CONSOLIDATED GENERAL REPORT
on the local government audit outcomes

MFMA 2017-18

AUDITOR-GENERAL
SOUTH AFRICA

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Auditing to build public confidence

MFMA
2017-18

CONSOLIDATED
GENERAL REPORT ON THE LOCAL GOVERNMENT AUDIT OUTCOMES

The information and insights presented in this flagship publication of my office are aimed at empowering oversight structures and executive leaders to focus on those issues that will result in reliable financial statements, credible reporting on service delivery and compliance with key legislation.

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

Auditor- General

Kimi Makwetu
Auditor-General

Our reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

PERFORMANCE SNAPSHOT

(Refer to section 2 for explanations on how to interpret these figures and movements)

Clean audits

8% ▼

(2016-17: 14%)

Overall regression in audit outcomes ▼

63 ∨ *Regressed*

22 ∧ *Improved*

Quality financial statements

51% ▼

(2016-17: 61%)

19% *(45)*

Municipalities submitted financial statements without material misstatements

R907 million

(2016-17: R760 million)

Cost of consultants to assist in financial statement preparation

66% *(153)*

Financial statements submitted for auditing included **material misstatements in the areas in which consultants did work**

No findings on compliance with legislation

8% ▼

(2016-17: 15%)

Irregular expenditure

▲

R21,243 bn

(2016-17: R27,650 bn)

AUDITS SUBSEQUENTLY FINALISED

R4 bn

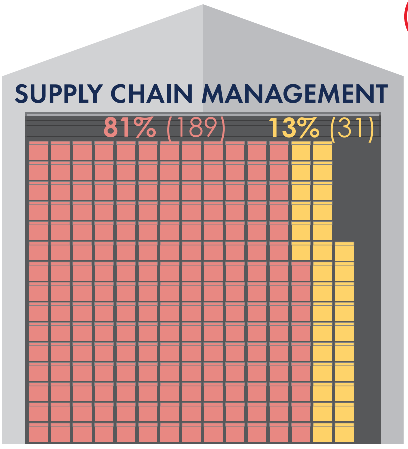
(2016-17: R2,08 bn)

Quality performance reports

35% ▼

(2016-17: 38%)

53% (116) *Achievement reported not reliable*

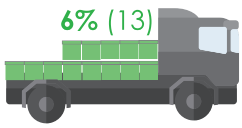


▼ SUPPLY CHAIN MANAGEMENT COMPLIANCE

Not able to audit procurement of **R1 216 million** due to missing or incomplete information

R921 million in prohibited awards to other state officials

False declarations of interest made by **824 suppliers**



Uncompetitive or unfair procurement processes at **88% of municipalities**

With no findings | With findings | With material findings

EFFECTING CONSEQUENCES

60% Material non-compliance with legislation on implementation of consequences **regressed**

38% Investigation of prior years' unauthorised, irregular and fruitless and wasteful expenditure **slightly regressed** (*closing balance not dealt with is R121,785 billion*)

33% Investigations into supply chain management findings we reported in previous year **slightly regressed**

STATUS OF CONTROLS

18% Overall internal controls **slightly regressed**

14% Basic financial and performance management controls **regressed**

22% Information technology controls **slightly regressed**

HUMAN RESOURCE MANAGEMENT

MUNICIPAL MANAGER

VACANCIES **18% (43)**

VACANT for 6 months or more – **14% (33)**

CHIEF FINANCIAL OFFICER

VACANCIES **22% (51)**

VACANT for 6 months or more – **16% (36)**

INFRASTRUCTURE

ROAD INFRASTRUCTURE

41% did not develop or approve road maintenance plan

26% did not develop or approve priority list for road infrastructure maintenance projects

23% did not assess condition of road infrastructure

SANITATION INFRASTRUCTURE

49% had no policy/an approved policy on sanitation maintenance

31% did not assess condition of sanitation infrastructure

WATER INFRASTRUCTURE

48% had no policy/an approved policy on water maintenance

29% did not assess condition of water infrastructure

Water losses above 30% at **39%** of municipalities

Water losses not disclosed at **9%** of municipalities

FINANCIAL HEALTH

DEFICIT
(expenditure exceeded revenue)

2017-18 34% (67)
2016-17 29% (57)

CREDITOR-PAYMENT PERIOD > 30 DAYS

87% (170)
86% (168)

VULNERABLE FINANCIAL POSITION

2017-18 31% (72)
2016-17 31% (71)

Fruitless and wasteful expenditure of **R1 billion** incurred by those in vulnerable financial position

ASSURANCE PROVIDERS

Overall regression in assurance provided by role players

Senior management and municipal managers **regressed**

Mayors, councils, municipal public accounts committees, internal audit units and audit committees **slightly regressed**

National and provincial role players **improved**

METROS

Almost **53% (R198 billion)** of the total municipal expenditure budget of **R376 billion** was managed by metros

	2017-18	MOVEMENT
Quality of published financial statements	71%	
Quality of published performance reports	57%	
No findings on compliance with legislation	0%	
Irregular expenditure	R7 062 m	

5 > *Unchanged*
1 ∨ *Regressed*

OUTSTANDING AUDIT

Mangaung Metro

ROOT CAUSES

96%
Slow/no response in improving internal controls and addressing risk areas
SLOW RESPONSE – 84%
NO RESPONSE – 16%

63%
Inadequate consequences for poor performance and transgressions

60%
Instability or vacancies in key positions or key officials lacking appropriate competencies

NOTES

CONTENTS

ANNEXURES

The annexures containing information on the following are available on **www.agsa.co.za** (our website):

- **Annexure 1**: Auditees' audit outcomes; areas qualified; and findings on performance reports, compliance, specific risk areas and unauthorised, irregular as well as fruitless and wasteful expenditure
- **Annexure 2**: Auditees' financial health indicators, supply chain management findings and root causes
- **Annexure 3**: Auditees' audit opinions over the past five years
- **Annexure 4**: Assessment of auditees' key controls at the time of the audit

To access the content of this report on our website, simply use the **QR code scanner** on your mobile phone or tablet to scan the code.

CLEAN AUDITS 2017-18 (municipalities)

Unqualified financial statements with no material findings on the quality of the performance report or compliance with key legislation

EASTERN CAPE	Joe Gqabi District Senqu
FREE STATE	No municipality in the Free State achieved a clean audit
GAUTENG	Midvaal
KWAZULU-NATAL	Okhahlamba
LIMPOPO	No municipality in Limpopo achieved a clean audit
MPUMALANGA	Gert Sibande District
NORTHERN CAPE	ZF Mgcawu District
NORTH WEST	No municipality in North West achieved a clean audit
WESTERN CAPE	Cape Winelands District Overberg District West Coast District Bergrivier Breede Valley Cape Agulhas Cederberg Hessequa Matzikama Overstrand Swellendam Witzenberg

SECTION 1

Executive summary

1 EXECUTIVE SUMMARY

This general report deals with the audit outcomes of local government for the financial year ended 30 June 2018. It **precedes the amendments to the Public Audit Act** which became effective on 1 April 2019. Accordingly, the requirements of these amendments will be applicable for the first time to audit reports issued for the financial years which ended on or after 31 March 2019.

These amendments introduce the concept of a **material irregularity** in audits performed under the Public Audit Act and, once a material irregularity has been identified, may result in a number of possible actions, including the referral of the material irregularity to an investigative body, where there are complex and intricate matters not capable of being concluded directly by the audit. Once a recommendation is made through an audit, such will be required to be effected within a period prescribed by the auditors; failing which, a binding remedial action will be issued by the auditors to the accounting officer to correct the identified material irregularity, also within a prescribed period. The last recourse, after all the above steps have been exhausted, will be for the Auditor-General to consider initiating a process that would trigger a certificate of debt in the name of an accounting officer or accounting authority associated with such material irregularity, once all the relevant, appropriate evidence has been secured.

Accountability and the need for appropriate consequences for accountability failures featured as prominent elements of our messages in our previous general reports and through the many engagements we have had with the political and administrative leadership in local government. We highlighted the shortcomings we identified through our audits and we provided many recommendations to improve accountability – yet we continue to see a deterioration in accountability. The key message that we can take from the 2017-18 audits is that the various role players have been slow in implementing our recommendations and in many instances even blatantly disregarded them. As a result, the **accountability for financial and performance management continued to deteriorate. This continued lack of accountability** prompted the amendments to the Public Audit Act. In our next general report, we will report on the **material irregularities** identified during our **2018-19** audits of the municipalities.

The three main indicators of the deteriorating accountability

1. **Audit outcomes regressed and irregular expenditure remains high**

    - **Overall, the audit outcomes regressed**. The audit outcomes of 63 municipalities regressed while those of 22 improved. Only 18 municipalities managed to publish quality financial statements and performance reports and to comply with key legislation applicable to financial and performance management, thereby receiving a clean audit – a regression from 33 in the previous year.
    - Credible **financial statements and performance reports** are crucial to enable accountability and transparency, but municipalities are failing in these areas. Countrywide, 21 municipalities submitted their financial statements late and the financial statements of eight were still outstanding by 31 January. Not only did the unqualified opinions on the financial statements decrease from 61% to only 51%, but the quality of the financial statements provided to us for auditing was even worse than in the previous year. Only 19% of the municipalities could give us financial statements without material misstatements. In addition, the performance reports of 65% of the municipalities that produced such reports had material flaws and were not credible enough for the council or the public to use.
    - We reported **material non-compliance** with key legislation at 92% of the municipalities. Municipalities with material compliance findings on supply chain management increased from 72% to 81%. These are the **highest percentages of non-compliance since 2011-12.**
    - **Irregular expenditure remains high** but decreased from R29,7 billion to R25,2 billion after the record highs in the previous year as a result of the significant effort made by some municipalities in their first year of administration to identify and transparently report on the irregular expenditure incurred in prior years. This total includes the irregular expenditure of those municipalities at which the audits had not been completed by the cut-off date of this report (R4 billion). The amount could be even higher, as 46% of the municipalities were either qualified on the incomplete disclosure of irregular expenditure or disclosed in the financial statements that they did not know the full extent of irregular expenditure. In total, R17,3 billion (81%) of the irregular expenditure related to

expenses incurred in 2017-18 – representing 5% of the local government expenditure budget. It included R6,4 billion in payments made on ongoing contracts irregularly awarded in prior years – if the non-compliance was not investigated and condoned, the payments on these multi-year contracts continue to be viewed and disclosed as irregular expenditure. The top 10 contributors to irregular expenditure were responsible for just over half of the total amount of irregular expenditure.

2. **A lack of consequences for transgressions and irregularities**

   - Our consistent and insistent calls to effect consequences for transgressions and irregularities were not heeded. We reported **material non-compliance with legislation on implementing consequences at 60% of the municipalities** – an increase from 54% in the previous year.
   - We found that 74% of the municipalities did not adequately follow up **allegations of financial and supply chain management misconduct and fraud** and that 45% of the municipalities did not have all the required mechanisms for reporting and investigating transgressions or possible fraud.
   - Inadequate follow-up was also evident in municipalities again not paying sufficient attention to **the findings on supply chain management and the indicators of possible fraud or improper conduct that we reported** and recommended for investigation. More than half of the municipalities did not investigate any of the findings reported. Where investigations did take place, 34% of the municipalities failed to resolve all of the findings satisfactorily.
   - At 62% of the municipalities, the council failed to conduct the required investigations into all instances of unauthorised, irregular and fruitless and wasteful expenditure reported in the previous year – a slight regression from 60% in the previous year. **Sufficient steps were also not taken to recover, write off, approve or condone** unauthorised, irregular and fruitless and wasteful expenditure as required by legislation. As a result, the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with totalled R71,1 billion, while that of unauthorised expenditure was R46,2 billion and that of fruitless and wasteful expenditure was R4,5 billion.

3. **Increasingly difficult environment for auditors and other role players in accountability**

   - **The audit environment became more hostile** with increased contestation of audit findings and pushbacks whereby our audit processes and the motives of our audit teams were questioned. At some municipalities, pressure was placed on audit teams to change conclusions purely to avoid negative audit outcomes or the disclosure of irregular expenditure – without sufficient grounds. Instances of threats and intimidation were experienced in most of the provinces.
   - The regular occurrence of **service delivery protests** at municipalities also delayed and interrupted our audits, as we could not always obtain access to municipal records and, in some cases, our staff members were removed from municipal premises for their own safety.
   - The **lack of commitment towards responding to our recommendations and to the early warning system** we have implemented through the status of records review, is a source of great frustration as it has an adverse effect on the efforts we make and seems to have limited impact.
   - The lack of impact in spite of the significant efforts made not only affected the auditors, but also extended to other accountability role players, such as **internal audit units, audit committees and municipal public accounts committees**. At some municipalities, the recommendations of these role players were not implemented, which made it difficult for them to have a positive impact on the audit outcomes. The **treasuries and cooperative governance departments** are the key national and provincial role players in influencing positive audit outcomes and favourable service delivery initiatives. Some municipalities did not implement the programmes initiated by them and did not respond to their support initiatives. Examples of such initiatives include the **Municipal Standard Chart of Accounts, minimum competency levels** and **back-to-basics programme**. The **Municipal Standard Chart of Accounts** enables the uniform recording and collection of local government budget, financial and non-financial information. Full implementation was required by 1 July 2017 – the regulations were issued in 2014. At year-end, some municipalities including three metros had not yet fully implemented this important initiative.

The impact of deteriorating accountability

The accountability failures in local government result in municipalities not achieving their objectives, which in turn has a negative impact on the lives of citizens. Our audits highlighted **two key areas of impact**: the financial health of municipalities and the delivery and maintenance of municipal infrastructure.

There are increasing indicators of a **collapse in local government finances** – we assessed 76% of the municipalities to have a financial health status that was either concerning or requiring urgent intervention. Almost a third of the municipalities were in a particularly vulnerable financial position.

The inability to collect debt from municipal consumers was widespread. In these circumstances, it is inevitable that municipalities will struggle to balance the books. Overall, 34% of the municipalities disclosed a deficit (in other words, their expenditure exceeded their income) – the total deficit for these municipalities amounted to R5,8 billion.

The financial woes of local government also weighed heavily on municipal creditors. The average creditor-payment period was 174 days. At year-end, R48,5 billion was owed to municipal creditors but the cash available amounted to only R37,3 billion. The money owed to Eskom by year-end was in arrears of R9,1 billion, of which R7,5 billion had already been outstanding for more than 120 days. The water boards also struggled to collect money owed by municipalities – their accounts were R5,9 billion in arrears, of which R4,4 billion was for more than 120 days.

While the poor economic climate does play a role in the deterioration of municipalities' financial health, many are just not managing their finances as well as they should. Fruitless and wasteful expenditure amounted to R1,3 billion, which is effectively money lost. The potential R1,6 billion loss of investments made with VBS Mutual Bank also significantly weakened the financial position of the 16 affected municipalities and had an impact on the delivery of infrastructure and maintenance projects.

Five provinces responded to the impending financial crises through provincial intervention by placing a total of 18 municipalities under administration.

Our audits again identified a number of **shortcomings in the development and maintenance of infrastructure**. The main findings on infrastructure development projects related to the underspending of grants, delays in project completion, and non-compliance with supply chain management legislation.

A key concern is the lack of attention paid to water and sanitation infrastructure – the condition of water and/or sanitation infrastructure was not assessed by 32% of the municipalities responsible for water and sanitation; and almost half did not have policies for maintenance. It is not unexpected then, that 39% of the municipalities that disclosed their water losses reported losses of more than 30%, resulting in an overall loss of R2,6 billion.

The maintenance of roads also did not receive the necessary attention, with the condition of roads not being assessed by 23% of the municipalities responsible for roads and 41% not having a road maintenance plan.

The audit outcomes in the provinces and of metros

The **Eastern Cape** regressed slightly for the second year in a row, after a trend of improvement in prior years – five municipalities regressed and four improved. Very few of the recommendations we made in the previous year and through in-year engagements received attention from the leadership. A culture of impunity has developed as a result of tolerance for non-compliance and a lack of consequences. This resulted in the irregular expenditure of Eastern Cape municipalities being the highest of all the provinces – at R7,3 billion, it accounted for 34% of the total. Overall, 15% of the province's local government budget was spent irregularly. The closing balance of irregular expenditure was a concerning R25,5 billion.

A total breakdown in controls and poor leadership response towards improving accountability, capacity and stability in municipalities were the main causes of further regressions in the **Free State**. Nine municipalities regressed and no improvements were noted in the province. The audit outcomes of nine municipalities were outstanding by the cut-off date for inclusion in this report, as a result of the late or non-submission of financial statements. The deterioration of the local government environment was also evident in the vulnerable financial position of 100% of the municipalities, the increase in irregular expenditure as a result of widespread indifference towards procuring goods and services within the legislated rules, and significant deficiencies in infrastructure projects.

The results in **Gauteng** held steady with all municipalities maintaining their good outcomes from the previous year. This was the only province in which all of the municipalities had unqualified audit opinions. Nevertheless, the municipalities need to pay attention to the quality of the financial statements submitted for auditing and continue improving the quality of performance reporting. Most importantly, however, is addressing the non-compliance with legislation – this remains the major obstacle preventing most municipalities in the province from achieving a clean audit. The expanding Gauteng population, as well as the resultant increased infrastructure development and maintenance needs, also placed a strain on capital expenditure spending. Two municipalities had investments with a combined value of R126 million at VBS Mutual Bank in contravention of the Municipal Investment Regulations, of which the recoverability is unlikely. The financial losses arising from these investments did not have an impact on service delivery for the current period as the funds were earmarked for long-term capital projects. However, this may have an impact on the multi-year projects in the next financial period if these funds are not catered for in the upcoming budget adjustment. Half of the municipalities were in a vulnerable financial position. The current economic climate has resulted in the financial sustainability of municipalities remaining constrained, as they continued to experience difficulties in collecting debt from municipal consumers.

KwaZulu-Natal continued on its downward spiral, which started in 2015-16, with 14 municipalities regressing in the current year. The leadership did not decisively deal with the weaknesses and risks we warned them about and again did not pay attention to internal controls. The levels of tension, intimidation and threats as well as pushbacks and hostility towards our audit teams, coupled with surges in service delivery protests, made auditing in this province complex and challenging. A blatant disregard for legislation and a lack of consequences for the high irregular expenditure continued to erode accountability, public trust and governance.

Limpopo was the only province with some improvement in the overall audit outcomes. The improvements were consultant-driven – 96% of the municipalities used consultants at a cost of R177 million. In spite of our warnings against over-reliance, the municipal leadership continued to use consultants as a short-term remedy rather than focusing on improving capacity and skills in the finance units and improving the control environment. It is likely that outcomes will remain erratic until sustainable solutions are implemented. Eight municipalities had investments with VBS Mutual Bank in contravention of the Municipal Investment Regulations. Due to the pending liquidation process, the recoverability of the R1,2 billion invested is unlikely. The resultant lack of funds affected the ability of these municipalities to deliver on infrastructure and maintenance projects in the current year and could have a negative impact on the achievement of service delivery objectives in the coming years. This also further contributed to the poor financial state of municipalities within the province, with more than half of them reporting a deficit, as their expenses exceeded their income. In addition, there were high levels of unauthorised expenditure and two municipalities were placed under administration.

Mpumalanga was unable to sustain the improved audit outcomes from the previous year and showed a significant regression in the audit outcomes. Our continued calls on the municipal and political leadership to address vacancies, instability and competency gaps, institutionalise internal controls and deal decisively with accountability failures were not heeded, leading to nine municipalities regressing and only one improving. Municipalities continued to underperform on their planned projects and the disregard for legislative prescripts (especially supply chain management legislation) remained widespread. Poor financial management led to the further weakening of financial health, which affected the payment of creditors – the Eskom accounts of municipalities were in arrears of almost R3 billion. The severely weakened financial health of the province resulted in provincial intervention at four municipalities. The audit environment became more hostile with subtle threats against our auditors and some municipalities submitting falsified audit evidence to avoid audit findings. In response, we have engaged the municipal leadership and urged them to set the right behavioural tone.

The overall audit outcomes in the **Northern Cape** regressed, with only two municipalities improving and five regressing. As in prior years, not all the audits were completed on time for inclusion in this report, as the financial statements were submitted late. Every year our message is that mayors, municipal managers and senior managers need to hold each other and their subordinates accountable, but this message has been met with little response. Vacancies and a lack of skills again resulted in an over-reliance on consultants and auditors. It is also becoming evident that the municipal leadership does not take compliance with legislation seriously, which exposes municipalities to the misuse of public funds. Financial health further deteriorated, with 64% of the municipalities now in a financially vulnerable position. The lack of accountability has become embedded in the culture of the province, which undermines the basic principles of transparency and good governance.

The audit outcomes of **North West**, the worst since 2012-13, clearly indicated the deteriorating accountability, a blatant disregard of our messages and recommendations, complacency and a lack of commitment to decisively address key areas of concern as well as a lack of political will to effect consequences. Despite the commitments made by the leadership, they did not respond with the required urgency to our messages about addressing risks and improving internal controls. The political instability in the province and the tone set by the leadership created an environment that was not conducive to accountability, good governance and the effecting of consequences. The audit environment also became more hostile, with increased contestations of audit findings, pushbacks and subtle threats by municipalities, with our auditors' integrity being questioned. Five municipalities had investments with a combined value of R551,2 million at VBS Mutual Bank in contravention of the Municipal Investment Regulations. Due to the pending liquidation process, the recoverability of R316,7 million is unlikely. The financial losses arising from these investments gave rise to difficulties in paying for operational expenses and affected the municipalities' ability to start or complete projects, thus affecting service delivery. In response to the poor state of financial management, service delivery, governance and oversight, the province intervened at eight municipalities – the impact of which will only be evident from our next audit. The political and administrative leadership will have to come up with extraordinary measures and efforts to address the deteriorating state of local government in North West.

The largest concentration of municipalities with clean audits was still in the **Western Cape** (40%), but there was a significant regression from the previous year as the audit outcomes of nine municipalities regressed. We have observed that the lapses in controls in certain municipalities in this province were largely non-adherence to statutory submission dates of financial statements for auditing as well as non-adherence to supply chain requirements in confined areas already identified and actioned by management only after the audit. For these reasons, we do not believe that these lapses or control deviations are indicative of a systematic breakdown in the systems of internal control; however, this report had to reflect the occurrences to prevent management complacency.

There were municipalities across the country that were able to **consistently achieve a clean audit status** even though they faced similar challenges than their counterparts. Twelve of these municipalities were in the Western Cape and included the local municipalities of Swellendam, Witzenberg, Bergrivier, Breede Valley, Cape Agulhas, Cederberg, Hessequa, Matzikama and Overstrand. Other municipalities that consistently perform well were Senqu (Eastern Cape), Midvaal (Gauteng) and Okhahlamba (KwaZulu-Natal). The best practices we noticed at these municipalities included stable leadership that is committed to a strong control environment and effective governance. Continuous monitoring of their audit action plans in order to timeously address any findings we identify and a proactive approach to dealing with emerging risks were also common features at these municipalities.

It is unfortunate that these limited excellent practices are often dwarfed by the pervasive control and monitoring failures evident at a significant number of other municipalities across the country. The impact is that the fiscal resources placed at their disposal are either misused or not properly accounted for as required by public finance management laws. The **trickle-down effect of these failures on services** has been glaringly evident over the years across a number of municipalities, large and small. Evidence of these is largely incomplete projects, unsupervised projects, lack of maintenance of significant service delivery infrastructure, and haphazard road maintenance projects and infrastructure. Contained in the detail of this report are examples of these deficiencies and municipalities where they are prevalent.

Overall, the **audit outcomes of the audited metros** remained the same, with only Buffalo City regressing (the audit outcome of Mangaung was still outstanding at the cut-off date of this report). Although 71% of the metros produced unqualified financial statements, only 57% had credible performance reports and all of them had material compliance findings. The irregular expenditure decreased by 43% at the metros. The high irregular expenditure in the previous year was mostly as a result of uncovering and disclosing irregular expenditure from prior years, which was no longer the case in the current year. The financial health of most of the metros remained unchanged from the previous year, but we raised concerns about the City of Johannesburg and Nelson Mandela Bay, with the City of Tshwane being in a particularly vulnerable financial position.

Addressing the deteriorating accountability

There were **varied reasons for the accountability failures:**

- **Vacancies and instability in key positions** slowed down systematic and disciplined improvements.
- Key officials **lacked appropriate skills and competencies** for financial reporting, which led to over-reliance on consultants and negatively affected financial planning, record keeping and reporting.
- **Reporting on the performance** of municipalities was **not taken seriously**. There were inadequate systems to collate and report performance information; and officials did not understand or could not apply the performance management and reporting requirements.
- **Poor monitoring and review processes** by senior management allowed errors and non-compliance to go undetected.
- Leadership's inaction, or inconsistent action, created a culture of **no consequences**.
- Leadership did not take our **repeated recommendations and warnings** of risks for which they needed to prepare seriously. The action plans developed were inadequate or just not implemented.
- At some municipalities, there was a **blatant disregard** for controls (including good record keeping) and compliance with key legislation.
- **Political infighting** at council level and interference in the administration weakened oversight and did not enable the effecting of consequences.

The **leadership sets the tone at the top** at municipalities. If the municipality's leaders are unethical; have a disregard for governance, compliance and control; and are not committed to transparency and accountability, it will filter through to the lower levels of the municipality. Inevitably, a culture of poor discipline, impunity and non-delivery will develop, leading to the collapse of the municipality.

Local government leadership (political and municipal leaders as well as provincial leadership) should take responsibility for the accountability failures of municipalities. It is their **duty to turn the situation around**, which they can start doing by focusing on the following:

- Set the tone from the top through ethical leadership, good governance and accountability.
- Capacitate and stabilise the municipal administration and keep it free from political interference.
- Enable and insist on robust financial and performance management processes and controls as well as regular, credible reporting to enable all levels of leadership to perform their monitoring and oversight function.
- Ensure consistent, appropriate and swift consequences for transgressions and irregularities.

As the Auditor-General of South Africa, we have **an important role to play in the accountability chain** and we go beyond the basic auditing and reporting role of the auditor. Through our management, audit and general reports, we have been reporting the weaknesses in internal control and the risks that need attention in local government. In our reports, we provide root causes for audit findings and recommendations to address the root causes. We ensure that our messages are heard through engagements with senior officials, municipal managers, mayors, municipal public accounts committees, and councils.

In the past year, we have further increased our efforts by using the **status of records review** to engage with municipal managers. Such a review is an assessment of records, risks and progress made by the municipality to address prior year issues early in the financial year. This provides an early warning system whereby municipal managers can be alerted to matters that can potentially lead to undesirable audit outcomes. In spite of repeated warnings of risks and weaknesses identified during these reviews, the municipal managers did not act, resulting in the accountability failures as detailed in this report.

All of these measures are aimed at assisting the municipal leadership and the council to prevent accountability failures, or to provide them with information on how to deal with such failures where they have occurred. Despite our effort, these value-adding practices have not had the desired impact yet – as evidenced in the poor audit outcomes.

The accountability mechanisms in local government are not working as they should, and there have been continued calls for more to be done – particularly by my office. The amendments to the **Public Audit Act** provide us with more power to ensure accountability in the public sector, but the intent of the amendments is not to take over the functions of the municipal manager, the mayor or the council, as their accountability responsibilities are clear in municipal legislation. It is rather to step in where those responsibilities are not fulfilled in spite of us alerting leadership to material irregularities that need to be investigated and addressed.

If municipal managers, supported by their political leadership, adhere to their legislated responsibilities and commit to taking swift action when we notify them of a material irregularity, there will be no need for us to use our remedial and referral powers. Material irregularities can also be prevented if municipal managers pay attention to the warning signals we share with them as part of the status of records reviews and to our recommendations on improving internal controls.

The extension of our mandate to deal with these types of irregularities will assist in restoring public confidence, solidifying accountability, and entrenching the ethical behaviour that is expected of entrusted officials and elected representatives. It will also mean that our reports will be taken seriously and we could start to see an improvement in the audit outcomes.

My office remains committed to working tirelessly within our expanded mandate to strengthen financial and performance management in local government in South Africa, emphasising the need for accountability and doing the basics right. We encourage the municipal leadership and all stakeholders involved in local government to intensify their efforts to ensure that communities experience an improvement in the way their municipalities operate.

NOTES

SECTION 2

Introduction

2 INTRODUCTION

The current local government administration is now in its second year, and this report reflects on the lack of progress that has been made in improving financial and performance management and compliance with legislation in the municipal sphere.

In our previous report, we focused on the **impact of accountability failures** in local government and shared what we viewed as the indicators, impact and root causes of such failures. We **highlighted the shortcomings** we identified in financial and performance management and compliance with legislation, financial health, and the development and maintenance of infrastructure. We also highlighted that our **recommendations** continued to remain unheeded. The **increasingly difficult environment for auditing** was raised as a key concern whereby there were increased contestations of audit findings and pushbacks, and our audit processes and the motives of our audit teams were questioned.

The **accountability (plan+do+check+act) cycle**, depicted below, which is aimed at continuously improving the processes, outcomes and service delivery of municipalities and thereby strengthen accountability, was also not implemented despite our continuous advocating to do so.

In addition, we highlighted how we anticipated our **expanded mandate** through the amendments to the Public Audit Act would increase our contribution to the accountability process.

This report demonstrates that the audit outcomes in local government continue to regress despite the insights shared in previous reports and our recommendations for implementing the accountability (plan+do+check+act) cycle that were meant to enable accountability and improve audit outcomes. Our theme therefore remains centred around the accountability failures in local government, with a specific focus on **the accountability for financial and performance management that continues to deteriorate.**

In section 3, we report on the **indicators**, **impact** and **root causes** of deteriorating accountability. The section further covers the **role of leadership** in addressing the deteriorating accountability, and the role we play in strengthening the accountability chain – also through our **expanded mandate.**

Section 4 simply and concisely **summarises the audit outcomes** and covers the same areas as reported on in our previous general reports.

In section 5, we reflect on the status of accountability for financial and performance management by **metropolitan municipalities**.

Section 6 provides an overview of the **results and reflections per province,** and the **status of all municipalities in the province,** with a focus on accountability indicators, impact and key root causes.

We explain more about our **audit process and terminology** in section 7. Our website (www.agsa.co.za) includes **detailed annexures** that provide the key results per municipality and municipal entity.

We audited 257 municipalities and 21 municipal entities in 2017-18. To simplify our reporting and ensure that our message is focused, **this report covers only the municipalities**. The outcomes of the municipal entities are included in the annexures to this report (which are available on our website), but not in the analysis in this report.

We set the cut-off date for inclusion of audit outcomes in this report as 31 January 2019, by which time the audits of 24 municipalities had not yet been completed. Therefore, when studying the figures, please note that the percentages are calculated based on all **completed audits of 233 municipalities**, unless indicated otherwise.

We applied a **reduced audit approach at 10 municipalities** in response to the disclaimed opinions they receive year after year and the general limitations experienced in performing audits in these environments. The reduction in work related to areas such as financial health, supply chain management, use of conditional grants, assurance providers, use of consultants, and infrastructure projects. Where we report on these areas, the percentages are calculated based on only 223 of the completed audits.

To determine the **movements from the previous year**, we compared the results of the municipalities with completed audits with their results in 2016-17. These movements are depicted as follows:

Improved | Unchanged | Regressed

Movement of 5% or less: Slightly improved | Slightly regressed

We use the following **icons** in this report to indicate:

Key messages that we want to highlight

Explanations of terminology – we also explain more about our audit process and terminology in section 7

What we have found

Examples to illustrate our findings

NOTES

SECTION 3

Accountability for financial and performance management continues to deteriorate

3 ACCOUNTABILITY FOR FINANCIAL AND PERFORMANCE MANAGEMENT CONTINUES TO DETERIORATE

In local government administration, the political leadership and municipal officials must achieve their municipalities' objectives while acting in the public interest at all times and consistently adhering to the requirements of legislation and government policies. **Accountability is critical** and means that municipal leaders are answerable to local communities and take responsibility for their actions, decisions and policies. Municipalities should be able to demonstrate the appropriateness of all of their actions and should have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law. These concepts of public interest and accountability are entrenched in the country's constitution and the legislation that governs local government.

The Medium-Term Strategic Framework (derived from the National Development Plan) defines the overall outcome for local government (outcome 9) to be **'a responsive, accountable, effective and efficient developmental local government system'**. This is the target that municipalities are working towards, with the support of national and provincial government and oversight.

The accountability that the municipal leadership must take for their actions, decisions and policies – including being answerable to local communities – is critical for financial and performance management as well as respect for the law in local government. However, over the past year, the regression in audit outcomes, continued lack of consequences, and increasingly difficult environment for auditing and other accountability mechanisms, show that accountability for these important functions continues to deteriorate.

As in the previous year, we highlight the **indicators**, **impact** and **root causes** of deteriorating accountability in this section. The section also covers the **role of leadership** in addressing the deteriorating accountability, and the role we play in strengthening the accountability chain – also in future through **our expanded mandate**.

Additional information on the contents of this section is available in the summary of audit outcomes in section 4, the status of metros in section 5, and the provincial overviews in section 6.

THREE INDICATORS OF DETERIORATING ACCOUNTABILITY

The key message that we can take from the results of the 2017-18 audits is that **accountability for financial and performance management continues to deteriorate**. There are three main indicators of deteriorating accountability, as detailed below.

INDICATOR 1: AUDIT OUTCOMES REGRESSED AND IRREGULAR EXPENDITURE REMAINS HIGH

Clean audits: 8%
(2016-17: 14%)

Financially unqualified financial statements: 51%
(2016-17: 61%)

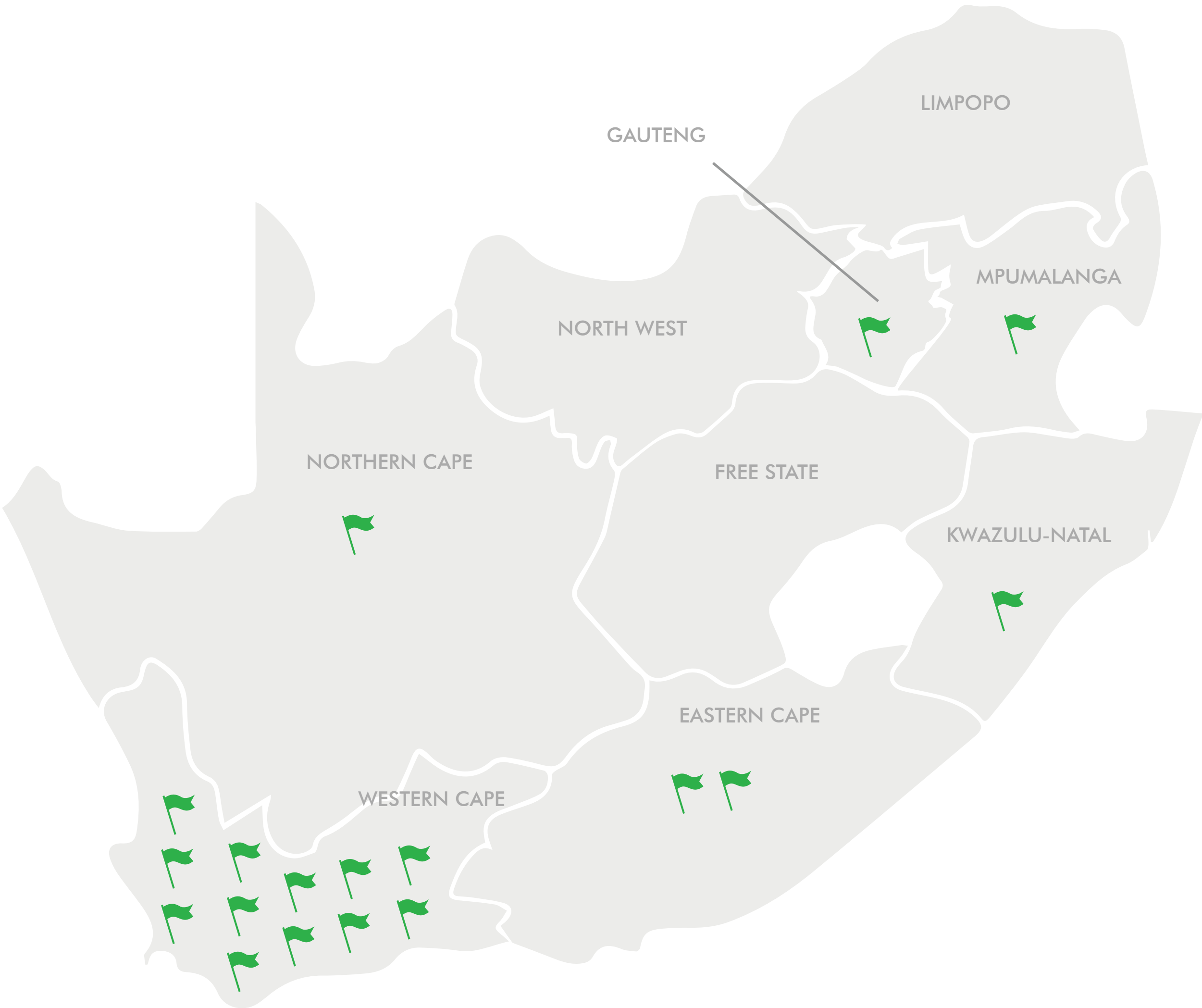
No findings on performance reports: 35%
(2016-17: 38%)

No findings on compliance with legislation: 8%
(2016-17: 15%)

Irregular expenditure: R21,243 billion
(2016-17: R27,650 billion)

The **audit outcomes of 27% of the municipalities regressed** (of which 7% were from a clean audit status) and those of only 9% improved. **Only 8% of the municipalities** managed to produce quality financial statements and performance reports and to comply with key legislation, thereby **receiving a clean audit**.

Only six of the nine provinces had municipalities with clean audits, as illustrated below.



Credible financial statements and performance reports are crucial to enable accountability and transparency, but **municipalities are failing** in these areas.

WHY ARE THE FINANCIAL STATEMENTS IMPORTANT?

The financial statements of a municipality show how it spends its money, where its revenue comes from, its assets and the state of those assets, how much it owes creditors, how much is owed to the municipality, and whether it is expected that the money owed will be received.

It also provides crucial information on how the budget was adhered to, the unauthorised, irregular and fruitless and wasteful expenditure incurred as well as the overall financial position of the municipality – whether its operations are financially sustainable.

The financial statements are used by the municipal council to call the municipal manager to account and to make decisions on the financial management of the municipality. It is also used by creditors, banks and rating agencies to determine the level of risk in extending debt to a municipality and by the public to know how well the municipality is using the rates and taxes they pay to provide services.

WHAT DID WE FIND?

Not only did the overall quality of the financial statements regress, the **financial statements provided to us for auditing were even worse than in prior years**. Only 19% of the municipalities could give us financial statements without material misstatements.

This means that if we had not identified the misstatements in the submitted financial statements for the municipalities and allowed them to correct these, 81% of the municipalities would have published financial statements that were not credible. All municipalities in Limpopo and North West have had material misstatements for two years in a row.

The continued reliance on the auditors to identify corrections to be made to the financial statements to obtain an unqualified audit opinion is not a sustainable practice. Over the years, this has placed undue pressure on the audit teams to meet the legislated deadlines for the completion of the audits, with an accompanying impact on the audit fees.

In the current year, 11% of the municipalities did not submit their financial statements by the legislated date – a slight regression from the previous year's 10%. As at 31 January 2019, the audit outcomes of 24 municipalities were outstanding and eight municipalities had still not submitted their financial statements for auditing. Late or non-submission means that councils cannot apply their oversight function to call municipal managers to account within the period prescribed by legislation and that there is no transparency in the management of municipal finances.

This poorly reflects on the financial management capabilities in local government. Even bringing in consultants at a cost of R907 million to prepare financial statements and underlying records did not have the desired impact. At 66% of the municipalities, the financial statements submitted for auditing included material misstatements in the areas in which consultants did work, mainly due to ineffectiveness and poor project management on the part of municipalities.

WHY IS THE PERFORMANCE REPORT IMPORTANT?

The performance report describes the progress made on commitments to the community on services and developments through the integrated development plan for the five-year term of the administration. In its simplest form, this is where election promises are accounted for.

Municipalities determine how the progress will be measured (through performance indicators) and what the annual targets will be. The budget of a specific year is then matched to what the municipality needs to achieve for that year. This annual performance plan is included in the service delivery and budget implementation plan prepared by the municipality.

The performance report shows the performance measures, planned targets and achievements for the year. The municipal council represents the community's interest as its elected officials – council members use this report to determine if the municipality achieved the objectives for the year, make decisions on the next year's budget, and hold the administration to account for any failings in delivery. This is also the report that the public uses to assess delivery by the municipality.

WHAT DID WE FIND?

The poor results mean that the **performance reports of 65% of the municipalities had material flaws and were not credible enough for the council or the public to use.**

At 55% of the municipalities, these flaws were caused by poor planning as evidenced by performance indicators that were not well defined or verifiable; and targets that were not measurable or specific enough to ensure that the required performance could be measured and reported in a useful manner. We also found municipalities reporting on indicators or targets that differed significantly from what was in their plans.

At 53% of the municipalities, the achievement reported was not reliable – we either found evidence that disputed what was reported or could not find evidence for the reported achievements.

Six municipalities did not even prepare reports, while seven prepared a report but could not give us the plans or any evidence in support thereof.

As with the financial statements, we had to point out misstatements in the submitted performance reports and allowed municipalities to correct these. If we had not done so, 89% of the municipalities would have published performance reports that were not credible.

The poor planning, management and reporting of performance do not bode well for the delivery of services and the achievement of commitments contained in integrated development plans.

We reported **material non-compliance with key local government legislation at 92%** of the municipalities. This is the **highest percentage** of non-compliance since 2011-12.

Local government continues to **blatantly disregard compliance with key legislation**.

The non-compliance was common in most of the areas for which the municipal manager is accountable, as shown in the table below.

MOST COMMON NON-COMPLIANCE AREAS	MOVEMENT	2017-18	2016-17
Management of procurement and contracts	▼	81% (189)	72% (168)
Quality of financial statements	▼	81% (188)	77% (179)
Prevention of unauthorised, irregular and fruitless and wasteful expenditure	▼	74% (173)	70% (164)
Effecting consequences	▼	60% (139)	55% (127)
Creditors not paid within 30 days	▼	54% (125)	50% (117)
Management of assets	▼	47% (109)	39% (91)

Although the Western Cape had the highest regression in clean audits, it still performed better than the other provinces with 57% of their municipalities having material non-compliance findings, while 90% or more of the municipalities in all the other provinces had material non-compliance findings. The Free State, North West and Limpopo were the worst in the country, with 100% of their municipalities having material non-compliance findings in both the current and the previous year.

Municipalities with **material non-compliance findings on procurement and contract management increased** from 72% to 81%. This is the **highest percentage** of non-compliance since 2011-12.

With the exception of Gauteng and Limpopo (both of which improved), all other provinces regressed or 100% of their municipalities again had material findings on non-compliance with procurement legislation.

At 77% of the municipalities, the material findings related to **uncompetitive and unfair procurement processes** – the most common findings being municipalities not inviting quotations or competitive bids.

Often the reasons cited for these deviations were that it was an emergency or that no other suppliers were available – but the real reasons were either poor planning or a deliberate attempt to favour a specific supplier. When procuring goods and services through contracts secured by other organs of state, municipalities must comply with the prescribed requirements, such as demonstrating the discounts or benefits derived from following this process and that contracts have been validly procured by means of a competitive bidding process. Non-compliance with these requirements became more widespread, as detailed in the infographic on the effective use of consultants in section 4 as well as in section 5 that deals specifically with metros.

Often findings on uncompetitive and unfair procurement processes are viewed and commented on as procedural issues. However, the possibility of fraud and potential for losses are often overlooked. Less competition can lead to **higher prices**, resulting in possible financial losses.

Although prohibited by legislation, we identified that contracts and quotations worth R79 million were **awarded to suppliers in which employees and councillors have an interest**. Legislation also prohibits awards to any suppliers in which any **state official has an interest** – we identified such awards worth R921 million.

Often this non-compliance was caused by **suppliers falsely declaring** that they have no connection to anyone at the municipality or any other state institution or to their close family members – we identified such false declarations by 824 suppliers, while such declarations were not even submitted as part of the procurement processes at 86 municipalities.

The aim of the Preferential Procurement Regulations is to support socio-economic transformation. The public sector should lead by example in its procurement processes to achieve this goal, but we again found municipalities failing in this area. Countrywide, 36% of the municipalities did not apply – or incorrectly applied – the **preference point** system, while 68% of the 116 municipalities where we audited **local content** did not comply with the requirements to procure certain commodities from local producers.

We identified material non-compliance with legislation on **contract management** at 38% of the municipalities – the most common finding being municipalities not monitoring the performance of contractors on a monthly basis. If performance is not monitored, it opens up the state to losses, while inadequate contract management might also have a negative impact on service delivery.

We were **unable to audit** the procurement processes of contracts and quotations worth R1 216 million at 49 municipalities, as the required documentation was missing or incomplete. There was no evidence that these municipalities had followed a fair, transparent and competitive process for all awards. We could not determine whether these awards were irregular and, as a result, could not determine the true extent of irregular expenditure.

The effect of deteriorating accountability on procurement and contract management can be seen in the following examples:

Alfred Nzo District – Ntabankulu sewer upgrade (Eastern Cape)

The purpose of the project was to improve the provision of water and sanitation in rural areas. The project with a total value of R47 million started on 11 October 2013, and despite having a planned completion date of 19 June 2015, it was still in progress at year-end. The municipality did not adequately monitor the performance of the contractor on a monthly basis as prescribed by legislation, and did not appropriately respond to the delays, as no penalties were invoked.

In addition, variation orders amounting to R7 million relating to a filtering system were approved. The portion of R3 million already spent on these variation orders resulted in irregular expenditure.

Mopani District – construction of VIP toilets (Limpopo)

The project related to the construction of 381 VIP toilets, with a planned completion date of 30 June 2018. However, the completion date was revised to 22 August 2018 due to delays in the procurement processes, caused by non-compliance with supply chain management legislation on the constitution of the bid adjudication committee.

Drakenstein – construction work for Paarl wastewater treatment works (Western Cape)

The municipality did not comply with supply chain management legislation, as it did not follow a competitive bidding process to appoint a contractor for construction on the Paarl wastewater treatment works project, but instead extended the existing contracts of the Wellington wastewater treatment works by 20%, even though the projects were unrelated. This resulted in irregular expenditure of R46 million and an unfair and uncompetitive procurement process.

Additional examples are included in sections 5 and 6.

The annual **irregular expenditure** disclosed by municipalities **decreased** by 23% but **remains high**.

Annual irregular expenditure decreased from R29,7 billion to R25,2 billion*

[Included in these figures is irregular expenditure of R4 billion (2016-17: R2,08 billion) as disclosed in the unaudited financial statements of the ***24 municipalities of which the audit outcomes were outstanding****]*

*The figure is not complete because:

46% of the municipalities either were qualified on the incomplete disclosure of irregular expenditure or disclosed in the financial statements that they did not know the full extent of irregular expenditure

Annual irregular expenditure

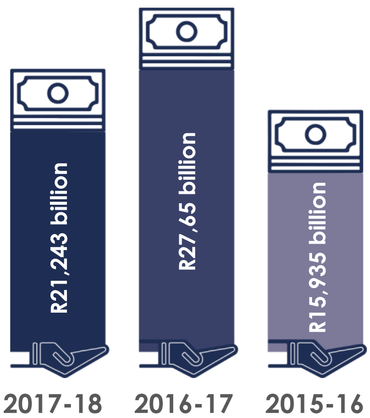
(as per audited financial statements)

The number of municipalities incurring irregular expenditure slightly increased from 211 to 219

- **81%** (R17,262 billion) were payments or expenses in 2017-18
  - **R10,819 billion** represents non-compliance in 2017-18
  - **R6,443 billion** is expenditure on ongoing multi-year contracts
- **19%** (R3,981 billion) were payments or expenses in prior years only uncovered and disclosed in 2017-18

How can irregular expenditure on multi-year contracts be reduced?

Through **investigation**, followed by **condonement** or **cancellation**, as provided for in the legislation of contracts irregularly awarded



In the first year of the newly elected administration (2016-17), municipalities made a concerted effort to identify and transparently report on irregularities of prior years, which resulted in the significant increase from 2015-16. For example, the irregular expenditure of Nelson Mandela Bay Metro and OR Tambo District in the Eastern Cape increased by 536% and 96%, respectively, as a result of a once-off restatement with a combined value of R10,5 billion, as the irregular expenditure incurred in prior years was revisited, investigated and restated.

The decrease in irregular expenditure in the current year can partly be attributed to the **decrease in the restatement of irregular expenditure** (in other words, payments or expenses in prior years only uncovered and disclosed in the current year). This portion of irregular expenditure decreased from R14,578 billion in the previous year to R3,981 billion in the current year.

The Eastern Cape, Limpopo and Mpumalanga had the biggest decreases, ranging between 32% and 46%, mostly as a result of the cancellation of irregular contracts at City of Mbombela (MP), the expiry of a few big contracts at Bushbuckridge (MP), Mkhondo (MP) and Polokwane (LP) as well as a decrease in the irregular expenditure at OR Tambo District (EC) and Nelson Mandela Bay Metro (EC).

INDICATOR 2: LACK OF CONSEQUENCES

Accountability means that those performing actions or making decisions are answerable for them, but also that there should be consequences for transgressions, a lack of action and poor performance. Municipalities should institute **consequences** against officials who fail to comply with legislation, continuously underperform, are negligent in performing their duties, or whose actions and decisions cause financial losses. A less tolerant approach should be taken by all parties, including those charged with governance and oversight, which will result in accountability being enforced and consequences instituted against those who intentionally fail to comply with legislation.

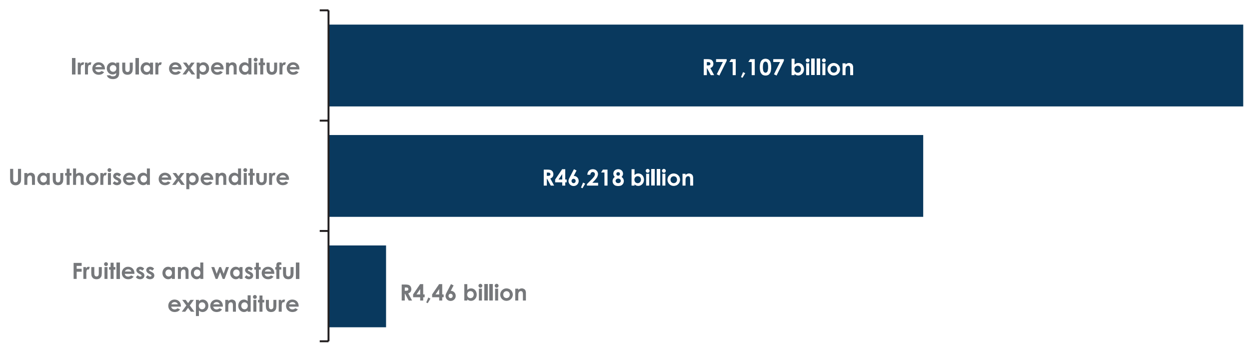
We reported **non-compliance** with legislation on the **implementation of consequences at 68%** of the municipalities. At 60%, we reported **material non-compliance** with this legislation – a **regression** from 54% in the previous year.

Our audits showed that 45% of the municipalities **did not have all the required mechanisms for reporting and investigating transgressions or possible fraud.** This contributed to 74% of the municipalities having findings on the **inadequate follow-up of allegations of financial and supply chain management misconduct and fraud** – a slight regression from 70% in the previous year. The findings included allegations not being investigated (26%) and investigations that took longer than three months (40%).

We report all our findings on supply chain management non-compliance and weaknesses to management for follow-up. If there are **indicators of possible fraud or improper conduct in the supply chain management processes**, **we recommend that management conduct an investigation**. These findings include the false declarations of interest submitted by suppliers, employees failing to declare their interest in suppliers, payments in spite of poor delivery by suppliers, and payments to possible fictitious suppliers. We reported these types of findings at 63% of the municipalities – a slight increase from 61% in the previous year. In total, 74% of the municipalities that had such findings in the previous year, again had similar findings in the current year.

Municipalities **did again not adequately follow up the supply chain management findings** we reported at 143 municipalities in the previous year. Although 33% of the municipalities investigated all of the findings reported for investigation in the previous year, 52% investigated none of the findings and 15% only some of the findings. It is concerning that 34% of the municipalities that either investigated all or some of the findings failed to satisfactorily resolve all of the investigations conducted. For example, the investigation recommended that contracts in which employees failed to declare their interest be cancelled, but the municipality did not do so.

