

## THIRD SPECIAL REPORT

on the financial management of government's covid-19 initiatives



AUDITOR-GENERAL  
SOUTH AFRICA



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## ACRONYMS AND ABBREVIATIONS

BoQ	bill of quantities
CIDB	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
covid-19	coronavirus disease 2019
CSD	central supplier database
CSIR	Council for Scientific and Industrial Research
CMRF	covid-19 municipal relief funding
DWS	Department of Water and Sanitation
FIC	Financial Intelligence Centre
ISA	International Standards on Auditing
ITGC	IT general controls
MDRG	municipal disaster relief grant
MM	metropolitan municipality
NPA	National Prosecuting Authority
PPE	personal protective equipment
SABS	South African Bureau of Standards
SANS	South African National Standard
SCM	supply chain management
SIU	Special Investigating Unit

## MESSAGE FROM THE AUDITOR-GENERAL

***'When you are responsible for people's lives, every rand should be spent with care.'***

This report is the third in a series of special reports reflecting on government's financial management of covid-19 funding.

The response to the [first](#) and [second](#) special reports, which focused on the national and provincial level, was positive. This third report focuses specifically on our findings on the municipal relief funds and how these were dealt with during the time of the pandemic. At such a difficult time, when planning, coordination, careful application of controls, diligence and accountability for actions are critical and under the spotlight, it is more important than ever that government heeds the call for transparency and accountability.

The follow-up information and insights presented in this report are intended to empower oversight structures and executive leaders to sharpen the focus on implementing and strengthening the controls needed to support this call.

The findings and recommendations in this report serve as a good basis for the incoming administration to address the challenges faced by municipalities. We also identified some good practices where municipalities performed well and which could be emulated by others in future.



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***The covid-19 pandemic is still ongoing and we all continue to feel its impact.***

Over the past 15 months, we have faced numerous challenges and found new ways to collaborate with our auditees despite these difficult circumstances. We remain committed to supporting government and local authorities in the drive towards clean administration, which will ultimately result in a better life for all the people of South Africa.

I wish to thank the audit teams from my office and the audit firms that assisted with auditing local government for their diligent efforts in helping us fulfil our constitutional mandate and for the manner in which they continued to strengthen cooperation with government leadership.

I would also like to thank the leadership of the municipalities who worked with us during the audit.

***By working together, we enhance oversight, accountability and governance in the public sector to build public confidence.***

 30.6.2021

**Tsakani Maluleke**

Auditor-General

## EXECUTIVE SUMMARY

We tabled two special reports in 2020 on the health response, frontline services and social and economic relief initiatives by national and provincial government in response to the covid-19 pandemic. These reports were the outcome of real-time audits we performed to proactively identify shortcomings in the management of these initiatives in order for to correct these shortcomings and prevent them from reoccurring.

The multibillion-rand relief package that government made available included significant allocations to local government to use in initiatives to help protect communities and frontline workers against, and manage the impact of, covid-19. The municipalities were allocated R23,937 billion for covid-19 initiatives, with 42% of the funds having been spent by 31 March 2021

We undertook a similar real-time audit of the financial management of these initiatives and funds at 43 selected municipalities at the same time as we performed the audits for the 2019-20 financial year. Our audit covered the R3,7 billion expended by these municipalities from March to December 2020. The focus of the audit was the procurement and use of personal protective equipment, the delivery of covid-19-related infrastructure projects and other related initiatives.

Our audit was generally well received by municipal leadership. We reported all our findings along with recommendations for addressing the shortcomings to the municipal managers, most of whom committed to make the necessary improvements. Some of the findings will result in material irregularities, which we are in the process of communicating to the municipal managers.

Unsurprisingly, our findings from this real-time audit bore a striking resemblance to what we reported in both the [2019-20 general report](#) and our [previous two](#) special reports. The impact of compromised control environments and poor financial and performance management was even more pronounced in the midst of a pandemic when vulnerable citizens relied on local government to keep them safe from harm. An emergency response and quick actions were required, but not at the expense of careful planning and the disciplined execution of controls that prevent transgressions, loss, fraud and project failures.

It is difficult to plan and operate in an emergency when sufficient information is not always available and swift action is required. The impact of weaknesses in needs assessment and demand planning was, however, amplified in these circumstances. Where funds were used for quarantine sites and temporary shelters, inadequate planning by some municipalities resulted in the facilities being over or under used. Similarly, when it came to providing emergency water and additional sanitation, community needs were not adequately assessed and delivery planned according to these needs. The procurement of personal protective equipment also bore testament to the haphazard manner in which municipalities responded to the crisis – we found little evidence of proper needs analyses before procurement took place, resulting in either insufficient or excess personal protective equipment being procured.

Poor workmanship, project delays and non-adherence to infrastructure-related requirements were observed on water and sanitation projects, and on projects related to providing shelters for the homeless. The water tanks were not always filled and where sanitation facilities were provided, they were not serviced regularly, which resulted in the required impact not being achieved. When it came to the management, storage and use of PPE, we found that the same deficiencies we reported in the education and health sectors were also prevalent at municipalities.

In this report, we once again highlight the significant deficiencies in the procurement and contract management processes, and report on the inadequate controls meant to ensure that payments are only made for goods and services that are delivered at the right time, price and quality. We are particularly concerned about unfairness in the awarding of government business and that sufficient care was not taken to protect against overpricing, as we identified a number of instances where municipalities paid excessive prices for goods and services.

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Municipalities did not respond to the increased risk of fraud in a crisis situation by adjusting their fraud risk management processes and implementing strong preventative controls. As a result, we identified irregularities, poor internal controls and indicators of potential fraud. Our audits were also frustrated by payment and procurement documentation not being provided for auditing. This is a recurring theme in local government where our ability to audit is sometimes limited by claims that documents are missing or by a lack of response to our requests. The covid-19 relief spend has occurred recently and therefore it should not be a struggle to produce these documents. As we did with our first two special reports, we will share our findings, fraud risk indicators (such as those records not provided for auditing) and data analyses with the Fusion Centre, which has the investigative and law-enforcement abilities needed to dig deeper and follow through on these results.

This report provides our key findings, together with the recommendations we made and the good practices we observed at some of the municipalities, which other municipalities could emulate.

With few exceptions, municipalities missed an opportunity to display the responsive, caring and ethical leadership required in a time of disaster. When you are responsible for people's lives, every rand should be spent with care. However, in the midst of the pandemic, municipalities continued to plan poorly and to misappropriate the funds made available to them.

We will continue to audit the covid-19 funding as part of our normal annual audit, including at those municipalities not selected for this real-time audit, and will report further observations in our next general report on local government.

## NOTES



## INTRODUCTION

### BACKGROUND ON COVID-19 AUDIT

Government responded to the outbreak of covid-19 by redirecting resources to fund a R500 billion package for the health response and to relieve social and economic distress caused by the drastic measures that had to be taken to contain the spread of the virus.

In May 2020, we began a real-time audit of 16 of the key covid-19 initiatives introduced by government and of the management of R148,06 billion of the funds made available.

This audit is unique in its approach. We audited payments, procurement and delivery as they occurred and reported any audit findings and observations to the accounting officer or authority to enable them to deal with any shortcomings immediately and tighten controls to prevent reoccurrence. A key component of the audit was the focus on preventative controls. We engaged upfront with accounting officers and authorities on the importance of preventative controls to address the increased risks and significant changes in their operations, as such controls are, by their nature, a deterrent to abuse. We also assessed the preventative controls implemented by the auditees and recommended additional controls that could strengthen the processes and prevent any accountability failures.

The audit was performed by multidisciplinary teams – made up of fraud, information technology and sector-specific experts – that support the financial auditors to dig deeper and provide relevant insights on auditees' risks and operations.

The reporting approach is also unique. Through special reports, we are reporting to the oversight structures on the outcome of our real-time audit. The [first special report](#) was tabled on 2 September 2020 and the [second special report](#) was tabled on 9 December 2020. Both reports focused on the health response, frontline services, and social and economic relief initiatives implemented by national and provincial government in response to covid-19. The response to these reports was very positive. The real-time audit and reporting approach we followed enabled accounting officers and authorities, supported by executive authorities, to swiftly address shortcomings in processes and systems. Portfolio and standing committees in parliament and legislatures could also play a more proactive oversight role, supported by the reports and our briefing to them. Our continuing collaboration with the Fusion Centre through sharing findings, information and data from the covid-19 audit also contributed to the actions being taken by investigating and law-enforcement agencies.

This is our final special report on the financial management of government's covid-19 initiatives. It deals with the funding made available for the covid-19 response at local government level. We will continue to audit the covid-19 funding and initiatives and the implementation of corrective actions as part of our normal annual audit, and will report further observations in the 2020–21 general reports.

### BACKGROUND ON COVID-19 MUNICIPAL RELIEF FUNDING

In responding to the pandemic, it was clear from the start the municipalities would play an important role in protecting communities and frontline workers against, and managing the impact of covid-19. The government announced that a total of R23,937 billion<sup>1</sup> would be made available for the municipal response. The funds were provided through the release of the municipal disaster relief grant and reprioritisation of the 2019–20 conditional grants in May 2020 as well as a further allocation of equitable share and conditional grants as part of the R500 billion relief package announced by the president in April 2020 and allocated through a supplementary budget in June 2020. More detail on the nature of the funding and how it was used is provided in the [last section of the introduction](#).

<sup>1</sup> The R23,937 billion is the sum of all allocations made available to municipalities in response to the covid-19 pandemic. The details on this are included in the [‘municipal allocations and spending’](#) section below.

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The funding provided allowed municipalities to procure personal protective equipment (PPE), provide emergency water supply, increase sanitisation of public transport and facilities, and provide food and shelter for the homeless. It was also intended to fund the provision of basic services to 1,4 million additional households that had lost their source of income and become indigent, and to provide assistance with community services, including municipal health services and services to cemeteries and crematoria, specifically in poor and rural municipal areas. The spending arrangements and limitations on the use of the funding provided through conditional grants were regulated through the grant frameworks.

In the [first special report](#), we reported on the funding made available to municipalities to support covid-19 relief efforts and shared information relating to the circular that the National Treasury had issued to municipalities on the need for controls to be implemented or strengthened to address the risk of fraud or abuse of funds. According to the National Treasury, the municipal managers, internal auditors and governance structures at the municipalities are responsible for monitoring compliance with the circular, as required by the Municipal Finance Management Act.

We acknowledge that responding quickly and getting resources to citizens are absolute priorities and, often, this goes hand in hand with an increased risk of fraud and corruption. Emergency procurement sits at the heart of government's reaction to the pandemic and is particularly prone to exploitation. The easing or refocusing of controls and the streamlining of processes and procedures to respond to the crisis may unintentionally expose municipalities to the risk of rampant misuse and abuse of public resources.

It was therefore important that municipalities implement adequate preventative controls to safeguard these transactions from misappropriation, misuse, fraud or theft in line with the guidance provided in Municipal Finance Management Act Circular No. 103.

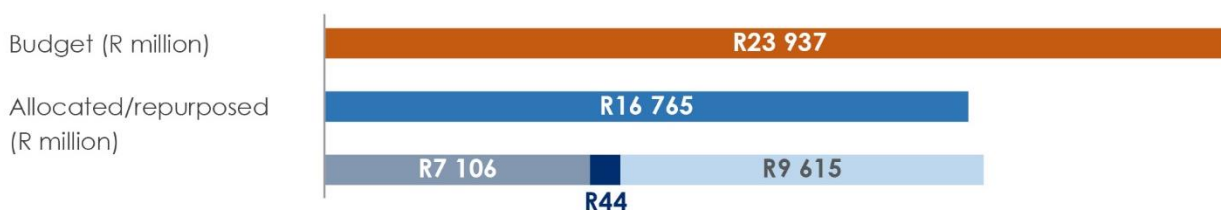
## MUNICIPAL ALLOCATIONS AND SPENDING

The figure on the next page provides detail on the funding made available for the municipal covid-19 response and the amounts that were allocated or repurposed and paid to the municipalities. We obtained this information with the assistance of the National Treasury. The figure also shows the spending up to 31 March 2021, as obtained from the record of the municipalities. Dipaleseng in Mpumalanga and Phokwane in the Northern Cape did not submit spending information, while Bela-Bela in Limpopo only provided incomplete information, which affected the completeness of the reported information. We audited expenditure for the municipalities up to 31 December 2020; the information from 1 January to 31 March 2021 is unaudited information for which we only performed a reasonability check.

The figure also refers to 'repurposed grants'. In this context, 'repurposed' means funding that was previously allocated for other purposes and was made available for covid-19 spending. This was done by following an adjustment budget process at each municipality.

Our observations, based on the information we obtained from the municipalities on the use of the funds, are contained on the next page.

## FUNDING MADE AVAILABLE – TOTALS

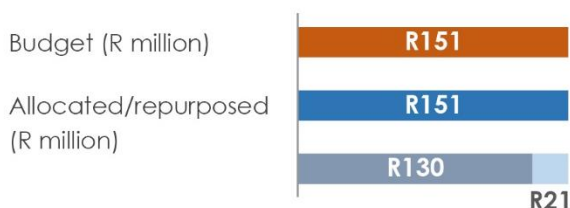


## BREAKDOWN OF FUNDING BY GRANT/ALLOCATION

### 2019-20 funding

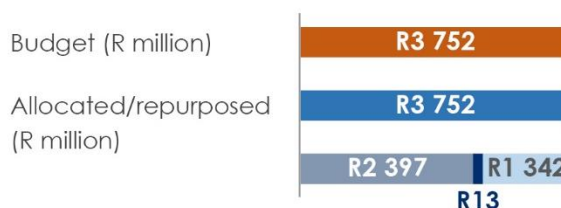
#### Municipal disaster relief fund

Emergency relief funds paid to non-metropolitan municipalities on 8 May 2020 for cost of sanitation and increased provision of other municipal services



#### Repurposed grants

Conditional grants paid to municipalities in March 2020 repurposed for covid-19-related initiatives

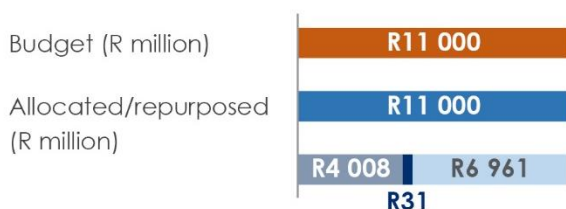


### 2020-21 funding – part of R500 billion relief package

#### Equitable share

Additional allocations for provision of basic services to additional households who lost their source of income and became indigent due to covid-19 pandemic

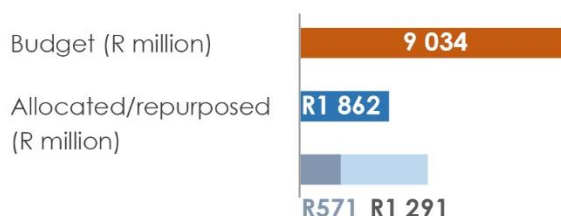
(Transferred December 2020 – March 2021)



#### Conditional grants

Conditional grants made available to be repurposed for provision of emergency water supply, increased sanitation of public transport and facilities, and food and shelter for the homeless

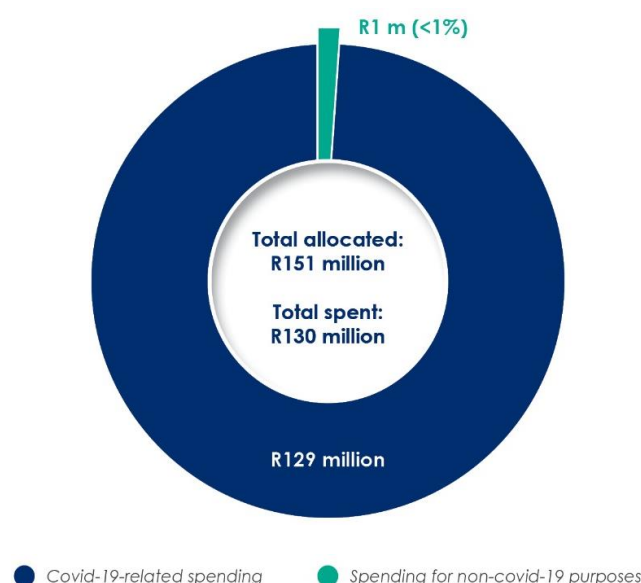
(Transferred in tranches from July 2020 to March 2021. Only R1,9 billion was repurposed through budget process by municipalities)



● Funds expensed (R million) ● No information received (R million) ● Remaining funds (R million)

### Funding for municipal covid-19 response

## MUNICIPAL DISASTER RELIEF FUND – R151 MILLION



When the pandemic started, R151 million was approved for release from the municipal disaster relief grant (MDRG) to assist non-metropolitan municipalities with the cost of sanitation and the increased provision of other municipal services. The MDRG differs from other conditional grants that municipalities would receive in that it is a reserve grant that is only allocated in case of emergency. The relief grant was paid to municipalities on 8 May 2020 to be spent specifically on covid-19-related initiatives.

Municipalities spent R130 million of the total allocation of R151 million, with R129 million being spent for covid-19 purposes and R1 million for non-covid-19 purposes.

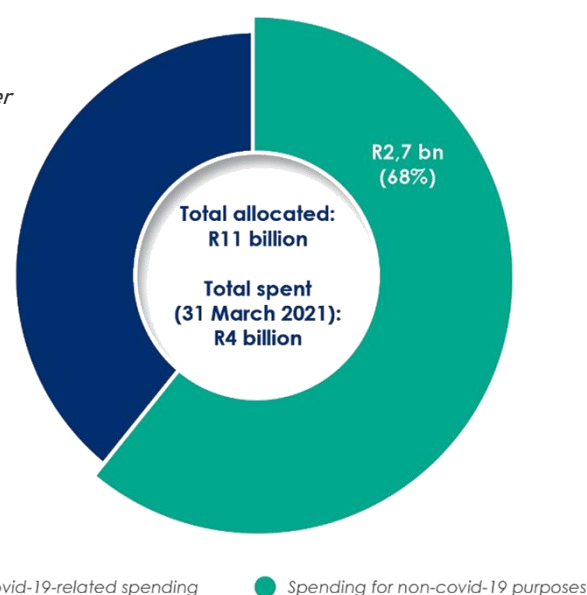
## EQUITABLE SHARE ALLOCATION – R11 BILLION

According to Municipal Finance Management Act Circular No. 108 (as well as guidance provided in the 2020 supplementary budget review), the purpose of the R11 billion allocation was to:

*Maintain existing services despite a temporary decline in revenue collection and also cover some additional expenses incurred in response to the pandemic including the provision of temporary shelter for homeless people during the lockdown.*

*Although the R11 billion was allocated through an unconditional grant (equitable share), these are committed funds in response to the covid-19 pandemic. Consequently, the municipalities are required to request a rollover from National Treasury of any unspent committed covid-19 allocation to be rolled over into the 2021-22 financial year.*

The circular and guidance are not legislation and, if not adopted by the council, are not enforceable. We asked municipalities to provide a breakdown of how they had spent the allocation, differentiating between spending on covid-19 and non-covid-19 purposes. We did not audit this information, but we did perform a reasonability check.



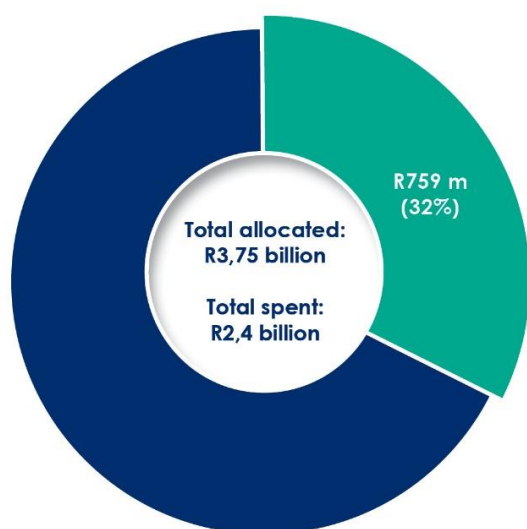
According to the information provided by the management of municipalities, R2,7 billion (68%) of the R4 billion spent by the end of March 2021 was for non-covid-19 purposes. Without legislative prescriptive conditions to guide the purpose of the additional equitable share, municipalities spent the allocation on items that are not related to covid-19.

The most significant items included in the R2,7 billion non-covid-19 spending are:

- no indication what funds were spent on – R647 million
- bulk purchases (water and Eskom) – R609 million
- operational expenditure – R460 million
- salaries – R336 million.

One interesting item that came out of the information provided by the municipalities is from Ngqushwa in the Eastern Cape, which indicated that it had spent R665 000 from the additional equitable share allocation to buy a mayoral vehicle.

## REPURPOSED GRANT – R3,75 BILLION



● Covid-19-related spending ● Spending for non-covid-19 purposes

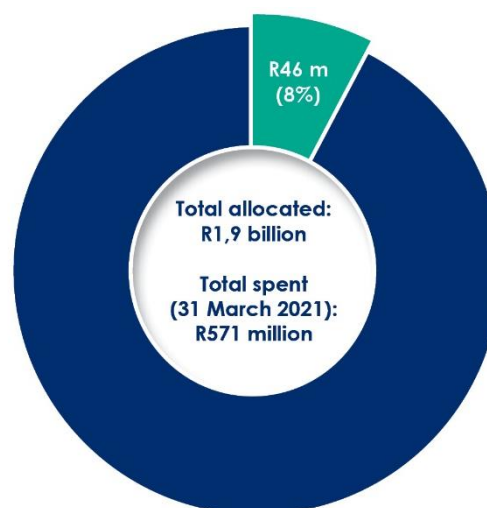
purpose, mainly infrastructure projects.

National government originally announced that an estimated R5 billion of the conditional grants paid to municipalities in March 2020 could be reprioritised to fund covid-19 initiatives. Municipalities were required to apply to the National Treasury for approval of the reprioritisation. Following this application process, approval was ultimately granted to reprioritise R3,75 billion, equivalent to 75% of the original estimated allocation.

