, the council did not approve an increase of R0,75 million in the contract amount for the services of a consulting engineer. The municipality did also not put in any claims against the contractor's retention and sureties for R3,9 million spent on services that were not rendered, penalties that were not charged despite an eight-month delay, construction materials that were bought on behalf of the contractor and not claimed back, storm damage that was not claimed from the contractor's insurer, and poor build quality (such as the incorrect size of the concrete wall and exposed reinforcement bars). Because of these issues, the municipality did not receive value for the money it spent and its residents do not have access to clean drinking water, even from its own taps, posing a health risk. We will follow up and report on this matter in future reports and will consider the possibility of material irregularities.

Poor build quality

Municipalities appoint contractors to carry out work in line with quality standards and to ensure that infrastructure is safe, functional and will last. However, municipalities did not always identify quality defects during construction; or, if they

did identify such defects, they did not hold the contractors accountable. The construction work at 34 of the projects we audited (14%) was not at the required level of quality.



PREV



NEXT



Examples of poor build quality

- » **Buffalo City Metro** (Eastern Cape) awarded a contract of R87,64 million that was due to begin in April 2022 to develop a 275-unit township in Cambridge West. This amount included the construction of bulk earthworks for building platforms, roads, water supply, sanitation and storm water infrastructure. During our October 2022 site visit, we saw various quality issues, such as the following:
 - » Poor-quality sewer trench backfills and oversized materials, which could lead to pipes being damaged during compaction and leaks in the trenches
 - » Substandard compaction along sewer trench backfills, which could lead to leaks caused by pipes opening at joints
 - » Open sewer trenches that were not barricaded, increasing the safety hazard to the public

Excess oversized materials not per specifications



Substandard compaction



- » The Giyani water works has two water treatment streams that are supposed to serve about 55 villages in **Greater Giyani Local Municipality** (Limpopo). The first water treatment stream, which supplies 30 megalitres of raw water per day, is currently experiencing major water losses due to technical issues, such as 11 of the 16 rapid sand filters not working. Work on refurbishing the treatment plant began in January 2023 and is planned to be completed in December 2023, at a total cost of R40,17 million. Construction on the second water treatment stream was completed in 2014 with a total spend of R17,46 million (including spending by the Department of Water and Sanitation). The stream, which supplies six megalitres of raw water per day, is currently not working because the structural integrity of the reinforced concrete filters and the clear water pumphouse building are compromised. This has led to villages in Giyani experiencing shortages of clean drinking water. The municipality is currently investigating the matter and we will follow up and report progress in subsequent reports. We will also consider the possibility of material irregularities.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

Commissioning

Commissioning is the final phase in completing a project. Infrastructure can often not be used as intended because of a lack of coordination and collaboration between municipalities and various levels of government. Often, municipalities did not request assistance in time, or waited too long to apply for the required permits or licences for infrastructure projects, or only requested input on the scope of infrastructure projects from other contributing roleplayers in government after the projects had already begun because they were

not aware of these requirements. This resulted in municipalities having to redesign or change the scope of infrastructure during the construction phase.

Similarly, other government entities did not always complete the requested work within acceptable timelines due to their own constraints and priorities, and did not issue permits or licences in time for infrastructure projects to start as planned, to continue or to be commissioned, which led to inefficiencies.



Examples of delayed commissioning of projects

- » **Mopani District Municipality** (Limpopo) paid R12,99 million to the original contractor appointed for the Mametja-Skororo regional water scheme project. This contractor's services were later terminated and a second contractor was appointed. During our November 2022 site visit, we found that the pump station and motor control centre building that the original contractor had completed were not being used, and cables at the motor control centre building had been stolen. This meant that none of the works completed by the original contractor were being used and the municipality did not get any value for the money it had paid to the original contractor. The municipality had also paid R48,96 million for designs to be used on the project, but because the replacement contractor did not use the original designs, the municipality did not receive full value for its payments to the original consultant. We recently notified the municipal manager that the overpayment constitutes a material irregularity.



PREV



NEXT

**Motor control
centre panels not
in use**





Examples of delayed commissioning of projects (continued)

- » **eThekweni Metro** (KwaZulu-Natal) has spent R125,59 million on standing costs on the contract for the integrated rapid public transport network. Route 3 of the project (Bridge City to Pinetown and New Germany), which has a total contract value of R3,48 million, commenced in 2014 and was scheduled to be completed in 2018 but encountered major delays and remains incomplete four years later. This was because of disputes with the taxi association and community disruptions. A total of 26,13 kilometres of the planned 27,5 kilometres and 10 stations have been completed but are not being used because of a deadlock with the taxi association in resolving ownership of the metro's city fleet. The 22 buses that were modified and branded at a cost of R4,52 million are also not being used, resulting in an approximate annual revenue loss of R4,62 million. We will follow up and report on this matter in future reports and are considering the possibility of material irregularities.

Causes of infrastructure project failures

The failures in infrastructure project delivery are due to the following four matters which we have raised before, and which need urgent attention:

1. **Leadership shortcomings**, which included:

- » Leadership was not engaged in the infrastructure delivery process and was thus not aware of project progress to determine whether officials executed their responsibilities and to act if they had not.
- » Standard operating procedures were not in place to guide officials and consultants and to hold them accountable for project failures.
- » Resource planning was not done effectively to ensure technical personnel such as engineers and project managers had the required skills and capacity to manage the infrastructure delivery process.
- » Financial management processes were lacking and so municipalities did not always confirm that funding was available to pay contractors on time, which contributed to delays in project completion.
- » The appointment of officials and the availability of completed infrastructure and services were not properly coordinated to ensure that projects could be commissioned on time.

2. **The lack of appropriate skills** resulted in project managers at municipalities not effectively discharging their responsibilities, such as continuous project monitoring and contract administration.

- » Project managers did not perform the necessary project management and monitoring activities, including checking whether contractors delivered the items paid for and whether the payment certificates contractors submitted contained a full breakdown of the work done. The municipality needs these checks to be done so that it can reconcile the work done onsite to the invoices submitted.
- » Municipal project managers relied on appointed consultants to monitor and report on the quality and progress of projects without regularly reviewing the work done to ensure that contractors and consultants complied with contract conditions and service-level agreements.

3. **A lack of accountability** resulted in contractors performing poorly and delivering projects that were late and of poor quality. Due to the leadership shortcomings detailed in point 1, municipalities did not enforce consequence management processes such



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

as placing contractors on notice to address poor performance according to the contract conditions. Action plans to address poor contractor performance were not properly implemented and concerns were thus not addressed through appropriate interventions and actions. Municipalities accepted or tolerated poor contractor performance until the point where they replaced the contractor, leading to significant additional costs and delays.

4. **A collaborative approach** was not followed for infrastructure projects due to limited intergovernmental coordination.

Infrastructure management and maintenance

Infrastructure assets is one of the financial statement items that is most often misstated. Even though municipalities spent more on consultants for asset management services than on any other financial service, they did not have credible and reliable data for reporting on and managing their infrastructure assets. They also did not always derive the expected benefits from using the consultants, as explained in detail in the section on financial planning and reporting.

Overall, the value of infrastructure assets that local government should maintain and protect totalled R494,35 billion. Municipalities need to budget for repairing and maintaining these assets based on their annual asset maintenance plan, and the National Treasury recommends that they budget at least 8% of the value of their infrastructure assets for this purpose. However, many municipalities allocated less than this in their budgets because of limited financial resources and poor financial management.

In total, the 257 municipalities spent R18,26 billion on repairing and maintaining infrastructure assets, which is roughly 4% of the total value of these assets (the same as in the last financial year). It is particularly concerning that 39% of all municipalities spent 1% or less of the value of their infrastructure on repairing and maintaining these assets. This situation was also prevalent at most metros, with

City of Cape Town and eThekweni being the only two spending within the norm, at 8% and 9%, respectively. eThekweni reprioritised funding to maintain infrastructure previously neglected as a temporary measure in response to the floods during April and May 2022.

Municipalities do not prioritise maintenance during their budget process. As we explain in the section on pressure on local government finances, many municipalities in financial distress use the revenue they generate and their equitable share allocations to pay salaries and administration expenses. They also use grants to fund capital projects rather than maintain existing infrastructure assets.

Preventative maintenance can only be effective if municipalities have maintenance plans in place that are funded and updated, but this is often not the case and these assets are left to deteriorate without defects being rectified swiftly. When municipalities do not maintain their infrastructure assets, this results in lower service level standards affecting water quality and increased water losses, excessive costs for replacing or upgrading infrastructure and equipment, and an increased risk of mechanical breakdowns. It also poses a risk to the health of communities and of potential harm to the environment.

As a water-scarce country, South Africa must protect its water resources, both by managing pollution at the source and by preventing avoidable water losses due to ageing infrastructure that is not properly maintained – as we detail next.

Environmental impact of infrastructure neglect on service delivery

Our environmental inspections of wastewater treatment plants reported findings at 14 of the 16 selected municipalities, including two municipalities with disclaimed audit opinions. The inspections also confirmed that neglected municipal infrastructure and ineffective environmental management polluted water sources, including underground water, and revealed an unacceptable state of wastewater treatment works.



PREV



NEXT



At nine (56%) of the municipalities we selected for our inspections, we found that wastewater discharged at wastewater treatment works did not comply with waste standards and practices (per the Department of Water and Sanitation's Green Drop report of April 2022). Reasonable measures were also not taken to prevent pollution or degradation of the adjacent environment or water resources at 11 (69%) of the selected municipalities. These are Mangaung Metro and Ngwathe, Metsimaholo, Moqhaka and Matjhabeng local municipalities in the Free State; Ugu District Municipality and eThekweni Metro in KwaZulu-Natal; Mopani District Municipality and Bela-Bela Local Municipality in Limpopo; Thaba Chweu Local Municipality in Mpumalanga; and Kgatelopele Local Municipality in the Northern Cape. More information and examples on the environmental impact at disclaimed municipalities are included in the section dealing with those municipalities.

These shortcomings harmed the communities using the water every day for drinking and washing and the farmers using the water for irrigation and for their livestock. The situation at some of these municipalities is well known and has been the subject of investigations by the South African Human Rights Commission and of court cases, but little has been done to rectify the problems. The likely substantial harm to the general public caused by contaminated water sources meets the definition of a material irregularity.

In our previous general report, we reported that we had notified the municipal manager of Maluti-a-Phofung Local Municipality (Free State) of material irregularities at four of its sites, and the municipal manager of Ngaka Modiri Molema District Municipality (North West) of material irregularities at three sites. By 15 February 2023, we had issued notifications to various municipal managers of 24 material irregularities related to their wastewater treatment plants, with more to follow.



PREV



NEXT



Examples of material irregularities on wastewater management

- » **JB Marks Local Municipality** (North West) is responsible for the Ventersdorp wastewater treatment works and related pump stations, which have not functioned properly for more than three years. The Tshing extension 8 pump station has been completely vandalised, causing untreated wastewater to flow into the environment next to the wastewater treatment works and pump station. The Ventersdorp town pump station also remains dilapidated, and sewage has been overflowing into the adjacent Schoonspruit since 2016 with no evidence of any steps being taken to rectify the situation.
- » **Mangaung Metro** (Free State) is responsible for the Botshabelo wastewater treatment works, which does not operate effectively because mechanical and operational equipment is either malfunctioning or not operational. This has resulted in raw, untreated sewage being discharged into the neighbouring environment, including the groundwater and the Klein Modder River and its extended watercourse. The metro did not take reasonable measures to prevent pollution or the degradation of the environment and water sources from occurring, continuing or recurring, which is likely to cause substantial harm to the communities that are exposed to and depend on the contaminated water sources.



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

To resolve these material irregularities, municipalities will need to stop the pollution, repair or rebuild the plants, put measures in place to ensure the infrastructure is maintained, and compensate the people affected by the pollution where applicable. We acknowledge that municipalities might not be able to implement these actions within a short period, but some of the municipal managers have not taken any action or have taken only limited action. We are considering the most appropriate public bodies to refer these matters to for investigation.

Where municipalities take action, we are beginning to see the impact of the material irregularities we had issued. One example is the Coligny wastewater treatment plant and pump station, which are now operating after electricity was restored and backup generators were installed. Ngaka Modiri Molema District Municipality (North West) is responsible for this plant and pump station, which were not working for 18 months in 2020 and 2021, contributing to the continued spillage of raw sewage into the Taibosspruit and extended watercourses, and polluting the groundwater.

In our previous general report, we called on the Department of Water and Sanitation to urgently intervene where water services are in a state of total collapse. We are encouraged by the actions the department is taking, such as the minister issuing a directive for the board of Bloem Water to take over some of the wastewater management functions of Maluti-a-Phofung Local Municipality in the Free State. We raised material irregularities on the state of the Phuthaditjhaba, Harrismith, Kestel and Tshiame plants and pump stations in

March and April 2022. At the department's request, we also provided information on all material irregularities relating to wastewater treatment so that it can take action to intervene and/or support municipalities where needed.

Conclusion

Inadequate maintenance, ineffective planning and poor execution of infrastructure projects over many years have not only affected government's ability to deliver services to the public, but also have significant cost implications, placing further strain on both government finances and the environment. Investing in preventative controls to address the causes of infrastructure project failures is more effective than dealing with the consequences of such failures, which include lengthy delays, poor build quality, financial loss, and harm to the public and the environment.

Over the past few years, we have identified significant deficiencies that led to repeat findings on the economical, efficient and effective use of resources in delivering the infrastructure projects that are key measures of success in implementing the Economic Reconstruction and Recovery Plan. Municipalities did not always monitor and ensure compliance with legislative requirements for environmental management. Our findings on infrastructure projects are not receiving enough attention, and the related challenges continue to affect service delivery, limiting communities' access to water, sanitation, electricity, refuse removal, public transport and road infrastructure and services.



PREV



NEXT



SECTION 3

CONTINUED SPOTLIGHT ON DISCLAIMED MUNICIPALITIES

3

Over the past few years, we have been devoting specific attention to municipalities with disclaimed audit opinions as this is the worst possible audit outcome

A disclaimed audit opinion means that the municipality could not provide us with evidence for most of the information in its financial statements and we could therefore not express an opinion on whether its financial statements were credible or determine what it had done with the funds it received for the year. These municipalities are further typically unable to provide supporting documentation for the achievements they report in their performance reports and do not comply with key legislation.

The lack of transparency in how these municipalities use public funds and deliver services significantly weakens accountability, which in turn leads to their residents being deprived of service delivery and harmed by their actions or inaction.

Our previous general reports and engagements specifically focused on the urgent intervention and support needed from national and provincial government to municipalities with a history of disclaimed opinions. We placed the spotlight on the serious financial management failures at these municipalities and the impact of poor administration on the community, particularly the widespread neglect of infrastructure. We further used our enforcement mandate to accelerate change at these municipalities by issuing material irregularities. Government responded positively by committing to eradicating disclaimed opinions and we are seeing encouraging trends in a short space of time.

In 2021-22, we expanded the work we did on infrastructure and environmental management at repeatedly disclaimed municipalities and delved further into their financial management.

In the rest of this section, we look at the status of municipalities that received disclaimed audit opinions and the impact that material irregularities has had at these municipalities, our findings on financial and human resource management, and our insights on infrastructure neglect and its impact on communities.



PREV



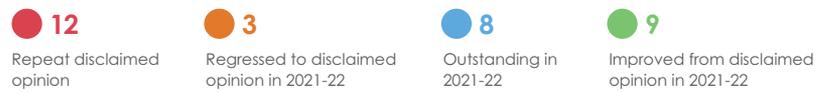
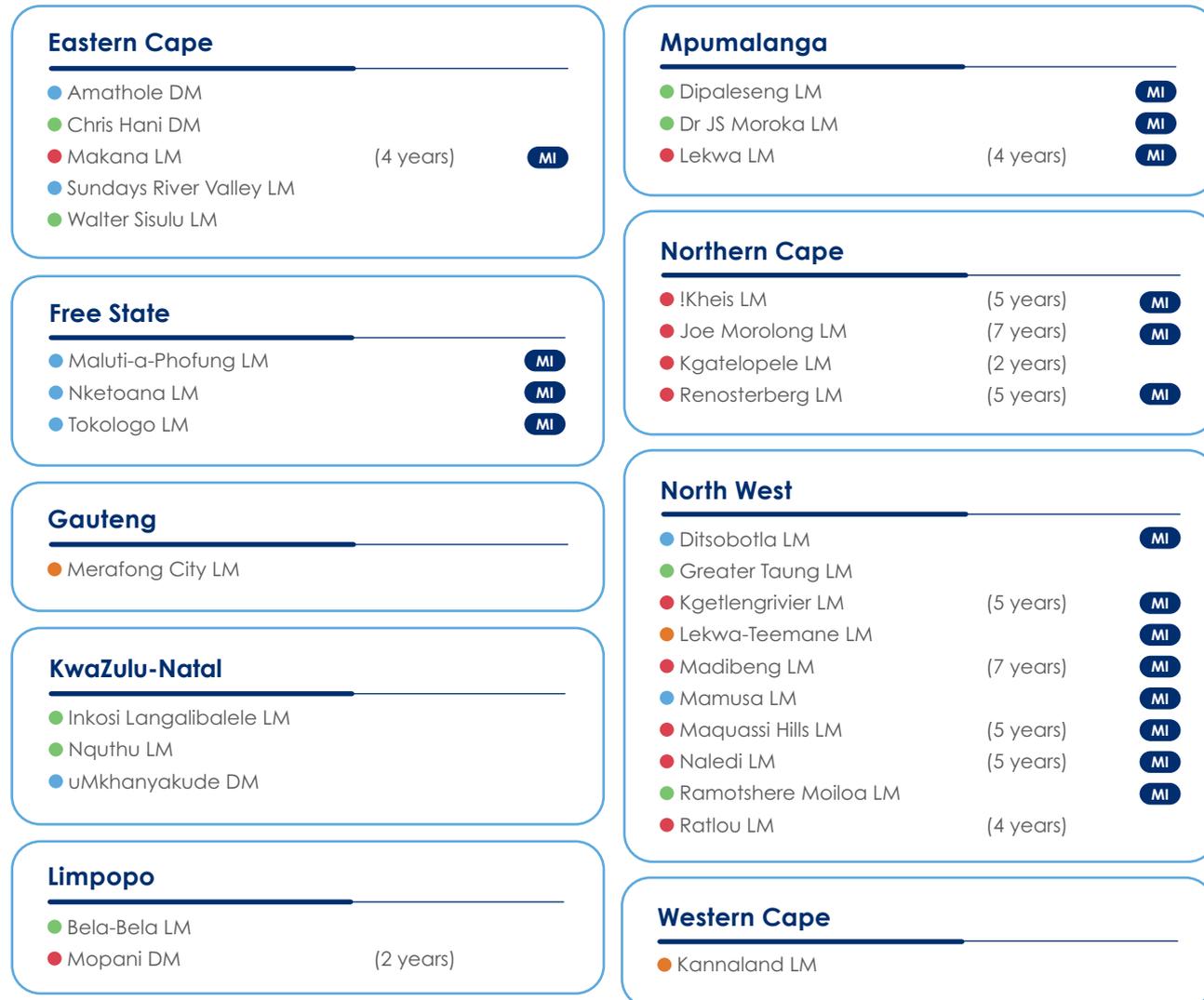
NEXT



Improved status of disclaimed municipalities

In 2021-22, 15 municipalities, or almost 6% of all municipalities, received disclaimed audit opinions. This number could still increase once all audits have been completed. Most of the municipalities that repeatedly received disclaimed audit opinions were in the Northern Cape and North West.

Status of municipalities with disclaimed audit opinions, number of years disclaimed and material irregularities issued





The good news is that nine municipalities improved from previously disclaimed audit opinions because they put in place better internal controls and record keeping, promptly implemented audit action plans and filled key positions. Monitoring and intervention

by coordinating institutions also played a positive role. By strengthening their financial reporting and accountability, these municipalities can now shift their focus towards service delivery to their communities.



Examples of improvement from disclaimed audit opinions

- » The appointment of a new chief financial officer and the timely appointment of consultants at **Chris Hani District Municipality** (Eastern Cape) were key factors in improving the audit outcome. The chief financial officer brought stability to the finance unit and the consultants assisted in resolving the prior-year limitations on infrastructure assets, revenue and receivables, which contributed to the improvement in internal controls.
- » The mayor's involvement in the audit process at **Bela-Bela Local Municipality** (Limpopo), coupled with the premier's message of zero tolerance towards negative audit outcomes, helped to drive the municipality's improvement in its audit outcome. This increased attention and pressure on the municipality to improve created a sense of urgency for management to follow a more focused and diligent approach to improving financial management practices and internal controls.
- » The audit outcome of **Greater Taung Local Municipality** (North West) improved because the municipality effectively used the consultants appointed for asset management through knowledge sharing and continuity.
- » As part of the financial recovery intervention process, and to lessen the financial burden consultant costs place on municipalities, the provincial treasury appointed consultants that were used effectively to assist **Ramotshere Moiloa Local Municipality** (North West) with its financial statements and to address prior-year shortcomings in asset management.



PREV



NEXT

Twelve municipalities remained disclaimed, 10 of which have received disclaimed audit opinions for more than four years. At these municipalities, interventions did not focus on improving the control environment by ensuring that action plans address the root causes of the matters reported and by strengthening record management. There was also instability in key positions and the council and little cooperation with administrators or provincial representatives. It takes time to address the underlying root causes and implement sustainable solutions at disclaimed municipalities, which requires all roleplayers in the accountability ecosystem to work together.

Three municipalities also regressed to disclaimed audit opinions in 2021-22.

Legislation provides for national and provincial government to step in when municipalities do not meet their constitutional obligations. The Department of Cooperative Governance can also classify municipalities as dysfunctional based on poor governance, weak institutional capacity, poor financial management, corruption and political instability.

