

**CONSOLIDATED
GENERAL REPORT
ON LOCAL
GOVERNMENT
AUDIT OUTCOMES**

2022-23



AUDITOR-GENERAL
SOUTH AFRICA



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ANNEXURES

Annexures containing information on the following are available on our website (mfma-2023.agsareports.co.za):

- 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
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FOREWORD

FROM THE AUDITOR-GENERAL

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An urgent call for performance, accountability, transparency and institutional integrity in local government

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Local government is instrumental in providing communities with essential services such as clean water, proper sanitation, reliable electricity, effective waste management, and well-maintained roads and municipal infrastructure. After years of service delivery failures, council and administrative instability, financial mismanagement, and disregard for the law, this sphere of government faces greater demands than ever before to regain the trust of South Africans.

The messages in my previous two general reports were aimed at the new administration – the new mayors, speakers and council members elected to represent their communities. I called on them to provide courageous, ethical, accountable and citizen-centric leadership to overhaul a local government characterised by insufficient accountability, failing service delivery, poor governance, weak institutional capacity, and instability.

Despite the commitments made in response to this call, action has been too slow and has had little impact on the lived realities of ordinary South Africans. As a result, I can report only on pockets of improvement. Continued excellence at municipalities that maintained their clean audit status and a reduction in the number of municipalities with disclaimed audit opinions offer a further glimmer of hope. Otherwise, there is still little to celebrate.

Two years into the administrative term, some metros still have instability in their councils and struggle to take the lead in ensuring service delivery to all their residents in a financially responsible manner. At those municipalities that have not managed to move out of the disclaimed space, the lack of transparency, accountability and institutional integrity not only leads to non-delivery of services, but also harms the people these municipalities are intended to serve. Little attention is paid to credible reporting on municipal performance, which is a key enabler of service delivery, transparency and accountability.



My call is for urgent action and is again directed to the political leadership of municipalities. There is limited time left in their term to leave a legacy of improved governance and delivery.

National and provincial government, including the premiers and the members of the executive council for local government and finance, have shown strong support to municipalities – which was often the reason for improvements in audit outcomes in this financial year. If this momentum is interrupted by the change in administration at national and provincial level after the elections, it will affect the progress being made. I therefore call for stability in the institutions supporting local government and urge them to continue and further intensify their efforts in monitoring, supporting and overseeing this sphere of government.

My office and I are determined to execute our constitutional mandate to instil a culture of performance, accountability, transparency and institutional integrity in local government, which will ultimately result in a better life for the people of South Africa. We do this through our audits of municipalities and their entities, which give us unique insights into the successes, failures and challenges in local government, and into those in national and provincial government that support them. Armed with this information, we will continue to contribute to the much-needed improvement at municipal level by sharing our insights widely, making recommendations, and advocating for leadership at all levels of government to play their part.

I am also using my enhanced mandate to demand action and accountability, and am pleased with the impact that we are making through the material irregularity process. Such impact includes the prevention and recovery of financial losses, actions taken to address financial management weaknesses and the

harm caused due to pollution of water sources, and the implementation of consequences for transgressions.

I remain convinced that service delivery improvements in local government will be enabled by stable, capable, cooperative, accountable and responsive municipalities delivering on their mandates, and by leadership creating a culture that values excellence and continuous improvement to bring about positive change in the lives of all South Africans. Thus, the theme of this general report is 'A culture of accountability will improve service delivery'.

With the information and insights presented in this report, I wish to empower leaders and all roleplayers in the accountability ecosystem to focus on key issues that will enable good financial and performance management, compliance with legislation and, ultimately, enhanced service delivery by municipalities.

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

I invite you to read the insights in this report and hope that they will inspire you to be an active participant in the local government accountability ecosystem.

Tsakani Maluleke 27/02/2024

Tsakani Maluleke
Auditor-General

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This general report builds on the messages included in our previous report. It includes insights from the 2022-23 audits of municipalities and municipal entities, as well as information, statistics and stories on the state of local government in the second year of the sixth administration.

Our previous general report reflected on the instability arising from the change in leadership, which resulted in the new administration having little chance to influence the audit outcomes or the state of local government.

We reported on weaknesses in service delivery planning, reporting and achievement; failing municipal infrastructure; and the increasing pressure on local government finances due to a lack of careful spending, compounded by councils not paying sufficient attention to these matters. The report showcased the good work done at municipalities with clean audits; highlighted the eight metros for increased attention; and called for action to eradicate disclaimed audit opinions due to the harm that these municipalities' lack of transparency and accountability causes their residents.

We urged the newly elected representatives to instil a culture of performance, transparency and institutional integrity, and to be accountable to the communities they serve. Our call was for all roleplayers in the accountability ecosystem to promote a culture of accountability that will transform local government and improve service delivery.

SUMMARY OF KEY MESSAGES

Overall, there has been little change and – despite commitments made for improvement – action has been too slow with little impact on the lived realities of ordinary South Africans.

- The trend of poor **audit outcomes** in local government continued, with only 34 (13%) of municipalities obtaining clean audits. Meaningful improvement over the term of the new administration was not evident – while 45 municipalities have improved their audit outcomes since 2020-21 (the last year of the previous administration), 36 have regressed. The most prevalent audit outcome was an unqualified audit opinion on the financial statements with findings on performance reporting and/or compliance with key legislation – at 43% of municipalities. These municipalities had made little effort to move out of this category, with 77 remaining there since the end of the previous administration's term.
- **Compliance with legislation** remained the biggest obstacle for municipalities, with 86% receiving material compliance findings, slightly regressing from 85% in the previous year and 83% in 2020-21.
- On the positive side, there were fewer municipalities with **disclaimed audit opinions**, which is the worst possible audit outcome. Over the administrative term, 18 municipalities (mostly in KwaZulu-Natal, Mpumalanga and North West) have moved out of this category. Twelve municipalities received disclaimed opinions in 2022-23.
- The number of municipalities that submitted their **financial statements by the legislated date** continued to increase from the low submission rate of 81% in 2020-21 to 91% in 2021-22 and 94% in 2022-23. The improvements were due to accounting officers responding positively to our material irregularity notifications on this matter as well as the provincial government supporting municipalities to act on commitments made to submit financial statements on time. Financial statements again being submitted late, or not at all, was the main reason for us not completing the 2022-23 audits of 10 municipalities by 31 March 2024, which was the cut-off date for this report.
- Local government has well-designed processes with legislated responsibilities for the **planning, budgeting, monitoring and reporting** on delivery of municipal functions and integrated development plans. However, we continued to identify significant weaknesses in performance planning and reporting processes. We found non-compliance with legislation on strategic planning and performance management at 45% of all municipalities, and at 91% of municipalities with disclaimed audit opinions. A total of 48% of municipal performance reports included information that was not useful and/or not reliable. If we had not allowed municipalities to correct the misstatements that we identified in the submitted performance reports, even more would have published performance reports that were not credible. The performance plans of 19% of municipalities, including five metros, excluded

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indicators that measure performance on their core mandated functions.

- Our audit work incorporated numerous site visits to inspect the progress and quality of **infrastructure projects**. We identified deficiencies on 72% of the 75 projects that we visited. We found that, all too often, work on projects is delayed, is costing more than planned and is of poor quality, and that new infrastructure is not put into use as soon as it is ready. Existing infrastructure continues to deteriorate because it is not properly maintained and safeguarded.
- The quality of **financial reporting** has not improved much, as municipalities rely on the audit process to identify misstatements for correction. If not for this process, only 26% would have received unqualified audit opinions in 2022-23, compared to the 58% that eventually did so. Despite the amount spent by municipalities on consultants to ensure good-quality financial statements, the expected benefits were not always evident.
- Poor **financial management** remained prevalent. Municipalities lost revenue because they were not billing and collecting revenue, and due to water and electricity losses as a result of infrastructure neglect. They were also not careful with their spending practices. The main reasons for the continuing financial losses and waste were poor payment practices, uncompetitive and uneconomical procurement practices, limited value and benefit received for money spent, and weaknesses in project management. Unfunded budgets and high unauthorised expenditure clearly show the weaknesses in financial planning.

As a result, the financial health of municipalities remains weak. Poorly managed local government finances directly affect municipalities' ability to deliver the promised

services to their communities and place further pressure on the already constrained public purse. Creditors are not paid within legislated timelines and, specifically, the debt owed to Eskom and the water boards remains high and continues to increase. If these debts are not paid, communities are left without access to basic services such as electricity and water. This also makes it difficult for businesses to operate optimally, further adding to the struggling economy.

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

- The **material irregularity process** continues to make an impact: financial losses of an estimated R924,1 million have been recovered, are in the process of being recovered or have been prevented because of this process. Accounting officers have also acted to strengthen internal controls and to address the non-submission of financial statements; the underlying causes and impact of disclaimed audit opinions; the pollution caused by neglected wastewater treatment plants and mismanaged landfill sites; infrastructure neglect and project failures; inefficient use of resources; poor procurement, payment and revenue management practices; non-payment of Eskom and water boards; ineffective use of financial reporting consultants; and assets not being safeguarded.

Most accounting officers are taking action to resolve material irregularities, but where the material irregularities were not dealt with swiftly or with the required seriousness, we included recommendations in audit reports, took remedial action and referred matters to relevant public bodies for investigation (where appropriate).

- The audit outcomes of **metros** have worsened since the last year of the previous administration, despite metros typically having greater capacity and bigger budgets to more easily attract suitably skilled and competent professionals to improve their outcomes. Metros' financial health remains concerning, as they struggled to improve their revenue-collection levels despite implementing financial recovery plans and turnaround strategies. Infrastructure delivery and maintenance still do not receive enough attention, as can be seen in projects being delayed, grant funding having to be returned to the National Treasury, and a lack of consequences for poor performance.
- Municipalities with **clean audits**, particularly those that have sustained this status over several years, are generally characterised

by sound financial and performance management disciplines and perform their functions in accordance with applicable legislation. They generally manage projects well so that deficiencies are identified and rectified promptly and so that timelines, budgets and quality standards are adhered to. The well-functioning control environment and good systems present at these municipalities form a solid foundation from which councils can prioritise further improving the performance and service delivery of their municipalities. The 30 municipalities that maintained their clean audit status continue to be an example of what is possible. The eight municipalities that lost their clean audit status are encouraged to swiftly address the root causes of the regressions so that they can achieve a clean audit once again.

IMPACT

When municipalities do not properly manage their performance, finances and infrastructure, it directly affects the delivery of key government priorities that are intended to improve the lives of South Africans.

It hampers the consistent and sustainable delivery of services and infrastructure in the basic areas of water, sanitation, waste management, electricity, housing and roads despite budgeted funds being spent. Deteriorating living conditions and harm caused by polluted water sources and landfill sites are widespread.

Wasted money and resources means reduced funding for service delivery priorities and, eventually, a greater burden on taxpayers. The lack of credible reporting on performance and finances weakens not only municipal accountability processes, but also the council's ability to assess the municipality's performance or to make decisions in response to underachievements.

These continuing failures in the most critical part of municipal operations are not receiving the necessary attention from the elected leadership.

WHAT SHOULD BE DONE

We repeat our call from previous general reports that the roleplayers in the accountability ecosystem, particularly those with direct control over service delivery, should work deliberately and with urgency towards a culture of performance, accountability, transparency and institutional integrity to ultimately result in a better life for the people of South Africa.

Based on the insights from our work on service delivery planning and reporting, infrastructure, and financial performance, we identified three main weaknesses that hold back progress:

- Inadequate skills and capacity
- Governance failures
- A culture of no accountability and consequences

These are the same root causes that we have highlighted consistently since the start of the administrative term.

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

The call to action in this report is aimed at the broader accountability ecosystem, particularly councils (including mayors), legislatures, provincial leadership, and coordinating institutions and their executive authorities.

In short, it calls for the following:

- **Professionalising and capacitating local government:** Skills and capacity gaps can be addressed through a concerted effort to support and implement local government professionalisation initiatives. In pursuing professionalisation, municipal managers, councils and provincial leadership should strive towards a future where local government is a career of choice for professionals and where scarce skills can thrive and be retained.
- **Capable institutions with intergovernmental support:** Support from all spheres of government – through coordinated and collaborative efforts in partnership with municipal leadership – will promote strong governance within municipalities.
- **A culture of ethics and accountability:** A shared vision of responsiveness, consequence management, accountability and ethical behaviour is essential to ensure that actions are taken promptly and that individuals are held accountable. The lack of consequences for poor performance and transgressions hinders a culture of performance, accountability, transparency and institutional integrity.

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

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

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INTRODUCTION

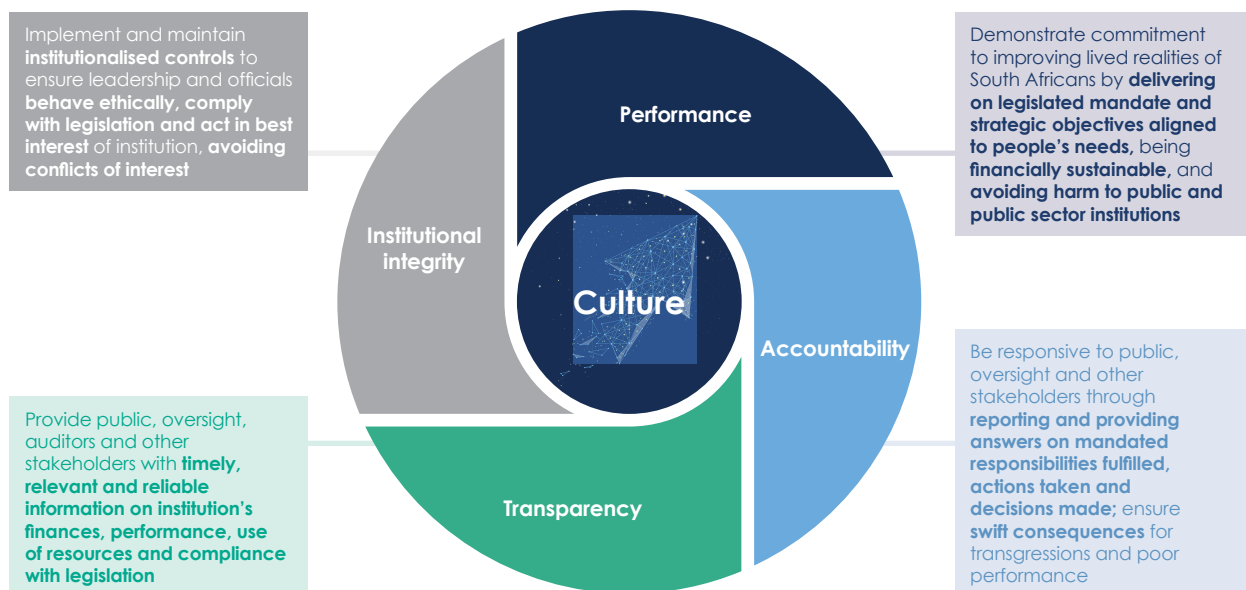
01 Introduction
This report reflects on the audit outcomes of local government and presents our observations and insights from the audits of the financial year ended 30 June 2023

Local government comprises metropolitan municipalities (metros), district municipalities, local municipalities (including intermediate cities), and municipal entities. It is the sphere of government that is closest to ordinary South Africans because it provides the basic services that have a direct impact on their lives.

Local government is meant to be an inclusive, democratic and accountable system enabled by transparency and strong institutional integrity, with communities and community organisations acting as stakeholders that are directly involved in local government matters through public participation processes.

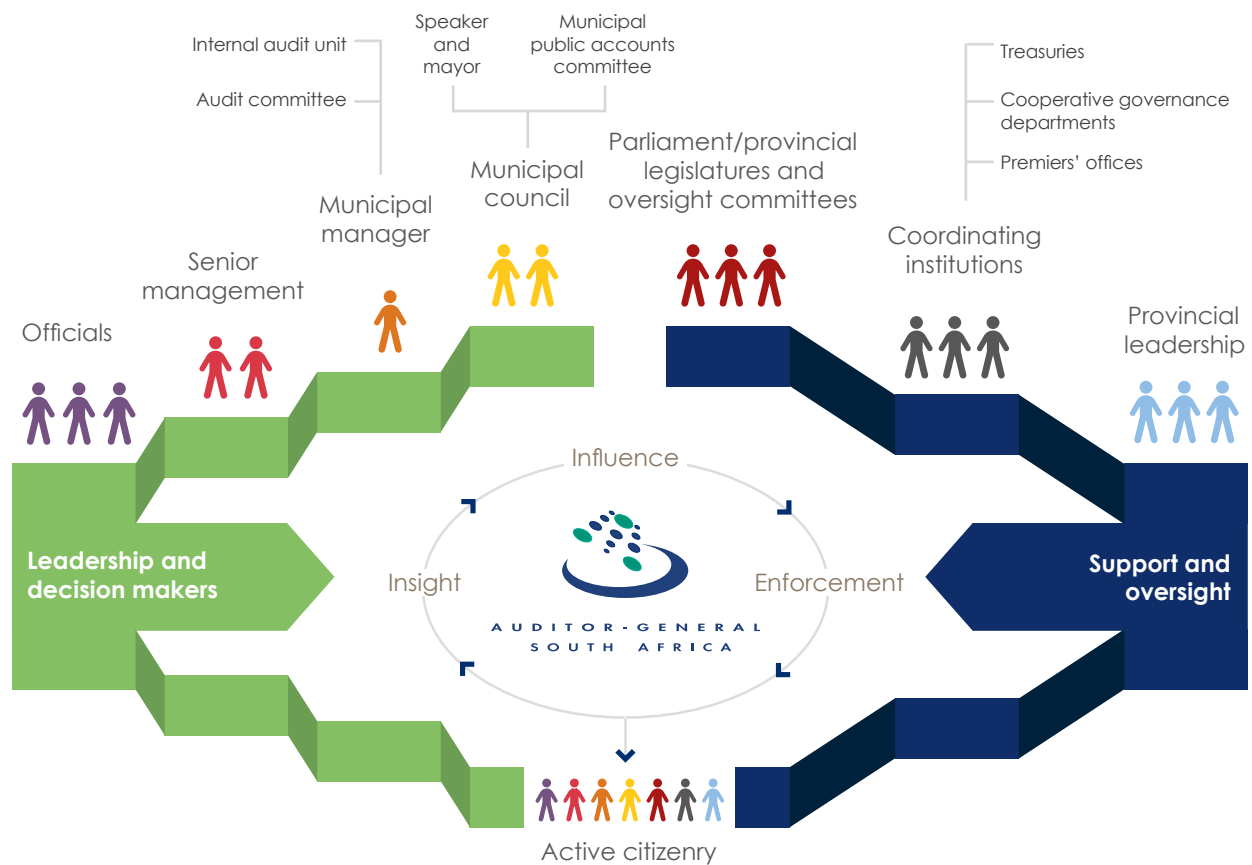
Municipalities should strive for a **culture of performance, accountability, transparency and institutional integrity**, which will ultimately result in a better life for the people of South Africa.

Characteristics of effective local government culture





Accountability ecosystem for local government



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

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

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We direct our audit reports to **councils**, as they are responsible for approving municipalities' budgets and performance plans; for monitoring their performance throughout the year (in-year monitoring); and for using their financial statements and performance reports to determine whether the municipalities achieved their service delivery objectives, used their budget as intended and are in a good financial position. The council and the municipal public accounts committee also play a significant role in investigating and dealing with unauthorised, irregular, and fruitless and wasteful expenditure; fraud and corruption; and any transgressions and non-performance by the municipal manager and senior management. The accountability processes for municipal administration lie squarely within the domain of the council.

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

Municipal managers, supported by senior management, are responsible for implementing and maintaining effective and efficient systems of internal controls, and are ultimately answerable for how municipalities perform and manage their finances for the benefit of their residents. They are responsible for planning and budgeting for service delivery, ensuring that internal controls are in place to account for performance through credible reporting, and providing good-quality year-end financial statements that users can rely on. **Audit committees** and **internal audit units** play an important role in providing an independent view of the effectiveness of municipal controls and processes.

A municipality does not function in isolation – it is part of a bigger system of government. The Constitution requires **national and provincial government** to strengthen the capacity of local government and to provide support by enforcing good financial management and overseeing performance budgeting, planning and monitoring. In our previous general report, we highlighted the important role played by the legislatures (led by the speakers) and coordinating institutions, which comprise the national and provincial cooperative governance departments and treasuries; the ministers and executive council members responsible for those departments; and the provincial premiers and their offices.

Active citizenry and public participation at local government level is crucial to prioritise and direct service delivery to meet the needs of communities and to hold councils accountable.

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

This report is therefore directed to all roleplayers in the accountability ecosystem and summarises the insights and recommendations that we have already shared with them during our audits and in preparation for tabling this report.

CONTENT OF THE REPORT

As the success or failure of **metros and their entities** affects most South Africans (in 2022-23, for example, they provided municipal services to 46% of the country's households and managed 58% of the local government budget), we specifically focus on them throughout this report. Similarly, we include focused messaging on **municipalities with disclaimed audit opinions** due to the lack of transparency and accountability at these municipalities and the inevitable harm being caused to the communities they serve. We also share insights on **municipalities with clean audits** as their generally institutionalised financial and performance management disciplines, stable administration and well-functioning oversight mechanisms position them well for service delivery, and serve as an example to other municipalities of what is possible.

The report groups findings either according to our specific focus on metros, municipalities with disclaimed audit opinions and municipalities with clean audits; or based on the basic service delivery area to which they relate, namely water and sanitation, waste management, housing, electricity, and roads.

This report summarises our key messages in the following areas:

1

The **state of local government** in the second year of the sixth administration, dealing with:

- Audit outcomes
- Service delivery and financial performance
- Material irregularities and how we used our expanded mandate

2

A **call to action** for all roleplayers in the accountability ecosystem to address the root causes of municipal failures, including our recommendations and the commitments made in response

3

The state of local government in each of the **nine provinces**

4

A summary of our messages on municipalities with **clean audits**, including some of their best practices

5

An **audit fact sheet** that provides information on the audits we performed and an explanation of the numbers used in this report



In support of greater transparency that will enable accountability, our report website (mfma-2023.agsareports.co.za) also includes a list of all auditees by category, as well as the following information for each municipality, district and province in the country:

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

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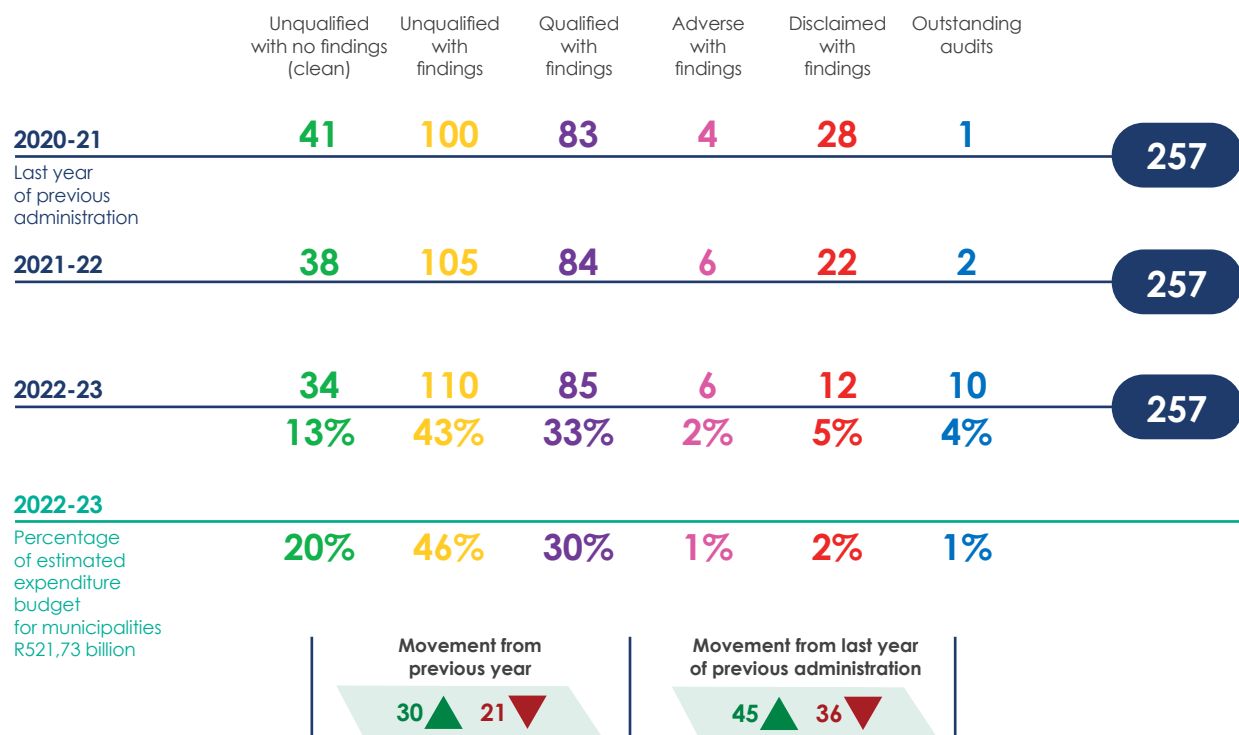
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Audit outcomes are based on our audits of the financial statements and performance reports of municipalities and their entities, as well as their compliance with key legislation

The audit outcomes included in this report are those of the 247 municipalities with audits that had been completed by 31 March 2024, which was the cut-off date for inclusion in this report.

Overall, the audit outcomes have not improved meaningfully since the end of the previous administration's term.

Audit outcomes – municipalities



The most prevalent audit outcome was an unqualified opinion on the financial statements with material findings on the quality of performance reports and/or compliance with key legislation. These municipalities

have made little effort to move out of this category, with 77 remaining there since the end of the previous administration's term.



OUTCOMES BY AUDITEE CATEGORY

The different categories of auditees show different levels of performance. The audit outcomes and key results of all auditees in each category are included in an annexure on our website (mfma-2023.agsareports.co.za).

Audit outcomes, budget and households – municipalities and municipal entities

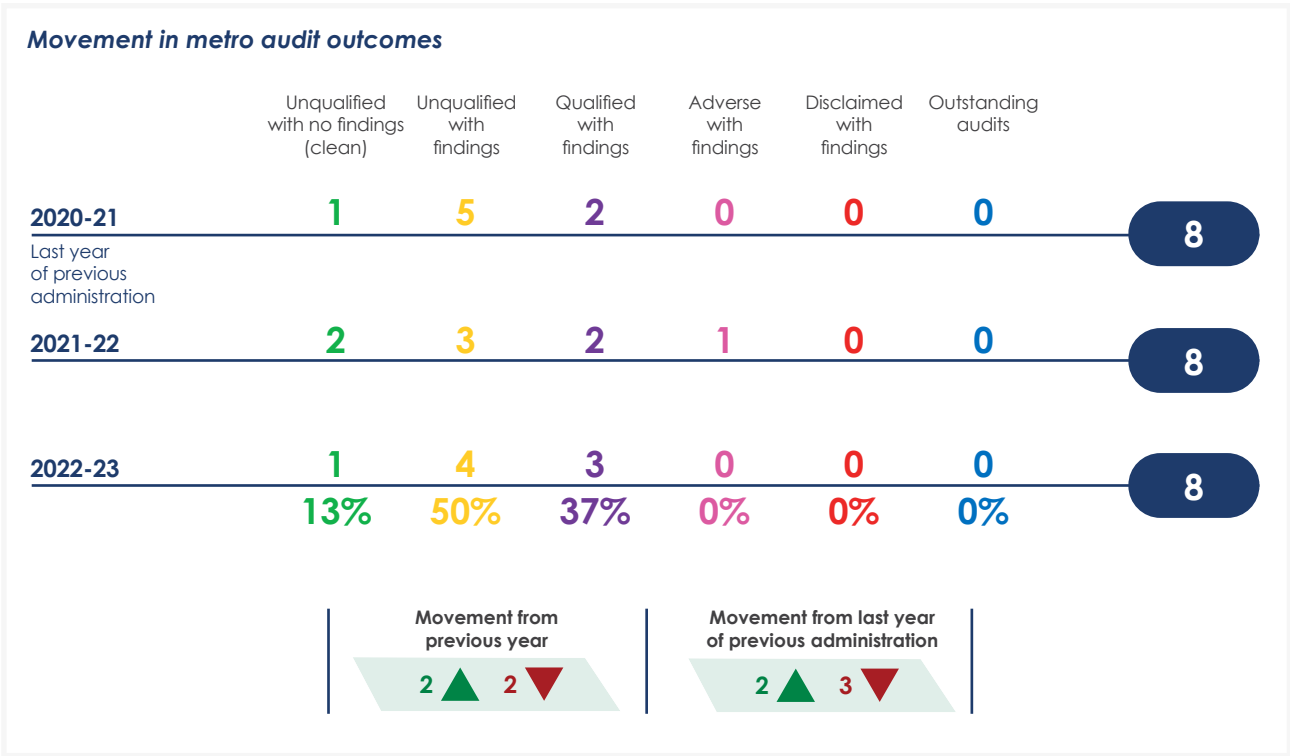
	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits		Movement from last year of previous administration
Metropolitan municipalities	1	4	3	0	0	0	8	2 ▲ 3 ▼
Budget: R279,88 billion (49%)								
Households: 8 627 084 (46%)								
Intermediate cities	4	17	15	1	1	1	39	5 ▲ 5 ▼
Budget: R115,98 billion (20%)								
Households: 5 102 411 (27%)								
District municipalities	11	20	11	1	1	0	44	6 ▲ 6 ▼
Budget: R37,71 billion (7%)								
Local municipalities	18	69	56	4	10	9	166	32 ▲ 22 ▼
Budget: R88,16 billion (15%)								
Households: 5 191 270 (27%)								
Municipal entities	1	15	0	0	1	0	17	3 ▲ 1 ▼
Budget: R50,94 billion (9%)								

Total estimated expenditure budget (operating and capital) for municipalities and municipal entities: R572,68 billion
Total number of households: 18 920 766

Number of households served by metropolitan municipalities, intermediate cities and local municipalities is based on the National Treasury's local government equitable share data and formula for 2022-23. The household total for district municipalities comprises the households under intermediate cities and local municipalities, while the total for municipal entities is included under metropolitan municipalities.

Metros serve large urban areas with populations of more than one million people. They account for the largest portion of local government expenditure and serve the highest number of households and thus, collectively, most of the people in the country.

They typically have greater capacity, bigger budgets and can more easily attract suitably skilled and competent professionals, which should result in better outcomes.



The overall audit outcomes of metros worsened since the last year of the previous administration.

City of Ekurhuleni Metro (Gauteng) regressed from a clean audit to an unqualified audit opinion with findings due to lapsed procurement and contract management controls. Buffalo City Metro (Eastern Cape) regressed from an unqualified audit opinion with findings to a qualified audit opinion due to internal control deficiencies. Mangaung Metro (Free State) again received a qualified audit opinion due to audit action plans that were not effectively implemented to address prior-year qualifications and poor record keeping. Both eThekweni (KwaZulu-Natal) and City of Johannesburg (Gauteng) metros retained last year's outcome of an unqualified audit opinion with findings.

There were, however, pockets of excellence and improvement. City of Cape Town Metro (Western Cape) has sustained a clean audit status over the administrative term. Nelson Mandela Bay Metro (Eastern Cape) improved its audit outcome from a qualified audit opinion in 2021-22 to an unqualified opinion with findings, by addressing the multiple material misstatements in its financial statements. City of Tshwane Metro (Gauteng) improved its outcome from an adverse audit opinion to a qualified opinion by taking steps to implement prior-year audit recommendations.

We provide further insights on the metros' audit outcomes in the section on the provinces. We also report on the impact of their performance and the challenges they face in the section on service delivery and financial performance.

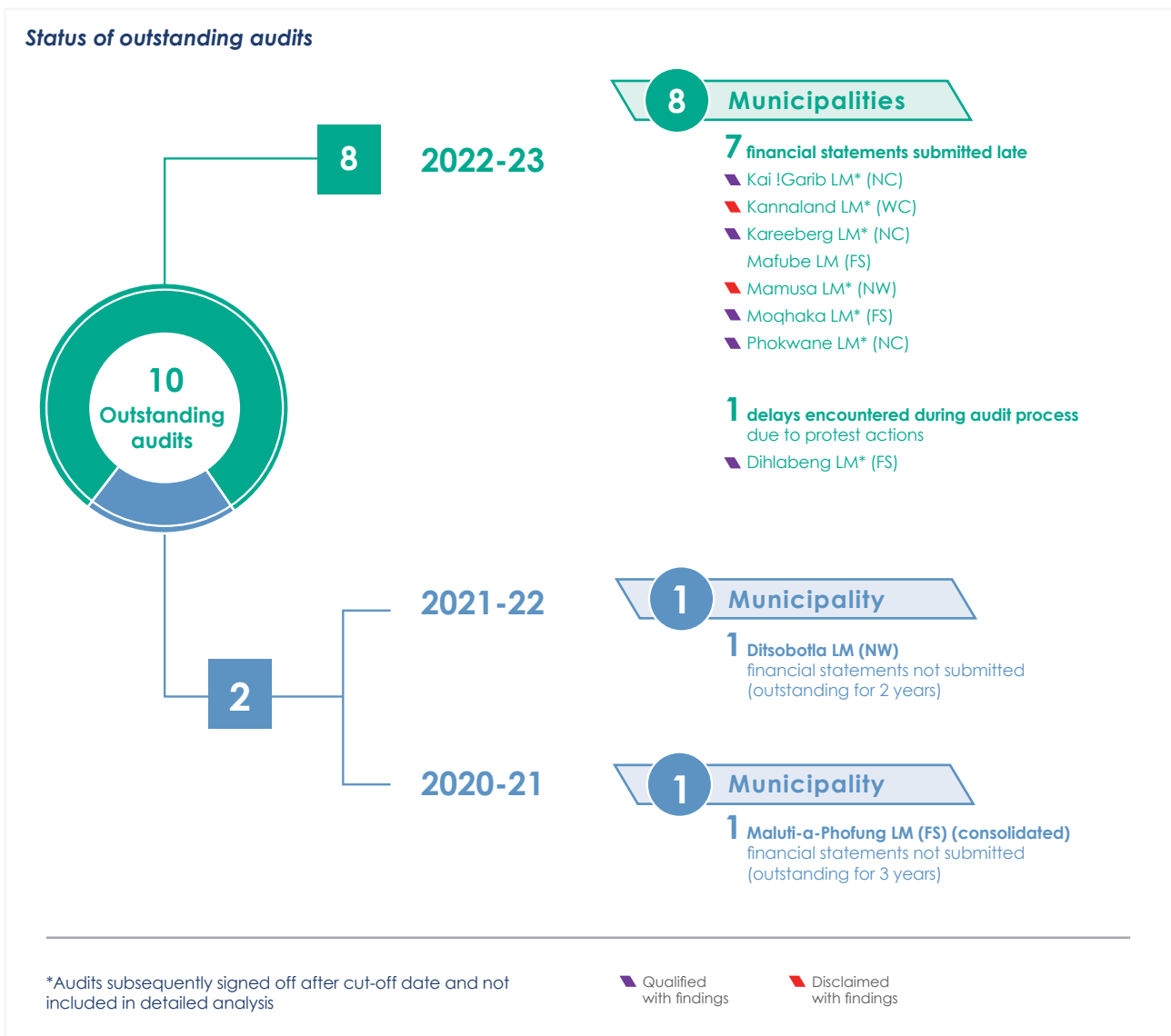
OUTSTANDING AUDITS

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

There were 16 audits outstanding when we tabled last year's general report: 15 because the municipalities had submitted their financial statements late or not at all, and one due to delays encountered during the audit process. We have since finalised the audits of 14 of these municipalities

and their 2021-22 audit outcomes are as follows: seven received a disclaimed opinion, six received a qualified opinion, and one received an unqualified opinion with findings. The remaining two municipalities have still not submitted their financial statements.