On the spending on the R3,75 billion allocation, the municipalities reported that R759 million (32%) was spent for non-covid-19 purposes. We observed that although these municipalities were supposed to use this funding for purposes related to covid-19, in line with their applications and approval obtained from the National Treasury, the allocation was not repurposed for covid-19 projects, but was used for its original

## CONDITIONAL GRANTS – R9 BILLION

By the end of March 2021, R1,9 billion of the R9 billion budget had been allocated or repurposed. Of the R571 million that had been spent, we noted that R46 million (8%) had been spent for non-covid-19 purposes. The bulk of this spending was on infrastructure-related matters, indicating that although the amount was repurposed for covid-19 spending, the municipalities elected to use a portion of the reprioritised funds for the grant's original purpose rather than in line with their revised budgets where these amounts were repurposed for spending on matters related to covid-19.



● Covid-19-related spending ● Spending for non-covid-19 purposes

## SCOPE OF OUR AUDIT

Our audit focused on the use of the funds made available for the covid-19 response, the covid-19 initiatives implemented by municipalities and the expenditure related to these initiatives for the period March to December 2020. The three focus areas covered and reflected upon in this report are:

- procurement and use of PPE
- delivery of covid-19-related infrastructure projects (quarantine facilities, temporary shelters and water infrastructure) and the procurement and installation of water tanks
- other covid-19-related initiatives (including water tankering, sanitation services and food parcel initiatives).

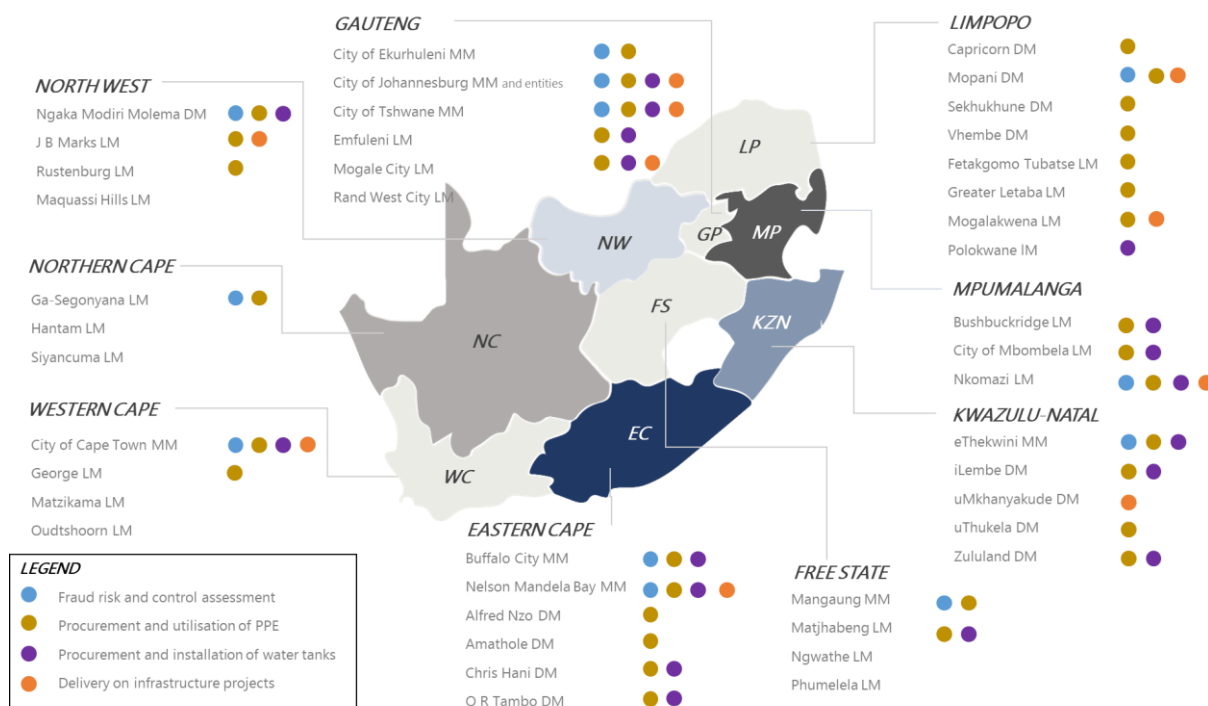
The audit included a fraud risk and control assessment and an assessment of whether municipalities have implemented preventative controls to ensure that the funds are spent for the intended purpose.

We performed the audit at **43 municipalities** selected based on:

- the portion of the funding that municipalities were paid – we included all municipalities that had been paid more than R16 million from the conditional grants allocation by the end of August 2020
- the top three contributors to irregular expenditure in each province based on the irregular expenditure incurred for the 2018-19 financial year
- the municipalities identified through our environmental scanning of media reports, Special Investigating Unit (SIU) reports and Public Protector reports.

For the remaining **214 municipalities** not selected for the audits of covid-19 municipal relief funding, we audited and [reported on](#) the use of funds from April to June 2020 as part of the normal 2019-20 audit cycle.

We performed basic covid-19 audit procedures at all the selected auditees. We also performed additional work at some of the auditees to report on our different focus areas (see figure below).



### Municipalities selected for covid-19 municipal relief funds audit

DM – district municipality, LM – local municipality, MM – metropolitan municipality



These **43 municipalities** were allocated R14,4 billion of the R23,937 billion announced for municipal response. In total, R9,5 billion was eventually allocated or repurposed and paid to these 43 municipalities. We audited the R3,7 billion expended by these municipalities by 31 December 2020. More information on the budgets and expenditure is provided at the end of this section.

The challenges we experienced when performing the audits related to access to documentation, systems and government officials, which was limited in the lockdown period and was also impacted by covid-19 cases in the environment, resulting in significant delays in our audit. There have also been instances where our efforts were hindered by limitations as information was not forthcoming, which could be a deliberate tactic to frustrate our audit efforts. We provide more information on these limitations in the [limitation of scope](#) section of this report.

## WHAT WE HAVE FOUND

The allocations and spending by the 43 municipalities that we audited up to the end of December 2020 can be seen in the table below. The subsequent spending will be audited as part of the normal 2020-21 municipal audit process. The March 2021 information is our latest assessment of spending to date.

### Allocations and spending by 43 selected municipalities audited

Nature	Budget (R million)	December 2020			March 2021		
		Allocated/ repurposed (R million)	Funds expensed (R million)	Remaining funds (R million)	Allocated/ repurposed (R million)	Funds expensed (R million)	Remaining funds (R million)
Support to municipalities as included in R500 billion relief package							
Equitable share	5 522	5 342	1817 (34%)	3 525 (66%)	5 522	2 088 (38%)	3 434 (62%)
Conditional grants	5 972	1 343	271 (20%)	1 072 (80%)	1 343	339 (25%)	1 004 (75%)
Grants to municipalities							
Repurposed 2019-20 grants	2 827	2 827	1 556 (55%)	1 271 (45%)	2 827	1 834 (65%)	993 (35%)
Municipal disaster relief fund	35	35	27 (74%)	9 (26%)	35	29 (84%)	6 (16%)
Totals	14 356	9 547	3 670 (38%)	5 877 (62%)	9 727	4 290 (44%)	5 437 (56%)

The R3 670 million expenditure comprises of R1 792 million spent for covid-19 purposes as well as R1 878 million spent for non-covid-19 purposes. The R1 792 million spent for covid-19 purposes can be allocated to the focus areas as follows:

- PPE – R389 million
- Infrastructure – R1 191 million
- Other covid-19 goods and services<sup>2</sup> – R212 million

The remainder of this report contains our audit findings and observations on the use of these funds and on the implementation of covid-19 initiatives.

<sup>2</sup> With 'other covid-19 goods and services', we refer to spending on tankering water to additional water tanks provided, providing additional sanitation facilities, and cleaning municipal facilities and taxi ranks.

## NOTES





## FRAUD RISK AND CONTROL ASSESSMENT

### BACKGROUND

Effective fraud risk assessment enables an entity to identify the symptoms or causes of potential fraud early and to institute proper mitigating controls to prevent fraud from occurring.

Our auditing standards define fraud as an intentional act by one or more individuals who are employees, management, those charged with governance or third parties, and that involves the use of deception to obtain an unjust or illegal advantage. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or that provide an opportunity to commit fraud. The difference between a fraud risk and a business risk lies in the 'intentional' nature of the act to obtain an unjust or illegal advantage – a business risk is an event that could adversely affect an entity's ability to achieve its objectives and execute its strategies.

### CONCEPT OF FRAUD PREVENTION

Fraud prevention, or the broader principle of fraud risk management – which includes governance, prevention, detection and response – is a process that an institution adopts when putting mechanisms in place to manage its vulnerability to fraud. The fraud prevention policy and fraud prevention strategy, as well as the fraud risk assessment, are enablers that help an organisation to prevent fraud.

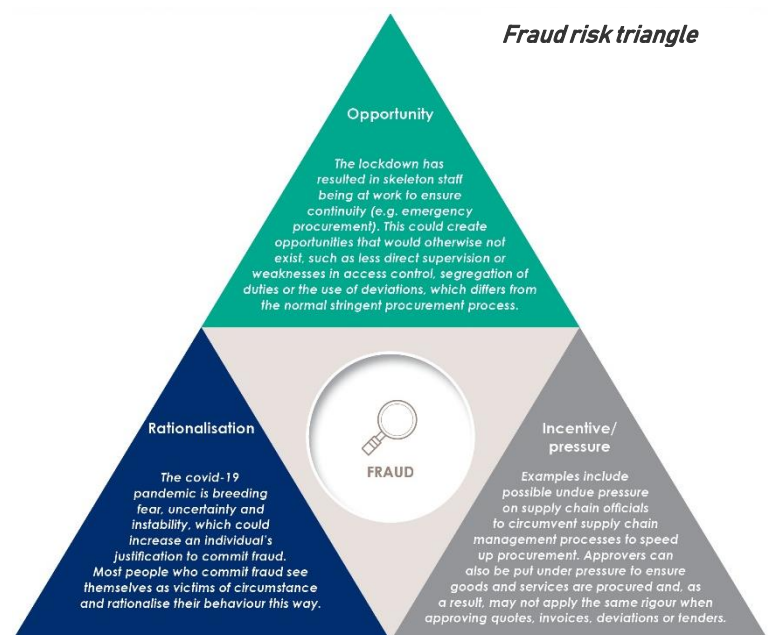
### EXPECTATIONS FOR MUNICIPAL MANAGERS

The Municipal Finance Management Act contains a variety of provisions focused on preventing fraud, theft, corruption, financial misconduct and unethical conduct. Municipal entities are required to regularly conduct risk assessments and prepare a risk management strategy, which includes a fraud prevention plan to be used to direct efforts in the prevention of fraud and corruption. For local government institutions, fraud risk management is the responsibility of the municipal manager.

### FRAUD RISK TRIANGLE – CONSIDERING FRAUD RISKS DURING COVID-19 PANDEMIC

The fraud risk triangle is a framework commonly used to explain the motivation behind an individual's decision to commit fraud and depicts the three components that are common in perpetrating fraud.

The changing circumstances during the covid-19 pandemic increased the risk of fraud, mainly due to the emergency, the speed with which actions had to be taken and the higher possibility of due processes not being followed.



## APPROACH TO COVID-19 AUDITS FOR FRAUD RISKS AND RELATED CONTROL ASSESSMENT

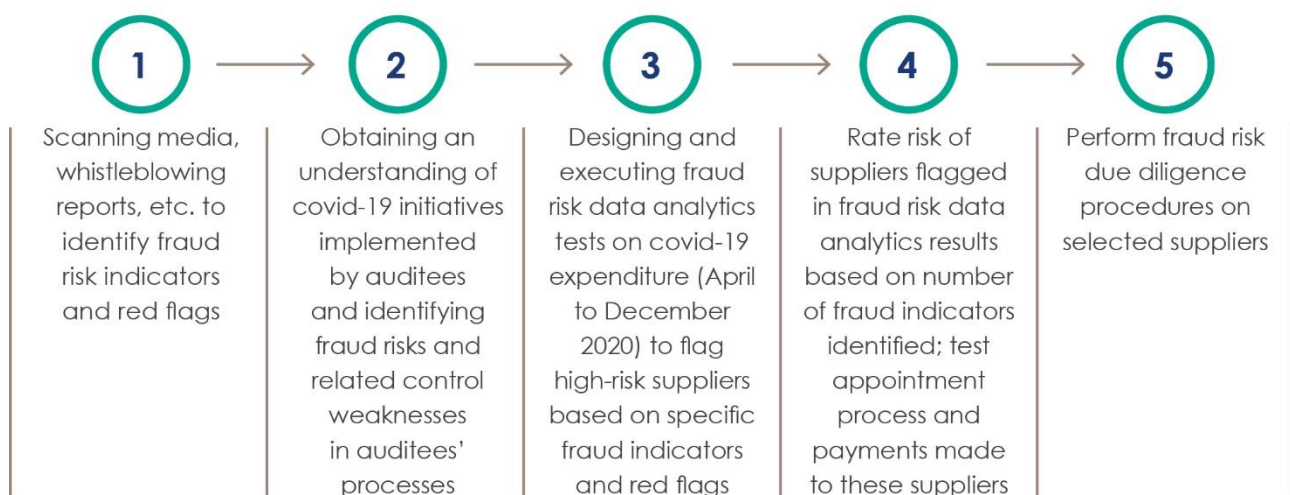
The pandemic has had a significant impact on the working and control environment of our auditees, which also affects how susceptible they are to fraud.

The presumed risks of fraud on which we focus as part of our normal audits are significantly heightened under the covid-19 conditions. These include the risk of fraud in procurement and contract management processes, and the use of grants and benefits, specifically relating to the approval and payment of these grants and benefits.

We identified **12 municipalities** (as [detailed in the introduction](#)) that, based on our assessment, posed a heightened risk of susceptibility to fraud. We selected all the metros as well as some local and district municipalities to ensure that we included at least one large municipality per province.

We designed specific audit procedures that focus on identifying fraud risks and red flags, and on assessing the control environment of the municipalities to mitigate the identified fraud risks (see audit procedures figure, below).

Our approach extended beyond mere compliance testing and we actively searched for possible fraud risks and fraud indicators. This was to ensure that we could make relevant recommendations to management about where to enhance the control environment to mitigate the fraud risks, and to indicate where further investigations might be required.



### ***Audit procedures to identify fraud risks and red flags***

**Block 3:** These indicators included: (i) suppliers used for the first time during the covid-19 period; (ii) large round payments or duplicate payments; (iii) suppliers not registered for value-added tax or with the Companies and Intellectual Properties Commission (CIPC) or the central supplier database (CSD); (iv) dormant suppliers, etc.

We continued our active collaboration with the Fusion Centre, which consists of stakeholders such as the SIU, the National Prosecuting Authority (NPA) and the Financial Intelligence Centre (FIC), on areas of common interest. The aim of this collaboration is to ensure that we focus our auditing on the areas of high fraud risk and eliminate any duplication of effort. We also proactively handed over findings included in our [first](#) and [second](#) special reports that had indicators of potential criminality to the Fusion Centre for further investigation and action. This information will help the Fusion Centre to assess the risk at the auditee and engage with institutions to assess whether they are taking the necessary action or whether investigations into certain matters need to commence.

The Fusion Centre was also able to liaise with, for example, the Department of Public Service and Administration, which can, based on its mandate, assess the need to take disciplinary action against government employees. We have not yet

shared the detailed findings included in this special report with the Fusion Centre, but will do so once the report has been tabled.

Our results, conclusions and recommendations on fraud risk and related control environment assessment are reflected in the section on [Key audit findings and observations – fraud risks](#) later in this chapter.

## **INFORMATION TECHNOLOGY AUDIT APPROACH AND OBSERVATIONS**

We performed information technology general controls (ITGC) reviews and application control reviews at the eight metros. The audits specifically targeted systems that processed procure-to-pay transactions and payments related to the covid-19 funding.

Based on the work performed, we concluded that the information technology (IT) control environment at these metropolitan municipalities was not matured. The overall IT audit outcomes showed a concerning control environment, with transversal findings identified in areas relating to user access management, security management, IT continuity management and program change management. The control weaknesses we identified did not support a sound control environment for application controls that use preventative and detective controls to strengthen the internal control environment.

An overall assessment also highlighted significant areas where manual interventions were used for most of the metros. We noted that while these municipalities used applications that had the capability to fully automate the supply chain management (SCM) processes, none of them actually had fully automated SCM processes and most had partially automated SCM processes supplemented by manual controls that were performed outside of the applications. This highlighted a conscious decision made by these metros to continue with manual processes and forfeit the benefit of configuring controls according to the capabilities available on the various applications used. As a result, we followed a substantive audit approach at all metros and did not rely on any of the systems relating to the SCM and payments processes.

The lack of automated controls highlighted the lack of preventative controls built into the application systems used to process covid-19-related transactions. As a result, controls on the application systems were not strengthened to prevent fraud or error from occurring.

## **KEY AUDIT FINDINGS AND OBSERVATIONS – FRAUD RISKS**



### **FRAUD RISKS ARE PREVALENT AT MUNICIPALITIES**

Control environments are not strong enough to prevent these risks from materialising

Municipalities did not take fraud risks seriously and have not updated fraud risk management framework for covid-19 impact

### ***Key transversal findings***

## ***FRAUD RISKS ARE PREVALENT AT MUNICIPALITIES AND CONTROL ENVIRONMENTS ARE NOT STRONG ENOUGH TO PREVENT THEM FROM MATERIALISING***

Our special audits at the municipalities were mainly performed between November 2020 and March 2021. By that time, we had already performed our special audits for covid-19 expenditure at government departments and other public entities, and communicated our findings and observations in our [first](#) and [second](#) special reports, which were available in the public domain. These reports highlighted the fraud risks and associated control weaknesses identified in covid-19 expenditure, as well as the associated fraud red flags identified in the related SCM processes. There were also many media articles referring to allegations of fraud in covid-19 expenditure. The municipalities should therefore have known about the fraud risks and fraud red flags typically associated with covid-19 expenditure and could have started to address their internal control weaknesses.

We are not only reporting on inherent fraud risks. Most of the fraud risks reported below are supported by actual control weaknesses and examples of transactions or instances where the control environment was inadequate. These control inadequacies could therefore lead to the fraud risks materialising.

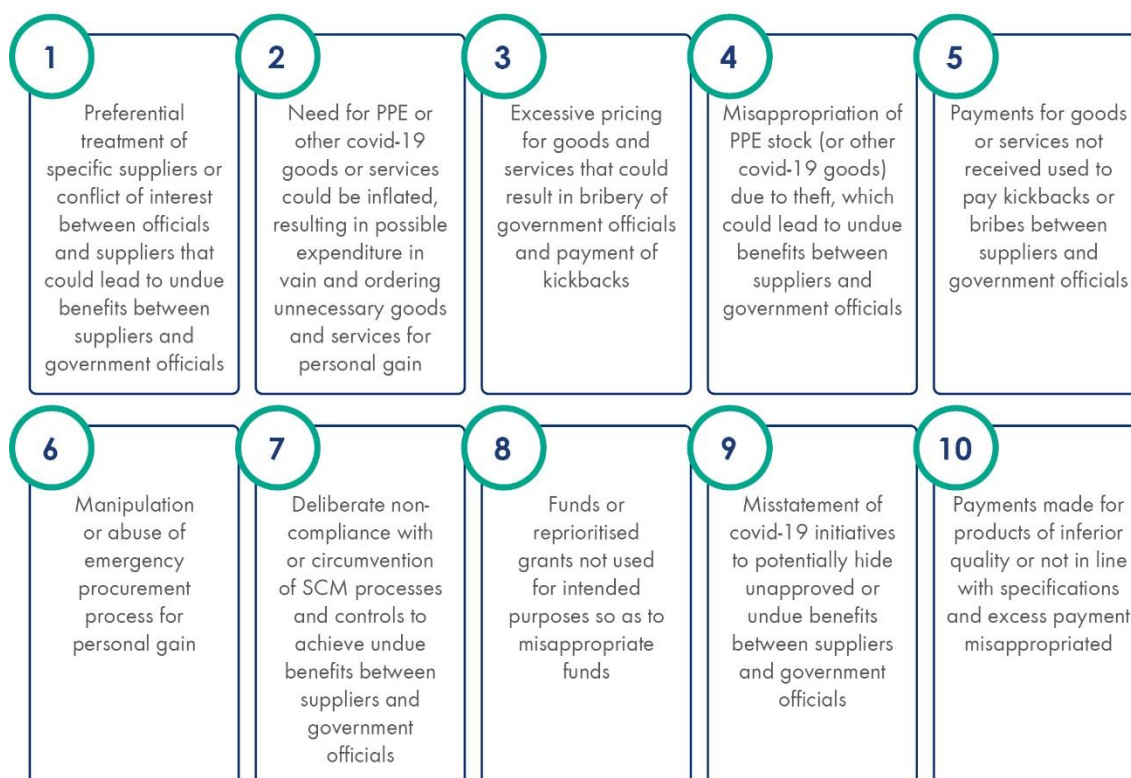
### ***Key control weaknesses and fraud risks for PPE, infrastructure and services (excluding food parcels/vouchers)***

Although the municipalities have different control environments, with different control weaknesses, we noted certain trends and transversal themes in the control weaknesses that could result in the fraud risks materialising (see trends and transversal themes figure, below).