National and provincial government are using these mechanisms at eight of the repeatedly disclaimed municipalities: two have been classified as dysfunctional; one has been subjected to provincial intervention; and five have both been classified as dysfunctional and placed under administration or subjected to provincial intervention.



Examples of successful provincial intervention and support

The provincial government in KwaZulu-Natal took our messages seriously and helped two municipalities with disclaimed audit opinions to improve:

- » The provincial cooperative governance department deployed a financial expert to help **Inkosi Langalibalele Local Municipality** to draft financial statements, implement an action plan in response to prior-year findings and assist during the audit process. The commitment of the new administrator to the audit process and the early appointment of consultants also contributed to the improvement.
- » **Nquthu Local Municipality** implemented and monitored the audit action plan in good time, improved its internal controls and appointed consultants early on, all of which were supported by a financial expert deployed by the provincial cooperative governance department.

Despite their history of disclaimed audit opinions, Maquassi Hills Local Municipality in North West, Mopani District Municipality in Limpopo and !Kheis and Kgatelopele local municipalities in the Northern Cape had neither been classified as dysfunctional nor placed under administration or subjected to provincial intervention. We continue to advocate for formalised interventions at these municipalities to restore governance, financial management and service delivery.

The Municipal Finance Management Act provides for municipal support improvement plans at municipalities whose financial affairs are in crisis. However, because of instability in the administration (mostly at senior management level) and in the council, implementing these plans has not yet had a significant impact. As the national and provincial cooperative governance departments did not monitor progress each quarter, there were limited consequences when these plans were not implemented. Leadership, mayors and councils are responsible for setting the correct tone from the top and instilling a culture of accountability and good governance. By taking proactive steps to promote these values, mayors can help to ensure that their municipalities operate responsibly and effectively.

The instability that is hampering interventions and support by national and provincial government is also contributing towards the slow implementation of our recommendations where we issued material irregularities.

Material irregularities at disclaimed municipalities

The high number of municipalities that received disclaimed opinions compelled us to consider the impact of full and proper records not being kept and the lack of credible financial reporting, which constitutes non-compliance with the Municipal Finance Management Act. These lapses in accountability caused substantial harm to most of these municipalities, as their financial position was so poor that they disclosed in their financial statements that they were uncertain whether they could continue operating. In other words, they were unable to demonstrate that they would be able to ensure that their communities had access to basic services in a financially sustainable manner. This constitutes a material irregularity in terms of the Public Audit Act.

From 2021 to 15 January 2023, we issued such material irregularity notifications to the municipal managers of 24 municipalities. Seven of the municipal managers (29%) are taking appropriate action to address the material irregularities. At 14 municipalities (59%), we took further action and included recommendations in the 2020-21 and 2021-22 audit reports. We are considering recommendations for the other three municipalities (12%). Our recommendations urged the municipal managers to investigate what or who caused the non-compliance and



PREV



NEXT



to establish credible action plans to address the lack of full and proper records and improve the municipality's financial position. In most cases, municipal managers did not fully implement our recommendations within the stipulated period and we will now assess the most appropriate further action to ensure that these material irregularities are addressed, including remedial action where appropriate.

The slow progress is not unexpected, as the material irregularities at repeatedly disclaimed municipalities require the municipalities to address long-standing problems of poor record keeping and internal controls, as well as the resultant financial instability. Provincial treasuries and cooperative governance departments can assist with financial turnaround plans to improve record management at these municipalities. These processes must be sustainable in the long term, even after the intervention teams are no longer around. This is where mayors should play a crucial role to make certain that operations continue to run smoothly and efficiently. To ensure sustainability, mayors must work on embedding the financial management practices and processes developed during the intervention into the municipality's daily operations.

Poor financial management

The users of disclaimed financial statements cannot rely on the reported information for decision-making or accountability processes – not only at year-end but also throughout the year. Such users include councils, the public, coordinating institutions and those that provide funding such as equitable share allocations and conditional grants (for example, the National Treasury and the Department of Cooperative Governance), as well as provincial leadership and the legislatures. They are therefore unable to determine what has been spent because funds cannot be accounted for. It is uncertain whether these municipalities will be able to continue providing services in the near future, fraudulent activities could go undetected, and funds meant for service delivery could be misappropriated without being detected.

In response to our previous concerns around the lack of proper records at disclaimed municipalities, we performed payment profile data analytics in 2020-21 at 10 disclaimed municipalities to highlight this risk. We did this by matching the actual payments in the bank statements to the payments recorded in the municipality's financial system (which is the basis for the financial statements). However, we could not perform payment profiling at four of these municipalities due to data limitations and a lack of unique identifiers such as payment descriptions or detailed references. This would make it difficult for these municipalities to perform bank reconciliations, which is an important internal control. In 2021-22, we could again not perform these procedures at four local municipalities, namely Maluti-a-Phofung, Masilonyana and Tokologo in the Free State where the audits were still in progress at the cut-off date of this report; and !Kheis in the Northern Cape where we then performed alternative procedures by manually matching the actual payments in the bank statements to the payments recorded on the municipality's financial system.

We found significant control weaknesses in the bank reconciliation process and detected unauthorised debit orders and duplicate payments at two municipalities in North West. Madibeng Local Municipality had unauthorised debit orders and duplicate payments totalling R22 million and R5 million, respectively, while Kgetlengrivier Local Municipality had unallocated cash withdrawals of R12 million. We are considering material irregularities on these matters.

Although we flagged payments to service providers as a risk in our previous general report, some municipalities could again not provide evidence of basic controls and records to indicate that services had, in fact, been provided. This could mean that payments were made for goods and services not received. For example, Madibeng Local Municipality in North West paid information technology companies R34 million without any documents (such as delivery notes or invoices



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

signed by delegated officials) to support these payments. We are considering material irregularities on these matters.

The mayors and councils of these municipalities have a responsibility to address continued failures by setting clear expectations for performance standards and holding municipal officials accountable for meeting them. Mayors and council members, together with municipal managers, must demonstrate accountability for funds spent by playing an active role in the financial management of their municipalities and ensuring that public funds are used effectively, efficiently and economically.

Effect of weak human resource practices

The consequences of poor human resource management practices can be seen clearly at the 15 municipalities with disclaimed audit opinions.

We found widespread instability and vacancies in key positions, with an average vacancy rate of 36% at senior management level and 18% in finance units. At seven municipalities (47%), the chief financial officer position was vacant, while eight (53%) did not have a municipal manager at year-end. Where these positions were filled, the average occupancy rate of municipal managers was 31 months and that of chief financial officers was 32 months. To put this into perspective, municipal manager and chief financial officer positions at municipalities with clean audit outcomes were occupied for an average of 52 and 60 months, respectively.

In most cases, the officials in key positions also did not meet the requirements of the Municipal Regulations on Minimum Competency Levels.

These regulations consider the size and scope of municipalities and cover proficiency in competency areas, higher education qualifications and work-related experience. Only two municipal managers (29%) and one chief financial officer (13%) met the required specifications.

Close to three-quarters (73%) of the disclaimed municipalities had poor human resource practices and non-compliance at senior management level. This included a lack of signed performance agreements, appointments being made in positions with no job descriptions, and a lack of policies and procedures to measure staff performance.

In addition, the municipalities continued to rely too much on consultants and had still not implemented proper needs assessments and plans to use consultants effectively and transfer skills.

In 2021-22, the 15 disclaimed municipalities paid consultants R128,76 million – either using them to bridge vacancy gaps or because their finance units lacked technical skills. Ten of these municipalities derived little benefit from using consultants due to poor project management and a lack of proper record keeping. Where applicable, we notified municipal managers of material irregularities relating to this, as detailed in the section on financial planning and reporting. An example of such a material irregularity at a disclaimed municipality follows.

Although coordinating institutions have implemented initiatives in some provinces to reduce the overreliance on consultants, Mpumalanga has not implemented any initiatives. Where initiatives are being implemented, these should be intensified for them to be effective.



PREV



NEXT



Infrastructure neglect and impact on communities

The basic services that the people of South Africa are entitled to – including access to clean water and sanitation and an environment that is not harmful to their health and wellbeing — cannot be delivered without sufficient and functioning infrastructure. It should come as no surprise that infrastructure neglect, combined with poor financial and human resource management and general governance and accountability failures, negatively affects residents' quality of life at disclaimed municipalities.

Municipal infrastructure should be properly maintained to ensure that it remains in a workable and safe condition throughout its lifespan. Except for Kannaland Local Municipality in the Western Cape, none of the 15 municipalities disclaimed in 2021-22 budgeted for, or spent close to, the National Treasury norm of 8% of their infrastructure asset value on maintenance and repairs, with 10 municipalities (67%) spending less than 1%.

We selected 10 repeatedly disclaimed municipalities to further assess their water and sanitation, wastewater and solid waste projects. Overall we found that they struggled to:

- » maintain assets
- » prepare and report on the implementation of water services development plans and water infrastructure maintenance plans
- » comply with wastewater quality standards and practices
- » establish action plans or implement remedial action to address wastewater quality issues
- » prepare and carry out condition assessments
- » manage and deliver wastewater and solid waste services and run landfill sites.

These challenges were largely due to vacancies and a lack of skills in technical units. Over half of the municipalities had high vacancy rates in their technical units and lacked engineering skills and competent employees to conduct condition assessments and oversee infrastructure projects.

To illustrate, Lekwa-Teemane Local Municipality in North West had a technical unit vacancy rate of 46%. This compelled them to use consulting engineers on all capital projects (such as the refurbishment of the Christiana pump station), but they then did not monitor the performance of consultants and contractors.

Poor project management also resulted in:

- » delays in delivering on intended project deliverables; such as Kgetlengrivier Local Municipality (North West) building only 320 toilets for R4,40 million instead of the planned 1 800 toilets with the allocated budget of R4,81 million
- » poor build quality in the execution of projects; for example, Madibeng Local Municipality (North West) installed taps that did not meet required specifications.

Assets need to be maintained to prevent infrastructure from deteriorating to the point where it can no longer support service delivery and can cause harm to communities. Five of the 10 selected municipalities (50%) did not have maintenance plans to plan and budget for **routine asset maintenance**, including for infrastructure assets. For example, Makana Local Municipality in the Eastern Cape has still not developed a water and sanitation infrastructure maintenance plan, which has led to the infrastructure degrading over several years and multiple tenders for maintenance and repairs having to be awarded. The Municipal Infrastructure Support Agent is assisting the municipality to now develop such a plan.

Access to safe, affordable and reliable drinking **water and sanitation services** is a basic human right. Yet, three of the selected municipalities (30%) did not plan for the delivery of basic water and sanitation services and consider the financial and budget implications of delivering such services. For example, !Kheis Local Municipality in the Northern Cape did not compile a water services development plan as part of its integrated development plan, as required by the Water Services Act and the Strategic Framework for Water



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

Services. It also did not determine the need for new infrastructure projects and compile and approve a list of new water infrastructure projects in response to this need.

Some municipalities have started to reduce the backlog in providing functioning water and sanitation services. However, progress is being hampered by a lack of proper planning to address the backlogs, inadequate planning for routine infrastructure maintenance and dilapidated infrastructure. To illustrate, backlogs at Kgetlengrivier Local Municipality in North West were caused by a lack of sufficient water infrastructure to provide water to households, weak water infrastructure in need of repair, and funding for water infrastructure being used for other purposes.

Where planning was done, municipalities did not achieve the planned performance targets or the reported achievements were not supported by reliable evidence. Maquassi Hills Local Municipality in North West, for example, reported an achievement of 88% against the total planned targets for basic service delivery (water and sanitation), but our audit found that it had achieved only 13%. We could also not audit how many households had access to basic levels of water and sanitation because there was no evidence to support the achievements reported. The lack of water at this municipality resulted in community unrest.

When municipalities either do not plan or do not achieve what was planned, the basic water and sanitation needs of communities are not met and progress in addressing service backlogs is delayed even more.

Managing wastewater and solid waste is crucial for the health and safety of communities. Our environmental specialists therefore inspected the wastewater treatment works and landfill sites for which the selected municipalities are responsible.

We identified poor or ineffective environmental management, limited environmental monitoring and enforcement as well as defective management and delivery of wastewater and solid waste services at all the municipalities. Wastewater treatment and operations were severely affected by serious and ongoing vandalism and theft, as sites lacked proper access controls, signage and fencing. This resulted in new parts having to be purchased to replace stolen ones. Sites exposed to theft, vandalism and a lack of maintenance were often left non-operational for years before being attended to, which then cost even more because of the impact of the ongoing neglect.

The situation at landfill sites was not any better. Municipalities continued to contravene, or fail to comply with, all the norms and standards of landfill operation, monitoring and rehabilitation. Uncoordinated and illegal refuse dumping was rife and waste was not properly treated, compacted and disposed of at designated landfill sites.

These poor management practices not only hamper service delivery but can also cause significant harm to the environment and the wellbeing of surrounding communities. For example, if untreated sewage is disposed directly into the immediate environment and water sources, this exposes people, animals and land to harmful chemicals and spreads disease. Illegally dumping solid waste, or not treating it properly, causes rodent infestations, increases pollution and creates fire hazards.

The National Environmental Management Act and the National Water Act require municipalities to take reasonable measures to prevent, minimise and rectify pollution. The substantial harm being – or likely to be – caused to the general public by pollution meets the definition of a material irregularity, as detailed in the section on infrastructure for service delivery.



PREV



NEXT



Examples of infrastructure neglect and its impact

- » We notified the municipal manager of **Madibeng Local Municipality** (North West) of material irregularities at the Mothotlung and Lethabile sites due to pollution stemming from the wastewater treatment works. The municipality has not taken reasonable measures to minimise the pollution or rectify the situation since our notification. This means that sewage inflows continue to be discharged without being treated, making drinking water unsafe as harmful wastewater is disposed into the water sources.
- » **Makana Local Municipality** (Eastern Cape) did not protect and maintain the Belmont and Mayfield wastewater treatment works, which resulted in depleted and vandalised infrastructure and theft and, ultimately, the plant not operating as intended. These problems had already been flagged in the 2012 Green Drop report (which reports on the state of affairs of wastewater infrastructure and management every year). The 2022 report highlighted that the quality of the wastewater discharged at these sites still did not comply with the waste standards or management practices set by the National Water Act. We are busy assessing possible material irregularities associated with environmental matters arising from poor wastewater management.

Damage to Belmont wastewater treatment works



In addition, the municipality did not have an approved integrated waste management plan for 2021-22, nor did it appoint a waste control officer in accordance with the National Environmental Management Waste Act. It also did not implement processes to control and curb the illegal dumping of waste. Although the municipality identified illegal dumping sites, it did not monitor or regulate such sites.

We found the following during our site visits to illegal dumping sites:

- » Access to the site was not restricted (such as by a fence) to prevent the community from illegally dumping their waste. There was also no signage to indicate that this was a no dumping zone.
- » Waste was not covered or collected to prevent further pollution.
- » There was no groundwater drainage system or proper stormwater management.



PREV



NEXT



Examples of infrastructure neglect and its impact (*continued*)

Illegal waste dumping sites in ward 6



- » **Lekwa-Teemane Local Municipality** (North West) did not regulate and monitor the illegal dumping of waste. The Christiana and Bloemhof waste landfill sites did not comply with standard licence conditions and the National Norms and Standards for Disposal of Waste to Landfill. The sites were poorly managed, solid waste was not treated and correctly disposed of, and the municipality could not submit the sites' operating licences for auditing. Vast areas surrounding the disposal sites were polluted with solid waste and windblown litter. Because the solid waste was not covered or compacted, it also affected the nearby wastewater treatment works. We will follow up and report on this matter in future reports. We will also consider the possibility of material irregularities because of harm to the public and the environment.



PREV



NEXT

Uncontrolled dumping at Christiana waste landfill site





Based on previously reported findings and material irregularity notifications, we have seen some improvement in the management of wastewater treatment works.



Example of impact of material irregularity process

- » In December 2021, we notified the municipal manager of **Ngaka Modiri Molema District Municipality** (North West) of a material irregularity because it had not prevented pollution of water resources at the Coligny wastewater treatment works. The plant was not operational for 18 months during 2020 and 2021 due to a lack of electricity supply. During follow-up visits in March 2022 and September 2022, we found that electricity had been restored. The plant is now operational and the main pump station is functioning again. Both the pump station and the plant have backup generators. The municipality still needs to address some remaining issues, such as the low quality of inflow to the plant, overflows and blocked sewer lines.

Conclusion

We strongly believe that eradicating disclaimed audit opinions will strengthen these municipalities and, in turn, improve the lives of their communities. We will continue to gather insights to enhance our messages and improve accountability at these municipalities.

The main reasons for the failing state of disclaimed municipalities are as follows:

- » Vacancies, inadequate skills and instability (especially at senior management level) affected the effectiveness of management functions and managers' ability to carry out their responsibilities.
- » Councils did not exercise adequate oversight of the administration and hold them accountable for failing to fulfil their obligations.
- » There were no signed performance agreements or performance management policies and procedures. Appointments were also made in positions that had no job descriptions.
- » Not all disclaimed municipalities received the necessary support and intervention from provincial government, especially those with a history of disclaimed audit opinions. In some cases where assistance had been provided, the impact was not yet evident because the interventions had only recently been implemented or were not adequate.
- » Municipal support improvement plans that were not monitored hampered the implementation of consequences for failure to carry out planned actions.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

All roleplayers in the accountability ecosystem should work together to improve accountability and service delivery at disclaimed municipalities. We share some recommendations below; for further insights and reflections on what can be done, refer to our section on activating the accountability ecosystem.

- » Councils and municipal managers, with oversight from the provincial cooperative governance departments, should ensure vacancies in key senior management positions are filled. Municipalities continue to struggle to attract and retain competent officials, which is key to consistent performance and a strong control environment.
- » As encouraged by legislation, a district municipality may provide financial, technical and administrative support to a local municipality within its area and to the extent

that it has the capacity to do so. Opportunities for district municipalities to support these struggling municipalities should be explored. Where applicable, service delivery agreements between district and local municipalities should be implemented to ensure that deliberate steps are taken to activate the required support.

- » Coordinating institutions need to continue their assistance and support to municipalities that have moved out of the disclaimed space to ensure that these improvements are sustainable. In addition, currently disclaimed municipalities must receive greater support to institutionalise financial, performance, infrastructure and environmental management principles and accountability.



PREV



NEXT



SECTION 4

CALL TO ACTION

4

Activating the accountability ecosystem

In our previous general report, and through our engagements with national, provincial and municipal leadership across the country, we made a call to action to three key groups in the accountability ecosystem.

First, we called on the newly formed councils to pay attention during their term to financial management, material irregularities, credible financial statements and performance reports, consequence management, and the stabilisation and capacitation of the administration. Second, we called on the coordinating institutions to monitor, support and strengthen the capacity of municipalities and to intervene where necessary. We highlighted the importance of eradicating disclaimed audit opinions at municipalities as a main priority. Third, and finally, we called for active citizenry.

As detailed in this report, the improvement in local government by newly elected leaders was not yet apparent in 2021-22, mostly because it was a transitional year. But our focus on the more stable national and provincial leadership has borne fruit and contributed to pockets of improvement. Our engagements with civil society organisations over the past year have also enabled us to share information and risks, which contributed to the work we do on municipal service delivery.

Our report paints a bleak picture of poor financial and performance planning, management and reporting, financially strained municipalities, crumbling municipal infrastructure, wasted money and opportunities, and communities that are not only deprived of service delivery, but also harmed by the action – or inaction – of their municipalities.

While it might seem like a daunting task to turn around local government, the leaders are in place and the tone is being set for significant improvements by systematically addressing the root causes of financial and service delivery failures through sustainable solutions. The three root causes that come through strongly in this report are:

1. Inadequate skills and capacity
2. Governance failures
3. Lack of accountability and consequences

Over the years, we have consistently championed the need to address these three matters, which correlate with the areas national and provincial government have identified as key areas for change. We offer our insights on these root causes and our recommendations for how they could be addressed below.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL GOVERNMENT

3

CONTINUED SPOTLIGHT ON DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET



CONTENTS PAGE

Inadequate skills and capacity

We highlight the extent and impact of inadequate skills and capacity in local government in the sections on financial planning and reporting, information technology, infrastructure for service delivery, and disclaimed municipalities. The shortage of technical skills in finance units, information and technology units, as well as units responsible for implementing infrastructure projects, resulted in municipalities struggling to implement basic financial management disciplines and preventative controls, and to properly plan, budget for and monitor projects. In many instances, municipalities used consultants to bridge the vacancy and skills gaps but did not realise the expected benefits from their use.

Instability in the municipal manager position also affected municipalities' ability to implement action plans and ensure consequence management which, in turn, hampered their ability to resolve material irregularities, as detailed in that section.

While political leadership in municipalities changes every five years, the leadership and officials in a municipality's administration should continue with little disruption. A stable, well-resourced and competent municipal administration is an essential foundation for success. This can be seen most clearly at the municipalities with clean audit outcomes, which had the lowest level of vacancies and turnover in key municipal positions. On average, municipal managers remained in their positions for 52 months and chief financial officers for 60 months.

Government has identified the professionalisation of the public service as an important objective and, in October 2022, Cabinet approved a national implementation framework for national, provincial and local government. The framework is intended as the basis for building state capacity by ensuring that the public service is staffed with qualified and competent individuals who are fully equipped to perform their public function conscientiously and with a strong sense of public service and ethical disposition. It deals with five pillars that need to be strengthened in the public sector: recruitment and selection, induction and on-boarding, planning and performance management, continuous learning and professional development, and career progression and succession planning. Although the framework is only a policy document, work on drafting its implementation plan together with local government was expected to commence in April 2023. We will report on its progress in next year's general report.

Government has also implemented various initiatives to professionalise local government, including minimum competency requirements for municipal managers, senior managers and financial officials. The national and provincial treasuries, together with various local government organisations, provide training; and the treasuries and cooperative governance departments assign experts and trainees to assist struggling municipalities. Where municipalities implement the initiatives and embrace the training and support, we are starting to see a positive impact, as described throughout this report.