By 31 March 2024, the 2022-23 audits of 10 municipalities had not been completed. By 20 June 2024, the audits of seven of these municipalities had been finalised - their audit outcomes are included in the figure below.



SUBMISSION OF FINANCIAL STATEMENTS

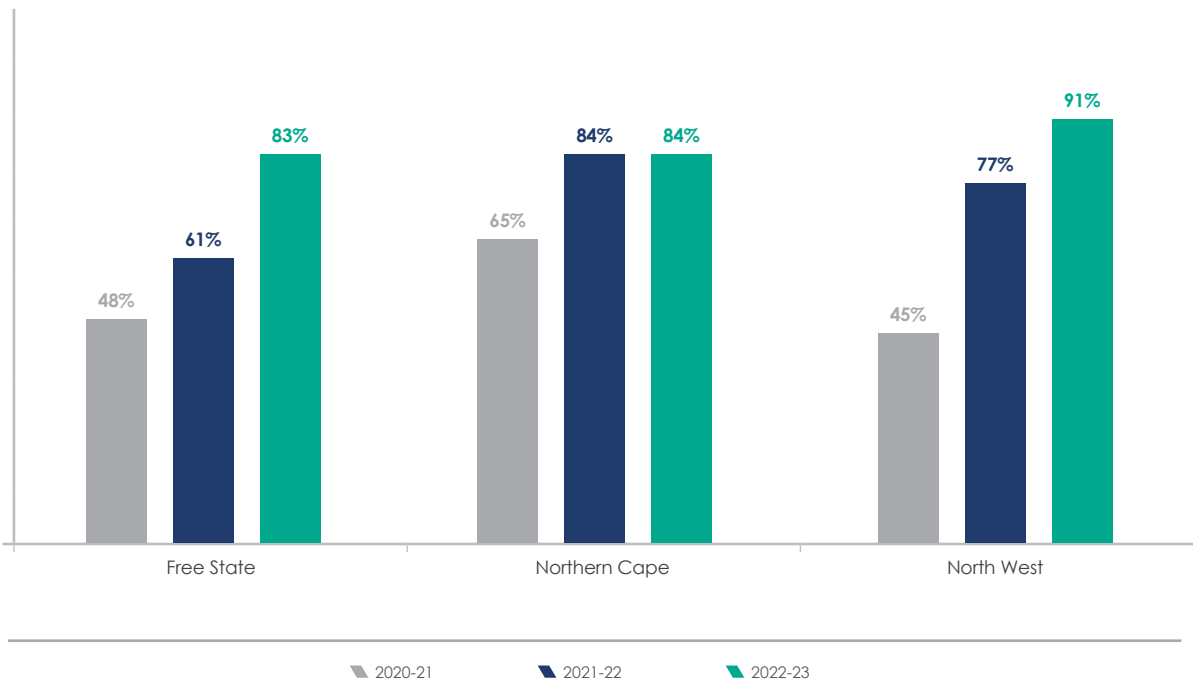
The number of municipalities that submitted their financial statements for auditing by the legislated date continued to increase: from 81% in the last year of the previous administration to 91% in 2021-22 and 94% in 2022-23.

If we receive financial statements late, we cannot complete the audit on time, which results in delays in the annual report being submitted to the council. The council is then also unable to hold the accounting officer to account and to make financial and related service delivery decisions. This lack of accountability and transparency for financial affairs and decisions is likely to result in significant harm to these municipalities.

Since 2022, we have issued 25 material irregularity notifications to accounting officers for delaying the accountability processes by submitting their financial statements late or not at all. The material irregularities were issued at 18 municipalities and municipal entities (some of which received more than one notification): 16 in the Free State, including one for a municipal entity; four in the Northern Cape; two each in the Eastern Cape and North West; and one in KwaZulu-Natal. By 29 February 2024, 23 of these material irregularities had been resolved by the submission of the outstanding financial statements.

Although late and non-submissions are still most prevalent in the Free State, the Northern Cape and North West, the situation has improved.

Timely submission of financial statements since last year of previous administration



The improvement in the **Free State** was due to the action of the provincial government (premier, coordinating institutions and provincial legislature) in ensuring that mayors acted on commitments

made and municipalities submitted their financial statements on time. Using our enforcement powers over the past three years also assisted with the culture shift to support transparency in the

submission of financial statements. For example, Moghaka and Mafube local municipalities responded to the material irregularity notifications issued to their municipal managers by submitting their outstanding financial statements in February and March 2024, respectively. Although we received the separate financial statements for both Maluti-a-Phofung Local Municipality and its municipal entity (Maluti-a-Phofung Water) on time in 2022-23, their consolidated financial statements were not submitted on time.

The improvement in the **Northern Cape** was brought about by the efforts of the member of the

executive council for cooperative governance, human settlements and traditional affairs, who monitored and drove the submission of financial statements through meetings with representatives of all municipalities (known as munmec meetings).

The improvement in **North West** can be attributed to the support that the provincial cooperative governance department and provincial treasury provided to municipalities. The provincial treasury is also assisting Ditsobotla Local Municipality with preparing its outstanding financial statements. The municipality has committed to submit all outstanding financial statements by 31 August 2024.

CLEAN AUDITS

When a municipality receives a financially unqualified audit opinion with no findings (also referred to as a clean audit), this means that its financial statements and performance report give a transparent and credible account of its finances and its performance against set targets. In other words, these accountability reports present a reliable picture of that municipality's performance – whether good or bad. This enables the council and everyone with an interest in the municipality – particularly residents, community organisations and those in national and provincial government that need to oversee the municipality's performance and provide support for it to succeed – to judge how the municipality is doing and to take action where necessary.

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

The number of municipalities that received clean audits decreased from both last year and the last year of the previous administration as more municipalities lost their clean audit status than improved to a clean audit. The regressions were largely due to vacancies in key positions, a slow response to implementing recommendations to sustain the outcomes, and inadequate monitoring and review of controls relating to compliance.

Movement in number of clean audits – municipalities



An auditee will often find it difficult to sustain a clean audit if it does not have financial and performance management systems that operate consistently and effectively, and controls that are properly embedded. We commend the 28 municipalities (82%) that have retained their clean audit status since at least the last year of the previous administration and the two municipalities that have sustained this status over the current

administrative term. These municipalities managed to do so through practices such as institutionalising and monitoring key controls (including preventative controls), and by having all roleplayers in the accountability ecosystem (including management and leadership, supported by internal audit units and audit committees) committed to fulfilling their monitoring, governance and oversight roles.

Municipalities that sustained clean audit status and number of years clean

3 Eastern Cape

Joe Gqabi DM	(3 years)
Mnquma LM	(2 years)
Winnie Madikizela-Mandela LM	(3 years)

3 Northern Cape

Frances Baard DM	(4 years)
Namakwa DM	(3 years)
ZF Mgcawu DM	(4 years)

1 Gauteng

Midvaal LM	(10 years)
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3 KwaZulu-Natal

King Cetshwayo DM	(3 years)
Okhahlamba LM	(9 years)
uMhlathuze LM	(4 years)

2 Mpumalanga

Ehlanzeni DM	(4 years)
Nkangala DM	(5 years)

18 Western Cape

Bergriver LM	(8 years)
Breede Valley LM	(4 years)
Cape Agulhas LM	(10 years)
Cape Winelands DM	(10 years)
City of Cape Town MM	(2 years)
Drakenstein LM	(5 years)
Garden Route DM	(3 years)
George LM	(3 years)
Hessequa LM	(10 years)
Langeberg LM	(5 years)
Mossel Bay LM	(4 years)
Overberg DM	(4 years)
Overstrand LM	(11 years)
Saldanha Bay LM	(5 years)
Stellenbosch LM	(4 years)
Swartland LM	(4 years)
West Coast DM	(13 years)
Witzenberg LM	(11 years)

■ Sustained clean audit status for 3 years or more

■ Sustained clean audit status for 2 years

A clean audit is not always an indicator of good service delivery and does not always correlate directly to the lived experience of all the communities in a municipal area. However, a clean audit positions a municipality to transparently communicate to communities about whether and when their needs will be met through accurate records, which also enable the different roleplayers in the accountability ecosystem to make informed decisions.

We have seen that municipalities with institutionalised controls and systems to plan, measure, monitor and account for their finances and performance, and to stay within the rules, often have a solid foundation for service delivery to their communities. These municipalities also tend to demonstrate sound project management disciplines and effective use of infrastructure grants. We detail these good practices in the section highlighting municipalities with clean audits, and provide further insights on their management of service delivery in the section on service delivery and financial performance.

DISCLAIMED AUDIT OPINIONS

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

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

Our previous general reports and engagements specifically focused on the urgent intervention and support needed from national and provincial government to municipalities with a history

of disclaimed audit opinions. We placed the spotlight on the serious financial management failures at these municipalities and the impact of poor administration on the community. We also used our enforcement mandate to accelerate change at these municipalities by issuing notifications of material irregularities. Government has responded positively by committing to eradicate these disclaimed opinions.

The good news is that the number of municipalities with disclaimed audit opinions has decreased. Since the last year of the previous administration, 18 municipalities (mostly in KwaZulu-Natal, Mpumalanga and North West) have improved from disclaimed opinions because they put in place better internal controls and record keeping, promptly implemented audit action plans, and filled vacancies in key positions. Nine of the 18 municipalities improved in 2022-23 (mostly in the Northern Cape and North West). Enhanced monitoring and active attention and support from provincial leadership played a key role in the improvements, as did increased direction and responsibility by the council.

Improvement from disclaimed to qualified audit opinions



- The improvement by **Kgetlengrivier Local Municipality** (North West) was due to the support provided by the provincial treasury, which seconded an official to assist the municipality with record and document management and to strengthen the municipal finance unit. The municipality also improved its internal controls, including those relating to proper record keeping and effective audit action plans.
- **Lekwa Local Municipality** (Mpumalanga) filled vacancies in key senior management positions, implemented audit action plans and improved record keeping, as illustrated by the fact that information requested for auditing was submitted within two days of the request. The municipality approved and implemented a record-management policy that covers financial and performance information. Senior officials attended audit steering committee meetings to provide progress on requested information and audit action plan commitments. The municipality also received support from the provincial treasury and cooperative governance department to address past qualification areas to improve financial reporting.

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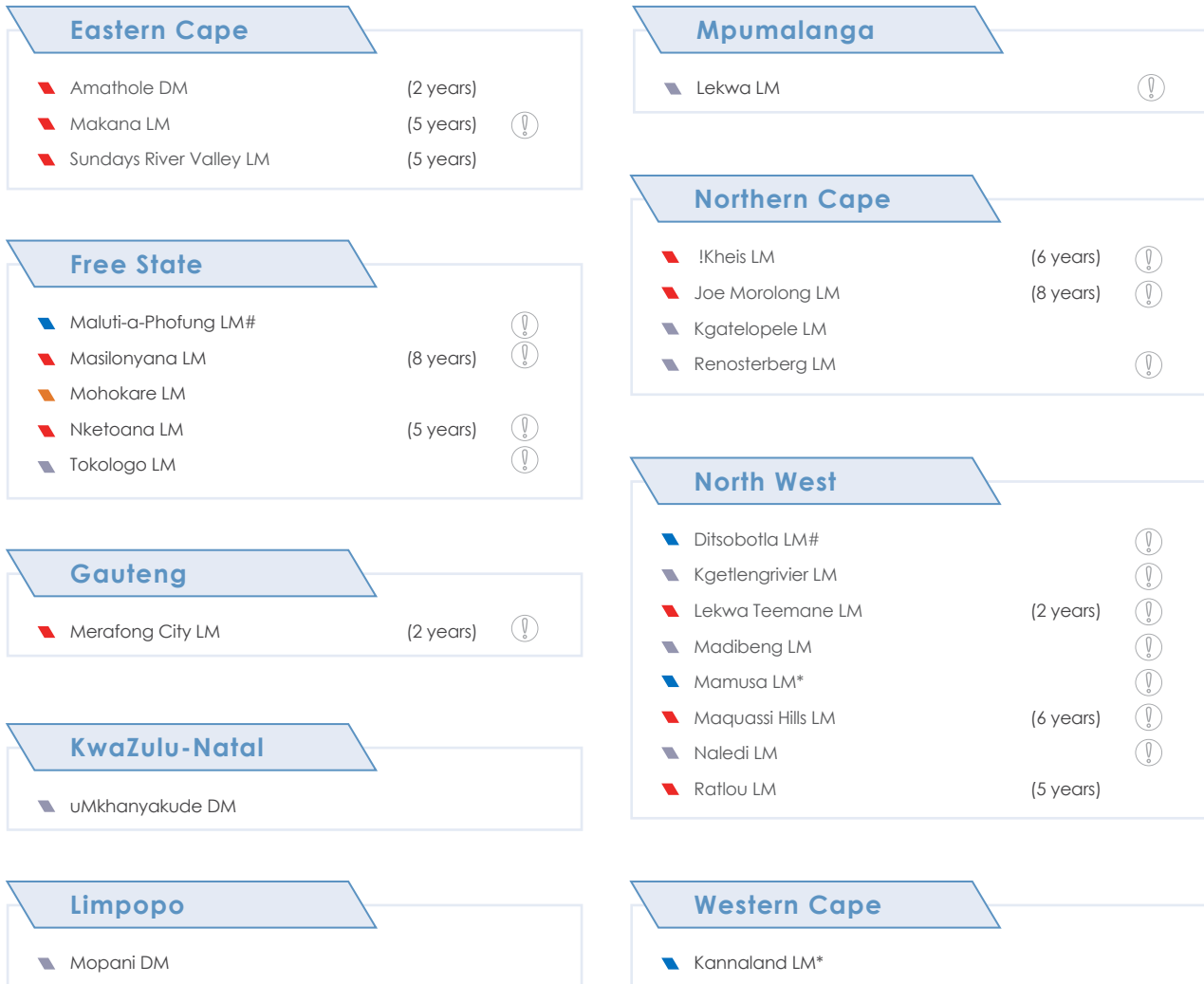
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In 2022-23, 12 municipalities received disclaimed audit opinions. Most of the municipalities that have repeatedly received disclaimed audit opinions are in the Eastern Cape and North West.

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



11 Repeatedly disclaimed opinions
1 Regressed to disclaimed opinion in 2022-23
9 Improved from disclaimed opinion in 2021-22
4 * Outstanding in 2022-23
Outstanding for 2 years or more
 Material irregularity notification issued

Eleven municipalities again received a disclaimed audit opinion, with eight having received disclaimed opinions for more than four consecutive years. Only one municipality (Mohokare Local Municipality in the Free State)

regressed to a disclaimed opinion in 2022-23, due to instability in senior management and leadership positions, including those of the chief financial officer and municipal manager.

These municipalities did not have focused interventions in place to improve the control environment by ensuring that audit action plans address the root causes of the matters reported and by strengthening record management. Ineffective control environments will lead to continued disclaimed audit opinions. At some of these municipalities, the accounting and information systems had not been designed in an effective, efficient or transparent manner to support accounting and record keeping. Some also had instability in both key positions and the council, and there was little cooperation with administrators or provincial representatives. Addressing the underlying root causes at municipalities with disclaimed opinions and implementing sustainable solutions require all roleplayers in the accountability ecosystem to work together.

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

National and provincial government are using these mechanisms at six of the municipalities that repeatedly received disclaimed audit opinions.

Successful provincial intervention and support



uMkhanyakude District Municipality (KwaZulu-Natal) improved its audit outcome mainly due to the provincial cooperative governance department deploying an administrator and providing consultancy support for preparing financial statements and updating the asset register. The appointment of an experienced municipal manager and chief financial officer, as well as the introduction of a new record-keeping system, contributed significantly to the improved audit outcome. These processes must be sustainable in the long term, even after the intervention teams are no longer around.

Since 2021, we have issued material irregularity notifications to the accounting officers of 25 municipalities that repeatedly received disclaimed audit opinions, as the lack of full and proper records and credible financial reporting caused substantial harm to these municipalities.

We gave the accounting officers reasonable time and support to respond to the notifications. In some cases, we had to reissue notifications when the accounting officers changed, or when the municipalities were placed under administration.

Positive impact of material irregularity process on municipality with repeatedly disclaimed opinion



We notified the acting accounting officer of **Dr JS Moroka Local Municipality** (Mpumalanga) of the material irregularity in October 2021. The municipality appointed an accounting officer in April 2022. With the support of municipal officials, the accounting officer implemented preventative controls, which included daily and monthly processing and reconciliation of transactions, and improved the filing system to ensure accounting records are easily retrievable when required. This resulted in an improvement in the control environment and record-keeping practices. The municipality received a qualified audit opinion in 2021-22 and 2022-23. Further action is being taken to fully resolve the material irregularity.

However, most of the accounting officers could not determine and articulate the root causes for the lack of proper municipal records and the financial problems being experienced, nor could they identify appropriate actions with clear timelines to address the matters.

We then included recommendations in the audit reports of 15 municipalities, which urged the accounting officers to investigate who or what had caused the non-compliance (i.e. the lack of proper records). This required the accounting officers to determine the root causes for the disclaimed audit opinions; for example, why asset registers were not in place, or why invoices or contracts could not be provided for auditing. They were also required to establish credible action plans to address the lack of full and proper records and to take steps to improve the municipalities' poor financial position.

Where our recommendations were not implemented, we took binding remedial action at 13 municipalities. The remedial actions were similar to the recommendations provided originally, and the accounting officers had six months to implement the remedial actions. We are now requesting

intervention from provincial leadership, councils and audit committees to oversee and monitor the implementation of the remedial actions at seven municipalities that did not implement the actions on time, as provided for in the Material Irregularity Regulations.

The slow progress that municipalities have made in dealing appropriately with the material irregularities is not unexpected, as these irregularities require the municipalities to address systemic and long-standing problems of poor record keeping and internal controls, as well as the resultant financial instability. While some municipalities have improved from a disclaimed audit opinion, not all the underlying problems have been addressed or sustainable improvements made.

We detail the status of the material irregularities where we took further actions in the section dealing with our expanded mandate.

We also provide further insight on municipalities with disclaimed audit opinions in the section on the provinces.

ADVERSE AUDIT OPINIONS

If a municipality receives an adverse audit opinion, this means that it prepared financial statements that are so unreliable that they cannot be used for oversight and decision-making.

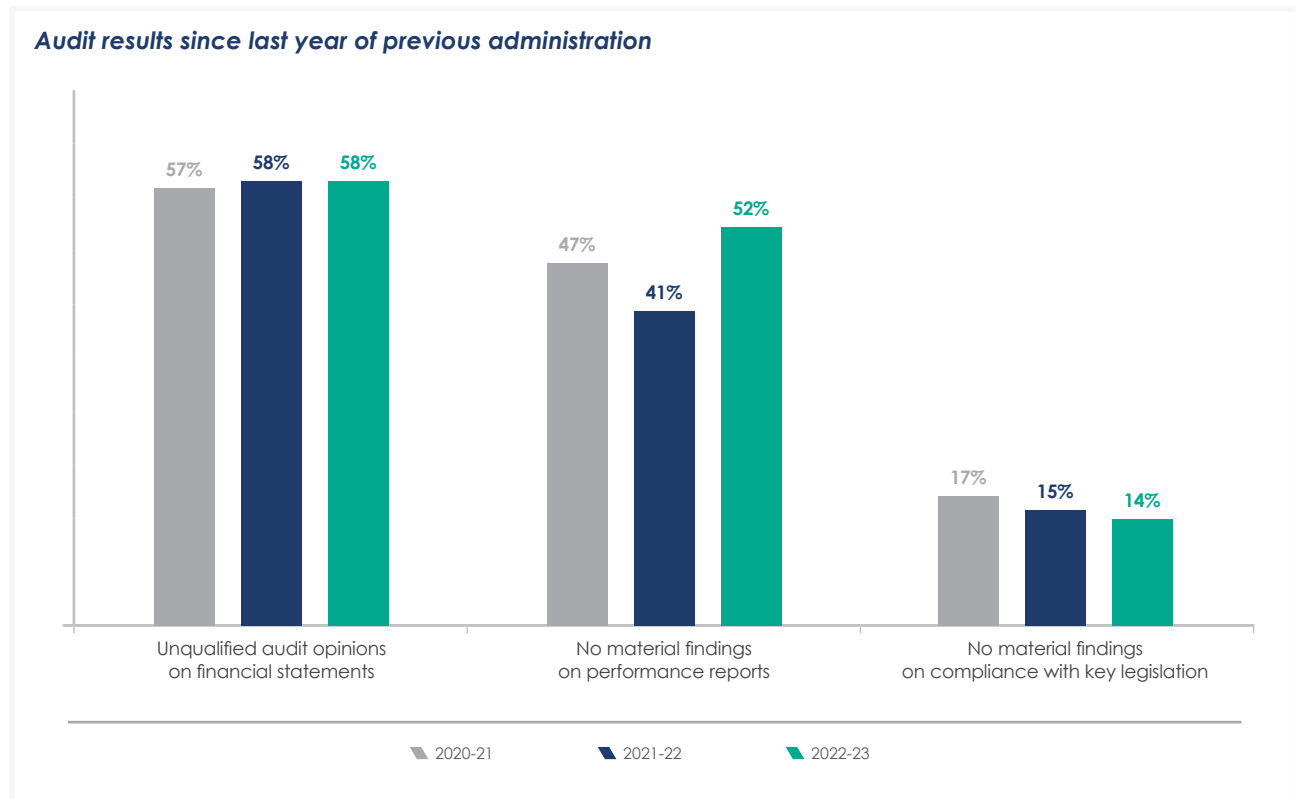
Six municipalities received adverse opinions in 2022-23. Emakhazeni Local Municipality (Mpumalanga) has been in this category for five consecutive years, and uMzinyathi District Municipality (KwaZulu-Natal) and Laingsburg Local Municipality (Western Cape) for two consecutive years. Modimolle-Mookgophong Local Municipality (Limpopo) regressed to an adverse opinion from a qualified opinion.

Madibeng and Naledi local municipalities (North West) moved to an adverse opinion after receiving a disclaimed opinion in the previous year.

There is little transparency or accountability in how these municipalities use their funds. As with municipalities that receive disclaimed audit opinions, national and provincial leadership and coordinating institutions should offer support and, where necessary, intervene. Three municipalities that received adverse audit opinions (uMzinyathi District Municipality, and Madibeng and Naledi local municipalities) are under provincial intervention.

TRENDS: FINANCIAL STATEMENTS, PERFORMANCE REPORTS AND COMPLIANCE

Since the last year of the previous administration, the status of financial reporting has remained largely the same, performance reporting has shown improvement overall despite some year-to-year fluctuations, and compliance has regressed slightly.



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

- **Revenue:** 29% of municipalities did not have adequate documentation to support the revenue they disclosed in the financial statements, and had not disclosed all the revenue they should have for services rendered. In some cases, amounts billed for services rendered were recorded incorrectly.
- **Receivables:** 26% of municipalities did not know the correct amount owed to them and whether they were still entitled to receive those amounts. In some cases, the amounts recorded were not accurate.
- **Property, infrastructure and equipment:** 25% of municipalities could not properly account for

their assets because they had not updated their asset registers with assets that they had bought, were busy building or had disposed of, or that had been stolen or vandalised. In some cases, the value of the assets recorded was incorrect despite consultants being used to assist.

- **Irregular expenditure:** 25% of municipalities did not report all the irregular expenditure that they should have in their financial statements. In some cases, the amount of the irregular expenditure reported was incorrect.
- **Expenditure:** 24% of municipalities did not have adequate documentation to support the expenditure that they reported. In some cases, they did not record all the expenditure that they should have.

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For years, we have urged municipalities to submit financial statements and performance reports of the required quality for auditing. Often, auditees receive unqualified audit opinions on their financial statements and no material findings on their performance reports because we identify misstatements that we allow them to correct during the audit, but this is not sustainable and creates delays in finalising the audit.

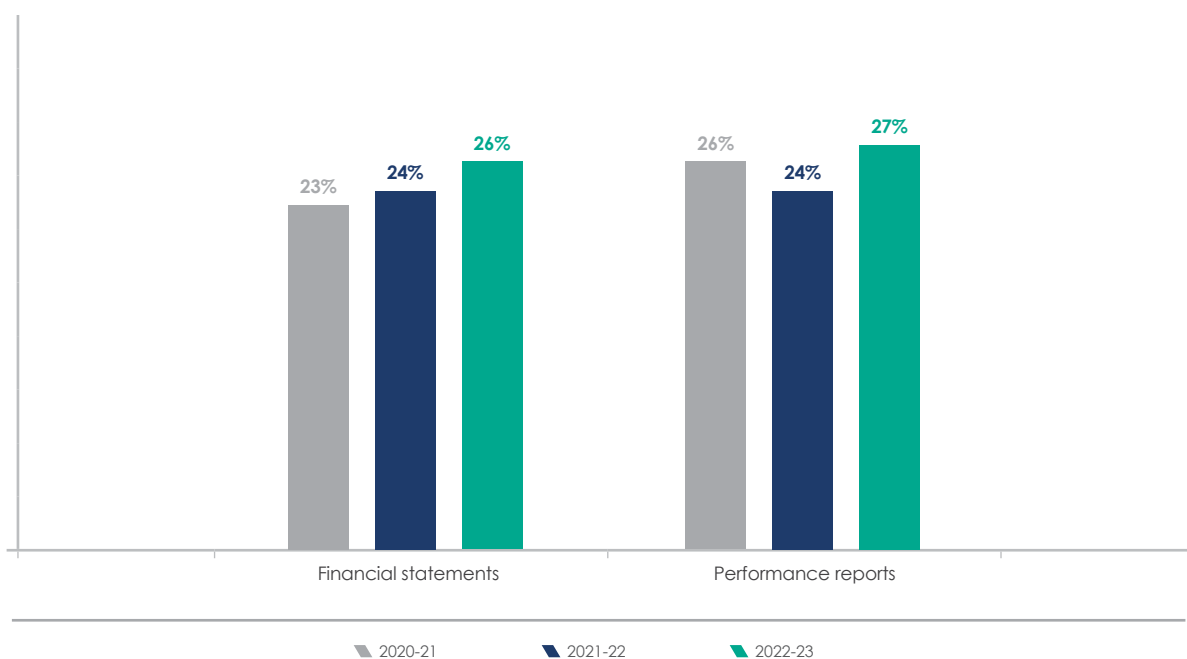
If we had not allowed auditees to correct such material misstatements in their financial statements, only 26% would have received unqualified audit opinions in 2022-23, compared to the 58% that eventually did so. Only 27% of auditees (and not 52%) would have had no material findings on their

performance reports if we had not allowed corrections.

The poor quality of the financial statements and performance reports submitted for auditing raises concerns on the credibility of auditees' in-year financial reporting. It means that important financial and service delivery decisions, analyses and monitoring could be based on unreliable information.

Although we still see many poor-quality submissions, the situation has improved slightly over the administrative term, most notably in the Eastern Cape and the Free State.

Good-quality financial statements and performance reports submitted for auditing since last year of previous administration



Improvement in quality of financial statements submitted for auditing

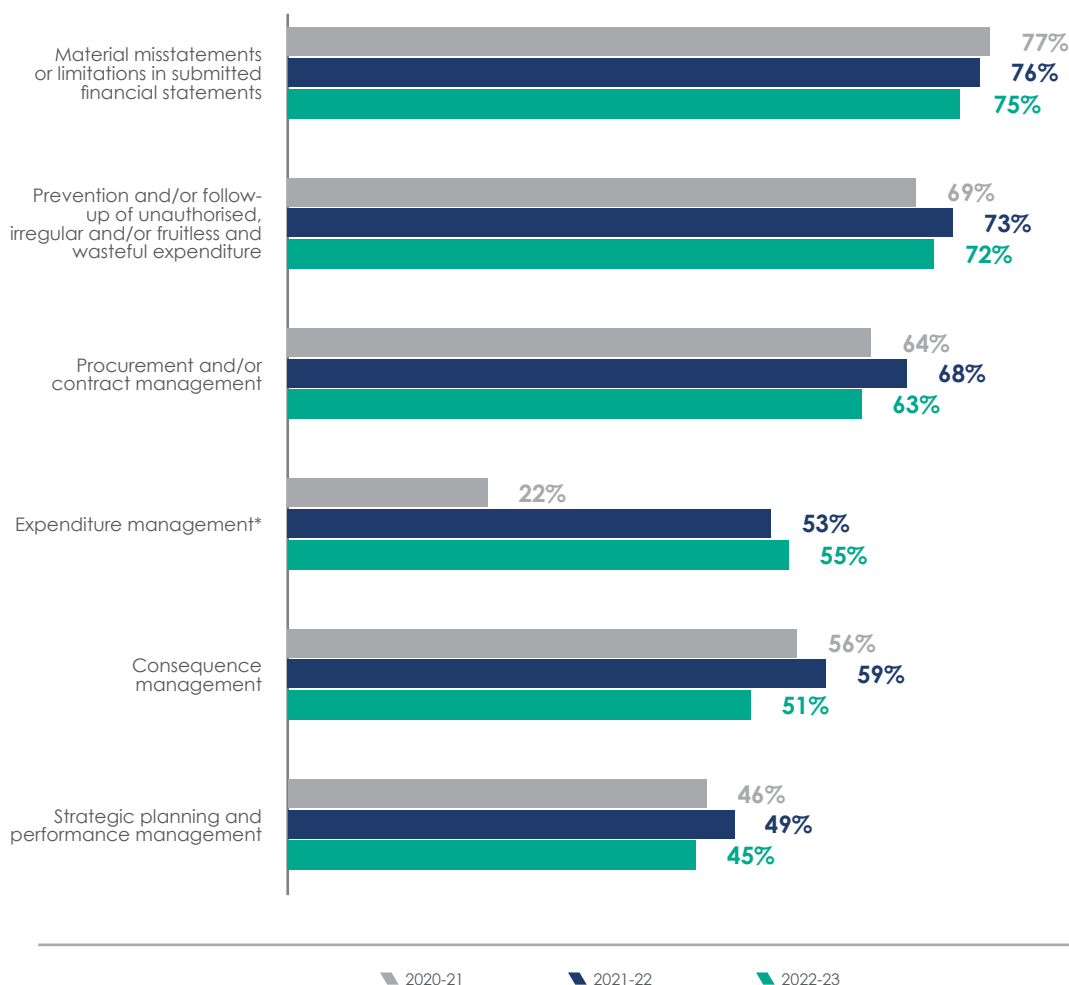


Great Kei Local Municipality (Eastern Cape) had a stable finance unit headed by a committed chief financial officer who ensured that the quality of the financial statements improved every year and that all finance staff were accountable for their responsibilities. The municipality also implemented our audit recommendations through an audit action plan, and implemented controls to improve the overall control environment, such as preparing mid-year financial statements supported by the necessary information. Due to these actions, the municipality submitted financial statements with no material misstatements in 2022-23.

Only 34 municipalities (14%) did not have material findings on compliance with key legislation. A finding is material if we reported it in the auditee's audit report because there were multiple instances of non-compliance or its impact was significant.

In total, 205 municipalities (83%), mostly in KwaZulu-Natal, the Eastern Cape, Limpopo and the Northern Cape, had repeat material findings. Eight municipalities (3%) regressed in this area in 2022-23.

Most common compliance findings since last year of previous administration



*Non-compliance was very low in 2020-21 due to relaxation of legislative requirements for payments within 30 days during covid-19 period

We provide further detail on the importance of good-quality financial statements and performance reports and compliance with legislation in

the section on service delivery and financial performance that follows.

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SERVICE DELIVERY AND FINANCIAL PERFORMANCE

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Local government is central to providing essential services that meet the basic needs and contribute directly to the quality of life of the people of South Africa

These services include providing access to clean water, sanitation, electricity, waste management, and well-maintained roads and infrastructure, and creating an environment that is not harmful to their overall health and wellbeing. Local government also serves as a vital channel for citizens' engagement and welfare, fostering community development and driving initiatives for economic growth and social cohesion.

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

The basic services that the people of South Africa are entitled to receive cannot be delivered without properly maintained infrastructure that remains in a safe working condition throughout its lifespan. However, the existing infrastructure has not kept pace with the country's growing demands, and there is a backlog in both constructing new infrastructure and maintaining the existing infrastructure needed to provide basic services. National government has responded to these needs with significant infrastructure investment programmes.



According to the National Treasury's budget review report, government budgeted R62,8 billion in 2022-23 (2021-22: R62,1 billion) for infrastructure spending in local government.

At a time of economic hardship in which the public's demands for service delivery and accountability are increasing, there is an expectation that local government will do everything in its power to get the most value from every rand spent and to manage every aspect of its finances with diligence and care. However, this is not what communities are experiencing or what we are seeing at some municipalities during our audits.

The failures in local government are not unexpected. For many years we have reported on municipalities' poor financial management and worsening financial health; their inability to plan, monitor and report on their performance; deteriorating municipal infrastructure; and the lack of consequences for poor performance and transgressions.

For local government to successfully deliver on its service delivery mandate and infrastructure programmes within the limited funds available,

the municipal administration, political leadership, and national and provincial government must systematically and purposefully plan and work together. Municipalities need to report transparently on what they have achieved compared to what they had planned and on how they have used their funds so that local communities, national and provincial government as well as oversight structures can monitor and oversee their performance, provide opportunities for correction if they are not on track, and address any shortcomings as early as possible.

Government's overall planning, budgeting, monitoring and reporting process has been specifically designed to support this basic 'plan-do-check-act' system. It provides for participation, support and monitoring by national and provincial government, Parliament and provincial legislatures, and communities throughout the process.

The following pages detail the planning, budgeting, monitoring and reporting process as well as the legislated responsibilities of accountability roleplayers in the process.