At 62% of the municipalities, the **council failed to conduct the required investigations into all instances** of unauthorised, irregular and fruitless and wasteful expenditure reported in the previous year – a slight regression from 60% in the previous year. A total of 83% of the municipalities that did not conduct investigations in the previous year, again did not do so in the current year. **Sufficient steps were not taken to recover, write off, approve or condone** unauthorised, irregular and fruitless and wasteful expenditure as required by legislation. As a result, the year-end **balance of unauthorised, irregular and fruitless and wasteful expenditure** that had accumulated over many years and had not been dealt with **remained high**, with a combined value of R121,785 billion, as indicated in the figure below.



INDICATOR 3: INCREASINGLY DIFFICULT ENVIRONMENT FOR AUDITORS AND OTHER ROLE PLAYERS IN ACCOUNTABILITY

The **audit environment became more hostile** with increased contestation of audit findings and pushbacks that continued in the current year, whereby our audit processes and the motives of our audit teams were questioned.

It is acceptable for municipalities to question and challenge the outcome of audits based on evidence and solid accounting interpretations or legal grounds. We further acknowledge that many of the accounting and legal matters dealt with in the audits are complex and often open to interpretation. But at some municipalities, **pressure is placed on audit teams to change conclusions purely to avoid negative audit outcomes or the disclosure of irregular expenditure** – without sufficient grounds.

Often the findings are communicated throughout the audit and even from prior years, but only at the end of the audit when outcomes become apparent does the contestation arise. Some municipalities also used delaying tactics whereby information and evidence were not provided as requested.

The number of municipalities where we experienced unreasonable **contestations** increased, with the highest number in KwaZulu-Natal and the Western Cape. Instances of **intimidation** were experienced in most of the provinces, with the highest number in Gauteng and North West.

The contestations and intimidation related mainly to audits where there was a regression in the audit outcome or disagreements with audit findings, or where the expectation of a good audit outcome did not materialise even after the municipality had implemented mechanisms to improve its audit outcome.

Service delivery protests have become a regular occurrence in South Africa, with an alarming number of protests and confrontations often turning violent. All provinces experienced protests, with KwaZulu-Natal leading in the number of municipalities affected, followed by the Free State and the Eastern Cape. These protests had a direct impact on the audit process at some of the municipalities in predominantly five of the provinces. From an audit perspective, these **protests resulted** in delays in, or interruptions to, the audit process as we could not always obtain access to municipal records. In some cases, teams were also removed from municipal premises for their own safety. In addition, this caused delays in the submission of financial statements as well as the late sign-off of audit reports.

Our previous reports highlighted that the **slow response** by management to our messages was one of the main root causes of poor audit outcomes. This trend continued, with a slow pace evident at 81% of those municipalities with poor audit outcomes and 16% of the municipalities **not responding at all**.

As part of our **early warning systems**, we continuously engage with municipal managers through the **status of records review** to alert them to the areas that might get in the way of improved audit outcomes. This effort yielded little or no benefit at most of the municipalities because of the slow response by management to implement the recommendations highlighted through these reviews.

The increasingly **difficult environment** not only **affected** the **auditors**, but also extended to **other accountability mechanisms,** such as the internal audit units, audit committees and municipal public accounts committees.

Councils, municipal managers and senior managers should implement the recommendations of internal audit units and audit committees and use the opportunity to interact with these bodies to assist in improving governance and control. At some municipalities, the **recommendations of the internal audit units and audit committees were not implemented** or no interaction took place, which reduced the impact of these assurance providers on the control environment and the audit outcomes.

Internal audit units had a positive impact on the audit outcomes at only 35% of the municipalities. In some cases, the limited impact of these units can be attributed to them having to work with unreliable information as a result of the poor quality of financial and performance reporting by municipalities. More than half of the audit committees had a positive impact on the audit outcomes. However, in some cases, poor risk assessments and poor performance by internal audit units hampered the effectiveness of the audit committees. Also, at some municipalities, the reporting mechanisms were not adequate to ensure that management adequately addressed the concerns raised by the audit committee on the review of the annual financial and performance reports as well as internal audit reports before financial statements and performance reports were submitted for auditing.

While the guidelines for **municipal public accounts committees** are clear about the mandate, roles and responsibilities of these committees, they **lack the legal mandate to enforce their recommendations** on municipalities, as this is not included in legislation. Therefore, the recommendations of the committees were implemented at only some municipalities. Because of the inadequate legal mandate of the committees, they also experienced challenges at some municipalities where municipal managers refused to attend hearings, respond to questions or supply required information. The Department of Cooperative Governance has embarked on a review of the Municipal Structures Act, with the aim of clarifying roles and responsibilities.

The above challenges contributed to the difficult environment in which internal audit units, audit committees and municipal public accounts committees had to carry out their responsibilities.

Treasuries and cooperative governance departments are key role players in influencing positive audit outcomes and favourable service delivery initiatives. It is therefore concerning that municipalities are failing to implement the programmes initiated by these important role players. Examples of such initiatives include the **Municipal Standard Chart of Accounts, minimum competency levels** and **back-to-basics programme**. At year-end, some municipalities had not yet fully complied with the requirements of these initiatives.

The Standard Chart of Accounts for Local Government Regulations were gazetted on 22 April 2014. These regulations require the **Municipal Standard Chart of Accounts** to be implemented at all municipalities with effect from 1 July 2017 to enable the uniform recording and collection of local government budget, financial and non-financial information. At the end of the current year, some municipalities had **not yet fully implemented** this important initiative, including three metros (City of Tshwane, Nelson Mandela Bay and City of Johannesburg).

The **minimum competency levels** are regulated by the Municipal Regulations on Minimum Competency Levels issued by the National Treasury on 15 June 2007. The regulations provided for a phasing-in period for staff currently in those positions to obtain the minimum competency levels through academic studies and experience and by addressing any gaps in competencies through training and development. The phasing-in period should have ended on 1 January 2013 but a number of extensions were granted, with the most recent one being a further extension of 18 months on 3 February 2017. The **continued extensions** further **aggravated the shortage of skills and competencies** in the local government sphere.

The **back-to-basics programme** was introduced in 2014. It is a key initiative of the Department of Cooperative Governance that involves the proposed actions for support to local government to improve its functioning. It is therefore critical for municipalities to provide their back-to-basics feedback for the programme to succeed. In total, 16% of the municipalities did not report monthly on this initiative. Overall, the programme **had not been able to achieve the desired impact,** as noted from the declining financial health of municipalities, intentional or negligent non-compliance with key legislation as well as regressions in audit outcomes.

IMPACT OF DETERIORATING ACCOUNTABILITY

The deteriorating accountability in local government results in municipalities not achieving their objectives, which in turn has a negative impact on the lives of citizens. Our audits highlighted **two key areas of impact**: the financial health of municipalities and the delivery and maintenance of municipal infrastructure.

EFFECT OF DETERIORATING ACCOUNTABILITY ON MUNICIPAL FINANCES

Our analysis of financial health shows a continued weakening in local government finances at a time when municipalities are under increasing pressure to provide services while financial resources are dwindling.

There are increasing indicators of a collapse in local government finances – the **financial health status of 76% of the municipalities is concerning or requires intervention.**

Revenue management	The **inability to collect debt** from municipal consumers was widespread – 91% of the municipalities expected that more than 10% of their debt will not be recovered, while 64% expected that 50% or more of the amounts owed by their customers will not be collected. Amounts owed to municipalities by customers totalled R129 billion by year-end *(source: National Treasury database)*. The average debt-collection period was 169 days.
Sustainability	In these circumstances, it is inevitable that municipalities will **struggle to balance the books**. Overall, 34% of the municipalities disclosed a deficit – the total deficit for these municipalities amounted to R5,8 billion. This means that their expenditure exceeded their income. Although local government is not profit-driven, municipalities should still ensure that they can deliver services based on available resources. Deficits may also point to other problems, including unjustified revenue bases, unsustainable sources of revenue, and inefficient expenditure management. The ability of municipalities to adequately budget for revenue and expenses is concerning, as 112 municipalities started the year with unfunded budgets (source: National Treasury database). This means that they did not have enough cash resources to cover financial obligations. This is also supported by the fact that 104 (53%) did not have sufficient cash on hand to cover the amounts owed to their creditors by year-end.
Creditor payments and liabilities	The financial woes of local government weighed heavily on municipal creditors. In total, 87% of the municipalities exceeded the 30-day payment period to their creditors – the average payment period was 174 days. The late or non-payment of valid invoices is likely to have a negative impact on the sustainability of small businesses by creating undue cash-flow constraints, ultimately negatively affecting service delivery and employment. Additionally, 39% of the municipalities had more current liabilities than current assets, which means that they will not be able to pay their creditors as these payments fall due.

Creditor payments and liabilities *(continued)*	The impact of this **inability to pay creditors** was most evident in the huge sums owed for the provision of bulk electricity and water. Eskom was owed R18,2 billion (R9,12 billion in arrears by year-end, including R7,5 billion that had been outstanding for more than 120 days) and implemented power cuts at some non-paying municipalities. At the same time, the water boards were owed R9,05 billion, with R5,9 billion in arrears – of which R4,4 billion had been outstanding for more than 120 days. *(The amounts for Eskom and water boards were from the municipalities' financial statements and might be misstated for some of the municipalities that failed to produce credible financial statements.)* Some of the reasons behind the inability to pay creditors may stem from weak internal controls in revenue billing and collection. Customers, organs of state, households and businesses owed municipalities an estimated R17,5 billion for electricity and R37,3 billion for water by year-end *(source: National Treasury database)*.

Municipalities in vulnerable position	A combination of various factors, including poor revenue and budget management and the non-payment of creditors, led to 31% of the municipalities either disclosing in their financial statements that they are in a **vulnerable financial position or receiving a qualified opinion because such disclosures were not included**. These municipalities also incurred fruitless and wasteful expenditure of R1 billion in the same period – mostly as a result of penalties and interest on the late or non-payment of creditors such as Eskom.

The following are examples of the financial challenges faced by some municipalities:

Matjhabeng (Free State)

The municipality incurred a deficit of R821 million for the year, and current liabilities exceeded current assets by a very concerning R3 408 million. The municipality has been deducting pension, medical aid and pay as you earn from employees' salaries, but has been unable to pay over R58 million of these amounts deducted to the relevant third parties. In addition, the municipality owes long-outstanding amounts to Eskom and Sedibeng Water of R1 896 million and R2 299 million, respectively. Immediate intervention is required as it is unlikely that the municipality will be able to pay its debts based on its current financial status.

West Rand District (Gauteng)

The municipality is plagued by severe cash-flow constraints, with the impairment of funds of R76 million invested with VBS Mutual Bank severely straining its already burdened cash-flow position. The deficit for the year increased by R46 million (100%) and the municipality was technically insolvent. Accounts payable increased by R36 million (118%), negatively affecting the average creditor-payment period, which increased to 1 055 days. Total liabilities exceeded assets by R126 million. The municipality is currently struggling to cover the payroll expense on a month-to-month basis and its year-end bank balance was in an overdraft of R6 million.

Merafong (Gauteng)

The municipality incurred a deficit of R162 million and current liabilities exceeded current assets by R357 million. The financial difficulties faced by the municipality were mainly due to customers not paying for municipal services, with only 13% of the customer debt expected to be recovered.

While the poor economic climate does play a role in the deterioration of financial health, many municipalities are just not managing their finances as well as they should. They do not produce credible financial statements and in-year reports (which are essential for good financial management), their budgets are underfunded, and their expenditure is not controlled within the budget (leading to the R12,9 billion in unauthorised expenditure). Many have poor revenue collection systems, with billing systems and debtor registers (including indigent registers) that are not credible.

Municipalities also lose money, which they can ill afford. Fruitless and wasteful expenditure amounted to R1,3 billion. It is difficult to say how much money is lost through irregular processes, as this needs to be determined through an investigation, but the non-compliance we reported at 78% of the municipalities can potentially lead to a financial loss.

The impact of deteriorating accountability on municipal financial management is felt directly by the communities and businesses the municipalities serve – particularly so when it comes to inadequate access to basic services and the lack of economic development. It also puts pressure on the country's finances overall, as national and provincial government have to contribute through grants to keep the municipalities functioning.

RESULT OF DETERIORATING ACCOUNTABILITY ON MUNICIPAL INFRASTRUCTURE

Municipalities are responsible for developing and maintaining infrastructure to ensure that municipal services are delivered. Funding of infrastructure projects is a challenge for most municipalities and as such they receive infrastructure grants from national government.

Our audits again identified a number of **shortcomings in the development and maintenance of infrastructure**. These are symptoms of the larger problem that local government has with managing finances, performance and projects and with taking accountability for outcomes.

Through the **municipal infrastructure grant**, municipalities received R14,27 billion to fund projects to build and upgrade municipal infrastructure. Almost a fifth of the municipalities that received the grant underspent more than 10% of the grant money – the biggest underspending was at Siyancuma in the Northern Cape (57%). Overall, R736 million of the municipal infrastructure grant was not spent. Some municipalities used grant money for operating expenditure due to cash-flow constraints, such as Kopanong and Tokologo in the Free State.

Delays in appointing contractors, poor project and contract management as well as project delays due to contractors not being paid as well as labour, political and community unrest were the main contributors to the underspending. These aspects also contributed to project failures – the planned completion milestones for the year were not achieved or were not even assessed at 27% of the projects we audited. Non-compliance with supply chain management legislation was identified at almost a quarter of the projects.

A total of 38% of the projects we audited that were funded by the **public transport network grant** (which includes the rapid bus transport projects at metros) did also not achieve their planned milestones or did not even assess whether the milestones were achieved. Four of the 10 municipalities that received this grant underspent it by 30% or more, with the biggest underspending at Buffalo City Metro in the Eastern Cape (47%).

As in prior years when similar findings were reported, our audit of infrastructure projects and maintenance of **municipal roads** found infrastructure project delays at a fifth of the 186 projects we audited; underspending on project budgets of R3 154 million; and supply chain management non-compliance at a fifth of the projects, resulting in irregular expenditure of R297 million. In addition, the condition of the roads was not assessed at 23% of the municipalities responsible for road infrastructure. In total, 41% of these municipalities did not have a road maintenance plan, and 26% did not have a priority list for maintenance projects.

Access to **water and sanitation** is a basic right and a key government priority, but weaknesses in the development and maintenance of the infrastructure required to provide these basic services remain widespread.

As reported in the 2017-18 general report on national and provincial audit outcomes, the Department of Water and Sanitation is not achieving its targets for water infrastructure development. Our audits of the water infrastructure projects managed by the department identified serious weaknesses as a result of poor planning, inadequate financial management and monitoring, and a breakdown in controls. The department funds water and sanitation infrastructure projects at local government level through the **regional bulk infrastructure grant** and the **water services infrastructure grant**.

Municipalities did not spend R713 million of the R5,13 billion in funding received, due to similar reasons as the ones stated above relating to the municipal infrastructure grant. In total, 36% of the municipalities underspent the regional bulk infrastructure grant by more than 10% – Kgentlengrivier in North West did not spend any of the grant funding and Kareeberg in the Northern Cape spent only 14%. Similarly, 37% of the municipalities underspent the water services infrastructure grant by more than 10% – the biggest underspending was at Matjhabeng in the Free State (80%), Siyancuma in the Northern Cape (79%), and Cederberg in the Western Cape (79%).

We identified similar weaknesses during our audit of 200 water and sanitation infrastructure projects at municipalities as at those managed by the department – project delays at 14% resulted in underspending of R693 million of the multi-year project budgets, supply chain management non-compliance at 30% of the projects led to R1 988 million in irregular expenditure, and 12% incorrectly accounted for the projects in their financial statements.

Of even greater concern is the lack of attention being paid to the maintenance of water and sanitation infrastructure. The condition of the infrastructure was not assessed to inform the maintenance plans for water (30%) and sanitation (31%). Just over 10% of the municipalities also did not have their own qualified technical staff (such as engineers) to manage projects and maintenance. Almost half of the municipalities did not have policies for the maintenance of water and sanitation infrastructure, and just over a third did not have adequate procedures for doing conditional assessments.

Considering these weaknesses in maintaining water infrastructure, it is not unexpected that 39% of the municipalities reported water losses of more than 30%, resulting in an overall loss of R2 624 million. These figures are likely to be even higher, as 10 municipalities (of which six are in North West) did not disclose their water losses as required.

As detailed in section 5, metros also struggled to deliver on infrastructure projects. For example, housing infrastructure projects displayed weaknesses in budget management, completion milestones, supply chain management, and the quality of houses delivered.

The effect of deteriorating accountability on municipal infrastructure can be seen in the following examples:

Metsimaholo – Oranjeville sports complex (Free State)

The construction of the Oranjeville sports complex was budgeted for an amount of R21,9 million. The municipality had spent R21,7 million relating to this project, which is 99,1% of the budgeted amount. It could not be confirmed that services were actually delivered for all the amounts paid as, except for a fence, no building structures were visible during a site visit.

Kareeberg – construction of water pipeline from Carnarvon to Vanwyksvlei (Northern Cape)

The construction of a water pipeline to improve the provision of basic services (water) in rural areas was budgeted for an amount of R14 million. The project was funded through the regional bulk infrastructure grant and was supposed to begin in July 2017, with a planned completion date of three years from the start of construction. However, at year-end no construction had started due to a court case involving an unsuccessful bidder who had lodged a grievance against the municipality's tender processes. The court case is still in progress and the municipality decided not to budget for the project in the next financial year pending the outcome of the case. The delay in the project resulted in an underspending of the grant and a delay in providing proper water services to the residents of Vanwyksvlei.

Mahikeng – upgrading of First and South streets (North West)

The project was completed six months late, mainly due to a lack of communication and coordination from the start of the project between the various role players, including the municipality, consulting engineer, contractor, ward councillor and community. We also noted during our site visit that the actual distance of road completed was less than that stipulated in the contract. Irregular expenditure of R4,2 million was incurred on the project.

Amathole District – construction of prefabricated and precast concrete VIP toilet systems in Raymond Mhlaba (Eastern Cape)

The purpose of the project was to reduce the huge sanitation backlog and provide significant opportunities for employment within the local municipality. The project started on 21 August 2017 and was still in progress at year-end. There is no evidence that the municipality conducted a geotechnical study to determine the soil properties, including the water absorption rate of the site, before starting to construct VIP toilets in the Nkonkobe 3A region. The spring water is therefore at risk of being polluted, which could have a detrimental effect on the health of the residents using this water.

In the approved municipal infrastructure grant application, it was estimated that each VIP toilet would cost R780 to construct. However, each contractor was appointed at a cost of R2 500 per toilet, resulting in a total variance of R21 million to construct all 12 388 toilets. There was no variation order for the escalated figures and it was not stipulated from where the additional funds would be sourced. All of this points to poor planning and budgeting.

Mopani District – replacement and resizing of asbestos cement pipes in Lulekani (Limpopo)

The project had a planned completion date of 30 June 2018, which was revised to 15 January 2019 due to delays in the procurement processes that resulted in the project only being awarded towards year-end. In addition, the municipality did not comply with supply chain management legislation, as the bid adjudication committee that made the award was not properly constituted.

Additional examples are included in the provincial overviews in section 6.

Although funding and support are generally available from national government for the development and maintenance of municipal infrastructure, the non-delivery thereof at some municipalities and the impact on communities are the issues that need the most focused attention by all role players to ensure that the objectives of a better life for all are achieved.

The VBS Mutual Bank scandal – an example of the impact of deteriorating accountability

Municipalities are mostly funded through rates and taxes as well as grants from national government. Most municipalities are struggling financially and often do not have enough money to pay their creditors, maintain their infrastructure or deliver services. As custodians of taxpayers' money that is sorely needed for municipal delivery, municipalities should take a conservative and cautious approach towards investments.

The Municipal Investment Regulations, published in 2005, go as far as prescribing what investments are permitted and make it clear that all investments must be made with primary regard for the safety of the investment. The regulations permit deposits only with banks registered in terms of the Banks Act, namely commercial banks – and not mutual banks, such as VBS Mutual Bank.

In spite of such investments not being permitted, 16 municipalities invested money with VBS Mutual Bank in the 2016-17 and 2017-18 financial years. The bank was placed under curatorship from 11 March 2018 and the North Gauteng High Court ordered its liquidation on 13 November 2018. Two of the municipalities managed to withdraw their funds in time, but the remaining 14 municipalities lost their investments and have disclosed impairments (meaning that they wrote off these investments) totalling R1,6 billion in their current year financial statements.

The bulk of the loss (72%) involved investments made by eight municipalities in Limpopo (Makhado, Greater Giyani, Collins Chabane, Elias Motsoaledi, Vhembe District, Ephraim Mogale, Fetakgomo Tubatse and Lepelle-Nkumpi). Four municipalities suffered losses in North West (Dr Ruth S Mompati District, Mahikeng, Moretele and Madibeng), and two in Gauteng (West Rand District and Merafong).

An estimated 32% of the money lost was from grants intended to fund infrastructure projects.

The impact of these losses includes the following:

- Projects that were to be funded by the invested money could not begin. For example, Fetakgomo Tubatse was unable to electrify certain villages as initially planned; and Vhembe District could not repair and maintain water pipes and boreholes.
- Projects were delayed or completed late, such as two water and sanitation projects at Dr Ruth S Mompati District, and road infrastructure and maintenance projects at Greater Giyani.
- Future projects will also be affected, as some of the funds were earmarked for longer term capital projects.
- The financial position of the municipalities weakened significantly, leading to unauthorised expenditure, deficits, bank overdrafts, and insufficient funds to cover their liabilities.

At first, the municipalities were slow to effect consequences against those responsible for not complying with legislation and the resultant loss, but the process gathered momentum following the huge public backlash and calls for accountability and with the intervention of the treasuries.

The provincial treasury in Limpopo appointed investigators at all the implicated municipalities. Investigations were taking place at the time of the audit at all of the municipalities in North West, except at Dr Ruth S Mompati District where the chief financial officer resigned shortly after the media starting reporting on VBS Mutual Bank. At the time of the audit, an investigation was also underway at Merafong, but no action had been taken at West Rand District.

Investigations are only the first step in the process of identifying the culprits and recovering the losses incurred – often these investigations go on for a long time and the council does not always act on the findings from the investigations. The political will for accountability and consequences will be tested by the VBS Mutual Bank fall-out. We will continue to track the progress of the investigations and the implementation of consequences as part of our audit and reporting process.

ROOT CAUSES OF DETERIORATING ACCOUNTABILITY

Our message on the **root causes of poor audit outcomes** has remained consistent over the years, but we saw a **regression in the rate at which municipalities are addressing some of these root causes**.

In order to achieve sustainable good governance, the municipal leadership must understand the **underlying reasons** for not progressing in order to ensure that corrective actions address the real issues. We assessed the following to be the most common reasons for the deteriorating accountability:

Lack of credible financial statements

- Leadership, senior management and officials **failed** to develop, implement and monitor effective systems and processes of internal control, including corrective action.
- **Vacancies and instability in key positions** slowed down systematic and disciplined improvements and affected the ability of councils to hold individuals accountable.
- Key officials **lacking** appropriate **skills** and competencies in financial reporting led to over-reliance on consultants and had a negative impact on financial planning, record keeping and reporting.
- Leadership did not take our **repeated recommendations** and warnings of risks for which they needed to prepare seriously.

Poor quality of performance reports

- Inadequate or **a lack of review and monitoring processes** as well as officials **not** being **held accountable** for poor performance.
- No or **inadequate systems** and processes to collate and report credible performance information.
- **Vacancies and instability** in key positions, which had an impact on the monitoring and reporting process, ultimately affecting service delivery.
- Officials **lacking** the necessary **skills**, **competencies** or appropriate understanding of the management and reporting requirements for performance information.
- Inadequate implementation of **action plans** to address the previous year's external audit findings.

Non-compliance with legislation (including supply chain management laws and regulations) and high irregular expenditure

- Leadership and municipal officials deliberately or negligently ignored their duties and disobeyed legislation, which was **not decisively** dealt with through mechanisms for **enforcing consequences** for transgressions.
- Processes or monitoring tools were not developed, implemented, monitored or consistently applied to **identify** applicable legislation and changes to legislation, including appropriate **assessments** of legislative **requirements**, as well as to detect or prevent non-compliance.
- Inadequate **skills** or **competencies** to appropriately **interpret** legislative requirements negatively affected municipalities' ability to comply with key regulations.

THE ROLE OF LEADERSHIP IN ADDRESSING THE DETERIORATING ACCOUNTABILITY

The leadership sets the tone at the top at any organisation. If an organisation's leaders are unethical; have a disregard for governance, compliance and control; and are not committed to transparency and accountability, it will filter through to the lower levels of the organisation. Inevitably, a culture of poor discipline, impunity and non-delivery will develop, leading to the collapse of the organisation.

The leaders in local government should therefore steer their municipalities to success. They should take responsibility for the deteriorating accountability in municipalities and it is their duty to turn the situation around. Local government leadership includes the **municipal manager and his/her senior managers** who are responsible for the administration and service delivery of the municipality; the **political leadership** (mayor and council members) who oversees the functioning of the municipality and takes key decisions; and the **provincial leadership** (premier, members of the executive council, and heads of provincial departments that support local government). The provincial legislature also has a leadership role to play as part of its oversight function.

Municipal leadership

Municipal managers and their senior managers need to focus on the financial and performance management of the municipality.

Senior managers should significantly improve the processes and controls to ensure that municipal objectives are achieved through good planning, people management, project management, monitoring and effecting consequences. They should also prioritise basic control disciplines to prevent, detect and correct errors, transgressions, non-compliance and poor performance.

Municipal managers should create an environment in which accountability, high performance and ethical behaviour can flourish. They can do so by setting an example and ensuring that enough competent and committed people are employed and perform their work within a set of rules defined in policies and procedures.

Political leadership

In comparison with departments and public entities, the political leadership has a direct relationship with, and impact on, the municipal administration. This model provides for a more participative government whereby community members can oversee and direct their municipality through their elected council members.

Unfortunately, political infighting at council level at some municipalities directly affected the administration of municipalities, with councils delaying decision-making and neglecting their oversight duties in pursuit of a political agenda. We also observed political inference in the administration of some municipalities.

The focus of mayors and council members should be on capacitating, stabilising, supporting and overseeing municipal administration to the benefit of the community that elected them. But – in turn – they then need to be respected and empowered with information that allows them to effectively monitor and oversee the activities of the municipality. This is why they must insist on credible financial and performance information – not just in the annual report, but throughout the year to determine if the municipality is achieving its objectives within the budget and within the requirements of legislation. The mayor, council and municipal public accounts committee are entitled in terms of legislation to report on matters such as supply chain management deviations, non-compliance, financial misconduct, losses and shortfalls throughout the year.

As representatives of the people that elected them, the mayor and council members should consistently display ethical and courageous leadership and champion transparency and accountability.

Provincial leadership

Failures in the political and administrative leadership led to the provincial leadership intervening or taking over the administration of 18 municipalities across five provinces during the past year. The reasons for these interventions ranged from maladministration, dysfunctional councils and governance failures to spiralling debt, collapsing infrastructure and an inability to pay creditors.

The need for provincial leadership to pay close attention to municipalities in the manner required by legislation is becoming crucial – often action is only taken after a municipality has deteriorated to a point of collapse.

The level of provincial leadership support to municipalities differed across the provinces. The most successful provinces (in terms of audit outcomes) have in common a premier that provides leadership and direction on local government matters in a consistent manner and follows through on commitments in this regard. We also see strong provincial treasuries and cooperative governance departments working together to support and guide municipalities. But municipalities also need to respond to the provincial and national support and interventions in a positive and timeous manner. The same applies to our findings and recommendations as well as the support and recommendations provided by internal audit units and audit committees.

In summary, the leadership at all three levels should focus on the following key matters:

- Tone at the top – ethical leadership, good governance and accountability
- Capacitate and stabilise administration – free from political interference
- Enable and insist on robust financial and performance management systems
- Consistent, appropriate and swift consequences for irregularities

MUNICIPALITIES REQUIRING SPECIAL INTERVENTION

In 2015-16, we reported that 52 municipalities required special intervention from national and provincial role players to improve their audit outcomes. The provincial leadership responded to this message to varying degrees, but it is encouraging that 34 of these municipalities have since showed an improvement in their audit outcomes.

Based on the current year's audit outcomes, we identified 48 municipalities (19%) that require special intervention from national and provincial role players. This includes some of the municipalities of which the audit outcomes were still outstanding at the cut-off date of this report. Although most of these municipalities were assisted by the provincial treasuries, provincial departments of cooperative governance and/or offices of the premier with their financial reporting, this assistance had little or no impact on the audit outcomes.

Over the last three years, these municipalities continued to receive disclaimed or adverse audit opinions; or had material findings on their financial health assessment; or incurred unauthorised, irregular and fruitless and wasteful expenditure.

We call on the provincial leadership and oversight and the national government support programmes to direct their efforts towards these 48 municipalities to stem the deteriorating accountability before it is too late. A total of 37 of these municipalities were also determined by the Department of Cooperative Governance to be distressed or dysfunctional *(source: List of prioritised municipalities for intervention by the Department of Cooperative Governance in 2018)*.

Those municipalities shown in **red** below are already receiving attention from the provincial leadership through provincial interventions and/or administration. The municipalities shown in **blue** or which include an asterisk (*) denote municipalities that also required intervention in 2015-16.

Eastern Cape (7)	Free State (11)	Gauteng (1)
• Dr Beyers Naudé	• Kopanong	• Rand West City
• Enoch Mgijima	• Letsemeng	
• Inxuba Yethemba	• Mafube	
• Makana	• Maluti-A-Phofung	
• Mbizana	• Mantsopa	
• Raymond Mhlaba	• Matjhabeng	
• Walter Sisulu	• Masilonyana	
	• Nala	
	• Ngwathe	
	• Nketoana	
	• Phumelela	
KwaZulu-Natal (4)	**Limpopo (6)**	**Mpumalanga (2)**
• AbaQulusi	• Fetakgomo Tubatse	• Emalahleni *
• Inkosi Langalibalele	• Modimolle-Mookgophong	• Thaba Chweu *
• Mpofana	• Mogalakwena	
• uMkhanyakude District	• Mopani District	
	• Thabazimbi	
	• Vhembe District	
Northern Cape (7)	**North West (8)**	**Western Cape (2)**
• Ga-Segonyana	• Bojanala Platinum District	• Kannaland
• Joe Morolong	• Ditsobotla *	• Laingsburg
• Kamiesberg	• Lekwa-Teemane	
• Magareng	• Madibeng	
• Nama Khoi	• Mahikeng	
• Renosterberg	• Mamusa	
• Tsantsabane	• Moses Kotane	
	• Ngaka Modiri Molema District	

AUDITING AND REPORTING FOR ACCOUNTABILITY – OUR EXPANDED MANDATE

The responsibilities of all levels of leadership in local government – in particular the municipal manager as accounting officer – are clearly set out in the Municipal Finance Management Act and its regulations. The municipal manager's legal obligations include establishing internal control; preventing unauthorised, irregular and fruitless and wasteful expenditure as well as losses; keeping full and proper records of the financial affairs of the municipality; and implementing key policies. The legislation also clearly details what is expected from the municipal manager in response to allegations of financial misconduct and how to deal with corruption and the abuse of the supply chain management system. In addition, municipal managers have to report to the council and the mayor on these matters as per the legislation.

Our responsibility as auditors is to report to the council and its committees on the credibility of the financial statements and performance reports and on whether the municipality complied with key legislation. It is the role of these oversight structures to use our audit report to determine whether they can rely on the financial statements and performance reports for oversight and decision-making purposes and to call the administration to account for matters we report in the audit report.

But as public sector auditors with a keen interest in seeing local government succeed, we have **always done more than just report**.

Through our management, audit and general reports, we have been reporting the **weaknesses in internal control and the risks that need attention** in local government. We have consistently highlighted the need to address the following:

- Quality of financial statements and performance reports submitted for auditing
- Compliance with legislation, supply chain management and irregular expenditure
- Vacancies and instability
- Effecting consequences
- Internal controls

In our reports, we provide **root causes** of audit findings and **recommendations** to address the root causes. We ensure that our messages are heard through **engagements** with senior officials, municipal managers, mayors, municipal public accounts committees, and councils.

In the past year, we have increased our efforts even further through extending our engagement with municipal managers to a **status of records review**. Such a review is an assessment of records, risks and progress made by the municipality to address prior year issues early in the financial year. This provides an early warning system whereby municipal managers are alerted to matters that can potentially lead to undesirable audit outcomes.

We warned municipal managers of the risks we identified during our reviews and the control weaknesses that need urgent attention to either maintain good audit outcomes or improve poor audit outcomes. As not all municipal managers acted on our warning signals, however, some municipalities lost their clean audit status, regressed or showed little improvement in their audit outcomes.

The municipal managers at some of the municipalities used the results of the status of records review and our engagements with them as an opportunity to be better informed of the status of their municipalities and to get advice from us on addressing risks and weaknesses identified.

The examples below highlight some positive results flowing from the implementation of our status of records review:

JB Marks (North West)

We held numerous meetings with the municipal manager in May and July 2018 to discuss the areas that require intervention. The discussions focused on the previous year's qualifications that were mainly due to a lack of or insufficient documentation for audit purposes. This resulted in management being able to locate the supporting documents for the previous year's journals relating to the merger of Tlokwe and Ventersdorp. The municipality improved from a disclaimed to a qualified audit opinion.

Matatiele (Eastern Cape)

The focus of our engagements was on resolving the previous year's qualifications. Although the municipality was slow at first to implement actions to address these matters, the potential implications of the unaddressed matters that we communicated to them resulted in them hiring a consultant to do a complete clean-up of their asset reconciliations as well as revaluation and impairment assessments. Through this initiative, the municipality managed to resolve the previous year's qualifications and improved to a financially unqualified audit opinion in the current year.

In the previous year, we raised a general concern regarding the excessive use of deviations from normal supply chain management processes by the municipality, which resulted in irregular expenditure being identified during the audit. We recommended the use of a deviation analytical tool, updates to the supply chain management policy to provide clarity on circumstances that may lead to deviations, as well as establishing a process for managing deviations. By year-end, the municipality's use of deviations had dropped drastically and no instances of irregular expenditure as a result of the use of deviations were reported or identified during the audit.

All of the measures we introduced were aimed at assisting the municipal leadership and the council to prevent accountability failures, or to provide them with information on how to deal with such failures where they have occurred in accordance with their legislated responsibilities.

The accountability mechanisms in local government are not working as they should, however, and there have been continued calls for more to be done – particularly by us as the Auditor-General of South Africa. Through the support of our parliamentary oversight committee, the Public Audit Act was amended to provide us with **more power to improve accountability in the public sector.**

The intent of the amendments is not to take over the functions of the municipal manager, the mayor or the council, as their accountability responsibilities are clear in municipal legislation. It is rather to step in where those **responsibilities are not fulfilled** in spite of us alerting leadership of material irregularities that need to be investigated and dealt with.

The amendments provide us with an expanded mandate, which includes the **power to refer** material irregularities to appropriate public bodies to investigate as well as with the **power to issue binding remedial actions** to ensure material irregularities are addressed, including the recovery of money lost as a result of the irregularities.

WHAT ARE MATERIAL IRREGULARITIES?

Material irregularities include any non-compliance with legislation, fraud or theft, or a breach of fiduciary duty that caused or is likely to cause 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. These types of irregularities are commonplace at some municipalities and, as we reported earlier on in this section, little is done to ensure that there are accountability and consequences for them.

We have been engaging with mayors, municipal managers and council members on the amendments and its impact as part of our roadshows. We have highlighted that the introduction of the concept of material irregularities was **not an attempt to bring in another punitive measure** but rather a complementary mechanism for strengthening financial and performance management, which in turn will contribute to improved accountability in the public sector.

We also shared with them that by identifying material irregularities, **we will support municipal managers** by bringing to their attention the irregularities that could have a significant impact on municipal finances, resources and delivery as well as empowering them to take the appropriate steps timeously in terms of legislation. This will lessen the negative impact of such irregularities on municipalities, set the right tone for accountability, and highlight the need for consequences. We will report the material irregularities in the audit report, which will also **enable councils to perform their oversight function** – focusing on the most material matters affecting municipalities.

If the municipal managers, supported by their political **leadership**, **adhere to their legislated responsibilities and commit to taking swift action** when we notify them of a material irregularity, there will be no need for us to use our remedial and referral powers. Municipal managers also need to **respond to the initiatives we have implemented to assist them in preventing material irregularities**. They should act on our recommendations for strengthening their internal controls and the early warning signals we share with them as part of the status of records review.

The extension of our mandate will assist in restoring public confidence, solidifying accountability, and entrenching the ethical behaviour that is expected of entrusted officials and elected representatives. It will also mean that our reports will be taken seriously – we could start to see an improvement in the audit outcomes and a definite shift towards municipalities living up to the expectations of the communities they serve.

NOTES

SECTION 4

Summary of audit outcomes

OVERALL AUDIT OUTCOMES

OVERALL REGRESSION IN AUDIT OUTCOMES

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	TOTAL
2016-17	33	114	71	6	31	2	257
2017-18	18	101	78	10	26	24	257

LOCAL GOVERNMENT EXPENDITURE BUDGET

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
2017-18 *R376 billion*	3%	62%	21%	2%	4%	8%

MOVEMENT

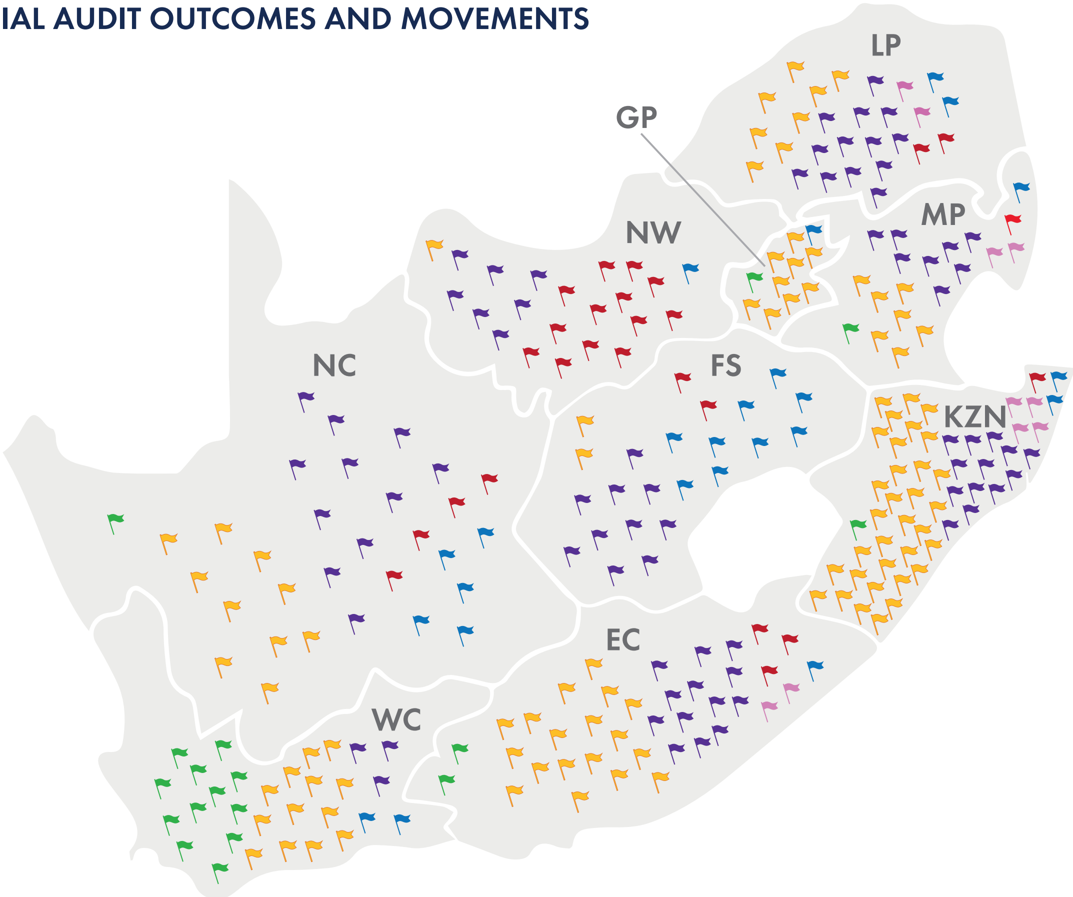
22 ∧ *Improved* 63 ∨ *Regressed*

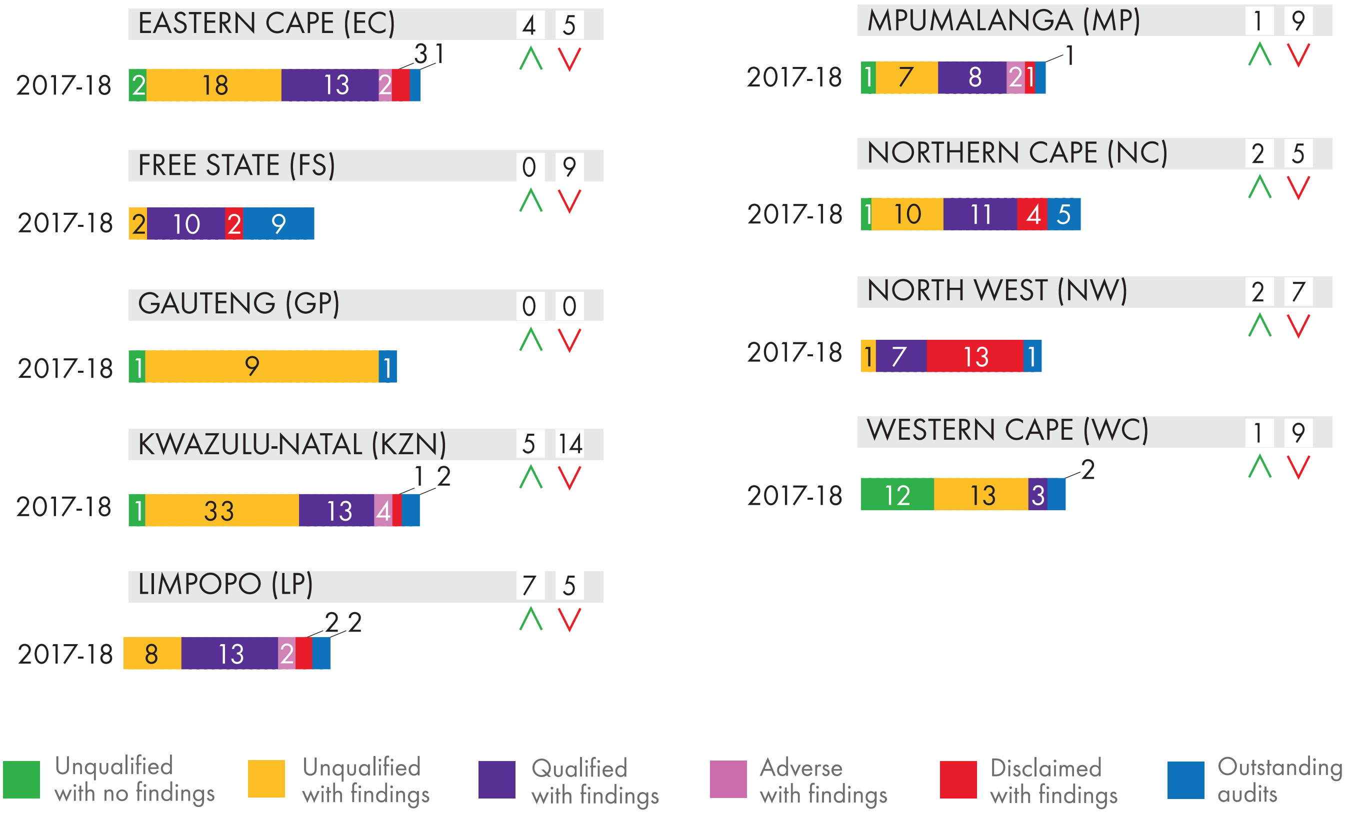
CLEAN AUDIT MOVEMENTS

16 > *Remained clean* 17 ∨ *Regressed* 2 ∧ *New clean audits*

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

PROVINCIAL AUDIT OUTCOMES AND MOVEMENTS





OUTSTANDING AUDITS

Cut-off date for inclusion of the audit outcomes in this report is **31 January 2019**

REASONS FOR **24** *OUTSTANDING AUDITS*

Financial statements not submitted - **8 (33%)**
Financial statements submitted late - **11 (46%)**
Delay in the audit - **5 (21%)**

RESULTS OF **9** *AUDITS SUBSEQUENTLY FINALISED BEFORE DATE OF THIS REPORT*

AUDITS SUBSEQUENTLY FINALISED AS AT 31 MARCH 2019	PROVINCE	MOVEMENT FROM PREVIOUS YEAR'S AUDIT OUTCOME	2017-18 AUDIT OUTCOMES		
			Audit opinion	Performance reports	Compliance with legislation
Sakhisizwe	EC	▶	Unqualified with findings		Findings
Lejweleputswa District	FS	▶	Unqualified with findings	Findings	Findings
Letsemeng	FS	▲	Qualified with findings	Findings	Findings
Mohokare	FS	▲	Qualified with findings	Findings	Findings
Msunduzi	KZN	▲	Adverse with findings	Findings	Findings
Richmond	KZN	▼	Adverse with findings	Findings	Findings
Thaba Chweu	MP	▲	Qualified with findings	Findings	Findings
Dikgatlong	NC	▼	Disclaimed with findings	Findings	Findings
Siyathemba	NC	▲	Qualified with findings	Findings	Findings

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

FINANCIAL STATEMENTS

Regression in quality of published financial statements

TARGET	MOVEMENT	2017-18	2016-17
Timely submission of financial statements (all municipalities)		89% (228)	90% (232)
Quality of financial statements submitted for auditing		19% (45)	23% (54)
Quality of published financial statements		51% (119)	61% (143)

74 municipalities (32%) *achieved unqualified audit opinions only because they* **corrected all misstatements** *identified during the audit*

QUALIFICATION AREAS

(on audited financial statements)

	MOVEMENT	2017-18	2016-17
Property, infrastructure, plant and equipment		30% (71)	26% (61)
Payables, accruals and borrowings		27% (62)	20% (46)
Receivables		26% (61)	24% (55)
Irregular expenditure		26% (61)	23% (54)
Expenditure		25% (59)	18% (41)

PROVINCIAL VIEW

PROVINCE	TIMELY SUBMISSION OF FINANCIAL STATEMENTS (all municipalities)		QUALITY OF FINANCIAL STATEMENTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED FINANCIAL STATEMENTS	
	Number	Movement	Number	Movement	Number	Movement
Eastern Cape	95% (37)		13% (5)		53% (20)	
Free State	65% (15)		0% (0)		14% (2)	
Gauteng	100% (11)		30% (3)		100% (10)	
KwaZulu-Natal	100% (54)		21% (11)		65% (34)	
Limpopo	93% (25)		0% (0)		32% (8)	
Mpumalanga	85% (17)		11% (2)		42% (8)	
Northern Cape	77% (24)		8% (2)		42% (11)	
North West	91% (20)		0% (0)		5% (1)	
Western Cape	83% (25)		79% (22)		89% (25)	
Total	89% (228)		19% (45)		51% (119)	

PERFORMANCE REPORTS

▼ SLIGHT REGRESSION IN QUALITY OF PUBLISHED PERFORMANCE REPORTS

TARGET	MOVEMENT	2017-18	2016-17
Preparation of performance reports	▼	97% (227)	98% (228)
Quality of performance reports submitted for auditing	▲	11% (24)	10% (23)
Quality of published performance reports	▼	35% (82)	38% (88)

58 municipalities (24%) *had no material findings only because they* **corrected all misstatements** *identified during the audit*

FINDINGS ON PERFORMANCE REPORTS	MOVEMENT	2017-18	2016-17
Performance indicators and targets not useful	▼	55% (120)	51% (109)
Achievement reported not reliable	▼	53% (116)	52% (112)
No underlying records or planning documents	▲	3% (7)	6% (14)

MOST COMMON USEFULNESS FINDINGS

55% Not consistent **43%** Not well defined **33%** Not verifiable **25%** Not measurable

PROVINCIAL VIEW

PROVINCE	PERFORMANCE REPORTS PREPARED		QUALITY OF PERFORMANCE REPORTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED PERFORMANCE REPORTS	
	Number	Movement	Number	Movement	Number	Movement
Eastern Cape	100% (38)	►	3% (1)	▼	29% (11)	▼
Free State	100% (14)	▲	0% (0)	►	7% (1)	▼
Gauteng	100% (10)	►	20% (2)	▲	50% (5)	▲
KwaZulu-Natal	100% (52)	►	12% (6)	▼	40% (21)	▼
Limpopo	100% (25)	►	4% (1)	►	8% (2)	▼
Mpumalanga	100% (19)	►	11% (2)	►	42% (8)	►
Northern Cape	81% (21)	▼	0% (0)	►	27% (7)	▲
North West	95% (20)	►	0% (0)	►	14% (3)	▲
Western Cape	100% (28)	►	43% (12)	▲	86% (24)	▼
Total	97% (227)	▼	11% (24)	▲	35% (82)	▼

COMPLIANCE WITH KEY LEGISLATION

INCREASE IN NON-COMPLIANCE FROM **85% (199)** TO **92% (214)**

MOST COMMON NON-COMPLIANCE AREAS	MOVEMENT	2017-18	2016-17
Management of procurement and contracts	▼	81% (189)	72% (167)
Quality of financial statements	▼	81% (188)	77% (179)
Prevention of unauthorised, irregular and fruitless and wasteful expenditure	▼	74% (173)	70% (164)
Effecting consequences	▼	60% (139)	54% (125)
Creditors not paid within 30 days	▼	54% (125)	50% (117)

OTHER NOTABLE NON-COMPLIANCE AREAS	2017-18	MOVEMENT	MOST COMMON FINDINGS PER AREA
Asset management	47% (109)	▼	*Ineffective system of internal control for assets - 33% (71)*
Strategic planning and performance management	42% (98)	▼	*Performance management systems and related controls not maintained or inadequate - 23% (49)*
Human resource management	40% (93)	▼	*Policies and procedures not in place to monitor, measure and evaluate staff performance - 31% (67)*
Revenue management	33% (77)	▼	*Ineffective system of internal control for revenue - 27% (58)*
Utilisation of conditional grants	19% (44)	▼	*Performance on programmes funded by Division of Revenue Act allocation not evaluated - 13% (28)*
Annual financial statements and annual report	18% (43)	▲	*Oversight report not adopted by council within 2 months of annual report tabling - 8% (18)*
Liability management	13% (31)	▲	*Ineffective system of internal control for liabilities - 11% (23)*

Non-compliance by **83% (193)** *of municipalities* **can potentially lead to a financial loss**

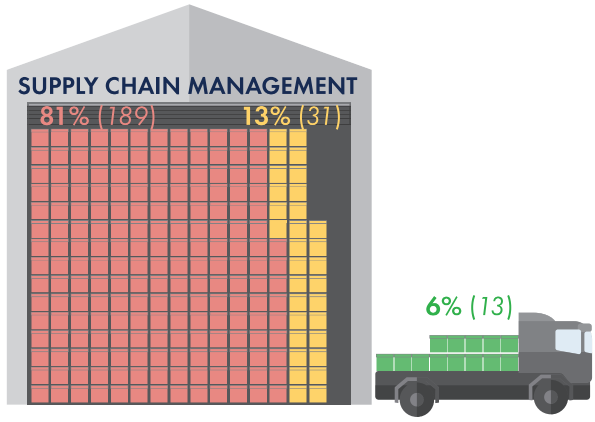
PROVINCIAL VIEW

MUNICIPALITIES WITH NO FINDINGS ON COMPLIANCE

	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Number	5% (2)	0% (0)	10% (1)	4% (2)	0% (0)	5% (1)	4% (1)	0% (0)	43% (12)
Movement	►	►	►	▼	►	▼	►	►	▼
							Total	8% (19)	▼

SUPPLY CHAIN MANAGEMENT (SCM)

INCREASE IN MATERIAL NON-COMPLIANCE FINDINGS FROM **72% (167)** TO **81% (189)** LED TO OVERALL REGRESSION



Not able to audit procurement of **R1 216 million** due to **missing or incomplete information** at 49 municipalities (21%)

Highest contributors (74% of rand value) were:
- City of Tshwane Metro (GP) – **R537 million**
- Tokologo (FS) – **R120 million**
- Hantam (NC) – **R115 million**
- Lekwa (MP) – **R68 million**
- Ngwathe (FS) – **R65 million**