PREV



NEXT



To ensure effective service delivery and responsible governance, municipalities must invest in developing skills, building capacity and retaining qualified staff, and we therefore recommend the following:

- » Councils, with the concurrence of the provincial cooperative governance departments, should expedite the process of **appointing new municipal managers** or renewing the contracts of current incumbents. They should also take care to appoint experienced, ethical and citizen-centric municipal managers who meet the minimum competency requirements and will support the councils in their pursuit of improving service delivery and setting a tone of integrity, transparency, accountability and high performance for municipal officials.
- » Municipal managers should **fill key vacant positions** such as those of the chief financial officer and head of supply chain management, as well financial and engineering positions. Where necessary, the provincial cooperative governance departments should support municipal managers to find the right calibre of people.
- » Professionals want to work in a professional and ethical environment where their expertise can be fully applied with limited disruptions and interference. They need good salaries, developmental opportunities and prospects for career progression. In pursuing professionalisation, municipal managers, councils and provincial leadership should strive towards a future where **local government is a career of choice for professionals and where scarce skills are retained.**
- » Local government leaders, the South African Local Government Association and the coordinating institutions should work closely with national government and the National School of Government (which plays a critical role in ensuring that the **implementation plan for the professionalisation framework** is fit for purpose for local government) to begin the change management needed to implement – and reap the rewards of implementing – the framework at municipalities and municipal entities.

- » Municipalities should implement plans to **reduce the high reliance on consultants and ensure that where consultants are used, skills are transferred**, across all provinces; and councils and coordinating institutions should regularly monitor the progress made against these plans.
- » We encourage treasuries, cooperative governance departments and the South African Local Government Association to **continue providing training to municipal officials and members of councils.** Training interventions should be specific and intended to bridge the skills gaps within municipalities.

Governance failures

The local government system and the ecosystem that supports it are well designed and embedded in legislation, which should enable good governance. However, as is often the case, it fails at implementation. Municipalities with institutionalised controls and robust financial and performance management disciplines and processes would not be affected by instability and changes in leadership and councils. However, 73% of municipalities do not have good controls in place.

Instability and disruptions in **councils** continued to affect the governance of municipalities in 2021-22. Similarly, **mayors** did not always exercise their monitoring and oversight responsibilities. Councils need to make strategic decisions, monitor how these decisions are implemented and guide and support municipalities towards reaching their objectives. They also play a significant role in setting an ethical tone for municipal officials and ensuring accountability and consequences. All these important responsibilities suffer when a council is embroiled in political infighting and power struggles.

The **municipal public accounts committees** were introduced as a committee of council to promote good governance, transparency and accountability in the use of municipal resources and to evaluate the extent to which our recommendations and those of the audit committees have been implemented. These committees also play a key role in investigating unauthorised, irregular, and fruitless and wasteful



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

expenditure and in implementing consequences for wrongdoing. There is tremendous potential for improved audit outcomes and accountability processes if these committees are functioning well and are supported by the council. Unfortunately, this potential has not yet been realised – we assessed only 33% of these committees.

Internal audit units should provide independent assurance to the municipal managers on the implementation of controls and the mitigation of risk. The units work under the oversight of the **audit committee**, which includes independent experts who can advise the municipal manager and the council. In our assessment, internal audit units and audit committees had been established and were operating at almost all the municipalities we assessed and most performed all the functions required by legislation, including evaluating the reliability of financial and performance information and compliance with legislation. The municipal manager should play a critical role in supporting the internal audit unit and the audit committee by working closely with them to identify areas of risk and to develop strategies to mitigate those risks.

However, the audit outcomes showed that the work of these governance structures has not had much of an impact, as the quality of the financial statements and performance reports we received for auditing remained poor. In our assessment, the internal audit units at just under half of municipalities (45%) were having at least some impact on financial and performance management and compliance with legislation. However, they had little to no impact at the other 55%, mainly (34%) because management was just not implementing their recommendations. The internal auditors experienced the same frustrations we have as external auditors in this regard. The rest of the internal audit units were not adequately capacitated and/or not effective. Audit committees were slightly more effective, with 51% having some impact and 34% experiencing that management did not implement their recommendations.

Internal audit units and audit committees are a big investment for municipalities – the professionals employed as internal auditors or who serve as

members of the committees usually come at a premium. In our experience, most of them are competent and committed to serving municipalities well with their skills. To derive the intended value from these investments, municipalities should ensure that they implement and monitor the committees' recommendations on financial and performance management, and hold the responsible officials to account where this is not done.

The **municipal managers and chief executive officers** of municipal entities know what must be done – they have received our messages and recommendations for many years. We gave them reports, notified them of material irregularities and regularly engaged with them to share risks that need to be addressed and good controls that need to be implemented. One of the common root causes of poor audit outcomes is that they have not implemented our recommendations. We encourage the municipal managers and senior management to use our recommendations to assist them with improving controls and addressing risk areas.

Municipalities should pay specific attention to **strengthening information technology governance** so that they can manage their information technology risks effectively and align their information and technology activities to their overall business objectives.

Last year, we highlighted the importance of **coordinating institutions** when it comes to monitoring, supporting and strengthening the capacity of municipalities, including intervening and enforcing legislative requirements. In 2021-22, we looked further into the important role played by these institutions and we are already starting to see the effect of their renewed focus in some provinces. Although there was not much time in the 2021-22 financial year for them to make the impact they aimed for, the interventions and support they provided to municipalities, and their efforts to provide it in a more coordinated manner, show promise. We provide more detail in the section on the provinces on how these coordinating institutions have stepped up in the provinces and the commitments they made when the auditor-general engaged with them before tabling this report.



PREV



NEXT



Overall, we have seen the greater impact these key roleplayers in the accountability ecosystem can have on local government when they perform better and in a more coordinated manner. We continue to advocate for the full implementation of their mandates and legal obligations.

Last year, we made several recommendations to help provincial leadership and coordinating institutions to perform better. Below we provide an update on the status of implementation of these recommendations, along with some additional recommendations:

- » The members of the executive council responsible for local government have a legal obligation to **report to the provincial legislature** on whether municipalities have adequately addressed our audit report findings (through audit action plans) and on how municipalities have performed, including any remedial action taken to address underperformance. In 2020-21, we asked them to improve the quality and effectiveness of these reports by providing a thorough diagnostic analysis along with an annual reflection on what municipalities had done in the previous year. We also asked the provincial legislatures to strengthen the process of engaging on these reports, including formulating and following up on resolutions.

While we did see some improvements in 2021-22, we still identified several issues relating to the quality of reports across the provinces that require priority attention from the members of the executive council. Most provinces did implement our recommendation to provincial legislatures, with the exceptions being due to either reports not being tabled or hearings on resolutions taking place too late in the year to properly track and report on time.

- » Last year, we recommended that the Department of Cooperative Governance and the National Treasury monitor the implementation of existing support initiatives as part of a **multi-stakeholder approach**, and that they ensure that **municipal support intervention plans are specific** and that **interventions are tailored for each municipality**. By 2021-22, the implementation of a multi-stakeholder approach and efforts to conclude a memorandum of agreement between the National Treasury and the Department of Cooperative Governance have been

in progress for many years, but the support provided to municipalities is still not tailored to their needs, resulting in some initiatives having limited impact. We recommend that these institutions pay urgent attention to finalising their formal agreement to improve coordination, oversight and accountability and that municipal support intervention plans are informed by a root cause analysis. It is encouraging to note that certain provinces have already entered into agreements to clarify roles and responsibilities to avoid any duplication.

- » We also recommended that the provincial cooperative governance departments monitor how municipalities use **consultants**, including understanding the needs analyses performed and creating plans to reduce overreliance on consultants and ensure that they get value for the money spent on consultants. In 2021-22, we found that only a few provinces had not committed to reducing the reliance on consultants. Where commitments were made – in some cases, by both provincial cooperative governance departments and treasuries, and in one case by the office of the premier – many of them were still in progress and could therefore not yet be assessed for impact. We recommend that those provinces that have not yet committed to reducing their overreliance on consultants should do so and that provincial cooperative governance departments should regularly monitor the commitments made to ensure they are implemented successfully.
- » The coordinating institutions, along with national and provincial leadership and oversight, either are already implementing **initiatives to address the challenges in local government** or have committed to do so. Our reflections and recommendations on these initiatives are as follows:

The Department of Cooperative Governance and the national and provincial treasuries have shared proposed action plans to address the financial sustainability challenges that were presented at the Technical Committee on Finances Iekgotla in June 2022. These plans include strengthening ethics and introducing performance accountability in municipalities by:

- introducing vetting systems for chief financial officers and municipal managers



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

- finalising the code of conduct for councillors and regulations to support investigations of financial misconduct
- ensuring treasuries lead and own the intervention process
- strengthen the in-year monitoring, reporting and enforcement of financial recovery plans.

Treasuries should also strengthen their monitoring of monthly and quarterly performance reports to ensure that they comply with legislated requirements and should take steps against municipalities for any breaches. When implemented, these initiatives should contribute greatly to improving the local government culture. We will continue to track and report on their implementation.

- » In 2021-22, the National Treasury provided training, guidance and support to municipalities through **technical advisors and financial recovery plans**, although it could not provide advisors to all municipalities due to capacity constraints and procurement delays. At two municipalities, the National Treasury was unable to produce the financial recovery plans within 90 days due to delays in required consultations with the mayors. We recommend that the National Treasury plan to ensure adequate capacity of technical advisors and that municipalities prioritise engagements with the National Treasury to ensure that financial recovery plans are implemented swiftly and successfully.
- » In our previous general report, we shared that Cabinet was monitoring the success of the **municipal support intervention plans** at the 64 dysfunctional municipalities, while provincial leadership was responsible for doing so at the remaining municipalities. In 2021-22, the number of dysfunctional municipalities identified by the Department of Cooperative Governance increased to 66. Municipalities previously assessed as dysfunctional retained this status in 2021-22 except for AbaQulusi Local Municipality in KwaZulu-Natal and Matjhabeng and Metsimaholo local municipalities in the Free State. Despite their improved status, these municipalities still require close monitoring and support. We reiterate our previous recommendation that the relevant roleplayers

should adequately monitor planned actions to ensure they have the desired impact.

- » In previous general reports, we reflected on the **district development model**, which aims to facilitate integrated planning, delivery and monitoring of government's development programmes through a joint 'one plan' for 52 district hubs across the three spheres of government. In the three years since Cabinet approved the model, three pilot sites were launched in the districts of OR Tambo (Eastern Cape) and Waterberg (Limpopo) as well as at eThekweni Metro (KwaZulu-Natal). In 2021-22, most of the performance indicators in the model were still being developed and 49 district hubs had not yet been established due to a lack of funding. There are also delays in aligning the 'one plan' to the integrated development plans and critical information systems. Where the district development model had not been implemented because of the lack of integrated planning and budgeting to enable adequate support to local municipalities, municipalities continued to operate in silos.

We are concerned that the Department of Cooperative Governance has adjusted and re-tabled planned initiatives and targets in its performance plans during the year to align to the progress made at that point. This has resulted in some initiatives being reported as achieved at year-end, making it difficult to determine if actual progress has been made. We recommend that the department focus on achieving its planned targets by addressing the root causes that are hampering the model's implementation.

Lack of accountability and consequences

Over the past few years, we have made continued calls for accountability. Accountability is a twofold concept:

- » First, officials should account for how they performed and must take responsibility for their actions and decisions.
- » Second, those who do wrong (transgress), do nothing (fail to act) or perform poorly should face the consequences.



PREV



NEXT



A lack of accountability and consequences remains one of the key root causes of poor audit outcomes at 64% of municipalities. We continue to advocate for municipal leadership to implement adequate consequences swiftly, bravely and consistently.

When officials face consequences for their actions, this helps municipalities to both recover the losses caused by those officials and deter others from disregarding legislation and perpetuating a culture where they get paid their salaries without fulfilling their responsibilities. Despite how important these consequences are, 59% of municipalities had material findings because they did not comply with legislation on implementing consequences.

Our most common findings involved municipalities not **investigating unauthorised, irregular, and fruitless and wasteful expenditure**. This means that they did not take sufficient steps to recover, write off, approve or condone such expenditure. In total, 53% of municipalities did not investigate the previous year's irregular expenditure, 47% failed to do so for fruitless and wasteful expenditure, and 47% did not do so for unauthorised expenditure.

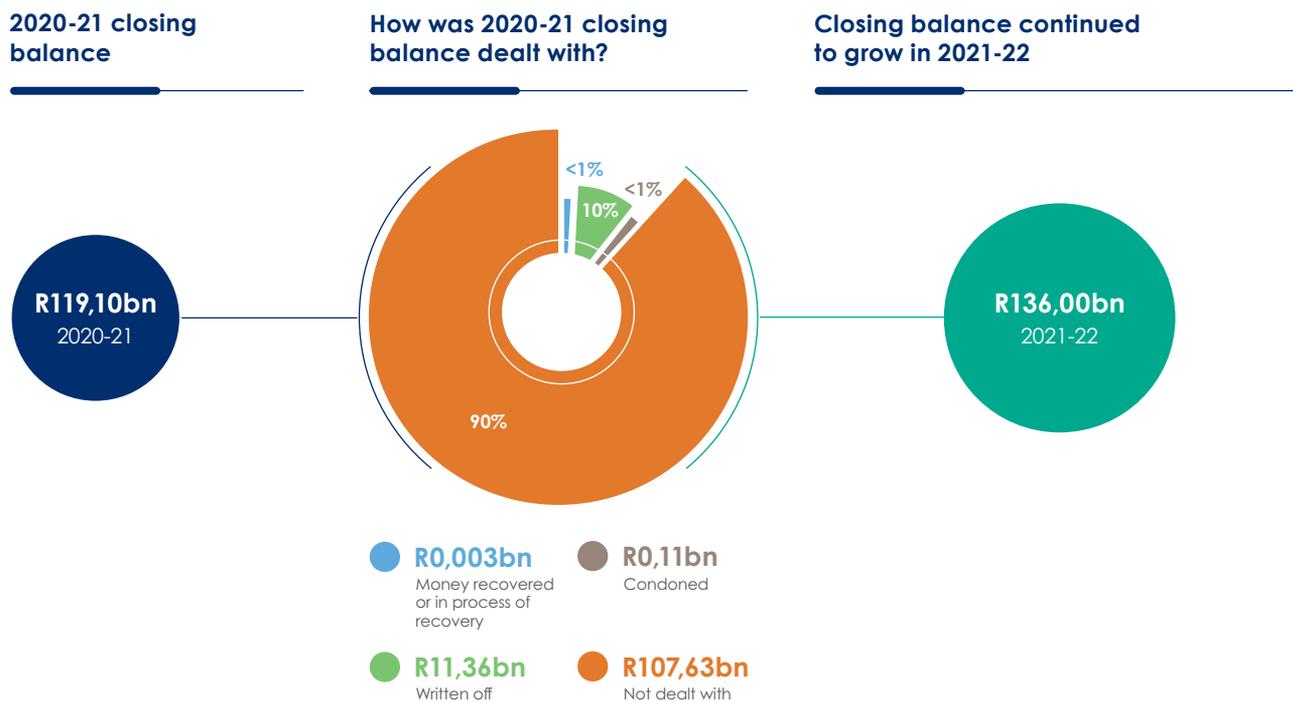
As a result, the year-end balances of these types of unwanted expenditure continue to grow. At the 2021-22 year-end, the balance of irregular expenditure that had accumulated over many years and had not been dealt with totalled R136 billion, while unauthorised expenditure stood at R107,38 billion, and fruitless and wasteful expenditure amounted to R14,65 billion.

The Municipal Finance Management Act requires councils to objectively and diligently investigate such expenditure. Neither councils (through their municipal public accounts committees) nor treasuries should write off or condone such expenditure without making sure that no losses had been suffered or that any losses suffered cannot be recovered.

Taking irregular expenditure as an example, by the end of the 2021-22 financial year, very little had been done about the 2020-21 year-end balance of R119,10 billion. We have raised concerns about the delays and the manner in which irregular expenditure is dealt with for many years but despite these warnings, it remains one of the biggest reasons for the material irregularity notifications we issue.



How councils dealt with prior-year irregular expenditure



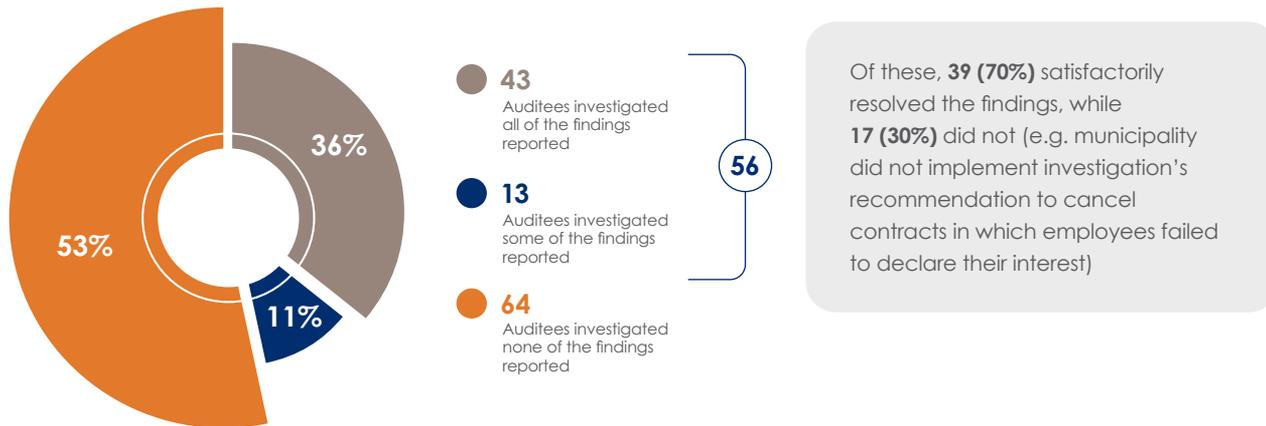
Where councils did take action, it was mostly to write off the irregular expenditure, which means that the council considered the matter to be resolved. However, we identified instances where these investigations were not properly performed and in most instances no officials were found liable.

If these matters continue to be ignored, or such expenditure is written off without proper consideration, the accountability process envisaged in the Municipal Finance Management Act (through identifying and disclosing unauthorised, irregular, and fruitless and wasteful expenditure) is not functioning as intended.

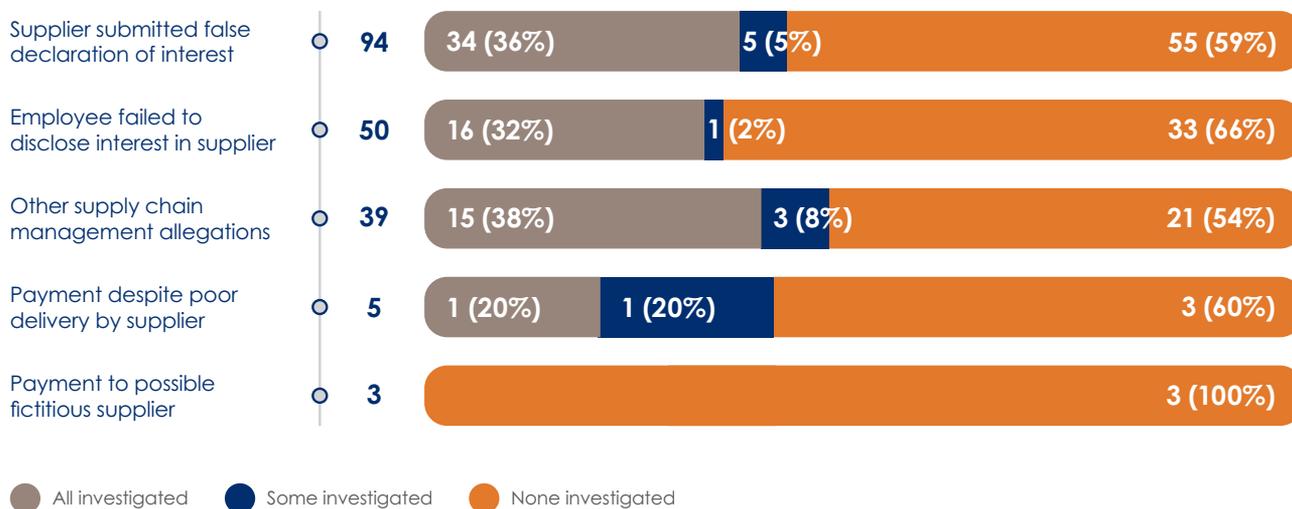
Accountability should also come into play where allegations have been made of **financial and supply chain misconduct and fraud**. We audited 79 municipalities to see whether this was the case and found that 24% did not investigate the allegations at all, while at 44%, the investigations took longer than three months to complete.

We see the same pattern in how municipal managers respond to the indicators of possible fraud or improper conduct in supply chain management processes that we report to them for investigation every year. In 2020-21, we reported such indicators at 120 municipalities for follow-up.

Status of investigations into fraud and improper conduct in supply chain management processes reported in previous year



Instances of alleged fraud or improper conduct in supply chain management





We recommend that municipal managers complete these investigations swiftly so that potentially fraudulent activities can be stopped and the necessary criminal investigations can start – as well as to prevent further transgressions and to recover any financial losses.

When it comes to irregularities, we play an integral part in the accountability process – even more so in recent years through the powers granted to us as part of our expanded mandate. As detailed in the section on material irregularities, some municipalities take little action in response to our findings, which resulted in us implementing the enhanced powers given to our office to ensure municipal managers deal with material irregularities with the required seriousness.