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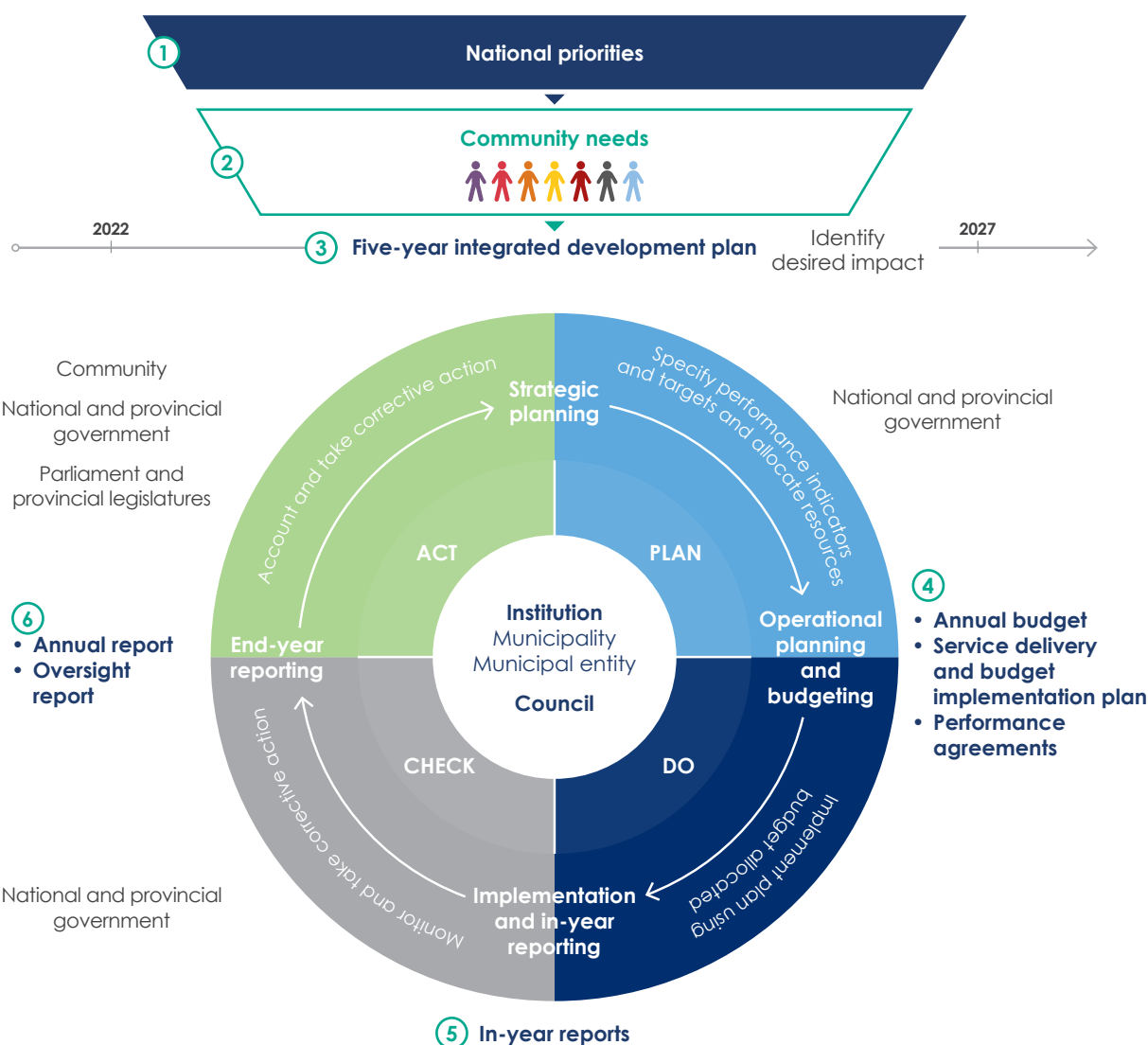
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Planning, budgeting, monitoring and reporting process



- ① **National priorities (national government)** – determined by National Development Plan (country-level plan) and Medium-term Strategic Framework (administration-specific plan); provides direction on key government priorities and programmes and often funded by grants from national departments (e.g. National Treasury, Cooperative Governance, Water and Sanitation, Transport)
- ② **Community needs (communities)** – local community participates through prescribed processes in preparation of integrated development plan by sharing needs and priorities of community
- ③ **Five-year integrated development plan (national and provincial government)** – council-approved strategic plan for administrative term, defining service delivery goals and objectives, actions planned to achieve this with performance indicators and multiyear targets for planning and monitoring
- ④ **Annual budget, service delivery and budget implementation plan, and performance agreements** – budget and performance plan for financial year; includes performance indicators and targets to be achieved using council-approved budget; performance agreements are concluded annually with municipal managers, senior management and officials
- ⑤ **In-year reports** – reports prepared by municipal manager and mayor; include monthly budget statements and mid-year performance report
- ⑥ **Annual and oversight reports** – annual report by municipal manager to account for municipal performance in accordance with budget and service delivery and budget implementation plan; includes financial statements, performance report and audit report; oversight report is council report adopted based on assessment of annual report

PLAN

STRATEGIC PLANNING – integrated development plan

Communities	share needs and priorities for administrative term through public participation processes	MSA s29(b)
Mayor	manages drafting of integrated development plan, assisted by municipal manager	MSA s30
MEC-LG	may monitor and assist with drafting process, including alignment with integrated development plans of district and other municipalities in area, or with national and provincial plans may assist with resolving disputes in process with communities and other municipalities	MSA s31
Council	adopts integrated development plan submitted by mayor	MSA s28–30
MEC-LG	may review adopted integrated development plan and request that council adjusts it if it conflicts with plans of other municipalities or organs of state, or if integrated development plan or process followed does not comply with legislation	MSA s32(2)
Council	adjusts integrated development plan based on proposals from MEC-LG, or follows objection process if it disagrees	MSA s32(3)
MEC-LG	deals with objections from council, including appointing ad hoc committee to deal with dispute	MSA s32(4), s33

ANNUAL PLANNING – budget, service delivery and budget implementation plan, and performance contracts

Mayor	coordinates budget preparation process, assisted by municipal manager – includes consulting districts and treasuries	MFMA s21, s53, s68
National Treasury	may review budget of metros and intermediate cities	MFMA s5(2)
Provincial treasuries	may review budget of other municipalities (as delegated)	MFMA s5(2)
Communities	may submit representations on changes to proposed budget	MFMA s22(a)
Council	approves budget and revenue-raising measures (e.g. tariffs) after considering views of communities, treasuries or others in national and provincial government	MFMA s23(1)
MEC-LG	intervenes if budget or revenue-raising measures are not approved in time – can include dissolving council and appointing administrator	MFMA s26, s136(3) Constitution s139(4)
Municipal manager	drafts service delivery and budget implementation plan	MFMA s69(3)

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01 Introduction	Mayor	approves service delivery and budget implementation plan after council approves budget	MFMA 53(1)(c)(ii)
	Mayor	ensures annual performance agreements for municipal manager and senior managers are linked to measurable performance objectives approved with budget as well as service delivery and budget implementation plan	MSA s53(1)
	Mayor	signs performance agreement with municipal manager	MSA s57(2)
	Municipal manager	signs performance agreements with senior managers	MSA s57(2)

DO**OPERATIONAL PLANNING AND BUDGETING – implement plan using budget allocated**

02 Overall audit outcomes	Municipal manager	supported by senior management: <ul style="list-style-type: none"> implements both approved budget as well as service delivery and budget implementation plan implements integrated development plan and monitors progress 	MFMA s69 MSA s53(1)
03 Service delivery and financial performance	Municipal manager	supported by senior management, is responsible for: <ul style="list-style-type: none"> managing financial administration, revenue, expenditure, assets, transfer of funds, supply chain management, enforcement and monitoring of contracts managing provision of services, implementation of municipal by-laws and national/provincial legislation, facilitating public participation, and assessing community satisfaction with services 	MFMA s62–67, s115–116 MSA s55(1)
04 Material irregularities	Mayor	monitors, and may oversee the exercise of municipal manager and chief financial officer responsibilities without interfering; and ensures municipal functions are performed within limits of approved budget	MFMA s52

CHECK**IMPLEMENTATION AND IN-YEAR MONITORING – monitor in-year and take corrective actions**

05 Call to action	Municipal manager	prepares: <ul style="list-style-type: none"> monthly budget statements mid-year budget and performance assessment 	MFMA s71 MFMA s72
06 Provinces	Mayor	uses monthly budget statement and mid-year performance report to check implementation of budget as well as service delivery and budget implementation plan, and identifies any financial problems, and then submits mid-year report to council	MFMA s54(1)
07 Using our expanded mandate	Provincial treasuries	prepares and makes public consolidated quarterly budget statement for municipalities in province	MFMA s71(7)

MEC-F	submits consolidated quarterly budget statement for municipalities in province to provincial legislature	MFMA s71(7)
Municipal manager	may prepare adjustment budget and revisions to service delivery and budget implementation plan for mayor to consider and table, and for council to approve	MFMA s28(1), s69(2), s54(1)
Mayor	takes required actions (in cases of serious financial problems) as proposed by municipal manager and alerts council and MEC-LG	MFMA s54(2)
MEC-LG	assesses seriousness of financial problems and determines if municipality requires provincial intervention; if required, takes appropriate steps for mandatory or discretionary provincial intervention	MFMA s136–150

ACT

END-YEAR REPORTING – account for performance at year-end and take corrective actions

Municipal manager	prepares annual report (including financial statements, performance report and audit report)	MFMA s121–127 MSA s46
Mayor	tables annual report in council	MFMA s121–127 MSA s46
Communities	may make written submissions on annual report and attend council meeting where annual report is discussed	MFMA s130(1)
Municipal manager	responds to questions on annual report in council	MFMA s129(1)
Council	considers annual report and adopts oversight report, which is made public	MFMA s129
MEC-LG	monitors submissions of annual reports and oversight reports	MFMA s137
Provincial legislature	receives annual reports and oversight reports	MFMA s137
MEC-LG	compiles and submits consolidated report of municipal performance in province to provincial legislature and National Council of Provinces	MSA s47
Mayor	ensures any issues raised in audit report are addressed	MFMA s131(1)
Council	reviews integrated development plan based on performance assessment or changing circumstances and approves adjustments	MSA s34(a)

MEC-LG: member of executive council for local government
MEC-F: member of executive council for finance

MFMA: Municipal Finance Management Act
MSA: Municipal Systems Act

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Even though there are well-designed processes with defined responsibilities for planning, budgeting, monitoring and reporting on how municipalities deliver on their mandates and their integrated development plans, these processes are often neglected or poorly implemented, which results in the public continuing to experience service delivery failures.

Our previous general report highlighted deficiencies in the planning, management and reporting of service delivery; poor grant management and

underspending; weaknesses in infrastructure delivery and maintenance; and the mounting pressure on local government finances.

The rest of this section shows that weaknesses prevail in all three areas contributing to service delivery and financial performance, namely performance planning and reporting, infrastructure delivery and maintenance, and financial management. The section concludes by reflecting on the overall root causes of these weaknesses.

PERFORMANCE PLANNING AND REPORTING

What we do

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

We do not audit, evaluate or conclude on the performance of a municipality – this remains the role of those in the accountability ecosystem responsible for governance and oversight (the council, legislatures and coordinating institutions). The audit we do is also not a performance audit that has the objective of reporting on the economy, efficiency and effectiveness of municipal processes. Our responsibility is to provide assurance to these roleplayers and to the public that the information they use to evaluate performance is useful and reliable.

Every year, we audit selected planned objectives or specific performance indicators that are aligned to the service delivery mandates of municipalities. To audit these objectives and indicators, we evaluate the information that municipalities report against criteria developed from their performance management and reporting framework, which is based on the legislation, frameworks and guidelines that apply to them. A performance report that is prepared using these criteria provides useful and reliable information on – and insights into – the

municipality's planning and delivery on its mandate and objectives.

In our audit reports, we report those findings that are material enough to be brought to the attention of users of the municipal performance report. We also report in the management reports of municipalities and municipal entities on the completeness of their performance indicators; and, for 208 municipalities and 15 municipal entities we provide audit opinions or conclusions on the selected planned objectives. We further assess municipalities' compliance with legislation on strategic planning and performance management processes, such as the Municipal Systems Act.

What we found

We again identified similar weaknesses in municipal performance plans and reports as reported in our previous general report, which demonstrates that performance management is not receiving the required attention from municipal managers and councils.

Five municipalities prepared only financial statements and not performance reports –

Renosterberg, Siyancuma, Siyathemba and Ubuntu local municipalities in the Northern Cape and Masilonyana Local Municipality in the Free State are repeat offenders. This meant that there was no transparency on, or accountability by the administration to the council or communities for,

municipal performance. The councils at these municipalities must exercise their oversight role and implement consequences for the non-submission of performance reports.

The situation at Renosterberg Local Municipality remains particularly dire: the municipality has not prepared a performance report for the past 14 years. It also did not have an approved service delivery and budget implementation plan. The municipality has been dysfunctional for many years, with a 100% vacancy rate at senior management level, a weak control environment, most employees lacking appropriate skills and

competencies, and performance management responsibilities not having been allocated to specific officials. We recently notified the municipal manager that this failure to prepare a performance report constitutes a material irregularity.

A total of 48% of municipal performance reports included information that was not useful and/or not reliable, significantly weakening the accountability processes in local government. The audit opinions or conclusions on the selected objectives we included in the management reports of 223 municipalities and municipal entities show the pervasiveness of our findings on performance reports.

Opinions or conclusions on performance report (per auditee category)

	Unqualified	Qualified	Adverse	Disclaimed		Movement from last year of previous administration
Metropolitan municipalities	2 24%	3 38%	0 0%	3 38%	8	0 ▲ 1 ▼
Intermediate cities	16 42%	16 42%	2 5%	4 11%	38	10 ▲ 6 ▼
District municipalities	16 59%	9 33%	1 4%	1 4%	27	8 ▲ 2 ▼
Local municipalities	66 50%	45 33%	6 4%	18 13%	135	32 ▲ 20 ▼
Municipal entities	9 60%	4 27%	0 0%	2 13%	15	0 ▲ 3 ▼
Total	109 48%	77 35%	9 4%	28 13%	223	50 ▲ 32 ▼

Opinions or conclusions on performance reports – metros and municipalities with disclaimed audit opinions



Metros

Buffalo City (EC), Mangaung (FS) and City of Tshwane (GP): Performance reports were disclaimed due to a pervasive lack of appropriate evidence for reported achievements

City of Johannesburg (GP), Nelson Mandela Bay (EC) and eThekweni (KZN): Qualified due to material findings on performance reports

City of Cape Town (WC) and City of Ekurhuleni (GP): Unqualified as no material findings were raised on performance report



Municipalities with disclaimed audit opinions

One (8%): Did not submit performance report for auditing

Five (42%): Performance reports were disclaimed

Three (25%): Were qualified due to material findings on performance reports

Three (25%): Had material findings on performance reports (we did not include audit opinion or conclusion in management reports as we conducted a findings engagement)

The table that follows provides information on the findings on the performance report that we reported in the audit and management reports, as well as their impact. When a performance report contains information that is not useful or reliable, the overall

impact is a lack of transparency on municipal performance, which hampers accountability and makes it difficult for all roleplayers to assess and implement corrective action where service delivery is not at the required level.

Findings on performance planning and reporting

Description	Impact
Poor-quality submissions – 176 municipalities (73%) <ul style="list-style-type: none"> Metros: 8 (100%) Disclaimed municipalities: 11 (100%) 	
<p>Municipalities submitted performance reports for auditing with the material flaws we detail in this table. If we had not allowed municipalities to correct the flaws we identified, 73% of them would have had material findings, rather than the 48% that we eventually reported.</p>	<p>It is not sustainable for us to identify misstatements for municipalities to correct during the audit, and it causes delays in finalising audits.</p> <p>The poorly prepared performance reports and significant activity required to make corrections in response to our audits also raise questions about the credibility of in-year reporting and the effectiveness of performance reporting throughout the year.</p> <p>If municipalities do not properly monitor their performance throughout the year and take corrective action when needed, they cannot achieve their performance targets or reliably report on their performance. The mayor and the council, as well as the coordinating institutions, use in-year reporting for monitoring purposes, which they cannot do effectively without reliable information.</p>

Description	Impact
Not reliable – 92 municipalities (38%) <ul style="list-style-type: none"> Metros: 6 (75%) Disclaimed municipalities: 10 (91%) 	
<p>The most common material finding was that the reported achievements against planned targets were not reliable.</p> <p>This means that either we had proof that the achievement as reported was not correct, or we could not find evidence to support it.</p>	<p>When reported achievements are not reliable, the resultant lack of transparency means that the performance report is of little use to the council – it cannot assess the municipality's performance for the year or its progress towards achieving its integrated development plan. The council can also not make decisions in response to underachievement.</p> <p>If the achievements reported are overstated, it also means that the council and public are misled into thinking that the municipal manager and the administration are performing well, which undermines accountability and weakens performance management mechanisms.</p>
Not measurable – 61 municipalities (25%) <ul style="list-style-type: none"> Metros: 3 (38%) Disclaimed municipalities: 7 (64%) 	
<p>A measurability finding means that the performance plans included:</p> <ul style="list-style-type: none"> performance indicators that were not well defined (i.e. there was no clear definition of what the indicator measures) targets that were not specific, measurable and/or time bound. <p>It can also mean that verifiable processes and methods were not in place to measure achievements.</p>	<p>A performance indicator that is not well defined and targets that are not specific, measurable or time bound are not useful for measuring and reporting on municipal performance. This makes it difficult for the council and public to determine the progress made by the municipality to achieve a planned objective.</p> <p>If there are no verifiable processes and methods to measure achievements, it generally results in the reported achievements being unreliable as it will not be possible to determine the accuracy of what is reported.</p>
Missing indicators – 45 municipalities (19%) <ul style="list-style-type: none"> Metros: 5 (63%) Disclaimed municipalities: 5 (45%) Clean municipalities: 5 (15%) 	
<p>This means that municipalities' performance documents excluded indicators that measure their performance on the functions that they are mandated to perform, including some relating to basic services, in accordance with legislation or through duties assigned to them by national or provincial government, without appropriate and verifiable reasons.</p> <p>From 2023-24, we will report these as material findings in the audit report, which means that municipalities could lose their clean audit status if they continue excluding the required indicators.</p>	<p>When performance indicators that measure key service delivery achievements are excluded from performance plans and reports, this means the achievement was not planned or budgeted for, which is likely to result in it not being delivered.</p> <p>As delivery on the function is not reported, it also undermines transparency, which weakens not only municipal accountability processes, but also the ability of national and provincial government to monitor and make decisions about government-wide deliverables based on complete and reliable (audited) information.</p>

Description	Impact
Not consistent – 31 municipalities (13%) <ul style="list-style-type: none"> Metros: 2 (25%) Disclaimed municipalities: 4 (36%) 	
<p>A consistency finding means that:</p> <ul style="list-style-type: none"> the performance indicators and/or targets reported in the performance report differed from those committed to in the performance plan changes were made without obtaining the required approval, and/or the reported achievement differed from the achievement defined by the performance indicator and target. 	<p>The performance report cannot be used by the council and public to determine if commitments made during planning have been achieved.</p> <p>Unapproved changes undermine transparency and accountability.</p>
Not correctly presented – 27 municipalities (11%) <ul style="list-style-type: none"> Metros: 2 (25%) Disclaimed municipalities: 2 (18%) 	
<p>A presentation finding means that the performance reports had one or more of the following flaws:</p> <ul style="list-style-type: none"> It did not include a comparison of the actual performance for the year against the prior-year performance. It did not include measures taken or planned to improve performance where a target was underachieved. It included measures taken to improve performance, but the information was not reliable based on the audit evidence obtained. Overall, achievements were not presented in a way that is easy to understand or to compare to the performance plan. 	<p>Without a comparison to prior-year performance, the reported information is not useful to the council and public for evaluating progress over time and for identifying areas of improvement.</p> <p>If measures taken or planned to improve performance are not included, or are not reliable, the council cannot assess the effectiveness of strategies to improve future performance.</p> <p>If performance is not presented properly, it is difficult for the council and public to determine whether progress is being made towards achieving the planned objectives, which undermines transparency and accountability.</p>
Not relevant – 10 municipalities (4%) <ul style="list-style-type: none"> Metros: 1 (13%) Disclaimed municipalities: 1 (9%) 	
<p>A relevance finding means that the performance plans included:</p> <ul style="list-style-type: none"> performance indicators that measure an achievement that is not related to the municipality's mandate or to what the planned objective is intended to achieve, and/or targets that are unrelated to what the performance indicators are measuring. 	<p>Irrelevant performance indicators and targets are not useful for measuring and monitoring municipal performance.</p> <p>When indicators are not relevant, it becomes difficult to accurately measure the efficiency and effectiveness of municipal services, and it can lead to the misallocation of resources.</p>

In response to the challenge of inconsistent planning and reporting, as well as a lack of focus on outcomes, the National Treasury reviewed, rationalised and streamlined the planning and reporting requirements for metros, introducing **common performance indicators** in 2018-19, which metros had to use for planning and reporting. But implementation has been slow and significant inconsistencies remain. Some metros did not include the common performance indicators in their performance plans, while others included only selected performance indicators. In 2021-22, a pilot process commenced for the staggered implementation of common performance indicators in the rest of local government.

The number of instances of **non-compliance with legislation on strategic planning and performance management** was high. We reported material findings on non-compliance at 111 municipalities (45%), which include half of the metros and 91% of the municipalities with disclaimed audit opinions.

The most common finding was that municipalities did not have in place effective and well-established performance management systems and related controls. As this non-compliance can cause significant harm to a municipality's accountability process, we recently commenced with applying the material irregularity process in this area with the goal of improving municipal performance planning, management and reporting processes.

Weaknesses in performance management system



We reported material limitations on, and significant deficiencies in, the credibility of the reported performance on basic services and infrastructure development of **Ngwathe Local Municipality** (Free State) from 2019-20 to 2022-23 because it did not maintain a proper performance management system and records. We notified the accounting officer of the material irregularity in October 2023, to which they responded in February 2024. The accounting officer did not take appropriate action to resolve the material irregularity and we are busy deciding on further action to be taken.

As mentioned in the introduction to this section, a key element of the performance planning process in local government is **public participation** in the development and updating of integrated development plans as well as service delivery and budget implementation plans. We assessed whether such participation took place at the eight metros as well as nine local and district municipalities with clean audits to confirm how successful these municipalities were in collating the needs of citizens as a mechanism to enable service delivery.

All the metros had public participation processes in place. The selected municipalities with clean audits had established policies and processes as well as

effective ward committee systems to enable public participation; and their residents engaged in municipal initiatives to foster public engagement. However, this public participation did not necessarily guarantee that municipalities delivered all the requested services.

Municipalities cannot commit to deliver on all community requests – they need to prioritise them, taking into account available funds and the longer term development goals included in their integrated development plans. Even if municipalities include these needs in their plans and budgets, they often fail to achieve the targets, leaving the public disillusioned with the participation process.

EXAMPLES OF WHAT WE FOUND

In this section, we provide examples of our findings on municipal performance reports. These examples do not focus on technical matters that are unrelated to service delivery – we highlight where municipalities were not transparent about their

plans and achievements related to delivering basic services. In line with our overall focus on metros and municipalities with disclaimed audit opinions, we include them in examples throughout this section.

Examples of reported achievements not reliable

(Evidence contradicted achievement / lack of evidence to support reported achievement)

Service delivery area	Municipality	Indicator	Target	Achievement
 Electricity	Buffalo City Metro (EC)	Percentage of valid customer applications for new electricity connections processed	100%	100%
	City of Tshwane Metro (GP)		80%	71%
	eThekweni Metro (KZN)		60%	51%
	Mangaung Metro (FS)		70%	54%
	Inkosi Langalibalele Local Municipality (KZN)	Percentage of new consumers with access to electricity within area of supply	100%	100%
 Waste management	City of Tshwane Metro (GP)	Percentage of known informal settlements receiving basic refuse removal services	85%	100%
	Mangaung Metro (FS)		97%	94%
 Housing	City of Tshwane Metro (GP)	Number of informal settlements upgraded to phase 2 (project initiation)	20	20
	Mangaung Metro (FS)		1	1
 Roads	Buffalo City Metro (EC)	Percentage of unsurfaced roads graded	4,4%	5,3%
	City of Tshwane Metro (GP)		50%	116%
	Mangaung Metro (FS)		60%	42%
	Nelson Mandela Bay Metro (EC)		0,7%	0,9%
 Water and sanitation	eThekweni Metro (KZN)	Percentage of households with access to at least a basic level of sanitation	70,46%	70,63%
	Mangaung Metro (FS)	Number of new water connections meeting minimum standards	421	600
	Thulamela Local Municipality (LP)	Number of households in urban areas with access to basic level of solid waste removal per week	20 069	20 069

Examples of performance indicators not measurable

Service delivery area	What we found
 Electricity	<p>eDumbe Local Municipality (KZN): Percentage of qualifying indigent consumers as per Eskom monthly list provided with free basic electricity (first 50kWh)</p> <p><i>Numerator (qualifying indigent consumers) and denominator (provided with free basic services) are the same, which will always result in a reported achievement of 100% even though beneficiaries fluctuate from month to month</i></p>
 Housing	<p>Mangaung Metro (FS): Number of serviced sites</p> <p><i>No verifiable methods and processes for measurement</i></p>
 Roads	<p>Mangaung Metro (FS): Percentage completion of construction of internal roads</p> <p><i>No verifiable processes for measurement</i></p>
 Water and sanitation	<p>Moses Kotane Local Municipality (NW): Percentage of households provided with access to solid waste removal (Madikwe and Mogwase)</p> <p><i>No verifiable processes for measurement</i></p>
	<p>Ngaka Modiri Molema District Municipality (NW): Number of monitoring reports of water service providers submitted to municipal manager</p> <p><i>Indicator did not outline type of monitoring to be performed and measured</i></p> <p><i>No service-level agreements to monitor water service providers</i></p>
	<p>Vhembe District Municipality (LP): Percentage progress on construction of Malamulele West regional water scheme project</p> <p><i>Indicator not clearly defined and no verifiable processes for measurement</i></p>

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Examples of differences between planned and reported performance indicators and targets

Service delivery area	What we found
 Electricity	Mangaung Metro (FS): Number of informal settlements upgraded to phase 2 <i>Target of 3 committed to in performance plan but target of 1 included in performance report</i>
 Roads	Maquassi Hills Local Municipality (NW): Length of road and stormwater upgraded from gravel to block paving from Piet Retief Street to Maitemogelo Comprehensive Secondary School in Wolmaransstad <i>Target of 700m committed to in performance plan but target of 400m included in performance report</i>
 Water and sanitation	Richtersveld Local Municipality (NC): Limit unaccounted for water to 10% <i>Target of 5% committed to in performance plan but target of 10% included in performance report</i>

Example of reported achievement not consistent with planned and reported performance indicator and target

Service delivery area	What we found
 Roads	Sakhisizwe Local Municipality (EC): Number of kilometres constructed – Elliot Street (surfaced internal street) <i>An achievement of 'Busy with kerbing' was reported against a target of 1,1km</i>

Examples of performance indicators and targets not relevant

Service delivery area	What we found
 Electricity	<p>Blouberg Local Municipality (LP): Number of indigent registers updated</p> <p>Target: 1</p> <p><i>Indicator was changed from previous year's 'Number of indigent households provided with basic electricity'</i></p> <p><i>Revised indicator does not measure actual provision of basic electricity</i></p>
 Water and sanitation	<p>Mohokare Local Municipality (FS): Drinking water quality management</p> <p>Target: Submission of 44 water quality samples to laboratory to meet drinking water monitoring plan</p> <p><i>Relevance of submission of sample to achievement of quality management could not be demonstrated</i></p> <p>Nala Local Municipality (FS): Compliance with blue drop water quality accreditation system</p> <p>Target: 4</p> <p>Nala Local Municipality (FS): Compliance with green drop standards</p> <p>Target: 4</p> <p><i>Targets in both performance plan and performance report did not relate directly to indicator</i></p>

Examples of performance indicators/targets not accurately presented and disclosed

Service delivery area	What we found
 Electricity	<p>Letsemeng Local Municipality (FS): Number of households electrified in Petrusburg, Bolokanang</p> <p><i>Targets were not achieved but performance report did not include measures taken to improve performance</i></p>
 Roads	<p>Letsemeng Local Municipality (FS): Upgrading of 1,72km access paved road and stormwater in Petrusburg/Bolokanang</p> <p><i>Targets were not achieved but performance report did not include measures taken to improve performance</i></p>
 Water and sanitation	<p>Kamiesberg Local Municipality (NC): 90% of approved budget spent for Rooifontein bulk water supply development</p> <p>Richtersveld Local Municipality (NC): Limit unaccounted for water to 10%</p> <p><i>Performance report did not include comparison of achievement with planned targets and previous year performance or measures taken to improve performance</i></p>

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Examples of common performance indicators excluded from metro performance plans and reports

Service delivery area	What we found
 Electricity	City of Cape Town (WC), City of Tshwane (GP) Percentage of planned maintenance performed
	City of Cape Town (WC), City of Ekurhuleni (GP), eThekweni (KZN) Average system interruption duration index
 Housing	City of Cape Town (WC), City of Ekurhuleni (GP), City of Johannesburg (GP) Percentage of households living in adequate housing
	City of Cape Town (WC), City of Ekurhuleni (GP), eThekweni (KZN) Number of informal settlements upgraded to phase 2 (project initiation – receipt of funding and acquisition of land)
	City of Cape Town (WC), City of Ekurhuleni (GP) Percentage of informal settlements upgraded to phase 3 (project implementation – installation of permanent municipal engineering infrastructure and construction of social amenities, economic and community facilities)
 Roads	City of Ekurhuleni (GP), City of Johannesburg (GP) Number of potholes reported per 10km of municipal road network
	City of Cape Town (WC), eThekweni (KZN) Percentage of reported pothole complaints resolved within standard municipal response time
 Waste management	City of Cape Town (WC), City of Ekurhuleni (GP) Percentage of scheduled waste service users reporting non-collection
 Water and sanitation	City of Cape Town (WC), City of Ekurhuleni (GP), City of Johannesburg (GP), City of Tshwane (GP) Percentage of water treatment capacity unused
	City of Cape Town (WC), City of Ekurhuleni (GP) Total water losses

Examples of metros including common performance indicators but setting targets at zero to claim compliance with requirement to include them

Service delivery area	Municipality	Indicator	Target	Reported achievement
 Electricity	Buffalo City (EC)	Installed capacity of approved embedded generators on municipal distribution network	0	4,7MW
 Water and sanitation	Mangaung (FS)	Percentage of industries with trade effluent inspected for compliance	0%	0%
		Infrastructure leakage index	0	1,96

What caused this?

There is a well-defined, legislated system of performance planning, management and reporting in local government to ensure transparency and accountability in service delivery performance. However, the system is not implemented as designed because of the following:

- Councils are not meticulous when **reviewing municipal performance plans** to ensure that they cover all the key functions of the municipality, that they are aligned to the integrated development plan, and that the performance indicators and targets are relevant and measurable. They also tolerate non-submission of performance reports or unreliable and incomplete reporting, possibly because council committees and members are not fully capacitated.
- Municipalities do not have **adequate systems**, including information technology systems, to collate and report on their performance information. Inadequate record keeping is more pronounced in performance management than in financial management. Even at metros, the processes are manual and prone to error.
- Officials and municipal leadership do not correctly apply the **performance management and reporting requirements** because they do not properly understand or appreciate them. There is a lack of skills and capacity to prepare performance plans and reports.
- Municipalities do their **planning and reporting** 'off the books' – although they continue to work towards delivery, they do not include this work in their plans or report on their achievements in this area. This means that

this work is not subject to council and public scrutiny or to auditing. Instead of addressing the inadequate systems and processes that lead to unreliable reporting or poor delivery, they simply remove the indicators, which often results in municipalities using their full budgets but not achieving their targets. This is particularly prevalent at metros and is one of the main reasons why they do not include the common performance indicators prescribed by the National Treasury in their performance plans and reports.

- Municipalities report on different **indicators and targets** than those they committed to when planning, set zero or low targets, and leave important information out of their performance reports to reduce scrutiny and accountability. This is often done to create the perception that the municipality is performing well, and that service delivery is taking place.
- **Performance audit committees** and **internal audit units** have legislated responsibilities to provide assurance on the performance management system and performance results of municipalities in terms of section 45 of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14. However, they are not sufficiently involved in the performance management process, do not identify flaws in performance reports, or management do not implement their recommendations.
- Municipal managers and officials face **limited consequences** when providing unreliable information in their performance reports or when underachieving on their targets.

INFRASTRUCTURE DELIVERY AND MAINTENANCE

As part of our annual regularity audit, we audit grant management processes as well as selected infrastructure projects, and report our findings to municipalities and to national and provincial roleplayers. We emphasise the money being lost due to poor contract management and limited maintenance, and the impact that infrastructure neglect has on local communities. Our reports include what we observed to be causing the weaknesses as well as recommendations for correction.

Despite this, we see limited improvement year on year, and this report again describes similar findings as those included in previous general reports.

To demonstrate what is possible, we highlight good practices and successful infrastructure projects at some municipalities, mostly those with clean audits. At the end of the section, we also highlight the impact our material irregularity process is having on infrastructure weaknesses.

What we found

Grant management

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

Although municipalities are highly dependent on these grants to finance their infrastructure

projects, they often do not spend all the funds they receive. Municipalities can apply to roll over any unspent funds, but if this is not approved, the unspent grant funding is returned to the department that had provided the grant.

Management of infrastructure grants

2021-22

Total grant income: R33,98bn				
Total grant expenditure: R30,97bn (91% spent)				
	Metropolitan municipalities	Municipalities with disclaimed opinions	Municipalities with clean audits	Other municipalities
Budget	R11,82bn	R1,55bn	R3,58bn	R17,03bn
Spent	R10,95bn (93%)	R1,31bn (84%)	R3,55bn (99%)	R15,17bn (89%)

2022-23

Total grant income: R37,99bn				
Total grant expenditure: R34,56bn (91% spent)				
	Metropolitan municipalities	Municipalities with disclaimed opinions	Municipalities with clean audits	Other municipalities
Budget	R12,66bn	R1,18bn	R2,41bn	R21,73bn
Spent	R11,55bn (91%)	R0,75bn (63%)	R2,23bn (92%)	R20,03bn (92%)

Significant underspending was more common at municipalities with disclaimed audit opinions. Underspending by more than 10% was most common at municipalities in the Free State (15 municipalities) and the Northern Cape (15 municipalities).

The main grants that intermediate cities and local and district municipalities receive to support their infrastructure development and maintenance are the municipal infrastructure grant, the regional bulk infrastructure grant, and the water services infrastructure grant.