With no findings | With findings | With material findings

AWARDS TO EMPLOYEES, COUNCILLORS, CLOSE FAMILY MEMBERS AND OTHER STATE OFFICIALS

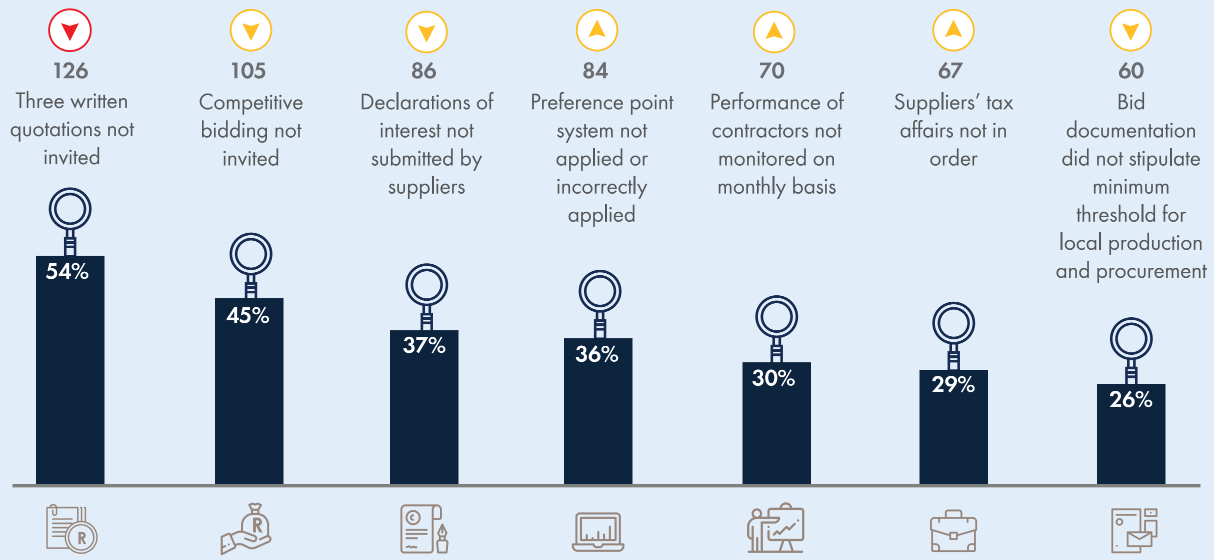
FINDINGS	MOVEMENT	NUMBER OF MUNICIPALITIES WITH AWARDS	AMOUNT
Prohibited awards to other state officials	▲	59% (138)	R921 million
Prohibited awards to employees and councillors	▲	14% (33)	R79 million
At 5 municipalities, awards valued at R850 000 were made to councillors, with values ranging from R10 000 to R560 000 per councillor			
Awards to close family members of employees	►	42% (97)	R501 million
At 20 municipalities, awards to close family members were not disclosed in the financial statements as required			

UNCOMPETITIVE OR UNFAIR PROCUREMENT PROCESSES AND CONTRACT MANAGEMENT

Findings on **uncompetitive or unfair procurement processes** at **88%** of the municipalities, of which 77% was material non-compliance

Findings on **contract management** at **48%** of the municipalities, of which 38% was material non-compliance

Most common findings were the following:



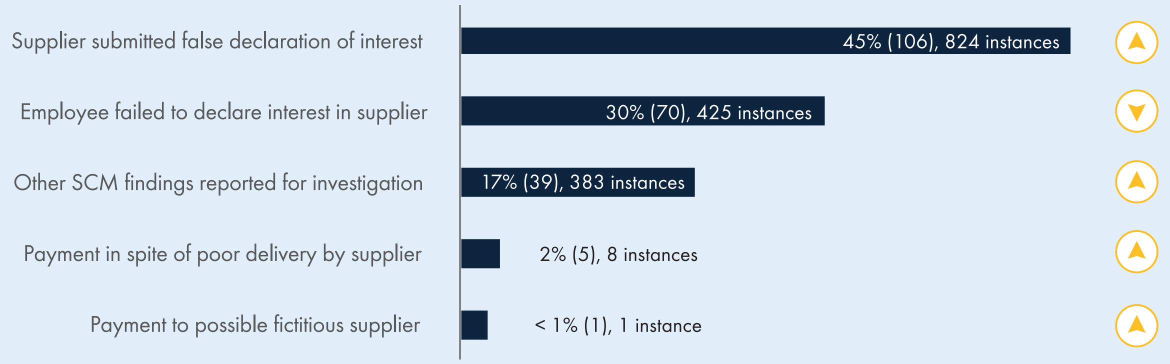
LOCAL PROCUREMENT

Municipalities are required to procure certain commodities from local producers; **79 municipalities** (68%) out of 116 where we audited local procurement **failed to comply** with regulation on promotion of local producers on awards amounting to **R532 million**

FALSE DECLARATIONS BY SUPPLIERS AND NON-DISCLOSURE BY EMPLOYEES

FINDINGS	MOVEMENT	NUMBER OF MUNICIPALITIES	NUMBER OF SUPPLIERS/EMPLOYEES	AMOUNT
Suppliers owned or managed by **employees of another state institution** made false declarations	▲	34% (79)	414	R696 million
Suppliers owned or managed by **employees and councillors of the municipality** made false declarations	▲	4% (10)	19	R1 million
Suppliers owned or managed by **close family members of employees** of the municipality made false declarations	▼	15% (35)	264	R156 million
Employees of the municipality **failed to declare their own interest** either as part of the procurement processes or through annual declarations	▲	6% (15)	31	R57 million
Employees of the municipality **failed to declare their family members' interest**	►	21% (48)	337	R107 million

SUPPLY CHAIN MANAGEMENT FINDINGS WERE REPORTED FOR INVESTIGATION AT 147 MUNICIPALITIES (63%) – A SLIGHT INCREASE FROM 61% IN PREVIOUS YEAR

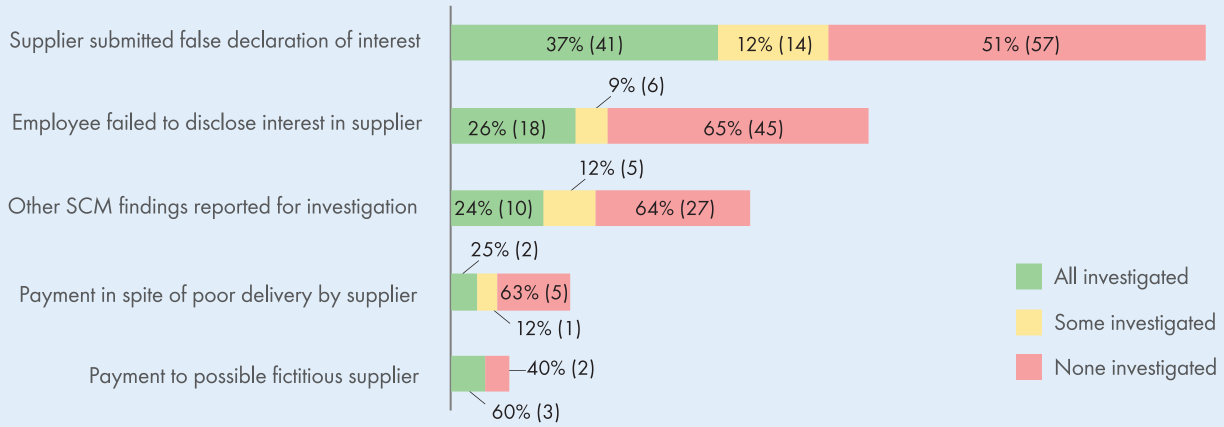


106 (74%) of the 143 municipalities that had such findings in the previous year had similar findings in the current year

FOLLOW-UP OF SUPPLY CHAIN MANAGEMENT FINDINGS REPORTED FOR INVESTIGATION AT 143 MUNICIPALITIES IN PREVIOUS YEAR

47 (33%) of these municipalities investigated all the findings we reported, 21 (15%) investigated some of the findings, and 75 (52%) investigated none of the findings

45 (66%) of the 68 municipalities that investigated all or some findings, satisfactorily resolved all the investigations conducted



Note: The entire analysis excludes the outstanding audits unless otherwise indicated (*)	**Irregular** Non-compliance with legislation in the process leading to expenditure	**Unauthorised** Expenditure more than budget or not in accordance with grant conditions	**Fruitless and wasteful** Expenditure made in vain - could have been avoided if reasonable care was taken
How much was disclosed in 2017-18?	**R21,243 billion at 219 municipalities (94%)** 23% decrease from R27,650 billion in 2016-17 *Irregular expenditure of outstanding audits based on unaudited financial statements as well as for audits subsequently finalised – **R4 billion (2016-17: R2,08 billion)**	**R12,851 billion at 155 municipalities (67%)** 15% increase from R11,157 billion in 2016-17 *Unauthorised expenditure of outstanding audits based on unaudited financial statements as well as for audits subsequently finalised – **R1,553 billion (2016-17: R3,48 billion)**	**R1,332 billion at 198 municipalities (85%)** 14% decrease from R1,549 billion in 2016-17 *Fruitless and wasteful expenditure of outstanding audits based on unaudited financial statements as well as for audits subsequently finalised – **R0,399 billion (2016-17: R0,615 billion)**
Is all of it 2017-18 expenditure?	**No** R3,981 billion (19%) was expenditure in prior years only uncovered and disclosed in 2017-18 R17,256 billion (81%) was expenses in 2017-18, which included payments made on ongoing contracts irregularly awarded in prior years – **R6,443 billion** (37%) **R10,813 billion (63%) represents non-compliance in 2017-18**	**Yes**	**No** R0,064 billion (5%) was expenditure in prior years only uncovered and disclosed in 2017-18 **R1,268 billion (95%) was expenses in 2017-18**
How much of the 2017-18 budget does it represent?	**5%**	**4%**	**< 1%**
Is this the total amount?	**No** 108 municipalities (46%) were either qualified on completeness of their disclosure and/or did not know the total amount and were still investigating to determine the total amount We could also not audit procurement processes for contracts valued at R1,216 billion due to missing or incomplete documentation – it is not known whether any part of this amount might represent irregular expenditure	**No** 22 municipalities (9%) were qualified on the completeness of their disclosure	**No** 12 municipalities (5%) were qualified on the completeness of their disclosure

	Irregular	Unauthorised	Fruitless and wasteful
What was main cause?	**Non-compliance with supply chain management legislation (98%)** – related to: • Procurement without a competitive bidding or quotation process – R5,217 billion (25%) • Non-compliance with procurement process requirements – R14,323 billion (69%) • Inadequate contract management – R1,270 billion (6%)	**Overspending of the budget (99,97%)** – R12,847 billion: • R5,843 billion (45%) related to actual payments in excess of budget • R7,004 billion (55%) related to non-cash items, representing the poor estimation of, for example, asset impairments	**Penalties and interest** on overdue accounts and late payments **(86%)** – R1,150 billion
Did the municipalities detect this expenditure?	**77% was identified by municipalities** and the remainder in the audit process Many municipalities put processes in place to fully uncover irregularities of prior years – partly to address prior year qualifications on irregular expenditure (R11 million) but also to correct and address past irregularities	**87% was identified by municipalities** and the remainder in the audit process	**91% was identified by municipalities** and the remainder in the audit process
Does it mean this money was wasted?	**Possibly** – it can only be determined through a council investigation Goods and services were received for R18,323 billion (88%) of the expenditure related to supply chain management, but were not received for R9 million (< 1%), while we did not audit the remaining 12% We cannot confirm if value for money was received for all of these goods and services	**No**	**Yes**
How much of current and prior years' expenditure has not yet been dealt with by council (closing balance)?	**R71,107 billion**	**R46,218 billion**	**R4,46 billion**

PROVINCIAL VIEW

Province	Irregular (R billion)	Unauthorised (R billion)	Fruitless and wasteful (R billion)
Eastern Cape	R7,276 34% of total 15% of provincial local government budget Closing balance – R25,543	R1,231 9% of total 3% of provincial local government budget Closing balance – R4,885	R0,075 6% of total < 1% of provincial local government budget Closing balance – R0,926
Free State	R0,913 5% of total 10% of provincial local government budget Closing balance – R2,281	R1,833 14% of total 21% of provincial local government budget Closing balance – R4,176	R0,310 23% of total 3% of provincial local government budget Closing balance – R0,622
Gauteng	R3,246 15% of total 3% of provincial local government budget Closing balance – R9,992	R1,879 15% of total 2% of provincial local government budget Closing balance – R7,346	R0,125 9% of total < 1% of provincial local government budget Closing balance – R0,409
KwaZulu-Natal	R2,937 14% of total 4% of provincial local government budget Closing balance – R8,348	R1,237 10% of total 2% of provincial local government budget Closing balance – R4,211	R0,116 9% of total < 1% of provincial local government budget Closing balance – R0,207
Limpopo	R1,063 5% of total 5% of provincial local government budget Closing balance – R5,563	R2,832 22% of total 13% of provincial local government budget Closing balance – R5,879	R0,049 4% of total < 1% of provincial local government budget Closing balance – R0,304

Expenditure of 5% or higher of the provincial local government budget is highlighted in red

Province	Irregular (R billion)	Unauthorised (R billion)	Fruitless and wasteful (R billion)
Mpumalanga	R1,314 6% of total 5% of provincial local government budget Closing balance – R4,670	R1,252 10% of total 6% of provincial local government budget Closing balance – R4,560	R0,396 30% of total 2% of provincial local government budget Closing balance – R1,081
Northern Cape	R0,586 3% of total 5% of provincial local government budget Closing balance – R1,437	R0,527 4% of total 7% of provincial local government budget Closing balance – R3,092	R0,094 7% of total 1% of provincial local government budget Closing balance – R0,219
North West	R3,236 15% of total 12% of provincial local government budget Closing balance – R12,146	R1,827 14% of total 11% of provincial local government budget Closing balance – R11,434	R0,164 12% of total 1% of provincial local government budget Closing balance – R0,650
Western Cape	R0,666 3% of total 1% of provincial local government budget Closing balance – R1,121	R0,243 2% of total < 1% of provincial local government budget Closing balance – R0,635	R0,003 < 1% of total < 1% of provincial local government budget Closing balance – R0,042

Expenditure of 5% or higher of the provincial local government budget is highlighted in red

TOP 10 CONTRIBUTORS – IRREGULAR EXPENDITURE

All of these municipalities incurred irregular expenditure **for the past 3 years** except JB Marks

Municipality	Disclosed (R billion)	Incurred in 2017-18 (R billion)	Nature	Key projects/ contracts affected	Grants* affected (R billion)
Nelson Mandela Bay Metro (EC)	R3,053	R2,712 (89%), of which R2,579 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	84% related to non-compliance with other procurement process requirements, which includes non-submission of tax clearance certificates, supply chain management committees not properly constituted, and awards to bidders not scoring highest points	Water and sanitation related services – Fishwater Flats wastewater treatment works, voltage network upgrade, and sludge stabilisation	R0,0403 (USDG)
City of Tshwane Metro (GP)	R1,684	R1,684 (100%), of which R838 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	65% related to non-compliance with other procurement process requirements	Smart prepaid meter contacts (R0,6 billion), capital project management contract (R0,318 billion), and fleet management services (R0,198 billion)	R0,318 (USDG) R0,198 (PTNG)
OR Tambo District (EC)	R1,355	R0,994 (89%)	73% related to procurement without competitive bidding or quotation processes, including R0,29 billion relating to non-compliance with supply chain management legislation by implementing agent (Amatola Water Board)	Water and sanitation related services (basic services)	R0,277 (MIG) R0,013 (RBIG)

Municipality	Disclosed (R billion)	Incurred in 2017-18 (R billion)	Nature	Key projects/ contracts affected	Grants* affected (R billion)
JB Marks (NW)	R1,270	R0,305 (24%)	All related to non-compliance with other procurement process requirements	Water and wastewater treatment plant (R0,033 billion), construction of canal at Ikageng (R0,024 billion), slipping an extension of an asbestos cement pipeline (R0,016 billion), and mobile security counter land invasion patrol (R0,012 billion)	R0,024 (WSIG) R0,016 (RBIG)
City of Johannesburg Metro (GP)	R0,868	R0,707 (81%), of which R0,466 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	99% related to non-compliance with other procurement process requirements	Provision of SAP support services (R0,150 billion), and fleet management services (R0,389 billion)	-
eThekwini Metro (KZN)	R0,733	R0,567 (78%)	44% related to non-compliance with legislation on contracts, 36% was as a result of non-compliance with other procurement process requirements, and 20% resulted from not following competitive bidding or quotation processes	Copper Sunset (basic services) (R0,128 billion), and Zikhulise Group (basic services) (R0,116 billion)	-
Alfred Nzo District (EC)	R0,622	R0,202 (32%), of which all represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	74% related to procurement without competitive bidding or quotation processes	Sanitation infrastructure projects – Ntabankulu sewer upgrade	R0,0129 (MIG)

Municipality	Disclosed (R billion)	Incurred in 2017-18 (R billion)	Nature	Key projects/ contracts affected	Grants* affected (R billion)
uThukela District (KZN)	R0,4	R 0,4 (100%)	55% related to non-compliance with procurement process requirements, including R0,014 billion relating to non-compliance with supply chain management legislation by implementing agent (Nhloso Development)	Water provisioning through water tankers	R0,046 (RBIG)
Dr Ruth Segomotsi Mompati District (NW)	R0,381	R 0,381(100%)	All related to non-compliance with other procurement process requirements	Sanitation infrastructure projects	R0,084 (WSIG)
Matjhabeng (FS)	R0,377	R0,358 (95%), of which R0,147 represents irregular expenditure incurred on ongoing multi-year contracts awarded in prior years	64% related to procurement without competitive bidding or quotation processes, including R0,038 billion relating to month-to-month extension of contracts without justifiable reasons and deviations amounting to R0,065 billion; in addition, included in the R0,377 billion is unspent grant money of R0,020 not cash-backed	Contruction of storm water system – Nyakollong, and construction of waterborne sanitation for 1 300 stands – Welkom (Thabong)	R0,02 (INEP and WSIG)
Total for top 10	R10,743	This constitutes **51% of the total irregular expenditure disclosed in 2017-18** R7,206 billion (67%) of the top 10 value resulted from non-compliance with other procurement process requirements, while R2,645 billion (25%) related to procurement without following competitive bidding or quotation processes Excluded from these top 10 contributors is irregular expenditure of Emfuleni (GP) and Rustenburg (NW) amounting to R0,768 billion and R2,477 billion, respectively – the amounts are based on the unaudited financial statements, as the audits had not yet been completed at the time of this report			

* INEP – integrated national electrification programme grant

MIG – municipal infrastructure grant

PTNG – public transport network grant

RBIG – regional bulk infrastructure grant

USDG – urban settlements development grant

WSIG – water services infrastructure grant

TOP 10 CONTRIBUTORS – UNAUTHORISED EXPENDITURE

Seven of these municipalities incurred unauthorised expenditure **for the past 3 years** except Rand West City, City of Mbombela and Fetakgomo Tubatse

Municipality	Disclosed (R billion)	Nature
City of Tshwane Metro (GP)	R1,138	Overspending of the budget R1,084 billion (95%) related to non-cash items
Mogalakwena (LP)	R1,117	Overspending of the budget, of which R0,272 billion resulted from overspending of the contracted services budget R1,117 billion (100%) related to non-cash items
Matjhabeng (FS)	R0,873	Overspending of the budget, of which R0,328 billion and R0,323 billion resulted from overspending of the community services and water/sewer services budgets, respectively R0,53 billion (61%) related to non-cash items
Ngaka Modiri Molema District (NW)	R0,596	Overspending of the budget
Polokwane (LP)	R0,411	Overspending of the budget R0,014 billion (3%) related to non-cash items
Rand West City (GP)	R0,325	Overspending of the budget, relating mostly to employee costs, finance costs and bulk purchases R0,202 billion (62%) related to non-cash items
City of Mbombela (MP)	R0,320	Overspending of the budget R0,263 billion (82%) related to non-cash items
City of Johannesburg Metro (GP)	R0,305	Overspending of the budget R0,242 billion (79%) related to non-cash items
Fetakgomo Tubatse (LP)	R0,298	Overspending of the budget R0,243 billion (80%) related to non-cash items
Nelson Mandela Bay Metro (EC)	R0,260	Overspending of the budget R0,259 billion (99,7%) related to non-cash items
Total for top 10	R5,642	This constitutes **44% of the total unauthorised expenditure** R3,95 billion (70%) of the top 10 value related to non-cash items Excluded from these top 10 contributors is unauthorised expenditure of Mangaung Metro (FS) amounting to R0,852 billion – this amount is based on the unaudited financial statements, as the audit had not yet been completed at the time of this report

TOP 10 CONTRIBUTORS – FRUITLESS AND WASTEFUL EXPENDITURE

All of these municipalities incurred fruitless and wasteful expenditure **for the past 3 years**

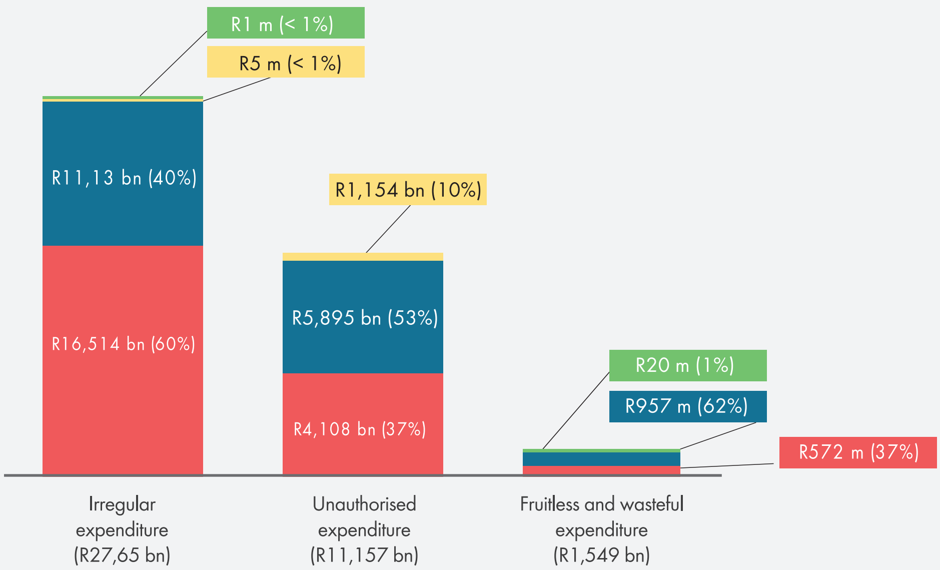
Municipality	Disclosed (R billion)	Nature
Matjhabeng (FS)	R0,169	All interest and penalties, which included Eskom interest of R0,156 billion
Emalahleni (MP)	R0,110	Mostly interest and penalties, which included Eskom interest of R0,105 billion
Govan Mbeki (MP)	R0,082	All interest and penalties, comprising Eskom interest of R0,0744 billion and water board interest of R0,0074 billion
Lekwa (MP)	R0,078	All interest and penalties, which included Eskom interest of R0,074 billion
City of Tshwane Metro (GP)	R0,065	Mostly related to the upgrade of the city hall, but it did not comply with National Heritage Council requirements
City of Matlosana (NW)	R0,052	Mostly interest and penalties, including Eskom interest of R0,015 billion and water board interest of R0,025 billion
Msukaligwa (MP)	R0,040	All interest and penalties, comprising Eskom interest of R0,004 billion and water board interest of R0,036 billion
uMkhanyakude District (KZN)	R0,038	Infrastructure expenditure of R0,033 billion was incurred but the work done could not be verified, and the R0,004 billion write-off of inventory that was unaccounted for
Ngwathe (FS)	R0,036	All interest and penalties, which included Eskom interest of R0,026 billion and water board interest of < R0,001 billion
Naledi (NW)	R0,029	All interest and penalties, which included Eskom interest of R0,029 billion
Total for top 10	R0,699	This constitutes **52% of the total of fruitless and wasteful expenditure** R0,484 billion (69%) of the top 10 value related to Eskom interest and R0,068 billion (10%) to water boards interest

INVESTIGATION AND FOLLOW-UP OF PRIOR YEAR UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

Investigations by municipalities of all instances of UIFW of prior years slightly regressed from **83 (40%)** to **84 (38%)**

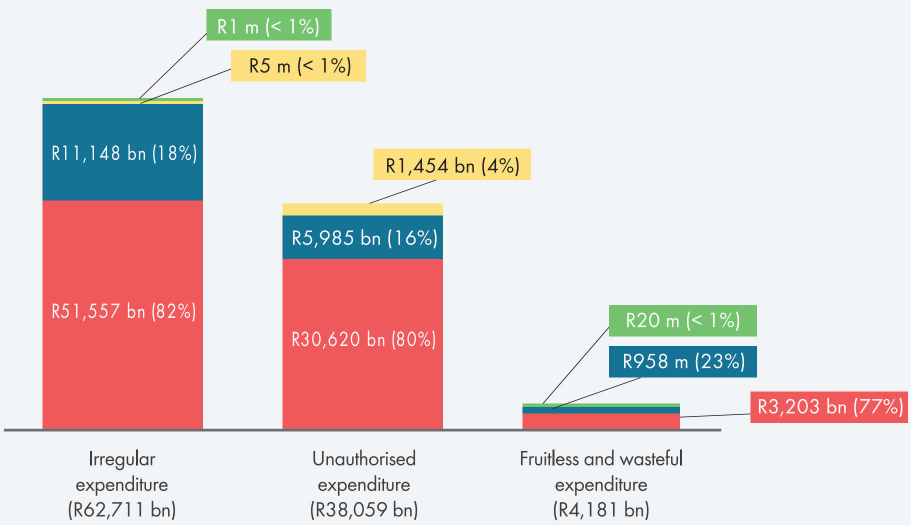
UIFW disclosed must be investigated to determine the impact and who is responsible. Based on the outcome of the investigation, the next steps can include condonement/authorisation, recovery, or write-off. It may also include the cancellation of contracts irregularly awarded.

HOW HAS COUNCIL DEALT WITH UIFW INCURRED IN 2016-17?



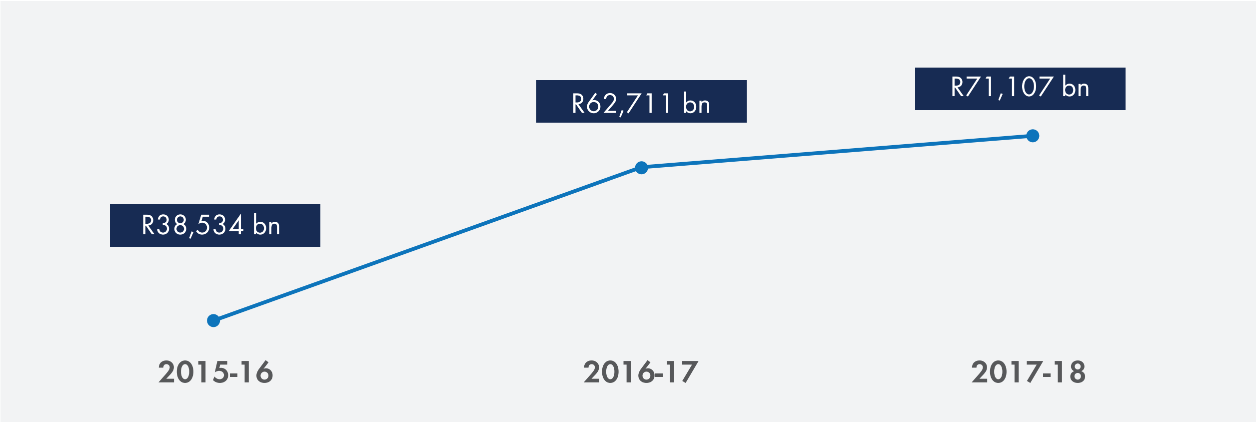
HOW HAS COUNCIL DEALT WITH ALL PRIOR UIFW TO DATE?

(Note: Figures below are expressed as percentage of previous year closing balance)



Money recovered or in the process of recovery | Condoned or authorised | Written off | Not dealt with

GROWING BALANCE OF IRREGULAR EXPENDITURE NOT DEALT WITH



Top 5 contributors to accumulated irregular expenditure (constitutes 32% of R71,107 billion), which also **did not investigate all instances** of prior year irregular expenditure:

- Nelson Mandela Bay Metro (EC) – R12,379 billion
- OR Tambo District (EC) – R3,151 billion
- City of Matlosana (NW) – R2,748 billion
- City of Johannesburg Metro (GP) – R2,724 billion
- Mogalakwena (LP) – R1,718 billion

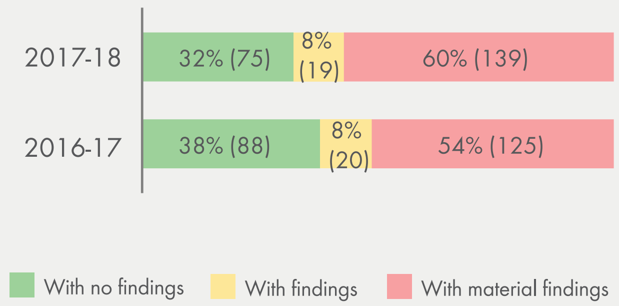
Some **reasons for not investigating all instances** of prior year irregular expenditure:

- City of Matlosana (NW): **Procurement documentation** to investigate irregular expenditure was **missing** and the municipality therefore had to request guidance from National Treasury's chief procurement officer on how to investigate
- **Insufficient capacity** to deal with all cases reported

FRAUD AND LACK OF CONSEQUENCES

Increase in material non-compliance with legislation on implementing consequences

NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES



Most common findings were the following:

- *Irregular expenditure identified in previous year was not investigated at* **125 municipalities (54%)**
- *Fruitless and wasteful expenditure identified in previous year was not investigated at* **117 municipalities (50%)**
- *Unauthorised expenditure identified in previous year was not investigated at* **108 municipalities (46%)**

MECHANISMS TO DEAL WITH LACK OF CONSEQUENCES

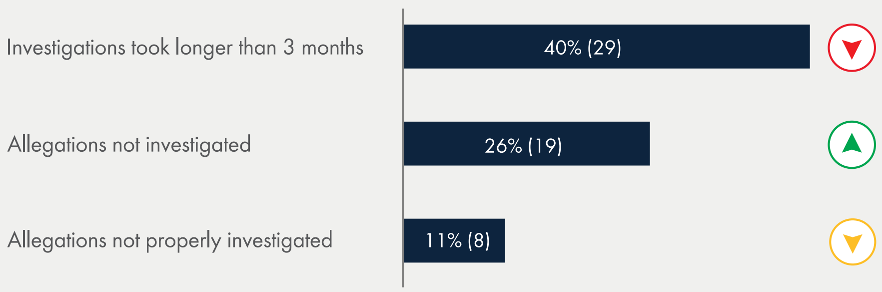
Inadequate mechanisms for reporting and investigating transgressions and possible fraud at 105 municipalities (45%)

Most common findings were the following:

- *Disciplinary board not established at* **51 municipalities (22%)**
- *Lack of proper record keeping at* **43 municipalities (18%)**
- *No policies on investigating allegations and disciplinary procedures at* **42 municipalities (18%)**

CONTRIBUTE TO

INADEQUATE FOLLOW-UP OF ALLEGATIONS OF FINANCIAL AND SUPPLY CHAIN MANAGEMENT MISCONDUCT AND FRAUD – TESTED AT 72 MUNICIPALITIES



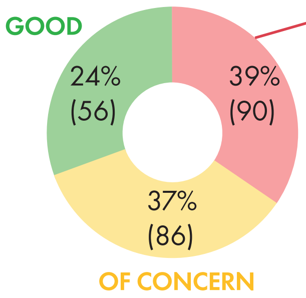
AND

Unauthorised, irregular and fruitless and wasteful expenditure (UIFW) not followed up and dealt with – refer to section on UIFW

Supply chain management (SCM) findings we reported to management for investigation not followed up – refer to section on SCM

FINANCIAL HEALTH

Regression in financial health



INTERVENTION REQUIRED

This means the municipality:

- is in a vulnerable financial position and might be unable to continue operating and/or
- received a disclaimed or adverse opinion, which means the financial statements were not reliable enough for analysis

VULNERABLE FINANCIAL POSITION

31% (72)
31% (71)

Fruitless and wasteful expenditure of almost **R1 billion** incurred in current year by those in vulnerable financial position

2017-18 | 2016-17

SUSTAINABILITY INDICATORS

NET CURRENT LIABILITY POSITION

39% (76)
40% (78)

DEFICIT (expenditure exceeded revenue)

34% (67)
29% (57)

Consolidated deficit of R5,8 billion

Major contributors from:

- *Free State* - **R1,3 billion (22%)**
- *Limpopo* - **R1,25 billion (22%)**
- *Mpumalanga* - **R1,16 billion (20%)**

81% (54) of municipalities with **deficits** also incurred unauthorised expenditure of **R5,29 billion**

CREDITORS GREATER THAN AVAILABLE CASH AT YEAR-END

53% (104)
52% (101)

Total creditors: **R48,5 billion**
Cash available at year-end: **R37,3 billion**

Highest percentages incurred by:
Matjhabeng (FS) – **146 206%**
Kai !Garib (NC) – **72 855%**
Nala (FS) – **20 379%**

CURRENT LIABILITIES GREATER THAN 10% OF FOLLOWING YEAR'S BUDGETED RESOURCES

94% (185)
–

CREDITOR PAYMENTS

CREDITOR-PAYMENT PERIOD > 30 DAYS

87% (170)
86% (168)

CREDITOR-PAYMENT PERIOD > 90 DAYS

47% (92)
44% (86)

AVERAGE CREDITOR-PAYMENT PERIOD

174 DAYS
151 DAYS

*ESKOM ARREARS**

R18,26 billion outstanding as at 30 June 2018 with R9,12 billion in arrears #

 # R0,85 billion was not aged by municipalities

*WATER BOARDS ARREARS**

R9,05 billion outstanding as at 30 June 2018 with R5,85 billion in arrears #

 # R1,73 billion was not aged by municipalities

** These amounts have been taken from municipalities' financial statements, some of which are misstated*

REVENUE MANAGEMENT INDICATORS

MORE THAN 10% OF DEBT IRRECOVERABLE

91% (178)
92% (180)

DEBT-COLLECTION PERIOD > 90 DAYS

55% (107)
55% (107)

AVERAGE DEBT-COLLECTION PERIOD

169 DAYS
188 DAYS

PROVINCIAL VIEW

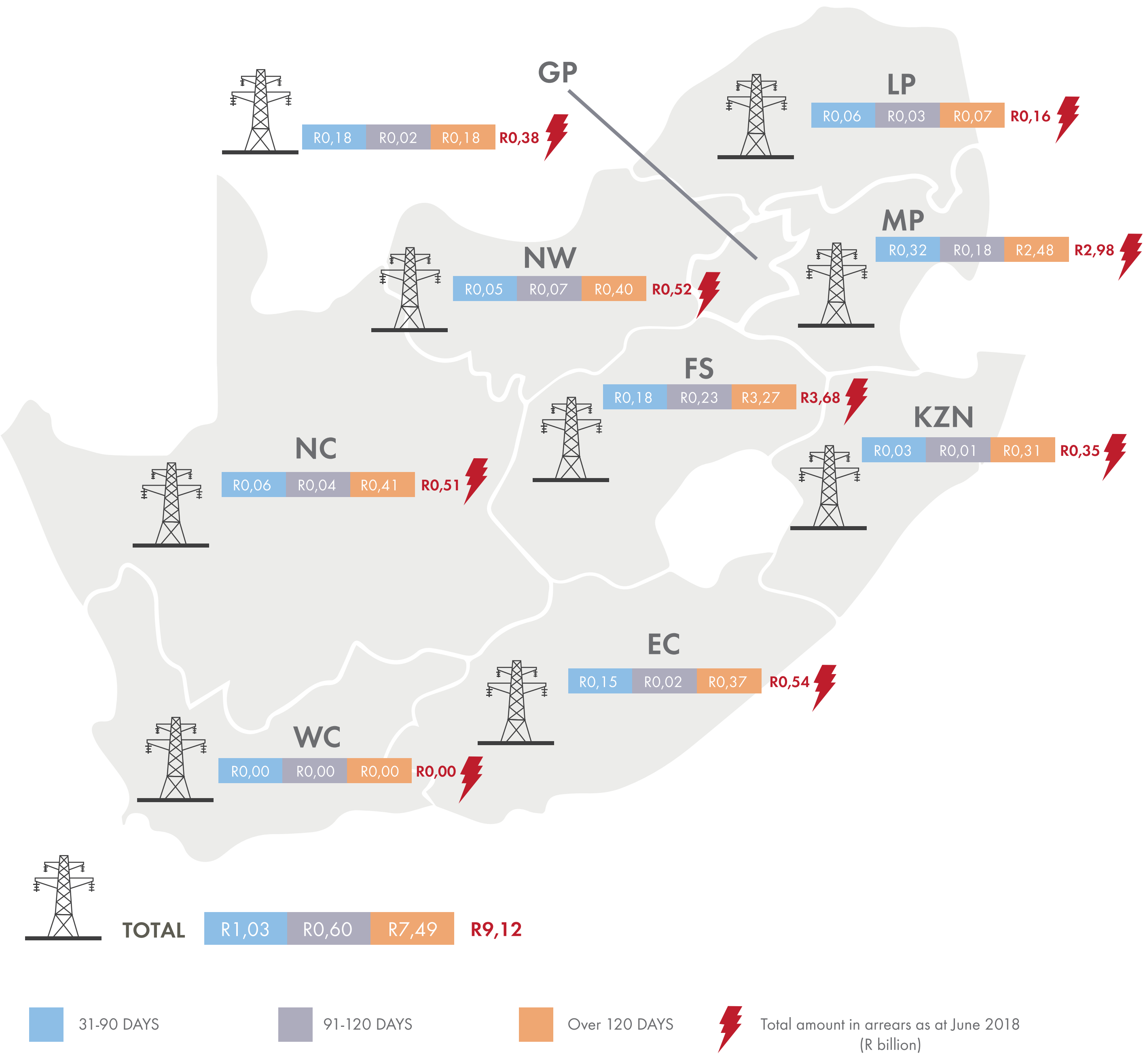
PROVINCE	OVERALL ASSESSMENT*				VULNERABLE FINANCIAL POSITION	
	GOOD	OF CONCERN	INTERVENTION REQUIRED			
Eastern Cape	24% (9)	39% (15)	37% (14)	▼	32% (12)	▼
Free State	0% (0)	0% (0)	100% (14)	►	100% (14)	►
Gauteng	20% (2)	30% (3)	50% (5)	▼	50% (5)	▼
KwaZulu-Natal	23% (12)	58% (30)	19% (10)	▼	13% (7)	▲
Limpopo	12% (3)	64% (16)	24% (6)	▼	12% (3)	▼
Mpumalanga	16% (3)	47% (9)	37% (7)	▼	26% (5)	▼
Northern Cape	8% (2)	23% (6)	69% (18)	▼	62% (16)	▼
North West	5% (1)	20% (4)	75% (15)	▼	45% (9)	▲
Western Cape	86% (24)	10% (3)	4% (1)	▲	4% (1)	▲
Total	24% (56)	37% (86)	39% (90)	▼	31% (72)	►

*Including municipalities with disclaimed/adverse opinions

PROVINCE	INDICATORS*					
	CREDITOR PAYMENTS > 30 DAYS		MORE THAN 10% OF DEBT IRRECOVERABLE		DEFICIT	
Eastern Cape	82% (27)	▲	100% (33)	▼	27% (9)	►
Free State	100% (12)	►	100% (12)	►	75% (9)	▲
Gauteng	90% (9)	►	100% (10)	▼	40% (4)	►
KwaZulu-Natal	89% (42)	▼	96% (45)	▲	17% (8)	▼
Limpopo	86% (18)	▲	90% (19)	►	52% (11)	▼
Mpumalanga	81% (13)	▲	88% (14)	►	44% (7)	▼
Northern Cape	95% (21)	►	77% (17)	▲	59% (13)	▲
North West	100% (7)	▼	71% (5)	►	43% (3)	▼
Western Cape	75% (21)	▼	82% (23)	▲	11% (3)	▼
Total	87% (170)	▼	91% (178)	▲	34% (67)	▼

*Excluding municipalities with disclaimed/adverse opinions

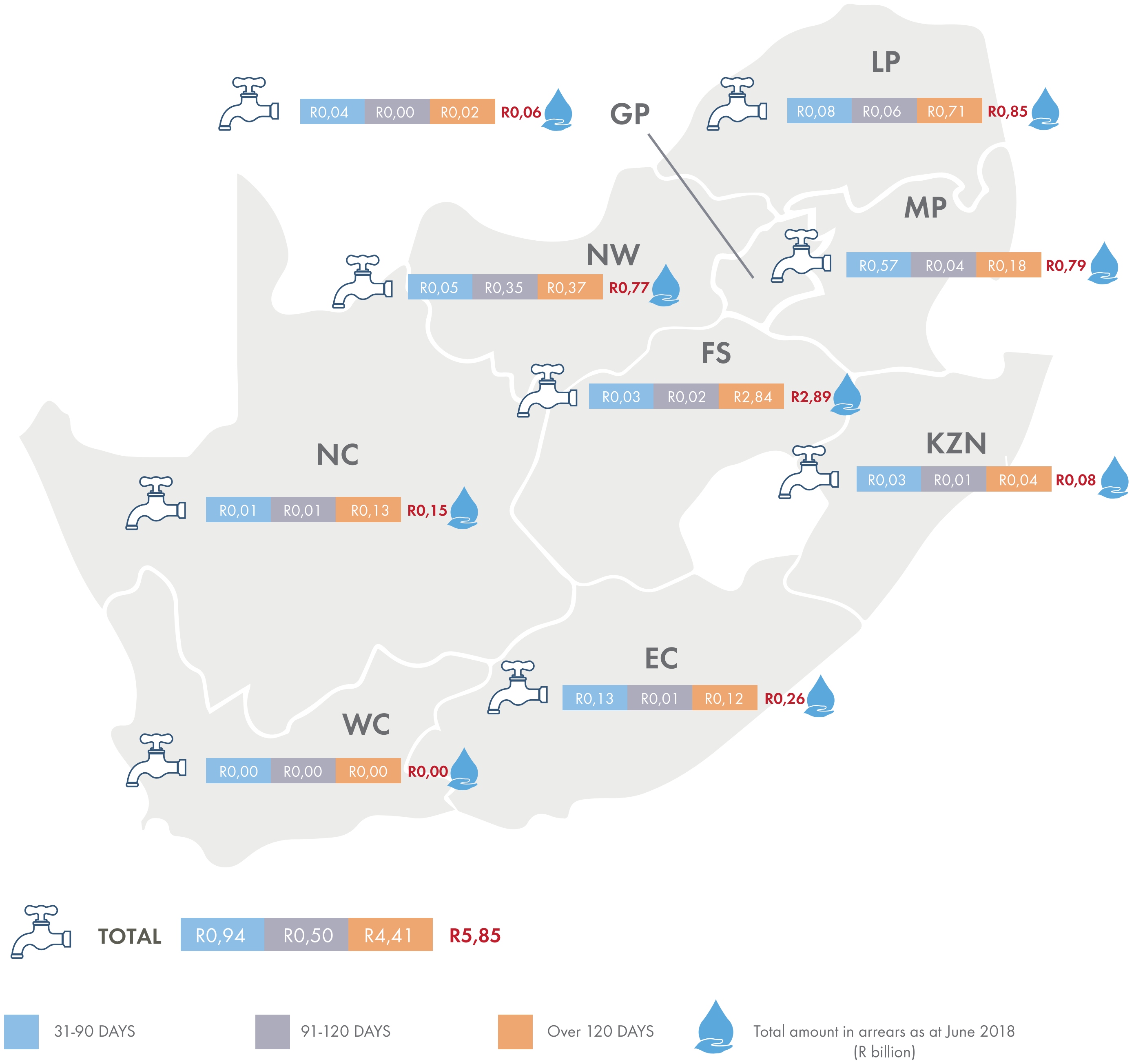
IMPACT OF FINANCIAL HEALTH ON PAYMENT OF UTILITIES – ESKOM



Top 3 contributors to outstanding amount in arrears (R billion)

MUNICIPALITY	31 – 90 DAYS	91 – 120 DAYS	OVER 120 DAYS	AMOUNT IN ARREARS AS AT JUNE 2018
Emalahleni (MP)	R0,08	R0,01	R1,78	R1,87
Matjhabeng (FS)	R0,07	R0,03	R1,74	R1,84
Ngwathe (FS)	R0	R0,01	R0,91	R0,92

IMPACT OF FINANCIAL HEALTH ON PAYMENT OF UTILITIES – WATER BOARDS



Top 3 contributors to outstanding amount in arrears (R billion)

MUNICIPALITY	31 – 90 DAYS	91 – 120 DAYS	OVER 120 DAYS	AMOUNT IN ARREARS AS AT JUNE 2018
Matjhabeng (FS)	R0,01	R0	R2,29	R2,30
Mopani District (LP)	R0,07	R0,06	R0,71	R0,84
Msukaligwa (MP)	R0,49	R0	R0	R0,49

MANAGEMENT OF INFRASTRUCTURE GRANTS – compliance with Division of Revenue Act slighty regressed to 81%

FUNDING	MUNICIPAL INFRASTRUCTURE GRANT (MIG) *196 municipalities*	PUBLIC TRANSPORT NETWORK GRANT (PTNG) *10 municipalities*	URBAN SETTLEMENTS DEVELOPMENT GRANT (USDG) *7 metros*	REGIONAL BULK INFRASTRUCTURE GRANT (RBIG) * *28 municipalities*	WATER SERVICES INFRASTRUCTURE GRANT (WSIG) * *73 municipalities*
Available to spend *(percentage of funds spent)*	R14,27 billion (95%)	R5,64 billion (84%)	R10,53 billion (98%)	R2,17 billion (86%)	R2,96 billion (86%)
Underspending by more than 10%	38 municipalities (19%)	6 municipalities (60%)	None	10 municipalities (36%)	27 municipalities (37%)
Used for intended purpose	184 of the 193 municipalities tested (95%)	10 municipalities (100%)	6 metros (86%)	23 of the 24 municipalities tested (96%)	66 of the 67 municipalities tested (99%)

FINDINGS *(per audited project funded by grant)*	MUNICIPAL INFRASTRUCTURE GRANT (MIG) *407 projects*	PUBLIC TRANSPORT NETWORK GRANT (PTNG) *13 projects*	URBAN SETTLEMENTS DEVELOPMENT GRANT (USDG) *25 projects*	REGIONAL BULK INFRASTRUCTURE GRANT (RBIG) * *34 projects*	WATER SERVICES INFRASTRUCTURE GRANT (WSIG) * *96 projects*
Planned completion date for project not achieved and/or project stage of completion not assessed	27%	38%	28%	24%	28%
Project stage of completion assessed by municipality incorrect	3%	None	None	9%	4%
Supply chain management findings	24%	15%	None	21%	33%
Projects not correctly accounted for in financial statements	6%	None	None	18%	13%

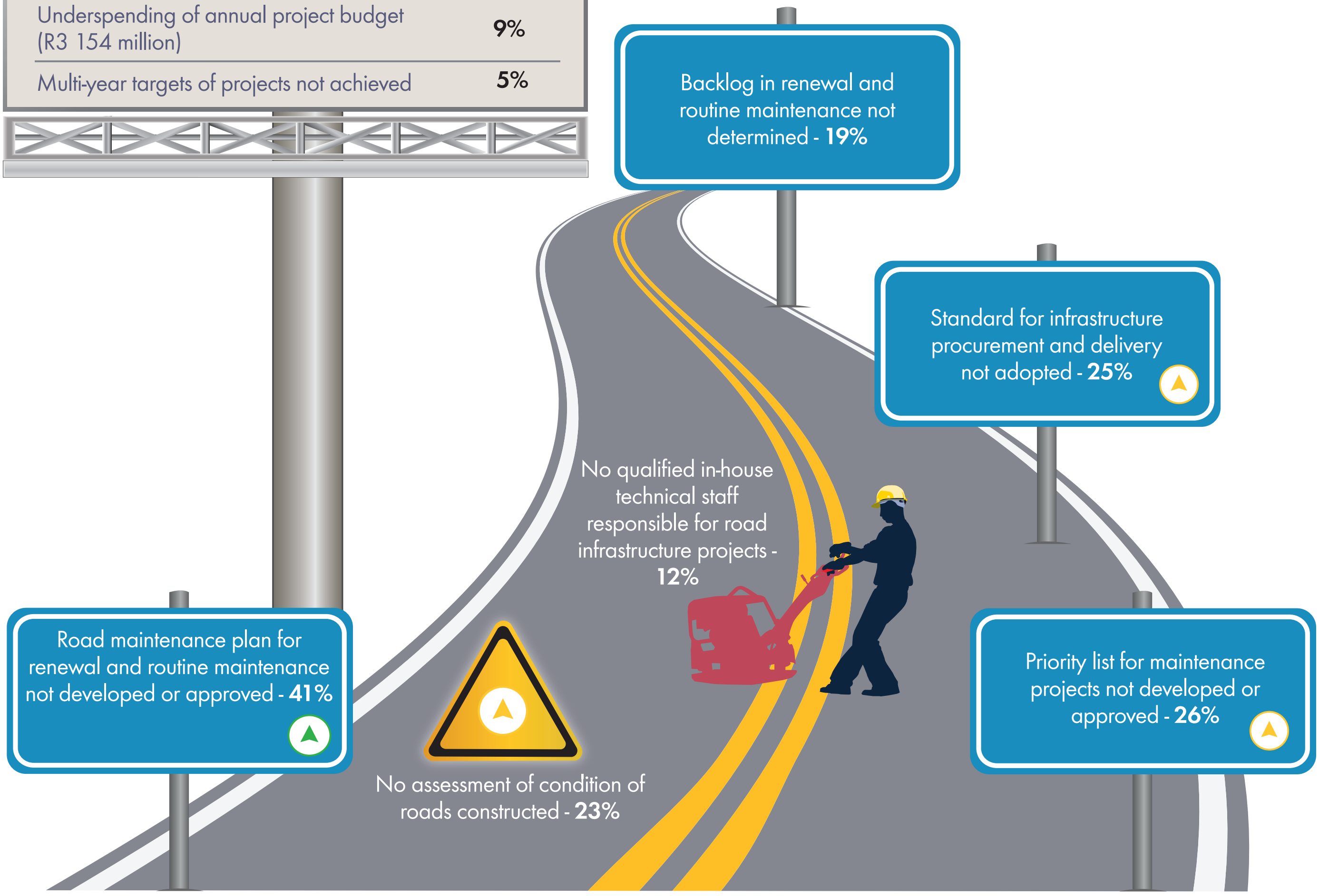
*We did not report on RBIG and WSIG in previous year

ROAD INFRASTRUCTURE – 177 municipalities responsible for road infrastructure

Project-related findings – 186 projects audited

Annual targets of projects not achieved	**20%**
Irregular expenditure incurred (R297 million)	**20%**
Supply chain management findings	**20%**
Projects not correctly accounted for in financial statements	**13%**
Underspending of annual project budget (R3 154 million)	**9%**
Multi-year targets of projects not achieved	**5%**

Findings on maintenance of road infrastructure



WATER INFRASTRUCTURE AND EXTENT OF WATER LOSSES – 122 municipalities responsible for water infrastructure