Not ensuring that emergency procurement or procurement through deviation remains competitive, fair and transparent	No process in place to verify the authenticity of interest declarations by suppliers or officials	Bid evaluation committee did not apply proper due diligence in evaluating bids for compliance with evaluation criteria or specifications	Bid adjudication committee did not fulfil its responsibilities to ensure all bids have been evaluated in a compliant, consistent and correctly calculated manner
Not preparing well-informed needs assessments before initiating procurement	Not ensuring procurement of goods is economical or according to regulated prices	Inadequate stock control, i.e. lack of reconciliation of stock quantities requested, issued and received against stock closing balances	Inadequate controls on reconciliation of goods received against goods invoiced and paid for

### ***Trends and transversal themes in control weaknesses for PPE, infrastructure and services (excluding food parcels/vouchers)***

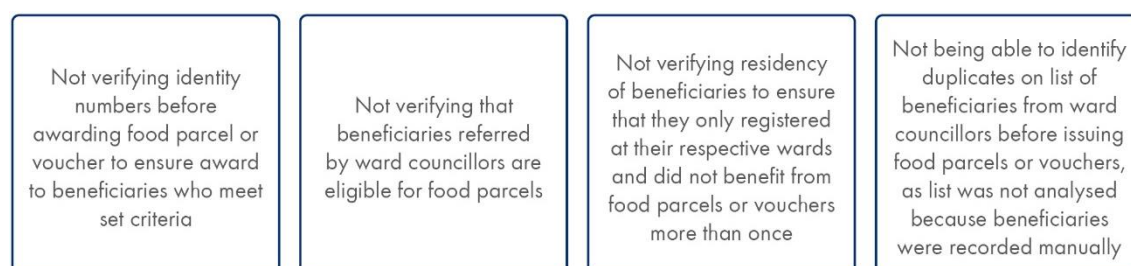
To support these trends and transversal themes in control weaknesses, we identified 10 key fraud risks that were transversal across the 12 municipalities and the provinces they represent. There are instances where the fraud risks were found to be inherent to a specific process and initiative, but for most instances the fraud risks identified are supported by control weaknesses and examples of transactions. This implies that the systems and processes at municipalities are vulnerable to abuse and the control inadequacies could lead to the fraud risks materialising:



**Key fraud risks for PPE, infrastructure and services (excluding food parcel/vouchers initiatives)**

**Key control weaknesses and fraud risks for food parcels/vouchers**

Only three of the 12 municipalities implemented food parcel/voucher initiatives, and we noted four specific trends and transversal themes in the control weaknesses that could result in fraud risks materialising:



**Trends and transversal themes in control weaknesses for food parcels or vouchers**

These control weaknesses imply that the systems and processes at municipalities are vulnerable for abuse, and the control inadequacies could lead to the fraud risks materialising. We identified two key transversal fraud risks for the food parcels/vouchers initiatives at the three municipalities:

- selecting and subsequently awarding food parcels/vouchers to beneficiaries who do not meet the set selection criteria, for undue benefit
- allocating more than one food parcel or voucher to the same beneficiary (double-dipping), resulting in undue benefit for the specific beneficiary and another valid beneficiary not receiving a food parcel/voucher.

## ***MUNICIPALITY MANAGEMENT DID NOT ATTEND TO CERTAIN CRITICAL MOMENTS AND REQUIREMENTS FOR OVERALL FRAUD RISK MANAGEMENT***

We found that all 12 of the municipalities reviewed either did not update or did not adequately update their fraud risk registers and fraud prevention plans to reflect and address the heightened level of fraud risks during these changing circumstances. In many instances, the municipalities did not implement stricter controls or a stronger control environment to mitigate the heightened level of fraud risks. This is especially concerning at the bigger metros where forensic and risk management functions are in place.

We reported this finding to all municipal managers, but it is concerning that we received no comment on the correctness of the finding or on how management intends to address the shortcoming from Mangaung Metro (Free State), Ga-Segonyane (Northern Cape), Mopani District (Limpopo) and Ngaka Modiri Molema District (North West).

Municipal managers should continuously assess and update their fraud prevention plans and fraud risk assessments to align their control environments to changing circumstances that may affect the level of potential fraud risks.

## **RESPONSES FROM MUNICIPAL MANAGERS**

Management disagreed or only partially agreed with more than half of our observations on fraud risk and control weakness. In our conclusion, we state that although we have considered management comments, these observations should remain. This is mainly because management did not provide sufficient supporting documents to support its comments, or because management indicated that it does not have resources available to improve the control weakness. The observations should also remain because the fraud risks are inherent to the processes and management should continuously ensure that preventative and detective controls are in place, and effective, to mitigate the fraud risks.

## **CONCLUSION**

Fraud risks are prevalent at municipalities and management did not update the fraud risk management plans to mitigate the increased level of fraud risks during the changing circumstances arising from the covid-19 pandemic. The transversal control weaknesses we identified at the municipalities imply that the systems and processes are vulnerable to abuse, and the control inadequacies could lead to the fraud risks materialising.

Management should continuously assess and update the fraud prevention plans and fraud risk assessments to align control environments to the increased levels of potential fraud risks. These responses should also include preventative and detective controls and should be implemented to address the control weaknesses.

Fraud risks remain inherent in a process and management should continuously ensure that the control environment is adequate and effective to guard against these fraud risks materialising. Management should also not underestimate the impact of collusion between government officials and third parties that could result in the control environment being overridden to process fraudulent transactions.





## LIMITATION OF SCOPE

### BACKGROUND

A limitation of scope finding is typically reported if auditors request information and management is unable to provide the required information within a reasonable time. The process we follow is to request information formally (in writing), and if management is unable to submit the requested information after allowing the pre-agreed number of days and considering possible alternative procedures, we communicate the limitation to management in the form of an audit finding. These findings will then be reported as limitation findings in the special report. Limitations reported in this special report could also result in limitations during the 2020-21 local government audit process and may also be reported in the audit reports.

It is noteworthy that documents were not available for testing despite, for example, covid-19-related SCM matters having been recently incurred.

### LIMITATIONS EXPERIENCED

The limitation areas, nature of limitations and amounts of the scope limitations we experienced during the audit are included in the table below.

#### Scope limitations experienced

Name of municipality	Nature of limitation	Amount (R)
<b>Expenditure and procurement related limitations</b>		
City of Johannesburg – Joshco	No supporting documentation was provided regarding the details of who had verified that goods and services were delivered. We could therefore not confirm if the goods were actually received. The spending relates to the entity's own funding.	3 400 658
JB Marks	Payments were made without delivery notes or a delegated official certifying that goods and services were received. We could therefore not confirm if the goods were actually received.	6 017 020
	We were unable to obtain supporting documentation for covid-19-related payments.	782 215
Mopani District	Invoices were paid by the municipality without any proof of delivery or any supporting documentation.	270 000
Nelson Mandela Bay Metro	Supporting documentation required for expenditure testing was not submitted. This include payments that relate to suppliers to which no previous payments were made, payments for large amounts, round amount payments, a large increase in the amount paid as well as instances where the payment was made to a supplier's bank account that is inconsistent with the same supplier's bank details at other municipalities.	20 616 288
Buffalo City Metro	The municipality used an existing non-compliant contract to procure covid-19-related services. The municipality was not able to provide the existing contract that was used to the auditors as it considers the matter to be a legacy issue.	1 999 463
City of Tshwane Metro	Some procurement documentation was not provided for auditing.	502 800
Ngaka Modiri Molema District	Procurement documentation was not provided for auditing.	1 604 250
<b>Total</b>		<b>35 192 694</b>

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MENU



PREV



Name of municipality	Nature of limitation	Amount (R)
<b>No or improper implementation of Municipal Standard Chart of Accounts (mSCOA) Circular No. 9</b>		
JB Marks	Covid-19-related transactions were not included as part of the covid-19 expenditure report (value of finding initially larger; some matters resolved).	79 900
Mangaung Metro	From inspecting the payment vouchers tested, we could not confirm that all expenses incurred relate to covid-19. Management indicated that all items purchased were meant to assist in curbing the spread of covid-19 and are therefore covid-19 related. No additional support could be submitted to substantiate management's response and confirm that the purchases relate to covid-19.	8 590 576
<b>Total</b>		<b>8 670 476</b>
<b>Grand total</b>		<b>43 863 170</b>

The main reason for the limitations we experienced is poor record keeping, and we detected during our audits that many municipalities have not implemented basic controls around this very important aspect of accounting.

We recommend that management implement controls to ensure that the supporting documentation needed for audit purposes is obtained, filed and secured in a manner that enables the municipality to support any transaction entered into. All procurement processes and transactions undertaken by the municipality need to be appropriately supported with valid, accurate and complete records, and all transactions must be supported by a paper or electronic trail.

### ***LIMITATION ON SPENDING INFORMATION***

Another area where we experienced limitations was in collecting spending information from municipalities. Two of the 257 municipalities (Dipaleseng in Mpumalanga and Phokwane in the Northern Cape) did not submit spending information, while Bela-Bela in Limpopo only provided partial information. The allocation relating to these municipalities for which spending information was not obtained amounted to R86 million and this affected the completeness of spending information reported in the [introduction of this report](#).

Another matter we identified on spending related to the high percentage of the R11 billion allocation that was spent for non-covid-19 purposes. By the end of March 2021, 99 municipalities had spent R2,7 billion (68%) of the total R4 billion spent for non-covid-19 purposes. This is especially concerning given that for R650 million (24%) of the R2,7 billion, municipalities could not confirm on what they had spent the funds. These transactions will be scrutinised during the 2020-21 municipal audit cycle.

## **CONCLUSION**

The extent of limitations we experienced during this audit makes it clear that the issue of limitations remains prevalent in the municipal environment and that municipal leadership and oversight need to enhance their efforts to address this very basic matter. It is particularly concerning that municipalities were unable to provide supporting documentation for transactions that happened only a few months ago. Where appropriate, we will report limitations that were identified as part of this audit to the Fusion Centre for further investigation.





## MATERIAL IRREGULARITIES

### OUR EXPANDED MANDATE

On 1 April 2019, the amendments to the Public Audit Act came into effect, providing us with an expanded mandate to go beyond auditing and reporting in an effort to strengthen the accountability mechanisms.

These amendments introduced the concept of a material irregularity:

Material  
irregularity

means 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**

### MATERIAL IRREGULARITY PROCESS

Both the amendments to the Public Audit Act and the Material Irregularity Regulations have been shaped to support the process of fair, transparent and legally sound administrative justice, by providing municipal managers with an opportunity to take the actions required to deal with the material irregularities. We use our additional powers only where the municipal manager is not dealing appropriately with such irregularities.

**If municipal manager does not appropriately deal with material irregularities, our expanded mandate allows us to:**



**Refer material irregularities** to relevant public bodies for further investigation



**Take binding remedial action** for failure to implement our recommendations for material irregularities



**Issue certificate of debt** for failure to implement remedial action if financial loss was involved

We identify material irregularities during the audit process and inform the municipal manager. We give them 20 working days to respond to the notification via a written submission and evidence on what they have done to address the material irregularity and what their further planned actions are.

We then assess the responses provided and conclude on whether their actions (taken or planned) and the outcomes of these actions are appropriate and in line with their legal obligations. If we find that the actions are appropriate, we give the municipal manager space to implement the planned actions and follow up on the progress made in resolving the material irregularity in the next audit cycle. If we conclude that the actions are not appropriate, we include recommendations in the audit report on what the municipal manager should do to address the material irregularity, as well as a deadline by which these recommendations should be implemented.

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If the matter requires further investigation, we also refer the material irregularity to a public body.

The material irregularity process is integrated into the audit process, but is not bound to the audit cycle in the same way as our normal annual audits (regularity audits). It does not have a distinct start and end date, which is quite different to the approach our auditees are used to. We can identify matters that could potentially be material irregularities at any time during the audit – even right before the report is finalised. In such a case, we do not leave it to the next annual audit. Instead, we follow our structured material irregularity route to confirm whether the matter meets the definition and then start with the process so as not to delay the accountability process.

## MATERIAL IRREGULARITIES IDENTIFIED

We identified potential material irregularities in the course of our audit and are in the process of confirming them, after which we will notify the municipal managers. By the date of this report, we had already notified the municipal manager of the uMkhanyakude District of a material irregularity related to payments for goods and services not received.

The detail on the material irregularities identified and the actions taken by the municipal managers or that we took in accordance with our expanded mandate to resolve the material irregularities will be reported in the 2020–21 audit reports and general report.



## KEYFOCUS AREAS

### FOCUS AREA: PERSONAL PROTECTIVE EQUIPMENT (PPE)

#### BACKGROUND/OVERVIEW

The minister of Cooperative Governance and Traditional Affairs issued directions to municipalities to address, prevent and combat the spread of covid-19 in South Africa. Some of the directions relate to the provision and use of PPE and include:

- providing frontline staff with the materials or equipment needed to prevent person-to-person transmission, including soaps, sanitisers, face masks and latex gloves
- assigning officials (including service providers) to sanitise the hands of people entering public facilities
- installing secured dispensers of alcohol-based sanitiser at all points of entry and exit, at all workstations, and in all passages and corridors
- issuing appropriate protective equipment to all officials at reception, admission and operational areas with immediate effect (as per the standard operating procedures of the Department of Health)
- ensuring that gloves are sanitised between searches
- providing bins for the disposal of biohazardous material
- temporarily suspending the provision of services to the public in instances where there is no sanitising or protective clothing and/or equipment available, except for essential services, as defined by the relevant regulations issued in terms of section 27(2) of the Disaster Management Act
- providing general workers and operators of municipal equipment and vehicles with protective materials and/or equipment for prevention of person-to-person transmission as a precautionary measure
- ensuring that sufficient stock is available for the duration of the national state of disaster.

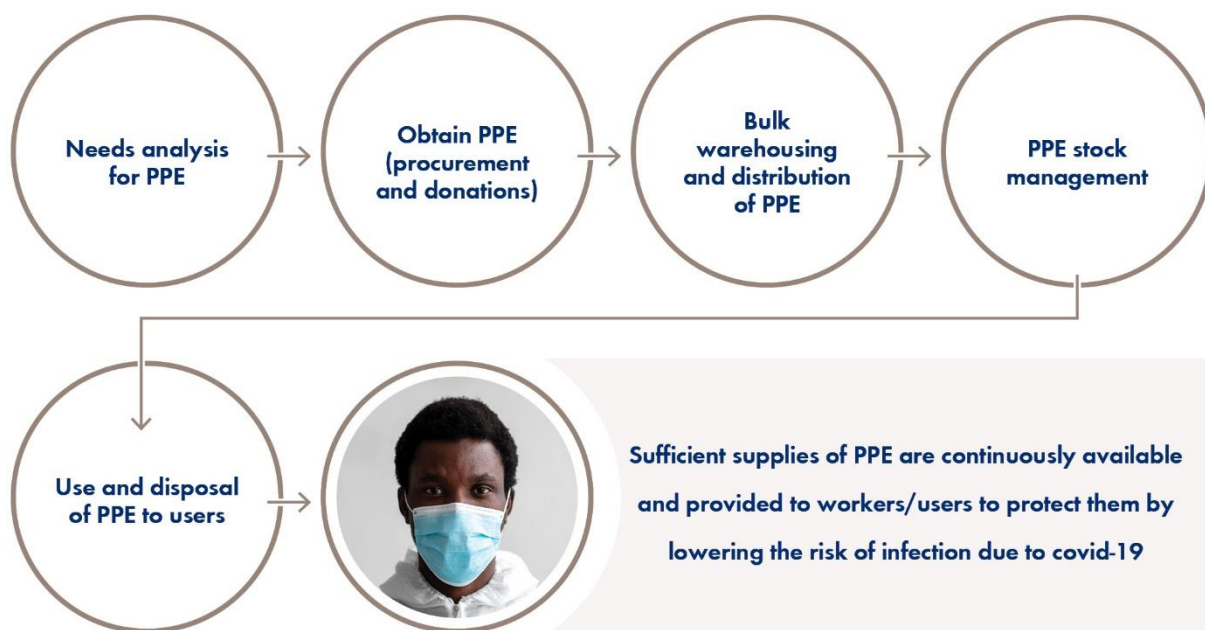
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*PPE value chain*

For the purposes of the audit, we considered the following items as PPE:

### Types of PPE



- Gloves
- Medical / surgical face masks
- Fabric / cloth face masks
- Protective eyewear
- Face shields / visors
- Gowns
- Coveralls
- Overshoes
- Face piece respirators
- Sanitisers, disinfectant and soap to sanitise and clean hands and surfaces
- Containers, sprayers and dispensers for sanitisers, disinfectants and soap
- Thermometers
- Body and biohazard bags

### Purpose and flocus of our PPE audit

Purpose of initiative	
<p>Municipalities must ensure that sufficient PPE of the right quality is available to municipal workers and the public when they enter municipal facilities, as well as when they are rendering municipal services to the public in the municipal jurisdiction.</p> <p>For this initiative, we focused on municipalities that spent more than R1 million on PPE items, which resulted in <b>33 municipalities</b> being selected, as <a href="#">detailed in the introduction</a>.</p>	
Focus of our audit	<p>The focus of the PPE audit was to determine whether:</p> <ul style="list-style-type: none"> <li>• municipalities' needs identification and procurement planning processes were adequate and effective to ensure that the right quantities and types of PPE were procured</li> <li>• PPE was procured at prices regarded by the National Treasury as market related</li> <li>• PPE complied with quality standards and requirements</li> <li>• suppliers delivered PPE within the lead times regarded by the National Treasury as reasonable</li> <li>• PPE was efficiently and effectively stored and distributed, in line with good stock management practices</li> <li>• PPE was used as intended</li> <li>• SCM processes were adequately adhered to when procuring goods and services related to covid-19 infrastructure.</li> </ul>

## ***SPENDING ON PPE***

The spending of covid-19 funding on PPE up to 31 December 2020 amounted to R389 million. This represents 22% of the total spending for the 43 selected municipalities.

## ***PREVENTATIVE CONTROLS SPECIFIC TO PPE NOT IMPLEMENTED***

Preventive controls, such as segregated duties and the physical protection of PPE items, are used to prevent a loss or error from occurring. These controls are typically integrated into a process so that they are continually applied. Both the Municipal Finance Management Act and National Treasury circulars also required municipalities to implement these controls. We identified the following weaknesses in the control environment:

### ***Inadequate PPE needs analysis and demand planning***

To inform procurement decisions, municipalities needed to estimate the types and quantities of PPE that will be required and also put plans and processes in place to ensure that the required PPE items were obtained at the right price, time, place, quantity and quality.

At 17 of the 33 municipalities (52%), we were not provided with any evidence of documented PPE needs analyses and/or demand plans, indicating that an important control measure to monitor whether the correct quantities and types of PPE were procured was not in place. This led to instances where municipalities procured either insufficient or excess PPE.

### **Recommendation**

We acknowledge that the state of emergency placed undue pressure on municipalities to acquire PPE items instantly, given the shortage experienced in the environment. However, we encourage management to conduct a basic PPE needs analysis, without compromising their response to the emergency caused by covid-19, to ensure that the correct type of PPE is timeously and continuously available to all user departments in accordance with their specific needs. The forecast method and key inputs (number of municipal workers, municipal healthcare workers, municipal buildings and services) should be specified. Municipalities should track the procurement of PPE against a formal, approved covid-19 PPE procurement plan. Management should ensure that a senior municipal official signs off source information, informing future PPE procurement needs, as accurate and reliable prior to the procurement process.

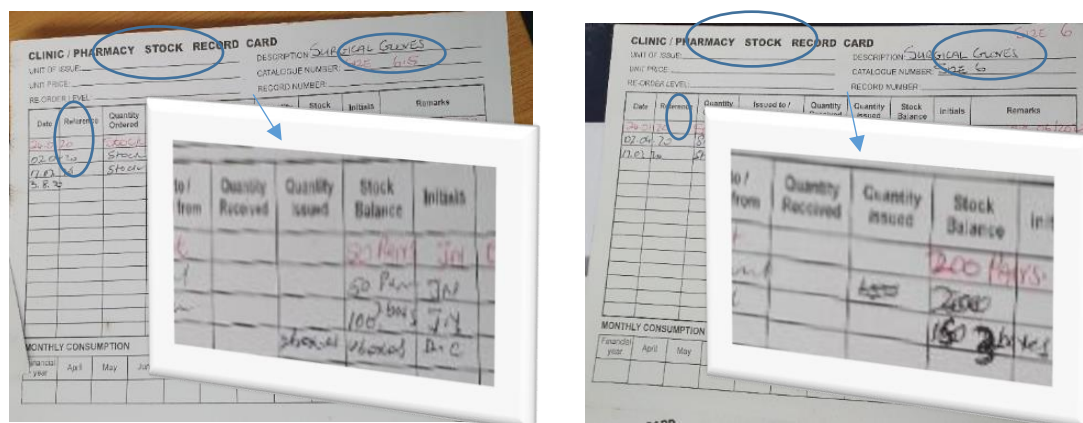
### ***Inadequate controls and stock management systems to account for and manage PPE stock***

Municipal storage facilities require effective stock management processes to ensure that municipal officials account for stock received and distributed. The stock management processes help to prevent theft and to ensure that if damaged PPE stock is identified, the relevant supplier is identified and notified so that they can replace the damaged stock or refund the municipal office. We noted that 29 of the 33 municipalities (88%) did not have adequate controls and stock management systems in place at their main PPE stores to ensure that the PPE stock that was ordered, received, stored and issued to user departments was formally recorded and accounted for by the municipality. Some of these municipalities had no controls and systems in place, while others had controls and systems that were found to be ineffective.

We identified the following examples of shortcomings in the municipal controls and systems environment:

- The receipt of PPE from suppliers and the issuing of PPE to users in different departments within the municipality were not captured on individual stock cards. Stock cards allow for the movement of individual PPE items to be captured and provide an indication of the PPE that is available at the municipality at any given point in time. Stock cards also allow for low-quantity PPE items to be easily identified so that they can be reordered early enough to avoid potential PPE stock-outs.

- PPE stock received from suppliers was not matched with orders to ensure that the types and quantities of PPE stock that was delivered to and received by the municipality matched the orders placed by the SCM unit.
- Formal stock-taking procedures were not performed.
- The stock management system was not able to generate and apply minimum and maximum PPE stock levels.
- Staff responsible for PPE stock management were not aware of policies, standard operating procedures and/or guidelines on PPE stock management.
- The stock register did not indicate stock movement (deliveries and issues) and only listed the stock balances per PPE item at month-end. In addition, the stock register did not indicate the location of the PPE (see photograph below for example).