Spending of grant funding on municipal and water infrastructure

Municipal infrastructure grant (Funding transferred to 156 local municipalities, 30 intermediate cities, 21 district municipalities)

Purpose: Fund projects to build and upgrade municipal infrastructure

Transferring national department: Cooperative Governance

	Grant	Spent	Unspent	Underspent by more than 10%
Municipalities with clean audits	R1,03 billion	R1,01 billion	3%	53 municipalities (26%)
Municipalities with disclaimed audit opinions	R0,84 billion	R0,48 billion	43%	
Other municipalities	R15,23 billion	R14,25 billion	6%	
Total	R17,10 billion	R15,73 billion	8%	

Municipalities with highest underspending

Mantsopa Local Municipality (FS)	83%	Causes include: <ul style="list-style-type: none"> Delays in appointing contractors Poor and ineffective contract management Abandoned projects Funds spent for other purposes due to cash-flow constraints
Kopanong Local Municipality (FS)	83%	
Mohokare Local Municipality (FS)	74%	

Regional bulk infrastructure grant (Funding transferred to 19 local municipalities, 8 intermediate cities, 9 district municipalities)

Purpose: Fund projects to develop new – and refurbish, upgrade and replace ageing – water and wastewater infrastructure

Transferring national department: Water and Sanitation

	Grant	Spent	Unspent	Underspent by more than 10%
Municipalities with clean audits	R0,61 billion	R0,48 billion	21%*	13 municipalities (36%)
Municipalities with disclaimed audit opinions	R0,11 billion	R0,10 billion	13%	
Other municipalities	R2,44 billion	R2,17 billion	11%	
Total	R3,16 billion	R2,75 billion	13%	

Municipalities that did not spend grant (100% underspending)

Masilonyana Local Municipality (FS)	Causes include: <ul style="list-style-type: none"> Poor and ineffective contract management processes Lack of project monitoring Abandoned projects
Mohokare Local Municipality (FS)	
Phumelela Local Municipality (FS)	

*R129,4 million (99%) of the underspending at municipalities with clean audits was due to an advance requested by a municipality on its 2023-24 grant allocation, which was only received in March 2023, leaving insufficient time to spend the funds before the end of the financial year

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Spending of grant funding on municipal and water infrastructure (continued)

Water services infrastructure grant (Funding transferred to 65 local municipalities, 22 intermediate cities, 20 district municipalities)

Purpose: Facilitate planning and implementation of various water and sanitation projects to reduce backlogs and improve sustainability of services

Transferring national department: Cooperative Governance

	Grant	Spent	Unspent	Underspent by more than 10%
Municipalities with clean audits	R0,53 billion	R0,53 billion	1%	40 municipalities (37%)
Municipalities with disclaimed audit opinions	R0,23 billion	R0,17 billion	26%	
Other municipalities	R3,40 billion	R3,06 billion	10%	
Total	R4,17 billion	R3,76 billion	10%	

Municipalities with highest underspending

Makana Local Municipality (EC)	100%	Causes include: <ul style="list-style-type: none"> Funds spent for other purposes due to cash-flow constraints Poor and ineffective contract management and monitoring Abandoned projects
Mohokare Local Municipality (FS)	98%	
Kopanong Local Municipality (FS)	91%	

In addition, metros and selected intermediate cities receive funding through the urban settlements development grant and the public transport network infrastructure grant.

development and public transport network grant funding to the National Treasury, presenting a significant increase compared to the R0,87 billion they returned in the previous year. The underspending contributed to projects being delayed or not implemented, and to planned completion milestones not being achieved.

In 2022-23, metros had to return a total of R1,11 billion in unspent urban settlements

Spending of grant funding on urban development and public transport

Urban settlements development grant (Funding transferred to 8 metros)

Purpose: Fund projects to improve households' access to basic services through bulk and reticulation infrastructure and urban land production to broaden urban development and integration

Transferring national department: Human Settlements

	Grant	Spent	Unspent	Underspent by more than 10%
All metros	R7,76 billion	R7,5 billion	3%	1 metro* (13%)

*City of Tshwane Metro (GP) underspent R0,17 billion because of procurement delays and ineffective project management

Spending of grant funding on urban development and public transport (*continued*)

Public transport network infrastructure grant (Funding transferred to 6 metros, 4 intermediate cities)

Purpose: Fund accelerated construction and improvement of public and non-motorised transport infrastructure

Transferring national department: Transport

	Grant	Spent	Unspent	Underspent by more than 10%
Municipalities with clean audits	R1,55 billion	R1,45 billion	7%	5 municipalities (50%)
Other municipalities	R4,24 billion	R3,38 billion	20%	
Total	R5,79 billion	R4,82 billion	17%	

Municipalities with highest underspending

Mangaung Metro (FS)	58%	Causes include: <ul style="list-style-type: none"> Project delays because of, for example, community unrest Delays in procurement processes Delayed approval processes for extension-of-time requests
City of Mbombela Local Municipality (MP)	57%	
eThekweni Metro (KZN)	40%	

Municipalities did not always spend the funds in accordance with grant frameworks. For example, 16 municipalities that received municipal infrastructure grant funding did not use the funds for their intended purpose. The same was true for two municipalities receiving regional bulk infrastructure grant funding and 12 municipalities receiving water services infrastructure grant funding.

Collectively, grant funding was not spent for its intended purpose at five municipalities with disclaimed audit opinions. Some local municipalities, such as Mohokare in the Free State and !Kheis in the Northern Cape, used grant money to fund their operations because of their cash-flow constraints. Other local municipalities, such as Masilonyana and Nketoana in the Free State and Sundays River Valley in the Eastern Cape, did not provide evidence that transactions met the conditions of the grant.

The **impact** of inappropriate spending or underspending of grants is that it contributes to delays in completing infrastructure projects aimed at improving service delivery to communities, such as access to water and sanitation, housing, and public transport.

Infrastructure project delivery

Municipal infrastructure projects are financed through a combination of infrastructure grants and municipalities' own funds. To determine how these funds were used, we audited 75 infrastructure projects with a combined value of R10,16 billion.

The projects were located across 38 municipalities, including all eight metros, nine municipalities with disclaimed audit opinions, and six local municipalities with clean audits. Ten of the projects

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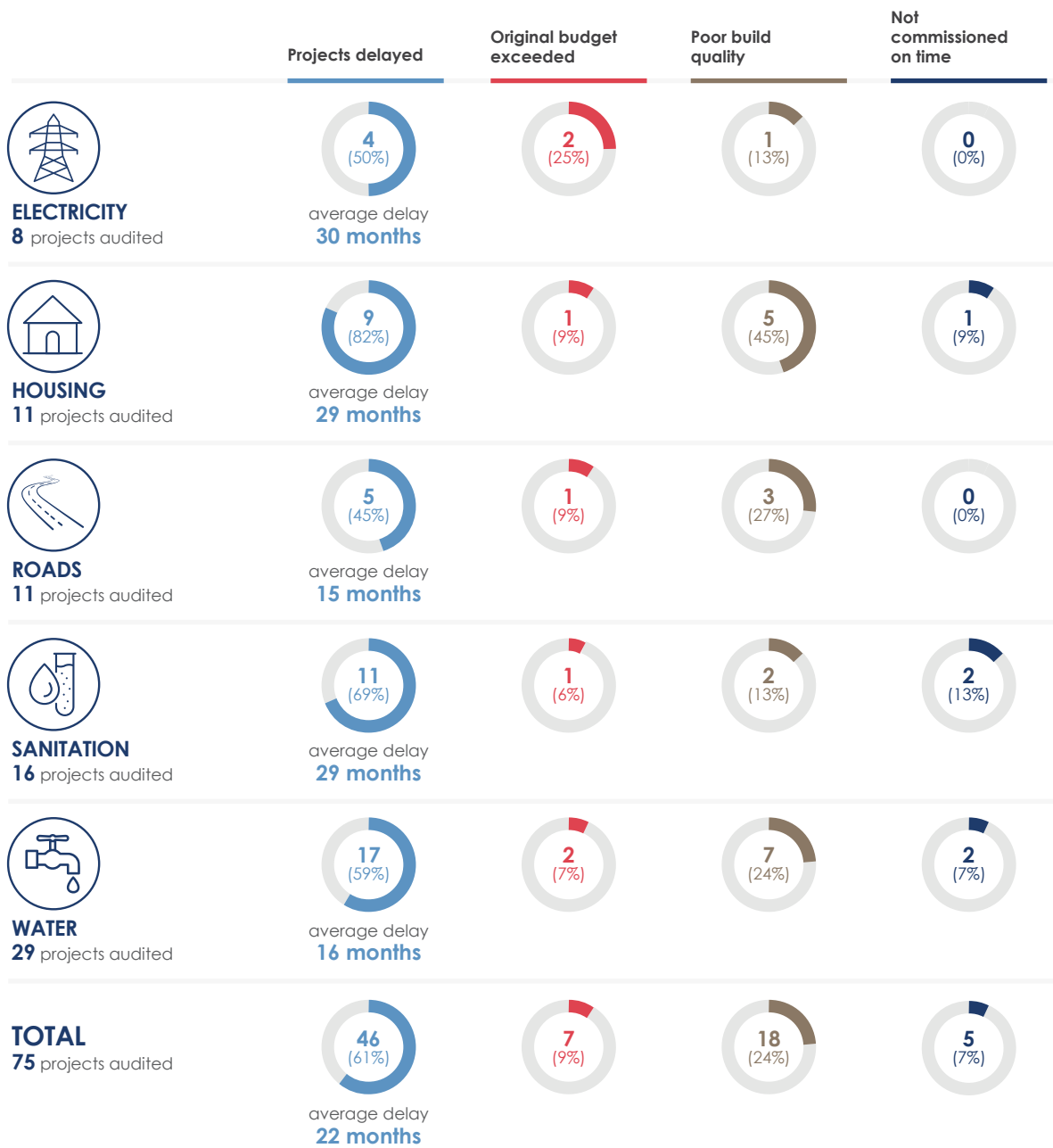
were funded through municipal revenue, four through a combination of own revenue and grants, and the rest through infrastructure grants. We focused on projects aimed at delivering critical electricity, housing, roads, sanitation and water infrastructure and services to the public.

We reported findings on 54 of the projects visited (72%). Most of the projects were delayed, cost more than planned or were of poor quality.

There were also delays in newly built infrastructure being put into use.

The table that follows provides information on the findings on infrastructure projects that we reported in auditees' management reports, as well as the impact of these findings. Where we report on project delays, this means that projects were either completed late or were still under construction after the contractual completion date.

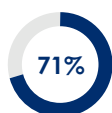
Findings on infrastructure projects (per basic service delivery area)



Findings on infrastructure projects – metros, municipalities with disclaimed audit opinions and municipalities with clean audits



Metros



Findings on **29** of 41 projects (71%) with combined value of **R7,97 billion**

Even though metros have larger budgets and can attract more skilled resources, most metros did not effectively integrate planning and monitor budgets on projects. This resulted in projects being delayed or cancelled as well as delays in appointing replacement contractors.

Most metros had inadequate capacity in their infrastructure units due to high vacancy rates and staff lacking the required qualifications and experience.



Municipalities with disclaimed audit opinions

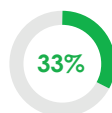


Findings on **8** of 11 projects (73%) with combined value of **R575,59 million**

Infrastructure delivery projects were delayed and, as a result, ended up costing more than the original project cost.



Municipalities with clean audits



Findings on **2** of 6 projects (33%) with combined value of **R513,23 million**

Generally, these municipalities managed their infrastructure projects effectively. Deficiencies were identified and rectified promptly to ensure that timelines, budgets and quality standards were adhered to.

When municipalities do not effectively manage project delivery, the **impact** is felt in the resultant delays that negatively affect service delivery and increase expenses due to cost overruns – which in turn reduce funding for new projects. Poor-quality construction can harm those using the infrastructure (members of the public or municipal officials) and lead to increased costs to fix defects. Late commissioning delays the public's access to new infrastructure and related services; and can result in unoccupied buildings being vandalised and equipment and supplies being stolen.

Infrastructure maintenance

The estimated value of infrastructure assets that local government should maintain and protect totalled R518,35 billion, based on the values as disclosed by municipalities in their financial statements.

Municipalities need to budget for repairing and maintaining these assets based on their annual asset maintenance plan, and the National Treasury recommends that they budget at least 8% of the value of their infrastructure assets for this purpose. However, municipalities do not prioritise maintenance during their budget process, and many allocate less than the recommended 8% in their budgets because of limited financial resources and poor financial management.

In total, the 247 municipalities that we audited spent R17,06 billion on repairing and maintaining infrastructure assets, which is roughly 3% of the total value of these assets (slightly less than the 4% spent last year), with 36% spending 1% or less. Except for City of Cape Town Metro in the Western Cape, none of the metros spent within the norm of 8%.

The National Treasury also recommends that municipalities budget at least 10% of total expenditure on capital expenditure. The spending on capital expenditure was less than the norm of 10% at Mangaung Metro (Free State), eThekweni Metro (KwaZulu-Natal) and Nelson Mandela Bay Metro (Eastern Cape).

When municipalities do not maintain their infrastructure assets, the **impact** can be seen in

lower service-level standards (e.g. in the quality of water), increased water and electricity losses, excessive costs for replacing or upgrading infrastructure and equipment, and an increased risk of mechanical breakdowns. It also poses a risk to the health of communities and can potentially harm the environment.

EXAMPLES OF WHAT WE FOUND



WATER AND SANITATION

Copesville reservoir



In February 2020, **Msunduzi Local Municipality** (KwaZulu-Natal) appointed service providers for the construction of a new 12-megalitre reinforced concrete reservoir, pump station and bulk pipelines at a higher elevation than the existing 20-megalitre reservoir to provide a permanent water supply to the Ezenketheni community. Residents who have moved to higher land are not benefitting from the existing reservoir as it cannot supply water to the entire area. The project was initially planned to be completed in November 2021, but this was delayed to September 2023 because the land was illegally occupied by residents who needed to be relocated to other areas. The project was not proactively managed and, by November 2022, had run up extension and standing time costs amounting to R8,42 million. During our site visit in October 2023, the project had not been completed and we identified numerous instances of poor workmanship in the casting and finishing of concrete elements. These defects expose the project to deterioration, which may require additional costs to rectify. We notified the accounting officer of a material irregularity relating to the financial losses incurred in January 2024.

Poor concrete consolidation and concrete defect with air voids along exterior



Polokwane regional wastewater treatment works



In February 2018, **Polokwane Local Municipality** (Limpopo) appointed service providers to expand the capacity of wastewater treatment works in the Seshego area. The project's initial planned completion date of February 2020 was revised to June 2021 and then to April 2025 after the contract with the first contractor was terminated due to poor performance. The municipality experienced cash-flow issues resulting in late payments to the contractor which led to extension and standing time costs of R5,12 million. The delay is likely to result in untreated sewage leakages.

Bulk sewer project



In February 2016, **Buffalo City Metro** (Eastern Cape) appointed a contractor to improve the bulk regional sewerage scheme for Bisho, King Williams Town and Zwelitsha. The planned project completion date of January 2019 was later changed to March 2021 due to the covid-19 outbreak, community unrest, contractor non-performance, procurement irregularities and subsequent litigation processes. At the time of our site visit in November 2023, the project had not been completed and there was evidence of theft and vandalism because the site was not secured. The contractor was paid the full amount of R387,47 million despite having abandoned the site. A replacement contractor has not been appointed due to limited funds and ongoing litigation between the metro and the original contractor.

Cable theft at reactors



Vandalised motor control centre and missing motor control centre wires



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Water infrastructure best practices



- In February 2022, **George Local Municipality** (Western Cape) began upgrading the George new water treatment works with a planned completion date of February 2024 and a budget of R263,31 million. During our site visits, conducted while the project was still in progress, the construction was at the required level of quality. The municipality has invested in project implementation and management, from planning the project to ensuring it is up and running and ready to serve the public. The project demonstrates the importance of having suitably skilled and experienced staff in key positions. All nine key staff members in the municipality's water unit had engineering-related bachelor's degrees or equivalent qualifications and were registered with a professional body.
- In October 2021, **Midvaal Local Municipality** (Gauteng) appointed service providers for the construction of the Rissville water network project, with the site handover taking place in November 2021. This project was implemented to curb the water supply challenges experienced in the area. The project had a planned completion date of August 2022, with the completion date being revised to October 2022. This revised completion date was not met because of contractor delays. The municipality did not suffer losses due to these delays, as penalties for not meeting the revised completion date were charged from October 2022 until the practical completion date in December 2022. The water network was commissioned in January 2023. A total saving of R2,63 million was realised from the project as the original budgeted R28,95 million was not fully utilised. We did not detect any quality defects on the project during our site visit in October 2023.



ROADS

Trunk road upgrade



In September 2018, **Mangaung Metro** (Free State) appointed a contractor to upgrade the Moshoeshoe trunk route, which included the construction of road layers, surfacing and stormwater facilities. The project aimed to reduce user costs to access the inner city and reduce traffic accidents. The planned completion date was October 2019, but practical completion was delayed by more than three years and was only achieved in April 2023. The project cost increased by R17,8 million (26%) from the initial budget of R68,89 million. During our site visit in September 2023, various quality issues were noted. These issues included water not draining from the pavement to the side drains, as well as stormwater and sewer overflows due to poor maintenance on another nearby infrastructure asset. This resulted in sewage overflowing onto the road, posing a health threat to commuters.

Road infrastructure best practice



In January 2020, **Nkangala District Municipality** (Mpumalanga) awarded a contract for the construction of a new vehicle bridge between Ga-Morwe and Mthambothini. The planned completion date of January 2021 was revised to October 2022 due to non-performance by the contractor, whose contract was then terminated in August 2021. The municipality did not incur any losses or additional costs because of the non-performance, as the retention fee of R2,16 million was enough to cover potential losses. A replacement contractor took over the project in January 2022 and completed construction in March 2023. We did not identify any quality issues during our October 2023 site visit, and the now-completed project is expected to improve residents' mobility, especially during periods of flooding.



ELECTRICITY

Reconfiguration of Swartkops/Matomela/KwaFord line



In January 2019, **Nelson Mandela Bay Metro** (Eastern Cape) started upgrading an existing substation to reduce power failures in the area caused by ageing infrastructure and to increase capacity in order to provide for future load growth. The project's initial planned completion date of January 2022 was revised to September 2023 because of poor performance by the subcontractor and payment delays. During our site visits in October 2023, the project had not been completed and unapproved cost overruns of R14,35 million over the budgeted R46,85 million had been paid to the contractor. As a result of the delay, residents continued to experience regular power failures.

A concrete transformer base without the transformer installed



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HOUSING

Malibongwe Ridge housing project



In March 2010, **City of Johannesburg Metro** (Gauteng) commenced with the Malibongwe Ridge housing project to reduce the number of informal settlements in Itsoseng, with a planned completion date of March 2025. Thirteen years after the project began, only 1 368 of the 7 227 planned units (19%) had been completed. This has negatively affected the community of Itsoseng as they continue to live in poor conditions. During our site visit in October 2023, occupied units had illegal electricity connections and people had encroached on land earmarked for development. More than 98% (R455,28 million) of the contract value of R464,05 million has been paid to the contractor, which does not match the progress made on the construction of the planned units.

Encroachment on land earmarked for development



Illegal connections



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What caused this?

The failures in delivering, maintaining and safeguarding infrastructure are due to the following matters that need urgent attention:

- Municipalities had **inadequate skills and capacity** to manage and deliver on infrastructure projects. Infrastructure units – even at metros – had high vacancy rates and officials did not have the required qualifications and experience. There were instances where junior officials were promoted to senior positions without meeting the requirements because the municipalities could not attract suitable candidates, especially in remote areas. There was little investment in developing the skills required. The staff establishment at most metros was not reviewed and updated to ensure that there were enough positions to deliver on the high infrastructure demands. The capacity constraints resulted in overreliance on professional services such as consulting engineers.
- The **basics were often not in place** to ensure consistent and successful delivery by infrastructure units. Officials did not always have job descriptions or performance agreements, or these documents were vague on specific responsibilities and deliverables. There was typically no standard operating procedure in place for managing projects and contractors.
- The terms of construction contracts (such as penalty clauses) were not used to **hold contractors and professional service providers**

accountable when they did not perform. The lack of in-house skills and capacity was a contributing factor, but there were also significant lapses in contract and project management disciplines with limited consequences, and instances of professional service providers placing the interest of contractors above that of government.

- The **budget allocation for repairs and maintenance** of infrastructure was inadequate. When infrastructure maintenance is neglected for a prolonged period, this increases the costs to upgrade or replace the infrastructure, which is even more difficult to fund. Most new

infrastructure projects and maintenance at metros were self-funded, but metros did not allocate enough funds for this **capital expenditure**.

- Delayed and ineffective **procurement processes** led to contractors being appointed late.

Some appointed contractors could not deliver on municipal infrastructure projects, which resulted in projects being abandoned or another contractor needing to be appointed to conduct remedial work.

Impact of infrastructure neglect on communities

Neglected municipal infrastructure and ineffective environmental management by municipalities led to **polluted water sources**, including underground water, and an unacceptable state of wastewater treatment works. The Department of Water and Sanitation assesses wastewater management through the Green Drop certification programme. In 2023, the department reported in the national Green Drop risk rating that 334 municipal wastewater treatment works (39%) were in a critical state, receiving scores below 31%. These wastewater treatment works had significant shortcomings, and were mostly located in the Eastern Cape, the Free State, Limpopo and the Northern Cape.

Our specialists conducted environmental inspections at the wastewater treatment plants of 16 municipalities: all eight metros and eight municipalities that had repeatedly received disclaimed audit opinions. They found shortcomings at all of them. Wastewater treatment works were not safeguarded or maintained to prevent or detect malfunction, vandalism or theft to infrastructure. This negatively affected the operation of plant infrastructure at 14 municipalities (88%), while the quality of wastewater discharged at 11 municipalities (69%) did not comply with waste standards or practices. Seven municipalities (44%) did not take reasonable measures to prevent pollution of water resources or the adjacent environment.

Poor environmental practices



- During our site visit to the Brits wastewater treatment works in **Madibeng Local Municipality** (North West), the plant was not functioning effectively because its disinfection and retention channels were not working. These channels are used to remove chemicals before the wastewater is spilled back into the river. This has resulted in non-compliant waste being discharged into the Crocodile River, causing pollution and significant harm to the environment.

Non-compliant wastewater discharged into Crocodile River



- The Legaeng pump station in **Sol Plaatje Local Municipality** (Northern Cape), visited in October 2023, did not comply with environmental legislative requirements, as it was discharging untreated raw sewage into the immediate environment and nearby residential areas. This posed a risk to the health of residents and animals that drink the water.

Raw sewage channelled near residential areas



Animals grazing among, and drinking, untreated raw sewage



Effective **solid waste management** is crucial for mitigating health and environmental risks, conserving resources, and contributing to enhanced living conditions. Improper disposal can lead to pollution, unsanitary conditions and environmental degradation.

We used specialists to perform environmental inspections of solid waste management and landfill sites at 14 municipalities: the eight metros and six selected municipalities that had repeatedly received disclaimed audit opinions. We assessed their waste management plans, site operation licences, monitoring of illegal dumping, and infrastructure maintenance to prevent environmental pollution.

Eleven municipalities (79%) did not appropriately manage their landfill sites in terms of their waste management licence or minimum requirements on waste management, while seven municipalities (50%) failed to take action to appropriately address, limit or prevent illegal waste disposal. The overall conditions of landfill and illegal dumping sites at six municipalities (43%) were assessed as concerning.

Many of the municipalities that had previously received disclaimed audit opinions did not have a waste management plan or a waste management officer. Such a plan outlines procedures for the handling, storage, transportation and disposal of waste; while a waste management officer coordinates waste management and ensures that illegal dumping sites are closed or cleared and that structures erected on waste disposal sites are removed to promote a safer, healthier environment.

The likely substantial harm to the general public caused by contaminated water sources or land pollution due to improper disposal practices meets the definition of a material irregularity. Resolution of these environmental material irregularities requires municipalities to stop the pollution, repair or rebuild the plants, put measures in place to ensure that infrastructure is maintained, and remedy the impact of the pollution (where applicable). Municipalities might not be able to implement these actions within a short period and often need support from national government to fund the required infrastructure projects, but they must plan – and take deliberate steps – to eradicate the pollution of rivers, streams and underground water.

Wastewater mismanagement



- The Witpan wastewater treatment works (including its pump stations) in **Matjhabeng Local Municipality** (Free State) had collapsed, resulting in raw, untreated sewage being discharged into the adjacent environment, including the groundwater, Sand River and its extended watercourse. We notified the accounting officer of the material irregularity in February 2023. The accounting officer did not take appropriate action to resolve the material irregularity and, in February 2024, we referred the matter to the Department of Water and Sanitation for investigation.
- The Rooiwal wastewater treatment works in **City of Tshwane Metro** (Gauteng) has been operating above capacity and without the necessary repairs and maintenance since 2010. As a result, surrounding communities receive sub-standard drinking water, which is likely to cause harm to the general public. We notified the accounting officer of a material irregularity in December 2021. Since then, the metro has provided water tankering services to Hammanskraal residents, started phase 1 of the upgrade project, allocated funds in their budget for the project, and reached out to various roleplayers for funding and support. The metro appointed the Development Bank of Southern Africa as an implementing agent to oversee the project implementation and, in February 2024, the bank appointed a general building turnkey contractor to refurbish and upgrade the wastewater treatment works. The bank also plans to appoint a professional service provider and mechanical engineering turnkey contractor by June 2024. Further action is being taken to fully resolve the material irregularity.

South Africa is a water-scarce country, with an average rainfall of about 40% less than the annual average rainfall worldwide. Based on current usage trends, South Africa is expected to face a water deficit that will only be worsened by climate change. Scarce water resources are further threatened by government's failure to adequately protect, use, conserve and manage water resources.

The Department of Water and Sanitation assesses the **quality of drinking water** through the Blue Drop certification programme. In 2023, the department reported that 23 of the country's water supply systems (15%) were in the poor or critical blue-drop risk category, including two (17%) of the municipalities with disclaimed audit opinions. This raises potential health concerns for communities that receive water from these supply systems, which are located predominantly in the Free State, Limpopo, the Northern Cape and North West.

Our audit of water services and infrastructure at 108 municipalities found that 19% did not have water service development plans, 15% did not have water infrastructure maintenance plans, and 12% did not perform conditional assessments of their water infrastructure.

Municipalities face the dual challenge of an increased demand for water services while also having to address systemic issues in processes and infrastructure. The failure to maintain and effectively upgrade water infrastructure together with inefficient water management practices threatens to disrupt the supply and availability of safe water for human consumption, agriculture, and trade and industry. If not addressed as a matter of urgency, these issues will continue to threaten the health of citizens, food security and future economic growth.

Impact of material irregularity process on infrastructure weaknesses

The matters we have been reporting on infrastructure over the last few years often meet the definition of a material irregularity. We have been using the material irregularity process as an instrument for change to focus the attention of

accounting officers and the broader accountability ecosystem on systemic infrastructure problems to prevent further financial loss, infrastructure deterioration, service delivery failures, and harm to the public.

We notified accounting officers at 34 auditees of 52 material irregularities related to infrastructure. These mainly fell into the following categories:

- Payment for construction or project management services not received
- Infrastructure not safeguarded, resulting in theft and vandalism
- Non-payment of contractors, resulting in standing time
- Payments to contractors not in line with contracts

In response, accounting officers have started to improve internal controls over payment processes and to enforce consequences. Such consequences have included placing contractors on notice

to address poor performance according to the contract conditions, holding officials accountable for poor performance, and instituting processes to recover lost funds.

Positive impact of material irregularity process on infrastructure weaknesses



- During June 2019 and September 2021, the **Johannesburg Development Agency** (Gauteng) overpaid a contractor for the refurbishment of an administrative building. We notified the accounting officer of the material irregularity in July 2023. The accounting officer determined that three officials were responsible for the overpayments. Two of the officials resigned in 2021-22 and the third was suspended in August 2023 pending the finalisation of disciplinary processes. In October 2023, the accounting officer instituted legal proceedings, which are still ongoing, to recover the payments made to the contractor for work not done. In August 2023, the accounting officer implemented a project manual, which project managers must use to report on progress made on their projects each month. Further action is being taken to fully resolve the material irregularity.
- **KwaDukuza Local Municipality** (KwaZulu-Natal) did not adequately safeguard the Woodmead transport node (taxi rank project), which began in 2014 and was halted in 2017. The uncompleted project was vandalised, resulting in an estimated loss of R2,4 million. We notified the accounting officer of the material irregularity in March 2022. The accounting officer instituted a preliminary investigation in March 2022 and identified that the taxi rank project had been abandoned by the contractor for some time in 2017 without due notice. The accounting officer strengthened internal controls and ensured that, from March 2022, there is 24-hour armed security on site to protect the project from further damage. The money paid to the contractor was recovered in June 2022 by transferring all R2,7 million in retention funds back to the municipality as per the contract. The material irregularity has been resolved.
- The Randfontein wastewater treatment works in **Rand West City Local Municipality** (Gauteng) had not been functional from 2013 due to a lack of maintenance, which led to inadequately treated effluent being discharged into the Elandsvele Spruit River. We notified the accounting officer of the material irregularity in April 2023. The accounting officer appointed a contractor for three years to operate, maintain and conduct quarterly audits at the wastewater treatment works, and additional staff were appointed in May and June 2023. In June 2023, the accounting officer ring-fenced R3 million annually for three years until the 2025-26 financial year to repair and maintain the wastewater treatment works. Further action is being taken to fully resolve the material irregularity.

The material irregularity process has been pivotal in identifying systemic issues in infrastructure projects, resulting in improved internal controls and

accountability, and in ongoing corrective action to prevent further losses and enhance service delivery.

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FINANCIAL MANAGEMENT

Our previous report highlighted various weaknesses in municipalities' financial management, including poor financial planning, inadequate financial controls, and unreliable financial reporting. We also highlighted the lack of careful spending and reduced revenue and funding, which – combined with the poor financial management practices – caused financial distress at municipalities.

What we found

Unfunded budgets and overspending

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

Before the mayor tables the budget in council, it is assessed by the National Treasury (in the case of metros and some intermediate cities) or the relevant provincial treasury (in the case of the remaining municipalities). One of the key tests the treasuries conduct during this assessment is determining whether the budget is funded – in other words, whether the available funds and revenue that will be generated or received via grants and equitable share allocations will be enough to cover the projected spending. The treasuries specifically consider whether the revenue projections are reasonable and whether it is likely that the municipality will be able to collect this revenue.

If a budget is unfunded, the treasuries advise the municipal manager and mayor to correct the

There was little change in municipalities' financial health and financial management in 2022-23, as this section shows by reporting on:

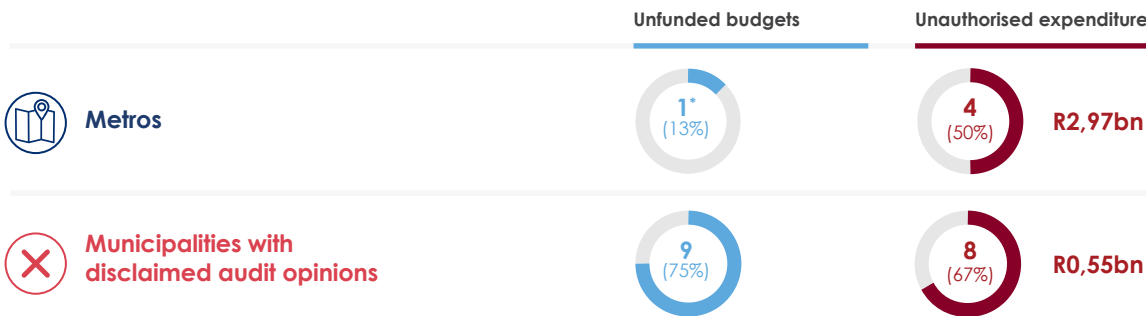
- unfunded budgets and overspending
- weaknesses in revenue management
- financial losses
- inadequate financial controls and unreliable reporting.

budget before it is tabled and adopted in council. Those that ignore this advice and adopt unfunded budgets are requested to correct this position during the adjustments budget period in February of the following year. Despite the advice from treasuries, 108 municipalities (42%) adopted unfunded budgets in 2022-23, compared to 111 (45%) that did so in the previous year.

In 2022-23, approximately two-thirds of municipalities (67%) incurred a combined R24,12 billion in unauthorised expenditure – slightly less than the R25,34 billion reported last year. This means that municipalities spent money that the council had not provided for in the approved budget, or that the spending did not meet the conditions of a particular grant.

Unfunded budgets and unauthorised expenditure are present at some of the metros and are common at municipalities with disclaimed audit opinions.

Unfunded budgets and unauthorised expenditure – metros and municipalities with disclaimed audit opinions



* City of Tshwane, GP

Weaknesses in revenue management

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

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

- revenue is lost through water and electricity distribution losses
- consumers are not billed, or receive free basic services they are not entitled to
- debt is not collected.

Every year, municipalities lose revenue because of the water and electricity losses they suffer due to ageing infrastructure and poor maintenance. In total, 128 of the 143 municipalities that are water services providers (90%) incurred water distribution losses estimated at R13,89 billion, with 46% recording an average water loss above the 30% norm. Of the 163 municipalities that provide electricity, 148 (91%) lost a combined R19,12 billion, and 108 (66%) had an average electricity loss above the 10% norm.

As in previous years, our audit process identified consumers that were not billed. The revenue disclosed in the financial statements of 28% of municipalities was materially misstated because not all revenue was billed, there was inadequate audit evidence for the amounts shown as billed, or the amounts were recorded incorrectly. The receivable amount (how much consumers owed at year-end) was materially misstated at 26% of municipalities. These municipalities did not know the correct amounts owed to them and whether they were still entitled to receive those amounts. In some cases, the amounts recorded were not accurate.

This year, we increased our focus on the free basic services delivered to indigent households. We identified municipalities where households received free basic services despite not meeting, or no longer meeting, the indigent criteria as set by the municipality. Some people that were registered as indigent were deceased or employed at

government institutions. Some municipalities did not have controls in place to check when indigent households had reached their limit for free basic services.

We also identified municipalities that did not effectively use the equitable share allocation received from the National Treasury (R83,52 billion in 2022-23) to fund the free basic services for indigent households. The allocation is determined by using an estimation of the number of poor households in the area based on information from the Stats SA census, but municipalities budget based on only the number of registered indigent households, which resulted in significant differences at 33% of the municipalities where we did the comparisons. For example, Metsimaholo Local Municipality in the Free State received R221 million to fund 37 306 households, but has only 6 012 households registered as indigent. Most municipalities also did not have properly functioning processes to ensure community members are aware of, and able to apply for, indigent status. The impact of this is that not all the money national government allocates to provide free basic services reaches poor households, and it is often used for other municipal operating expenses.

We will continue to refine the work we do in this area to provide a more comprehensive view in future reports on the free basic services provided to indigent households.

Some consumers (including government institutions) do not always pay the municipalities what they owe them for services – a long-standing trend that has worsened with the continuing economic downturn. So, while a municipality's revenue might look healthy on paper, the money does not reach the bank. We estimate that municipalities will be able to recover only 35% (R125,29 billion) of this revenue. In 2022-23, municipalities took an average of 152 days to collect the amounts they were owed, and wrote off or impaired (wrote down) R52,32 billion in debt that was not paid to them.