Municipalities should create an environment where officials who transgress applicable legislation, continuously underperform, are negligent, or cause financial losses, are dealt with appropriately to set the standard for the public service and act as a deterrent to wrongdoing. We recommend the following:

- » Municipal managers, audit committees and municipal public accounts committees should **properly monitor** that internal controls are adhered to, risks are managed and outcomes are achieved. Early detection will allow for swift and timely correction and prevent financial and performance management failures.
- » Municipal managers and councils should adopt and implement **National Treasury frameworks and circulars** on the treatment, recovery and quantification of unauthorised, irregular, and fruitless and wasteful expenditure to help municipalities comply with legislative requirements and to curb the growing and extremely high balances of these types of unwanted spending.
- » Municipal managers and councils should adopt and implement the **National Treasury's Consequence Management and Accountability Framework** to empower the political and administrative leadership

within municipalities to effectively, fairly and consistently implement policies and procedures relating to consequence management and accountability. The framework expands on the key roles and responsibilities of relevant roleplayers as set out in legislation and provides guidance on standard operating procedures for reporting, discipline, prosecution, recovery and monitoring. It also deals with matters that hamper disciplinary processes.

- » Councils, with the help of coordinating institutions, should strengthen structures such as **disciplinary boards and municipal public accounts committees**, as well as processes relating to **investigations** conducted by both these structures and the council itself.
- » Councils and municipal public accounts committees should **support, monitor and oversee the resolution of material irregularities** by requesting quarterly reports on the progress municipal managers make in resolving them and, where there are any unreasonable delays, hold them to account. Provincial leadership and legislatures must request regular reports from public bodies on the status of investigations and, where there are unreasonable delays, hold the public bodies to account.

Commitments and conclusion

We made municipality-specific recommendations to the mayors and municipal managers and we are encouraged by their responsiveness to our findings and their commitments to take action. These commitments are important to ensure that steady progress is made to improve municipal performance. We will continue to track and monitor these commitments closely as part of the audit process. If the findings and risks we reported are not addressed, we will continue to issue notifications of material irregularities where appropriate.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL GOVERNMENT

3

CONTINUED SPOTLIGHT ON DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

We are encouraged by the commitments made by national and provincial government leaders in driving positive change and fostering accountability to improve the state of local government. We will continue to monitor and report on the implementation and impact of these commitments.

We obtained the following specific commitments from national roleplayers in response to our call to action:

- » The cooperative governance minister committed to evaluate issues raised, find solutions to help municipalities resolve the matters keeping them from moving from an unqualified audit opinion with findings to a clean outcome and evaluate the reasons for the excessive use of consultants. Furthermore, a plan will be developed to identify and respond to structural, systemic, institutional and capacity issues preventing improvements in outcomes.
- » The finance minister committed to conduct an in-depth self-reflection on the impact of their interventions and make the necessary changes to support initiatives to improve the status quo.
- » The South Africa Local Government Association committed to develop a plan to respond to outcomes.

The provincial leadership provided various commitments to enhance the support provided to municipalities, including assistance with

filling vacancies, strengthening consequence management, improving intergovernmental coordination and prioritising service delivery. Further details on commitments per province are included on our report website (mfma-2022.agsareports.co.za).

Finally, a key roleplayer in the accountability ecosystem is an active citizenry, which is crucial to ensure that the needs of the public are heard and acted on and that municipal leaders are held accountable for any wrongdoing. We encourage the public to use the public participation processes, joint ward committees and available channels to report any indicators of abuse, mismanagement, fraud and service delivery failures.

A culture of performance, accountability, transparency and integrity should be a shared vision for all involved in the public sector and we urge all roleplayers in the accountability ecosystem to fulfil their designated roles and to play their part effectively, without fear or favour, to ensure accountability for government spending and improvement in the lives of all South Africans.

We remain committed to partnering with and supporting local government through our audits, the material irregularity process and the many initiatives we have implemented to assist and guide all roleplayers. We trust that the insights and recommendations included in this report will be of value in this pursuit.



PREV



NEXT

By working together and leveraging the strengths of all stakeholders, we can build resilient, responsive municipalities that deliver quality services and improve the lives of all our people



SECTION 5

PROVINCES

5

Every province has a unique story and the audit outcomes often reflect what the people in the province experience from their local government

Overview

In this section, we provide a provincial view of the key results from our audits, followed by an overview of the state of local government in each of the nine provinces.

The province-specific overviews summarise our main insights on financial, performance and infrastructure management, and look at how we have used our enhanced mandate in that province. They also reflect on what should be done to improve the situation, and by whom; and the commitments made by those with whom we engage. The overviews for KwaZulu-Natal and the Eastern Cape further include information and results from our audit of the funds used to provide relief to communities in flood-ravaged areas in the provinces.

For more details on each municipality and district, rolled up to each province in the country, visit our report website (mfma-2022.agsareports.co.za).

Audit outcomes show little improvement overall and there are fewer clean audits, although there were also fewer municipalities with disclaimed audit opinions. We saw the biggest improvements in KwaZulu-Natal and the Eastern Cape, and the highest net regressions in Gauteng and the Western Cape, which was also the province with most clean audits (55%). Most of the municipalities with disclaimed audit opinions are concentrated in North West.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

Provincial audit outcomes, budget and households

Eastern Cape

8 4

Budget: R50,70bn (10%)**Households:** 1 836 538

Unqualified with no findings (clean)	3
Unqualified with findings	18
Qualified with findings	13
Adverse with findings	1
Disclaimed with findings	1
Outstanding audits	3

Mpumalanga

3 3

Budget: R27,97bn (6%)**Households:** 1 365 645

Unqualified with no findings (clean)	2
Unqualified with findings	9
Qualified with findings	7
Adverse with findings	1
Disclaimed with findings	1
Outstanding audits	0

Free State

2 1

Budget: R22,29bn (5%)**Households:** 1 003 109

Unqualified with no findings (clean)	0
Unqualified with findings	7
Qualified with findings	8
Adverse with findings	0
Disclaimed with findings	0
Outstanding audits	8

Northern Cape

1 2

Budget: R10,48bn (2%)**Households:** 379 439

Unqualified with no findings (clean)	4
Unqualified with findings	6
Qualified with findings	15
Adverse with findings	0
Disclaimed with findings	4
Outstanding audits	2

Gauteng

1 4

Budget: R141,54bn (29%)**Households:** 5 543 710

Unqualified with no findings (clean)	2
Unqualified with findings	5
Qualified with findings	2
Adverse with findings	1
Disclaimed with findings	1
Outstanding audits	0

North West

3 2

Budget: R27,35bn (6%)**Households:** 1 368 416

Unqualified with no findings (clean)	0
Unqualified with findings	3
Qualified with findings	10
Adverse with findings	1
Disclaimed with findings	6
Outstanding audits	2

KwaZulu-Natal

9 4

Budget: R94,68bn (19%)**Households:** 3 092 598

Unqualified with no findings (clean)	4
Unqualified with findings	37
Qualified with findings	11
Adverse with findings	1
Disclaimed with findings	0
Outstanding audits	1

Western Cape

2 5

Budget: R84,50bn (17%)**Households:** 2 105 703

Unqualified with no findings (clean)	21
Unqualified with findings	6
Qualified with findings	1
Adverse with findings	1
Disclaimed with findings	1
Outstanding audits	0

Limpopo

4 4

Budget: R27,62bn (6%)**Households:** 1 725 220

Unqualified with no findings (clean)	2
Unqualified with findings	13
Qualified with findings	11
Adverse with findings	0
Disclaimed with findings	1
Outstanding audits	0

Movement from last year of previous administration



Improvement



Regression



PREV



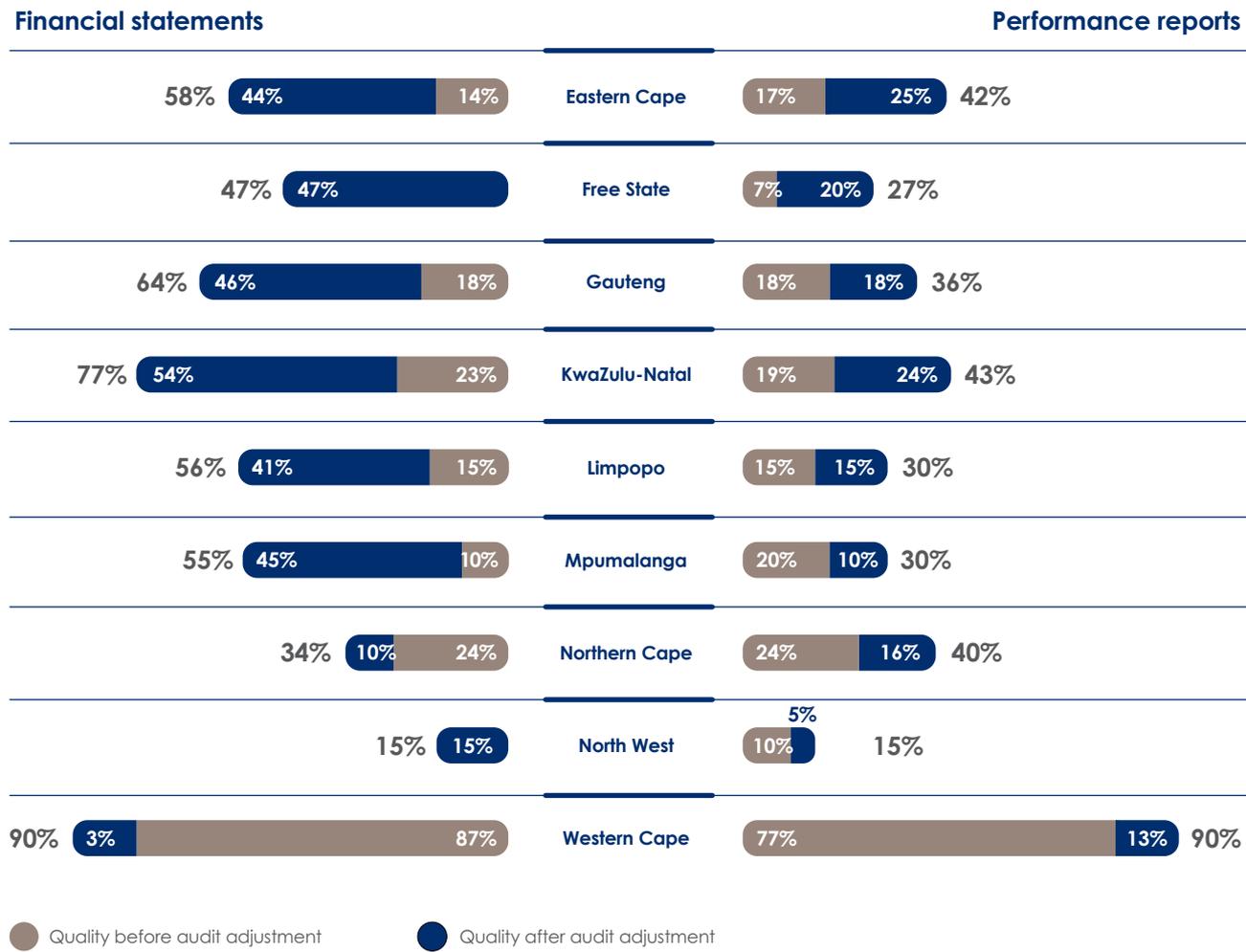
NEXT



Municipalities continued to struggle to prepare credible financial statements and performance reports. This limits the effectiveness of monitoring and oversight processes and compromises service delivery in local government. In total, 76% of municipalities submitted poor-quality financial

statements and 76% submitted poor-quality performance reports for auditing. Next we show the quality improvement resulting from adjustments made to the initially submitted documents in response to our audits.

Quality of financial statements and performance reports before and after auditing





1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

The municipalities in some provinces continued to show signs of significant financial difficulty, with 70 municipalities being in such a dire position that there is significant doubt about whether they will be able to continue operating in the near future. This,

along with other indicators of poor financial health such as deficits, excessive creditor-payment days and irrecoverable debt, affected municipalities' ability to deliver services and honour their commitments.

Number of municipalities showing signs of poor financial health

Province	Going concern issues	Indicators*		
		Deficit	Creditor-payment period >30days	>10% of debt Irrecoverable
Eastern Cape	10 (28%)	R1,05bn	29 (85%)	34 (100%)
Free State	11 (73%)	R2,73bn	14 (93%)	14 (93%)
Gauteng	6 (55%)	R2,02bn	9 (100%)	8 (89%)
KwaZulu-Natal	9 (17%)	R1,42bn	35 (69%)	51 (100%)
Limpopo	5 (19%)	R0,53bn	23 (88%)	25 (96%)
Mpumalanga	5 (25%)	R2,65bn	18 (100%)	16 (89%)
North West	7 (35%)	R0,88bn	10 (91%)	10 (91%)
Northern Cape	14 (48%)	R0,43bn	23 (92%)	22 (88%)
Western Cape	3 (10%)	R0,16bn	22 (79%)	24 (86%)
Total	70 (29%)	R11,87bn	183 (84%)	204 (94%)

* Excluding municipalities with disclaimed/adverse opinions

Adding to these woes, is the fact that municipalities continued to incur irregular, unauthorised, and fruitless and wasteful expenditure and that the debt they owed Eskom and the water boards increased further.

We break down these amounts per province on the following pages, before delving into the state of local government in each of the nine provinces.



PREV



NEXT



Local government irregular expenditure (IE)

Total budget, IE disclosed and IE closing balance in each province (ordered from most to least IE incurred in 2021-22)

Total budget across all provinces in 2021-22: R487,12bn

Total IE disclosed across all provinces in 2021-22: R30,34bn

Total IE closing balance across all provinces in 2021-22: R136,00bn

Eastern Cape

Total budget for province: R50,57bn

IE disclosed for province: R10,62bn
(21% of province budget)



IE disclosed for province: R10,62bn
(35% of IE disclosed across all provinces)

IE closing balance for province: R34,91bn
(26% of IE closing balance across all provinces)

28% increase in closing balance from previous year

KwaZulu-Natal

Total budget for province: R98,67bn

IE disclosed for province: R5,92bn
(6% of province budget)



IE disclosed for province: R5,92bn
(19% of IE disclosed across all provinces)

IE closing balance for province: R17,19bn
(12% of IE closing balance across all provinces)

19% increase in closing balance from previous year

Gauteng

Total budget for province: R118,67bn

IE disclosed for province: R3,56bn
(3% of province budget)



IE disclosed for province: R3,56bn
(12% of IE disclosed across all provinces)

IE closing balance for province: R21,32bn
(16% of IE closing balance across all provinces)

14% increase in closing balance from previous year

North West

Total budget for province: R27,42bn

IE disclosed for province: R3,29bn
(12% of province budget)



IE disclosed for province: R3,29bn
(11% of IE disclosed across all provinces)

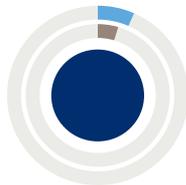
IE closing balance for province: R30,99bn
(23% of IE closing balance across all provinces)

8% increase in closing balance from previous year

Mpumalanga

Total budget for province: R29,71bn

IE disclosed for province: R2,08bn
(7% of province budget)



IE disclosed for province: R2,08bn
(7% of IE disclosed across all provinces)

IE closing balance for province: R6,44bn
(5% of IE closing balance across all provinces)

0% no movement in closing balance from previous year



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL GOVERNMENT

3

CONTINUED SPOTLIGHT ON DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

Total budget across all provinces in 2021-22: R487,12bn

Total IE disclosed across all provinces in 2021-22: R30,34bn

Total IE closing balance across all provinces in 2021-22: R136,00bn

Limpopo

Total budget for province: R28,00bn

IE disclosed for province: R1,68bn
(6% of province budget)



IE disclosed for province: R1,68bn
(6% of IE disclosed across all provinces)

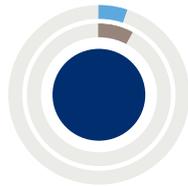
IE closing balance for province: R8,79bn
(6% of IE closing balance across all provinces)

2% decrease in closing balance from previous year

Free State

Total budget for province: R22,43bn

IE disclosed for province: R1,57bn
(7% of province budget)



IE disclosed for province: R1,57bn
(5% of IE disclosed across all provinces)

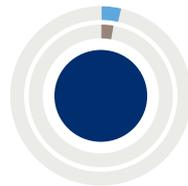
IE closing balance for province: R11,27bn
(8% of IE closing balance across all provinces)

14% increase in closing balance from previous year

Northern Cape

Total budget for province: R10,18bn

IE disclosed for province: R1,12bn
(11% of province budget)



IE disclosed for province: R1,12bn
(4% of IE disclosed across all provinces)

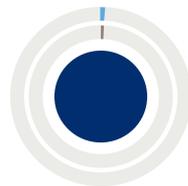
IE closing balance for province: R3,88bn
(3% of IE closing balance across all provinces)

20% increase in closing balance from previous year

Western Cape

Total budget for province: R49,00bn

IE disclosed for province: R0,49bn
(1% of province budget)



IE disclosed for province: R0,49bn
(1% of IE disclosed across all provinces)

IE closing balance for province: R1,22bn
(1% of IE closing balance across all provinces)

19% decrease in closing balance from previous year



PREV



NEXT



Unauthorised expenditure (UE) and fruitless and wasteful expenditure (FWE) in 2021-22



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

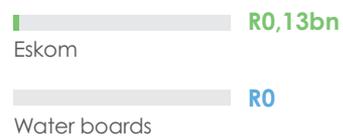
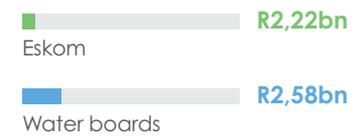
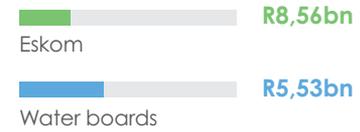
5

PROVINCES

6

AUDIT FACT SHEET

Arrears at 2021-22 year-end



PREV



NEXT



EASTERN CAPE

Overall outcomes improved, but weak control environments persist

Last year, we urged provincial leadership to take swift action to strengthen the control environments and instil accountability to ensure that service delivery objectives within the province are met.

In response to our call, 21 municipalities (58%) received unqualified opinions, up from 19 (53%) in the previous year. However, the quality of reported performance slightly decreased, with only 15 municipalities (42%) not having any findings, compared to 16 (44%) in the previous year. The number of municipalities that did not have any findings on compliance with legislation remained unchanged at three.

We are particularly encouraged by the significant improvement in the audit opinion of Mquma Local Municipality, from a disclaimed opinion five years ago to a clean audit in 2021-22. This is a testament to the municipality's good administrative and political leadership, as well as its commitment to implementing strong internal controls and consequence management measures. Joe Gqabi District Municipality and Winnie Madikizela-Mandela Local Municipality maintained their clean audit opinions due to the stability in their senior management and political leadership, which has strengthened their accountability ecosystem. Winnie Madikizela-Mandela's approach to ensuring adequate budgeting for service delivery is noteworthy – by linking its performance report and

service delivery and budget implementation plan to the budget and actual costs for each related performance indicator, the municipality was able to track its progress across all areas of service delivery and make informed decisions about resource allocation. Amathole District Municipality and Sundays River Valley Local Municipality did not submit their financial statements by the legislated date, and their audits were in progress at the time of this report, while the audit for Senqu Local Municipality has not yet been finalised because the municipality lodged a dispute on its potential audit outcome, which caused a delay.

There would have been greater improvement in audit outcomes had municipal political leadership acted swiftly to institutionalise the internal controls that are necessary to promote transparency and accountability and to protect the public purse. Since our previous general report, we have notified municipal managers of 16 material irregularities with an estimated financial loss of R303 million, bringing the total number of material irregularities we have issued since our expanded powers came into effect to 43 and the total estimated financial loss to R633 million. Some municipal managers have responded positively to the material irregularities. For example, OR Tambo District Municipality paid an implementing agent for work that was not done. After we notified management of the material irregularity, management has recovered



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

R46 million from the agent and reported the matter to the Directorate for Priority Crime Investigation (the Hawks). We have used our powers to act against three municipalities that failed to address reported material irregularities. At Chris Hani District Municipality, the municipal manager did not act on a material irregularity relating to an unjustifiable R20 million payment for a variation order. We have referred the matter to the Special Investigating Unit for further investigation. We also included recommendations in the audit reports for Inxuba Yethemba and Raymond Mhlaba local municipalities, as the municipal managers did not take appropriate action on material irregularities related to interest incurred due to late payments to Eskom.

Buffalo City Metro improved from a qualified to an unqualified audit opinion with findings, but this improvement might not be sustainable as the metro continued to rely on the audit processes to identify misstatements in its financial statements, rather than improving its internal controls. The metro also struggled to meet its service delivery targets; for example, only 68% of the connected city programme targets and 46% of the spatially transformed city programme targets were met. We further found that one of the metro's wastewater pump stations spilled sewage into the Nahoon River and its estuary, posing health risks to the community due to the elevated levels of E.coli and bacteria. We are considering issuing a material irregularity on this matter. Nelson Mandela Bay Metro sustained its qualified audit opinion and even though the metro has made efforts to reduce the number of qualifications in the audit report, political and administrative instability continued to hinder integration between directorates and to lessen accountability. This has affected the metro's ability to effectively deliver services, and it met only 53% of its basic service delivery programme targets. These challenges indicate that the metro still has significant work to do to improve service delivery and strengthen accountability.

The number of municipalities that received disclaimed audit opinions decreased from last year, as Chris Hani District Municipality and Walter Sisulu Local Municipality improved from a disclaimed audit opinion to a qualified and an adverse opinion, respectively. Walter Sisulu has been operating a landfill site without a valid licence or permit since 2010, and the site has not been properly managed for over eight years, leading us to notify the municipal manager of a material irregularity due to the substantial harm this could cause to the public. Makana Local Municipality again received a disclaimed audit opinion because it struggled to prepare credible financial statements. The municipality achieved only 33% of its basic service delivery and infrastructure development targets, which contributed to the continued water shortages it has faced for several years. The municipality spent only R8,7 million on repairing and maintaining its infrastructure – a mere 1,5% of the value of this infrastructure. This has severely affected the community, as inadequate maintenance leads to regular infrastructure breakdowns and further delays in service delivery.