**Example of incomplete bin cards showing no reorder quantities and no complete stock movement.**

We also noted that controls and stock records were not in place for PPE that was kept at user departments. Without proper PPE record keeping or a stock management system, there is a risk that some PPE items were short-delivered, not delivered at all or misappropriated. There is also a risk that user departments could consume excessive amounts of PPE.

## Recommendation

The stock management systems implemented should facilitate the ordering, storing and issuing of PPE. Using a comprehensive stock management system would allow detailed information on the PPE orders placed to be easily retrieved. Furthermore, a stock management system would allow low quantities of PPE to be identified, which, in turn, would allow for the timely reordering of the required types of PPE.

When municipalities opt to use stock cards to manage the movement of PPE items, these stock cards should be maintained for all PPE items received and issued. This would allow PPE to be properly managed and safeguarded, as detailed information on the movement of each PPE item would be available. Municipalities should ensure that standard processes and registers are put in place at all sections and/or directorates to enable the efficient and effective management of PPE.

## Extended lead times to deliver PPE

At 10 of the 33 municipalities (30%), we noted that suppliers had not delivered some of the PPE items ordered to the municipalities within the lead times regarded by the National Treasury as reasonable. The delivery lead times for transversal contract suppliers usually vary between 14 and 21 days, and the delivery lead times for procurement via quotations is usually 21 or 22 days. As at 30 September 2020, 31 of the 394 orders placed (8%) for PPE items in response to the covid-19 pandemic reflected that some PPE items that had not been delivered timeously. The delivery lead times at these 10 municipalities varied between 29 and 73 days.

Some suppliers were not able to deliver PPE items to the municipalities within the applicable lead times because they experienced low stock levels of certain PPE items for certain periods during the pandemic. This was mainly due to the increase in the demand for and use of PPE items at the time.

At some municipalities, the extended lead times or delays in delivering PPE items were cited as the main reason for the low availability of certain PPE items. Extended lead times increase the risk that municipalities will not have available the PPE required to safeguard municipal workers against the virus while they are performing their duties, including delivering basic services to the communities.

## Recommendation

Municipalities should identify long-outstanding orders in a timely manner and regularly follow up on these orders. In cases where certain suppliers repeatedly failed to deliver orders within a reasonable timeframe and without justifiable reasons, the municipalities should consider not placing orders with these suppliers in future, but rather placing orders with suppliers that can deliver PPE within agreed lead times. Municipalities should strengthen their efforts to order PPE items from suppliers timeously or consider increasing the number of PPE items on hand when reordering from suppliers. This will lower the risk of PPE items not being available when suppliers do not deliver these items on agreed lead times.

### *Poor storage practices at main PPE stores and user departments*

PPE stock must be properly stored to ensure safety, prevent theft risk and minimise damage. Each type of PPE stock must be stored according to the manufacturer's instructions. In general, PPE stock must be stored in clean areas and in a manner that promotes efficient and effective storage, picking, packing and distribution to municipal facilities. We found that 20 of the 33 municipalities (61%) did not follow good storage practices when storing PPE at the main stores and/or user departments. This negatively affected the efficient and effective picking, packing and issuing of PPE.

During our site visits to the municipalities, we noted the following poor storage practices at main storage facilities:

- PPE items were stored between other stock items and equipment (see photograph on next page for example).
- PPE items were stored in offices as storage space was not sufficient
- Some boxes with PPE were left open in passages and offices, and not in secure rooms (see photograph on next page for example).
- PPE items were stored on the floor and items were outside of the boxes.
- Shelves were not installed or used to store PPE items.
- Boxes were stacked on top of each other to the ceiling.
- PPE stock was issued based on ease of access, rather than the stock management principals of first in, first out (FIFO) or first expiry, first out (FEFO).

The following contributed to the poor storage practices:

- A dedicated PPE storage facility with adequate space, including shelves, was not allocated for storing PPE at the municipality during the covid-19 pandemic.
- Standard operating procedures that prescribe the requirements for good storage practices were not compiled and/or implemented and used to ensure PPE was effectively and properly stored.
- Staff with the requisite knowledge of good stock management practices were not used to store and issue PPE.
- Staff who control PPE were not trained in stock management practices, including storing and issuing PPE.





*Sanitiser stored with old furniture (left): PPE stored in a passage, some of the container was also damaged (right),*

These storage practices increase the risk of theft and losses and present an increased risk of fire when containers are damaged and high volumes of flammable PPE items are stored close to old wooden furniture.

## Recommendation

Management should assess the suitability of storage facilities to determine the appropriate facility for storing PPE. In cases where insufficient storage space is identified, alternative storage arrangements should be instituted.

Municipalities should develop and implement standard operating procedures to ensure effective and efficient stock management, and should track adherence to these procedures and take steps to correct non-compliance where it is identified.

Staff involved with storing and safeguarding PPE should be trained in the principles of proper PPE storage and safeguarding.

## *Inadequate security at main PPE storage facilities*

During the pandemic, the demand for PPE items and the related risk of theft of PPE items were assessed as high. It was therefore necessary to ensure that adequate security processes were in place to address the identified risk of theft. Despite this identified risk, we noted that five of the 33 municipalities (15%) did not always ensure that PPE stock was stored securely at the main PPE storage facilities.

We identified the following shortcomings during our visits to the storage facilities:

- Access controls were not enforced at main gates and/or building entrances even though security guards were on the premises.
- PPE was stored in an office without security gates and the office door was not locked on the day of the site visit.
- Security cameras were not installed or were not in working order.
- A back door of the main storage facility was open during the audit team's visit (see photograph on next page for example).





*Open door at back of warehouse*

## Recommendation

Municipalities should monitor security guards to ensure that they perform access control upon entry and exit at the main PPE storage facilities. Vehicles should be searched and a register should be completed when people enter and exit the storage facilities.

Management should ensure that all available security measures are used to safeguard the municipality's stock.

## KEY AUDIT FINDINGS AND OBSERVATIONS

### *Excessive prices paid for covid-19 goods and services as PPE items procured at prices above National Treasury market-related prices*

Municipalities are required to procure goods and/or services, including PPE items, in compliance with the Municipal Finance Management Act. The Act indicates that accounting officers, senior managers and any other officials exercising financial management responsibilities must take all reasonable steps to ensure that the financial and other resources of the municipalities are used effectively, efficiently and economically.

In addition, the National Treasury also issued circulars to assist accounting officers, senior managers and other officials to carry out their legislative responsibilities in terms of the Municipal Finance Management Act. These circulars guide municipalities on what can be regarded as market-related, and therefore economical, prices for selected PPE items during the pandemic. Municipalities procured PPE items from suppliers at prices that were higher than those that the National Treasury regarded as market related during the pandemic. We selected a total of 394 PPE-related orders placed across 33 municipalities. A total of 136 (35%) of these orders across 29 municipalities included PPE items that were procured at above market-related prices as indicated by the National Treasury. The excessive prices paid for these PPE items, amounting to R18 996 258, therefore indicate that the goods were not procured economically and that municipalities could have purchased additional PPE items if the money had been spent more wisely.

The municipalities did not always compare the prices quoted and/or charged by the suppliers for PPE items to the prices regarded by the National Treasury as market related before placing the orders. In addition, there was limited supervision and/or monitoring to ensure that PPE was procured in the most economical manner during the covid-19 pandemic.

Below are the municipalities that were the highest contributors for PPE items that were procured at above market-related prices as indicated by the National Treasury.

## 1. City of Tshwane Metro

Between 17 March 2020 and 26 June 2020, the municipality appointed suppliers for various orders following a deviation process. The deviation was only approved on 1 July 2020, after the transactions had occurred.

We selected 15 orders of PPE items purchased to audit and for 12 (80%) of these orders the municipality procured PPE items above market-related prices as indicated by the National Treasury. The finding represents 14% of the total value of excessive prices identified from the 33 municipalities, as follows:

- The municipality placed an order for 3 000 pairs of goggles at a unit cost of R552 per pair, exceeding the National Treasury's stipulated market-related price of R71,25 per pair by 675%, for a total excess payment of R1 442 250.
- A purchase order for 666 units of 1-litre sanitisers was awarded to supplier A at a unit price of R300 on 9 April 2020. On the same date, another purchase order was made to the same supplier for 1 000 units of 1-litre sanitisers at R195 per unit. It is unusual that the same product was purchased from the same supplier at a vastly different unit price (R300 - R195 = R105 per bottle). The highest unit price regarded by the National Treasury as market related for this PPE item was R207 per bottle.

## 2. eThekweni Metro

The lack of oversight and reporting impacted the municipality's control environment as PPE items worth R4 116 000 were procured at prices above those regarded by the National Treasury as market related. For example, the municipality placed an order for 100 000 surgical face masks at a unit cost of R22, exceeding the National Treasury's stipulated market-related price of R12,48 per mask by 76%, for a total excess payment of R952 000.

## 3. JB Marks

The municipality purchase the following PPE items at excessive or inflated prices as they were procured at prices above those regarded by the National Treasury as market related;

- The municipality ordered 500 units of 5-litre sanitiser bottles at a unit cost of R750, exceeding the National Treasury's stipulated market-related price of R327,27 per 5-litre sanitiser bottle by 129%, for a total excess payment of R211 365.
- Sixty per cent (12 out of 20) of the orders we selected for PPE items purchased showed that the municipality had procured PPE items worth R1 693 663 at prices above the National Treasury's stipulated market-related prices.

These municipalities might have acquired more goods and services in their efforts to fight the impact of the pandemic if PPE items had been procured at prices closer to market-related prices as stipulated by the National Treasury.

## Recommendation

Municipalities must implement a formal process to compare the prices quoted and/or charged by the suppliers to the prices regarded by the National Treasury as market related before placing orders for PPE items with suppliers. If PPE items are ordered from suppliers at prices above those stipulated by the National Treasury, justifiable reasons must be provided and documented, and approval must be granted at the appropriate level.

Municipalities should investigate orders where they procured PPE items from suppliers at prices above those regarded by the National Treasury as market related during the pandemic. The municipalities should also take appropriate corrective actions or refer such orders to the relevant public body for further investigation.

## *Processes not in place to ensure PPE items procured meet required standards*

We noted that municipalities did not always have processes in place to ensure that the PPE procured met the required standards and/or specifications as prescribed by the World Health Organization, the Department of Health and the Department of Trade, Industry and Competition. Three of the 33 municipalities we audited did not include detailed PPE item specifications on quotation submissions and purchase orders, while eight municipalities did not implement adequate quality assurance processes on receiving the PPE items. Therefore, the municipalities did not ensure that sanitisers and disinfectants contained at least 70% alcohol and that surgical face masks and fabric face masks complied with the specifications determined by the World Health Organization, the Department of Health and the Department of Trade, Industry and Competition, and the PPE procured may not have been effective in preventing the spread of covid-19.

### **1. Alfred Nzo District**

On delivery of PPE, the municipality did not have quality control measures in place to ensure that the PPE items complied with specifications and standards. The municipality also did not request sufficient evidence to be able to verify that the PPE delivered complied with the specifications.

Management indicated that it relied on the packaging and South African Bureau of Standards (SABS) approval stamp on the packages as confirmation of the quality of the PPE and that it met the specifications. We confirmed during our site visit that bottles of sanitiser were packed in boxes for Nulaid eggs. These boxes of sanitisers had no inscription indicating that the sanitisers received were at least 70% alcohol, in line with the required specification.

Furthermore, the municipality did not maintain records to confirm that PPE items were inspected at the time of delivery to ensure compliance with the required specifications and standards. We were unable to determine the value of these PPE items. Without these measures, there is a risk that the sanitisers supplied may not comply with the specifications, which could compromise the safety of those using it.



***Bottles of sanitiser packed in a box for Nulaid eggs. Sanitisers delivered in boxes with no inscription that sanitiser contained >70% alcohol, as per required specifications***

### **2. Mogalakwena**

One of the most common items procured and used by the municipality is sanitiser, which should have at least 70% alcohol content. However, the municipality did not have measures in place to ensure that the sanitisers supplied complied with the specifications. Furthermore, there was no evidence that PPE items were inspected to determine that they were of the required standard and met the required specifications. We were unable to determine the value of these PPE items. The municipality relied on the suppliers' material safety data sheet to confirm the composition of the PPE received.

## Recommendation

The municipalities should ensure that the circulars issued by the National Treasury are complied with during the procurement of PPE items for the municipality. The requests for quotations or tender specifications should include the specifications of PPE items as prescribed by the World Health Organization, the Department of Health and the Department of Trade, Industry and Competition.

The municipalities should implement formal quality control or assurance processes to ensure that the PPE items that were ordered and provided by suppliers meet the required specifications. This should include documented procedures for the quality assurance process.

### *PPE items procured in excess of municipality's needs*

During our site inspections of storage facilities at the municipalities audited, we identified deficiencies that resulted in too much PPE being procured, too little PPE being available (i.e. PPE shortages) and uneconomical use of PPE. These included:

- inadequate PPE needs analysis and demand planning
- insufficient funding
- PPE not being procured in line with the need forecast
- poor stock management systems and storage practices
- delays in deliveries by suppliers.

The optimal stocking level equation will reveal the ideal inventory levels, and being aware of this number allows municipalities to more easily detect any issues with waste. Excess stock levels also increase both the fraud risk and losses when these PPE items are not used. We noted that five of the 33 municipalities (15%) procured more PPE than they needed, which increases the risk of PPE being destroyed or damaged, or not being used.

Below are three examples of municipalities that procured more PPE than they needed.

#### **1. iLembe District**

The municipality procured 1 500 cloth masks for its employees and distributed two cloths masks each to 750 employees. However, according to the VIP payroll report, there were only 659 employees. The municipality also procured 19 600 surgical masks and 2 000 face shields/visors. No information was provided on how the quantities were determined. Without this information, the large quantities of masks and face shields/visors that the municipality procured cannot be justified, bearing in mind the number of employees it has. Furthermore, as the number of masks and face shields/visors procured exceeded the number of municipal employees, there should have been a surplus of masks and face shields/visors in the PPE storage facilities. However, during our site visit conducted on 26 January 2021, we observed that there was no stock of face shields/visors in the storage facility.

#### **2. Zululand District**

The municipality's response strategy was outlined in its contingency plan for covid-19, dated 27 March 2020, which included the business plan for providing sanitisation services, dated 3 April 2020. However, no supporting documents, evidence or details that substantiate the quantities planned for procurement were made available for auditing. The municipality has just over 1 000 employees and planned to procure the following PPE items in high volumes:

- 500 000 surgical masks at a total cost of R17 500 000
- 500 000 disposable surgical gloves at a total cost of R2 500 000.

This may potentially result in possible losses when these PPE items are not used or misappropriated.

### 3. Nelson Mandela Bay Metro

The municipality did not have a formal, documented needs analysis to determine the need for PPE. Different heads of department indicated that they determined their needs based on their staff establishment; however, there was no evidence that these assessments were done. This contributed to the following examples of excessive stock on hand when we performed our site visits:

- At the traffic department, approximately 40 boxes of disposable masks were in stock out of 50 boxes received, meaning only 20% of disposable masks ordered were being used at the time. Employees were also given cloth masks.
- At the employee wellness and occupational health and safety department, 11 boxes of N95 masks (50 masks per box) were in stock. The manager indicated this was ordered around April 2020. N95 masks are not recommended for general public use. A critical supply must continue to be reserved for healthcare workers and other medical first responders, as recommended by the current guidance from the Centre for Disease Control and Prevention. The municipality did not implement appropriate controls or processes to ensure sufficient records of PPE items ordered. We were therefore unable to determine how many units of N95 masks were ordered. The department has six nurses on its staff.
- At the employee wellness and occupational health and safety department, 1 000 head covers were in stock. The facility manager indicated that they had received the head covers from the disaster management unit, but that the head covers were not used in the department.

Ordering excessive volumes of PPE items is likely to place undue pressure on storage spaces, which increases the risk of theft and losses if these PPE items are not used by the municipality.

### *PPE shortages on some items*

Due to the requirements placed on employers as per the *Government Gazettes*, PPE shortages can negatively affect the municipalities' operations. As key role-players in service delivery, municipalities must manage PPE shortages effectively. We identified PPE shortages at eight of the 33 municipalities (24%) audited.

Below are two examples of municipalities at which we identified PPE shortages.

#### 1. Mangaung Metro

During our site visits to selected user departments in January 2021, we identified PPE shortages where it was indicated that those user departments did not have the necessary PPE. At the Aids clinic, the municipality staff and supporting information indicated that healthcare workers were not provided with sufficient coveralls and overshoes between March and April 2020. To make up for the shortages, healthcare workers and officials conducting screening in and around the community were provided with PVC aprons and gumboots. From July 2020, healthcare workers and other officials at the Aids clinic stopped conducting screening at the community, citing lack of adequate PPE as the main reason. The lack of sufficient and appropriate PPE provided to employees may increase the risk of them contracting covid-19 due to the lack of screening during this period.

#### 2. Mogalakwena

The municipality had weaknesses in its control and stock management system, which resulted in the required level of PPE items for municipal refuse collectors not being available. Due to PPE shortages experienced in June and July 2020, the municipal refuse collectors embarked on a strike action that disrupted refuse removal, as they were not willing to work without the appropriate PPE.

## Uneconomical use of PPE

Economical use of PPE avoids unnecessary cost and potential losses to municipalities. The availability of vital PPE items is crucial during a pandemic, and unavailability of PPE items was cited on many occasions, which causes an increased focus on the economical use of PPE items. We noted that three of the 33 municipalities made uneconomical use of PPE, and/or general workers used PPE intended only for healthcare workers, including the two detailed below.

### 1. Mopani District

The municipality procured 35 000 three-ply surgical masks at a cost of R677 500 and 14 000 fabric facemasks at a cost of R375 000 for its employees on 21 April and 7 May 2020. On 17 April 2020, the Department of Health requested that the public not use surgical (medical) or N95 respirator masks, since these masks are critical supplies that should be reserved for healthcare workers and other medical first responders.

### 2. Sekhukune District

The municipality procured 200 packs of red biohazard bags at a cost of R40 400. The bags were intended for the collection of used disposable PPE such as used surgical masks and gloves. However, not all the biohazard bags were used as intended, as some were used to cover internal windows at the municipal office.



*Biohazard bags used to cover internal windows at the municipal office*

## Recommendation ([PPE procured in excess of needs](#), [PPE shortages](#), [uneconomical use of PPE](#))

Municipalities should implement formal quality control or assurance processes to ensure that the PPE items that were ordered and provided by suppliers meet the required specifications. This should include documented procedures for the quality assurance process.

Formal communication channels should be established between the main storage facility, the user departments and the SCM unit. Feedback on the PPE stock levels, user requirements and other challenges should be communicated at regular intervals. This would allow low PPE stock levels to be identified early so that PPE can be reordered in a timely manner.

Municipalities should update their implementation plans to include details of the types and quantities of PPE required to address their needs, including the available budget for PPE procurement. They should also ensure that adequate stock is available for distribution to the various municipal offices and units. Clauses relating to lead times for the delivery of PPE items should also be included in contractual documents with suppliers.



Management at municipalities should plan to ensure that they prioritise, obtain and use PPE in an efficient and effective manner and should institute measures to ensure that recording and reporting on PPE is adequately done.

### *Municipalities not following required procurement processes for covid-19 expenditure*

Increased openness, transparency and efficiency in the management of public sector supply chains can offer benefits to all parties involved in delivering public services. SCM encourages open, fair, competitive, cost-effective and transparent selection of suppliers.

There is an increased risk of fraud associated with the SCM processes as a result of changing circumstances arising from the covid-19 pandemic. In addition to identifying compliance issues, our audit procedures focused on identifying potential fraud risks and fraud risk indicators in the expenditure incurred (SCM transactions) through the municipalities' implementation of initiatives in response to the covid-19 pandemic. Municipalities did not always follow SCM processes, which resulted in non-compliance with legislation as well as possible fraud and corruption. At six municipalities, we identified non-compliance and fraud risks (red flags). According to the International Standard on Auditing (ISA) 240, the primary responsibility for preventing and detecting fraud rests with both the management of an entity and those charged with governance. The standard states that it is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

We identified the following examples relating to SCM processes for PPE transactions that might indicate misappropriation of state resources meant to fulfil the municipality's mandate. We also identified findings relating to non-compliance in the area of procurement at all six of these audits during the 2018-19 and 2019-20 audits.

The following municipalities were the most significant contributors to this finding.

#### **1. City of Tshwane Metro**

The municipality appointed two suppliers (suppliers A and B) to supply and deliver covid-19 PPE (including surgical masks and sanitisers). We established that these suppliers were linked to 10 different purchase orders (following a deviation process) for a total amount of R4 637 315. The purchase orders were awarded to the suppliers in the period between April 2020 and June 2020.

We noted the following indicators of possible fraud when evaluating the appointment of, and payments to, these suppliers, which collectively could indicate possible preferential treatment of suppliers:

- Suppliers A and B were related as they had the same director and were both appointed to supply covid-19 PPE.
- It is unclear how the municipality identified these related suppliers to supply PPE during March 2020.
- There were price disparities on invoices submitted by these related suppliers for the same items ordered.
- The suppliers were appointed on 10 different orders following a deviation process. The accounting officer approved the deviations after these related suppliers had delivered the goods.
- There are also concerns around the completeness of the deviations approved, in that we found that some deviations were not included in the list of approved deviations.
- We raised a limitation of scope as some of the key procurement documentation and the goods receipt slips were not provided.

The impact of the above is that since the supplier was appointed without key procurement documentation available to support the procurement process followed, the municipality is not in compliance with legislation.

## 2. Nkomazi

The municipality appointed a supplier to provide fumigation services in March 2020 for a total amount of R2 620 000.