Metros in particular struggle to improve their revenue-collection levels, which was the main reason for their financial health concerns.

Metro revenue

THE NUMBERS

Estimated revenue of **R28,50 billion was written off** or impaired (amount reduced because it is unlikely to be collected in future)

Average time to collect debt owed to it: **98 days**

More than 10% of debt is estimated to be **irrecoverable** at all metros

PRACTICES THAT CONTRIBUTE TO LOST REVENUE

Credit policy not fully applied by disconnecting customers in arrears

Billing errors – more prevalent at City of Johannesburg (GP), City of Tshwane (GP), Mangaung (FS) and Buffalo City (EC)

Customers **unwilling to pay** for extra charges levied to discourage excessive water use during drought – Nelson Mandela Bay (EC)

Delays in delivering **invoices** – City of Johannesburg (GP) and City of Tshwane (GP)

Inconsistent application of **indigent policies** – eThekweni (KZN) and Mangaung (FS)

In addition to highlighting our concerns about revenue management through our audit findings, we issued material irregularity notifications where municipalities were suffering material financial losses due to poor billing and collection practices.

The responses to these material irregularities have been positive, with accounting officers taking

action to address long-standing problems with systems and processes to prevent further financial losses. Some of the underlying causes of the material irregularities could be addressed swiftly, while others require changes to policies and projects to fix water and electricity meters and connections, which will take longer to address.

Poor revenue management



In December 2019, **Bela-Bela Local Municipality** (Limpopo) signed a service-level agreement with a contractor to provide traffic law-enforcement equipment, to prosecute speed offences and to provide other related services for three years. Some of the traffic fines issued had expired because they had not been approved by the relevant person in time, no summonses had been issued since 2020, and some traffic fines had been withdrawn without the instruction of the municipal official, resulting in a loss of R7,3 million. We notified the accounting officer of the material irregularity in March 2023. The accounting officer is taking appropriate action to resolve the material irregularity by investigating the matter and taking legal advice on processes to follow.

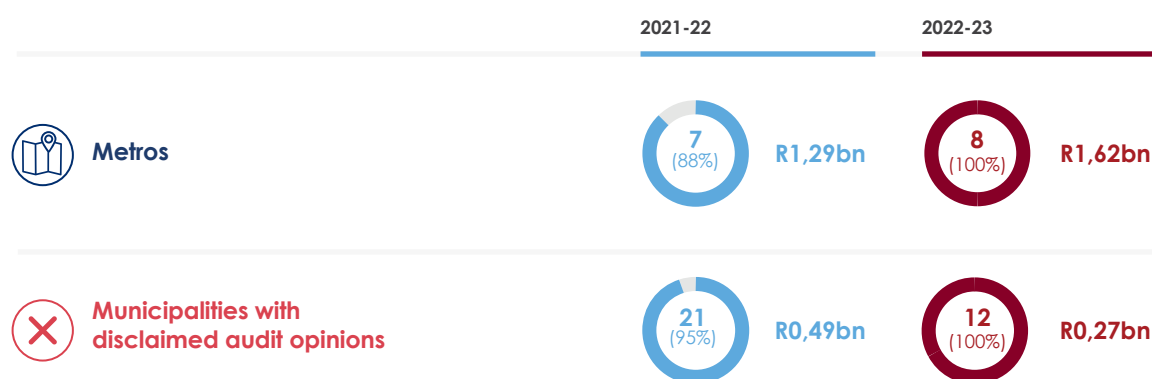
Financial losses

Local government is losing billions of rand each year because of poor decisions, neglect or inefficiencies.

Fruitless and wasteful expenditure continued to increase, from R4,89 billion last year to R7,41 billion in 2022-23. This amount could be even higher, as

15 municipalities (including 50% of municipalities with disclaimed audit opinions) did not report all the fruitless and wasteful expenditure they should have reported in their financial statements. In other cases, the amount of fruitless and wasteful expenditure reported was incorrect.

Fruitless and wasteful expenditure – metros and municipalities with disclaimed audit opinions



The biggest contributor to the significant 26% increase at metros was City of Tshwane Metro in Gauteng (R0,5 billion increase), mainly because of interest and penalties, including a significant restatement of spending from previous years.

The main reasons municipalities are losing money include:

- poor payment practices
- unfair or uneconomical procurement practices
- no or limited benefit received for money spent – including the ineffective use of consultants
- weaknesses in project management
- fraud committed by officials.

Poor payment practices

Municipalities must actively manage contracts awarded to suppliers to ensure that the suppliers deliver at the right time, price and quality before any payments are made. Municipalities must also pay their bills on time to avoid interest and penalties.

Payments were not always made in accordance with contract requirements, or were made for goods and services that were not received or that were of poor quality. Some municipalities paid salaries and allowances for which employees were not eligible. We issued material irregularities in a number of these cases, and some accounting officers took action to address these matters.

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Poor payment practices



- In November 2021, **Fetakgomo Tubatse Local Municipality** (Limpopo) paid a contractor R1,57 million for services that were not received relating to the construction of a sports complex. We notified the accounting officer of the material irregularity in March 2023. In April 2023, the accounting officer requested written submissions from the affected officials involved in the project. In August 2023, the matter was referred to the municipal public accounts committee and an external service provider for further investigations, which are ongoing. Further action is being taken to fully resolve the material irregularity.
- In 2020-21, **Mogalakwena Local Municipality** (Limpopo) paid for water delivered using water tankers without evidence that goods and services were received. We notified the accounting officer of the material irregularity in February 2023. The accounting officer stopped using external service providers for water tankering services from July 2023, and payment controls have been improved. Further action is being taken to fully resolve the material irregularity.
- Between November 2019 and October 2020, **City of Tshwane Metro** (Gauteng) paid salaries to employees appointed on a fixed-term contract to whom no work was allocated as there were no job descriptions for their roles. We notified the accounting officer of the material irregularity in May 2021. The accounting officer commissioned a forensic investigation that was finalised in July 2022. A criminal case, which is ongoing, was opened in December 2022 against one implicated official and one member of the municipal council. The accounting officer finalised disciplinary processes, dismissed the implicated official in August 2023, and strengthened controls relating to appointing contract workers. The material irregularity has been resolved.

With limited cash in the bank, municipalities prioritised paying salaries and remunerating councillors. These expenses totalled R127,10 billion in 2022-23, or 61% of municipalities' estimated recoverable own revenue and the equitable share allocation they receive from national government. They then used what was left to pay municipal suppliers, including Eskom and the water boards, which are essential to supplying basic services.

Although municipalities are required to pay their creditors within 30 days of receiving the invoice or statement, we reported non-compliance with this requirement at 83% of municipalities. When municipalities pay their suppliers late, or do not pay them at all, this seriously affects the cash flows of businesses that supply goods and services to local government. Some of these suppliers even stop providing services to municipalities, which results in projects not being completed and services not

being delivered. People could also lose their jobs when businesses are forced to close because of non- or late payment.

Eskom and the water boards are in a particularly difficult situation as they are required to continue delivering services even when they are not paid. Local government is also losing billions of rand each year in interest charges due to late payments.

To influence an improvement in municipal policies, processes and arrangements with suppliers, we issued 70 material irregularity notifications on interest payments (financial losses) resulting from non-compliance with the requirement to make payments on time. Most accounting officers are taking appropriate action to address the late payments, illustrating the impact the material irregularity process is having.



Suppliers not paid on time, resulting in interest

- In 2021-22, **Ugu District Municipality** (KwaZulu-Natal) incurred R2,2 million in interest because it did not pay Umgeni Water on time. We notified the accounting officer of the material irregularity in January 2022. In May 2022, the accounting officer agreed on a payment plan with the water board to settle the balance without incurring further interest on outstanding debt. The material irregularity has been resolved.
- In 2021-22, **Mskaligwa Local Municipality** (Mpumalanga) did not pay Eskom on time and incurred interest of R16,1 million. We notified the accounting officer of the material irregularity in March 2023. Since then, the accounting officer has appointed a service provider to assist in disconnections every month, which has improved revenue collection. In September 2023, the National Treasury approved a debt-relief application to have a third of the debt written off over three years. A repayment plan that was established in December 2023 is currently being implemented. Further action is being taken to fully resolve the material irregularity.
- Between July 2021 and June 2022, **Greater Tzaneen Local Municipality** (Limpopo) did not pay Eskom on time and incurred interest of R5,4 million. We notified the accounting officer of the material irregularity in November 2022. In February 2023, the municipality performed a customer data cleansing exercise and improved billing accuracy for electricity revenue by correcting errors in the billing system. The budget was reviewed to ensure that it contained no unfunded items. A debt-collection process was implemented to improve debt recovery and cash flow. Further action is being taken to fully resolve the material irregularity.

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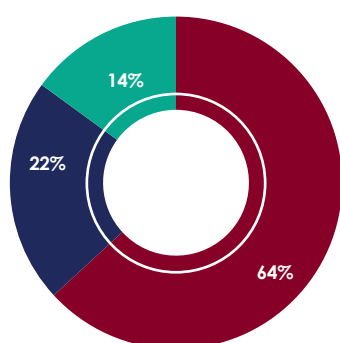
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Unfair or uneconomical procurement practices

Fair and competitive procurement processes enable local government to get the best value for the limited funds available and give suppliers fair and equitable access to government business.

Municipalities continued to disregard procurement and contract management legislation, which – in some cases – resulted in irregular expenditure.

Status of compliance with supply chain management legislation



- 157**
Municipalities with material findings
- 55**
Municipalities with non-material findings
- 35**
Municipalities with no findings

Movement from last year
of previous administration

43 ▲ 36 ▼

We reported findings on non-compliance with supply chain management legislation at 86% of the municipalities – at 64%, the non-compliance was material enough to be reported in the audit report.

Uncompetitive and unfair procurement processes and inadequate contract management remained widespread. We reported findings on uncompetitive and unfair procurement processes at 190 municipalities (77%); these were material at 58% of municipalities. For contract management, we reported findings at 117 municipalities (47%); these were material at 35% of municipalities.

The aim of preferential procurement legislation is to support socio-economic transformation. The public sector should lead by example to achieve this goal, but some municipalities continued to fail in this area. At 92 municipalities (37%), the preference point system was either not applied or not applied correctly. Municipalities should also procure certain commodities from local producers, but 73 of the 186 municipalities (39%) at which we audited local content did not comply with the regulation on promoting local producers for awards totalling R1,83 billion.

Legislation prohibits municipalities from awarding contracts to, and accepting quotations from, employees, councillors or other state officials (or entities owned or managed by them) if they are in the service of the municipality or any other state institution. This is intended to prevent conflicts of interest. Although there has been a significant reduction in these prohibited awards since the end of the previous administration's term, the practice continued in 2022-23. Awards totalling R30,66 million were made to suppliers owned or managed by employees and councillors at 13 municipalities, and awards totalling R216,88 million were made to suppliers owned or managed by other state officials at 80 municipalities.

Overall, 54 municipalities made awards of R161,65 million to close family members of

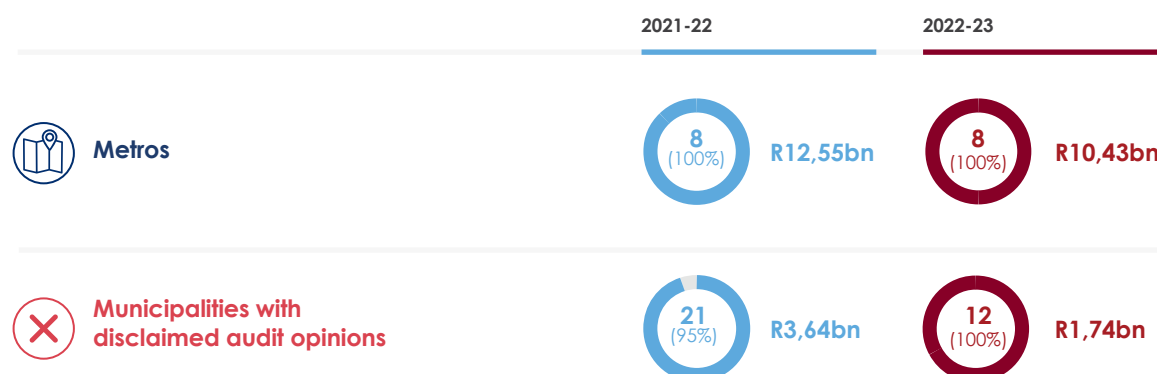
employees and councillors. While municipalities are not prohibited from making such awards, legislation does require the municipality to disclose any such awards of more than R2 000 in its financial statements for the sake of transparency. Five municipalities did not disclose awards to close family members valued at R3,64 million in their financial statements as required.

Non-compliance with procurement and contract management legislation remained the biggest contributor to the irregular expenditure incurred by municipalities in 2022-23.

Municipalities disclosed a total of R27,59 billion in irregular expenditure in 2022-23 – 9% less than the R30,45 billion disclosed in the previous year – with metros contributing more than a third of this amount. The total amount could be even higher, as 44% of municipalities did not report all the irregular expenditure they should have reported in their financial statements. In other cases, the amount of irregular expenditure reported was incorrect. We could also not audit contracts worth R1,79 billion because of missing or incomplete information. The missing information at the City of Tshwane Metro in Gauteng contributed the most to the overall limitation – the winning bidder's documents for one competitive bid's procurement process and three supplier contracts for contract management could not be provided for auditing due to poor record management.

The biggest contributors to the decrease in irregular expenditure were Buffalo City Metro in the Eastern Cape (R4,81 billion decrease), King Sabata Dalindyebo Local Municipality in the Eastern Cape (R1,30 billion decrease), and uMkhanyakude District Municipality in KwaZulu-Natal (R1,19 billion decrease). The main reasons for the decreases at these three municipalities were that their prior disclosures had included historic irregular expenditure that did not recur in 2022-23, irregular contracts had expired, and procurement compliance checklists were implemented.

Irregular expenditure – metros and municipalities with disclaimed audit opinions



We have issued eight material irregularity notifications on the overpricing of goods and services procured without meeting the requirements for fair and competitive procurement processes, and seven material irregularities on uneconomical procurement. Where accounting officers took appropriate action

in response to being notified of the material irregularities, the desired impact was achieved: procurement and payment controls were improved, and steps were taken to recover financial losses and to hold the responsible officials to account.

Procurement weaknesses



In September 2021, **Lekwa Local Municipality** (Mpumalanga) awarded a tender to a service provider to provide security services for three years. During the functionality evaluation, the municipality unfairly disqualified a service provider that had tendered a lower price, resulting in an estimated loss of R5,72 million. We notified the accounting officer of the material irregularity in April 2023. The accounting officer unsuccessfully tried to negotiate with the appointed service provider to reduce the contract value. In June 2023, the accounting officer appointed a presiding officer to institute disciplinary proceedings against the members of the bid evaluation committee. Further action is being taken to fully resolve the material irregularity.

No or limited benefit received for money spent – including ineffective use of consultants

With the limited funds available, municipalities must ensure that they get the most value possible from every rand spent. Municipalities continued to procure goods or services that they either did not use or did not use in full, or for which they did not receive full value for the money spent.

We issued 41 material irregularity notifications for financial losses due to resources not being used efficiently, resulting in no or limited benefits being derived from the money spent. The desired impact of these material irregularities is to encourage municipalities to use resources efficiently and economically, which is essential for easing pressure on government finances.

Inefficient use of resources



- In August 2019, **Zululand District Municipality** (KwaZulu-Natal) appointed a consultant to provide VAT-review services while there was a municipal official who had the necessary experience and skills to perform these duties. This resulted in a loss of R11,1 million. We notified the accounting officer of the material irregularity in May 2023. The accounting officer terminated the contract with the consultant in June 2023.
- From September 2020 to August 2022, the **Joburg Property Company** (Gauteng) paid rent of an estimated R13,6 million after the lease had expired because it did not remove equipment from its offices at the end of the lease's term. We notified the accounting officer of the material irregularity in May 2023. The accounting officer instituted an investigation, which was completed in November 2023, but the investigation did not address the material irregularity. The accounting officer then initiated a process to address the shortcomings of the investigation. Further action is being taken to fully resolve the material irregularity.

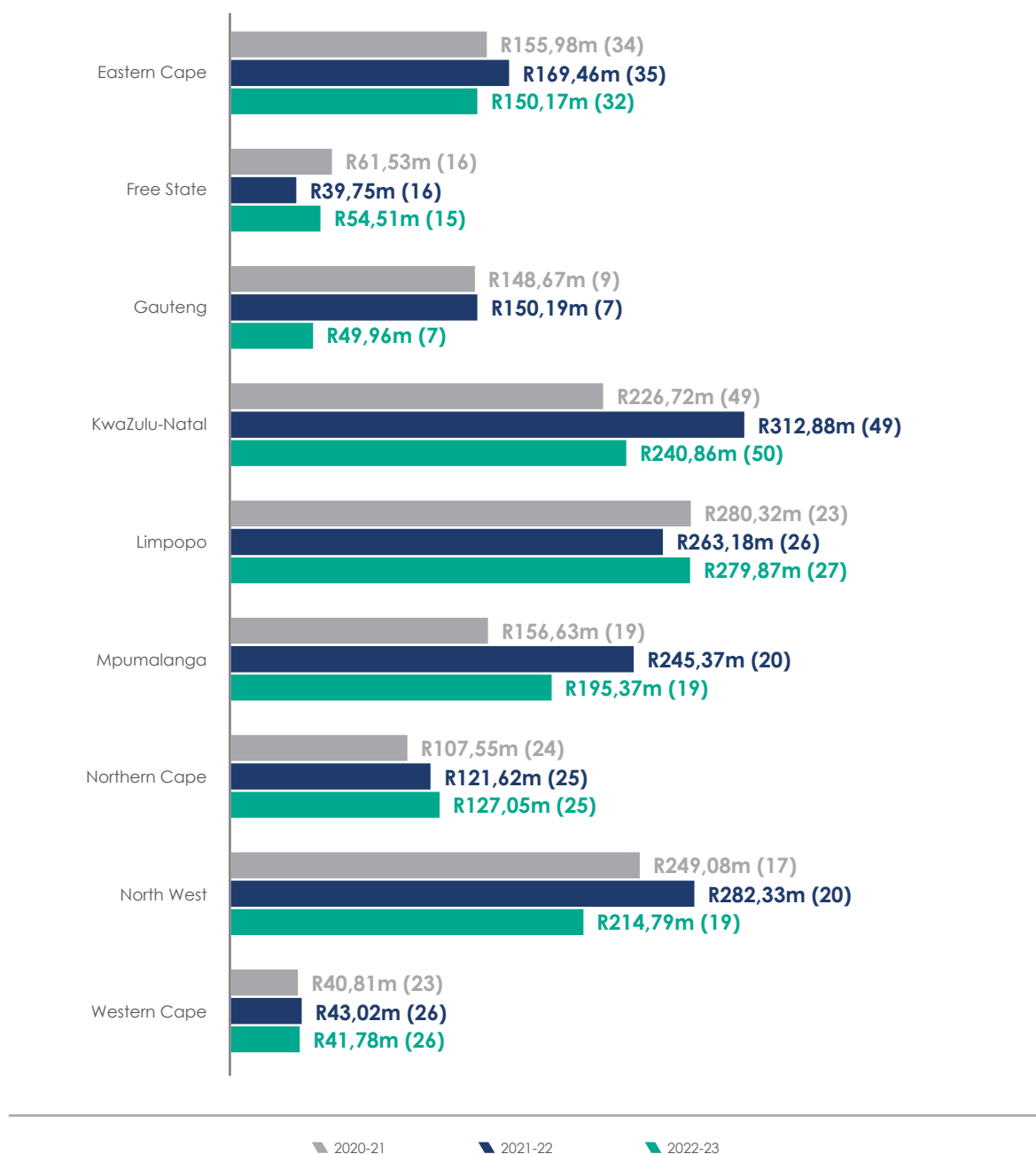
In 2022-23, municipalities spent a total of R1,35 billion on consultants to help with financial reporting – a 17% decrease from the R1,63 billion spent last year and a 5% decrease from the R1,43 billion spent in the last year of the previous administration.

high reliance on consultants and ensure that, where consultants are used, skills are transferred. There has been a decrease in consultant costs in most of the provinces, which indicates that action has been taken to reduce expenditure on consultants.

In our previous general report, we recommended that municipalities implement plans to reduce the

Consultant cost per province

(Number of municipalities using consultants shown in brackets)



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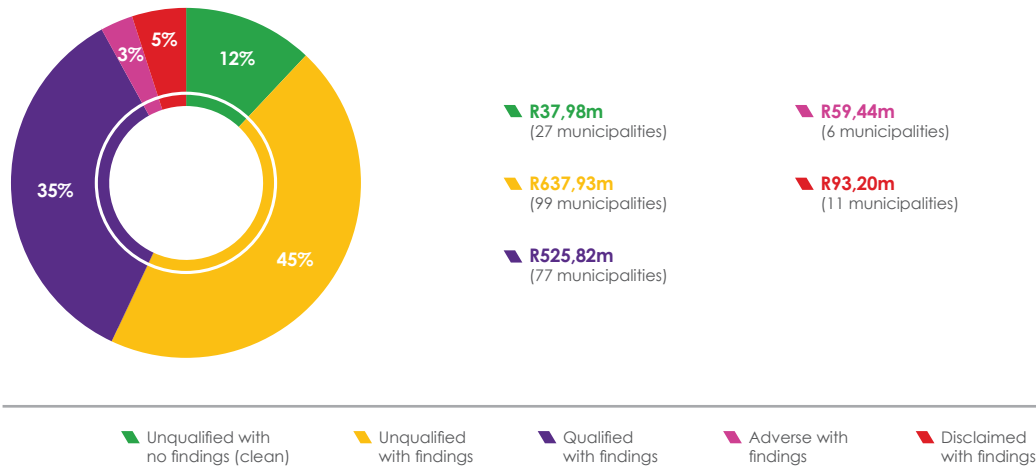
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Despite the amount spent by municipalities on consultants to ensure good-quality financial statements, the expected benefits were not always evident. The financial statements submitted for auditing by 127 of the municipalities that used

consultants (58%) had material misstatements in the areas in which the consultants did work. Even after we had allowed corrections to be made, 43% of municipalities that used consultants received modified audit opinions.

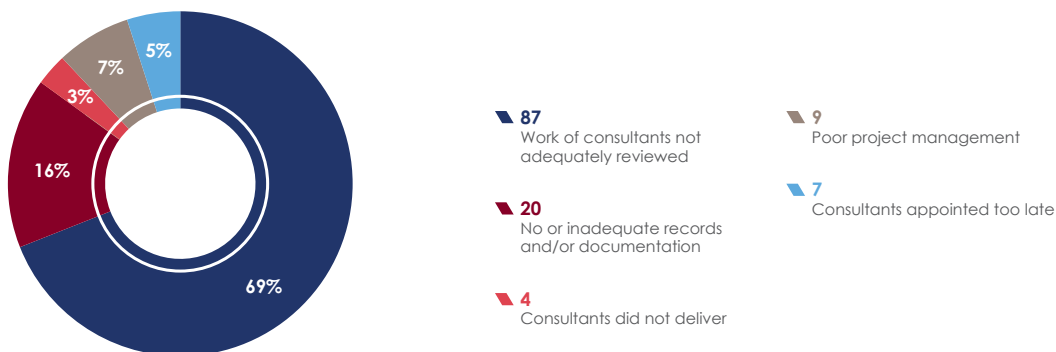
Consultant cost by audit outcome



In 97% of the cases, the municipalities – and not the consultants – were responsible for not deriving the full benefit of the appointments: they appointed the consultants too late, did not adequately review

the consultants' work, could not make the required financial records and documentation available to the consultants, or managed consultant contracts poorly.

Reasons misstatements were not prevented



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

accounting officers of 29 material irregularities because of financial losses relating to the use of consultants.

Ineffective use of consultants



City of Tshwane Metro (Gauteng) appointed consultants to prepare an immovable asset register. Our 2021-22 audit identified material misstatements in the area in which the consultants worked. This was because controls were not in place for reviewing the work of consultants, which resulted in an estimated loss of R7,1 million. We notified the accounting officer of the material irregularity in April 2023. The accounting officer initiated a process to conduct a value-for-money audit to investigate this matter in November 2023, which is currently in progress. Further action is being taken to fully resolve the material irregularity.

Another common area in which municipalities do not receive the intended value for money spent

relates to municipalities procuring more **software licences** than they need, leaving many unused.

Unused software licences



- **Nelson Mandela Bay Metro** (Eastern Cape) procured more software licences for its operating system than it needed, resulting in an estimated financial loss of R34,11 million. We notified the accounting officer of the material irregularity in November 2022. The accounting officer signed a new contract in January 2023, which reduced the number of licences to match the number of users needing such licences, resulting in a cost saving of R42,61 million over the three-year duration of the new contract. The matter was investigated in October 2023 and the municipal public accounts committee referred the outcome of the investigation to the council in December 2023. Further action is being taken to fully resolve the material irregularity.
- In September 2019 and December 2020, **City of Tshwane Metro** (Gauteng) procured software licences that were not used, resulting in an estimated financial loss of R98,5 million. We notified the accounting officer of the material irregularity in November 2022. The accounting officer terminated the licences that were not in use and negotiated a new maintenance fee on existing licences, which prevented losses of R11 million. The service provider issued a credit note of R22,3 million for use on future maintenance in December 2022. Further action is being taken to fully resolve the material irregularity.

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Weaknesses in project management

As detailed earlier, weaknesses in the delivery of infrastructure projects often result in cost overruns and financial losses. If projects are to be delivered on time, within budget and at the required quality, proper needs assessments, project planning and project management are required.

Municipalities do not always ensure that the needs for the project are properly identified so that they

can plan accordingly. Poor demand and procurement planning results in unrealistic cost estimates, inadequate specifications and poor decisions about the type and scope of work. It also results in the feasibility of the project not being properly determined.

Project management weaknesses



In November 2016, **JB Marks Local Municipality** (North West) awarded a contract to a service provider to construct a flood-line canal before funding was secured. This resulted in the project being stopped in July 2017 and work worth an estimated at R14,87 million having to be re-done from 2022. We notified the accounting officer of the material irregularity in March 2022. The accounting officer did not take appropriate action to address the irregularity, and in June 2023 we referred the matter to the Special Investigating Unit.

Fraud committed by officials

One of the key responsibilities of municipal managers, chief executive officers, senior managers and municipal officials is to implement and maintain effective and efficient systems of internal control in support of accountability.

We did focused work on fraud risk and controls at metros and municipalities with disclaimed audit opinions. At some of these municipalities, the lack of basic controls – including those relating to good record keeping, payment approvals and information

technology systems – created an environment in which it was easy to commit fraud.

Suspected fraud resulting in financial loss is a material irregularity. The desired impact of raising material irregularities on suspected fraud is to ensure that accounting officers, with the support of councils and disciplinary boards, deal with fraud swiftly and effectively, and put controls in place to prevent it from happening again.



Losses due to fraud and suspected fraud

- At **Emthanjeni Local Municipality** (Northern Cape), an employee intentionally changed supplier banking details and, between April 2013 and August 2019, fraudulently processed payments intended for suppliers to their own bank account, resulting in a loss of R1,5 million. The accounting officer reported the matter to the South African Police Service for criminal investigation in February 2021 and to the Directorate for Priority Crime Investigation (commonly known as the Hawks) for possible recovery. The municipality designed and implemented internal controls to manage spending, including verifying supplier banking details before payments are made. Further action is being taken to fully resolve the material irregularity.
- eThekweni Metro** (KwaZulu-Natal) made payments from May 2018 to January 2020 for investigative services, without evidence that the services had been received. This resulted in an estimated financial loss of R21,01 million. We notified the accounting officer of the material irregularity in November 2021. The accounting officer has initiated action to recover the financial loss from both the supplier and the former accounting officer who had resigned during June 2021.

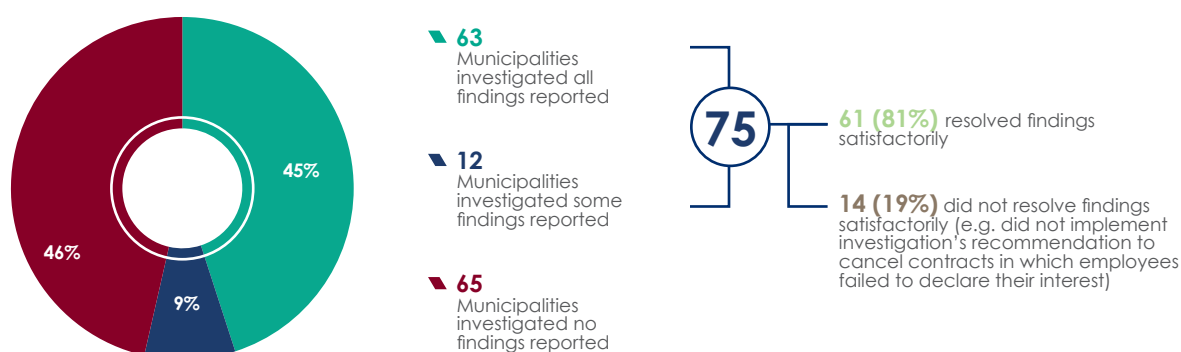
Accountability should also come into play where allegations of financial and supply chain misconduct and fraud have been made. We audited 46 municipalities to see whether this was the case and found that 13 (28%) did not investigate the allegations at all, while seven (15%) did not report allegations exceeding R100 000 to the South African Police Service as required.

We see the same pattern in how municipal managers respond to the indicators of possible fraud or improper conduct in supply chain

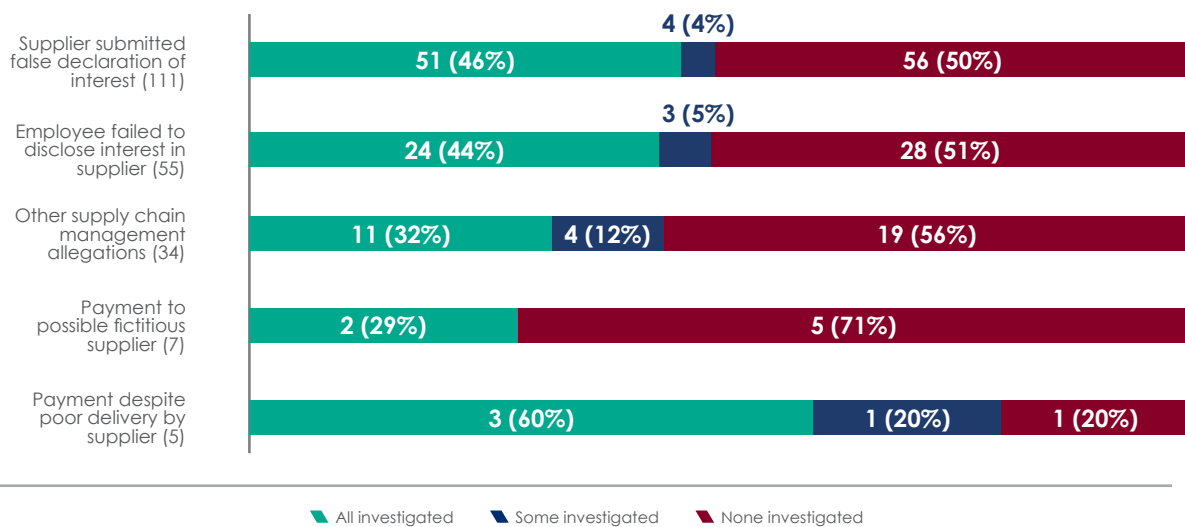
management processes that we report to them for investigation every year. Last year, we reported such indicators at 140 municipalities for follow-up.

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

Overall status of investigations into suspected fraud and improper conduct in supply chain management processes reported last year



Status of investigations per type of suspected fraud or improper conduct in supply chain management processes reported last year

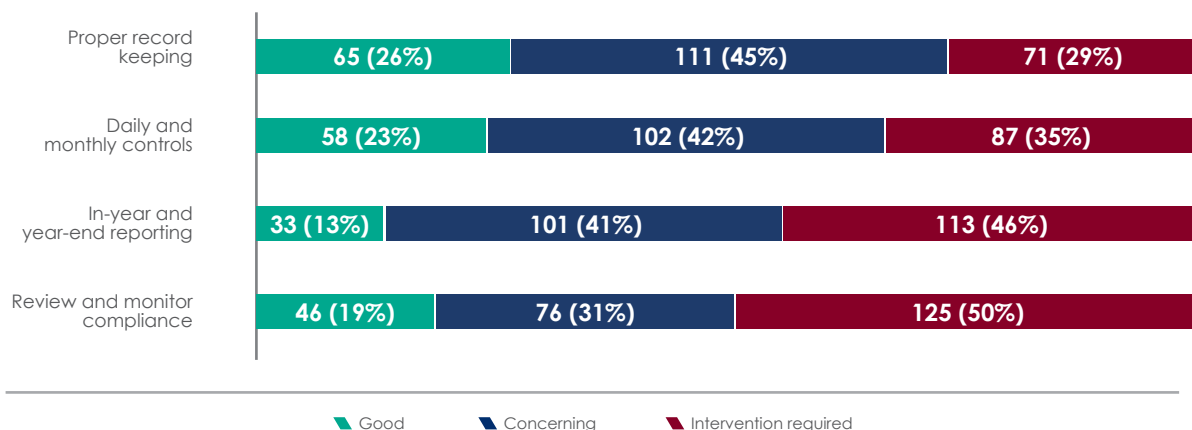


Inadequate financial controls and unreliable reporting

Internal controls help municipalities to achieve their objectives by mitigating the risks of human error, incorrect decisions, fraud, abuse and loss. These controls also prevent financial losses, wastage and transgressions, and significantly improve financial management and reporting. Despite the resources

and support municipalities had available to enable sound financial management and reporting, their processes and controls were not adequate to prevent material misstatements in the financial statements.

Status of key financial management controls



We have not seen much improvement in the status of these controls, and thus in the quality of financial reporting, despite the shortcomings we have reported and the recommendations we have provided.

Information technology controls are an integral part of a municipality's control environment. Over the years, we have identified significant control weaknesses in local government's information technology environment, which compromise the accuracy of financial records and interrupt service delivery. The information systems that municipalities use to manage their finances and to enable financial reporting and monitoring have significant control weaknesses, making them vulnerable to intentional and unintentional manual override and manipulation.

In 2022-23, our focused work on information technology governance and controls at 35 municipalities found that 18 municipalities (51%) had ineffective governance processes and 22 (62%) had weak security controls.

Although all metros had information technology governance frameworks in place, they were either not implemented or not operating effectively. Mangaung Metro in the Free State had poor cybersecurity controls and suffered a cyber-attack after the audit period (in October 2023), which crippled its operations and disrupted its services.