Project-related findings – 104 projects audited

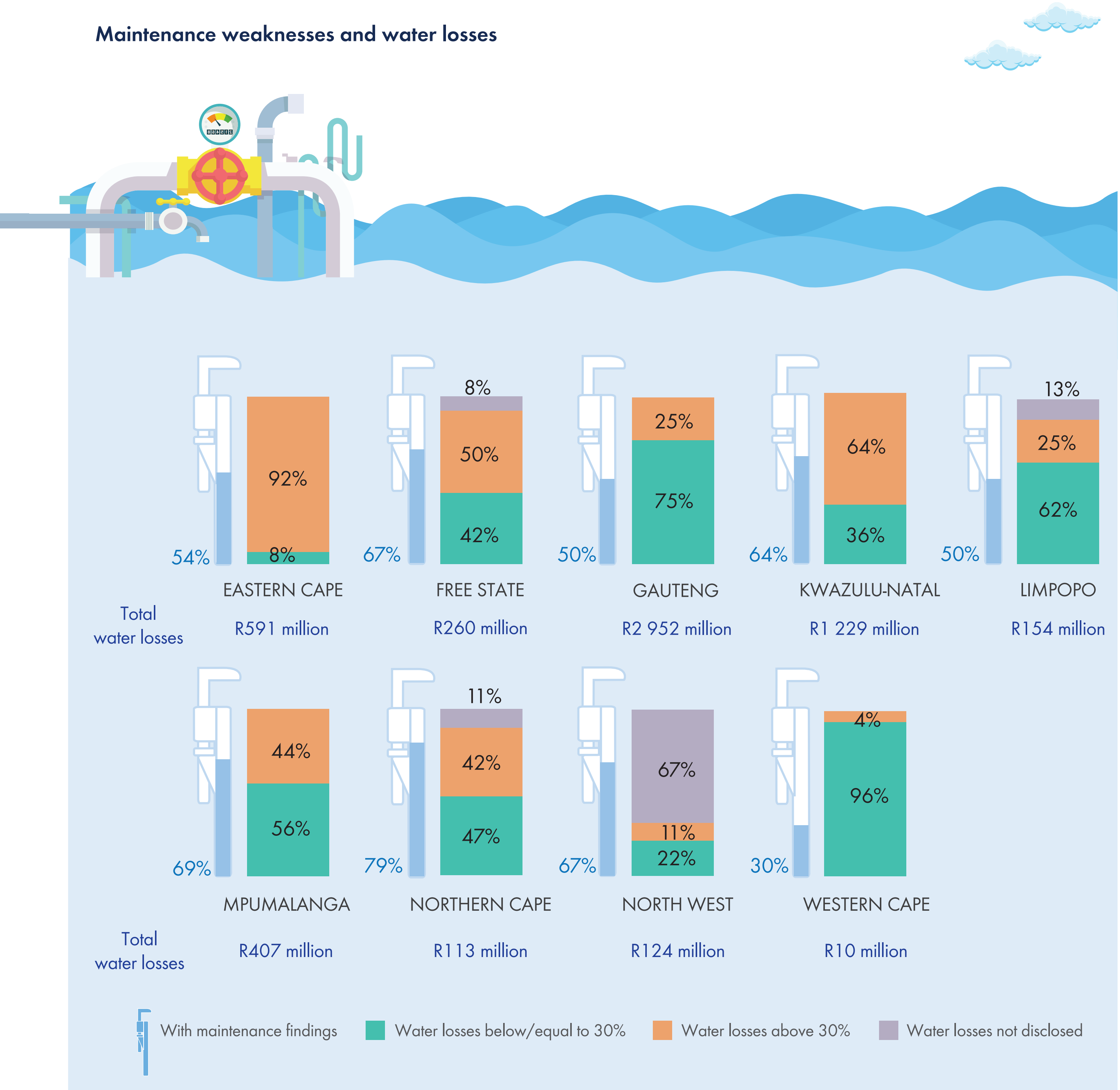
FINDINGS

FINDINGS	Projects with findings
Annual targets of projects not achieved	29%
Underspending of annual project budget (R343 million)	29%
Supply chain management findings	28%
Irregular expenditure incurred (R747 million)	23%
Underspending of total project budget (multi-year) (R438 million)	16%
Multi-year targets of projects not achieved	14%
Projects not correctly accounted for in financial statements	13%

Findings on maintenance of water infrastructure

- Policy on routine maintenance of water infrastructure not developed or approved – 48% ▲
- Standard procedures on condition assessments of water infrastructure not established or inadequate – 35%
- No condition assessments of water infrastructure to inform routine water infrastructure maintenance plan – 29% ▲
- No qualified in-house technical staff responsible for water infrastructure projects – 14%
- Specific time frames and targets not included in routine maintenance plan – 13%

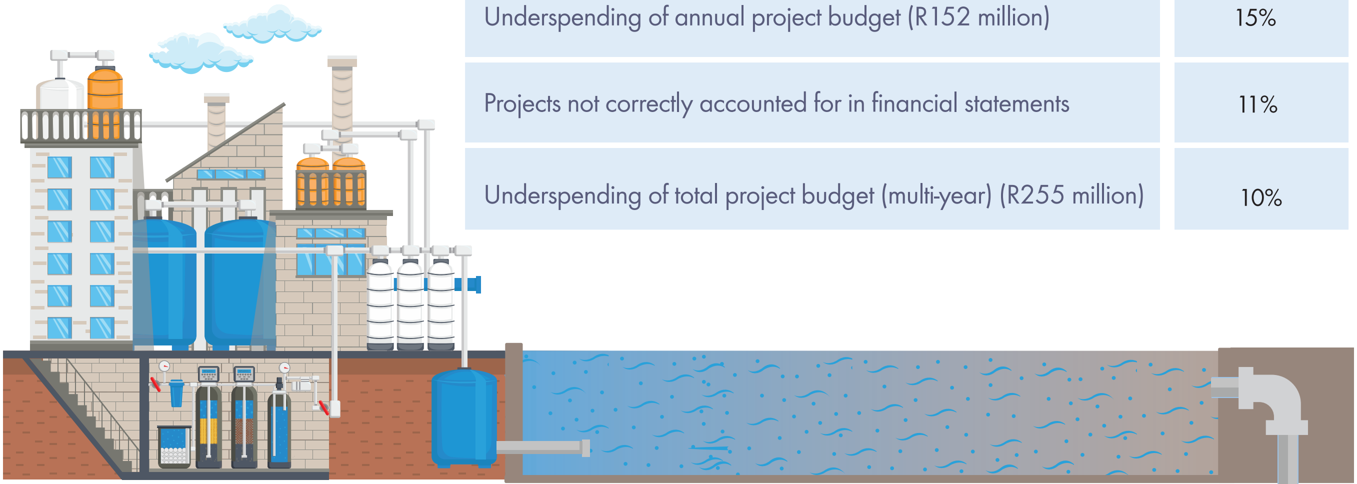
Maintenance weaknesses and water losses



SANITATION INFRASTRUCTURE – 122 municipalities responsible for sanitation infrastructure

Project-related findings – 96 projects audited

FINDINGS	Projects with findings
Annual targets of projects not achieved	39%
Irregular expenditure incurred (R1 241 million)	32%
Supply chain management findings	31%
Multi-year targets of projects not achieved	16%
Underspending of annual project budget (R152 million)	15%
Projects not correctly accounted for in financial statements	11%
Underspending of total project budget (multi-year) (R255 million)	10%



Findings on maintenance of sanitation infrastructure

- Policy on routine maintenance of sanitation infrastructure not developed or approved – 49%
- Standard procedures on condition assessments of sanitation infrastructure not established or inadequate – 34%
- No condition assessments of sanitation infrastructure to inform sanitation infrastructure maintenance plan – 31%
- Backlog in provision of sanitation services not determined – 19%
- No qualified in-house technical staff responsible for sanitation infrastructure projects – 12%

INTERNAL CONTROL

▼ Slight regression in overall status of internal control

OVERALL STATUS OF INTERNAL CONTROL

	Good	Of concern	Intervention required
2017-18	18% (42)	48% (111)	34% (80)
2016-17	23% (52)	47% (110)	30% (71)

▼

DRIVERS OF INTERNAL CONTROL

	Good	Of concern	Intervention required	MOVEMENT
Leadership	20% (46)	44% (103)	36% (84)	▼
Financial and performance management	14% (32)	43% (101)	43% (100)	▼
Governance	27% (62)	44% (104)	29% (67)	▼

Good internal control is the key to ensuring that municipalities deliver on their priorities in an effective, efficient and economical manner

It will also ensure that municipalities produce quality financial statements and performance reports, and comply with applicable legislation

BASIC CONTROLS

	Good	Of concern	Intervention required	MOVEMENT
Effective leadership	35% (81)	41% (97)	24% (55)	▼
Audit action plans	11% (25)	50% (116)	39% (92)	▼
Proper record keeping	18% (43)	42% (97)	40% (93)	▼
Daily and monthly controls	16% (36)	39% (91)	45% (106)	▼
Review and monitor compliance	7% (15)	36% (85)	57% (133)	▼

5 of the 7 basic controls should receive specific attention to improve and sustain audit outcomes

Refer to human resource (HR) management section for HR controls and information technology (IT) controls section for IT governance controls

Good   Of concern   Intervention required

PROGRESS MADE IN IMPROVING DRIVERS OF INTERNAL CONTROL

Province	Leadership	Financial and performance management	Governance
Eastern Cape	▼	▼	▲
Free State	▼	▼	▼
Gauteng	▼	▼	▼
KwaZulu-Natal	▼	▼	▼
Limpopo	▲	▲	▲
Mpumalanga	▲	▼	▼
Northern Cape	▼	▼	▲
North West	▼	▼	▼
Western Cape	▼	►	▼
Total	▼	▼	▼

HUMAN RESOURCE (HR) MANAGEMENT

Slight regression in good HR management controls from **25% (58)** to **24% (55)**

AVERAGE VACANCY RATES

OVERALL **21%** *SENIOR MANAGEMENT* **25%** *FINANCE UNITS* **17%**

Resourcing of 46% (108) of the finance units assessed as either concerning or requiring intervention

KEY POSITIONS - VACANCIES, STABILITY AND ACHIEVEMENT OF COMPETENCY REQUIREMENTS

MUNICIPAL MANAGER

VACANCIES **18% (43)**

VACANT for less than 6 months - **4% (10)**

VACANT for 6 months or more - **14% (33)**

STABILITY **32 months** *(Average number of months in position)*

MET COMPETENCY REQUIREMENTS **92% (175)**

Did not meet minimum requirements - **5% (9)**

Minimum competencies not assessed/ limitations - **3% (6)**

CHIEF FINANCIAL OFFICER

VACANCIES **22% (51)**

VACANT for less than 6 months - **6% (15)**

VACANT for 6 months or more - **16% (36)**

STABILITY **37 months** *(Average number of months in position)*

MET COMPETENCY REQUIREMENTS **93% (170)**

Did not meet minimum requirements - **4% (7)**

Minimum competencies not assessed/ limitations - **3% (5)**

STABILITY* IN KEY POSITIONS PRODUCED BETTER AUDIT OUTCOMES

	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse or disclaimed with findings
MUNICIPAL MANAGER	63	35	26	18
CHIEF FINANCIAL OFFICER	61	40	35	14

*Average number of months in position

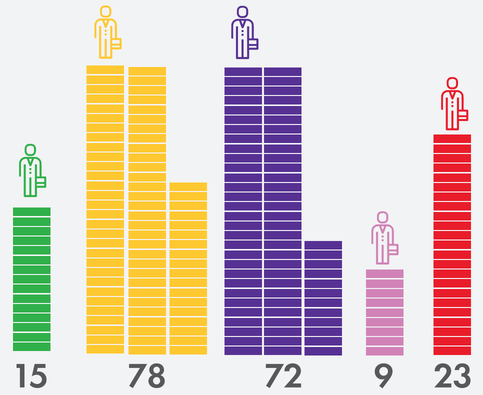
EFFECTIVE USE OF CONSULTANTS

Local government spent an estimated **R3 479 million** on consultancy services in 2017-18

FINANCIAL REPORTING SERVICES

197 municipalities used consultants for financial reporting services at a cost of **R907 million** (2016-17: R760 million)

Province	EC	FS	GP	KZN	LP	MP	NC	NW	WC
Cost (R million)	166	50	91	95	177	134	40	124	30



AUDIT OUTCOMES WHERE CONSULTANTS WERE USED 21 ∧ 52 ∨

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings

REASONS WHY CONSULTANTS WERE INEFFECTIVE

AUDITEE INEFFECTIVENESS
43% (66)

POOR PROJECT MANAGEMENT
20% (31)

CONSULTANT DID NOT DELIVER
14% (22)

LACK OF RECORDS AND DOCUMENTS
12% (19)

CONSULTANT APPOINTED TOO LATE
10% (15)

66% (153) of the financial statements submitted for auditing included material misstatements in the areas in which consultants did work

Province	EC	FS	GP	KZN	LP	MP	NC	NW	WC
Financial statements submitted with material misstatements in areas in which consultants did work	26	10	4	24	21	13	21	21	13

23% (43) of the municipalities did not follow proper procurement procedures when appointing consultants, resulting in irregular expenditure of **R181 million**

Consultants at **9% (4)** of these municipalities were appointed through a contract secured by another municipality without following the prescribed process

ALL SERVICES

224 municipalities used consultants for a variety of services – at **67%**, significant management weaknesses were identified in the following areas:

- **61%** Performance management and monitoring
- **42%** Transfer of skills
- **29%** Planning and appointment process

INFORMATION TECHNOLOGY (IT) CONTROLS

SLIGHT REGRESSION IN IT CONTROLS

An inherent part of the control environment at municipalities is the status of their IT controls. IT controls ensure the **confidentiality**, **integrity** and **availability** of state information; enable **service delivery;** and promote **security** in local government.

OVERALL STATUS

	Good	Of concern	Intervention required	Movement
COMPLEX ENVIRONMENT (70 municipalities)	3% (2)	63% (44)	34% (24)	Regressed
NON-COMPLEX ENVIRONMENT (163 municipalities)	31% (50)	41% (67)	28% (46)	Unchanged

Municipalities with a **complex IT environment** have sophisticated hardware (e.g. more than one server and operating system) and software (e.g. customised applications); employ advanced technologies and transact online; and rely heavily on IT controls for financial and performance information

Municipalities with a **non-complex IT environment** use less sophisticated hardware and software (i.e. commercial off-the-shelf infrastructure and applications), while key controls over financial and performance information do not overly rely on IT

COMPLEX ENVIRONMENT

INFORMATION TECHNOLOGY FOCUS AREAS

	Good	Of concern	Intervention required	Movement
SECURITY MANAGEMENT	14% (10)	53% (37)	33% (23)	Regressed
USER ACCESS MANAGEMENT	13% (9)	53% (37)	34% (24)	Improved
IT CONTINUITY	21% (15)	47% (33)	32% (22)	Regressed

Good — Of concern — Intervention required

USE OF INFORMATION TECHNOLOGY CONSULTANTS

Only 12 municipalities made use of IT consultants at a total approximate cost of R246 million – a decrease of 54% from previous year's approximate cost of R540 million

Reasons for using IT consultants

- LACK OF ADEQUATE SKILLS OF PERMANENT STAFF IN IT SECTION
  84% (11)
- EMERGENCY ARRANGEMENT DUE TO CAPACITY CHALLENGES
  8% (1)
- DELIVERY OF VALUE-ADDED SERVICES (SPECIFIC FUNCTION DOES NOT EXIST AS PER APPROVED STRUCTURE)
  8% (1)

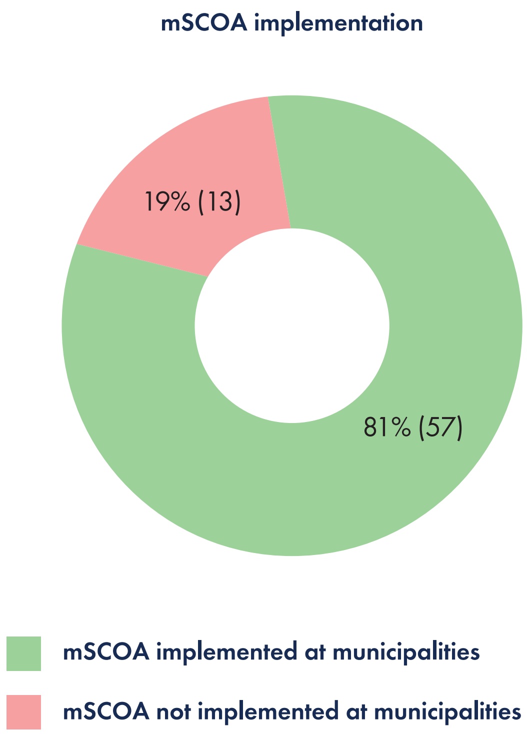
MUNICIPAL STANDARD CHART OF ACCOUNTS (mSCOA) – IMPLEMENTATION

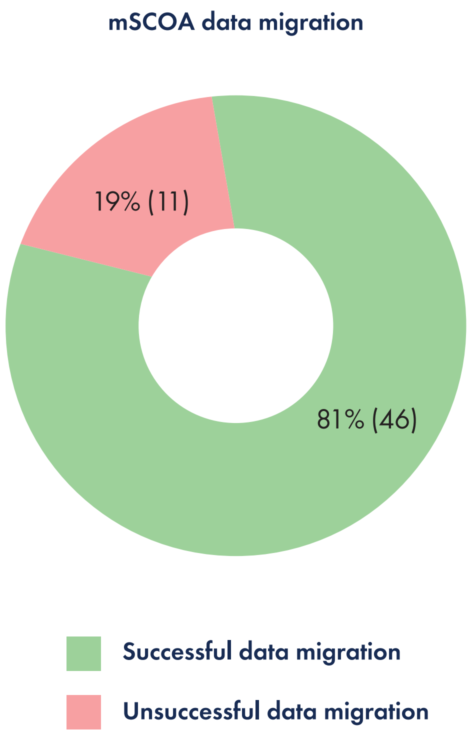
The Municipal Regulations on Standard Chart of Accounts were gazetted on 22 April 2014, with an effective date of 1 July 2017 (thus from the 2017-18 financial year). By this date, mSCOA had still not been implemented at all municipalities, including three of the metros (City of Tshwane, Nelson Mandela Bay and City of Johannesburg). At some municipalities, the implementation of mSCOA resulted in the late submission of financial statements and/or material misstatements in the submitted financial statements.

The reasons for not implementing mSCOA included a lack of money to start implementation, a failure to use internal audit units for support from a project assurance perspective, the complexity of some systems as well as capacity and skills constraints.

The data migration as part of mSCOA implementation was not always successful due to, amongst others, challenges with regard to data cleansing and data mapping processes. Significant differences were also identified at some municipalities with regard to the completeness, accuracy and occurrence of the migrated data.

COMPLEX INFORMATION TECHNOLOGY SYSTEMS





MEDIUM-TERM STRATEGIC FRAMEWORK'S OUTCOME 9: A RESPONSIVE, ACCOUNTABLE, EFFECTIVE AND EFFICIENT DEVELOPMENTAL LOCAL GOVERNMENT SYSTEM

The Department of Cooperative Governance, its provincial counterparts and the Municipal Infrastructure Support Agent have a monitoring and supporting role to play in achieving outcome 9, as defined in sub-outcomes 1 to 4. The information in this section deals with sub-outcomes 1, 3 and 4 as well as the back-to-basics programme.

SUB-OUTCOME 1: MEMBERS OF SOCIETY HAVE SUSTAINABLE AND RELIABLE ACCESS TO BASIC SERVICES

Role: Support municipalities to establish a municipal asset management system

- Municipal Infrastructure Support Agent purchased asset management software during 2015-16 at a cost of R34 million and provided training to over 150 municipalities – it is used by only 28 municipalities
- 73 municipalities responsible for infrastructure assets do not use any asset management system

PROVINCE	EASTERN CAPE	FREE STATE	GAUTENG	KWAZULU-NATAL	LIMPOPO	MPUMALANGA	NORTHERN CAPE	NORTH WEST	WESTERN CAPE
Municipalities not using municipal asset management system	55% (21)	36% (5)	0% (0)	12% (6)	44% (11)	37% (7)	46% (12)	43% (9)	7% (2)

SUB-OUTCOME 3: DEMOCRATIC, WELL-GOVERNED AND EFFECTIVE MUNICIPAL INSTITUTIONS CAPABLE OF CARRYING OUT THEIR DEVELOPMENT MANDATE AS PER THE CONSTITUTION

Role: Support the output of 'putting people first' through public participation at ward level

- The Department of Cooperative Governance did not achieve its target of developing 4 392 ward committee operational plans in collaboration with provincial cooperative governance departments and municipalities – we could not obtain sufficient audit evidence to support the actual achievement of 2 253 reported in the department's performance report
- Provincial cooperative governance departments were required to plan and report on their role to support municipalities in improving public participation using three customised performance indicators – Eastern Cape did not report on any of the indicators and KwaZulu-Natal excluded one

FINDINGS	PROVINCE										MOVEMENT
	EASTERN CAPE	FREE STATE	GAUTENG	KWAZULU-NATAL	LIMPOPO	MPUMALANGA	NORTHERN CAPE	NORTH WEST	WESTERN CAPE	TOTAL	
Ward committees not established for each ward	3	1	1	1	0	0	2	1	0	9	▲
Ward-level improvement plans not submitted for auditing	1	0	0	2	0	1	0	1	0	5	▲
Ward-level improvement plans not developed	3	3	0	1	0	3	5	5	2	22	▲
Ward-level improvement plans did not address basic concerns of citizens in ward	0	0	0	1	0	1	0	1	0	3	▲

SUB-OUTCOME 4: SOUND FINANCIAL AND ADMINISTRATION MANAGEMENT

Role: Support municipalities in resolving long-outstanding debt owed to and by municipalities

The Department of Cooperative Governance achieved its target of 30 municipalities implementing municipal-specific revenue plans by 31 March 2018

Provincial cooperative governance departments were required to plan and report on support with revenue management and debt collection to municipalities:

- Northern Cape did not achieve targeted number of municipalities to support and Limpopo's reported achievement was not reliable
- North West and Free State did not provide support to municipalities on debt collection

Although only a limited number of municipalities could be targeted, the overall aim of these initiatives was to find viable solutions to the problems of low collection, debt over 90 days, and non-payment of creditors by municipalities within 30 days – the initiatives did not achieve the required results, as most municipalities are still paying creditors after 30 days and are not collecting debt as soon as possible

IMPLEMENTATION OF BACK-TO-BASICS (B2B) PROGRAMME

The B2B programme is a key initiative of the Department of Cooperative Governance to strengthen local government by getting the basics right – the department can only monitor the success of the programme's implementation based on the required monthly reporting by municipalities

Slight regression in number of municipalities not reporting on a monthly basis

No monthly reporting on B2B

PROVINCE		EASTERN CAPE	FREE STATE	GAUTENG	KWAZULU-NATAL	LIMPOPO	MPUMALANGA	NORTHERN CAPE	NORTH WEST	WESTERN CAPE
No monthly reporting on B2B	2017-18	24% (9)	14% (2)	0% (0)	4% (2)	0% (0)	16% (3)	35% (9)	38% (8)	14% (4)
	2016-17	39% (15)	29% (4)	0% (0)	6% (3)	0% (0)	5% (1)	19% (5)	29% (6)	7% (2)
	Movement	▲	▲	►	▲	►	▼	▼	▼	▼

Overall, the B2B programme has not had the desired impact, as noted from the poor audit outcomes and financial health concerns

ASSURANCE PROVIDERS

Overall regression in assurance provided by role players

Low levels of assurance show a breakdown in a crucial element of the improvement cycle, being the monitoring to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved

ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP

	Provides assurance	Provides some assurance	Provides limited/no assurance	Not established
Senior management	3%	56%	41%	
Municipal managers	8%	58%	34%	
Mayors	26%	51%	23%	

INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

	Provides assurance	Provides some assurance	Provides limited/no assurance	Not established
Internal audit units	29%	53%	17 %	1%
Audit committees	31%	49%	17%	3%
COORDINATING/MONITORING DEPARTMENTS	7%	62%	31%	
Treasuries	10%	70%	20%	
Offices of the premier	11%	56%	33%	
Cooperative governance departments		60%	40%	

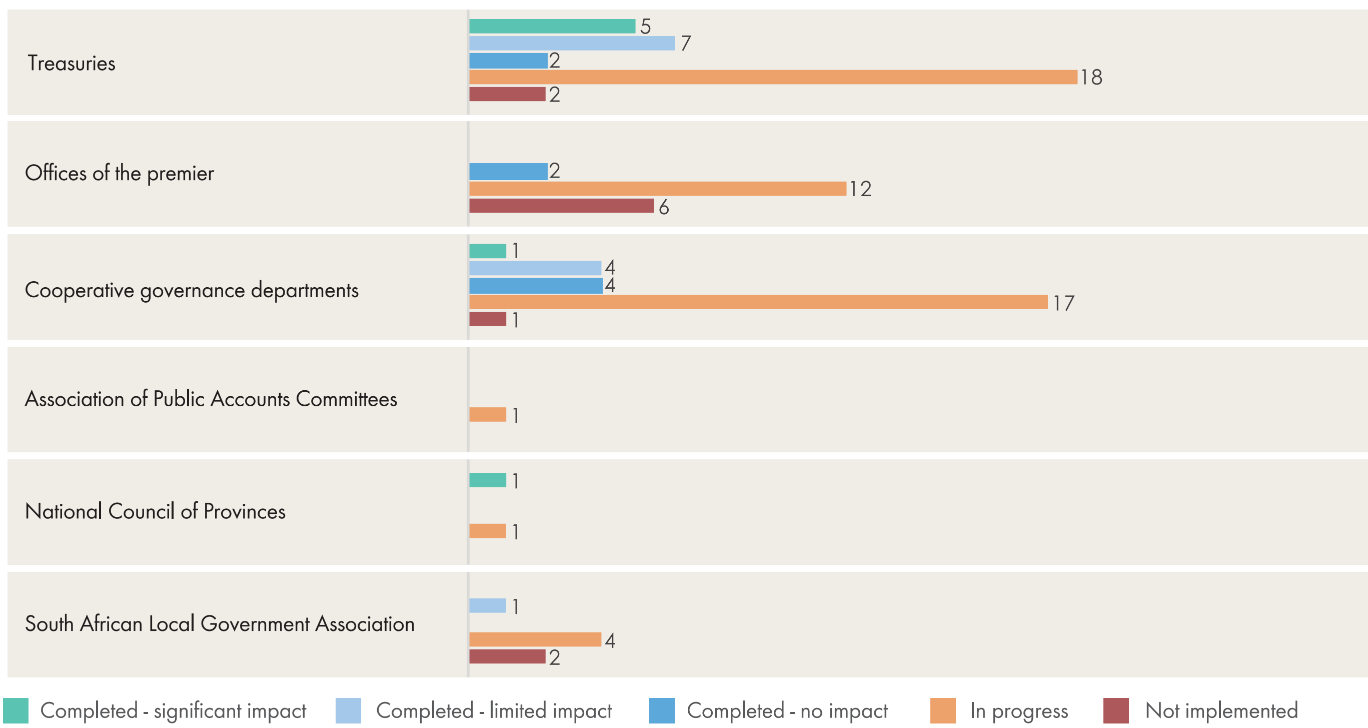
FINDINGS	INTERNAL AUDIT UNITS	AUDIT COMMITTEES
Fully compliant with legislation	77% (171)	78% (169)
Positive impact on audit outcomes	35% (78)	53% (116)
Evaluates reliability of financial information	87% (194)	94% (204)
Evaluates reliability of performance information	86% (191)	91% (197)
Evaluates compliance with key legislation	88% (196)	92% (199)
Interacts with executive authority	N/A	90% (195)

EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT

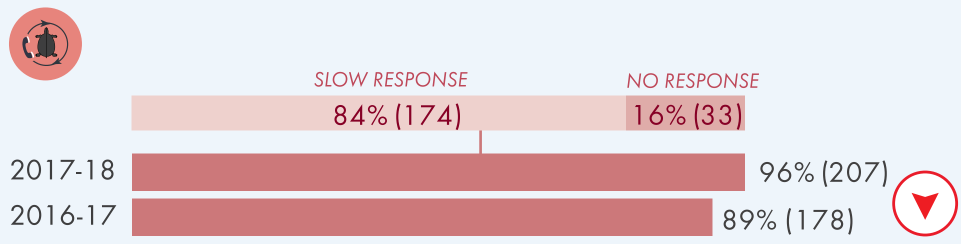
	Provides assurance	Provides some assurance	Provides limited/no assurance	Not established
Municipal councils	26%	48%	26%	
Municipal public accounts committees	27%	46%	27%	
Portfolio committees on local government	10%	50%	40%	

Provides assurance | Provides some assurance | Provides limited/no assurance | Not established

STATUS OF COMMITMENTS MADE IN PRIOR YEARS BY NATIONAL AND PROVINCIAL ROLE PLAYERS TO SUPPORT LOCAL GOVERNMENT

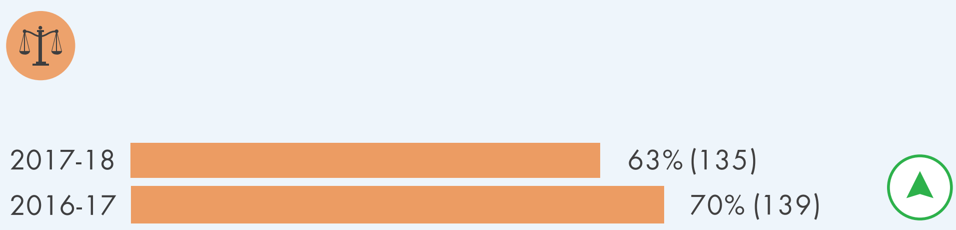


SLOW OR NO RESPONSE IN IMPROVING INTERNAL CONTROLS AND ADDRESSING RISK AREAS



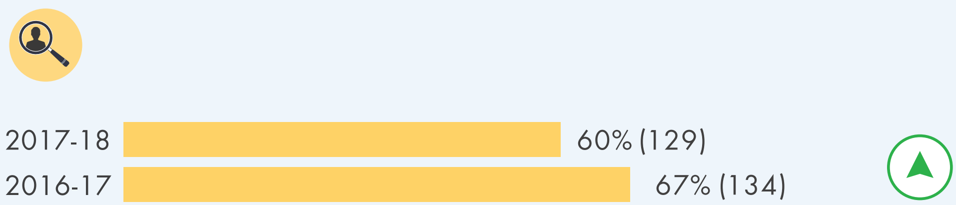
No response most evident in:
Free State – **79%**
North West – **48%**

INADEQUATE CONSEQUENCES FOR POOR PERFORMANCE AND TRANSGRESSIONS



Lack of consequences most common in:
North West – **100%**
Free State – **100%**
Limpopo – **92%**

INSTABILITY OR VACANCIES IN KEY POSITIONS OR KEY OFFICIALS LACKING APPROPRIATE COMPETENCIES



Vacancies, instability or lack of competencies most prominent in:
Limpopo – **100%**
North West – **100%**
Free State – **93%**

ACCOUNTABILITY ↓ = SLOW/NO RESPONSE ↑
BY MANAGEMENT

NOTES

SECTION 5

Status of metros

Clean audits: 0%
(2016-17: 0%)

Financially unqualified financial statements: 71%
(2016-17: 86%)

No findings on performance reports: 57%
(2016-17: 57%)

No findings on compliance with legislation: 0%
(2016-17: 0%)

Irregular expenditure: R7,062 billion
(2016-17: R12,450 billion)

The eight metros play a significant role in the local government sphere for a multitude of reasons. These include the metros' strategic location across the country's various economic hubs, the vast number of people whom they serve in different cities across South Africa (20,3 million people representing 49% of the total population as per Statistics South Africa's 2011 Census), and the corresponding substantial budgets with which they are entrusted for service delivery.

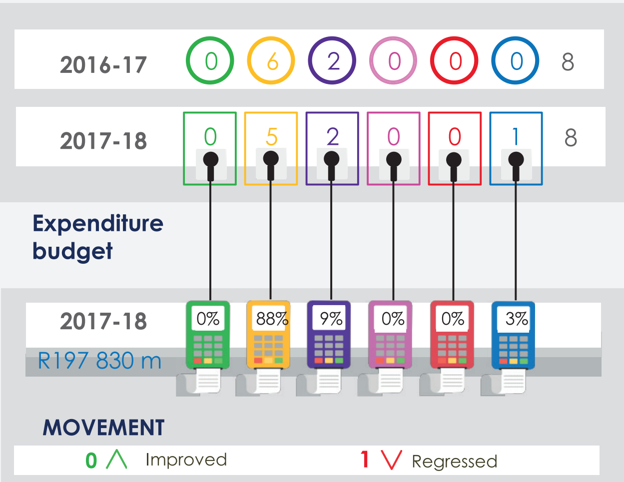
We have included the audit outcomes of seven of the eight metros in this report. The audit of Mangaung had not been finalised at the cut-off date of this report and the metro's outcome is therefore not included in the detailed outcomes analysis.

OVERALL AUDIT OUTCOMES

The audit outcomes of the metros regressed from the previous year.

The results and movements are provided below.

AUDIT OUTCOMES



METRO	2017-18	2016-17	Movement
Buffalo City (BF)			
Nelson Mandela Bay (NM)			
City of Johannesburg (CoJ)			
City of Ekurhuleni (Ek)			
eThekweni (eT)			
City of Tshwane (T)			
City of Cape Town (CCT)			

OUTSTANDING AUDITS

Cut-off date for inclusion of audit outcomes in this section of the report is **31 January 2019**

METRO	2017-18	2016-17
Mangaung		

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

The consolidated financial statements for Mangaung were only received on 18 February 2019 due to late amendments to the value of the employee benefit obligation in the consolidated financial statements. Mangaung has been submitting its consolidated financial statements late for auditing since 2014-15.

The financial statements are the mechanism through which the council demonstrates the financial position of the metro and accounts for the financial performance of the metro in the financial year.

SUBMISSION AND QUALITY OF FINANCIAL STATEMENTS

TARGET	MOVEMENT	2017-18	2016-17
Timely submission of financial statements ***(all metros)***		88% (7)	88% (7)
Quality submission for auditing		14% (1)	29% (2)
Quality of published financial statements		71% (5)	86% (6)

4 metros (57%) *achieved unqualified audit opinions only because they* ***corrected all misstatements*** *identified during the audit*

QUALIFICATION AREAS ***(on audited financial statements)***

METRO	PROPERTY, INFRASTRUCTURE, PLANT AND EQUIPMENT	INTANGIBLE ASSETS	REVENUE FROM EXCHANGE TRANSACTIONS	IRREGULAR EXPENDITURE
Buffalo City			X	
Nelson Mandela Bay	X	X	X	X

We highlight the following with regard to the financial statements of the metros:

- Only **eThekwini** managed to submit financial statements that were free from material misstatements. This was due to competent, experienced staff and low vacancy rates at senior level within the metro's treasury unit, effective internal audit reviews of the financial statements throughout the year as well as the audit committee performing a review of the interim and final financial statements.
- The four metros below submitted financial statements for auditing with material misstatements and were able to achieve unqualified audit opinions only by correcting the misstatements in the areas indicated:
  - **City of Ekurhuleni:** Property, infrastructure, plant and equipment; trade and other payables; and statement of budget and actual comparison
  - **City of Johannesburg:** Assets, liabilities and disclosures
  - **City of Tshwane:** Cash flow statement, receivables, commitments and irregular expenditure
  - **City of Cape Town:** Revenue, receivables and commitments
- **Buffalo City** regressed to a qualified opinion from an unqualified opinion, as the sale of water was **not measured reliably** due to faulty water meters and inaccurate meter readings. Consequently, we were unable to determine whether any further adjustments were necessary to the **service charge revenue** from exchange transactions of **R436,6 million**.
- **Nelson Mandela Bay** has been struggling to improve its audit outcome, as it has received a **qualified opinion for seven years** in a row since 2011-12. The following were the areas of qualification in the current year:
  - **Revenue** from exchange transactions: Lack of evidence to support the number of prepaid electricity meters in use; and indigent debtors received subsidies that they were not entitled to.
  - **Property, infrastructure, plant and equipment:** Inadequate assessment of the useful lives of assets; and limitations on our physical verification of assets.
  - **Intangible assets**: Inadequate assessment of useful lives.
  - **Irregular expenditure**: Not all irregular expenditure identified during the audit was disclosed.

The **Municipal Standard Chart of Accounts** project and resultant regulations are part of the National Treasury's ongoing budget and reporting reforms aimed at improving financial reporting. With effect from 1 July 2017, all municipalities (including metros) were required to capture all their financial transactions against a predefined classification framework, which will result in uniformity of line items in terms of revenue, expenditure, assets and liabilities.

The Municipal Standard Chart of Accounts had already been implemented before 2017-18 at four of the metros (eThekwini, City of Ekurhuleni, Buffalo City and City of Cape Town) as they were pilot sites. The remaining metros were not successful in implementing the Municipal Standard Chart of Accounts by the required date:

- **Nelson Mandela Bay** procured a Municipal Standard Chart of Accounts-compliant information technology system in 2015-16 to replace its legacy systems, but the contract with the supplier ended without the new system having been fully implemented. The payments to the supplier in spite of the full contractual obligation not having been settled were reported as fruitless and wasteful expenditure.
- Neither **City of Tshwane** nor **City of Johannesburg** had implemented the Municipal Standard Chart of Accounts yet, as their implementation requires a SAP system upgrade, which is only scheduled for July 2019. As a result, these metros performed a manual consolidation of financial information to report on Municipal Standard Chart of Accounts-compliant information to the National Treasury.

SUBMISSION AND QUALITY OF PERFORMANCE REPORTS

TARGET	MOVEMENT	2017-18	2016-17
Performance reports prepared		100% (7)	100% (7)
Quality of performance reports submitted for auditing		29% (2)	29% (2)
Quality of published performance reports		57% (4)	57% (4)

***2 metros (28%)** had no material findings only because they **corrected all misstatements** identified during the audit*

FINDINGS ON PERFORMANCE REPORTS

METRO	PERFORMANCE INDICATORS AND TARGETS NOT USEFUL	ACHIEVEMENT REPORTED NOT RELIABLE
Buffalo City	X	X
Nelson Mandela Bay		X
City of Johannesburg		X

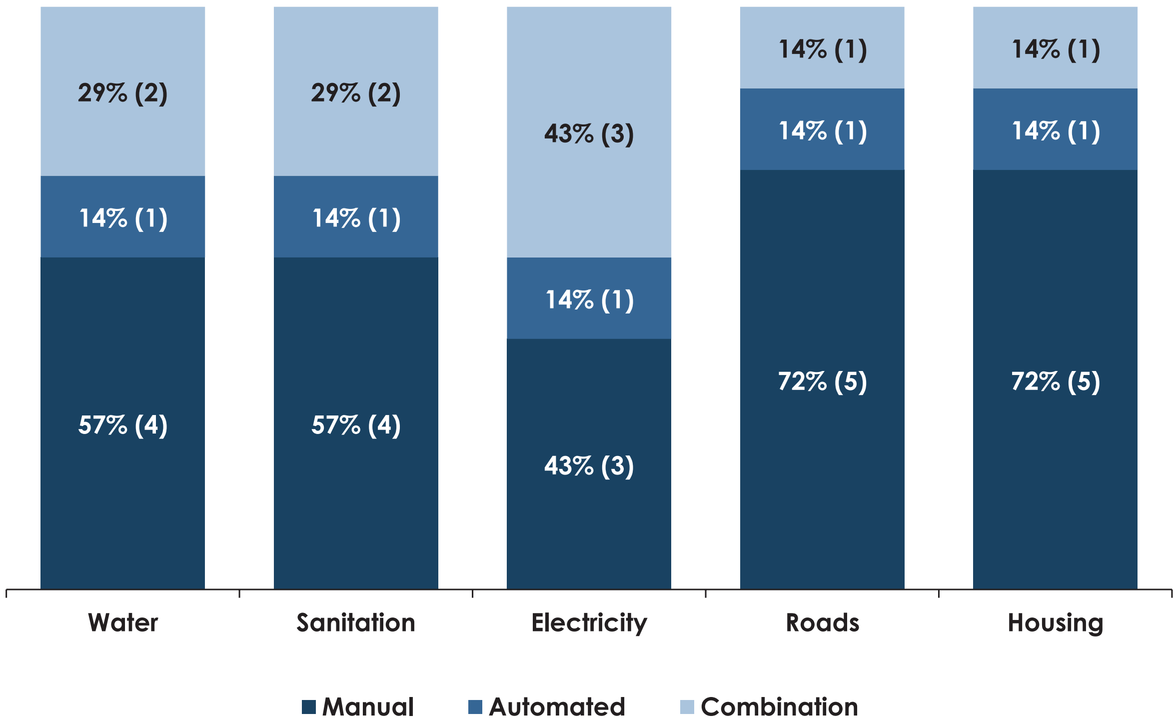
We highlight the following with regard to the performance reporting of the metros:

- **City of Ekurhuleni** and **City of Cape Town** submitted performance reports that were free from material misstatements, as adequate reviews were performed.
- **eThekwini** and **City of Tshwane** had no material findings, as they managed to correct all misstatements identified during the audit.
- **Buffalo City:** For some indicators, including *percentage of households with access to basic solid waste removal, sanitation, electricity and water supply*, the reported achievements were not supported by sufficient appropriate audit evidence. In addition, a comparison per indicator between the performance for the current and the previous year was not included for any of the indicators in the performance report.
- **Nelson Mandela Bay:** There was inadequate source documentation to support the indicators and targets as reported for *percentage year-to-year reduction in electrical power outages* and *average response time to emergencies*. This was as a result of poor filing and record-keeping processes.
- **City of Johannesburg**: The reported performance was not reliable, as some achievements could not be verified, while others were not substantiated by sufficient appropriate audit evidence, including *percentage of reported potholes repaired within one week*, *number of hours to restore loss of electricity supply to traffic signals within 24 hours*, and *percentage of investigated matters resolved.*

Reliable reporting on achievements against targets remains the main challenge for metros. Metros have a complex environment and need to plan, monitor and report on the delivery of various services – good systems to support the gathering of reliable data is key to an effective performance management process.

Most metros did not have fully automated performance management systems, but relied mainly on manual controls or a combination of automated and manual controls to record and report on performance, which increased the risk of data manipulation and errors.

The processes used by metros to report on performance on the main areas of service delivery are shown below.



The indicators and targets in the performance reports form an important tool for the council to keep metros accountable against set outcomes and goals. It is also used by the public to assess service delivery by the metro. Weaknesses in the performance reports therefore need to be addressed to ensure that the direction and the oversight provided by the council are clear and focus on the things that matter.

COMPLIANCE WITH KEY LEGISLATION

Metros with material **findings on compliance with legislation remained unchanged** from previous year – 100%

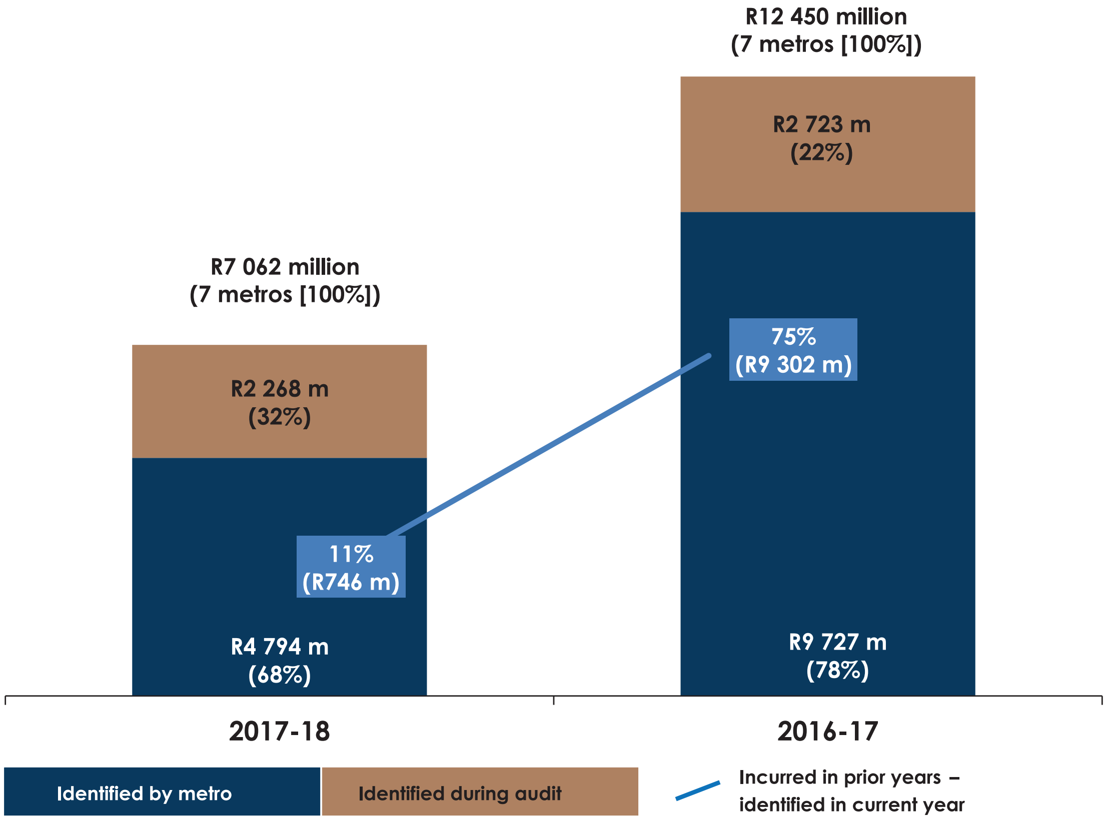
The material compliance findings at metros are shown below, with an indication of the areas in which the compliance findings were raised and the movement from the previous year.

NON-COMPLIANCE AREA	MOVEMENT FROM PREVIOUS YEAR	FINDING	Buffalo City	Nelson Mandela Bay	City of Johannesburg	City of Ekurhuleni	eThekwini	City of Tshwane	City of Cape Town
Quality of financial statements	▼	Material misstatements / limitations in submitted financial statements	X	X	X	X		X	X
Procurement management	▼	Awards made to providers who did not submit declaration of interest / employment in state		X			X		
		Awards made to providers who are in service of municipality - persons with interest failed to disclose		X					
		Awards made to providers who are in service of other state institutions	X						
		Persons in service of municipality whose close family members had interest in provider not disclosed	X	X	X	X			
		Awards made to prohibited suppliers (as listed by the National Treasury)						X	
		Competitive bids not invited and/or deviations not justified			X	X		X	
		Bid specifications for the tender were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services							X
		Bid adjudication not always done by properly constituted adjudication committee		X	X				
		Criteria applied in evaluation differed from those originally specified / not specified at all				X			
		Points incorrectly allocated/calculated			X				
		Supplier scoring highest points not selected without justification		X					
		Performance of contractors not monitored on monthly basis		X	X				
		Inadequate contract performance monitoring measures		X	X				
		Contracts extended or modified without approval of accounting officer / delegated official		X				X	
		Three written quotations not obtained and/or deviations not justified			X				
		Thresholds for local content on designated sectors procurement not properly applied		X					

NON-COMPLIANCE AREA	MOVEMENT FROM PREVIOUS YEAR	FINDING	Buffalo City	Nelson Mandela Bay	City of Johannesburg	City of Ekurhuleni	eThekwini	City of Tshwane	City of Cape Town
Prevention of unauthorised, irregular, and fruitless and wasteful expenditure	▼	Irregular expenditure not prevented	X	X	X	X	X	X	X
		Unauthorised expenditure not prevented	X	X	X				
		Fruitless and wasteful expenditure not prevented		X					
Effecting consequences	▼	Irregular expenditure not investigated to determine if any person is liable		X	X	X			
		Irregular expenditure written off as irrecoverable without being certified or investigated		X					
		Fruitless and wasteful expenditure not investigated to determine if any person is liable	X	X	X			X	
		Unauthorised expenditure not investigated to determine if any person is liable		X	X				
Expenditure management	►	Payments to creditors not settled within 30 days from receipt of invoice	X		X	X		X	
Revenue management	►	Ineffective system of internal control	X	X				X	
		No/inadequate management, accounting and information system			X				
Asset management	▼	Ineffective system of internal control	X	X		X		X	
		Investments not limited to prescribed types of investments				X			
		Investments not made in accordance with investment policy			X				
		No/inadequate management, accounting and information system		X					
Strategic planning and performance management	▼	Performance management system and related controls not maintained / inadequate	X	X					
Utilisation of conditional grants	▼	Division of Revenue Act allocations not spent in accordance with applicable grant framework				X			
Human resource management	▼	Appointments made in posts not approved and/or funded or not on staff establishment						X	
		Appointments made in posts with no job descriptions						X	
		Municipal managers / senior managers did not disclose financial interests within 60 days from date of appointment						X	

IRREGULAR EXPENDITURE AND SUPPLY CHAIN MANAGEMENT

Irregular expenditure incurred by metros decreased by 43%, mainly due to Nelson Mandela Bay's irregular expenditure decreasing by R5 131 million (63%). The irregular expenditure of this metro was very high in 2016-17 as a result of a once-off restatement after the metro revisited, investigated and restated the irregular expenditure incurred in prior years.



The above figure does not show the irregular expenditure of Mangaung. Based on the unaudited financial statements, this metro's irregular expenditure amounted to R95 million.

A total of R6 720 million (95%) of the irregular expenditure was as a result of non-compliance with supply chain management legislation – 16% thereof related to competitive bidding or quotation processes not having been followed, 77% to non-compliance with other procurement process requirements, and 7% to non-compliance with legislation on contract management. A total of 66% of the irregular expenditure incurred by metros related to ongoing multi-year contracts irregularly awarded in prior years.

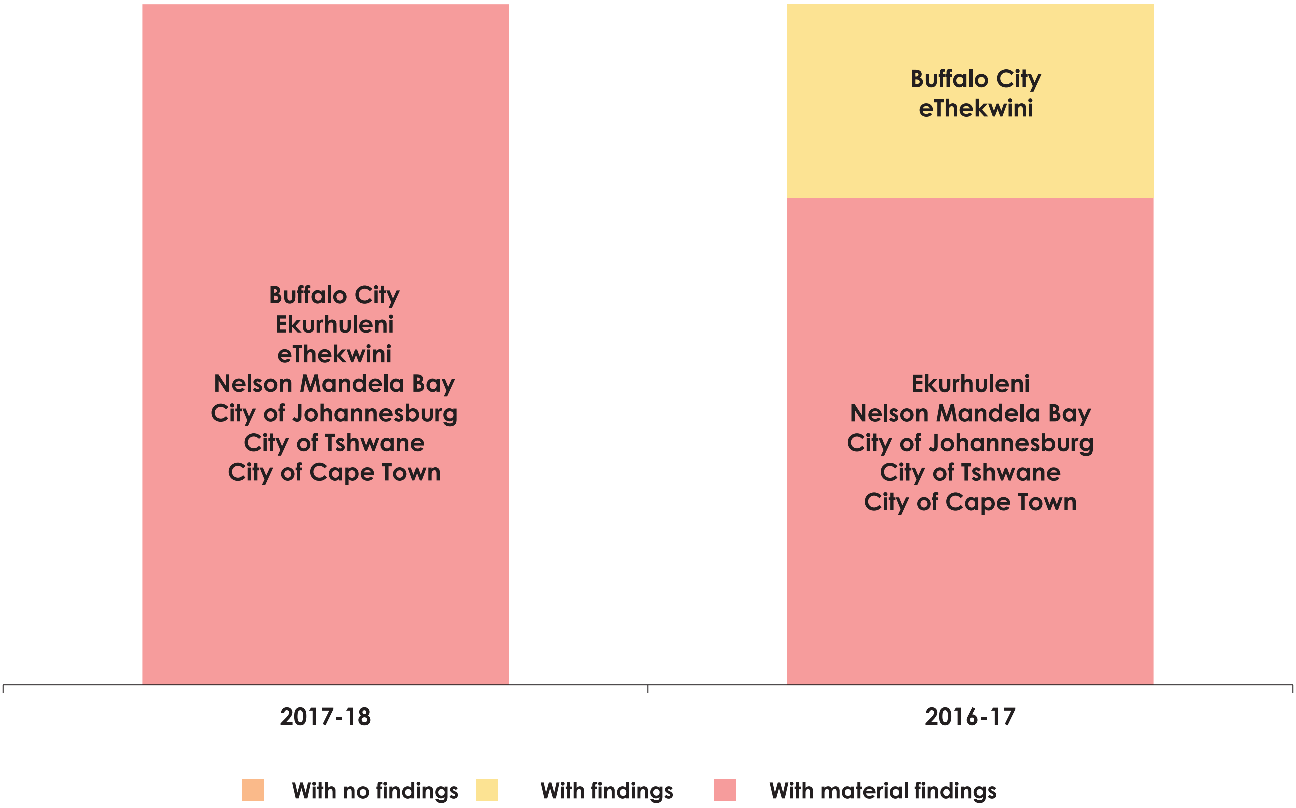
Sufficient steps were not taken to recover, write off, approve or condone irregular expenditure, and the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with, totalled R25 883 million.

All metros incurred irregular expenditure in the past three years. The table below includes details of the irregular expenditure disclosed, how much was actual expenditure in the current year (in other words, not prior years' irregular expenditure identified in the current year) as well as the accumulated irregular expenditure to date.