We noted the following non-compliance aspects and possible fraud red flags in evaluating the appointment of, and payments to, this supplier, which could collectively indicate possible preferential treatment of the supplier:

- There was insufficient audit evidence available to confirm the fairness and transparency relative to obtaining written price quotations from potential suppliers. There was no documented evidence that potential suppliers other than the appointed supplier were contacted.
- No reasonable measures were employed to establish the reasonability of the final price awarded and the consequent payments made to the supplier.
- The supplier was not registered on the CSD at the time of the award.
- The supplier was not tax compliant at the time of the award.
- The supplier has no previous order history with the municipality for the previous financial year.
- We could not confirm the nature of the supplier's business and whether this was aligned to what they were appointed for, as the supplier has no internet presence.

Since the supplier was appointed without following a proper procurement process, and in some instances key documentation was not available to confirm fairness and transparency in the appointment of the supplier, the municipality is not in compliance with legislation.

## 3. Johannesburg Water (City of Johannesburg Metro entity)

On two occasions, Johannesburg Water appointed a supplier through a deviation process. The appointments were for the supply of covid-19 PPE items (disposable protective coveralls and surgical masks) in March and April 2020 for a total amount of R1 706 014. The funding used for this procurement was the entity's own internal funds.

We noted the following contraventions of section 36 of the Municipal Finance Management Act SCM Regulations, which raise questions and possible fraud around the appointment of the supplier:

- The reasons for procuring 3 000 disposable protective coveralls from a supplier via a deviation was not recorded and the deviation memorandum was not approved by the accounting officer or the delegated official.
- On a different purchase order, 40 000 surgical masks were procured from the same supplier through a deviation without obtaining prior written approval from the accounting officer. The purchase order was issued to the service provider on 26 March 2020 and the request for ratification of these deviations was only submitted to the accounting officer on 8 April 2020. Although the deviation was subsequently ratified, as required by SCM regulation 36(1) (c), the procurement process followed was still susceptible to abuse and manipulation due to a lack of review and prior approval of these deviations by the accounting officer or a delegated official.

As the deviations from normal SCM processes were not approved in one instance and were approved after the supplier had been appointed in the other instance, this raises a concern that these goods were not procured in the most cost-effective manner possible.

### *Awards made to officials employed by the state*

Municipalities need to ensure that they implement appropriate controls to identify and prevent the procurement of PPE items from suppliers that did not submit declarations of interest or from suppliers with owners who are related to or employed by the state. This is also prescribed by SCM Regulations. Three municipalities procured PPE items to the amount of R10 592 818 from suppliers and/or employees that are in service of the state, including the examples noted below.



## 1. City of Tshwane Metro

The municipality's internal control environment did not detect or prevent that it procured PPE items from suppliers that did not submit a declaration indicating whether any of their directors, managers, principal shareholders or stakeholders are in the service of the state, or have been in the service of the state in the previous 12 months; and whether a spouse, child or parent of a director, manager, shareholder or stakeholder is in the service of the state, or has been in the service of the state in the previous 12 months.

This resulted in the procurement of PPE items to the value of R9 357 235 through an SCM deviation from nine suppliers that submitted false or no declarations. This could potentially increase the risk of appointing preferred suppliers.

## 2. Nelson Mandela Bay Metro

The municipality's internal processes did not identify employees' interest in suppliers. The municipality procured PPE items to the value of R838 500. The supplier submitted a false declaration stating that its members and directors had not been in the service of the municipality in the past 12 months. However, we noted that at the time of the award, the director of the supplier was a former employee of the municipality who had worked at the municipality within the past 12 months.

The municipality's inability to identify employees that had interests in suppliers increases the risk of fraud, collusion and possible unfair practices in awarding awards.

### Recommendation ([declaration of interest](#) and [not following required procurement processes](#))

Municipalities should ensure that they comply with the circulars issued by the National Treasury when procuring PPE items. This includes making the relevant adjustments to standard operating procedures and communicating with the staff involved in the deviations, based on the National Treasury circulars.

Requests for quotations and tender specifications should include the specifications of PPE items as prescribed by the World Health Organization, the Department of Health and the Department of Trade, Industry and Competition. Management should only consider suppliers that provide the required declaration of interest. If any false declaration is made, the municipalities should investigate the declaration and take appropriate action.

### ***AUDITEES' RESPONSE AT AN OVERALL LEVEL***

All the accounting officers responded to our audit observations. In general, the accounting officers indicated that it was not always possible for them to obtain the required PPE items at the prices regarded by the National Treasury as market related. This was mainly because there was an unprecedented global demand for PPE items, resulting in global shortages and, ultimately, price increases. Even though the prices of PPE items increased, the municipalities continued to procure the required PPE items as they were under pressure to supply the municipal workers with PPE so that they could continuously provide basic services to the communities.

All the accounting officers responded to the audit observation on extended lead times to deliver PPE. In general, the accounting officers indicated that the suppliers were not able to deliver PPE items to the municipalities within the applicable lead times because they experienced low stock levels. This was mainly due to the increase in the demand and use of PPE items during the pandemic.

## ***BEST PRACTICES OBSERVED***

Despite the deficiencies identified above, we also found the following best practices in place:

- Sixteen of the 33 municipalities developed specific covid-19 needs analyses for PPE items to ensure that the optimal quantities of PPE items are procured.
- At Polokwane, where overpayments were identified for PPE items procured, these monies were recovered from the service providers. This is an indication that management controls did pick up on errors and responded to them appropriately.
- At the City of Cape Town Metro, we noted the following best practices around PPE stock management:
  - A dashboard was implemented for monitoring stock on hand to ensure that supply meets demand.
  - Managers discussed PPE stock management weekly to ensure that forward planning took into account realistic reorder levels of PPE items to ensure that the real needs were or could be addressed.
  - At the main warehouse, PPE was captured as part of the normal stock items on the real-time stock management system (SAP).
  - PPE items were controlled by the main warehouse (received, stored and dispatched) and the same warehousing policies applied to the storing and management of PPE.
  - PPE items had allocated stock codes on the stock management system and could therefore be monitored and tracked effectively (i.e. the items were not treated as consumables or 'open items').
  - To avoid user departments 'hoarding' PPE stock, stock was requested and dispatched to user departments weekly (based on needs provided a week prior to collection).
  - User departments maintained registers to manage allocated PPE stock and could account for the distribution, via the warehouse, of the stock received.
  - Procedures to detect and prevent conflicts of interest included:
    - SAP database holds staff declarations of interest and is linked to the human resource payroll
    - vendor names and IDs are tested against the municipalities' employee databases and the CSD to identify potential conflicts
    - a flag is raised on SAP when a potential conflict is detected. This flag alerts the buyer of a potential family link before an award is made. If it is a person in the service of the state, there is a hard block on the supplier. There are mechanisms to investigate and apply consequences if wrongdoing is found.
- At City of Ekurhuleni Metro, the officials signed for PPE orders when they were delivered as evidence that the goods were received. When issuing PPE items, the municipalities kept registers as evidence of the PPE items issued. The municipalities also kept PPE stock locked away for safekeeping and only limited staff had access to this stock.

## ***ACTION TAKEN/CONSEQUENCE MANAGEMENT IMPLEMENTED***

Of the 33 municipalities selected for auditing, we identified findings on 29 municipalities relating to excessive prices paid for PPE items. Accounting officers for 19 of the 29 municipalities indicated that the municipalities would continue and/or enhance their internal processes to ensure that the circulars issued by the National Treasury are taken into account during PPE procurement. Where appropriate, the excessively high prices charged by the suppliers will also be reported to the National Treasury, the SIU and/or the Competition Commission for further investigation.

Where there were findings on extended lead times, eight of the 10 accounting officers indicated that corrective actions will be implemented at their respective municipalities to limit instances of extended lead times. The corrective actions are summarised as follows:

- The municipality will determine the stock levels and procure the required PPE in advance to mitigate the risk of PPE stock-outs as a result of late deliveries by suppliers.
- Before placing orders with suppliers, management will ensure that the officials verify with suppliers whether orders can be delivered within the specified lead times.
- The lead times will be included on the tender documents and/or letters of award.
- Once the orders are placed, suppliers' delivery times will be monitored to ensure that they deliver the items in a timely manner.
- In cases of late delivery, the municipality will issue breach of contract notices (including the intention to charge penalties) or cancel the orders.

## FOCUS AREA: INFRASTRUCTURE

### BACKGROUND/OVERVIEW

This section deals with the goods and services provided by municipalities as part of government's response to the covid-19 pandemic that specifically relate to infrastructure services. Related initiatives include the upgrade of water infrastructure, provision of water tanks, etc.

On 25 March 2020, the minister of Cooperative Governance and Traditional Affairs issued amended directions in terms of section 27(2) of the Disaster Management Act. Paragraph 11D(2) of these amended directions indicates that the state must identify temporary shelters and temporary sites for quarantine and self-isolation that meet the necessary hygiene standards for homeless people.

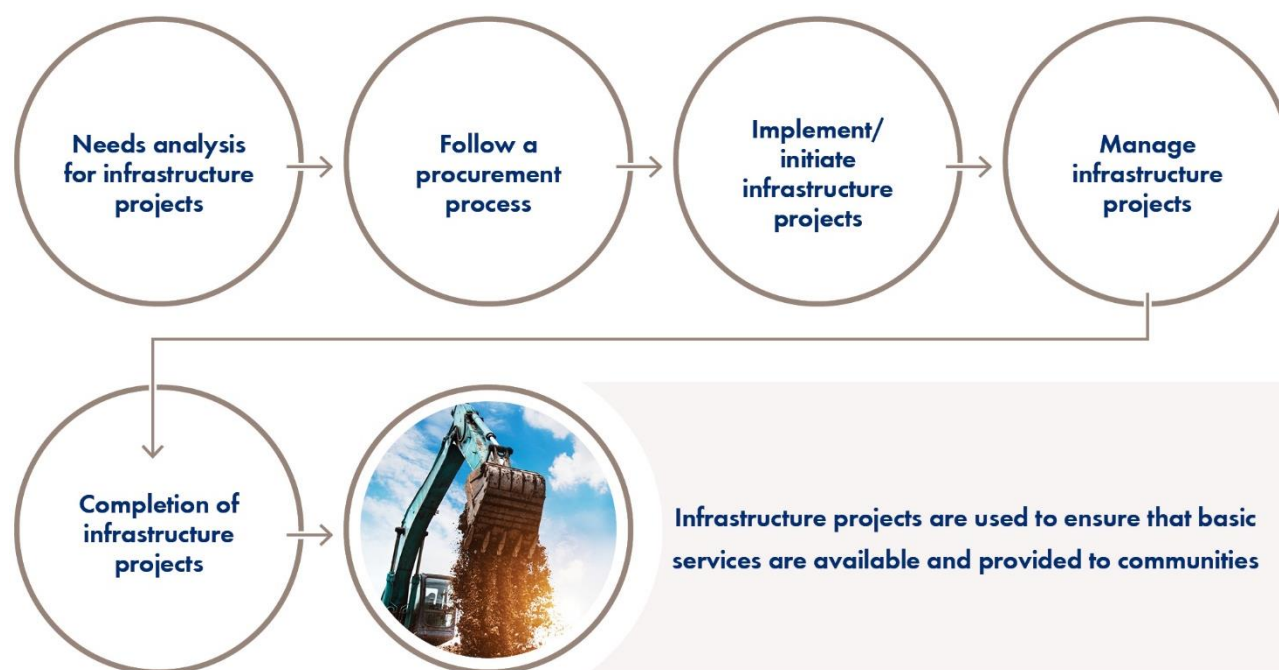
The minister also issued directions to municipalities to address, prevent and combat the spread of covid-19 in South Africa. For municipalities, these directions included:

- working with the provincial departments to identify suitable quarantine sites within their jurisdiction
- providing potable water and sanitation services to high population density settlements, rural communities and informal settlements.

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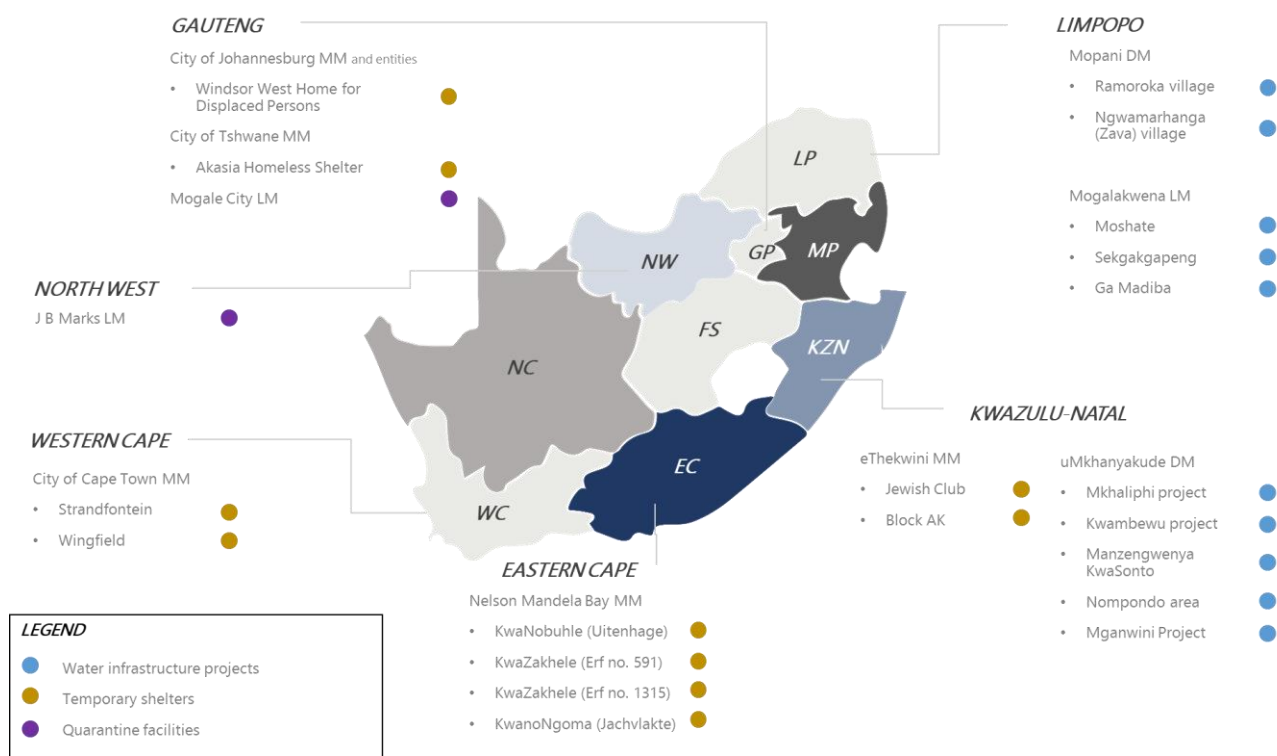
*Infrastructure value chain*

## Purpose of initiative and focus of our audit on temporary shelters and quarantine sites

Purpose of initiative	
<p>This initiative is divided into two main categories, namely quarantine sites and temporary shelters. The main distinction between a quarantine site and a temporary shelter is as follows:</p>	
<p style="text-align: center;"><b>Quarantine sites</b></p> <p>Quarantine is for people or groups who are asymptomatic, but who may be infected with covid-19. Quarantine keeps these people away from others so that they do not unknowingly infect someone else. While isolation serves the same purpose as quarantine, it is reserved for those who are already sick and/or have tested positive for covid-19 but do not require hospital admission for medical care. Quarantine facilities are set up by either converting existing infrastructure or buildings into a quarantine facility or erecting new facilities to house those who may have been infected with covid-19.</p>	
<p style="text-align: center;"><b>Temporary shelters</b></p> <p>Temporary shelters are set up by either converting existing infrastructure or buildings into a temporary structure or erecting new temporary facilities to provide shelter to those who are homeless.</p> <p>The table below reflects the auditees we considered when performing our audit work on quarantine sites and temporary shelters, together with the related facility, shelter and projects that were audited.</p> <p>For this initiative, we focused on municipalities that spent more than R1 million on infrastructure-related items, which resulted in <b>seven municipalities</b> being selected, as <a href="#">detailed in the introduction</a>. The sites or projects we audited at these municipalities are <a href="#">detailed on the following page</a>.</p>	
Focus of our audit	<p>The focus of the infrastructure audit was to determine whether:</p> <ul style="list-style-type: none"> <li>the municipality had a process (needs assessment and operational plan) in place to plan for the establishment, resourcing and facility management of the quarantine sites or shelters</li> <li>the costs involved in establishing the quarantine sites or shelters were reasonable and cost-effective</li> <li>there was overcrowding (insufficient space for the required social distancing to limit the spread of the virus) or significant underutilisation of the quarantine sites or shelters</li> <li>the quarantine sites or shelters had adequate water, sanitation and lighting</li> <li>the quarantine sites or shelters had sufficient PPE, bedding and blankets and whether food, cleaning services, medical care and security were provided regularly</li> <li>the quarantine sites or shelters provided adequate shelter and complied with specifications or requirements</li> <li>SCM processes were adequately adhered to when procuring covid-19 infrastructure-related goods and services.</li> </ul>

## Purpose of initiative and focus of our audit of procurement and installation of water tanks and water infrastructure projects

Purpose of initiative	
<p>This intervention is divided into three main categories, namely the procurement and installation of water tanks, water tanking services to refill water tanks, and water infrastructure projects. For this initiative, we selected <b>21 municipalities</b> for auditing, as <a href="#">detailed in the introduction</a>.</p>	
Focus of our audit	<p>The focus of the water tanks and water infrastructure audit was to determine whether:</p> <ul style="list-style-type: none"> <li>the municipality monitored the performance of the service provider</li> <li>the municipality had a process (needs assessment) in place to plan for the installation of water tanks and the tanking of water</li> <li>the right quantity of water tanks was procured and whether it was at the right size and quality</li> <li>the water tanks were installed timeously and as required</li> <li>the water tanks were procured at market-related prices</li> <li>the water tanks were regularly refilled</li> <li>the water tanking service was procured at market-related prices</li> <li>the water tanks and water tanking service was sufficient to address the needs during the covid-19 pandemic</li> <li>the suppliers and service providers were not overpaid by the municipality and Rand Water (Department of Water and Sanitation)</li> <li>water infrastructure projects were completed timeously, within the agreed price and to an acceptable quality.</li> </ul>



#### ***Municipalities selected for auditing of temporary shelters, quarantine sites and water infrastructure projects***

### ***SPENDING ON INFRASTRUCTURE***

The spending of covid-19 funding on infrastructure up to 31 December 2020 amounted to R1191 million. This represents 66% of the total spending for the 43 selected municipalities.

### ***INFRASTRUCTURE-SPECIFIC PREVENTATIVE CONTROLS NOT IMPLEMENTED***

#### ***No needs analysis, assessment and/or project plan in place for quarantine sites and temporary shelters***

We could not obtain evidence that needs assessments and project plans were in place at three (25%) of the 12 sites audited. As a result, an important control measure to monitor whether municipalities had adequately planned for the establishment, resourcing and management of facilities was not in place. The lack of an adequate needs assessment resulted in inappropriate shelter occupancy levels with actual occupancy levels not aligned to planned occupancy levels.

#### **Recommendation**

The municipalities should conduct proper needs assessment in accordance with regulations and guidelines, and should also supply sufficient sanitary fixtures as per the guidelines.

The municipalities should implement accepted project management principles for refurbishment work to ensure that the work is adequately managed and monitored within the project management elements of time, cost and quality.

## *Inadequate needs analysis and demand planning for water infrastructure/water tanks projects*

In order to maximise the value of the projects to supply water, a reasonable needs assessment was required to demonstrate that all intended installation areas would have adequate infrastructure/tanks and that the beneficiaries would have adequate water supply. Without the required needs analysis information, it was not possible to confirm the adequacy of the installation for each location. During some of our site visits, we identified instances where water tanks were not in use. The lack of an adequate needs assessment also results in insufficient water supply for vulnerable communities. We noted that 11 of the 21 municipalities (52%) either did not perform a needs analysis or the needs analysis document submitted for auditing had limited information.

As an example, at uMkhanyakude District, we found that when the needs assessment to install water tanks for the respective communities was performed, it did not include or demonstrate an estimate of the average annual daily demand. As a result, the storage capacity required to ensure 100% supply of water for certain hours could not be proven. Additionally, the needs assessment lacked evidence that certain items, as directed by the Council for Scientific and Industrial Research (CSIR) *Guidelines for human settlement planning and design* (red book) for standpipe-based reticulation, had been considered, which meant that the needs assessment of the water infrastructure project did not conform to the CSIR guidelines.

### **Recommendation**

Municipalities should conduct a reasonable needs analysis of all areas to ensure that water supply through water tank installations is sufficient for the community's current and future needs. The needs analysis should comply with the CSIR *Guidelines for human settlement planning and design* (red book) in order to meet the needs of the community.

## **KEY AUDIT FINDINGS AND OBSERVATIONS**

### *Excessive/inflated prices paid for goods and services relating to covid-19*

Municipalities are required to procure goods and/or services, including infrastructure-related items, in compliance with the Municipal Finance Management Act. The Act indicates that accounting officers, senior managers and any other officials that are exercising financial management responsibilities must take all reasonable steps to ensure that the financial and other resources of the municipalities are used effectively, efficiently and economically.

At one municipality and one municipal entity of another municipality of the seven municipalities selected for auditing, we identified that goods and services related to covid-19 infrastructure were procured from suppliers at prices that were considered to be inflated, which led to an estimated excessive amount of R38 568 703 being incurred at these auditees. The excessive prices paid for these items indicates that the goods were not procured economically and that municipalities could have purchased additional covid-19 infrastructure-related items if the money had been spent more wisely.