Information technology costs in the province have been on the rise, but this increase has not resulted in any significant improvement in the functioning or service delivery offerings of municipalities. At Nelson Mandela Bay Metro, we notified the municipal manager of a material irregularity relating to the metro's purchase of more software licences than it needed for the number of users, leaving many to go unused. Some municipalities did not align their information technology strategies to their business strategies, leading to an overreliance on human intervention and to automated controls being circumvented, which calls for an urgent review of these strategies to optimise the investment in information and technology.



PREV



NEXT



Overall, 33 municipalities (92%) appointed consultants to assist in financial reporting, at a cost of R155 million. However, 22 of these municipalities (67%) had material misstatements in their submitted financial statements due to the poor internal control environments, consultants being appointed too late, and a lack of records and documents. Although consultants can provide short-term solutions, they cannot replace senior management's responsibility to institutionalise financial reporting disciplines. We issued notifications of material irregularities to Chris Hani and Amathole district municipalities relating to their ineffective and inefficient use of consultants to prepare value-added tax returns for which they paid R37,1 million and R9,4 million, respectively. They appointed these consultants on a contingency fee basis based on a percentage of the refunds received by the municipality, rather than on the basis of time and costs spent on the affairs of the municipality as required by cost-containment regulations. This resulted in them paying significantly more for the services.

Ten municipalities disclosed doubt about their ability to continue operating, and 10 adopted unfunded budgets for the financial year (including five that disclosed doubt about their ability to continue operating). Municipalities used a significant portion of the R9,46 billion equitable share and R19,6 billion revenue from rates and services (only 27% of which can be recovered) to pay salaries and wages of R12,7 billion. Only a small portion of these funds were then left over for service delivery purposes, such as infrastructure projects, repairs and maintenance, and subsidies to residents who cannot afford basic services. Fruitless and wasteful expenditure is also a concern,

with interest and penalties – mainly due to late payments – accounting for most of the R174 million wasted in 2021-22. Municipalities continued to experience significant water losses, with R630 million (37% of all water purified) lost due to theft and a lack of maintenance. Some municipalities did not bill consumers for services rendered, and we notified three municipalities of material irregularities relating to this in the current year (Chris Hani District Municipality, Nelson Mandela Bay Metro and Buffalo City Metro).

The quality of performance reporting was poor at 58% of municipalities, which means that their reports were not a true reflection of the service delivery promised to communities. Municipalities only achieved an average of 62% of their targets for basic service delivery programmes due to poor project management, slow procurement processes and weak intergovernmental cooperation. Port St Johns Local Municipality did not achieve some of its targets relating to building access roads, paving roads and maintaining gravel roads, despite spending 96% of its infrastructure grant. We also identified that the municipality paid R17,5 million for a guest house with a market value of R6,9 million, with the intention of converting it into office buildings, and we notified the municipal manager of a material irregularity for suspected fraud relating to this matter. OR Tambo District Municipality failed to spend R379 million of its infrastructure grant – of which it had to return R191 million to the National Treasury – and consequently only achieved 59% of its planned basic service delivery targets. Enoch Mgijima Local Municipality underspent its infrastructure grant by R23,4 million (39% of the total grant) and achieved only 65% of its planned basic



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

service delivery targets, which led to service delivery protests in January 2023. The challenges with delivering infrastructure projects continued, primarily due to inadequate procurement processes and poor project management. Buffalo City Metro's wastewater treatment works project has experienced significant cost increases (from R298 million to R386,9 million) because of procurement irregularities that led to litigation and delayed the project's completion. The project is currently at a standstill because the metro has not paid the contractor, and the equipment on site is deteriorating due to vandalism and the lack of maintenance.

In January 2022, heavy rains disrupted the province, with the OR Tambo district bearing the brunt of the damage. Settlements, roads, healthcare facilities, schools and agriculture infrastructure were severely affected. The National Disaster Management Centre paid out funds to eight qualifying municipalities (Port St Johns, Ingquza Hill, Ntabankulu, Nyandeni, Umzimvubu, Winnie Madikizela-Mandela and Mbhashe local municipalities, and OR Tambo District Municipality). All these municipalities used the funds to repair and replace road infrastructure, except for OR Tambo, which used the funds to refurbish water treatment plants, and Nyandeni, which used them to rebuild a bridge. Although most municipalities received the funds in August 2022, many had not spent all the funds within six calendar months, as provided for in the conditions of the grant. They requested an extension from the National Disaster Management Centre – through the Provincial Disaster Management Centre – to 30 June 2023. The delay in spending was due to the slow approval of municipal implementation plans,

inadequate infrastructure project planning, and project delays caused by bad weather. Only Winnie Madikizela-Mandela, Nyandeni and Ntabankulu had spent all their funds by 31 March 2023. At two municipalities, we identified irregular expenditure: Ntabankulu incurred R2,7 million in irregular expenditure because it did not follow procurement processes when appointing service providers, while OR Tambo incurred R7 million in irregular expenditure because it awarded contracts to three bidders whose tax matters were not declared to be in order by the South African Revenue Service at the time of award.

Most municipalities did not investigate irregular expenditure, and thus consequence management was very slow. This resulted in R24,29 billion of last year's irregular expenditure closing balance of R27,20 billion not being dealt with (written off or recovered) and no action being taken against the responsible officials. Municipalities incurred R10,6 billion in irregular expenditure in the current year as they did not follow prescribed procurement processes. Buffalo City Metro was the highest contributor to this amount, accounting for R6,5 billion (61%) of the total. This included R5 billion that the metro incurred in prior years but reported in the current year to resolve last year's qualification on completeness of irregular expenditure.

The provincial cooperative governance department and treasury supported municipalities with budget reforms; financial recovery plans; and strategies to manage unauthorised, irregular, and fruitless and wasteful expenditure. However, these interventions have had a limited impact because municipalities are slow to implement



PREV



NEXT



the recommendations. Provincial or national interventions are ongoing at three municipalities (Makana and Enoch Mgijima local municipalities, and Amathole District Municipality), but these municipalities are still facing financial sustainability challenges. The provincial legislature, in collaboration with political and administrative leaders, conducted outreach programmes to identify and implement corrective measures, and the coordinating institutions are now working together to roll out initiatives at municipalities. During our interactions with Troika (made up of the provincial premier's office, cooperative governance department and treasury), we encouraged them to further enhance the coordinating institutions' integrated approach by strengthening the accountability ecosystem, elevating the roles of internal audit units and audit committees, and ensuring that legislature receives reports that address the real issues at hand.

The province needs capable leadership to enhance transparency and accountability, prioritise the fundamental needs of communities, and promote social and economic development as mandated by the Constitution. To achieve this, political leadership, supported by the coordinating institutions, should provide adequate oversight and monitor the financial reporting process throughout the year to improve the quality of financial statements. Both political and administrative leadership must further foster a culture of accountability by enforcing effective consequences for wrongdoing, strengthening governance structures, and ensuring that basic controls are implemented and maintained throughout the year. This will enable local government to fulfil its developmental mandate and improve the welfare of all the people of the Eastern Cape.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET



FREE STATE

Current leadership tone should continue to shift the culture in local government

In our previous message, we underlined that leadership should strengthen controls and emphasised that all roleplayers should dedicate themselves to rebuilding strong and credible municipalities with high levels of transparency, integrity and accountability.

We also recommended that the provincial treasury and cooperative governance department increase their support and strengthen the capacity of municipalities and incoming councils to set the correct tone at the top and ensure stability in administrative leadership by filling vacancies and capacitating key officials. We acknowledge that the first year of an administration is a transitional period and are hopeful in that the implementation of our call to action has been positively received and is receiving attention. While local government is still characterised by a weak control environment, poor financial health, and a lack of financial oversight and consequences, we have seen a shift by the provincial executive leadership through the work of the coordinating institutions, from inaction to increased support to municipalities. This current leadership tone should filter down to the municipal leadership to shift the culture in local government and bring about improvement in the lives of provincial communities.

Last year, we reported that almost half (48%) of the municipalities did not have the discipline to submit their financial statements by the legislated date, and we cautioned against tolerating the lack of transparency on their finances and performance. Furthermore, we used our extended powers

and notified accounting officers of 14 material irregularities for not submitting financial statements on time. The accounting officers, with continued support from the provincial treasury, responded positively to clear most of the backlog, with only the financial statements for Kopanong (2021-22) and Masilonyana (2020-21 and 2021-22) local municipalities still outstanding. We also escalated Masilonyana's non-submission for intervention by the member of the executive council for local government. Leadership has since cleared the backlog and the focus should now shift from a compliance culture to submitting improved quality financial statements and performance reports to rebuild these institutions.

For the sixth consecutive year, the province had no clean audits. Overall, most audit outcomes remained unchanged from the previous year, with two municipalities improving and one regressing. The audit outcomes for Moqhaka and Setsoto local municipalities improved from a qualified audit opinion to an unqualified opinion with findings, mainly due to the tone set by the municipal managers and the support provided by the audit committees. These municipalities implemented their action plans to improve audit outcomes and they were responsive to the audit process. The audit outcome for Mangaung Metro regressed from an unqualified audit opinion with findings to a qualified opinion because the council did not prioritise filling vacancies in the critical leadership positions of city manager and department heads, which lessened accountability within the metro, contributed to the lack of cooperation from employees in providing



PREV



NEXT



supporting documents for audit purposes, and enabled a continuing culture of impunity. The metro also did not effectively implement its audit action plan to address internal control deficiencies and poor record keeping. Because of political instability, the provincial and national interventions in terms of the Constitution did not have the desired outcome as they were not supported by both the council and municipal officials.

The lack of financial management discipline and skilled resources, coupled with weak control environments, resulted in the financial statements of all the municipalities submitted for auditing requiring material corrections. Only 47% of municipalities could improve their outcome after making these corrections. Financial reporting remained a year-end effort with most municipalities relying on consultants to prepare and review financial statements. They also used consultants to perform verifications, condition assessments and revaluations of assets because they did not have sufficient internal capacity and skills. Some municipalities, with support from the provincial treasury, started to use their own officials to prepare financial statements, and consultant costs for financial reporting services have thus decreased from R43,77 million in the previous year to R32,29 million. The mayor of Matjhabeng Local Municipality, for example, played a role in reducing the reliance on consultants by R8,74 million, as the municipality appointed qualified officials to prepare its financial statements.

Municipalities' financial health continued to deteriorate and 11 municipalities (73%) disclosed a material uncertainty about whether they would be able to meet their financial obligations as they become due. Councils did not follow credible budgeting processes and approved unfunded and unachievable budgets, which contributed to the unauthorised expenditure of R5,57 billion and a deficit of R2,73 billion where expenditure exceeded revenue. The province's financial situation was also negatively affected by inadequate basic controls and financial mismanagement. The current financial constraints are likely to be felt beyond 2022-23, as 80% of municipalities will need to use at least half of the 2022-23 budget to pay for spending in the current year. These municipalities

struggled to collect all their outstanding revenue, which resulted in a continued lack of cash reserves to pay contractors and third-party contributors to ensure basic services are provided. The amounts owed to Eskom and the water boards continued to increase, reaching R14,1 billion. Municipalities also reported water losses of R900 million (49% of all water that flowed through municipal infrastructure). To address their financial health challenges, municipalities (supported by the provincial treasury) need to implement realistic budget processes and a revenue-enhancement strategy.

Once again, municipalities did not pay attention to performance planning, reporting and achievements to ensure they were reporting transparently on service delivery and accountability for performance information. Only Moqhaka and Phumelela local municipalities and Lejweleputswa and Xhariep district municipalities were able to credibly report on their performance, and only Lejweleputswa did not need to make material corrections to the initial submission of its performance report. Most municipalities (73%) published poor-quality performance reports that were not always supported by full and proper records. The councils must consult on, and prioritise, the needs of communities and should not tolerate a lack of transparency in reporting on performance against planned targets.

Although municipalities planned for basic service delivery, they did not achieve most of their planned targets for electricity, water and sanitation because of poor financial and project management – with a resultant impact on the quality of services delivered to communities. Mangaung Metro held public participation sessions with communities and considered their concerns, but did not prioritise all these concerns due to financial constraints. We found that while the metro planned for all 35 standardised performance indicators prescribed by the National Treasury on outcomes related to its core functions (electricity, housing, roads, water and sanitation), there was no visible impact on service delivery, as the metro reported achievements of zero in relation to planned services for seven of these indicators and excluded a further 12 from its performance report.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

Municipalities did not deliver on the infrastructure projects needed to reduce the significant service delivery backlogs and improve the community's access to basic service delivery. We identified shortcomings in water and sanitation projects at 11 municipalities, including poor project management, delays in project completion, quality defects and increased project costs. Insufficient preventative maintenance was prevalent, as municipalities spent only 2% of the value of assets on repairing and maintaining said assets. For example, at a wastewater treatment plant in Metsimaholo Local Municipality, the lack of maintenance over several years left the existing plant so dilapidated that a new plant had to be built. Yet, more than three years after the planned completion date, the new plant has still not been completed. Despite the municipality having paid a contractor to repair the existing plant, it continued to dispose untreated wastewater into the Vaal Dam. We notified the municipal manager of a material irregularity due to the likely substantial harm this would cause to the public.

We reported material findings on compliance with legislation at all municipalities. A lack of consequences for wrongdoing continued to create a culture of impunity and complete disregard for the rule of law at all levels; transgressions of procurement legislation; and a widespread failure to prevent unauthorised, irregular, and fruitless and wasteful expenditure. Municipal public accounts committees again did not investigate these expenditures; for example, less than 1% of last year's irregular expenditure closing balance of R9,34 billion was appropriately dealt with. Nine municipalities have recently established disciplinary boards; coordinating institutions should continue to work with municipalities to establish such boards and enable them to fulfil their roles and responsibilities.

By 15 January 2023, we had notified accounting officers in the province of 50 material irregularities – an additional 26 since our previous general report. In total, 11 of these material irregularities have been resolved by auditees submitting their outstanding financial statements, and three auditees each resolved a material irregularity by reducing losses

and implementing additional controls to prevent the irregularity from recurring. Some municipal managers are taking appropriate steps to address the material irregularities we have raised. For example, the municipal manager of Maluti-a-Phofung Local Municipality is taking appropriate steps to address four material irregularities relating to inadequate wastewater treatment and disposal. The water and sanitation minister has responded positively to the municipality's wastewater problems, and has issued a directive to Bloem Water to intervene and perform certain functions relating to upgrading and managing the municipality's wastewater treatment plants for three years.

All roleplayers in the accountability ecosystem must instil a sense of urgency to shift the culture in local government to achieve the desired outcomes and restore the confidence of the province's people in their government. A culture of accountability and transparency involves clear expectations, specific goals and strong leaders with a clear direction to pave the way for better service delivery and continuous reporting on achievements. Municipal administration can achieve this culture by implementing and maintaining basic controls throughout the year to ensure they can submit good-quality financial statements within the legislated deadlines. This will allow the provincial cooperative governance department to strengthen the processes of compiling reports, as required by legislation, on the performance of municipalities and the recommendations to be implemented, and to ensure that these reports are tabled on time in the provincial legislature. Local government should enhance skills and capacity to ensure it has a competent and skilled workforce. The council, through the municipal public accounts committee, should investigate unauthorised, irregular, and fruitless and wasteful expenditure, and should implement consequences against the responsible officials. Coordinating institutions should strengthen their role in the local government sphere through effective interventions that will support municipalities to strengthen their control environments and enforce legislative requirements.



PREV



NEXT



GAUTENG

Lack of financial discipline and consequence management with ineffective oversight resulting in inadequate service delivery

In our previous general report, we recommended that in order to improve the overall audit outcomes, provincial leadership and oversight must instil a culture of good governance, monitor preventative controls that will strengthen daily financial disciplines, and ensure swift implementation of consequence management for effective accountability.

The new administration has been in office for less than a year and we continue to encourage leadership to entrench such a culture with the goal of attaining and sustaining clean audits, as they will serve as a good basis for basic service delivery to the people of Gauteng.

We commend City of Ekurhuleni Metro and Midvaal Local Municipality for sustaining their clean audit opinions through continued good financial disciplines and sound governance practices, which had a positive impact on service delivery; and Rand West City Local Municipality for improving its audit outcome from qualified to unqualified with findings. However, the increasing number of regressions in audit outcomes is concerning. Emfuleni and Mogale City local municipalities regressed to qualified audit opinions, while City of Tshwane Metro and Merafong City Local Municipality regressed to adverse and disclaimed audit opinions, respectively.

The municipal entities that received the highest budget allocation sustained their unqualified audit opinions with findings; however, two other municipal entities regressed from the previous year. Only two municipalities and six municipal entities

submitted good-quality financial statements that did not require corrections, while the remaining nine municipalities and seven municipal entities continued to rely on the audit process to produce good-quality financial statements despite having sufficiently skilled resources in their finance units, as well as functioning internal audit units and audit committees. The auditees that could not produce good-quality financial statements lacked basic financial disciplines and good financial governance due to an absence of effective oversight to ensure that officials are held accountable for not implementing basic controls.

Adequate information technology infrastructure and controls are key for supporting proper financial management and driving service delivery. Municipalities made significant investments to implement enterprise resource planning systems to manage day-to-day business activities, but these projects continued to fail due to ineffective project and licence management. As a result, municipalities spent money on software licences they did not use, and we notified the municipal managers of City of Tshwane and City of Johannesburg metros of material irregularities on this matter.

Municipalities continued to engage residents through public participation processes as part of planning for service delivery; and most considered the concerns raised by the public in their service delivery plans. Although all three metros adopted the common performance indicators set out by the National Treasury relating to basic services, the credibility of performance reports remains



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

a challenge as seven municipalities and five municipal entities could not publish credible reports, as they did not prioritise performance information monitoring and reporting. This has an impact on the effectiveness of in-year reporting, monitoring and decision-making by the leadership. Simply put, when planned targets are not achieved, communities do not receive adequate services.

We visited key projects and found that they were not adequately monitored to ensure they stayed within the timelines and amounts outlined in the contracts. Projects were significantly delayed by poor planning, unfunded budgets and a lack of contract management disciplines. For example, the Johannesburg Development Agency paid a contractor for poor-quality work on the integrated rapid public transport network project. At City of Tshwane and City of Johannesburg metros, the delivery of housing projects in Fort West and Lehae was delayed, resulting in the illegal occupation of completed units. Internal audit units and governance structures must play a bigger role to ensure that the quality of performance reports improves and that project reports are promptly reviewed so that progress can be properly tracked.

The lack of proper project management and monitoring has also led to ageing infrastructure not being adequately maintained. Most municipalities did not carry out proper preventative repairs and maintenance on infrastructure, and spent an average of only 5% of the value of the infrastructure on repairing and maintaining assets – compared to the National Treasury's suggested norm of 8%. This lack of maintenance significantly affected the operations of wastewater treatment works at City of Tshwane Metro and Rand West City Local Municipality, resulting in untreated wastewater being discharged into water sources such as rivers. This had a negative effect on the municipalities' ability to provide clean water to communities and to preserve the environment. We notified the municipal managers of both municipalities of material irregularities because the discharge of untreated wastewater is likely to cause harm to the general public.

We remain concerned about non-compliance with legislation as we did not see an improvement from the previous year. There were fewer instances of non-compliance relating to supply chain management legislation, with a slight decrease in the irregular expenditure incurred (from R6,59 billion to R6,46 billion). However, the closing balance of irregular expenditure remains high, at R29,41 billion. Municipal public accounts committees did not investigate identified instances of non-compliance as a matter of urgency to ensure that the irregular expenditure closing balance was dealt with in line with legislation, and that consequence management was swiftly implemented where appropriate. While councils at metros have adopted resolutions to establish disciplinary boards to assist with investigations and disciplinary processes, these are not functioning as intended. We call on oversight structures to ensure that disciplinary boards are established and functional. In addition, municipal public accounts committees, with the assistance of internal audit units, must prioritise investigations into irregular expenditure.

Since 2018-19, we have issued 21 material irregularities linked to various instances of non-compliance, with an estimated financial loss of R575,10 million. The material irregularity process continues to gain traction as most accounting officers are busy taking corrective steps, including improving internal controls, upgrading and maintaining infrastructure, instituting disciplinary processes, and recovering funds. For example, the municipal manager at City of Tshwane Metro committed to provide communities in Hammanskraal with clean water from water tankers while the metro worked on maintaining and upgrading the wastewater treatment plant. We urge governance structures and councils to closely monitor the progress municipal managers make in implementing the actions they have committed to take so that these material irregularities can be quickly resolved. This includes the remedial action issued for three material irregularities at City of Tshwane Metro, as the municipal manager failed to implement the recommendations we had previously issued.



PREV



NEXT



The financial health of all municipalities continued to deteriorate, as revenue collection remained poor and metros continued to rely on loans and municipalities on grants to fund their operations and capital infrastructure projects. Moody's downgraded City of Tshwane Metro's credit rating, which affected its ability to raise funding for capital expenditure. Due to their poor financial state, most municipalities did not spend enough on either new capital projects or repairs and maintenance, and did not pay suppliers within the prescribed 30 days. To make the situation even worse, municipalities with cash-flow shortages adopted unfunded budgets that could not fully support service delivery performance plans. Despite having cash shortages, some municipalities did also not spend all their grant allocations.

In addition, seven municipalities and four municipal entities spent a total of R163,72 million on financial reporting consultants. Some received limited benefit and value for the money they spent, leading us to issue material irregularity notifications to the municipal managers of Merafong City Local Municipality and City of Tshwane Metro. We also find it concerning that fruitless and wasteful expenditure is increasing, thereby wasting funds and thus delaying capital projects. The deteriorating financial health of municipalities and municipal entities affects their ability to deliver much-needed basic services to communities because projects are delayed and suppliers are not paid on time. Accounting officers should ensure that funds are spent efficiently, effectively and economically to avoid any wastage.

