CONSOLIDATED GENERAL REPORT ON LOCAL GOVERNMENT AUDIT OUTCOMES

2023-24

AUDITOR-GENERAL
SOUTH AFRICA

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ANNEXURES

Annexures containing information on the following are available on our reports website:

- **Annexure 1:** Auditees' audit outcomes; areas qualified; and findings on performance reports, compliance, specific risk areas and unauthorised, irregular, as well as fruitless and wasteful expenditure
- **Annexure 2:** Auditees' financial health indicators, supply chain management findings and root causes
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The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

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FOREWORD
FROM THE AUDITOR-GENERAL

Mayors, councils and executive authorities are failing to fulfil their legislated responsibilities

The messages in my last three general reports have been aimed at the local government administration that took office in 2021 – the new mayors, speakers and council members who were elected to represent their communities. I called on them to work with urgency to overhaul a local government characterised by insufficient accountability, failing service delivery, poor financial management and governance, weak institutional capability and widespread instability.

Each year, I also engaged with those in national and provincial government tasked with overseeing and supporting local government, including premiers, ministers, members of executive councils and portfolio committees in provincial legislatures and Parliament, imploring them to intervene and assist municipalities that were failing.

Despite the commitments made in response to these calls, action has been too slow and has had little impact on the lived realities of South Africans.

Three years into the administrative term, metros still struggle to take the lead in ensuring service delivery to all their residents in a financially responsible manner. Actions taken to eradicate disclaimed audit opinions have had little impact in 2023-24 and more municipalities regressed into this category. Municipal finances are severely troubled and, even though funds are constrained, mayors, councils and municipalities are displaying little fiscal discipline. Money paid by residents and funded from the national purse is often wasted through poor financial and procurement decisions and project failures.

Failure at municipal level has a direct and significant impact across South African cities and towns. Residents and businesses face regular disruptions in service delivery and have to contend with water leaks, potholes and filth in their streets. Municipalities are operating landfill sites in an irresponsible manner and are neglecting wastewater treatment works, displaying a blatant disregard for the environment and the impact that the resultant pollution has on the wellbeing of nearby communities. Communities are yet to experience quality service delivery through new and well-maintained infrastructure, despite national government making available R68,4 billion for infrastructure projects in 2023-24.

Despite continued advocacy for intergovernmental support and collaboration, the opposite is evident in the lack of partnership among the three spheres of government at most municipalities and in the weak oversight by provincial legislatures and Parliament – particularly at metros. Where the political leadership of municipalities respond well to the support and guidance provided by national and provincial government, improved governance follows.

My office's material irregularity process contributes to accountability when local and provincial government are responsive to the process. However, my enhanced mandate was never intended to replace the legislated responsibilities of municipal managers, mayors, councils, national and provincial government and legislatures to deal with losses, misuse and harm. There is a lacklustre approach in dealing with recoveries and consequences in local government, which creates a culture that lacks responsiveness, consequences and accountability. Without confronting and rectifying this behaviour, progress will not be made.

I again implore the mayors, speakers and council members of municipalities to use the remaining year of their term in service of their constituents and to leave a legacy of improved governance and delivery. I also call on national and provincial government to work with local government to improve institutional capability. Legislation is clear on what the responsibilities of mayors, councils and executive authorities are – it is the diligent and effective implementation of these responsibilities that is lacking.

As an office, we will continue to share our insights widely, advance tailored recommendations and advocate for leadership at all levels of government to play their part in shifting the culture in local government.

I thank the audit teams from my office and the audit firms for their diligent efforts in helping us fulfil our constitutional mandate and for continuing to strengthen cooperation with government leadership. I also want to thank the leadership of all municipalities, municipal entities and provinces for working with us during the audit process.

I remain convinced that capable, cooperative, accountable and responsive institutions delivering on their mandates in national, provincial and local government is the key to municipalities that are characterised by sustained strong performance, accountable leadership and employees, transparent systems and processes, as well as solid institutional integrity.

I therefore encourage the administrative and political leadership in all three spheres of government to use the information and insights presented in this report to enable the much-needed improvement at municipal level and in the lives of our country's citizens. I am hopeful that this report will encourage all South Africans to be active participants in the accountability ecosystem.

All spheres of government have a role to play in improving local government and ensuring that services are delivered to all South Africans. Arresting the decline of local government will require our collective action. I also call on civil society, business and citizens to make it their business to make local government work. As the Auditor-General of South Africa, we will continue to execute our mandate without fear, favour or prejudice.

Maluleke 28|05|2025

Tsakani Maluleke
Auditor-General

EXECUTIVE SUMMARY

This general report includes insights from the 2023-24 audits of municipalities and municipal entities, as well as information, statistics and stories on the state of local government in the third year of the 6th administration in local government.

In our previous general report, we raised the alarm that there has been little change in the poor state of affairs in local government since the end of the 5th administration's term. We also reported that, despite commitments made for improvement, action has been too slow and has had little impact on the lived realities of South Africans.

Our call to action was again directed to the political leadership of municipalities, urging them to instil a culture of performance, transparency and institutional integrity, and to be accountable to the communities they serve. We also reminded them that there is limited time left in their term to leave a legacy of improved governance and service delivery.

Based on the overall audit outcomes in 2023-24, the results from the detailed work that we performed at metropolitan municipalities and municipalities with disclaimed audit opinions, and the matters that we identified as posing significant risks to municipal service delivery, we can only conclude that little has changed and that local government remains in a dire state.

AUDIT OUTCOMES

The trend of **poor audit outcomes continued,** with only 41 municipalities (16%) obtaining clean audits. While 59 municipalities have improved their audit outcomes since 2020-21 (the last year of the previous administration), 40 have regressed.

Thirteen municipalities did not **submit their financial statements and performance reports for auditing by the legislated date.** Seven of these municipalities (five of which are in the Free State) disregard the legislated requirement and submit their financial statements and performance reports late every year – or do not submit them at all. In 2023-24, these seven municipalities managed a combined budget of R6,85 billion.

A **disclaimed audit opinion** is the worst opinion a municipality can get as it means that we could not find evidence for most of the information in its financial statements. The lack of transparency in how these municipalities use public funds and deliver services significantly weakens accountability, which often leads to residents being deprived of service delivery and harmed by the municipalities' actions or inaction. Municipalities, as well as national and provincial government, paid attention to our message over the years to work together to eradicate disclaimed audit opinions, which resulted in 17 municipalities moving out of this category in 2021-22 and 2022-23 – testament to the positive impact of intergovernmental support. However, progress slowed in 2023-24, with only three municipalities improving from, and four others regressing into, this category. There are seven municipalities that have repeatedly received disclaimed audit opinions – for three to eight consecutive years. Most of these seven 'repeat disclaimers' are in the Eastern Cape and North West, and require urgent attention from the members of the executive councils for local government and for finance, with the support of the premier.

In 2023-24, the most common outcome was an **unqualified audit opinion with findings** – which 99 municipalities (39%) received. This is not an outcome to celebrate or to stay in. While the opinion on these municipalities' financial statements may be unqualified (often due to corrections made based on our findings), the material findings on performance mean that their performance reports are not credible, while the material findings on compliance signal a disregard for legislation or significant lapses in control. These 99 municipalities could easily lose their unqualified status if they do not address the remaining challenges in their control environment. We also remain concerned that not enough attention is being paid to the significant weaknesses in meeting performance and compliance obligations and the resultant impact this has on the lives of South Africans.

Overall, the outcomes in the three areas that we audit each year paint a picture of municipalities that do not have the institutional capability to produce credible and useful financial and performance reports. They also do not have the institutional integrity to ensure that municipal leadership and officials consistently behave ethically, comply with legislation, and act in the best interest of the municipality and its residents.

In summary, the 2023-24 audit results for the 247 municipalities at which the audits had been completed by 31 January 2025 (the cut-off date for inclusion in this report) were as follows:

1. A total of 107 municipalities (43%), mainly in the Eastern Cape, Northern Cape and North West, received modified audit opinions due to material misstatements in their **financial statements** – 90 (35%) received qualified audit opinions, six (2%) received adverse audit opinions and 11 (4%) received disclaimed audit opinions. Of the 99 municipalities that received unqualified audit opinions with findings, 77 (31%) did so by relying on the audit process to identify errors in their financial statements that they then corrected.

Municipalities continued to contract **consultants** to perform functions for which finance units are responsible, stating vacancies and a lack of skills in the finance unit as reasons. However, using financial reporting consultants has become a permanent solution for many municipalities – most notably in Limpopo and North West. Municipalities did not effectively use these expensive resources, which had a price tag of R848,85 million in 2023-24, and they had little impact at the 101 municipalities (46%) where we identified material misstatements in the areas of the consultants' work. We included a similar message on the ineffective use of financial reporting consultants in our 2013-14 general report – little has changed in the decade since then.

2. A **performance report** should include information that is useful for both the council and the public to determine if the municipality delivered on its core mandated functions (such as delivering basic services) and is on track to deliver on its integrated development plan. The reported achievements must also be reliable. We reported material findings on the usefulness and reliability of the information included in the performance reports of 119 municipalities (48%). The poor-quality performance reports were most prevalent in the Free State, Northern Cape and North West. As is the case with the financial statements, many municipalities – 63 in total (26%) – managed to avoid material findings by relying on the audit process to identify misstatements that they then corrected.

   The poorly prepared performance reports and significant activity required to make corrections in response to our audits also raise questions about the credibility of the in-year reporting and the effectiveness of performance monitoring throughout the year. The lack of proper planning and effective in-year monitoring, along with unreliable information being used for accountability and decision-making processes, contribute to the lack of service delivery by local government.

3. **Non-compliance** with legislation remained high, with 206 municipalities (83%) materially not complying with key legislation. A total of 201 municipalities (81%) received material compliance findings in all three years of the current administration, indicating a clear disregard for compliance with limited consequences. Non-compliance has resulted in irregular expenditure of R87,03 billion having been incurred over the three years of the current administration.

Municipalities with **clean audits,** particularly those that have sustained this status over several years, are generally characterised by sound financial and performance management disciplines and perform their functions in accordance with applicable legislation. The well-functioning control environment and good systems at these municipalities form a solid foundation from which councils can prioritise further improving the performance and service delivery of their municipalities. The 25 municipalities that have sustained their clean audit status every year since 2020-21 continue to be an example of what is possible.

SERVICE DELIVERY RISKS

While we do not review the performance of local government, our work provides insight into weaknesses that could prevent service delivery goals from being achieved – if they are not decisively addressed by the administration and the council. These risks to service delivery are as follows:

- Municipal managers, mayors and councils all contributed to poor **financial management** in municipalities. Councils again adopted unfunded budgets in 2023-24, contrary to advice given by the national and provincial treasuries. A budget is unfunded when the budgeted expenditure is more than the projected revenue. When the mid-year adjustments budget was done, most of the adjusted budgets remained unfunded, resulting in 113 municipalities (44%) operating with unfunded budgets.

Due to a combination of unreliable information and a lack of diligence and impactful decision-making by mayors and councils, in-year monitoring of financial performance had little impact in preventing the R31,79 billion in unauthorised expenditure incurred by 174 municipalities (68%). At year-end, the total deficit in local government was R11,29 billion, with 90 municipalities (39%) having spent more money than they had available.

Of the 113 municipalities that adopted unfunded budgets, 91 (81%) incurred unauthorised expenditure. Of these 91 municipalities, 53 (58%) of which the audits had been completed at the cut-off date, incurred deficits. Municipalities with unfunded budgets, unauthorised expenditure and deficits were most prevalent in the Free State, Gauteng and North West.

Municipalities lost revenue because they did not bill or collect all revenue owed to them, and they estimated that 67,80% of the revenue that they disclosed in their financial statements would not be recovered. Water and electricity losses due to infrastructure neglect accounted for an additional R37,28 billion in lost revenue.

The limited funds that municipalities had were also not spent carefully. The main reasons for the continuing financial losses and waste were widespread poor payment practices, uncompetitive and uneconomical procurement practices, limited value and benefit received for money spent, and weaknesses in project management.

As a result, the financial health of municipalities remains weak. 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, and the debt owed to Eskom and the water boards remains high and continues to increase. The Eskom debt-relief programme was intended to provide some relief to municipalities that struggled to pay the electricity supplier, but 53 of the participating municipalities (84%) are not complying with the conditions of the programme. 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, further adding to the struggling economy.

The desired impact of national and provincial interventions to help financially distressed municipalities deal with their challenges has not yet been realised. We urge them to continue and intensify this support.

- Our audit work incorporated numerous site visits to inspect the progress and quality of **infrastructure projects.** We identified deficiencies at 87 of the 113 projects (77%) that we visited. We found that, all too often, work on projects is delayed, costs more than planned and is of poor quality. New infrastructure is also not commissioned for use upon completion. Existing infrastructure continues to deteriorate because it is not properly maintained and safeguarded.

- Municipalities depend on **service providers and contractors** to deliver on their projects and programmes and to support their operations. Continued non-compliance with procurement legislation leads to unfair and uncompetitive processes, which often result in financial losses and contractors not delivering the goods or services for which they were contracted.

  One of the root causes of project failures and financial loss is poor contract management and a reluctance to hold suppliers accountable for late and poor-quality delivery. In total, 214 municipalities (87%) had findings on non-compliance with procurement and contract management legislation in 2023-24. At 155 municipalities (63%), these findings were material.

- The **lack of consequences** in local government will continue to slow progress towards improved service delivery and financial performance. In 2023-24, 132 municipalities (53%) did not comply with legislation on consequence management. When officials face consequences for their actions, this helps auditees to recover the losses caused by those officials and deter others from disregarding legislation.

The lack of consequences is most evident in the areas of poor and slow responses to investigating allegations of financial and supply chain management misconduct and fraud indicators; not investigating and/or not properly dealing with unauthorised, irregular, and fruitless and wasteful expenditure; and material non-compliance with legislation on consequence management.

METROPOLITAN MUNICIPALITIES

In 2023-24, the eight metropolitan municipalities (commonly known as metros) were responsible for service delivery to 8,9 million households – 46% of all households in the country. The metros and their municipal entities were responsible for 57% of the estimated local government expenditure budget.

Metros typically have better capacity and bigger budgets and can more easily attract suitably skilled and competent professionals. Therefore, their audit outcomes are expected to be better and they should be setting an example to other municipalities. However, the overall audit outcomes of metros have continued to regress since 2020-21.

We do not audit the performance of metros but, through our work on their financial statements, performance reports, and infrastructure and environmental management, we identified that both their **financial and service delivery-related performance** are at risk.

Metros are plagued by poor revenue management, debt collection and budgeting practices, coupled with financial losses due to poor-quality spending. Metros have listed debt and significant loans to service, while they are financially strained. City of Tshwane and Mangaung metros have – for at least the past four years – disclosed significant doubt on their ability to continue fully operating as a going concern.

Weaknesses in infrastructure project delivery and ineffective preventative maintenance are as common in metros as in other municipalities, despite having better access to resources. Most metros did not adequately assess the condition of roads and infrastructure for solid waste and wastewater, and some did not have maintenance plans.

Five metros did not comply with environmental management legislation, including not having valid operating licences for their wastewater treatment works and landfill sites, and not maintaining or safeguarding their wastewater treatment works. Infrastructure neglect and non-compliance with environmental management often result in harm to the public. Since 2021, we have notified accounting officers at five metros and three municipal entities of 15 material irregularities related to the poor management of wastewater treatment works and landfill sites.

As is the case with other municipalities, metros must be **transparent in their financial and performance reporting** and display financial accountability to enable them to perform well financially and deliver in line with their planned objectives. Four metros received modified opinions on their financial statements, while six had material findings on their performance reports.

Institutional integrity refers to the importance of metros institutionalising controls to ensure that leadership and officials behave ethically, comply with legislation, act in the metro's best interest and avoid conflicts of interest. Through our audits, we identified a lack of such institutional controls. This was most evident in the lack of compliance with legislation by all metros, except City of Cape

Town, the high levels of irregular expenditure (R33,29 billion since 2021-22) and incidents of conflicts of interest in 2023-24.

Metros can only achieve their goals and objectives effectively with sufficient **institutional capability.** In other words, they need resources, skills, strong governance and effective management; good systems, processes and controls; and effective coordination and collaboration between different stakeholders, both within and outside the metro. In this report, we highlight that these capabilities are not in place, as evidenced by weak internal controls, a lack of integration and coordination of functions, instability in key leadership positions, and ineffective internal audit units and audit committees. Our 2023-24 audits also revealed significant deficiencies in the information technology environment of metros, along with cybersecurity vulnerabilities, as these areas are not prioritised and information technology is not viewed as a strategic enabler.

The lack of **accountability** at most metros is clear from the slow response to unauthorised, irregular, and fruitless and wasteful expenditure, as well as the ineffective accountability structures and processes that we observed. It is rare for metro leadership (including mayors) to account to provincial legislatures and Parliament.

A culture of performance, accountability, transparency and institutional integrity is not ingrained in the metros. Fully functional and high-performing metros will have a significant impact on the lives of most South Africans and businesses – which makes it a goal worth working towards.

IMPACT

When municipalities do not effectively manage their performance, finances and infrastructure, it directly affects the delivery of key government priorities that are intended to improve the lives of South Africans. Services and infrastructure in the basic areas of water, sanitation, waste management, electricity, housing and roads are not consistently and sustainably delivered, despite the budgeted funds being spent. Deteriorating living conditions and harm caused by polluted water sources and landfill sites are also widespread.

When money and resources are wasted, there are reduced funds available for service delivery priorities and, eventually, there is a greater burden on taxpayers. The lack of credible reporting on performance and finances weakens not only municipal accountability processes, but also the councils' ability to assess municipalities' performance or make decisions in response to underachievement.

MATERIAL IRREGULARITIES

The nature of the material irregularities that we have identified, since the Public Audit Act was amended in April 2019, mirrors the rising concerns on which we have been reporting.

Money is being lost through non-compliance with legislation and suspected fraud, and we have identified 285 material irregularities in this area with an estimated financial loss totalling R8,74 billion. This includes payments made for goods and services that were not received, were of poor quality, were not in line with contracts or were to ineligible beneficiaries (72); Eskom, the water boards, lenders and suppliers not being paid on time, resulting in interest charges (56); the inefficient use of resources, resulting in no or limited benefit for the money spent (40); revenue lost due to revenue not billed, debt not recovered or unrecorded receipts (39); uneconomical procurement and procurement non-compliance, resulting in overpricing of procured goods and services (20); and assets not being properly maintained and safeguarded (20).

We also identified 79 material irregularities that were causing substantial harm to local government accountability processes and financial health, and a further 80 material irregularities that were causing substantial harm to the public due to action or inaction by municipalities – most of which related to pollution of water sources (56) and mismanagement of landfill sites (20).

In total, 48% of the 446 material irregularities that we have identified in local government since 2019 have been resolved by auditees:

- preventing or recovering financial losses (an estimated R1,32 billion has been recovered, is in the process of being recovered or has been prevented)
- preventing further harm to the general public and public sector institutions
- implementing consequences for those responsible for the irregularities
- improving internal controls to prevent the irregularities from recurring.

Where the material irregularities were not dealt with swiftly or with the required seriousness, we included recommendations in audit reports, took remedial action and referred matters to relevant public bodies for investigation. The number of material irregularities where we have to use our powers increases every year.

The material irregularity process is not yet having the desired impact in local government, due largely to instability in accounting officer positions; a slow response by accounting officers to our notifications, recommendations and remedial actions; prolonged investigations or delays in concluding criminal proceedings; and delays in disciplining officials. Where we escalate the non-responsiveness to mayors and provincial government leaders, it is rare for them to act or for their actions to have a significant impact.

Some roleplayers in the accountability ecosystem and other public bodies have mandates and powers similar to, or more comprehensive than ours, which they should use to ensure that irregularities are dealt with swiftly and that similar instances are prevented.

CALL TO ACTION

We repeat our call from previous general reports that all roleplayers in the local government accountability ecosystem should work deliberately and with urgency towards a culture of performance, accountability, transparency and institutional integrity.

There is only a year left in the current administrative term for mayors, speakers and council members of municipalities to leave a legacy of improved governance and service delivery.

Through the insights from our audits and our experience with the material irregularity process, we identified three main shortcomings in local government that hold back progress, and we have reported on these root causes throughout the current administrative term. They are:

- governance failures
- inadequate institutional capability
- lack of accountability and consequences.

The recommendations we made in prior years to address these root causes remain, as little progress has been made to implement them fully and successfully:

1. **Build capable institutions with intergovernmental support:** Support from all spheres of government – through coordinated and collaborative efforts in partnership with municipal leadership – is needed to promote strong governance within municipalities.

2. **Professionalise and capacitate local government:** Skills and capacity gaps can be addressed through a concerted effort to support and implement local government professionalisation initiatives. In pursuing professionalisation, all roleplayers should strive towards a future in which local government is a career of choice for professionals and where scarce skills can thrive and be retained.

3. **Instil a culture of ethics and accountability:** A shared vision of responsiveness, consequence management, accountability and ethical behaviour is essential to ensure that actions are taken promptly and individuals are held accountable. Responsiveness to – and support for – the **material irregularity process** will demonstrate leadership commitment to accountability and contribute to the protection of resources and the strengthening of institutional integrity.

We also have a direct call to action to the political leadership in all three spheres of government and the elected representatives of the citizens in councils, Parliament and the provincial legislatures: *diligent oversight and decisive action on municipal failure will change the local government culture.*

This report and our call to action are directed to the mayors, councils and executives in national and provincial government and provincial legislatures that are failing in their oversight duties and allowing local government to deteriorate.

Local government processes and oversight responsibilities are well-defined in legislation. The mayor and council have key responsibilities in municipal planning, budgeting, monitoring, reporting and accountability processes. In our audits, we identified that at the worst performing municipalities, these officials are either not doing what legislation requires of them or are not performing their duties effectively.

If municipalities are failing in their reporting responsibilities, are not performing well or are not addressing our findings, legislation enables national and provincial government and the legislatures to ensure that the required corrective action is taken – and even to intervene where necessary. However, we found that members of the executive councils for local government did not comply in this area, while provincial legislatures provided little to no oversight. The provinces in which we raised these findings are also those that received poor audit outcomes, namely the Eastern Cape, Free State, Limpopo, Northern Cape and North West.

The most recent consolidated report on municipal performance and the responses to issues raised in our audit reports, tabled by the cooperative governance minister in Parliament in January 2025, related to the 2020-21 financial year. This backlog disempowers Parliament and prevents it from making a meaningful contribution to improving municipal performance.

We urge all roleplayers in the accountability ecosystem to fulfil their designated roles and to play their part effectively and without fear or favour to ensure accountability for government spending to improve the lives of all South Africans.

We remain committed to partnering with and supporting the public sector through our audits, the use of our expanded powers, as granted by the Public Audit Act amendments, and the many initiatives that we have implemented to assist and guide all roleplayers in the accountability ecosystem. We trust that the insights and recommendations in this report will be of value in this pursuit.

01 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 2024 – the third year of the 6th administration in local government – and over the administrative term so far.

Local government is the sphere of government that is closest to South Africans because it provides the basic services that have a direct impact on their lives. It is meant to operate through an inclusive, democratic and accountable system enabled by transparency and strong institutional integrity, with the interests of residents and business being represented by both the people that they elect and the communities and community organisations that are directly involved through public participation processes.

To achieve these goals, deliver services and ultimately provide a better lived experience for the people in the towns and cities across South Africa, the culture in local government must be characterised by performance, accountability, transparency and institutional integrity. The Constitution envisages that such a culture is made up of the basic values and principles that must govern public administration.

Characteristics of effective local government culture

Implement and maintain **institutionalised controls** to ensure leadership and officials **behave ethically, comply with legislation and act in best interest** of the institution, **avoiding conflicts of interest**

Demonstrate commitment to improving lived realities of South Africans by **delivering on legislated mandate and strategic objectives aligned to people's needs,** being **financially sustainable,** and **avoiding harm to public and public sector institutions**

Provide the public, oversight, auditors and other stakeholders with **timely, relevant and reliable information on institution's finances, performance, use of resources and compliance with legislation**

Be responsive to public, oversight and other stakeholders through **reporting and providing answers on mandated responsibilities fulfilled, actions taken and decisions made;** ensure **swift consequences** for transgressions and poor performance

Such a culture should be built on a foundation of institutional capability. In other words, municipalities and municipal entities should be able to use their knowledge, skills, resources and systems to effectively achieve their goals and objectives. This institutional capability requires local government to strengthen its capacity to manage both its operations and the services that it provides.

The following are some of the aspects of institutional capability in local government:

- **Technical knowledge and skills:** Relevant expertise is needed for effective functioning.
- **Resources:** Access to adequate financial, human and material resources is essential.
- **Governance and management:** Strong governance structures and effective management practices are vital for ensuring efficient operations.
- **Systems, processes and controls:** Clear and efficient systems and processes and a strong control environment are needed to effectively implement policies and programmes.
- **Coordination and collaboration:** Effective coordination and collaboration within a municipality, and between different stakeholders, including national and provincial government, are important for achieving shared goals.

1.1 THE LOCAL GOVERNMENT SYSTEM

Section 40 of the Constitution enshrines local government as a distinct sphere of government, independent from national and provincial government. However, the section emphasises the need for **cooperative governance,** stating that the three spheres of government are 'distinctive, interdependent and interrelated'. This means that these three spheres must work together to achieve service delivery.

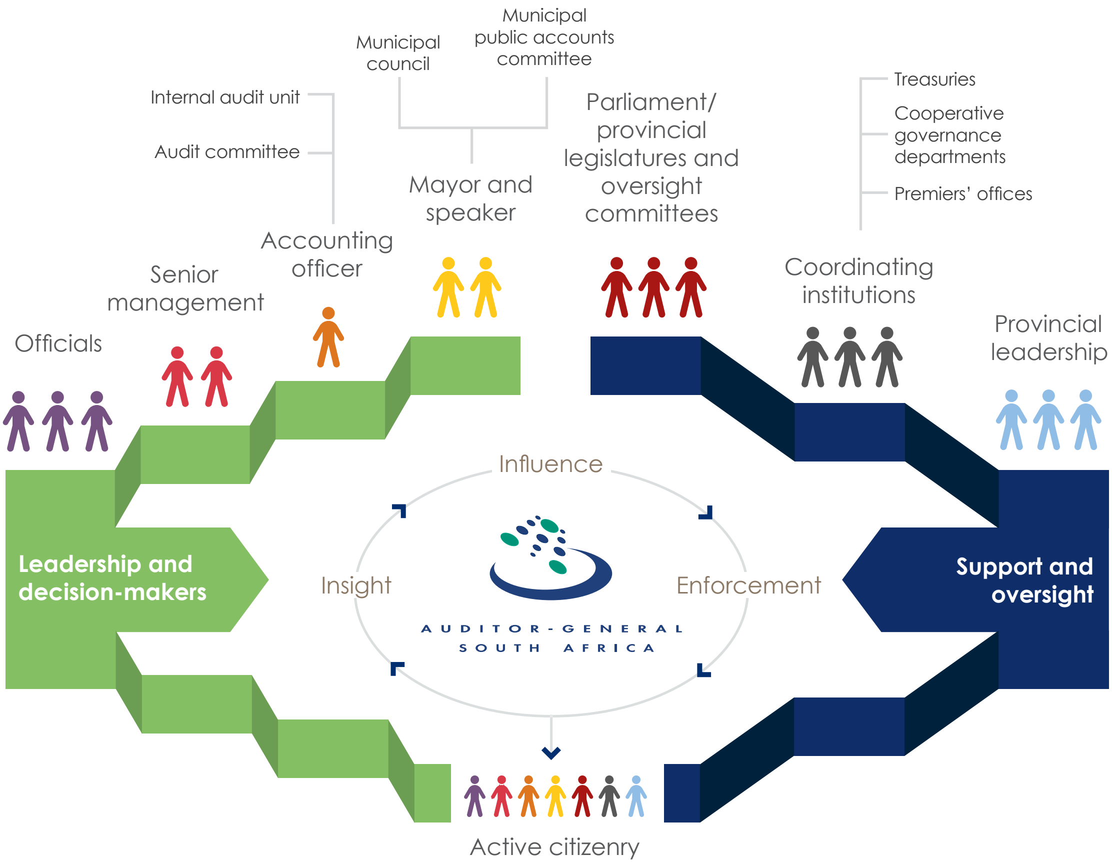
Despite being independent, local government receives money from national and provincial government through equitable share and grant funding. Municipalities are required to play their part in achieving national aspirations as defined in the National Development Plan by participating in – and delivering on – government-wide and province-specific programmes. The relevant national or provincial department must monitor all conditional grant spending and take corrective action when necessary. Each municipality is accountable to its residents directly through a council. Municipalities are also accountable to the broader citizenry through the reports on local government that are tabled in provincial legislatures and Parliament, as legislated.

The **legislation** that applies to municipalities and municipal entities is specific on the processes and responsibilities of all roleplayers in local government – at the level of the municipal administration, mayor and council, as well as in the province and nationally. It also defines who should act if a municipality is failing. The most relevant legislation that we reflect on in this report is the Municipal Finance Management Act (MFMA) and the Municipal Systems Act (MSA). This legislation, together with its accompanying and detailed regulations, allows for institutional capability to enable the envisioned culture of performance, accountability, transparency and institutional integrity.

However, this culture is not what is experienced in local government, mainly because the roleplayers are not effective in doing what the legislation requires of them.

We have highlighted the important role of the members of the **accountability ecosystem** in local government in previous general reports and we have directed our calls to action to them.

Accountability ecosystem for local government



The success of local government rests on the ability of the whole accountability ecosystem to work together – for all roleplayers to not operate only in silos, but function collaboratively with an awareness of how their respective roles influence and complement each other. If any part of the ecosystem fails to effectively play its unique legislated role, this reduces the effectiveness of the ecosystem as a whole. It also means, in the case of poor audit outcomes, that the entire accountability ecosystem has failed – up to executive and oversight levels.

In our audits, we focus on the legislated responsibilities of those in the accountability ecosystem responsible for the planning, budgeting, monitoring and reporting process; human resource management; and the implementation of consequences for transgressions and poor performance.

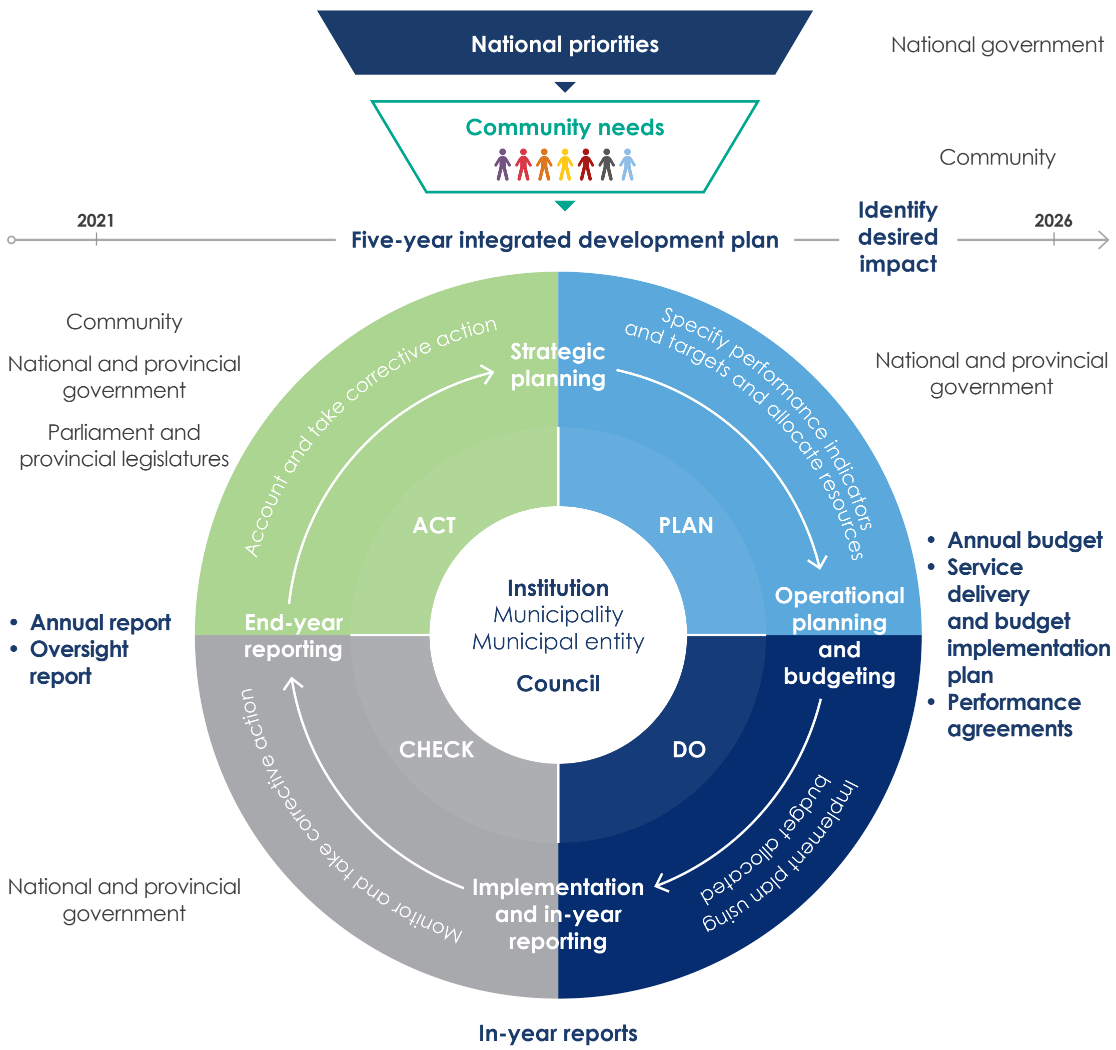
1.2 PLANNING, BUDGETING, MONITORING AND REPORTING PROCESS

The overall planning, budgeting, monitoring and reporting process in local government has been specifically designed to support a basic 'plan-do-check-act' system. It provides for councils to directly oversee municipalities. It also allows for participation, support and monitoring by national and provincial government, Parliament and provincial legislatures, and communities throughout the process.

The effectiveness of the process is heavily dependent on timely, relevant and reliable financial and performance reports. To ensure that the reports used for oversight and monitoring include relevant and reliable information, some of the roleplayers in the accountability ecosystem also have an assurance role. During the financial year, this role is fulfilled by senior management, accounting officers, internal audit units, audit committees and mayors. As the national audit office, we function as an independent external assurance provider that is responsible for providing assurance on the annual financial statements and performance reports.

The remainder of this subsection details the planning, budgeting, monitoring and reporting process, as well as the responsibilities of the different roleplayers. Throughout this report, we highlight where these roleplayers have failed to fulfil their duties.

Planning, budgeting, monitoring and reporting process



The **integrated development plan** is the strategic plan for the administrative term. The plan is drafted by the mayor, assisted by the municipal manager, taking into account the needs of communities (as determined through public participation processes) and national priorities. The council officially adopts the plan as the blueprint for service delivery over their administrative term in line with sections 28 to 30 of the MSA.

The integrated development plans for the 6th administration were adopted by councils in 2021-22. The **annual planning, budgeting and performance agreement process** operationalises these plans and sets each municipality up to perform. National and provincial government also has distinct roles to play in this process to ensure that municipal budgets are sound and finalised in time.

Legislated process and responsibilities

Annual planning, budgeting and performance agreements

The **mayor** (assisted by the municipal manager) coordinates the budget preparation process, which includes consulting districts and treasuries.

Sections 21, 53 and 68 of the MFMA

The **National Treasury** may review budgets of metros and intermediate cities, and **provincial treasuries** review budgets of other municipalities (as delegated).

Section 5(2) of the MFMA

The **council** approves the budget and revenue-raising measures (e.g. tariffs) after considering the views of communities, treasuries or others in national and provincial government.

Section 23(1) of the MFMA

The **member of the executive council for local government** intervenes if the budget or revenue-raising measures are not approved in time, which can include dissolving the council and appointing an administrator.

Sections 26 and 136(3) of the MFMA;
Section 139(4) of the Constitution

The **municipal manager** drafts the service delivery and budget implementation plan.

Section 69(3)(a) of the MFMA

The **mayor** approves the service delivery and budget implementation plan after the council has approved the budget.

Section 53(1)(c)(ii) of the MFMA

The **municipal manager** drafts the performance agreements for the municipal manager and senior managers.

Section 69(3)(b) of the MFMA

The **mayor** ensures that the agreements are linked to measurable performance objectives approved with the budget and the service delivery and budget implementation plan.

Section 53(1)(c)(iii)(bb) of the MFMA

The **mayor** enters into a performance agreement with the municipal manager, and the municipal manager with senior management.

Section 57(2)(b) and (c) of the MSA

The **mayor** ensures that the service delivery and budget implementation plan is made public no later than 14 days after it is approved.

Section 53(3)(b) of the MFMA

The municipal manager, supported by senior management, is responsible for **implementing the approved budget and service delivery and budget implementation plan** *(section 69 of the MFMA)* and implements the integrated development plan and monitors progress against the plan at an overall level *(section 53(1) of the MSA)*. They also have overall responsibility for the administration, which includes managing financial administration, revenue, expenditure, assets, transfer of funds, supply chain management, and the enforcement and monitoring of contracts *(sections 62-67, 115 and 116 of the MFMA)*. Further responsibilities include managing the provision of services, implementing municipal by-laws as well as national and provincial legislation, facilitating public participation and assessing community satisfaction with services *(section 55(1) of the MSA)*.

The administration's performance is **monitored through a process of in-year reporting,** but the effectiveness of this process depends on timely, relevant and reliable reports being submitted and action being taken to correct deviations or address challenges.

Legislated process and responsibilities

In-year monitoring and corrective action

The **mayor** monitors and may oversee – without interfering – how the municipal manager and chief financial officer exercise their responsibilities, and ensures that municipal functions are performed within the limits of the approved budget.

Section 52 of the MFMA

The **municipal manager** prepares:

- monthly budget statements

  Section 71(1) of the MFMA

- a mid-year budget and performance assessment

  Section 72(1) of the MFMA

The **audit committee** advises the municipal manager, the mayor and the council on the adequacy, reliability and accuracy of financial reporting and information.

Section 166(a)(2)(iv) of the MFMA

The **internal audit unit** assesses the extent to which performance measurements are reliable in measuring the municipality's performance on indicators, and submits quarterly reports on these assessments to the municipal manager and audit committee.

Regulations 14(1)(b)(iii) and 3(c)(ii) of the Municipal Planning and Performance Management Regulations

The **audit committee** reviews the internal audit unit's quarterly reports on performance measurements and, at least twice a year, submits a report to the municipal council.

Regulation 14(4)(a)(i & iii) of the Municipal Planning and Performance Management Regulations

The mayor uses the monthly budget statements and mid-year performance report to check how the budget and the service delivery and budget implementation plan are being implemented, and to identify any financial problems. The mayor also submits a mid-year report to the council.

Section 54(1) of the MFMA

Legislated process and responsibilities

In-year monitoring and corrective action (continued)

The **mayor** submits to the council:

- quarterly reports on how the budget is being implemented and on the municipality's financial affairs (within 30 days of the end of each quarter)

Section 52(d) of the MFMA

- a mid-year performance report (by 31 January each year)

Section 54(1)(f) of the MFMA

The **provincial treasury** prepares a consolidated quarterly budget statement for municipalities in the province and makes it public. The **member of the executive council for finance** submits the statement to the provincial legislature.

Section 71(7) of the MFMA

The **municipal manager** may prepare an adjustments budget and revisions to the service delivery and budget implementation plan for consideration and tabling by the mayor and approval by the **council.**

Sections 28(1), 69(2) and 54(1) of the MFMA

In case of serious financial problems, the **mayor** takes the required actions proposed by the municipal manager and alerts the council and the member of the executive council for local government.

Section 54(2) of the MFMA

The **member of the executive council for local government** assesses the seriousness of the financial problems and determines if they require provincial intervention.

Section 136 of the MFMA

If intervention is required, the **member of the executive council** takes appropriate steps for a mandatory or discretionary provincial intervention.

Chapter 13, part 2 of the MFMA

At the end of the financial year, the **performance against the budget and the service delivery and budget implementation plan should be assessed and corrective action taken for improved performance.** The year-end process also lends itself to assessing individual performance and ensuring accountability for transgressions and non-performance. The oversight processes enable the municipality to account to the public and those that had provided funds to the municipality. Again, assurance providers play a key role in ensuring that this process is effective.

Legislated process and responsibilities

Accounting for performance and corrective action

The municipal manager prepares an annual report (which includes the financial statements, performance report and audit report).

Sections 121–127 of the MFMA;
Section 46 of the MSA

The internal audit unit audits the results of performance measurement (i.e. the performance report).

Section 45(a) of the MSA

The audit committee reviews the annual financial statements to provide the council with an authoritative and credible view of the municipality's financial position, efficiency and effectiveness; and its overall level of compliance with the relevant applicable legislation.

Section 166(2)(b) of the MFMA

The mayor tables the report to the council.

Section 127(2) of the MFMA

The municipal manager responds to questions on the annual report in the council.

Section 129(2) of the MFMA

The council considers the annual report and adopts an oversight report, which is made public.

Section 129(1) and (3) of the MFMA

The municipal manager submits the annual report and oversight report to the provincial legislature.

Section 132(2) of the MFMA

The member of the executive council for local government monitors the submission of these reports to the provincial legislature.

Section 132(3) of the MFMA

The provincial legislature may deal with annual and oversight reports submitted by municipalities.

Section 132(4) of the MFMA

The member of the executive council for local government compiles and submits to the provincial legislature and the National Council of Provinces a consolidated report of municipal performance in the province, which identifies those municipalities that underperformed and proposes remedial action to be taken.

Section 47 of the MSA

The mayor ensures that the municipality addresses any issues raised in its audit report.

Section 131(1) of the MFMA

The member of the executive council for local government assesses the financial statements of all the municipalities in the province, along with the audit reports and any municipal responses to them, and determines if the municipalities have adequately addressed the issues raised in the reports. A report is then submitted to the provincial legislature on any areas in which municipalities have not adequately addressed those issues.

Section 131(2) of the MFMA

The minister responsible for local government annually compiles and submits to Parliament a consolidated report on local government performance, which includes a report on actions taken by members of the executive council for local government to address issues raised in audit reports on the financial statements.

Section 48 of the MSA;
Section 134 of the MFMA

Legislation is not prescriptive on the responsibilities of the **provincial legislatures** and **Parliament** (including the **National Council of Provinces**). However, by tabling the various reports on local government to these structures, an obligation is created for them to ensure that the issues detailed in these reports are dealt with appropriately to improve municipal performance.

1.3 HUMAN RESOURCE AND CONSEQUENCE MANAGEMENT

A stable, well-resourced and competent municipal administration is an essential foundation for success. This is echoed by the recently adopted Medium-Term Development Plan of government for 2024-29, which has a stated objective to build a capable, ethical and developmental state.

Such a state requires effective **human resource management,** which includes determining how many staff members are required (and employed), ensuring that job descriptions are in place and that the posts are funded, and appointing competent officials and ensuring their continuous development and performance management. The MSA and its accompanying Municipal Staff Regulations define legislated responsibilities for the council, the mayor and the accounting officer to manage municipal leadership and officials.

The process and responsibilities for **implementing consequences** for transgressions and poor performance are also well-defined in legislation – which we detail in section 3.4.

Content of the report

This report summarises our key messages in the following areas:

1. The **state of local government,** dealing with:
   - Overall audit outcomes
   - Risks to municipal service delivery
   - Metropolitan municipalities
   - Material irregularities
2. A **call to action** for all roleplayers in the accountability ecosystem to address the root causes of municipal failures
3. The state of local government in each of the **nine provinces**
4. An **audit fact sheet** that provides information on the audits that we had performed and an explanation of the numbers used in this report

In support of greater transparency that will enable accountability, our report website includes detailed annexures that provide the key results for each metro, municipality and municipal entity. It 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 per province

02

AUDIT OUTCOMES

Trend of poor audit outcomes continues

Accountability is enabled through credible financial statements and performance reports that provide a transparent account of an auditee's performance, finances and compliance with legislation (for example, through the disclosure of irregular expenditure).

Legislation is in place to regulate responsible and effective financial and performance management; the protection of public funds and resources; and the fiduciary duties of leadership and officials to behave ethically and act in the best interest of the state, and to ensure that there are consequences for transgressions and poor performance.

This section focuses on the 2023-24 audit outcomes and the movements in outcomes since 2020-21 (the last year of the previous administration), based on our audits of the financial statements and performance reports, as well as compliance with key legislation. The cut-off date for inclusion of audit outcomes in this report was 31 January 2025.

2.1 OVERALL AUDIT OUTCOMES

The trend of poor audit outcomes continued, with regressions offsetting improvements.

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	28	1	257
2022-23	34	110	91	6	15	1	257
2023-24	41 16%	99 39%	90 35%	6 2%	11 4%	10 4%	257
2023-24 Percentage of estimated expenditure budget for municipalities: R561,95 billion	19%	45%	32%	<1%	1%	3%	

Movement from previous year 31 ▲ 25 ▼ **Movement from 2020-21** 59 ▲ 40 ▼

Since 2020-21, the audit outcomes of some provinces have regressed, some have remained the same and some have improved but the overall status continued to be far from desirable. Further insights on the audit outcomes per province are included in section 7.

Audit outcomes, budget and households – per auditee category

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Total	Movement from 2020-21: improved	Movement from 2020-21: regressed
Metropolitan municipalities									
2020-21	1	5	2	0	0	0	8	1 ▲	3 ▼
2023-24	1	3	4	0	0	0			
Intermediate cities									
2020-21	5	16	15	1	1	1	39	8 ▲	4 ▼
2023-24	4	18	14	0	0	0			
District municipalities									
2020-21	15	14	10	2	3	0	44	11 ▲	5 ▼
2023-24	14	18	11	1	0	0			
Local municipalities									
2020-21	20	65	56	1	24	0	166	39 ▲	28 ▼
2023-24	22	60	61	5	11	7			
Municipal entities									
2020-21	1	13	1	0	1	0	16	3 ▲	0 ▼
2023-24	3	12	0	0	1	0			

Metropolitan municipalities – **Budget:** R295,27 billion (48%); **Households:** 8 903 584 (46%)

Intermediate cities – **Budget:** R127,49 billion (21%); **Households:** 5 251 067 (27%)

District municipalities – **Budget:** R39,75 billion (6%)

Local municipalities – **Budget:** R99,44 billion (16%); **Households:** 5 286 824 (27%)

Municipal entities – **Budget:** R56,10 billion (9%)

Total estimated expenditure budget (operating and capital) for municipalities and municipal entities: R618,05 billion
Total number of households: 19 441 475

Number of households served by metropolitan municipalities, intermediate cities and local municipalities is based on the National Treasury's local government equitable share data and formula for 2023-24.

Metros are responsible for the biggest portion of local government's expenditure budget and serve almost half of all households in the country. Their audit outcomes regressed from 2020-21, as detailed in section 4.

Intermediate cities serve over a quarter of the country's households. Like metros, they typically have greater capacity, larger budgets and can more easily attract suitably skilled professionals. However, their outcomes do not reflect the expected level of financial and performance management.

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. Despite some improvement, they are not yet leading by example with good audit outcomes.

Municipalities with clean audits

When a municipality receives a financially unqualified opinion with no findings (also referred to as a clean audit), it means that its financial statements and performance report give a transparent and credible account of its finances and its performance against set targets. Effectively, the accountability reports present a reliable picture of that municipality's performance – whether good or bad. This enables the council and stakeholders – particularly residents, community organisations, and those in national and provincial government that need to oversee the municipality's performance and provide support for it to succeed – to determine how the municipality is doing and to take action where necessary. A clean audit also means that the municipality complied with key 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 reflect the lived experience of all communities in a municipal area. However, a clean audit positions a municipality to transparently communicate to communities about whether and when their needs will be met through accurate records, which also enables the different roleplayers in the accountability ecosystem to make informed decisions.

We have observed 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 have a solid foundation for service delivery to their communities.

A municipality's story: Improvement to a clean audit

uMshwathi Local Municipality (KwaZulu-Natal) improved from a qualified audit opinion with findings in 2020-21 to an unqualified audit opinion with findings in 2021-22, which it maintained in 2022-23. In 2023-24, the municipality achieved a clean audit. The improvement was driven by a strong commitment by both management and leadership to achieve a clean audit, continue to receive no material findings on its performance report, improve the quality of the submitted financial statements and address material findings on compliance with key legislation raised in prior years. The appointment of the chief financial officer in 2022-23 played a crucial role in reinforcing this commitment. Reviews of the financial statements and performance report and robust monitoring of audit action plans by senior management and the internal audit unit were intensified to ensure credible and reliable financial and performance reporting. The municipality's success can be attributed to a combination of focused leadership, enhanced financial reporting controls and thorough reviews.

The number of municipalities that received clean audits has increased from last year – but not from 2020-21. In the next subsection, we expand on the many municipalities that have remained in the category of unqualified audit opinion with findings since 2020-21 and are struggling to improve to a clean audit status.

Movement in number of clean audits from 2020-21 – municipalities

Improved to clean audit status	Retained clean audit status	Lost clean audit status
12	29	12

A municipality will often find it difficult to sustain a clean audit if it does not have the institutional capability to maintain and consistently apply its good practices – also when there is instability in key positions.

A municipality's story: Regression from a clean audit

Hantam Local Municipality (Northern Cape) regressed from a clean audit in 2021-22 to an unqualified audit opinion with findings in 2022-23, mainly due to the departure of the municipal manager and the chief financial officer, who were instrumental in driving the positive outcomes. In 2023-24, the municipality regressed to a qualified opinion with findings on performance reporting and compliance with key legislation. The head of supply chain and senior accountant positions also became vacant during this period. This left only one official to perform the financial functions of the municipality, including adequately preparing and reviewing the financial statements and implementing proper record keeping. The council did not intervene and the audit committee's interventions were limited. A chief financial officer was appointed in October 2024, which resulted in some improvement in the submission of information, but the official had limited impact due to being appointed so late in the audit process.

Of the 29 municipalities that received a clean audit in both 2020-21 and 2023-24, there were 25 that had sustained their clean audit status every year since at least 2020-21.

This success was underpinned by practices such as institutionalising and monitoring key controls (including preventative controls), as well as implementing and monitoring action plans to address deficiencies. These municipalities were generally characterised by stability in key positions such as the municipal manager and chief financial officer. Senior management, the municipal manager, the mayor and the council – supported by the internal audit unit and audit committee – were committed to fulfilling their monitoring, governance and oversight roles.

Municipalities that sustained clean audit status for four or more consecutive years

1 Eastern Cape

Joe Gqabi DM	(4 years)

1 Gauteng

Midvaal LM	(11 years)

2 KwaZulu-Natal

King Cetshwayo DM	(4 years)
uMhlathuze LM	(5 years)

2 Mpumalanga

Ehlanzeni DM	(5 years)
Nkangala DM	(6 years)

2 Northern Cape

Francis Baard DM	(5 years)
Namakwa DM	(4 years)

17 Western Cape

Bergriver LM	(9 years)
Breede Valley LM	(5 years)
Cape Agulhas LM	(11 years)
Cape Winelands DM	(11 years)
Drakenstein LM	(6 years)
Garden Route DM	(4 years)
George LM	(4 years)
Hessequa LM	(11 years)
Langeberg LM	(6 years)
Mossel Bay LM	(5 years)
Overberg DM	(5 years)
Overstrand LM	(12 years)
Saldanha Bay LM	(6 years)
Stellenbosch LM	(5 years)
Swartland LM	(5 years)
West Coast DM	(14 years)
Witzenberg LM	(12 years)

A municipality's story: Sustained a clean audit

Langeberg Local Municipality (Western Cape) has sustained its clean audit status since 2018-19. There is a strong desire and commitment to achieving a clean audit, with the municipal manager and senior management prioritising the resolution of audit findings and decisive action. Stability in the finance unit has created a strong control environment, with ongoing improvement where necessary. Audit committee recommendations are taken seriously and addressed promptly, while the internal audit unit plays a crucial role in identifying control weaknesses early on, which prevents misstatements and non-compliance. The combination of stability in the administration and institutionalised controls enabled the municipality to maintain its clean audit status throughout a period of council instability in 2023-24 when there were coalition party disagreements. Its success is driven by focused leadership, strong financial controls and effective oversight.

Municipalities with unqualified audit opinions with findings

The most prevalent audit outcome since 2020-21 has been an unqualified audit opinion on the financial statements with material findings on the quality of performance reports and/or compliance with key legislation. The municipalities that have received this outcome have made little effort to move out of this category. There were 99 municipalities with this outcome in 2023-24 – 66 were in this category in both 2020-21 and 2023-24, with 49 having remained in this category through all four years.

In most cases, municipalities in this category received an unqualified audit opinion on their financial statements only because they corrected misstatements in response to our audit findings. In section 2.2, we list the 46 municipalities that received unqualified audit opinions every year over the administrative term in this manner. These municipalities do not have the institutional capability and good preventative controls in place to enable credible and transparent in-year and year-end reporting, which could easily result in them losing their unqualified status.

When municipalities receive material findings on their performance reports, this means that the performance information that they have reported is not credible, which weakens the accountability processes. Material non-compliance signals a disregard for legislation or significant lapses in control, which is often an indicator of potential financial mismanagement and a leadership culture that does not emphasise the importance of compliance.

An unqualified audit opinion with findings is not a desirable outcome and municipalities should not become complacent when they receive such an outcome. The municipalities that have remained in this category should address the remaining challenges in their control environments to improve their outcomes to a clean audit and shift their focus to improving service delivery.