METRO	DISCLOSED AMOUNT	NATURE OF NON-COMPLIANCE	INCURRED IN CURRENT YEAR	INCURRED IN CURRENT YEAR AS PERCENTAGE OF TOTAL METRO BUDGET	ACCUMULATED IRREGULAR EXPENDITURE
Nelson Mandela Bay	R3 053 million (2016-17: R8 184 million) Qualified on completeness of disclosure	84% related to non-compliance with other procurement process requirements	R2 712 million (89%) – R2 579 million on ongoing multi-year contracts awarded in prior years	26%	R12 379 million
City of Tshwane	R1 684 million (2016-17: R1 825 million)	65% was as a result of non-compliance with other procurement process requirements	R1 684 million (100%) – R838 million on ongoing multi-year contracts awarded in prior years	5%	R5 054 million
City of Johannesburg	R868 million (2016-17: R706 million)	99% was as a result of non-compliance with other procurement process requirements	R707 million (81%) – R466 million on ongoing multi-year contracts awarded in prior years	3%	R2 724 million
eThekwini	R733 million (2016-17: R514 million)	43% was as a result of non-compliance with legislation on contracts and 37% related to non-compliance with other procurement process requirements	R573 million (78%)	1%	R1 283 million
City of Ekurhuleni	R275 million (2016-17: R591 million)	80% was as a result of procurement without competitive bidding	R275 million (100%) – R52 million on ongoing multi-year contracts awarded in prior years	1%	R1 515 million
City of Cape Town	R236 million (2016-17: R47 million)	51% was as a result of non-compliance with legislation on contracts and the remainder was due to non-compliance with other procurement process requirements	R153 million (65%)	< 1%	R283 million
Buffalo City	R213 million (2016-17: R584 million)	92% was as a result of non-compliance with other procurement process requirements	R213 million (100%) – R208 million on ongoing multi-year contracts awarded in prior years	3%	R2 644 million

There was a **regression in the overall status of supply chain management**.

The following graphic depicts the status of supply chain management at metros in the current and previous year:



The following were the most common findings on uncompetitive procurement processes and inadequate contract management:

The following examples illustrate the supply chain management non-compliance:

City of Cape Town – traffic contravention services

The contracts relating to traffic contravention services were extended three times without following the prescribed process, resulting in irregular expenditure of R65 million. The total value of the extensions represented 87% of the original contract value.

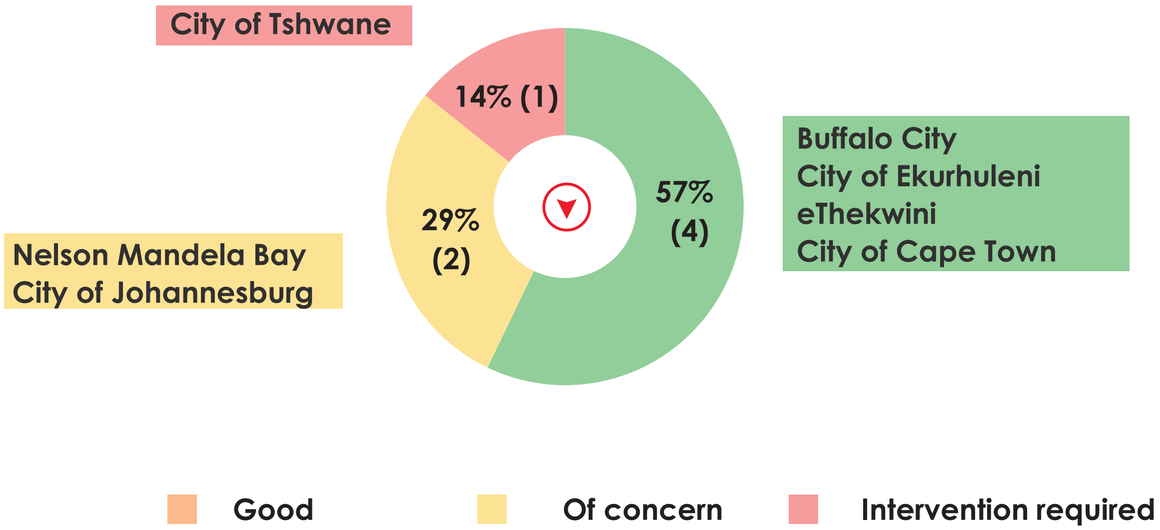
City of Tshwane – capital project management contract

The capital project management contract was obtained through contracts secured by other organs of state without complying with the prescribed requirements. The total value of the contract was R3 778,45 million. The irregular expenditure incurred with regard to this contract in the current year amounted to R318 million.

FINANCIAL SUSTAINABILITY

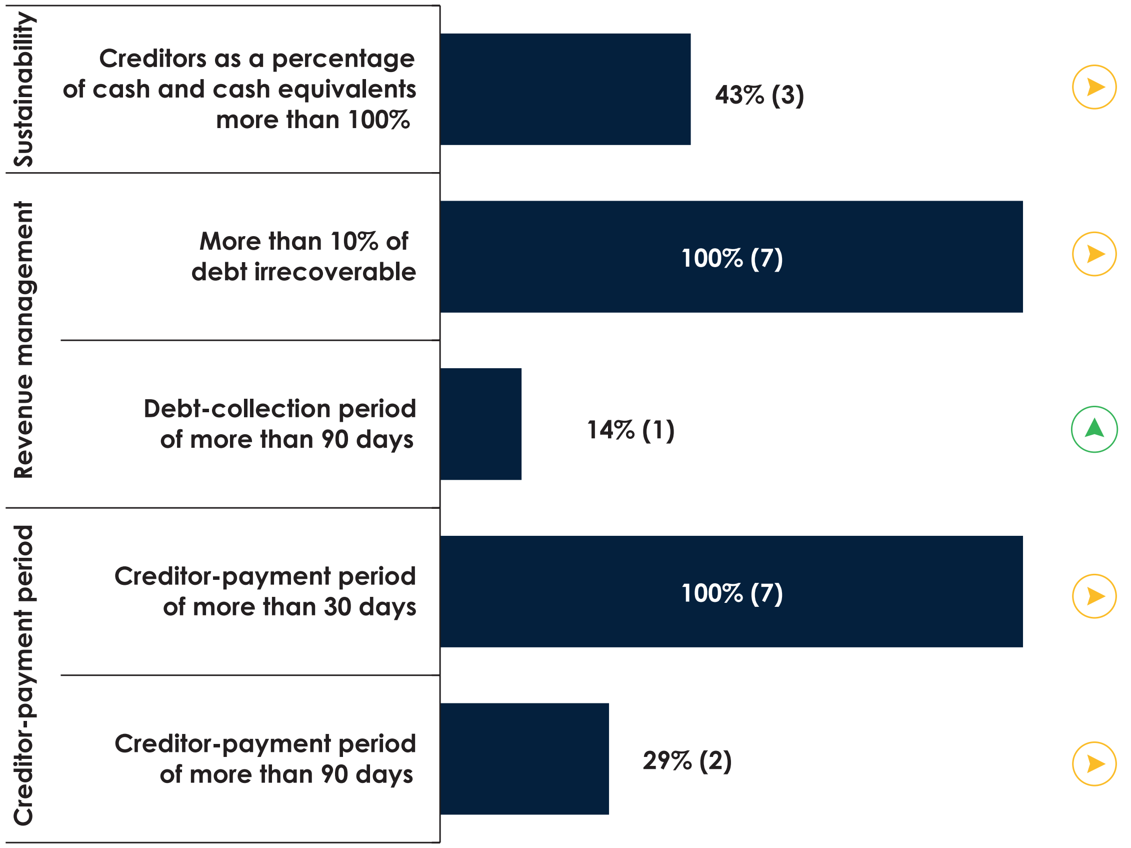
The **financial health of metros regressed** from the previous year.

Metros are responsible for delivering services efficiently within their communities, as well as playing a role in combating poverty and supporting local economic development. In order to achieve this, there is a need for adequate financial resources that should be monitored through good governance. Our audits focused on some key aspects of the financial health of metros. Our assessment of the financial health of the metros is shown below.



We assessed the **financial health** of three metros (43%) as either concerning or requiring intervention. The movement was solely due to City of Tshwane regressing from a concerning status to a financial health status that required intervention.

Below is an overview of the key financial indicators.



Average creditor-payment period: 89 days

Average debt-collection period: 74 days

The financial health assessment and key indicators per metro are shown in the following table:

METRO	OVERALL ASSESSMENT		INDICATORS					
	2017-18	Movement	Creditor-payment period	Debt-collection period	Percentage of debt irrecoverable	Creditors as a percentage of cash and cash equivalents	Current liabilities as a percentage of following year's budgeted resources	Current liabilities exceed current assets
Buffalo City			90	174	35,9	37,3	35,5	No
Nelson Mandela Bay			183	67	57,6	87,9	19,5	No
City of Johannesburg			32	23	88	133	57,9	No
City of Ekurhuleni			92	82	67,4	132	21	No
eThekwini			75	66	49	74,6	33	No
City of Tshwane			74	78	70,9	663	42	Yes
City of Cape Town			78	26	68,9	87	29	No

Good **Of concern** **Intervention required**

All metros had a surplus and achieved a net asset position (which means that their total assets exceeded their total liabilities) by year-end. Metros account for an estimated 53% of the total local government expenditure budget, which places them in an ideal position to have a positive impact on the local economy as well as on employment. We therefore encourage metros to continuously monitor their financial state to ensure that their financial health status remains within the positive parameters.

The **unauthorised expenditure** also provides a view of the financial health of metros, as it shows whether metros budgeted correctly and spent within the approved budgets. The unauthorised expenditure incurred by metros increased from R1 650 million to R1 863 million since the previous year. All of the unauthorised expenditure was a result of the overspending of budgets.

Metro budgets make provision for items that do not involve actual cash inflow or outflow. We term these 'non-cash items', which include accounting entries such as reducing the value at which assets are reflected in the financial statements (asset impairments) and providing for other types of potential financial losses. This is not actual expenditure but rather an accounting requirement that enables municipalities to assess the true value of their assets (such as equipment or debtors). It is important for metros to correctly budget for these non-cash items to show the true financial state of the municipality.

In total, 94% of the overspending that had caused the unauthorised expenditure did not represent actual payments in excess of the budget, but rather these estimates that had been incorrectly budgeted for. At year-end, these amounts are audited and are thus shown at the correct value, which then results in unauthorised expenditure.

The table below includes details of the unauthorised expenditure incurred in the current year and the percentage of the unauthorised expenditure that had been caused by non-cash items. All of these metros incurred unauthorised expenditure for the past three years.

METRO	AMOUNT	NON-CASH ITEMS
City of Tshwane	R1 138 million (2016-17: R620 million)	R1 084 million (95%)
City of Johannesburg	R305 million (2016-17: R502 million)	R242 million (80%)
Nelson Mandela Bay	R260 million (2016-17: R432 million)	R259 million (99,6%)
Buffalo City	R160 million (2016-17: R96 million)	R158 million (99%)

The following are some of the financial health **challenges** faced by the metros:

City of Tshwane: The metro disclosed in its financial statements that a material uncertainty existed, which might cast doubt on its ability to continue operations for the next 12 months without financial assistance. This was due to multiple negative financial indicators, including a net current liability position, with current liabilities exceeding current assets by R2 169 million. The metro deemed that R8 172 million of the amounts owed by their customers would not be recovered – a significant increase from the previous year. Although the metro was already in a poor financial position, it still wanted to acquire bonds from the market.

Nelson Mandela Bay: The average time taken by the metro to pay creditors increased from 139 days to 183 days. The slow payment of suppliers may be detrimental to the economic growth of local businesses, as they may struggle to operate effectively because of this.

City of Johannesburg: The metro expected that 88% of the total consumer debt would not be recovered – this high provision poses a cash-flow risk for the metro. Creditors as a percentage of cash and equivalents increased to 133% from 88%. The inability to collect the outstanding amounts due has led to the metro having to borrow money to fund service delivery projects.

City of Ekurhuleni: Although the metro reflects a good financial health status, the creditor-payment period remained high at 92 days, driven by trade payables of R4 656 million. The long-outstanding payments to suppliers are likely to have a negative impact on the sustainability of small businesses, which will ultimately have a negative impact on service delivery. The metro also continued to experience challenges with the collection of consumer debts, based on the high allowance for impairment losses totalling 67% of the gross debtors.

Except for eThekwini and City of Cape Town, all metros incurred **fruitless and wasteful expenditure** in the past three years. In the current year, all metros incurred fruitless and wasteful expenditure as indicated in the table below.

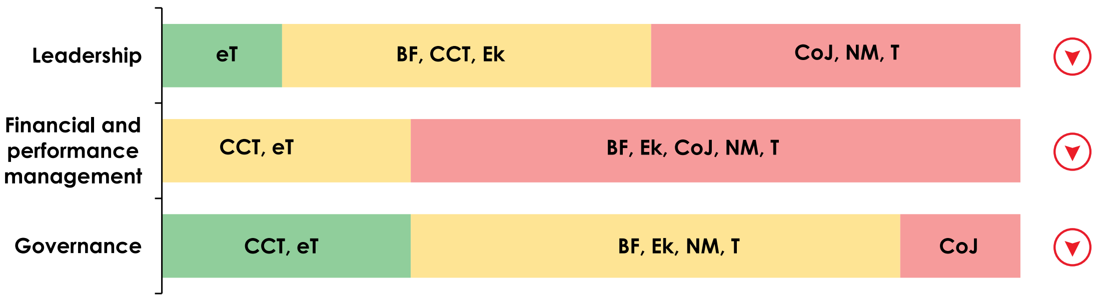
METRO	AMOUNT	NATURE
City of Tshwane	R65 million (2016-17: R42 million)	Mostly related to the upgrade of the city hall, which did not comply with National Heritage Council requirements
eThekwini	R29 million (2016-17: none)	100% related to penalties and interest
City of Johannesburg	R9 million (2016-17: R0,87 million)	Deposits paid for the rental of office space that was never occupied, with the remainder relating to penalties and interest
City of Ekurhuleni	R5 million (2016-17: R8 million)	Value for money not obtained, as money was paid for work not done or the work done was not equal to the value paid
Nelson Mandela Bay	R3 million (2016-17: R110 million)	Salaries paid as a result of disciplinary processes not commencing in time, acting allowances paid for work not performed, catering not used, flight cancellations, and training not attended by all those as planned 19% related to penalties and interest
Buffalo City	R0,5 million (2016-17: R0,09 million)	93% related to penalties and interest
City of Cape Town	R0,3 million (2016-17: R0,02 million)	100% related to penalties and interest

GOVERNANCE AND CONTROL

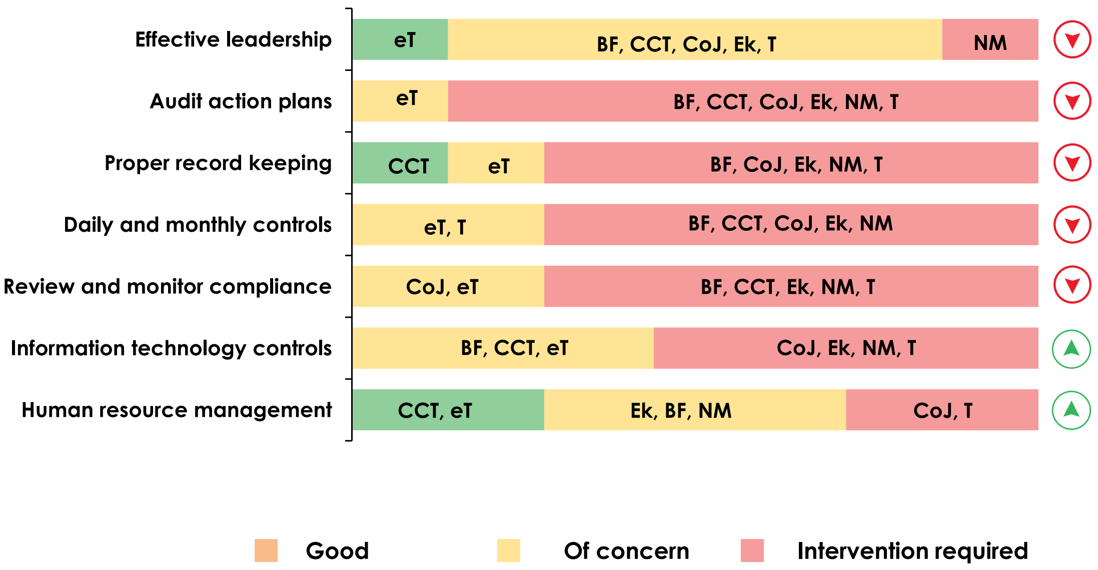
As part of our audits, we considered the leadership, financial and performance management as well as governance of municipalities to identify the possible root causes of poor audit outcomes, irregular expenditure and financial health concerns.

Our assessment of the **internal control of metros indicates a regression** in all of the drivers of internal control. This correlates with the regression in the audit outcomes of metros and their inability to move towards a clean audit status.

Drivers of internal control



Basic controls



The main reasons for the inadequate internal control at metros were the slow response by management to our recommendations and the general lack of consequences for poor performance and transgressions. Our assessment per driver of internal control was informed by the following:

Leadership: At City of Johannesburg, City of Tshwane, Buffalo City and Nelson Mandela Bay, our assessment was mainly due to inadequate monitoring and implementation of audit action plans, a slow response to implement audit recommendations, and a lack of consequences for non-performance and transgressions. In the case of Ekurhuleni, our assessment of leadership culture and oversight responsibility remained concerning. At City of Tshwane, a number of human resource non-compliance findings were raised in relation to the appointment processes. City of Cape Town was not able to achieve all commitments by their target dates, specifically for the contract management guidelines that support the city's contract management framework due to insufficient monitoring and oversight by its leadership. Remedial actions to address findings by management needed to be assessed collectively by all line departments in an effective manner to ensure that the internal control deficiencies identified in the previous year were addressed. This could have prevented similar instances of non-compliance being reported in the current year, especially relating to contract management.

Financial and performance management: This remained the weakest area of internal control. We assessed Buffalo City, City of Johannesburg, City of Tshwane, City of Ekurhuleni and Nelson Mandela Bay as requiring intervention in this area, mainly due to senior management not implementing adequate control disciplines over financial and performance reporting and compliance with key legislation. At the root of City of Cape Town's compliance difficulties was the poor implementation of contract management processes. Controls within the project management process were not designed to identify legislative requirements and did not require council approval of amendments to projects. Additionally, management did not identify the misalignment between the Generally Recognised Accounting Practice requirements and the accounting practices adopted by the metro as a result of council policies through its risk assessment process. This resulted in the misstatement of revenue recognised in the financial statements, which was subsequently corrected.

The following basic controls need the most attention in the area of financial and performance management:

- Institutionalising the use of audit action plans to address audit findings from external and internal audits to ensure that the root causes of audit findings are addressed.
- Processes to improve compliance with legislation and supply chain management prescripts, including ensuring that metros are aware of all the legislation they need to comply with as well as implementing controls such as checklists to enable compliance and the monitoring thereof.
- Information technology system controls.
- Controls to ensure that transactions are accurate, complete and processed in a timely manner, including supervisory reviews of captured information, and independent monthly reconciliations of key accounts.

Although the financial and performance controls at eThekwini were not assessed as requiring intervention, proper controls over compliance with legislation were of concern, as officials were not appropriately disciplined for transgressions as consequences were not strictly enforced.

Governance: We assessed City of Johannesburg as requiring intervention, as the internal audit processes did not always identify internal control deficiencies and recommend appropriate corrective action effectively and timeously as well as the internal audit unit having capacity constraints. At City of Ekurhuleni, the internal audit function weakened, internal audit targets were not achieved, and management was slow in responding to the findings raised. At City of Tshwane, the audit committee recommendations were not always implemented and the internal audit unit had capacity issues relating to information technology audits.

Stability in key leadership positions plays a critical role in enabling financial and performance management. The metros generally fare better in attracting and retaining competent officials – by year-end, all the positions of municipal managers and heads of supply chain were filled; and the chief financial officer position at only City of Johannesburg and Nelson Mandela Bay was vacant at year-end. There were some new appointments in key positions in the past year, but overall there has been stability in key leadership positions at metros – municipal managers spent an average of 15 months, chief financial officers 92 months, and heads of supply chain 46 months in their positions. All municipal managers, chief financial officers and heads of supply chain met the minimum competency requirements, except for the municipal manager of City of Cape Town.

Apart from these key leadership positions, various other role players should also ensure effective governance and control at a metro and thereby provide assurance that the financial statements and performance reports are credible and that the metro complies with legislation. As shown on the following page, we assessed most of these assurance providers as providing only some assurance.

	Provides assurance	Provides some assurance	Provides limited/no assurance	
ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP				
Senior management		CCT, eT	BF, NM, CoJ, Ek, T	▼
Municipal managers		CCT, eT, BF, CoJ, Ek, T	NM	▼
Mayors	eT	CCT, BF, NM, CoJ, Ek, T		▶
INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT				
Internal audit units	CCT, eT	BF, NM, Ek, T	CoJ	▼
Audit committees	CCT, eT	BF, NM, CoJ, Ek, T		▼
EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT				
Municipal councils	CCT, eT	BF, NM, CoJ, Ek, T		▼
Municipal public accounts committees	CCT, eT	BF, NM, CoJ, Ek, T		▼

FINDINGS	INTERNAL AUDIT UNITS	AUDIT COMMITTEES
Fully compliant with legislation	100% (7) ▶	100% (7) ▶
Positive impact on audit outcomes	29% (2) ▼	71% (5) ▼
Evaluates reliability of financial information	100% (7) ▶	100% (7) ▶
Evaluates reliability of performance information	100% (7) ▶	100% (7) ▶
Evaluates compliance with key legislation	100% (7) ▶	100% (7) ▶
Interacts with executive authority	N/A	100% (7) ▶

Provides assurance **Provides some assurance** **Provides limited/no assurance**

Senior management continued to provide the least assurance – the impact of this was evident in the poor quality of the financial and performance information submitted to us for auditing. The fact that all metros had material findings on compliance with legislation further exemplifies the lack of assurance provided by senior managers. Our recommendations were also not adequately implemented, as senior management did not provide the necessary oversight to enable the implementation thereof.

The political infighting at Nelson Mandela Bay influenced our assessment of the assurance provided by the municipal manager, which affected in-year monitoring and interactions relating to the audit progress, resulting in the oversight of management and internal controls not being effective.

As the internal audit unit at City of Johannesburg was not adequately resourced, the internal auditors could not perform some of their key planned audits and the unit could not ensure that reviews were done by individuals with the necessary skills and competence. We assessed that the internal audit units of only eThekwini and City of Cape Town had a positive impact on the audit outcomes, whereas the audit committees at Nelson Mandela Bay, City of Ekurhuleni, eThekwini, City of Tshwane and City of Cape Town had a positive impact on the audit outcomes.

KEY PROJECTS AND MANAGEMENT OF GRANTS

As part of auditing what matters most, guided by identified government priorities and areas of public spending most relevant to the well-being of citizens, we audited infrastructure projects at metros using integrated teams that included infrastructure specialists. We looked at the following areas:

- Broadband
- Electricity
- Housing infrastructure
- Integrated rapid public transport networks
- Road infrastructure
- Water
- Sanitation

Our procedures covered project planning, procurement, project management, project delivery, and reporting.

We identified the following common findings on the infrastructure projects funded by grants, such as the urban settlements development grant and the public transport network grant, or the metro's own funds:

- Projects were delayed beyond their planned completion dates.
- Projects had quality issues caused by inadequate monitoring and supervision by the metros.
- Contractors were replaced, which resulted in significantly increased costs.
- Planning documentation did not include indicators and targets to measure the performance of projects.
- Actual reported performance could not be supported or was not reliable.
- Procurement processes were not adequately followed, resulting in the expenditure incurred on projects being disclosed as irregular expenditure.
- Misstatements were identified in the recording of the projects in the financial statements. In particular, the items relating to property, plant and equipment; work in progress; retention liabilities; and commitments were misstated.

Sections 3 and 4 provide more detail on some of the shortcomings relating to grants, while the details of findings per project type are summarised in the tables below.

Broadband projects – two projects audited

Spending	Achievement of targets or other findings and project management deficiencies
No over- or underspending of budgets	One project at **City of Cape Town** was **not correctly accounted** for in the financial statements

Electricity projects – five projects audited

Spending	Achievement of targets or other findings and project management deficiencies
Overspending of annual budget at one project in **Buffalo City** by **R0,48 million**	At two projects in **City of Cape Town**, the **annual targets** were **not achieved**; while at **City of Johannesburg,** the **multi-year targets** for two projects were **not achieved** Two projects at **City of Johannesburg** were **not correctly accounted** for in the financial statements

Housing infrastructure projects – nine projects audited (this is a continuation of the message on housing in the previous general report on national and provincial audit outcomes, with shortcomings at local government level discussed here)

Spending	Achievement of targets or other findings and project management deficiencies
Underspending of annual budget at one project in **eThekwini** by **R2,09 million**	The **annual targets** were **not achieved** at four projects: **City of Ekurhuleni (one)**, **City of Johannesburg (two)** and **City of Tshwane (one)** The **multi-year targets** were **not achieved** at four projects: **Buffalo City (one)**, **City of Johannesburg (two)** and **City of Tshwane (one)** We identified non-compliance with **supply chain management requirements** at one project in **City of Johannesburg**, resulting in **irregular expenditure** We noted **concerns regarding the quality of goods and services** at three projects: **City of Johannesburg (two)** and **City of Tshwane (one)**

Integrated rapid public transport networks projects – six projects audited

Spending	Achievement of targets or other findings and project management deficiencies
Underspending of annual budget at one project in **eThekwini** by **R306,58 million** **Overspending** of total project budget (multi-year) at two projects in **City of Cape Town** by **R106,27 million**	The **annual targets** were **not achieved** at two projects in **City of Cape Town** The **multi-year targets** were **not achieved** at three projects: **City of Cape Town (two)** and **City of Ekurhuleni (one)** We identified non-compliance with **supply chain management requirements** at two projects in **City of Cape Town**, resulting in **irregular expenditure** **The quality of goods and services** delivered did not agree to the initial requirements at one project in **City of Cape Town** One project at **eThekwini** was **not correctly accounted** for in the financial statements

Road infrastructure projects – six projects audited

Spending	Achievement of targets or other findings and project management deficiencies
No over- or underspending of budgets	The **annual targets** were **not achieved** at three projects: **Buffalo City (one)**, **City of Ekurhuleni (one)** and **City of Johannesburg (one)** Two projects at **Nelson Mandela Bay** were **not correctly accounted** for in the financial statements

Water projects – 13 projects audited

Spending	Achievement of targets or other findings and project management deficiencies
Underspending of annual budget at two projects in **City of Tshwane** by **R17,69 million** **Underspending** of annual budget at two projects in **City of Cape Town** by **R183,50 million**	The **annual targets** were **not achieved** at eight projects: **City of Cape Town (three)**, **City of Ekurhuleni (one)**, **City of Johannesburg (one)**, **City of Tshwane (two)** and **Nelson Mandela Bay (one)** The **multi-year targets** were **not achieved** at six projects: **City of Cape Town (three)**, **City of Tshwane (two)** and **Nelson Mandela Bay (one)** We identified non-compliance with **supply chain management requirements** at two projects: **City of Cape Town (one)** and **Nelson Mandela Bay (one)**, resulting in **irregular expenditure** We identified **non-compliance with legislation on implementation of consequences** at three projects: **City of Cape Town (one)** (the metro did not properly implement consequences where the consulting engineer and the contractor failed to adhere to their contract management responsibilities) and **City of Tshwane (two)** Two projects at **Nelson Mandela Bay** were **not correctly accounted** for in the financial statements

Sanitation projects – four projects audited

Spending	Achievement of targets or other findings and project management deficiencies
No over- or underspending of budgets	The **annual targets** were **not achieved** at three projects: **City of Johannesburg (one)** and **Nelson Mandela Bay (two)** The **multi-year targets** were **not achieved** at two projects in **Nelson Mandela Bay** We identified non-compliance with **supply chain management requirements** at two projects in **Nelson Mandela Bay**, resulting in **irregular expenditure** Two projects at **Nelson Mandela Bay** were **not correctly accounted** for in the financial statements

The following examples illustrate some of the project management weaknesses:

City of Cape Town – Cape Flats aquifer project

This project with a total value of R247 million, which was partly funded by the urban settlements development grant, related to the construction of aquifers (including drilling and the provision of steel tanks and treatment equipment) to provide a continued water source to residents of the province as a result of the drought crisis. Significant delays occurred and infrastructure work planned for completion by June 2018 had still not been completed by year-end. In addition, bid specifications did not specify the minimum threshold for local content and production as required by the Preferential Procurement Regulations, resulting in irregular expenditure of R8 million.

eThekwini – GO!Durban project

The integrated rapid public transport infrastructure system for this project is aimed at developing a city-wide public transport system that is safe and affordable for citizens. The multi-year project with an actual spending of R2 960 million at year-end was not progressing as intended. The delays were caused by negotiations by the metro with community and business forums. The metro entered into onerous contracts with suppliers for this project (that is, contracts in which costs to fulfil the terms of the contract are higher than the economic benefit that is received). If there are delays on the part of the metro, the payments will still have to be made, resulting in payments being made for construction work that has not been performed. The delays experienced on this project could negatively affect citizens due to safety concerns, increased travelling costs and traffic congestion.

City of Johannesburg – South Hills mixed development

The project funded through the urban settlements development grant did not achieve the planned completion date, due to planning delays relating to environmental authorisations and township establishment. The timelines of this project were not clearly defined and the costs related to project implementation were not included in the agreement between the metro and the developer. More time and additional funding for the completion of the development were in the process of approval at the time the audit was concluded. In addition, we noted that some of the built blocks were not of the required quality, due to a lack of monitoring of sub-contractors. Furthermore, the target of 2 190 mixed housing opportunities constructed was not achieved, as only 2 103 units were built.

CONCLUSION

Sustainable improvements in financial and performance management can be achieved if the leadership at metros clearly defines the targets to be achieved in terms of audit outcomes, project delivery and financial health by using, among others, audit action plans, integrated development plans, service delivery and budget implementation plans, annual budgets and project plans.

We recommend the following:

1. The budget and performance planning processes should be informed by a solid analysis and forecast, based on **credible historical information and knowledge of the funding constraints** and expected performance pressures.

2. The **implementation of audit action plans** and the **quarterly monitoring thereof** should be prioritised to support financial management and governance at metros.

3. The basic disciplines of **proper record keeping and standard daily and monthly controls** should be applied, built on a foundation of effective and efficient leadership and stability in key positions to enable a robust financial management system.

4. A key element of internal control is **monitoring by the different assurance providers** to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved. Metros should ensure that all the assurance providers understand their roles, are equipped to perform their functions and are given the authority their role requires, and that the outcome of their monitoring and oversight is appropriately responded to.

5. Regular, credible in-year reporting as well as reports and recommendations on financial management and compliance from the internal audit unit and the audit committee should be monitored and acted on by senior management, the municipal manager and the mayor. This will enable **corrective action** to be taken if targets are not achieved or if transgressions or poor performance is identified.

6. Accountability means that those performing actions or making decisions are answerable for them, but also that there should be **consequences for transgressions**, lack of action and poor performance. Metros should implement consequences against officials who fail to comply with applicable legislation, while appropriate and timely action must be taken against transgressors. A less tolerant approach should be followed by all parties, including those charged with governance and oversight, which will result in accountability being enforced and consequences being instituted against those who intentionally fail to comply with legislation.

NOTES

// SECTION 6

Provincial overviews

(including how your municipality is doing)

6.1 EASTERN CAPE

PROVINCIAL SNAPSHOT

Clean audits: 5%
(2016-17: 5%)

Financially unqualified financial statements: 53%
(2016-17: 61%)

No findings on performance reports: 29%
(2016-17: 32%)

No findings on compliance with legislation: 5%
(2016-17: 5%)

Irregular expenditure: R7 276 million
(2016-17: R13 546 million)

The audit outcomes show a net regression, made up of five regressions and four improvements. These audit outcomes exclude Sakhisizwe, the audit of which was still in progress at the cut-off date of 31 January 2019 for inclusion in this report. Sakhisizwe submitted financial statements late as a result of service delivery protests and political instability. This was compounded by instability at senior manager level, with the municipal manager being suspended and the chief financial officer resigning. Senqu and Joe Gqabi District received unqualified opinions without findings (clean audit outcomes), with Senqu maintaining its outcome from prior years and Joe Gqabi District improving from an unqualified opinion with findings. The overall leadership and governance structures within these municipalities were working effectively and a commitment to a clean administration was also demonstrated.

Buffalo City Metro, which accounts for 20% of the local government spend in the province, was one of the five municipalities that regressed from an unqualified audit opinion with findings in the previous year to a qualified audit opinion. The reasons for the regressions in the province included vacancies in key positions at year-end and during the audit, inadequate in-year monitoring relating to financial and performance management, a slow response to our messages, and a failure to implement the audit intervention plan to address the root causes of prior year audit findings. On the other hand, the filling of key vacancies and the return to stability in key positions, particularly at chief financial officer level, contributed to the four improved audit outcomes.

The disregard for our messages by the leadership of most municipalities and the slow response by the leadership of the remaining municipalities contributed to the further deterioration in accountability for financial and performance management observed during the year. Some of the main contributors to the inadequate response to our messages included action plans that either did not address the root causes of findings raised or were not implemented, inadequate oversight by the municipal managers, poor risk management practices, and inadequate information technology systems that resulted in inefficient and cumbersome manual processes being used to generate key information.

In prior years, we continually emphasised the role of the political leadership in ensuring that local government in the province moves towards accurate, accountable and transparent financial and performance reporting that is underpinned by sound internal controls and good human resource management practices, including effecting consequences and accepting greater personal accountability. We also emphasised the need to be diligent and decisive in dealing with transgressions of legislation. At the engagements on the status of records review, we provided early warning signals on the status of record keeping and basic internal controls relating to daily, weekly and monthly financial management disciplines, but most of the municipal leadership disregarded our messages or responded to these messages too slowly.

In response to the previous year's outcomes, the provincial leadership committed to stabilising local government, monitoring and dealing with the impact of the Municipal Standard Chart of Accounts, improving the oversight and monitoring of the local government sphere, and improving the responsiveness of provincial government when dealing with the issues raised by local government. Most of these commitments had not been implemented at year-end.

We are concerned about the inability of Nelson Mandela Metro, which is responsible for 27% of the municipal expenditure in the province, to improve on the qualified audit opinion that it has received for a number of years. This lack of improvement can be attributed to political and administrative leadership instability within key positions. This instability has resulted in the leadership not effectively implementing oversight controls throughout the financial year to promote accountability and to drive improvement and sound risk management practices. We are also concerned about the inability of three of the four municipalities that were created in the previous year through mergers to achieve positive audit outcomes. These municipalities (Enoch Mgijima, Dr Beyers Naudé and Walter Sisulu) received repeat disclaimed opinions in the year under review, as they struggled with basic record keeping as well as accounting complexities resulting from the mergers that we previously warned them about.

The number of municipalities receiving modified (qualified, adverse or disclaimed) opinions increased from 39% in the previous year to 47% in the year under review. Furthermore, only five (13%) of the municipalities submitted financial statements that did not require adjustments during the audit. This was despite municipalities using consultants to assist them with their financial reporting responsibilities, with an associated cost of R166 million. Our concern is not the use of consultants but rather the over-reliance on them as a substitute for proper record keeping and implementing controls over daily and monthly processing and reconciling of transactions. Common qualification areas included revenue and receivables; property, plant and equipment; the disclosure of capital commitments and contingencies; and irregular expenditure.

Only 29% of the municipalities were able to produce performance reports that were useful and reliable – a slight regression on the already low base of 32% of the previous year. For a number of years, we have reported that the poor quality performance reports were due to inadequate planning and the lack of appropriate systems to collect, collate and report on information about actual performance. This area requires urgent leadership attention, as it affects the processes used to improve service delivery and may have a negative impact on the lives of citizens.

The disregard for requirements of legislation applicable to local government reported in prior years continued to persist during the year. This was due to a culture of impunity where the leadership tolerated deviations from the requirements of legislation instead of taking action against those responsible. Only two municipalities (5%) did not have material findings on key legislation.

This culture of impunity was most evident in supply chain management where goods and services were not always procured in a manner that was transparent, competitive, equitable, fair and cost-effective. As a result, the cumulative irregular expenditure balance grew from R22,1 billion from the previous year to R25,5 billion at year-end. This amount includes R18,3 billion brought forward from the previous year that was not properly investigated or where the council did not take appropriate action based on the outcomes of the investigations. Such investigations should result in the irregular expenditure being recovered, condoned or written off. Only 40% of the municipalities investigated the irregular expenditure incurred in the previous year. Furthermore, no irregular expenditure was recovered from the officials responsible for incurring it. This lack of consequences further contributed to the culture of impunity referred to earlier. The amendments to the Public Audit Act are expected to result in stricter consequences where we identify instances of material irregularities that result in, or are likely to result in, financial losses and where rigorous investigations are not taking place or diligently performed.

Irregular expenditure of R7,3 billion was incurred during the year under review. Additionally, irregular expenditure of R34 million disclosed in the financial statements of Sakhisizwe, of which the audit was finalised late, was not included in the total disclosed value, thus increasing the total. This amount is significantly lower than the R13,6 billion disclosed during the previous year. However, it should be noted that the previous year's irregular expenditure amount included a once-off restatement of R10,5 billion during the 2016-17 financial year for OR Tambo District and Nelson Mandela Metro. If this amount were to be excluded from the previous year's irregular expenditure, the irregular expenditure amount for the year under review would be more than double the previous year's amount. Furthermore, nine municipalities were qualified on the disclosure of irregular expenditure, which means that the amount disclosed in the current year could be even higher.

The highest contributors to the current year's irregular expenditure of R7,3 billion were Nelson Mandela Metro, OR Tambo District, Alfred Nzo District, King Sabata Dalindyebo and Chris Hani District that collectively accounted for R5,6 billion (77%) of the total disclosed value. Included in the R7,3 billion irregular expenditure, is an amount of R4,8 billion paid on multi-year contracts that had been awarded irregularly in prior years. There is very little evidence that the municipal managers investigated the possibility of terminating the contracts that continue to be paid despite being deemed irregular. The remaining R2,5 billion related to contracts awarded irregularly during the year under review, which the municipal managers did not prevent.

The most common transgressions relating to the R7,3 billion irregular expenditure disclosed included the failure to invite competitive bids or written quotations without adequate justification, bid adjudication committees not complying with the minimum requirements, and the inadequate application of the preferential procurement requirements. For example, two contracts to the value of R10,3 million for access roads were awarded by Mnquma to two suppliers that did not score the highest points on evaluation. Another example is the deviation from competitive bidding processes by Amathole District to procure water services to the value of R3 million in Kolomani in circumstances that were not deemed to be justifiable.

The municipalities in the province are commended for spending 96% of the conditional grants that were allocated for infrastructure development. As part of our audits, we tested the infrastructure development cycle for certain key projects funded by these grants. We raised findings relating to project planning, project management and the oversight performed by management. The weaknesses reported resulted in delays in the completion of projects and variation orders that increased the overall project costs. For example, the scope of work on a sewerage project to the value of R46 million implemented by Alfred Nzo District did not include a filtering system, which was obtained through a variation order of R7 million. Another example is a wastewater treatment plant to the value of R49 million implemented by Joe Gqabi District that has been delayed by 36 months because of poor performance by the contractor, inadequate monitoring and supervision by the municipality, and a lack of enforcement of penalties contained in the construction contract for delays. The contractor has been paid R12,7 million to date for the work performed on this project.

The overall financial health of municipalities in the province regressed, as 76% of the municipalities had concerning financial health indicators or required intervention, compared to 66% in the previous year. Of these municipalities, 29% (2016-17: 21%) faced significant cash flow and viability challenges, which were emphasised in their audit reports. Continued weaknesses in the economy made it difficult for citizens to pay the amounts due for services rendered by municipalities. The collection of debt was also hampered by ineffective debt-collection systems and processes at most of the municipalities. Six of the local municipalities (Walter Sisulu, King Sabata Dalindyebo, Raymond Mhlaba, Enoch Mgijima, Dr Beyers Naudé and Makana) owed Eskom R607 million, of which R505 million related to arrear debts. In addition, three municipalities (Amathole District, Makana and OR Tambo District) owed their water providers R194 million, of which R174 million related to arrear debts. It is unlikely that these municipalities will be able to settle these debts with income that they generate themselves, which will put further pressure on their already precarious financial position. Furthermore, Enoch Mgijima was placed under administration in terms of sections 139(1) and 139(5) of the Constitution, as it faced a barrage of legal challenges that culminated in two auctions of municipal assets. Additionally, after year-end, Eskom threatened to cut off the municipality's electricity due to non-payment.

The control environment at municipalities as a whole regressed when compared to the previous year, while the information technology controls also showed very little improvement. This was caused by inadequate oversight by municipal managers; ineffective, slow and complicated manual processes; poor risk management; and ineffective governance. Only three municipalities had good internal controls relating to the areas of leadership, financial and performance management, and governance. As a result, the required daily, weekly, monthly and annual disciplines were not embedded in the systems and processes at most municipalities. Furthermore, the monitoring and the oversight of internal controls by assurance providers were not always effective and had a limited impact on improving the overall outcomes of local government in the province.

All assurance providers should therefore improve their monitoring and oversight to ensure that internal controls are effective and that further improvements in audit outcomes are achieved. In particular, the provincial leadership should monitor and follow up on the following:

- The restoration of stability to key positions and the filling of key vacancies.
- Investigations conducted into the balances of unauthorised, irregular as well as fruitless and wasteful expenditure. Councils should be required to report back on the progress of investigations as well as actions taken against those responsible for incurring such expenditure.
- Status reports on the implementation of audit action plans that address the root causes of the audit findings, including the implementation of controls.

The political and administrative leadership must strive to create a culture that will result in a responsive and accountable local government. The tone at the top must be focused on ethical leadership and good governance, supported by a well-capacitated administration with an emphasis on filling the municipal manager and chief financial officer roles with competent individuals in order to promote stability.

EASTERN CAPE – How is your municipality doing?

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Metropolitan municipalities																								
Buffalo City Metro	↓	Yes	R	↓	Yes	R	R	R	N	213,3m	2 644,15m	N	No		90	35,9	160,5m	0,49m	Yes	No	44	Slow response	No	Yes
Nelson Mandela Bay Metro	→	Yes	R	→	Yes	R	N	R	R	3 053,4m	12 379,41m	R	No		183	57,6	260,2m	2,7m	Yes	No	41	Slow response	Yes	Yes
Alfred Nzo district																								
Alfred Nzo District	↑	Yes	R	↑	Yes	R	R	R	R	622,2m	1 099,56m	R	No		22	62,8	7,1m	0,96m	Yes	No	34	Slow response	No	No
Matatiele	↑	Yes	R	↑	Yes	R	N	R		0,28m	2,23m		Yes		137	41,6	-	0,008m	Yes	Yes	N/A	Slow response	No	Yes
Mbizana	→	Yes	A	→	Yes	A		R		5,9m	1,06m	N	No		98	34,9	52,8m	0,14m	Yes	Yes	N/A	Slow response	No	No
Ntabankulu	→	Yes	R	→	Yes	R		R	N	26,0m	83,83m	R	No		104	84,4	28,8m	0,54m	Yes	Yes	N/A	Slow response	Yes	Yes
Umzimvubu	→	Yes	R	→	Yes	R	N	R	A	142,5m	15,09m		No		76	65,8	96,4m	-	Not audited	No	N/A	Slow response	No	Yes
Amathole district																								
Amathole District	→	Yes	R	→	Yes	R	R	R	R	72,0m	89,7m	R	No		285	81,7	50,8m	1,8m	Yes	Yes	10	Slow response	No	No
Amahlati	→	Yes	R	→	Yes	R	R	R	N	17,0m	57,94m	R	Yes		85	68,1	13,3m	0,26m	Not audited	No	N/A	Slow response	No	Yes
Great Kei	→	Yes	R	→	Yes	R	N	R	R	2,6m	16,69m	N	Yes		251	86	18,7m	1,9m	Yes	Yes	N/A	Slow response	Yes	Yes
Mbhashe	→	Yes	R	→	Yes	R	R	R	R	136,5m	539,03m	R	No		43	83,2	-	0,19m	Yes	No	N/A	Slow response	No	Yes
Mnquma	↑	Yes	R	↑	Yes	R	R	R	R	150,8m	461,19m	R	No		Not audited	Not audited	31,2m	0,34m	Yes	Yes	N/A	No response	Yes	Yes
Ngqushwa	→	Yes	R	→	Yes	R	R	R	R	28,8m	11,16m	N	No		143	42	-	0,14m	Yes	Yes	N/A	Slow response	Yes	Yes
Raymond Mhlaba	→	Yes	A	→	Yes	R	R	R	R	78,0m	236,58m	R	No		276	88	3,9m	12,8m	Not audited	Yes	N/A	Slow response	No	No

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified		Qualified	Adverse	Disclaimed	Audit not finalised at legislated date

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability: Overall audit outcomes	Financial statements: Timely submission of financial statements	Financial statements: Quality of financial statements submitted for auditing	Financial statements: Quality of published financial statements	Performance report: Preparation of performance reports	Performance report: Quality of performance reports submitted for auditing	Performance report: Quality of published performance reports	Compliance: Material findings on compliance with key legislation	Compliance: Material findings on management of procurement and contracts	Irregular expenditure: Irregular expenditure incurred Amount (R million)	Irregular expenditure: Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Accountability impact: Financial health: Status of financial health	Financial health: Average creditor-payment period (days)	Financial health: Percentage of debt irrecoverable	Financial health: Unauthorised expenditure incurred Amount (R million)	Financial health: Fruitless and wasteful expenditure incurred Amount (R million)	Infrastructure development and maintenance: Findings on infrastructure projects: roads, sanitation and water	Infrastructure development and maintenance: Findings on maintenance of infrastructure: roads, sanitation and water	Infrastructure development and maintenance: Percentage of water losses incurred	Key root causes: Slow or no response in improving internal controls and addressing risk areas	Key root causes: Instability or vacancies in key positions or key officials lacking appropriate competencies	Key root causes: Inadequate consequences for poor performance and transgressions
Chris Hani district																								
Chris Hani District	→	Yes	R	→	Yes	R	R	R	R	229,5m	1 382,07m	R	No		69	92	0,66m	0,26m	Yes	Yes	59	Slow response	No	Yes
Emalahleni	→	Yes	N	→	Yes	R	A	R	N	15,5m	15,47m		No		20	91	5,8m	0,01m	Yes	Yes	N/A	Slow response	No	No
Engcobo	↓	Yes	R	↓	Yes	R	R	R	N	23,2m	23,17m		Yes		30	41,1	-	0,09m	Yes	Yes	N/A	Slow response	No	No
Enoch Mgijima	→	Yes	R	→	Yes	R	R	R	R	26,8m	428,92m	R	Yes		Not audited	Not audited	14,0m	0,44m	Yes	Yes	N/A	Slow response	Yes	Yes
Intsika Yethu	→	Yes	R	→	Yes	R	R	R	R	0,58m	0,61m	N	No		30	51,4	24,8m	0,04m	Yes	No	N/A	Slow response	Yes	No
Inxuba Yethemba	→	Yes	R	→	Yes	N		R	R	65,6m	158,52m	R	No		358	81	66,6m	0,52m	No	No	N/A	Slow response	No	No
Sakhisizwe		No											Yes											
Joe Gqabi district																								
Joe Gqabi District	↑	Yes	A	→	Yes	R	A	A		63,2m	63,22m		No		147	55	-	-	Yes	No	44		No	No
Elundini	↓	Yes	N	↓	Yes	R		R	R	54,5m	0,33m		No		Not audited	Not audited	-	-	No	No	N/A	Slow response	No	No
Senqu	→	Yes		→	Yes	R				-	-		No		16	75,1	-	0,03m	No	No	N/A		No	No
Walter Sisulu	→	Yes	R	→	Yes	R	R	R	R	4,8m	52,93m	R	No		Not audited	Not audited	63,2m	14,9m	Yes	Yes	N/A	Slow response	Yes	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified		Qualified	Adverse	Disclaimed	Audit not finalised at legislated date

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)

Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
OR Tambo district																								
OR Tambo District	→	Yes	R	→	Yes	R	R	R	R	1 355,0m	3 151,48m	R	No		188	89	-	3,1m	Yes	No	47	Slow response	Yes	No
Ingquza Hill	↓	Yes	N	↓	Yes	R		N		-	-		No		37	64,1	-	0,19m	Not audited	No	N/A	Slow response	Yes	No
King Sabata Dalindyebo	↓	Yes	R	↓	Yes	R	R	R	R	297,5m	889,59m	R	No		347	87	99,0m	17,6m	Yes	Yes	N/A	Slow response	No	Yes
Mhlontlo	→	Yes	R	→	Yes	R	R	R	R	30,6m	249,14m	N	Yes		33	82,6	4,6m	0,01m	Yes	Yes	N/A	Slow response	No	No
Nyandeni	→	Yes	R	→	Yes	N		R	R	105,7m	-		No		8	94,6	-	0,003m	No	No	N/A	Slow response	No	No
Port St. Johns	→	Yes	R	→	Yes	R	R	R	R	11,7m	132,32m	R	Yes		119	82,1	2,6m	0,69m	Yes	Yes	N/A	Slow response	Yes	Yes
Sarah Baartman district																								
Sarah Baartman District	→	Yes	A	→	Yes	R	N	R	N	0,31m	0,32m		No		60	30,8	-	-	Not audited	Not audited/N/A	N/A	Slow response	No	No
Blue Crane Route	→	Yes	R	→	Yes	R	R	R	R	12,9m	95,96m		Yes		62	52	1,6m	-	Yes	Yes	48	Slow response	No	No
Dr Beyers Naudé	→	Yes	R	→	Yes	R	A	R	R	155,9m	160,69m	R	Yes		Not audited	Not audited	17,8m	3,5m	Not audited	No	26	Slow response	Yes	Yes
Kou Kamma	→	Yes	R	→	Yes	R	A	R	R	37,4m	134,81m	R	No		333	75	16,1m	0,98m	Yes	Yes	37	Slow response	No	Yes
Kouga	→	Yes	R	→	Yes	R	R	R	A	2,4m	98,7m	R	No		79	65	-	0,5m	Yes	Yes	35	Slow response	No	No
Makana	→	Yes	R	→	Yes	R	R	R	R	95,2m	227,87m	R	No		435	92	104,9m	9,0m	Yes	Yes	76	Slow response	Yes	Yes
Ndlambe	→	Yes	R	→	Yes	R	R	R	R	72,5m	441,05m	R	No		103	84	45,3m	0,01m	Yes	Yes	50	Slow response	No	Yes
Sundays River Valley	→	No	R	→	Yes	R	R	R	R	65,9m	197,97m	R	No		176	72	40,4m	0,46m	Yes	Yes	63	Slow response	No	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified		Qualified	Adverse	Disclaimed	Audit not finalised at legislated date

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)

Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

6.2 FREE STATE

PROVINCIAL SNAPSHOT

Clean audits: 0% (2016-17: 0%)

Financially unqualified financial statements: 14% (2016-17: 71%)

No findings on performance reports: 7% (2016-17: 21%)

No findings on compliance with legislation: 0% (2016-17: 0%)

Irregular expenditure: R913 million (2016-17: R677 million)

The Free State local government environment displayed a total breakdown in internal controls as the province's political and administrative leadership, yet again, exhibited no response to improve their accountability for financial and performance management. The leadership did not implement our recommendation to ensure stability and the filling of vacancies in key positions, despite their commitment to do so. This resulted in the significant deterioration of municipal audit outcomes, service delivery and financial health. The required level of oversight by all assurance providers in the province was non-existent at most municipalities and we doubt if there is political will to do the right thing for the right reason, mainly due to political interference to the detriment of good governance.

The financial crisis in the province is becoming a critical concern. Although some municipalities had been placed under provincial intervention in terms of section 139(1) of the Constitution, it was not effective, as these municipalities' financial sustainability did not improve. Several municipalities in the province qualified for mandatory intervention by the provincial executive in terms of section 139(5) of the Constitution, which is applicable when a municipality is in a serious financial crisis and is in material breach of its obligations to provide basic services or to meet its financial commitments. However, no decisive action was taken by the provincial leadership to implement the constitutional prescripts. Consequently, municipalities' financial health continued to deteriorate from a net current liability position (where current liabilities exceed current assets) of R4,8 billion in the previous year to R6,1 billion in the current year.

In addition, municipalities faced significant cash-flow constraints, as they neither maximised the billing of revenue from service charges and rates, nor the collection of amounts outstanding from consumers. Municipalities had an opening debtors book of R6,8 billion and billed R4,3 billion for services and rates during the year, but collected only R3 billion. Given their cash-flow constraints, municipalities fell behind with their payments for bulk purchases of electricity to Eskom by R3,9 billion (2016-17: R3,1 billion) and water to water boards by R2,9 billion (2016-17: R2,4 billion), which were outstanding at 30 June 2018. Of these amounts, 91% of the payments due to Eskom and 98% of those due to the water boards were outstanding for more than 90 days. Municipalities also incurred significant electricity and water distribution losses due to theft, illegal connections, poor monitoring of indigents' consumption, and poorly maintained infrastructure. Some municipalities failed to pay over contributions to third parties, such as pension funds and/or medical aids, which resulted in litigation and protest actions by affected employees.