#### **1. City of Cape Town Metro**

The municipality did not ensure that the cost to establish the Strandfontein temporary shelter was reasonable and cost-effective. The municipality only obtained a quote from one supplier for R18 101 235 per month. This included R11 657 150 for six marquee tents with wooden floors accommodating 500 people each, equating to R1,9 million per tent. This was significantly higher than quotes the municipality received for marquee tents at other temporary shelter sites, namely the Wingfield shelter (R425 000 per tent) and the Culemborg shelter (R282 500 per tent). The Strandfontein shelter was operational for a 46-day period and the city spent R23 314 296 for the marquee tents over this period, compared to costs of R5 100 000 and R5 085 000 for the Wingfield and Culemborg shelters, respectively, over the same period. We estimate that



the municipality could have saved approximately R18.2 million over this period if the tents for the Strandfontein site had been obtained at similar rates to those at the other two shelters.

Due to the lower-than-planned occupancy, the early closure and the high cost of the marquee tents at the Strandfontein shelter, the actual cost per person per day was R857. Although the municipality planned for 2 500 people per day, with a budgeted cost of R241 per person per day, the average occupancy was only 1 069 people, which resulted in the municipality spending R616 more per person per day than originally planned. The total expenditure incurred over the 46-day period was R42 120 785.

## 2. Joshco (City of Johannesburg Metro entity)

At the Johannesburg Social Housing Company (Joshco), a municipal entity of the City of Johannesburg Metro, we noted that the bid closing date for renovating buildings and purchasing furniture for quarantine sites was extended from 1 June 2020 to 4 June 2020 due to a change in the design layouts of the units. The design layout changed from one to two available designs to incorporate both a one-bedroom and a two-bedroom option, both of which included a bathroom and kitchen. The winning bidder claimed in a variation order that, at the time of response to the tender bid, some details on the construction were not finalised and that the design changes were requested after mock-up units were inspected. It is unclear what led to the design changes and why the closing date for the submission of bids was extended. The cost implications of the design changes were calculated at an additional cost of R14 905 614.

We also noted that there were delays in the construction of temporary relocation units, which was seen as an emergency measure to de-densify informal settlements in order to limit the spread of covid-19. The projects therefore had to be completed within three months. Certain actions were not taken in due time by the municipal entity and the implementing agent, which resulted in delays in the projects. One supplier sent a notification of intention to claim for extension of time due to delays in waiting for the final approval of the mock-up unit. The final approval was delayed by 55 working days and the cost implication of the claim was indicated as R2 709 452. Another supplier issued a notice of delay due to the site not being handed over to the contractor within reasonable time, which resulted in a delay that affected the critical path of the project and the revision of the project completion date. The site handover took place on 21 July 2020, but the site was only evacuated on 14 September 2020 – a delay of 38 working days. The expected practical completion date was revised to 13 December 2020 and the adjusted cost implication was indicated as R2 753 637. This indicates a possible fraud risk in that the supplier can claim for delays and then possibly share the additional funding claimed from the municipal entity with the employee(s) at the municipal entity who are causing the delays.

## Recommendation

We encourage municipalities to ensure that, even when deviating from the required procurement processes, infrastructure goods and services are procured economically.

In addition, municipalities should ensure that the specifications for what they require are clearly defined before any award is made to a supplier. This will ensure that no subsequent price adjustments are required for the service provider or supplier to perform the service or supply the goods.

### *Funds allocated for covid-19-related initiatives were not used for intended purpose*

As promulgated in *Government Gazette* No. 11062, dated 25 March 2020, it was stated that '[the] state shall identify temporary shelters that meet the necessary hygiene standards for homeless people'.

The allocation letters from the National Treasury informing municipalities of the amounts approved for spending for covid-19 purposes from uncommitted conditional grants relating to the 2019-20 allocation, as well as the grant framework relating to the 2020-21 allocation, were clear on the purpose of the amounts allocated for covid-19. Municipalities were

therefore only meant to spend the additional allocation and repurposed funds for the purposes specified in the relevant guiding documents and not for any other purpose.

At one municipality and one municipal entity of another municipality of the seven municipalities selected for auditing, we identified that not all covid-19-related funding was spent in line with the requirements specified in the allocation letters and grant framework. The amount of covid-19 funding spent for non-covid-19 purposes relating to this area was R16 542 264, and is summarised below.

## 1. City of Cape Town Metro

The municipality spent R11 774 500 (excluding value-added tax) from the urban settlements development grant funding on a shelter for refugees at the Wingfield site even though providing services to refugees falls outside the mandate of local government. This is regarded as outside the scope for which the grant could be used in response to the covid-19 pandemic, as refugees are not regarded as members of informal settlements and/or vulnerable communities. The grant is administered by the Department of Human Settlements, while refugees are the responsibility of the Department of Home Affairs. No agreement was entered into with the Department of Home Affairs to reimburse the costs incurred by the municipality. The grant was therefore not spent for its intended purpose in accordance with the applicable grant framework, as required by the Division of Revenue Act.

## 2. Joshco (City of Johannesburg Metro entity)

At Joshco, a municipal entity of the City of Johannesburg Metro, we noted that in May 2020 the Department of Health identified two facilities as suitable sites for establishing quarantine sites to contain the spread and infection of covid-19. However, on 25 March 2020 the municipality had already issued a request for quotation for the supply of furniture, repairs and other fittings to prepare these facilities to be used for quarantine and isolation purposes.

The request for quotation included a third building that was not approved by the Department of Health. The furniture, repairs and other fittings at the third property, amounting to R4 797 764, were included as covid-19-related expenditure.

This expenditure appears to be related to the municipality's planned housing projects rather than to covid-19. This lack of management oversight and monitoring of controls thus resulted in funds that were ring-fenced for covid-19 initiatives not being used for their intended purpose.

## Recommendation

Municipalities should ensure that funds that are earmarked for covid-19 purposes are only used for covid-19 initiatives. Monitoring and review of compliance with relevant legislation will assist municipalities in ensuring that the funds are spent for their intended purpose.

Municipalities should also consider the definition of irregular expenditure as per the Municipal Finance Management Act and disclose all expenditure incurred that meets this definition in their accounting records.

## *Provision of poor-quality covid-19 infrastructure-related goods and services*

Municipalities were faced with many challenges arising from the outbreak of covid-19, including the need to provide temporary structures and accommodation for the homeless to address the service delivery needs of the most vulnerable citizens and curb the spread of the covid-19 pandemic.

At three of the seven municipalities selected for auditing, we identified concerns relating to poor-quality workmanship at one quarantine site (at one municipality) and one shelter (at one municipality), and non-compliance with infrastructure requirements at three shelters (at two municipalities).

The non-compliance issues noted was that shelters did not have adequate sanitation facilities and flooring, and that stormwater disposal did not comply with requirements.

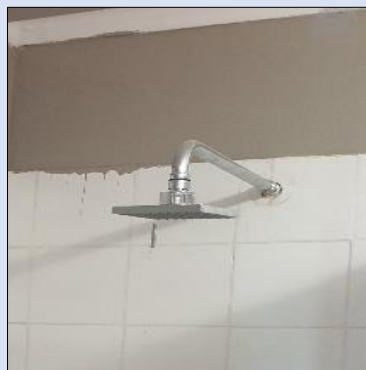
Below are some examples of the issues we identified.

## 1. JB Marks

We noted poor-quality workmanship by the service providers performing refurbishment work during our site visit to the municipality's Lakeside Resort quarantine site on 17 November 2020. For example, we noted poor concrete work around the rondavels; cement not cleaned after installing shower doors and toilets; paint that had been thinned and did not provide adequate coverage; areas that were not painted under wash basins in the ablution block; and spilled paint not cleaned in the shower area. According to the municipality, these items have been cleaned and the finishes completed since our site visit. As at 30 September 2020, the municipality had spent R5 440 589 on these works.



*Poor concrete work around the rondavels (left); Cement not cleaned after installing shower doors (right)*



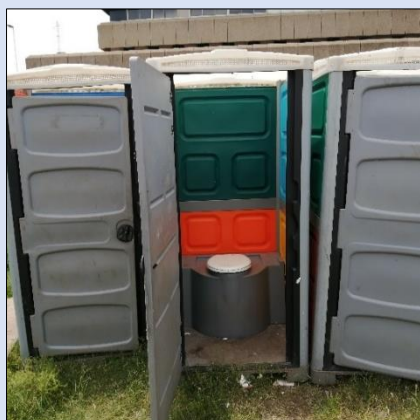
*Paint was thinned and adequate coverage was not provided (left); Paint not cleaned after painting shower (right)*

The municipality did not have project documentation available, such as site meeting minutes referring to the quality of work, instructions to service providers to rectify poor-quality work or snag lists. We could thus not determine whether the work done was to the required specifications. It was also not evident that the municipality had taken steps to correct the poor-quality work or implement remedial action against the service providers before payment for the work was made.

This occurred because the municipality did not follow accepted project management principles for the refurbishments at the Lakeside Resort to ensure that quality work was done at the facility.

## 2. eThekweni Metro

We identified that some toilet doors at the municipality's Jewish Club and Block AK shelters were broken and could not lock. In addition, the flooring provided did not comply with South African National Standards (SANS) requirements, as we noted bare soil at both shelters with no constructed flooring. The flooring was also not prepared or levelled. Further, the stormwater disposal did not comply with SANS requirements or the CSIR's *Guidelines for human settlement planning and design* dealing with stormwater management.



*Toilet door not lockable/broken at AK Block (left); Unprepared natural ground floor where residents slept at Jewish club (right).*

Furthermore, a physical site verification conducted on 16 February 2021 for the provision of water tanks at the municipality established that a supplier (with a contract value of R2 200 000 and with no suitable Construction Industry Development Board (CIDB) grading) did not install the water tanks as specified in the plans. The drawing specifications required each tank to have five taps, a supporting stand and a drain. We identified defects including seven water tanks that were not in service; five tanks that had no taps; four tanks that had one tap each; five tanks that had two taps each; and one tank that had been removed (i.e. was not found).

This indicates that that the municipality paid for goods and services that were inferior and/or not delivered.

## Recommendation

When addressing poor-quality workmanship, municipalities should implement accepted project management principles for refurbishment work to ensure that the work is adequately managed and monitored within the project management elements of time, cost and quality. As part of project management, municipalities should also implement proper record keeping practices and regularly monitor projects to ensure that the structures erected are of good quality and that contractors do not leave projects uncompleted.

Furthermore, municipalities should ensure that floors of shelters comply with SANS 10400 and are designed according to the regulations, and should conduct detailed inspections of all sites to ensure that proper stormwater drainage is in place at the sites in accordance with SANS 10400 and CSIR requirements.

Proper disaster management plans also should be in place to allow the municipalities to conform to proper safety standards in the event of an emergency.

If, due to poor quality workmanship, municipalities suffer losses, physical verifications of all installed items (e.g. water tanks) should be conducted to determine the extent of the loss for the service provided, and the service provider should be engaged to allow remedial action to occur, where possible.

## *Delays in completion due to inadequate contract management of contractors for facilities, shelters and water infrastructure projects*

Project management focuses on processes crucial to achieving the project objective, which, in the context of this audit, was ensuring the communities have access to facilities, shelters and water through the provision of appropriate installation and water supply. We conducted inspections of various installation sites to establish the existence and assess the quality and progress of the infrastructure, and to determine whether the community used the installations to obtain water. It was evident that the management of the projects' key milestones and contractual arrangement did not effectively ensure that the projects were completed on time and that the work was of the required quality, free from defects and fit for purpose. This was due to inadequate planning, oversight, progress monitoring, corrective actions and regular reporting by the relevant officials.

At three of the 12 sites within the seven municipalities selected for auditing of quarantine facilities and temporary shelters, we identified that construction of facilities and shelters was not completed on time. In addition, we identified that emergency water supply projects at two municipalities were also not completed within the planned completion dates, while some projects were not completed despite practical completion certificates having been signed off, and there were no approved internal progress reports and no evidence of borehole testing provided for auditing. The delays in the completion and handover of quarantine sites, shelters and water infrastructure projects resulted in vulnerable communities and citizens not receiving access to adequate quarantine sites, accommodation and water during the pandemic. Furthermore, the infrastructure projects did not help to prevent or control the spread of the virus.

### **1. JB Marks**

The municipality's Lakeside Resort quarantine site was not ready to be handed over to the North West health and public works department to use as a quarantine facility by the planned date of 18 August 2020. When we visited the facility on 17 November 2020, three months after the planned handover date, the accommodation was not yet suitable for occupation and the chalets lacked, basic bedding, crockery, cutlery and appliances, among other items. Furthermore, the Lakeside Resort lacked basic facilities and services such as a laundry, treatment room, health care and support staff. As at 30 September 2020, the municipality had spent R5 440 589 on work performed at this quarantine site.

This occurred because the municipality did not follow accepted project management principles for the refurbishments at the Lakeside Resort to ensure that work at the facility was completed in a timely manner.

### **2. Mogalakwena**

We noted that the municipality's Moshate project, with a total contract value of R12 980 300 was incomplete. The scope of the project covered testing and refurbishing nine boreholes, constructing steel stands, constructing a booster pump and extending a pipeline linking the boreholes to the rising main and storage reservoir. The project, which had a planned completion date of 22 July 2020 that was revised to 22 November 2020, was still incomplete at 10 December 2020. The contractor was preparing the ground for construction of the foundation for the steel tank base (see photograph). The municipality cited slow progress and a lack of communication with the contractor as reasons for the delay. The delay in the completion of the water infrastructure project has negatively affected the municipality's ability to provide those vulnerable communities in need with access to emergency water due to the late delivery of additional water capacity.



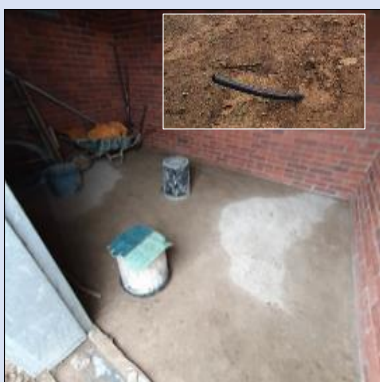


*Moshate project: Project was incomplete on 10 December 2020, with contractor still on earthworks in preparation for the foundation for steel tank base*

### 3. uMkhanyakude District

We noted that the municipality's Kwambewu project, with a total contract value of R1 715 369 was incomplete. The initial planned completion date for this project was revised from 28 August 2020 to 15 October 2020 and the project was signed off as practically complete on 30 October 2020. However, at our site visit on 19 November 2020 the project was incomplete with the following work outstanding:

- Pump house
- Supply, installation and commissioning of a 28kl SBS tank as well as fencing around the tank
- Piping not connected
- Electrical connection and no proof of application to Eskom.



*Kwambewu project: Pump house not completed (left) and piping not connected (inset); 28kl SBS tank not commissioned and surrounding fencing not completed (right).*

The municipality did not receive the required benefit from the payments made, totalling R410 000 (excluding value-added tax). As a result, this expenditure is considered to be fruitless and wasteful since the project was not completed and therefore not used for the intended purpose – to provide water to the community.

The municipality also had another incomplete project – Manzengwenya KwaSonto. This project had a planned completion date of 31 October 2020 with a total contract value of R400 000. However, as at 18 November 2020 the project was incomplete as the replacement 30kl elevated steel tank was not in place and 5kl tanks had been placed in the existing structure.



*Manzengwenya KwaSonto project: 5kl tanks were placed in existing structure and 30kl tank was not in place.*

## Recommendation

We encourage municipalities, during the project planning phase, to identify any factors that could lead to delays and impede the project progress, and to continuously monitor the project during implementation to ensure that these factors are timeously addressed. Where there is a likelihood that the factors will contribute to a delay, measures should be implemented to address the issues.

Municipalities should implement accepted project management principles for infrastructure work to ensure that the work is adequately managed and monitored within the project management elements of time, cost and quality. Municipalities should perform regular inspections and draft monitoring reports to hold service providers accountable for completing projects in a timely manner. This will also assist in the early identification of poorly performing service providers.

Contractors' progress must be regularly monitored and reviewed to ensure that project delivery occurs on time. We encourage municipalities to conduct detailed inspections to assess the quality of the installations and to address all project defects and delays promptly within a strict timeline.

We further encourage municipalities to investigate the conduct of consultants or contractors and take appropriate action (including to recover funds) where work was not performed according to the required expectations in terms of the project plan. Municipalities should investigate the actions of municipal officials who have failed to ensure that the projects meet the required quality standards and timelines, and to implement consequence management where appropriate.

### *Inadequate provision of water and sanitation facilities provided by municipalities to shelters*

Municipalities were faced with many challenges arising from the outbreak of covid-19, including providing accommodation for the homeless to address the service delivery needs of the most vulnerable citizens and curb the spread of covid-19.

We identified that three of the 12 sites audited did not have adequate water and sanitation facilities at the shelters. At one municipality, we noted that no water, sanitation and electricity was provided to the temporary structures erected, while at another we noted that there were insufficient sanitary fixtures provided to the shelters.



## 1. Nelson Mandela Bay Metro

The municipality erected temporary structures at KwanoNgoma in Jachvlakte. During a site visit on 26 February 2021, we identified that some of the structures were incomplete, while some were completed in December 2020 but were not in use as no water, sanitation or electricity had been provided for these temporary structures. The municipality is still in the process of providing these services and indicated that water services were provided, but the taps were stolen. The lack of provision of these basic services negatively impacted the livelihood of affected households.



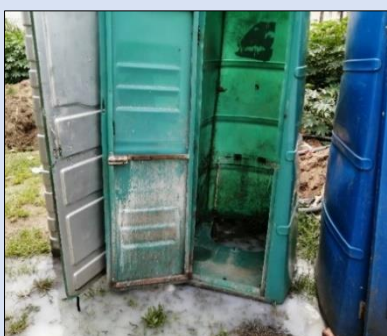
*Temporary structures at KwanoNgoma in Jachvlakte*

## 2. eThekweni Metro

The municipality's Jewish Club shelter had six toilets and no urinals, while the Block AK shelter had four toilets and no urinals. Each shelter also only had four showers/baths and no washbasins. These fixtures were insufficient for the number of occupants, as the Jewish Club shelter had 293 male occupants and the Block AK shelter had 237 male occupants.

The toilets at the Block AK shelter were also not clean when we visited the shelter on 23 November 2020. The signed contract states that the toilets should be cleaned twice a day; however, the disaster official on site confirmed that the toilets had last been cleaned two days previously due to the service provider being unavailable. Additionally, no logbooks or cleaning schedules were provided for audit purposes. Thus, it was evident that the municipality did not monitor the cleaning of toilets as per the contract.

The showers at the two shelters were not connected to a water supply or drainage. The team leaders at both of these shelters indicated that this resulted in some occupants using buckets for bathing outside the shelter.



*Block AK: Showers not connected to water supply and drainage*

This occurred because of the municipality's poor project planning, monitoring, implementation and adherence to regulations and guidelines on the use, erecting or construction of temporary shelters.

## Recommendation

Municipalities should conduct proper needs assessments prior to setting up the shelters, ensure that adequate basic services such as water and sanitation are provided at shelters, and ensure that shelters conform to guidelines.

Municipalities should monitor whether the number of toilets and showers/baths provided are sufficient for the number of occupants, in accordance with SANS 10400 regulations, which govern the design, planning and supervision of all construction work.

Proper disaster management plans should be in place to allow municipalities to conform to proper safety standards in the event of an emergency.

### *Poor-quality workmanship on installation of water tanks to supply emergency water to communities*

Project management focuses on processes crucial to achieving the project objective, which in the context of this audit was ensuring the communities have access to water through the provision of appropriate water tank installation and water supply. We conducted inspections of various installation sites to establish the existence and assess the quality and progress of the infrastructure, and to determine whether the community used these sites. It was evident that the management of the projects' key milestones and contractual arrangement was not effective to ensure that the projects were completed within the allocated timeframes and that the work was of the required quality, free from defects and fit for purpose. This was due to inadequate planning, oversight, progress monitoring, corrective actions and regular reporting by the relevant officials.

There were signs of defect on the material used to construct and install stands and structures for the water tanks. Of the 36 projects audited with steel installations, 19 (53%) showed evidence that the steel structures had signs of defect. In addition, nine projects showed evidence of concrete slabbing cracking or concrete that was not embedded in the ground.

Below are examples of poor-quality workmanship we identified during the audit.

#### **1. Ngaka Modiri Molema District**

We identified a steel structure constructed to support two 10 000-litre water tanks that was not of the appropriate quality. The water tanks, which weigh up to 20 tonnes when filled, have visibly bent the steel structure. At another installation, we noted the cross braces used to construct the steel structure were damaged and loose, while the structure was inappropriately sized, which resulted in the water tank hanging over the edge of the structure. These observations indicate that the integrity of the structures is compromised and poses a risk of the structures collapsing or the water tank falling off the structure.

In addition, the municipality had received water tanks from the Department of Water and Sanitation (DWS) and had also purchased its own water tanks. The municipality did not provide us with supporting documentation with specifications for the installation of its 80 water tanks. Furthermore, the distribution list of water tanks provided to us did not distinguish between the water tanks obtained from the DWS and the water tanks procured by the municipality.



*Bases of water tank stands were bent due to weight of water tanks when filled*



*Overhanging water tank on a steel structure of smaller dimension than tank (left) and cross braces that were damaged and loose, weakening the steel structure (right)*

## 2. City of Cape Town Metro

We identified signs of corrosion on the water tank stands and precast concrete foundations used to mount the stands that were not embedded into the ground. The steel tank stands for the water tanks were corroding as they were not painted with a suitably approved anti-corrosion coating. The stability of the tank could be compromised due to the precast concrete foundation not being embedded in the ground. The photographs below show the observations made during our site visits.