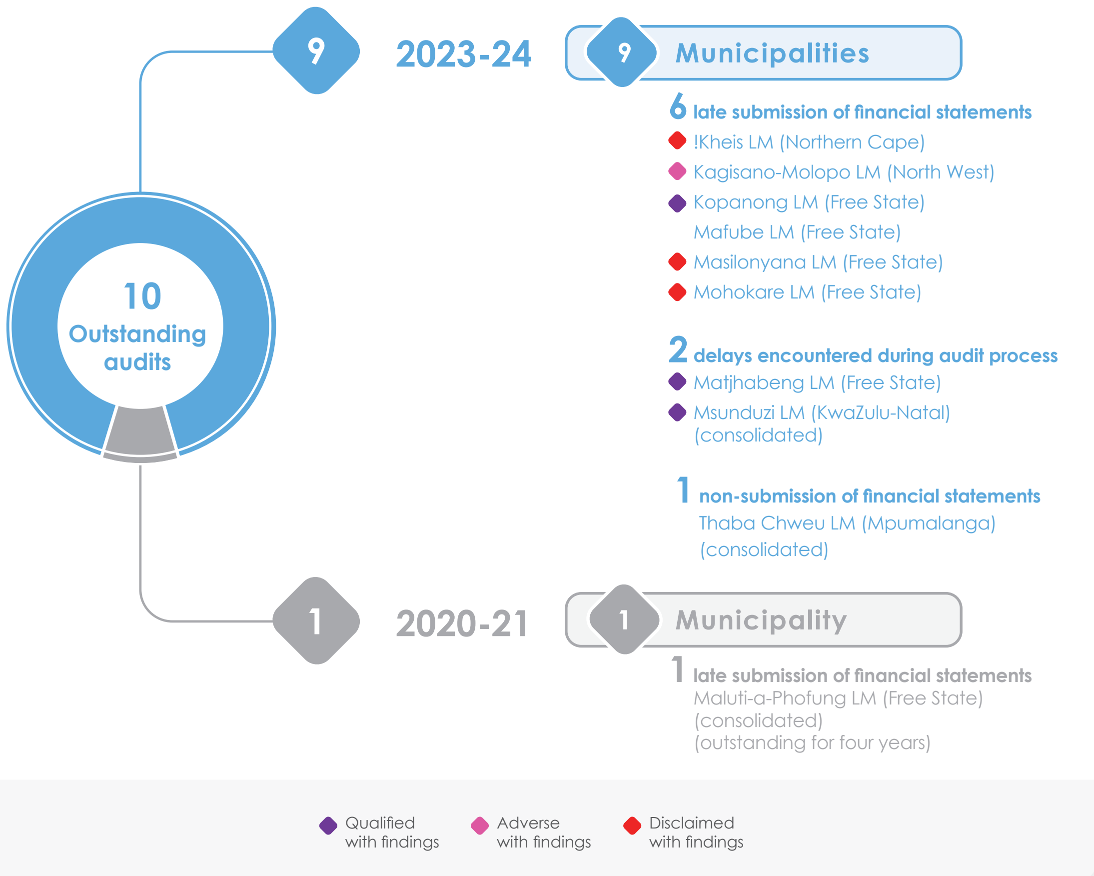
Outstanding audits

When we tabled last year's general report, there were 10 audits outstanding – nine because the municipalities had submitted their financial statements late or not at all, and one due to delays during the audit process. We have since finalised the audits of nine of these municipalities – six received a qualified audit opinion and three received a disclaimed audit opinion.

The audit of the remaining municipality (Maluti-a-Phofung Local Municipality in the Free State) has not been concluded for four years due to the late submission of its consolidated financial statements. In section 2.2, we provide more information on the late submission of financial statements, including this municipality's history of late submissions.

By 31 January 2025, the 2023-24 audits for 10 municipalities had not been completed. By 25 April 2025, seven of these audits had been finalised.

Status of outstanding audits and outcomes of audits subsequently finalised by 25 April 2025



2.2 FINANCIAL STATEMENTS

Importance of financial statements

Credible financial statements are crucial in enabling accountability and transparency.

A municipality's financial statements show how it spends its money, where its revenue comes from, what assets it has and the state of those assets, how much it owes its creditors, how much it is owed by its debtors, and whether the money owed to it is expected to be received. The financial statements also provide crucial information on how the municipality adhered to its budget; the unauthorised, irregular, and fruitless and wasteful expenditure it incurred; as well as its overall financial position – in other words, whether its operations are financially sustainable.

The financial statements are used by the council and its committees to hold the accounting officers accountable and make financial and related service delivery decisions. In the case of some municipalities, particularly metros, the financial statements are also used by creditors, banks and rating agencies to determine the level of risk in lending money to the municipality. In addition, members of the public can use the financial statements to see how well the municipality is using the taxes they pay to provide services.

The Public Audit Act requires us to annually audit and report on whether the municipalities' financial statements fairly present their financial position at year-end and the results of their operations for that year. Our audit opinion on the financial statements provides assurance on whether the financial statements are free from material misstatements that could affect the decisions that users make based on these statements.

Timely submission of financial statements

We can finalise and report on an audit on time only if we receive both the financial statements and the performance report for auditing by the legislated date of 31 August (and 30 September in the case of consolidated financial statements).

If we cannot complete our audit on time, it delays the tabling of the annual report in the council, which is then unable to hold the municipal manager to account and make decisions. It also delays the finalisation and publishing of the council's oversight report. It further affects the reporting and oversight actions by the minister and members of the executive councils for local government, the provincial legislatures and Parliament. Given that these municipalities receive an equitable share and conditional grants, this lack of transparency and accountability should also be of great concern to national and provincial government.

The percentage of municipalities that submitted their financial statements for auditing by the legislated date was 82% in 2020-21 due to delays caused by the covid-19 pandemic. While this returned to a more typical pre-covid-19 submission rate of 92% in the first year of the current administration (2021-22), there has since been little improvement and only 95% of municipalities submitted their financial statements on time in 2023-24. This was mostly due to a combination of interventions by provincial leadership and the material irregularity (MI) notifications we issued.

Most of the municipalities that repeatedly did not submit their financial statements for auditing, or submitted them late, were in the Free State.

Seven of the 13 municipalities that submitted late in 2023-24 have done so more than once within the three years of the current administration. These repeat offenders were responsible for delivering services to 332 172 households and managing an expenditure budget of R6,85 billion in 2023-24.

Repeat offenders – municipalities submitting financial statements late over past three years

Municipality	Years submitted late	Reasons for late submission and action taken to address it
Mafube Local Municipality (Free State)	2021-22 2022-23 2023-24	**2021-22:** The municipality did not promptly address the audit findings that gave rise to the disclaimed audit opinions it received in prior years. **2022-23 and 2023-24:** The delays were caused by non-payment of staff and consultants responsible for preparing the financial statements. We issued MI notifications for the non-submission of the 2021-22 and 2022-23 financial statements. The 2021-22 financial statements were submitted in October 2022, the 2022-23 financial statements in March 2024 and the 2023-24 financial statements in March 2025. The MIs have been resolved.
Maluti-a-Phofung Local Municipality (Free State)	2021-22 2022-23 2023-24	**All three years:** Internal reviews were late and there was a backlog in the preparation of consolidated financial statements because the municipality and its municipal entity had received disclaimed audit opinions in prior years, which required significant time to resolve. We issued MI notifications for the non-submission of the 2021-22 and 2022-23 financial statements. The 2021-22 financial statements were submitted in December 2024, and both the 2022-23 and 2023-24 financial statements were submitted in January 2025. The MIs have been resolved.
Kopanong Local Municipality (Free State)	2021-22 2023-24	**2021-22:** The chief financial officer resigned and there were accounting system challenges. **2023-24:** The financial system was temporarily suspended by the service provider due to non-payment. We issued MI notifications for the non-submission of the financial statements. The 2021-22 financial statements were submitted in June 2023 and the 2023-24 financial statements were submitted in November 2024. The MIs have been resolved.
Makhado Local Municipality (Limpopo)	2022-23 2023-24	**2022-23 and 2023-24:** The municipality faced challenges in preparing the fixed asset register. The 2022-23 financial statements were submitted in September 2023 and the 2023-24 financial statements were submitted in September 2024.

Repeat offenders – municipalities submitting financial statements late over past three years (continued)

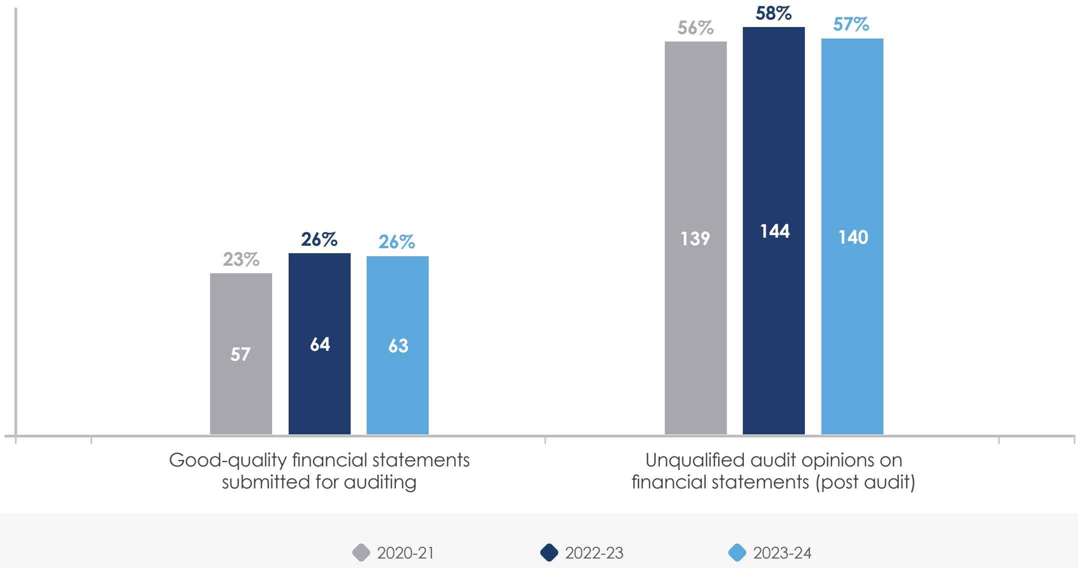
Municipality	Years submitted late	Reasons for late submission and action taken to address it
Masilonyana Local Municipality (Free State)	2021-22 2023-24	**2021-22:** Failure of the financial system. **2023-24:** Poor internal controls and a lack of supporting evidence. We issued MI notifications for the non-submission of the financial statements. The 2021-22 financial statements were submitted in August 2023 and the 2023-24 financial statements were submitted in December 2024. The MIs have been resolved.
Mohokare Local Municipality (Free State)	2021-22 2023-24	**2021-22:** Failure of the financial system. **2023-24:** Poor internal controls and a lack of supporting evidence. We issued MI notifications for the non-submission of the financial statements. The 2021-22 financial statements were submitted in August 2023 and the 2023-24 financial statements were submitted in December 2024. The MIs have been resolved.
Ubuntu Local Municipality (Northern Cape)	2022-23 2023-24	**2022-23:** The chief financial officer position was vacant. **2023-24:** There were technical issues with the new financial system. The 2022-23 financial statements were submitted in September 2023 and the 2023-24 financial statements were submitted in September 2024.

As part of our engagements in preparing to table this report, we again requested commitments from the premiers and members of the executive councils for local government and for finance in these provinces to take action to prevent further late submissions.

Financial statement audit results

There has been little improvement in the quality of financial reporting since 2020-21.

Financial statements: audit results from 2020-21 – municipalities



If we express an **unqualified audit opinion** on the financial statements, it means that there were no material misstatements (errors or omissions) in the financial statements and those who use these financial statements can trust the credibility of the information.

For years and across multiple administrations, we have urged municipalities to submit good-quality financial statements for auditing. But even when municipalities receive unqualified audit opinions on their financial statements, this is often because we allow them to correct material misstatements that we identify during the audit – a practice that is not sustainable and creates delays in finalising the audit.

If we had not allowed municipalities to correct such material misstatements in their financial statements, only 63 municipalities (26%) would have received unqualified audit opinions in 2023-24, compared to the 140 (57%) that eventually did.

The poor quality of the financial statements submitted for auditing also raises concerns about the credibility of municipalities' in-year financial reporting through the monthly budget statements, the mid-year budget and performance assessment, and the quarterly reports on municipal finance to the council. This means that important financial decisions, analyses and monitoring could be based on unreliable information.

The following 46 municipalities have received unqualified audit opinions every year for the past three years, despite having initially submitted poor-quality financial statements that they then corrected.

Municipalities that relied on audit process to achieve unqualified audit opinions for past three years

6 Eastern Cape

Dr AB Xuma LM
Elundini LM
Inxuba Yethemba LM
King Sabata Dalindyebo LM
Mbhashe LM
Ngqushwa LM

4 Free State

Phumelela LM
Thabo Mofutsanyana DM
Tswelopele LM
Xhariep DM

3 Gauteng

City of Johannesburg MM
Lesedi LM
Rand West City LM

16 KwaZulu-Natal

AbaQulusi LM
Dannhauser LM
Dr Nkosazana Dlamini Zuma LM
Ilembe DM
Impendle LM
Mandeni LM
Mfolozi LM
Mkhambathini LM
Newcastle LM
Nkandla LM
Ubuhlebezwe LM
Ugu DM
uMgungundlovu DM
uMhlabuyalingana LM
uMzimkhulu LM
uPhongolo LM

9 Limpopo

Greater Giyani LM
Greater Letaba LM
Greater Tzaneen LM
Lephalale LM
Makhado LM
Makhuduthamaga LM
Maruleng LM
Molemole LM
Polokwane LM

6 Mpumalanga

Bushbuckridge LM
City of Mbombela LM
Dr Pixley Ka Isaka Seme LM
Mkhondo LM
Nkomazi LM
Thembisile Hani LM

1 Northern Cape

Gamagara LM

1 North West

Dr Kenneth Kaunda DM

We expressed modified (i.e. qualified, adverse or disclaimed) audit opinions on the 2023-24 financial statements of 107 municipalities (43%).

A qualified audit opinion means that there were areas in the financial statements that we found to be materially misstated. In our audit reports, we point out which areas of the financial statements are not credible. In 2023-24, a total of 90 municipalities (35%) received a qualified audit opinion.

An adverse audit opinion means that the financial statements included so many material misstatements that we disagree with practically all the amounts and disclosures in the financial statements.

Effectively, the information in financial statements with an adverse audit opinion is not useful and cannot be used to make decisions, as it is not credible. In our audit reports, we report to oversight structures and other users of the financial statements that the information cannot be trusted.

In 2023-24, six municipalities received an adverse audit opinion. They received R0,98 billion in equitable share and R0,53 billion from other grants, and collectively managed an expenditure budget of R2,73 billion. There is little transparency or accountability in how these municipalities used their funds.

Status of municipalities with adverse audit opinions since 2020-21

2 Eastern Cape
- Amathole DM
- Kou Kamma LM

1 Gauteng
- Merafong City

2 KwaZulu-Natal
- uMzinyathi DM
- Umzumbe LM

1 Mpumalanga
- Emakhazeni LM

3 North West
- Mamusa LM
- Maquassi Hills LM
- Ngaka Modiri Molema DM

1 Western Cape
- Laingsburg LM

- 2 Repeat adverse audit opinion (3 years)
- 2 Regressed to adverse audit opinion in 2023-24
- 2 Improved from disclaimed to adverse audit opinion in 2023-24
- 4 Improved from adverse audit opinion in 2020-21
- Municipality under intervention

We requested provincial leadership to take action at Laingsburg Local Municipality in the Western Cape and uMzinyathi District Municipality in KwaZulu-Natal to address their repeated adverse audit opinions.

We outline details on municipalities with **disclaimed audit opinions** in section 2.5.

Main qualification areas for municipalities with modified opinions

The main areas that were misstated in the financial statements of municipalities that received modified audit opinions in 2023-24 were the following:

- **Receivables:** 62 municipalities (25%) did not know the correct amounts owed to them and whether they were still entitled to receive those amounts. In some cases, the amounts recorded were incomplete. In most instances (68%), these municipalities did not provide supporting evidence to substantiate the value of the receivables they disclosed in their financial statements.

- **Property, plant and equipment:** 61 municipalities (25%) could not properly account for their assets because they had not updated their asset registers with the assets that they had bought, were busy building or had disposed of, or that had been stolen or vandalised. Most of the instances (64%) related to a lack of evidence to substantiate the values disclosed in the financial statements.

- **Irregular expenditure:** 60 municipalities (24%) did not report all the irregular expenditure they incurred in their financial statements. In some cases, the irregular expenditure amount reported was incorrect.

- **Revenue from services provided:** 60 municipalities (24%) did not have adequate evidence to support the revenue amounts that they disclosed in their financial statements, did not disclose all the revenue that they should have, or recorded the amounts billed for services rendered incorrectly.

- **Expenditure:** 53 municipalities (21%) did not have adequate evidence to support the expenditure amounts, did not record all the expenditure that they should have, or did not properly classify the expenditure in their financial statements.

When we express modified audit opinions on the financial statements, this has wider implications for decision-making and could have an impact on service delivery. For example:

- Poor revenue management systems with inaccurate billing affect revenue collection from consumers of municipal services, which then reduces the funds available for municipalities to operate and deliver services.

- If a municipality does not know the true state of its assets (property, plant and equipment), it cannot adequately budget for maintenance. This can lead to dilapidated assets in the long run, affecting the municipality's ability to deliver services at the required level.

- Non-disclosure of irregular expenditure weakens accountability processes and indicates a lack of systems and controls to identify non-compliance with legislation.

The pervasiveness of modified audit opinions and the poor quality of in-year financial reporting have significant negative effects on governance, service delivery and public trust. This lack of reliable financial information hinders effective decision-making and oversight, leading to mismanagement and inefficiencies.

Causes of financial statement findings

Local government does not have the institutional capability in place to consistently produce transparent and credible financial reporting. This is evident from the findings on the financial statements and the vulnerability of municipal finance functions to vacancies in key positions and any disruptions or changes.

While the main causes listed in this section are not new, they have not been receiving the required attention.

Vacancies and lack of skills

Vacancies and lack of financial management skills remain the biggest contributing factor to financial units not delivering credible financial reports and not implementing good preventative financial controls. Municipalities should have finance units that are capacitated, competent and led by experienced chief financial officers who can provide stability and direction and can lead financial reporting. At the 2023-24 year-end, municipal finance units had an average vacancy rate of 19% – slightly higher than the 18% reported in 2020-21. Over the same period, the vacancy rate for chief financial officers had worsened, with 50 municipalities (20%) having vacancies in this position compared to 37 (15%) in 2020-21. At the municipalities with disclaimed audit opinions, the vacancy rate was even higher, at 18%; and their chief financial officers had held their positions for an average of only 39 months by the 2023-24 year-end.

High finance unit vacancy rates lead to modified audit opinions on the financial statements. The 107 municipalities (43%) with modified audit opinions had an average vacancy rate of 22% in their finance units and 29% among their senior management. Vacancies in finance units and a lack of skills lead to **increased reliance on financial reporting consultants,** often without obtaining the desired benefits (as detailed in section 3.3).

In 2023-24, 219 municipalities (2020-21: 222) used financial reporting consultants at a cost of R1,47 billion (2020-21: R1,39 billion). At 111 of these municipalities (51%), consultants were used to provide skills that their finance units did not have. At 92 municipalities (42%), consultants were hired to bridge a skills and vacancy gap, while 16 municipalities (7%) used consultants purely to compensate for vacancies.

The total consultant cost was spent mostly on asset management services (34%), the preparation or review of financial statements (32%) and tax services (20%).

We found that these municipalities appoint consultants year after year without ensuring that these skills are transferred to municipal staff. In 2023-24, 191 municipalities (87%) reappointed the consultants used in the previous year; in 2020-21, this was the case at 173 municipalities (78%).

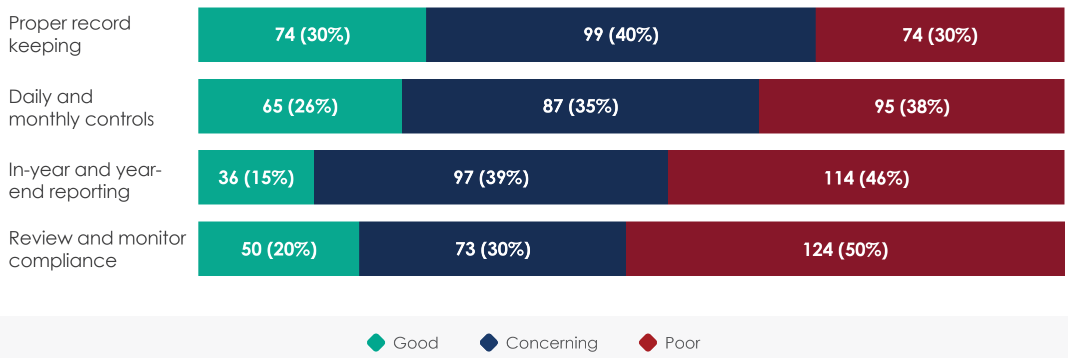
We have been reporting on the use of financial reporting consultants to address skills and vacancy gaps over multiple administrations. Our 2013-14 general report shows that a decade ago, consultants were also widely used (at 82% of municipalities), with 71% having used consultants in the previous year. The percentages of municipalities using consultants to address vacancies, skills or both were almost similar to 2023-24.

What was intended to be a short-term solution, continues indefinitely.

Internal controls

Basic financial management processes and controls in municipalities – including accounting practices, record-keeping, independent reviews and reporting – are not working effectively.

Status of key financial management controls (2023-24)



Again, little has changed over the past decade, with the status of these key financial management controls being very similar to what we had published in our 2013-14 general report.

Action plans

Over the years, we have advocated for the use of audit action plans to prevent a repeat of the misstatements we identified during our audits. However, municipalities often do not ensure that these action plans address the root causes of the misstatements and focus on strengthening the control environment. Overall, we found that 106 (99%) of the 107 municipalities that received a modified audit opinion either did not have adequate action plans in place or had not fully implemented their action plans.

Information technology

All municipalities use information technology (IT) systems to manage their finances and enable financial reporting, but IT governance is weak, and systems are not used to their full potential. This was mostly due to a lack of skills; overreliance (with limited oversight) on software providers; and little focus at municipal manager and council level on the benefits, risks and costs in the IT environment.

IT controls are an integral part of a municipality's control environment. Over the years, we have identified significant control weaknesses in local government's IT environment, which compromise the accuracy of financial records, interrupt service delivery, and make municipalities vulnerable to intentional and unintentional manual override and manipulation.

In 2023-24, our assessment of IT controls related to financial reporting found that only 120 municipalities (49%) had effective governance processes and only 96 (39%) had good information system controls.

Internal audits and audit committees

Internal audit units and audit committees have legislated responsibilities in terms of sections 165 and 166 of the Municipal Finance Management Act. Internal audit units must prepare risk-based audit plans and report to the municipal manager, and audit committees must report on the execution of the plans and their findings. These plans include reviews of accounting practices and internal controls. Audit committees must review the financial statements to provide the council with a credible view of the municipality's financial performance.

While most internal audit units – 220 (93%) – and audit committees – 218 (94%) – performed their legislated functions, we found that less than half of them – 105 internal audit units (43%) and 109 audit committees (44%) – performed these functions effectively. At municipalities that received modified audit opinions, these numbers were significantly worse, with 86% of internal audit units and 85% of audit committees not performing effectively and providing the required level of assurance, as detailed in section 1.

This lack of effectiveness meant that the work of these assurance structures had minimal impact, mainly due to inadequate risk assessments and/or working on a rotational plan, differences in the scope of work performed, and internal audit units not having the capacity to complete all the planned work.

The high number of municipalities that submitted poor-quality financial statements and have inadequate financial controls shows that audit committees and internal audit units are not providing the value that they should to improve financial discipline and processes. This is often because the municipal administration and council do not heed the risks they identify or implement the recommendations they make, and because there are no consequences for non-responsiveness by the administration. We provide more detail on our observations at metros in section 4.

2.3 PERFORMANCE REPORTS

Importance of performance reports

As detailed in section 1.2, local government has well-designed processes with legislated responsibilities for planning, budgeting, monitoring and reporting on the delivery of municipal functions and integrated development plans. Municipalities are required to plan what they must deliver every year to achieve the administration's integrated development plans. In their performance reports, they account for whether they have managed to achieve their targets for the year.

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

We do not audit, evaluate or conclude on a municipality's performance – this remains the role of the council, the minister and members of the executive councils responsible for local government, the provincial legislatures and Parliament (oversight). Our responsibility is to provide assurance to these roleplayers and to the public that the information they use to evaluate performance is useful and reliable.

The annual audit that we conduct is also not a performance audit that has the objective of reporting on the economy, efficiency and effectiveness of the municipality's processes. Rather, every year, we audit selected planned objectives and specific performance indicators that are aligned to the service delivery mandates of municipalities. We evaluate the information in the performance reports against criteria developed from the municipal performance management and reporting framework, which is based on legislation, frameworks and guidelines that apply to municipalities. A performance report that is prepared using these criteria provides useful and reliable information on – and insights into – the municipality's planning and delivery on its mandate and objectives.

In our audit reports, we report those findings that are material enough to be brought to the attention of users of the performance report.

We express audit opinions or conclusions on selected planned objectives in the management reports of auditees with a high service delivery impact. In 2023-24, these auditees comprised 145 municipalities and six municipal entities. For the remaining 101 municipalities and 10 municipal entities that had a lower service delivery impact in 2023-24, we reported on the extent of material findings only.

We also assess municipalities' compliance with legislation on strategic planning and performance management processes.

Timely submission of performance reports

Performance reports should be submitted for auditing together with the financial statements. The late submission of financial statements, as detailed in section 2.1, also affected our ability to audit the performance reports. Some municipalities submit their financial statements for auditing but do not prepare performance reports, which contravenes the Municipal Systems Act.

In 2022-23, four municipalities in the Northern Cape had not prepared performance reports for at least two consecutive years, namely Renosterberg, Siyancuma, Siyathemba and Ubuntu local municipalities. We notified the accounting officers of these municipalities that not submitting performance reports significantly harms the accountability processes and constitutes an MI. In response, all the municipalities except Renosterberg submitted their performance reports for auditing in 2023-24.

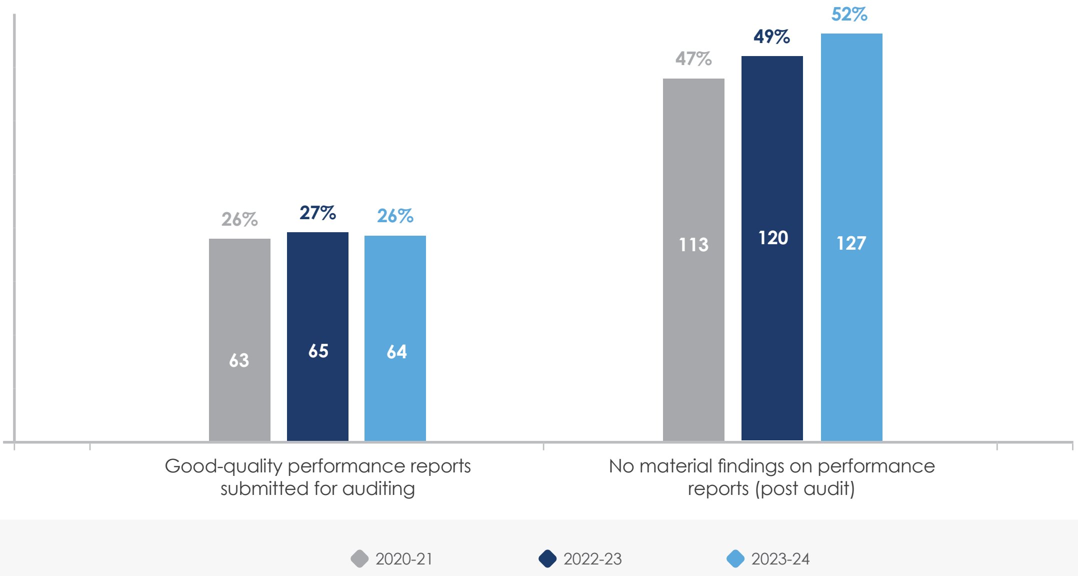
Non-submission of performance reports

Renosterberg Local Municipality (Northern Cape) has not submitted a performance report for the past 15 years. The municipality also did not have an approved service delivery and budget implementation plan, which meant that budgets were not aligned to service delivery objectives that consider the needs of communities. The municipality has adopted an unfunded budget for nine years and has not allocated performance management responsibilities to specific officials. It has a 100% vacancy rate at senior management level, and a weak control environment. In April 2024, we notified the accounting officer that failure to prepare a performance report constitutes an MI. The accounting officer did not take appropriate action to resolve the matter and we included recommendations in the audit report, which should be implemented by May 2025.

Performance reporting audit results

We raised **material findings on the published performance reports** of 119 municipalities (48%) in 2023-24 – a slight improvement from the 129 municipalities (53%) that had received such findings in 2020-21.

Performance reports: audit results from 2020-21 – municipalities



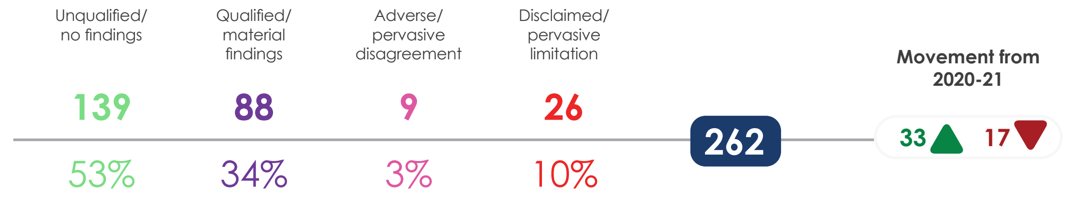
As with financial statements, we have continuously urged municipalities to submit good-quality performance reports for auditing. However, there has been no improvement in the **quality of the performance reports submitted for auditing** since 2020-21. This means that there has been little investment by this administration in institutional capability for performance planning and reporting.

If we had not allowed municipalities to correct the misstatements that we identified in their submitted performance reports, only 64 (26%) of the performance reports used for oversight purposes by the council and the public would have been credible, rather than the 127 reports (52%) that were ultimately published. The adjustments are usually to the reported achievements (and not to the already-approved indicators and targets in the performance plan that cannot be adjusted). It is not sustainable to rely on the audit process to identify misstatements for municipalities to correct during the audit – this is costly and causes delays in finalising audits.

The poorly prepared performance reports and significant activity required to make corrections in response to our audits also raise questions about the credibility of the in-year reporting and the effectiveness of performance monitoring throughout the year. If municipalities do not properly monitor their performance throughout the year and take corrective action when needed, they cannot achieve their performance targets or reliably report on their performance. The mayor and the council use the mid-year performance report for in-year monitoring purposes and to make important financial and service delivery decisions, which they cannot do effectively without reliable information.

The **audit opinions and conclusions** and the **extent of material findings** provide a view of the pervasiveness of findings and the level of improvement since 2020-21. Normally, we audit and give a separate opinion or conclusion on more than one objective in the performance report, but for comparison purposes we show only the worst opinion or conclusion.

Audit opinions, conclusions or findings on performance reports (2023-24)



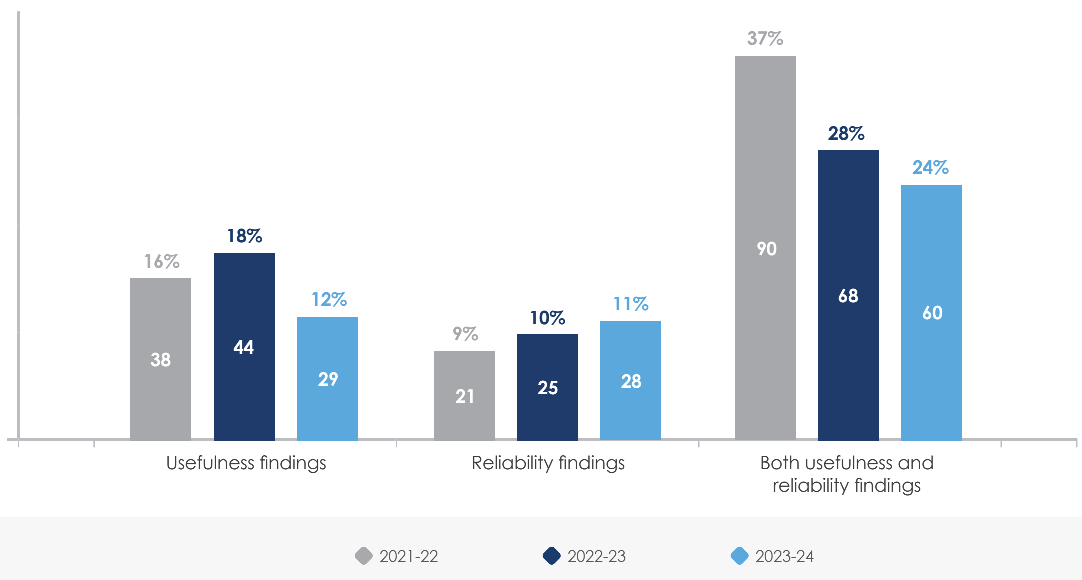
The performance reports of the 32 municipalities and three municipal entities (13%) that received adverse or disclaimed audit opinions were so bad that they cannot be used for oversight purposes – the reported information was either materially incorrect or we could not find evidence for what was reported. These auditees were responsible for delivering services to 4 463 626 households (15%), and are mostly in the Northen Cape and the Free State.

We include further detail on the audit opinions, conclusions and findings on performance reports for each province in section 7.

Nature of findings

A performance report should include information that is useful to determine if the municipality delivered on its core mandated functions (such as delivering basic services) and is on track to deliver on the integrated development plan. The reported achievements must also be reliable.

Usefulness vs reliability findings on performance reports since 2021-22 – municipalities



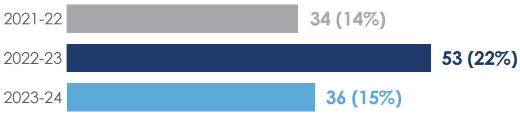
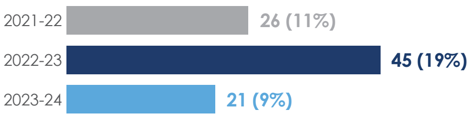
Typically, at the start of an administration, municipalities struggle to align their performance plans with the new integrated development plan, and their new performance indicators and targets are not yet useful for monitoring purposes. This improves through the administrative term, mostly in response to our audit findings. When all the required indicators and targets are included in the annual plan and performance report, the problem becomes the reliability of the achievements against those indicators and targets. This trend is also evident in this administration, as can be seen in the figure.

The table that follows provides information on the findings on the usefulness and reliability of the reported performance information that we reported in the audit and management reports, as well as the impact of these findings.

Detailed findings on usefulness and reliability of reported performance information – municipalities

Description	Impact
Not reliable 	
When a municipality's reported performance achievements are not reliable, it means that either we had proof that the achievement as reported was not correct, or we could not find evidence to support it.	When reported achievements are not reliable, the lack of transparency means that the performance report is of little use to the council – it cannot assess the municipality's performance for the year or its progress towards achieving its integrated development plan. The council can also not make decisions in response to underachievement. If the achievements reported are overstated, it means that the council and the public are misled into thinking that the municipal manager and the administration are performing well, which undermines accountability and weakens performance management mechanisms.
Not measurable 	
When a municipality receives a measurability finding, this means that its performance plans included: • performance indicators that were not well defined (i.e. there was no clear definition of what the indicator measures); and/or • targets that were not specific, measurable and/or time bound. It can also mean that verifiable processes and methods were not in place to measure achievements.	A performance indicator that is not well defined and targets that are not specific, measurable or time bound are not useful for measuring and reporting on municipal performance. This makes it difficult for the council and the public to determine the progress made by the municipality to achieve a planned objective. If there are no verifiable processes and methods to measure achievements, it generally results in the reported achievements being unreliable as it will not be possible to determine the accuracy of what is reported.

Description	Impact
Not consistent 	
When a municipality receives a consistency finding, this means that: • the performance indicators and/or targets reported in its performance report differed from those committed to in its performance plan; • changes were made without obtaining the required approval; and/or • the reported achievement differed from the achievement defined by the performance indicator and target.	The performance report cannot be used by the council and the public to determine if commitments made during planning have been achieved. Unapproved changes undermine transparency and accountability.
Not correctly presented 	
When a municipality receives a presentation finding, this means that its performance report had one or more of the following flaws: • It did not include a comparison of the actual performance for the year against the prior-year performance. • It did not include measures taken or planned to improve performance where a target was underachieved. • It included measures taken to improve performance, but the information was not reliable based on the audit evidence obtained. • Overall, achievements were not presented in a way that is easy to understand or compare to the performance plan.	Without a comparison to prior-year performance, the reported information is not useful to the council and the public for evaluating progress over time and identifying areas of improvement. If measures planned or taken to improve performance are not included, or are not reliable, the council cannot assess the effectiveness of strategies to improve future performance. If performance is not presented properly, it is difficult for the council and the public to determine whether progress is being made towards achieving the planned objectives, which undermines transparency and accountability.

Description	Impact
Not relevant  	
When a municipality receives a relevance finding, this means that its performance plan included: • performance indicators that measure an achievement that is not related to the municipality's mandate or to what the planned objective is intended to achieve; and/or • targets that are unrelated to what the performance indicators are measuring.	Irrelevant performance indicators and targets are not useful for measuring and monitoring municipal performance. When indicators are not relevant, it becomes difficult to accurately measure the efficiency and effectiveness of municipal services, and it can lead to the misallocation of resources.
Missing indicators  	
When a municipality has missing indicators, this means that its performance documents excluded indicators that measure its performance on the functions that it is mandated to perform. This includes some that relate to basic services, in accordance with legislation or through duties assigned to it by national or provincial government, without appropriate and verifiable reasons. From 2023-24, we reported these as material findings in the audit report.	When performance indicators that measure key service delivery achievements are excluded from performance plans and reports, it means that the achievement was not planned or budgeted for, which is likely to result in it not being delivered. If delivery on the function is not reported, this also undermines transparency, which weakens not only municipal accountability processes, but also the ability of national and provincial government to monitor and make decisions about government-wide deliverables based on complete and reliable (audited) information.

Compliance with legislation on strategic planning and performance management

The Municipal Systems Act clearly defines the strategic planning and performance management processes that should be in place at municipalities to support the performance planning, monitoring and reporting processes. As detailed in section 2.4, we audit compliance with this legislation as part of our annual audits.

Non-compliance by municipalities in this area remains high – we reported material non-compliance on strategic planning and performance management at 111 municipalities (45%), the same as we reported in 2020-21. The following were the most common material findings:

- Performance management systems and related controls were not maintained or were inadequate.
- Service delivery and budget implementation plans did not include prescribed monthly financial projections.
- Key performance indicators and measurable performance targets were not included in plans.

As this non-compliance can cause significant harm to a municipality's accountability process, we started applying the MI process in this area to improve municipal performance planning, management and reporting. Since 2019, we have notified accounting officers of eight MIs that deal with ineffective performance management systems. These municipalities did not maintain proper performance management systems or related controls. They either did not have standard operating procedures and clearly defined roles and responsibilities for identifying, collecting, collating, verifying and storing information or did not maintain an adequate and complete portfolio of evidence for reported performance.

Lack of proper performance records

Between 2016 and 2023, **Richtersveld Local Municipality** (Northern Cape) failed to reliably report on its performance information due to a lack of proper records to support the achievements reported in its performance reports. We notified the accounting officer of the MI in February 2024. During 2023-24, the accounting officer implemented a new performance management module to ensure that evidence is compiled to support reported performance achievements. Further action is being taken to fully resolve the MI.

Impact of poor performance planning and reporting

The next examples illustrate the wider-reaching impact of poor planning and reporting on municipal performance.

A municipality's story: Non-compliance and lack of reliable performance information

Maluti-a-Phofung Local Municipality (Free State) has demonstrated a pattern of disregarding requirements to maintain and submit records over a number of years, and received a disclaimed audit opinion on its financial statements for eight consecutive years. It was also unable to provide evidence for its reported performance information for auditing from 2018-19 to 2022-23, mainly due to a lack of records, because a proper performance management system had not been established.

In May 2024, we notified the accounting officer of an MI due to the municipality's failure to reliably report on its performance information because of the lack of proper systems and records to support the achievements reported in the performance report.

In 2023-24, we again could not determine if the reported achievements were reliable due to a lack of evidence. For example, there was one indicator that related to the much-needed upgrading of six water pump stations. The municipality reported that the six water pump stations had been upgraded, but could not provide evidence of the achievement. Based on our site visits, we confirmed that the municipality did not adequately maintain four of these pump stations, which had totally collapsed and had not been operational for several years. The lack of reliable information on the state of the water pump stations contributed to the lack of planning and monitoring of the upgrading process.

A municipality's story: Impact of poor performance planning on service delivery

At **Ugu District Municipality** (KwaZulu-Natal), indicators and targets were not clearly defined and easy to understand, as there was no clear definition of what the indicators measured. For example, the description of the indicator and the method of calculation included in the planning documents for the indicator, *Malangeni – percentage progress of work done on construction of 2ML/day reinforce concrete reservoir* refers to 'number of connected households' when it is intended to measure the progress of work done on the construction of the concrete reservoir. As a result, the indicator and related targets were not useful for measuring and monitoring progress against the municipality's planned objectives.

We raised a material finding on compliance with key legislation because of the municipality's inadequate management of performance planning, monitoring, measurement, review and reporting.

The municipality faces significant service delivery challenges, particularly relating to households and schools left with no access to a basic supply of water for weeks at a time. In some areas, schools were forced to close temporarily, disrupting education for thousands of learners. The lack of clearly defined measurement criteria prevents the municipality from identifying service delivery challenges early in the process so that they can be addressed more quickly and easily.

Causes of performance report findings

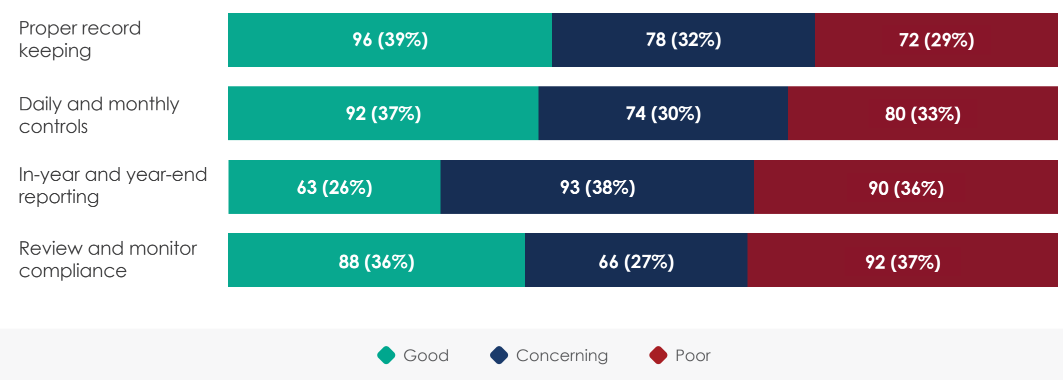
The institutional capability required to consistently produce transparent and credible performance reporting is not in place in local government. This is evident from the findings on the performance reports. These findings also demonstrate that the legislated system of performance planning, budgeting, monitoring and reporting, as detailed in section 1.2, is not implemented as designed.

The main causes of poor performance planning and reporting are not new, but have not been receiving the required attention.

Internal controls

Municipalities do not have adequate systems, processes and controls to collate, record, measure and report on their performance. Processes are manual and prone to error.

Status of key performance management controls (2023-24)



While municipal managers prepared and mayors tabled the mid-year performance reports needed for in-year monitoring at 235 municipalities (95%), the reporting had little impact due to a combination of unreliable information and lack of diligence and impactful decision-making by mayors and councils.

Lack of common indicators and incomplete performance reporting

The lack of standardised performance indicators for core municipal functions (electricity, housing, roads, water and sanitation) places the burden of developing indicators and relevant targets on municipalities. The National Treasury and the Department of Cooperative Governance introduced common performance indicators through Circular 88, which aims to streamline planning and reporting, while improving the completeness, measurability and relevance of indicators and targets.

To reduce scrutiny and accountability, some municipalities report on different indicators and targets than those they committed to when planning, set targets that are too low (or even zero) and leave important information out of their performance reports. This is often done to create the perception that the municipality is performing well, and that services are being delivered.

Vacancies and lack of skills

Officials, senior management and accounting officers do not properly apply performance management and reporting requirements because they do not properly understand or appreciate them, pointing to a lack of appropriate skills and capacity. Because mayors and council and committee members are not fully capacitated, they do not thoroughly review performance plans to ensure that they cover all the key functions of the municipality, that they are aligned to the integrated development plan, and that the performance indicators and targets are relevant and measurable to achieve the desired results.

Lack of consequences

Municipal managers and officials face limited consequences when they provide unreliable information in their performance reports or underachieve on their targets.

Performance audit committees and internal audit units

Performance audit committees and internal audit units have legislated responsibilities to provide assurance on the performance management system and performance results of municipalities, as detailed in section 1. Most internal audit units – 218 (92%) – and most audit committees – 214 (92%) – performed their legislated function of evaluating the reliability of municipalities' performance information. However, in our assessment, only 110 internal audit units (45%) and 116 audit committees (47%) did so effectively.

As was the case with financial reporting, minimal impact was achieved in improving performance planning and reporting due to differences in the scope of work performed, inadequate capacitation of internal audit units, and management not responding to findings and recommendations. We provide more detail on our observations at metros in section 4.

2.4 COMPLIANCE WITH KEY LEGISLATION

Importance of compliance with legislation

Each year, we audit and report on how municipalities comply with key legislation on financial and performance management and related matters. In our compliance audits, we focus on the following areas:

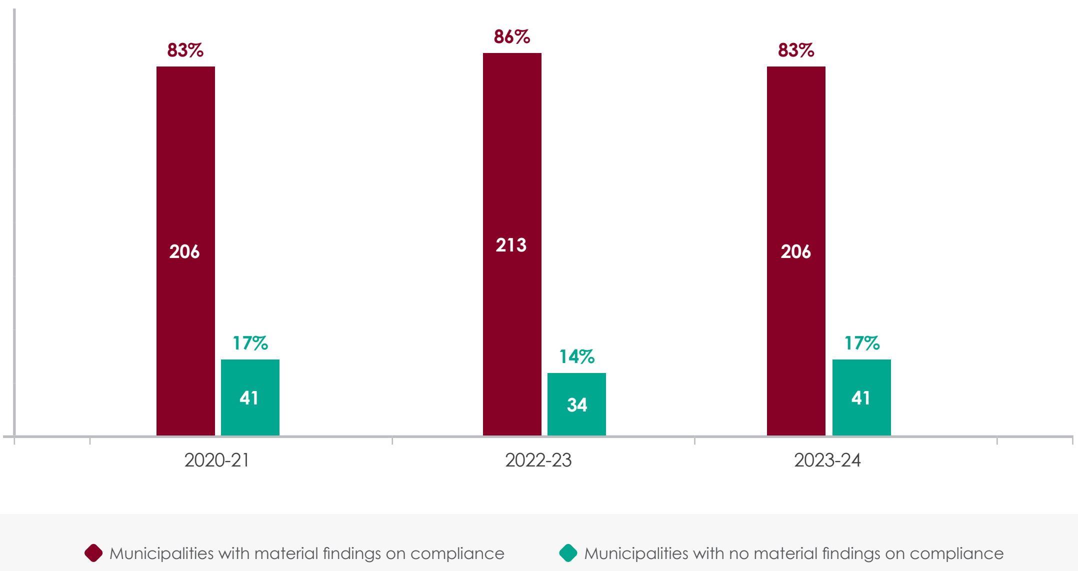
- Quality of financial statements submitted for auditing
- Expenditure management
- Unauthorised, irregular, and fruitless and wasteful expenditure
- Consequence management
- Strategic planning and performance management
- Financial statements and annual report processes
- Procurement and contract management
- Asset management
- Human resource management
- Revenue management
- Utilisation of conditional grants
- Environmental management (at metros only)

In our audit reports, we report findings that are material enough to be brought to the attention of the council, the provincial legislature and the public. A finding is material if there were multiple instances of non-compliance, or if the non-compliance had a significant impact.

Compliance audit results

Compliance with key legislation has not improved since 2020-21 and municipalities show a clear disregard for complying with legislation. In 2023-24, 206 municipalities (83%) received material findings on non-compliance with key legislation, with 201 municipalities (81%) having received material findings in this area for all three years of the current administration.

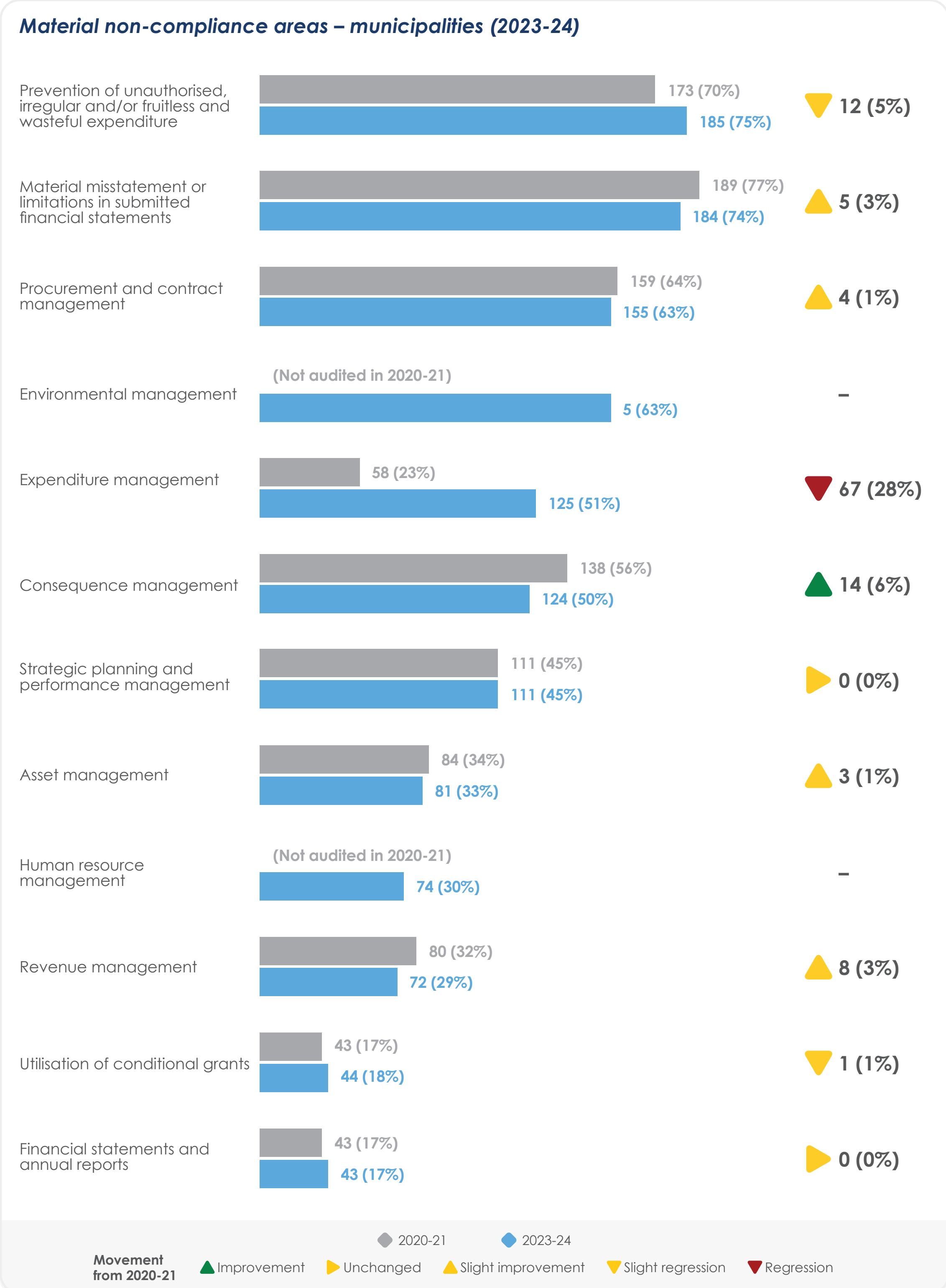
Compliance with key legislation: audit results from 2020-21 – municipalities



In 2023-24, 65 municipalities (26%) received an unqualified audit opinion but did not achieve a clean audit outcome due only to findings on compliance.

The main areas in which municipalities had material compliance findings have remained largely unchanged since 2020-21, with little movement in most areas. The exception is findings on compliance with expenditure management, which was much lower in 2020-21 because legislative requirements for payments to be made within 30 days were relaxed during the covid-19 period.

The following figure shows the level of compliance by municipalities with specific legislation. We did not audit all areas at all municipalities – the number of applicable municipalities where we audited each area is included in the audit fact sheet at the end of this report.



Throughout this report, we highlight the impact of non-compliance in local government.

Section 2.2 states that the material misstatements that we identified in the financial statements submitted for auditing indicate continuing weaknesses in the institutional capability to produce credible financial statements. Section 2.3 details the impact of non-compliance with legislation on strategic planning and performance management.

Section 3 covers the impact on government finances and service delivery of non-compliance with legislation on expenditure management (including unauthorised, irregular, and fruitless and wasteful expenditure); procurement and contracts; utilisation of conditional grants; and environmental and consequence management.

Causes of compliance findings

The high rate of non-compliance is due to a lack of institutional integrity, as municipalities do not have the institutionalised controls in place to ensure that leadership and officials behave ethically, comply with legislation and act in the best interest of the municipality. Our findings in 2023-24 were as follows:

- A total of 218 municipalities (88%) did not have basic controls in place to review and monitor compliance, compared to 219 (89%) in 2020-21. Weak controls are often due to the leadership tone set by the council, the mayor and municipal management. In our assessment, effective leadership that is based on a culture of honesty, ethical practices and good governance was evident at only 102 municipalities (41%) in 2023-24.

- As with financial and performance reporting, internal audit units and audit committees had little impact on the high levels of non-compliance. In our assessment, only 102 internal audit units (41%) and 108 audit committees (44%) performed their functions effectively in this area. A general lack of responsiveness to their findings and recommendations weakened the effectiveness of these structures.

- A culture of accountability is essential in ensuring compliance with legislation. When officials face consequences for their actions, it will deter others from disregarding legislation. This culture is not evident at many municipalities, as detailed in section 3.4.

2.5 DISCLAIMED AUDIT OPINIONS

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

We pay specific attention to the municipalities with disclaimed audit opinions as this is the worst possible audit outcome. The lack of transparency in how these municipalities use public funds and deliver services significantly weakens accountability, which often leads to their communities being deprived of service delivery and being harmed by their actions or inaction.

In our previous general reports and engagements, we specifically focused on the urgent intervention and support that municipalities with a history of disclaimed audit opinions need from national and provincial government. We placed the spotlight on the serious financial management failures at these municipalities and the impact that poor administration has on the communities. We also used our enforcement mandate to accelerate change at these municipalities by issuing MI notifications. Overall, government has responded positively by committing to eradicate disclaimed audit opinions.

Status of municipalities with disclaimed audit opinions

4 Eastern Cape

- Chris Hani DM (2021-22)
- Makana LM (disclaimed for six years)
- Sundays River Valley LM (disclaimed for six years)
- Walter Sisulu LM (2021-22)

4 Free State

- Kopanong LM
- Maluti-a-Phofung LM (outstanding for four years)
- Masilonyana LM
- Nketoana LM (disclaimed for six years)

4 KwaZulu-Natal

- Endumeni LM
- Inkosi Langalibalele LM (2021-22)
- Nquthu LM (2021-22)
- uMkhanyakude DM (2022-23)

3 Limpopo

- Bela-Bela LM (2021-22)
- Mopani DM (2022-23)
- Thabazimbi LM

3 Mpumalanga

- Dipaleseng LM (2021-22)
- Dr JS Moroka LM (2021-22)
- Lekwa LM (2022-23)

6 Northern Cape

- Joe Morolong LM (2023-24)
- Kareeberg LM
- Kgatelopele LM (2022-23)
- Renosterberg LM (2022-23)
- Tsantsabane LM
- !Kheis LM

10 North West

- Ditsobotla LM (disclaimed for eight years)
- Greater Taung LM (2021-22)
- Kgetlengriver LM (2022-23)
- Lekwa-Teemane LM (disclaimed for three years)
- Madibeng LM (2022-23)
- Mamusa LM (2023-24)
- Maquassi Hills LM (2023-24)
- Naledi LM (2022-23)
- Ramotshere Moiloa LM (2021-22)
- Ratlou LM (disclaimed for six years)

1 Western Cape

- Kannaland LM (disclaimed for three years)

7 Repeat disclaimed audit opinion

4 Regressed to disclaimed audit opinion in 2023-24

4 Outstanding in 2023-24

20 Improved from disclaimed audit opinion

Improved in
2021-22 – 9
2022-23 – 8
2023-24 – 3

Material irregularity issued

The number of municipalities that received disclaimed audit opinions has decreased since 2020-21, with **20 municipalities moving out of this category** over the three-year period due to improved internal controls and record-keeping, the implementation of proper action plans, appointments in key positions, and enhanced monitoring and support by provincial leadership (such as predetermined support strategies to capacitate municipalities and improve records management). Unfortunately, the rate of improvement slowed down in 2023-24 as only three municipalities moved out of this category.