Municipalities did not have reliable performance reports to empower communities to hold the political leadership accountable for the service delivery promised. The quality of performance information remained poor, as only Xhariep District did not have material findings. The district municipality was only able to achieve this through material adjustments to the performance report. A lack of adequate supporting documentation for reported key performance indicators relating to basic service delivery resulted in scope limitations at a number of municipalities, as performance reporting did not receive the necessary attention. Local government did not promote accountability for its spending in a manner that would have a positive impact on people's lives, and allowed money intended for the people to be misused. Conditional grants were not used for their intended purpose at Kopanong, Matjhabeng, Metsimaholo, Phumelela and Tokologo. Conditional grants were also materially underspent at Kopanong, Matjhabeng, Ngwathe, Phumelela, Tokologo and Tswelopele. Additionally, spending on key projects was riddled with shortcomings, as the municipalities did not always apply the principles of sound project planning and management. Consequently, key performance targets were not always achieved or were not accurately reported.

The impact of the lack of accountability for government spending at municipalities is further illustrated in the next three paragraphs.

Matjhabeng entered into a contract for the rehabilitation and restoration of the Witpan Wastewater Treatment Works in 2009. During construction, the site was flooded by water from a nearby pan, submerging the work-in-progress, and resulting in the project being halted and the contractor abandoning the site after being paid at least R1,9 million. A second contractor was appointed in June 2011 for R60,5 million. Total payments made to the second contractor amounted to R112,2 million, resulting in overspending of R51,7 million, while the project is still in progress. Additionally, the Department of Water Affairs advised the municipality in July 2016 that the Witpan Wastewater Treatment Works should be decommissioned, as it would only be usable for eight more years. Instead, they proposed that the municipality upgrade the Theronia or the Thabong wastewater treatment works. The municipality would obtain limited benefits from the rehabilitation and restoration of the Witpan plant, as most of the structures were run-down or old. However, notwithstanding the concerns raised by the department, the municipality still continued with the project. During a site visit, we also noted that one of the recently upgraded tanks was leaking, which may result in further cost on the project.

At Metsimaholo, the Refengkgotso Wastewater Treatment Works project was initially budgeted for an amount of R6 million and the consulting engineer was appointed in December 2014. The scope of the consulting engineer's work, based on the initial appointment, was expanded several times. During May 2017, the project's scope was further increased and the municipality issued a new appointment letter to the same consulting engineer for a budgeted amount of R15,9 million to oversee the revised project. A contractor was then appointed at a budgeted amount of R148,6 million with a planned completion date of November 2018. The municipality had made payments of R47,8 million to the consulting engineer and the contractor, but it could not be confirmed that services were actually received for all the payments made.

In another instance at Metsimaholo, the construction of the Oranjeville sports complex was budgeted for an amount of R21,9 million. The municipality had spent R21,7 million relating to this project, which is 99,1% of the budgeted amount. It could not be confirmed that services were actually delivered for all the amounts paid on the project as, except for a fence, no building structures were visible during a site visit.

Irregular expenditure disclosed in the financial statements increased from R677 million to R913 million, as all municipalities had material findings on procurement and did not prevent irregular expenditure as required by legislation. The continued disregard for procurement processes by the leadership that resulted in irregular expenditure, coupled with limited consequences for these transgressions, created an environment vulnerable to misappropriation, wastage and the abuse of state funds. The main contributors to irregular expenditure were Matjhabeng (R377 million), Tokologo (R114 million), and Setsoto (R99 million). However, had the irregular expenditure of the four municipalities (29%) with qualifications on completeness as well as the irregular expenditure incurred by the municipalities with outstanding audits been included, the irregular expenditure incurred would have been significantly higher.

The most common supply chain management findings that resulted in irregular expenditure related to three quotations and competitive bids not being obtained or invited, suppliers not submitting declarations of interest, and a lack of tax clearance certificates. It is concerning that R298 million of the irregular expenditure incurred related to multi-year contracts entered into in prior years that had not been dealt with appropriately, with Matjhabeng contributing R147 million in this regard. Additionally, supporting documentation for contracts and quotations of R187 million at five municipalities could not be provided for audit purposes, which was a further illustration of the poor internal control environment. The closing balance of irregular expenditure for the province was R2,3 billion, which indicated that irregular expenditure was not always adequately investigated to identify the officials to be held accountable for the possible recovery of losses, resulting in the year-on-year increase in the balance. Where irregular expenditure was investigated, officials were seldom held accountable but amounts were written off. This continued culture of no consequences has been created through the leadership's involvement in the decision-making that led to transgressions, which complicates their role to call for action.

The amendments to the Public Audit Act would allow us to refer for investigation any irregular acts or omissions causing a material financial loss, the misuse or loss of material public resources, or substantial harm to a public sector institution or the general public; and could result in remedial action. The area that would be affected the most in the province is irregular expenditure, due to the substantial amount and the nature of the transgressions reported each year without the necessary investigations taking place. We therefore encourage management and the leadership to take a strong stance against the abuse of public funds by exercising their responsibility to ensure that transgressions are appropriately investigated by the relevant oversight structures and that any losses are recovered.

The province's audit outcomes have significantly regressed due to the continued deterioration in the accountability for financial and performance management, despite the new administration being in power for two years. Nine municipalities regressed from the previous year, while none were able to improve their audit outcomes nor to achieve a clean audit for the second consecutive year. Dihlabeng, Matjhabeng, Metsimaholo, Nala, Phumelela, Setsoto, Thabo Mofutsanyana District and Tswelopele regressed from an unqualified audit opinion with findings to a qualified audit opinion. Ngwathe regressed from a qualified audit opinion to a disclaimed opinion. If we had not allowed any material audit adjustments, the audit outcomes would have been worse, as no municipality would have received a financially unqualified audit opinion. Instability and vacancies in key positions as well as staff supporting them contributed to the poor audit outcomes at most municipalities. Except for the municipal manager, there were no permanently appointed senior managers at year-end at Tokologo (which also received a disclaimed opinion and was one of the highest contributors to irregular expenditure). The local government audit outcomes will continue to deteriorate if the leadership does not set the right tone at the top, take accountability for addressing the root causes of the audit outcomes, and ensure transparent reporting of government spending.

It is concerning that nine of the 23 municipalities' audits had not been finalised by the cut-off date of this report of 31 January 2019, due to the late or non-submission of financial statements, delays in the audit process caused by service delivery protests at the municipality, and information systems-related issues such as the Municipal Standard Chart of Accounts conversion. There was a breakdown in internal controls, as daily, monthly and annual controls were not implemented and monitored throughout the year but remained a year-end effort. The nine municipalities of which the audit outcomes were outstanding, included Fezile Dabi District, Mangaung Metro, Mohokare and Nketoana that submitted financial statements late as well as Mafube, Maluti-A-Phofung and Masilonyana that had not yet submitted financial statements. Lejweleputswa District (consolidated financial statements) and Letsemeng submitted financial statements on time, but the audit process was delayed due to service delivery protests. These audits represent R9,2 billion (51%) of the total municipal budget, with Mangaung Metro being responsible for R5 billion. The metro should have led by example in the province to instil a strong control environment and good governance, which would have ensured the timeous submission of financial statements. Although the audit outcomes are distorted by the nine outstanding audits, we anticipate that the picture in the province will not improve.

There has been an outcry for greater accountability in local government in the Free State. If the political and administrative leadership had displayed the will to respond to this, the picture in the province would not have deteriorated to such a low point. The leadership should lead the drive to change the current culture that will result in a responsive, accountable, effective and efficient local government. The fundamental principles needed to improve accountability for government spending require dedication by the leadership, backed by visible action and effective oversight.

Mechanisms to promote accountability, which were lacking, typically include the following:

- Proper planning and budgeting to prioritise critical services.
- Fiscal disciplines to promote the effective, efficient and economical use of resources.
- Managing the performance of staff and effecting consequences for poor performance and transgressions.
- Essential oversight by assurance providers, especially municipal managers, mayors, councils, municipal public accounts committees and provincial coordinating departments.
- Comprehensive risk assessments and a fully functional internal audit unit, which independently evaluates management's implementation of key controls and daily disciplines; and reports directly to the audit committee.

We remain committed in our efforts to be a value-adding assurance provider and have therefore extended our engagements to status of records reviews. These include an analysis of financial and non-financial information to identify key areas that may derail progress in compliance with legislation and the preparation of financial and performance reports. This process was necessitated by the non-responsiveness of the leadership to our messages, as reported in our management, audit and general reports, as well as our quarterly engagements with all assurance providers. However, there was an unwillingness to participate in, and a lack of accountability for, the status of records reviews. We will continue to engage with management and the leadership, and monitor the progress they make to address key challenges and risks identified during this review process. Municipalities that continue to lack commitment will be escalated to the provincial and national executive leadership, and a decision will be taken on whether to continue supporting those municipalities with the status of records review.

FREE STATE – How is your municipality doing?

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Metropolitan municipality																								
Mangaung Metro		No											No											
Fezile Dabi dstrict																								
Fezile Dabi District		No											Yes											
Mafube		No											No											
Metsimaholo	↓	Yes	R	↓	Yes	R	R	R	R	13,4m	255,06m	R	No		171	76,5	-	2,3m	Not audited	Yes	11	No response	Yes	Yes
Moqhaka	→	Yes	R	→	Yes	R	N	R	R	46,6m	478,02m	R	Yes		347	75,2	146,4m	17,4m	Not audited	No	30	Slow response	No	Yes
Ngwathe	↓	Yes	R	↓	Yes	R	R	R	R	97,1m	273,45m	R	Yes		Not audited	Not audited	168,1m	35,6m	Not audited	Yes	44	No response	Yes	Yes
Lejweleputswa district																								
Lejweleputswa District		Yes											No											
Masilonyana		No											Yes											
Matjhabeng	↓	Yes	R	↓	Yes	R	R	R	R	376,7m	292,97m		Yes		1237	71	873,1m	169,2m	Not audited	Yes	55	Slow response	Yes	Yes
Nala	↓	Yes	R	↓	Yes	R	R	R	R	45,3m	58,61m	R	Yes		1005	84	2,9m	5,1m	Not audited	Yes	37	No response	Yes	Yes
Tokologo	→	Yes	R	→	Yes	R	R	R	R	113,6m	269,11m	R	No		Not audited	Not audited	169,2m	3,8m	Not audited	Yes	0	No response	Yes	Yes
Tswelopele	↓	Yes	R	↓	Yes	R	R	R	R	12,1m	15,1m	R	No		295	58	4,2m	4,9m	Not audited	Yes	14	No response	Yes	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified		Qualified	Adverse	Disclaimed	Audit not finalised at legislated date

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Thabo Mofutsanyana district																								
Thabo Mofutsanyana District	↓	Yes	N	↓	Yes	R	R	R	R	14,0m	18,39m	N	No		67	70,2	0,62m	0,22m	Not audited	Not audited/N/A	N/A	No response	Yes	Yes
Dihlabeng	↓	Yes	R	↓	Yes	R	R	R	R	37,1m	90,78m	R	Yes		540	92,3	170,6m	20,3m	Not audited	Yes	32	No response	Yes	Yes
Maluti-A-Phofung		No											Yes											
Mantsopa	→	Yes	R	→	Yes	R	R	R	R	11,1m	17,99m	R	Yes		450	77	169,8m	15,6m	Not audited	Yes	49	No response	Yes	Yes
Nketoana		No											No											
Phumelela	↓	Yes	R	↓	Yes	R	R	R	R	20,1m	177,66m	R	No		1163	93,9	69,1m	3,4m	Not audited	Yes	11	No response	Yes	Yes
Setsoto	↓	Yes	R	↓	Yes	R	N	R	R	99,1m	49,81m		Yes		154	42,6	17,3m	3,4m	Not audited	Yes	26	No response	Yes	Yes
Xhariep district																								
Xhariep District	→	Yes	R	→	Yes	R		R	R	1,7m	37,29m	R	No		244	74,6	1,8m	0,75m	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes
Kopanong	→	No	R	→	Yes	R	R	R	R	24,9m	246,42m	R	Yes		1336	90	39,4m	28,3m	Not audited	Yes	50	No response	Yes	Yes
Letsemeng		Yes											Yes											
Mohokare		No											No											

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

6.3 GAUTENG

PROVINCIAL SNAPSHOT

Clean audits: 9%
(2016-17: 9%)

Financially unqualified financial statements: 100%
(2016-17: 100%)

No findings on performance reports: 50%
(2016-17: 40%)

No findings on compliance with legislation: 10%
(2016-17: 10%)

Irregular expenditure: R3 246 million
(2016-17: R3 522 million)

The Gauteng local government sustained its audit outcomes in 2017-18, with one municipality obtaining a clean audit. The analysis of audit outcomes excludes Emfuleni, of which the audit had not been finalised by the legislated date due to safety concerns in the municipal area, which resulted in a temporary suspension of the audit process. We commend Midvaal for sustaining a clean audit outcome for the last five years. As highlighted in prior years, this was as a result of the municipality institutionalising a number of best practices (which should be replicated across the province), such as timeously monitoring the implementation of action plans to ensure that internal control deficiencies are addressed and effectively applying consequences.

Encouragingly, 100% of Gauteng municipalities have obtained a financially unqualified opinion for the past three years. Gauteng also remains the only province without any qualified or disclaimed opinions. However, the quality of financial statements as initially submitted for auditing regressed, as only 30% of the municipalities (2016-17: 40%), namely Midvaal, Merafong City and West Rand District, submitted financial statements without material misstatements. The poor quality of financial statements submitted for auditing at some municipalities was primarily due to a lack of accountability by chief financial officers and finance officials, who did not adequately review financial information during the year. We continue to highlight that reliance on auditors to identify errors in the financial statements, which are then corrected by municipalities, is not a sustainable practice.

Positively, the audit outcomes on reported performance information improved, as 50% of the municipalities (2016-17: 40%), namely Midvaal, City of Ekurhuleni Metro, City of Tshwane Metro, Merafong City and West Rand District, did not have findings on the usefulness and reliability of their performance reports. The municipalities that achieved this without reliance on the audit process and submitted a performance report without material misstatements also improved to 20%, namely City of Ekurhuleni Metro and West Rand District (2016-17: 10%). The above can be attributed to improved record keeping of portfolios of evidence and enhanced reviews and oversight by monitoring and evaluation units. However, internal control deficiencies need to be addressed in a sustainable manner to avoid the regression in performance reporting that took place in prior years after similar improvements.

Compliance outcomes remained stagnant, as only Midvaal did not have material findings on compliance with legislation. The most common findings related to creditors not being paid within 30 days; procurement and contract management; and the prevention of unauthorised, irregular and fruitless and wasteful expenditure. Furthermore, West Rand District and Merafong City suffered losses of R126,4 million as a result of the impairment of investments made with VBS Mutual Bank, which were in contravention of the Municipal Investment Regulations. We continue to highlight that non-compliance with legislation remains the major obstacle preventing most municipalities in the province from achieving a clean audit.

Unauthorised expenditure in the province increased to R1,9 billion (2016-17: R1,4 billion) due to inadequate budget controls and monitoring. Irregular expenditure at municipalities decreased to R3,2 billion (2016-17: R3,5 billion). Irregular expenditure incurred by municipal entities increased to R1,3 billion (2016-17: R654 million), of which R1,2 billion was incurred by municipal entities of the City of Johannesburg Metro. The total irregular expenditure in the province therefore increased to R4,5 billion (2016-17: R4,2 billion). The high levels of irregular expenditure remain a concern in the province, especially at metro level.

The City of Tshwane Metro remained the largest contributor, with irregular expenditure of R1,7 billion (2016-17: R1,8 billion). Of this, R838 million (49%) was due to contracts awarded in prior years, including R600 million on the smart prepaid meter contract. The metro has since taken steps to reduce the irregular expenditure on this contract from the R1,3 billion reported in 2016-17, with the contract subsequently being terminated after year-end. The metro also incurred irregular expenditure of R318 million due to non-compliance relating to the procurement of project management services under a contract secured by another organ of state. The City of Johannesburg Metro incurred irregular expenditure of R868 million, of which R628 million (72%) related to prior year contracts. The majority of the irregular expenditure incurred related to the procurement of fleet services and information technology services through invalid extensions and deviations instead of a competitive bidding process. The City of Ekurhuleni Metro incurred irregular expenditure of R275 million, of which R52 million (19%) related to prior year contracts. The majority of the irregular expenditure (R148 million) related to the incorrect application of section 110 of the Municipal Finance Management Act (procurement from another organ of state) on an information technology contract.

The province remained slow in effectively applying consequences, which was one of the root causes of the lack of accountability. The number of municipalities with material findings relating to effecting consequences remained stagnant on six municipalities. In particular, R12,7 billion of the R13,6 billion opening balance of unauthorised, irregular and fruitless and wasteful expenditure had not been dealt with during the financial year. This balance had increased to R17,7 billion at year-end. Considering the amendments to the Public Audit Act, municipalities should ensure that legislation is adhered to; oversight structures such as municipal public accounts committees appropriately investigate transgressions; unauthorised, irregular and fruitless and wasteful expenditure is condoned, recovered or written off where appropriate; and stringent consequence measures are applied.

Instability and vacancies in key positions continued to be a root cause that hindered an improvement in audit outcomes. At some municipalities, positions continued to be filled by acting officials, which created an environment that did not support effective performance management and consequences. Vacancies at year-end included the chief financial officer position at both the City of Johannesburg Metro and Sedibeng District, and the municipal manager position at Lesedi.

The current economic climate has resulted in municipalities' financial sustainability remaining constrained, as they continued to experience difficulties in collecting debt from municipal consumers. This was especially the case for the City of Tshwane Metro, as well as for local municipalities in the West Rand and Sedibeng regions, which had a negative impact on these municipalities' ability to pay providers for basic services. This was evidenced by the 80% of municipalities (2016-17: 60%) with material findings on non-payment of creditors within the required 30 days. At year-end, municipalities were in arrears of approximately R350 million and R65 million to providers of electricity and water, respectively. The expanding Gauteng population, as well as the resultant increased infrastructure development and maintenance needs, has also placed a strain on capital expenditure spending. We continue to encourage municipalities to intensify debt-collection processes while embracing prudent and efficient financial spending to ensure that they are still able to provide essential services to their citizens.

The status of the information technology environment regressed, as most municipalities did not effectively implement information technology security and user access policies and procedures, and did not enforce monitoring and evaluation mechanisms. At the City of Johannesburg Metro and the City of Ekurhuleni Metro, service level agreements with some information technology service providers were not adequately managed, which resulted in municipal systems not having adequate data protection controls against potential threats. Vacancies at chief information officer and information technology manager level contributed to the instability and lack of accountability within the information technology environment.
To address these recurring findings, information technology controls across all of the various municipal systems should be prioritised by municipal managers, and consequences should be applied where information technology commitments are not met.

Gauteng municipalities and their entities, primarily through the province's three metros, were responsible for R144,3 billion (35%) of South Africa's local government expenditure budget. This included R20 billion in capital expenditure. These funds were allocated to, among others, water and sanitation, electricity, roads and housing infrastructure projects; all of which are critical enablers to delivering essential services to communities. Our analysis of municipal grants and key infrastructure projects indicated that, encouragingly, 97% of the total municipal infrastructure grant funding of R371 million was spent and planned targets were achieved at 100% of the 10 projects funded by this grant. A total of 86% of the R2,6 billion public transport network grant funding was spent at the three metros, with planned targets achieved at 67% of the three projects funded by this grant. Similarly, the metros and Rand West City spent 97% of the R5,3 billion urban settlements development grant funding, but the planned targets were not achieved at 58% of the 12 projects funded by this grant. As highlighted in the previous year, this demonstrates that while grant funding was generally used adequately in the province, municipalities need to pay greater attention to achieving the planned targets, especially relating to the urban settlements development grant.

Our analysis of water infrastructure projects found that three municipalities (City of Johannesburg Metro, City of Ekurhuleni Metro and Mogale City) did not achieve targets for the provision of water services. Similarly, four municipalities (City of Johannesburg Metro, City of Tshwane Metro, Lesedi and Mogale City) did not achieve targets at sanitation projects. For both routine water maintenance and sanitation, there were insufficient qualified engineers or technical staff to meet project needs or oversee consulting engineers at three municipalities (City of Tshwane Metro, Midvaal and Mogale City).

At the City of Johannesburg Metro, a number of infrastructure projects are implemented through its municipal entities. At Johannesburg Water, this included the Bushkoppies works balancing tank project funded by the urban settlements development grant. The project was delayed due to changes in the scope of works (via variation orders which escalated the cost from R70 million to R151 million) and unrest on site that prevented the contractor from accessing the site. In the previous year, we reported that the City of Tshwane Metro's R517 million Temba water purification plant project had experienced major delays and was behind schedule due to poor project planning. Our follow-up work found the project to be 99% complete and in the commissioning phase in 2017-18, but the project cost had escalated to R894 million. The delays resulted in warranties on project equipment expiring before the equipment could be installed.

Our analysis of housing projects in the province indicated similar examples of delays due to poor project management. At the City of Johannesburg Metro's R852 million South Hills mixed development housing project funded by the urban settlements development grant, planned timelines were not met as they were not clearly defined in the agreement with the developer. A total of 2 103 units were built, compared to the target of 2 190. Instances of poor quality workmanship were also noted due to inadequate monitoring of subcontractors. At the City of Ekurhuleni Metro, the phase 4 Palm Ridge X9 housing infrastructure project was not completed, as the contractor delayed the installation of water meters and rectification of 400 bathroom structures where the angle of the roof pitch had been incorrectly constructed. This was due to inadequate supervision of the project. The metro had also spent R22 million on 565 temporary residential structures for the Angelo informal settlement. Security costs of R7 million were incurred on this project before security was terminated due to budget constraints. All 565 structures were subsequently stolen. The above concerns indicate that there is still significant room for improvement in the provisioning of housing infrastructure.

We did note instances of good project management, which should be replicated at all municipalities. At the City of Tshwane Metro, the R63 million upgrading of roads and stormwater systems in the Soshanguve Block GG Central project was completed within the contractual timelines and no quality deficiencies were noted. This was attributable to the monitoring and supervision of the work on site and the enforcement of adherence to timelines through regular communication with the contractor. We continue to emphasise the importance of the implementation of sound project management principles to ensure the efficient, effective and economical delivery of key basic services. Proper project planning and regular monitoring will assist municipalities to not only achieve their performance targets, but also improve their financial sustainability, reduce related non-compliance with legislation, and ultimately improve audit outcomes.

Although the overall audit outcomes have remained stagnant, we continue to interact regularly with stakeholders to discuss our management and audit reports; as well as through conducting status of records reviews, to highlight key areas requiring attention as part of efforts to improve accountability. We emphasised our recommendation to the political and administrative leadership that they should act decisively to address the various root causes contributing to stagnant outcomes. This includes the slow response by the administrative leadership to prioritise the implementation of action plans and address internal control deficiencies, which is reflected in the further regression in the level of assurance provided by senior management.

We continue to encourage key role players such as the provincial cooperative governance department and the provincial treasury to intensify the level of support provided to municipalities going forward, especially in the area of compliance with legislation. We will continue to monitor the impact and progress of commitments made, as they are critical enablers to improving the overall audit outcomes in the province.

GAUTENG – How is your municipality doing?

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Metropolitan municipalities																								
City of Ekurhuleni	→	Yes	R	→	Yes	A		R	R	274,6m	1 515,12m	N	No		92	67,4	-	4,7m	Yes	No	30	slow response	Yes	Yes
City of Johannesburg Metro	→	Yes	R	→	Yes	R	R	R	R	868,3m	2 724,27m	R	No		32	88	304,5m	9,1m	Yes	Yes	26	Slow response	Yes	No
City of Tshwane Metro	→	Yes	R	→	Yes	R	A	R	R	1 683,9m	5 053,99m	R	Yes		74	70,9	1 138,3m	64,8m	Yes	Yes	28	Slow response	No	Yes
Sedibeng district																								
Sedibeng District	→	Yes	N	→	Yes	R	R	R	R	9,4m	12,99m	N	No		143	87,2	6,4m	0,06m	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes
Emfuleni		Yes											Yes											
Lesedi	→	Yes	R	→	Yes	R	R	R	R	45,1m	208,51m	R	No		93	80	13,6m	0,29m	Yes	Yes	26	Slow response	Yes	Yes
Midvaal	→	Yes		→	Yes	N				0,26m	-		No		14	50	4,4m	-	No	Yes	29		No	No
West Rand district																								
West Rand District	→	Yes	A	→	Yes	A		R		21,1m	-		Yes		1055	21,6	51,1m	0,26m	Not audited	Not audited/N/A	N/A	Slow response	No	No
Merafong City	→	Yes		→	Yes	R		R	A	22,5m	63,8m	A	No		360	87	35,5m	24,7m	Yes	No	47	Slow response	Yes	No
Mogale City	→	Yes	N	→	Yes	R	R	R	R	171,2m	200,9m	A	Yes		115	85,1	-	9,5m	Yes	Yes	15	Slow response	No	No
Rand West City	→	Yes	R	→	Yes	R	R	R	R	149,7m	212,59m	R	No		272	74,1	324,9m	11,5m	No	No	35	Slow response	No	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified		Qualified	Adverse	Disclaimed	Audit not finalised at legislated date

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

6.4 KWAZULU-NATAL

PROVINCIAL SNAPSHOT

Clean audits: 2%
(2016-17: 11%)

Financially unqualified financial statements: 65%
(2016-17: 73%)

No findings on performance reports: 40%
(2016-17: 48%)

No findings on compliance with legislation: 4%
(2016-17: 12%)

Irregular expenditure: R2 943 million
(2016-17: R2 333 million)

The audit outcomes continued to deteriorate in the second year following the election and appointment of the new political and administrative leadership. We again identified and reported that the leadership along with management was slow to respond, or did not respond at all, to the early warning risk signals and recommendations that we regularly communicated. The levels of tension, intimidation and threats, as well as pushback and hostility, increased during the execution and reporting phases of our audits, as the leadership and management were under pressure to achieve better audit outcomes.

The outcomes indicated a net overall regression of nine municipalities since the previous year, comprising 14 regressions and five improvements. There was a substantial decrease in the number of municipalities with unqualified audit opinions without findings (clean audits) from six to one, and an increase in the number of municipalities with modified audit opinions (qualified, adverse and disclaimed) from 14 to 18. The hostile environment and pushbacks at Msunduzi and Richmond resulted in the late finalisation of these audits; the outcomes of which are excluded from this report. If these outcomes had been considered, the province would still have displayed an overall regression.

eThekwini Metro, which accounted for R38,77 billion (54%) of the total local government budget of the province, remained stagnant on an unqualified opinion with findings on compliance matters. Irregular expenditure was not prevented and awards were made to suppliers without obtaining declarations of interest. Most of the irregular expenditure was due to invalid deviations and extensions to contracts. During the year, our leadership took a decision to suspend the audit process due to intimidation and threats, which made it difficult for us to test supplier contracts. The South African Police Service had to be used to escort audit staff to the metro. The municipality's leadership also had to intervene to restore calm and safety to enable the uninterrupted resumption of audit work.

The audit outcomes of district municipalities regressed when compared to the previous year. Of the 10 district municipalities, only ILembe District received an unqualified opinion with findings on compliance matters. Seven district municipalities received qualified opinions, while two received adverse opinions. These poor results were mainly due to control breakdowns in revenue and asset management, accounts receivable as well as the recording of disclosure items. Municipal managers did also not pay adequate attention to the deteriorating status of their records, as daily, weekly and monthly financial management disciplines were not implemented. Amajuba and uMkhanyakude district municipalities have received unfavourable audit opinions consecutively for the last five years. This trend demonstrated a continuous lack of accountability as well as indecisive leadership and direction in the management of the affairs of these municipalities.

The audit outcomes of 11 local municipalities (27%) regressed from the previous year. Two notable regressions included Mpofana and Nongoma. Mpofana regressed to a disclaimed opinion from a qualified opinion; and Nongoma to an adverse opinion from an unqualified opinion. Mpofana has also received unfavourable audit opinions consecutively for the last five years. The regressions and unfavourable outcomes at local municipalities stemmed from senior management's failure to take accountability and institutionalise the basic disciplines of record management, reconciliations and fundamental reviews in the areas of revenue and asset management, receivables, recording of disclosure items, as well as performance reporting and compliance with laws and regulations. The root causes of these findings included the slow response by management in implementing action plans, instability and vacancies in key positions, as well as a lack of understanding of the municipal financial and performance reporting requirements.

The poor quality of submitted financial statements persisted. The daily and monthly processing and reconciling activities undertaken by key finance support staff were not duly supervised and reviewed to allow for reporting processes to operate independently. Had corrections to the financial statements not been processed, 41 municipalities (79%) would have obtained modified opinions. A total of 23 municipalities (44%) avoided qualifications only because they corrected the material misstatements that were identified through the audit process. Municipalities continued to use consultants for financial reporting. This did not have a positive impact on audit outcomes at some municipalities, due to inefficiencies by the municipalities (such as the poor quality of the underlying data and poor project management). We remain concerned that 29 of the appointed chief financial officers had the relevant competency levels and professional qualifications to enable them to perform their duties, yet consultants were appointed to assist in financial reporting. This practice needs to be investigated, as it is not cost-effective and results in a drain on allocated funds that can be better utilised in other areas.

A total of 96% of the municipalities had material findings on compliance with legislation, predominantly on matters related to procurement and contract management; material misstatements in submitted financial statements; unauthorised, irregular, and fruitless and wasteful expenditure; as well as effecting consequences. The levels of irregular expenditure continued on an upward spiral from R2,33 billion to R2,94 billion, despite legislation requiring municipal managers to take reasonable steps to prevent such expenditure.

The blatant disregard for legislation continued to erode accountability, public trust and governance, especially when systems and processes were intentionally abused. Six municipalities failed to disclose the full extent of their irregular expenditure, indicating that the value could be even higher. eThekwini Metro, uThukela District, uMzinyathi District, uMkhanyakude District and Ugu District collectively accounted for R1,76 billion (60%) of the total disclosed value. Additionally, irregular expenditure of R213 million disclosed in the financial statements of the municipalities of which the audits had been finalised late (Msunduzi and Richmond) was not included in the total disclosed value. The main areas of non-compliance with Supply Chain Management Regulations that resulted in irregular expenditure included deviations from competitive bidding and quotation processes that were not approved, supported and/or justified as well as emergency criteria that had been incorrectly applied.

The political and administrative leadership were not serious about enforcing accountability for those who were responsible for irregular expenditure, as evidenced by the high cumulative closing balance of R8,35 billion. Investigations into irregular expenditure of the previous year did not take place at some municipalities. Where investigations did take place, they were not conducted properly or not completed within a reasonable time in some instances. Additionally, where investigations had been completed, effective disciplinary steps (based on recommendations arising from these investigations) were not always taken against officials. The lack of consequences and the non-recovery of money from officials responsible for incurring the irregular expenditure were concerning.

During the year, community protests and turmoil continued to spike due to failures in service delivery promises and the poor state of accountability at municipalities. This also links to the number of municipalities that underspent their grant funding for key service delivery targets by R601 million as at 30 June 2018. In many instances, we could not verify the validity, accuracy and completeness of the reported achievements of municipalities. Overall, 31 municipalities (60%) had material findings on their performance report, compared to 27 municipalities (52%) in the previous year. Furthermore, only six municipalities (12%) produced quality performance reports before audit adjustments. Weak record management, inadequate standard operating procedures, and a poor understanding of the required source documents for performance reporting continued to be obstacles.

The multi-year integrated rapid public transport infrastructure system for the GO!Durban project at eThekwini Metro with an actual spend of R2,96 billion as at 30 June 2018 was not progressing as intended. The delays were caused by negotiations by the metro with community and business forums. The metro entered into onerous contracts with suppliers for this project (in other words, contracts in which costs to fulfil the terms of the contract are higher than the economic benefit that is received), whereby payments would be made if there was any delay on the part of the municipality. This resulted in payments being made where no construction work was being performed. The delays experienced on this project could negatively affect citizens due to safety concerns, increased travelling costs and traffic congestion.

Targets for the provision of water services were not met at eight (57%) of the municipalities authorised to provide such services. This was due to poor performance by contractors, insufficient qualified engineers and technical staff to meet project needs, and drought conditions. Additionally, many local municipalities struggled with the implementation of effective road asset management practices, which resulted in deteriorating road infrastructure. Due to management's slow response to address the previous year's audit findings and poor project management disciplines, municipalities did not adopt the standard for infrastructure procurement and delivery management; develop and/or approve road renewal and maintenance plans; and perform conditional assessments.

The financial health of municipalities showed a weakening trend. The drought that has been ravaging the province since 2015 has not let up in many areas and had a negative impact on financial health. Additionally, poor revenue and debt management practices contributed to the concerning status of financial health. The extended debt-collection periods placed the cash flow of municipalities under strain and many failed to pay money owed within 30 days. Concerning is that 42 municipalities (89%) had current liabilities that were greater than 10% of their budgets for the next year. Committing a substantial portion of future budgets in the current year hampers service delivery in future periods under declining economic conditions. Some municipalities struggled to make payments for bulk purchases of water and electricity and entered into agreements with suppliers to pay off outstanding amounts over a specified period. The total arrears in this regard for water and electricity were R348 million and R83 million, respectively, as at 30 June 2018. Municipalities also continued to lose money through water (R1,23 billion) and electricity (R976 million) distribution losses. These losses were mainly due to illegal connections and poorly maintained infrastructure.

The information technology environment improved; however, some municipalities continued to struggle with the implementation of information technology security and user access management controls due to inadequate policies and procedures as well as a lack of skilled staff.

The provincial cooperative governance department and the provincial treasury continued to support municipalities with the implementation of initiatives through the municipal support programme. The provincial treasury implemented support initiatives over multiple years and most of these are still in progress. Municipalities did not have major challenges with the implementation of the Municipal Standard Chart of Accounts, due to the provincial treasury's direction, support and oversight. However, further improvements can still be made on the training and transfer of skills to municipal officials through the coordination of efforts with the provincial cooperative governance department and the South African Local Government Association. The provincial cooperative governance department swiftly intervened at six municipalities with maladministration by appointing administrators. However, the interventions by the administrators did not have a significant impact on audit outcomes, mainly due to their late appointment, resistance by municipal officials, and vacancies in key positions.

The repetitive nature of audit findings demonstrated that audit committees did not adequately direct the scope of internal audits, resulting in the latter not responding to core challenges and risks. Additionally, most municipal councils and municipal public accounts committees did not exercise oversight over issues we raised in terms of section 131 of the Municipal Finance Management Act. To some extent, these structures could not fulfil their responsibilities effectively due to senior management and municipal managers not providing credible information at a number of municipalities.

The political, municipal and provincial leadership should prioritise the filling of key positions with competent people, deal with transgressions and poor performance decisively, and sufficiently monitor the implementation of action plans to address prior year findings. Oversight structures (the council and its committees) should be more robust and persuasive in their quest for quality and credible information, and hold officials accountable where they have consistently failed to fulfil their mandated responsibilities.

Many of the challenges across local government are vast and require attention and a long-term solution. Equally, there are basic lapses that are sometimes overlooked, which can be fixed easily and quickly by addressing the building blocks of a sound system of internal control and combined assurance. The amendments to the Public Audit Act are expected to focus greater attention by accounting officers to the importance of accountability, personal liability and legislated fiduciary responsibilities so that auditees under their helm are soundly managed. Importantly, an improvement in audit outcomes is also largely dependent on the political will of elected officials as well as the diligent collaboration and commitment of all key assurance role players to strengthen local government administration and accountability.

KWAZULU-NATAL – How is your municipality doing?

Municipality	Indicators of accountability												Accountability impact								Key root causes		
	Overall audit outcomes	Financial statements			Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Financial health					Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
		Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)			Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred			
Metropolitan municipality																								
eThekwini Metro	→	Yes		→	Yes	N		R	N	733,0m	1 283,0m		Yes		75	49	-	29,5m	Not audited	Yes	32	Slow response	No	Yes
Amajuba district																								
Amajuba District	→	Yes	R	→	Yes	R	R	R	R	2,7m	53,61m	R	No		269	71	40,6m	0,21m	Yes	Yes	51	No response	Yes	Yes
Dannhauser	↓	Yes	R	↓	Yes	R	R	R	A	12,7m	9,09m	R	Yes		8	20,7	-	-	Not audited	No	N/A	Slow response	No	No
eMadlangeni	→	Yes	N	→	Yes	R	R	R	R	7,8m	58,2m	R	No		79	36	21,9m	0,02m	No	No	N/A	Slow response	No	No
Newcastle	→	Yes	R	→	Yes	R	R	R	R	95,7m	283,34m	R	No		230	64	124,2m	8,5m	Not audited	Yes	48,8	Slow response	Yes	Yes
Harry Gwala district																								
Harry Gwala District	→	Yes	R	→	Yes	R	N	R	R	117,6m	460,04m	R	No		169	88	148,5m	0,52m	Yes	Yes	38,2	Slow response	No	Yes
Dr Nkosazana Dlamini Zuma	→	Yes	R	→	Yes	R	R	R	R	10,9m	70,43m		No		61	50,1	-	0,01m	No	Yes	N/A	Slow response	Yes	No
Greater Kokstad	→	Yes	R	→	Yes	R	A	R	R	28,6m	47,58m	A	No		32	41	-	0,02m	No	No	N/A	Slow response	No	No
Ubuhlebezwe	↓	Yes	R	↓	Yes	R	R	R	R	12,2m	12,66m	N	Yes		174	65,4	-	0,003m	No	Yes	N/A	Slow response	No	Yes
uMzimkhulu	→	Yes	A	→	Yes	A	A	R	R	2,6m	2,49m		No		12	49	-	-	Not audited	No	N/A	Slow response	No	No

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified		Qualified	Adverse	Disclaimed	Audit not finalised at legislated date

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Ilembe district																								
Ilembe District	→	Yes	N	→	Yes	N		R		45,0m	53,41m		Yes		182	69	-	0,09m	No	No	46,8	Slow response	Yes	No
Kwadukuza	→	Yes		→	Yes	R		R	N	127,7m	42,05m	N	Yes		41	47,6	-	0,02m	Not audited	No	N/A	Slow response	No	Yes
Mandeni	→	Yes	R	→	Yes	R		R		10,8m	11,73m	R	No		49	63	18,3m	0,07m	No	No	N/A	Slow response	No	No
Maphumulo	→	Yes	R	→	Yes	R		R	R	3,1m	32,19m		No		70	37,2	-	0,76m	Not audited	Yes	N/A	Slow response	No	No
Ndwedwe	→	Yes	N	→	Yes	R		R	R	3,3m	55,07m		Yes		63	53,9	-	-	Not audited	Yes	N/A	Slow response	Yes	No
Ugu district																								
Ugu District	↓	Yes	R	↓	Yes	R	N	R	R	131,3m	271,05m	R	Yes		Not audited	Not audited	243,8m	1,2m	Yes	Yes	25,4	No response	No	Yes
Ray Nkonyeni	↓	Yes		→	Yes	N	N	N	N	11,5m	48,35m		No		156	41	-	0,79m	No	No	N/A	Slow response	Yes	No
uMdoni	→	Yes	R	→	Yes	R		R	R	45,9m	200,12m		Yes		80	16,9	-	-	No	Yes	N/A	Slow response	Yes	No
Umuziwabantu	↓	Yes	N	→	Yes	R	N	N	N	1,4m	7,85m		No		36	17	-	0,007m	Yes	No	N/A	Slow response	Yes	No
Umzumbe	↓	Yes		→	Yes	R	N			-	-		Yes		31	20	1,9m	0,02m	No	No	N/A	Slow response	No	No

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Umgungundlovu district																								
Umgungundlovu District	↓	Yes	R	↓	Yes	A		R	N	7,0m	8,4m	R	No		40	78	-	0,34m	Not audited	No	36	Slow response	Yes	No
Impendle	↓	Yes	R	↓	Yes	R	R	R	A	7,1m	17,84m		No		130	21	-	0,005m	Not audited	Yes	N/A	Slow response	Yes	No
Mkhambathini	→	Yes	R	→	Yes	R	R	R	N	5,6m	10,81m		No		114	41	4,0m	0,03m	Not audited	Yes	N/A	Slow response	No	No
Mpofana	↓	Yes	R	↓	Yes	R	A	R	R	16,2m	48,72m	R	Yes		Not audited	Not audited	37,5m	2,1m	No	No	N/A	No response	No	Yes
Msunduzi		Yes											Yes											
Richmond		Yes											Yes											
Umngeni	↑	Yes	R	↑	Yes	N	N	R	R	0,78m	29,54m	R	No		64	40,5	29,7m	0,005m	Not audited	Yes	N/A	Slow response	No	Yes
uMshwathi	→	Yes	R	→	Yes	R	R	R	N	23,4m	23,42m	N	No		19	35,1	0,29m	-	Not audited	Yes	N/A	Slow response	No	No
uMkhanyakude district																								
uMkhanyakude District	↑	Yes	R	↑	Yes	R	R	R	R	232,0m	1 623,02m	R	No		381	57,9	18,3m	37,7m	Yes	Yes	26,9	Slow response	No	Yes
Big 5 Hlabisa	↓	Yes	R	↓	Yes	R	R	R	R	12,8m	230,33m	R	No		226	55,5	9,7m	0,8m	Yes	Yes	N/A	Slow response	No	No
Jozini	→	Yes	R	→	Yes	R	R	R	R	61,5m	374,92m		No		86	71,2	29,2m	0,12m	Yes	Yes	N/A	Slow response	Yes	No
Mtubatuba	→	Yes		→	Yes	A	A	R	R	6,9m	6,88m	A	Yes		137	67,7	28,9m	0,08m	Not audited	No	N/A	Slow response	No	No
uMhlabuyalingana	↓	Yes	N	→	Yes	N		N		4,9m	12,5m		No		31	73,7	-	0,008m	Not audited	No	N/A	Slow response	Yes	No

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
uMzinyathi district																								
uMzinyathi District	→	Yes	R	→	Yes	R	R	R	R	267,8m	1 010,46m	R	No		Not audited	Not audited	176,6m	0,04m	Yes	Yes	56	Slow response	Yes	No
Endumeni	→	Yes	N	→	Yes	N	N	R	R	16,6m	25,41m	A	Yes		29	86	10,8m	0,007m	No	No	N/A	Slow response	Yes	No
Msinga	↑	Yes	R	↑	Yes	R	N	R	R	9,5m	9,53m	A	Yes		11	88	-	0,83m	No	Yes	N/A	Slow response	Yes	No
Nquthu	→	Yes	N	→	Yes	R	N	R	R	6,1m	6,12m	A	No		74	32	-	0,008m	No	Yes	N/A	Slow response	No	No
Umvoti	→	Yes	R	→	Yes	R	R	R	R	35,6m	9,94m	A	No		46	44,3	-	0,23m	Not audited	Yes	N/A	Slow response	Yes	Yes
uThukela district																								
uThukela District	→	Yes	R	→	Yes	R	R	R	R	399,8m	329,3m	R	Yes		118	75	71,0m	0,21m	Yes	Yes	77	Slow response	No	Yes
Alfred Duma	→	Yes	R	→	Yes	R	N	R	R	15,5m	183,98m	R	Yes		58	53	16,6m	0,1m	Yes	Yes	N/A	Slow response	No	Yes
Inkosi Langalibalele	↑	Yes	R	↑	Yes	R	R	R	R	78,0m	249,04m	N	Yes		Not audited	Not audited	18,1m	2,2m	Not audited	No	N/A	Slow response	Yes	Yes
Okhahlamba	→	Yes		→	Yes					-	13,52m		No		33	38,8	-	0,04m	No	No	N/A		No	No
King Cetshwayo district																								
King Cetshwayo District	→	Yes	N	→	Yes	R		R	A	-	-	A	No		79	53	-	-	No	No	23	Slow response	No	No
Mfolozi	→	Yes	R	→	Yes	R	R	R	N	15,4m	88,9m	A	Yes		109	16	26,3m	0,2m	No	Yes	N/A	Slow response	No	No
Mthonjaneni	→	Yes	A	→	Yes	R	R	R	R	36,2m	110,56m		No		51	56,5	1,5m	0,06m	Not audited	Yes	N/A	Slow response	No	No
Nkandla	→	Yes	A	→	Yes	R		R	R	10,7m	86,86m	N	No		57	63,7	11,4m	1,7m	Not audited	No	N/A	Slow response	No	No
uMhlathuze	↓	Yes		→	Yes	R		N	N	3,0m	3,04m		Yes		75	5	-	-	No	Yes	21	Slow response	No	No
Umlalazi	→	Yes	A	→	Yes	A		R	N	3,1m	1,42m		No		38	42,2	14,8m	1,8m	Not audited	Yes	N/A	Slow response	No	No

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Overall audit outcomes	Financial statements: Timely submission of financial statements	Financial statements: Quality of financial statements submitted for auditing	Financial statements: Quality of published financial statements	Performance report: Preparation of performance reports	Performance report: Quality of performance reports submitted for auditing	Performance report: Quality of published performance reports	Compliance: Material findings on compliance with key legislation	Compliance: Material findings on management of procurement and contracts	Irregular expenditure: Irregular expenditure incurred Amount (R million)	Irregular expenditure: Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Financial health: Status of financial health	Financial health: Average creditor-payment period (days)	Financial health: Percentage of debt irrecoverable	Financial health: Unauthorised expenditure incurred Amount (R million)	Financial health: Fruitless and wasteful expenditure incurred Amount (R million)	Infrastructure development and maintenance: Findings on infrastructure projects: roads, sanitation and water	Infrastructure development and maintenance: Findings on maintenance of infrastructure: roads, sanitation and water	Infrastructure development and maintenance: Percentage of water losses incurred	Key root causes: Slow or no response in improving internal controls and addressing risk areas	Key root causes: Instability or vacancies in key positions or key officials lacking appropriate competencies	Key root causes: Inadequate consequences for poor performance and transgressions
Zululand district																								
Zululand District	↓	Yes	R	↓	Yes	R	N	R	R	122,9m	307,91m	N	No		70	86	-	0,04m	Not audited	No	9	Slow response	No	Yes
AbaQulusi	→	Yes	R	→	Yes	A	A	R	R	41,9m	158,99m	N	Yes		168	43,8	108,5m	18,7m	Not audited	Yes	48	Slow response	No	Yes
eDumbe	→	Yes	R	→	Yes	R	R	R	A	1,7m	71,51m	R	No		350	8	7,9m	1,2m	Not audited	Yes	N/A	Slow response	Yes	Yes
Nongoma	↓	Yes	R	↓	Yes	R	A	R	R	3,2m	66,5m	R	No		Not audited	Not audited	17,4m	0,002m	Yes	Yes	N/A	Slow response	No	Yes
Ulundi	→	Yes	N	→	Yes	R	R	R	R	55,8m	111,25m	R	No		315	50,3	-	5,6m	Not audited	Yes	N/A	Slow response	No	Yes
uPhongolo	↑	Yes	R	↑	Yes	R	A	R	N	38,3m	121,04m	N	No		98	46	-	0,42m	Not audited	Yes	N/A	Slow response	No	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

6.5 LIMPOPO

PROVINCIAL SNAPSHOT

Clean audits: 0%
(2016-17: 0%)

Financially unqualified financial statements: 31%
(2016-17: 33%)

No findings on performance reports: 8%
(2016-17: 12%)

No findings on compliance with legislation: 0%
(2016-17: 0%)

Irregular expenditure: R1 063 million
(2016-17: R1 879 million)

In its second year, the administration of the Limpopo local government realised a slight improvement in the overall audit outcomes in 2017-18 with a net improvement of two municipalities. However, this improvement was consultant-driven rather than as a result of a concerted effort by the leadership to address internal control deficiencies. Following the improved audit outcomes in 2015-16, which was also consultant-driven, we warned against the over-reliance on consultants that put the sustainability of improved audit outcomes at risk. Our warnings were not taken seriously – consequently, this improvement was not sustainable in 2016-17 as the overall audit outcomes regressed.

At the cut-off date of 31 January 2019 for inclusion in this report, the audit outcomes of two municipalities (Modimolle-Mookgophong and Thabazimbi) were still outstanding and are thus excluded from this provincial overview. Modimolle-Mookgophong only submitted financial statements in January 2019, while Thabazimbi had not yet submitted financial statements. This is the second consecutive year that both these municipalities have failed to submit their financial statements by the legislated deadline. Both municipalities required service providers to assist in the preparation of the financial statements due to capacity constraints in their finance units. However, the service providers were appointed very late in the financial year, resulting in the late submissions. The chief financial officer of Thabazimbi resigned at year-end and the provincial treasury placed Modimolle-Mookgophong under administration on 30 May 2018, which also contributed to the delays. The late completion of the audits at these municipalities has a resultant impact on the work of the various oversight bodies that rely on the audit reports to execute their responsibilities.

The continued over-reliance on consultants as a short-term remedy rather than focusing on attracting and empowering officials with adequate skills and competencies to improve the control environment for sustained improved outcomes, is indicative of the breakdown in internal controls, as daily, monthly and annual controls were not implemented and monitored throughout the year but remained a year-end effort.

A total of 24 municipalities (96%) used consultants for financial reporting at a cost of R177 million (2016-17: R123 million) due to a lack of skills and/or vacancies in key positions, especially in the finance units. Notwithstanding the investment made through the appointment of consultants, the financial statements still contained material misstatements that were identified during the audit. Only three municipalities (Greater Tzaneen, Capricorn District and Sekhukhune District) did not have material misstatements in the areas for which the consultants were appointed. The most common reason for misstatements at the remaining municipalities was auditee inefficiencies, which included providing consultants with insufficient supporting documents to prepare credible financial statements.

None of the municipalities were able to improve their audit outcomes to achieve a clean audit for the second consecutive year of the current administration. The eight municipalities that obtained unqualified audit opinions all used consultants at a cost of R43 million (24%), of which Elias Motsoaledi contributed R25 million. Municipalities that obtained qualified audit opinions spent R78 million (44%), with Polokwane contributing the most at R35 million; while municipalities with adverse or disclaimed opinions spent R56 million (32%), with Mopani District, Vhembe District and Collins Chabane contributing R24 million, R19 million and R13 million, respectively. The cumulative amount spent on consultants by Polokwane, Elias Motsoaledi, Mopani District, Vhembe District and Collins Chabane over the past two years amounted to R159 million; yet skills were not transferred adequately, as management continued to appoint consultants for the preparation of the financial statements.

Over the years, we have recommended that the first level of assurance providers (management, municipal managers and mayors) develop strategies to address deficiencies in the internal control environment and to implement effective action plans to address the root causes of our findings. The consistent poor quality of financial statements confirms that the leadership did not timeously respond to matters we raised in 2016-17; that municipalities are yet to implement controls to ensure the improved quality of financial statements submitted for auditing; and that municipalities continue to rely on the audit process to identify misstatements. These shortcomings were further enabled by an environment in which there were inadequate consequences for poor performance.

We remain extremely concerned about the status of compliance with legislation, as all municipalities (100%) in the province had material findings due to non-compliance with legislation. The most common compliance findings related to the quality of financial statements submitted for auditing (100%), municipalities not preventing unauthorised, irregular and/or fruitless and wasteful expenditure (92%), non-compliance with supply chain management prescripts (76%), effecting consequences (68%), and revenue and expenditure management (56%). The number of findings in most of these categories increased in the year under review. It is evident that the deteriorating accountability for financial and performance management is not being addressed, as there are no consequences for those who fail to comply with legislation. Oversight mechanisms such as the municipal public accounts committees need to strengthen their focus on compliance matters. It is also vital that members of these committees have sufficient knowledge of legislation to interact meaningfully on matters of compliance and thus adopt effective resolutions. With the amendments to the Public Audit Act, the leadership must ensure that municipalities have sound internal controls and that there are consequences for transgressions with laws and regulations and poor performance.

Although the irregular expenditure incurred in the current year decreased from R1 879 million to R1 063 million, it is still unacceptably high with 96% (2016-17: 100%) of the municipalities reporting instances of irregular expenditure. Additionally, the amount is likely to be significantly higher, as 10 municipalities were qualified on the completeness of the irregular expenditure disclosed in their financial statements and the irregular expenditure of the two municipalities with outstanding audits is not included in the total. The entire R1 063 million was incurred as a result of non-compliance with supply chain management prescripts. Of this total, R1 024 million (96%) related to payments or expenses incurred in the 2017-18 financial year, while R39 million (4%) was identified in the 2017-18 financial year but related to prior years.

Five municipalities incurred 68% of the total irregular expenditure, namely Mogalakwena (R374 million), Greater Letaba (R96 million), Polokwane (R89 million), Elias Motsoaledi (R83 million), and Fetakgomo Tubatse (R77 million). The cumulative balance of irregular expenditure as at 30 June 2018 was R5 563 million, of which 83% (R4 618 million) relating to prior financial years, had not yet been dealt with by the councils. This is an indication that not all irregular expenditure was investigated to identify if there are any officials from whom these losses can be recovered. This is further supported by the reported compliance findings above on effecting consequences at 68% of the municipalities, as investigations into unauthorised, irregular and fruitless and wasteful expenditure were not performed.