The National Treasury introduced the Municipal Standard Chart of Accounts (mSCOA), which became effective in July 2017, to improve public sector accountability and financial reporting. In support of this initiative, seven of the metros upgraded their financial systems, while Nelson Mandela Bay Metro (Eastern Cape) replaced its system. More than six years later, the systems of City of Johannesburg (Gauteng), City of Tshwane (Gauteng), eThekweni (KwaZulu-Natal) and Nelson Mandela Bay (Eastern Cape) were still not fully integrating all planning, budgeting, transacting and reporting requirements as required by the mSCOA.

Impact of poor financial management

Weaknesses in financial management have an impact on three main areas: local government becomes financially distressed, borrowing costs may increase, and governance and accountability processes may be weakened – all of which negatively affect service delivery.

Financial distress

Municipalities must assess their financial position at year-end using criteria included in the accounting standards. They do this by analysing their financial information and doing calculations to determine whether their revenue is more than their spending (in other words, if they made a profit), they have more assets than liabilities, there is enough money in the bank to pay their debt, and they expect to have enough funds in future to cover what it will cost to deliver services. If, based on this assessment, they have serious concerns about their ability to perform their functions and honour their financial and performance commitments with the funds they have (or can get), they must disclose this in their financial statements.

The financial position of 74 of the 247 municipalities (30%) where we completed our audits was so dire that they had to disclose significant doubt about their ability to fully continue operating. These municipalities were in all provinces except the Western Cape. Two metros formed part of this group – City of Tshwane (Gauteng) and Mangaung (Free State) – and they were collectively responsible for almost 10% of the total municipal budget and for service delivery to 9% of households in the country.

Many of the 74 municipalities made this disclosure multiple times over the previous administrative term. This means that because of their financial position, they have not been fully operational for many years. Typically, these are the municipalities that do not pay Eskom and the water boards on time and do not deliver services at the required level.

Municipalities in concerning financial position and consecutive years in this position

10 Eastern Cape

Amathole DM	>5
Dr Beyers Naudé LM	4
Enoch Mgijima LM	>5
Inxuba Yethemba LM	>5
King Sabata Dalindyebo LM	>5
Kou Kamma LM	>5
Kouga LM	1
Makana LM	>5
Raymond Mhlaba LM	>5
Walter Sisulu LM	2

11 KwaZulu-Natal

eMahlangueni LM	1
Endumeni LM	1
Impendle LM	2
Mpofana LM	>5
Msunduzi LM	5
Newcastle LM	5
Nkandla LM	2
Ugu DM	>5
Umgweni LM	1
uMzinyathi DM	2
uThukela DM	>5

17 Northern Cape

!Kheis LM	>5
Dikgatlong LM	>5
Emthanjeni LM	>5
Gamagara LM	>5
Hantam LM	2
Kamiesberg LM	>5
Kgatelopele LM	1
Namakwa DM	1
Pixley Ka Seme DM	1
Richtersveld LM	1
Siyathemba LM	4
Sol Plaatje LM	1
Thembelihle LM	>5
Tsantsabane LM	1
Ubuntu LM	>5
Umsobomvu LM	1
ZF Mgcawu DM	2

13 Free State

Kopanong LM	>5
Letsemeng LM	>5
Mangaung MM	>5
Mantsopa LM	>5
Matjhabeng LM	>5
Mohokare LM	>5
Nala LM	>5
Ngwathe LM	>5
Nketoana LM	>5
Phumelela LM	>5
Tokologo LM	>5
Tswelopele LM	>5
Xhariep DM	>5

5 Limpopo

Bela-Bela LM	2
Greater Letaba LM	2
Modimolle-Mookgophong LM	>5
Mogalakwena LM	1
Thabazimbi LM	>5

4 Mpumalanga

Emalahleni LM	>5
Govan Mbeki LM	4
Lekwa LM	>5
Msukaligwa LM	1

7 North West

City of Matlosana LM	>5
Kgetlengrivier LM	5
Lekwa Teemane LM	>5
Maquassi Hills LM	>5
Naledi LM	5
Rustenburg LM	1
Tswaing LM	>5

6 Gauteng

City of Tshwane MM	3
Emfuleni LM	4
Merafong City LM	2
Rand West City LM	>5
Sedibeng DM	>5
West Rand DM	>5

1 Western Cape

Beaufort West LM	>5
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When we analysed the financial statements of the 229 municipalities with audit opinions other than disclaimed or adverse, we found 53% of them to have indicators of financial strain. If not addressed, this can result in significant doubt about their ability to continue operating.

By year-end, over half of all municipalities (54%) did not have enough cash available to cover fixed monthly operating expenses for at least a month. The total deficit in local government for the year amounted to R13,14 billion,

with 84 municipalities (37%) having spent more money than they had generated.

As a result, municipalities were using their budget for the next year to cover their spending in the current year. At 35% of municipalities, their current liabilities were more than half of their next year's revenue budget. All metros' current liabilities were 30% or more of their next year's revenue budget. This means that the 2023-24 budget will pay for spending that has already taken place in 2022-23 or before. This cycle is

likely to continue unless municipalities reduce their spending and increase their revenue, which is highly doubtful given the prevailing economic conditions and overall economic outlook.

Increased borrowing cost

Credit-rating agencies use financial statements as a tool to help them determine how much risk there is in lending money to a municipality. The credit rating assigned to a municipality can affect both its ability to borrow money and the cost of doing so, particularly at metros with listed debt instruments (a form of debt used to raise capital). Poor credit ratings lead to higher borrowing costs, which place more pressure on the public purse.

By 30 June 2023, two metros – Nelson Mandela Bay (Eastern Cape) and eThekweni (KwaZulu-Natal) – had their credit ratings downgraded by at least one of the rating agencies. The rating of three of the metros that were downgraded last year – City of Johannesburg (Gauteng), City of Ekurhuleni (Gauteng) and City of Cape Town (Western Cape) – remained unchanged.

If economic conditions worsen, more metros could be downgraded, which could lead to reduced funding or increased borrowing costs, especially for key infrastructure projects needed to deliver services to the public. As cash-strapped consumers fall behind on paying municipal rates and taxes, rating agencies are increasingly concerned that because of falling revenue, metros may not be able to repay their debt or source cash from capital markets to meet future obligations.

Weakened governance and accountability

Financial statements are a key instrument for accountability. Municipal managers are responsible for providing credible and reliable in-year financial reports and good-quality year-end financial statements. The council uses these financial statements to hold the municipal manager to account and to make decisions related to financial management and service delivery. Creditors, banks and rating agencies use them to determine how much risk there is in lending money to a municipality, and the public uses them to see how well the municipality is applying the rates and taxes collected to provide services.

Unreliable financial statements weaken transparency and the ability of users to make decisions or hold the municipality to account, while in-year financial reporting that is not credible affects in-year decision-making and oversight. This is particularly true at municipalities with disclaimed audit opinions, as users of the financial statements are unable to determine what has been spent because funds cannot be accounted for.

What caused this?

The continuing unfunded budgets and overspending, poor revenue management, financial losses, inadequate financial controls and unreliable financial reporting are due to the following:

- Basic financial management and procurement **processes are not functioning** as they should. These include having standardised, effective processes for procurement, payment and accounting disciplines; ensuring proper record keeping; performing independent reviews and reconciliations of transactions and accounting records; and ensuring that in-year reporting and monitoring take place.
- **Vacancies and lack of financial management skills** remain the biggest contributing factor to financial units not delivering credible financial reports and implementing good preventative financial controls. Municipalities should have capacitated, competent finance units led by experienced chief financial officers who can provide stability and direction.

At year-end, municipal finance units had an average vacancy rate of 20%. Overall, 28% of municipalities had a vacant chief financial officer position, with the rate rising to 42% at municipalities with disclaimed audit opinions. Chief financial officers held their positions for an average of only 45 months, or 39 months at municipalities with disclaimed audit opinions.

In 2022-23, there were 219 municipalities that used financial reporting consultants. Almost half of these municipalities (47%) used consultants to provide skills that their finance units did not have. At 42% of municipalities, consultants were hired for specific skills and to bridge a vacancy

gap, while 10% used consultants purely to compensate for vacancies. Because these municipalities cannot master credible financial reporting, they appoint consultants year after year without ensuring that skills are transferred to municipal staff. What was intended to be a short-term solution, continues indefinitely. In both 2021-22 and 2022-23, 81% of municipalities reappointed the consultants used in the previous year.

Consultants were mostly used for the preparation or review of financial statements (33%), asset management services (28%), and tax services (26%).

- All municipalities use **information technology** systems for financial functions and reporting, but **governance and controls are weak**, and systems are not used to their full potential. This was mostly due to a lack of skills, overreliance (with limited oversight) on the software providers, and little focus at municipal manager and council level on the benefits, risk and cost of information technology.
- The value **audit committees and internal audit units** can provide to improving financial discipline and processes is not realised – most often due to the municipal administration and council not taking heed of the risks these governance structures identify and the recommendations they make.

- Councils are responsible for approving municipalities' budgets, conducting in-year monitoring, and using the financial statements to determine whether municipalities used their budgets as intended and are in a good financial position. However, in many cases, the councils could not adequately fulfil their oversight role because of **instability and political uncertainty**, which resulted in delayed decision-making on important strategic and operational matters affecting service delivery and delayed consequence management processes.
- **Councils do not make the difficult decisions that are often needed** to ensure a municipality remains financially sustainable – which includes only adopting funded budgets, adapting tariff policies to ensure revenue matches spending, enforcing debt-collection policies, and prioritising or planning for projects that can be funded.
- Municipal managers and officials face **limited consequences** when they provide unreliable information in financial statements and in-year reports. Financial losses due to misconduct or negligence rarely have repercussions as councils do not hold those responsible to account.

CONCLUSION

Throughout this section, we have highlighted problems in the areas of performance planning and reporting, spending and financial management, and infrastructure management.

We identified three main root causes that underpin all these problems, which are the same as those reported in our previous general report:

- Inadequate skills and capacity
- Governance failures
- Lack of accountability and consequences

In the call to action section, we look at these root causes in more detail and provide recommendations to the accountability ecosystem on how to address them. In the section on material irregularities, we also touch on how the material irregularity process is contributing to addressing these issues.



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MATERIAL IRREGULARITIES

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When the Public Audit Act was amended in April 2019, it gave us the mandate to identify and report on material irregularities (MIs) and to take action if accounting officers do not deal with them appropriately

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

The overall aim of our expanded mandate is:

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

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

This year, we expanded our work significantly by implementing the MI process at 278 auditees in local government – up from 170 last year. We plan to have reached full implementation at all 309 auditees in 2023-24.



Definition of material irregularity and expanded powers



Material irregularity (MI)

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

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

1

Refer material irregularities to relevant public bodies for further investigations

2

Recommend actions in the audit report to resolve the material irregularity

Take binding remedial action for failure to implement recommendations

3

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

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IMPACT OF MATERIAL IRREGULARITY PROCESS

Last year, we reported that through our expanded mandate we have enriched our insights and strengthened our ability to influence and enforce accountability and consequence management. Since 2020-21, we have seen auditees' responsiveness to the process continuously improve. They are now taking action to resolve MIs by recovering losses, preventing further losses and harm through strengthening internal controls, and implementing consequences for transgressions.

When we notify an accounting officer of an MI, they often end up addressing irregularities and transgressions that they should have already dealt with. Until we issued notifications, no actions were being taken to address 84% of the irregularities we identified.

Through the MI process, accounting officers have taken action to prevent or recover financial losses totalling R924,1 million since 2019, with some of this amount still being recovered.

Municipalities and municipal entities are then able to direct any recovered funds towards service delivery, enabling government to achieve its strategic priorities.

These actions have included:

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

Actions taken to address financial losses

Financial loss recovered **R261,68m**

Financial loss in process of recovery **R444,31m**

Financial loss prevented **R218,11m**

116

Internal controls improved to prevent recurrence

80

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

26

Fraud/criminal investigations instituted

6

Supplier contracts stopped where money was being lost

The positive impact that the MI process is having is reflected in the following examples of MIs that have been fully resolved or are in the process of being resolved.

Positive impact of material irregularity process



- Loss prevented: City of Johannesburg Metro** (Gauteng) invested funds with a branch of a foreign bank that did not meet the definition of a bank in terms of the Banks Act, leading to a likely financial loss of R1,1 million. We notified the accounting officer of the MI in May 2023. The accounting officer strengthened controls by delegating the responsibility of managing the group treasury compliance submissions to two officials within the municipality with effect from June 2023. In December 2023, the accounting officer received the full amount by withdrawing the investment. Further action is being taken to fully resolve the MI.
- Investigations instituted:** During a site visit to Moshate Stadium in **Mogalakwena Local Municipality** (Limpopo) in December 2022, we noted that assets had been stolen or vandalised. We notified the accounting officer of the MI in December 2022, as these losses were due to the municipal assets not being properly safeguarded. The accounting officer instituted an investigation, which was completed in October 2023, and is in the process of implementing the recommendations from the investigation report. A criminal investigation by the South African Police Service commenced in July 2023. Further action is being taken to fully resolve the MI.
- Internal controls improved:** During 2021-22, **Dr JS Moroka Local Municipality** (Mpumalanga) did not calculate and bill property rates every month, which resulted in an estimated loss of R4 million. We notified the accounting officer of the MI in April 2023. The accounting officer improved the controls around recording property rates revenue and implemented reconciliations of the billing system to the valuation roll from June 2023. Further action is being taken to fully resolve the MI.

We are also starting to see auditees pay attention to matters we have been raising for years and that are causing substantial harm to a public sector institution (in this case, a municipality or municipal entity) or the general public. For example, municipalities are taking appropriate action to repair and refurbish eight dysfunctional wastewater treatment plants.

In the section on audit outcomes, we highlight the impact the MI process has had on dealing with those municipalities that did not submit their financial statements on time, and those that repeatedly received disclaimed audit opinions on their financial statements because they did not keep proper records and maintain financial discipline.

NATURE OF MATERIAL IRREGULARITIES

From 1 April 2019 (when the amendments to the Public Audit Act became effective and we began implementing the MI process) until 31 January 2024 (the cut-off date for MIs to be included in this report), we identified 360 MIs – an increase from the 268 MIs we reported last year.

We estimate the total financial loss of the 260 MIs that involved a material financial loss to be R7,34 billion.

The 100 MIs with an impact other than financial loss involve harm to the general public (mainly due to infrastructure neglect) and/or harm to public sector institutions (because of the non-submission of financial statements and repeatedly disclaimed audit opinions).

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

- procure at the best price
- pay only for what was received
- make payments on time to avoid unnecessary interest and/or penalties
- recover revenue owed to the state
- safeguard and maintain assets
- safeguard investments
- complete infrastructure projects on time, at the required quality and within budget
- effectively and efficiently use the resources of the state to get value for the money spent and deliver intended services
- report transparently and reliably on performance and finances
- manage finances with due care
- prevent fraud
- comply with legislation.

We have highlighted all these areas of vulnerability for years, including in previous general and special reports. Throughout this report, we have included

examples of MIs to show just how harmful their impact can be.

Nature of 360 identified material irregularities

Procurement and payment (75)	8	7	60
	Non-compliance in procurement processes resulting in overpricing of goods and services procured or appointed supplier not delivering	Uneconomical procurement resulting in overpricing of goods and services procured	Payment for goods or services not received/of poor quality/ not in line with contract or to ineligible beneficiaries
Resource management (75)	19	41	15
	Assets not safeguarded resulting in loss	Inefficient use of resources resulting in no/limited benefit derived for money spent	Loss of investment
Revenue management (36)	32	4	
	Revenue not billed	Debt not recovered	
Interest and penalties (70)	51	19	
	Eskom, water boards, lenders and suppliers not paid on time resulting in interest	Payroll and value-added tax returns not paid on time or incorrectly calculated resulting in South African Revenue Service interest and penalties	
Fraud and compliance (4)	3	1	
	Suspected fraud resulting in loss	Non-compliance resulting in penalties	
Harm to general public (48)	38	10	
	Non-compliance with environmental legislation resulting in pollution of water resources	Landfill site mismanagement resulting in harm to public	
Harm to public sector institution (52)	25	25	1
	Full and proper records not kept as evidenced by repeat disclaimed opinions resulting in substantial harm to municipalities	Non-submission of financial statements	Poor project management resulting in harm to institution
		1	
		Lack of proper performance-related records	

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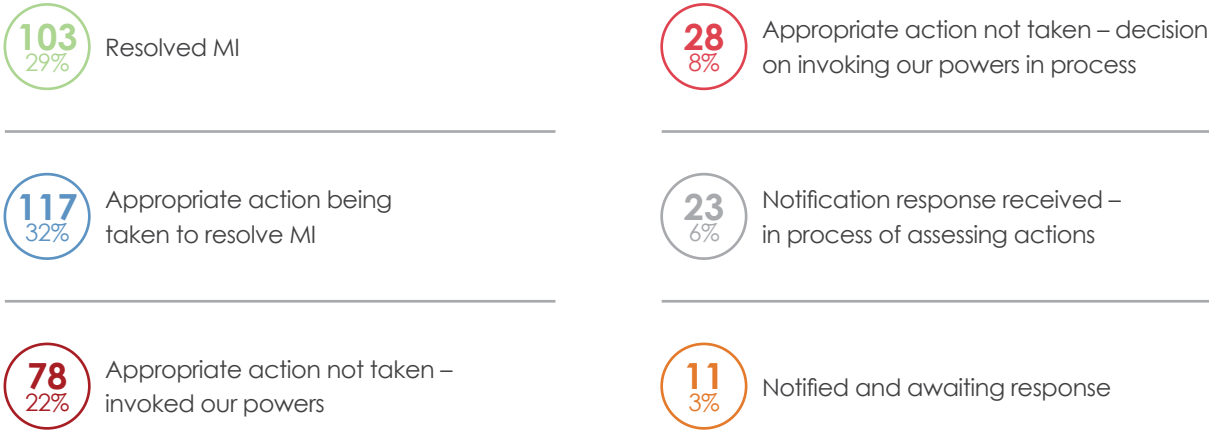
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STATUS OF MATERIAL IRREGULARITIES

The 360 MIs identified by 31 January 2024 were at different stages in the MI process by 29 February 2024 (the cut-off date for the status of MIs to be included in

this report). As we recently evaluated the status of the MIs on repeatedly disclaimed audit opinions, we reflect on their status at 12 June 2024.

Status of 360 identified material irregularities



We are still assessing the actions taken to address 34 of the 360 MIs as we either had only recently notified accounting officers of the MIs and their responses were not yet due, or we were evaluating the responses to newly identified MIs. We are also assessing whether to invoke our powers for 28 MIs.

This means that we have evaluated and can report on the status of 298 MIs – those that were resolved, those where appropriate action was being taken, and those where appropriate action was not taken and we invoked our powers.

Resolved material irregularities

We consider an MI resolved only when all possible steps have been taken:

- to recover financial losses or remove or address any harm caused
- to implement consequences against those involved
- to prevent any further losses and harm.

Of the 103 resolved MIs, 57 were resolved in previous years and 46 in 2022-23.

Overall, these MIs were resolved through one or a combination of the following actions:

- 23 were resolved by preventing or recovering financial losses
- 28 by preventing further harm to the general public and public sector institutions
- 21 by implementing consequences for those responsible for the irregularities
- 77 by improving internal controls to prevent the irregularities from recurring

Appropriate action being taken to resolve material irregularities

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

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

Although the 117 MIs where appropriate action is being taken have not yet been fully resolved, accounting officers have made some progress in implementing their proposed actions. By 29 February 2024, the average 'age' of these 117 MIs was 18 months from date of notification. These MIs will be fully resolved once the accounting officers have implemented the actions to which they have committed. These actions may include strengthening internal controls to prevent the irregularities from recurring, starting disciplinary processes against responsible officials, instituting action against officials or contractors to recover losses, and preventing further losses from taking place.

Appropriate action not taken to resolve material irregularities and we invoked our powers

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

In the 78 cases where accounting officers did not appropriately address the MIs that we reported to

them, we used our expanded mandate to include recommendations in the audit reports, or the auditor-general invoked her additional powers of referral and remedial action. We have also taken steps towards issuing certificates of debt.

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

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Further action taken

24 Recommendations in audit report as accounting officer took little or no action to address MI

Beaufort West LM (WC)
Chris Hani DM (EC)
City of Matlosana LM (NW) – 3
City of Mbombela LM (MP) – 2
Emalahleni LM (MP) – 2
Inxuba Yethemba LM (EC)
Matjhabeng LM (FS)
Mangaung MM (FS)
Moghaka LM (FS)
Naledi LM (NW)
Ngaka Modiri Molema DM (NW) – 2
Ngwathe LM (FS) – 2
Nketoana LM (FS)
Raymond Mhlaba LM (EC)
Sol Plaatje LM (NC)
uMkhanyakude DM (KZN) – 3

22 Remedial action taken as our recommendations were not implemented

City of Tshwane MM (GP) – 2
Ditsobotla LM (NW)
Dr Ruth Segomotsi Mompati DM (NW)
JB Marks LM (NW)
Joe Morolong LM (NC)
Kai !Garib LM (NC)
Lekwa Teemane LM (NW)
Madibeng LM (NW)
Maluti-a-Phofung LM (FS)
Mamusa LM (NW)
Masilonyana LM (FS)
Matjhabeng LM (FS)
Naledi LM (NW)
Ngaka Modiri Molema DM (NW) – 4
Tokologo LM (FS)
uMkhanyakude DM (KZN) – 3

27 Referral to public bodies for further investigation

Chris Hani DM (EC)
Emalahleni LM (MP)
JB Marks LM (NW) – 2
Kopanong LM (FS)
Madibeng LM (NW) – 2
Mangaung MM (FS) – 3
Masilonyana LM (FS)
Matjhabeng LM (FS) – 4
Metsimaholo LM (FS) – 3
Moghaka LM (FS) – 2
Ngaka Modiri Molema DM (NW) – 6
Ngwathe LM (FS)

3 Recommendations in audit report and referral to public bodies

Mangaung MM (FS)
Ngaka Modiri Molema DM (NW) – 2

2 Notice of certificate of debt

Ngaka Modiri Molema DM (NW) – 2

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

- **Recovery:** Steps that should be taken to recover financial and public resource losses or to recover from harm

- **Prevention:** Steps that should be taken to strengthen internal controls to prevent further losses and harm
- **Consequences:** Steps that should be taken to impose consequences for wrongdoing, including disciplinary processes and, if applicable, handing the matter over to a law-enforcement agency

If an accounting officer does not implement our recommendations, we take remedial action that covers the same areas of recovery, prevention and consequences. Remedial action is a binding (obligatory) instruction taken by the auditor-general that outlines the action an auditee needs to take to address the MI. If the MI caused a financial loss

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

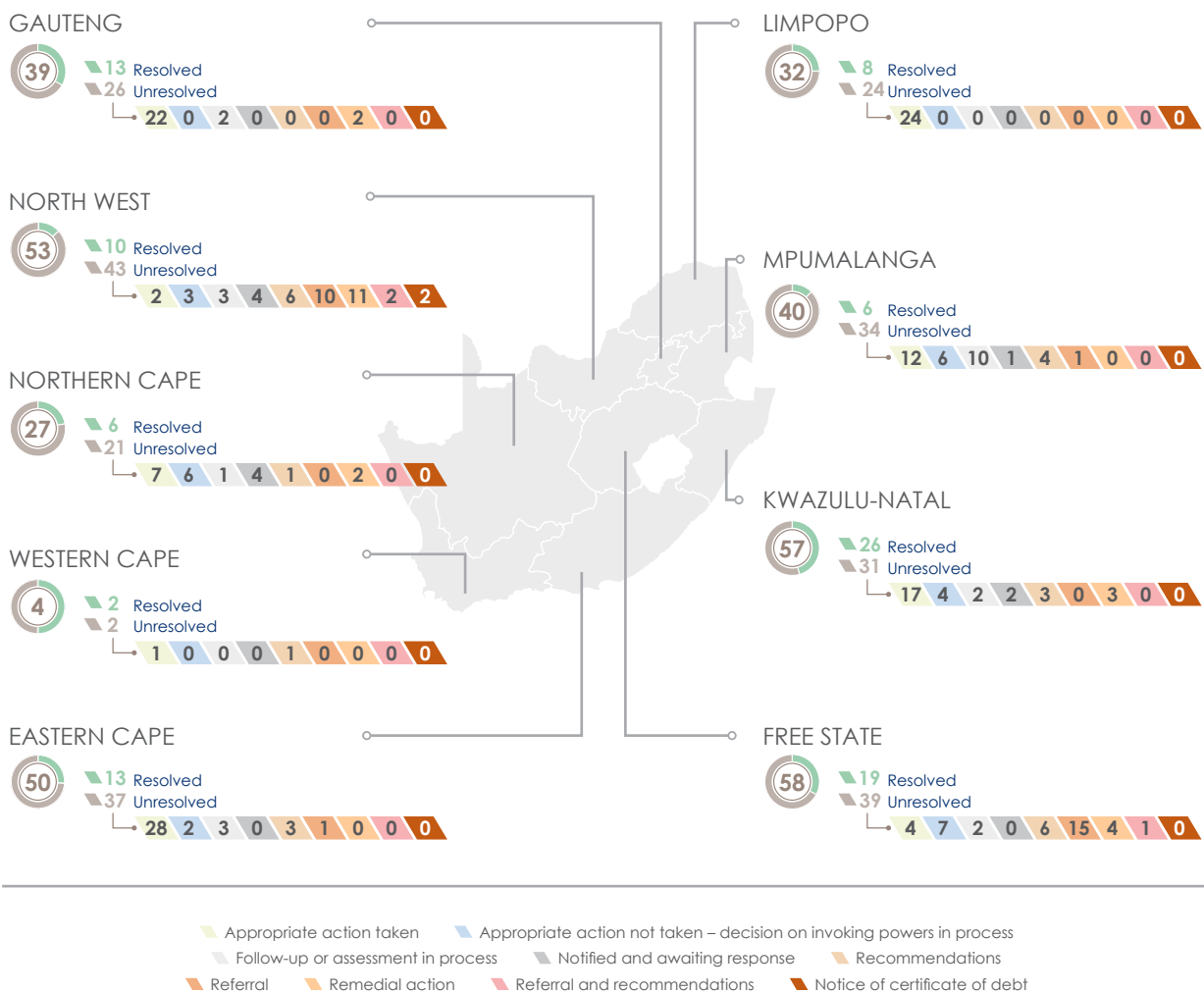
We list all instances where appropriate action was not taken and where we invoked our powers in the section on using our expanded mandate.

Material irregularities by province

We identified MIs at municipalities in every province, with the highest number of MIs being in the Free State, followed by KwaZulu-Natal, North West and the Eastern Cape. North West and the Free State were

the slowest to respond to our MI notifications and were responsible for 73% of the MIs where we had to take further action.

Status of remaining material irregularities by province



STUMBLING BLOCKS IN RESOLVING MATERIAL IRREGULARITIES

The local government environment is complex because it is riddled with instability at accounting officer level; repeatedly disclaimed audit opinions; municipal public accounts committees that do not always attend to matters such as non-compliance with legislation, procurement deviations and financial misconduct; disciplinary boards that are not always in place; and institutions that have been weakened by a steady breakdown in governance over several years.

The instability in administrative leadership and the lack of accountability for poor performance, including delayed investigations or disciplinary processes, continue to be the biggest obstacles to meaningfully resolving MIs.

How long it takes to resolve an MI depends on how many delays there are in taking the necessary action. Generally, it takes longer to recover financial loss than to implement other actions, as the matter first needs to be investigated, suppliers might have been liquidated, and it takes time to establish liability and submit civil claims. Some MIs can be resolved relatively quickly, while others require municipalities to correct deep-rooted issues or quantify financial loss that occurred across multiple years, which will take a lot longer to address.

Not all these delays are avoidable, and where we assessed them to be reasonable, we did not invoke our powers. However, the delayed resolution of MIs highlights certain challenges facing local government, as outlined next.

Prolonged investigations or delays by public bodies

Some MIs can only be resolved once external parties have completed their investigations and processes. Prolonged investigations or delays by public bodies make it difficult for accounting

officers to act swiftly to recover financial losses, and to implement consequence management processes and criminal proceedings.

Prolonged investigations or delays by public bodies



In 2017-18, **City of Matlosana Local Municipality** (North West) did not collect R46,5 million owed to it by the fresh produce market. We notified the accounting officer of the MI in March 2021. In May 2021, the accounting officer referred the matter to the Directorate for Priority Crime Investigation (also known as the Hawks) for investigation. The litigation processes to recover losses from pension funds of liable officials commenced in September 2021 but are taking a long time to complete due to the nature of these processes. The accounting officer had still not followed up on the matter referred to the Hawks by October 2023, and we issued recommendations in the audit report, which should be implemented by August 2024.

Instability at accounting officer level

Instability at accounting officer level continues to affect how MIs are resolved. If the original person is no longer in the position or an administrator takes on the

accounting officer role after we have issued an MI notification, we often have to reissue the notification or the progress of resolving the MI comes to a halt.

Instability at accounting officer level



In 2018-19, **Maluti-a-Phofung Local Municipality** (Free State) did not keep full and proper records of its financial affairs and again received a disclaimed audit opinion on its financial statements. We notified the accounting officer of the MI in June 2021 due to the substantial harm being caused to the municipality. The accounting officer did not take action to resolve the MI and we included recommendations in the audit report, to be implemented by July 2022. These recommendations were not implemented. In August 2022, the accounting officer was arrested for an alleged criminal offence relating to another matter and suspended. An acting accounting officer was appointed from September 2022 to January 2023, after which the appointment was extended on a month-to-month basis until March 2023. We had to brief the acting accounting officer on the steps required to resolve the MI and allowed additional time for these to be taken. As the recommendations were not implemented, we took remedial action that had to be implemented by March 2024.

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Supplier liquidation or extended loss-recovery processes

The speedy recovery of lost funds is often hampered by suppliers being liquidated or the loss-recovery processes taking a long time to complete.

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Delays in loss recovery due to supplier liquidation



During November 2022, we identified that the **City of Johannesburg Metro** (Gauteng) paid for, but did not receive, 20 specialised fire and rescue vehicles, including equipment for emergency management services, valued at R62,5 million. We notified the accounting officer of the MI in April 2023. Several officials were implicated and underwent disciplinary processes, which resulted in some being issued written warnings, some being suspended, and others forfeiting 10 days' salary. The service provider was liquidated in September 2022, having delivered only 12 of the 20 vehicles. In July 2023, the accounting officer lodged a claim before the master's office against the service provider to recover the remaining value of the eight vehicles that were not delivered. The accounting officer is waiting for the master's office to schedule a meeting of all creditors. Further actions are in progress to resolve the MI.

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Delays in disciplining officials

We often see delays when it comes to disciplining the officials responsible for MIs. Either the investigation to identify the responsible officials takes too long, or the disciplinary processes against implicated officials are delayed. These delays often arise because the investigations to identify such officials may be complex or time intensive. In some cases, additional time is taken to ensure that the process is procedurally fair according to labour

legislation to ensure that any applicable sanctions can be enforced.

Often, officials resign before they can be disciplined, causing further delays because different steps have to be activated, such as referrals to other accounting officers to implement corrective action if the officials are still employed in government.

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Delays in disciplining officials



Ngaka Modiri Molema District Municipality (North West) did not adequately monitor a contract for construction work to the municipal office building and gate house, resulting in a contract extension that included items already paid for. We notified the accounting officer of the MI in November 2019. The accounting officer instituted an investigation that ran from October 2021 to June 2022. The delays in completing the investigation were due to challenges in locating the officials employed at the municipality when the loss occurred in 2014-15, and who had since left the municipality. Once the responsible ex-employees had been located, they were not willing to be interviewed as part of the investigation and they could not be legally subpoenaed.

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ACTIVATING THE ACCOUNTABILITY ECOSYSTEM

Everyone in the accountability ecosystem has a crucial role to play in the MI process. Some roleplayers have mandates and powers similar to – or more comprehensive than – ours, which they should use to ensure that irregularities are dealt with swiftly and that similar instances are prevented.

Our role is to notify accounting officers of MIs, to report on the status of these MIs, and to use our expanded powers when needed – as we are doing.

Accounting officers are responsible for preventing and resolving MIs. When we issue an MI notification, we effectively ask the accounting officer to use their powers and responsibilities in terms of legislation and policies to deal with

the matter. The positive impact of the MI process described earlier results from accounting officers doing what they are required to do.

Councils, provincial leadership and oversight structures (including municipal public accounts committees) should seize the opportunity to contribute to improving local government through the MI mechanism. They should strengthen collaboration and processes with legislatures and coordinating institutions to identify irregularities, losses and harm; insist that accounting officers address any identified irregularities; and monitor the progress made in resolving them.

We expand on how these roleplayers can do their part in the call to action section.



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In our previous general report, and through our engagements with national, provincial and municipal leadership across the country, we called on those that play pivotal roles in the accountability ecosystem to promote a culture of accountability that will improve service delivery and create tangible prospects for a better life for the people of South Africa.

We had five main recommendations to these stakeholders:

- Continue monitoring, supporting and strengthening capacity at municipalities, including filling key vacant positions and providing training to bridge skills gaps.
- Ensure that the implementation plan for the professionalisation framework is fit for purpose for local government.
- Implement plans to reduce the high reliance on consultants and ensure that, where consultants are used, skills are transferred.
- Strengthen audit committees, internal audit units, municipal public accounts committees and disciplinary boards.
- Adopt and implement frameworks for managing consequences; and support, monitor and oversee the resolution of material irregularities.

Although there have been pockets of improvement in the past year as detailed throughout this report, the key matters relating to performance planning and reporting, infrastructure management and financial management that we raised last year remained largely unchanged. In the section on service delivery and financial performance we provided some insights on what caused the continued weaknesses in these areas, and we summarised the overall root causes that need to be addressed, namely inadequate skills and capacity, governance failures, and a lack of accountability and consequences.

In this section, we provide additional information on the root causes and the responsiveness of the accountability ecosystem in addressing them. We further provide updated recommendations to the accountability ecosystem based on the insights that we obtained through our audit work in the past year.



ROOT CAUSES

Inadequate skills and capacity

A stable, well-resourced and competent municipal administration is an essential foundation for success. This can be seen most clearly at municipalities with clean audits, which had the lowest level of vacancies and turnover in key municipal positions.

The section on service delivery and financial performance highlights the extent and impact of inadequate skills and capacity in local government. Vacancies in municipal manager and senior management positions and a lack of technical skills in disciplines such as finance, information technology and management of performance and infrastructure, resulted in municipalities struggling to implement basic financial and performance management and preventative controls, and to properly plan, budget for and monitor projects. In many instances, municipalities used consultants to bridge the vacancy and skills gaps, but did not realise the expected benefits from their use.

To address the lack of capacity, cooperative governance departments and some provincial treasuries participated in the recruitment processes of senior managers by being part of interview panels and providing input into the appointments made.

Government has identified the professionalisation of the public service as an important objective and, in October 2022, Cabinet approved a national implementation framework towards the professionalisation of the public service. The framework aims to build state capacity by ensuring that the public service is staffed with qualified and competent individuals who are fully equipped to perform their public function conscientiously and with a strong sense of public service and ethical disposition. The framework lists recruitment and selection, induction and on-boarding, planning and performance management,

continuous learning and professional development, and career progression and succession planning, as the five pillars that need to be strengthened in the public sector.