A municipality's story: Improvement from a disclaimed to a qualified audit opinion

Joe Morolong Local Municipality (Northern Cape) received a disclaimed audit opinion for eight consecutive years from 2015-16 to 2022-23. In 2023-24, the municipality improved to a qualified audit opinion because it addressed most of the limitations that we had identified in prior years. The municipality implemented our recommendations to enhance recordkeeping practices and develop an impactful action plan to address prior-year findings.

The appointment of a municipal manager who was fully committed to supporting the audit process contributed to the increased responsiveness to audit findings and requests for information. The municipality also acquired a digital system to facilitate the scanning, storage and retrieval of payment vouchers. The system has been designed to link vouchers to the appropriate creditor account. The provincial cooperative governance department supported the system implementation, while the provincial treasury appointed consultants to resolve technical issues.

The four municipalities that **regressed to a disclaimed opinion** in 2023-24 did not have embedded processes, controls and capacity to ensure that credible financial reporting continued even in the event of system changes, instability or vacancies in key positions.

A municipality's story: Regression from an unqualified to a disclaimed audit opinion

Kareeberg Local Municipality (Northern Cape) regressed from an unqualified audit opinion with findings in 2020-21 to a disclaimed audit opinion in 2023-24 after it migrated to a new financial system that was not effectively managed, resulting in inaccurate and incomplete data being transferred from the old system. The municipality was unable to generate key information (such as creditor reconciliations) from the new system and the financial statements contained multiple errors due to incorrect or incomplete data being extracted from the new system.

The municipality also had a high vacancy rate at senior manager level, and two senior officials resigned during the period. While the municipality relies on consultants to prepare its financial statements, they are often appointed late and the challenges caused by the financial system hinder their effectiveness. Additionally, the municipality submitted its 2023-24 financial statements late and the audit was completed only in June 2024. As a result, there was not enough time for the municipality to prepare and implement an action plan to address the audit findings before the 2023-24 financial statements were due.

The audits of two of the four previously disclaimed municipalities whose audits were outstanding by 31 January 2025 have since been completed and they again received disclaimed audit opinions, as detailed in section 2.1. The overall audit results in this report exclude the outcomes of these auditees (and any others whose audits had not been finalised by the cut-off date).

Municipalities with repeatedly disclaimed audit opinions

Seven municipalities have repeatedly received disclaimed audit opinions. They are all local municipalities and are spread across four provinces: Makana and Sundays River Valley in the Eastern Cape; Nketoana in the Free State; Ditsobotla, Lekwa-Teemane and Ratlou in North West; and Kannaland in the Western Cape.

These municipalities managed an overall expenditure budget of R3,48 billion in 2023-24, including R0,78 billion in equitable share and R0,42 billion in conditional grants. They have not been properly accounting for these funds and have been making decisions based on unreliable financial and performance information.

The lack of institutional capability is most evident from the following:

- A **lack of basic financial controls and proper records management** was the main reason for continuing financial reporting failures. These weaknesses were not addressed due to instability in key positions, high vacancy rates, and audit action plans that were not appropriate to address prior-year findings and whose implementation was not monitored. Almost all of the municipalities continued to rely on consultants for financial reporting but did not realise the expected benefits from their use because they did not maintain proper accounting records and supporting documents throughout the year.

- Control weaknesses were evident in the **management of IT systems.** Our IT audits focused on procurement and payment systems and identified a lack of integration between financial and banking transactions at six municipalities, resulting in manual workarounds and increased risk of errors and fraud. Adequate approval processes and/or segregation of duties for adding or amending supplier data on the systems were not in place at three municipalities, creating opportunities for making payments to fictitious suppliers or making unauthorised changes to bank account details. We provided recommendations to accounting officers to address these control weaknesses to mitigate the risk of fraud.

The lack of records and credible financial reporting resulted in six of the seven municipalities (excluding Ratlou) being classified as **financially distressed.** In 2023-24, these six municipalities disclosed (or were required to disclose) in their financial statements that there is significant doubt about their ability to continue operating based on their financial position. We issued MI notifications to all seven accounting officers on the lack of full and proper records, which caused the poor financial state in which these municipalities find themselves. While four municipalities have financial recovery plans, the mayors, councils and provincial treasuries do not effectively monitor their implementation to ensure that the financial viability of these municipalities improve.

The seven municipalities are responsible for delivering services to 182 207 households, with five being water providers and six being electricity providers. The lack of records and poor management controls was prevalent in the planning, management and reporting on service delivery. In 2023-24, we reported material findings on the **performance reports** of all seven municipalities. The municipalities that received the worst opinions or conclusions on their performance reports were Ditsobotla (disclaimed), Sundays River Valley (adverse) and Kannaland (pervasive material findings).

As a result of poor financial and performance management practices, some of these municipalities caused **harm to their communities.** We issued six MI notifications on harm to the public due to environmental pollution caused by the poor state of wastewater treatment works and poorly managed landfill sites – two each at Makana, Sundays River Valley and Nketoana.

We have also been reporting material findings on **compliance with key legislation** at all seven repeatedly disclaimed municipalities every year since 2021-22. We reported material non-compliance with legislation on procurement and contract management, strategic planning and performance management, revenue management and human resource management at all seven municipalities.

The poor controls and lack of records were particularly evident in the area of procurement and contract management, with the most common findings being:

- Contractor performance not monitored monthly (Makana, Sundays River Valley, Nketoana, Lekwa-Teemane, Ratlou and Kannaland).
- Inadequate contract performance and monitoring measures or inadequate monitoring (Makana, Nketoana, Lekwa-Teemane, Ratlou and Kannaland).
- Competitive bids not invited – deviations not justified (Makana, Nketoana, Lekwa-Teemane, Ratlou and Kannaland).
- Three quotations not obtained and/or deviations not justified (Nketoana, Lekwa-Teemane, Ratlou and Kannaland).

The most common findings on human resource management were the following:

- Policies and procedures were not established to define how staff performance would be assessed, measured and managed (Makana, Sundays River Valley, Nketoana and Lekwa-Teemane).
- An approved organisational structure or staff establishment was not in place (Kannaland and Ratlou).

There are also few **consequences** for transgressions, financial losses and poor performance, as evidenced by our material findings on the lack of consequence management at these municipalities.

The table that follows provides further information on the non-responsiveness of the municipalities and their institutional capacity.

Lack of responsiveness and institutional capacity – repeatedly disclaimed municipalities

	Makana	Sundays River Valley	Nketoana	Lekwa-Teemane	Ditsobotla	Ratlou	Kannaland
Non-responsiveness							
Mayor ensures response to our findings (MFMA S131(1))	No	No	No	No	No	No	No
Status of action plans by municipal managers							
Adequate	No	No	No	No	No action plan	No	No
Implemented	No	No	No	Yes		No	No
MIs in further action stage – number and %	No MIs	1 (20%)	3 (60%)	1 (100%)	1 (17%)	1 (100%)	No MIs
Implementation of financial recovery plan	Yes	No	No	No	Yes	Not applicable	Yes
Implementation of municipal support intervention plan	Yes	No	No	No	Yes	No	Yes
Irregular expenditure closing balance	R359,22m	R689,11m	R549m	R241,54m	R409,32m	R247,08m	R144,26m
Vacancies and financial reporting cost							
Vacancies in key positions	No	No	No	Yes (municipal manager)	Yes (chief financial officer and municipal manager)	Yes (chief financial officer)	Yes (municipal manager)
Vacancy rate in finance units	25%	16%	38%	4%	25%	34%	38%
Total financial reporting costs							
Finance unit	R18,59m	R15,57m	R11,06m	R18,71m	R13,45m	R9,82m	R17,86m
Consultant cost	R0	R11,40m	R3,36m	R13,54m	R2,5m	R10,86m	R1,40m

The provincial leadership in the Eastern Cape, Free State, North West and Western Cape have implemented or committed to the actions below to support the improvement at these municipalities.

Makana Local Municipality (Eastern Cape)

The provincial treasury is monitoring the implementation of the financial recovery plan. The outcomes have been presented to provincial leadership, and the premier has committed to conducting oversight visits with municipal leadership to focus on the deficiencies that are preventing the municipality from improving its audit outcome.

Sundays River Valley Local Municipality (Eastern Cape)

Provincial treasury representatives support the municipality to address audit findings, attend audit steering committee meetings during the audit process, and supervise and monitor the audit action plan. Management does not implement all the inputs received from the provincial treasury. The provincial portfolio committee on local government visited the municipality and requested the municipal council and accounting officer to provide commitments to address the root causes of the identified deficiencies, but no progress has been made to address these root causes. The outcomes have been presented to provincial leadership, and the premier has committed to conducting oversight visits with the municipal leadership to focus on the deficiencies that are preventing the municipality from improving its audit outcome.

Nketoana Local Municipality (Free State)

The provincial treasury holds monthly interactions with the municipality to follow up on progress in implementing recommendations, and matters are escalated to the mayor and speaker; however, progress is slow. To strengthen their oversight, the premier and the members of the executive councils for finance and for local government have committed to have focused interactions with the political leadership. The provincial treasury and cooperative governance department have committed to continue with their initiatives and monitoring processes, and to provide feedback on the success of these initiatives to the municipal public accounts committee. The provincial legislature has committed to overseeing the municipality to determine the reasons for failures.

Lekwa-Teemane Local Municipality (North West)

The provincial cooperative governance department evaluated the adequacy of the post-audit action plan to determine if it addressed all the findings and recommendations. The department performed a skills assessment, but by the end of November 2024 the report had not yet been communicated to the municipality. Despite this municipality being under serious financial pressure, the provincial treasury did not help it develop a financial recovery plan or provide training and technical support. The recommendations made by the provincial treasury on the unfunded budget will not assist the municipality in the absence of a proper financial recovery plan. The member of the executive council for local government has committed to collaborate with the South African Local Government Association to design and lead professionalisation initiatives for local government in the province, and to assess the capacity and ability of councillors to contribute to clean governance. However, these are province-wide initiatives and are not focused at the local government level.

Ditsobotla Local Municipality (North West)

The municipality has faced significant political and administrative challenges that have negatively affected its governance, institutional capacity, financial management and service delivery. As a result, the provincial executive council placed the municipality under mandatory intervention and appointed a representative to monitor the implementation of its financial recovery plan. Additionally, the provincial treasury, in collaboration with the national and provincial cooperative governance departments, deployed an intervention team to support the representative and help strengthen the municipality's capacity to implement the financial recovery plan. Due to the instability at the accounting officer and management levels, progress on the financial recovery plan is slow. With the support of the intervention team, the municipality managed to submit all outstanding financial statements for auditing in August 2024. The member of the executive council for finance has committed to assess and enhance how the financial recovery plan is tracked.

Ratlou Local Municipality (North West)

The provincial cooperative governance department conducted a skills audit and shared the findings and recommendations with the municipality in November 2024, and the provincial treasury assisted with the review of the 2023-24 draft financial statements. However, these initiatives did not have a positive impact on the audit outcomes, as the municipality still did not provide supporting documents for the amounts disclosed in its financial statements.

Kannaland Local Municipality (Western Cape)

The provincial treasury hosted financial statement workshops, but only junior staff attended. The provincial treasury's municipality-wide assistance with policy, delegation and review capacitation of supply chain management officials and other officials on procurement and contract management processes did not have a positive impact on the audit outcomes. In 2023-24, the South African Local Government Association appointed a consultant to assist the municipality, but this too had only minimal impact. The municipality was placed under the municipal debt-relief programme from 30 August 2023 after engagements with the National Treasury, and has been under provincial intervention since November 2024 when council approval was obtained.

Some of the municipalities that have repeatedly received disclaimed audit opinions have systemic issues that will take multiple years to fix, but we have assessed that four of these municipalities (57%) have the potential to move out of the disclaimed category before the end of the current administration.

Overall, the provincial treasuries and cooperative governance departments have heeded our call to support the municipalities with disclaimed audit opinions, and a number of interventions are already in place to do so. Even with this support, political and administrative commitment is needed to fully eradicate disclaimed audit opinions.

2.6 CONCLUSION

The outcomes in the three areas that we audit every year show that municipalities do not have the institutional capability to produce credible and useful financial and performance reports, nor do they have the institutional integrity to ensure that municipal leadership and officials consistently behave ethically, comply with legislation and act in the best interest of the municipality and its residents.

Roleplayers in national, provincial and local government must continue to work together to fully eradicate disclaimed audit opinions to improve transparency in the use of public funds and the delivery of services and to strengthen accountability.

03

SERVICE DELIVERY RISKS

Managing risks in infrastructure, government suppliers and finances, and addressing the no-consequence culture, will improve service delivery

While we do not review the performance of local government, our work provides insight into weaknesses that could prevent service delivery goals from being achieved if they are not decisively addressed by the administration and the council. This section deals with four of these risks to service delivery in the context of the audit work that we have done, namely:

- Weaknesses in infrastructure management
- Inadequate procurement and contract management
- Poor financial management
- Widespread lack of consequences

3.1 INFRASTRUCTURE MANAGEMENT

Weaknesses in delivery of quality infrastructure and lack of maintenance continue

The basic services that citizens are entitled to receive cannot be delivered without quality infrastructure that is properly maintained and remains in good working condition throughout its lifespan. The country's municipal infrastructure has not kept pace with the growing service delivery demands, resulting in a backlog in building new, and maintaining existing, infrastructure.

Government has responded to these needs with significant infrastructure investment programmes. According to the National Treasury's budget review report, government budgeted R68,4 billion in 2023-24 (2022-23: R64,7 billion) for infrastructure spending in local government.

As part of our annual regularity audit, we audit selected infrastructure projects and report our findings to senior management and accounting officers. We emphasise the money being lost due to poor contract management and limited maintenance, as well as the impact that infrastructure neglect has on local communities. Our reports include what we observed to be causing the weaknesses and our recommendations to address these. Despite this, we see limited improvement from year to year, and this report reiterates similar findings to those included in our previous general reports.

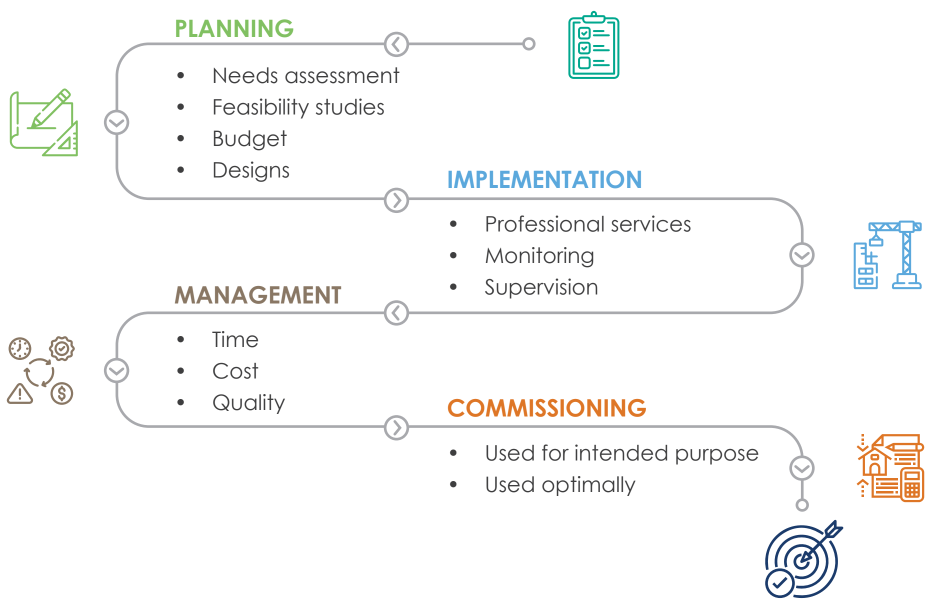
Infrastructure project delivery

Municipal infrastructure projects are financed through a combination of infrastructure grants and municipalities' own funds. To determine how these funds were used, we audited 113 infrastructure projects with a combined value of R12,64 billion in 2023-24.

We selected projects located across 52 municipalities (eight metros, eight district municipalities, 22 intermediate cities and 14 local municipalities) and three municipal entities. Our focus was on projects intended to deliver critical electricity, housing, road, sanitation and water infrastructure and services to the public.

These audits are conducted by our performance audit teams, who specialise in infrastructure and include experts such as engineers, quantity surveyors, environmental specialists and a professional construction project manager. They use an infrastructure project delivery model as part of their audits.

Infrastructure project delivery model



We reported findings on 87 of the 113 projects (77%) that we visited, mainly relating to project delays, poor-quality workmanship and increased costs (including additional costs that were not approved, were approved late or were not related to the project scope). We also found instances where newly constructed infrastructure was either not used as intended or underutilised.

The average delay across the projects was 21 months. Reasons for the delays included changes in scope, changes to designs because thorough feasibility studies and needs assessments were not conducted, contractors abandoning sites due to cash-flow challenges, municipalities not paying contractor invoices on time, weaknesses in procurement processes and a lack of effective contract administration by project managers.

The work performed by contractors continued to show quality deficiencies, indicating that previously identified defects had not been addressed. These issues should have been detected by the consultants that were appointed by municipalities as experts in their respective fields to oversee and manage construction activities and that were expected to perform their duties with the necessary diligence and care. Municipalities did not always have adequate governance, oversight and monitoring mechanisms in place to hold these consultants accountable for poor performance.

Some projects were completed without addressing end-user needs, such as connecting electricity to completed houses, due to poor project planning and implementation.

We reported infrastructure project findings across the basic service delivery areas to accounting officers.

Infrastructure project findings

Service delivery area	Projects audited	Projects delayed	Average delay	Original budget exceeded	Cost issues	Poor build quality	Commissioning shortcomings
Electricity	9	5 (56%)	13 months	1 (11%)	1 (11%)	1 (11%)	0 (0%)
Housing	14	9 (64%)	18 months	1 (7%)	4 (29%)	4 (29%)	2 (14%)
Roads	22	9 (41%)	21 months	2 (9%)	7 (32%)	6 (27%)	1 (5%)
Sanitation	20	11 (55%)	31 months	3 (15%)	4 (20%)	4 (20%)	0 (0%)
Water	48	25 (52%)	23 months	2 (4%)	18 (38%)	4 (8%)	4 (8%)
Total	**113**	**59 (52%)**	**Overall average: 21 months**	**9 (8%)**	**34 (30%)**	**19 (17%)**	**7 (6%)**

When municipalities and their entities do not effectively manage project delivery, the **impact** is seen in funds not being available to finish the projects due to cost overruns, which are not budgeted for. This, in turn, reduces funding for building new infrastructure and maintaining existing assets. The resulting delay in completing projects negatively affects residents, who are reluctant to pay for services, as well as the economy, as businesses move out of towns – further weakening these municipalities' financial position.

Poor-quality construction can cause harm to members of the public or municipal officials and lead to increased costs to fix defects. Late commissioning delays the public's access to new infrastructure and related services, and can result in unoccupied buildings being vandalised and equipment and supplies being stolen.

Examples of what we found

Construction of sewer pipelines

In January 2018, **Polokwane Local Municipality** (Limpopo) appointed a contractor to lay sewer pipelines in Seshego as part of the regional wastewater treatment works. The project had a budget of R152,18 million and a planned completion date of February 2020. Due to poor performance by the contractor, to which the municipality had already paid R114,92 million, the municipality appointed a replacement contractor in February 2023 at a cost of R112,84 million and revised the completion date to February 2025. However, the municipality did not pay this new contractor on time, resulting in the disruption of work and standing-time claims of R2,20 million. We notified the accounting officer of the material irregularity (MI) in November 2024. We have received a response to our notification and are awaiting more information from the accounting officer on the actions already taken and still to be taken.

The almost five-year delay in completion was due to municipal project managers not properly overseeing and monitoring the project, which had a negative impact on the water and sanitation needs of the growing community in the surrounding areas.

Upgrade of wastewater treatment works

In June 2021, **Metsimaholo Local Municipality** (Free State) appointed a contractor to upgrade the Oranjeville wastewater treatment works, with a planned completion date of September 2022. During June 2023, the municipality terminated the contract due to non-performance by the contractor and ordered the contractor to remove its equipment and personnel from the site and hand over the site to the municipality. On our site visit in October 2023, we found works that were incomplete and material on site that was not safeguarded against deterioration and theft. We notified the accounting officer of the MI in July 2024. The accounting officer responded by allocating security to guard the site, barricading all open fences and better securing building materials such as steel. In 2023-24, the accounting officer issued a letter of demand to the contractor for a performance guarantee to cover losses estimated at R8,02 million due to its poor performance. Further action is being taken to fully resolve the MI.

A municipality's story: Construction of housing project

In May 2019, **eThekwini Metro** (KwaZulu-Natal) began the R100 million Namibia housing project in Inanda to provide 343 new housing units to qualifying beneficiaries by May 2021. On our site visit in September 2024, we found that only 29 units (8%) had been completed, while the project cost had increased by R43,74 million and the projected completion date had been revised to December 2024 – which the metro was unlikely to achieve given the rate of progress at that stage. The delays were due to the metro failing to secure land for the project and because newly erected informal dwellings obstructed access to the construction site.

We found that 68 beneficiaries and their families who were living in transit camps while awaiting permanent housing did not have adequate access to water and sanitation, with raw sewage flowing into the transit camps, posing health risks. They also did not have access to electricity and resorted to illegal electrical connections. This posed a safety hazard and two fire incidents had been reported by residents at the time of the site visit.

Raw sewage accumulating between two transit camps

Infrastructure maintenance

The condition of municipal infrastructure is mainly influenced by the allocation of appropriate maintenance budgets, as well as the development and implementation of effective maintenance systems, policies and processes.

In 2023-24, the estimated value of property, plant and equipment (which includes infrastructure assets that local government should maintain and protect) totalled R738,82 billion, based on the values disclosed by municipalities in their financial statements. Municipalities need to budget for repairing and maintaining these assets based on their annual asset maintenance plan. The National Treasury recommends that they budget at least 8% of the value of their property, plant and equipment for this purpose. However, municipalities do not prioritise maintenance during their budget process, and many allocate less than the recommended 8% because they do not have the funds required due to poor financial management, as outlined in section 3.3.

In total, the 247 municipalities that we audited spent R24,48 billion on repairing and maintaining assets, which equates to roughly 3% of the total value of these assets – the same as the percentage spent last year. A total of 55 municipalities (22%) spent 1% or less.

The National Treasury also recommends that municipalities budget to spend at least 10% of their total expenditure on capital expenditure to buy, maintain or improve their fixed assets. However, 82 municipalities (36%) spent less than the recommended 10% in this area.

When municipalities do not maintain and expand their infrastructure assets, the **impact** can be seen in lower service-level standards (such as poorer water quality), increased water and electricity losses (as detailed in section 3.3), 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 can harm the environment, as detailed at the end of this subsection.

Causes of continued infrastructure weaknesses

The failures in delivering, maintaining and safeguarding infrastructure are due to the following matters that should be attended to urgently:

- **Lack of institutional capability** in key infrastructure positions and project management units negatively affects project planning, implementation and management. Project managers are also often allocated too many projects to be able to monitor all of them effectively.

- **Lack of effective project governance** and continuous oversight throughout the project life cycle, together with **standard operating procedures** for project management that do not exist, are incomplete or are not implemented, leads to inconsistent and unsuccessful delivery.

- **Ineffective planning,** including risk management, project monitoring, cost control and time management, results in budget overruns and project delays.

- **Procurement and contract management weaknesses,** including inconsistent application of functionality criteria and inadequate checks on contractors' past performance, result in contracts being awarded to incorrect suppliers, while delayed procurement processes cause contractors to be appointed late, which leads to delays in project completion.

- **Lack of accountability for poor performance** due to weak contract management and non-enforcement of penalty clauses results in continued poor performance by contractors.

- **Lack of regular and proper proactive maintenance** of infrastructure due to inadequate budget allocation for repairs and maintenance results in the deterioration of infrastructure and increased costs to upgrade or replace the infrastructure.

Impact of poor infrastructure and environmental management

Neglected municipal infrastructure and ineffective environmental management have led to polluted water sources and an unacceptable state of wastewater treatment works and landfill sites. Inadequate waste management systems, non-compliance with environmental legislation and poorly managed landfill sites all contribute to pollution, land degradation and health risks to surrounding communities.

As part of our audits, our environmental specialists conducted **environmental inspections at 23 wastewater treatment works** and **24 solid waste management and landfill sites** across 13 municipalities – all eight metros and five municipalities that had previously received disclaimed audit opinions.

All 13 municipalities failed to comply with environmental legislation – similar to what we had found last year. Ten municipalities (77%) had plant infrastructure at wastewater treatment works that was not operating effectively because it had not been safeguarded or maintained to prevent or detect malfunction, vandalism or theft. Eight municipalities (62%) discharged wastewater that did not comply with waste standards or practices, and nine municipalities (69%) did not take reasonable measures to prevent the pollution of water sources or the adjacent environment.

We also assessed solid waste management plans, landfill site operation licences and the monitoring of illegal dumping and infrastructure maintenance to prevent environmental pollution. None of the 13 municipalities appropriately managed their landfill sites in terms of their waste management licence or the minimum requirements on waste management. Eight municipalities (62%) did not take reasonable measures to prevent pollution or degradation of the adjacent environment, and four municipalities (31%) did not establish processes to control the dumping of illegal waste.

The likely substantial harm to the general public caused by contaminated water sources or land pollution meets the definition of an MI. To resolve these environmental MIs, municipalities must stop pollution, repair infrastructure or correct landfill site practices, put measures in place to ensure that future harm is prevented, and – where applicable – remedy the impact of the pollution. Overall, we have issued 56 MI notifications for pollution of water sources, and 20 for landfill site mismanagement. Some of these MIs have been, or are in the process of being, referred to the relevant public bodies for follow-up and enforcement where necessary.

Poor environmental practices at landfill site

On our site visit to the Southern landfill site in **Mangaung Metro** (Free State) in July 2022, and our follow-up visit in October 2024, we found that the metro did not operate the site in compliance with its licence conditions and the minimum legislative requirements for waste disposal in terms of the National Environmental Management: Waste Act. Shortcomings included a lack of proper access control and the inadequate separation of disposed waste. We notified the accounting officer of the MI in November 2022 due to the likely substantial harm to the surrounding community and the environment. The accounting officer did not take appropriate action to resolve the matter and, in March 2024, we referred it to the Department of Forestry, Fisheries and the Environment. In May 2024, the department referred the matter to the responsible provincial department (Free State Department of Economic, Small Business Development, Tourism and Environmental Affairs). The investigation is currently in progress.

3.2 PROCUREMENT AND CONTRACT MANAGEMENT

Weaknesses in supplier appointment and management practices increase risk of financial loss, non-delivery and fraud

The Constitution envisions supply chain management systems that are fair, equitable, transparent, competitive and cost-effective to derive the best possible value from the use of public funds and to ensure that suppliers have equal opportunity to participate in government business. These principles are commonly referred to as the 'five pillars of procurement'. Various pieces of legislation outline the processes that municipalities must follow to adhere to these constitutional principles, the flexibility that they are allowed and the documentation that they are required to have.

In line with this legislation, and to ensure that they uphold the five pillars of procurement, municipalities have to pay careful attention to contract management and must have strong payment-control mechanisms in place to ensure that payments are made only after verifying that the supplier has delivered on time, at the agreed price and according to specified quality standards.

Non-compliance with procurement and contract management legislation

We focus our audits on procurement and contract management processes, recognising that public procurement is the area at greatest risk of fraud, financial loss and irregular practices.

In 2023-24, we reported findings on compliance with procurement and contract management legislation at 214 municipalities (87%), slightly less than at 221 (90%) in 2020-21. At 155 municipalities (63%), the non-compliance was material enough to be reported in the audit report – almost at the same level as in 2020-21 (65%).

We could not audit 110 awards (contracts awarded for competitive bids or quotations) worth a combined R517,38 million at 33 municipalities because of **missing or incomplete information.** At 12 municipalities (5%), the limitation was material and we reported it in the audit report. There was no evidence that these municipalities had followed a fair and competitive process for these awards, which resulted in weakened transparency and accountability.

Of the 110 awards we could not audit, Kareeberg Local Municipality (Northern Cape) had the most instances: 27 awards worth a total of R2,18 million.

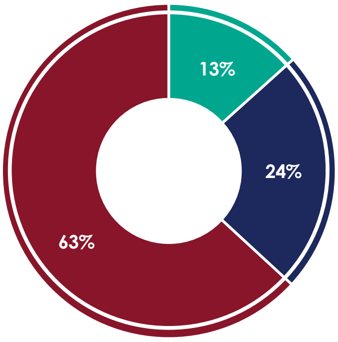
Missing information at the following three municipalities accounted for 72% of the value of all limitations:

- Dr Ruth Segomotsi Mompati District Municipality (North West) – 36% of overall value
  - Missing information: bid documentation pertaining to water-related services
  - Number of awards affected: three
  - Total value of awards affected: R186,97 million

- Ngwathe Local Municipality (Free State) – 26% of overall value
  - Missing information: bid documentation pertaining to infrastructure-related services
  - Number of awards affected: four
  - Total value of awards affected: R134,03 million
- Thabazimbi Local Municipality (Limpopo) – 10% of overall value
  - Missing information: bid documentation pertaining to supply and delivery of personal protective equipment
  - Number of awards affected: 13
  - Total value of awards affected: R50,99 million

The level of non-compliance with procurement and contract management legislation was slightly lower than in 2020-21.

Status of compliance with procurement and contract management legislation (2023-24)



33
Municipalities with no findings

59
Municipalities with non-material findings

155
Municipalities with material findings

Movement from 2020-21 43 ▲ 37 ▼

The audit results and further work done by our specialists to identity fraud risk indicators highlight four main areas of risk:

- Uncompetitive and unfair procurement processes
- Inadequate management of suppliers and contracts
- Conflicts of interest
- Increased opportunities for fraud

Uncompetitive and unfair procurement processes

We reported findings on uncompetitive and unfair procurement at 187 municipalities (76%), with these findings being material at 130 municipalities (53%). Less competition often leads to higher prices being paid for goods and services.

The most common findings were that quotation and competitive bidding processes were not applied at 144 municipalities (58%), the preference point system was not applied or was incorrectly applied at 93 municipalities (38%), and the evaluation process was not fairly applied at 71 municipalities (29%).

Losses due to uncompetitive and unfair procurement

In September 2021, **Lekwa Local Municipality** (Mpumalanga) awarded a tender to a service provider for security services for three years. During the functionality evaluation, the municipality unfairly disqualified a service provider that had tendered at a lower price, resulting in an estimated loss of R5,72 million. We notified the accounting officer of the MI in April 2023. In August 2023, the accounting officer approved an annual supply chain management training plan to capacitate bid committee members, which the municipality subsequently implemented. In February 2024, disciplinary proceedings were concluded and final warning letters were issued to the responsible officials. The MI has been resolved.

Inadequate management of suppliers and contracts

We reported findings on inadequate contract management at 128 municipalities (52%). The most common findings related to a lack of or inadequate contract performance measures and monitoring at 89 municipalities (36%), and amendments or extensions of contracts without approval by a delegated official at 40 municipalities (16%).

At 26 municipalities (11%), we reported contract deficiencies such as contracts that were not signed, contracts that were not prepared in accordance with National Treasury prescripts, and goods or services specified in contracts that differed from those specified in the bidding documents.

Inadequate contract management can expose the state to significant losses when contracts are not correctly drafted and adhered to or when performance is not properly monitored. It can also lead to delayed projects and quality issues with a negative impact on service delivery, as detailed in section 3.1.

We have notified accounting officers of 81 MIs dealing with payments made for goods or services not received (57), without any derived benefit (12), not in line with the contract (seven), and of poor quality (five).

Losses due to inadequate management of suppliers and contracts

Between October 2019 and November 2020, **Fetakgomo Tubatse Local Municipality** (Limpopo) paid R4,94 million to a service provider for work on the Mogotwaneng access bridge that had not been verified as complete. We notified the accounting officer of the MI in March 2023. In August 2023, the municipality appointed a service provider to investigate the matter. The investigation was completed in October 2024 and found three officials to be responsible. The municipality is still in the process of recovering the overpayment and implementing disciplinary action against the responsible officials. Controls have been strengthened, with the contract engineer now certifying the work of contractors and the project manager doing onsite verification of the work before any payment can be processed. Further action is being taken to fully resolve the MI.

Conflicts of interest

The Municipal Supply Chain Management Regulations prohibit 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. They also prohibit councillors from being involved in a municipality's procurement processes. This is intended to prevent conflicts of interest.

The regulations require prospective suppliers to declare whether they are in the service of the state or, if the supplier is not a natural person, if any of its directors, members, principal shareholders or stakeholders are in the service of the state. Not disclosing this information constitutes a fraudulent act that should be investigated and dealt with in line with the measures outlined in the regulations and the municipality's supply chain management policy. This could include cancelling the contract with the provider.

The municipal supply chain management code of ethics also requires employees and councillors to declare their interest in suppliers. This is usually done through the annual declarations required by the codes of conduct for councillors and for municipal staff members in terms of the Municipal Systems Act.

At 12 municipalities (5%), 40 prohibited awards worth a combined R1,68 million were made to **suppliers owned or managed by employees or councillors.**

Three municipalities were responsible for R1,18 million (87%) of the value of the awards to suppliers owned or managed by employees:

- uMzinyathi District Municipality (KwaZulu-Natal) – R0,66 million
- eThekwini Metro (KwaZulu-Natal) – R0,28 million
- Nelson Mandela Bay Metro (Eastern Cape) – R0,24 million

We found that awards of R0,32 million had been made at three municipalities to suppliers owned or managed by councillors:

- uMhlabuyalingana Local Municipality (KwaZulu-Natal) – R185 000
- Dr Kenneth Kaunda District Municipality (North West) – R108 798
- AbaQulusi Local Municipality (KwaZulu-Natal) – R26 510

Municipalities could have identified the potential conflicts through a simple process of checking information on the directors and owners of the suppliers against the municipality's own payroll, which is the process that we followed and have recommended before.

Councillors participated in procurement committees at four municipalities:

- Ngwathe Local Municipality (Free State)
- Thabo Mofutsanyana District Municipality (Free State)
- JB Marks Local Municipality (North West)
- Tswaing Local Municipality (North West)

We found that 462 **prohibited awards** worth a combined R285,36 million were made **to suppliers owned or managed by other state officials** at 73 municipalities (30%).

Four municipalities accounted for 60% of the total value of these awards:

- Rand West City Local Municipality (Gauteng) – three awards worth R76,18 million
- Moretele Local Municipality (North West) – 16 awards worth R38,52 million
- Metsimaholo Local Municipality (Free State) – 11 awards worth R32,65 million
- Inkosi Langalibalele Local Municipality (KwaZulu-Natal) – 13 awards worth R24,37 million

The officials benefitting from these awards at the listed municipalities were employed at various state institutions, including state-owned enterprises (such as Eskom, Transnet and the South African Broadcasting Corporation), other listed public entities (such as the South African Revenue Service), national departments (such as the South African Police Service), provincial departments, water boards and municipalities.

Based on the value of these prohibited awards to other state officials, two-thirds (awards worth R191,14 million) resulted from false declarations made by 163 suppliers at 35 municipalities. At six municipalities, 21 suppliers did not submit declarations relating to other state officials for awards worth R18,59 million.

Although there is no legislation that prohibits municipalities from making **awards to suppliers in which close family members or business associates of employees or councillors have an interest,** such awards might create conflicts of interest for these employees or councillors and/or their close family members or business associates. The possibility of undue influence cannot be discounted, especially if the person could have influenced the procurement processes for these awards, potentially creating opportunities for irregularities. To ensure transparency, legislation requires municipalities to disclose any such awards worth more than R2 000 in their financial statements.

We found that 423 awards worth R1 329,47 million were made to suppliers with such ties to close family members or business associates at 67 municipalities (27%). We reported the following specific findings:

- For R1 188,53 million worth of awards – 222 employees at 21 municipalities failed to declare an interest and/or participated in the procurement process.
- For R29,11 million worth of awards – 65 suppliers at 24 municipalities made false declarations.
- For R12,94 million worth of awards – nine municipalities did not disclose the awards in their financial statements.
- For R0,35 million worth of awards – seven suppliers at two municipalities did not submit declarations at all.

We reported the findings on conflicts of interest and the non-compliance identified to the relevant accounting officers for investigation. Where such instances resulted in irregular expenditure, they would also require the attention of the council through its municipal public accounts committee, as detailed in section 3.4.

Prevalence of fraud risk

Weaknesses in procurement and contract management processes create opportunities for fraud. As part of our audits, we assessed whether fraud risk indicators were present and, if they were, we reported them to the relevant accounting officers for investigation.

At 92 municipalities, we identified fraud risk indicators and/or found that established structures had made allegations of fraud. At 86 municipalities, including 50 that had fraud risk indicators or allegations, public bodies had started investigating the matters in 2023-24.

In 2023-24, we reported the following instances of **indicators of possible fraud or improper conduct in supply chain management processes** to accounting officers for investigation:

- False declarations of interest – 358 suppliers declared that no state officials had an interest in the supplier, but our audits identified such interests. If the suppliers had submitted correct declarations, municipalities could have considered any potential conflicts of interest before making the awards. False declarations amount to misrepresentation and should have led to the suppliers being disqualified

- Failure to declare interest – 174 employees failed to declare interests in suppliers doing business with the state

- Fictitious suppliers – one payment was made to a possible fictitious supplier

- Other areas – 96 allegations related to other supply chain management areas

Section 3.4 details how accounting officers responded in 2023-24 to the indicators of possible fraud or improper conduct in supply chain management processes that we had reported to them last year.

When suspected fraud results in financial loss, it is an MI. We use the MI tool to ensure that accounting officers deal with suspected fraud in the procurement and contract management processes swiftly and effectively and that they put controls in place to prevent similar instances from happening again.

Losses due to suspected fraud in procurement processes

Between May 2018 and January 2020, **eThekwini Metro** (KwaZulu-Natal) paid a service provider for consultation services without evidence that the services had been received, resulting in an estimated loss of R21,04 million. We notified the accounting officer of the MI in November 2021. In April 2022, the provincial premier's office submitted an investigation report to the mayor, which found the former accounting officer and three other officials liable and recommended that the matter be referred to the South African Police Service and that civil litigation be considered. Disciplinary processes could not be instituted against one official or the former accounting officer as they had resigned in February 2021 and July 2022, respectively. The other two officials were referred to the metro's financial misconduct board, which found them not liable in May 2023. In May 2024, the new accounting officer filed a civil claim summons at the High Court, and the matter is still in progress. The new accounting officer also plans to file criminal cases with the South African Police Service after obtaining affidavits from the forensic investigators. We will follow up on the planned actions during our next audit. The MI has been resolved.

We have notified accounting officers of 11 MIs resulting in financial loss that had fraud indicators in procurement and contract management for which the accounting officer is required to initiate fraud or criminal investigations – four of these investigations have been completed and seven are underway. In the four instances where investigations had been completed, criminal cases were opened against two officials with the South African Police Service.

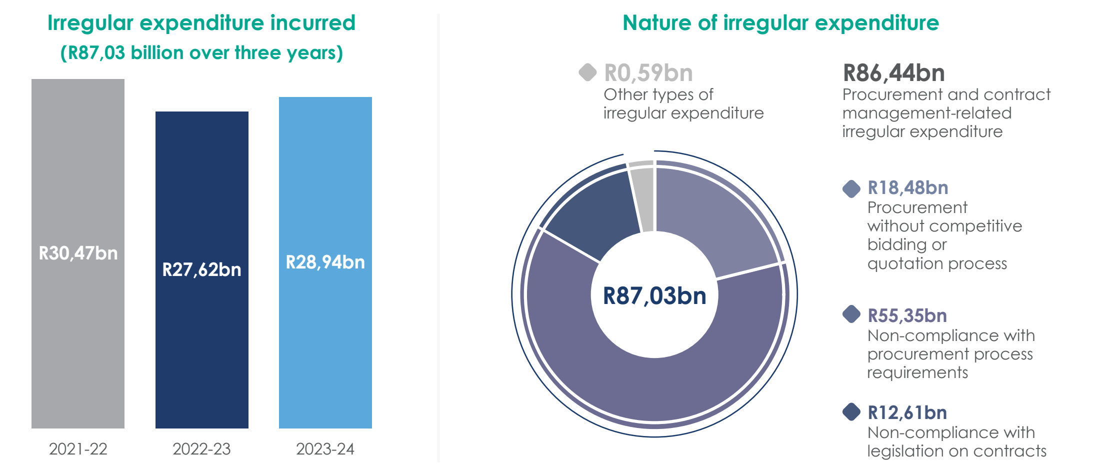
We have referred 13 MIs with indicators of suspected fraud relating to procurement and contract management at nine municipalities to the Special Investigating Unit, the Directorate for Priority Crime Investigation (the Hawks) and the Public Protector South Africa. Four investigations have been completed, four remain in progress, while we only recently referred five of the MIs for investigation.

Irregular expenditure

Since 2021-22, municipalities have incurred irregular expenditure totalling R87,03 billion. The total amount could be even higher, as 40% of municipalities either were qualified on the completeness of irregular expenditure reported in their financial statements or disclosed that they were still investigating these amounts to determine whether they had been irregularly spent.

Non-compliance with procurement and contract management legislation was the biggest contributor to this expenditure, making up almost the full combined irregular expenditure balance.

Amount and nature of irregular expenditure over three years



Metros accounted for R33,29 billion (38%) of the combined irregular expenditure over the three-year period. The amount of irregular expenditure incurred annually has remained at similar levels each year.

We assessed the nature of irregular expenditure incurred in 2023-24 and found that R27,39 billion of such expenditure was due to breaches of the five pillars of procurement. Procurement that was not fair, transparent, competitive and cost-effective accounted for R26,13 billion of this amount, while the remaining R1,26 billion related to procurement that was not equitable, such as where municipalities did not apply the preference point system correctly.

In cases where municipalities incurred irregular expenditure, we assessed whether they received value for the money spent. If not, we either notified accounting officers of MIs or are busy assessing the matters as potential MIs. Overall, we identified spending of R75,06 million where the prices paid for goods and services were above market value, employees were overpaid or goods and services were paid for but not received.

Impact

Apart from resulting in irregular expenditure, non-compliance with procurement and contract management legislation also gives rise to the following:

- Uncompetitive and uneconomical procurement practices result in, or are likely to result in, financial losses, as appointed suppliers may not deliver. If municipalities follow proper procurement processes and adequately test market prices, they can potentially obtain goods and services at lower prices.
- Unfair procurement can expose municipalities to litigation due to breaches of procurement processes and, as a result, funds intended for service delivery may be diverted to pay legal fees.
- Non-equitable procurement has a negative impact on suppliers and government's socioeconomic objectives of empowering previously disadvantaged individuals and small businesses, directly affecting the country's economic growth.

3.3 FINANCIAL MANAGEMENT

Municipal finances are in a poor state

Our previous general report highlighted various weaknesses in municipal financial management, including poor financial planning, revenue deficiencies and financial losses. We also highlighted the lack of careful spending, reduced revenue and funding, and inadequate grant management. In 2023-24, we continued to identify such poor financial performance practices, which are causing financial distress at municipalities.

Section 4.1 deals with the financial performance of metros, which were responsible for 53% of the local government expenditure budget for 2023-24. In this section, we reflect on overall trends and lapses in financial performance across local government by focusing on the following:

- Unfunded budgets and unauthorised expenditure
- Weaknesses in revenue management
- Weaknesses in grant management
- Poor quality of spending
- Municipalities with going concern uncertainties

Unfunded budgets and unauthorised expenditure

Municipalities must budget effectively, carefully plan how they will use their limited funds to operate and deliver services, and then manage their operations and deliver on their planned service delivery targets within the approved budget.

Municipal budgets make provision for items that do not involve actual cash inflow or outflow. These are termed 'non-cash items' and include accounting entries that reduce the value at which assets, such as infrastructure or consumer debt, are reflected in the financial statements (impairments), and that provide for other types of potential financial losses. This is not actual expenditure, but rather an accounting estimate that enables municipalities to assess the true value of their assets – for example, whether debt is recoverable (in other words, whether debtors will pay) or determine the level of deterioration of an infrastructure asset to plan for its replacement.

Under-budgeting for non-cash items such as the impairment of consumer debt may lead to cashflow shortages, while under-budgeting for asset impairments may lead to the use of deteriorating assets that have reached the end of their useful life, without having enough reserves built up to fund their replacement, which will affect the availability and quality of services provided to communities.

Before the mayor tables the budget in the council, it is assessed by either the National Treasury (for metros and some intermediate cities) or the relevant provincial treasury, as provided for in section 5(2) of the Municipal Finance Management Act (MFMA). One of the key tests that the treasuries conduct during this assessment is determining whether the budget is funded – in other words, whether the available funds and revenue that will be generated or received via grants and equitable share allocations will be enough to cover the projected spending.

The treasuries specifically consider whether the revenue projections (the money the municipality expects to receive) are reasonable and whether the municipality is likely to be able to collect this revenue. If a budget is unfunded, the treasury advises the accounting officer and mayor to correct the budget before it is tabled and adopted in the council. 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.

Despite the advice received from the treasuries, 113 municipalities (44%) adopted **unfunded adjustments** budgets in 2023-24, up from 108 municipalities (42%) in the previous year. Of these, 86 municipalities (76%) have repeatedly adopted unfunded budgets for the past three years with no signs of improvement.

The most common reasons for municipalities adopting unfunded budgets are that they struggle to balance their expenses with their expected revenue, and overestimate the amount of property rates and service charges that they will collect from residents.

Unauthorised expenditure is expenditure that is not in line with the approved budget or the conditions of a grant. Municipalities must disclose any amount that they overspend or do not spend in line with their budgets as unauthorised expenditure. Since 2021-22, municipalities have disclosed a total of R81,59 billion in unauthorised expenditure.

Details of unauthorised expenditure over three years

	2021-22	2022-23	2023-24
Number of municipalities	175 (68%)	175 (68%)	174 (68%)
Unauthorised expenditure amount	R25,40 billion	R24,40 billion	R31,79 billion
Nature of unauthorised expenditure			
Spending not in line with budget	R25,15 billion	R24,17 billion	R31,59 billion
Spending not in accordance with grant conditions	R0,25 billion	R0,23 billion	R0,2 billion
Unauthorised expenditure: cash vs non-cash breakdown			
Cash	R12,38 billion (49%)	R14,64 billion (60%)	R13,35 billion (42%)
Non-cash	R13,02 billion (51%)	R9,76 billion (40%)	R18,44 billion (58%)

Of the 113 municipalities that adopted unfunded budgets in 2023-24, 91 (81%) incurred unauthorised expenditure. Of the 91 municipalities for which the audits had been completed by the cut-off date for this report, 53 (58%) incurred deficits over the financial year.

The total **deficit** in local government for 2023-24 was R11,29 billion, with 90 municipalities (39%) spending more than they generated in revenue. This was most prevalent in the Free State, Mpumalanga and the Northern Cape, as detailed in section 7.

In 2023-24, almost a quarter of municipalities (24%) did not have available cash at year-end to cover even one month of fixed monthly operating expenses because they had spent money that they did not have throughout the year. These municipalities typically operate from month to month, paying what is possible and favouring the payment of salaries.

While this cycle is likely to continue, unless municipalities increase their revenue and reduce their spending, there are also significant weaknesses in how they manage revenue, grants and expenditure.

Weaknesses in revenue management

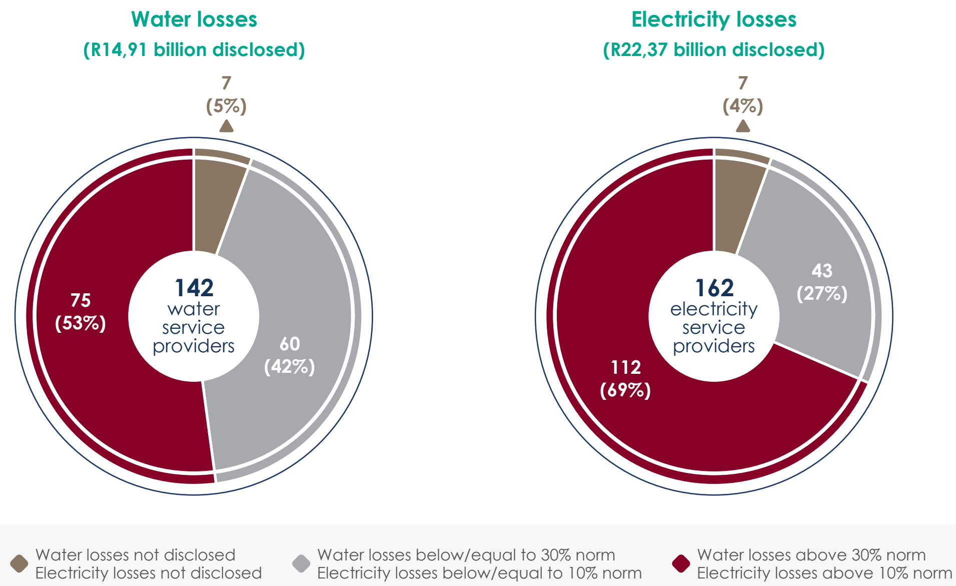
The main sources of revenue for municipalities are the rates and taxes paid by property owners and consumers of municipal services (generated revenue), and the funding received from national government through conditional grants and an equitable share allocation to fund poorer (indigent) households.

The problem with **revenue management** in local government is three-fold:

- Revenue is lost through water and electricity distribution losses.
- Consumers are not billed, or receive free basic services to which they are not entitled.
- Debt is not collected.

Every year, municipalities that are water and electricity service providers lose revenue because of **water and electricity losses.** These losses can be either technical or non-technical. Technical losses occur across the water and electricity distribution network and include losses caused by damaged water pipes and equipment and by transmission distances, which cause energy losses due to heat. These losses are worsened by ageing and poorly maintained infrastructure. Non-technical losses occur due to theft, incorrect billing or non-billing of consumers. The values we include in this general report include both types of losses.

Water and electricity losses (2023-24)



As in previous years, our audits identified **consumers that were not billed.** As detailed in section 2.2, there were 64 municipalities (26%) that had material misstatements in the revenue disclosed in their financial statements because they did not bill all the revenue due to them, they did not have adequate audit evidence for the amounts shown as billed, or the amounts were recorded incorrectly. A quarter of municipalities (25%) also materially misstated the receivable amount (how much consumers owed at year-end) because they did not know the correct amounts owed to them and whether they were still entitled to receive those amounts. In some cases, the amounts recorded were not accurate.

In 2023-24, we continued to focus on the **free basic services delivered to indigent households** at the 220 municipalities that provided basic services. The mismanagement of services provided to indigent households causes further financial distress and negatively affects some of the most vulnerable communities.

Some municipalities provided free services to households that did not meet, or no longer met, the indigent criteria as set by the municipality. Our findings included households that received free basic services where:

- the registered indigent person was deceased – services to the value of R143,88 million at 62 municipalities (28%)
- the registered indigent person and/or their spouse(s) was employed by the state or had an interest in business with government – services to the value of R7,74 million at 54 municipalities (25%).

Overall, 105 municipalities (48%) did not have adequate internal control systems to manage indigent households. We have notified the accounting officers at three municipalities of MIs relating to the poor implementation of indigent policies. Two of these MIs have already been resolved, and further action is being taken to resolve the remaining one.

Poor management of indigent households

Alfred Duma Local Municipality (KwaZulu-Natal) did not regularly monitor its indigent household database and provided free basic electricity worth an estimated R5,45 million to consumers that had not been approved. We notified the accounting officer of the MI in January 2023. In January 2024, the municipality concluded the vetting of indigent applications, which is now also a standard practice for new applications. The MI has been resolved.

We also identified municipalities that did not effectively use the equitable share allocation that they received from the National Treasury to fund free basic services for indigent households.

The National Treasury determines the basic services component of the equitable share allocation by estimating the number of poor households in the area based on information from the Statistics South Africa census. However, municipal budgets are based on only the number of registered indigent households, which results in significant differences in the amounts received and paid out.

In 2023-24, the National Treasury allocated R68,05 billion to fund free basic services for 10 777 241 indigent households. However, 42% of these households (4 481 647) were not registered at municipalities and were therefore not budgeted for. As a result, only R27,16 billion (40%) of the total amount received by municipalities was budgeted to fund free basic services to indigent households. For example:

- Sol Plaatje Local Municipality (Northern Cape) received an equitable share allocation of R252,99 million intended to support 39 908 indigent households, but budgeted only R61,16 million (24%) for 11 633 indigent households (29%). The municipality also budgeted less per indigent household than was allocated by the National Treasury.
- Mangaung Metro (Free State) received an equitable share allocation of R1,04 billion intended to support 163 684 indigent households, but budgeted only R0,46 billion (44%) for 65 417 indigent households (40%).

In total, 37 municipalities (17%) did not have properly functioning processes to ensure that community members were aware of and able to apply for indigent status. In addition, 10% of indigent registers were not updated every year. The weaknesses we identified in these processes make it more difficult for vulnerable households to effectively access the free basic services that they are entitled to receive.

Some consumers (including government institutions) **do not always pay municipalities what they owe** them for services – a longstanding trend that has worsened with the continuing economic downturn. So, while a municipality's revenue might look healthy on paper, the money does not reach the bank. On average, municipalities estimated that they would be able to recover only 32% (R129,46 billion) of their 2023-24 revenue.

In 2023-24, municipalities took an average of 123 days (2022-23: 142 days) to collect the amounts that they were owed and wrote off R50,96 billion (2022-23: R51,81 billion) in debt that was not paid to them.

Financial health struggles and poor debt-collection practices

Emfuleni Local Municipality (Gauteng) has adopted an unfunded budget for the past three years and, in 2023-24, it had a deficit of R987 million. The municipality owes Eskom R2,2 billion and has enrolled in the Eskom debt-relief programme. However, it did not fully comply with the programme requirements in 2023-24 due to financial constraints, largely because it could not collect the debt owed to it. The municipality has written down 91% of its outstanding debt and is still struggling financially, despite implementing a mandatory financial recovery plan.

We have identified 39 MIs at 24 municipalities and two municipal entities related to revenue not billed, receipts not deposited or debt not recovered.