*Visible signs of corrosion of the steel stand for the water tanks (left) and poor concrete foundations (right)*

### *Water tanks installed were not adequately secured*

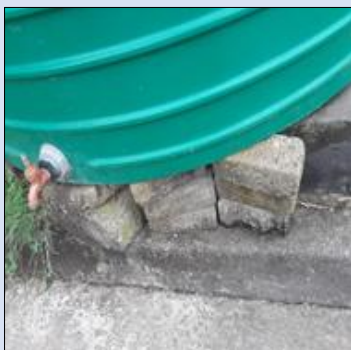
The appropriate preparation and installation of water tanks to supply emergency water helps to ensure a long and hassle-free life for a poly water tank. Most of the claims made on poly water tanks are due to incorrect installation or misuse. Various issues could have been avoided if the tank owner had followed the instruction manual provided with each tank.

A total of 27 (25%) of the 107 water tanks were not securely installed, creating a high risk of the water tanks being displaced and possibly causing injury or harm to the community residing in the area, damage to their property and litigation for the municipality.

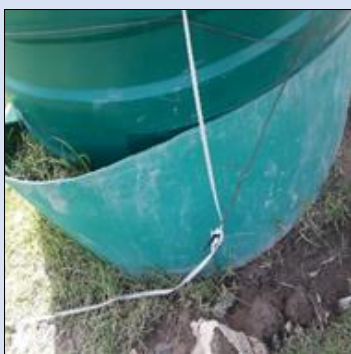
Below are some of the observations we made during our site inspections.

## 1. OR Tambo District

Some of the municipality's water tanks did not have the required number of stays, or the appropriate material was not used to anchor the water tanks. In addition, the water tanks were placed on uneven surfaces or supported by loose concrete blocks that did not ensure the stability of the water tank. At one of the sites we inspected, there was insufficient clearance between the tap and the ground, which resulted in a hole being dug under the tap area to facilitate water collection.



*Water tanks placed on uneven surfaces and supported by loose concrete blocks*



*Inadequate material used as stays to secure water (left), water tank placed directly on ground with insufficient clearance between ground and tap (right), resulting in a hole being dug to facilitate water collection*

## 2. Matjhabeng

We observed that some of the municipality's water tank structures were not level, which resulted in the water tank being placed on the ground with no stays to secure it. At one such water tank, the minimal clearance between the tap and the ground made collecting water from the tank difficult. There was also no drainage (soakaways) constructed for the water tanks, resulting in the pooling of stagnant water. In addition, stands that were damaged and not able to be used for the purpose for which they were acquired indicate that the municipality incurred expenditure in vain.



*Water tank structures were not level (left and right); Water tanks stored directly on ground with no stands due uneven water tank structures (inset)*





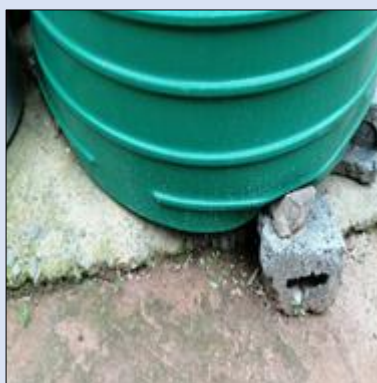
*Water tank outlets with inadequate ground clearance (left) and stagnant water around water tank with tank outlet broken (right)*

### 3. iLembe District

We noted that tanks were placed on uneven surfaces and, in some cases, loose concrete blocks were used to stabilise the water tanks. There were no stays used to secure any of the water tanks we inspected. The municipality could not provide documentation (including specifications) to support the installation of water tanks, or detailed costing for said installation.



*Tank missing a tap and placed on loose concrete brick (left); unused tank placed on uneven ground (right)*



*Water tanks placed on uneven surfaces without stays and stabilised with loose concrete blocks, damaging base of tank (left); a water tank that was not installed or in use was stored on its side and secured with a few loose blocks (right)*

## *Municipality paid for supply of water projects without any proof of delivery or distribution*

In terms of section 65(2) of the Municipal Finance Management Act, with specific reference to subsections (a) and (c), the accounting officer must take all reasonable steps to ensure that the 'municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds', and that the 'municipality has and maintains a system of internal control in respect of creditors and payments'.

It was evident that the management control measures required by the legislation were not in place to ensure that payments made were accurate and that key documentation and reconciliations were checked, reviewed and validated against supporting documents and site progress.

The bill of quantities (BoQ) amount was not calculated correctly and therefore did not agree to the supporting payment documentation. Municipalities approved and made various payments based on practical completion certificates or progress reports, but we confirmed during the audit that the work was not completed, or incorrect rates were used. The failure to implement adequate controls over the project may result in a possible financial loss across four municipalities amounting to R1 837 532.

Furthermore, the project cost according to the BoQ prepared by the consultants did not reconcile to awards made to the contractor according to the appointment letters. In some instances, the quotation received was not aligned to the payments made. It is evident from the differences detailed below that the municipality did not review the accuracy and completeness of the information in the BoQ before approval. This resulted in the actual price claimed exceeding the appointment letter by R5 398 678 at two municipalities.

### **uMkhanyakude District**

The oversight processes over the monitoring and reconciliation of cost estimates compiled during the planning phase are not effective to ensure reliable information for decision making purposes and concluding the appointment letters. The BoQ prepared for the project did not reconcile to the contract awarded to the consultants as the accuracy and completeness of information detailed on the BoQ was not reviewed and approved by the municipality. This resulted in the actual amount claimed by the consultants being R4 598 503 more than the appointment letters.

The municipality approved and made various payments at four projects (Mkhaliphi, Kwambewu, Manzengwenya KwaSonto and Mganwini) based on practical completion certificates or progress reports, but the work was not completed or incorrect rates were used, which resulted in payments amounting to R1 597 075 being made for work that was not completed. For example, at the Manzengwenya KwaSonto project the scope of work required the consultant to replace the existing 30kl elevated steel tank with a new steel tank. However, from a site visit performed on 18 November 2020, it was evident that a new steel tank was never installed. Consequently, the municipality did not receive the required benefit, although a payment of R350 000 was approved by the accounting officer and paid on 2 September 2020.

At Mganwini Project the BoQ required the consultant to supply, install and commission a 28kl SBS tank with a concrete ring beam and a borehole pump. The project manager confirmed during our site visit to the municipality that the project was abandoned as the borehole was dry and instead an existing reservoir was used to provide water to the area. Therefore, the audit site visit to this project was cancelled.

While the planning processes were not effective to establish the feasibility of the project, the practical completion of the project was nonetheless certified on 30 October 2020 by the consultant and approved by the municipality. Consequently, a payment of R300 000 for these deliverables was approved and paid on 31 August 2020, as annotated in section G1.1 of the BoQ. As the municipality did not receive the required benefit from the total payment of R300 000 made, the expenditure incurred is considered to be expenditure in vain because the project does not exist.

**Recommendation (poor-quality workmanship on installation of water tanks to supply emergency water to communities; water tanks installed were not adequately secured; municipality paid for supply of water projects without any proof of delivery or distribution)**

Management should:

- conduct detailed inspections to assess the quality of the installations
- address all project defects and delays promptly within a strict timeline
- investigate the conduct of the consultants or contractors and take appropriate action (including recovering money paid for poor/substandard work performed)
- investigate the actions of municipal officials who have failed to ensure that the water projects met the required quality standards and timelines, and implement consequence management where appropriate
- stringently enforce project management processes and contractual arrangements on all projects
- investigate the failure to impose retention or penalties per the contracts, as this could result in financial loss for the municipality, and take remedial action
- implement proper security measures in partnership with the community or relevant stakeholders to prevent damages to the water projects, with formal reporting of damages incorporated in the water tanker services.

***Covid-19 goods and services procured from 'management-preferred' suppliers***

Municipalities were required to ensure that a readily available supply of water was provided to informal settlements, rural areas, healthcare facilities and schools in order to curb the spread of covid-19 infections. The procurement of water tanks to provide for the above must adhere to SCM regulations and prescripts.

We identified that one of the 12 municipalities selected for auditing provided water tank projects that did not conform to SCM regulations and prescripts, as management-preferred suppliers were used for the procurement of these covid-19 goods and services. We further identified one municipal entity that did not comply with SCM regulations when requesting proposals for the de-densification of hostels and informal settlements from a panel of contractors, in which we noted the possible preferential treatment of suppliers on a panel. We highlighted findings relating to procurement processes for covid-19 expenditure identified at the two auditees included below. Note that we identified findings relating to non-compliance in the area of procurement at both audits during the 2018-19 regularity audit, while one audit (eThekweni Metro) had findings on this audit focus area in the 2019-20 audit.

**1. eThekweni Metro**

The municipality appointed 11 service providers to supply and install 100 water tanks each at R22 000 per tank, amounting to R2 200 000, without following a fair and proper supply chain process. We noted non-compliance and possible fraud red flags in evaluating the appointment of, and payments to, these suppliers, which collectively could indicate preferential treatment of certain suppliers. These non-compliances include:

- the deviation process not being properly followed for the supply of static/water tanks (i.e. deviation not supported with reasons, and not approved by the accounting officer)
- the supplier scoring the highest points not being selected
- the necessary CIDB requirements for the installation of water tanks not being considered for the water tank contract.

On the last point, we found that three of the 11 suppliers appointed did not have the CIDB grading suitable for the type of work, while two suppliers' CIDB registrations had expired and two suppliers were not registered with the CIDB. In addition, when we performed a physical site verification, we established that one supplier (with no suitable CIDB grading) did not install the water tanks as specified in the plans.



## 2. Joshco (City of Johannesburg Metro entity)

At Joshco, a municipal entity of City of Johannesburg Metro, a request for proposal for the de-densification of hostels and informal settlements was issued to a panel of contractors. Joshco appointed the panel of contractors on 27 March 2017 via a competitive bidding process, for a period not exceeding 36 months from the date of signatory (27 March 2017). We noted possible fraud red flags in evaluating the appointment of, and payments to, the panel, which collectively could indicate preferential treatment of suppliers. The contracts of the appointed suppliers were extended on a number of occasions, eventually being extended until 27 December 2020.

On 12 June 2020, three contractors from the panel were appointed for the de-densification of hostels and informal settlement relocation for a period of six months (ending 27 December 2020). At the time when our findings were communicated to management, on 30 March 2021, the de-densification project was not yet complete, despite the many extensions by Joshco to avoid going to market on open tender. This raises questions as to why management continued to approve extensions on the contracts and did not go out on a competitive bidding process. This could indicate possible preferential treatment of the suppliers on the panel.

### Recommendation

Municipalities should ensure that all procurement of goods and services is performed in terms of the relevant SCM regulations. In addition, where the procurement relates to the performance of construction work, municipalities must ensure that the service provider is registered with the CIDB and has the necessary CIDB grading or rating to perform the work that is required.

When using a panel of contractors, municipalities should ensure that the contracts of the panel of contractors are reviewed and evaluated in due time before the contract expiry dates.

### *Municipalities not following required procurement processes for covid-19 expenditure*

Municipalities must ensure that their SCM policies are in accordance with the relevant SCM legislation and that the municipalities comply with the requirements of their SCM policy and the SCM regulations when procuring covid-19-related goods and services.

## Joshco (City of Johannesburg Metro entity)

At Joshco, a municipal entity of the City of Johannesburg Metro, paragraph 18.7 of the entity's SCM policy states that after the request for bidding has been advertised, but prior to the closing date and time, the relevant division may, in the event of grave mistakes and changes required in the request for bidding document, request the approval of the chief executive officer or his delegate to extend the closing date of the request for bidding.

We noted that the closing dates for bids related to three municipal areas were extended three times from the original closing date of 1 June 2020 without approval from the chief executive officer or their delegate, as required by the SCM policy. The details of the extensions and revised closing dates are as follows:

- Extension 1: closing date changed to 4 June 2020 due to change of design layouts of the units
- Extension 2: closing date changed to 8 June 2020 due to delays in finalising and issuing a BoQ
- Extension 3: closing date changed to 9 June 2020 (no reasons were provided for the change in closing date).

According to management, the SCM manager can extend closing dates for proposals as the request for proposal was issued within the entity's panel of approved contractors; however, this internal process followed by the entity is not stipulated in its SCM policy and may lead to the potential irregular appointment of suppliers resulting in irregular expenditure.

## Recommendation

Municipalities should ensure that they adhere to their SCM policies when undertaking a procurement process. In addition, municipalities should ensure that their SCM policies conform to the SCM regulations.

### ***AUDITEES' RESPONSE AT AN OVERALL LEVEL***

We noted the following actions and commitments that auditees made during the audits:

- At Joshco, a municipal entity of the City of Johannesburg Metro, management indicated that it will ensure that specifications are clearly defined in future to decrease any contingency amounts that the entity would need to make as a result of not having clearly defined bid specifications.
- At JB Marks, the municipality indicated that the poor-quality workmanship and delays in project completion that we noted are under investigation by the SIU and that the municipality is awaiting the outcome of the investigation. The municipality has committed to implement corrective actions once the investigation report is available. The municipality has also committed to improve its disaster management response and project management to ensure that planning, implementation and monitoring are carried out for future disaster possibilities.
- At eThekweni Metro, to ensure that water projects are properly monitored and managed, the municipality has committed not to undertake any projects through its water and sanitation department if the department is not properly capacitated.
- At Mogalakwena, the municipality committed to developing standard operating procedures for contracts, project management and implementation to ensure that projects are effectively managed and completed in a timely manner.

### ***BEST PRACTICES OBSERVED***

Despite the deficiencies identified above, we also found the following good practices in place:

- At City of Johannesburg Metro, a technical task team was established to address the urgent needs arising from the need to accommodate and care for the municipality's homeless individuals. The technical task team comprises the following departments and entities within the City:
  - Department of Social Development
  - Disaster Management
  - Johannesburg Development Agency
  - Johannesburg Property Company
  - Department of Community Development
  - Johannesburg Water
  - City Power
  - Pikitup
  - Department of Health
  - other stakeholders.

The municipality also developed and implemented displaced persons regional plans. The Windsor West facility for displaced persons was adequately resourced on the date of our site visit and, due to the above processes being in place, the municipality was able to deliver the required service.

- At Johannesburg Water, an entity of the City of Johannesburg Metro, the audit included the provision of water tanks for purposes of the covid-19 pandemic. Some of the factors we considered were whether the right quantity, size and quality of water tanks were procured at market-related prices and whether tanks were regularly filled. We noted no quality deficiencies on the sample of five water tanks and water was available on the date of the site visit.
- At the City of Tshwane Metro, we noted the following good practices relating to temporary shelters:
  - The municipality used its existing assets, such as community halls, to avoid incurring expenditure unnecessarily. Therefore, value was obtained from these assets.
  - The municipality created relationships with other institutions for assisting the homeless. This included partnering with the University of Pretoria to provide medical and social development-related services to assist the homeless.
  - The overall management of the selected shelter appeared good, as minimum requirements such as social distancing; catering, security and wellbeing of the homeless were adhered to.
  - These good practices can be linked to proactive leadership that provided the necessary oversight

### ***ACTION TAKEN/CONSEQUENCE MANAGEMENT IMPLEMENTED BY AUDITEES TO ADDRESS MATTERS RAISED***

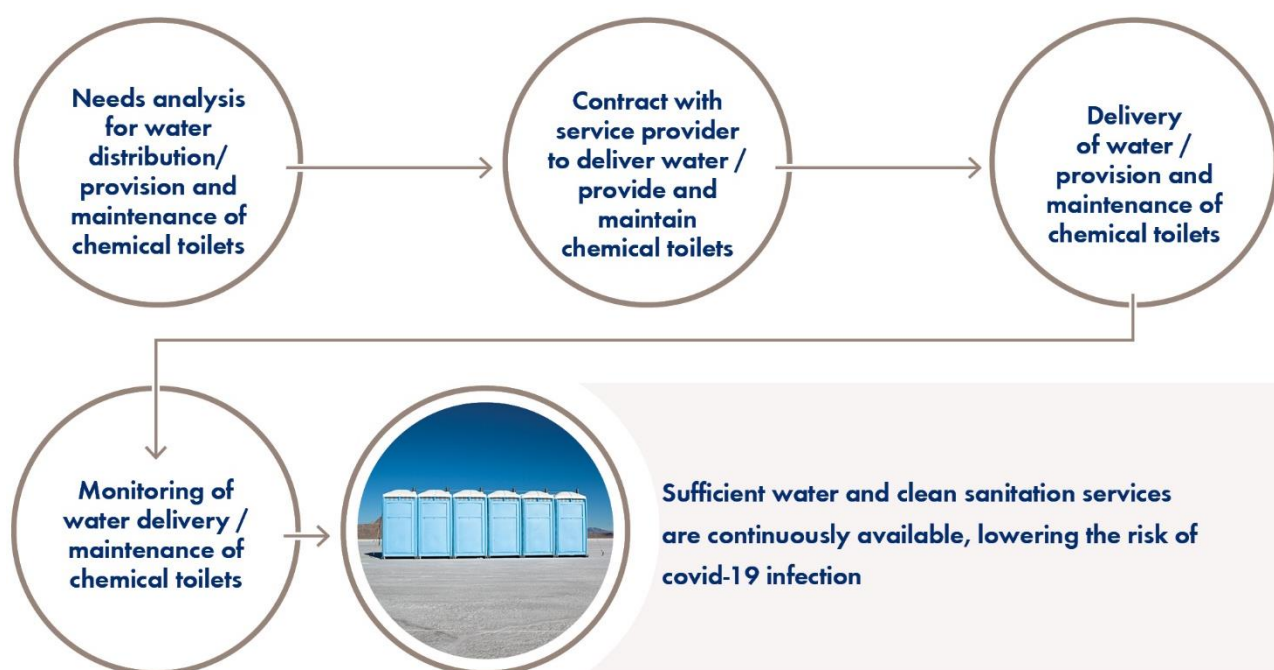
Although we did not identify any actions taken or consequence management implemented by the municipalities to address matters raised during our audits, we noted commitments made by management to address the findings raised.

## FOCUS AREA: OTHER COVID-19-RELATED GOODS AND SERVICES

### BACKGROUND/OVERVIEW

This section deals with goods and services provided by municipalities as part of government's response to the covid-19 pandemic that are not covered in the previous sections on PPE and infrastructure. This covers all 43 municipalities selected, as outlined in the introduction. Municipalities were allowed to spend on these items in terms of either approval from the National Treasury or the Local Government Conditional Grant Framework. This section covers spending on the following goods and services:

- Delivery of water to water tanks installed as part of the covid-19 response to ensure sufficient clean water is available to needy communities
- Provision of additional sanitation facilities and related services
- Spending of covid-19 funding for non-covid-19 purposes.



*Value chain for other covid-19 goods and services*

NEXT



MENU



PREV



## Focus of our audit of other covid-19-related goods and services

<p>Focus of our audit</p>	<p>The focus of the audit on <b>delivering water to water tanks</b> installed as part of the covid-19 response was to determine whether:</p> <ul style="list-style-type: none"> <li>• the municipality monitored the performance of the service provider</li> <li>• the municipality had a process (needs assessment) in place to plan for the installation of water tanks and the tanking of water</li> <li>• the water tanks were regularly refilled</li> <li>• the water tanking service was procured at market-related prices</li> <li>• the water tanks and water tanking service were sufficient to address the needs during the covid-19 pandemic</li> <li>• the suppliers and service providers were not overpaid by the municipality.</li> </ul> <p>The focus of the audit on <b>provision of additional sanitation facilities</b> and related services was to determine whether:</p> <ul style="list-style-type: none"> <li>• the municipality had a process (needs assessment) in place to plan for the installation of additional toilet units</li> <li>• the right quantity, quality and type of toilet units were procured</li> <li>• the toilet units were installed timeously and as required</li> <li>• the costs incurred for the procurement and servicing of toilet units were reasonable</li> <li>• the service providers regularly serviced and collected waste from chemical toilet units</li> <li>• the toilets provided were sufficient to address the needs during the covid-19 pandemic</li> <li>• the municipality monitored the performance of the service providers.</li> </ul> <p>The focus of the audit on <b>spending of covid-19 funding for non-covid-19 purposes</b> was on whether additional funds provided and reprioritised to respond to the covid-19 outbreak were used appropriately in responding to the pandemic.</p> <p>The focus of the audit on <b>procurement processes</b> and <b>matters that indicate possible fraud</b> was, in addition to identifying compliance issues, on identifying potential fraud risks and fraud risk indicators in the expenditure municipalities incurred when implementing initiatives in response to the covid-19 pandemic.</p>
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## SPENDING ON OTHER COVID-19-RELATED GOODS AND SERVICES

The spending of covid-19 funding on other covid-19 related goods and services up to 31 December 2020 amounted to R212 million. This represents 12% of the total spending for the 43 selected municipalities.

## PREVENTATIVE CONTROLS SPECIFIC TO OTHER COVID-19-RELATED GOODS AND SERVICES

### *No needs analysis to plan for the installation of additional toilets*

As part of the procurement decision-making process, municipalities are expected to determine the quantities of additional toilet facilities that will be required and to put plans and processes in place to ensure that the required toilets are obtained at the right price, time, place, quantity and quality.

At two of the seven municipalities (29%) that we audited in terms of the performance of a needs analysis for additional toilets, no evidence of documented needs analyses and/or demand plans was provided, which indicates that an important control measure to monitor whether the correct quantities of toilets were procured for the various informal settlements was not in place. This therefore led to instances where municipalities procured insufficient or excess toilets.

For example, the Nelson Mandela Bay Metro's needs analysis did not stipulate the number of toilets required by informal settlements. It just stated the number of households (54 104) and the number of informal settlements (124). We could not determine how the municipality decided to procure 500 chemical toilets and erect 121 precast toilets. Based on our calculation, procuring 621 toilets for the needs of 54 104 households would result in 87 households sharing one toilet.

Emfuleni did not provide the necessary needs analysis documents for us to confirm that a sufficient number of toilets was provided to households in informal settlements. Municipal officials indicated that toilets were allocated at a ratio of one toilet for every four households. The absence of a formally documented need identification could result in the over- or undersupply of toilets in relation to the population to be served.