The framework is currently only a policy document, and its accompanying implementation plan is being drafted. In the interim, government has implemented various initiatives to professionalise local government, including minimum competency requirements for municipal managers, senior managers and finance officials.

The national and provincial treasuries, together with various local government organisations, provide training; and the treasuries and cooperative governance departments assign experts and trainees to assist struggling municipalities. Where municipalities implement the initiatives and embrace the training and support provided, we are starting to see a positive impact. In some instances, however, training was not well attended by officials and councillors.

Governance failures

The local government system has been well designed and the responsibilities of key roleplayers are clearly defined in legislation to enable good governance. However, in practice we often see governance failures due to these roleplayers not functioning optimally or not performing their legislated duties.

Instability and disruptions in **councils** continued to affect the governance of at least 15 municipalities in 2022-23. Councils

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did not always give strategic direction and support municipalities towards reaching their objectives, set an ethical tone for municipal officials to emulate, or ensured accountability and consequences. Similarly, **mayors** did not always exercise their monitoring and oversight responsibilities. The discharge of these important responsibilities is severely affected when a council is embroiled in political infighting and power struggles.

There is tremendous potential for improved audit outcomes and accountability processes if **municipal public accounts committees** (commonly referred to as MPACs) are functioning well and are supported by the councils. We assessed only 37% of MPACs to be fully effective. This means that their potential to promote good governance, transparency and accountability in the use of municipal resources; to investigate and implement consequences for wrongdoing; and to oversee the resolution of material irregularities, has not yet been realised.

Most **internal audit units** (83%) and **audit committees** (87%) performed their legislated functions. However, the audit outcomes show that the work of these governance structures has not had much impact. In the section on service delivery and financial performance, we highlighted that the municipal administration and council do not take heed of the risks these governance structures identify and the recommendations they make. We assessed that the internal audit units at just over half (52%) of the municipalities were having at least some impact on financial and performance management and compliance with legislation. However, the rest had little to no impact, mainly because management did not implement their recommendations. Audit committees were slightly more effective, with 55% having some

impact and 31% experiencing that management did not implement their recommendations. The intended value of the investments made in these governance structures and their contribution in the areas of internal control and risk mitigation are not realised when municipalities do not implement their recommendations.

The interventions and support provided by provincial government to municipalities contributed greatly to improvements in the timely submission of financial statements and the reduction in the number of municipalities with disclaimed audit opinions. However, some of the initiatives implemented by **coordinating institutions** have not yet had the desired impact:

- Some municipalities were slow to implement the intervention plans of the **Department of Cooperative Governance** aimed at strengthening governance, institutional capacity and financial viability, and accelerating service delivery and economic development. There was also a lack of accountability and consequence management for non-implementation because of leadership and political instability at municipal level.
- There has been some progress in strengthening the processes around reporting by **members of the executive council responsible for local government** to provincial legislatures on audit action plans in response to our audit report findings and on municipal performance. However, this has had a limited impact on the audit outcomes and several issues were identified relating to the quality and timeliness of reports across the provinces. Where resolutions were formulated, these were not always followed up adequately to have the desired impact.

- Often, interventions of the **National Treasury** and the **Department of Cooperative Governance** to assist struggling municipalities (such as placing them under intervention) came too late. The problems at municipalities that are in a financial and service delivery crisis did not happen overnight but are the result of a steady breakdown in basic services over several years.
- There are still instances where the financial management interventions of **treasuries** are ineffective due to political instability at municipal level and general resistance to the assistance by some municipalities. Financial recovery plans have therefore had limited impact on municipalities' financial health and are still in the early stages of implementation.

Lack of accountability and consequences

A lack of accountability and consequences remains one of the key root causes for poor audit outcomes at 60% of municipalities. We continue to advocate for municipal leadership to implement adequate consequences swiftly, bravely and consistently.

Consequence management for transgressions and non-performance helps municipalities to recover any losses caused by officials and to deter others from disregarding legislation, fraud, mismanagement and not fulfilling their responsibilities.

Despite how important these consequences are, more than half of municipalities (51%) did not comply with legislation on implementing consequences. The most common area of non-compliance was municipalities not investigating unauthorised, irregular, and fruitless and wasteful expenditure. This means that they did not take sufficient steps to recover, write off, approve or condone such expenditure, as required by legislation.

Councils had done very little to curb the increase in year-end balances of these types of unwanted expenditure. At the 2022-23 year-end, the balance of irregular expenditure that had accumulated over many years totalled R136,98 billion, while unauthorised expenditure stood at R104,68 billion, and fruitless and wasteful expenditure amounted to R19,74 billion.

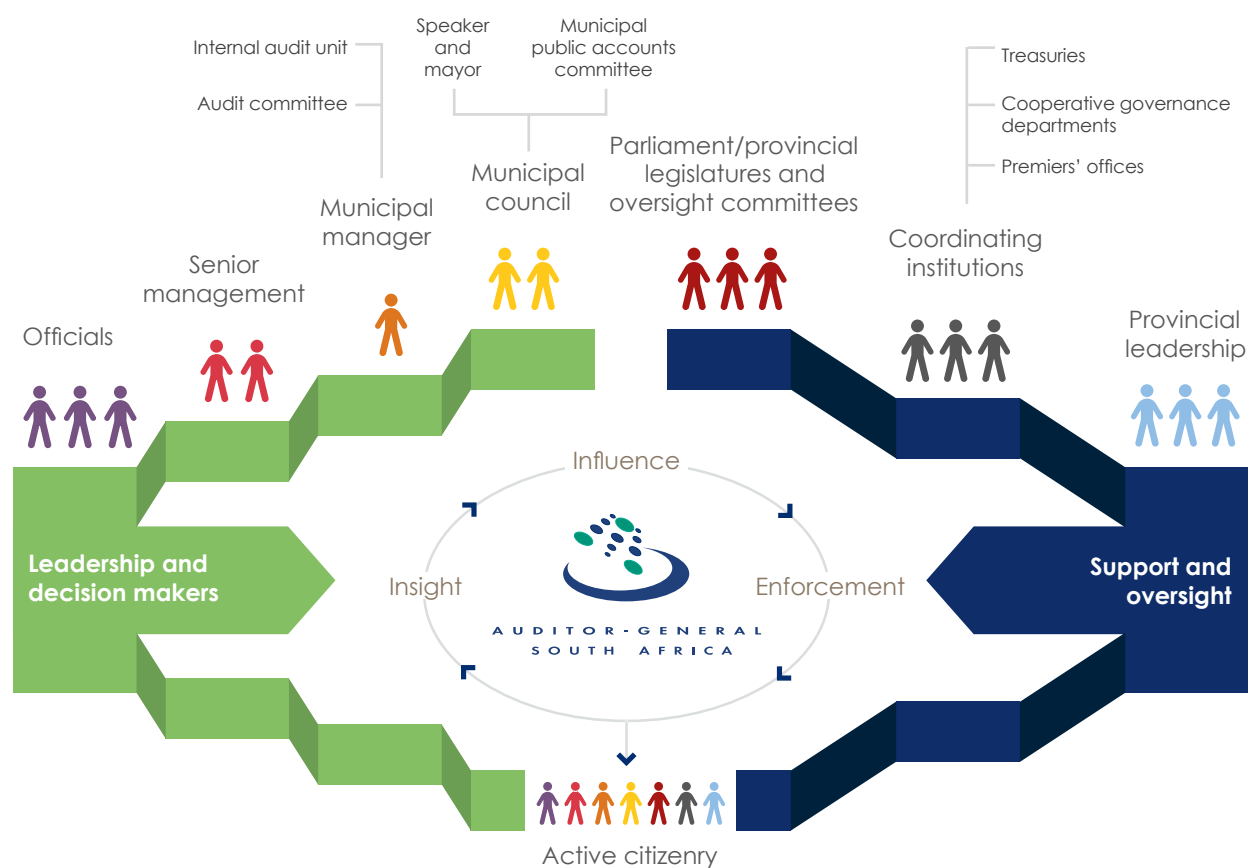
Where councils did take action, it was mostly to write off the irregular expenditure, which means that the council considered the matter to be resolved. In some instances, however, the investigations informing these decisions were not properly performed and losses were not recovered from those liable. In other instances, the unauthorised, irregular, and fruitless and wasteful expenditure was written off although it was not done based on the results of an investigation.

RECOMMENDATIONS TO THE ACCOUNTABILITY ECOSYSTEM

The roleplayers in the accountability ecosystem all have different but complementary roles to play to address the identified root causes, based on their functions, responsibilities and mandates. We share our insights and recommendations to empower

the collective accountability ecosystem to address weaknesses, strengthen transparency and enable accountability – ultimately improving governance and service delivery.

Accountability ecosystem for local government



We have already made recommendations to the accounting officers and their senior management as part of our audits. Each auditee is unique, but there are some common recommendations that we encourage them to implement, and

councils and oversight structures to monitor. Here, we provide these recommendations as well as the key recommendations for executive authorities and leadership, oversight bodies and coordinating institutions.

Professionalising and capacitating local government

Skills and capacity gaps can be addressed through a concerted effort to support and implement local government professionalisation initiatives and by paying attention to improving municipal human resource management practices.

Professionals want to work in a professional and ethical environment where their expertise can be fully applied with limited disruptions and interference. They need good salaries, developmental opportunities and prospects for career progression. In pursuing professionalisation, municipal managers, councils and provincial leadership should strive towards a future where local government is a career of choice for professionals and where scarce skills are retained.

We therefore recommend the following:

- Councils should expedite the process of **appointing municipal managers to fill vacant positions**, with the concurrence of the provincial cooperative governance departments. They should also take care to appoint experienced, ethical and citizen-centric municipal managers who meet the minimum competency requirements and will support the councils in their pursuit of improving service delivery and setting a tone of integrity, transparency, accountability and high performance for municipal officials.
- Local government leaders, the South African Local Government Association and the coordinating institutions should work closely with national government and the National School of Government to ensure that the **implementation plan for the professionalisation framework** is fit for purpose.
- Municipalities should implement plans to **reduce the high reliance on consultants** and ensure that where consultants are used, **skills are transferred**. Councils and coordinating institutions should regularly monitor the progress made against these plans.
- Treasuries, cooperative governance departments and the South African Local Government Association should **continue to provide training to municipal officials and council members**. Training interventions should be specific and intended to bridge the skills gaps within municipalities. The interventions should also be assessed for effectiveness to ensure that the desired impact is achieved. Training on the Municipal Systems Act and its accompanying codes of conduct should be compulsory. Speakers should encourage and monitor councillors' attendance of key training interventions.
- Councils and mayors should develop a comprehensive action plan and monitor its implementation to **capacitate key units** in the administration responsible for management of finances, information technology, performance and infrastructure. They should also expedite the **appointment of municipal public accounts committee researchers** to capacitate and support the committees to perform investigations. Mayors should **strengthen the capabilities of the members of the mayoral committee for finance** to oversee budget, project and contract management.

Capable institutions with intergovernmental support

Intergovernmental support through a coordinated and collaborative effort in partnership with municipal leadership will promote strong governance within municipalities and contribute to improved service delivery.

We therefore recommend the following:

- The members of the executive council responsible for local government should continue to **improve the quality, timeliness and effectiveness of the reports submitted to provincial legislatures** on whether municipalities have adequately addressed our audit report findings (through audit action plans) and on how municipalities have performed, including any remedial action taken to address underperformance. Provincial legislatures should **strengthen the process of engaging on these reports**, including formulating and following up on resolutions.
- A **multi-stakeholder approach** should be followed to implement existing support initiatives. The National Treasury and the Department of Cooperative Governance should strengthen coordination, oversight and accountability and ensure that municipal support intervention plans are specific and tailored for each municipality.
- Coordinating institutions should reflect on planned initiatives and intensify interventions

A culture of ethics and accountability

A shared vision of responsiveness, consequence management, accountability and ethical behaviour is essential to ensure that actions are taken promptly, consequences are enforced when necessary, and individuals are held accountable for their decisions and actions.

We therefore recommend the following:

- Municipal managers, audit committees and municipal public accounts committees should **properly monitor** that internal controls are adhered to, risks are managed, and outcomes

that will improve **intergovernmental planning and coordination** to ensure that service delivery is planned for in an integrated and effective manner, and is accounted for transparently in performance reports.

- Councils should **effectively use audit committees** as a structure to enhance internal control. The chairperson of the audit committee should in turn escalate any recommendations from the committee or internal audit unit that are not implemented to the municipal manager, mayor and council.
- Mayors, mayoral committees and portfolio committees should monitor the implementation of financial recovery plans and should regularly brief the council on the progress made to enable the council to do its in-year monitoring. Provincial treasuries should assist with the implementation of **financial recovery plans**. They should also closely monitor municipal budgets and identify indicators of financial distress early on, such as a lack of budgeting for repairs and maintenance.
- Coordinating institutions should adequately monitor planned actions to ensure that **municipal support intervention plans** have the desired impact.

are achieved. Early detection will allow for swift and timely correction and will prevent financial and performance management failures. Municipal managers should hold senior managers accountable for implementing budgets, delivering key projects, achieving key targets, and managing and safeguarding municipal resources. There should be consequences for failure to deliver on these responsibilities.

- Municipal managers and councils should adopt and implement **National Treasury frameworks and circulars** on the treatment, recovery and

quantification of unauthorised, irregular, and fruitless and wasteful expenditure. This will help municipalities to comply with legislative requirements and empower the political and administrative leadership within municipalities to effectively, fairly and consistently implement policies and procedures relating to consequence management and accountability.

- Councils, with the help of coordinating institutions, should strengthen structures such as **disciplinary boards and municipal public accounts committees**, as well as processes relating to **investigations** conducted by both these structures and the council itself, and should track the resolutions that are made through these structures.

COMMITMENTS AND CONCLUSION

In response to our findings and the municipality-specific recommendations we have made, mayors and municipal managers have committed to take action. We will follow up on the implementation of our recommendations during the 2024-25 audits.

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

A key roleplayer in the accountability ecosystem is an active citizenry, which is crucial to ensure that the needs of the public are heard and acted on, and that municipal leaders are held accountable

- Councils and municipal public accounts committees should **support, monitor and oversee the resolution of material irregularities** by requesting quarterly reports on the progress that municipal managers make in resolving them and, where there are any unreasonable delays, hold them to account. Provincial leadership and legislatures should request regular reports from municipalities on resolution of material irregularities.
- Institutions with a mandate for **monitoring and enforcement** – such as the National Treasury, Department of Water and Sanitation, and Department of Forestry, Fisheries and Environment – should enforce accountability by ensuring that there are consequences for any wrongdoing.

for any wrongdoing. We encourage the public to use the public participation processes, joint ward committees and available channels to report any indicators of abuse, mismanagement, fraud and service delivery failures.

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

We remain committed to working with all roleplayers in the local government accountability ecosystem to achieve this.

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PROVINCES

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

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OVERVIEW

The first part of this section provides an overview of the key results from our audits through infographics depicting the audit outcomes, the quality of financial and performance reporting, and the financial health indicators per province. We then detail the state of local government in each of the nine provinces.

Audit outcomes

Overall, the audit outcomes have not improved meaningfully since the end of the previous administration's term. Over the administrative term, there were notable improvements in KwaZulu-Natal, the Eastern Cape and North West, but the overall outcomes of Gauteng and the Western Cape regressed. *(See figure on audit outcomes, budget and households.)*

Most of the 34 municipalities with clean audits were in the Western Cape (59%), while the biggest concentration of municipalities with disclaimed audit opinions was in the Eastern Cape, the Free State and North West.



Financial and performance reporting

Municipalities in all the provinces except the Western Cape continued to struggle with preparing credible financial statements and performance reports. Many continued to rely on the audit process to identify misstatements, which they then corrected to receive unqualified audit opinions on their financial statements and no material findings on their performance reports. (See figure on quality of financial statements and performance reports.)

Financial health

Municipalities in all provinces continued to show signs of significant financial difficulty, with 74 municipalities being in such a dire position that there is significant doubt about whether they will be able to continue operating in the near future. This, along with other indicators of poor financial health such as deficits, cash-flow constraints, irrecoverable debt and excessive creditor-payment days, affected municipalities' ability to deliver services and honour their commitments. (See figure on financial health indicators.)

Municipalities in all the provinces also continued to incur irregular, unauthorised, and fruitless and wasteful expenditure. The debt that municipalities owed Eskom and the water boards continued to grow, which resulted in a significant increase in interest and penalties. (See figures on irregular expenditure; unauthorised, and fruitless and wasteful expenditure; and arrears at 2022-23 year-end for bulk purchases.)

At a glance

The province-specific overviews summarise our main insights on financial, performance and infrastructure management, and look at how we have used our enhanced mandate in that province. They also reflect on what should be done to improve the situation, and by whom; and the commitments made by those with whom we engage.

We provide more detail on each municipality in the country, rolled up to district and province, on our report website (mfma-2023.agsareports.co.za).

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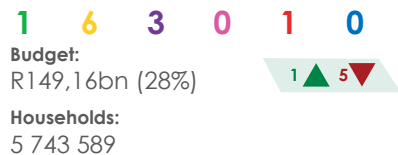
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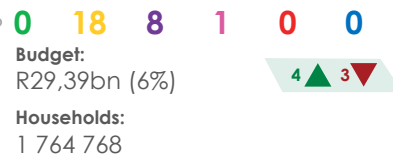
Audit outcomes, budget and households by province

(Movement is shown over the administrative term)

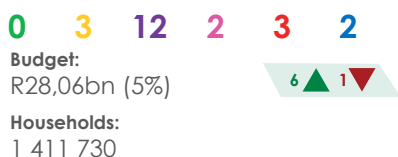
Gauteng



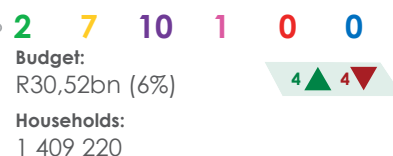
Limpopo



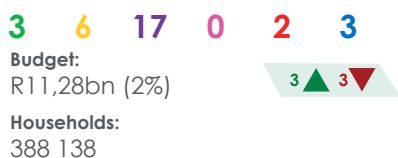
North West



Mpumalanga



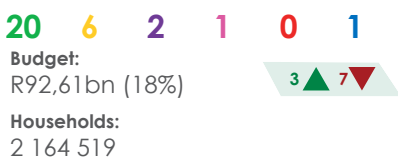
Northern Cape



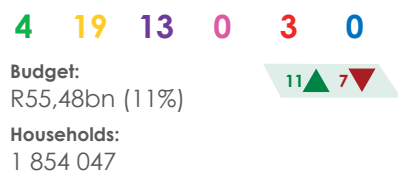
KwaZulu-Natal



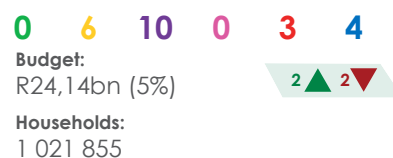
Western Cape



Eastern Cape



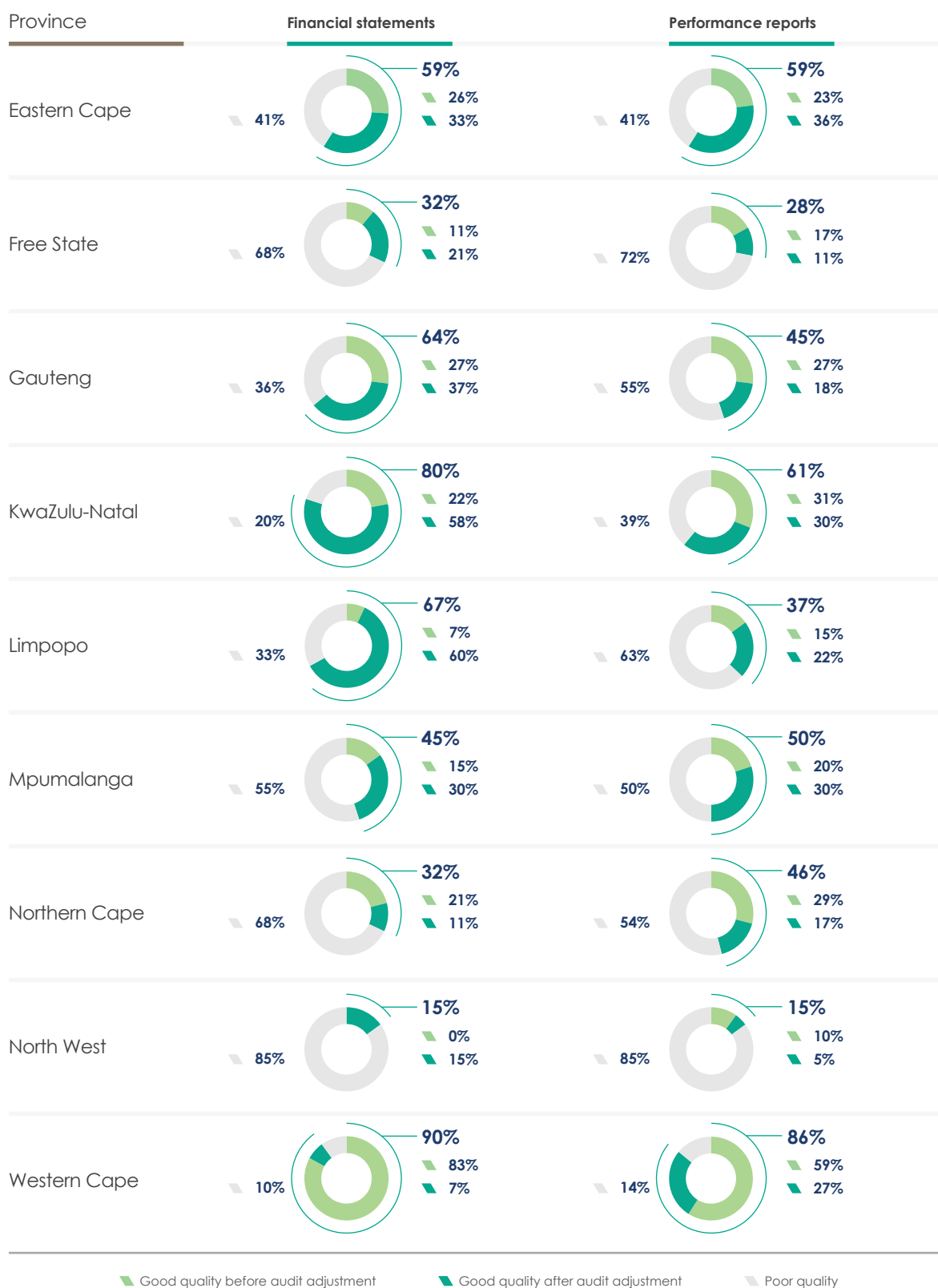
Free State



Movement from last year of previous administration

▲ Improvement
 ▼ Regression

Quality of financial statements and performance reports by province (before and after audit adjustments)



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Financial health indicators by province

Province	Municipalities with going concern issues	Municipalities with deficits		Municipalities without available cash to cover fixed monthly operating expenses for at least 1 month	Municipalities where more than 10% of debt was irrecoverable	Municipalities with creditor-payment periods exceeding 30 days
Eastern Cape 39 municipalities 36 assessed for financial health indicators	10 (26%)	13 (36%)	R1,04bn	21 (58%)	36 (100%)	29 (81%)
Free State 19 municipalities 16 assessed for financial health indicators	13 (68%)	11 (69%)	R2,42bn	10 (63%)	15 (94%)	15 (94%)
Gauteng 11 municipalities 10 assessed for financial health indicators	6 (55%)	5 (50%)	R2,21bn	8 (80%)	10 (100%)	10 (100%)
KwaZulu-Natal 54 municipalities 53 assessed for financial health indicators	11 (20%)	14 (26%)	R1,01bn	20 (38%)	53 (100%)	39 (74%)
Limpopo 27 municipalities 26 assessed for financial health indicators	5 (19%)	2 (8%)	R0,34bn	13 (50%)	25 (96%)	22 (85%)
Mpumalanga 20 municipalities 19 assessed for financial health indicators	4 (20%)	11 (58%)	R3,81bn	17 (89%)	17 (89%)	17 (89%)
Northern Cape 28 municipalities 26 assessed for financial health indicators	17 (61%)	17 (65%)	R0,69bn	17 (65%)	23 (88%)	24 (92%)
North West 20 municipalities 15 assessed for financial health indicators	7 (35%)	6 (40%)	R1,46bn	14 (93%)	13 (87%)	14 (93%)
Western Cape 29 municipalities 28 assessed for financial health indicators	1 (3%)	5 (18%)	R0,15bn	4 (14%)	25 (89%)	20 (71%)

Percentage of going concern issues is calculated based on all completed audits for municipalities in the province. Percentages for all other financial health indicators are based on the number of municipalities assessed (excluding those with adverse and disclaimed audit opinions)

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Irregular expenditure by province

Province	2022-23 irregular expenditure	% provincial expenditure budget irregularly spent	% total irregular expenditure	Closing balance at 2022-23 year-end
Eastern Cape	R5,18bn	8%	19%	R36,36bn 4% ▲
Free State	R2,14bn	5%	8%	R12,61bn 11% ▲
Gauteng	R5,66bn	2%	21%	R25,28bn 19% ▲
KwaZulu-Natal	R5,91bn	5%	21%	R14,76bn 14% ▼
Limpopo	R2,10bn	6%	8%	R5,52bn 37% ▼
Mpumalanga	R1,87bn	4%	7%	R5,62bn 13% ▼
Northern Cape	R0,69bn	5%	3%	R3,43bn 12% ▼
North West	R3,45bn	9%	13%	R32,26bn 4% ▲
Western Cape	R0,59bn	1%	2%	R1,14bn 7% ▼
TOTAL	R27,59bn		100%	R136,98bn 1% ▲

▼ Decrease from previous year ▲ Increase from previous year

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Unauthorised, and fruitless and wasteful expenditure by province

Province	2022-23 unauthorised expenditure		2022-23 fruitless and wasteful expenditure	
Eastern Cape	R1,95bn	8%	R0,43bn	6%
Free State	R4,57bn	19%	R1,41bn	19%
Gauteng	R4,35bn	18%	R2,34bn	32%
KwaZulu-Natal	R3,09bn	13%	R0,33bn	4%
Limpopo	R2,77bn	11%	R0,23bn	3%
Mpumalanga	R3,55bn	15%	R1,64bn	22%
Northern Cape	R1,09bn	5%	R0,42bn	6%
North West	R2,45bn	10%	R0,57bn	8%
Western Cape	R0,30bn	1%	R0,04bn	<1%
TOTAL	R24,12bn		R7,41bn	

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Arrears at 2022-23 year-end for bulk purchases by province

Province	Eskom arrears		Water boards arrears	
Eastern Cape	R2,2bn	5%	R0,43bn	2%
Free State	R9,23bn	23%	R7,41bn	38%
Gauteng	R4,38bn	11%	R4,33bn	22%
KwaZulu-Natal	R1,15bn	3%	R1,52bn	8%
Limpopo	R0,99bn	2%	R1,30bn	7%
Mpumalanga	R16,34bn	41%	R1,42bn	7%
Northern Cape	R2,68bn	7%	R0,64bn	3%
North West	R3,05bn	8%	R2,54bn	13%
Western Cape	R0,17bn	0%	R0	0%
TOTAL	R40,19bn		R19,59bn	

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EASTERN CAPE



01 Introduction *Improved audit outcomes hampered by culture of unaccountability*

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	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from previous year	Movement from last year of previous administration
2021-22	3	19	13	1	3	0	7 ▲ 4 ▼	
2022-23	4	19	13	0	3	0		11 ▲ 7 ▼

03 Service delivery and financial performance

In last year's general report, we encouraged provincial leadership to prioritise the basic needs of communities and to promote social and economic development through capable leadership that can enhance transparency and accountability. We advised both political and administrative leadership to instil a culture of accountability by ensuring that basic controls are implemented and maintained throughout the year to improve in-year reporting and decision-making that can lay the foundation for improved service delivery to the people of the province.

Leadership's positive response to our call to action resulted in seven municipalities improving their **audit outcomes**; unfortunately, four others regressed. Overall, there has also been a slight reduction in the number of disclaimed, adverse and qualified audit opinions over the administrative term. Senqu Local Municipality regained its clean audit by improving supply chain management controls, while Walter Sisulu Local Municipality improved from an adverse to a qualified opinion. Nelson Mandela Bay Metro, OR Tambo District

Municipality, and Dr Beyers Naudé, Intsika Yethu and Ntabankulu local municipalities all improved from qualified to unqualified opinions only after correcting material misstatements in their financial statements. To sustain this progress, they must improve their in-year reporting and monitoring to promptly detect and address accounting procedure lapses.

Buffalo City Metro, and Amahlathi, Nyandeni and Kou-Kamma local municipalities all regressed to qualified audit opinions because of a lack of oversight in addressing internal control deficiencies. Buffalo City and Kou-Kamma both had instability in the municipal manager position during the year, which made the control environment weaknesses worse. Eight municipalities (21%) again obtained qualified audit opinions because they failed to execute their audit action plans, and four of the eight were also affected by instability in the municipal manager position. The culture of **non-compliance with laws and regulations** was widespread across most municipalities in the province, with the most common issues being

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financial statements with material misstatements, failure to prevent irregular expenditure, and procurement contrary to supply chain management legislation. Strong administrative and political leadership is vital for enhancing control environments and oversight functions, and for fostering a culture of accountability within local government.

Joe Gqabi District Municipality, and Mngquma and Winnie Madikizela Mandela local municipalities maintained their clean audits due to a strong organisational culture, competent staff and effective oversight. Joe Gqabi's commitment to clean governance meant that it was able to sustain its clean audit despite having vacancies in its finance unit. However, the municipality is still struggling to achieve its water provision targets, achieving only 43% of its targets despite spending 57% of its budget for service delivery and infrastructure. This is largely due to ageing infrastructure, prolonged project design stages for water infrastructure projects, and delays in procurement processes.

Three municipalities (Amathole District Municipality, and Makana and Sundays River Valley local municipalities) have again received disclaimed audit opinions despite spending a combined R42,50 million on consultants. Amathole faced limitations in its accounting system that made it difficult to retrieve data. We notified the accounting officer of a material irregularity relating to this system, highlighting the money wasted on six software licences that the municipality had purchased but was not using. At Makana and Sundays River Valley, we observed poor service delivery and environmental mismanagement, reflecting a dysfunctional culture that tolerates transgressions and non-performance. Weak leadership caused accountability gaps in these municipalities, preventing municipal public accounts committees from effectively fulfilling their functions due to imposed limitations.

The two metros continue to display deficiencies in monitoring and reporting **performance**, leading us to raising material findings on their performance information. Buffalo City Metro could not support its reported achievements for several indicators, making the performance report unreliable for

council decision-making. Nelson Mandela Bay Metro spent 85% of its budget for basic service delivery, but only achieved 68% of its targets, notably facing challenges in providing water and sanitation, which caused delays in essential services for communities. The two metros also did not effectively manage certain wastewater treatment works, creating a persistent pollution threat and endangering community health and safety. Nelson Mandela Bay's Kelvin Jones plant on the outskirts of Uitenhage discharged poor-quality wastewater into the Swartkops River. One of Buffalo City's bulk outflow sewers caused environmental harm by releasing untreated wastewater into the Nahoon River, prompting us to notify the accounting officer of a material irregularity because of harm to the general public. The metros account for 53% of the province's budget for municipalities and serve more than half the province's households. They are vital centres for economic activity and employment. It is therefore imperative that they prioritise effective governance and infrastructure development and implement sustainable practices to ensure the wellbeing and prosperity of their communities.

Municipal performance monitoring systems remain weak, with municipalities relying heavily on the audit process to detect errors. Only 23% of the performance reports submitted for auditing had no material findings, while 59% had no material findings after municipalities corrected misstatements identified through the audit process. This means that municipalities provided unreliable information to councils and senior management on which to base in-year decisions about service delivery and budget allocation. Most municipalities spent the majority of their **infrastructure** grants within the financial year, but seven underspent these grants by more than 10%. Amathole and OR Tambo district municipalities were the primary contributors to this underspending, leading to the National Treasury withholding R90,90 million and R188,23 million in infrastructure grants, respectively, which significantly hampered their basic service delivery. Amathole achieved only 29% of its targets, reporting zero achievement for water access, while OR Tambo achieved 67% of its targets, meeting only half of its sanitation provision target. Inadequate project management also contributed to service delivery shortcomings. We reported that 17 municipalities failed to properly monitor contractor performance, leading to delays

in providing service delivery infrastructure related to roads, water and sanitation.

In most municipalities, municipal public accounts committees have failed in their oversight role, resulting in significant challenges with implementing consequence management. Most of the province's irregular expenditure (R31,20 billion, or 89% of the opening balance) remains unaddressed – primarily from top contributors such as Nelson Mandela Bay and Buffalo City metros, and OR Tambo District Municipality – and not much progress has been made to investigate this expenditure. Municipalities incurred a total of R5,18 billion in irregular expenditure in 2022-23, with the biggest contributors being Buffalo City Metro (R1,71 billion) and Nelson Mandela Bay Metro (R1,40 billion), largely because they did not properly apply the preference point system and permitted deviations from the procurement process that were not justifiable. Eight municipalities (21%) had vacancies in the head of the supply chain position, which affected procurement processes.

Most municipalities were unable to collect the money owed to them for the services they had provided, and at 30 municipalities more than 50% of the outstanding debt was not recoverable. This puts pressure on **strained government finances**. The number of municipalities that disclosed significant doubt about their ability to continue operating decreased, from 11 municipalities (28%) last year to nine municipalities (23%) this year. Seven municipalities (18%), including five that disclosed doubt about their ability to continue operating, adopted unfunded budgets for the financial year. This resulted in delays in completing some projects, as well as late payments to creditors, which contributed to the province's fruitless and wasteful expenditure due to interest and penalties of R358,77 million.

The number of municipalities using **consultants** for financial reporting decreased from 35 municipalities (90%) spending R169,26 million on consultants last year to 32 municipalities (82%) spending R150,17 million in 2022-23. However, 23 of these municipalities (72%) submitted financial statements for auditing that contained material misstatements in the consultants' areas of work. At 13 of these 23 municipalities, the misstatements

remained even after we allowed the municipalities to make corrections during the audit. The lack of skills and vacancies in most municipalities' finance units limits their ability to effectively review the consultants' work, resulting in errors not being detected and corrected in time.