Revenue not billed and debt not recovered

- **uMgungundlovu District Municipality** (KwaZulu-Natal) did not implement adequate controls to recover long-outstanding debts, and has written off R436,42 million as irrecoverable since 2021-22. We notified the accounting officer of the MI in January 2023. A data-cleansing exercise began in May 2023, and details are being updated on the system for customers that did not have billing details so that the municipality can recover the funds owed to it. Further action is being taken to fully resolve the MI.

- In 2020-21, **Ba-Phalaborwa Local Municipality** (Limpopo) did not bill some of its customers for the water they consumed, resulting in an estimated revenue loss of R35,73 million. We notified the accounting officer of the MI in November 2022. In March 2023, the system was configured to calculate estimates where meters could not be read. We did not identify any non-billing issues in our 2023-24 audit. Further action is being taken to fully resolve the MI.

Weaknesses in grant management

The most common conditional grants at municipalities are those for infrastructure development and maintenance. We performed audit work on five infrastructure-related grants.

Infrastructure-related grants we audited

Grant	Source of funding	Intended use
Municipal infrastructure grant	Department of Cooperative Governance	To build and upgrade municipal infrastructure
Public transport network infrastructure grant	Department of Transport	To fund accelerated construction and improvement of public and non-motorised transport infrastructure
Regional bulk infrastructure grant	Department of Water and Sanitation	To develop new – and refurbish, upgrade and replace ageing – water and wastewater infrastructure
Urban settlements development grant	Department of Human Settlements	To fund projects to improve households' access to basic services through bulk and reticulation infrastructure and urban land production to broaden urban development and integration
Water services infrastructure grant	Department of Water and Sanitation	To facilitate the planning and implementation of various water and sanitation projects to reduce backlogs and improve the sustainability of services

Although municipalities are highly dependent on these grants to finance their infrastructure projects, they often **do not spend all the funds that they receive.** 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 had provided the grant.

In 2023-24, municipalities received R39,61 billion relating to these five grants and spent 94% of the amount that they received (R37,23 billion), compared to 91% in the previous year. Underspending by more than 10% was most common at municipalities in the Northern Cape (14 municipalities) and the Free State (13 municipalities).

One of the main reasons for underspending was that municipalities did not always have the institutional capability to carry out infrastructure projects, as detailed in section 3.1.

When grants are underspent due to poor project management, this contributes to delays in completing infrastructure projects aimed at improving service delivery to communities, such as access to water and sanitation, housing and public transport. However, it is acceptable for a municipality to make a deliberate decision not to spend grant funding if it cannot be spent wisely.

Some municipalities **did not always spend the funds that they received in accordance with the grant frameworks.** The Division of Revenue Act contains specific conditions for how the funding for each grant should be applied. When municipalities spend grant funds in a manner that does not comply with these conditions, this is treated as unauthorised expenditure.

We audited the use of various conditional grants and raised findings on compliance with legislation due to grants not being spent in accordance with the applicable frameworks. In 2023-24, the non-compliance was material at 19 municipalities.

We identified 13 municipalities that did not spend the five infrastructure-related grants that they received in accordance with legislation – in some cases, for more than one grant. This included 10 municipalities that received municipal infrastructure grant funding, six that received water services infrastructure grant funding, two that received regional bulk infrastructure grant funding, and one that received funding via the urban settlements development grant. At Xhariep District Municipality (Free State), the non-compliance with spending on the municipal infrastructure grant was material.

At all 13 municipalities, management could not provide evidence on how all the infrastructure grants had been spent, while six spent the money received from one or more of the grants on operational costs or otherwise not in line with the relevant business plan.

Grant not spent in accordance with legislation

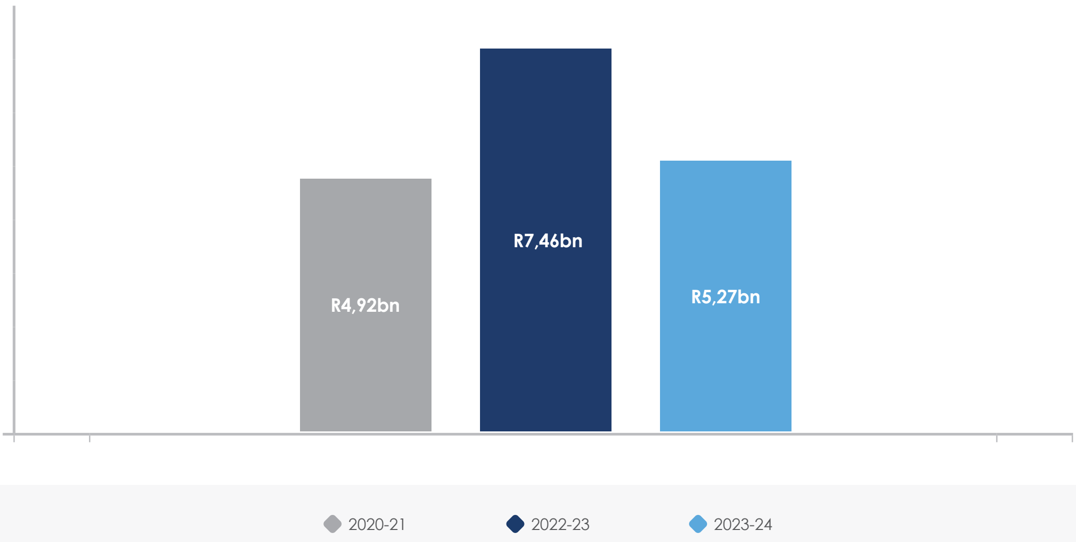
Thabazimbi Local Municipality (Limpopo) used municipal infrastructure grant funds of R19,4 million to fund operational expenditure such as salary payments and legal expenses. The municipality applied for a rollover, but this was not approved by the National Treasury, which deducted these funds from the municipality's 2023-24 equitable share allocation.

Poor quality of spending

In 2023-24, accounting officers of municipalities managed an estimated expenditure budget of R561,95 billion. Since 2021-22, we have consistently highlighted the lack of careful spending and the eroding of the limited funds available. Funds, including grant funding, are spent but service delivery does not improve. In simple terms, the quality of spending remains a problem.

Local government is losing billions of rand each year because of poor decisions, neglect or inefficiencies. Since 2021-22, municipalities have incurred a total of R17,65 billion in **fruitless and wasteful expenditure.**

Fruitless and wasteful expenditure over three years
(R17,65 billion over three years)



This amount could be even higher, as 21 municipalities (9%) were qualified on the value of the fruitless and wasteful expenditure that they disclosed. These municipalities did not report all the fruitless and wasteful expenditure in their financial statements that they should have and/or incorrectly reported the amount.

Two of the main reasons for money being lost are weaknesses in project management (as detailed in section 3.1) and uncompetitive and uneconomical procurement practices (as detailed in section 3.2).

Other reasons include the following:

- Poor payment practices.
- Fraud committed by officials.
- No or limited benefit received for money spent – including the ineffective use of consultants.

Poor payment practices

Municipalities must actively manage the contracts awarded to suppliers to ensure that the suppliers deliver at the right time, price and quality before any payments are made. Municipalities must also pay their bills on time to avoid interest and penalties, and avoid making payments to employees or other beneficiaries that are not valid. Such requirements are not only standard financial management practices, but are included in the MFMA, which makes accounting officers responsible for ensuring that the required processes and controls are implemented.

Although municipalities are required by law to **pay their creditors within 30 days of receiving an invoice or statement,** widespread non-compliance with this requirement continued. In 2023-24, 117 municipalities (47%) failed to pay their suppliers within the required 30 days, and it took municipalities an average of 286 days to pay their creditors. Since 2021-22, municipalities have incurred interest and penalties totalling R14,58 billion due to late payment.

When municipalities pay their suppliers late, or do not pay them at all, this seriously affects the cashflows of businesses that supply goods and services to local government. Some of these suppliers stop providing services to municipalities, which results in projects not being completed and services not being delivered. People could also lose their jobs when businesses are forced to close because of late or non-payment.

Payments were not always made **in accordance with contract requirements,** or were made for goods and services that were not received or that were of poor quality. Payments were also made to employees who were not eligible to receive salaries or wages.

We have issued notifications to the accounting officers of 74 municipalities and two municipal entities for 147 MIs relating to poor payment practices – 75 for late payments and the remainder for payments made for goods or services that were not received (57), of poor quality (five), not in line with the contract (seven), or to ineligible beneficiaries (three), which resulted in (or are likely to result in) financial losses.

Poor payment practices

- Between June 2023 and June 2024, **Msunduzi Local Municipality** (KwaZulu-Natal) paid scarce skills allowances to employees without applying any policy or procedure that defines eligibility, resulting in a loss of R6 million. We notified the accounting officer of the MI in November 2024. During 2024-25, the municipality stopped making the payments, and a standard operating procedure to objectively inform the adjudication and approval of scarce skills allowances was developed and submitted to the council. Further action is being taken to fully resolve the MI.

- In 2021-22, **City of Mbombela Local Municipality** (Mpumalanga) incurred interest of R10,64 million because it did not pay its pay-as-you-earn and other taxes on time. We notified the accounting officer of the MI in January 2023. In 2022-23, the municipality, assisted by the National Treasury, reviewed its financial recovery plan to contain costs and optimise revenue. In September 2024, the accounting officer suspended the responsible official, pending court processes. The matter is still in progress. In 2023-24, the municipality implemented the financial recovery plan, with monthly monitoring, and improved its internal controls to process and approve third-party payments on time, preventing further interest and penalties to the South African Revenue Service. The MI has been resolved.

- Between April and June 2019, **Polokwane Local Municipality** (Limpopo) paid R16,68 million for four buses that were not received. We notified the accounting officer of the MI in December 2022 and, in January 2023, the municipality appointed a service provider to investigate the matter. The investigation was completed in March 2023 and identified four officials to be responsible. In 2023-24, the municipality referred the matter to court to recover the overpayment from the supplier, which had been placed under business rescue in August 2021. In September 2024, the accounting officer also issued letters of demand to recover the funds from the four responsible officials, three of whom had resigned. Disciplinary processes to deal with the transgression are still underway for the remaining official. Further action is being taken to fully resolve the MI.

With limited cash in the bank, municipalities prioritised paying salaries and remunerating councillors. These expenses totalled R134,52 billion in 2023-24. This amount is equivalent to 61% of municipalities' estimated recoverable own revenue and the equitable share allocation that they receive from national government. They then used what was left to pay municipal suppliers, including Eskom and the water boards, which are essential to supplying basic services. Eskom and the water boards are in a particularly difficult situation as they are required to continue delivering services despite not being paid.

Local government loses billions of rand each year in interest charges due to late payments. By year-end, municipalities owed R55,4 billion in arrears (including interest) to Eskom and R21,24 billion to water boards.

We have notified accounting officers of 34 MIs at 30 municipalities dealing with **late payments to Eskom and water boards.**

The Eskom debt-relief programme, managed by the National Treasury, aims to empower municipalities to build financial resilience and improve their capacity to generate sustainable revenue, fostering a culture of paying for services rendered.

The programme allows municipalities to apply for debt relief over rolling 12-month cycles. To qualify, municipalities that had overdue Eskom debt at 31 March 2023 must submit a written application, supported by a council resolution, to the National Treasury. The National Treasury then evaluates applications individually. Approved municipalities must adhere to specific conditions for 24 months to qualify for an annual write-off of one-third of their Eskom debt over three years, and are exempt from repaying the amounts in arrears, interest or penalties at 31 March 2023. The conditions include the municipality implementing proper budget, expenditure and revenue management processes by paying Eskom within 30 days of receiving invoices for current billing, having a funded budget and cost-reflective tariffs, issuing consumers with monthly consolidated municipal bills, maintaining minimum average collections of property rates and service charges, and ensuring that billing is complete (meaning that the billing system must agree to the approved valuation roll).

Those that do not comply with these conditions may be removed from the programme; be compelled to repay their Eskom arrears, interest and penalties; and be subjected to stricter re-application requirements. Eskom may also take legal action against them, including freezing municipal bank accounts.

To date, 63 municipalities with Eskom debt have joined the debt-relief programme, but 53 of them (84%) are not complying with the programme requirements. Non-compliance undermines the programme's goal of promoting good financial management practices, which leads to ongoing mismanagement and negatively affects service delivery. It may also result in the financial position of these municipalities worsening if Eskom removes them from the programme.

Fraud committed by officials

One of the key responsibilities of accounting officers and senior managers is to implement and maintain effective and efficient systems of internal control to support accountability and prevent fraud.

Section 3.2 outlines the fraud risks relating to procurement that we identified during our audits. We also did focused work on fraud risk and controls at metros and municipalities with disclaimed audit opinions. At some of these 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.

Suspected fraud resulting in financial loss is an MI. The desired impact of notifying accounting officers of MIs for suspected fraud is to ensure that they, with the support of the councils and disciplinary boards, deal with fraud swiftly and effectively, and put controls in place to prevent it from happening again.

Losses due to suspected fraud

Since 2017-18, **Madibeng Local Municipality** (North West) has made unauthorised payments to accounts of private individuals, resulting in a loss of R19,68 million. We notified the accounting officer of the MI in December 2023. The accounting officer did not take appropriate action to address the MI and we referred the matter to the Directorate for Priority Crime Investigation (the Hawks) for investigation in April 2025.

No or limited benefit received for money spent

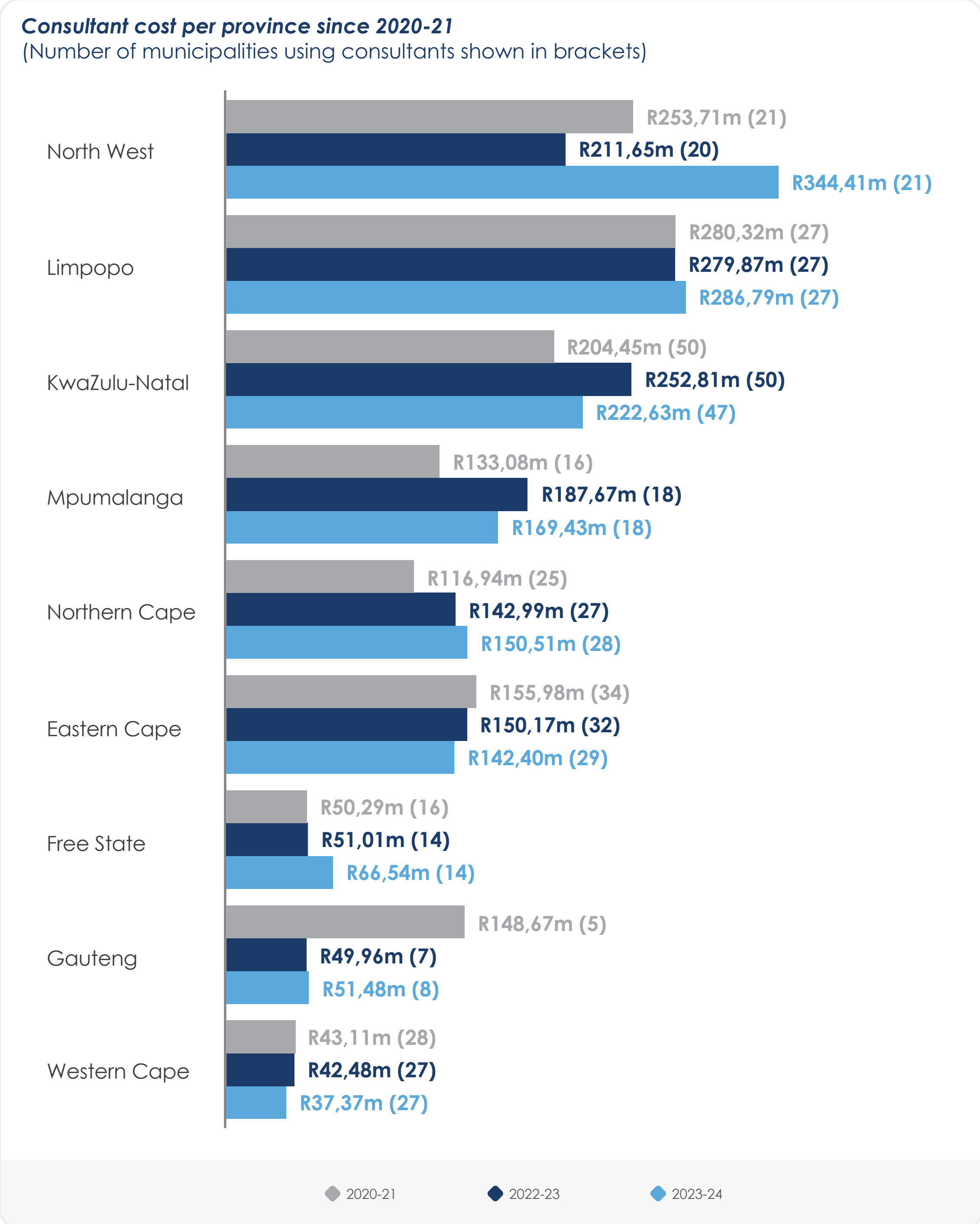
With the limited funds available, municipalities must ensure that they get the best value from every rand spent. However, they have continued to procure goods or services that they either did not use or did not use in full, or for which they did not receive the full value for the money spent, which resulted in (or is likely to result in) financial losses.

We have notified accounting officers at 30 municipalities and one municipal entity of 38 MIs relating to such losses.

No or limited benefit received for money spent

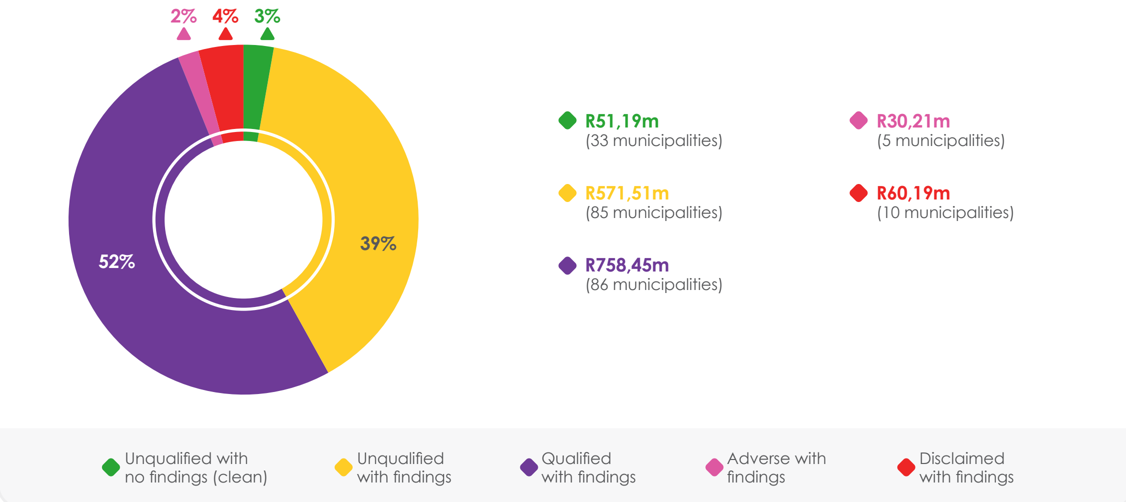
In 2021-22, **Mopani District Municipality** (Limpopo) paid R7,77 million to a contractor to rectify poor work done on the Mametja-Sekororo regional water scheme project by the previous contractor, whose contract was terminated in June 2019. We notified the accounting officer of the MI in May 2023. The accounting officer concluded an investigation in September 2024 and tabled the findings in the council in October 2024. The council referred the matter to the municipality's internal legal services unit. Further action is being taken to fully resolve the MI.

In 2023-24, 219 municipalities (89%) used financial reporting consultants at a cost of R1,47 billion, compared to 222 municipalities that spent R1,39 billion on such consultants in 2020-21.



Despite the amount that municipalities spent on consultants to ensure good-quality financial statements, the expected benefits were not always evident. The financial statements submitted for auditing by 130 of the municipalities that used consultants (59%) had material misstatements in the areas in which the consultants did work. Even after we allowed corrections to be made, 101 municipalities (46%) that used consultants received modified audit opinions.

Consultant cost per audit outcome (2023-24)



In 98% of cases, the municipalities – and not the consultants – were responsible for not receiving the full benefit of the appointments: they appointed the consultants too late, did not adequately review the consultants' work, could not make the required financial records and documentation available to the consultants, or managed consultant contracts poorly.

Reasons misstatements in area of consultant work were not prevented (2023-24)

We have been reporting on the ineffective or inefficient use of consultants for financial reporting for many years. To encourage municipalities to use consultants responsibly, we have notified accounting officers of 34 MIs relating to the use of consultants.

Ineffective use of consultants

In 2021-22, **City of Tshwane Metro** (Gauteng) awarded a R617 million contract to consultants to prepare an immovable asset register, but did not institute adequate controls to review the consultants' work. This resulted in material misstatements in the areas for which the consultants were appointed not being detected and corrected, and in payments being made to the consultants for work that was not done. We notified the accounting officer of the MI in April 2023. In September 2024, the accounting officer finalised a value-for-money audit, which determined that the consultants did not perform work to the value of R26,08 million. The accounting officer has since withheld R12,32 million owed to the consultants and is in the process of recovering the remaining R13,76 million. Further action is being taken to fully resolve the MI.

Municipalities with going concern uncertainties

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 performing calculations to determine whether their revenue is more than their spending (in other words, if they made a profit), if they have more assets than liabilities, if there is enough money in the bank to pay what they owe, and if they expect to have enough funds 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 with the funds they have (or can get), they must disclose this in their financial statements.

The financial position of 49 of the 247 municipalities (20%) where we completed our audits was so dire that they had to disclose **significant doubt about their ability to continue to operate fully.** Of these, 36 municipalities (73%) have made this disclosure for three years or more. This means that because of their financial position, they have not been fully operational for many years.

Municipalities with going concern uncertainty and consecutive years in this position

9 Eastern Cape

Amahlathi LM	(>5 years)
Amathole DM	(>5 years)
Blue Crane Route LM	(1 year)
King Sabata Dalindyebo LM	(>5 years)
Kou Kamma LM	(>5 years)
Makana LM	(>5 years)
Raymond Mhlaba LM	(>5 years)
Sundays River Valley LM	(1 year)
Walter Sisulu LM	(3 years)

3 Free State

Letsemeng LM	(>5 years)
Mangaung MM	(>5 years)
Moqhaka LM	(>5 years)

5 Gauteng

City of Tshwane MM	(4 years)
Merafong City LM	(3 years)
Rand West City LM	(>5 years)
Sedibeng DM	(>5 years)
West Rand DM	(>5 years)

5 KwaZulu-Natal

Endumeni LM	(2 years)
Mpofana LM	(>5 years)
Ugu DM	(>5 years)
uMzinyathi DM	(3 years)
uThukela DM	(>5 years)

4 Limpopo

Bela-Bela LM	(3 years)
Greater Letaba LM	(3 years)
Modimolle-Mookgophong LM	(>5 years)
Thabazimbi LM	(>5 years)

6 Mpumalanga

Emakhazeni LM	(1 year)
Emalahleni LM	(>5 years)
Govan Mbeki LM	(5 years)
Lekwa LM	(>5 years)
Msukaligwa LM	(2 years)
Victor Khanye LM	(1 year)

2 Northern Cape

Kareeberg LM	(1 year)
Tsantsabane LM	(2 years)

12 North West

City of Matlosana LM	(>5 years)
Ditsobotla LM	(5 years)
Dr Ruth Segomotsi Mompati DM	(1 year)
JB Marks LM	(1 year)
Kgetlengrivier LM	(>5 years)
Lekwa-Teemane LM	(>5 years)
Madibeng LM	(1 year)
Mamusa LM	(>5 years)
Maquassi Hills LM	(>5 years)
Naledi LM	(>5 years)
Rustenburg LM	(2 years)
Tswaing LM	(>5 years)

3 Western Cape

Beaufort West LM	(>5 years)
Kannaland LM	(>5 years)
Theewaterskloof LM	(1 year)

Properly implemented **financial recovery plans** can help municipalities to improve their financial performance. However, only 27 of the 49 municipalities with going concern uncertainties have financial recovery plans in place. Most municipalities are struggling to effectively implement their financial recovery plans or turnaround strategies.

A municipality's story: Ineffective financial recovery plan and financial management struggles

Emalahleni Local Municipality (Mpumalanga) has adopted an unfunded budget for the past three years and ended 2023-24 with a deficit of R1,14 billion. The municipality has written down 92% of the debt owed to it by consumers, while also owing Eskom R9,1 billion. It has enrolled in the Eskom debt-relief programme, but is not meeting the programme requirements due to cashflow and debt-collection challenges. The municipality has had a mandatory financial recovery plan in place for more than six years (since 2018), but this has had minimal impact on its financial health.

A municipality's story: Effective financial recovery plan and improved financial management

Ramotshere Moiloa Local Municipality (North West) has adopted an unfunded budget for the past three years. Due to its financial crisis, the municipality is currently under provincial intervention and is implementing a mandatory financial recovery plan. The provincial treasury appointed a provincial executive representative to oversee the execution of the financial recovery plan. The representative was able to increase the municipality's collection rate by 5% by intensifying credit-control activities and helping the municipality to consistently pay its Eskom current account during the financial year. As a result, the municipality transitioned from an unfunded budget in 2023-24 to a funded budget for 2024-25.

Causes of continued weaknesses in financial management

Overall, the continued poor state of municipal finances is due to the following key factors:

- Weak financial management and procurement practices at municipalities, including a lack of standardised, effective processes for procurement, payment and accounting disciplines.
- Lack of effective monitoring, oversight and accountability, including appropriate consequences for wrongdoing – very little action is taken against those responsible for wasting money and making poor financial decisions.
- Disregard for proper budgeting principles by mayors, municipal managers and councils, which adopt unfunded budgets; and a lack of diligence and impactful decision-making by mayors (relating to monthly budget statements) and councils (relating to quarterly budget implementation and financial affair reports) to prevent unauthorised expenditure.
- Lack of responsiveness by municipal leadership, including mayors and municipal managers, to planned initiatives intended to help municipalities improve their financial positions, such as implementing financial recovery plans and adhering to debt-relief conditions.

Impact

Municipalities have persistently ended up with deficits because they do not budget adequately and incur unauthorised expenditure. This has had a tremendous impact on their ability to deliver services: firstly, because they do not generate the revenue that they budgeted for; and secondly, because they do not collect the amounts due to them, leading to significant cash shortfalls. They also do not adequately budget for the impairment of infrastructure assets, nor do they have funds to maintain and replace assets or pay their creditors as and when payments are due.

As a result, the financial position of municipalities continues to deteriorate year after year, with a significant number of them experiencing going concern uncertainties and financial distress. Despite this, money continues to be lost through the poor quality of spending. Grant funding is also not always used effectively.

This has a negative impact on service delivery, as the resulting limited funds is not enough to be directed to all municipal areas where spending is required, which leads to service delivery backlogs that negatively affect residents. Unpaid creditors face cashflow challenges, which can cause some businesses to cease trading. Water and energy interruptions due to a lack of infrastructure maintenance increase the cost of alternative supplies and of doing business, all of which have a ripple effect on the local economy.

3.4 CONSEQUENCE MANAGEMENT

Lack of consequences is widespread

Each year since 2021-22, we have reported that one of the root causes of continued transgressions and non-performance is the lack of a culture of accountability and consequences.

An accountability culture is embodied by officials accounting for how they have performed and taking responsibility for their actions and decisions. An essential element that strengthens such a culture is that those who do wrong (transgress), do nothing (fail to act) or perform poorly should face consequences for their actions.

'Consequence management' refers to the processes and controls that should be in place at a municipality to ensure that it consistently and timeously complies with its legislated responsibilities.

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 in which they get paid their salaries without fulfilling their responsibilities.

There are specific steps that accounting officers need to follow when they become aware of an irregularity; an allegation of fraud or financial misconduct; or unauthorised, irregular, and fruitless and wasteful expenditure. The steps are laid out in the Municipal Finance Management Act (MFMA) and the Municipal Systems Act (MSA), together with their accompanying regulations, the National Treasury's Consequence Management and Accountability Framework, and the policies of each municipality.

The main legislated process and responsibilities are outlined next.

Legislated process and responsibilities – addressing irregularities and allegations

Dealing with unauthorised, irregular, and fruitless and wasteful expenditure

The **National Treasury** may condone non-compliance with the MFMA on good grounds shown by the municipality and thereby condone irregular expenditure due to non-compliance with the act.

Section 170 of the MFMA

The **council** may condone non-compliance with council policies or by-laws and thereby condone any resultant irregular expenditure.

Section 1 of the MFMA – paragraph (d) of irregular expenditure definition

The **council** can authorise unauthorised expenditure in an adjustments budget.

Section 32(2)(a)(i) of the MFMA

If not condoned or authorised:

A **council committee** (i.e. the **municipal public accounts committee**) must investigate unauthorised, irregular, and fruitless and wasteful expenditure to determine if any official is liable and if the expenditure can be recovered.

Section 32(2) of the MFMA

The **municipality** (i.e. the **accounting officer**) must recover the expenditure from the liable official.

Section 32(2) of the MFMA

The **council** may certify unauthorised, irregular, and fruitless and wasteful expenditure to be irrecoverable and write it off based on the outcome of the investigation.

Section 32(2) of the MFMA

Dealing with financial misconduct, fraud and other improper conduct relating to supply chain management

The **council** must establish a disciplinary board to investigate allegations of financial misconduct and monitor disciplinary proceedings.

Regulation 4(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings

The **mayor or accounting officer** must, within seven days of receiving an allegation, and if reasonably satisfied that the financial misconduct did occur, refer it to the **disciplinary board** for preliminary investigation.

- If the allegation is unfounded, the investigation must be terminated.
- If the allegation is founded, a full investigation must be conducted by the **disciplinary board** or, based on the seriousness, by a **specialist investigator** and/or **independent team of investigators** appointed by the **council.**

Regulations 3(2) and 5 of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings
Regulation 5(2) of the Disciplinary Regulations for Senior Managers

Legislated process and responsibilities – addressing irregularities and allegations

Dealing with financial misconduct, fraud and other improper conduct relating to supply chain management (continued)

If the municipality fails to investigate the allegation, the **national or provincial treasury** may intervene or direct that the allegation be investigated.

Regulations 5, 6(2), 6(7) and 19 of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings

After completing a full investigation, the **investigator/investigating team** must submit a report to the mayor or accounting officer with any findings, recommendations or disciplinary steps to be taken.

Regulation 6(3) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings

The **accounting officer** must take reasonable steps to institute disciplinary or criminal proceedings against any official who has allegedly committed financial misconduct or a financial offence; and report indicators of fraud, corruption or other criminal conduct to the South African Police Service.

Section 62(1)(e) of the MFMA
Regulations 3(4) and 10(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings
Section 34 of the Prevention and Combating of Corrupt Activities Act

The **council** must, by way of resolution, institute disciplinary proceedings if recommended by the investigation.

- Proceedings for accounting officers or senior managers are governed by the Disciplinary Regulations for Senior Managers issued in terms of the MSA.
- Proceedings for any other officials are governed by the South African Local Government Association's main collective bargaining agreement.

Regulation 6(8) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings

In section 5, we explain that an accounting officer must follow the same legislated process outlined above when we notify them of an MI. Section 5.4 highlights that the resolution of MIs is often held up due to delays in performing investigations and taking steps against officials through disciplinary processes as required by legislation.

Little has changed since the end of the previous administration's term, and we continue to observe the same weaknesses in consequence management. This observation is based on:

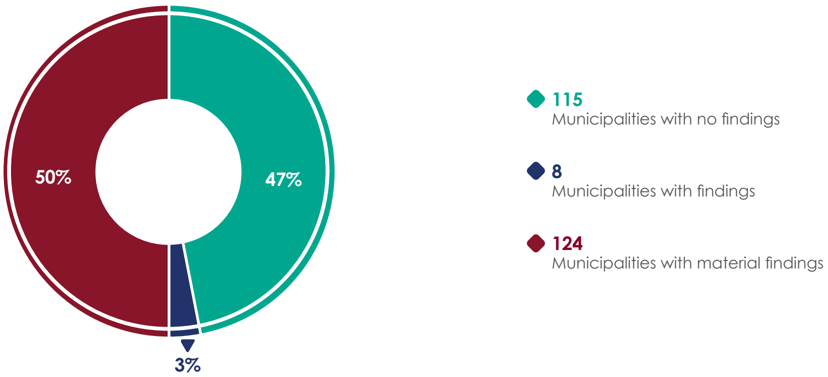
- auditing municipalities' compliance with the relevant consequence management legislation
- testing how municipalities respond to allegations of fraud or misconduct
- evaluating municipalities' responsiveness to our findings on transgressions and possible fraud that we highlight for investigation.

As detailed in section 3.2, the lack of consequences is also evident in how municipalities deal with non-performing suppliers and contractors.

Non-compliance with consequence management legislation

In 2023-24, 132 municipalities (53%) did not comply with legislation on consequence management.

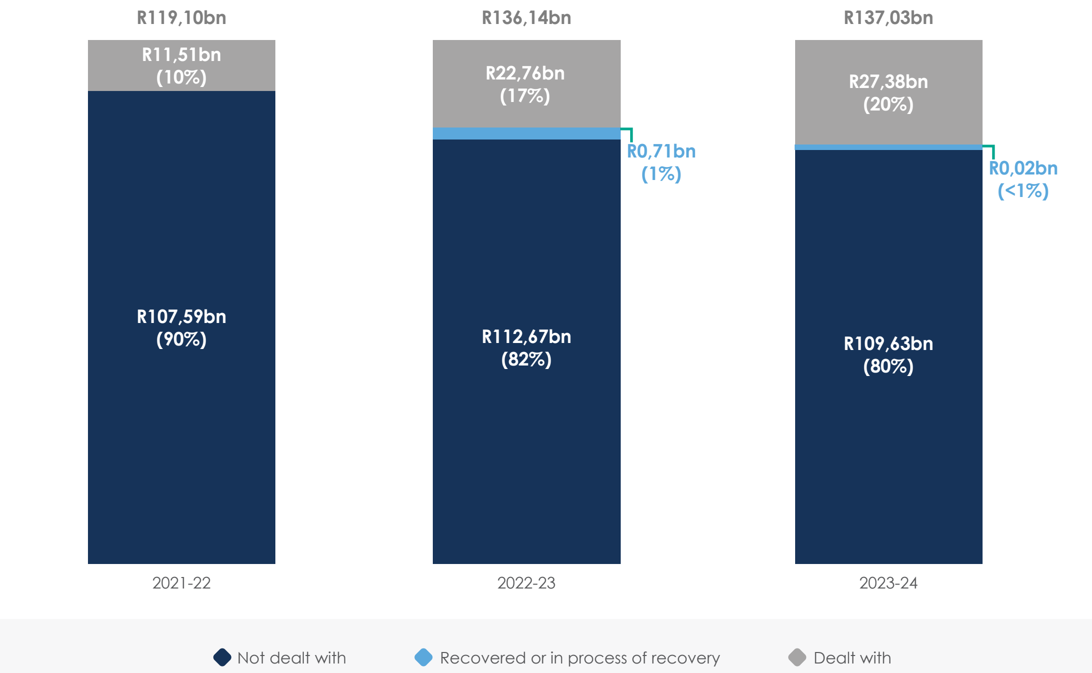
Status of compliance with legislation on consequence management (2023-24)



The most common compliance findings in this area involved councils not investigating and/or not properly dealing with 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 2023-24, 113 municipalities (46%) did not investigate the previous year's irregular expenditure, while 99 (40%) failed to do so for fruitless and wasteful expenditure, and 96 (39%) for unauthorised expenditure.

By the end of 2023-24, the balance of irregular expenditure that had accumulated over many years totalled R137,03 billion due to the inaction of councils.

How councils dealt with prior-year irregular expenditure balance over three years



Since 2021-22, councils have dealt with only R62,38 billion of the irregular expenditure balance – writing off R61,65 billion (99%) and recovering (or being in the process of recovering) only R0,73 billion.

In 2023-24, six municipalities did not comply with the legislated requirement to write off irregular expenditure only if the council, after investigating, certifies that the money is not recoverable. The combined total of R4,75 billion of these write-offs represented 17% of the total amount of irregular expenditure written off during the year. The biggest contributor to this amount was uMkhanyakude District Municipality in KwaZulu-Natal, which wrote off R3,78 billion.

We found the following:

- **Council approval was not obtained for the write-off:** Collins Chabane Local Municipality (Limpopo), Renosterberg Local Municipality (Northern Cape) and uMkhanyakude District Municipality (KwaZulu-Natal). At uMkhanyakude, the council did not pursue the results of the investigation, which determined that certain officials were liable for the expenditure.

- **The write-off was not based on the results of investigations:** Ga-Segonyana Local Municipality (Northern Cape), Nelson Mandela Bay Metro (Eastern Cape) and Renosterberg Local Municipality (Northern Cape).

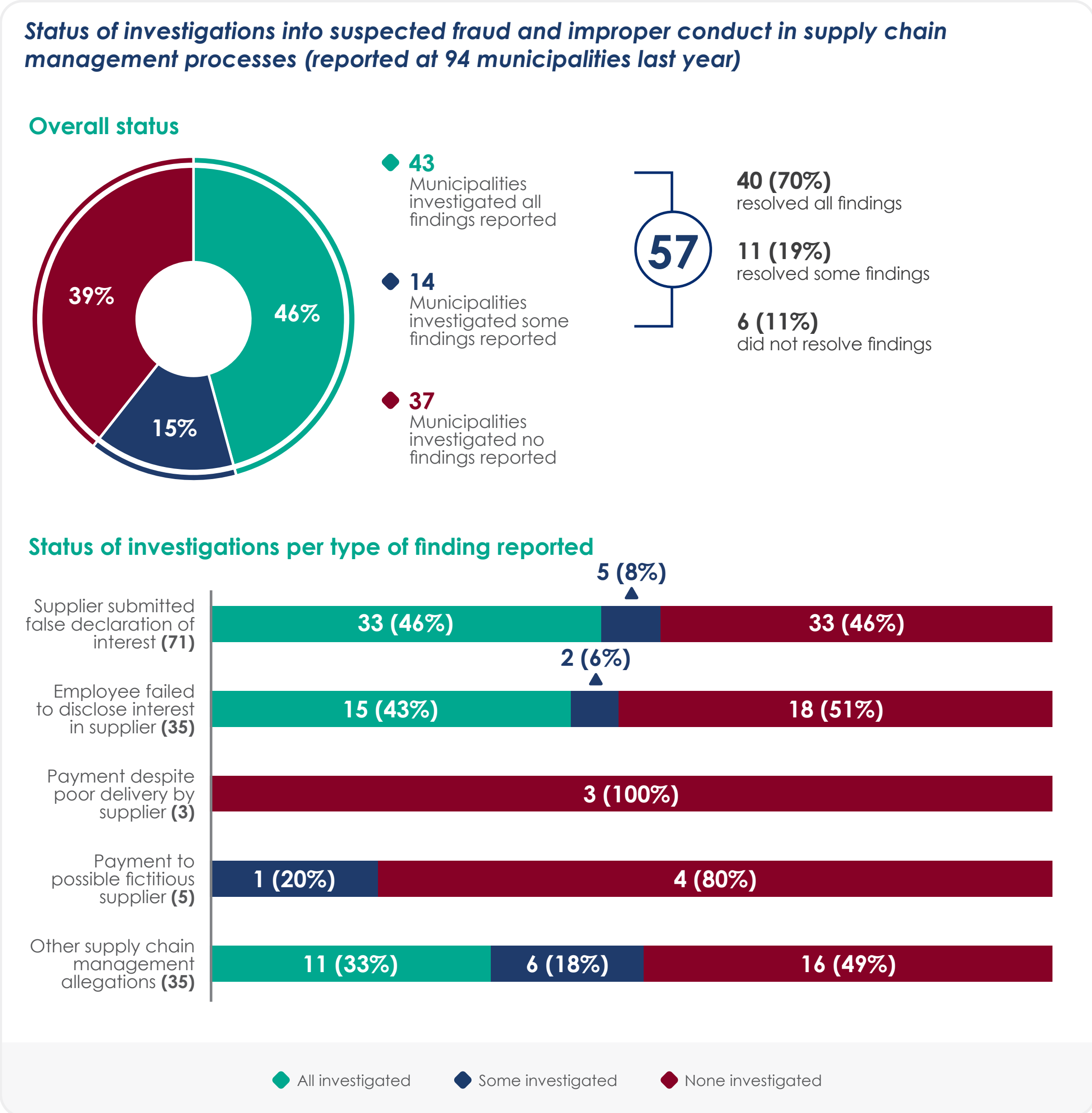
- **The required investigation was not done properly:** uThukela District Municipality (KwaZulu-Natal).

Investigations into fraud and misconduct

Accountability should also come into play where there are allegations of financial and supply chain misconduct and fraud. In 2023-24, we audited 42 municipalities against which such allegations had been made through mechanisms such as fraud hotlines to see whether these allegations had been investigated and addressed. We found that 13 of these municipalities (31%) did not investigate the allegations at all.

When we identify fraud risks, we report these to accounting officers, and we expect them to conduct a forensic investigation into the matter. If the investigation confirms that there was fraud, the matter must be reported to the South African Police Service and disciplinary action must be taken against any implicated officials. The accounting officers must also establish or improve internal controls to prevent such occurrences in future.

Last year, we reported indicators of fraud or improper conduct in supply chain management processes at 94 municipalities for follow-up. These are the fraud indicators referred to in section 3.2. However, 37 of these municipalities (39%) did not take any action to investigate the findings.



As outlined in section 3.2, accounting officers should swiftly complete the investigations into both the allegations that had previously been reported and those that we reported to them in 2023-24, so that potentially fraudulent activities can be stopped, the necessary criminal investigations can start, further transgressions can be prevented and any financial losses can be recovered.

Causes of poor consequence management

The overall lack of consequences is caused mainly by the following:

- The **Consequence Management and Accountability Framework** was intended to empower political and administrative leadership on matters of consequence management through the practical implementation of consequence provisions in line with various pieces of local government legislation. However, the framework **was not implemented** at 48 municipalities (19%). At 37 municipalities (15%), provincial treasuries did not assess how the framework was implemented.

- We assessed municipalities' **mechanisms for reporting and investigating transgressions and potential fraud** and found that these processes **were inadequate** at 50 municipalities (20%). Some of our key findings were that 35 municipalities had no disciplinary boards, 11 municipalities had no policies for investigating allegations or conducting disciplinary procedures, and 10 municipalities did not keep proper records of investigations. At 17 municipalities, the disciplinary boards failed to investigate allegations of misconduct, while 13 municipalities did not monitor whether disciplinary proceedings were instituted.

- As highlighted earlier in the legislated process and responsibilities table, council committees (usually **municipal public accounts committees**) have a key role to play in investigating instances of unauthorised, irregular, and fruitless and wasteful expenditure. They should also make recommendations on how councils should deal with such expenditure or any other matters referred to them or that they investigate. Despite this, these committees **were not effectively executing their roles or mandates** at 88 municipalities (36%).

- Councils, mayors and accounting officers **did not consistently** set an **ethical leadership tone** to ensure that there was accountability for transgressions. This is also evident from the slow response to MIs.

- At 59 municipalities (24%), **policies and procedures to monitor, measure and evaluate staff performance** were **not in place,** resulting in a lack of accountability for transgressions and non-performance.

3.5 CONCLUSION

Throughout this section, various risks to service delivery have been highlighted: from weaknesses in infrastructure management, procurement and finance processes to a lack of consequences. Accounting officers, mayors and councils should decisively deal with these risks to enable the delivery of key government priorities that are intended to improve the lives of South Africans.

04

STATE OF METROS

Metros are not performing due to a lack of institutional capability and integrity

Metropolitan municipalities, commonly known as 'metros', play a significant role in the local government sphere. Metros are large urban areas with populations of typically more than one million people. They are strategically located across the country's various economic hubs, serve a vast number of people in various cities across South Africa and are entrusted with correspondingly substantial budgets for service delivery.

In 2023-24, metros and their municipal entities were responsible for service delivery to 8,9 million households (46% of all households in the country) and managed 57% of the estimated local government expenditure budget.

Metros at a glance

BUFFALO CITY (Eastern Cape) — Qualified — Unchanged

Households: 0,27 million
Expenditure budget: R10,72 billion
Establishment: 6 011 positions

Funding	
Own revenue	R8,12 billion
Equitable share grant	R1,28 billion
Other grants	R0,84 billion
Loans	R0,11 billion

CITY OF CAPE TOWN (Western Cape) — Unqualified with no findings — Improvement

Households: 1,46 million
Expenditure budget: R58,45 billion
Establishment: 33 923 positions

Funding	
Own revenue	R49,92 billion
Equitable share grant	R4,58 billion
Other grants	R4,46 billion
Loans	R4,27 billion

CITY OF EKURHULENI (Gauteng) — Unqualified with findings — Regression

Households: 1,55 million
Expenditure budget: R54,92 billion
Establishment: 21 447 positions

Funding	
Own revenue	R43,06 billion
Equitable share grant	R5,16 billion
Other grants	R5,10 billion
Loans	R6,27 billion

Movement from 2020-21: ▲ Improvement ▶ Unchanged ▼ Regression

CITY OF JOHANNESBURG (Gauteng)

Unqualified with findings

Households: 2,25 million
Expenditure budget: R87,33 billion
Establishment: 20 703 positions

Funding

Own revenue	R64,07 billion
Equitable share grant	R7,05 billion
Other grants	R2,87 billion
Loans	R17,84 billion

CITY OF TSHWANE (Gauteng)

Qualified

Households: 1,39 million
Expenditure budget: R46,94 billion
Establishment: 30 826 positions

Funding

Own revenue	R38,44 billion
Equitable share grant	R3,99 billion
Other grants	R4,07 billion
Loans	R7,83 billion

ETHEKWINI (KwaZulu-Natal)

Unqualified with findings

Households: 1,28 million
Expenditure budget: R64,89 billion
Establishment: 32 326 positions

Funding

Own revenue	R48,96 billion
Equitable share grant	R4,50 billion
Other grants	R5,05 billion
Loans	R9,22 billion

MANGAUNG (Free State)

Qualified

Households: 0,30 million
Expenditure budget: R9,06 billion
Establishment: 7 932 positions

Funding

Own revenue	R4,66 billion
Equitable share grant	R1,04 billion
Other grants	R1,15 billion
Loans	R0,44 billion

NELSON MANDELA BAY (Eastern Cape)

Qualified

Households: 0,41 million
Expenditure budget: R18,57 billion
Establishment: 6 748 positions

Funding

Own revenue	R14,53 billion
Equitable share grant	R1,42 billion
Other grants	R1,52 billion
Loans	R1,14 billion

Movement from 2020-21 Unchanged Regression

Metros typically have better capacity and bigger budgets than other municipalities and can more easily attract suitably skilled and competent professionals. Therefore, one would expect them to have positive audit outcomes and set an example for other municipalities. However, the overall audit outcomes of metros have continued to regress since 2020-21, while the outcomes of their entities have improved only slightly.

Audit outcomes – metros and their municipal entities

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	Total	Movement from 2020-21
Metropolitan municipalities								
2020-21	1	5	2	0	0	0	8	1 ▲ 3 ▼
2023-24	1	3	4	0	0	0		
Municipal entities								
2020-21	1	12	1	0	0	0	14	3 ▲ 0 ▼
2023-24	3	11	0	0	0	0		

This section provides an overall view of metros' performance, the level of transparency in their financial and performance reporting, the institutional integrity that we have observed, and the strength of the institutional capability and accountability mechanisms that they have in place.

4.1 PERFORMANCE

Metros should demonstrate their commitment to improving the lived realities of their residents by delivering on their legislated mandate, aligning their strategic objectives to community needs, being financially sustainable and avoiding harm to the public. While we do not audit metros' performance, our work on their financial statements and performance reports, as well as on infrastructure and environmental management, highlights areas in which their financial and service delivery performance might be at risk.

Financial performance

City of Tshwane and Mangaung have both disclosed significant doubt about their ability to continue operating fully as a going concern for four years or more. We also assessed their financial position as requiring immediate attention because of the material unfavourable financial indicators. We assessed the financial position of all other metros, except City of Cape Town, as concerning.

A municipality's story: Mismanagement of finances and grant funding

In 2023-24, **Mangaung** disclosed significant doubt in its financial statements about its ability to continue operating. The metro spent 81% of the total cash it received from its customers on employee-related costs totalling R1,96 billion, leaving it with little to spend on service delivery.

The metro should have processes in place to ensure that it efficiently uses the limited funds it has. However, in 2023-24, the metro incurred R1,34 billion in unauthorised expenditure and R122,52 million in fruitless and wasteful expenditure. It also did not manage its grant funding appropriately. We raised a material finding on compliance with the grant framework because the grant funding was not spent for its intended purpose, and R194 million in grant funding went unspent in 2023-24. The National Treasury also withheld R297 million in grant funding that had not been spent in 2022-23 due to slow project implementation.

The metro has been under national intervention since December 2019 and the finance minister approved a mandatory financial recovery plan in September 2023. Although the plan has been in place for more than a year, the metro's financial situation has not improved, resulting in service delivery disruptions by frustrated residents.

Credit-rating agencies use financial statements as a tool 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 it doing so, particularly at metros with listed debt instruments (a form of debt used to raise capital).

Metro credit ratings and ratings outlook as assigned by rating agencies

	Rating	Outlook
Buffalo City	A-	Negative
City of Cape Town	Ba3	Positive
City of Ekurhuleni	Caa2	Stable
City of Johannesburg	Ba3	Stable
City of Tshwane	Caa2	Negative
eThekwini	AA-	Negative
Mangaung	Caa1	Stable
Nelson Mandela Bay	B2	Stable

By 30 June 2024, Buffalo City, City of Ekurhuleni and eThekwini each had their credit rating downgraded by at least one of the rating agencies. Rating agencies are becoming more alarmed about declining municipal revenue collection and there is growing concern that metros might struggle to repay their debts or secure funding from capital markets to address future financial obligations. If economic conditions deteriorate further, more metros may face downgrades, leading to higher borrowing costs. This places more pressure on the public purse and affects metros' access to additional funding for critical infrastructure projects that are essential for service delivery.

Poor budgeting processes resulted in unfunded budgets being approved by councils and financial recovery plans not yielding the desired results. City of Ekurhuleni and City of Tshwane adopted unfunded adjustments budgets – City of Tshwane has been adopting an unfunded adjustments budget for the past three years.

Some metros participated in the National Treasury's budget workshops to enable them to pass funded budgets. For example, City of Johannesburg initially tabled an unfunded budget to the council, which was not approved. The National Treasury supported the metro to address the concerns and eventually a funded budget was adopted.

As a result of the poor budget-monitoring processes, metros have disclosed a total of R14,62 billion in unauthorised expenditure since 2021-22, all of which related to overspending.

Breakdown of unauthorised expenditure over three years – metros

	2021-22	2022-23	2023-24
Unauthorised expenditure amount and number of metros	4 (50%) R3,16bn	4 (50%) R2,97bn	6 (75%) R8,49bn

Cash vs non-cash breakdown

	2021-22	2022-23	2023-24
Cash	(25%) R0,79bn	(59%) R1,75bn	(26%) R2,24bn
Non-cash	(75%) R2,37bn	(41%) R1,22bn	(74%) R6,25bn

The biggest contributors to unauthorised expenditure in 2023-24 were City of Johannesburg (R2,76 billion), City of Tshwane (R2,15 billion) and Nelson Mandela Bay (R1,44 billion). These three metros also did not adequately budget for the impairment (writing down) of infrastructure assets and consumer debt (non-cash items) and, as a result, did not have funds to maintain and replace assets or to pay their creditors on time. Buffalo City and Nelson Mandela Bay had a combined deficit of R489,86 million in 2023-24, as they spent more money than they had available.

Metros continued to display **poor revenue** management and **struggled to collect debt,** which were the main reasons for their financial health concerns. By year-end, metros had written down a combined R118,64 billion in consumer debt, which they estimate they will not be able recover – 70% of the total municipal debtors' book of R168,74 billion.

Poor revenue management practices

- At **Buffalo City,** the revenue-collection rate declined due to factors such as high poverty and unemployment, poor billing practices, lack of debt-collection mechanisms and a culture of non-payment that was worsened by residents being unsatisfied with the quality of the services that they received. The metro had a debt-collection period of 151 days and has written down 65% of its debt as it may not be fully recoverable.

- **City of Tshwane** had a funding shortfall mainly due to insufficient revenue collection. This was driven by historically poor budgeting and financial management practices, particularly when it came to managing collections and creditor payments. The metro had a debt-collection period of 55 days and has written down 72% of its debt as it may not be fully recoverable. As a result, it also had an average creditor-payment period of 243 days.

As in previous years, we again identified consumers that were not billed correctly. At Buffalo City, the revenue disclosed in the financial statements was materially misstated because revenue from sewerage and sanitation services was incorrectly billed, resulting in revenue and receivables being overstated by R51,93 million.

Buffalo City, eThekwini and Nelson Mandela Bay depended heavily on estimated water and electricity meter readings, often leading to **billing inaccuracies.** At eThekwini, for example, this stemmed from the lack of automated functionality to identify unread meters and the reliance on manual reporting of meter readings. More than 50% of customer service calls at all metros, except City of Cape Town, were not attended to promptly, resulting in unresolved billing disputes and inefficiencies.

Metros lose a significant amount of revenue through water and electricity losses, putting further strain on their financial position. In 2023-24, the estimated water losses for the eight metros totalled R8,64 billon, while electricity losses were estimated at R14,52 billion. The average water losses incurred were 37% while the average electricity losses were 18%. These losses were due to inadequate infrastructure maintenance, as detailed in section 3.1, as well as illegal connections.

Water and electricity losses per metro

Metro	Water losses		Electricity losses	
	Amount	Losses above 30% norm	Amount	Losses above 10% norm
Buffalo City	R0,15 billion	Yes	R0,56 billion	Yes
City of Cape Town	R0,11 billion	No	R0,63 billion	Yes
City of Ekurhuleni	R1,30 billion	No	R2,75 billion	Yes
City of Johannesburg	R2,90 billion	Yes	R4,93 billion	Yes
City of Tshwane	R1,33 billion	Yes	R2,53 billion	Yes
eThekwini	R1,99 billion	Yes	R1,72 billion	Yes
Mangaung	R0,49 billion	Yes	R0,20 billion	No
Nelson Mandela Bay	R0,37 billion	Yes	R1,20 billion	Yes
Total	**R8,64 billion**	**6 metros**	**R14,52 billion**	**7 metros**

Metros received **conditional grants** of R13,27 billion in 2023-24 to finance their infrastructure projects.

- Metros have a higher population density and a greater need for integrated, efficient **public transport** systems compared to other municipalities. More than 75% of the public transport network grant was allocated to metros to support financially sustainable municipal public transport networks, which they underspent by 11% overall. Mangaung underspent this grant by more than 50% due to delays in the completion of grant-funded projects caused by community unrest, termination and re-appointment of service providers, delayed approval of time extensions, and delayed payments to contractors.

- The **urban settlements development grant** is specifically geared towards metros to support their unique responsibilities and the challenges they face in managing large-scale urban development and infrastructure projects. Nelson Mandela Bay underspent this grant by 9%, while Mangaung did not spend this grant in accordance with the grant framework.