Municipal investment regulation 6 requires municipalities to invest with banks registered in terms of the Banks Act. As at 30 June 2018, eight municipalities (Greater Giyani, Makhado, Elias Motsoaledi, Lepelle-Nkumpi, Ephraim Mogale, Vhembe District, Collins Chabane, and Fetakgomo Tubatse) had investments amounting to R1 191 million with VBS Mutual Bank. The funds invested in VBS Mutual Bank were a combination of conditional grants, equitable share and own revenue. The bank was placed under curatorship by the South African Reserve Bank on 11 March 2018 and the North Gauteng High Court ordered its liquidation on 13 November 2018. Due to the pending liquidation process, the recoverability of the R1 191 million is highly unlikely. We reported non-compliance with the applicable Municipal Investment Regulations in the audit reports of all eight municipalities. Two municipalities, namely Collins Chabane and Vhembe District, were also qualified on the VBS Mutual Bank investment balances disclosed in their financial statements. Collins Chabane failed to impair the balance as required by the applicable accounting standards and Vhembe District did not disclose the entire balance invested with the bank.

The impact of these losses was evidenced by service delivery protests at some of the municipalities. At Fetakgomo Tubatse, where part of the funds invested came from the integrated national electrification programme grant, certain villages were not electrified. The basic service delivery and infrastructure development and the local economic development objectives were not fully met due to a lack of funds. Furthermore, the municipality was unable to pay its service providers subsequent to year-end and has since been placed under administration in terms of section 139 of the Constitution. Greater Giyani was unable to start and complete some infrastructure projects, which will now be implemented in phases (over three years); and Vhembe District was unable to perform repairs and maintenance of water pipes and boreholes due to insufficient funds. For the remaining four municipalities (excluding Elias Motsoaledi where the remaining balance is R48 000), the impact of the losses will in all likelihood have a negative effect on service delivery objectives in the coming years. The provincial treasury appointed a service provider to investigate the root causes that led to the unlawful investments at the mutual bank and the investigation is in progress.

The financial health of municipalities regressed due the municipalities' inability to collect money owed for serviced rendered, which was made worse by the losses suffered by the eight municipalities that invested with VBS Mutual Bank. Fifteen municipalities (71%) failed to collect debts owed to them within 90 days. The province incurred unauthorised expenditure amounting to R2 832 million – a huge increase from the R1 393 million in the previous year. The increase was due to non-cash items that were not appropriately budgeted for and the investments with VBS Mutual Bank that had to be impaired at year-end. Eleven municipalities (52%) realised a deficit at year-end, as their expenses exceeded their income. Two municipalities were placed under administration, namely Modimolle-Mookgophong and Fetakgomo Tubatse, due to poor revenue collection, which had an impact on their ability to pay creditors (such as the water board and Eskom) on time. Municipalities need to tighten their spending, improve their debt-collection strategies, and properly manage their budgets to honour their financial obligations and provide for basic services.

In addition, significant amounts are owed by municipalities to Eskom and the water board. The total outstanding balance as at 30 June 2018 for these utilities amounted to R1 567 million, which can be broken down as follows:

- Eskom – R366 million (R206 million is between 0 and 30 days old)
- Water board – R1 201 million (R715 million is older than 120 days)

The status of the reported performance information slightly regressed from the previous year. We did not report material findings on performance information at only two municipalities (8%), namely Greater Giyani and Capricorn District (2016-17: 12%). We previously recommended that municipalities design and implement standard operating procedures for collating, recording and reporting on their performance. Our recommendations were not implemented, as evidenced by the lack of improvement in these outcomes. At the root of this regression was the slow response by management, due to those officials responsible for performance reporting lacking the required knowledge and skills. Even with the establishment of a performance management forum by the provincial cooperative governance department, municipalities continued to have material findings on their reported performance information. Attendance of the forum by key officials is usually very poor, and instead officials who do not have the required knowledge on performance reporting are often delegated to attend meetings of this forum.

We audited 56 projects funded by conditional grants and raised findings on 25 projects, as detailed below:

- Sixteen projects were not completed by the planned completion dates.
- Six projects were awarded without complying with supply chain management prescripts.
- Goods and services were not received at one project.
- Misstatements were identified at two projects.

An example of how the lack of accountability negatively affected service delivery can be seen in the Nandoni RWS: construction of bulk pipeline from Nandoni to Muraga via Mangondi project in Vhembe District. This project was started in 2016 and was still not 100% complete at year-end, due to ineffective monitoring, management and supervision. The municipality has to date incurred R81 million on the project, with a total contract value of R160 million. At Mopani District, the contractor failed to complete the tours bulk water scheme project with a contract value of R34 million by the planned date of 30 April 2018. The completion date was revised to 28 February 2019, due to the ineffective monitoring of the project. At the time of writing this report, the project was 92% complete and R30 million had already been paid to the contractor. Delays in the completion of water infrastructure projects had resulted in a number of service delivery protests in the district, which continues to be plagued by water shortages and aged infrastructure.

Our review of information technology covered user access management, security management, information technology governance, and information technology continuity. The province's information technology audit outcomes regressed. Common findings included disaster recovery plans not being in place or approved at nine municipalities (36%), a lack of monitoring and review of system administrator or controller access at eight municipalities (32%), information technology security policies and procedures not being in place or approved, and inadequate security settings that were not in accordance with best practices at 11 municipalities (44%). In addition, municipalities still relied on information technology vendors to support their application systems, and internal audit units did not actively follow up the implementation of information technology controls. These weaknesses had a direct impact on the credibility of information produced by these systems and subsequently the information submitted for auditing.

The lack of appropriate skills at chief financial officer level and the over-reliance on consultants are becoming obstacles to the sustainability of improved audit outcomes. It is critical that the current vacancies at both chief financial officer and municipal manager level are filled by competent personnel with relevant experience. We continue to encourage key role players such as the provincial cooperative governance department and the provincial treasury to intensify the level of support provided to municipalities going forward.

To assist in improving the quality of the financial statements, the provincial cooperative governance department conducted a financial statements readiness assessment programme and reviewed the financial statements prior to submission for auditing. The challenge, however, was that most municipalities submitted their draft financial statements to the department too late to have had the desired impact. The lack of urgency by the political and administrative leadership to address audit findings is a concern. On the same note, we also conducted status of records reviews to provide the accounting officers with early warning signals on internal controls. Despite these engagements being well received, accounting officers were slow to act on our recommendations.

We once again encourage the leadership in the province to ensure that a culture of accountability is cultivated and that all levels of management and leadership accept responsibility for improving audit outcomes. It is critical that the municipal public accounts committees and municipal councils are adequately capacitated, especially in the area of compliance, to effectively exercise their oversight roles. This will help to prevent a situation where municipalities incur unnecessary financial losses, such as making unlawful investments.

The tone has to be set at the top (by senior managers, municipal managers and mayors) that there is zero tolerance for poor performance and transgressions. This will not only improve audit outcomes but will have a positive impact on service delivery as well.

LIMPOPO – How is your municipality doing?

Municipality	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
Capricorn district																								
Capricorn District	→	Yes	R	→	Yes	A	A	R		0,07m	43,94m		No		11	34	-	0,4m	No	No	38	Slow response	Yes	No
Blouberg	→	Yes	R	→	Yes	R	R	R	R	14,0m	13,96m	A	Yes		127	20	-	0,29m	No	No	N/A	Slow response	Yes	No
Lepelle Nkumpi	→	Yes	R	→	Yes	R	R	R	R	71,0m	272,33m	R	Yes		14	62,8	-	0,005m	No	Not audited/N/A	N/A	Slow response	Yes	Yes
Molemole	→	Yes	R	→	Yes	R	N	R	R	0,05m	3,52m	N	No		42	41	1,4m	0,05m	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes
Polokwane	→	Yes	R	→	Yes	R	R	R	A	89,5m	562,54m	N	No		60	51	411,1m	0,1m	Yes	No	14	Slow response	Yes	Yes
Mopani district																								
Mopani District	↑	Yes	R	↑	Yes	R	R	R	R	10,7m	197,0m	R	No		Not audited	Not audited	154,2m	17,9m	Yes	Yes	69	No response	Yes	Yes
Ba-Phalaborwa	↑	Yes	R	↑	Yes	R	R	R	R	37,4m	325,58m	R	Yes		64	69	68,7m	0,24m	Yes	No	N/A	Slow response	Yes	Yes
Greater Giyani	↑	Yes	R	↑	Yes	R	A	R	R	2,9m	15,93m	N	No		61	63,9	206,5m	0,17m	No	Yes	N/A	Slow response	Yes	Yes
Greater Letaba	↑	Yes	R	↑	Yes	R	R	R	R	96,4m	124,39m	R	Yes		199	64	51,2m	0,1m	Yes	Yes	N/A	Slow response	Yes	Yes
Greater Tzaneen	↓	Yes	R	↓	Yes	R	R	R	R	12,3m	104,83m	A	No		89	10	111,9m	6,2m	No	No	N/A	No response	Yes	Yes
Maruleng	→	Yes	R	→	Yes	N	N	R		5,2m	27,67m		No		54	76,5	-	-	Yes	Yes	N/A	Slow response	Yes	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability: Overall audit outcomes	Financial statements: Timely submission of financial statements	Financial statements: Quality of financial statements submitted for auditing	Financial statements: Quality of published financial statements	Performance report: Preparation of performance reports	Performance report: Quality of performance reports submitted for auditing	Performance report: Quality of published performance reports	Compliance: Material findings on compliance with key legislation	Compliance: Material findings on management of procurement and contracts	Irregular expenditure: Irregular expenditure incurred Amount (R million)	Irregular expenditure: Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Accountability impact – Financial health: Status of financial health	Financial health: Average creditor-payment period (days)	Financial health: Percentage of debt irrecoverable	Financial health: Unauthorised expenditure incurred Amount (R million)	Financial health: Fruitless and wasteful expenditure incurred Amount (R million)	Infrastructure development and maintenance: Findings on infrastructure projects: roads, sanitation and water	Infrastructure development and maintenance: Findings on maintenance of infrastructure: roads, sanitation and water	Infrastructure development and maintenance: Percentage of water losses incurred	Key root causes: Slow or no response in improving internal controls and addressing risk areas	Key root causes: Instability or vacancies in key positions or key officials lacking appropriate competencies	Key root causes: Inadequate consequences for poor performance and transgressions
Sekhukhune district																								
Sekhukhune District	→	Yes	R	→	Yes	R	R	R	A	26,6m	1 217,29m	R	No		167	54,3	54,2m	0,11m	Not audited	No	0	Slow response	Yes	Yes
Elias Motsoaledi (Greater Groblersdal)	↑	Yes	R	↑	Yes	R	R	R	R	82,6m	167,14m	R	Yes		73	85,3	75,4m	0,42m	No	No	N/A	Slow response	Yes	Yes
Ephraim Mogale	↑	Yes	R	↑	Yes	R	R	R	R	21,0m	20,97m		No		30	56,6	-	0,21m	No	No	N/A	Slow response	Yes	Yes
Fetakgomo Tubatse	→	Yes	R	→	Yes	R	R	R	R	77,3m	191,41m	N	Yes		191	81,1	297,7m	1,8m	Not audited	Yes	N/A	Slow response	Yes	Yes
Makhudutamaga	↓	Yes	R	↓	Yes	R	R	R	N	-	74,9m	N	No		56	93	48,0m	0,06m	Not audited	No	N/A	Slow response	Yes	Yes
Vhembe district																								
Vhembe District	→	Yes	R	→	Yes	R	R	R	R	0,17m	0,17m	R	Yes		Not audited	Not audited	-	1,0m	Yes	Yes	15	Slow response	Yes	Yes
Collins Chabane	↓	Yes	R	↓	Yes	R	R	R	R	45,4m	53,35m		Yes		Not audited	Not audited	5,0m	0,22m	Yes	Yes	N/A	Slow response	Yes	Yes
Makhado	↑	Yes	R	↑	Yes	R	R	R	A	33,5m	3,17m		No		101	55,6	164,3m	0,61m	No	No	N/A	Slow response	Yes	Yes
Musina	↓	Yes	R	↓	Yes	R	R	R		21,7m	146,88m	R	Yes		494	15	-	2,9m	Yes	Yes	N/A	Slow response	Yes	Yes
Thulamela	→	Yes	R	→	Yes	R	R	R	R	0,89m	64,75m	N	No		59	93	32,2m	9,9m	No	No	N/A	Slow response	Yes	Yes
Waterberg district																								
Waterberg District	→	Yes	R	→	Yes	R	N	R	R	0,33m	20,31m	R	No		92	0	-	-	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes
Bela-Bela	→	Yes	R	→	Yes	R	R	R	R	31,9m	6,44m		No		168	87,8	15,1m	2,2m	Not audited	Yes	8	Slow response	Yes	Yes
Lephalale	↓	Yes	R	↓	Yes	R	R	R	R	8,9m	186,95m	R	No		91	29,9	17,6m	1,1m	Yes	Yes	29	Slow response	Yes	Yes
Modimolle-Mookgophong		No											No											
Mogalakwena	→	Yes	R	→	Yes	R	R	R	R	373,7m	1 717,84m	R	No		Not audited	Not audited	1 117,4m	2,6m	Not audited	Yes	21	Slow response	Yes	Yes
Thabazimbi		No											No											

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified		Qualified	Adverse	Disclaimed	Audit not finalised at legislated date

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)

Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

6.6 MPUMALANGA

PROVINCIAL SNAPSHOT

Clean audits: 5%
(2016-17: 10%)

Financially unqualified financial statements: 42%
(2016-17: 68%)

No findings on performance reports: 42%
(2016-17: 42%)

No findings on compliance with legislation: 5%
(2016-17: 11%)

Irregular expenditure: R1 314 million
(2016-17: R1 936 million)

The province has 20 municipalities, which include two consolidations (City of Mbombela and Thaba Chweu). Section 122(2) of the Municipal Finance Management Act requires consolidated financial statements to be prepared. Thaba Chweu and its entity (Thaba Chweu Local Economic Development Agency) submitted only their separate draft annual reports for auditing on time but not the consolidated financial statements. This meant that the municipality was unable to table the consolidated annual report on time, as required by the Municipal Finance Management Act. As the audit was still in progress at the cut-off date of this report, the consolidated results of Thaba Chweu have been excluded from this overview.

Despite our strong message in prior years, calling on both the local government and the provincial leadership to deal decisively with the accountability failures by stabilising local government (through filling vacancies and capacitating local government) and implementing consequences, the province did not heed this message. We also performed status of records reviews during the year to highlight weaknesses that might get in the way of improved audit outcomes. This effort yielded very little benefit, however, as management was slow to respond or in some instances did not implement our recommendations, resulting in unfavourable outcomes due to qualifications on the balances on which we identified weaknesses during these reviews. As a result, the province was unable to sustain the improved audit outcomes from 2016-17 and instead experienced a significant net regression in 2017-18. This continuing deterioration of accountability for financial and performance management is illustrated in the paragraphs below.

Only Gert Sibande District improved its audit outcome – from unqualified with findings to a clean audit. Nine municipalities regressed from the previous year, with the worst regression being Govan Mbeki from an unqualified opinion with findings to a disclaimed opinion. The main driver of the regression was the lack of sufficient and effective institutionalised internal controls, which resulted in an unstable control environment. At some municipalities, vacancies and instability in key positions as well as at support staff level further contributed to the unstable control environment. In addition, even though the chief financial officer position was filled at some municipalities, there was a lack of technical competency skills to appropriately interpret, analyse and report the financial and performance information in compliance with relevant frameworks and legislation. These vacancies, instabilities and competency gaps resulted in the province heavily relying on consultants, with little or no monitoring nor any transfer of skills. Despite 17 municipalities (89%) spending R134 million on consultants for financial reporting during the year, this had no impact on the outcomes except at Gert Sibande District.

As a result of these accountability failures, only one municipality (5%) – which managed 3% of the local government budget in the province – produced credible financial and performance reports and complied with key legislation, while municipalities entrusted with 97% of the budget failed to achieve clean administration. Furthermore, only eight (42%) of the municipalities had quality published performance reports in terms of both reliability and usefulness. The reliability of these reports improved from eight municipalities (44%) to 10 municipalities (56%), while 10 municipalities (56%) still struggled with the usefulness of the information in these reports. Since Dr JS Moroka was unable to submit its underlying supporting documents, we could not test reliability and the municipality was excluded from our reliability analysis. Municipalities prepared performance reports merely to comply with legislation rather than to use these reports as tools to measure performance, ensure clear accountability, and continually improve reporting on service delivery. This has been a trend that we have been highlighting to management and leadership over the past years.

Municipalities in the province continued to underperform on their planned projects. Of the R1,9 billion municipal infrastructure grant allocation, R177 million (9%) was not spent – mainly due to delays in procurement processes and in the appointment of contractors, resulting mainly from not preparing procurement plans. We selected 67 key water, sanitation and road infrastructure projects for auditing at the 16 municipalities responsible for the delivery of water, sanitation and road services in the province. Of these projects, 26 (39%) were not awarded in accordance with Supply Chain Management Regulations and prescripts, while 21 (31%) were behind schedule and did not meet their planned target dates. We also raised concerns on the accounting for 13 (19%) of the projects and on quality deficiencies at one project, namely the upgrading of existing infrastructure to augment the borehole water supply in Bundu tested at Govan Mbeki.

We raised material findings on compliance with legislation at 18 municipalities (95%) due to the continued disregard for legislative prescripts. The most common compliance findings reported in the province related to material misstatements in the financial statements at 17 municipalities (89%); management of procurement and contracts at 17 municipalities (89%); the prevention of unauthorised, irregular and fruitless and wasteful expenditure at 15 municipalities (79%); expenditure management at 13 municipalities (68%); and effecting consequences at 13 municipalities (68%).

The above clearly shows that the province continued to struggle with procurement and contract management – weaknesses in this area contributed to more than 99% of the total irregular expenditure of approximately R1 314 million. This amount consisted of R1 034 million incurred in the current year and R280 million incurred in prior years but identified in the current year. Of the R1 034 million incurred in the current year, R572 million related to expenditure on multi-year contracts and R462 million represented non-compliance in 2017-18. Although the irregular expenditure had decreased when compared to the R1 936 million incurred in the previous year, the decrease was due to some of the bigger contracts at Bushbuckridge and Mkhondo expiring in 2017-18 and the City of Mbombela cancelling irregular contracts that were not linked to capital projects. The highest contributors to the current year irregular expenditure were Dr JS Moroka (R278 million), Bushbuckridge (R217 million), City of Mbombela (R187 million), and Emalahleni (R135 million). It was further disappointing that Ehlanzeni District had lost its clean audit status due to non-compliance with the Preferential Procurement Regulations.

Although some efforts were made to deal with the R6,2 billion prior year closing balance of irregular expenditure, the progress made to investigate this balance was slow. During the year, 10 municipalities wrote off irregular expenditure amounting to R2,8 billion. The City of Mbombela (R1,1 billion) and Bushbuckridge (R1,1 billion) contributed to 79% of the total write-off. Of the total R2,8 billion written off, R753 million at Bushbuckridge and R35 million at Steve Tshwete related to irregular expenditure incurred by Rand Water as an implementing agent on behalf of the municipalities through the rapid intervention unit of the provincial government. As such, no officials were found liable for these transgressions, as this decision was taken at provincial leadership level and approved by the respective councils. We urge the provincial leadership to abstain from administrative decision-making but rather to strengthen their effectiveness through consistent and timeous monitoring and oversight.

The information technology environment continued to improve, with six municipalities implementing sound information technology controls, as compared to four in 2016-17. Notwithstanding these improvements, the shortcomings in the information technology environment at 13 municipalities (68%) should not be ignored, as poor controls in this environment increase the risk of fraud and data manipulation, which can affect the credibility of information used for decision-making. The full implementation of the Municipal Standard Chart of Accounts in 2017-18 presented some challenges, especially relating to the timely submission as well as the quality of financial statements. One municipality (Govan Mbeki) could not produce financial statements on time, as the municipality changed the Municipal Standard Chart of Accounts service provider during the year, which was a major setback in the preparation of the financial statements. Steve Tshwete, Emakhazeni, Msukaligwa, Dr JS Moroka and Bushbuckridge submitted financial statements of such poor quality that we could not audit the initial submission, as the financial statements did not reconcile to the trial balance due to misclassifications.

The local government leadership's lack of accountability for sound financial management had a negative impact on municipalities' financial viability. At three municipalities (16%), the financial information was not reliable enough to analyse financial viability (as they had adverse or disclaimed opinions). A further four municipalities were in a vulnerable financial position; three of these disclosed a material financial uncertainty in their financial statements, while one was qualified for not disclosing this. Given the already weak financial position in local government, we are very concerned about the overspending at 13 municipalities, resulting in unauthorised expenditure of R1,3 billion – mainly caused by the municipalities' inability to budget properly. A total of 10 municipalities took longer than 90 days to collect debt, while 13 municipalities were unable to pay their debts as they became due within 30 days. Eskom remained the highest creditor in the province, with municipalities owing the electricity provider R4 billion. Some municipalities have entered into payment arrangements with Eskom but the bill remains high. The late payment of creditors contributed to fruitless and wasteful expenditure of R396 million, most of which was due to penalties and interest.

The financial crisis in local government raged even more fiercely after year-end when four municipalities (Msukaligwa, Emalahleni, Govan Mbeki and Lekwa) were subjected to mandatory provincial intervention in terms of section 139(1)(a) of the Municipal Finance Management Act. Task teams led by the provincial treasury and provincial cooperative governance department, including specialists in elements of financial management, had been dispatched to these municipalities. We will continue to follow up and engage both the municipalities and the leadership of the province on the progress and impact of this intervention.

We acknowledge the efforts by the provincial treasury and provincial cooperative governance department to support and capacitate municipalities, but these efforts were not sustainable to have the desired long-term impact. The support relating to financial accounting and reporting as well as compliance with laws and regulations could be more proactive in ensuring that municipalities have the necessary technical skills. The municipal manager vacancies at nine municipalities (47%) and chief financial officer vacancies at four municipalities (21%) further contributed to the accountability failures indicated above.

As the control environment deteriorated, the audit environment became more hostile and risky. Our auditors experienced subtle threats at two municipalities, while we also experienced significant delays in the submission of requested information due to service delivery protests at two municipalities. Another concerning trend was municipalities submitting falsified audit evidence to the auditors in order to avoid audit findings. We have engaged the leadership of the respective municipalities on these matters and urged them to set the right behavioural tone.

Many of the challenges that we have flagged above, can be turned around through strong, ethical and courageous leadership in the administration and council, with the support of provincial government. There is a need to strengthen the oversight mechanism in the province, specifically the council committees established in terms of sections 79 and 80 of the Municipal Structures Act as well as the audit committees. While implementing the additional powers provided to the auditor-general through the amended Public Audit Act, we will also consistently and insistently advise and caution those charged with local governance and oversight to implement the basic principles of accountability, which are built around strong internal control and good governance. This is the only way municipalities can be geared to live up to the expectations of the communities they serve.

MPUMALANGA – How is your municipality doing?

Municipality	Indicators of accountability												Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Ehlanzeni district																								
Ehlanzeni District	↓	Yes		→	Yes			N	N	1,6m	1,53m		No		28	50	-	0,001m	Not audited	Not audited/N/A	N/A		Yes	No
Bushbuckridge	↓	Yes	R	↓	Yes	R	N	R	R	216,8m	936,14m	R	Yes		135	45,9	45,2m	15,0m	Yes	No	32	Slow response	No	Yes
City of Mbombela	→	Yes	N	→	Yes	R	R	R	R	186,5m	489,84m		Yes		285	39	319,6m	28,9m	Yes	Yes	20	Slow response	Yes	No
Nkomazi	→	Yes	R	→	Yes	R	N	R	R	58,5m	497,67m	N	No		81	60,2	3,2m	0,86m	Yes	Yes	2	Slow response	No	No
Thaba Chweu		No											No											
Gert Sibande district																								
Gert Sibande District	↑	Yes	A	→	Yes	R		A		-	0,04m		No		39	0	-	-	Not audited	Not audited/N/A	N/A		No	No
Chief Albert Luthuli	→	Yes	R	→	Yes	R	A	R	N	40,6m	393,91m	N	No		457	60,8	0,21m	3,8m	Yes	Yes	15	Slow response	No	No
Dipaleseng	↓	Yes	R	↓	Yes	R	R	R	R	23,7m	117,79m	R	No		250	89,7	32,3m	3,6m	Yes	Yes	74	Slow response	Yes	Yes
Dr Pixley Ka Isaka Seme	→	Yes	R	→	Yes	N		R		2,6m	2,64m		No		35	81,4	-	0,002m	No	Yes	29	Slow response	Yes	No
Govan Mbeki	↓	No	R	↓	Yes	R	R	R	R	58,1m	324,17m	R	Yes		Not audited	Not audited	230,0m	82,2m	Yes	Yes	27		Yes	Yes
Lekwa	↓	Yes	R	↓	Yes	R	R	R	R	91,1m	319,26m	R	Yes		745	88	89,7m	77,6m	Yes	Yes	93	No response	No	No
Mkhondo	→	Yes	R	→	Yes	R	R	R	R	30,7m	30,71m	R	No		422	87,5	230,7m	13,4m	Yes	Yes	31	Slow response	Yes	Yes
Msukaligwa	↓	Yes	R	↓	Yes	R	R	R	R	94,1m	523,12m	R	No		Not audited	Not audited	-	39,7m	Yes	Yes	42	Slow response	Yes	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability												Accountability impact									Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Nkangala district																								
Nkangala District	↓	Yes	N	→	Yes	R		N	N	3,5m	3,55m		No		14	0	-	-	Not audited	Not audited/N/A	N/A	Slow response	Yes	No
Dr. JS Moroka	↓	Yes	R	↓	Yes	R	R	R	R	277,8m	551,8m	R	No		Not audited	Not audited	14,9m	0,43m	Yes	Yes	16	Slow response	Yes	Yes
Emakhazeni	→	Yes	R	→	Yes	A	A	R	R	40,6m	96,6m	R	No		675	73,4	5,5m	5,1m	Yes	Yes	4	No response	No	Yes
Emalahleni	→	Yes	R	→	Yes	R	R	R	R	135,3m	323,61m	R	No		847	82	222,0m	110,2m	Yes	Yes	40	Slow response	No	Yes
Steve Tshwete	→	Yes	N	→	Yes	R		R	R	8,4m	5,91m		No		32	14	26,0m	-	Yes	No	19	Slow response	Yes	No
Thembisile Hani	↓	No	R	↓	Yes	R		R	R	34,9m	25,06m	N	No		22	95	-	9,1m	Yes	Yes	18	Slow response	Yes	Yes
Victor Khanye	→	Yes	R	→	Yes	R	R	R	R	9,1m	26,44m	N	No		270	60	32,7m	6,4m	Yes	Yes	70	Slow response	Yes	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

6.7 NORTHERN CAPE

PROVINCIAL SNAPSHOT

Clean audits: 3%
(2016-17: 3%)

Financially unqualified financial statements: 42%
(2016-17: 46%)

No findings on performance reports: 27%
(2016-17: 23%)

No findings on compliance with legislation: 4%
(2016-17: 4%)

Irregular expenditure: R586 million
(2016-17: R283 million)

The Northern Cape province consists of 31 municipalities, five district municipalities and 26 local municipalities. The audits of five local municipalities had not been completed by the cut-off date of 31 January 2019 for inclusion in this report, as the financial statements were submitted late due to a combination of leadership instability and internal control deficiencies.

The 2017-18 audit outcomes regressed, with three municipalities moving from an unqualified audit opinion to a qualified audit opinion, and two municipalities moving from a qualified audit opinion to a disclaimed audit opinion. Included in this regression are Sol Plaatje and Gamagara, two of the municipalities with the largest budgets in the province. The overall regression confirms that the message of accountability that we intensely focused on during the past two years has not been heeded yet. This message entailed that mayors, municipal managers and senior managers need to hold each other and their subordinates accountable. As this did not happen, similar findings are reported year after year in many instances, confirming that accountability for financial and performance management continues to deteriorate as highlighted in this overview. This deterioration in accountability is further confirmed by the re-occurrence of concerns we also highlighted in the previous year, as outlined below.

The quality of the submitted financial statements continued to be poor, with only two municipalities (8% [2016-17: 4%]) being able to submit quality financial statements in the year under review. We had also previously highlighted the fact that most municipalities relied heavily on the external auditors to identify misstatements in their financial statements. This was again evident, as 35% of the municipalities achieved unqualified audit opinions only because they corrected all misstatements identified during the audit. The poor quality, despite the use of consultants as detailed below, confirms that the leadership did not respond to the matters we had raised in 2016-17, and that municipalities had still not implemented controls that were meant to ensure quality financial statements.

The use of consultants has become the norm, with 21 municipalities utilising consultants for financial reporting purposes at a cost of R40 million . Our concern is not the use of consultants, but rather the province not receiving a return on investment, as all 21 municipalities had material misstatements in the area of the consultants' responsibility. Nine of the 21 municipalities (43%) corrected the misstatements and thereby obtained an unqualified audit opinion, but the remaining 12 municipalities (57%) still had either a disclaimed or a qualified opinion.

Performance reporting remained an area showing limited progress, with 73% of the municipalities (2016-17: 77%) being unable to produce performance reports that were useful and reliable – clearly indicating that this area was still not receiving the necessary attention. If we had not allowed audit adjustments, all municipalities would have had findings on their performance reports. Most municipalities were unable to provide supporting documents for their reported results, due to poor record management and a lack of controls to timeously and reliably report on their performance.

The status of compliance with legislation was still a concern, with only 4% of the municipalities avoiding findings on compliance (2016-17: 4%) – reconfirming that the municipal leadership was not taking this area seriously. The most common compliance findings related to managing procurement and contracts (96%); the quality of financial statements submitted for auditing (92%); and the prevention of unauthorised, irregular and fruitless and wasteful expenditure (88%).

The level of irregular expenditure significantly increased from the previous year and amounted to R586 million (2016-17: R283 million). However, this figure is incomplete as 10 municipalities were qualified on the completeness of their irregular expenditure, while another 10 were investigating the completeness of their irregular expenditure. Ga-Segonyana was the main contributor to irregular expenditure in the current year, accounting for R256 million or 44% of the total amount incurred. Of the R586 million, 86% resulted from instances of non-compliance with the Supply Chain Management Regulations. The most common supply chain management findings related to uncompetitive or unfair procurement processes (92%) and inadequate contract management (69%).

During the year, municipalities wrote off irregular expenditure amounting to R572 million. This represents only 40% of the prior year irregular expenditure balance of R1 423 million. The fact that no irregular expenditure was recovered from the liable person, indicates that investigations are either not taking place or not rigorous enough to reduce this balance. Of further concern is that the two main contributors to the irregular expenditure balance, namely Gamagara (R360 million) and Nama Khoi (R198 million), did not investigate their irregular expenditure in the current year. This lack of accountability and consequences was consistently reported in prior years, but no progress had been made in this regard.

The extent and nature of supply chain management findings increased, pointing to a disregard for compliance with legislation. We are extremely concerned about this culture, as it exposes municipalities to the widespread misuse of public funds. The following are some of the indicators of the deterioration in accountability when it comes to supply chain management:

- We could not audit procurement of R138 million due to missing or incomplete information.
- False declarations of interest were made by 15 suppliers at 10 municipalities.
- Close family members of employees and councillors received R41 million in awards.

The financial health of the province remained a concern, with 64% of the municipalities considered to be in a financially vulnerable position (2016-17: 54%). This excludes four municipalities with disclaimers where the financial information was not accurate enough to perform a detailed assessment of their financial health. Current liabilities exceeded 10% of the next year's budget at all municipalities assessed. The municipalities did not collect debt from consumers, which in turn resulted in their inability to pay suppliers on a timely basis, which had a negative impact on these suppliers. This resulted in an average suppliers' payment period of 297 days, compared to the legislated requirement of 30 days. The cash-flow difficulties experienced by many municipalities were also evident from the fact that 13 local municipalities were in arrears with Eskom, while eight were in arrears with water service providers. Local municipalities in the province owed these suppliers R1 024 million as at 30 June 2018, of which R548 million was older than 120 days and the ageing for an amount of R230 million could not be determined.

The audit outcomes continue reflecting the poor state of internal controls, with only 4% of the municipalities (2016-17: 4%) being assessed as having good leadership as well as financial and performance management controls. The province will struggle to create stable and strong municipalities until municipal councils, municipal managers and senior managers prioritise the improvement of internal controls by ensuring that key positions are filled with skilled and competent staff. Vacancies and instability in key positions remained problematic. Eight municipalities (31%) did not have a permanently appointed municipal manager and six (23%) did not have a permanent chief financial officer. The environment created by these vacancies was a significant contributor to the continued poor quality of financial and performance reporting and did not enable accountability, as acting officials lacked the authority to take the necessary action.

As part of our audits, we tested 61 key projects relating to water, sanitation and road infrastructure. Most of these projects were poorly managed, as illustrated by the findings below:

- Irregular expenditure on the projects amounted to R197 million.
- We raised supply chain management findings at 39% of the projects.
- Budgets at 23% of the projects were over- or underspent.

In addition, 47% of the municipalities disclosed water losses of more than 30% in their financial statements. This is concerning considering that the province has been crippled by a drought over the past few years with taps running dry in some places. We also noted that 68% of the municipalities had no policy on water maintenance.

The implementation of the Municipal Standard Chart of Accounts during the year, exposed information technology weaknesses at many municipalities in the province. Although the implementation did not directly contribute to the regression in audit outcomes, the municipal leadership needs to seriously consider the need to capacitate information technology units and the adequacy of current information technology controls. A total of 31% of the municipalities in the province had not implemented this chart of accounts yet; and of those that had implemented it, only three (17%) made use of the National Treasury's transversal tender.

The main root causes that hindered progress in the province were as follows:

- The slow, or lack of, response by management and the political leadership to improve key controls and address risk areas.

- Inadequate consequences for poor performance and transgressions.
- Instability and vacancies as well as the inadequate application of knowledge and skills.

Considering the above, the municipal leadership – as the first level of assurance – must reconsider their current approach and instil a culture of discipline over the implementation and proper monitoring of internal controls. The message of accountability should be emphasised and the leadership must deal decisively with those who do not follow policies and procedures. While we noted an improvement in the assurance provided by internal audit units and audit committees, the impact of this has been hampered by management's failure to implement their recommendations.

In addition, the administrative and executive leadership should accept responsibility for their actions and should create a culture that will result in a responsive and accountable local government. Over the years, we have received numerous commitments from the executive leadership, but the impact of these commitments was minimal as very little was done to implement and monitor them. There were also no consequences when the responsible officials did not ensure that these commitments translated into actions and results.

To improve audit outcomes and strengthen accountability in the province, the provincial leadership should do the following:

- Set the correct tone at the top – focused on ethical leadership, good governance and accountability.
- Capacitate and stabilise administration – focused on filling municipal manager and chief financial officer vacancies with competent individuals.
- Enable and insist on robust financial and performance management systems.

Deterioration in accountability has become an embedded culture in the province that undermines the basic principles of transparency and good governance, which affects the level of public confidence in local government. The political leadership both at the provincial and municipal level and within the administration of municipalities must work together to resolve the current challenges faced by municipalities to create a culture that will result in a responsive and accountable local government.

NORTHERN CAPE – How is your municipality doing?

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Frances Baard district																								
Frances Baard District	→	Yes	R	→	Yes	R		R	N	3,9m	3,55m		No		33	9,3	-	0,19m	Not audited	Not audited/N/A	N/A		Yes	No
Dikgatlong		No											Yes											
Magareng	→	Yes	R	→	Yes	R	R	R	R	22,8m	51,1m	R	No		1010	92,6	30,5m	8,0m	No	Yes	40	Slow response	Yes	Yes
Phokwane		No											No											
Sol Plaatje	↓	Yes	R	↓	Yes	R	N	R	R	15,9m	15,87m		No		58	36,6	-	-	Yes	Yes	53	Slow response	Yes	Yes
John Taolo Gaetsewe district																								
John Taolo Gaetsewe District	→	Yes	R	→	Yes	R		R	R	0,37m	21,0m	A	No		105	4,1	12,5m	2,3m	Not audited	Not audited/N/A	N/A		Yes	No
Gamagara	↓	Yes	R	↓	Yes	R	R	R	R	23,3m	359,5m	R	No		Not audited	Not audited	-	6,7m	Yes	Yes	18	Slow response	Yes	Yes
Ga-Segonyana	→	Yes	R	→	Yes	R	R	R	R	255,5m	167,26m	A	No		251	45,1	41,2m	5,2m	Yes	Yes	68	Slow response	No	Yes
Joe Morolong	→	Yes	R	→	Yes	R	R	R	R	37,2m	125,95m	R	No		Not audited	Not audited	55,1m	0,49m	Not audited	Not audited/N/A	N/A	No response	Yes	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability													Accountability impact								Key root causes		
	Overall audit outcomes	Financial statements			Performance report			Compliance		Irregular expenditure		Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Financial health					Infrastructure development and maintenance			Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
		Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)			Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred			
Namakwa district																								
Namakwa District	→	Yes	R	→	Yes	R		R	N	0,44m	0,44m	A	No		70	0	-	-	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes
Hantam	→	Yes	R	→	Yes	R	A	R	R	81,9m	9,46m	R	No		287	88,4	16,2m	-	Yes	Yes	11	Slow response	Yes	No
Kamiesberg	↓	Yes	R	↓	Yes	R	R	R	R	7,3m	21,87m	R	No		225	83	17,3m	2,7m	Yes	Yes	16	Slow response	Yes	Yes
Karoo Hoogland	↑	Yes	R	↑	No	NPR	NPR	R	R	6,5m	39,36m	R	No		77	79,2	9,6m	0,009m	Yes	No	8	No response	No	Yes
Khai-Ma	↓	Yes	R	↓	No	NPR	NPR	R	R	11,8m	11,84m		Yes		566	94	6,6m	1,7m	Yes	Yes	58	Slow response	No	Yes
Nama Khoi	→	Yes	R	→	Yes	R	R	R	R	39,9m	197,5m	R	No		553	92,4	32,3m	12,6m	Yes	Yes	15	Slow response	Yes	Yes
Richtersveld	→	Yes	R	→	No	NPR	NPR	R	R	-	57,55m	R	No		104	94,6	3,8m	0,03m	Yes	Yes	14	No response	Yes	Yes
Pixley Ka Seme district																								
Pixley Ka Seme District	→	Yes	A	→	Yes	R	R	R	R	2,8m	4,53m	R	No		299	0	4,4m	0,003m	Not audited	Not audited/N/A	N/A	Slow response	No	Yes
Emthanjeni	→	Yes	R	→	Yes	R	R	R	R	28,2m	36,76m		No		216	75	31,7m	3,8m	Yes	Yes	36	Slow response	No	Yes
Kareeberg	→	Yes	R	→	Yes	R		R	N	0,48m	-		No		25	30,9	4,4m	-	Yes	Yes	0	Slow response	No	No
Renosterberg		No											No											
Siyancuma	↑	Yes	R	↑	Yes	R	R	R	R	7,0m	6,98m	A	No		586	85,8	37,1m	12,6m	Yes	No	11	Slow response	Yes	Yes
Siyathemba		No											No											
Thembelihle	→	Yes	R	→	No	NPR	NPR	R	R	1,3m	112,87m	R	No		576	91,9	29,8m	7,4m	Yes	Yes	63	Slow response	Yes	Yes
Ubuntu	→	No	R	→	No	NPR	NPR	R	R	3,9m	55,87m	R	No		515	72,9	63,7m	6,3m	No	Yes	1	Slow response	Yes	Yes
Umsobomvu	→	Yes	R	→	Yes	R	R	R	N	6,5m	7,31m		No		180	84,9	-	-	Yes	Yes	37	Slow response	No	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability													Accountability impact									Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
ZF Mgcawu district																								
ZF Mgcawu District	→	Yes		→	Yes	R				0,68m	0,68m		No		144	0	-	0,01m	Not audited	Not audited/N/A	N/A		No	No
!Kheis	↓	Yes	R	↓	Yes	R	R	R	R	4,8m	4,82m	R	No		Not audited	Not audited	3,8m	0,05m	Yes	Yes	0	Slow response	Yes	Yes
Dawid Kruiper	→	Yes	R	→	Yes	R	A	R	R	7,7m	3,59m		No		92	45,2	50,9m	0,002m	Yes	No	42	Slow response	No	No
Kai !Garib	→	No	R	→	Yes	R	R	R	R	7,8m	69,37m	R	No		558	73,7	76,5m	20,0m	Yes	Yes	7	No response	Yes	Yes
Kgatelopele	→	Yes	R	→	Yes	R	R	R	R	7,9m	51,77m	R	No		Not audited	Not audited	-	4,1m	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes
Tsantsabane		No											No											

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

6.8 NORTH WEST

PROVINCIAL SNAPSHOT

Clean audits: 0%
(2016-17: 0%)

Financially unqualified financial statements: 5%
(2016-17: 10%)

No findings on performance reports: 14%
(2016-17: 10%)

No findings on compliance with legislation: 0%
(2016-17: 0%)

Irregular expenditure: R3 236 million
(2016-17: R3 310 million)

The province's downward spiral continued with another significant regression in the local government audit outcomes, despite us highlighting to the political and administrative leadership the importance of implementing and monitoring action plans to improve accountability and consequences for transgressions at all levels, and to instil a culture of financial discipline and prudence. These audit outcomes, the worst since 2012-13, are a clear indication of the deteriorating accountability, a blatant disregard of our messages and recommendations, complacency and a lack of commitment to decisively address key areas of concern as well as a lack of political will to effect consequences. Despite the commitments made by the leadership to address root causes and control deficiencies, they did not respond with the required urgency to our messages about addressing risks and improving internal controls. The political instability in the province and the tone of those charged with governance have created an environment that is not conducive to accountability, good governance and effecting consequences.

In response to the poor state of financial management, service delivery, governance and oversight in municipalities, the provincial executive invoked sections 137 and 139(1) of the Municipal Financial Management Act at eight of the 22 municipalities. Section 137 provides for discretionary provincial interventions and section 139(1) for mandatory provincial interventions arising from financial crises. The intervention in terms of section 137 was at Ngaka Modiri Molema District, Naledi and Mahikeng, while the intervention in terms of section 139(1)(b) was at Ditsobotla, Kgetlengrivier, Ramotshere Moiloa, Maquassi Hills and Kagisano-Molopo. A further indicator of the lack of accountability was the resistance of the intervention at Maquassi Hills and Kagisano-Molopo, where the legality of the process was initially questioned. Due to the provincial intervention only happening in August 2018, it has not had any positive impact on the audit outcomes.

Our audit environment has become more hostile, with increased contestations of audit findings, pushbacks and subtle threats by municipalities where the auditors' integrity is questioned. Municipalities may question and challenge the outcome of audits based on evidence and solid accounting interpretations or legal grounds. However, this continuing trend was often a tactic to divert attention away from the fact that there were no grounds for factual disagreement with our findings. Incidents at Madibeng and Moretele resulted in the withdrawal of the audit teams and necessitated the involvement of the South African Police Service for protection and the investigation of the Moretele incident.

Overall, the 2017-18 audit outcomes showed a significant regression. Not a single municipality attained a clean audit opinion, while the number of financially unqualified opinions decreased from two to only one and the number of disclaimed opinions increased from eight to 13. The audit outcomes of seven municipalities regressed, with only two municipalities improving. The improvements were at Matlosana, which improved from a qualified opinion to being the only municipality in the province with a financially unqualified opinion with findings; and JB Marks, which improved from a disclaimed opinion to a qualified opinion. The sustainability of these improvements is doubtful, however, as there was still an over-reliance on consultants, not all vacancies in the finance units were filled, and weaknesses in the control environment were not addressed during the year. We remain concerned by the lack of responsiveness by management and the provincial leadership in implementing basic internal controls.

All municipalities continued to submit poor quality financial statements for auditing. Rustenburg and Matlosana did not submit financial statements on 31 August 2018 as required by legislation, due to challenges with their financial systems. These financial statements were subsequently submitted for auditing, but the audit of Rustenburg had not yet been finalised by the cut-off date of 31 January 2019 for inclusion in this report. All municipalities continued to rely on consultants to assist with the preparation of financial statements at a cost of R124,4 million (2016-17: R93,9 million), yet all of the financial statements submitted for auditing contained material misstatements. None of the municipalities would have obtained an unqualified opinion, if we had not given them the opportunity to correct the misstatements identified during the audit process. Key controls that enable reliable and timeous financial reporting, such as proper record keeping and daily and monthly reconciliations, had still not been implemented and monitored to avoid relying on audits to identify misstatements at year-end.

The quality of the reported performance information also remained poor, with only three municipalities (14%) having no material findings (2016-17: two – 10%). If we had not allowed audit adjustments, all municipalities would have had findings on their performance information. Most municipalities were unable to provide supporting documents for their reported results, due to poor record management and a lack of controls to timeously and reliably report on their performance.

The vacancies and instability in key positions, which we also identified as a root cause in prior years, had still not been addressed. Five municipalities (24%) did not have a permanently appointed municipal manager and 10 (48%) did not have a permanent chief financial officer. The average vacancy rate at senior management level was 43%, with seven municipalities having a senior management vacancy rate of 50% or more. The environment created by these high vacancy rates significantly contributed to the continued poor quality of financial and performance reporting. It also hampered the promotion of accountability, as acting officials lacked the authority to take the necessary action.

As in the previous year, all municipalities had material findings on compliance with legislation, specifically in the areas of unauthorised, irregular and fruitless and wasteful expenditure as well as procurement and contract management. A further R3,2 billion in irregular expenditure incurred during 2017-18 was disclosed in the financial statements, bringing the total unresolved irregular expenditure to R12,1 billion as at 30 June 2018 (30 June 2017: R9,5 billion). The five municipalities that contributed 63% to this balance were Matlosana (R2,7 billion), JB Marks (R1,5 billion), Madibeng (R1,4 billion), Ngaka Modiri Molema District (R1,2 billion), and Moretele (R906 million). This balance is not complete, however, as 16 municipalities (76%) were qualified on the incomplete disclosure of irregular expenditure in the financial statements.

Irregular expenditure from prior years was not dealt with through investigations. Contrary to the Supply Chain Management Regulations, instances of uncompetitive and unfair procurement processes were identified at all the municipalities, which resulted in irregular expenditure. We were unable to audit procurement amounting to R33 million at four municipalities, due to missing or incomplete information. The lack of complete irregular expenditure registers to support the accumulated irregular expenditure balances made it difficult to investigate irregular expenditure, which in turn also hampered the oversight structures' ability to do so, and in some cases influenced the willingness to implement consequences.

The municipal public accounts committees were not functional in most cases due to not being empowered and capacitated to effectively implement consequences. The coordinating provincial cooperative governance department and provincial treasury should enhance their capacitation programmes of municipalities, especially for the municipal public accounts committees, to empower them to discharge their oversight responsibilities as envisaged by legislation.

Financial health remained a challenge, with material going concern uncertainties reported at 15 municipalities (2016-17: 13). The municipalities did not collect debt from consumers, which in turn resulted in their inability to pay suppliers on a timely basis, which affected the sustainability of suppliers. The average payment period was 148 days, while legislation requires payment within 30 days. These suppliers included Eskom where the total amount due had increased from R987 million as at 30 June 2017 to R1,5 billion as at 30 June 2018; and water boards where the amount due had increased from R1,3 billion as at 30 June 2017 to R1,4 billion as at 30 June 2018. However, in most cases the municipalities did not even have adequate records of the amounts due to suppliers, as evidenced by the fact that 18 municipalities (86%) were qualified on payables and accruals. Municipalities incurred further fruitless and wasteful expenditure of R164,2 million (2016-17: R191,5 million), of which R143,4 million related to interest and penalties due to the late payment of suppliers. Given the already vulnerable financial position, it is concerning that 15 municipalities overspent their budgets by R1,8 billion. The overspending was as a result of inadequate budget processes and a lack of in-year monitoring of actual spending.

Of the grant allocation to municipalities for infrastructure of R1,5 billion (including the municipal infrastructure, the water services infrastructure and the regional bulk infrastructure grants), R273,4 million (18%) was not spent. Cash-flow constraints as well as the investments made by five municipalities during the year with VBS Mutual Bank contributed to the underspending. An estimated 42% of these investments were from grant funding. Investments with mutual banks not registered in terms of the Banks Act are prohibited in terms of the Municipal Investment Regulations. The five municipalities that invested a total of R551,2 million with VBS Mutual Bank were Madibeng, Dr Ruth Segomotsi Mompati District, Dr Kenneth Kaunda District, Moretele and Mahikeng. Despite some withdrawals during the year (including all of the funds invested by Dr Kenneth Kaunda District), the balance invested by the remaining four municipalities, which is considered to be irrecoverable, stood at R316,7 million on 30 June 2018. In addition, these financial losses gave rise to difficulties in paying for operational expenses and affected municipalities' ability to start or complete projects and thus affected service delivery. Decisive action to effect consequences in the four municipalities that incurred losses has not been taken.

We tested 19 key municipal infrastructure projects during the year. At 58% of the projects tested, planned targets or milestones were not achieved; and we raised supply chain management findings at 53% of the projects. For example, a project with an estimated cost of R21,5 million for the construction of a sewer network and pump station and the decommissioning of septic tanks at Maquassi Hills was only 80% complete at the time of the audit, despite the planned completion date being 25 May 2018. Irregular expenditure of R14,7 million was identified as a result of shortcomings in the procurement for this project, and the planned target for the project of '12 000 metres of sewer lines to be installed' was not achieved. We raised procurement findings, which resulted in irregular expenditure of R4,2 million, at another project with an estimated cost of R4,7 million for the upgrading of First and South streets in Mahikeng. This project was also completed six months late. It was further identified during our site visit that the actual distance of road completed was 120 metres less than the planned 220 metres per the contract. The rural sanitation programme at Dr Ruth Segomotsi Mompati District was still on track to be completed by the planned date of 19 December 2019, but to date R84 million has been overspent on the project due to a lack of capacity in the water unit. These examples of project management deficiencies demonstrate the impact of the widespread accountability failures on service delivery.

We continued to focus on environmental management at municipalities, specifically the management of solid waste landfill sites, the quality and availability of water as well as sewage treatment and effluent disposal. Despite management's awareness of the environmental concerns, little has been done to address the findings. Non-compliance, specifically at landfill sites, wastewater treatment plans and illegal dumping areas, is not only threatening the environment and sustainability of scarce resources but also has a severe impact on service delivery and the basic needs of communities.

Despite our message in prior general reports that the provincial executive leadership and oversight structures should aspire to develop a comprehensive assurance model, including strong and effective governance structures, this has still not happened. The fact that no progress has been made in addressing information technology findings remains a concern.

None of the assurance providers, specifically internal audit units, audit committees and municipal public accounts committees, provided the required level of assurance. The provincial treasury also did not fully fulfil its role as an assurance provider for the province, although in some instances it deployed staff to certain municipalities or appointed consultants to assist with the preparation of financial statements. Similar to the previous year, these appointments were not appropriately monitored to ensure that they had the desired impact. None of the previous year's commitments made by the provincial executive leadership have been implemented to date. Until such time that there is political will at the executive leadership level to lead by example and enforce compliance and consequences, the situation in the province is unlikely to change.

The amendments to the Public Audit Act empower 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, and issue a certificate of debt for failure to implement the remedial action if a financial loss was incurred. Our audits continued to identify instances where the accountability mechanisms in local government have failed. In the context of these amendments, we encourage accounting officers to strictly discharge their responsibilities in terms of the Municipal Finance Management Act by taking a strong stance against the abuse of public funds.

We will keep on promoting accountability by continuing to provide recommendations and having regular and rigorous engagements with our auditees and relevant stakeholders. The political and administrative leadership will have to come up with extraordinary measures and efforts to address the deteriorating state of local government. We are hopeful that the inter-ministerial task team together with the provincial leadership can create a culture of a responsive and accountable government, which can be used as a foundation for effecting consequences, including the investigation of all instances of irregular expenditure.

NORTH WEST – How is your municipality doing?