Although the tone set by the provincial leadership in restoring Gauteng to clean governance has been positive, it is not yet yielding the desired

results. The province is busy implementing previous commitments, has established a war room to serve as a structured committee to come up with practical solutions on how to improve audit outcomes and governance, and is providing training to supply chain management officials and municipal public accounts committee members. While we found that all municipalities had established audit committees and internal audit structures, the impact of these structures and related processes should be strengthened.

The premier, through service-level agreements, has an opportunity to hold the members of the executive council for local government and finance accountable for implementing planned initiatives to improve the effectiveness of local government. The provincial cooperative governance department has an opportunity to comprehensively assess the effectiveness of action plans to address the matters we report in the audit reports and to ensure that the various initiatives intended to improve audit outcomes are implemented. The National Treasury and its provincial counterpart should thoroughly assess municipalities' budgets and quarterly reports, and, when needed, intervene in time to support municipalities with financial recovery plans and skills. Councils must hold municipal managers accountable for delivering basic services and implementing their budgets. Effective oversight should result in improved financial disciplines and a culture of accountability that will improve overall audit outcomes and service delivery to the people of Gauteng.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET



KWAZULU-NATAL

Some improvement in audit outcomes while a lack of accountability persists

Last year, we engaged the province's administrative leaders and recommended that they institutionalise preventative controls and implement consequence management and accountability.

We also advocated for them to pay closer attention to transparent, good-quality reporting on service delivery to ensure that public funds are used in a way that will improve the experience and lived reality of communities. The improvement of the audit outcomes in the current year is an indication that the administrative leaders and management are starting to pay attention to this call.

Overall, the province's audit outcomes have improved since last year, with nine municipalities (Ugu District Municipality, and AbaQulusi, Dannhauser, eDumbe, Inkosi Langalibalele, Nquthu, Ray Nkonyeni, uMngeni, and uMshwathi local municipalities) improving their audit outcomes, while four municipalities (uMzinyathi and Harry Gwala district municipalities, and Msunduzi and Ulundi local municipalities) regressed. At the cut-off date of this report, we had not completed the audit of uMkhanyakude District Municipality because it had submitted its financial statements late. Nquthu and Inkosi Langalibalele both improved from a disclaimed to a qualified audit opinion, thanks to the assistance of financial experts assigned by the provincial cooperative governance department to help develop and implement an action plan to address prior-year audit findings; compile registers for unauthorised, irregular, and fruitless and wasteful

expenditure; prepare financial statements; and coordinate the audit process. The provincial treasury's support in conducting audit readiness and pre-audit assessments, reviewing financial statements and monitoring the implementation of audit action plans also had a positive impact on the audit outcomes.

Ray Nkonyeni Local Municipality improved from an unqualified audit opinion with findings to a clean audit opinion because management implemented and continuously monitored the audit action plan. King Cetshwayo District Municipality and the City of uMhlathuze and Okhahlamba local municipalities sustained their clean audit outcomes because of the level of commitment municipal managers and senior management showed to address the deficiencies identified by internal audit and risk units, to institutionalise internal controls, and to fill key positions with suitably qualified officials. Msunduzi Local Municipality regressed from an unqualified audit opinion with findings to a qualified opinion. We identified significant internal control deficiencies in the municipality's billing system, where revenue from the sale of water did not match internal meter-reading reports. uMzinyathi District Municipality regressed from a qualified to an adverse opinion, mainly because it did not properly reconcile or review financial information, did not effectively manage its records, and was slow to fill key management positions.



PREV



NEXT



The poor quality of financial statements submitted for auditing remains concerning, as more than half of the municipalities (56%) obtained unqualified audit opinions only after we allowed them to correct material misstatements identified during the audit process. The quality of financial statements is unlikely to improve if municipalities continue to rely on the audit process to identify misstatements, do not implement proper financial discipline, and have inadequately resourced finance units and instability or vacancies in critical positions. Additionally, because of weak information technology controls, we could not rely on the transactions and data processed by the systems at uMzinyathi, Amajuba, Harry Gwala and uThukela district municipalities, and Endumeni and Msunduzi local municipalities, which all received either adverse or qualified audit opinions.

The amount municipalities spend on consultants increases every year, and most municipalities (48) relied on consultants to prepare and/or review their financial statements, even though in most instances they had appointed officials to perform these functions. Despite municipalities spending R309 million on financial reporting consultants, this investment has not had the desired impact. At 25 municipalities (52%), we identified material misstatements in the areas where consultants were used. The reasons behind this included poor project management, inadequate record management, and delays in appointing consultants. We notified the municipal manager of Harry Gwala District Municipality of a material irregularity for not complying with contract management legislation and consequently overpaying a consultant to do a conditional assessment of water infrastructure.

We reported material findings on compliance with legislation at most municipalities (93%). The failure to institute appropriate consequence management has created an environment characterised by a lack of discipline and accountability for wrongdoing. Non-compliance with supply chain management legislation contributed to more than 90% of the total irregular expenditure of R5,93 billion for the year. Although municipalities made some

effort to investigate and deal with the irregular expenditure closing balance of R14,46 billion, their progress was slow and they managed to reduce the closing balance by only R2,64 billion. Municipal public accounts committees and disciplinary boards should ensure that robust and timely investigations take place and that consequences are implemented where applicable.

While municipalities might not always have effective consequence management in place, the material irregularity process is shifting the culture in the right direction, as municipal leadership is responding positively to our notifications. We have issued notifications for 45 material irregularities with a total estimated financial loss of R553,74 million. Most municipal managers are taking appropriate action to address these, such as improving internal controls to prevent the irregularities from recurring and starting disciplinary processes against responsible officials. A notable example of the improvement in controls relates to a material irregularity we raised at AbaQulusi Local Municipality on the non-billing of service charges. The management of the municipality now reconciles the valuation roll to the levy report every quarter and ensures that all properties are billed for the different services they receive.

Where no or limited action was taken to address material irregularities, we invoked our extended powers. At uMkhanyakude District Municipality, we issued recommendations for material irregularities on interest, revenue management and asset management; and at Amajuba District Municipality, we referred one on overpricing of procured goods and services to the Special Investigating Unit for investigation. Msunduzi Local Municipality was slow to resolve material irregularities because of instability at municipal manager level and delays in completing investigations and disciplinary processes, prompting us to issue remedial action for a material irregularity relating to revenue not billed at the landfill site.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

Poor economic conditions and financial losses placed further strain on the financial health of most municipalities. Municipalities struggled to collect the money they are owed because of ineffective financial management practices over revenue and debt collection. On average, they will find it difficult to recover 66% of their debt. They have also failed to implement credit-control and debt-collection policies, and we issued notifications for material irregularities relating to writing off debts without attempting to recover them, and thus failing to raise revenue. Because of cash-flow constraints, municipalities also struggled to promptly pay off their debts. At year-end, they owed Eskom a total of R820,5 million that was past due, and the water boards a combined R1,1 billion that was in arrears. Msunduzi Local Municipality is responsible for 42% (R341,7 million) of the arrears owed to Eskom and 75% (R829,15 million) of the arrears owed to the water boards. Nine municipalities reported doubt about their ability to continue operating, with six of these having reported such challenges for at least the last four years. The lack of sound financial management practices within municipalities has a negative impact on crucial expenses such as infrastructure repairs and maintenance, further hampering the delivery of services.

Most municipalities did not fully achieve their planned service delivery targets for the year. Certain municipalities did not include or prioritise key performance indicators in their service delivery and budget implementation plans, including indicators relating to the quality of water and wastewater disposal, and those addressing the backlog in water and sanitation services, waste removal and road infrastructure. If a municipality does not include key performance indicators in its performance report, the report will not provide a fair reflection of how it has performed against its mandate to provide basic services to communities.

Ageing infrastructure and a lack of maintenance made it difficult for municipalities to fulfil their service delivery commitments to the public, and contributed to the high water distribution losses of R3,42 billion (45,21% of all water that flowed through municipal infrastructure). Although the province has infrastructure assets worth R89,66 billion, only 3,6% of its spending was on

repairing and maintaining these assets. eThekweni Metro did not have maintenance plans to inform the actual budget needed to maintain its assets, and thus faced major water and electricity supply challenges due to failing infrastructure. The crumbling municipal infrastructure has not only affected service delivery but has also increased the risk of harm to communities and the environment. This was evident at the wastewater works of Ugu District Municipality, where the lack of maintenance resulted in the plants not operating and disposing untreated wastewater into rivers. Similarly, the water in Amajuba District Municipality failed to meet the quality standard for drinking water and contained traces of E.coli, posing potential health risks to residents.

The floods that occurred in the province during April and May of 2022 had a devastating impact on the province and its communities. Not only did it leave people destitute, with homes, schools and other vital infrastructure being destroyed, but it also shed light on what can happen if road and water infrastructure is not adequately maintained. We conducted a real-time audit of the flood relief initiatives at iLembe, Ugu and Zululand district municipalities, KwaDukuza Local Municipality, and eThekweni Metro, focusing specifically on water supply; infrastructure related to water, sanitation and roads; and the provision of building materials to beneficiaries whose dwellings had been destroyed – and reported our findings in a special report issued in August 2022. We followed up on the implementation of eThekweni Metro's action plan to address our findings on its water supply initiative and noted that slow progress has been made to implement our recommendations and we continued to identify similar deficiencies. The Disaster Management Act and the Disaster Management Policy Framework provide for an integrated and coordinated disaster risk management process that focuses on preventing or reducing the risk of disasters and mitigating its severity. However, iLembe, KwaDukuza and eThekweni did not comply fully with legislative requirements because they did not have – or did not revise – formal disaster management plans or the required baseline funding designated for activities to reduce disaster-related risks.



PREV



NEXT



Due to inadequate needs assessments and a lack of formalised procedures and controls, municipalities could not supply enough clean drinking water to areas in need. Although Tongaat water treatment works in eThekweni Metro is operating again, it is still not producing the required amount of water because the bulk supply pipelines on which it relies were not assessed or repaired before operations were restored, despite having been visibly damaged. This situation highlights the lack of coordination between the various custodians of the infrastructure, which caused further delays in providing water. We also found that the controls over the metro's management and supply of building materials to beneficiaries were inadequate or ineffective. The list of beneficiaries contained inaccuracies such as duplicated and deceased beneficiaries, as well as beneficiaries who had not been approved to receive support. Controls for storing, protecting and issuing building materials were also poor or inadequate, which left supplies exposed to the risks of theft, damage and loss. The road infrastructure projects we audited at the metro also highlighted various shortcomings. The metro did not conduct site assessments for 183 road projects to verify the needs assessments used to prioritise projects, which led to resources being allocated inefficiently. The metro's supply chain management processes were also not responsive to the flood disaster initiatives, as we found delays in securing contracts for the resources and equipment needed to repair roads.

The challenges across local government are vast and must be approached from a comprehensive and sustainable perspective, which requires a commitment of time, resources and effort from

all stakeholders in the accountability ecosystem. These challenges, particularly those relating to infrastructure and flood relief, also call for greater intergovernmental coordination. We urge the coordinating institutions to continue collaborating with senior management and with each other to proactively respond to our recommendations and to use the insights we provide to craft a turnaround plan that will intensify support to struggling municipalities. They should also continue to tailor initiatives to support each municipality and both implement planned initiatives as swiftly as possible and continuously assess their impact.

The province's audit outcomes highlight the need to institutionalise internal controls, rigorous reviews and continuous monitoring to ensure credible and reliable reporting of financial and performance information and to strengthen compliance with legislation. Effective financial management practices, competent personnel and decisive action to address wrongdoing and poor performance are essential to improve service delivery. The councils (including mayors) and their committees should be more robust and persuasive in their quest for good-quality and credible information, conducting investigations where necessary and holding municipal managers and senior managers accountable for failing to fulfil their responsibilities consistently. By putting into place these building blocks of a sound system of internal control, enforcing accountability and planning effectively, local government can address the challenges it faces and improve its credibility and service delivery to the people of KwaZulu-Natal.



PREV



NEXT



LIMPOPO

Inadequate financial management disciplines and oversight

In our previous general report, we reported an improvement in the audit outcomes of the province, although municipalities continued to rely too heavily on consultants and audit adjustments and made few to no improvements in their control environments.

This year, inadequate financial management disciplines and oversight led to audit outcomes remaining largely unchanged and delays in service delivery. At some municipalities, audit outcomes either did not improve or regressed because of the worsening state of documentation controls; asset protection; revenue management; and reviews of financial, compliance and performance reports.

The province spent R1,13 billion on financial reporting, including R874,99 million on salaries for finance officials and R263,18 million for financial reporting consultants, mainly because finance units lacked the staff and skills to prepare credible financial statements. Despite this, only four municipalities (15%) were able to submit credible financial statements for auditing. Municipalities did not always realise the predicted benefits of using financial reporting consultants for reasons that included not providing them with the records needed to prepare credible financial statements, inadequate reviews of consultant work, overall poor project management, and a lack of skills transfer from the consultants. We notified the municipal manager of Mopani District Municipality of a material irregularity relating to the ineffective use of consultants, as the municipality appointed consultants to help prepare its financial statements despite not having the proper records and supporting documents to enable the preparation.

Capricorn District Municipality improved to a clean audit opinion. Waterberg District Municipality sustained its clean audit opinion for the second consecutive year through retaining capable financial staff, sound business processes and effective key controls. It also embedded basic financial disciplines such as adequate and timely reviews, which continued to enhance the internal control environment. Bela-Bela Local Municipality improved from a disclaimed audit opinion to a qualified opinion with findings, due to enhanced document management controls and intervention by the provincial treasury and cooperative governance department. Polokwane and Greater Giyani local municipalities improved from a qualified to an unqualified audit opinion with findings, mainly because of effective senior management reviews of financial information and audit action plans driven by municipal managers. Four municipalities regressed from an unqualified audit opinion with findings to a qualified opinion because they did not adequately monitor and review their internal controls to ensure that these were operating effectively. The system of internal control continues to be plagued by deficiencies arising from a lack of standard daily and monthly control disciplines.

The financial health of municipalities remains under pressure, with six municipalities disclosing uncertainty about their ability to continue operating in the foreseeable future (Mopani District Municipality, and Modimolle-Mookgophong, Thabazimbi, Greater Letaba, Bela-Bela and Musina local municipalities. Mopani, Thabazimbi and Modimolle-Mookgophong have been in this



PREV



NEXT



state for the last five years, due to poor budgetary and financial management disciplines, showing that the provincial interventions deployed at the municipalities have not yet had the desired impact. Municipalities suffered unnecessary revenue losses due to poor financial management practices, such as ineffective revenue processes, which then led us to issue material irregularity notifications. Eight municipalities adopted unfunded budgets, despite the provincial treasury's efforts to curb this practice. These unfunded budgets result in municipalities committing to more than they can achieve and delivering less than they have promised on service delivery. Municipalities also had to return unspent funds earmarked for infrastructure development, which further hindered the delivery of services.

Up to 15 January 2023, we had notified municipal managers of 21 material irregularities in the province, with a total likely financial loss of R1,37 billion. Even though not all the material irregularities have been resolved yet, we are encouraged that municipal managers were responsive and took appropriate action to ensure that no further financial losses were incurred by enhancing the internal control environments, performing investigations and holding responsible officials accountable.

Unauthorised, irregular, and fruitless and wasteful expenditure remained high, increasing the risk that funds intended for service delivery might be misused. The most common findings on irregular expenditure related to non-compliance with legislation on procurement and contract management. The five municipalities that contributed most to the R1,68 billion in irregular expenditure were Mopani and Vhembe district municipalities, and Polokwane, Mogalakwena and Maruleng local municipalities. Also concerning are the delays in consequence management due to slow or no investigations into irregular expenditure, and this has led to an irregular expenditure closing balance of R7,11 billion. We also saw no deliberate drive from municipal public accounts committees to clear the backlog in swiftly investigating these matters so that those who allowed the irregular expenditure could face consequences.

The poor service delivery experienced by residents is most evident in the concerning state of municipal infrastructure and water provision. Municipalities spent a combined R606,14 million on repairs and maintenance to infrastructure assets, which represents 1,8% of the value of total infrastructure assets and is far below the National Treasury norm of 8%. Vhembe District Municipality did not fully address our findings and recommendations from the previous year relating to the Vondo and Phiphidi water projects, even after we engaged with municipal leadership. In Greater Giyani Local Municipality, the Nsami water treatment works is not being used and has been earmarked for demolition or significant refurbishment because of structural issues. In Mopani District Municipality, the Giyani bulk water project is still incomplete due to inadequate intergovernmental coordination between the municipality and the Department of Water and Sanitation. As a result, residents of Greater Giyani and the surrounding areas are still not receiving water services. We are busy evaluating these projects for likely financial losses, which may result in potential material irregularities. At Mogalakwena Local Municipality, we could not obtain evidence that payments to water tankering service providers were for water delivered to communities, resulting in a likely financial loss of R11,36 million. We notified the municipal manager of a material irregularity on this matter.

Mopani District Municipality reported an overachievement on the number of households with access to water but did not have reliable and credible supporting evidence to verify this achievement, while Vhembe and Sekhukhune district municipalities, and Thabazimbi Local Municipality, did not report the target for the number of households with access to water in their performance reports. Delays in municipal infrastructure delivery and poor performance planning and reporting compromise service delivery and result in communities not having sufficient access to basic services, as well as increased project-related costs and financial losses. We are busy evaluating the extent of potential financial losses and possible harm to the public because of these matters with a view to identify potential material irregularities.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

The provincial cooperative governance department planned to support municipalities with poor audit outcomes. To this effect, the department directed Mopani District Municipality to report on specific items relating to its financial viability, including supporting and strengthening the municipality's internal capacity and performance in line with section 139(1)(a) of the Municipal Finance Management Act, since it received a disclaimed audit opinion for two consecutive years. We will assess the impact of this intervention during the 2022-23 audit cycle. The department should continue to intensify its role in monitoring, supporting and capacitating municipalities, which includes intervening and enforcing legislative requirements where necessary.

Considering the poor quality of financial and performance records, the department and the provincial treasury must focus on enabling and insisting on credible financial and performance reports for in-year monitoring and decision-making, as well as transparency and accountability on municipalities' finances and performance. They should further continue to investigate the root causes of disclaimed opinions and build capacity within municipal finance units. Provincial intervention and assistance from consultants at Bela-Bela Local Municipality contributed to an improved audit outcome but did not have an impact at Mopani District Municipality which remained stagnant on a disclaimed opinion. The provincial cooperative governance department should take action against municipalities that resist support initiatives as well as those that do not implement the recommendations of the coordinating institutions. This disregard towards assistance was also evident at some municipalities where management did not respond to the recommendations of internal audit units, thus decreasing the level of assurance these governance structures could provide on financial reporting. The coordinating institutions must further insist on action plans to change the culture of laxity when it comes to compliance with legislation and service delivery, and must continuously monitor how these plans are implemented.

Last year, we were encouraged by the premier's commitment to reduce the use of consultants by 60% in the 2021-22 financial year. While this commitment was not realised, we urge the premier to continue prioritising this initiative and to enforce and monitor tactical reduction plans at all municipalities with the guidance of the provincial cooperative governance department and treasury.

The member of the executive council for local government must strengthen the processes for compiling reports to the provincial legislature so that these reports effectively address the challenges faced by municipalities. These reports should cover audit action plans that address the root causes of audit findings, as well as remedial action to prevent repeat findings. The provincial legislature must strengthen the process of engaging on these reports, including formulating and following up on resolutions. Councils should ensure that these reports are adequately interrogated to encourage the discipline of financial reporting and transparency. Municipal public accounts committees should ensure prompt investigations and swift corrective action, where necessary, so that consequences are implemented to curb unauthorised, irregular, and fruitless and wasteful expenditure. Even better would be the implementation of preventative controls as they promote transparency, strengthen accountability and are predictable, with known, expected outcomes. Creating a strong system of preventative controls requires a strong tone at council and senior management level, led by the municipal manager, and an ethical culture on which to build strong financial management discipline.

Capricorn and Waterberg district municipalities are proof that where internal control systems are implemented and there is stability at management level, a clean audit outcome is within reach, and should inspire other municipalities to strive to attain this goal. The biggest responsibility lies with the leadership – mayors and councillors, municipal managers, senior managers and provincial leadership – who all need to take charge and develop the huge potential of Limpopo.



PREV



NEXT



MPUMALANGA

Weak control environment and lack of leadership accountability

Over the term of the previous administration, we identified several key areas that required immediate action to improve accountability and service delivery at municipalities, including an effective control environment, sustainable financial health, proper infrastructure project planning and management, and compliance with legislation especially as it relates to procurement and consequences.

Despite our strong call for action, progress has been slow, leading to stagnant audit outcomes (three improvements were matched by three regressions) and continuing gaps in service delivery. The reality is that while 90% of the municipalities are still struggling to get the basic financial disciplines right, communities' social and economic demands are rapidly evolving. Consequently, these municipalities must act swiftly on shifting the status quo and responding to the ever-growing needs of the people of Mpumalanga.

We firmly believe that change is possible if both local government and provincial leadership take decisive actions, including stabilising local government by filling vacancies and capacitating staff as well as implementing consequences for poor performance. The lack of skills and capacity at most municipalities resulted in consultants becoming a permanent feature in financial reporting processes. We issued three material irregularities on the ineffective use of consultants at three municipalities. The total investment in financial reporting, including salaries of finance officials and consultant costs, was R941,3 million, compared to R832 million in the previous year. Internal audit units and audit committees also reviewed

the prepared financial statements, while the provincial cooperative governance department and treasury deployed experts to support some finance units. Despite these resources and support, key financial management controls were not adequate to prevent material misstatements in financial statements, as only two municipalities (Nkangala and Ehlanzeni district municipalities), which managed 3% of the province's local government budget, produced credible financial and performance reports and complied with key legislation. Dr JS Moroka and Dipaleseng local municipalities improved from disclaimed to qualified audit opinions because they addressed significant deficiencies in their internal controls, with the combined assistance of the provincial cooperative governance department and treasury.