- Nelson Mandela Bay is the only metro that received the **regional bulk infrastructure grant**, which is aimed at improving bulk water and sanitation infrastructure. The metro underspent the grant by 41% due to two capital projects that did not start because of implementation challenges.

Metros are underspending these grants because of a lack of institutional capability to plan and execute infrastructure projects as well as ineffective project management processes.

Despite their constrained financial position, metros continued to incur **financial losses** through fruitless and wasteful expenditure, poor payment practices, overspending on projects, and water and electricity losses.

Metros incurred fruitless and wasteful expenditure of R941,92 million in 2023-24, bringing the total of such expenditure since 2021-22 to R3,85 billion, with 57% of this amount being due to interest and penalties.

Fruitless and wasteful expenditure per metro

Metro	2023-24 fruitless and wasteful expenditure	Movement from previous year	Total fruitless and wasteful expenditure over three years
Buffalo City	R0,69 million	▼	R0,75 million
City of Cape Town	-	▲	R4,93 million
City of Ekurhuleni	R0,41 million	▲	R81,45 million
City of Johannesburg	R1,48 million	▲	R354,44 million
City of Tshwane	R793,02 million	▲	R2 983,67 million
eThekwini	R6,72 million	▼	R9,36 million
Mangaung	R122,52 million	▲	R347,14 million
Nelson Mandela Bay	R17,08 million	▲	R71,04 million
Total	**R941,92 million**	▲	**R3 852,78 million**

Movement ▲ Improvement ▼ Regression

Poor planning resulted in overspending of R121,23 million on six infrastructure projects at Buffalo City, City of Tshwane, Mangaung and Nelson Mandela Bay in 2023-24. This could have been avoided if the metros had managed these projects effectively from planning phase to project completion.

We have issued 21 material irregularity (MI) notifications at six metros and one municipal entity relating to poor payment practices, such as late payments (eight) and payments for goods or services that were not received (nine), of poor quality (two), not in line with the contract (one), or to ineligible beneficiaries (one), which resulted in (or are likely to result in) financial losses.

Poor payment practices resulting in financial loss

- From April 2021, the South African Local Authorities Pension Fund increased employer contributions on pensionable salary from 20,78% to 22,78%. However, **Mangaung** continued to contribute at the previous rate, resulting in estimated interest of R3,79 million being charged on arrear employer contributions between April 2021 and October 2024. We notified the accounting officer of the MI in November 2024, but they did not take appropriate action. We are deciding on the further action to be taken.

- Between June 2019 and September 2021, the **Johannesburg Development Agency,** a municipal entity of City of Johannesburg, paid an estimated R2,1 million to a contractor for refurbishment work that was not performed. We notified the accounting officer of the MI in July 2023. The accounting officer identified three officials as being responsible – two had resigned in 2021-22, while the third was suspended in August 2023 pending and investigation. In April 2024, the entity finalised the investigation and, in June 2024, the implicated official pleaded guilty in disciplinary proceedings and was issued with a final written warning and suspended for 10 working days without pay. In August 2023, the municipal entity also strengthened its controls and instituted progress updates on projects during project performance meetings. Legal proceedings to recover the payments made to the contractor for work not done were instituted in October 2023 and are in progress. The MI has been resolved.

Infrastructure and environmental management

Metros play a crucial role in planning, delivering and maintaining infrastructure. We reported findings on 38 (72%) of the 53 projects that we audited across eight metros and three municipal entities, with a combined project cost of R7,94 billion. Most of the findings (40%) related to projects being delayed.

None of the metros budgeted sufficiently for repairing and maintaining their assets, and all eight spent less than the National Treasury norm of 8% of the value of property, plant and equipment on repairs and maintenance. City of Johannesburg had the lowest spend (less than 1%), followed by Buffalo City and City of Tshwane (both less than 2%).

Effective preventative maintenance can be achieved only by regularly assessing the condition of infrastructure. However, this was not the case at all metros and we found the following.

Metros with findings on maintenance of infrastructure

	Road infrastructure	Solid waste infrastructure	Wastewater infrastructure
Condition assessments not performed or not consistently performed to identify routine maintenance and schedule maintenance needs	Buffalo City City of Tshwane eThekwini Nelson Mandela Bay	City of Ekurhuleni City of Tshwane eThekwini Mangaung	Mangaung
No approved maintenance plan	Nelson Mandela Bay	City of Ekurhuleni Mangaung	eThekwini Mangaung

The absence of condition assessments results in insufficient planning and budgeting, with resources being allocated as needed, based on emergency requirements. As a result, priority projects may be overlooked and the overall condition of critical assets may deteriorate due to neglect. The poor planning for wastewater and solid waste has contributed to ageing infrastructure, breakdowns and, ultimately, service disruptions and delivery failures.

A municipality's story: Deteriorating condition of roads

On our September 2024 site visit to Tembisa in **City of Ekurhuleni,** we identified poorly maintained residential roads and potholes, illegal electricity connections, rubbish obstructing drains, and sewage overflowing onto the roads. The metro indicated that, due to a limited road maintenance budget, it focused mainly on major roads and registered complaints. While it repaired the potholes in October 2024 after we had raised an audit finding, it has not yet resolved the other issues.

Pothole in September 2024

Pothole repaired in October 2024

Sewage flowing onto the road

Five metros (63%) did not comply with environmental management legislation. Buffalo City, eThekwini, Mangaung and Nelson Mandela Bay did not have a valid operating licence for their wastewater treatment works, while Buffalo City, City of Tshwane and Mangaung did not maintain or safeguard their wastewater treatment works. Mangaung also did not have a valid operating licence for its solid waste management facility.

Infrastructure neglect and non-compliance with environmental management at metros often result in harm to the public. We have issued 15 MI notifications at five metros and three municipal entities relating to the poor management of wastewater treatment works and landfill sites.

Infrastructure neglect

- The Waterval wastewater treatment works managed by **Ekurhuleni Water Care Company,** an entity of City of Ekurhuleni, has not been functional since 2021 due to neglected maintenance. This has resulted in untreated wastewater being discharged into the Klip River and surrounding areas. We notified the accounting officer of the MI in May 2024. The entity completed a feasibility study in June 2024 and concluded that the plant required refurbishments and upgrades. The accounting officer allocated R10,3 million in the draft capital budget for refurbishing and upgrading wastewater treatment works from 2024-25 to 2026-27. Further action is being taken to fully resolve the MI.

- In October 2023, we identified that **Mangaung** did not ensure that access controls, site operations, treatment processes and disposal activities at its Northern waste landfill site complied with all licence conditions, resulting in likely harm to the public and the environment. We notified the accounting officer of the MI in January 2024. The accounting officer did not take appropriate action to resolve the MI, and we referred the matter to the Department of Forestry, Fisheries and the Environment in April 2025 for further investigation.

4.2 TRANSPARENCY IN FINANCIAL AND PERFORMANCE REPORTING

Transparent financial and performance reporting is necessary to enable sound financial performance and delivery in line with planned objectives, as well as financial accountability. Municipal managers and mayors should provide the public and councils with timely, relevant and reliable information on the institution's finances, performance, use of resources and compliance with legislation.

Section 1 describes the importance of, and legislated responsibilities for, in-year monitoring and year-end reporting. Adherence to these legislated processes is critical in the complex environment of metros to ensure robust monitoring, action to rectify deviations and sound decision-making.

The poor quality of the financial statements and performance reports submitted for auditing brings into question the credibility of metros' in-year reporting processes to the councils. This includes quarterly budget implementation reports, mid-year budget and performance assessment reports, and biannual performance measurement reports. It means that decisions, analyses and monitoring of key financial and performance matters could be based on unreliable information.

Quality of financial statements and performance reports per metro

Metro	Financial statements		Performance reports	
	Quality of submitted financial statements	Quality of published financial statements	Quality of submitted performance reports	Quality of published performance reports
Buffalo City	Poor ▶	Poor ▶	Poor ▶	Poor ▶
City of Cape Town	Good ▶	Good ▶	Poor ▶	Good ▶
City of Ekurhuleni	Good ▶	Good ▶	Good ▲	Good ▶
City of Johannesburg	Poor ▶	Good ▶	Poor ▶	Poor ▶
City of Tshwane	Poor ▶	Poor ▼	Poor ▶	Poor ▶
eThekwini	Good ▲	Good ▶	Poor ▶	Poor ▶
Mangaung	Poor ▶	Poor ▼	Poor ▶	Poor ▶
Nelson Mandela Bay	Poor ▶	Poor ▶	Poor ▶	Poor ▶

Movement from 2020-21 ▲ Improvement ▶ Unchanged ▼ Regression

Even though we informed metros of the misstatements we identified during our audits, Buffalo City, City of Tshwane, Mangaung and Nelson Mandela Bay received qualified audit opinions on their financial statements because they were unable to make corrections to financial statement line items such as property, plant and equipment; receivables; expenditure; and employee-related costs.

Unreliable financial reporting

- At **Buffalo City,** the information recorded in the financial statements relating to property, plant and equipment was not reliable due to inadequate asset management practices and a lack of standard operating procedures for managing asset-related transactions. As a result, the metro recorded assets as work-in-progress when they were completed projects. Long-outstanding or slow-moving projects were not assessed for impairment (asset write-downs). The metro did not apply its revaluation methodology consistently and appropriately, as some assets had negative revaluation balances instead of being impaired. The landfill site asset was also not correctly accounted for when it was first put into use, resulting in incorrect depreciation being recognised over the years. In addition, the metro continued to provide free basic services to consumers who did not meet the qualifying criteria for indigent support, which led to free basic subsidies and bad debt write-offs of approximately R28,5 million being granted to ineligible indigent debtors during 2023-24. This represents revenue that would otherwise have been billed and collected, and contributed to the financial losses sustained by the metro due to the lack of credible financial reporting.

- **Mangaung** did not ensure credible in-year and year-end financial and performance reporting. The metro processes a significant number of prior-period adjustments each year, indicating that its internal controls for detecting and correcting or preventing errors are not adequate. The controls to ensure that overtime, shift and standby hours were both required and actually worked, and that claims were supported by evidence, were also inadequate. The metro failed to accurately adjust its financial statements and was qualified on employee-related costs.

Metros did not properly plan for and report on their performance. Some indicators were not measurable, or the systems needed to collect the data required for reporting were not in place, which resulted in material findings on the performance reports.

In some instances, we were limited in determining whether reported performance was reliable. For example, at City of Tshwane, the indicator for the number of dwellings provided with connections to the main electricity supply could not be determined because the supporting evidence and the processes for measuring whether the indicator and related target were achieved were inadequate.

A municipality's story: How poor performance planning and reporting can affect service delivery and financial reporting

Mangaung removed a key service delivery indicator relating to the extension of the Thaba Nchu wastewater treatment works from its service delivery and budget implementation plan, resulting in the achievement of this project not being planned for or measured. The project was significantly delayed and did not comply with either the environmental or asset management requirements of the National Environmental Management: Waste Act and the Municipal Finance Management Act. The project was significantly impaired (by R6,04 million) due to inadequate maintenance and safeguarding, which led to vandalism. This was not reflected or recorded in the financial statements.

A municipality's story: How poor performance planning and reporting can affect service delivery and financial reporting (continued)

We notified the accounting officer of an MI in March 2024, as the municipality did not take reasonable measures to prevent pollution by completing the project, as evidenced by the continued discharge of untreated sewage into the Sephane River and surrounding groundwater. This is likely to cause substantial harm to the communities that depend on the water sources – which are now contaminated. The accounting officer did not take appropriate action to resolve the MI and, in April 2025, we referred the matter to the Department of Water and Sanitation for further investigation.

4.3 INSTITUTIONAL INTEGRITY

Institutional integrity refers to municipalities institutionalising controls to ensure that leadership and officials behave ethically, comply with legislation, act in the best interest of the institution and avoid conflicts of interest. Our audits show that there is a lack of such vital institutional controls at the metros.

As detailed in section 3.2, to prevent conflicts of interest, legislation prohibits all municipalities from awarding contracts to or accepting quotations from employees, councillors or other state officials (or suppliers that they own or manage) if they are serving the municipality or any other state institution.

In 2023-24, Buffalo City, eThekwini and Nelson Mandela Bay made 30 prohibited awards worth R0,62 million through the quotation process to suppliers owned or managed by employees.

The following metros made **prohibited awards** worth R14,11 million **to suppliers owned or managed by other state officials:**

Metro	Value of awards	Number of awards
City of Johannesburg	R13,34 million	1 (supplier did not submit declaration)
eThekwini	R0,64 million	4 (suppliers did not submit declarations)
Buffalo City	R0,13 million	4 (suppliers did not submit declarations)

As detailed in section 3.2, the awards to suppliers in which close family members or business associates of employees or councillors have an interest are not prohibited, but such awards might create conflicts of interest and municipalities must disclose any such awards exceeding R2 000 in their financial statements.

The following metros made **awards to suppliers with close ties to employees or councillors** totalling R1 195,79 million:

Metro	Value of awards	Number of awards
City of Johannesburg	R972,71 million	6
eThekwini	R194,37 million	72
City of Cape Town	R16,50 million	4
Nelson Mandela Bay	R11,82 million	26
Buffalo City	R0,38 million	8

Nelson Mandela Bay did not disclose awards to close family members of R9,61 million in its financial statements, while City of Cape Town did not do so for awards worth R0,50 million.

A total of 19 **suppliers made false declarations** for awards of R21,30 million at the following metros:

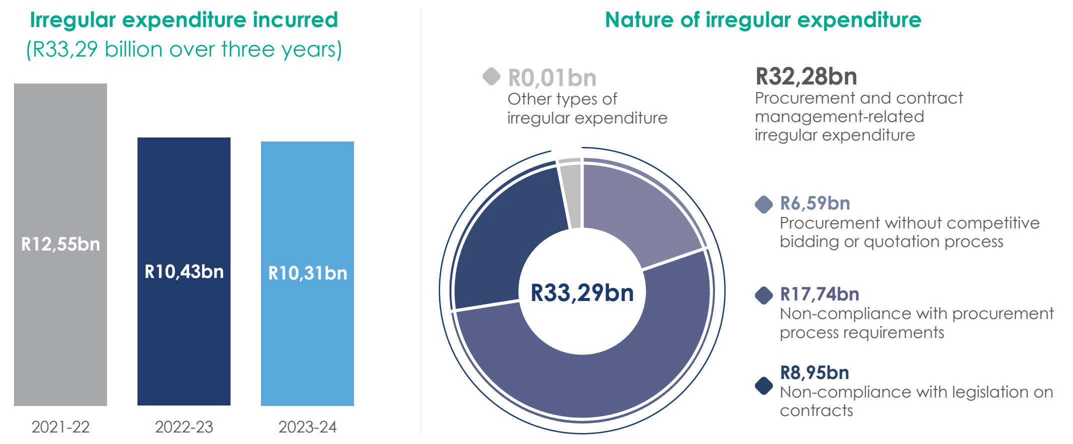
Metro	Value of awards	Number of suppliers
City of Cape Town	R15,23 million	2
Nelson Mandela Bay	R6,07 million	17

Similar to last year, all metros, except City of Cape Town, failed to materially comply with key legislation in 2023-24. The following were the most common areas of non-compliance:

- Procurement and contract management – seven metros (88%)
- Consequence management – six metros (75%)
- Prevention of unauthorised, irregular, and fruitless and wasteful expenditure – six metros (75%)

Metros have incurred a total of R33,29 billion in irregular expenditure since 2021-22, with almost all of this amount being due to non-compliance with legislation on procurement and contract management.

Amount and nature of irregular expenditure over three years – metros



Metros accounted for 38% of all municipal irregular expenditure since 2020-21, with the biggest contributors over this period being Buffalo City (R9,55 billion), City of Tshwane (R7,48 billion) and eThekwini (R5,52 billion).

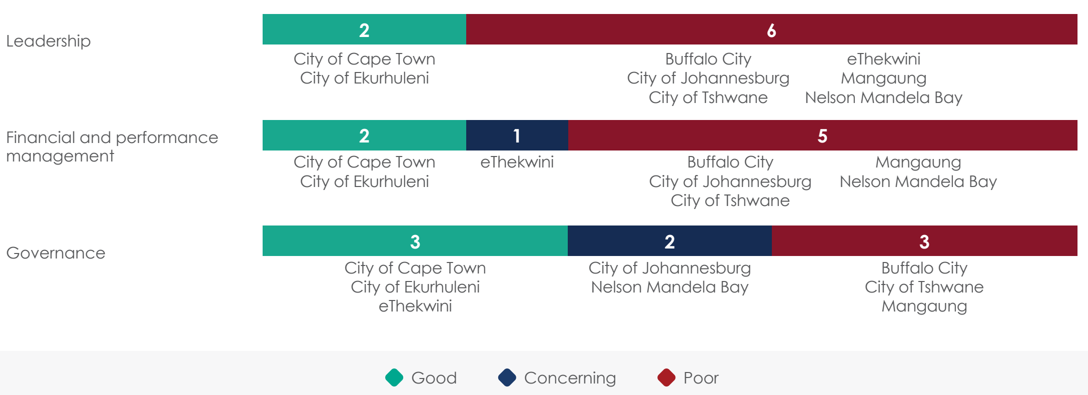
4.4 INSTITUTIONAL CAPABILITY

Metros can effectively achieve their goals and objectives only if they have institutional capability. This means that they should have adequate resources and skills; strong governance and effective management; good systems, processes and controls; and effective coordination and collaboration between different stakeholders within and outside the metro.

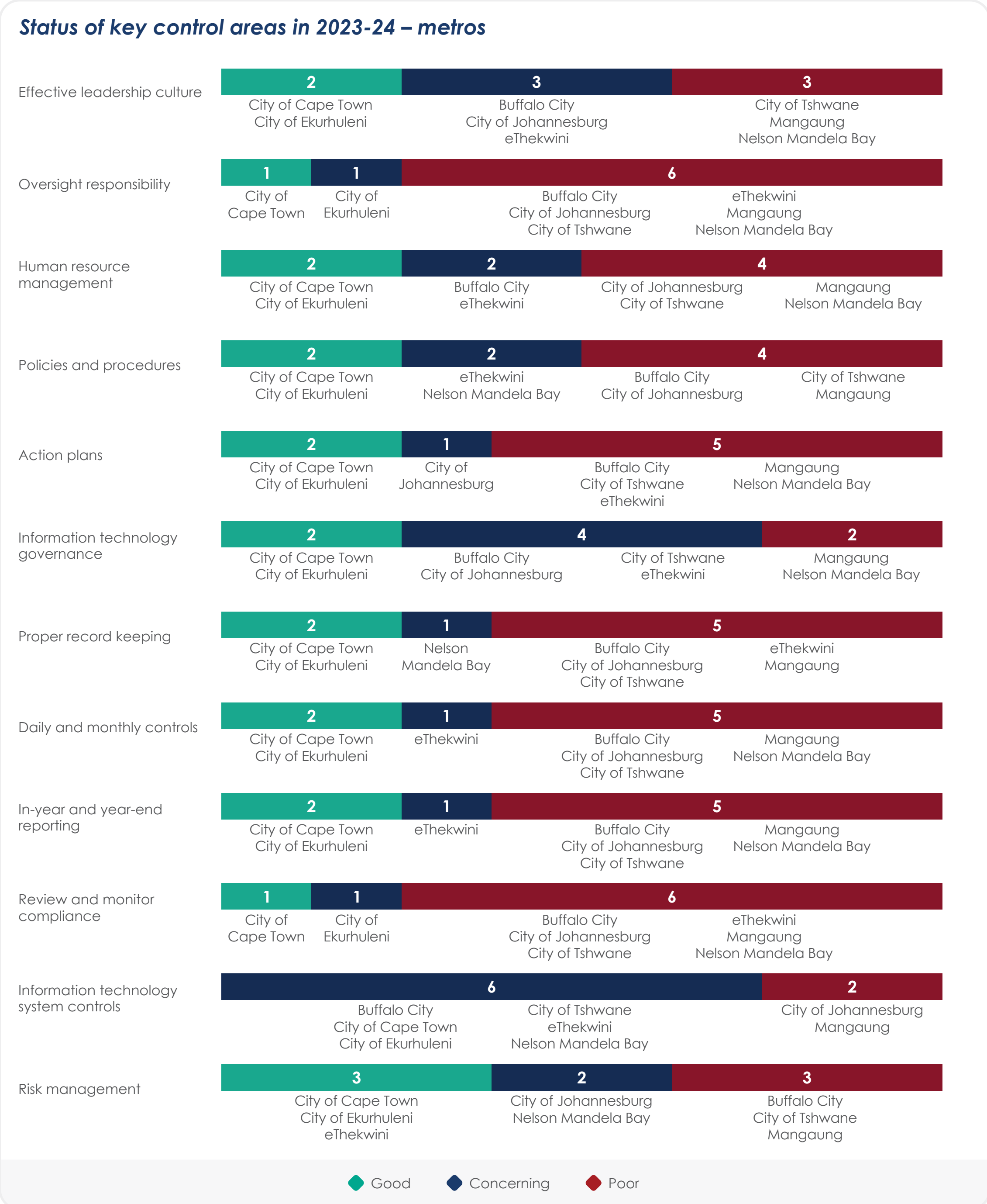
Controls and action plans

The municipal manager, supported by the mayor, is responsible for leadership oversight, including establishing an effective control environment. However, metro leadership did not exercise this oversight responsibility at any of metros, except City of Cape Town and City of Ekurhuleni.

Overall status of controls in 2023-24 – metros



Senior managers, supported by the municipal manager, are responsible for financial and performance management controls and risk management. Not all of these basic, day-to-day controls were in place at the metros.



A key element of internal control is developing and monitoring the implementation of action plans to address identified internal control deficiencies. This is the responsibility of the municipal manager and the senior management team. Audit action plans should address all three areas of audit outcomes, namely financial statements, performance reporting and compliance with legislation.

The controls relating to action plans were concerning or poor at all metros, except City of Cape Town and City of Ekurhuleni. This demonstrates a lack of responsiveness and accountability when it comes to implementing and monitoring the audit action plans, which are intended to provide a roadmap for addressing the root causes of audit findings and for preventing further regressions.

Integrated planning

All departments within a metro should plan and work together to fulfil the metro's mandate in an integrated manner. Metros should also collaborate effectively with their entities as necessary. However, at City of Johannesburg, eThekwini and Mangaung, functions within metros and/or between metros and their municipal entities were poorly coordinated.

Lack of integrated planning

- **City of Johannesburg** did not coordinate effectively with its entities, which resulted in the duplication of effort in collecting the evidence required for financial and performance reporting. This was due to misalignment between the metro and its entities on expectations and plans, obligations, budgets and timelines for the successful delivery of key projects. The metro and its entities responded reactively to repairs and maintenance for infrastructure and did not respond to all repair needs, which impeded the city's service delivery commitments. Key clauses from their service delivery agreements were also not enforced to foster a culture of transparency, oversight, accountability and integrated, comprehensive planning. Effective coordination and integration will assist in achieving quality reporting for decision-making.

- **eThekwini** directed most of the budget for the Namibia Stop 8 housing project towards infrastructure development, including roads, stormwater management, and water and sanitation facilities. While the housing unit had the necessary skills and capacity to fulfil its mandate, there was a lack of coordination among the metro's service delivery units, including water, sanitation and roads. As a result, the project was delayed due to lengthy planning processes, site obstructions from informal settlements and limited land for development. Improved coordination and resource sharing within the metro could help streamline efforts and enhance project efficiency.

- At **Mangaung,** there was no coordination or alignment between the municipal finance unit and the infrastructure unit, and the two units did not collectively determine and manage their budgets. Officials worked in silos and there was a lack of policies and procedures to govern collaborative relations. This resulted in infrastructure projects being delayed and funds being re-prioritised to other projects.

Human resources

Legislation requires councils to determine the staff establishment (the number of approved posts) necessary to perform municipal functions. At the start of the administrative term, municipal managers reviewed and councils approved the staff establishments of the metros.

The number of people metros employ ranges from between 6 000 and 8 000 at the smaller metros to between 20 000 and 35 000 in the larger metros. Metros such as City of Johannesburg have a much larger establishment considering the posts in their municipal entities.

Not all posts on the approved staff establishments were funded, which meant that there was not enough revenue to cover the salary cost of all positions. At Buffalo City, City of Ekurhuleni and City of Tshwane, a **moratorium (hiring freeze) was placed on the filling of non-critical positions** due to insufficient funds. This was one of the reasons for high vacancy rates overall and in key units.

In 2023-24, metros had an average overall **vacancy rate** of 22% at year-end, slightly higher than the 18% reported in 2020-21. The average senior management vacancy rate has worsened to 25% from the 15% reported in 2020-21. Mangaung had the highest overall vacancy rate at 61%, while Nelson Mandela Bay had the highest senior manager vacancy rate at 67%.

Instability in key leadership positions has a big impact on the operations of a metro.

Instability in key leadership positions (including acting officials) per metro

Metro	Outcome	Mayor	Municipal manager		Chief financial officer		Head of supply chain	
		Incumbents over past 3 years	Incumbents over past 3 years	Months in position (current incumbent)	Incumbents over past 3 years	Months in position (current incumbent)	Incumbents over past 3 years	Months in position (current incumbent)
Buffalo City	Qualified with findings	2	4	15	4	56	1	39
City of Cape Town	Unqualified with no findings (clean)	1	1	74	1	148	2	3
City of Ekurhuleni	Unqualified with findings	3	1	91	1	61	1	60
City of Johannesburg	Unqualified with findings	2	2	17	2	17	1	36
City of Tshwane	Qualified with findings	3	2	22	3	7	1	77
eThekwini	Unqualified with findings	2	2	21	1	35	3	132
Mangaung	Qualified with findings	3	4	8	5	1	1	Vacant at year-end
Nelson Mandela Bay	Qualified with findings	5	4	27	2	Vacant at year-end	4	Vacant at year-end

Generally, metros' **finance units** are well resourced and able to attract professionals that can deal with the complexities of their financial management and reporting. As a result, their use of financial reporting consultants is less prevalent – the metros accounted for only R43,47 million (3%) of the total consultant spend of R1,47 billion.

Of the five metros that submitted poor-quality financial statements for auditing, three used consultants:

- **Buffalo City** spent R8,93 million on consultants for asset management support due to a lack of skills, but the financial statements still included material misstatements on assets because of a lack of supporting evidence for the disclosed amounts. The work of the consultants was not effective due to the lack of records and the metro was again qualified on its financial statements.

- **City of Tshwane** spent R5,87 million on consultants to assist with preparing financial statements to compensate for a 23% vacancy rate in its finance unit and the resultant lack of skills. Due to insufficient review of and direction to the consultants, the metro was again qualified on its financial statements.

- **Mangaung** spent R15,04 million on consultants to assist with a variety of financial reporting and accounting services. The metro had the highest vacancy rate of all metro finance units at 48%. Due to a lack of records and documents, the metro was again qualified on its financial statements in the areas in which consultants did work.

The vacancy rate in the **technical departments** tasked with electricity, water, wastewater and solid waste services also had an impact on service delivery.

Vacancies in technical departments responsible for service delivery

- **eThekwini** had insufficient technical staff in the infrastructure section of the water and sanitation unit due to a 58% vacancy rate, which affected the unit's operations and projects. Critical maintenance was not performed regularly, which had a negative impact on water provision. The delay in appointing key personnel resulted in project delays, changes to project designs and scope, and project managers who were overburdened as they had to manage more projects than was possible given the limited time and resources at their disposal.

- **Buffalo City** has an overall vacancy rate of 15% across its key service delivery departments, with some key positions being vacant for multiple years. In particular, the district engineer position in the electricity department was vacant for 80 months, while the same position in the sanitation, solid waste and refuse removal department was vacant for 24 months. The shortage of staff with the requisite skills and knowledge significantly hindered the quality and efficiency of essential services such as water, electricity, sanitation, housing and waste management.

Due to a lack of internal capacity, municipalities spent R298,6 million on professional service providers (consulting engineers) at the 20 projects funded by infrastructure grants that we assessed.

Lack of capacity resulting in project delays and losses

Between May and June 2023, **Mangaung** paid a contractor an estimated R3,6 million for extension-of-time claims due to delays in the construction of a community hall in Thaba Nchu, as consultants were not available for quantity surveying, structural engineering and architecture. The contractor could not proceed until consultants had been appointed to perform the necessary functions, which delayed the other phases of the project. We notified the accounting officer of the MI in June 2024. The accounting officer did not take appropriate action to resolve the MI. We also included recommendations in the audit report, which should be implemented by July 2025.

Skills development is a key responsibility of municipal management to promote the development and retention of competent municipal staff. Legislation prescribes that a skills audit be conducted within 24 months of a new council being elected. Mangaung did not perform a skills audit, which hampered the metro's ability to identify development needs.

Municipal **performance management systems** must clarify the roles and responsibilities of each roleplayer in the system and provide for measuring performance at least once a year. Municipalities must develop and adopt appropriate systems and procedures to monitor, measure and evaluate staff performance and establish policies and procedures that define how performance will be assessed, measured and managed. Buffalo City and Mangaung did not have the required policies and procedures in place – we reported this as material non-compliance with legislation.

Without a formalised approach to performance management, it is difficult to effectively evaluate individual performance and identify skills gaps. This makes it difficult to consistently and decisively deal with non-performance.

Information systems

There is an urgent need to modernise and fortify information technology (IT) systems to enhance the capacity of local government – especially at the metros. Technology is the cornerstone of this undertaking, acting as a catalyst for efficiency, transparency and resilience in public services. Implementing robust control measures, ensuring stringent protection of sensitive information and maintaining continuity in service delivery are paramount.

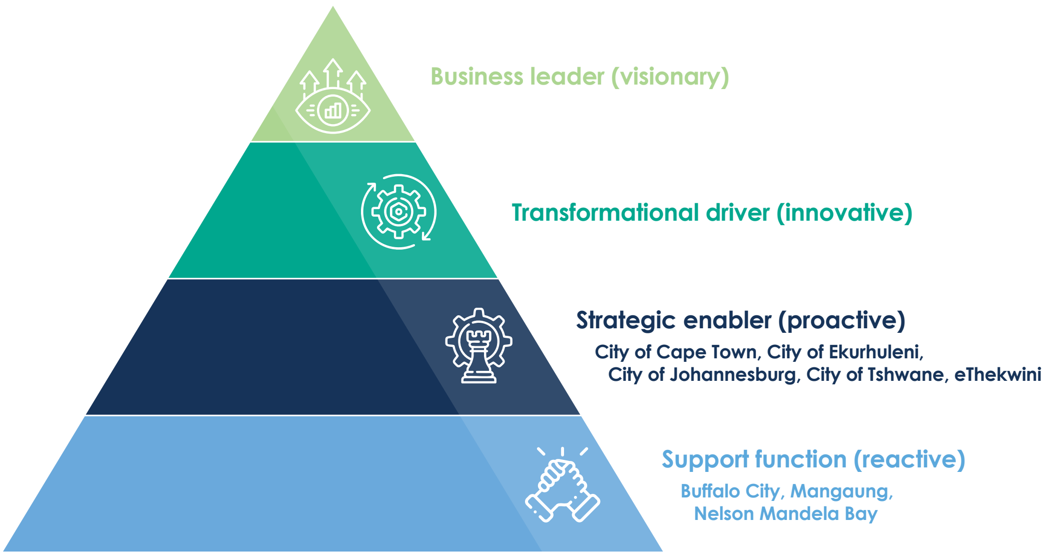
Every year, we increase our audit efforts and expand our scope to assess metros' progress in this area. In recent years, we have focused on cybersecurity and key modernisation projects.

We assessed **IT strategic alignment to metro priorities and IT budget monitoring.** Decentralised IT operations and a lack of strategic alignment hinder effective decision-making and lead to inconsistent service delivery. All metros, except City of Cape Town and City of Ekurhuleni, had weaknesses in this area:

- Five metros (63%) did not have adequate IT strategies that support overall metro objectives.
- At two metros (25%), strategic initiatives were hampered by delays caused by limited funding, institutional capability constraints, leadership instability and poor management practices.
- At four metros (50%), the decentralisation of the IT budget and expenditure complicated the understanding of overall resource allocation and spending.

The misalignment was mainly caused by the IT function not being prioritised and viewed as a support function only. This conclusion is based on our assessment of metros' **IT maturity levels** to determine the IT function's ability to support, enable and lead digital transformation. This model assesses the IT function as it progresses from a basic support function to a strategic enabler and transformational driver – a transition that requires strong governance, innovation and alignment with strategic goals.

Information technology maturity levels of metros



The lack of prioritisation of the IT function is evident from the lack of capability and inadequate investment in infrastructure.

The high **vacancy rate** at five metros (63%) significantly hindered the capability of their IT units to deliver services and meet objectives. Three metros (38%) did not have dedicated personnel in the roles of chief information security officer and project management officer.

IT systems and infrastructure did not always support service delivery. Six metros (75%) continued to invest in maintaining legacy systems rather than adopting modern IT solutions. This leads to higher long-term costs due to expensive maintenance, frequent system failures and reduced operational efficiency. Four metros also lacked the modernised IT infrastructure required to improve operational stability and cybersecurity.

A lack of strategic IT governance and long-term planning has led to **misaligned IT investments,** keeping the metros dependent on outdated systems. Weak disaster recovery and IT continuity planning increases the risk of prolonged service disruptions, further demonstrating a lack of holistic IT governance and infrastructure modernisation strategies.

Where IT projects are undertaken, they are not always successful, and poor service-level monitoring of IT service providers prevents metros from realising the full benefit of their investments.

We identified weaknesses in IT contracts, projects and software licences at five metros (63%):

- At Mangaung, service providers were paid to develop disaster recovery and business continuity plans that were not completed.
- At City of Johannesburg, IT service-level targets were not effectively managed for key IT contracts.
- City of Johannesburg and City of Tshwane delayed rolling out strategic IT projects.
- Buffalo City and City of Johannesburg lacked adequate governance structures, project management offices and frameworks to enable all IT projects to be adequately tracked.
- Nelson Mandela Bay did not adopt the automated tools developed to streamline documentation and approval processes, leading to purchased software licences not being used.

The following were the main causes of these findings:

- The performance of IT consultants was not monitored, which resulted in expenditure being incurred, while the weaknesses in the control environment remained. The performance reporting tool had system configuration limitations, preventing service providers from being properly monitored.
- Service-level agreements did not stipulate the performance monitoring measures against which service providers would be measured.
- Leadership instability, a lack of oversight and inconsistent application of project governance controls contributed to IT project weaknesses.
- Key project management positions were vacant, which resulted in weak project management processes and a lack of project management skills.
- Not all systems could be rolled out because the required hardware was not available.
- There was a lack of clear communication and buy-in when new systems were developed.

We notified the accounting officers of City of Johannesburg, City of Tshwane and Nelson Mandela Bay of MIs due to unused software licences. All three MIs have been resolved.

MI Payment for software licences not used or not used optimally

- In September 2019 and December 2020, **City of Tshwane** procured software licences that were not used, resulting in an estimated financial loss of R98,5 million. We notified the accounting officer of the MI in November 2022. The accounting officer terminated the licences that were not being used and negotiated a new maintenance fee for existing licences, which prevented losses of R11 million. In December 2022, the service provider issued a credit note of R22,3 million to the municipality to be used for future maintenance costs. No official was found liable as the procurement was informed by a needs analysis. The MI has been resolved.

- **Nelson Mandela Bay** procured software licences that exceeded the number of users in the metro, resulting in payments for unused licences between July 2020 and June 2022. We notified the accounting officer of the MI in November 2022. In January 2023, the accounting officer entered into a new licence contract and reduced the number of users. The matter was investigated by the municipal public accounts committee and referred to the council in December 2023. The council resolved to write off the estimated financial loss of R34,11 million, as the investigation did not find any person liable. The MI has been resolved.

Little progress has been made in improving IT controls.

Information technology controls per metro

	2022-23	2023-24	Movement
Buffalo City	Concerning	Concerning	Unchanged
City of Cape Town	Concerning	Concerning	Unchanged
City of Ekurhuleni	Concerning	Concerning	Unchanged
City of Johannesburg	Poor	Concerning	Improvement
City of Tshwane	Concerning	Concerning	Unchanged
eThekwini	Concerning	Concerning	Unchanged
Mangaung	Poor	Poor	Unchanged
Nelson Mandela Bay	Concerning	Concerning	Unchanged

Concerning Poor Improvement Unchanged

As part of assessing security controls, we also considered cybersecurity governance, information risk management, operations and technology, legal and compliance matters, and crisis management. Metros continue to be prime targets for ransomware and data breaches.

We identified findings at all of the metros:

- Four metros (50%) had no cybersecurity strategies, had inadequate cybersecurity skills and human resources, and did not provide training to cybersecurity staff. Vulnerability management and threat intelligence were poor or non-existent, and there were no data classification and loss prevention processes and strategies. There was also no cybersecurity incident response playbook to define key processes.
- Seven metros (88%) relied on outdated infrastructure and all metros had insecure configurations on the infrastructure that hosted in-scope applications.
- All metros were assessed as being potentially vulnerable to cyberattacks.

The cybersecurity weaknesses were mainly caused by the following:

- Cybersecurity is still considered to be an IT issue rather than a business concern.
- Metros relied on outdated and ageing infrastructure to support key applications.

Cybersecurity weaknesses

Mangaung did not adequately maintain and safeguard its IT assets, resulting in a cyberattack and a breach on the IT network in October 2023. This rendered each of the metro's IT applications inoperable, including its financial, human resource management and communications systems. The cyberattack disrupted the metro's operations and caused substantial harm to both the metro and the public as it was unable to provide services to communities. The metro fully restored its systems only in January 2024. We notified the accounting officer of the MI in July 2024. The accounting officer did not take appropriate action to resolve the MI. We also included recommendations in the audit report which should be implemented by July 2025.

Internal audit units and audit committees

These structures have clearly defined roles and responsibilities to contribute to improving controls, mitigating risk and providing assurance on financial and performance reporting in terms of legislation, as detailed in sections 1 and 2.

In our assessment, internal audit units and audit committees had been established and were operational at all metros. By year-end, the head of internal audit unit position had been filled at all metros, except City of Ekurhuleni. Except at two metros (Buffalo City and Mangaung), the internal audit units and audit committees performed all the functions required by legislation, including evaluating the reliability of financial and performance information and compliance with procurement legislation.

At Mangaung, the internal audit unit assessed performance information by evaluating whether deviations from planned targets were documented, but did not adequately evaluate the usefulness and reliability of the performance information. The metro's audit committee did not review its draft service delivery and budget implementation plan, and no supporting documentation was provided to show that it had advised the municipal council and the accounting officer on matters relating to setting key performance indicators and targets. The audit committee also did not evaluate the metro's financial information. At Buffalo City, the internal audit unit did not evaluate the metro's compliance with supply chain management legislation.

When internal audit units and audit committees do not evaluate key risk areas, municipal managers remain unaware of control weaknesses within the metro until our next audit, leaving the metros unable to address these matters before they can have a significant impact.

Internal audit units and audit committees are a big investment for municipalities – the professionals who are employed as internal auditors and those who serve as members of the audit committees are expensive. In 2023-24, metros spent R347,88 million on their internal audit functions (including outsourced cost), with City of Ekurhuleni and eThekwini accounting for more than half (58%) of this amount. However, the value that these structures can bring to financial and performance management is not fully realised – their influence will always depend on how municipal managers and senior management respond to their findings and recommendations.

Despite significant investment in these governance structures, the audit outcomes showed that their work had little impact, as the quality of the financial statements and performance reports that we received for auditing remained poor, and we also continued to report material findings on compliance with procurement and contract management legislation. In short, internal audit units and audit committees had a positive impact on the audit outcomes of only two metros (25%).

The reasons for these governance structures having a minimal impact at metros are as follows:

- Internal audit units were inadequately capacitated at all metros. Four metros had vacancy rates of 20% or higher, while two metros (City of Tshwane and Mangaung) had vacancy rates above 50%. This prevented some internal audit units from implementing their internal audit plans.

- There were differences in the legislated responsibilities, scope of work and methodology applied by these structures compared to ours. For example, internal audit units at three metros (38%) did not carry out work on all significant financial audit areas, while vacancies at City of Johannesburg and Nelson Mandela Bay meant that these units did not fully execute what they had planned to assess.

- The audit committees' terms of reference focus mainly on finance matters, which led to their reviews of performance reports being inadequate. This was prevalent at City of Johannesburg and City of Tshwane.

- Management did not address internal audit findings and audit committee recommendations due to a lack of consequence management and ineffective accountability measures. For example, internal audit units at all metros assessed compliance with legislation and, at all metros, except City of Cape Town, identified instances of non-compliance. However, management did not take their recommendations seriously. The intended value of the investment in these governance structures and their contribution in the areas of internal control and risk mitigation are not fully realised when metros do not implement their recommendations.

- Municipal public accounts committees did not always support the work of the audit committees. At Buffalo City and Mangaung, the municipal public accounts committee did not evaluate the extent to which management had implemented the recommendations of the audit committee.

4.5 ACCOUNTABILITY

Accountability is a value that starts with the leaders – if the right tone is set at leadership level, officials will also recognise and embrace being accountable in their daily operations. Being accountable means being responsible to the public, oversight structures and other stakeholders by reporting on whether and how mandated responsibilities have been fulfilled, and on the actions taken and decisions made to ensure swift consequences for transgressions and poor performance.

Lack of accountability for unauthorised, irregular, and fruitless and wasteful expenditure

Legislation tasks the municipal manager and the council with preventing, detecting, disclosing and dealing with unauthorised, irregular, and fruitless and wasteful expenditure. There is a well-defined process to transparently and consistently deal with these types of expenditure as the amounts and how they have been dealt with are disclosed in the financial statements.

Over the past three years, most metros have been slow to respond to these matters – not investigating as required by the Municipal Finance Management Act (MFMA), not holding officials accountable, and not taking all possible steps to identify and recover possible financial losses.

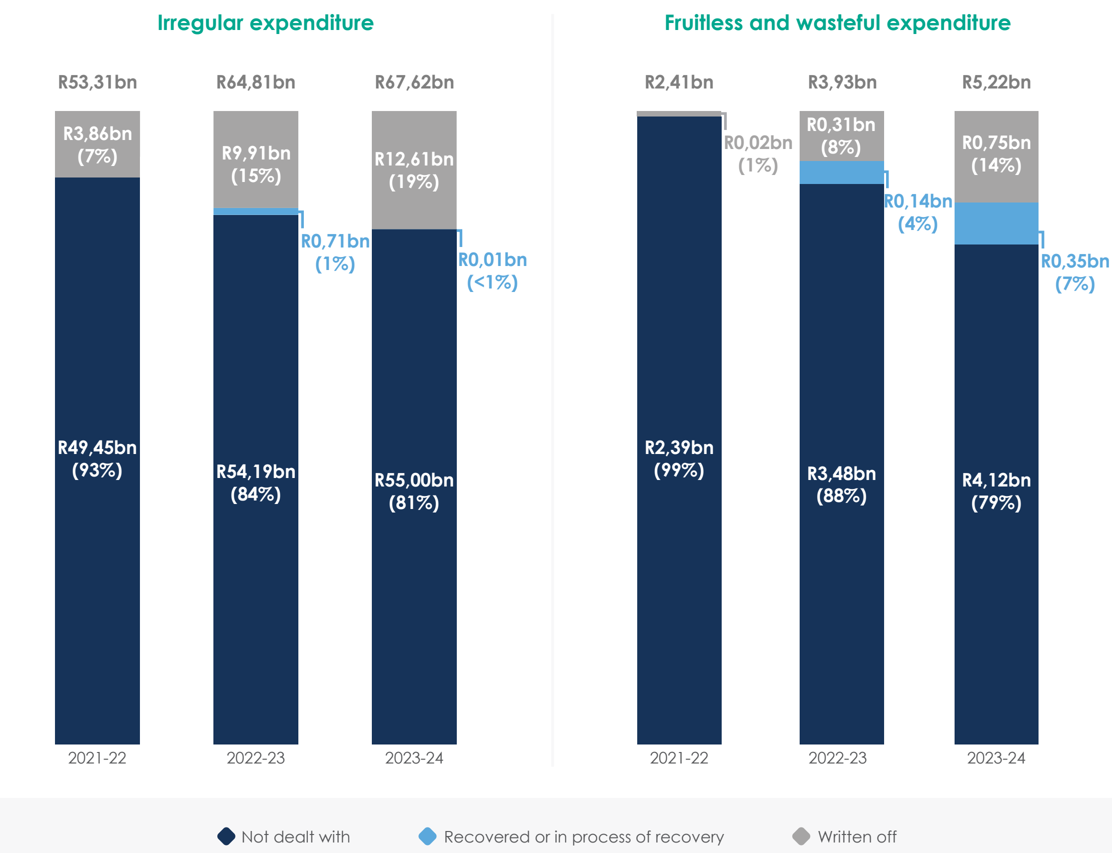
Metros that did not investigate unauthorised, irregular, and fruitless and wasteful expenditure over three years

Metro	Unauthorised expenditure	Irregular expenditure	Fruitless and wasteful expenditure
Buffalo City	-	3 years	2 years (2021-22 & 2022-23)
City of Johannesburg	3 years	3 years	3 years
City of Tshwane	1 year (2021-22)	3 years	2 years (2022-23 & 2023-24)
Mangaung	3 years	3 years	3 years
Nelson Mandela Bay	3 years	3 years	3 years

As a result, the year-end balances of these types of unwanted expenditure remain high. By 2023-24, the balance of irregular expenditure that metros had accumulated over many years totalled R62,43 billion, while the balance for unauthorised expenditure stood at R16,59 billion and for fruitless and wasteful expenditure at R4,39 billion.

Metros and their entities have started paying attention to irregular and fruitless and wasteful expenditure over the past two years, but councils and boards have been more inclined to write off the financial losses and the money irregularly spent than to take steps to address the root causes.

How metro councils and boards dealt with opening balance of irregular and of fruitless and wasteful expenditure



The slow progress in addressing unauthorised, irregular, and fruitless and wasteful expenditure is partly due to municipal public accounts committees not carrying out their responsibilities effectively. City of Tshwane and Mangaung did not have implementation timeframes for overall recommendations; recommendations dealing with unauthorised, irregular, and fruitless and wasteful expenditure investigations; or following up on recommendations for dealing with MIs or from disciplinary boards.

As detailed in section 3.4, the National Treasury's Consequence Management and Accountability Framework is a valuable tool that municipalities can use to effectively deal with consequence management. City of Tshwane and Mangaung did not implement the framework, while the provincial treasuries did not assess the implementation of this framework at Buffalo City and Mangaung.

Slow progress in investigating unauthorised, irregular, and fruitless and wasteful expenditure

- **City of Tshwane** was slow to investigate irregular expenditure, fruitless and wasteful expenditure and allegations of financial misconduct, mainly due to capacity constraints within its investigations unit. This resulted in material non-compliance with key legislation continuing, including not investigating irregular expenditure and fruitless and wasteful expenditure to determine if anyone was liable for the expenditure.

- **Buffalo City** did not have a dedicated unit to investigate unauthorised, irregular, and fruitless and wasteful expenditure. This resulted in a repeated material finding on compliance, as irregular expenditure was not investigated to determine if anyone was liable. An investigation in 2023-24 resulted in irregular expenditure of R60,20 million being written off on the basis of it being prescribed, but no appropriate action was taken against the officials responsible for the expenditure.

All metros, except Mangaung, had disciplinary boards in place. However, at Buffalo City, City of Johannesburg and Nelson Mandela Bay, these boards did not perform their legislated role of investigating financial misconduct allegations. The board at City of Johannesburg also did not monitor the disciplinary proceedings at the metro.

Shortcomings in accountability ecosystem of metros

Councils and mayors 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.

Mayors at four metros (City of Johannesburg, City of Tshwane, eThekwini and Mangaung) did not ensure that the issues that we had raised in our audit report were addressed. At Mangaung, the mayor did not ensure that the performance agreements of the municipal manager and other senior managers were linked to the objectives in the service delivery and budget implementation plan.

In 2023-24, instability continued to affect the ability of **councils** at City of Ekurhuleni and Mangaung to provide effective monitoring, support, strategic direction and oversight. Councils at five metros (Buffalo City, City of Tshwane, eThekwini, Mangaung and Nelson Mandela Bay) did not monitor audit action plans or hold officials accountable for timelines on the action plan.

Municipal public accounts committees were established at all metros; however, only the committees at City of Cape Town and City of Ekurhuleni effectively discharged their responsibilities.

Ineffective councils and council committees

- In **eThekwini,** the council did not oversee significant audit areas and service delivery. This was evident through stagnant audit outcomes and constant calls from the public and media to address service delivery challenges within the metro. The council was also slow to implement key audit recommendations and hold the city manager accountable for not addressing prior-year issues. Additionally, there was no evidence that councillors had been trained on the consequence management framework or updates on legislation, which resulted in council oversight not being fully effective.

- Councils in **City of Ekurhuleni** and **City of Tshwane** did not adequately oversee the budgets prepared by municipal managers and approved unfunded budgets, resulting in additional pressure being placed on the metros' financial position.

Section 154 of the Constitution stipulates that national and provincial government must support and strengthen the capacity of municipalities to manage their own affairs, exercise their powers and perform their duties. Section 34 of the MFMA also requires national and provincial government to help municipalities build capacity to support efficient, effective and transparent financial management.

National Treasury Circular 20 expands on the accountability ecosystem for metros. The finance minister has delegated certain responsibilities to the provincial members of the executive council for finance relating to support, oversight and municipal administrative procedures. The National Treasury retained the monitoring and administrative oversight role of the largest municipalities in each province, including all metros and nine intermediate cities – referred to as 'non-delegated' municipalities. If the non-delegated municipalities embrace the MFMA and the associated reforms, the National Treasury's objective of addressing most of the challenges in local government would have been achieved.

The National Treasury has also implemented various other initiatives to support metros, including the following:

- Conducting annual budget assessments, providing budget support and recommendations, and performing mid-year budget and performance assessments and reporting any findings from these assessments.

- Institutionalising in-year management, monitoring and reporting systems to track metro performance in all key areas.

- Continuing to drive the implementation of common performance indicators at metros to streamline planning and reporting and improve the completeness, measurability and relevance of performance indicators and targets.

Metros have not taken full advantage of these initiatives, as can be seen from their limited improvement.

The legislative role of national and provincial government to oversee and monitor metros, and intervene when necessary, has also not been having the intended impact in all instances.

Findings on compliance with legislated duties by metro roleplayers

Oversight and monitoring

The **member of the executive council for local government** must assess all financial statements, audit reports and responses to audit reports to determine whether municipalities have adequately addressed any issues raised by the auditor-general in audit reports, and must report to the legislature any omission by a municipality to adequately address those issues within 60 days.

Section 131(2) of the MFMA

What we found:

Members of the executive council for local government in all five provinces with metros performed the assessment and reported to their respective provincial legislatures.

The **member of the executive council for local government** must monitor whether all municipal managers in the province submitted the annual report and all oversight reports on those annual reports within seven days after the council has adopted the oversight report.

Section 132(2) and (3) of the MFMA

What we found:

The municipal managers of all metros, except Mangaung, submitted the annual report and oversight reports to the legislature within seven days of being adopted by the council.

The **member of the executive council for local government** must annually compile a consolidated report on the performance of municipalities in the province – identifying municipalities that under-performed and proposing remedial action to be taken – and must submit the report to provincial legislatures, the National Council of Provinces and the cooperative governance minister.

Section 47 of the MSA

What we found:

Reports were submitted to the provincial legislatures for all metros, except Mangaung.

Remedial action was proposed and implemented at City of Johannesburg and City of Tshwane. No remedial action was proposed for the other five metros.

The **provincial legislature** may deal with the annual report and oversight reports in accordance with its constitutional powers.

Section 132(4) of the MFMA

What we found:

Three of the five provincial legislatures responsible for metros (Eastern Cape, Free State and Gauteng) did not deal with the annual reports of their metros.

Findings on compliance with legislated duties by metro roleplayers (continued)

Intervention

The **member of the executive council for local government** must assess the seriousness of financial problems and determine if the municipality requires provincial intervention; and if required, take appropriate steps for mandatory or discretionary provincial intervention.

Section 136 of the MFMA

The **provincial executive** must promptly, if a municipality is in a crisis in its financial affairs, or is in serious breach of its obligations to provide basic services or to meet its financial commitments, request that the municipal financial recovery service (a unit within the National Treasury):

- determine the reasons for the crisis
- assess the municipality's financial state
- prepare an appropriate recovery plan for the municipality
- recommend appropriate changes to the municipality's budget and revenue-raising measures that will give effect to the recovery plan
- submit the determination and assessment and the recovery plan and recommendations to the member of the executive council for finance.

Section 139 of the MFMA

The **national executive** must intervene in accordance with section 139(7) of the Constitution, where the conditions of section 139(4) or (5) of the Constitution are met, but the provincial executive does not exercise its powers.

Section 150 of the MFMA

What we found:

The national Department of Cooperative Governance and the provincial cooperative governance department provided monitoring and support to Nelson Mandela Bay Metro.

The National Treasury provided support to City of Tshwane to enable the preparation of credible financial statements and the implementation of a plan to improve financial health.

The National Treasury's oversight of the voluntary financial recovery plan at Buffalo City had minimal impact. The metro was also downgraded by its rating agency.

Mangaung is the only metro under national intervention. However, the implementation of the financial recovery plan has not improved the financial state of the metro, which has been slow to deal with its financial difficulties, leading to service delivery disruptions.

These interventions are intended to support and strengthen the capacity of metros to manage their own affairs, exercise their powers and perform their functions. Overall, the intended benefit of these interventions has not been realised as there has not been significant improvement at metros.

4.6 CONCLUSION

The level of performance, accountability, transparency, institutional integrity and institutional capability of metros differs, but they all face significant challenges, except City of Cape Town. Metros that are still struggling with the basics are Buffalo City, City of Tshwane, Mangaung and Nelson Mandela Bay. City of Ekurhuleni, City of Johannesburg and its municipal entities, and eThekwini have better institutional capability, but are not performing optimally – still allowing significant lapses in institutional integrity and accountability.

The ministers and members of the executive councils responsible for finance and for local government, together with Parliament and the provincial legislatures, should enhance their intervention and oversight at metros to achieve tangible improvements. The impact that fully functional, well-performing metros will have on the majority of South African citizens and businesses is substantial and well worth working towards.

05

MATERIAL IRREGULARITIES

The material irregularity process is not having the desired impact in local government

When the Public Audit Act was amended in April 2019, it gave us the mandate to identify and report on material irregularities (MIs) and take action if accounting officers do not deal with them appropriately. The overall aim of the amendments was to promote better accountability, improve the protection of resources, enhance public sector performance and encourage an ethical culture, enable effective oversight and, ultimately, strengthen public sector institutions to better serve the people of South Africa.

Definition of material irregularity and expanded powers

Material irregularity (MI)

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 does not appropriately deal with material irregularities, our expanded mandate allows us to:

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 MI process is designed to enable accounting officers, councils and committees in Parliament and the provincial legislatures to be more effective in preventing and dealing with irregularities such as non-compliance and suspected fraud and their resulting impact (loss, misuse or harm) as follows:

- Through the MI process, we identify and highlight the most important irregularities for them to pay attention to – those that have had a material impact on the finances, performance and service delivery of an auditee or that caused harm to the general public.