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Bojanala Platinum district																								
Bojanala Platinum District	→	Yes	R	→	Yes	R	R	R	R	95,5m	304,18m	R	No		Not audited	Not audited	-	4,8m	Not audited	Not audited/N/A	N/A	No response	Yes	Yes
Kgetlengriver	↓	Yes	R	↓	Yes	R	R	R	R	14,2m	69,1m	R	No		Not audited	Not audited	-	4,6m	No	No	0	Slow response	Yes	Yes
Madibeng	→	Yes	R	→	Yes	R	R	R	R	61,2m	1 385,61m	R	Yes		Not audited	Not audited	-	21,5m	Not audited	No	0	No response	Yes	Yes
Moretele	→	Yes	R	→	Yes	R	R	R	R	166,1m	906,05m	R	Yes		270	84,6	132,1m	8,7m	Yes	Yes	5	No response	Yes	Yes
Moses Kotane	→	Yes	R	→	Yes	R	R	R	R	14,9m	436,4m	R	No		Not audited	Not audited	151,3m	-	Yes	Yes	0	No response	Yes	Yes
Rustenburg		No											No											
Dr Kenneth Kaunda district																								
Dr Kenneth Kaunda District	→	Yes	R	→	Yes	R	R	R	R	53,2m	129,79m	R	No		59	0	17,5m	0,16m	Not audited	Not audited/N/A	N/A	Slow response	Yes	Yes
JB Marks	↑	Yes	R	↑	Yes	R	R	R	R	1 270,3m	1 492,6m	R	No	Not assessed	Not audited	Not audited	168,6m	3,7m	Not audited	No	29	Slow response	Yes	Yes
Maquassi Hills	↓	Yes	R	↓	Yes	R	R	R	R	105,2m	302,05m	R	Yes		Not audited	Not audited	156,9m	0,53m	Yes	Yes	0	No response	Yes	Yes
Matlosana	↑	No	R	↑	Yes	R		R	R	355,8m	2 748,11m	R	No		247	87	140,9m	52,2m	Yes	Yes	39	Slow response	Yes	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability: Overall audit outcomes	Financial statements: Timely submission of financial statements	Financial statements: Quality of financial statements submitted for auditing	Financial statements: Quality of published financial statements	Performance report: Preparation of performance reports	Performance report: Quality of performance reports submitted for auditing	Performance report: Quality of published performance reports	Compliance: Material findings on compliance with key legislation	Compliance: Material findings on management of procurement and contracts	Irregular expenditure: Irregular expenditure incurred Amount (R million)	Irregular expenditure: Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Accountability impact: Financial health: Status of financial health	Financial health: Average creditor-payment period (days)	Financial health: Percentage of debt irrecoverable	Financial health: Unauthorised expenditure incurred Amount (R million)	Financial health: Fruitless and wasteful expenditure incurred Amount (R million)	Infrastructure development and maintenance: Findings on infrastructure projects: roads, sanitation and water	Infrastructure development and maintenance: Findings on maintenance of infrastructure: roads, sanitation and water	Infrastructure development and maintenance: Percentage of water losses incurred	Key root causes: Slow or no response in improving internal controls and addressing risk areas	Key root causes: Instability or vacancies in key positions or key officials lacking appropriate competencies	Key root causes: Inadequate consequences for poor performance and transgressions
Dr Ruth S Mompati district																								
Dr Ruth S Mompati District	↓	Yes	R	↓	Yes	R	R	R	R	381,5m	878,83m	R	No		59	0	163,7m	0,04m	Yes	Yes	0	Slow response	Yes	Yes
Greater Taung	→	Yes	R	→	Yes	R	A	R	R	55,5m	201,87m		No		34	71,6	0,12m	0,92m	Not audited	Yes	N/A	Slow response	Yes	Yes
Kagisano-Molopo	↓	Yes	R	↓	Yes	R	N	R	R	111,2m	387,81m	R	No		Not audited	Not audited	25,0m	0,06m	Not audited	Yes	N/A	No response	Yes	Yes
Lekwa-Teemane	→	Yes	R	→	Yes	R	R	R	R	1,2m	64,34m	R	Yes		Not audited	Not audited	-	4,2m	Not audited	No	31	Slow response	Yes	Yes
Mamusa	→	Yes	R	→	Yes	R	R	R	R	6,7m	152,92m	R	No		Not audited	Not audited	5,8m	10,3m	Not audited	No	0	No response	Yes	Yes
Naledi	↓	Yes	R	↓	Yes	R	R	R	R	67,8m	226,82m	R	No		Not audited	Not audited	62,0m	29,7m	Yes	Yes	0	Slow response	Yes	Yes
Ngaka Modiri Molema district																								
Ngaka Modiri Molema District	→	Yes	R	→	Yes	R	R	R	R	151,2m	1 171,4m	R	No		Not audited	Not audited	595,8m	4,2m	Not audited	Not audited/N/A	N/A	No response	Yes	Yes
Ditsobotla	→	Yes	R	→	No	NPR	NPR	R	R	-	-	R	No		Not audited	Not audited	-	-	Not audited	No	0	No response	Yes	Yes
Mahikeng	↓	Yes	R	↓	Yes	R	R	R	R	211,1m	803,11m	R	Yes		Not audited	Not audited	107,6m	2,4m	Yes	Yes	14	No response	Yes	Yes
Ramotshere Moiloa	↓	Yes	R	↓	Yes	R	R	R	R	12,5m	153,14m	R	No		Not audited	Not audited	23,3m	6,0m	Not audited	Yes	0	Slow response	Yes	Yes
Ratlou	→	Yes	R	→	Yes	R	A	R	R	43,3m	109,11m	R	No		37	43	-	0,49m	Yes	Yes	N/A	Slow response	Yes	Yes
Tswaing	→	Yes	R	→	Yes	R	R	R	R	57,2m	223,25m	R	Yes		332	84	66,2m	9,7m	Yes	Yes	0	Slow response	Yes	Yes

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified		Qualified	Adverse	Disclaimed	Audit not finalised at legislated date

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)

Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

6.9 WESTERN CAPE

PROVINCIAL SNAPSHOT

Clean audits: 40%
(2016-17: 70%)

Financially unqualified financial statements: 89%
(2016-17: 93%)

No findings on performance reports: 86%
(2016-17: 89%)

No findings on compliance with legislation: 43%
(2016-17: 79%)

Irregular expenditure: R667 million
(2016-17: R165 million)

The province's audit outcomes reflect a significant regression compared to 2016-17 due to material compliance findings, which largely related to procurement. The regression can be attributed to municipalities' slow response to implement our recommendations and not taking heed of the emerging risks that we reported. This indicates that the required levels of accountability and governance were not always demonstrated.

In 2016-17, our message was 'To improve the audit outcomes, leadership should take audit findings seriously (including management report findings) and develop detailed action plans to address recurring findings relating to financial statements, performance reports and compliance with key legislation (including supply chain management prescripts)'. We also raised concerns with regard to the assurance provided at senior management level (including actions to ensure the credibility of financial statements and performance reports as well as compliance with legislation) where we said 'We rated senior management at various auditees with clean audit opinions as providing only some assurance. This was due to compliance findings reported in the management report (although these findings were not material in 2016-17, they could become so in future if not appropriately dealt with by senior management)'. We anticipate that some municipalities would be in a position to improve their audit outcome in the next financial year, as the regression in the current year is not indicative of a breakdown of the internal control environment.

Despite our message that management report findings could easily escalate to the audit report, management failed to take heed of our message and the regression in the 2017-18 audit outcomes clearly illustrates this. Nine municipalities (30%) regressed, all of which had a clean audit outcome in the previous year. However, the audit outcome of the metro (City of Cape Town) remained unchanged on an unqualified opinion on the financial statements with material compliance findings. The audit outcomes of two municipalities (7%), namely Laingsburg and Kannaland, are still outstanding. The analysis below therefore does not include these municipalities.

The quality of the financial statements submitted for auditing regressed, with the financial statements of six municipalities (21%) requiring material adjustments, compared to three (11%) in 2016-17. The common area that required corrections was disclosure notes, specifically the disclosure of commitments, due to controls that were lacking over the reconciliation of supplier contracts to the commitments listing, resulting in the incomplete disclosure of commitments. Three municipalities (11%) were able to correct their financial statements and obtained an unqualified opinion. Despite corrections made, Beaufort West, George and Oudtshoorn still obtained qualified opinions.

As in the previous year, the number of performance reports that required material adjustments remained concerning. A total of 13 municipalities (46%) submitted performance reports that required material adjustments to avoid reliability findings, compared to 16 (57%) in the previous period. In 2016-17, we expressed concern with municipalities' reliance on the audit process to identify these adjustments, but this trend continued in 2017-18. Four municipalities (14%) had material findings on their performance report, with Beaufort West, George and Oudtshoorn having material findings on both usefulness and reliability, and Stellenbosch having material findings on usefulness.

Non-compliance with laws and regulations was the main contributor to the overall unfavourable audit outcomes in the province. The main areas of non-compliance related to procurement, the prevention of irregular expenditure, and the failure to submit financial statements that were free of material misstatements. In 2017-18, 16 municipalities (57%) had material compliance findings, compared to six (21%) in 2016-17. Of the nine (32%) regressions overall, seven municipalities (25%) regressed as a result of material supply chain management findings. Despite our previous recommendation to the leadership to address these recurring findings – which were not material and thus raised only at management report level – failure to take accountability and corrective action inevitably led to these findings escalating to the audit report, which resulted in the regression.

Irregular expenditure increased to R667 million, compared to R165 million in 2016-17, of which 84% was identified during the audit process. The increase was largely due to the inappropriate application of legislative prescripts, mainly in the area of supply chain management. Non-compliance with procurement prescripts contributed to R665 million of the irregular expenditure incurred. The main areas of non-compliance within supply chain management related to findings on local content requirements, unjustifiable deviations in terms of supply chain management regulation 36, and the incorrect allocation and/or calculation of preference points resulting in incorrect suppliers winning awards.

Of concern is our assessment of the assurance provided at municipal manager and senior management level. The assurance provided regressed from 2016-17 and was assessed as 'provides some assurance' at most of the municipalities. This was due to the number of compliance findings and material adjustments that were required to correct the financial statements and performance reports. The main root causes of the deteriorating levels of accountability and the unfavourable audit outcomes were inadequate consequences as well as a lack of understanding and varied interpretations of supply chain management requirements, causing the improper application thereof during the procurement process. In addition, challenges with the implementation of the Municipal Standard Chart of Accounts arising from a late update to their financial systems resulted in us raising a material compliance finding on the late submission of financial statements at three municipalities (11%), namely Langeberg, Mossel Bay and Swartland.

The number of municipalities that had no significant information technology audit findings regressed slightly from two in the previous year, to one in the current year. Six municipalities still experienced challenges in implementing controls for all three focus areas (user access management, security management, and service continuity management). This was due to limited financial and human resources being available for strategic information technology initiatives and limitations in system functionality. In addition, municipalities' continued focus on the implementation of both the Municipal Standard Chart of Accounts and the Municipal Corporate Governance of Information and Communication Technology Policy Framework contributed to the challenges experienced. Many municipalities continued to outsource certain information technology security components to third-party service providers, as a result of limited resources and specialist information technology skills, and relied on these vendors to implement the required information technology controls, standards, processes and procedures.

Local government in the Western Cape is responsible for an expenditure budget of R58 billion. The overall status of financial health remained the same as in 2016-17, with four municipalities (14%) reporting unfavourable financial health indicators in both years. Beaufort West reported a material uncertainty as to its ability to continue operating as a going concern. The main reasons for the unfavourable indicators included current liabilities exceeding current assets and the high percentage of debt write-offs.

As part of our audit process, we evaluated selected key infrastructure projects, mainly relating to water, sanitation and road infrastructure. We tested 38 projects across 10 municipalities (36%) by determining whether the expenditure was appropriately accounted for in the financial statements, the reporting of achievements against predetermined targets for the project was reliable, and compliance requirements were adhered to (with regard to supply chain management prescripts and the utilisation of conditional grants for their intended purposes). We identified non-compliance with supply chain management requirements relating to procurement on projects at two municipalities (7%), namely the City of Cape Town and Drakenstein. At the City of Cape Town, the finding related to contract performance and monitoring measures being ineffective and contract extensions without the necessary approvals. At Drakenstein, the finding related to appointing a supplier by expanding an existing contract with additional work at a different site instead of following a competitive bidding process.

There was a regression in the overall status of internal controls. This was mainly due to the deteriorating accountability within the leadership culture, a slow response to implement our recommendations, and inadequate controls to ensure that laws and regulations were complied with. The leadership needs to undertake a key and proactive role to ensure that audit recommendations are effectively implemented and rigorously monitored through action plans. Audit findings at management report level must also be addressed and treated with the necessary importance to ensure that these findings do not recur or escalate to the audit report in future.

The premier, in conjunction with the coordinating provincial cooperative governance department and provincial treasury, recommitted to increased oversight and an acceleration of provincial initiatives through the municipal governance review outlook processes for the achievement of clean administration across the province. The recommitment is in response to the regression in the audit outcomes, which has resulted in a renewed oversight focus on identified emerging risks and other important matters highlighted in the management reports to be rigorously monitored through municipal action plans.

Some of the best practices we identified at those municipalities that retained their clean audit outcome included continuous monitoring of action plans to improve on the status of the drivers of internal control, addressing findings that were previously raised, and the close monitoring of emerging risks that allowed for a proactive approach to be followed, such as the implementation of the Municipal Standard Chart of Accounts. In addition, the continuous efforts of leadership and effective governance and oversight structures promoted a strong control environment at these municipalities.

To improve the audit outcomes, we encourage municipalities to implement these practices, together with acting on management report findings with the necessary vigour to prevent an elevation thereof to the audit report. Improved audit outcomes as a result of strong accountability, good governance and mature fiscal discipline, will result in the effective, efficient and economical use of resources – and ultimately translate into improved service delivery to the citizens.

WESTERN CAPE – How is your municipality doing?

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Metropolitan municipality																								
City of Cape Town Metro	→	Yes	N	→	Yes			R	R	236,0m	283,06m	A	Yes		78	68,9	-	0,31m	Yes	No	15		No	Yes
Cape Winelands district																								
Cape Winelands District	→	Yes		→	Yes	A				0,16m	0,16m		Yes		11	8,4	-	0,43m	Not audited	Not audited/N/A	N/A		No	No
Breede Valley	→	Yes		→	Yes	R				-	-		Yes		48	54,7	-	-	Not audited	No	14		No	No
Drakenstein	↓	Yes		→	Yes			N	N	47,8m	47,85m		Yes		29	38,7	0,99m	-	Yes	Yes	15		Yes	No
Langeberg	↓	No		→	Yes	R		N	N	0,84m	0,84m		Yes		61	40,1	6,4m	0,04m	Not audited	Yes	14	Slow response	No	No
Stellenbosch	↓	Yes		→	Yes	R	N	N		29,3m	41,81m	N	Yes		88	22,1	-	-	No	No	26		Yes	No
Witzenberg	→	Yes		→	Yes	N				-	-		Yes		37	67,4	-	-	Not audited	No	18		No	No
Central Karoo district																								
Central Karoo District	→	Yes	A	→	Yes	R		R	A	3,0m	15,77m	A	No		46	1,8	4,5m	0,07m	Not audited	Not audited/N/A	N/A	Slow response	No	No
Beaufort West	↑	Yes	R	↑	Yes	R	R	R	R	52,2m	105,16m	R	No		82	80	20,5m	0,56m	Not audited	Yes	42	Slow response	Yes	Yes
Laingsburg		No											No											
Prince Albert	↓	Yes		→	Yes	A		N	N	0,77m	0,02m		No		24	82	5,1m	0,001m	Not audited	Yes	17	Slow response	No	No

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability													Accountability impact								Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
Garden Route district																								
Garden Route District	→	Yes		→	Yes	A		R	R	56,8m	96,06m		No		28	79	28,3m	0,02m	Not audited	Not audited/N/A	N/A	Slow response	No	No
Bitou	→	Yes	N	→	Yes	R		R	R	16,7m	16,4m		No		73	71	58,3m	-	Not audited	No	21	Slow response	No	No
George	↓	Yes	N	↓	Yes	R	N	N	N	11,7m	11,85m	N	Yes		59	60	62,3m	-	No	Yes	27	Slow response	No	No
Hessequa	→	Yes		→	Yes	N				1,7m	0,08m		No		78	39,8	0,86m	0,41m	Not audited	Yes	11		No	No
Kannaland		No											No											
Knysna	→	Yes	N	→	Yes	R	A	N		18,5m	30,22m		Yes		55	66	9,2m	0,001m	Not audited	Yes	29		Yes	No
Mossel Bay	↓	No		→	Yes			N	N	22,4m	22,45m		Yes		33	11,7	0,8m	-	No	Yes	10	Slow response	No	No
Oudtshoorn	→	Yes	R	→	Yes	R	R	R	R	47,4m	328,02m	N	Yes		43	58	-	0,48m	Not audited	Yes	18	Slow response	Yes	No
Overberg district																								
Overberg District	→	Yes		→	Yes					0,7m	1,1m		No		22	5,4	2,7m	0,23m	Not audited	Not audited/N/A	N/A		No	No
Cape Agulhas	→	Yes		→	Yes	R				0,25m	0,25m		No		44	47	2,9m	0,11m	Not audited	No	14		No	No
Overstrand	→	Yes		→	Yes					0,02m	0,22m		Yes		35	20,6	-	-	No	No	19		No	No
Swellendam	→	Yes		→	Yes	R				4,7m	4,52m		Yes		75	67,1	10,0m	-	No	No	23		No	No
Theewaterskloof	↓	Yes		→	Yes	N		N	N	18,9m	18,47m		Yes		59	77	-	-	No	No	18	Slow response	No	No

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified	Qualified	Adverse	Disclaimed	Audit not finalised at legislated date	

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

Municipality	Indicators of accountability												Accountability impact									Key root causes		
		Financial statements			Performance report			Compliance		Irregular expenditure				Financial health					Infrastructure development and maintenance					
	Overall audit outcomes	Timely submission of financial statements	Quality of financial statements submitted for auditing	Quality of published financial statements	Preparation of performance reports	Quality of performance reports submitted for auditing	Quality of published performance reports	Material findings on compliance with key legislation	Material findings on management of procurement and contracts	Irregular expenditure incurred Amount (R million)	Accumulated outstanding balance on irregular expenditure as at year-end Amount (R million)	Material non-compliance with legislation on implementation of consequences	Difficult environment encountered during audit as a result of protests, threats, intimidation and contestation	Status of financial health	Average creditor-payment period (days)	Percentage of debt irrecoverable	Unauthorised expenditure incurred Amount (R million)	Fruitless and wasteful expenditure incurred Amount (R million)	Findings on infrastructure projects: roads, sanitation and water	Findings on maintenance of infrastructure: roads, sanitation and water	Percentage of water losses incurred	Slow or no response in improving internal controls and addressing risk areas	Instability or vacancies in key positions or key officials lacking appropriate competencies	Inadequate consequences for poor performance and transgressions
West Coast district																								
West Coast District	→	Yes		→	Yes					1,1m	1,07m		No		15	1,4	-	0,38m	Not audited	Not audited/N/A	N/A		No	No
Bergrivier	→	Yes		→	Yes	A				-	-		No		24	30,6	-	0,009m	No	No	7		No	No
Cederberg	→	Yes		→	Yes	N				51,2m	51,18m		No		120	67,1	0,64m	0,12m	Not audited	No	12		No	No
Matzikama	→	Yes		→	Yes	R				-	-		No		104	69	-	-	Not audited	Yes	0		No	No
Saldanha Bay	↓	Yes		→	Yes	A		N	N	44,4m	44,39m		Yes		49	59	23,2m	0,02m	No	No	8	Slow response	No	No
Swartland	↓	No		→	Yes	A		N		-	-		Yes		74	7,8	6,7m	0,003m	Not audited	No	19	Slow response	No	No

Audit outcomes	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Audit not finalised at legislated date
Quality of published financial statements	Financially unqualified		Qualified	Adverse	Disclaimed	Audit not finalised at legislated date

Findings	Addressed (A)	New (N)	Repeat (R)	No findings	No performance report (NPR)
Movement in audit outcomes and quality of published financial statements	↑ Improved	→ Unchanged	↓ Regressed		

Status of financial health	No unfavourable indicators	Unfavourable indicators	Material unfavourable indicators

Expenditure	Improved	Regressed

SECTION 7

Need to know

7.1 OUR AUDIT PROCESS AND FOCUS

WHAT IS OUR AUDIT AND REPORTING PROCESS?

We audit every municipality and municipal entity in the country to report on the quality of their financial statements and performance reports and on their compliance with key legislation.

We further assess the root cause of any error or non-compliance, based on the internal control that has failed to prevent or detect it. We report in the following three types of reports:

- We report our findings, the root causes of such findings and our recommendations in **management reports** to the senior management and municipal managers, or chief executive officers in the case of municipal entities, which are also shared with the mayors and audit committees.
- Our opinion on the financial statements, material findings on the performance report and compliance with key legislation, as well as significant deficiencies in internal control, are included in an **audit report**, which is published with the auditee's annual report and dealt with by the municipal council.
- Annually, we report on the audit outcomes of all auditees in a **consolidated report** (such as this one), in which we also analyse the root causes that need to be addressed to improve audit outcomes. Before the general report is published, we share the outcomes and root causes with the national and provincial leadership, Parliament and the legislatures, as well as other key role players in national and provincial government.

Over the past few years, we have intensified our efforts to assist in improving audit outcomes by identifying the **key controls** that should be in place at auditees, regularly assessing these, and sharing the results of the assessment with mayors, municipal managers, chief executive officers as well as audit committees.

During the audit process, we work closely with municipal managers, chief executive officers, senior management, audit committees and internal audit units, as they are **key role players** in providing assurance on the credibility of the auditees' financial statements and performance reports as well as on their compliance with legislation.

We also continue to strengthen our relationship with the mayors, ministers and members of the executive council responsible for cooperative governance, coordinating and monitoring departments (such as the treasuries, premier's offices and departments of cooperative governance) as well as Parliament and provincial legislatures, as we are convinced that their involvement and oversight have played – and will continue to play – a crucial role in the performance of local governance.

We have further increased our efforts by using the **status of records review** to engage with municipal managers. Such a review is an assessment of records, risks and progress made by the municipality to address prior year issues early in the financial year.

The **overall audit outcomes** fall into five categories:

1. Auditees that receive a **financially unqualified opinion with no findings** are those that are able to:

    - produce financial statements free of material misstatements (material misstatements mean errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
    - measure and report on their performance in line with the predetermined objectives in their integrated development plans and/or service delivery and budget implementation plans in a manner that is useful and reliable
    - comply with key legislation.

    This audit outcome is also commonly referred to as a 'clean audit'.

2. Auditees that receive a **financially unqualified opinion with findings** are those that are able to produce financial statements without material misstatements, but are struggling to:

    - align their performance reports to the predetermined objectives to which they have committed in their integrated development plans and/or service delivery and budget implementation plans
    - set clear performance indicators and targets to measure their performance against their predetermined objectives
    - report reliably on whether they have achieved their performance targets
    - determine which legislation they should comply with, and implement the required policies, procedures and controls to ensure that they comply.

3. Auditees that receive a **financially qualified opinion with findings** face the same challenges as those that are financially unqualified with findings in the areas of reporting on performance and compliance with key legislation. In addition, they are unable to produce credible and reliable financial statements. Their financial statements contain misstatements that they cannot correct before the financial statements are published.

4. The financial statements of auditees that receive an **adverse opinion with findings** include so many material misstatements that we disagree with virtually all the amounts and disclosures in the financial statements.

5. Those auditees with a **disclaimed opinion with findings** cannot provide us with evidence for most of the amounts and disclosures in the financial statements. We are therefore unable to conclude or express an opinion on the credibility of their financial statements.

Auditees with adverse and disclaimed opinions are typically also:

- unable to provide sufficient supporting documentation for the achievements they report in their performance reports
- not complying with key legislation.

WHAT IS THE PURPOSE OF THE ANNUAL AUDIT OF THE FINANCIAL STATEMENTS?

The purpose of the annual audit of the **financial statements** is to provide the users thereof with an **opinion** on whether the financial statements fairly present, in all material respects, the key financial information for the reporting period in accordance with the financial reporting framework and applicable legislation. The audit provides the users with reasonable assurance regarding the degree to which the financial statements are reliable and credible on the basis that the audit procedures performed did not reveal any material errors or omissions in the financial statements. We use the term 'material misstatement' to refer to such material errors or omissions.

We report the **poor quality of the financial statements** we receive in the audit reports of some auditees as a material finding on compliance, as it also constitutes non-compliance with the Municipal Finance Management Act. The finding is only reported for auditees that are subject to this act and if the financial statements we receive for auditing include material misstatements that could have been prevented or detected if the auditee had an effective internal control system. We do not report a finding if the misstatement resulted from an isolated incident or if it relates to the disclosure of unauthorised, irregular or fruitless and wasteful expenditure identified after the financial statements had been submitted.

WHAT DOES COMPLIANCE WITH KEY LEGISLATION MEAN?

We annually audit and report on **compliance by auditees with key legislation** applicable to financial and performance management and related matters. We focus on the following areas in our compliance audits, if they apply to the particular auditee: ■ the quality of financial statements submitted for auditing ■ asset and liability management ■ budget management ■ expenditure management ■ unauthorised, irregular, and fruitless and wasteful expenditure ■ effecting consequences ■ revenue management ■ strategic planning and performance management ■ financial statements and annual report ■ transfer of funds and conditional grants ■ procurement and contract management (in other words, supply chain management) ■ human resource management and compensation.

In our audit reports, we report findings that are material enough to be brought to the attention of auditee management, municipal councils, boards of municipal entities as well as oversight bodies and the public.

WHAT IS THE SCOPE OF SUPPLY CHAIN MANAGEMENT AUDITS?

We test whether the **prescribed procurement processes have been followed** to ensure that all suppliers are given equal opportunity to compete and that some suppliers are not favoured above others. The principles of a fair, equitable, transparent, competitive and cost-effective supply chain management process are fundamental to the procurement practices of the public sector, as enshrined in the country's constitution and prescribed in the Municipal Finance Management Act and its regulations. The act and these regulations define what processes should be followed to adhere to the constitutional principles, the level of flexibility available, and the documentation requirements.

We also focus on **contract management**, as shortcomings in this area can result in delays, wastage as well as fruitless and wasteful expenditure, which in turn have a direct impact on service delivery.

We further assess the **financial interests of employees and councillors of the auditee and their close family members** in suppliers to the auditee. The requirements in this regard are as follows:

- Supply chain management regulation 44 prohibits the awarding of contracts to, and acceptance of quotations from, employees, councillors or other state officials, or entities owned or managed by them, if they are in the service of the auditee or if they are in the service of any other state institution. Such expenditure is also considered irregular. During our audits, we identify such prohibited awards and also test whether the legislated requirements with regard to declarations of interest were adhered to.

- Awards to close family members of persons in the service of the state, whether at the auditee or another state institution, are not prohibited. However, such awards of more than R2 000 must be disclosed in the financial statements of the auditee for the sake of transparency and as required by supply chain management regulation 45. A close family member is a spouse, child or parent of a person in the service of the state.

WHAT IS IRREGULAR EXPENDITURE?

Irregular expenditure is expenditure that was **not incurred in the manner prescribed by legislation**; in other words, somewhere in the process that led to the expenditure, the auditee did not comply with the applicable legislation.

Such expenditure does **not necessarily mean that money had been wasted or that fraud had been committed**. It is an indicator of non-compliance in the process that needs to be investigated by management to determine whether it was an unintended error, negligence or done with the intention to work against the requirements of legislation (which, for example, require that procurement should be fair, equitable, transparent, competitive and cost-effective).

Through such **investigation**, it is also determined who is responsible and what the impact of the non-compliance is. Based on the investigation, the next steps are determined. One of the steps can be condonement if the non-compliance had no impact and negligence was not proven. Alternatively, if negligence was proven, the steps can be disciplinary steps, the recovery of any losses from the implicated officials or even cancelling a contract or reporting it to the police or an investigating authority.

The Municipal Finance Management Act is clear that municipal managers are **responsible for preventing irregular expenditure** as well as on what process to follow if it has been incurred.

In order to promote transparency and accountability, auditees **should disclose all irregular expenditure identified (whether by the auditee or through the audit process)** in their financial statements with detail on how it had been resolved; in other words, how much had been investigated, recovered or condoned.

WHAT IS UNAUTHORISED EXPENDITURE?

Unauthorised expenditure refers to expenditure that auditees incurred without provision having been made for it in the approved budget by the council or that does not meet the conditions of a grant.

The Municipal Finance Management Act requires municipal managers to take all **reasonable steps to prevent unauthorised expenditure**. Auditees should have processes to identify any unauthorised expenditure and disclose the amounts in the financial statements. The act also includes the steps that municipal managers and councils should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

WHAT IS FRUITLESS AND WASTEFUL EXPENDITURE?

Fruitless and wasteful expenditure is expenditure that was made in vain and that could have been avoided had reasonable care been taken. This includes penalties and interest on the late payment of creditors or statutory obligations as well as payments made for services not used or goods not received.

The Municipal Finance Management Act requires municipal managers to take all **reasonable steps to prevent fruitless and wasteful expenditure**. Auditees should have processes to detect fruitless and wasteful expenditure and disclose the amounts in the financial statements. Fruitless and wasteful expenditure is reported when it is identified – even if the expenditure was incurred in a prior year.

The act also sets out the steps that municipal managers and councils should take to investigate fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

WHAT ARE CONDITIONAL GRANTS?

Conditional grants are **funds allocated from national government to auditees**, subject to certain **services being delivered or on compliance with specified requirements**.

Municipalities receive two types of allocations from the national revenue fund, namely equitable share and conditional allocations. Equitable share allocations are non-conditional, based on the municipality's share of revenue raised nationally. Conditional allocations are made for a specific purpose, and include:

- allocations to municipalities to supplement the funding of functions funded from municipal budgets
- specific-purpose allocations to municipalities
- allocations-in-kind to municipalities for designated special programmes
- funds not allocated to specific municipalities that may be released to municipalities to fund immediate disaster response.

Conditional grant allocations are approved each year through the Division of Revenue Act. This act indicates the approved allocation per auditee for that particular year, together with a forward estimate for the next two years.

With regard to forward estimates, the following take place before a set deadline for the final allocation to be approved through the Division of Revenue Act:

- Each municipality must agree on the provisional allocations and the projects to be funded from those allocations. This information is sent to the national transferring officer.
- After consolidating the information for each municipality, the national transferring officer submits the final allocation list and the draft grant framework for each allocation to the National Treasury for approval.

Municipalities may only use a conditional allocation for its intended purpose in accordance with the requirements of each grant framework and for projects or programmes included in their business plans.

WHAT IS THE PURPOSE OF THE GRANTS THAT WERE AUDITED?

The Department of Cooperative Governance introduced the **municipal infrastructure grant** in 2004-05 with the core outcome to improve access to basic service infrastructure for poor communities by providing specific capital finance for basic municipal infrastructure backlogs for poor households, micro-enterprises and social institutions servicing poor communities.

In achieving the core outcome, annual targets must be set in respect of the following expected outputs derived from the municipal infrastructure grant framework:

- Number of poor households impacted through the construction, upgrading and/or renewal of infrastructure for water and sanitation services
- Number of poor households impacted through the construction, upgrading and/or renewal of infrastructure for sport and recreation facilities
- Number of kilometres of municipal roads developed and maintained
- Number of poor households impacted through the construction, upgrading and/or renewal of infrastructure for solid waste disposal sites, central refuse collection points, recycling facilities and transfer stations
- Number of poor households impacted through the construction, upgrading and/or renewal of infrastructure for street and community lighting
- Number of poor households impacted through the construction, upgrading and/or renewal of infrastructure for public facilities
- Number of work opportunities created using the guidelines of the expanded public works programme for the above outputs

For this purpose, municipalities must annually submit business plans to the Department of Cooperative Governance. The grant uses the registration requirements of the municipal infrastructure grant management information system to register, track and monitor projects as per the business plans. Such plans should include timelines regarding project designs, initiation of procurement, environmental impact assessments, and relevant permit or licence approvals in the prescribed format.

The **urban settlements development grant** was introduced to assist metropolitan municipalities in improving access to basic services by households through the provision of bulk and reticulation infrastructure as well as urban land production to support broader urban development and integration, while the **public transport network grant** aims to provide accelerated construction and improvement of non-motorised transport infrastructure.

The **integrated national electrification programme grant** was introduced to provide capital subsidies to municipalities to address the electrification backlog of all residential dwellings and the installation of relevant bulk infrastructure.

The **regional bulk infrastructure grant** aims to develop new as well as refurbish, upgrade and replace ageing water and wastewater infrastructure of regional significance, which connects water resources to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over large areas within the municipality. The grant also aims to pilot regional – or facilitate and contribute to the implementation of local – water conservation and water demand management projects that will have a direct impact on bulk infrastructure requirements.

The **water services infrastructure grant** was introduced to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services, especially in rural municipalities. The grant also aims to:

- provide interim, intermediate water and sanitation supply that ensures the provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equipping of boreholes
- provide onsite sanitation solutions
- support the existing bucket eradication programme intervention in formal residential areas
- support drought-relief projects in affected municipalities.

WHAT IS THE PURPOSE AND NATURE OF THE ANNUAL AUDIT OF THE PERFORMANCE REPORTS?

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives as defined in their integrated development plans and/or service delivery and budget implementation plans, and to report on this in their performance reports.

On an annual basis, we audit **selected objectives** to determine whether the information in the performance reports is useful and reliable enough to enable the council, the public and other users of the reports to assess the performance of the auditee. The objectives we select are those that are important for delivery by the auditee on its mandate. In the audit report, we report findings that are material enough to be brought to the attention of these users.

As part of the annual audits, we audit the **usefulness of the reported performance information** to determine whether it is presented in the annual report in the prescribed manner and is consistent with the auditee's planned objectives as defined in the integrated development plan and/or service delivery and budget implementation plan. We also assess whether the performance indicators set to measure the achievement of the objectives are:

- well defined (the indicator needs to have a clear, unambiguous definition so that data can be collected consistently, and is easy to understand and use)
- verifiable (it must be possible to validate the processes and systems that produce the indicator)
- specific (so that the nature and the required level of performance can be clearly identified)
- time bound (the time period or deadline for delivery must be specific)
- measurable (so that the required performance can be measured)
- consistent (with the objective, measures and/or targets)
- relevant (so that the required performance can be linked to the achievement of a goal).

We further audit the **reliability of the reported information** to determine whether it can be traced back to the source data or documentation and whether it is accurate, complete and valid.

WHEN IS HUMAN RESOURCE MANAGEMENT EFFECTIVE?

Human resource management refers to the **management of an auditee's employees or human resources**. Human resource management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

Our audits include an assessment of human resource management, focusing on the following areas:
■ human resource planning and organisation
■ management of vacancies ■ appointment processes
■ performance management ■ acting positions
■ management of leave and overtime.

Our audits further look at the management of vacancies and stability in key positions, the competencies of key officials, as well as consequences for transgressions, as these matters directly influence the quality of auditees' financial and performance reports and their compliance with legislation.

Based on the results of these audits, we assess the status of auditees' human resource management controls.

WHEN ARE INTERNAL CONTROLS EFFECTIVE AND EFFICIENT?

A key responsibility of municipal managers, chief executive officers, senior managers and municipal officials is to **implement and maintain effective and efficient systems of internal control**.

We assess the internal controls to determine the effectiveness of their design and implementation in ensuring reliable financial and performance reporting and compliance with legislation. Internal controls consist of all the policies and procedures implemented by management to assist in achieving the orderly and efficient conduct of business, including adhering to policies, safeguarding assets, preventing and detecting fraud and error, ensuring the accuracy and completeness of accounting records, and timeously preparing reliable financial and service delivery information. To make it easier to implement corrective action, we categorise the principles of the different components of internal control under leadership, financial and performance management, or governance. We call these the **drivers of internal control**.

The key **basic controls** that auditees should focus on are outlined below.

Providing effective leadership

In order to improve and sustain audit outcomes, auditees require **effective leadership** that is based on a culture of honesty, ethical business practices and good governance to protect and enhance the interests of the auditee.

Audit action plans to address internal control deficiencies

Developing and monitoring the implementation of action plans to address identified internal control deficiencies are key elements of internal control, which are the responsibility of municipal managers, chief executive officers, and their senior management team.

The Medium-Term Strategic Framework defines the implementation of audit action plans and the quarterly monitoring thereof by a coordinating structure in the province as key measures to support financial management and governance at municipalities. It is also echoed in the Department of Cooperative Governance's back-to-basics strategy, which tasks local government with addressing post-audit action plans and the National Treasury, provincial treasuries and departments of cooperative governance with assessing the capacity of municipalities to develop and implement such plans.

Proper record keeping and document control

Proper and timely record keeping ensures that **complete, relevant and accurate information** is accessible and available to support financial and performance reporting. Sound record keeping will also enable senior management to hold staff accountable for their actions. A lack of documentation affects all areas of the audit outcomes.

Some of the matters requiring attention include the following:

- Establishing proper record keeping so that records supporting financial and performance information as well as compliance with key legislation can be made available when required for audit purposes.
- Implementing policies, procedures and monitoring mechanisms to manage records, and making staff members aware of their responsibilities in this regard.

Implementing controls over daily and monthly processing and reconciling of transactions

Controls should be in place to ensure that **transactions are processed accurately, completely and timeously**, which in turn will reduce errors and omissions in financial and performance reports.

Some of the matters requiring attention include the following:

- Daily capturing of financial transactions, supervisory reviews of captured information, and independent monthly reconciliations of key accounts.
- Collecting performance information at intervals appropriate for monitoring, setting service delivery targets and milestones, and validating recorded information.
- Confirming that legislative requirements and policies have been complied with before initiating transactions.

Reviewing and monitoring compliance with legislation

Auditees need to have mechanisms that can **identify applicable legislation as well as changes to legislation**, assess the requirements of legislation, and implement processes to ensure and monitor compliance with legislation.

WHAT IS INFORMATION TECHNOLOGY AND WHAT ARE INFORMATION TECHNOLOGY CONTROLS?

Information technology refers to the computer systems used for recording, processing and reporting financial and non-financial transactions. Information technology controls ensure the confidentiality, integrity and availability of state information, enable service delivery, and promote national security. Good information technology governance, effective information technology management and a secure information technology infrastructure are therefore essential.

Non-complex and complex information technology environments

As per our audit methodology, we differentiate between **non-complex** and **complex** information technology environments, as follows:

Non-complex environment – level 1 (low risk)

This is the lower end of the spectrum for information technology sophistication and relevance. The auditee uses one server associated with financial reporting and/or performance information, a limited number of workstations, no remote locations, commercial off-the-shelf applications and infrastructure, vendors to perform updates and maintenance on the system, little emerging or advanced technology, and a few or no online and e-commerce transactions.

Key controls over financial reporting and/or performance information are not overly reliant on information technology, are embedded in the commercial off-the-shelf applications, or are limited to very few manual processes and controls. Many small to medium-sized auditees fall into this category.

Complex environment – levels 2 and 3 (medium and high risk)

This is the middle to high end of the spectrum. These auditees have the following characteristics:

- Use more than one server associated with financial reporting and/or performance information.
- Have remote locations.
- Employ one or more network operating system or non-standard ones.
- Have more workstations in total.
- Use some customisation of application software or have a relatively complex configuration of commercial off-the-shelf applications.
- Use enterprise resource planning systems and/or write their own custom software.
- Perform updates and maintenance on the system centrally onsite or through vendors, or perform centralised updates and maintenance on the system and distribute these to decentralised sites or through onsite vendors.
- Employ a few to moderate or a large number of emerging or advanced technologies.
- Enter into either a few or a large number of online and e-commerce transactions.
- Rely heavily on information technology key controls over financial and/or performance information.

An auditee running transversal systems would also fall into this category. Information systems for which certain information technology processes are managed centrally, but which are used by various auditees who have limited responsibility regarding the design and enhancement of the system, will also be classified as high risk at a national level.

Which information technology controls do we audit?

During our audits, we assess the information technology controls that focus on information technology governance, security management, user access management and information technology service continuity – as discussed further down.
To evaluate the status of the information technology controls in the areas we audit, we group them into the following three categories, with reference to the control measures that should be in place:

1. **Where information technology controls are being designed**, management should ensure that the controls would reduce risks and threats to information technology systems.
2. **Where information technology controls are being implemented**, management should ensure that the designed controls are implemented and embedded in information technology processes and systems. Particular attention should be paid to ensuring that staff members are aware of and understand the information technology controls being implemented, as well as their roles and responsibilities in this regard.
3. **Where information technology controls have been embedded and are functioning effectively**, management should ensure that the information technology controls that have been designed and implemented are functioning effectively at all times. Management should sustain these information technology controls through disciplined and consistent daily, monthly and quarterly information technology operational practices.

Information technology governance

This refers to the leadership, organisational structures and processes which ensure that the auditee's information technology resources will sustain its business strategies and objectives. Effective information technology governance is essential for the overall well-being of an auditee's information technology function and ensures that the auditee's information technology control environment functions well and enables service delivery.

Security management

This refers to the controls preventing unauthorised access to the computer networks, computer operating systems and application systems that generate and prepare financial and performance information.

User access management

These are measures designed by business management to prevent and detect the risk of unauthorised access to, and the creation or amendment of, financial and performance information stored in the application systems.

Information technology service continuity

These controls enable auditees to recover within a reasonable time the critical business operations and application systems that would be affected by disasters or major system disruptions.

WHAT ARE ROOT CAUSES?

Root causes are the **underlying causes or drivers of audit findings**; in other words, the reason why the problem occurred. Addressing the root cause helps to ensure that the actions address the real issue, thus preventing or reducing incidents of recurrence, rather than simply providing a one-time or short-term solution.

Our audits include an **assessment of the root causes of audit findings**, based on the identification of internal controls that have failed to prevent or detect the error in the financial statements and performance reports or that have led to non-compliance with legislation. These root causes are confirmed with management and shared in the management report with the municipal managers or chief executive officers and the mayors. We also include the root causes of material findings reported as internal control deficiencies in the audit report.

WHO PROVIDES ASSURANCE?

Mayors and their municipal managers use the **annual report** to report on the financial position of auditees, their performance against predetermined objectives, and overall governance; while one of the important **oversight functions of councils is to consider auditees' annual reports**. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also includes our audit report, which provides assurance on the credibility of the financial statements, the performance report and the auditee's compliance with legislation.

Our reporting and the oversight processes reflect on history, as they take place after the financial year. Many other role players contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

The mandates of these role players differ from ours, and we have categorised them as follows:

- Those directly involved in the management of the auditee (management or leadership assurance).
- Those that perform an oversight or governance function, either as an internal governance function or as an external monitoring function (internal independent assurance and oversight).
- The independent assurance providers that give an objective assessment of the auditee's reporting (external independent assurance and oversight).

We **assess the level of assurance** provided by the role players based on the **status of auditees' internal controls and the impact of the different role players on these controls**. In the current environment, which is characterised by inadequate internal controls, corrected and uncorrected material misstatements in financial and performance information, and widespread non-compliance with legislation, all role players need to provide an extensive level of assurance.

WHAT IS THE ROLE OF EACH KEY ROLE PLAYER IN PROVIDING ASSURANCE?

Senior management

Senior management, which includes the chief financial officer, chief information officer and head of the supply chain management unit, provides assurance by implementing the following basic financial and performance controls:

- Ensure proper record keeping so that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable legislation.
- Design and implement formal controls over information technology systems.

Municipal managers and municipal entities' chief executive officers

While we recognise that municipal managers and the chief executive officers of municipal entities depend on senior management for designing and implementing the required financial and performance management controls, they are responsible for creating an environment that helps to improve such controls in the following ways:

- Provide effective and ethical leadership and exercise oversight of financial and performance reporting and compliance with legislation.
- Implement effective human resource management to ensure that adequate and sufficiently skilled staff members are employed and their performance is monitored, and that there are proper consequences for poor performance.
- Establish policies and procedures to enable sustainable internal control practices and monitor the implementation of action plans to address internal control deficiencies and audit findings.
- Establish an information technology governance framework that supports and enables the achievement of objectives, delivers value and improves performance.
- Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

- Ensure that an adequately resourced and functioning internal audit unit is in place and that internal audit reports are responded to.
- Support the audit committee and ensure that its reports are responded to.

The Municipal Finance Management Act also defines the role of the municipal manager as follows:

Role of the municipal manager

Robust financial and performance management systems	Oversight and accountability	Commitment and ethical behaviour
Full and proper records of financial affairs Effective, efficient and transparent systems for **financial and risk management** and **internal control** System of **internal audit** Develop and implement **policies** – tariffs, rates, credit control, debt collection and supply chain management Appropriate **management, accounting and information systems** – assets, liabilities, revenue and expenditure	Effective, efficient, economic and transparent **use of resources** Prevention of **unauthorised, irregular and fruitless and wasteful expenditure** as well as other losses	Act with **fidelity, honesty, integrity** and in the **best interest** of the municipality Manage and safeguard **assets and liabilities** Take appropriate **disciplinary steps** against any official who commits an act of financial misconduct or an offence **Disclose** all material facts to the council or mayor

The **role of the municipal manager** is critical to ensure:
timely, credible information + accountability + transparency + service delivery

Mayors

Mayors have a monitoring and oversight role at both municipalities and municipal entities. They have specific oversight responsibilities in terms of the Municipal Finance Management Act and the Municipal Systems Act, which include reviewing the integrated development plan and budget management and ensuring that auditees address the issues raised in audit reports.

Mayors can bring about improvement in the audit outcomes of auditees by being actively involved in key governance matters and managing the performance of municipal managers.

Internal audit units

The internal audit units assist municipal managers and chief executive officers of municipal entities in the execution of their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. The establishment of internal audit units is a requirement of legislation.

Audit committees

An audit committee is an independent body, created in terms of legislation, which advises the municipal manager or chief executive officer, senior management and the council on matters such as internal controls, risk management, performance management and compliance with legislation. The committee is further required to provide assurance on the adequacy, reliability and accuracy of financial and performance information.

Coordinating or monitoring departments

Our country's constitution stipulates that national and provincial government must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their duties. The Municipal Finance Management Act further requires national and provincial government to assist municipalities in building capacity to support efficient, effective and transparent financial management. Both the Municipal Finance Management Act and the Municipal Systems Act define responsibilities to monitor financial and performance management.

Municipal councils

The council is the executive and legislative authority of the municipality. In order for the council to perform its oversight and monitoring role, the municipal manager and senior managers must provide the council with regular reports on the financial and service delivery performance of the municipality. The Municipal Finance Management Act and the Municipal Systems Act also require the council to approve or oversee certain transactions and events, and to investigate and act on poor performance and transgressions, such as financial misconduct and unauthorised, irregular as well as fruitless and wasteful expenditure.

Municipal public accounts committees

The municipal public accounts committee was introduced as a committee of the council to deal specifically with the municipality's annual report, financial statements and audit outcomes as well as to improve governance, transparency and accountability. The committee is an important provider of assurance, as it needs to give assurance to the council on the credibility and reliability of financial and performance reports, compliance with legislation as well as internal controls.

The primary functions of the committee can be summarised as follows:

- Consider and evaluate the content of the annual report and make recommendations to the council when adopting an oversight report on the annual report.
- Review information relating to past recommendations in the annual report; this relates to current in-year reports, including the quarterly, mid-year and annual reports.
- Examine the financial statements and audit reports of the municipality and municipal entities and consider improvements, also taking into account previous statements and reports.
- Evaluate the extent to which our recommendations and those of the audit committee have been implemented.
- Promote good governance, transparency and accountability in the use of municipal resources.

Portfolio committees on local government

In terms of our country's constitution, the National Assembly and provincial legislatures must maintain oversight of the executive authority responsible for local government. This executive authority includes the minister and members of the executive council responsible for cooperative governance and other executives involved in local government, such as the minister and members of the executive council responsible for finance. The mechanism used to conduct oversight is the portfolio committee on local government.

7.2 GLOSSARY OF KEY TERMINOLOGY USED IN THIS REPORT

Asset (in financial statements)	Any item belonging to the auditee, including property, infrastructure, equipment, cash, and debt due to the auditee.
Cash flow (in financial statements)	The flow of money from operations: incoming funds are revenue (cash inflow) and outgoing funds are expenses (cash outflow).
Cash-backed (grant management)	Unspent grants are supported by available cash.
Commitments from role players	Initiatives and courses of action communicated to us by role players in local government aimed at improving the audit outcomes.
Configuration (information technology)	The complete technical description required to build, test, accept, install, operate, maintain and support a system.
Creditors	Persons, companies or organisations to whom the auditee owes money for goods and services procured from them.
Current assets (in financial statements)	These assets are made up of cash and other assets, such as inventory or debt for credit extended, which will be traded, used or converted into cash within 12 months. All other assets are classified as non-current, and typically include property, plant and equipment as well as long-term investments.
Current liability (in financial statements)	Money owed by the auditee to companies, organisations or persons who have supplied goods and services to the auditee.
Financial and performance management (as one of the drivers of internal control)	The performance of tasks relating to internal control and monitoring by management and other employees to achieve the financial management, reporting and service delivery objectives of the auditee. These controls include the basic daily and monthly controls for processing and reconciling transactions, the preparation of regular and credible financial and performance reports as well as the review and monitoring of compliance with key legislation.
Governance (as one of the drivers of internal control)	The governance structures (audit committees) and processes (internal audit and risk management) of an auditee.
Implementing agent	Government institutions (e.g. the Independent Development Trust), non-governmental organisations or private sector entities appointed by the auditee to manage, implement and deliver on projects.
Information technology infrastructure	The hardware, software, computer-related communications, documentation and skills that are required to support the provision of information technology services, together with the environmental infrastructure on which it is built.
Leadership (as one of the drivers of internal control)	The administrative leaders of an auditee, such as municipal managers and senior management. It can also refer to the political leadership (including the mayor and the council) or the leadership in the province (such as the premier).
Material finding (from the audit)	An audit finding on the quality of the performance report or compliance with key legislation that is significant enough in terms of either its amount or its nature, or both these aspects, to be reported in the audit report.
Material misstatement (in financial statements or performance reports)	An error or omission that is significant enough to influence the opinions or decisions of users of the reported information. Materiality is considered in terms of either its rand value or the nature and cause of the misstatement, or both these aspects.
Medium-Term Strategic Framework	Government's strategic plan for the 2014-19 electoral term. It reflects the commitments made in the election manifesto of the governing party, including the commitment to implement the National Development Plan. Its aim is to ensure policy coherence, alignment and coordination across government plans as well as alignment with budgeting processes.

Misstatement (in financial statements or performance reports)	Incorrect or omitted information in the financial statements or performance report.
Municipal Standard Chart of Accounts	This provides a multi-dimensional, uniform and standardised financial transaction classification framework. Essentially this means that the framework prescribes the method (the how) and format (the look) that municipalities and their entities should use to record and classify all capital and operating expenditure, revenue, assets, liabilities, equity, policy outcomes, and legislative reporting.
Non-cash item (in financial statements)	An entry in the financial statements correlating to expenses that are essentially just accounting entries rather than actual movements of cash. Depreciation and amortisation are the two most common examples of non-cash items.
Platform (information technology)	A platform consists of an operating system, the computer system's coordinating program, which in turn is built on the instruction set for a processor or microprocessor, and the hardware that performs logical operations and manages data movement in the computer.
Public Audit Act (Act No. 25 of 2004)	This is the Auditor-General of South Africa's enabling legislation. The objective of the act is to give effect to the provisions of our country's constitution by establishing and assigning functions to an auditor-general and by providing for the auditing of institutions in the public sector. The Public Audit Act was amended [Public Audit Amendment Act (Act No. 5 of 2018)] to provide us with more power to ensure accountability in the public sector. The intent of the amendments is not to take over the functions of the municipal manager, the mayor or the council, as their accountability responsibilities are clear in municipal legislation. It is rather to step in where those responsibilities are not fulfilled in spite of us alerting leadership to material irregularities that need to be investigated and addressed.
Reconciliation (of accounting records)	The process of matching one set of data to another; for example, the bank statement to the cheque register, or the accounts payable journal to the general ledger.
Receivables or debtors (in financial statements)	Money owed to the auditee by companies, organisations or persons who have procured goods and services from the auditee.
Reporting on outstanding amounts owing on utilities (bulk water and electricity)	Total amount owing at year-end represents the full amount outstanding (including amounts owed for the 0 – 30 day period). When reporting on amounts in arrears, the amount excludes the 0 – 30 day portion.
Status of records review	A process whereby the auditor performs basic review procedures to identify risks and areas of concern for discussion with the accounting officer. The purpose of the status of records review is to: • ensure that there is a system of early warning to the accounting officer on challenges that may compromise good financial and performance management and compliance with legislation • demonstrate to the accounting officer a deepened level of understanding of the business of the auditee and the value added by the auditor • contribute to capacitating the accounting officer and senior management in instilling good practices of regular reporting, review and oversight • identify risks early and throughout the audit cycle to respond to these timeously and correctly.
Vulnerable financial position (going concern)	The presumption that an auditee will continue to operate in the near future, and will not go out of business and liquidate its assets. For the going concern presumption to be reasonable, the auditee must have the capacity and prospect to raise enough financial resources to stay operational.

NOTES

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RP136/2019   ISBN: 978-0-621-47369-8