The financial crisis in municipalities is caused by poor budgeting practices, ineffective financial management and a lack of sustainable revenue strategies. This has led to a situation where five municipalities (25%) reported significant doubt about their ability to continue operating, while 10 municipalities (50%) approved unfunded budgets, resulting in unauthorised expenditure of R2,54 billion. The municipalities with unfunded budgets will need to use R9,44 billion from next year's budget to settle their obligations for this year – and for some, this will still not be enough. This has had a negative impact on service delivery performance indicators and targets, directly affecting communities' quality of life. Municipalities also struggled to collect revenue for basic services, with poor debt collection leading to limited cash flow, making it difficult for them to finance their operations and settle supplier accounts. The Eskom



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

debt has grown from R9,51 billion to R13,45 billion, with municipalities taking an average of 456 days to pay their suppliers – earning interest and penalties of R835 million. We have notified municipal managers of four material irregularities relating to this matter – three for paying suppliers late and one for not submitting value-added tax returns to the South African Revenue Service on time.

Most municipalities (70%) did not have effective systems for collating and reporting performance information, leading to unreliable reporting, compromised accountability and poor service delivery. These deficiencies hinder the ability of councils and other structures to carry out their oversight responsibilities. Most municipalities also failed to meet their targets and some overspent on their budgets despite not achieving all their goals. For example, Thaba Chweu Local Municipality spent 104% of its budget but achieved only 29% of its basic services and infrastructure development targets. Some municipalities further excluded critical performance indicators from their performance reports, such as Msukaligwa Local Municipality, which did not include an indicator on the quality of drinking water and did thus not plan any resources to meet community needs in this regard.

Municipalities spent most of the grants they received without delivering the required infrastructure on time and at the correct quality due to project deficiencies, such as poor planning, monitoring, and budget control. This resulted in municipalities paying for work that was not done, projects being delayed, and projects being delivered with defects. Some municipalities underspent their grant funding significantly, depriving residents of services for which funds had been earmarked, such as clean drinking water.

Municipalities also struggled to maintain their infrastructure assets as they only spent an average of 1% of the value of these assets on repairs and maintenance – far below the norm of 8%. And leaks due to unmaintained and deteriorating infrastructure, unmetered consumption and illegal connections added to the financial health crisis and resulted in municipalities suffering significant water and electricity losses, with Dipaleseng and

Msukaligwa local municipalities each reporting water losses of 76% – the highest in the province.

One example of the effect of such underspending can be found at Lekwa Local Municipality, which only spent 0,1% of the value of its infrastructure assets on repairs and maintenance due to serious cash-flow challenges. (The National Treasury did intervene last year to assist with financial rescue, but the impact of this support is not yet visible as it takes time to address deep-rooted challenges such as debt recovery). The Standerton wastewater treatment plant suffered infrastructural and mechanical decay due to the lack of maintenance, with some parts of the plant becoming completely non-functional. This negatively affected operational processes and caused sewage to overflow into the Vaal River, which the community uses as a water source. The heavy rains in February 2023 also left a trail of destruction across the Ehlanzeni district, highlighting the issue of inadequate infrastructure maintenance.

We reported compliance transgressions at 18 municipalities (90%) due to weak control environments and a lack of consequences. This has created a culture of impunity and blatant disregard for the rule of law, especially when it comes to procurement, and we notified one municipal manager of a material irregularity for not following procurement regulations. Because of this, irregular expenditure has continued to rise, with municipalities racking up R2,08 billion in 2021-22, compared to R1,26 billion last year. This amount could be even higher as 10 municipalities (50%) were either qualified on their irregular expenditure disclosure or were still investigating such expenditure to determine its full extent. The irregular expenditure closing balance also remains high at R6,44 billion because of significant delays by councils and municipal public accounts committees when it comes to investigating and dealing with prior-year irregular expenditure. Training and support from the provincial cooperative governance department and treasury to strengthen internal controls and compliance had little impact because municipalities either lacked internal capacity or had indifferent employees, resulting in the limited transfer of skills. The lack



PREV



NEXT



of consequences has created a culture of poor performance by some municipal officials who still get paid their salaries without fulfilling their roles.

We have implemented the material irregularity process at 17 municipalities, and by 15 January 2023, we had notified municipal managers of 19 material irregularities with a combined estimated financial loss of R554,21 million. Municipalities took little to no action on some of these material irregularities, and we included recommendations in the audit reports for five of them and referred one to a public body for investigation. The responses we receive to our material irregularity notifications are not always adequate or sufficiently supported by credible information to allow the swift conclusion of actions taken or planned, resulting in delays in the material irregularity process. Mayors and councils should exercise their oversight and monitoring roles by insisting on regular progress updates to ensure that municipal managers are appropriately responding to material irregularities.

Neither the leadership of various municipalities, nor the premier and the speaker of the provincial legislature, fully honoured commitments made last year, and so we saw little to no impact on the audit outcomes. The integrated municipal support plan will not be effective unless it is constantly monitored and improved upon. The provincial legislature needs to enhance its monitoring of the legislative reports that outline municipal performance and remedial action for improvement, and ensure that the members of the executive council for finance and local government comply with their statutory responsibility over municipalities. To improve audit outcomes and the quality of service delivery, all roleplayers in the local government accountability ecosystem,

including the office of the premier and the provincial coordinating institutions, must perform their roles effectively by implementing the following:

- » Municipalities, driven by administrative leadership with the support of coordinating institutions, must implement effective preventative controls – including building internal capacity, using consultants effectively, and properly planning and monitoring projects – to build stronger control environments.
- » Councils, supported by provincial leadership, should prioritise strengthening municipalities' financial health. A robust financial management culture, which includes ensuring all revenue due is collected, prudent spending, and preventing and swiftly recovering financial loss and wastage, will help to improve service delivery.
- » Adherence to legislation, especially procurement legislation, should be a top priority. Municipal public accounts committees and disciplinary boards should be capacitated to deal with the high balances of unauthorised, irregular, and fruitless and wasteful expenditure.
- » Political and administrative leadership, together with provincial leadership and oversight, must foster a culture of accountability, implement effective consequences for transgressions and poor performance, and strengthen governance structures.

We believe that with a deliberate focus on implementing these recommendations as permanent solutions, all our municipalities will shift to a public sector culture that is performance driven, ethical, transparent and accountable. This shift will ultimately result in an enhanced lived experience for all of Mpumalanga's people.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET



NORTHERN CAPE

Leadership should act to improve audit outcomes

In our previous general report, we stated that the weak control environment at municipalities contributed to the poor audit outcomes over the term of the previous administration, which also negatively affected service delivery.

The slow response by both political and administrative leadership to our findings and recommendations to improve this situation continued into 2021-22, resulting in the overall audit outcomes regressing even further.

This year, four of the 31 municipalities managed to achieve clean audit opinions, while four received disclaimed opinions and two audits are still outstanding because the municipalities submitted their financial statements late and the audits are still in progress. We commend the 26 municipalities (84%) that submitted their financial statements for auditing by the legislated date – an improvement from the 20 municipalities (65%) that did so last year. For the first time, all financial statements in the province were submitted by the end of December, largely because we issued material irregularities in this area and oversight followed up with further interventions.

Only Gamagara Local Municipality improved its audit outcome (from a qualified audit opinion to an unqualified opinion with findings) by filling vacancies and addressing audit findings raised in the previous year. Ga-Segonyana Local Municipality regressed from an unqualified audit opinion with findings to a qualified opinion because management did not monitor and adequately review the financial statements prepared by consultants. We are considering issuing a material irregularity on the use of consultants at the

municipality. The John Taolo Gaetsewe District Municipality lost its clean audit status because it did not properly monitor its internal controls, resulting in a material finding on compliance with legislation. In contrast, Hantam Local Municipality retained its clean audit opinion despite its financial constraints because its good internal control system enabled accurate accounting for financial transactions and performance information, forming a solid foundation for sound governance with a focus on service delivery.

We remain concerned by the quality of financial reporting, as 76% of municipalities submitted poor-quality financial statements for auditing. In 2021-22, municipalities spent R126,95 million on financial reporting consultants, up from R110,08 million in the previous year, mainly because they lacked the required skills. Since municipalities generally had adequate staff, with a vacancy rate of only 15% in the finance units, they need to focus on ensuring that the officials they appoint have the right skills. Joe Morolong Local Municipality spent R14,64 million on financial reporting consultants that focused on areas where there were limitations in the previous year, but this did not have a positive impact because the municipality again failed to implement proper record-keeping controls in 2021-22. We notified municipal managers of three material irregularities stemming from municipalities using consultants when they did not have the documents needed to support the financial statements, and reappointing consultants with no plan to become less dependent on them. The desired impact of these material irregularities is to create a culture where the use of consultants is properly planned and managed.



PREV



NEXT



Financial practices such as poor revenue management and inadequate debt collection continued to plague municipalities. More than half of the municipalities were financially distressed, with 16 municipalities disclosing material uncertainty about their financial sustainability. Most municipalities depended on equitable share funds to continue operating, as 68% of municipal debt was not recoverable mainly due to a lack of credit-control policies. Together with poor budgeting, this contributed to most municipalities preparing unfunded budgets and using the cash they do have to pay salaries, leaving very little for service delivery, maintenance, and paying their suppliers such as Eskom and water boards on time.

Non-compliance with legislation remained prevalent at 86% of municipalities, with non-adherence to supply chain management legislation being the main contributor to the high irregular expenditure. The R1,11 billion in irregular expenditure for 2021-22 represented 11% of the province's total local government budget for the year. And this is not the full amount, as 17 municipalities were either qualified on the disclosure of their irregular expenditure or were still investigating the full extent of their irregular expenditure. The irregular expenditure closing balance also increased – from R3,22 billion in the previous year to R3,88 billion – and only 14% of the previous year's balance was dealt with. This points to a lack of consequences, and municipal public accounts committees need to ensure they have the skills required to investigate unwanted expenditure effectively. There are currently 24 disciplinary boards in the province, but only four are considered effective, confirming the need not only for councils to focus on these boards, but also for the provincial treasury to provide further training to municipal public accounts committees.

Since we started using our expanded powers in 2019, we have identified 15 material irregularities at four municipalities, resulting in a combined material financial loss of R34,17 million. In responding to these material irregularities, municipalities have

prevented R3,42 million in financial losses and are in the process of recovering a further R15,65 million. We still face challenges where municipal managers are slow to respond to material irregularities or where there is instability in the municipal manager position resulting in constant requests for extensions or further information. To ensure the material irregularity process is effective, we encourage councils to follow up regularly with municipal managers on the material irregularities issued to them.

The quality of performance information remains concerning, with 76% of municipalities unable to submit good-quality performance reports because they could not accurately report on their performance in terms of priorities set, making it very difficult to know in which areas they needed to focus their efforts. Municipalities did not invest the required resources in this area, often because they do not see performance information as a priority. Four local municipalities (Renosterberg, Siyancuma, Siyathemba and Ubuntu) did not submit performance reports at all. Where municipalities did submit performance reports, they met their planned targets for only 55% of the performance indicators we tested (most of which related to basic service delivery). We found that poor planning and project management, unsupervised staff and delays in paying suppliers due to cash-flow constraints contributed to the low achievement. Overall, this dire position means that municipalities are not delivering much-needed services to their communities. The support provided to municipalities in this area has been limited and we urge the provincial cooperative governance department to get much more involved in supporting municipalities with their performance information. The provincial treasury also needs to train councillors to understand both the importance of performance information and their oversight role in this process.

In 2021-22, we enhanced our audit work on three local municipalities that had repeatedly received disclaimed audit opinions (Joe Morolong, !Kheis and Renosterberg). During the audits, we noted



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

that these municipalities had made little to no progress on infrastructure projects due to cash-flow difficulties and poor project management, as well as transferring departments withholding funds because the municipalities did not comply with the requirements of the Division of Revenue Act. These municipalities either did not set or did not achieve key service delivery targets relating to infrastructure maintenance. Their infrastructure was also not properly secured, resulting in vandalism and theft. These municipalities spent less than 1% of the value of their infrastructure assets on repairs and maintenance. To effectively deliver services to communities, these municipalities need to prioritise protecting municipal infrastructure, developing maintenance plans, and adequately budgeting for and spending on maintenance in line with accepted norms. Replacing dilapidated or vandalised infrastructure is expensive, putting further pressure on municipal resources, and can be avoided if municipalities take reasonable steps to protect and maintain their assets. To properly respond to this risk, the municipalities will need to cooperate with other spheres of government, such as the provincial roads and public works department and the South African Police Service, as well as non-government bodies such as community forums and neighbourhood watches.

The lack of infrastructure maintenance led municipalities to rack up water distribution losses of R210,03 million, representing 43% of all water purchased. The failing infrastructure, as evident in pothole-riddled roads across the province and dilapidated water and sanitation treatment plants, is likely to result in significant harm to the general public. An example of this is the spillage of sewage due to pumps that are not working at the Gogga pump station in Sol Plaatje Local Municipality. We are currently exploring a potential material irregularity on this matter.

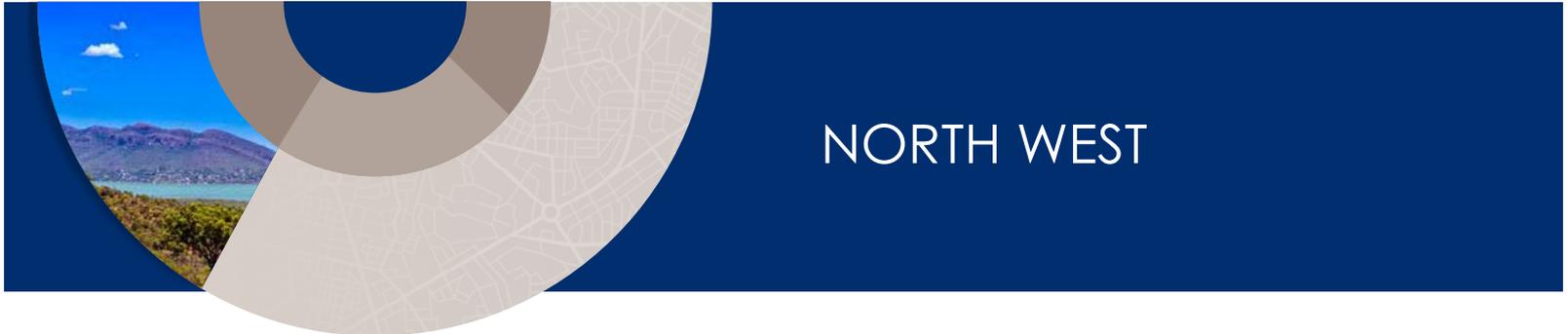
The lives of the people of the Northern Cape are negatively affected by municipalities' inability to properly manage the resources under their control, and only a concerted effort will take local government forward. All roleplayers in the province should thoroughly and honestly reflect on the initiatives implemented, as well as the effort they have put in to improve the current state of municipalities. It is vital that municipalities appoint skilled personnel and establish preventative controls. Municipal leadership and oversight structures will need to be exemplary in the accountability value chain, and to implement consequences for accountability failures swiftly and consistently.



PREV



NEXT



NORTH WEST

Enforcing accountability to drive the required change

Last year, we urged municipal leadership and all oversight structures to set an example in the accountability value chain, and to swiftly and consistently implement consequences for accountability failures.

Executive leadership at municipalities should continue to focus on addressing the instability in administrative leadership, weaknesses in financial governance, lack of institutionalised preventative controls, compromised accountability and general poor performance. In doing so, they will improve service delivery and the lives of the people in the province.

We are encouraged that 18 municipalities (82%) submitted financial statements in the first year of the new administration, compared to only 10 municipalities (45%) in the previous year. The slight reduction in the number of disclaimed audit opinions is also encouraging, as it reflects a willingness to change the status quo. However, the overall status of the audit outcomes remains undesirable, with 10 municipalities (45%) receiving qualified audit opinions, six (27%) receiving disclaimed opinions, one (5%) receiving an adverse opinion, and the audits of two municipalities still outstanding. The overall quality of performance reporting also remains a concern, as 17 municipalities (85%) did not prepare and publish credible performance reports. The lack of credible in-year reporting negatively affects the decisions that must be made during the year. We identified compliance transgressions at all 20 of the municipalities we audited. Municipalities

continued to disregard the legislated requirements for procuring goods and services, resulting in a staggering R30,99 billion irregular expenditure closing balance at the end of 2021-22. Since senior manager positions are changing from being five-year fixed-term contracts to permanent appointments, councils should focus on ensuring that these positions are filled with capable and competent individuals to ensure a long-lasting solution and effective consequence management.

We continued to enforce accountability through our expanded mandate by notifying municipal managers of material irregularities so that municipalities can implement the required changes. We have issued 21 material irregularities on non-compliance with legislation resulting in financial losses of R83,74 million, as well as on substantial harm to the general public and municipalities. While we do see some traction, we are concerned that some municipalities are taking too long to implement corrective action to resolve material irregularities. We ask councils and governance structures such as municipal public accounts committees and audit committees to monitor municipal managers' initiatives aimed at responding to material irregularities. The material irregularity process is starting to have a positive impact and we have seen some wins, including wastewater treatment plants being upgraded, a couple of municipalities reducing the amount they spend on consultants, improved audit outcomes at previously disclaimed municipalities, and provincial interventions to assist municipalities.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

We performed additional audit work at seven municipalities that had repeatedly received disclaimed audit opinions. We found that some of these municipalities overspent on infrastructure projects, and projects were delayed due to vacancies and a lack of skills in some of the technical units. We analysed the payments made by these municipalities directly from their bank statements. At some, we found continued unauthorised debit orders against a municipal bank account and payments that were not supported by proper records. As a result, the affected municipalities were not able to demonstrate value to communities for the money spent. The biggest stumbling block to improving audit outcomes and meaningfully resolving material irregularities continues to be instability in administrative leadership and a lack of accountability for poor performance.

We identified significant weaknesses relating to information technology security management, cybersecurity policies and disaster recovery plans, which increased the risk of unauthorised access to information technology systems and the loss of information. Councils should develop and implement strategies to protect these systems from cyberattacks and all other risks of data loss.

Municipalities' financial health has continued to deteriorate since our previous general report. Already cash-strapped municipalities owe Eskom and the water boards R2,44 billion and R2,85 billion, respectively. This poor financial state is worsened by a lack of prudent spending, which can be seen from the increase in unauthorised, and fruitless and wasteful expenditure. Seven municipalities disclosed their inability to continue operating in the foreseeable future, which is a further indication of the level of financial distress in the province. Revenue collection also remains a concern, contributing to municipalities' worsening financial health. Overall, 79% of municipal debt was not recoverable at 10 municipalities, and 11 municipalities will need to use next year's budget to pay for their spending this year, resulting in serious cash-flow challenges and leaving even less funds available for service delivery.

Despite the financial distress, all 20 audited municipalities continued to spend money on financial reporting consultants without seeing any significant benefit from their use. The total cost for financial reporting consultants increased from R238,48 million in the previous year to R282,32 million. We issued five material irregularities at four municipalities where no equivalent value was received for money paid to consultants or where consultants were overpaid. We are encouraged that six municipalities started responding to our call and managed to reduce their spending on financial reporting consultants from the previous year by a total of R27,47 million. We again urge municipal leadership to improve the internal capacity of finance units by filling vacancies with skilled people to reduce this expenditure even further.

We continued to see that some key infrastructure projects were significantly behind schedule, had their budgets overspent and did not display the desired quality of work. For example, the Rustenburg rapid transport project continued to experience delays and poor quality of work, despite an investment of R3,51 billion. After 15 February 2023, we notified the municipal manager of Rustenburg Local Municipality of a material irregularity for overpaying contractors on this project, which resulted in a material financial loss. At City of Matlosana Local Municipality, construction costs for a new sports complex in Khuma increased because the project was significantly delayed. Most municipalities, including those with disclaimed audit opinions, struggled to budget for and perform preventative maintenance on their infrastructure assets. On average, they spent only 3% of the value of their infrastructure assets on repairs and maintenance, compared to the National Treasury norm of 8%. This is because the municipalities did not prepare maintenance plans to properly inform the repairs and maintenance budgets due to vacancies and a lack of skills in some of the technical units. Poor performance reporting and infrastructure project failures have negatively affected the lived experiences of the people of the province. For example, the lack of adequate planning and



PREV



NEXT



monitoring of the implementation of the Klipgat sanitation project in Madibeng Local Municipality resulted in a 12-month delay from the original completion date. This had a negative impact on the municipality's ability to provide an adequate sewerage system meant to improve the hygiene, health and living environment of residents.

Heavy rainfall and flooding affected Deelpan – a village in the Ngaka Modiri Molema district – leaving residents destitute and displaced. The floods resulted in damaged houses and roads and led to the evacuation of people for their safety. The district and local municipalities assisted with necessities such as tents, mobile toilets and food parcels. Despite this support, we remain concerned about the people of Deelpan as the area has been assessed as not suitable for human settlement because it is in a wetland. The province should develop a disaster response strategy to ensure a timely and coordinated response to disasters. Furthermore, a permanent solution for the community of Deelpan and similar areas should be implemented as these communities remain at risk.

The premier's previous commitment to be close to the initiatives to improve local government yielded results, as councils are now more welcoming of provincial initiatives. The provincial treasury and cooperative governance department are strengthening their support to municipalities. This support should land within well-functioning governance structures and performance systems. However, we found that internal audit units and audit committees were not as effective as expected. For example, the financial statements of 12 municipalities had material misstatements that were not picked up by these governance structures' reviews. Most of the audited municipalities did not have comprehensive performance management systems and processes, which made it difficult to implement consequences and enhance accountability. Councils should implement performance management systems for all employees to ensure

that tools are available to hold them accountable for non-performance and poor performance.