- In the audit reports of auditees, our general and special reports, and briefings to the councils and provincial legislatures, we report in detail on each MI and how the accounting officer is – or is not – addressing the matter.

- We also escalate MIs that are not being appropriately dealt with to mayors and provincial leadership, who can support the process by monitoring the status of MIs, following up on delays and overcoming the stumbling blocks encountered in resolving them. Through these processes, accounting officers can be held accountable for failing to appropriately address the MIs.

- Through our transparent reporting processes, information on MIs is also made available to the public and civil society organisations.

As set out in section 3.4, accounting officers have a legislated obligation to prevent irregularities and, if they had occurred, to deal with them appropriately. The mayor and the council, through the municipal public accounts and audit committees, have a further responsibility to monitor and support the process.

Where accounting officers, supported by their political leadership, met their legislated responsibilities and committed to taking swift action when we notified them of an MI, we did not have to exercise our expanded powers. However, where they did not deal with MIs with the required seriousness, we did not hesitate to use these powers.

The rest of this section provides information on the number, nature and status of the MIs that have been identified since 2019. It also illustrates the impact that the MI process has had, discusses the stumbling blocks to resolving MIs, examines how we have used our expanded powers and recommends optimising the MI process to enhance oversight.

5.1 NATURE OF MATERIAL IRREGULARITIES

From 1 April 2019 (when we started implementing the MI process) to 31 December 2024 (the cut-off date for MIs to be included in this report), we identified 446 MIs at 131 municipalities and nine municipal entities. Of these, 86 have been identified since last year's general report when we had reported on 360 MIs at 121 municipalities and seven municipal entities.

Nature of 446 material irregularities identified from 2019-20 to 2023-24

285 Material **financial loss** (estimated R8,74bn) — 30

- 72 Payment for **goods or services not received/ of poor quality/ not in line with contract** or to **ineligible beneficiaries** — 12
- 56 Eskom, water boards, lenders and suppliers **not paid on time** resulting in interest — 5
- 40 **Inefficient use of resources** resulting in no/ limited benefit derived for money spent — 3
- 39 Revenue losses due to **unbilled revenue, debt not recovered or unrecorded receipts** — 3
- 20 **Assets not safeguarded/maintained** resulting in financial loss — 4
- 19 Payroll and value-added tax returns **not paid on time** or **incorrectly calculated** resulting in South African Revenue Service interest and penalties
- 15 **Loss of investment**
- 12 **Uneconomical procurement** resulting in overpricing of goods and services procured — 3
- 8 Non-compliance in procurement processes resulting in **overpricing of goods and services procured or appointed supplier not delivering**
- 3 **Suspected fraud** resulting in financial loss
- 1 **Non-compliance** resulting in penalties

80 Substantial **harm to general public** — 32

- 56 Non-compliance with environmental legislation resulting in **pollution of water resources** — 18
- 20 **Landfill site mismanagement** resulting in harm to public — 10
- 3 **Pension fund contributions** deducted but not paid over — 3
- 1 **Assets not safeguarded/maintained** resulting in harm to public — 1

79 Substantial **harm to public sector institutions** — 27

- 35 **Non-submission** of financial statements — 10
- 28 **Repeat disclaimed audit opinion** — 3
- 8 Lack of proper **performance information records and systems** — 7
- 5 **Non-submission** of performance report — 5
- 2 Poor **financial and performance management** — 1
- 1 **Assets not safeguarded/maintained** resulting in harm to municipality — 1

2 **Misuse** of material public resource due to under-utilisation — 2

- 2 **Municipal infrastructure** — 2

New MIs: notifications sent out in 2023-24

The poor control environments in local government cause these MIs, which 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 and/or penalties
- recover revenue owed to the state
- prevent fraud
- comply with legislation
- safeguard and maintain assets
- complete infrastructure projects on time, at the required quality and within budget
- report transparently and reliably on performance and finances
- manage finances with due care
- effectively and efficiently use the resources of the state to get value for the money spent and deliver the intended services
- effectively manage human resource management processes and obligations towards employees, including paying over contributions to pension funds and the South African Revenue Service in a timely manner
- avoid harm to the public.

We identified the MIs through irregularities that came to our attention during our normal audit processes. As we do not audit all the transactions and activities of our auditees, it is likely that there are many more similar MIs in local government.

We have highlighted all these areas of vulnerability to accounting officers and in our general and special reports many times before, as preventing MIs is more effective than having to deal with them once they have already occurred.

The MIs are spread across all provinces, with the highest number being raised in the Free State, the Eastern Cape, KwaZulu-Natal and North West.

Throughout this report, we include examples of MIs to show just how harmful their impact can be.

5.2 STATUS OF MATERIAL IRREGULARITIES

The 446 MIs that we had identified up to 31 December 2024 were at different stages in the MI process by 31 January 2025 (the cut-off date for the status of MIs to be included in this report). As we recently made decisions on invoking our powers, the status reflects those decisions at 5 May 2025.

Status of 446 material irregularities identified from 2019-20 to 2023-24

217	49%	Resolved MIs
71	16%	Appropriate action being taken to resolve MIs
107	24%	Appropriate action not taken – invoked our powers
10	2%	Appropriate action not taken – decision on invoking powers in process
7	1%	Not pursued further
12	3%	Notification response received – assessment in process
22	5%	Notified and awaiting response

We are still assessing the actions being taken to address 34 of the 446 MIs, as either we had only recently notified accounting officers of the MIs and their responses were not yet due, or we were still evaluating the responses to the newly identified MIs. We are also assessing whether to invoke our powers for 10 MIs where appropriate action has not been taken.

This means that we have evaluated and can report on the status of 402 MIs – those that have been resolved, those where appropriate action is being taken, those that we are not pursuing further and those where appropriate action was not taken and we invoked our powers.

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 or misuse caused
- implement consequences against those involved
- prevent any further losses, harm and misuse.

Of the 217 resolved MIs, 115 were resolved in 2023-24 and 102 were resolved in prior years. The resolution of MIs contributed to the prevention and recovery of financial losses, implementation of consequences, institution of criminal proceedings and implementation of controls to prevent a similar MI from recurring.

We include examples of these resolved MIs and their impact in section 5.3.

Most of the resolved MIs did not require much effort from the accounting officer or involvement from the council, and provincial government often contributed to the resolution. For example, 36 MIs (17%) were resolved by the auditee submitting overdue financial statements or performance reports, and 13 MIs (6%) related to losses due to VBS Mutual Bank investments, which have been resolved through applications to the liquidator and by implementing consequences for those responsible, which was driven mostly by national and provincial government.

We have also observed that, while accounting officers often respond by improving controls related to a specific MI, they do not improve the overall control environment to prevent further MIs from being raised.

Appropriate action taken

Appropriate action means that we have assessed the steps being taken by the accounting officer 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 be resolved. 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 to be conducted, the outcomes of which must be reported to the South African Police Service if fraud is identified.

Although the 71 MIs where appropriate action is being taken have not yet been fully resolved, accounting officers have made progress in implementing their planned actions.

The main actions that still need to be taken to fully resolve these MIs are recovering any financial losses and finalising the investigations and subsequent disciplinary processes against the responsible officials as part of the consequence management process. In completing these actions, accounting officers often encounter stumbling blocks, as set out in section 5.4.

Not pursued further

We decided not to continue pursuing seven MIs that resulted in financial loss based on our assessment of the likelihood of quantifying and recovering the financial loss, as well as advice from the MI advisory committee and information that came to our attention during the MI process.

Appropriate action not taken – invoked our powers

In the 107 cases where accounting officers did not appropriately address the MIs that we had reported to them, we used our expanded mandate by including recommendations in the audit report or by the auditor-general invoking her additional powers of referral and remedial action.

A lack of responsiveness by accounting officers and limited involvement by the council to ensure that MIs are addressed resulted in an increase in the number of MIs in this category. Last year, we reported on 78 MIs with this status.

Further action taken to resolve material irregularities

20 Recommendations in audit report as accounting officer took little or no action to address MI

Free State – 9

Mangaung MM – 5
Ngwathe LM
Mafube LM
Maluti-a-Phofung LM
Mohokare LM

Northern Cape – 6

Emthanjeni LM – 2
Renosterberg LM – 2
Phokwane LM
Siyathemba LM

Eastern Cape – 2

Amathole DM
Sundays River LM

KwaZulu-Natal – 1

eThekwini MM

Mpumalanga – 1

Emakhazeni LM

North West – 1

Ratlou LM

2 Recommendations in audit report and referral to public bodies

Free State – 1

Mohokare LM

Mpumalanga – 1

Bushbuckridge LM

13 Remedial action taken as our recommendations were not implemented

Free State – 6

Ngwathe LM – 2
Letsemeng LM
Mangaung MM
Moqhaka LM
Nketoana LM

North West – 3

City of Matlosana LM – 3

Eastern Cape – 1

Inxuba Yethembe LM

KwaZulu-Natal – 1

uMkhanyakude DM

Mpumalanga – 1

Emalahleni LM

Northern Cape – 1

Joe Morolong LM

9 Further action taken as remedial action was not implemented

North West – 5
Ditsobotla LM
Lekwa-Teemane LM
Madibeng LM
Mamusa LM
Naledi LM

Free State – 3
Maluti-a-Phofung LM
Masilonyana LM
Tokologo LM

Northern Cape – 1
Kai !Garib LM

61 Referral to public bodies for further investigation

Free State – 24
Mangaung MM – 5
Maluti-a-Phofung LM – 4
Matjhabeng LM – 4
Metsimaholo LM – 3
Masilonyana LM – 2
Moqhaka LM – 2
Nketoana LM – 2
Kopanong LM
Ngwathe LM

North West – 14
Ngaka Modiri Molema DM – 8
Madibeng LM – 3
JB Marks LM – 2
City of Matlosana LM

Mpumalanga – 12
Dipaleseng LM – 5
Emalahleni LM – 4
Lekwa LM – 2
Thaba Chweu LM

KwaZulu-Natal – 5
eThekwini MM – 2
uMzinyathi DM – 2
Amajuba DM

Limpopo – 3
Thabazimbi LM – 3

Eastern Cape – 2
Chris Hani DM – 2

Northern Cape – 1
Siyathemba LM

1 Referral and remedial action

Free State – 1
Mangaung MM

1 Notice of certificate-of-debt process

North West – 1
Ngaka Modiri Molema DM

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.

If an accounting officer does not implement our recommendations, we take remedial action that covers the same areas of recovery, prevention and consequences. Remedial action is a binding (obligatory) instruction taken by the auditor-general that outlines the action that an auditee must take to address the MI.

If the MI caused a financial loss to the state, the remedial action also includes a directive to quantify and recover the financial loss. If the directive is not implemented by the stipulated date, we can commence with a certificate-of-debt process to recover the loss from the accounting officer.

If an accounting officer does not implement the remedial action other than the directive, we can take further action as provided for in the Public Audit Act, including escalating the matter to the broader accountability ecosystem, issuing a special report or taking legal action. The MIs are typically escalated to the mayor, council, chair of the municipal audit committee, premier of the province, and members of the executive councils for local government and finance.

Section 5.5 provides further details on the status of the MIs where we invoked our powers.

5.3 IMPACT OF MATERIAL IRREGULARITY PROCESS

When we notify an accounting officer of an MI, they often address irregularities and transgressions that they should have already dealt with. Until we issued notifications, no actions were being taken to address 376 (84%) of the 446 irregularities that we have identified.

Since 2019, accounting officers have taken action to prevent or recover financial losses and prevent harm through the MI process. These actions have included the following:

- 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 harm and financial losses.

- Recovering financial losses from suppliers and employees.

- Stopping supplier contracts where money was being lost.

- Implementing consequences against parties that had caused the financial losses and harm, including handing over matters to law-enforcement agencies, and identifying the officials responsible and starting disciplinary processes against them.

- Making optimal use of resources that were previously either unused or underutilised.

- Submitting overdue financial statements and performance reports.

- Ensuring compliance with legislation, including environmental management legislation.

Impact made by material irregularity process

Financial impact – number of MIs and breakdown of loss amounts recovered, prevented or being recovered (R1,32 billion)

28
R709,26m
Financial loss **recovered**

30
R370,24m
Financial loss in process of **being recovered**

14
R244,12m
Financial loss **prevented**

Additional impact – number of MIs

187 **Internal controls improved** to prevent recurrence

51 **Fraud/criminal investigations** instituted

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

12 **Supplier contracts stopped** where money was being lost

The progress made in preventing and/or recovering financial loss has been slow. This lacklustre approach to dealing with actual and potential financial losses is also evident in how irregular expenditure and fruitless and wasteful expenditure are dealt with, as set out in section 3.4. The status of the total estimated loss of R8,74 billion is as follows:

- R1,32 billion has been recovered, prevented or is being recovered due to the MI process.
- R172,16 million has been written off by auditees as not recoverable.
- R3,63 billion has not yet been dealt with appropriately and is at risk of being lost.
- R3,62 billion has not yet been written off as non-recoverable, but in our assessment, it is unlikely to be recoverable.

Preventing MIs is more effective than having to deal with them after they have already occurred. Efforts to recover financial losses are often not successful due to factors such as prescription (whereby a debtor is no longer legally obliged to pay off an old debt due to the passage of time), the liquidation of suppliers and inadequate processes to identify liable officials and recover losses from them. Some of these factors played a role in only R262 million (16%) of the R1,59 billion loss suffered due to investments in VBS Mutual Bank being recovered.

The following examples clearly show that resolving an MI has a positive impact on a municipality. The examples include MIs that have been fully resolved or are being resolved by accounting officers responding to our MI notifications. This positive impact is also reflected in other examples throughout this report.

Positive impact of the material irregularity process

Loss recovered and further loss prevented: City of Johannesburg Metro (Gauteng)

In July 2019, the metro entered into an agreement for software licences and subsequently paid maintenance costs for some of the licences that were not used, resulting in a financial loss of R458,87 million. We notified the accounting officer of the MI in November 2022. In September 2023, a new contract with the same service provider was entered into in which the metro was required to pay only for maintenance and support on the software licences in use, resulting in an estimated saving of R177,4 million over three years. In July 2024, the accounting officer also recovered R228,36 million from the service provider and received a credit note of R53,11 million for use on future software licensing fees and maintenance costs. The MI has been resolved.

Loss prevented and controls strengthened: Phokwane Local Municipality (Northern Cape)

In 2020-21, the municipality did not charge interest on outstanding consumer debts, which resulted in an estimated financial loss of R9,22 million. We notified the accounting officer of the MI in February 2023. In March 2023, the accounting officer concluded a preliminary investigation, which determined that the irregularity had been caused by the improper configuration of the new system. The issue was corrected and consumers have been billed correctly since March 2023. During 2023-24, we confirmed that interest was being charged on overdue accounts and interest for 2020-21 to 2022-23 was billed to consumers retrospectively in June 2024. The MI has been resolved.

Further harm prevented and controls strengthened: Mogalakwena Local Municipality (Limpopo)

In October 2023, we identified several shortcomings at the Rebone landfill site, including inadequate access controls and deficiencies in site operations, resulting in non-compliance with the site's permit conditions. We notified the accounting officer of the MI in April 2024. The municipality appointed a service provider to manage and maintain the landfill site. Adequate fencing has since been installed, and the service provider and project manager use a monthly schedule of activities to ensure compliance with the permit conditions. Further action is being taken to fully resolve the MI.

Positive impact of the material irregularity process (continued)

Loss prevented and controls strengthened: City Power Johannesburg (Gauteng)

The municipal entity did not bill some customers for electricity consumption in 2021-22, resulting in an estimated financial loss of R44,35 million. We notified the accounting officer of the MI in April 2023. The accounting officer finalised a verification process of all customers in June 2023 and identified meters that were illegally connected to the electricity network. All customers were billed from November 2023. From June 2023, the entity also strengthened its controls around new meter connections to ensure that customers are connected only upon confirmation of a valid connection number. The MI has been resolved.

Supplier contracts stopped where money was being lost: Nkomazi Local Municipality (Mpumalanga)

In September 2021, the municipality prepared a consultancy reduction plan for value-added tax (VAT) services. However, it failed to fill vacant positions in the finance unit to perform these services in-house and continued to rely on consultants, resulting in an estimated loss of R3,37 million. We notified the accounting officer of the MI in April 2023. The accounting officer cancelled the consultant contract in May 2023 and used a reporting manager as an interim measure to prepare the VAT returns. Between August 2023 and December 2023, the accounting officer filled the vacant positions responsible for VAT services. The MI has been resolved.

5.4 STUMBLING BLOCKS IN RESOLVING MATERIAL IRREGULARITIES

When an MI notification is issued, the loss, misuse or harm has most often already occurred and any delays towards a resolution worsen the situation. Swift action is crucial in improving the chances of recovering losses and preventing further misuse or harm. The delay between MI notification and MI resolution poses a significant challenge, as it hampers the ability of municipalities and municipal entities to effectively recover losses, prevent misuse or mitigate harm.

How long it takes to resolve an MI depends on its complexity and how many delays there are in taking the necessary action. Generally, it takes longer to recover financial losses than to implement other actions, as the matter first needs to be investigated, and it takes time to establish liability and submit civil claims. Some MIs can be resolved relatively quickly, while others require municipalities and municipal entities to correct deep-rooted weaknesses or quantify a financial loss that occurred across multiple years, which will take much longer to address. Not all delays are avoidable and, where we assess them to be reasonable, we do not invoke our powers.

The most common stumbling blocks that we came across in resolving MIs are as follows.

Instability at accounting officer level and slow response

Instability at accounting officer level continues to affect the resolution of MIs. If the accounting officer to whom we issued the MI notification is no longer in the position, we must often reissue the notification or the progress of resolving the MI comes to a halt. Some of the MIs involve complexities towards resolution, including dependencies on other institutions for appropriate action to be taken. Continuous monitoring and follow-up led by the accounting officer are crucial, and instability then contributes to further delays in resolving the MIs.

Instability at accounting officer level

- **uMkhanyakude District Municipality** (KwaZulu-Natal) did not take appropriate steps to collect long-outstanding debts due to it. We notified the accounting officer of the MI in April 2021. The municipality was placed under administration in February 2021. The appointment of various acting accounting officers and administrators since April 2021 caused significant delays in resolving the MI. Appropriate action was not taken to address the MI, and by March 2023, our recommendations had still not been implemented. The accounting officer who was appointed in June 2023 had not implemented our remedial action by July 2024. We are preparing to take further action on this MI.

- In 2019-20, **Ditsobotla Local Municipality** (North West) did not keep full and proper records of its financial affairs, resulting in a repeat disclaimed audit opinion. We notified the accounting officer of the MI in June 2021. The municipality has been struggling with instability in the accounting officer position. At one point, the municipality had two acting accounting officers, two speakers and two councils at the same time due to political instability. In October 2022, the council was dissolved and the municipality was placed under intervention. During 2023-24, the North West Department of Cooperative Governance and Traditional Affairs seconded an accounting officer to the municipality. In July 2024, a permanent accounting officer was appointed for a fixed three-year term but was subsequently dismissed by the council due to allegedly having been appointed unlawfully. The dismissal is currently being challenged in the Labour Court and an acting accounting officer was appointed in January 2025 pending court proceedings. Currently, both the acting accounting officer and the dismissed accounting officer are occupying the accounting officer position, as the dismissed accounting officer has not accepted the dismissal. The persistent instability at the municipality has resulted in appropriate action not being taken to resolve the MI and has contributed to continued disclaimed audit opinions and a lack of accountability and consequence management. In June 2024, we requested intervention from the council and provincial leadership to address the accounting officers' failure to implement the remedial action.

During our audits, accounting officers were often slow to respond to our audit recommendations. We experienced similar delayed responses to both implementing our MI recommendations and remedial action, and responding to MI notifications and requests for information on the status of actions being taken. Such delays affect the overall MI process.

Slow response to MI notification

Nketoana Local Municipality (Free State) did not ensure that proper records of its financial affairs for 2019-20 were kept, resulting in a repeat disclaimed audit opinion. We notified the accounting officer of the MI in February 2022. The accounting officer did not take appropriate action to address the MI and, in November 2023, we included recommendations in the audit report that had to be implemented by June 2024. We followed up repeatedly with the accounting officer on the submission of a final response but they remained unresponsive. In February 2025, we took remedial action, which must be implemented by August 2025. The municipality has continued to receive disclaimed audit opinions over the past six years.

Prolonged investigations or delays in concluding criminal proceedings

Some MIs can be resolved only once public bodies have completed their investigations and processes. Prolonged investigations make it difficult for accounting officers to act swiftly to recover financial losses and to implement consequence management processes and criminal proceedings. Reasons for delays include the following:

- Delayed acceptance and commencement of investigations by public bodies due to multiple approvals being required by public body officials and executive authorities.
- Difficulties experienced by public bodies in obtaining statements from various roleplayers who may not be available during the investigation, and supporting documents not being available.
- Scope changes during investigations due to the identification of new risks that might affect the investigation outcome.
- Dependencies on expert witnesses and legal counsel, court processes and other law-enforcement agencies and public bodies.

Prolonged investigations

- Between April 2017 and June 2019, **Matjhabeng Local Municipality** (Free State) made payments estimated at R7,21 million for an attenuation (flood-protection) dam, which was not built despite having been certified as complete. We notified the accounting officer of the MI in May 2020. The accounting officer did not take appropriate action to address the MI and, in June 2021, we referred the MI to the Directorate for Priority Crime Investigation (the Hawks) for further investigation. The investigation was completed and the matter was handed over to the National Prosecuting Authority, leading to the arrest of one official from the municipality and two individuals from the service provider. Their first court appearance was in July 2023 and the case has been postponed several times. The trial was set to commence in May 2025 but was provisionally withdrawn from the court roll to consider and consult on further evidence.
- Between July 2020 and June 2021, **Chris Hani District Municipality** (Eastern Cape) paid an estimated R19,95 million for extension-of-time claims on water services projects without receiving any value. We notified the accounting officer of the MI in October 2021. The accounting officer did not take appropriate action to address the MI and, in July 2022, we referred the MI to the Special Investigating Unit for further investigation. In November 2024, after the Department of Justice and Constitutional Development had completed its assessment of the merits of the matter, the president issued a proclamation to investigate the matter. The investigation is currently underway.

Delays in disciplining officials

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 process against implicated officials is delayed. These delays often arise because the investigations may be complex or time intensive. In some cases, additional time is taken to ensure that the process is procedurally fair according to labour legislation to ensure that any applicable sanctions can be enforced.

Often, officials resign before they can be disciplined, causing further delays because different steps must then be activated, such as referrals to other accounting officers or public bodies to implement corrective action if the officials are still employed in government.

Delays in disciplining officials

Between 2018 and 2020, **Ngaka Modiri Molema District Municipality** (North West) overpaid a service provider for water tankering services. We notified the accounting officer of the MI in November 2019. An investigation instituted by the accounting officer, which was completed in April 2022, identified the chief financial officer, a senior manager and two other officials as being responsible. The disciplinary processes at council level were delayed and the contract of the chief financial officer had already come to an end before steps could be taken against them. The North West Department of Cooperative Governance and Traditional Affairs conducted a follow-up investigation and identified the same officials as the initial investigation as well as the accounting officer as being responsible for the overpayment. In February 2023, the accounting officer issued written warning letters to the other two officials as recommended by the disciplinary committee. The council has not taken action against the accounting officer and the senior manager. The accounting officer did not implement the remedial action and, in March 2025, we notified the accounting officer of our intention to pursue a certificate-of-debt process.

In many cases, councils do not adequately fulfil their role of ensuring that they implement consequence management as required due to a lack of structures, processes and monitoring. This is set out in more detail in section 6.

5.5 USING OUR EXPANDED MANDATE

In this sub-section, we list the details and status of the 107 active MIs where we used our expanded mandate.

Auditees are provided with a specific date by which recommendations and remedial action should be implemented. If an accounting officer requests additional time for implementation, this is granted only after due consideration based on evidence that progress has been made and that the reasons for delays are valid. The tables below include the latest implementation dates, taking into account any extensions provided.

Recommendations

We included recommendations on 22 MIs in the audit reports of 15 auditees.

Material irregularities at recommendation stage at as 5 May 2025

Auditee	Material irregularity	Final implementation date for recommendation	Status as at 5 May 2025
Payments			
Bushbuckridge Municipality (Mpumalanga)	Payment to contractor for work not done on paving of streets at Lillydale Phase 1	3 March 2025	Assessing implementation information
Mangaung Metro (Free State)	Payment to contractor for extension of time due to delays in construction of fire station in Botshabelo caused by unavailability of consulting engineers	4 July 2025	Follow-up not yet due
	Payment to contractor for extension of time due to delays in construction of community hall in Thaba Nchu caused by unavailability of consulting engineers	4 July 2025	Follow-up not yet due
Mohokare Local Municipality (Free State)	Payment to contractor for work not done on construction of a bulk raw water pipeline from Orange River to Paisley Dam	3 June 2025	Follow-up not yet due
Renosterberg Local Municipality (Northern Cape)	Overpayment of employee remuneration	30 June 2025	Follow-up not yet due

Auditee	Material irregularity	Final implementation date for recommendation	Status as at 5 May 2025
Interest and penalties			
Emakhazeni Local Municipality (Mpumalanga)	Late payments to Eskom, resulting in interest	29 June 2025	Follow-up not yet due
Emthanjeni Local Municipality (Northern Cape)	Late payments to Eskom, resulting in interest	31 May 2025	Follow-up not yet due
Mafube Local Municipality (Free State)	Late payment of pension fund contributions to pension fund, resulting in interest	5 July 2025	Follow-up not yet due
Mangaung Metro (Free State)	Late payments to a contractor, resulting in interest	4 July 2025	Follow-up not yet due
Inefficient use of resources – no benefit derived from cost			
Amathole District Municipality (Eastern Cape)	Commission-based payment to VAT consultants, resulting in ineffective use of consultants	17 April 2025	Assessing implementation information
Emthanjeni Local Municipality (Northern Cape)	Payments to consultants for services that could have been performed internally at lower cost	31 May 2025	Follow-up not yet due
eThekwini Metro (KwaZulu-Natal)	Payments under Expanded Public Works Programme made to invalid beneficiaries	30 June 2025	Follow-up not yet due
Assets not safeguarded			
Mangaung Metro (Free State)	Failure to manage fuel inventory, resulting in fuel losses	4 July 2025	Follow-up not yet due
Receipts not deposited			
Siyathemba Local Municipality (Northern Cape)	Money received from consumers not banked and remained unaccounted for	30 June 2025	Follow-up not yet due

Auditee	Material irregularity	Final implementation date for recommendation	Status as at 5 May 2025
Pension fund contribution deducted and not paid over			
Mohokare Local Municipality (Free State)	Pension fund contributions of employees not paid over to pension funds	6 August 2025	Follow-up not yet due
Harm to public sector institution			
Maluti-a-Phofung Local Municipality (Free State)	Lack of proper performance management system and records	3 July 2025	Follow-up not yet due
Mangaung Metro (Free State)	IT assets not adequately maintained and safeguarded, resulting in breach of IT network	4 July 2025	Follow-up not yet due
Ngwathe Local Municipality (Free State)	Lack of proper performance management system and records	20 June 2025	Follow-up not yet due
Phokwane Local Municipality (Northern Cape)	Lack of proper performance management system and records	3 July 2025	Follow-up not yet due
Ratlou Local Municipality (North West)	Full and proper financial records not kept (2022-23)	31 May 2025	Follow-up not yet due
Renosterberg Local Municipality (Northern Cape)	Performance report not prepared (2022-23)	30 June 2025	Follow-up not yet due
Sundays River Valley Local Municipality (Eastern Cape)	Lack of proper performance management system and records	30 June 2025	Follow-up not yet due

Remedial action

We took remedial action for 14 MIs at 10 municipalities.

Material irregularities at remedial action stage as at 24 April 2025

Auditee	Material irregularity	Final implementation date for remedial action	Status as at 24 April 2025
Payments			
Mangaung Metro (Free State)	Payment for extension of time not in terms of contract, relating to construction of trunk routes for Integrated Public Transport Networks roads	24 August 2025	Follow-up not yet due
Interest and penalties			
City of Matlosana Local Municipality (North West)	Late payments to Eskom, resulting in interest	25 August 2025	Follow-up not yet due
	Late payments to water supplier, resulting in interest	25 August 2025	Follow-up not yet due
Emalahleni Local Municipality (Mpumalanga)	Late payments to Department of Water and Sanitation, resulting in interest	25 August 2025	Follow-up not yet due
Inxuba Yethemba Local Municipality (Eastern Cape)	Late payments to Eskom, resulting in interest	25 August 2025	Follow-up not yet due
Letsemeng Local Municipality (Free State)	Late payments to Eskom, resulting in interest	24 October 2025	Follow-up not yet due
Moqhaka Local Municipality (Free State)	Late payments to Eskom, resulting in interest	25 August 2025	Follow-up not yet due
Ngwathe Local Municipality (Free State)	Late payments to Eskom, resulting in interest	25 August 2025	Follow-up not yet due
	Late payments to Department of Water and Sanitation, resulting in interest	25 August 2025	Follow-up not yet due

Auditee	Material irregularity	Final implementation date for remedial action	Status as at 24 April 2025
Revenue management			
City of Matlosana Local Municipality (North West)	Money owed by fresh produce market from 2017-18 not collected	24 August 2025	Follow-up not yet due
Debt not recovered			
uMkhanyakude District Municipality (KwaZulu-Natal)	Failure to collect long-outstanding debts	1 July 2024	Decision-making in process
Inefficient use of resources – no benefit derived from cost			
Joe Morolong Local Municipality (Northern Cape)	Failure to keep full and proper records of municipality's financial affairs, resulting in ineffective use of financial consultants	24 July 2025	Follow-up not yet due
Assets not safeguarded			
Mangaung Metro (Free State)	Inadequate safeguarding of zoo animals, resulting in animals that could not be located and verified	24 October 2025	Follow-up not yet due
Harm to public sector institution – repeatedly disclaimed audit opinion			
Nketoana Local Municipality (Free State)	Full and proper records not kept (2019-20), causing substantial harm to municipality	25 August 2025	Follow-up not yet due

Remedial action not implemented – further action in process

If the accounting officer does not implement the remedial action, we can take any action provided for in the Public Audit Act, including escalating the matter to the broader accountability ecosystem, issuing a special report or taking legal action.

For nine MIs, the accounting officers did not implement remedial action by the stipulated date and we requested intervention from provincial leadership, councils and audit committees to oversee and monitor such implementation, as provided for in the MI Regulations. These MIs were raised at five municipalities in North West, three in the Free State and one in the Northern Cape, as shown in the table.

Material irregularities at remedial action stage with further action required as at 24 April 2025

Auditee	Material irregularity	Date escalated	Status as at 24 April 2025
Harm to public sector institution - repeatedly disclaimed audit opinion			
Ditsobotla Local Municipality (North West)	Full and proper records not kept (2019-20), causing substantial harm to municipality	25 June 2024	Consolidated progress report on actions taken by all parties requested from premier was not received by October 2024 as requested Follow-up letters were sent in February 2025
Lekwa-Teemane Local Municipality (North West)	Full and proper records not kept (2019-20), causing substantial harm to municipality	25 June 2024	
Madibeng Local Municipality (North West)	Full and proper records not kept (2019-20), causing substantial harm to municipality	25 June 2024	
Mamusa Local Municipality (North West)	Full and proper records not kept (2019-20), causing substantial harm to municipality	25 June 2024	
Naledi Local Municipality (North West)	Full and proper records not kept (2019-20), causing substantial harm to municipality	24 April 2025	Consolidated progress report on actions taken by all parties requested from premier is due by July 2025
Maluti-a-Phofung Local Municipality (Free State)	Full and proper records not kept (2018-19), causing substantial harm to municipality	25 June 2024	Consolidated progress report on actions taken by all parties requested from premier was not received by October 2024 as requested Follow-up letters were sent in February 2025
Tokologo Local Municipality (Free State)	Full and proper records not kept (2018-19), causing substantial harm to municipality	25 June 2024	
Masilonyana Local Municipality (Free State)	Full and proper records not kept (2017-18), causing substantial harm to municipality	24 April 2025	Consolidated progress report on actions taken by all parties requested from premier is due by July 2025
Kai !Garib Local Municipality (Northern Cape)	Full and proper records not kept (2019-20), causing substantial harm to municipality	12 June 2024	Consolidated progress report on actions taken by all parties requested from premier was not received by October 2024 as requested Follow-up letters were sent in February 2025

Certificate-of-debt process

If an MI involves a financial loss and a directive to quantify and recover the financial loss is not implemented, we start the certificate-of-debt process.

In 2023-24, the certificate-of-debt process was underway for one MI on the overpayment for water tankering services at Ngaka Modiri Molema District Municipality (North West). As set out in the example on delays in disciplining officials in section 5.4, the municipality's accounting officer did not take appropriate action to implement the remedial action and directive, as they failed to recover the financial loss from the supplier. On 13 March 2025, the auditor-general notified the accounting officer of her intention to pursue a certificate of debt and, in line with the MI Regulations, invited the accounting officer to submit a written representation on why she should not proceed to issue a certificate of debt. At the time of this report, the written representation was not yet due.

Referrals

The auditor-general can approve the referral of an MI to a public body for investigation. Such referral is most often made if the public body's mandate, investigative powers and remedial or punitive powers make it better suited to deal with the MI than the auditor-general or the accounting officer. This power is often employed if the MI requires a fraud or other criminal investigation based on the fraud risk indicators that had been identified.

The public body then regularly reports to the auditor-general on its progress until the investigation is completed.

By 30 April 2025 we had referred or were in the process of referring 64 MIs at 25 auditees for investigation to the six public bodies outlined in the table.

Material irregularity referrals to public bodies as at 30 April 2025

Auditee	Material irregularity	Referral date	Status as at 30 April 2025
Directorate for Priority Crime Investigation (Hawks)			
Madibeng Local Municipality (North West)	Unauthorised debit order payments, resulting in loss	9 April 2025	Referral being considered by public body
Matjhabeng Local Municipality (Free State)	Payment for attenuation dam (to control flow of stormwater) not constructed on Nyakallong stormwater system phase 1, resulting in harm to public	17 June 2021	Investigation completed – further steps in progress
Mohokare Local Municipality (Free State)	Payment to contractor for services not delivered on construction of abstraction works on Orange River and equipping of two raw water pump stations	15 April 2025	Referral being considered by public body
	Pension fund contributions of employees not paid over to pension funds	30 April 2025	Referral being considered by public body

Auditee	Material irregularity	Referral date	Status as at 30 April 2025
Special Investigating Unit			
Amajuba District Municipality (KwaZulu-Natal)	Unfair disqualification of supplier, resulting in overpricing	21 November 2022	Investigation completed – further steps in progress
Bushbuckridge Local Municipality (Mpumalanga)	Payment to contractor for work not done on paving of streets at Lillydale Phase 1	6 August 2024	Referral being considered by public body
Chris Hani District Municipality (Eastern Cape)	Payment for extension of time on water services project without any value received	6 July 2022	Investigation in progress
	Payment of VAT consultants for which no value was received	18 October 2024	Referral being considered by public body
JB Marks Local Municipality (North West)	Inadequate planning and budgeting for construction of floodline canal, resulting in project being abandoned and limited benefit derived from money spent	10 June 2023	Investigation in progress
Ngaka Modiri Molema District Municipality (North West)	Procurement of generators at excessive prices (Boikhutsong pump stations), resulting in overpricing of procured goods and services	7 July 2023	Investigation completed – further steps in progress
	Procurement of generators at excessive prices (Boitshepegi), resulting in overpricing of procured goods and services	7 July 2023	Investigation completed – further steps in progress
Siyathemba Local Municipality (Northern Cape)	Unauthorised debit order payments, resulting in loss	9 April 2025	Referral being considered by public body
uMzinyathi District Municipality (KwaZulu-Natal)	Uneconomical procurement of backup electricity, resulting in overpricing	8 April 2025	Referral being considered by public body
	Uneconomical procurement of fuel and oil, resulting in overpricing	8 April 2025	Referral being considered by public body
Public Protector South Africa			
Emalahleni Local Municipality (Mpumalanga)	Unfair disqualification of bidder	21 November 2022	Investigation in progress

Auditee	Material irregularity	Referral date	Status as at 30 April 2025
Ngaka Modiri Molema District Municipality (North West)	Procurement of water services material, tools and electrical components without following competitive bidding process, resulting in overpricing	7 July 2023	Investigation in progress
Mangaung Metro (Free State)	Inadequate safeguarding of zoo animals, resulting in impairment	18 March 2024	Investigation in progress
Department of Water and Sanitation			
City of Matlosana Local Municipality (North West)	Pollution of water resource (Orkney wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
Dipaleseng Local Municipality (Mpumalanga)	Pollution of water resource (Balfour wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
	Pollution of water resource (Grootvlei extension 1 mine wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
Emalahleni Local Municipality (Mpumalanga)	Pollution of water resource (Ferrobank wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
	Pollution of water resource (Klipspruit wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
	Pollution of water resource (Thubelihle wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
eThekwini Metro (KwaZulu-Natal)	Pollution of water resource (Umbilo wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
	Pollution of water resource (Northern wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
JB Marks Local Municipality (North West)	Pollution of water resource (Ventersdorp wastewater treatment works and pump stations), resulting in harm to public	27 February 2024	Investigation in progress
Kopanong Local Municipality (Free State)	Pollution of water resource (Gariep Dam wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress

Auditee	Material irregularity	Referral date	Status as at 30 April 2025
Lekwa Local Municipality (Mpumalanga)	Pollution of water resource (Standerton wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
Madibeng Local Municipality (North West)	Pollution of water resources (Mothotlung wastewater treatment plant), resulting in harm to public	30 June 2023	Investigation in progress
	Pollution of water resources (Letlhabile wastewater treatment plant), resulting in harm to public	30 June 2023	Investigation in progress
Maluti-a-Phofung Local Municipality (Free State)	Pollution of water resource (Phuthaditjhaba wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
	Pollution of water resource (Harrismith wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
	Pollution of water resource (Tshiame wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
	Pollution of water resource (Kestell wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
Mangaung Metro (Free State)	Pollution of water resource (Botshabelo wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress
	Pollution of water resource (Sterkwater wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress
	Pollution of water resource (Thaba Nchu wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
Masilonyana Local Municipality (Free State)	Pollution of water resource (Winburg wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress
Matjhabeng Local Municipality (Free State)	Pollution of water resource (Phomolong wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress
	Pollution of water resource (Hennenman wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress
	Pollution of water resource (Witpan wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress

Auditee	Material irregularity	Referral date	Status as at 30 April 2025
Metsimaholo Local Municipality (Free State)	Pollution of water resource (Deneysville wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress
	Pollution of water resource (Oranjeville wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress
Moqhaka Local Municipality (Free State)	Pollution of water resource (Kroonstad wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress
	Pollution of water resource (Viljoenskroon wastewater treatment works), resulting in harm to public	27 February 2024	Investigation in progress
Nketoana Local Municipality (Free State)	Pollution of water resource (Lindley wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
	Pollution of water resource (Petrus Steyn wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
Ngaka Modiri Molema District Municipality (North West)	Pollution of water resource (Coligny wastewater treatment works), resulting in harm to public	30 June 2023	Investigation in progress
	Pollution of water resource (Itsoseng wastewater treatment works), resulting in harm to public	30 June 2023	Investigation in progress
	Pollution of water resource (Lichtenburg/Blydeville wastewater treatment works), resulting in harm to public	30 June 2023	Investigation in progress
	Pollution of water resource (Lehurutshe wastewater treatment works), resulting in harm to public	30 June 2023	Investigation in progress
	Pollution of water resource (Zeerust wastewater treatment works), resulting in harm to public	30 June 2023	Investigation in progress
Thaba Chweu Local Municipality (Mpumalanga)	Pollution of water resource (Mashishing Extension 8 wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body
Thabazimbi Local Municipality (Limpopo)	Pollution of water resource (Thabazimbi wastewater treatment works), resulting in harm to public	14 April 2025	Referral being considered by public body

Auditee	Material irregularity	Referral date	Status as at 30 April 2025
Department of Forestry, Fisheries and the Environment			
Dipaleseng Local Municipality (Mpumalanga)	Poor management of Balfour waste landfill site, resulting in harm to public	14 April 2025	Referral being considered by public body
	Poor management of Greylingstad waste landfill site, resulting in harm to public	14 April 2025	Referral being considered by public body
	Poor management of Grootvlei waste landfill site, resulting in harm to public	14 April 2025	Referral being considered by public body
Lekwa Local Municipality (Mpumalanga)	Poor management of Morgenzon waste landfill site, resulting in harm to public	14 April 2025	Referral being considered by public body
Mangaung Metro (Free State)	Poor management of Northern waste landfill site, resulting in harm to public	14 April 2025	Referral being considered by public body
Thabazimbi Local Municipality (Limpopo)	Poor management of Rooiberg waste landfill site, resulting in harm to public	14 April 2025	Referral being considered by public body
	Poor management of Donkerpoort waste landfill site, resulting in harm to public	14 April 2025	Referral being considered by public body
Free State Department of Economic, Small Business Development, Tourism and Environmental Affairs – sub-referral from Department of Forestry, Fisheries and the Environment			
Mangaung Metro (Free State)	Poor management of Southern waste landfill site, resulting in harm to public	14 May 2024	Investigation in progress
Metsimaholo Local Municipality (Free State)	Poor management of Sasolburg waste landfill site, resulting in harm to public	14 May 2024	Investigation in progress
Ngwathe Local Municipality (Free State)	Poor management of Vredefort waste landfill site, resulting in harm to public	14 May 2024	Investigation in progress

5.6 CONCLUSION

The MI process can contribute to accountability and improved oversight in local government, but this accountability mechanism has not reached its full potential. Leadership at all levels of government is encouraged to embrace the process as a tool to strengthen financial and performance management so that irregularities (such as non-compliance, fraud, theft and breaches of fiduciary duties) and their resulting impact can be prevented or dealt with appropriately.

Everyone in the accountability ecosystem has a crucial role to play in optimising the impact of the MI process. Some roleplayers have mandates and powers similar to – or more comprehensive than – ours, which they should use to ensure that irregularities are dealt with swiftly and that similar instances are prevented.

Improvement in institutional integrity will significantly improve the value obtained from the MI process. In addition, the following recommendations are aimed at the broader accountability ecosystem:

- Accounting officers, supported by senior management, are responsible for preventing and resolving MIs. When we issue an MI notification, we effectively ask the accounting officer to use their powers and responsibilities in terms of legislation and policies to deal with the matter swiftly. The positive impact of the MI process results from accounting officers doing what they are required to do. Rather than only resolving MIs, accounting officers should focus on implementing and improving preventative controls to avert the MI process by institutionalising a culture of ethical discipline and accountability.

- Audit committees and internal audit units should provide an independent view of the effectiveness of controls and processes. These governance structures are responsible for helping accounting officers carry out their monitoring responsibilities and make informed decisions. They need to monitor the resolution of MIs and advise the accounting officers on the implementation of internal controls that can prevent recurrences.

- Councils and municipal public accounts committees should support, monitor and oversee the resolution of MIs by requesting quarterly reports on the progress that accounting officers make in resolving them and, where there are any unreasonable delays, hold them to account.

- Provincial leadership and legislatures should request regular reports from municipalities on the resolution of MIs.

- Investigative public bodies should respond promptly when MIs are referred to them to ensure that investigations progress satisfactorily. They should collaborate effectively with other stakeholders involved in the MI process and be held accountable for any delays in investigations.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CALL TO ACTION

Diligent oversight and decisive action on municipal failure will change local government culture

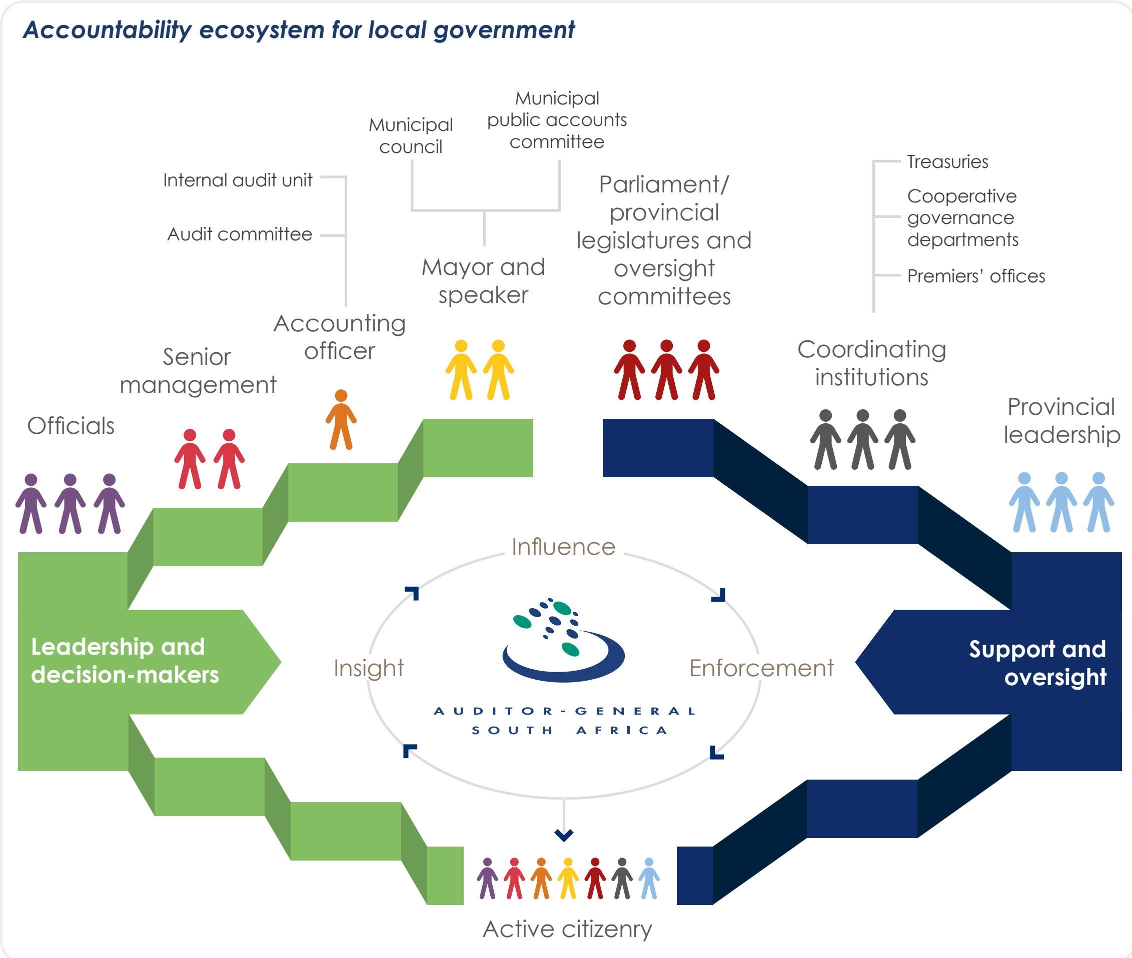
In our previous general report and through our engagements with national, provincial and municipal leadership across the country, we called on all roleplayers in the local government accountability ecosystem to work deliberately and with urgency towards a culture of performance, accountability, transparency and institutional integrity.

Now, only a year remains for mayors, speakers and council members of municipalities to leave a legacy of improved governance and service delivery, and there is still much to be done to address the root causes that are holding back progress.

Through our audits, and as demonstrated in the various sections of this report, we reconfirmed the root causes of poor audit outcomes to be:

- governance failures
- inadequate institutional capability
- lack of accountability and consequences.

The roleplayers in the accountability ecosystem all have different but complementary roles to play to address these identified root causes, based on their functions, responsibilities and mandates.



Accountability ecosystem for local government
Municipal public accounts committee
Municipal council
Internal audit unit
Audit committee
Mayor and speaker
Parliament/ provincial legislatures and oversight committees
Treasuries
Cooperative governance departments
Premiers' offices
Accounting officer
Senior management
Officials
Coordinating institutions
Provincial leadership
Influence
Insight
Enforcement
Leadership and decision-makers
Support and oversight
AUDITOR-GENERAL SOUTH AFRICA
Active citizenry

We have already made recommendations to the accounting officers and their senior management as part of our audits. This report, and specifically this call to action, is directed to mayors, councils, executives in national and provincial government, and Parliament and the provincial legislatures.

The recommendations that we have made in prior years to address these root causes remain largely unchanged:

1. **Build capable institutions with intergovernmental support:** Support from all spheres of government – through coordinated and collaborative efforts in partnership with municipal leadership – is needed to promote strong governance within municipalities.

2. **Professionalise and capacitate local government:** Skills and capacity gaps can be addressed through a concerted effort to support and implement local government professionalisation initiatives and by paying attention to improving municipal human resource management practices. Professionals want to work in a professional and ethical environment in which their expertise can be fully applied with limited disruptions and interference. They need competitive salaries, developmental opportunities and prospects for career progression. In pursuing professionalisation, municipal managers, councils and provincial leadership should strive towards a future in which local government is a career of choice for professionals and where scarce skills are retained.

3. **Instil a culture of ethics and accountability:** A shared vision of responsiveness, consequence management, accountability and ethical behaviour is essential to ensure that actions are taken promptly and that individuals are held accountable for their actions, or inaction. Legislation, together with the National Treasury's Consequence Management and Accountability Framework, clarifies the legal obligations and processes that must be followed swiftly and consistently. Responsiveness to – and support for – the material irregularity (MI) process will demonstrate leadership commitment to accountability, and contribute to the protection of resources and the strengthening of institutional integrity. We include detailed recommendations on dealing with MIs in section 5.

We also have a direct call to action to the political leadership in all three spheres of government and the elected representatives of the citizens in councils, provincial legislatures and Parliament.

CALL FOR DILIGENT OVERSIGHT AND DECISIVE ACTION

The accounting officer, supported by senior management, is responsible for the administration of a municipality. This includes the following:

- Managing financial administration, assets and liabilities, revenue, expenditure and the transfer of funds.
- Ensuring compliance with supply chain management legislation, as well as monitoring and enforcing contracts.
- Implementing the approved budget and the service delivery and budget implementation plan.
- Managing the provision of services.
- Implementing municipal by-laws, as well as national and provincial legislation.
- Facilitating public participation and assessing community satisfaction with services.

As part of our audits, we made recommendations to accounting officers and their senior management on filling vacancies, capacitating officials, institutionalising internal controls (with a focus on preventative controls), establishing good policies and procedures, and protecting and improving their systems. We also identified – and notified them of – MIs that they must appropriately deal with.

As detailed in this report, accounting officers and senior management have been slow to respond to our findings and recommendations at best – at worst, they have completely disregarded them. The question then becomes, who should be providing oversight and using their enforcement mandate, as provided for in law, to demand action from those that run the municipalities?

Legislation, including the Municipal Finance Management Act (MFMA) and the Municipal Systems Act (MSA), is very clear that the mayor and the council are fully responsible for this governance function. We detail some of their key responsibilities in section 1.

In our audits, we identified that they are either not doing what legislation requires of them or are not effective in performing these duties.

Compliance with legislated duties – mayors and councils

Budget preparation

Requirements:

1. The mayor (assisted by the municipal manager) should coordinate the budget preparation process, which includes consulting districts and the national or provincial treasury.
   Sections 21, 53 and 68 of the MFMA

2. The National Treasury may review the budgets of metros and intermediate cities, while provincial treasuries review the budgets of other municipalities (as delegated).
   Section 5(2) of the MFMA

3. The council approves the budget and revenue-raising measures (e.g. tariffs) after considering the views of communities, treasuries or others in national and provincial government.
   Section 23(1) of the MFMA

4. The mayor approves the service delivery and budget implementation plan after the council has approved the budget.
   Section 53(1)(c)(ii) of the MFMA

Why is this important?

Through the budget process, the planned expenditure on municipal operations and projects is matched with the projected revenue. If these do not match, only the council has the power to either increase revenue by increasing rates and taxes, or approve a reduction in expenditure by, for example, postponing projects.

Compliance and impact:

As detailed in section 3.3, some councils continued to adopt unfunded budgets in 2023-24, against the advice of the national and provincial treasuries. The situation was not rectified during the mid-year adjustments budget process.

The service delivery and budget implementation plan determines the service delivery priorities and objectives for the year – it should include performance indicators and targets that clearly define what will be done, as well as what success will look like and how it will be measured. As detailed in section 2.3, the service delivery and budget implementation plans approved for 2023-24 again included performance indicators and targets that were not clear on what is being measured, not relevant to the overall goals, or for which processes were not in place to measure achievement. Some municipalities left out performance indicators that measure core municipal functions and included targets of zero for core functions.

This calls into question the diligence with which the mayors and councils of these municipalities engage with the service delivery and budget implementation plan as an instrument for performance planning.

Compliance with legislated duties – mayors and councils (continued)

Identifying and dealing with financial and service delivery problems

Requirements:

1. The mayor uses the monthly budget statements and the mid-year performance report prepared by the municipal manager to check how the budget and the service delivery and budget implementation plan are being implemented, and to identify any financial problems, and submits a mid-year report to the council.

   Sections 54(1) and 71(1) of the MFMA

2. The mayor submits to the council:
   - quarterly reports on how the budget is being implemented and on the municipality's financial affairs (within 30 days of the end of each quarter)

     Section 52(d) of the MFMA

   - a mid-year performance report (by 31 January each year)

     Section 54(1)(f) of the MFMA

3. In the case of serious financial problems, the mayor takes the required actions proposed by the municipal manager and alerts the council and the member of the executive council for local government.

   Section 54(2)of the MFMA

Why is this important?

Monitoring how the budget and the service delivery and budget implementation plan are implemented during the year enables the mayor and the council to provide oversight of municipal administration to ensure that the budget is not overspent and that services are delivered as planned. It provides an opportunity to call the municipal manager to account, give direction and take action as needed, including requesting assistance from provincial government.

Compliance and impact:

In 2023-24, municipal managers of 235 municipalities (95%) prepared the mid-year performance report. The 12 municipalities in which these reports were not prepared were mostly in the Free State and the Northern Cape.

The municipal managers of 222 municipalities (90%) submitted a statement regarding the state of the municipal budget to the mayor and provincial treasury within 10 working days after the end of each month. The mayors of 229 municipalities (93%) submitted a report to the council on the implementation of the budget and the municipality's financial status within 30 days after the end of each quarter.

Considering the poor quality of the annual financial statements and performance reports submitted for auditing and the lack of proper records and controls as detailed in section 2, it is likely that the reports prepared by municipal managers during the year were also materially incorrect.

Due to a combination of unreliable information and a lack of diligence and impactful decision-making by mayors and councils, in-year monitoring had little impact in preventing unauthorised expenditure. As detailed in section 3.3, the financial health of municipalities was again in a bad state in 2023-24, with municipalities not even meeting the requirements for national and provincial assistance, such as the Eskom debt-relief programme and financial recovery plans.

Compliance with legislated duties – mayors and councils (continued)

Annual report and oversight

Requirements:

1. The mayor tables an annual report to the council.

Section 127(2) of the MFMA

2. The council considers the annual report and adopts an oversight report, which is made public.

Section 129 of the MFMA

Why is this important?