## **KEY AUDIT FINDINGS AND OBSERVATIONS**

### ***Unhygienic and unsafe conditions created due to non-maintenance of chemical toilets***

Residents using shared sanitation facilities are at a higher risk of being exposed to covid-19. On 25 March 2020, the minister of Cooperative Governance and Traditional Affairs issued directions to municipalities, in terms of section 27(2) of the Disaster Management Act. Section 6.2.1(b) of these directions requires municipalities to provide potable water and sanitation services to high population density settlements, rural communities and informal settlements.

At five (71%) of the seven municipalities selected for auditing, we identified that the chemical toilets provided by the service providers were not regularly inspected to verify that the toilets were:

- still in existence and positioned as agreed – there was a risk that chemical toilets initially provided by service providers could have been removed or moved without informing the municipality
- still in a useable order – toilets could have been damaged, leaving residents unable to use the toilets provided
- serviced and cleaned – municipalities appoint service providers to supply, service and clean the toilets and the service-level agreements or contracts with the service providers specify how regularly this should be done.

The findings below are an example of what our teams found when they visited chemical toilets installed as part of the covid-19 response.

#### **1. Nelson Mandela Bay Metro**

The municipality used service providers to inspect and maintain the chemical toilets provided to communities. We found that these service providers were not properly monitored and the municipality did not have adequate processes in place to ensure the service providers do what is required in terms of the service-level agreement. The municipality relied on the service providers' logbooks and then compiled their own checklist in an effort to establish whether the agreed-upon services were rendered. During a site visit conducted on 26 February 2021 at Motherwell NU30, we observed that none of the five chemical toilets was properly cleaned. The communities explained that the service provider took the waste and poured chemical water into the storage, but did not clean the surfaces of the toilet. This may contribute to the risk of the residents being exposed to diseases due to the unhygienic condition of the toilets.



***Motherwell NU30: toilets not properly cleaned***



## 2. City of Tshwane Metro

During our site visit of chemical toilets at Plot 30 in Kameeldrift and Zone 14 in Garankuwa on 27 January 2021, we noted that some of the toilets were not cleaned and appeared to have been poorly maintained. This was contrary to the service-level agreements and tender specifications, which specified the standards for cleaning the toilets and that toilets that were not in a useable state should be replaced. Management indicated that these projects were funded with the municipality's own funds; however, no support was provided to substantiate this claim. This may contribute to the risk of the residents being exposed to diseases, as was the case at Nelson Mandela Bay Metro, due to the unhygienic condition of the toilets.



*Toilets at Plot 30 in Kameeldrift and Zone 14 in Garankuwa that were not cleaned*

## Recommendations

Municipalities should ensure that sufficient staff are allocated to regularly monitor the toilet services delivered by the service providers.

Municipalities should also compile a comprehensive checklist for monitoring the chemical toilets that includes, at least:

- the existence of the toilet
- determination of whether the toilet structure is in an acceptable condition
- consideration of whether the toilet has been serviced
- consideration of whether the toilet is stable and secured to the ground.

The municipalities should also ensure that the invoices are supported by adequate proof of services rendered (attendance registers signed by independent staff) before the service providers are paid.

### *Water distributed at inflated prices*

Following the president's declaration of the state of disaster, a key priority for the covid-19 initiative, as explained in section 6.2 of the Disaster Management Regulations, was to install water tanks for the supply of water as a rapid response to ensure that communities in need were provided with a water supply to combat the spread of the virus. This required municipalities to respond in a timely manner to ensure that the resources required to meet the needs identified in the strategic initiative were delivered at the correct time, price and place, and at the quantity and quality required to satisfy the community's needs. A total needs assessment should have already been part of the strategic planning process of the municipalities audited, as they are also water services authorities and should thus have been in a position to efficiently and effectively implement the projects.

We noted that management measures over the daily and monthly processing and reconciling of transactions, which would have entailed verifying the kilometres and rate claimed by the service providers for water supply using tankers, as well as



reconciling transactions to documents supporting the payments, were ineffective. Consequently, various payments were approved and made by four municipalities resulting in overpayments of R818 157 (see table below). In view of a sample tested, further investigation is required across all the related payments.

#### Municipalities with overpayments

Province	Municipality	Project	Possible overpayment (R)
Eastern Cape	OR Tambo District	Water supply using tankers	43 140
Mpumalanga	Bushbuckridge	Water supply using tankers	228 800
Mpumalanga	Mbombela	Water supply using tankers	84 837
Mpumalanga	Nkomazi	Water supply using tankers	461 380
<b>Total</b>			<b>818 157</b>

The findings below are an example of what our teams found based on the review of documentation received.

#### 1. City of Mbombela

The municipality concluded separate appointment letters for existing contractors to deliver water to communities during covid-19. The contractors invoiced the municipality on a monthly basis, providing the log sheets as evidence of the delivery of water per location, per day. For five of the ten invoices (50%) selected for auditing, the municipality received 7 890 000 litres of water less than planned when comparing the actual loads against the planned contractors' schedule. In addition, the municipality paid an excessive amount of R84 837 due to incorrect rates being charged for water delivery. This illustrates how poor internal controls contribute to municipalities paying inflated prices for services.

#### 2. Bushbuckridge

The municipality used contractors to deliver water to the points where water tanks were placed as part of the response to the covid-19 outbreak. The appointment letters did not indicate the water tanker capacity and, as a result, the municipality could not monitor the quantity of water (litres) to be collected and delivered. The number of loads of water delivered as invoiced and paid for across the five invoices selected for auditing was 203 loads more than that recorded in the delivery log sheets, resulting in an overpayment of R228 800. The municipality's internal controls did not detect this overpayment and as a result, the municipality suffered a likely loss due to the overpayment of R228 800.

#### 3. Nkomazi

The municipality appointed water-tanking services to supply water at the approved rates on a sliding scale that specified return distance travelled and capacity of the water tanker as indicators to determine the applicable rate. These appointment specifications were subsequently changed to allow service providers to claim the maximum rate per water tanker capacity, disregarding the kilometres travelled. However, an addendum to the service-level agreement detailing these changes was not signed. This resulted in the municipality paying all water tankers with the same tank capacity the same rate, regardless of the distance travelled. Our evaluation of three invoices indicates a potential loss of R461 380 due to the municipality disregarding the kilometres travelled when determining the adjusted rates.

## Recommendations

To effectively realise the intended outcomes of the initiative, management should prescribe in its arrangement or contracting what supporting documentation and information is to be submitted for monitoring of actual deliveries being made and reconciliation purposes, as well as to confirm that payment of invoices is based on actual deliveries made. This could include signed-off, detailed log sheets (e.g. signature of the community representative), validation of actual kilometres covered, size of tankers and litres of water delivered.

### *Water tanks not filled, leaving communities without water*

The provision of water to the community was, and continues to be, a critical government strategy even before the pandemic. Water is required for household use, for hygiene purposes and now, importantly, for the prevention of the spread of covid-19. In addition to our findings on the water tanks and installations due to unsatisfactory needs assessment, project management and safety and security measures (covered in the [Focus area: infrastructure](#) section, above), the following concerns on the supply of water compound the problem.

Due to ineffective management monitoring and oversight processes, an adequate and continual supply of water to the communities was not ensured. The unsatisfactory processes collectively did not bode well for the effective implementation of the initiative to meet the goal of providing water where it was most needed, as 20 (19%) of the 107 tanks we sampled for the audit were not adequately refilled.

While we confirmed empty tanks during our site visits, and communities in some of the areas confirmed that tanks were empty for periods ranging from a week to two months, the extent of the finding could not be fully explored as key documents (schedules, logs) were not completed.

#### 1. Nkomazi

We noted that water tanks at the municipality were not always filled, leaving some communities without water for extended periods of time. According to the JoJo tank status report dated 2 February 2021, none of the five water tanks in the Majejane village were filled with water. This was confirmed when we inspected one of the tanks on 1 February 2021.

The municipality indicated that it did not provide water through water tankers because its tankers were not scheduled to deliver water to the 3 500 stands in Majejane village. The village received water up to October 2020 when the 30 hired private water takers were deployed to deliver water to the village, meaning that water was not delivered to the village for more than six months.

With no water delivery in the community, villagers had to revert to buying water from private water tanker providers, for which they had to pay themselves.

JoJo tanks (5 000-litre) were also not filled for nine other communities due to the shortage of water tankers (according to the JoJo tank status report dated 2 February 2021, see table below).

#### Villages where water tanks were not filled

Village	Ward	Donor of tank	Number of tanks	Number of stands in village
Steenbok	W8	DWS	1	500
Mandulo	W12	DWS	1	Not provided
Thambokhulu	W12	IUCMA	1	Not provided

Village	Ward	Donor of tank	Number of tanks	Number of stands in village
Mbuzini	W13	IUCMA	1	800
Masibekela	W14	IUCMA	1	1000
Mgobode – Pupupu	W15	Cogta / DWS	1	Not provided
Mgobode – Shangan	W15	Cogta / DWS	1	Not provided
Buffelspruit – Mekemeke	W29	Cogta / DWS	1	800
Mananga	W12	Cogta / DWS	1	Not provided

*DWS – Department of Water and Sanitation, IUCMA – Inkomati-Usuthu Catchment Management Area, Cogta – Department of Cooperative Governance and Traditional Affairs*

From a vehicle status report dated 28 January 2021, it is evident that only eight (61,5%) of the 13 municipal water tankers were operational at that time. The report indicated that the cost to repair the tankers would be too high to put them back into operation. The manager for water and sanitation indicated that the municipality budgeted to procure two additional water tankers during the 2020–21 financial year. This could indicate that water was not always readily available to all of the communities.

## 2. City of Cape Town Metro

The water provided to additional water tanks procured and distributed in response to the covid-19 pandemic was not sufficient. During a site visit on 4 February 2021, we noted that two of the five water tanks we visited were without water. The water tanks were not filled up daily, as originally planned, and community members indicated that one tank had been without water for two days, while the other tank had been empty for over a week.

On 10 February 2021, we requested logbooks for the refilling of water tanks for the period 1 January 2021 to 4 February 2021 to establish whether water tanks were refilled during this period. The contractor that was used did not submit logbooks in support of the invoices, only delivery notes and tracker reports for water delivery. Municipal officials also did not physically inspect water tanks to confirm that they were refilled. Therefore, we could not determine the efficiency and effectiveness of the refilling of water tanks.

The number of water trucks being used to refill water tanks and deliver water to informal settlements was not sufficient to meet the demand, especially given the additional water required to fill the water tanks that were procured to respond to the covid-19 pandemic. The impact of this is that some communities did not always have a constant supply of water.

## Recommendations

Management should compile a water provisioning plan to ensure that available water tanks and water tankers are equally allocated and efficiently used to provide water in affected areas.

Additional equitable share and reprioritised conditional grants should be used to fund additional water tankers in order to ensure tanks are filled regularly.

Management should implement monitoring and oversight functions to ensure that water tanks are refilled as planned and that water is delivered to residents of informal settlements on a frequent basis. Records should be kept on when water tanks were refilled to enable the municipality to monitor whether the need for water has changed.

## Spending of covid-19 funding for non-covid-19 purposes

The allocation letters from the National Treasury, informing municipalities of the amounts approved for spending for covid-19 purposes from uncommitted conditional grants relating to the 2019-20 allocation, as well as the grant framework relating to the 2020-21 allocation, were clear on the purpose of the amounts allocated for covid-19. Municipalities were therefore only meant to spend the additional allocation and repurposed funds for the purposes specified in the relevant guiding documents and not for any other purpose.

At four (9%) of the 43 municipalities selected for auditing, we identified that not all covid-19-related funding had been spent in line with the requirements specified in the allocation letters/grant framework. The amount of covid-19 funding spent for non-covid-19 purposes relating to this area was R105 900 449, and is summarised in the table below.

### Covid-19 funding spent for non-covid-19 purposes

Province	Name of municipality	Amount (R)
Gauteng	City of Tshwane Metro	102 722 208
North-West	Ngaka Modiri Molema District	2 766 948
Gauteng	Rand West City	411 293
<b>Total</b>		<b>105 900 449</b>

The findings below are an example of what our teams found during the audits.

#### 1. City of Tshwane Metro

At City of Tshwane Metro, we identified a fraud risk that relates to the misrepresentation of the information in respect of the actual and budgeted expenditure for covid-19-related initiatives. We noted instances where the covid-19 allocated funds were not used for the intended purposes, as explained by the examples below, and that the true state of affairs was not correctly reported.

This is due to the lack of controls to ensure that accurate and valid information is contained and included in the special adjustment budgets (SAB) or other relevant reports and that it provides a fair reflection of the budget and actual expenditure for the covid-19 initiatives undertaken by the City of Tshwane Metro. In addition, we noted that the application of the funds reallocated from the urban settlements development grant was not monitored against the stipulations of section 20(6)(a), (c) and (d) of the Division of Revenue Act and the approval granted by the National Treasury for the reallocation of grant funding.

This fraud risk and control weaknesses are supported by the following examples, totalling R102 722 208:

- An expenditure amount of R18 681 040 from own funding was not related to covid-19 but was included in the SAB, as there was a misunderstanding when the departments within the metro were requested to report on covid-19-related expenditure. This was confirmed by the relevant department in the metro.
- A line item on the SAB included an amount of R80 255 645 under a specific metro department. This was not covid-19 related, as the funds were used to pay for the specific department's day-to-day expenses for the specific service (refuse removal) and were not in line with the stipulation of the grant funding. This was confirmed by the department.
- The SAB reflected that the specific department within the metro spent R3 785 523 on PPE-related items for homeless shelters. The department confirmed that the amount was spent for its own employees and that the reference to homeless shelters was incorrect. The grant conditions did not allow for the municipality to use the funds for its own employees, as the funds were earmarked for a specific project.

## 2. Ngaka Modiri Molema District

The municipality, which is one of four district municipalities in North West with a main seat in Mahikeng, spent R2 766 948 on accommodation for water service employees. Spending on accommodation was, however, not allowed in terms of the approval provided by the National Treasury for the reprioritisation of 2019–20 conditional grant funding.

The accommodation was provided for two months, from 27 March to 31 May 2020. During this period, the country was on lockdown level 5 (27 March to 30 April 2020) and lockdown level 4 (1 May to 31 May 2020) and essential service workers were allowed to travel to and from work with relevant permits. Therefore, there was no justifiable reason for these employees to stay at guesthouses when they could have used permits to travel from their homes to work. This would have saved the municipality R2 766 946 in accommodation costs and contributed to covid-19 funding being spent more efficiently.

Furthermore, the invoices provided by the guesthouses did not list the names of the employees staying at the guesthouse and there was no proof attached in the payment vouchers of how management confirmed which employees actually stayed in the guesthouses before payments were made. We could therefore not confirm whether the accommodation paid for was actually for water service employees and if the spending was related to covid-19.

## Recommendations

Municipalities should ensure compliance with applicable laws and regulations and put measures in place to avoid incurring fruitless and wasteful expenditure.

Municipalities should ensure that expenditure relating to conditional grants adheres to the relevant requirements of the Division of Revenue Act.

### *Municipalities not following required procurement processes for covid-19 expenditure*

Municipalities did not always follow SCM processes, which resulted in non-compliance with legislation as well as possible fraud and corruption. At seven municipalities, we identified non-compliance and fraud risks relating to this focus area. According to ISA 240, the primary responsibility for preventing and detecting fraud rests with both the management of an entity and those charged with governance. The standard states that it is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

We highlighted findings relating to procurement processes for covid-19 expenditure identified at the five auditees included below. Note that we identified findings relating to non-compliance in the procurement focus area at all five audits during the 2018–19 regularity audit, and at all except for City of Ekurhuleni Metro during the 2019–20 audit. All five also had findings on the SCM focus area during both the 2018–19 and 2019–20 audits.

## 1. Johannesburg Water

In April 2020, Johannesburg Water, a municipal entity of the City of Johannesburg Metro, appointed a supplier (with which it previously had a contract) to assist with deep-cleaning depots and disinfecting vehicles, for a total amount of R4 760 655.

We noted the following non-compliance aspects and possible fraud red flags in evaluating the appointment of, and payments to, this supplier, which collectively could indicate preferential treatment of the supplier:

- An uncompetitive procurement process was followed to appoint the service provider for deep-cleaning depots and disinfecting vehicles, as the municipality approached just one supplier, using the fact that it previously had a contract

with the supplier as justification for the appointment. However, we noted that the contract to which management refers came to an end at the end of September 2019.

- A deviation to appoint the service provider was not approved by the accounting officer or delegated official.

Since the supplier was appointed without following a procurement process, the municipality did not comply with procurement legislation. The funding used for this procurement was through the entity's own internal funds.

## 2. Mangaung Metro

We found that the municipality appointed six suppliers on a tender to provide services, including honey sucking (septic tank pumping). After identifying the six suppliers, the municipality entered into rates negotiations. We found that the negotiated rates were in most cases higher than the suppliers' bids.

In some instances, the negotiated rates were between 41% and 53% higher than the prices tendered by the suppliers. For the two suppliers reviewed, we calculated that the municipality incurred a loss of R 4 139 434 (being the difference between the negotiated rate and the rate that the suppliers included in their bids, in relation to the actual quantities according to the invoices reviewed for the period February to June 2020).

We found no record to indicate and confirm the municipality's considerations of the negotiated rates or which policies, procedures and legislative prescripts were considered during the process. This may result in possible loss of public funds amounting to R4 139 434.

## 3. City of Ekurhuleni Metro

The municipality opted to use its existing contract to render cleaning and hygiene services (including pest control and deep-cleaning services) on an as-needed basis, to provide covid-19 related cleaning and hygiene services at the municipality's facilities. The competitive bidding process was concluded and awarded to 20 service providers (i.e. one service provider per customer control area) on 27 September 2019, for a period of 21 months, ending 30 June 2022. As at 31 December 2020, the total expenditure of the contract since inception was R221 392 207, of which R48 427 082 was specifically related to covid-19. A small portion of the funding used for this procurement was through the municipality's own internal funds, while the remaining larger portion of the funding was through grant funding.

We noted the following non-compliance aspects relating to the appointment of, and payment to, the appointed suppliers, which collectively could indicate possible preferential treatment of suppliers:

- There was unfair evaluation in terms of price and preference, as there were significant errors in the adjustments made to bidders' original prices.
- If the municipality had appointed the correct bidder, it could have incurred a saving as all suppliers were appointed on the prices of a supplier that did not achieve the highest score. We also noted that even though the service providers were already appointed at higher rates than those at which they should have been appointed, they claimed – and were paid – an even higher amount for soap-dispensing equipment for reasons that are unclear.
- Bidders were unfairly and inconsistently disqualified on technical specifications and compliance with bid conditions.
- As at the date of the award, suppliers were not tax compliant.
- The bid evaluation and bid adjudication committees did not identify possible collusive bidding between some suppliers.
- There were misrepresentations of broad-based black economic empowerment (B-BBEE) status by the bidders.

As a result of the above, the appointment of the supplier was considered to have been in contravention of section 112 of the Municipal Finance Management Act, as it was not fair, competitive and cost-effective. The non-compliance matters highlighted above were not material and did not impact the overall improved audit outcome of the municipality.

## Recommendations

To drive efficient and equitable procurement, SCM units should be staffed with competent, uncompromised individuals.

Management should ensure that deviations from normal procurement process are justified prior to approval.

Management should investigate matters further to quantify all the awards where service providers were allocated inequitable work, and reflect the expenditure as irregular.

Management should ensure that proper processes are put in place to ensure that there is proper and complete documentation attached to confirm the work done before payment is made.

## ***AUDITEES' RESPONSE AT AN OVERALL LEVEL***

Although in most cases management agreed with our findings, there were disagreements on a number of findings. Where management agreed with our findings, they have already indicated the action that will be taken to respond to the findings.

## ***BEST PRACTICES OBSERVED***

Despite the deficiencies identified above, we also found the following good practice in place:

- At Johannesburg Water, we noted the following good practices:
  - We audited the supply and servicing of chemical toilets to determine whether the costs incurred for the procurement and servicing of toilet units were reasonable, whether service providers regularly serviced the toilets and whether the performance of the service provider was monitored. We noted no quality deficiencies on the sample of five chemical toilets. Water was available on the date of our site visit and the chemical toilets were in a fair condition.

## ***ACTION TAKEN/CONSEQUENCE MANAGEMENT IMPLEMENTED BY AUDITEES TO ADDRESS MATTERS RAISED***

Management at Mangaung Metro identified that the contract rates for the pump and disposal of sludge were per cubic metre, but the suppliers had invoiced the municipality per VIP toilet. This resulted in the municipality paying more than the agreed rate in the contract. Management detected this six months after the suppliers submitted their first invoices, but was able to recover the overcharged amounts from the respective suppliers.



## NOTES



## ACTION TAKEN AND WAY FORWARD

Overall, the audit of the initiatives progressed well, despite the continued challenges relating to the availability of key staff due to lockdown regulations. Municipalities also had to overcome many challenges caused by the covid-19 pandemic.

We will continue to audit the covid-19 funding as part of our normal annual audit, including at those municipalities not selected for this real-time audit, and will report further observations in our next general report for local government.

During this audit we identified matters that may result in [material irregularities](#). Our teams are busy assessing these matters and, where necessary, the required communication will be issued to accounting officers in due course. We will continue to assess material irregularities for the remainder of the 2020-21 financial year, and for those municipalities that did not form part of the selection for this audit, as part of our normal 2020-21 audit process. Municipalities that were not selected for this audit will therefore be subjected to the same scrutiny and reporting process, but at a later stage.

During the audit, we identified concerns relating to procurement processes that were not followed, instances where supporting documentation could not be provided for payments made, and procurement processes not being followed. The specifics of these transactions will be shared with the newly established Fusion Centre for investigation. We will remain in contact with the Fusion Centre to follow the progress made on the matters reported to them.

Where municipalities were unable to confirm on what they had spent the funds, especially for the equitable share allocation, these transactions will be scrutinised during the 2020-21 audit cycle and reported in the local government general report.

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## NOTES





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