Section 131 of the Municipal Finance Management Act requires the provincial cooperative governance department to assess if municipalities are addressing findings raised by the auditor-general, while section 47 of the Municipal Systems Act requires the department to identify underperforming municipalities and propose remedial action to address the underperformance. The department should perform the diagnostic analysis as required by the above legislation to identify real municipal challenges, which should enable the provincial legislature to exercise oversight on these reports.

The member of the executive council for local government committed to improve interventions, including conducting skills audits at municipalities, seconding officials, and collaborating with the University of North West and Infrastructure South Africa to assist municipalities with technical skills. The provincial treasury should continue to support municipalities with budgeting and financial recovery plans. The premier has committed that provincial government will prepare and approve a roadmap outlining the process for improving audit outcomes and service delivery in the province. The executive committee will frequently monitor the roadmap to ensure that issues facing local government are being addressed.

Where councils do not attend to governance and accountability issues, it further hampers the implementation and monitoring of projects and service delivery initiatives. There is a need for integrated planning between municipalities and districts. The councils should create a conducive environment for turnaround strategies and recovery plans to yield the desired results by enforcing accountability. All roleplayers in the accountability ecosystem should make incremental positive changes within their area of responsibility to see a sustained improvement in audit outcomes and increased service delivery to the people of North West.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET



WESTERN CAPE

Ineffective monitoring of compliance by leadership affects audit outcomes

Last year, we drew attention to the firm leadership tone and strong control environment that contributed to the positive outcomes in the province.

Our interaction with the premier was positive, as his focus was on the communities' experience in relation to service delivery, which validated our service delivery insights on key projects and additional consideration of selected clean audits for the current year. This year, we observed that most of the municipal managers and their senior management maintained this tone and continued to implement and maintain good controls through well-capacitated and competent staff. The impact is clear, as 21 of the province's 30 municipalities obtained a clean audit opinion. These municipalities account for 94% of the province's R84,50 billion expenditure budget. Nineteen of these 21 municipalities sustained their clean audit opinion from last year, with the Cape Winelands and Overberg districts being the only regions in which all municipalities sustained their clean audit outcomes.

We commend Prince Albert Local Municipality and City of Cape Town Metro for improving to a clean audit opinion. In the case of Prince Albert, this improved outcome was due to the newly appointed chief financial officer improving the implementation and monitoring of sound internal controls. City of Cape Town Metro prevented material non-compliance with contract management legislation from recurring by implementing a proactive system of accountability

with a zero-tolerance culture towards non-compliance. The city manager also took appropriate actions to resolve the two material irregularities issued in 2021 – one for payments to service providers for goods and services that were not received, and the other for paying external contractors for excessive standby hours. Based on the outcome of investigations, the metro started disciplinary action against responsible officials, strengthened controls to prevent further losses, and took court action against the contractors to recover the financial losses.

We find it encouraging that municipalities implemented sound financial reporting controls and that all submitted their financial statements by the legislated date, including Kannaland and Laingsburg local municipalities that had a history of not submitting on time. The provincial treasury's support initiatives, such as financial statement consistency workshops, contributed to 26 municipalities (87%) submitting good-quality financial statements that needed no material adjustments. Municipalities continued to use consultants to review technical and complex disclosure requirements, and to assist with asset valuations. In total, 27 municipalities (90%) spent a combined R45,25 million on consultants to assist with the financial reporting process. We assessed the use of consultants to be ineffective at only four municipalities mainly because the municipalities did not give the consultants adequate supporting documents for reporting purposes. The provincial treasury should consider the nature of the



PREV



NEXT



support it provides to prevent the ineffective use of consultants and to enable municipalities to enhance specific competencies to minimise the continued use of consultants.

The improvement in audit outcomes over the last few years did not continue in 2021-22, as we reported material compliance findings at nine municipalities (30%), up from eight municipalities (27%) last year, mainly because leadership did not effectively monitor compliance with legislation. As a result, three municipalities (10%) lost their clean audit status. Most of our findings were in the areas of non-compliance with supply chain management legislation and the failure to prevent unauthorised, irregular, and fruitless and wasteful expenditure. Leadership in these municipalities should strengthen its oversight and monitoring of compliance with legislation to prevent findings from recurring.

Beaufort West, Kannaland and Laingsburg local municipalities did not improve their poor audit outcomes, with Beaufort West again receiving a qualified audit opinion, while Kannaland regressed to a disclaimed opinion and Laingsburg to an adverse opinion. Last year, we encouraged the provincial leadership to assist these municipalities with their skills shortage challenges and to encourage leadership stability, but these challenges are still present and have further contributed to the unfavourable audit outcomes.

The province's unauthorised expenditure increased significantly, from R328,05 million in the previous year to R1,30 billion. The main contributor to this increase was Bitou Local Municipality, which spent funds without having its budget approved by a majority council decision. Irregular expenditure decreased from R1,23 billion to R494,95 million, largely because City of Cape Town Metro addressed its contract management deficiencies. The irregular expenditure closing balance also decreased, from R1,52 billion to R1,22 billion, but we are still concerned that nearly half (48%) of the previous year's balance has not been dealt with through investigations by municipal public accounts committees.

The financial health indicators of municipalities were mostly good. However, six municipalities had unfunded budgets, which meant that their budgeted expenditure was not adequately funded by their budgeted revenue. There is also material uncertainty about the financial sustainability of Beaufort West, Cederberg and Kannaland local municipalities (which were three of the municipalities with unfunded budgets), due to their cash-flow challenges as they owed more to their creditors than the cash they had in their bank accounts. We notified the municipal manager of Beaufort West of two material irregularities on financial losses – one was for paying an employee more than the remuneration policy allowed and the other for under-billing retail and industrial properties for electricity. The municipal manager did not take appropriate action to address these material irregularities, and we included recommendations in the audit report for the first instance and are in the process of issuing recommendations for the second. Cederberg and Matzikama local municipalities also owed Eskom R130,80 million in arrears.

Performance reporting controls were largely effective, as only seven municipalities (23%) submitted performance reports that were not at the required quality, and only three (10%) had material findings after corrections. At all three of these municipalities, unreliable performance reporting – and in the instance of Kannaland Local Municipality, performance indicators that were not measurable – affected the decisions made on planning for service delivery and, ultimately, the level of services residents received.

While the quality of performance reporting was good overall, there were still instances where service delivery targets were not aligned to the needs of the public. For example, performance targets and the pace of delivering housing opportunities at City of Cape Town Metro were not aligned to increased demand. The metro also received a reduced human settlements development grant in 2021-22 because it had significantly underspent the grant in prior years, mainly because of project delays resulting from



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

AUDIT FACT SHEET

civil unrest and invasion of project sites. Another example is the Lamberts Bay desalination plant that the Cederberg Local Municipality built nine years ago to alleviate water shortages in the community, as included in its integrated development plan. Although the municipality has spent R76,59 million on the plant since its inception, it is sitting idle and has deteriorated as a result. This has a significant impact on the lives of the area's residents, and the municipality should give urgent attention to completing the project and identifying alternate water sources.

We performed additional work at Drakenstein and Overstrand local municipalities, which have a history of clean audit outcomes and should thus be better positioned to effectively discharge and expand on their service delivery mandates. Service delivery starts with appropriate planning, monitoring and reporting by oversight, which informed our selection of five key areas to examine: public participation, budget process, key projects, completeness of planned performance information, and complaints management. We noted that the municipalities did well across these areas and have the foundation of good governance – they are aware of the service delivery challenges they face and are working to address them. One area that could be improved is

within the public participation process, where there needs to be an effective feedback mechanism to the public when residents' needs are not prioritised.

To improve and sustain the provincial outcomes, we encourage the provincial government to continue to lead by example and enforce the strong tone of compliance, good governance and controls that contributed to the clean audit outcomes of 21 municipalities. To have a meaningful impact on the lives of the people of the Western Cape, municipal leadership should consider enhancing its performance reporting so that it measures the output and quality of services delivered. We continue to urge municipal public accounts committees to promptly investigate the irregular expenditure not yet dealt with and to hold officials accountable for wrongdoing. Overall, the provincial treasury should continue to support regular budget monitoring to prevent municipalities from operating with unfunded budgets. We reiterate our call for local government and the treasury to make a more direct effort to address the challenge of attracting and retaining suitably skilled staff at poorly performing municipalities, specifically those within the Central Karoo district, as well as Kannaland Local Municipality in the Garden Route district.



PREV



NEXT

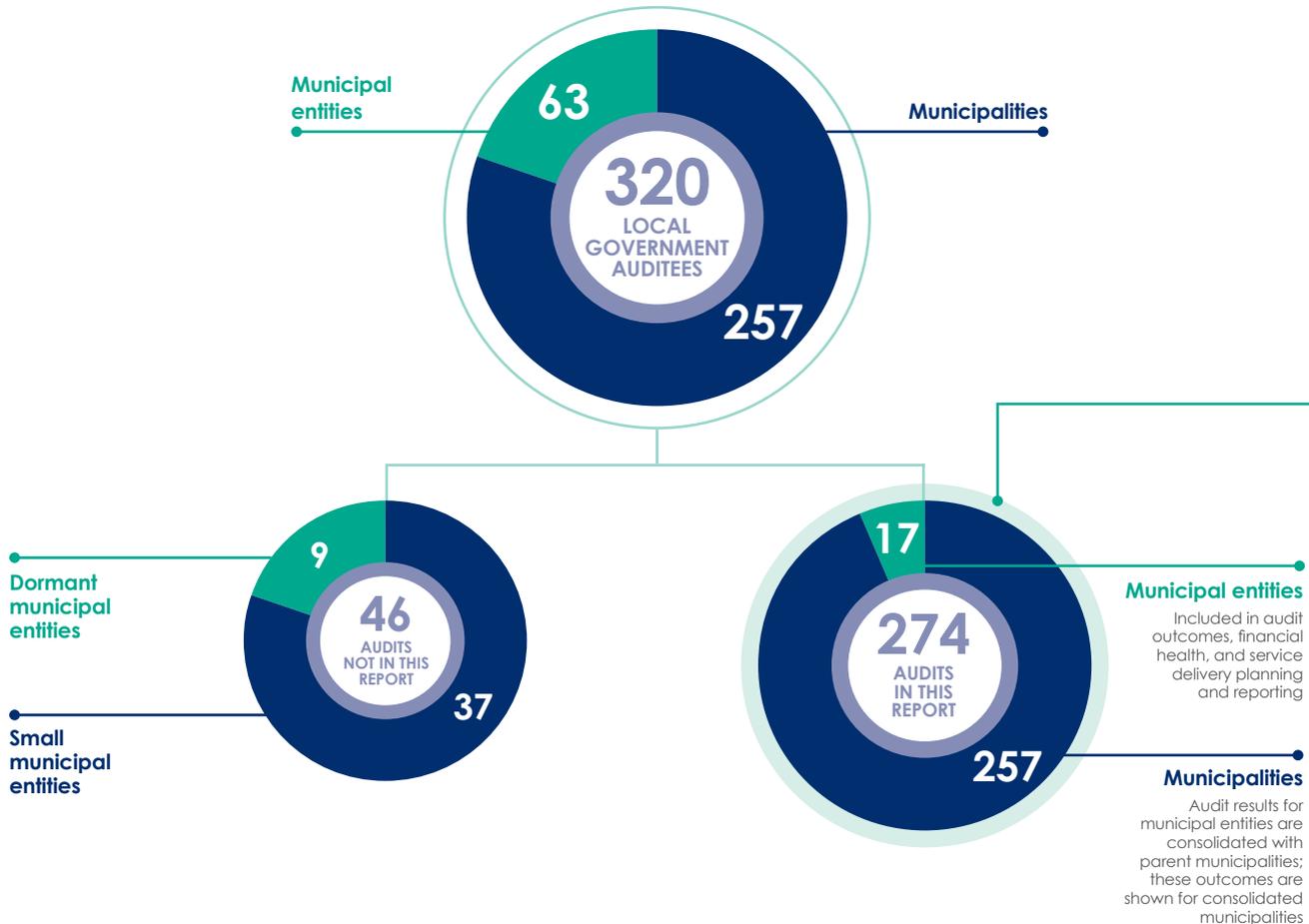


SECTION 6

AUDIT FACT SHEET

6

What we cover in this report



PREV



NEXT

How we compare movements

Where we indicate movement in outcomes and findings, we compare the results of completed audits for 2021-22 (first year of new administration) to their results in 2020-21 (last year of previous administration):



Improvement



Regression



1

INTRODUCTION

2

STATE OF LOCAL GOVERNMENT

3

CONTINUED SPOTLIGHT ON DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

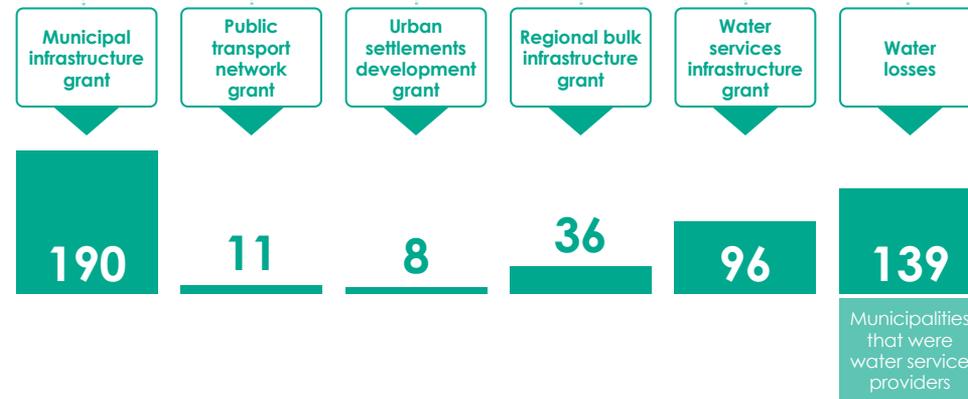
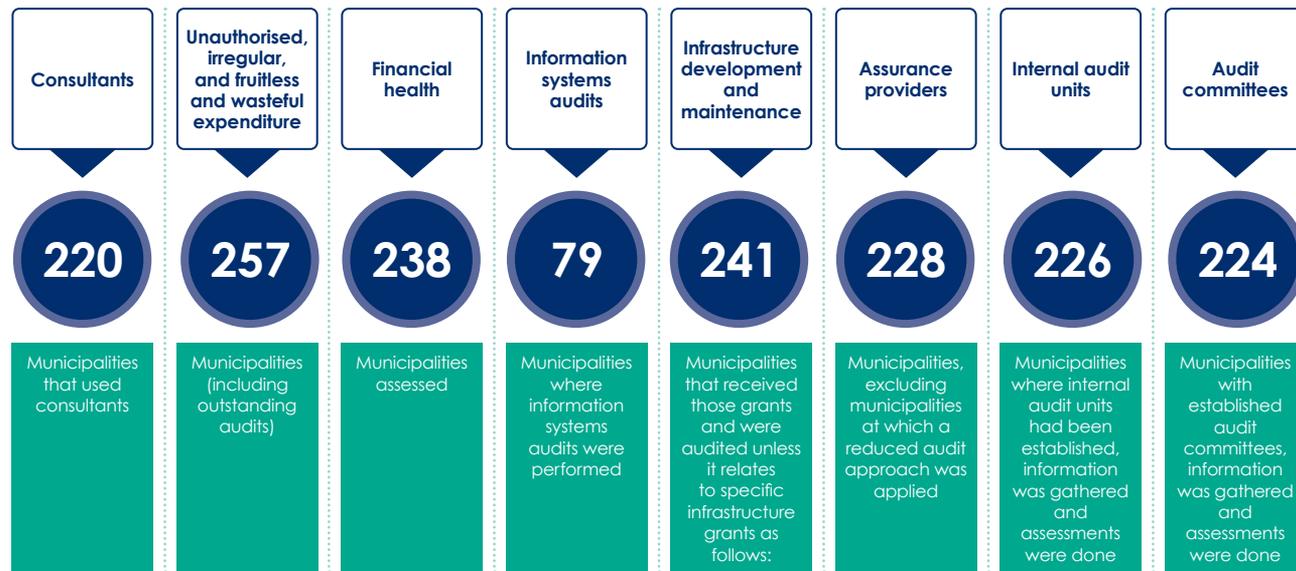
AUDIT FACT SHEET



Numbers and percentages are calculated and based on completed audits for

241 MUNICIPALITIES

except for:



PREV



NEXT



What the different audit opinions mean



- A financially unqualified opinion with no findings (**clean audit**) means the municipality:
- » produced quality financial statements free of material misstatements (in other words, errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
 - » produced quality performance reports that measure and report on performance in a manner that is useful and reliable
 - » complied with key legislation relating to financial and performance management.



A **financially unqualified opinion with findings** means the municipality was able to produce quality financial statements, but struggled to produce quality performance reports and/or to comply with all key legislation.



A **financially qualified opinion with findings** means the municipality produced financial statements containing material misstatements that were not corrected before the financial statements were published. The municipality also had challenges with the quality of the performance report and/or compliance with key legislation.



The financial statements of municipality with an **adverse opinion** with findings means the municipality included so many material misstatements that we disagreed with virtually all the amounts and disclosures in the financial statements.



A municipality with a **disclaimed opinion** with findings could not provide us with evidence for most of the amounts and disclosures in its financial statements. We were therefore unable to conclude or express an opinion on the credibility of the financial statements. Municipalities with adverse and disclaimed opinions are typically also unable to provide sufficient supporting documents for the achievements they report in their performance reports, and do not comply with key legislation.



PREV



NEXT



1

INTRODUCTION

2

STATE OF LOCAL
GOVERNMENT

3

CONTINUED SPOTLIGHT ON
DISCLAIMED MUNICIPALITIES

4

CALL TO ACTION

5

PROVINCES

6

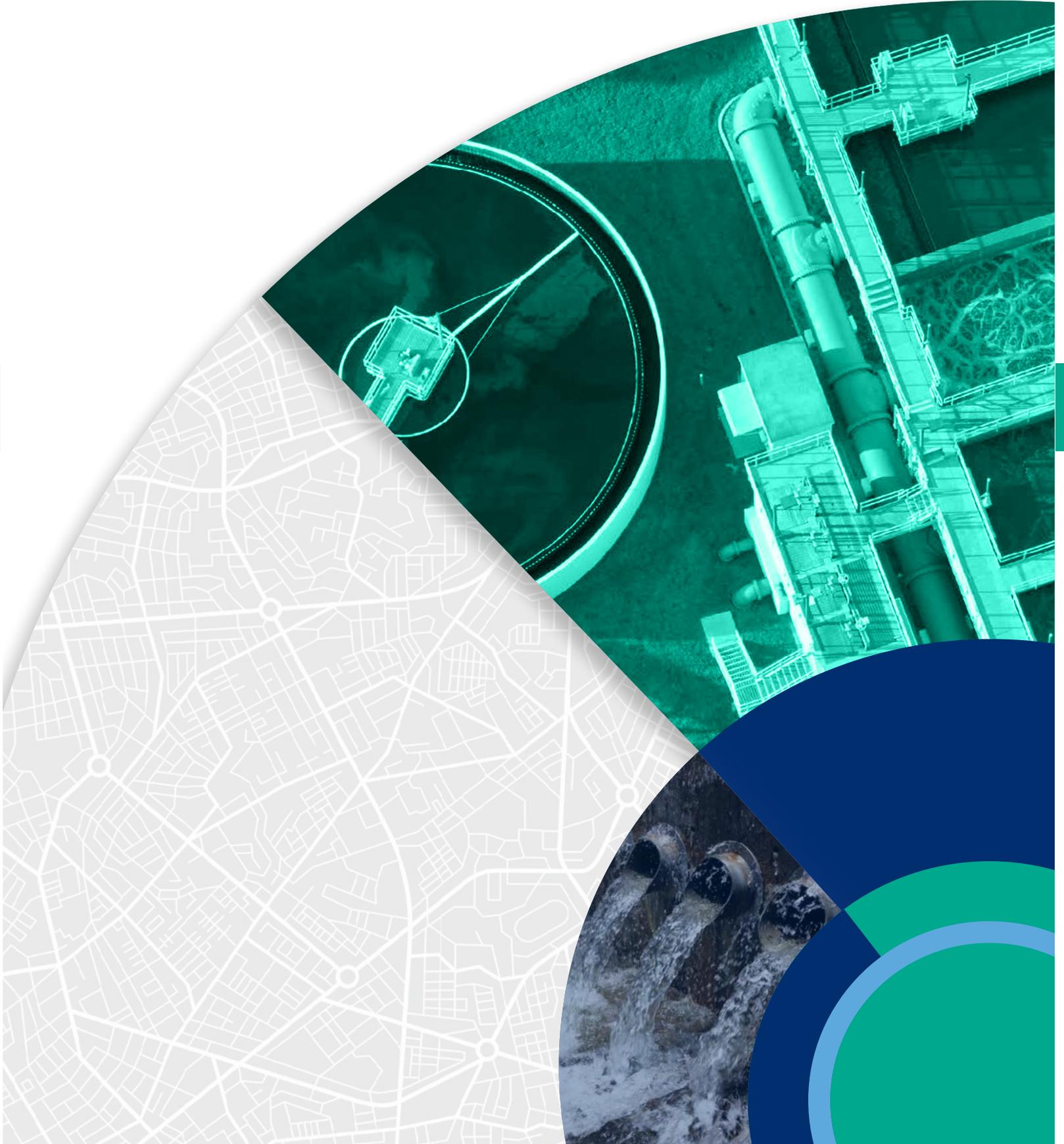
AUDIT FACT SHEET



PREV



NEXT





CONTENTS
PAGE



PREV



NEXT



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