The annual report is the administration's account of the municipal performance for the year – it includes the financial statements, performance report and audit report. The financial statements include specific statutory disclosures for the attention of the council, such as the extent of unauthorised, irregular, and fruitless and wasteful expenditure.

The performance report not only includes an assessment of the year's performance but also the measures that will be implemented to improve performance in the following year.

Our audit report specifically points out incorrect or uncorroborated information in the financial statements and performance reports, includes information on serious non-compliance with legislation, and details all MIs.

The council is required to consider the annual report and include comments on it in the oversight report, including whether the annual report is approved, approved with reservation, rejected or needs revision. The annual report discussion in council is open to the public and is intended to be used for the administration to account to the council and the public for the state of the municipality.

The timing of the annual report (at the end of January) allows the council to also consider and take resolutions on amendments to the plans for the next financial year to prevent any failures reported in the annual report from recurring.

Compliance and impact:

In 2023-24, the 2022-23 annual reports were tabled by the mayors and adopted by the councils at 239 municipalities (97%), and oversight reports were adopted by 225 councils (94%).

Despite the rich information in the annual reports pointing to under-performance, unreliable information, financial distress and losses, non-compliance, and MIs, the accountability process by council had little impact on municipal performance, as evidenced by the lack of improvement highlighted throughout this report.

As detailed in section 3.4, the municipal public accounts committee has a specific role to play in the accountability process and in enabling consequences where appropriate. The 21 committees (9%) that did not review the annual report were mostly in the Northern Cape and North West, which also have some of the worst audit outcomes.

Dealing with audit reports

Requirements:

The mayor ensures that the municipality addresses any issues raised in its audit report.

Section 131(1) of the MFMA

Why is this important?

The audit report is directed to the council so that it can call the accounting officer to account for any adverse findings and make resolutions on addressing the findings. The mayor has the legal responsibility to ensure, on behalf of the council, that the issues we raise are addressed.

Compliance and impact:

We assessed that the mayors of 93 municipalities (38%) did not ensure that the 2022-23 audit report findings were addressed. This was most prevalent in the Free State, North West and the Northern Cape. The lack of improvement in audit outcomes and slow resolution of MIs are further evidence of mayors neglecting this legislated duty.

Compliance with legislated duties – mayors and councils (continued)

Structures to deal with financial misconduct

Requirements:

Municipal councils must establish a disciplinary board to investigate allegations of financial misconduct* and to monitor whether disciplinary proceedings are instituted against alleged transgressors.

Regulation 4(1) of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings

* In terms of sections 171 and 172 of the MFMA, financial misconduct refers to a deliberate or negligent act that includes non-compliance with legislation, making or permitting unauthorised, irregular or fruitless and wasteful expenditure, or providing incorrect or misleading information in any document required to be made public or submitted to the mayor, the council, the national audit office, the National Treasury or an organ of state.

Why is this important?

Without a disciplinary board, the council does not have the means to deal effectively with allegations of financial misconduct against the accounting officer, senior managers or any other municipal officials.

Compliance and impact:

The financial misconduct definition refers to matters that we report on in our audit report to the council and that are also disclosed in the annual report – investigation is needed to determine whether the misconduct was deliberate or negligent.

The Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings became effective more than a decade ago, in July 2014. By 2023-24, some municipalities still did not have disciplinary boards in place. As detailed in section 3.4, where boards are in place, their processes are often not effective. When municipalities do not pay attention to the fundamentals of establishing structures and processes to deal with financial misconduct, this shows that councils are not setting the correct ethical tone and are rather continuing to allow a culture of no consequences to prevail.

Accountability processes for unauthorised, irregular, and fruitless and wasteful expenditure

Requirements:

The municipality must recover unauthorised, irregular, and fruitless and wasteful expenditure from a liable official unless, after an investigation by a council committee (usually the municipal public accounts committee), the council certifies that the expenditure is irrecoverable and either writes it off or, for unauthorised expenditure, authorises it in an adjustments budget.

Section 32(2) of the MFMA

Why is this important?

Disclosing unauthorised, irregular, and fruitless and wasteful expenditure in the financial statements is intended to activate the council to investigate the matter on behalf of municipal residents to ensure that any indications of financial misconduct are appropriately dealt with, any possible financial losses are recovered and any further losses are prevented.

Compliance and impact:

Section 3.4 details that, in 2023-24, councils did not investigate the irregular expenditure disclosed in the previous year's financial statements to determine if the municipalities were losing money due to non-compliance or if any official could be held liable. Some councils also did not investigate fruitless and wasteful expenditure to determine if it could be recovered or if any official could be held liable. This means that not even the first step in the accountability process was taken.

Section 3.4 also highlights the growing trend of councils writing off irregular expenditure, sometimes without an investigation, and then certifying that the monies are not recoverable.

The lack of due care in councils and by mayors is a reality, and controls have been built into the local government system through legislation to **enable national and provincial government to ensure that the required processes take place and to intervene if necessary, as outlined in section 1.** However, we also identified lapses in compliance with the key legislation in this area.

Compliance with legislated duties – national and provincial government and oversight

Responsibilities of national and provincial government

Requirements:

1. The member of the executive council for local government monitors the submission of annual and oversight reports by municipal managers to the provincial legislature.

   Section 132(3) of the MFMA

2. The provincial legislature may deal with the annual and oversight reports that had been submitted by municipalities.

   Section 132(4) of the MFMA

3. The member of the executive council for local government assesses all financial statements of municipalities in the province, our audit reports and any responses by municipalities thereto; and determines if municipalities had adequately addressed the audit report issues. A report is submitted to the provincial legislature on any omissions by municipalities to adequately address those issues.

   Section 131(2) of the MFMA

4. The member of the executive council for local government compiles and submits to the provincial legislature and the National Council of Provinces a consolidated report of municipal performance in the province, which identifies those municipalities that had underperformed and proposes the remedial action to be taken.

   Section 47 of the MSA

5. The cooperative governance minister annually compiles and submits to Parliament a consolidated report on local government performance, which includes a report on the actions taken by each member of the provincial executive council for local government to address issues on the financial statements raised in the audit reports.

   Section 48 of the MSA
   Section 134 of the MFMA

Why is this important?

The intention of the legislated obligations of the minister and the members of the executive councils responsible for local government is for them to keep track of municipal performance (on both financial and service delivery areas) and responses to audit reports, to intervene where and when necessary, and to report on their observations to the provincial legislatures and Parliament.

As detailed in section 1, the provincial legislatures do not have a legal obligation for municipal oversight, but when reports are tabled with them, this places a responsibility on them to deal with these reports in line with the rules of the legislatures and Parliament.

Municipalities are partly funded by national and provincial government and the state of municipalities directly affects the people in each province. The members of the executive councils for local government in the provinces therefore have a responsibility to monitor and support municipalities, and to intervene where necessary. These executive authorities, alongside their premier, are accountable to the provincial legislature for how they have executed their mandated functions for local government in the province.

Compliance with legislated duties – national and provincial government and oversight (continued)

Compliance and impact:

A total of 76 municipal managers (31%) did not submit the 2022-23 annual report and oversight reports to provincial legislatures within seven days of them having been adopted by the council, which reflects poorly on the monitoring performed by members of the executive councils for local government. These non-submissions were most prevalent in Limpopo, the Northern Cape and North West.

The provincial legislatures of the Eastern Cape, the Free State and the Northern Cape did not deal with any of the tabled reports while, in North West, 24% of the reports were not dealt with.

The members of the executive councils for local government in all nine provinces assessed the 2022-23 financial statements, audit reports and responses to the audit reports. Reports on these assessments were tabled in all provincial legislatures, except the Northern Cape, where the delay was caused by the legislature.

The members of the executive councils for local government did not table the 2022-23 consolidated reports of municipal performance in the provincial legislatures of the Northern Cape, the Free State and Limpopo. In provinces where these reports were tabled, the proposed remedial actions were not included in the reports but were communicated separately to municipalities. Remedial actions were communicated to only 70 municipalities (28%), and we could not obtain evidence that these were tracked or monitored by any of the provinces.

The most recent consolidated report on municipal performance and the responses to issues raised in our audit reports, which was tabled in Parliament by the cooperative governance minister on 21 January 2025, related to the 2020-21 financial year, indicating a significant backlog.

Based on our findings, it is clear that the provinces with the worst audit outcomes or the highest number of outstanding financial statements are those in which the provincial legislatures are not involved and where the members of the executive councils for local government are not effective in their monitoring functions.

The cooperative governance minister has a significant backlog to deal with when it comes to assessing municipal performance and the effectiveness of members of the executive council in addressing our findings. The lack of timely reporting to Parliament disempowers parliamentary committees and prevents them from dealing with local government matters systematically. However, nothing precludes them from performing an oversight function over metros – an area in which national government is directly involved through the National Treasury – but such engagements with metros on their performance are rare.

The recommendations in this section are directed mostly to the mayors; the executives in national and provincial government; and the members and committees of councils, Parliament and the provincial legislatures that were elected to direct and oversee the local government administration.

We call on all others in the accountability ecosystem to also fulfil their designated roles and play their part effectively, without fear or favour, to promote a culture of performance, accountability, transparency and institutional integrity that will improve service delivery and create tangible prospects for a better life for the citizens of South Africa.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07

PROVINCES

Municipal outcomes reflect what people in the province experience from their local government

The first part of this section provides an overview of key audit results and the material irregularity (MI) information detailed in sections 2 to 5 of this report per province. The province-specific overviews in the second part summarise the main insights from our audits and highlight how we have used our enhanced mandate. We also reflect on what should be done, and by whom, to improve the situation; and the commitments made by those with whom we had engaged before the tabling of this report.

Our website provides comprehensive information on each municipality (including the metros) in the country, rolled up to district and provincial level.

All of this information aims to enable the premiers, members of executive councils for finance and for local government and legislatures in each province to identify key focus areas for targeted interventions and stronger oversight.

7.1 OVERVIEW

Audit outcomes

Overall, the audit outcomes of municipalities in the different provinces have shown limited improvement since 2020-21 and the trend of poor outcomes persists.

Audit outcomes, budget and households per province

Province	Year	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
Eastern Cape	2020-21	4	16	14	1	4	0
	2023-24	6	14	16	1	2	0
Free State	2020-21	0	6	13	0	3	1
	2023-24	0	6	10	0	1	6
Gauteng	2020-21	2	7	1	1	0	0
	2023-24	2	6	3	0	0	0
KwaZulu-Natal	2020-21	3	35	13	0	3	0
	2023-24	7	36	7	2	1	1
Limpopo	2020-21	1	16	8	0	2	0
	2023-24	2	14	10	0	1	0
Mpumalanga	2020-21	4	7	5	1	3	0
	2023-24	2	8	9	0	0	1
Northern Cape	2020-21	5	5	17	0	4	0
	2023-24	2	6	20	0	2	1
North West	2020-21	0	3	9	1	9	0
	2023-24	0	3	13	2	3	1
Western Cape	2020-21	22	5	3	0	0	0
	2023-24	20	6	2	1	1	0

Province	Budget	Households	Improvement	Regression
Eastern Cape	R58,55bn (10%)	1 872 095 (10%)	13	8
Free State	R25,44bn (5%)	1 041 273 (5%)	1	1
Gauteng	R159,47bn (29%)	5 951 770 (32%)	3	3
KwaZulu-Natal	R116,49bn (21%)	3 236 175 (17%)	15	6
Limpopo	R33,11bn (6%)	1 805 954 (9%)	6	5
Mpumalanga	R33,50bn (6%)	1 454 676 (7%)	6	3
Northern Cape	R12,08bn (2%)	397 187 (2%)	5	7
North West	R30,62bn (5%)	1 456 970 (7%)	9	2
Western Cape	R92,69bn (16%)	2 225 374 (11%)	1	5

Unqualified with no findings (clean) · Unqualified with findings · Qualified with findings · Adverse with findings · Disclaimed with findings · Outstanding audits

Movement from 2020-21 ▲ Improvement ▼ Regression

The overall audit outcomes in the Northern Cape and the Western Cape regressed, while improvements in the Free State and Gauteng were offset by regressions. Despite the net improvements in North West (32%), KwaZulu-Natal (17%), Mpumalanga (15%), the Eastern Cape (13%) and Limpopo (4%), the audit outcomes in these provinces are still not at the desired level.

The number of municipalities with clean audits has decreased from 2020-21 in Mpumalanga, the Northern Cape and the Western Cape. The Free State and North West had no clean audits over this period. Most of the 41 municipalities with clean audits in 2023-24 were in the Western Cape (49%), KwaZulu-Natal (17%) and the Eastern Cape (15%).

The provinces with the worst outcomes (most disclaimed and adverse audit opinions or outstanding audits) were again the Free State and North West.

Financial statements

As detailed in section 2.2, 13 municipalities (5%) submitted their 2023-24 financial statements late or not at all, and only 63 municipalities (26%) submitted good-quality financial statements for auditing.

Financial statements – audit results per province

	Financial statements submitted by legislated date		Good-quality financial statements submitted for auditing		Unqualified audit opinions on financial statements (post audit)	
	Number	Movement	Number	Movement	Number	Movement
Eastern Cape	39 (100%)	Slight improvement	9 (23%)	Slight improvement	20 (51%)	Unchanged
Free State	18 (78%)	Improvement	0 (0%)	Unchanged	6 (35%)	Unchanged
Gauteng	11 (100%)	Improvement	4 (36%)	Improvement	8 (73%)	Regression
KwaZulu-Natal	54 (100%)	Improvement	16 (30%)	Improvement	43 (81%)	Improvement
Limpopo	25 (93%)	Unchanged	2 (7%)	Slight improvement	16 (59%)	Slight regression
Mpumalanga	19 (95%)	Unchanged	3 (16%)	Slight regression	10 (53%)	Unchanged
Northern Cape	29 (94%)	Improvement	4 (13%)	Slight regression	8 (27%)	Regression
North West	20 (91%)	Improvement	1 (5%)	Slight improvement	3 (14%)	Unchanged
Western Cape	29 (97%)	Improvement	24 (80%)	Slight regression	26 (87%)	Slight regression

Movement from 2020-21 Improvement Unchanged Slight improvement Slight regression Regression

The late or non-submission of financial statements was most prevalent in the Free State. Five of the 13 municipalities that submitted their financial statements late are in the Free State and have been repeat offenders over the last three years.

Limpopo (33%), Mpumalanga (32%) and KwaZulu-Natal (30%) are the provinces in which the highest percentage of municipalities have obtained an unqualified audit opinion each year since 2020-21 by correcting the material misstatements that we had identified.

Performance reports

As detailed in section 2.3, the submission of performance reports for auditing has improved from 2020-21, but the quality of submitted performance reports has remained poor.

Performance reporting – audit results per province

	Performance reports submitted for auditing		Good-quality performance reports submitted for auditing		No material findings on performance reports (post audit)	
	Number	Movement	Number	Movement	Number	Movement
Eastern Cape	39 (100%)	Unchanged	13 (33%)	Slight improvement	25 (64%)	Improvement
Free State	17 (100%)	Unchanged	1 (6%)	Unchanged	4 (24%)	Slight regression
Gauteng	11 (100%)	Unchanged	3 (27%)	Improvement	4 (36%)	Improvement
KwaZulu-Natal	53 (100%)	Unchanged	14 (26%)	Unchanged	31 (58%)	Unchanged
Limpopo	27 (100%)	Unchanged	4 (15%)	Improvement	14 (52%)	Improvement
Mpumalanga	19 (100%)	Unchanged	3 (16%)	Regression	12 (63%)	Improvement
Northern Cape	29 (97%)	Improvement	4 (14%)	Slight regression	8 (28%)	Regression
North West	21 (100%)	Slight improvement	3 (14%)	Improvement	3 (14%)	Slight regression
Western Cape	30 (100%)	Unchanged	19 (63%)	Regression	26 (87%)	Unchanged

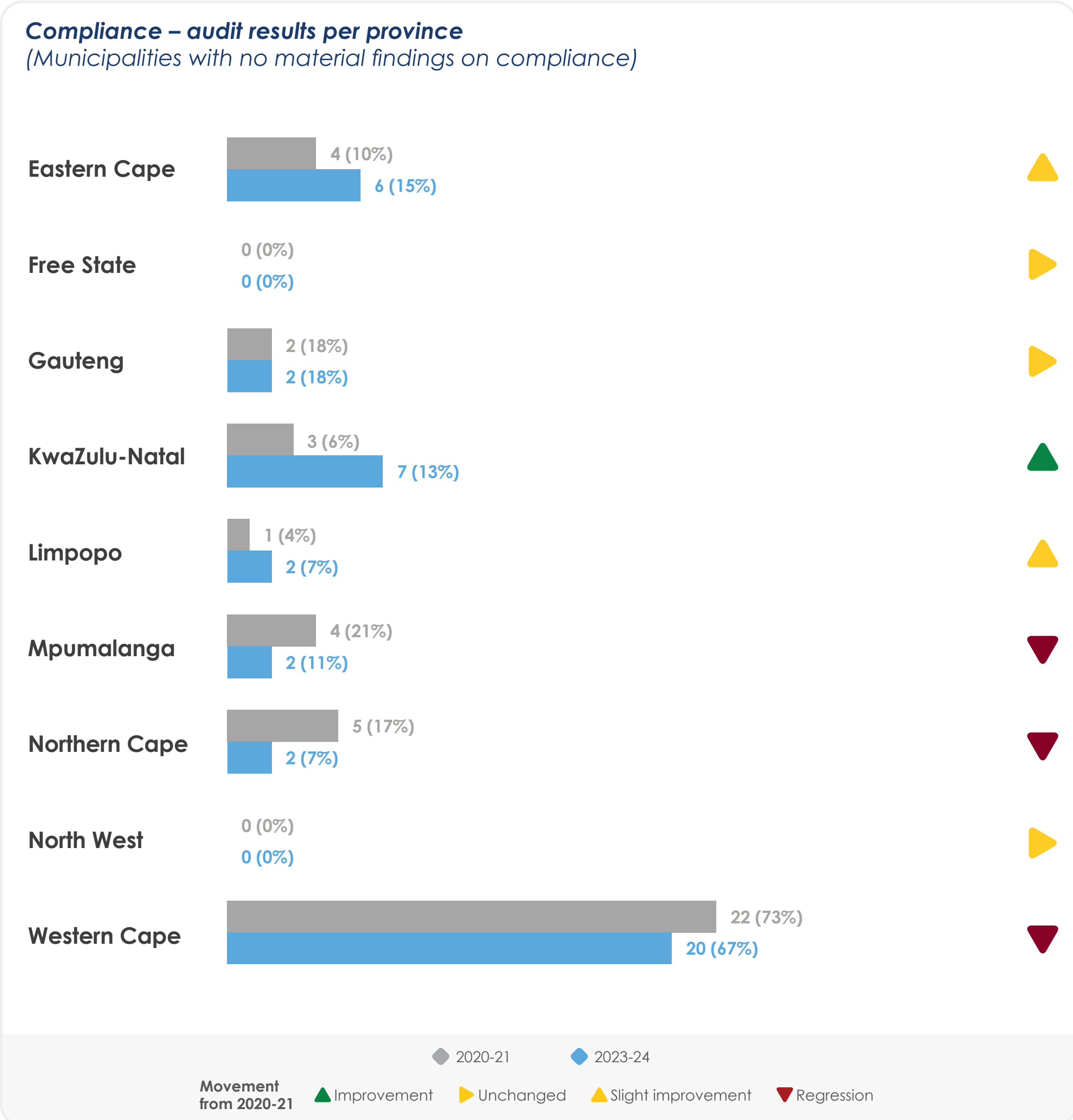
Movement from 2020-21 Improvement Unchanged Slight improvement Slight regression Regression

The municipalities in the Free State, the Northen Cape and North West had the worst outcomes on performance reporting in 2023-24, and none of these provinces have shown improvement since 2020-21.

Compliance with key legislation and irregular expenditure

As detailed in section 2.4. there were continued high levels of non-compliance with key legislation. Since 2020-21, the number of municipalities with material findings on compliance with key legislation has increased in Mpumalanga, the Northern Cape and the Western Cape. KwaZulu-Natal had the highest percentage of municipalities – 24 (45%) – that are not obtaining a clean audit because of non-compliance with key legislation.

We reported material findings on non-compliance with legislation on the quality of submitted financial statements and the prevention of unauthorised, irregular, and fruitless and wasteful expenditure at more than 50% of municipalities in all the provinces, except the Western Cape.



Compliance with procurement and contract management legislation

In 2023-24, all municipalities in the Free State, the Northern Cape and North West had findings on compliance with legislation on procurement and contract management. These findings were material at all municipalities in the Free State and North West, except for one municipality in each province that had non-material findings.

KwaZulu-Natal, Limpopo and Mpumalanga showed improvement in the number of municipalities with no findings compared to 2020-21.

Compliance with legislation on procurement and contract management – audit results per province

	No findings		Non-material findings	Material findings	
	Number	Movement	Number	Number	Movement
Eastern Cape	8 (20%)	Unchanged	5 (13%)	26 (67%)	Slight regression
Free State	0 (0%)	Unchanged	1 (6%)	16 (94%)	Improvement
Gauteng	1 (9%)	Regression	1 (9%)	9 (82%)	Regression
KwaZulu-Natal	8 (15%)	Improvement	15 (28%)	30 (57%)	Unchanged
Limpopo	5 (19%)	Improvement	9 (33%)	13 (48%)	Improvement
Mpumalanga	5 (26%)	Improvement	4 (21%)	10 (53%)	Improvement
Northern Cape	0 (0%)	Unchanged	6 (20%)	24 (80%)	Regression
North West	0 (0%)	Unchanged	1 (5%)	20 (95%)	Slight improvement
Western Cape	6 (20%)	Regression	17 (57%)	7 (23%)	Unchanged

Movement from 2020-21 Improvement; Unchanged; Slight improvement; Slight regression; Regression

Irregular expenditure

As detailed in section 3.2, municipalities have incurred R87,03 billion in irregular expenditure since 2021-22.

Irregular expenditure per province

	2023-24 irregular expenditure	2023-24 percentage of municipal expenditure budget irregularly spent	Total irregular expenditure over three years
Eastern Cape	R5,56 billion ▼	8% ▶	R21,41 billion
Free State	R1,34 billion ▲	5% ▼	R5,11 billion
Gauteng	R5,63 billion ▲	3% ▼	R14,85 billion
KwaZulu-Natal	R5,68 billion ▲	5% ▶	R17,53 billion
Limpopo	R2,03 billion ▲	6% ▼	R5,80 billion
Mpumalanga	R2,74 billion ▼	3% ▲	R6,68 billion
Northern Cape	R0,79 billion ▼	4% ▲	R2,60 billion
North West	R3,36 billion ▲	9% ▼	R10,16 billion
Western Cape	R1,81 billion ▼	1% ▶	R2,89 billion
TOTAL	**R28,94 billion** ▼	**4%** ▶	**R87,03 billion**

Movement from 2022-23 ▲ Improvement ▶ Unchanged ▲ Slight improvement ▼ Slight regression ▼ Regression

The percentage of municipal expenditure budgets that were irregularly spent was highest in North West and the Eastern Cape.

As detailed in section 3.4, how municipalities respond to the irregular expenditure incurred reflects poor levels of consequence management and commitment to recovering losses.

2023-24 closing balance of irregular expenditure and how municipalities dealt with prior-year irregular expenditure per province

	2023-24 closing balance	Dealing with irregular expenditure from prior years				
		2022-23 closing balance	Irregular expenditure dealt with	Breakdown of irregular expenditure		Irregular expenditure not dealt with
				Recovered or in process of recovery	Written off	
Eastern Cape	R37,45bn	R36,36bn	R4,40bn (12%)	R10 500	R4 406 599 673	R31,96bn (88%)
Free State	R12,52bn	R12,61bn	R0,23bn (2%)	R3 285 988	R222 853 620	R12,39 (98%)
Gauteng	R27,52bn	R25,28bn	R3,31bn (13%)	R8 228 901	R3 301 831 435	R21,97bn (87%)
KwaZulu-Natal	R8,27bn	R14,76bn	R12,23bn (83%)	R4 402 448	R12 221 678 362	R2,53bn (17%)
Limpopo	R4,67bn	R5,52bn	R2,86bn (52%)	R4 000	R2 865 874 038	R2,65bn (48%)
Mpumalanga	R5,70bn	R5,62bn	R2,57bn (46%)	-	R2 573 086 342	R3,05bn (54%)
Northern Cape	R3,67bn	R3,43bn	R0,55bn (16%)	R934 595	R544 642 147	R2,88bn (84%)
North West	R34,64bn	R32,31bn	R0,90bn (3%)	-	R898 512 052	R31,41bn (97%)
Western Cape	R2,58bn	R1,14bn	R0,35bn (31%)	R69 770	R346 840 652	R0,79bn (70%)
TOTAL	**R137,02bn**	**R137,03bn**	**R27,40bn (20%)**	**R16 936 202**	**R27 381 918 321**	**R109,63bn (80%)**

The closing balance of irregular expenditure not dealt with by municipalities in KwaZulu-Natal has decreased by 77% from R11,09 billion in 2020-21 to R2,53 billion in 2023-24, mostly due to write-offs.

The 2023-24 closing balance of irregular expenditure increased from the previous year in all provinces except the Free State, KwaZulu-Natal and Limpopo. This means that municipalities in most provinces continued to incur irregular expenditure at a greater rate than they were able to deal with the existing irregular expenditure balances. The Eastern Cape, Gauteng and North West were responsible for R99,61 billion (73%) of the total balance.

Financial health

As detailed in section 3.3, municipalities in all the provinces continued to show signs of significant financial difficulty, including going concern uncertainties.

Municipalities showing signs of poor financial health per province
(most concerning trends highlighted)

	Municipalities with going concern uncertainty	Financial health indicators (assessed at 230 municipalities)				
		Deficit (expenditure exeeded revenue)	Creditor-payment periods exceeded 120 days	More than 80% of debtors irrecoverable	Current liabilities more than current assets	Capital expenditure less than 10% of total expenditure
Eastern Cape	9 (23%)	14 (39%)	15 (42%)	12 (33%)	12 (33%)	8 (22%)
Free State	3 (18%)	11 (69%)	14 (88%)	8 (50%)	10 (63%)	11 (69%)
Gauteng	5 (45%)	5 (45%)	9 (82%)	4 (36%)	8 (73%)	6 (55%)
KwaZulu-Natal	5 (9%)	13 (26%)	13 (26%)	17 (34%)	17 (34%)	8 (16%)
Limpopo	4 (15%)	6 (23%)	10 (38%)	13 (50%)	10 (38%)	6 (23%)
Mpumalanga	6 (32%)	12 (63%)	13 (68%)	10 (53%)	14 (74%)	9 (47%)
Northern Cape	2 (7%)	16 (57%)	20 (71%)	15 (54%)	20 (71%)	15 (54%)
North West	12 (57%)	9 (56%)	10 (63%)	12 (75%)	12 (75%)	8 (50%)
Western Cape	3 (10%)	4 (14%)	1 (4%)	4 (14%)	4 (14%)	11 (39%)
TOTAL	**49 (20%)**	**90 (39%)**	**105 (46%)**	**95 (41%)**	**107 (47%)**	**82 (36%)**

In 2023-24, the Free State, Mpumalanga and the Northern Cape had the highest percentages of municipalities that ended the financial year with a deficit. In all provinces, more than 80% of debt was irrecoverable in at least 10% of municipalities, while current liabilities were more than current assets at more than 70% of municipalities in Gauteng, Mpumalanga, the Northern Cape and North West.

More than 50% of municipalities in the Free State, Gauteng and the Northern Cape spent less than 10% of their total expenditure on capital expenditure.

These financial health challenges affect the ability of municipalities to deliver services and honour their commitments.

Municipalities in all provinces continued to adopt unfunded budgets and incurred unauthorised expenditure due to poor budget management practices, as detailed in section 3.3.

Unfunded budgets and unauthorised expenditure per province
(most concerning trends highlighted)

	Unfunded budgets		2023-24 unauthorised expenditure	Total unauthorised expenditure over three years
	Number of municipalities	Expenditure budget unfunded		
Eastern Cape	8 (21%)	R7,93 billion	R3,31 billion ▼	R7,06 billion
Free State	16 (94%)	R16,02 billion	R4,22 billion ▲	R14,21 billion
Gauteng	9 (82%)	R120,63 billion	R8,46 billion ▼	R17,99 billion
KwaZulu-Natal	13 (25%)	R10,09 billion	R3,79 billion ▼	R9,34 billion
Limpopo	10 (37%)	R10,34 billion	R2,19 billion ▲	R7,53 billion
Mpumalanga	12 (63%)	R23,53 billion	R4,61 billion ▼	R11,24 billion
Northern Cape	22 (73%)	R6,77 billion	R1,36 billion ▼	R3,57 billion
North West	16 (76%)	R26,72 billion	R3,56 billion ▼	R8,76 billion
Western Cape	7 (23%)	R4,37 billion	R0,29 billion ▲	R1,89 billion
TOTAL	**113 (44%)**	**R226,40 billion**	**R31,79 billion** ▼	**R81,59 billion**

Movement from 2022-23 ▲ Improvement ▼ Regression

In five provinces (Free State, Gauteng, Mpumalanga, Northern Cape and North West), more than half of the municipalities adopted unfunded budgets. The provinces with the most municipalities that adopted unfunded budgets for three years or more were the Free State (65%), Gauteng (64%) and North West (64%).

In most provinces, unauthorised expenditure increased from last year. We include further details on the extent and impact of the unauthorised expenditure incurred in section 3.3.

Losses contributing to poor financial health

Municipalities in all provinces continued to incur fruitless and wasteful expenditure. Fruitless and wasteful expenditure incurred has decreased from R7,47 billion in 2022-23 to R5,27 billion in 2023-24, with all provinces showing a decrease of 5% or more.

Fruitless and wasteful expenditure per province

	2023-24 fruitless and wasteful expenditure	2023-24 percentage of municipal expenditure budget	Total fruitless and wasteful expenditure over three years
Eastern Cape	R0,30 billion	<1%	R1,01 billion
Free State	R1,15 billion	4%	R3,27 billion
Gauteng	R1,25 billion	1%	R5,82 billion
KwaZulu-Natal	R0,25 billion	<1%	R0,70 billion
Limpopo	R0,15 billion	<1%	R0,54 billion
Mpumalanga	R1,41 billion	4%	R3,88 billion
Northern Cape	R0,27 billion	2%	R0,90 billion
North West	R0,48 billion	1%	R1,45 billion
Western Cape	R0,01 billion	<1%	R0,08 billion
TOTAL	**R5,27 billion**	**1%**	**R17,65 billion**

Movement from 2022-23 — Improvement — Unchanged — Slight improvement

As detailed in section 3.3, water and electricity losses contributed to lost revenue across all provinces.

Water and electricity losses per province
(most concerning trends highlighted)

	Water service providers			Electricity service providers		
	Water loss amount	Water losses above 30%	Water losses not disclosed	Electricity loss amount	Electricity losses above 10%	Electricity losses not disclosed
Eastern Cape	R1,12bn	7 (50%)	1 (7%)	R2,18bn	16 (76%)	-
Free State	R0,78bn	7 (54%)	-	R0,59bn	10 (77%)	-
Gauteng	R6,90bn	7 (78%)	-	R11,79bn	8 (89%)	-
KwaZulu-Natal	R3,47bn	13 (93%)	-	R2,70bn	17 (71%)	-
Limpopo	R0,83bn	3 (30%)	-	R0,51bn	11 (58%)	4 (21%)
Mpumalanga	R0,62bn	9 (56%)	-	R1,93bn	12 (92%)	-
Northern Cape	R0,23bn	15 (60%)	1 (4%)	R0,46bn	19 (76%)	1 (4%)
North West	R0,74bn	6 (40%)	5 (33%)	R1,31bn	9 (69%)	2 (15%)
Western Cape	R0,22bn	8 (31%)	-	R0,90bn	10 (40%)	-
TOTAL	**R14,91bn**	**75 (53%)**	**7 (5%)**	**R22,37bn**	**112 (69%)**	**7 (4%)**

Gauteng accounted for 53% of the total electricity losses and 46% of the total water losses.

In six provinces, at least half of the water service providers that disclosed losses had water losses above the 30% norm. In all provinces, except the Western Cape, most electricity service providers had electricity losses above the 10% norm.

Kareeberg Local Municipality in the Northern Cape did not disclose any water or electricity losses as required.

Material irregularities

We have identified 446 MIs across all provinces, with the highest numbers being in the Free State, the Eastern Cape, KwaZulu-Natal and North West. At least 27% of the MIs in each of the provinces has been resolved. The Free State and North West had the most unresolved MIs.

The Free State, Mpumalanga and North West were the slowest to act in response to our MI notifications, and were responsible for 78% of the MIs where we had to take further action.

Status of material irregularities per province

Province	Total	Resolved	Not pursued further	Unresolved	Appropriate action taken	Appropriate action not taken – decision on invoking our powers in process	Follow-up or assessment in process	Notified and awaiting response	Recommendation	Referral	Referral and recommendation	Remedial action	Referral and remedial action	Remedial action not implemented	Notice for certificate-of-debt process
Eastern Cape	64	31		33	19	2	3	4	2	2	0	1	0	0	0
Free State	80	31		49	3	1	0	1	9	24	1	6	1	3	0
Gauteng	54	33		21	11	0	3	7	0	0	0	0	0	0	0
KwaZulu-Natal	60	38	1	21	13	0	0	1	1	5	0	1	0	0	0
Limpopo	40	24		16	12	0	0	1	0	3	0	0	0	0	0
Mpumalanga	45	23		22	3	2	1	1	1	12	1	1	0	0	0
Northern Cape	38	18		20	8	1	2	0	6	1	0	1	0	1	0
North West	60	16	6	38	2	3	2	7	1	14	0	3	0	5	1
Western Cape	5	3		2	0	1	1	0	0	0	0	0	0	0	0

7.2 EASTERN CAPE

Lack of accountability and consequences impacts governance and leads to poor service delivery

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from 2020-21
2020-21	4	16	14	1	4	0	13 ▲ 8 ▼
2023-24	6	14	16	1	2	0	

Last year, we advised councils to enforce strong financial management, ensure revenue collection, spend wisely and prevent or promptly address losses. Provincial leadership committed to implement consequence management measures and enhance accountability systems for financial management.

The **audit outcomes** improved from 2020-21, with an increase in the number of municipalities with clean audits. These improvements are attributed to stable leadership, well-capacitated finance units, active oversight and a robust control environment. Alfred Nzo District Municipality and Kouga and Umzimvubu local municipalities moved into this category in 2023-24, while Winnie Madikizela-Mandela Local Municipality regressed from a clean outcome to an unqualified audit opinion with findings.

The number of municipalities with **disclaimed opinions** has decreased from four to two since 2020-21, with Chris Hani District Municipality and Walter Sisulu Local Municipality moving out of this category in 2021-22. Amathole District Municipality received a disclaimed opinion from 2021-22 and subsequently improved to a qualified opinion in 2023-24 by filling key vacancies, implementing audit committee recommendations and using the technical support offered by the coordinating institutions. Even after using consultants and receiving support from the provincial treasury and cooperative governance department, Makana and Sundays River Valley local municipalities have received disclaimed audit opinions for six consecutive years, indicating ongoing failures in financial management and accountability.

Despite the progress that has been made, the most common audit outcome was a qualified audit opinion – received by 16 municipalities (41%) in 2023-24. Nelson Mandela Bay Metro regressed into this category due to instability – the metro had a senior management vacancy rate of 60%, a vacant chief financial officer position and a suspended city manager. The council did not fill the senior management vacancies as it was also unstable because the mayor changed during the year. Buffalo City Metro stagnated on a qualified audit opinion. Both **metros** had control deficiencies due to poor departmental coordination and a lack of standard operating procedures. Most municipalities struggled to prepare accurate financial statements, with 30 (77%) submitting poor-quality financial statements. The poor **financial reporting** can be improved by addressing skills gaps, filling key vacancies and strengthening financial disciplines. Accounting officers should also hold management accountable for failing to address internal control deficiencies.

Poor budgeting remained a critical issue, with 22 municipalities (56%) incurring R3,31 billion in unauthorised expenditure in 2023-24. Eight municipalities had unfunded budgets that were approved by the council, five of which also expressed going concern uncertainty as to whether they would be able to continue operating. The provincial treasury intervened by pre-assessing budgets to identify excessive spending, unrealistic revenue projections and debt that cannot be collected and by holding monitoring sessions to track the implementation of recommendations. Efforts to enhance **financial stability** and budgeting failed, as the number of municipalities with unfunded budgets rose from six last year to eight in 2023-24. Coordinating institutions should monitor municipalities and ensure that they have cash-backed budgets that are used for their intended purpose.

Inefficient payment practices led to R197 million in interest and penalties, which accounted for almost two-thirds of the R298 million in fruitless and wasteful expenditure, and underscored the systemic poor financial management in the province. The highest contributors to fruitless and wasteful expenditure were Dr Beyers Naudé (R55,58 million) and Enoch Mgijima (R50,99 million) local municipalities. The poor financial management processes at these municipalities led to us notifying their accounting officers of MIs on substantial harm to the public due to the late payment of pension fund contributions (Dr Beyers Naudé) and payments to an incorrect supplier (Enoch Mgijima).

There was some improvement in service delivery planning and reporting but controls over these processes were still inadequate, leading to unreliable reporting and ineffective planning. Overall, 26 municipalities (67%) submitted poor-quality **performance reports** in 2023-24, slightly fewer than the 30 (77%) that did so last year. After making audit adjustments, 12 of these 26 municipalities were able to publish good-quality performance reports, while 14 (36%) reported performance information that was not useful and/or not reliable. To improve reporting on service delivery performance, accounting officers must insist on strengthening internal review processes, enhance accountability and invest in capacity-building efforts.

The province continued to struggle with **infrastructure delivery.** Some of the water and sanitation infrastructure was old and in need of rehabilitation, while reactive maintenance rather than preventive measures has led to untreated wastewater being discharged into the environment. We notified the accounting officer of Makana Local Municipality of an MI due to failure to prevent pollution of a water resource at the Mayfield wastewater treatment works. At Buffalo City Metro, the construction contract for the Zwelitsha wastewater treatment works was terminated in November 2021, and the 2023–24 audit revealed submerged pumps, clogged sludge and a non-functional pump station. At Nelson Mandela Bay Metro's Motherwell NU30 housing project, houses were approved for handover despite having defects and being without electricity.

We have issued 64 **material irregularity** notifications in the province, with a combined estimated financial loss of R733 million. Some of these MIs related to the inadequate management of landfill sites that has led to significant environmental risks – including at Makana, Sundays River Valley and Amahlathi local municipalities. We invoked our powers at Chris Hani District Municipality where an MI relating to consultant services rendered without value was referred to the Special Investigating Unit as the accounting officer did not take appropriate steps to address the MI. Accounting officers have resolved 31 of the MIs identified, recovered R46 million in losses and strengthened internal controls to prevent irregularities from recurring. For example, the accounting officer at Walter Sisulu Local Municipality has started managing waste and pollution control effectively at the Maizefield landfill site in response to our notification. Disciplinary processes and loss recoveries are still slow, which indicates a need for better oversight by municipal public accounts committees, councils and the provincial legislature.

Overall, 33 municipalities (85%) had material findings on **compliance with legislation,** with common issues including those relating to weak procurement practices; not preventing unauthorised, irregular, and fruitless and wasteful expenditure; lack of consequences; material misstatements in financial statements; and poor asset management. Consequence management was not adequately implemented at 17 municipalities (44%). These municipalities did not investigate allegations of financial misconduct; did not have properly constituted disciplinary boards; and did not address unauthorised, irregular, and fruitless and wasteful expenditure.

While mayors and municipal managers met reporting requirements to councils and the provincial treasury, cooperative governance department and legislature, this has not translated into improved audit outcomes and service delivery because of a lack of proper scrutiny and consequences for poor performance by councils. Five municipalities (13%) were under provincial intervention and had financial recovery plans, but these interventions were not effective due to the slow implementation of the plans, and an overall lack of accountability and consequences by councils.

To enhance accountability and service delivery, councils must instil a performance-driven culture by ensuring that all staff sign performance agreements that are aligned to municipal service delivery objectives and that performance evaluations are conducted regularly. Municipal public accounts committees must thoroughly investigate unauthorised, irregular, and fruitless and wasteful expenditure to ensure better governance and financial responsibility within municipalities.

The premier has pledged to enforce consequence management, strengthen accountability and intervene at the repeatedly disclaimed municipalities (Makana and Sundays River Valley local municipalities). The provincial treasury committed to focus on managing spending at financially distressed municipalities. The provincial cooperative governance department committed to strengthen municipal performance management and monitoring tools. The provincial legislature committed to oversee the implementation of our recommendations and ensure that action is taken against non-compliant municipalities.

7.3 FREE STATE

Urgent action is required to cement an ethical culture and accountability that will improve service delivery

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from 2020-21
2020-21	0	6	13	0	3	1	1 ▲ 1 ▼
2023-24	0	6	10	0	1	6	

Since the start of the administrative term in 2021-22, we have urged all roleplayers in the accountability ecosystem to demonstrate ethical and accountable conduct to improve governance, shift the local government culture and improve service delivery.

Municipalities heeded our call to submit their financial statements on time, with 19 municipalities (83%) doing so last year – up from 12 municipalities (52%) in 2020-21. This was largely due to the impact of our influence and enforcement of accountability. However, this progress was not sustained in 2023-24, as six municipalities (26%) did not submit financial statements in 2023-24 – an increase from four (17%) last year. Political and administrative leadership must act decisively and implement the necessary consequences to ensure that legislative timelines are consistently met. The audit of Maluti-a-Phofung Local Municipality was finalised after the cut-off date for inclusion in this report and the municipality again received a **disclaimed audit outcome** due to instability in political and administrative leadership.

The overall **audit outcomes** have remained the same since 2020-21 due to councils' lack of commitment to improving them. Areas of significant concern include assets, revenue and debtors' balances. This was because some municipalities did not have reliable asset registers, or lacked accurate and complete records of billings, which resulted in poor infrastructure management and weakened financial sustainability.

The delivery of critical **infrastructure** remained a challenge and some municipalities experienced delays in building the infrastructure required to deliver basic services. This was due to inadequate project monitoring because of high vacancy rates and a lack of basic controls such as standard operating procedures. Mangaung Metro did not complete the extension of the Thaba Nchu wastewater treatment works by the planned completion date. The plant was not operational, which resulted in untreated wastewater continuing to be discharged into the adjacent environment. We notified the accounting officer of an MI because of the possible substantial harm to the communities exposed to the contaminated water sources. Some municipalities performed little or no preventative maintenance on existing infrastructure. The average spend on repairing and maintaining infrastructure assets at all municipalities of 1,9% was well below the acceptable norm of 8% set by the National Treasury. This added to the risk of deterioration, which would slow down service delivery to communities even further.

Despite the continued high spending on consultants for financial reporting, municipalities struggled to submit credible **financial statements,** and material corrections were made to all submitted financial statements in 2023-24. Consultant costs increased from R51,01 million last year to R66,54 million in 2023-24, but the expected benefits of using consultants were not always realised. This was because accounting officers prioritised appointing consultants over building capacity within their finance units and addressing basic control weaknesses. Some internal audit units and audit committees provided limited assurance because they were not effective, as they were not adequately capacitated or did not monitor the implementation of their recommendations. Accounting officers, mayors and councils should ensure the adequate capacitation and functioning of these key governance structures.

The province continued to struggle with **performance reporting.** In 2023-24, 13 municipalities (76%) published performance reports that were not useful and/or reliable, hampering transparency and accountability. The poor quality of the performance information raises concerns about the reliability of the quarterly reporting to councils, potentially leading to misguided decisions on service delivery. These issues stem from poor planning as councils are not setting clear performance indicators and well-defined measurement criteria for achievements, inadequate processing and reconciling controls, and weak recordkeeping systems. The premier urgently needs to prioritise the relevant, reliable and timely reporting of performance information as this is crucial to making informed decisions on service delivery.

Municipalities continued to face significant financial difficulties as demonstrated by the poor **financial health** indicators. In 2023-24, municipalities incurred net losses of R744,98 million and the cash balances of 13 municipalities (81%) would support their operations for only one month or less. The arrears owed to Eskom decreased slightly, from R6,47 billion last year to R6,22 billion in 2023-24, due to seven municipalities participating in Eskom's debt-relief programme. However, participating municipalities run the risk of not receiving the full benefit of this initiative due to non-compliance with the programme conditions. Municipalities' financial difficulties have a detrimental effect on their ability to deliver basic services to their residents. Councils must cultivate a strong financial management culture, including diligently billing and collecting all revenue due to the municipality. Unauthorised expenditure of R4,22 billion was incurred in 2023-24. Sixteen councils (70%) adopted unfunded adjustments budgets, contrary to the provincial treasury's advice. The provincial treasury should follow up on councils' implementation of its recommendations on monthly budget statements and mid-year budget and performance assessments.

Municipalities again did not **comply with key legislation,** and we have reported material non-compliance at all municipalities every year since 2020-21. Non-compliance with procurement, competitive bidding and quotation processes was the main contributor to the substantial increase in the closing balance for irregular expenditure, which rose from R9,89 billion in 2020-21 to R12,52 billion in 2023-24. The fruitless and wasteful expenditure balance grew from R3,71 billion to R5,32 billion over the same period due to interest on late payments to suppliers. In 2023-24, progress on investigating irregular expenditure and fruitless and wasteful expenditure was slow, as some municipal public accounts committees did not establish timelines for such investigations, allowing the continued misuse of state funds without any consequences.

During 2023-24, we notified accounting officers of 22 **material irregularities.** This brings the total number of MIs issued in the province to 80, with a combined estimated financial loss of R568 million. Accounting officers have resolved 31 of these MIs, mainly by submitting outstanding financial statements, and are taking appropriate action to address a further three. For example, the accounting officer of Metsimaholo Local Municipality is busy recovering R5,65 million from a contractor for construction materials that were not properly safeguarded.

Of the unresolved MIs, 22 relate to non-compliance with environmental legislation, which highlights municipalities' challenges with wastewater and solid waste management. None of these MIs have been adequately addressed, and they have now been referred to public bodies for further investigation. Inadequate cash management contributed to MIs being raised on the late payment of suppliers and pension funds. For example, we raised MIs at Mafube and Mohokare local municipalities as they did not pay over all employee contributions to the relevant pension funds. The current culture of complacency will not change without a concerted effort by provincial leadership.

The provincial cooperative governance department reported challenges faced by municipalities to adequately address our audit findings to the provincial legislature as legislated. However, the department did not make practical recommendations that could shift municipal performance and accountability, such as mayors actively monitoring action plans to ensure that matters raised in our reports were addressed. This illustrates the need for intensified intervention by all coordinating institutions to eradicate the culture of impunity.

We urge the premier to promote an ethical culture that enhances performance, accountability, transparency and integrity. We are encouraged by the commitments made by the premier to develop a coordination plan to ensure that service delivery is planned for in an integrated manner. The provincial cooperative governance department, with support from the South African Local Government Association, committed to help capacitate municipal public accounts committees to perform adequate investigations. Councils should enhance the effectiveness of their oversight, hold administrative leadership accountable for poor performance and inaction on MIs, and implement consequences for transgressions.

The local government culture will shift once the key roleplayers in the accountability ecosystem implement our recommendations to increase oversight, improve financial and performance management controls, report credibly on their performance, deliver services to communities and implement consequence management.

7.4 GAUTENG

Failure to address service delivery, financial health and compliance concerns negatively affects citizens

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from 2020-21
2020-21	2	7	1	1	0	0	3 ▲ 3 ▼
2023-24	2	6	3	0	0	0	

Last year, we implored leadership to act with a sense of urgency to improve the audit outcomes, but not enough progress has been made in improving the outcomes. Municipalities and municipal entities continue to experience challenges with financial viability, compliance with legislation and service delivery. We again call upon leadership to act swiftly in addressing these challenges.

Two municipalities and three municipal entities (21% of the auditees in the province) received clean audits in 2023-24, compared to two municipalities and one municipal entity (13%) in 2020-21, while six municipalities and 10 municipal entities (67%) received unqualified audit opinions with findings. Both Midvaal Local Municipality and Johannesburg Market sustained their clean audits from last year, while West Rand District Municipality, Ekurhuleni Water Care Company and Ekurhuleni Housing Company improved to a clean audit status in 2023-24.

There were improvements in the **audit outcomes** of two municipalities, namely Merafong City Local Municipality from a disclaimed to a qualified opinion and Mogale City Local Municipality from a qualified to an unqualified opinion – because they implemented our recommendations on basic financial controls and records management. Key municipal entities, such as Johannesburg Water, City Power, PikitUp and Johannesburg Roads Agency, have retained their unqualified audit opinions with findings from 2020-21. Although City of Tshwane Metro and Emfuleni Local Municipality both received qualified opinions, there were fewer qualification areas. Leadership should continue to hold officials accountable for not implementing basic preventative controls.

The quality of **financial statements** submitted for auditing is still a concern, with only 50% of submitted financial statements being of good quality. Four municipalities and five municipal entities were able to achieve good-quality financial statements only after making adjustments during the audit process. The cost of financial reporting consultants increased from R57,15 million last year to R70,13 million in 2023-24, primarily because consultants were brought in to assist with asset management. Yet, we still identified material misstatements in this area at Emfuleni Local Municipality, Merafong City Local Municipality and Rand West City Local Municipality. The regular preparation of quality financial statements is key as it drives informed financial decisions and provides valuable insights on financial health. Internal audit units, audit committees and the provincial treasury should conduct rigorous reviews and ensure that any findings on financial statements are swiftly and properly addressed.

The quality of published **performance reports** is still a concern despite a slight improvement from 52% in 2020-21 to 58% in 2023-24. The poor quality is due to a lack of adequate processes to ensure valid, accurate and complete reporting and inadequate reviews by internal audit units and performance audit committees. Good-quality performance reports enable leadership to understand and effectively monitor the level of service delivery and take corrective action where and when required. We again urge the internal audit units and performance audit committees to intensify their reviews and the provincial cooperative governance department to effectively monitor the impact of the initiatives implemented to improve the quality of performance information.

While municipalities continued to engage residents through public-participation sessions when setting priorities, and the metros included the relevant performance indicators in their performance plans, service delivery targets were not always achieved, which hampered the provision of basic services to communities. Planned performance targets were also revised – and at times even removed from planning documents – during the mid-year adjustments process, resulting in commitments to residents not being honoured. We call on councils and mayors to improve performance accountability by assessing the individual performance of accounting officers and senior management based on how the municipalities have performed in line with pre-agreed priorities, and to apply stricter consequences for a lack of organisational performance.

Non-compliance with legislation on procurement and contract management persisted, and investigations were either not initiated or not completed on time, delaying consequence management. Councils and boards of directors wrote off R8,72 billion in irregular expenditure in 2023-24, while both the irregular expenditure incurred for the year and the accumulated closing balance of such expenditure increased. Disciplinary boards have not yet had the desired impact as not all cases referred to them were resolved – we call on them to prioritise instances of financial misconduct referred for investigation. Speakers of councils should help capacitate municipal public accounts committees by providing the required resources so that unauthorised, irregular, and fruitless and wasteful expenditure can be investigated promptly.

The **financial health** of municipalities continued to deteriorate, as five municipalities and two municipal entities (29%) expressed going concern uncertainty – compared to six municipalities (25%) in the previous year. Approved financial recovery plans have yet to yield the desired impact at City of Tshwane Metro, City of Johannesburg Metro and Emfuleni Local Municipality due to inadequate monitoring of the conditions imposed in the plans; while at Merafong City Local Municipality, the plan was only approved late in the financial year.

Municipalities continued to struggle with collecting the money owed to them as evidenced by the significant provision for bad-debt impairments. This ranged from 70% to 92% at the three metros, which affected their ability to pay creditors timeously and invest in infrastructure programmes. Accounting officers did not adequately perform budget planning and monitoring processes and there was a lack of oversight by the executive authority, as eight municipalities (73%) incurred unauthorised expenditure of R8,46 billion because they did not budget sufficiently for non-cash items. In addition, nine municipalities adopted unfunded budgets. Fruitless and wasteful expenditure decreased from

R2,46 billion last year to R1,58 billion in 2023-24, but water and electricity losses continued to increase, putting further strain on the limited financial resources. Accounting officers should prioritise improving financial health by implementing debt-collection strategies and processes for budget planning and monitoring.

Financial health challenges continued to affect infrastructure programmes, as spending on infrastructure repairs and maintenance remained below the prescribed National Treasury norm, and investment in new infrastructure remained inadequate in relation to increased demand and ageing infrastructure. The lack of preventative maintenance over multiple years has affected infrastructure availability and thus the quality of service delivery. Examples include frequent pipe bursts, water interruptions and use of water tankers at Johannesburg Water, as well as frequent breakdowns at a poorly maintained City Power substation. In both cases, we issued MIs to the accounting officers to perform proactive maintenance and improve the performance of these infrastructure assets.

Municipalities continued to experience challenges in delivering **infrastructure projects** due to poor planning, a lack of approved standard operating procedures, high vacancy rates in service delivery units, procurement irregularities and poor financial controls – leading to overpayments, unrecovered guarantees, delays, environmental risks and cost escalation. For example, a City of Tshwane Metro project to upgrade roads and stormwater systems in the Mabopane and Winterveldt areas was abandoned due to disputes between the metro and the contractor. The Johannesburg Roads Agency's Lilian Ngoyi project in City of Johannesburg Metro was delayed after the appointed supplier's contract was terminated due to non-performance. We again call on the accounting officers and relevant mayoral committee members to prioritise repairing and maintaining infrastructure, and ensure that project reports are reviewed promptly so that gaps can be identified early, and corrective measures can be taken.

The **material irregularity** process continued to gain traction as most accounting officers are taking corrective steps to address the identified MIs. Such steps include improving internal controls, upgrading and maintaining infrastructure, instituting disciplinary processes and recovering funds – with R401,87 million of the total estimated financial loss of R1,35 billion having been recovered to date. In response to being notified of MIs, accounting officers at Johannesburg Water and City Power are now billing customers for all services rendered, which will assist with revenue generation. As a result of the MIs we raised on deficient wastewater treatment works at Merafong City Local Municipality, the Department of Water and Sanitation is assisting the municipality with funding to refurbish the wastewater treatment works. We urge accounting officers to develop early warning systems and implement controls to prevent material irregularities from occurring. We also encourage governance structures and councils to continue to monitor the progress that accounting officers make in implementing the actions that they commit to take.

The provincial leadership should foster a culture of good governance, strengthen financial disciplines and see matters through so that their efforts yield real benefits for local government. The premier, along with the members of the executive councils for finance and for local government, implemented initiatives aimed at improving audit outcomes, but more needs to be done so that tangible impact can be realised, while also strengthening oversight and building institutional integrity within municipalities. The provincial legislature and portfolio committee on local government should lift the legislative arm and interrogate with renewed rigour the accountability reports submitted by municipalities and the provincial cooperative governance department. Where gaps are identified, they should call these roleplayers to account. We urge administrative leadership to shift the culture and move their focus towards critical issues, reinforcing internal control systems, boosting revenue collection, establishing mechanisms to enhance the execution of infrastructure programmes and improving service delivery.

7.5 KWAZULU-NATAL

Lack of accountability and poor financial management impede service delivery

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from 2020-21
2020-21	3	35	13	0	3	0	15 ▲ 6 ▼
2023-24	7	36	7	2	1	1	

Last year, we recommended that councils and accounting officers, in collaboration with the premier's office, treasury, cooperative governance department and legislature in the province, actively track audit action plans and key service delivery targets. We also advised them to prioritise the recruitment of qualified and skilled staff, enforce strict accountability and strengthen oversight to support continued improvements.

Audit outcomes improved slightly between 2022-23 and 2023-24. A bigger improvement is evident from 2020-21, with 15 municipalities (28%) having improved their audit outcomes since then. The number of clean audits also rose – from three (6%) in 2020-21 to seven (13%) in 2023-24. This demonstrates that municipalities can improve their ability to produce credible and reliable reports through greater discipline and accountability. Despite the progress made, many municipalities are still slow to respond to our call for action to improve financial and performance management controls, comply with legislation and meet key service delivery targets.

Since 2020-21, eight municipalities (uMshwathi, AbaQulusi, Dannhauser, eMadlangeni, Mpofana, uMngeni and eDumbe local municipalities and Ugu District Municipality) have improved from qualified opinions – uMshwathi to a clean audit and the rest to unqualified opinions with findings. This was because municipal leadership effectively implemented action plans. Richmond, Msinga and Umvoti local municipalities achieved clean audits in 2023-24 for the first time since 2020-21 because of greater financial management disciplines by senior management. If management remains committed to maintaining effective controls, these improvements will be sustainable.

The three municipalities that received **disclaimed audit opinions** in 2020-21 have improved their outcomes after municipal leadership worked with the provincial treasury and cooperative governance department to improve recordkeeping controls. Inkosi Langalibalele Local Municipality and uMkhanyakude District Municipality improved from disclaimed opinions in 2020-21 to qualified opinions in 2023-24, while Nquthu Local Municipality improved from a disclaimed opinion in 2020-21 to an unqualified opinion with findings in 2023-24.

Okhahlamba Local Municipality lost its clean audit status due to the slow response by management to address supply chain management failures. Endumeni Local Municipality regressed to a disclaimed opinion, mainly because senior management did not properly oversee financial statement preparation and reporting, and the appointed consultants did not properly set up the accounting system to support financial reporting. Umzumbe Local Municipality regressed to an adverse opinion due to political instability and vacancies in key posts. Amidst these challenges, progress is evident at some municipalities that have received unqualified audit opinions with findings for many years, gradually decreasing the number of findings reported. However, these municipalities must avoid complacency and expedite implementing audit recommendations and the commitments made.

King Cetshwayo District Municipality, along with uMlalazi and City of uMhlathuze local municipalities, sustained their clean audit status through the support of strong, dedicated and accountable leaders who institutionalised internal controls and ensured stability in key positions. Support from the provincial treasury and cooperative governance department helped Mpofana, eMadlangeni and Jozini local municipalities to clear their qualification areas. Despite being placed under intervention, uThukela District Municipality (qualified opinion) and both uMzinyathi District Municipality and Umzumbe Local Municipality (adverse opinions) made limited progress due to delays in appointing administrators and changes in leadership.

While the provincial cooperative governance department tabled a report on how to address concerns raised in our audit reports in the provincial legislature, the implementation of recommendations was slow and inconsistent. While some municipalities managed to improve their outcomes, others struggled due to poor oversight by mayors and councils. The provincial treasury and cooperative governance department need to focus on the persistent negative audit outcomes, non-achievement of service delivery targets and ineffective interventions. In some instances, municipal leadership also failed to act on recommendations from internal audit units and audit committees, highlighting the need for closer cooperation with these governance structures to unlock their full value.

The quality of submitted **financial statements** has improved slightly since 2020-21, with 16 municipalities (30%) producing financial statements that required no material adjustments in 2023-24, compared to 12 (25%) in 2020-21, largely due to the appointment of experienced finance staff. Notably, 27 municipalities (51%) received unqualified audit opinions on their financial statements only because we allowed them to make material adjustments. Consultant costs decreased from R252,81 million last year to R222,63 million in 2023-24 but skills gaps persisted at some municipalities, leading to continued reliance on consultants. Senior management was slow to respond to our recommendations to improve controls over routine reviews and reconciliations.

All 10 municipalities that received modified audit opinions used consultants for financial reporting. This was mainly because of inefficiencies at the municipalities to manage consultants, such as poorly managing projects and appointing consultants without conducting a needs analysis. In some instances, consultants did not transfer skills to finance officials. The main qualification areas related to revenue and receivables, as well as disclosures relating to unauthorised, irregular, and fruitless and wasteful expenditure. At Amajuba District Municipality, revenue qualifications stemmed from a slow response by management to institute consequence management against information technology consultants that had failed to resolve discrepancies between meter readings and reports.

Municipalities that complied with key legislation increased from three (6%) in 2020-21 to seven (13%) in 2023-24. The most common areas of non-compliance related to material misstatements in the submitted financial statements and unauthorised, irregular, and fruitless and wasteful expenditure not being prevented. **Compliance** with supply chain management legislation improved as senior management trained officials on the legislation and implemented supply chain management checklists. Compliance with consequence management legislation also improved as councils, supported by the provincial cooperative governance department, investigated and subsequently reduced the unresolved irregular expenditure from prior years from R14,39 billion in 2020-21 to R8,27 billion in 2023-24. However, some councils did not conduct proper investigations before writing off irregular expenditure or enforce consequences against responsible officials.

Some accounting officers actively investigated root causes, enforced consequence management and resolved **material irregularities.** Of the 60 MIs that we have identified, accounting officers have resolved 40 (67%). However, a lack of timely investigations (some of which took as long as 18 months to complete) often delayed the resolution of some MIs (and, by implication, the harm caused). For instance, the accounting officer of eThekwini Metro did not timeously address the pollution of water resources at its Northern wastewater treatment works, resulting in raw sewage continuing to be discharged into the Umhlangane and uMngeni rivers.

The **performance reports** of 22 municipalities (42%) contained material misstatements. Another 17 municipalities (32%) avoided findings on their performance reports by making material adjustments during the audit process, mainly because of a lack of reconciliations to supporting documentation, and poor record keeping and reviews. Three municipalities (6%), namely AbaQulusi, Impendle and Nquthu local municipalities, did not include key indicators in their performance reports. For example, AbaQulusi omitted water quality indicators from its service delivery and budget implementation plan and, in doing so, undermined transparent reporting on the quality of drinking water.

Municipalities struggled across all stages of the **infrastructure project** life cycle, from planning to maintenance, causing delays, poor build quality, cost overruns and service interruptions. This was largely due to municipal leadership and management being slow to implement audit recommendations and hold non-performing contractors accountable. Municipalities often allocated insufficient funding towards repairing and maintaining infrastructure assets. The poor maintenance of infrastructure was the key contributor to the provincial water losses of R3,47 billion, with eThekwini Metro accounting for R1,99 billion (58%).

Our site visits of water infrastructure revealed inadequate maintenance, non-compliance with environmental legislation and safety risks. For example, at the City of uMhlathuze Local Municipality, mechanical failures at the Empangeni wastewater treatment works caused water pollution. The municipality received a clean audit, but this does not necessarily guarantee wholesale quality service delivery and the municipality should focus on all areas of service delivery.

The **financial health** of municipalities remained poor and service delivery and operations were affected by poor cash-flow and financial management. Five municipalities (9%) expressed going concern uncertainty in 2023-24, compared to 10 (19%) last year. Municipalities continued to struggle to collect debt, with 69% of all debt deemed irrecoverable. Thirteen municipalities (25%) tabled unfunded budgets due to unrealistic revenue targets, as accounting officers did not adequately review the budgets and because of rising Eskom debt and high water and electricity losses. Although the provincial treasury recommended that these municipalities implement cost-cutting measures and reduce non-essential expenditure, councils still tabled these budgets. Unauthorised expenditure increased from R3,09 billion last year to R3,79 billion in 2023-24. To improve sustainability, municipalities must strengthen revenue collection, prioritise the collection of outstanding debt and implement proper budgeting processes.

The province's outcomes highlight the need for strong internal controls, reliable information technology systems, regular reviews and continuous monitoring. The provincial treasury and cooperative governance department, with the oversight of the premier's office, must fulfil their commitment to developing tailored and sustainable turnaround plans for struggling municipalities to better manage their finances and maintain their infrastructure. With support from the provincial treasury and cooperative governance department, accounting officers and councils must enforce accountability, strengthen governance and ensure that action plans are implemented effectively and on time. Lastly, accounting officers must improve accountability, oversee infrastructure quality and maintenance, and recover municipal debt to improve service delivery to their communities.

7.6 LIMPOPO


Image: SA Tourism

Tolerance for continuing transgressions, excessive spending on consultants and poor performance resulted in minimal service delivery

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from 2020-21
2020-21	1	16	8	0	2	0	6 ▲ 5 ▼
2023-24	2	14	10	0	1	0	

Last year, we reported that audit outcomes in the province had remained largely unchanged because of inadequate oversight and slow implementation of corrective action. This stagnation is also evident when comparing the outcomes to those of 2020-21. Two municipalities had lost their clean audit status last year, leaving the province with no clean audits. We highlighted that the financial health of most municipalities remained under pressure because of poor revenue collection, while the use of consultants increased despite there being a commitment by the premier to reduce this reliance. Poor planning, budgeting, spending and project management practices contributed to municipalities not achieving their targets. We reiterated our call to councils, the premier and members of the executive councils for local government and for finance to prioritise oversight and corrective action as determined by legislation.

Similarly, the 2023-24 audit outcomes show no notable improvement, except for Waterberg and Capricorn district municipalities obtaining clean audits. While all municipalities developed and approved audit action plans, some did not properly address prior-year findings, which meant that **audit outcomes** remained largely unchanged compared to 2020-21. Thabazimbi Local Municipality regressed to a **disclaimed audit opinion** due to political infighting, which led to significant instability in the administration. The provincial government has since placed the municipality under intervention. Seven municipalities have remained in the unqualified with findings category since 2020-21, which further demonstrates that the audit action plans do not appropriately deal with root causes.

A total of 25 municipalities (93%) had material misstatements in their submitted **financial statements,** and 14 municipalities (52%) relied on the audit process to eventually produce good-quality financial statements. All municipalities used financial reporting consultants to cover the lack of skills and/

or vacancies in their finance units, and collectively spent R278,12 million on consultants. Despite this investment, 20 municipalities (74%) submitted financial statements with material misstatements that fell within the scope of the work performed by consultants. The audit outcomes of the five municipalities that had consultants appointed by the provincial treasury at a cost of R8,66 million also did not improve due to inadequate reviews by the accounting officers and the consultants. The money spent on consultants without deriving any value could have been channelled towards meeting key service delivery targets.

The quality of submitted **performance reports** remained poor, as municipalities continued to rely on the audit process to publish credible performance reports. In 2023-24, only four municipalities (15%) submitted credible performance reports for auditing, with 14 (52%) eventually publishing credible reports after some made corrections based on the audit, compared to 10 (37%) in 2020-21. This improvement did not translate into improved service delivery, as none of the municipalities managed to achieve all the key targets contained in their service delivery and budget implementation plans.

We reported material findings on **compliance with legislation** at 25 municipalities (93%) in 2023-24, compared to 26 (96%) in 2020-21. While this area remains a challenge, some municipalities heeded our call from prior years to investigate unauthorised, irregular, and fruitless and wasteful expenditure. The provincial treasury and cooperative governance department provided training to municipalities on dealing with such investigations, as well as on consequence management. The impact of these efforts can be seen in municipalities dealing with 52% of last year's irregular expenditure balance of R5,52 billion, compared to only 11% being dealt with in 2020-21. Non-compliance with procurement and contract management legislation resulted in irregular expenditure of R2,03 billion, mainly because procurement processes were not followed. Continued disregard for procurement prescripts erodes transparency and institutional integrity.

In 2023-24, 10 auditees – two more than last year – adopted unfunded budgets because of poor budgetary processes (such as unrealistic assumptions and inadequate budget reviews). Sixteen municipalities incurred R2,19 billion in unauthorised expenditure. This was due to low estimates of non-cash items during the budgeting process at 12 (75%) of these municipalities. Three local municipalities (Bela-Bela, Modimolle-Mookgophong and Thabazimbi) that owe Eskom a combined R454 million are at risk of being removed from the Eskom debt-relief programme because they are not adhering to the programme conditions due to poor revenue collection.

The **financial health** of most municipalities remained under pressure as they struggled to collect revenue and pay their creditors on time, and four municipalities (15%) disclosed going concern uncertainty. Fruitless and wasteful expenditure of R149,54 million incurred during the year further added to this unfavourable position. If this position is not addressed, municipalities will not be able to sustain their operations and achieve key service delivery priorities, such as investing and maintaining their infrastructure to deliver reliable water, electricity and sanitation services of the required quality. We encourage councils, with the assistance of the provincial treasury and cooperative governance department, to adopt and monitor financial recovery plans that will enable municipalities to improve their financial health.

The province continued to face challenges with **infrastructure projects** not being completed on time, as there was inadequate project supervision and no consequences for the officials responsible for overseeing these projects. The culture of waiting for auditors to raise deficiencies must also be addressed by improving project monitoring, including regular site visits.

The state of water provision remained concerning as critical water infrastructure projects were delayed, depriving communities of an adequate water supply. For example, at Sekhukhune District

Municipality, three reservoirs that were supposed to have been completed in November 2021 are still not complete, with very little progress having been made in 2023-24 despite the municipality having already spent 97% of the project's total budget of R63,24 million.

Last year, we reported on the Polokwane regional wastewater treatment plant project, which was significantly delayed and had exceeded its budget. A year later, the project has still not been completed, further delaying service delivery to the growing population of Polokwane. Management failed to implement our recommendations and incurred standing-time payments of R2,20 million because of poor planning, budgeting and coordination. As a result, we notified the accounting officer of an MI in November 2024.

Of the 40 **material irregularity** notifications issued in the province, 34 related to financial losses of an estimated at R1,43 billion. By 31 January 2025, R230,85 million of this amount had been recovered and R3,61 million had been prevented. Overall, 24 of the 40 MIs have been resolved, while accounting officers are taking appropriate action to address a further 12. Where MIs have been resolved, internal controls were improved, preventative measures were put in place and responsible officials faced consequences. Delays in completing investigations and disciplinary processes, coupled with instability in accounting officer positions, delay the resolution of MIs.

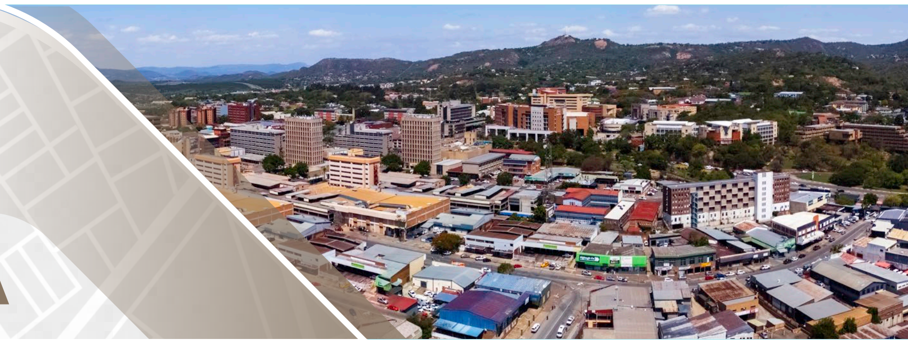
To encourage the protection of the environment, we have issued six MI notifications relating to likely substantial harm to the general public due to landfill site mismanagement and pollution of water sources – and the impact of our expanded mandate is becoming more evident. For example, after we notified the accounting officer of Bela-Bela Local Municipality of an MI because the Warmbaths wastewater treatment works facility was not operated in accordance with legislation and is likely to cause harm to the general public, the municipality took action to get the facility operational and environmentally sound.

The member of the executive council for local government did not table the 2022-23 consolidated report on municipal performance in the provincial legislature as required. The member did table the report on those municipalities that had failed to adequately address our audit report findings, but the provincial legislature has not yet made any resolutions based on the observations in the report. For these oversight reports to have a bigger impact, the member of the executive council must prioritise the tabling of the reports and the legislature should interrogate them in a timely manner.

The province has the potential to improve the lived realities of its communities, but for this to happen, it is critical that all roleplayers in the accountability ecosystem work together in realising this goal. Municipal public accounts committees must expedite investigations into unauthorised, irregular, and fruitless and wasteful expenditure. Councils must implement consequences against accounting officers for continued transgressions and poor performance. The premier, in collaboration with the provincial treasury and cooperative governance department, should conduct workshops to capacitate chief financial officers and accounting officers to deal with the root causes of repeat findings and take remedial action where repeat findings persist.

The member of the executive council for local government has committed to establish forums to address internal control deficiencies, such as compiling quarterly financial statements, and to engage audit committees and internal audit units to ensure that they are effective in providing assurance and guidance to councillors. The role of these governance structures in reviewing the quality of financial statements and performance reports is crucial to improving municipal audit outcomes. The premier has committed to strengthen governance and improve service delivery by focusing on local municipalities, which will directly benefit the people of the province.

7.7 MPUMALANGA



Persistent weak control environments and lack of leadership accountability hinder the necessary culture shift

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from 2020-21
2020-21	4	7	5	1	3	0	6 ▲ 3 ▼
2023-24	2	8	9	0	0	1	

Since 2021-22, we have worked closely with municipal and provincial leadership, as well as other key stakeholders in the local government accountability ecosystem, to identify sustainable solutions in four critical areas: establishing an effective control environment, ensuring financial sustainability, improving infrastructure project planning and management, and ensuring compliance with legislation (particularly relating to procurement and contract management and consequence management). We have also emphasised the importance of prioritising these critical areas at the intermediate cities, given their central role in the success of the province.

Leadership engagement over this period showed some positive movement, with a more proactive approach to addressing some of the challenges identified in our previous reports. This shift resulted in some improvements, such as the eradication of disclaimed and adverse audit opinions. While these steps are encouraging, the journey towards sustained improvement continues as the four critical areas mentioned above have not been fully addressed. Both the political and administrative leadership (comprising the premier, speaker of the legislature, members of the executive councils for local government and for finance, municipal councils, accounting officers and senior management) must prioritise these four areas, and drive high-quality service delivery and capacity-building efforts.

The province's overall **audit outcomes** improved, with two improvements from 2022-23. eMalahleni Local Municipality improved from a seven-year qualified opinion to an unqualified opinion with findings due to stable leadership and qualified personnel in key positions, which enabled the implementation of a credible action plan. eMakhazeni Local Municipality improved from an adverse to a qualified opinion due to stability in the municipal manager and chief financial officer roles, as well as support from the national and provincial treasury. However, the audit outcomes of many municipalities have stayed the same since 2020-21 due to political and administrative leadership failing to fulfil their commitments.

Since 2021-22, municipalities have consistently submitted their financial statements by the legislated date. However, this year, Thaba Chweu Local Municipality did not submit its consolidated financial statements because its entity, the Thaba Chweu Local Economic Development Agency, did not submit its financial statements on time. As a result, we notified the entity's accounting authority of an MI.

The quality of **financial reporting** remained poor. Only three municipalities (16%) submitted reliable financial statements, while the rest struggled due to weak financial management controls, a shortage of skilled personnel and vacancies. The MIs that we identified in prior years contributed to reduced consultant spending, from R187,67 million last year to R169,42 million in 2023-24. Despite this, reliance on consultants remained high, with 18 municipalities (95%) using consulting services in 2023-24. Inadequate skills in finance units limited consultants' effectiveness, as municipalities failed to provide adequate records to the consultants or review their work. Strengthening internal financial management capability is crucial for improving financial reporting. The provincial cooperative governance department should offer support to enhance internal capacity through the effective implementation of the integrated municipal support plan.

Municipalities continued to depend on the audit process to produce credible **performance reports** because they lacked effective systems for collecting, monitoring and reporting performance information. Unreliable performance reports undermine transparency, accountability and the oversight role of mayors and council committees. Only three municipalities (16%) submitted credible performance reports in 2023-24, while another nine (47%) (as was the case in 2020-21) achieved good-quality reports after adjustments during the audit. Some municipalities failed to meet key service delivery targets, particularly those relating to water infrastructure, causing delays in the provision of water. To address this gap, mayors must rigorously review the legislated budget and mid-year reports before tabling and hold accounting officers accountable for unachieved targets and inaccurate reporting.

While municipalities spent most of their infrastructure grants, they failed to complete some projects on time and within budget due to vacancies, skills shortages in project management units and weak financial controls. As a result, the province continued to struggle with inadequate **infrastructure,** including overburdened water treatment plants, resulting in water losses, poor-quality water and health risks. In 2022-23, environmental audits at six municipalities (32%) revealed poorly maintained infrastructure and ineffective environmental management, leading us to notify the accounting officers at all six municipalities of MIs for likely harm to the public. Four of the municipalities have not addressed the issues, and we have referred these matters to the Department of Water and Sanitation and the Department of Forestry, Fisheries and the Environment for further action.

Municipalities remained in financial distress, with six expressing going concern uncertainty – the same number as in 2020-21. Despite warnings from the national and provincial treasury on unfunded budgets, 11 councils (58%) continued to approve them. Unauthorised expenditure grew from R2,59 billion in 2020-21 to R4,61 billion in 2023-24, while operating deficits increased from R2,17 billion to R3,24 billion over the same period. This may force municipalities to use future budgets to cover expenses that have already been incurred, jeopardising future service delivery.

Revenue collection remained a major challenge, with approximately 68% of money owed to municipalities deemed irrecoverable, largely due to poor support from councils in implementing effective collection strategies. This has left municipalities struggling to fund operations and pay suppliers, including Eskom. The outstanding Eskom debt rose from R8,62 billion in 2020-21 to R19,89 billion in 2023-24. Additionally, 67% of the municipalities enrolled in the Eskom debt-relief programme risk removal due to non-compliance stemming from cash-flow challenges. On average, municipalities took 469 days to pay their creditors, which led to R1,39 billion in fruitless and wasteful expenditure due to interest and penalties. Credible financial recovery plans will be key in improving the province's **financial health,** and the provincial treasury has already reviewed some revised plans that are intended to improve the financial state of struggling municipalities.

We have notified accounting officers in the province of 45 **material irregularities** due to non-compliance resulting in financial losses as well as substantial harm to the general public, municipalities and municipal entities. Since notifying the accounting officers of the MIs, we have identified further losses of R1,63 billion. By 31 January 2025, the province had resolved just over half of the MIs (23). This was driven by strengthened capacitation of finance units, regular reconciliations, proper record-keeping and the implementation or revision of financial recovery plans.

However, some responses to MI notifications lacked adequate supporting information, causing delays in the process. Consequently, we have taken remedial action against one accounting officer. The delayed and inadequate responses from accounting officers have significantly hindered the recovery process, with no financial recoveries having been made to date. Thaba Chweu Local Municipality is currently in the process of recovering some losses. Mayors, councils, coordinating institutions and the provincial legislature must, in their oversight and monitoring roles, regularly follow up with accounting officers on the MIs of which they have been notified.

In 2023-24, we reported material findings on **compliance with legislation** at 17 municipalities (89%) due to the poor monitoring of controls and a lack of consequences for transgressions. Irregular expenditure, mainly due to procurement and contract management transgressions, increased from R1,26 billion in 2020-21 to R2,74 billion in 2023-24, and may be even higher as five municipalities (26%) underreported irregular expenditure in their financial statements. Accountability also did not increase in this area, with seven municipalities (37%) failing to investigate prior-year unauthorised, irregular, and fruitless and wasteful expenditure. The escalating irregular expenditure balance and lack of accountability undermine public trust. It is thus crucial for these issues to be addressed to ensure the efficient use of public funds and maintain the integrity of municipal governance.

Municipal public accounts committees and disciplinary boards must strengthen their role in promptly concluding investigations and enforcing consequences for transgressions. In response to the 2023-24 audit outcomes, municipal leadership and the provincial premier's office, cooperative governance department and treasury committed to strengthening local government by filling key vacancies, implementing support plans and enhancing oversight, while the premier aims to increase clean audits from two to eight by the end of the administrative term. We urge these roleplayers to collaborate on sustainable solutions in the four critical areas mentioned earlier to bring about the necessary culture shift by strengthening accountability, transparency and performance for better service delivery to the people of Mpumalanga.

7.8 NORTHERN CAPE

Municipal councils must rectify governance failures and instil accountability

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from 2020-21
2020-21	5	5	17	0	4	0	5 ▲ 7 ▼
2023-24	2	6	20	0	2	1	

Last year, our message focused on the need to stabilise local government, improve oversight by tabling good-quality reports on time, improve the outcomes of municipalities that have modified audit opinions, and align budgets and service delivery plans to be responsive to community needs. We also highlighted the need for municipalities with unfunded budgets to be assisted to become financially viable by improving their internal control environment.

This message went largely unheeded, as the provincial cooperative governance department did not bring the necessary stability by assisting in making appointments in key vacant positions. Most municipalities retained their modified audit opinions due to the continued weak state of their internal controls. Mayors are legislatively required to ensure that the issues we had raised in audit reports are addressed. This was not done by the mayors of 21 municipalities (70%), resulting in audit recommendations not being implemented and the same findings being raised in 2023-24. This continues to result in financial statements that are not credible to make informed decisions in the best interest of municipalities.

Since 2020-21, only two municipalities (Frances Baard and Namakwa district municipalities) have sustained their clean audit status, while two local municipalities (Kareeberg and Tsantsabane) have regressed to **disclaimed audit opinions.** Kareeberg changed from a manual to an electronic financial system after the previous chief operations officer and senior accountant left and the municipality was unable to provide information on selected transactions, often due to skills and capacity constraints in the finance unit. The regression at Tsantsabane resulted from the chief financial officer and financial accountant resigning shortly before the financial statement submission date and the remaining officials not being able to assist the auditors due to not having the required financial skills and experience. The operation clean audit committee needs to partner with the provincial legislature to eradicate the disclaimed audit opinions. This partnership needs to focus on improving audit outcomes by implementing audit action plans and strengthening internal controls.

After a long history of disclaimed audit opinions, Joe Morolong Local Municipality improved to a qualified audit opinion in 2023-24. This improvement can be attributed to a strong commitment from the mayor and the accounting officer to resolve prior-year matters, improved record keeping with assistance from the provincial cooperative governance department, as well as quarterly meetings with the audit team during which progress on the prior-year audit action plan was discussed. The MI we raised in 2021 on the repeat disclaimers at the municipality was also resolved in 2024, after the accounting officer implemented our recommendations.

In 2023-24, only four municipalities (13%) submitted credible **financial statements,** compared to five (17%) in 2020-21, despite the province having spent R150,51 million on financial reporting consultants. Four of the six municipalities (67%) that achieved an unqualified audit opinion with findings could only do so after making material adjustments to their financial statements. Revenue and current assets (including receivables) were the most common qualification areas. The financial health of many municipalities suffered because they lacked the basic controls to bill all consumers, resulting in less money being available for service delivery priorities.

The submission of financial statements improved from 2020-21, owing to the role played by the member of the executive council for finance. While a good submission rate is important, more attention needs to be paid to ensuring that municipalities submit credible financial statements as this will contribute towards improved audit outcomes and accurate information on which to base decisions. Internal audit units and audit committees should assist municipalities by reviewing their financial statements before they are submitted for auditing. The provincial treasury should ensure that municipalities submit credible interim financial statements for its review, which will assist with the submission of good-quality financial statements at year-end.

Municipalities did not deliver on the **infrastructure** projects needed to reduce significant service delivery backlogs and improve communities' access to basic services. We identified shortcomings in water and sanitation projects at five municipalities. Insufficient preventative maintenance was prevalent, as municipalities spent only 2% of the value of their infrastructure assets on repairing and maintaining those assets – far below the National Treasury norm of 8%. The lack of preventative maintenance over many years has led to significant water and electricity distribution losses at most municipalities, with Sol Plaatje Local Municipality incurring losses of R277,64 million. The municipality lost approximately two-thirds (66%) of all the water it treated (more than double the National Treasury norm of 30%) and almost a quarter (24%) of all the electricity it purchased (significantly more than the National Treasury norm of 7% to 10%).

The province continued to struggle with **performance reporting** – 22 municipalities (73%) could not publish credible performance reports, compared to 10 (33%) in 2020-21, and only four municipalities (all of which were district municipalities) were able to produce credible performance reports that did not require any adjustments. Nine municipalities did not plan for all service delivery indicators or did not prioritise core functions. This was due to a lack of proper record-management systems and inadequate skills and capacity in municipal performance units. These weaknesses must be urgently addressed as credible performance reports are an essential tool in improving service delivery. Accounting officers need to elevate the area of performance information by building capacity and improving internal controls.

Three municipalities that did not submit performance reports last year (Siyathemba, Siyancuma and Ubuntu local municipalities) managed to do so in 2023-24 and their accounting officers should now focus on implementing a performance management system that will enable credible performance reporting by ensuring that accurate records are maintained. We issued MI notifications at four municipalities due to a lack of records for performance management systems in 2023-24. In two of these cases, the accounting officers were taking appropriate action. For the other two, we are assessing the action being taken and planned to resolve one and have included recommendations in the audit report for the other as the accounting officer did not take appropriate action.

Compliance with legislation regressed: only two municipalities (7%) had no compliance findings in 2023-24, compared to five (17%) in 2020-21. Non-compliance with supply chain management legislation continued to be the main contributor to irregular expenditure. The irregular expenditure closing balance remained high at R3,67 billion, of which only R0,93 million was in the process of recovery. This was due to a lack of investigations to determine whether any official was liable for the expenditure. The province's unauthorised expenditure balance increased from R7,38 billion in 2020-21 to R8,13 billion in 2023-24. Municipal public accounts committees should urgently investigate all identified instances of non-compliance to ensure that the irregular and unauthorised expenditure closing balances are dealt with in line with legislation, and that consequence management is swiftly implemented where appropriate.

We have notified accounting officers in the province of 38 **material irregularities,** 12 of which we raised in 2023-24. These MIs related to non-compliance with legislation, which resulted in a likely financial loss of R129,45 million, as well as substantial harm to the public and municipalities. In response to these MIs, municipalities have recovered losses of R6,7 million and prevented financial losses of an estimated R20,95 million. However, some accounting officers did not implement our recommendations to address the control weaknesses that we identified as part of this process. We encourage councils to regularly follow up on the MIs reported them and to take resolutions for accounting officers to act on the outcomes of completed investigations. Audit committees should establish a clear reporting mechanism for MIs and foster a culture that enhances transparency and encourages early detection and intervention.

Municipalities' financial health continued to deteriorate as they still did not collect most of the revenue owed to them, resulting in them struggling to pay their suppliers and third parties. At Renosterberg Local Municipality, we issued an MI notification due to substantial harm caused by the non-payment of pension fund contributions, and we are currently assessing action being taken and planned by the accounting officer to resolve the MI. A total of 22 municipalities adopted unfunded adjustments budgets based on projected revenue rather than expected receipts. The National Treasury's efforts to influence municipalities that adopted unfunded budgets to take corrective action and make the required adjustments were not effective. The provincial treasury's initiative to review budgets and monitor financial recovery plans needs to be enhanced to influence municipalities to improve their financial position through revenue-enhancement strategies; improved debt collection; and participation in, and adherence to, the Eskom debt-relief programme.

Overall, the lives of the people of the Northern Cape are negatively affected by municipalities' inability to properly manage the resources that they control. We are calling on all provincial roleplayers (provincial oversight and municipal leadership) to thoroughly and honestly reflect on the initiatives implemented, and the effort they have put in to improve the current state of municipalities.

In response, the premier has committed to improve the quality of financial statements by requesting the provincial treasury to review interim municipal financial statements. The premier has also undertaken to enhance his monitoring of infrastructure and contract management. The members of the executive councils for finance and for local government committed to engage municipalities to emphasise the importance of consequence management. In addition, the member of the executive council for local government created capacity in his department to monitor the alignment of service delivery and budget implementation plans and integrated development plans, focusing on the quality of the plans as well as their alignment to municipal budgets. We will track the implementation of these commitments.

It is vital that municipalities appoint skilled personnel and establish preventative controls. Coordinating institutions should align to provide oversight support by adhering to key local government legislation. We further recommend that the premier call municipalities to account quarterly on the progress they have made on their audit action plans and follow up on compliance with legislative requirements. Municipal leadership and oversight (mayors, councils and municipal public account committees) will need to set an example in the accountability value chain by implementing consequences to instil accountability in the province swiftly and consistently.

7.9 NORTH WEST

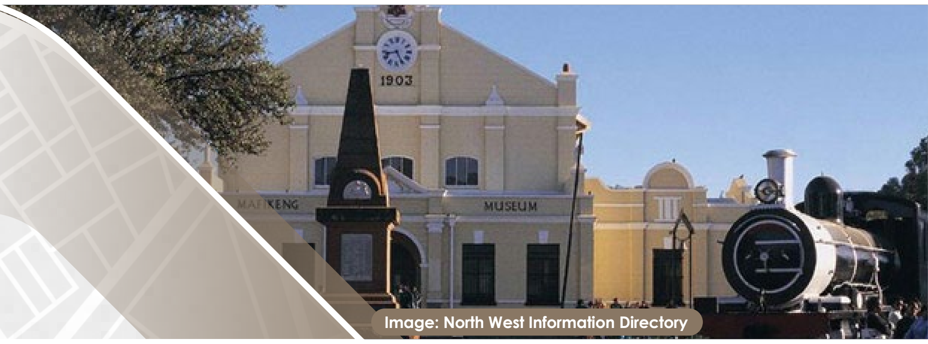


Image: North West Information Directory

Intensify efforts to strengthen capacity, institutional integrity and accountability for impactful and sustainable improvements

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from 2020-21
2020-21	0	3	9	1	9	0	9 ▲ 2 ▼
2023-24	0	3	13	2	3	1	

Last year, we highlighted critical issues that required immediate attention in the province, including instability in municipal leadership, weak control disciplines, lack of accountability and poor service delivery. While some progress has been made, challenges continue to hinder the province's ability to provide high-quality services to its communities and urgent action is still needed to improve municipal governance and service delivery.

Progress has mainly been driven by the collaborative efforts of the provincial treasury and cooperative governance department. Notably, the province had successfully filled 81% of municipal manager positions by the end of 2023-24. Provincial treasury intervention at Ditsobotla Local Municipality helped to address the municipality's financial statements backlog and the financial statements of the past three years have now been prepared. Clearing this backlog will allow the municipality to focus on rebuilding some of its financial records that had been destroyed. While this is a positive step, the municipality still faces significant challenges, particularly around poor records management, which continue to hinder effective financial reporting and accountability. We notified the accounting officer of the municipality of an MI to compel improved record keeping of supply chain management documents.

There has been a gradual improvement in **audit outcomes** since 2020-21, with nine municipalities improving their outcomes. While this signals some commitment to addressing financial reporting weaknesses, it has not yet translated into meaningful improvements in governance, compliance and institutional performance. The nine improved municipalities embraced the support and guidance offered by the provincial government, filled vacancies with qualified and capable candidates, and heeded our call to action driven by our recommendations. The strong leadership tone set at a political level, especially by speakers and mayors, was crucial in ensuring that financial management was prioritised. The City of Matlosana and Lekwa-Teemane local municipalities regressed due to complacency and a lack of willingness from both administrative and political leadership to implement our recommendations and initiatives for improvement. To prevent further regressions and ensure sustainable, long-term improvements, councils will have to strengthen both leadership stability and preventative controls.

None of the municipalities were able to fully address persistent transgressions, especially in the area of compliance, and to resolve the growing irregular expenditure balance. Similar to 2020-21, we raised material compliance findings at all municipalities. Most municipalities struggled with planning and reporting on performance, and some did not timeously resolve MIs. These challenges draw attention away from the improvements evident in the significant reduction of **disclaimed audit opinions,** which decreased from nine in 2020-21 to three in 2023-24. This reduction meant that qualified opinions increased over the same period, and the focus should now shift to further strengthening internal controls and improving the use of governance structures such as internal audit units and audit committees.

Not enough focus has been placed on strengthening information technology control environments, which are crucial in ensuring reliable financial data, and some internal audit units lacked the expertise required to monitor such environments. For example, at the three municipalities that received disclaimed audit opinions, the accounting systems did not integrate with the banking systems, leading to unexplained discrepancies. Weak controls around supplier master data and payment processes also exposed financial data to manipulation. Accounting officers should enhance their information technology governance by updating policies and tightening controls, as well as empowering internal audit units to monitor these areas.

Financial sustainability remained concerning at 13 municipalities (62%), as evidenced by delayed creditor payments, low revenue collection and inaccurate billing, with 71% of municipal debt being deemed irrecoverable. Almost half of the municipalities did not have permanent chief financial officers, which severely limited their financial management capacity.

Of the 13 municipalities with going concern issues, Rustenburg and Ratlou local municipalities did not have financial recovery plans. Meanwhile, at the 11 municipalities that did have such plans, their implementation was slow. Compliance with regulatory reporting requirements, such as the submission of monthly budget statements and mid-year budget and performance assessments to mayors and the provincial treasury, has not translated into improved financial management. In 2023-24, 19 municipalities (90%) incurred unauthorised expenditure totalling R3,56 billion, thereby increasing the balance of unauthorised expenditure to R31,57 billion. A total of 16 municipalities continued to adopt unfunded budgets, putting further pressure on their financial sustainability. Procurement practices also require attention, with 19 municipalities having engaged in uncompetitive and unfair processes, raising serious transparency concerns.

The quality of **performance reports** remains a persistent challenge across municipalities. Similar to 2020-21, 18 municipalities (86%) failed to meet performance management and reporting requirements. Only Dr Kenneth Kaunda and Bojanala district municipalities submitted satisfactory performance reports. Weak performance management units and poor oversight by councils, council committees and mayors contributed to deteriorating municipal services. Key areas such as water and sanitation were not effectively managed, particularly at Ngaka Modiri Molema District Municipality.

Despite progress on some **infrastructure projects,** such as the Taung bulk water supply and Alabama reservoir projects where municipalities implemented our recommendations, most infrastructure projects aimed at improving water supply and roads are behind schedule, contributing to ongoing service delivery delays. This was largely due to poor project management and a lack of capacity in technical units. Non-compliance was widespread at landfill sites and wastewater treatment works, leading to environmental concerns. However, corrective action is being taken at some landfill sites, such as the Wolmaransstad landfill, where fencing has been erected and waste management plans are being implemented. Councils will have to lead by example in insisting that mayors and accounting officers demand strong performance from technical and performance management units, backed up by regular monitoring and reporting.

Uncompetitive and unfair procurement processes, poor records management and a lack of transparency continued to plague municipalities. Irregular expenditure continued to grow at an alarming rate each year – in 2023-24, it grew by R3,36 billion to reach a cumulative balance of R34,64 billion. Municipalities have not addressed inadequate procurement processes, such as user departments procuring from their own preferred suppliers without involving supply chain management departments. Municipalities should consider centralising their procurement processes and records management to enforce both overall transparency and harsher consequences for non-adherence.

The province has been slow to deal with **material irregularities** on non-compliance and suspected fraud. Of the 60 MIs that we have identified, 73% have not yet been fully resolved. Although municipalities have recovered losses of R22,04 million and are in the process of recovering further losses of R40,07 million, potential losses of R942,33 million have not been adequately dealt with.

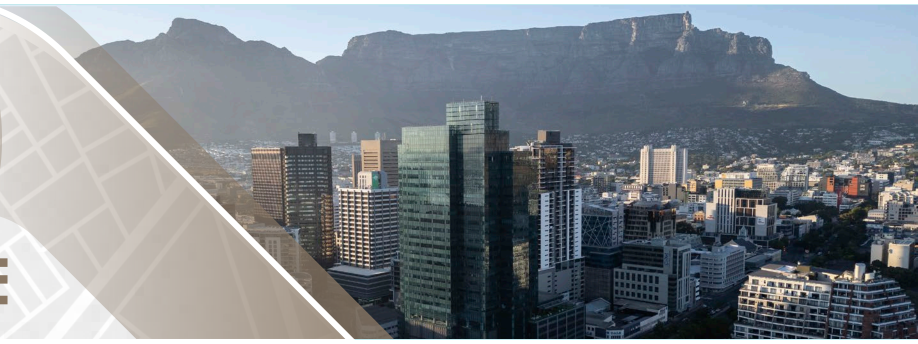
Improvements in service delivery will require urgent attention and intervention from municipal and provincial leadership to address critical areas such as non-existent infrastructure management and poor water and sanitation services. Municipalities must focus on performance management systems and ensure that projects are properly managed and executed. There must be a zero-tolerance approach towards unauthorised and irregular expenditure, and municipalities must be held accountable for poor procurement practices and service delivery failures.

It is crucial to fill leadership gaps in oversight and financial roles, and to continue to build capacity among municipal staff and councillors to improve municipal governance and ensure that municipalities can deliver basic services. Professionalising local government to improve audit outcomes and the lived experience of communities will require the provincial treasury and cooperative governance department to offer support and training in line with the recommendations from the latter department's skills audit. Municipalities need to adopt strong financial management practices, including better revenue collection and accurate billing, to boost their financial health. This will require regular internal audits, credible financial reporting and strong consequence management for poor financial practices.

Provincial leadership has already committed to several actions to support municipalities, including quarterly assessments of provincial interventions and support for smart prepaid meter installations to boost revenue. The provincial treasury will continue to monitor financial recovery plans and compliance with financial regulations, while the provincial cooperative governance department will focus on strengthening infrastructure management and enhancing governance skills at municipal level.

The challenges facing municipalities in the province are clear, but so are the solutions – and they are not unattainable. For sustained and impactful capacity and accountability improvements, councils must act decisively and with urgency. With strong leadership, effective oversight by councils and council committees and targeted interventions by coordinating institutions, municipalities can improve their governance, stabilise their finances and enhance their service delivery. This must not just be about compliance or debits and credits – it must be about transforming the way municipal officials do things to ensure that municipalities deliver on their promise to serve communities well. Leaders will have to act immediately and decisively for local government to have a fair chance of recovering from failures in governance and service delivery.

7.10 WESTERN CAPE



Sustainable control environment enhances good governance, contributing to service delivery

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from 2020-21
2020-21	22	5	3	0	0	0	1 ▲ 5 ▼
2023-24	20	6	2	1	1	0	

Last year, we reported that the province largely maintained its positive outcomes, except for a slight regression in the number of municipalities with clean audits where municipal leadership did not heed our call to intensify controls around compliance with legislation. We urged municipalities to continue to lead by example and embed a culture of compliance and adherence to ensure that consequences for accountability failures are implemented swiftly, particularly at poor-performing municipalities.

When comparing the 2023-24 **audit outcomes** to those of 2020-21, a notable regression is evident, with five municipalities regressing and one municipality improving. Central Karoo District Municipality and Cederberg and Theewaterskloof local municipalities lost their clean audit status over this period. Senior management instability at Central Karoo and Theewaterskloof, especially in the positions of municipal manager and chief financial officer, hampered effective oversight of key internal control processes. Cederberg did not effectively monitor its action plans to ensure that prior-year findings were adequately addressed, resulting in the municipality receiving an unqualified opinion with findings for the past three years.

Kannaland Local Municipality regressed from a qualified audit opinion in 2020-21 and has received a disclaimed audit opinion every year since then due to inadequate record keeping. This led us to issue an MI notification to the municipality's accounting officer in 2023-24, who has not yet taken appropriate action to address it. A key factor in the municipality's poor outcomes is the lack of leadership oversight due to a vacancy rate of 25% at senior management level and the absence of a permanent municipal manager for nine months of the year. This hindered the municipality's ability to comply with the legislated reporting and oversight mechanisms provided for in the Municipal

Finance Management Act and the Municipal Systems Act. The lack of oversight was made worse by an internal audit unit that was insufficiently resourced and an audit committee that did not function effectively as it had limited engagements during the year. While the municipal manager position was filled after year-end, the municipality's lack of basic financial management disciplines still has to be addressed by filling the remaining vacancies and urgently training municipal officials on implementing financial policies.

Laingsburg Local Municipality regressed from a qualified opinion in 2020-21 to receiving an adverse opinion every year since then. The municipality faced capacity challenges, including a lack of skills and staff (for example, there was a 33% vacancy rate in the finance unit), and did not effectively use consultants despite spending R1,56 million on them. The audit action plan was not effective in dealing with previously reported matters, demonstrating a lack of accountability for the poor outcomes. While having taken steps to improve its control environment, Beaufort West Local Municipality again received a qualified opinion as it still needs to institutionalise the improved processes. The shortcomings at Laingsburg and Beaufort West, which represent the largest towns within the Central Karoo district, must be addressed urgently to enable the credible and transparent reporting on public funds for sustainable service delivery throughout the district.

The municipalities that achieved clean audits in 2023-24 are led by municipal managers and chief financial officers with the required skills and competence. Additionally, stability in these positions is a main driving force behind the outcomes. At 10 of the municipalities with clean audits, the municipal managers have been in their position for at least five years, while the chief financial officers have been in their position for a similar period at eight municipalities.

The province continued to submit good-quality financial statements, and 24 municipalities (80%) received an unqualified opinion without relying on the audit process, due in part to municipal managers adhering to legislative requirements to prepare monthly budget statements and perform mid-year budget and performance assessments.

City of Cape Town Metro improved from an unqualified opinion with findings in 2020-21 to sustaining a clean audit each year since then. This can be attributed to the strong leadership tone of accountability at the metro, as demonstrated by the low tolerance towards audit findings and the strong commitment to maintaining good outcomes and improving the control environment by implementing our recommended actions and closely monitoring progress. The audit and performance audit committees regularly convened to perform their duties and had a positive impact on the internal control environment through reviewing reports, raising concerns and driving the implementation of sufficient and appropriate actions to resolve any issues identified through the monitoring of action plans. The internal audit unit reviewed the metro's reported performance information and offered recommendations to enhance the control environment. There is still a need to enhance the quality and availability of housing in informal settlements, where improving the living conditions of residents will foster safer, healthier and more equitable communities.

The quality of **performance reporting** requires improvement. While only four municipalities (13%) had material findings on their performance reports, seven (23%) required material adjustments to their performance reports to avoid receiving any material findings, compared to four (13%) in 2020-21. At the municipalities where material findings were raised, the inaccurate accounting and reporting of performance affected the municipalities' monitoring and decision-making in relation to service delivery areas such as electricity, water and sanitation, waste management and indigent households. To improve service delivery to all provincial residents, the premier, through the members of the executive councils for local government and for finance, must oversee the planning and coordination of the province-wide plan for municipalities. The provincial treasury and cooperative governance department should ensure the effective review and in-year monitoring of integrated development plans and service delivery and budget implementation plans.

Compliance with legislation remains an area of concern as 10 municipalities (33%) had material compliance findings. Non-compliance was the main reason for municipalities not moving out of the unqualified opinion with findings space. The most common findings were on the prevention of unauthorised, irregular, and fruitless and wasteful expenditure, and on procurement and consequence management. Since 2020-21, there has been an increase in both the annual irregular expenditure incurred (from R1,23 billion in 2020-21 to R1,81 billion in 2023-24) and in the closing balance of such expenditure (from R1,52 billion in 2020-21 to R2,58 billion in 2023-24). These are significant increases that require focused attention. Municipalities should implement stronger controls over procurement, and supply chain management units need to be capacitated and trained to allow for improvement by addressing prior-year findings and prevent any further regressions. We reiterate our call to embed a culture of compliance within the municipal environment to ensure accountability, promote service delivery and rebuild public trust in municipalities.

The **financial health** of municipalities in the province declined, with the financial health of 14 municipalities (47%) being rated as concerning or worse, compared to 13 municipalities (43%) in 2021-22. Seven of these municipalities (50%) also had unfunded budgets in 2023-24, indicating that their revenue base cannot support their expenditure budget. The provincial treasury should support these municipalities to develop better budget-funding plans and implement stricter cost-containment measures to improve their financial situation and prevent unfunded budgets from affecting their ability to deliver basic services.

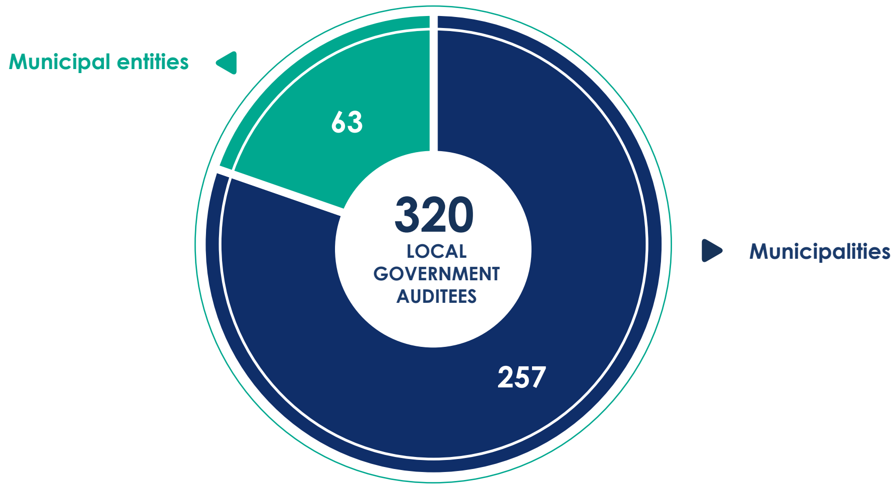
The province has performed well overall, but the poor-performing municipalities require support and further capacitation. The members of the executive councils for local government and for finance have committed to oversee the support that the provincial treasury provides to municipal managers and senior managers to develop, implement and monitor credible action plans; as well as evaluate the internal control environment, identify deficiencies and improve controls. This includes addressing the skills and capacitation gaps at municipalities. The member of the executive council for local government, with the support of the premier, has committed to enhance oversight of mayors to ensure that they effectively address prior-year audit findings. Intervention through the measures allowed within the legislative framework is required at Kannaland and Laingsburg local municipalities to stop the continued erosion of governance; and at Beaufort West, Knysna and Theewaterskloof local municipalities to prevent further regressions.

The provincial parliament and the member of the executive council for, and portfolio committee on, local government have committed to strengthen their legislated oversight responsibilities for the reporting process through municipal oversight reports and the consolidated report on municipal performance, especially for poor-performing municipalities.

While there are clear challenges that demand attention, the province's overall performance demonstrates that progress is possible when strong and stable leadership is prioritised within a culture of accountability. By building on these strengths and providing targeted support to struggling municipalities, the province can foster sustainable improvements that enhance service delivery, strengthen public trust and create a more capable and resilient local government.

AUDIT FACT SHEET

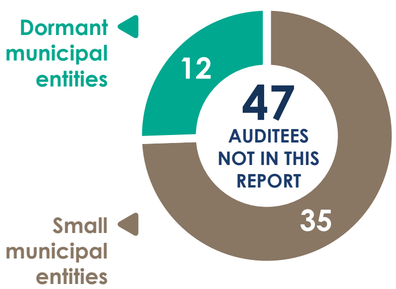
AUDITEES IN LOCAL GOVERNMENT



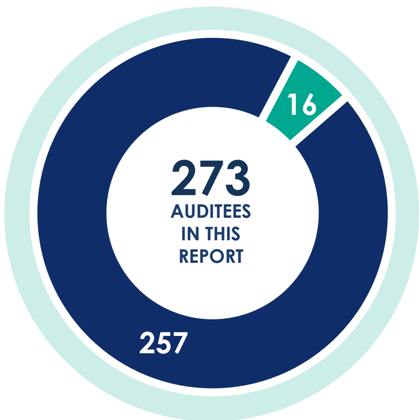
AUDITEES COVERED AND NOT COVERED IN THIS REPORT

Not included in this report

(audit outcomes available on our website)



Included in this report



Municipal entities
Audit results are shown in only some sections of the report, where relevant

Municipalities – the focus of the report
If a municipality has municipal entities, the financial audit opinion on the consolidated financial statements is shown

NUMBERS AND PERCENTAGES ARE BASED ON COMPLETED AUDITS OF **247** MUNICIPALITIES EXCEPT FOR:

Performance reporting	Unauthorised, irregular, and fruitless and wasteful expenditure	Financial health (indicator assessment)	Budget assessment	Infrastructure grants	Consultants	Internal audit units	Audit committees
246	**257**	**230**	**257**	**225**	**219**	**236**	**233**
Municipalities that submitted performance reports for auditing	Municipalities (includes outstanding audits where financial statements were available)	Municipalities assessed (excludes those with adverse or disclaimed audit opinions)	Municipalities where treasuries assessed funding of budget	Municipalities that received grants and were audited, unless it relates to specific infrastructure grants as follows:	Municipalities that used consultants	Municipalities with established internal audit units where information was gathered and assessments were done	Municipalities with established audit committees where information was gathered and assessments were done

Indigents	Water losses	Electricity losses
220	**142**	**162**
Municipalities delivering free basic services to indigent households	Municipalities that were water service providers	Municipalities that were electricity service providers

Municipal infrastructure grant	Public transport network grant	Urban settlements development grant	Regional bulk infrastructure grant	Water service infrastructure grant
210	11	8	35	107

R561,95 BILLION

OVERALL ESTIMATED EXPENDITURE BUDGET

(amount obtained through audit process and includes outstanding audits where budget information was available)

Includes all the funds that the 257 municipalities budgeted for:

- operating expenditure to run day-to-day operations
- capital expenditure to provide services and acquire, upgrade and maintain assets and infrastructure

NUMBER OF MUNICIPALITIES IN WHICH SPECIFIC COMPLIANCE AREAS WERE AUDITED

8	225
Environmental management	Utilisation of conditional grants

HOW WE SHOW MOVEMENT

Where we indicate improvement or regression in outcomes and findings, we compare the results of completed audits for 2023-24 to their results in 2022-23 (previous year) and 2020-21 (last year of previous administration).

- ▲ Improvement
- ▶ Unchanged
- ▲ Slight improvement
- ▼ Slight regression
- ▼ Regression

WHAT THE DIFFERENT AUDIT OPINIONS MEAN

A **financially unqualified opinion with no findings (clean audit)** means the auditee:

- 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 auditee was able to produce good-quality financial statements that had no material misstatements, but struggled to produce good-quality performance reports and/or comply with all relevant key legislation.

A **financially qualified opinion with findings** means the auditee produced financial statements that contained material misstatements that were not corrected before the financial statements were published. The auditee also had challenges with the quality of its performance report and/or compliance with key legislation.

An **adverse opinion with findings** means that the auditee's financial statements included so many material misstatements that we disagreed with virtually all the amounts and disclosures in them.

A **disclaimed opinion with findings** means that we could not conclude or express an opinion on the credibility of the auditee's financial statements because there was no evidence to support most of the amounts and disclosures in them.

Usually, auditees with adverse and disclaimed opinions also cannot provide supporting documents for the achievements they report in their performance reports, and do not comply with key legislation.

AUDITOR-GENERAL
SOUTH AFRICA

AUDITING TO BUILD PUBLIC CONFIDENCE

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