Since we began implementing the **material irregularity** process, we have notified accounting officers in the province of 50 material irregularities for financial loss and substantial harm to the public and the municipality – including eight in 2022-23 – with a combined estimated financial loss of R764,19 million. We are pleased with the impact that this process is having, as 13 material irregularities have already been resolved and losses of R46,27 million have been recovered, while appropriate action is being taken to address another 28 material irregularities. King Sabata Dalindyebo Local Municipality resolved five material irregularities related to interest and penalties for overdue payments and overpayments to employees and councillors, resulting in further losses being prevented and internal controls improving. However, the completion of disciplinary processes and the recovery of losses is still slow, indicating a need for increased oversight by the municipal public accounts committees in addressing these issues. As the accounting officer of Chris Hani District Municipality did not take appropriate action to address a material irregularity for appointing consultants on a contingency-fee basis rather than on the basis of costs and time spent on the services rendered, we included recommendations in the municipality's audit report on how to address this.

The coordinating institutions (provincial premier's office, treasury and cooperative governance department) faced challenges in supporting municipalities. Only one of the 11 dysfunctional municipalities had prepared and adopted the municipal system intervention plan, although it has not yet implemented it. Ten municipalities had financial recovery plans in place (five mandatory and five voluntary), but these initiatives were not properly implemented by the councils of these municipalities. The provincial executive must address municipalities' lack of responsiveness to provincial initiatives for financial accountability and service delivery. The provincial treasury and

cooperative governance department should prioritise building capacity within municipalities and ensure that initiatives are tailored to the needs of each municipality, executed promptly, and assessed regularly. Political leadership should ensure stability in senior management and other key positions to further strengthen municipalities. Although the member of the executive council for provincial cooperative governance tabled the required reports on addressing audit findings (section 131 of the Municipal Finance Management Act) and on proposed remedial actions for underperforming municipalities (section 47 of the Municipal Systems Act), the provincial legislature did not formulate resolutions to ensure the matters are followed up. The provincial speaker needs to make resolutions on these reports, with a focus on prompt follow-up.

Although leadership has made strides to improve the province's audit outcomes, most municipalities do not effectively oversee the administrative leadership. Governance structures such as councils and municipal public accounts committees need to improve their effectiveness, as they did not enforce adequate consequence management for poor service delivery, failed to monitor progress on addressing identified material irregularities, and did not implement initiatives to address these matters. Provincial leadership, councils and audit committees need to enhance their support to the municipal public accounts committees.

Councils must cultivate a strong financial management ethos, including diligently collecting all revenue due to the municipality, spending carefully, and taking proactive measures to prevent or swiftly address financial losses and waste. All stakeholders in the **accountability ecosystem** must work together to address the weak control environment in the province by taking our recommendations to heart. If this is done with urgency and diligence, it will lessen the consequences of the culture of unaccountability that has resulted in mistrust, citizen outrage and increased protest action – ultimately leading to improved service delivery and community realities.

After our meeting with the premier, the members of the executive council for finance and cooperative governance, administrative heads, and the portfolio committee chair, the premier committed to implement consequence management and enhance accountability systems for financial matters. Collectively, these roleplayers also pledged to collaborate closely with us to ensure that municipalities act on our audit recommendations. Coordinating institutions pledged to improve strategies to ensure municipalities have timely and credible financial reporting. The portfolio committee committed to scrutinising the quality of reports from the member of the executive council for cooperative governance and will request impact reports on interventions in dysfunctional municipalities during oversight engagements.

FREE STATE

01
Introduction

Ethical and accountable leadership will shift culture in local government to enable good governance

02
Overall audit outcomes

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from previous year
2021-22	0	7	12	0	3	1	1 ▲ 1 ▼
2022-23	0	6	10	0	3	4	2 ▲ 2 ▼

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In last year's general report, we called on all roleplayers in the accountability ecosystem to instil a sense of urgency to shift the culture in local government to one characterised by accountability and transparency, and to restore the confidence of the province's people in their government. We also indicated that this culture is essential for better service delivery, which would require municipalities to set clear and specific expectations and goals, and to report continuously on their achievements. We highlighted to the municipal administration that this culture can only be achieved by implementing and maintaining basic controls throughout the year. This includes ensuring that good-quality financial statements are prepared within the legislated deadlines and that consequences for wrongdoing are imposed. We urged councils, through the municipal public accounts committees, to investigate unauthorised, irregular, and fruitless and wasteful expenditure.

We did not see an improvement in the overall **audit outcomes** in 2022-23 and the outcomes remained unchanged over the administrative term, because improvements were offset by regressions. We find it particularly concerning that Mohokare Local Municipality regressed from a qualified to a disclaimed audit opinion in 2022-23 because of instability in senior management and leadership positions, including those of chief financial officer and municipal manager.

Encouragingly, two municipalities that previously received disclaimed audit opinions improved their outcomes over the administrative term as they heeded our call and implemented some of our recommendations: Kopanong Local Municipality improved to a qualified opinion in 2021-22 and sustained this opinion in 2022-23, and Tokologo Local Municipality improved to a qualified opinion in 2022-23. However, we are concerned that Tokologo's opinion is not sustainable because the

municipality relies on consultants without ensuring that skills are transferred to its staff.

We commend the political and administrative leadership for honouring their commitments and for the positive strides made in taking appropriate action on the material irregularities we issued in prior years. As a result, we have seen fewer financial statements being submitted late for auditing, with only four municipalities (17%) not submitting on time in 2022-23 – a notable improvement from the nine (39%) that submitted late last year. At the cut-off date for this report, the audit outcomes of four municipalities were still outstanding, two of which (Dihlabeng and Moqhaka local municipalities) have since been finalised, with both municipalities receiving qualified audit opinions.

Municipalities are still not prioritising financial management controls and daily disciplines. The quality of **financial reporting** remains poor, as 90% of the municipalities made material corrections to their financial statements to address errors that we identified during the audit. We are particularly concerned that 75% of municipalities continued to rely on consultants to prepare or review their financial statements because of a lack of skills and vacancies in their finance units. At six of these municipalities, the chief financial officer position was vacant. As a result, the total **consultant fees** for financial reporting in the province increased from R39,75 million last year to R54,51 million in 2022-23, with Mangaung Metro responsible for R14,64 million of this amount. Councils should prioritise filling vacancies with skilled, capable, ethical and disciplined staff to lessen the reliance on consultants. Lejweleputswa and Thabo Mofutsanyane district municipalities obtained an unmodified audit opinion without using financial reporting consultants, showing that this is indeed possible.

Most municipalities remained **financially distressed** and required intervention, but either did not have financial recovery plans in place or did not implement them. And for more than five consecutive years, 13 municipalities (65%) reported that they were not certain that they would be able to meet their financial obligations as they become due. Most councils approved unfunded budgets, which contributed to the high annual unauthorised

expenditure of R4,57 billion. For most municipalities, the financial constraints will result in more than half of next year's budget paying for spending in 2022-23 and before. Municipalities also reported 40% water distribution losses amounting to R835,43 million, mainly because of inadequate infrastructure maintenance. The total amount owed to Eskom and the water boards climbed to R24,48 billion – up from last year's balance of R20,85 billion.

Mangaung Metro's financial distress continued, with the metro having made slow progress since being placed under national intervention in terms of section 139(7) of the Constitution in April 2022 because of instability in key positions. The council also did not provide adequate support, as it did not approve the draft financial recovery plan developed in 2022-23.

The province continued to struggle with preparing and publishing credible **performance reports**, with only three municipalities (16%) submitting reports that did not require any corrections. We commend Matjhabeng Local Municipality for preparing its first-ever credible performance report in 2022-23 after it addressed our audit recommendations from previous years. However, most municipalities did not implement adequate systems to collate and report on their performance information. For example, Ngwathe Local Municipality could not provide adequate supporting records for its reported performance for the fifth consecutive year because it did not have a proper performance management system. We notified the accounting officer of a material irregularity resulting from this because of the harm caused to accountability, oversight and governance functions.

Municipalities underspent conditional grants for key **infrastructure** projects by R539,04 million due to ineffective contract and project management as well as a lack of monitoring, which resulted in project delays and slowed down service delivery to residents. Municipalities also reported that the National Treasury withheld R619,68 million in grant funding because of issues such as underspending of the grant in the previous year. More than half of this amount (R377,24 million) was intended for Mangaung Metro, but was withheld because of its slow project implementation and ineffective

contract management. Despite spending more than 100% of its budget, the metro achieved only 37% of its overall key service delivery targets.

None of the municipalities in the province managed to **comply with all key legislation**, and we raised material findings on non-compliance with procurement and contract management legislation at most. The limited accountability for procurement violations by the administrative and political leadership, enabled the abuse of state funds. Despite the high levels of transgressions, municipal public accounts committees did not always investigate unauthorised, irregular, and fruitless and wasteful expenditure, and the accumulated balances grew to R24,21 billion, R12,61 billion and R4,95 billion, respectively.

Since we began implementing our expanded powers, we have notified accounting officers in the province of 58 **material irregularities** – including eight in 2022-23 – that have caused either financial loss (estimated at R433 million) or substantial harm to the public or to municipalities. Accounting officers were able to resolve 19 of these irregularities: 15 by submitting outstanding financial statements, and four by reducing further losses and implementing additional controls to ensure accounts were paid on time.

Of the remaining 39 material irregularities, 18 relate to non-compliance with key legislation, including a lack of proper records, late payments and losses not being prevented; and 21 to non-compliance with environmental legislation on wastewater and solid waste management. The province did not properly protect and maintain wastewater treatment plants, resulting in the plants either not operating effectively or not operating at all. Waste landfill sites were also not properly managed. This resulted in the pollution of water resources and the adjacent environment, posing health risks to local communities. We are referring 14 of these material irregularities to public bodies for further investigation as the accounting officers did not take adequate steps to address them.

We call on coordinating institutions to prioritise adequate record-management processes to drive credible financial and performance reporting. Internal audit units and audit committees should enhance their oversight of internal financial controls to improve the adequacy and reliability of financial and performance reporting. The provincial treasury should continue with its commitment to intensify its support, including capacitating internal audit units, and implement actions that will improve the control environments at municipalities with modified audit outcomes (qualified, adverse and disclaimed) to eliminate material findings on their financial statements. The premier and coordinating institutions – including the premier's office and the provincial legislature, treasury and cooperative governance department – should continue their support by advocating for municipalities to investigate unauthorised, irregular, and fruitless and wasteful expenditure; and to implement consequences for those responsible to set the tone for accountability. Councils and municipal managers should address the various infrastructure challenges by ensuring project management units are filled with appropriately skilled officials. The provincial cooperative governance department should monitor both the corrective actions municipalities are taking to address planned targets that were not achieved and the processes for developing and implementing the integrated development plan.

In short, all roleplayers in the **accountability ecosystem** must demonstrate ethical and accountable conduct to enable good governance and shift the culture in local government to one characterised by performance, accountability, transparency and integrity that will improve the lives of all people in the province.

GAUTENG

Overall stable outcomes, but more work is needed to improve compliance with legislation and service delivery

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from previous year	Movement from last year of previous administration
2021-22	2	5	2	1	1	0	1 ▲ 1 ▼	
2022-23	1	6	3	0	1	0	1 ▲ 5 ▼	

In our previous general report, we continued to encourage the provincial leadership to instil a culture of good governance that will strengthen daily financial disciplines, promote a culture of performance and ensure consequence management. Encouragingly, the provincial leadership heeded the call and are taking steps in the right direction towards instilling a culture of good governance and performance. There is now an opportunity for leadership to act with a sense of urgency and improve the outcomes going forward.

The overall **audit outcomes** stabilised in 2022-23, with 19 municipalities and municipal entities (79%) again receiving unqualified opinions. We commend Midvaal Local Municipality for sustaining its clean audit for 10 consecutive years and Joburg Market for improving to a clean audit. However, the compliance findings we raised at City of Ekurhuleni Metro resulted in a regression from a clean audit to an unqualified audit opinion with findings. Key municipal entities, such as Johannesburg Water and City Power

Johannesburg, sustained their unqualified audit opinions with findings. City of Tshwane Metro and Johannesburg Social Housing Company improved their outcomes from adverse to qualified and from qualified to unqualified with findings, respectively, by implementing the recommendations we made in previous years. Although Mogale City and Emfuleni local municipalities addressed specific matters leading to prior-year qualifications, new qualification matters emerged and both have stagnated on qualified audit opinions. Merafong City Local Municipality continues to receive a disclaimed audit opinion due to poor record-management practices and weaknesses in the overall control environment. We urge leadership to act urgently to address instances of non-compliance, hold officials accountable for not implementing basic controls, and prioritise service delivery.

The number of auditees that submitted credible **financial statements** for auditing increased from 33% to 38% due to intensified reviews by

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senior management, internal audit units and audit committees. We are also encouraged that the cost of financial **consultants** decreased from R163,72 million to R57,15 million due to increased capacity in finance units. However, 11 municipalities and municipal entities (46%) continued to rely on the audit process to produce good-quality financial statements. A lack of basic financial disciplines and good financial governance hinders accounting officers from making key financial decisions in good time and may negatively affect service delivery. We continue to urge accounting officers to ensure the preparation of regular financial statements at least twice a year; internal audit units and audit committees to continue their intensified reviews of the financial statements; and the provincial treasury to continue providing the required support.

The quality of submitted **performance reports** improved slightly from 50% to 54%. Commendably, residents were engaged during public participation sessions in setting priorities, but in some instances the related performance targets were then either revised or not prioritised, resulting in communities not receiving the desired services. Targets not being achieved further affected the adequacy of basic services delivered to communities. In response to our previous year's call to action, the metros included the National Treasury's common performance indicators in their performance reports but more urgency is required from accounting officers, mayors and members of mayoral committees to address service delivery challenges. Internal audit units and audit committees should intensify their quarterly assessment of performance information. Council oversight committees should hold executive leadership accountable for the implementation of service delivery plans.

Although we noted an overall improvement at some of the **infrastructure** projects we visited, service delivery was hampered by projects being poorly planned and consequently delayed in most instances. In addition, municipalities continued to struggle with carrying out proper preventative repairs and maintenance, with most spending below the National Treasury norm of 8% of the value of their infrastructure assets. This had a negative impact on the already ageing infrastructure, resulting in interrupted service delivery to the public. For example, the lack of proactive maintenance

significantly affected the wastewater treatment works at Rand West City and Merafong City local municipalities, causing untreated wastewater to be discharged into water sources. We issued material irregularity notifications to compel the accounting officers to maintain the plants and prevent further harm. The accounting officers and relevant mayoral council members should prioritise repairing and maintaining infrastructure, and ensure the prompt review of project reports so that gaps can be identified early on and corrective measures taken.

Compliance with legislation is not improving and remains a stumbling block towards good governance. Most municipalities and municipal entities still did not comply with procurement legislation. Some progress was made in investigating unauthorised, irregular, and fruitless and wasteful expenditure (resulting in auditees writing off R6,14 billion in irregular expenditure) and in establishing disciplinary boards to deal with cases of financial misconduct. We call upon the speakers of councils, municipal public accounts committees and other council committees to instil a culture of good governance by promptly investigating instances of unauthorised, irregular, and fruitless and wasteful expenditure and by ensuring that disciplinary boards are functioning as intended.

The **material irregularity** process continues to gain traction, as most accounting officers are taking corrective steps to address irregularities, including improving internal controls, upgrading and maintaining infrastructure, instituting disciplinary processes, and recovering funds. Since we began implementing this process, we have issued 39 material irregularity notifications in the province and accounting officers have recovered R113,70 million of the estimated financial loss of R897,23 million. In addition, the City of Tshwane and City of Johannesburg metros entered into payment arrangements with service providers to only pay for maintenance costs for software licences they are using, resulting in the two metros saving a total of approximately R188,40 million. Governance structures and councils should continue to closely monitor the progress of accounting officers in implementing actions to fully resolve material irregularities.

Although municipalities' **financial health** remains concerning, initiatives such as debt-relief programmes and revenue-enhancement and revenue-collection strategies aim to improve this situation. However, the benefits of these initiatives are yet to be realised. Due to financial pressure, municipalities had limited funds to invest in capital projects and did not always pay their suppliers within the required 30 days. Municipalities continued to underspend on infrastructure grants and, similar to what we found last year, eight municipalities approved unfunded budgets, which worsened their financial situation. We urge accounting officers to improve the financial health of their municipalities by, for example, maintaining existing infrastructure to minimise water losses and to instil a culture of robust financial management, which includes adequate budgeting and monitoring processes.

The tone set by the provincial leadership on improving audit outcomes and service delivery has been positive. The premier monitored local government through the members of the executive councils for finance and cooperative governance, who implemented initiatives aimed at improving audit outcomes and strengthening intergovernmental relations. The speaker of the

legislature established an ad hoc joint committee of the provincial standing committee on public accounts and portfolio committee on cooperative governance to consider, monitor and report on the previous year's municipal audit outcomes. While these leadership initiatives contributed to stability in audit outcomes, we urge leadership to continue monitoring them to ensure that they achieve the desired outcome. Leadership should also continue to implement more effective initiatives to improve the overall state of local government, with an emphasis on financial health and the delivery of infrastructure, particularly at the metros.

To improve audit outcomes and service delivery, councils and their committees – through their oversight roles – should ensure credible financial and performance reporting, capacitation of service delivery units, revenue-enhancement strategies, and monitoring of compliance with legislation. In addition, councils should hold administrative leadership accountable for implementing service delivery plans and resolutions stemming from their oversight activities. Councils should also collaborate with the premier and the members of the executive council for finance and cooperative governance to transform local government through customised municipal support initiatives.

KWAZULU-NATAL

01
Introduction

Clean audits provide excellent foundation for effective governance and service delivery

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	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from previous year
2021-22	4	37	11	1	1	0	6 ▲ 3 ▼
2022-23	4	39	10	1	0	0	11 ▲ 4 ▼

03
Service delivery and financial performance

Last year, administrative leadership and management started to pay attention to the call to institutionalise preventive controls and implement consequence management and accountability measures. They were also beginning to pay closer attention to transparent and credible reporting on service delivery to ensure that public funds are used in a way that will improve the experience and lived realities of the communities they serve. This positive trend continued into 2022-23, with overall **audit outcomes** in the province showing a gradual improvement.

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governance structures and management's implementation and continuous monitoring of the audit action plan. uMkhanyakude transitioned from a long-standing disclaimed audit opinion to a qualified opinion, and Nquthu improved from a disclaimed opinion in 2020-21 to an unqualified opinion with findings in 2022-23. However, three municipalities (Jozini, Umzumbe and Ray Nkonyeni local municipalities) regressed since last year.

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Call to action

The quality of **financial statements** remained poor, with 33 municipalities and municipal entities (59%) obtaining unqualified opinions only after they had addressed material findings we identified during the audit. This was mainly due to inadequate reviews and management's slow response in implementing audit action plans. At Msunduzi Local Municipality, we identified significant internal control deficiencies in the billing system for service charges, while Umzinyathi District Municipality was unable to improve from an adverse audit opinion because it continued to contend with insufficient reconciliations, inadequate reviews of financial information and poor record management.

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The King Cetshwayo District Municipality and the Okhahlamba and City of uMhlathuze local municipalities sustained their clean audits because of good ethical disciplines and governance, effective leadership, the institutionalisation of internal controls, and stability in key positions. Six municipalities (Harry Gwala and uMkhanyakude district municipalities, and Umlalazi, Ulundi, eMadlangeni and Nquthu local municipalities) improved their overall audit outcomes. Umlalazi achieved a clean audit due to effective

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Using our expanded mandate

Ten municipalities received qualified opinions, pointing to a perpetual lack of accountability as well as a lack of decisive leadership and direction in how these municipalities manage their affairs.

The number of good-quality published **performance reports** (those with no material findings) improved from 45% last year to 63% in 2022-23; however, 32% of municipalities and municipal entities had no material findings only because they corrected identified misstatements during the audit. Most municipalities, including those that achieved clean audits, did not achieve all their key service delivery targets despite spending almost all of their budget. This was largely due to poor project management, delays in procurement processes and inadequate budgeting. Improving on last year's non-achievement of 54%, eThekweni Metro did not achieve 25% of its planned targets, including those related to water, low-cost housing and electricity. This led to service delivery protests in certain areas of the metro. Some municipalities also did not include all key performance indicators in their service delivery and budget implementation plans, making it difficult to meaningfully measure service delivery to communities.

Municipalities continued to use **consultants** for financial reporting activities because of a lack of skills. It is encouraging that consultant costs for financial reporting decreased from R304 million last year to R241 million in 2022-23, partly due to the provincial treasury reviewing financial statements and the provincial cooperative governance department providing other financial management support. However, consultants were not used effectively, as 22 municipalities (44%) had material misstatements in the areas where consultants were used. This was mainly because of inefficiencies at the municipalities, such as poorly managing projects and appointing consultants without conducting a needs analysis. In some instances, consultants did not transfer skills to finance officials. Umvoti Local Municipality appointed a tax consultant when it already had an experienced person appointed for the function, and we issued a material irregularity notification on this matter to the accounting officer.

Overall, **compliance with legislation** has not improved in the province. Some common areas of non-compliance included material misstatements

in the submitted financial statements; violations of supply chain management legislation; unauthorised, irregular, and fruitless and wasteful expenditure; and poor revenue and expenditure management. Non-compliance with supply chain management legislation accounted for over 90% (R5,93 billion) of the total irregular expenditure incurred by municipalities and municipal entities in the province, with eThekweni Metro being the single largest contributor to this amount, accounting for R2,41 billion. While supply chain management remains a challenge at the metro, it has improved its record-management processes and plans to automate supply chain management processes to reduce human error and possible fraud.

Progress has been made in addressing irregular expenditure since last year, with councils writing off R8,26 billion in irregular expenditure. eThekweni Metro wrote off the highest amount (R3,63 billion) after investigation and certification by the council. However, there is still considerable room for improvement in concluding investigations promptly and instituting processes to recover irregular expenditure from the responsible parties.

Since we began implementing our expanded powers, we have notified accounting officers in the province of 57 **material irregularities** that have caused either financial loss (estimated at R1,13 billion) or substantial harm to the public or to municipalities and municipal entities. Amid the high levels of non-compliance, the material irregularity process has had an increased impact, which has resulted in 49% of material irregularities being resolved. This was due to accounting officers investigating material irregularities and holding relevant officials accountable while also ensuring that internal controls were strengthened and that financial losses were either recovered or prevented.

At Msunduzi Local Municipality, the municipal manager took steps to address the pollution caused by the New England Road landfill site by upgrading the site, purchasing a new plant, maintaining existing plants and implementing an action plan for waste management licences. At eThekweni Metro, we identified a material irregularity relating to significant harm to the public caused by higher-than-acceptable E. coli levels in ocean water, presenting potential health hazards to residents.

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While the **financial health** of some municipalities has improved, it remains a challenge in the province. The number of municipalities that reported good financial health increased to 14 (26%) from eight (15%) last year, while the average debt-collection period (after impairment) improved from 232 days last year to 119 days in 2022-23. However, approximately two-thirds of debt (67%) was deemed irrecoverable, such as the R13,64 billion impairment provision recorded by eThekweni Metro because consumers could not pay for municipal services. The average time municipalities took to pay their creditors increased from 102 days last year to 120 days in 2022-23. The arrears amounts owed to Eskom and the water boards increased to R1,15 billion and R1,52 billion, respectively. Additionally, 18 municipalities (33%) tabled unfunded budgets due to inadequate budgeting practices and unrealistic debt-collection targets. These poor financial management practices have a direct and detrimental effect on service delivery initiatives.

The province continues to face challenges relating to its ageing **infrastructure** that further threaten its service delivery commitments. The situation is made worse by municipal leadership and management being slow to implement the recommendations from our audit on flood-relief initiatives. On average, municipalities also spent only 3,9% on repairs and maintenance against the carrying value of property, plant and equipment, falling short of the norm of 8% set by the National Treasury. A lack of maintenance of Mtubatuba Local Municipality's wastewater treatment works resulted in untreated sewage overflowing from the manhole into the Umfolozi River. This violates environmental legislation, poses a health risk to the community, and could harm the surrounding environment. Inadequate infrastructure maintenance also contributed to high water losses, totalling R4,1 billion, with eThekweni Metro accounting for nearly half of this loss at R2,03 billion.

The support provided by the coordinating institutions (provincial premier's office, cooperative governance department and treasury) and the legislature assisted in improving the control environments at some municipalities. The provincial treasury and cooperative governance department supported municipalities by conducting audit-readiness and pre-audit assessments, reviewing financial statements and performance reports, and monitoring the implementation of audit action plans, which had a positive impact on the

audit outcomes. For example, uMkhanyakude District Municipality's audit outcome improved after the provincial cooperative governance department deployed an administrator to the municipality and the provincial treasury provided consultancy support for preparing financial statements and updating the asset register. These institutions should continue to collaborate with municipalities and each other to proactively respond to audit recommendations and develop turnaround plans that will increase support for struggling municipalities.

The province's audit outcomes highlight the need to institutionalise internal controls to achieve credible financial and performance reporting and improved compliance with key legislation through appointing skilled personnel, developing and continuously monitoring audit action plans, and implementing proper consequence management.

To address service delivery and financial health challenges in the province, all stakeholders in the **accountability ecosystem** will need to commit their time, resources and efforts; and follow a comprehensive and sustainable approach. Initiatives to support local government should be tailored to the specific needs of each municipality and then be promptly implemented and continuously assessed to gauge their impact. Municipalities need to prioritise key service delivery indicators and allocate sufficient funding to meet their targets. The provincial executive leadership must make a sustained and deliberate commitment to ensure adherence to disaster management legislation across all state organs. Accounting officers must foster an effective financial and performance management culture that encompasses the collection of all due revenue, prudent spending, and the prevention or swift recovery of financial losses and wastage to improve service delivery. Councils and municipal public accounts committees need to improve the effectiveness of their oversight to ensure credible financial and performance reporting, swift investigations and full accountability.

By focusing on these elements, municipalities can achieve clean audits and effective governance, which will provide a strong foundation from which to improve service delivery to the people of the province.

LIMPOPO

Slow implementation of corrective action, results in stagnation in audit outcomes and service delivery

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from previous year	Movement from last year of previous administration
2021-22	2	13	11	0	1	0	5 ▲ 4 ▼	
2022-23	0	18	8	1	0	0	4 ▲ 3 ▼	

Last year, the audit outcomes in the province remained largely unchanged due to inadequate financial management disciplines and oversight. In the previous general report, we also highlighted deteriorating controls over the review of financial statements, performance reports and compliance with key legislation.

Similarly, the 2022-23 **audit outcomes** are characterised by inadequate oversight and slow implementation of corrective action. The status of audit outcomes and service delivery remained largely unchanged from last year, although two municipalities that previously received clean audits – Capricorn and Waterberg district municipalities – regressed, leaving the province without a single clean audit. Eight municipalities have obtained an unqualified audit opinion with findings for four years or more. The province continued to disregard legislation, and we raised material **compliance** findings at all municipalities (100%). This also resulted in Modimolle-Mookgophong District Municipality receiving an adverse audit opinion. Municipalities did not properly implement consequence management while

persistent project management deficiencies resulted in key service delivery targets not being achieved. Unfair and uncompetitive procurement practices remained the main driver of supply chain management non-compliance and a significant contributor to the R2,10 billion in irregular expenditure.

The **financial health** of most municipalities remained under pressure as revenue collection remained poor, and five municipalities (19%) disclosed uncertainty about their ability to meet their financial obligations when they become due. Councils did not follow credible budgeting processes and approved unfunded budgets at nine municipalities, which contributed to the total unauthorised expenditure of R2,77 billion. Suppliers were also not always paid within the required 30 days. At 22 municipalities, fruitless and wasteful expenditure totalling R230,58 million placed more pressure on their financial health, while the amounts owed to Eskom and the water boards remained high at a combined R2,73 billion.

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The amount that municipalities spent on **consultants** continued to increase, and most municipalities (21, or 78%) relied on consultants to prepare and/or review their financial statements because they did not have enough skilled resources in their finance units. Consultant costs for financial reporting increased by 6% to R279,87 million. Despite the high spend on financial reporting consultants, the investment has not had the desired impact as municipalities' audit outcomes remained largely unchanged. It is also not evident whether the consultants transferred skills to municipal staff. Last year, the provincial treasury and cooperative governance department, supported by the premier's office, committed to help municipalities reduce their use of consultants, but this support has not materialised yet.

Encouragingly, we have seen indications that where management resolved to lessen their reliance on consultants, it can yield positive results. For example, last year we issued a material irregularity notification to the accounting officer of Mopani District Municipality because of the ineffective use of consultants. The accounting officer took action to address the material irregularity, reducing spending on financial reporting consultants by R22,56 million (from R33,14 million last year to R10,58 million in 2022-23) and improving internal record-keeping controls, which contributed to the municipality's audit outcome improving from a disclaimed opinion to a qualified opinion.

Overall, 26 municipalities (96%) did not include – or did not prioritise achieving – key **performance** indicators and targets in their service delivery and budget implementation plans. These included indicators and targets relating to the quality of water and wastewater disposal, and those addressing the backlog in water and sanitation services and waste removal. This resulted in these municipalities being unable to fully achieve their planned key service delivery targets for the year. For example, Sekhukhune District Municipality completed only six of the 440 ventilated improved double-pit toilets (1%) it planned to build in 2022-23 to upgrade sanitation for the Legolaneng community. This target was not met due to the late appointment of a contractor. The municipality also only managed to provide 126 421 of the planned

315 360 kilolitres of water (40%) using water tankers to supplement water provision and lessen the impact of delayed water projects. This target was not achieved due to broken water tankers and a burst bulk pipeline. The municipality underspent its municipal **infrastructure** grant by R232,96 million, representing 49% of the grant allocation.

Poor planning, budgeting, spending practices and project management principles contributed to municipalities not achieving their targets. They also did not pay attention to the quality of their performance planning, reporting and achievement, as 63% of municipalities published poor-quality performance reports. Poor maintenance practices remained a concern as most municipalities spent less than the National Treasury norm of 8% of the value of the assets on repairing and maintaining them. A case in point is the Thabazimbi wastewater treatment plant that has long been dilapidated, polluting the environment and adjacent water sources.

To increase wastewater treatment capacity, Polokwane Local Municipality appointed a contractor to build outfall sewers to the Polokwane regional wastewater treatment plant in January 2018. The project was planned to be completed in February 2020; however, at the time of our audit in 2022-23, the project was still in progress with R114,92 million already having been spent. The project experienced significant delays due to extensions of time, delayed payments, and poor project management and monitoring. The municipality appointed a replacement contractor that quoted an additional R112,84 million to complete the project.

Mopani District Municipality's six-megalitre Giyani waterworks project, which was intended to supplement the provision of water to 55 villages in Giyani, was still not being used in 2022-23. The municipality stands to lose approximately R61 million due to the possible demolition of infrastructure caused by significant structural defects. This contributed to the district's water challenges and had a negative impact on its communities.

Since we began implementing our expanded powers, we have notified accounting officers in the province of 32 **material irregularities** –

including 12 in 2022-23 – that have caused a combined financial loss of R1,44 billion. The material irregularity process has resulted in financial losses of R78,55 million having been recovered and R1,44 million having been prevented. Accounting officers were taking appropriate action to address 24 of the 32 material irregularities, while eight have been fully resolved: seven related to investments with Venda Building Society Bank and the other one to the misuse of assets at Fetakgomo-Tubatse Local Municipality. The municipality purchased specialised waste management trucks in 2017 and 2018 but did not use them for the intended purpose. In response to being notified of the material irregularity, all the trucks were brought into use by October 2023 for in-house waste collection at several rural villages. Difficulties encountered in resolving some of the material irregularities include delays in completing investigations, instability in accounting officer positions, and matters being referred to the courts.

We call on accounting officers, supported by the provincial treasury, to lead a process to identify the real root causes of unfunded budgets. Provincial leadership, councils and coordinating institutions must focus on capacitating and upskilling accounting officers, chief financial officers, finance officials and project management officials to ensure sustainable improvements in financial disciplines and service delivery initiatives. We acknowledge the assurance provided by audit committees and internal audit units, and urge management to promptly implement their recommendations to enhance the control environment.

The member of the executive council for cooperative governance, human settlements and traditional affairs should monitor municipal capacity and performance, and provide the required support in line with section 105 of the Municipal Systems Act. The speaker of the legislature must enable the process of engaging on Municipal Finance Management Act section 131 reports, which cover how municipalities are addressing issues raised by the auditor-general, and Municipal Systems Act section 47 reports, which cover proposed remedial action for underperforming municipalities. The speaker's forum must consider meeting at least once every three months and deliberating on matters affecting local government.

We commend the premier for setting the right tone and collaborating with members of the executive council for the coordinating departments, as well as with councils and the legislature, to enhance financial reporting and to focus on eradicating disclaimed audit opinions in the province over the course of the administration. We are encouraged by the efforts of coordinating institutions to support local government in strengthening oversight and co-creating a high-performance culture. We urge councils to hold municipal managers accountable for delivering basic services, adopting appropriate budgets and expenditure management principles, and strengthening their oversight of project delivery to improve the lived realities of the citizens of the province.

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MPUMALANGA

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Weak control environments and lack of leadership accountability are deterrent to required culture shift

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2021-22	2	9	7	1	1	0	1 ▲ 2 ▼
2022-23	2	7	10	1	0	0	4 ▲ 4 ▼

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Since the start of the current administration, we have urged municipal leadership and all roleplayers in the accountability ecosystem to fulfil their roles and collaborate on permanent solutions for four critical areas: implementation of an effective control environment, sustainable financial health, proper infrastructure project planning and management, and compliance with legislation, especially as it relates to procurement and consequences. In response to last year's audit results, provincial and municipal leadership committed to implementing our call to action. However, they did not fully honour their commitments, resulting in a slight overall regression (one improvement and two regressions) in the 2022-23 audit outcomes.

We commend the province for finally managing to eradicate all disclaimed audit opinions, as Lekwa Local Municipality, the province's last remaining auditee with a disclaimed audit opinion, improved to a qualified opinion by filling senior management roles and improving record-keeping controls. It also received support from the provincial treasury and cooperative governance department to address

past qualification areas. We encourage both provincial and administrative leadership to sustain these gains by capacitating and strengthening municipalities with the right level of skills and integrity. Steve Tshwete and Thaba Chweu local municipalities both regressed from unqualified audit opinions with findings to qualified opinions due to weaknesses in their financial management controls (lack of proper bank reconciliation controls and inadequate financial statements reviews, respectively). And while Ehlanzeni and Nkangala district municipalities sustained their clean audits, this did not translate into effective and efficient service delivery, as they did not achieve all their key service delivery targets. Most municipalities – including intermediate cities (City of Mbombela, Emalahleni, Steve Tshwete, Bushbuckridge, Nkomazi and Govan Mbeki local municipalities), which account for 63% of the province's population and budget – have not shifted to a culture that is performance driven, ethical, transparent and accountable. These municipalities continue to grapple with mastering the basics, which perpetuates service delivery failures. Consequently, there has been no overall movement in

municipalities' **audit outcomes** from the previous administration, as the four improved audit opinions were negated by four regressions.

As a result of weak financial management disciplines, insufficient skilled personnel and weak internal control environments, 17 municipalities (85%) did not produce credible **financial statements**. Municipalities spent R941,3 million on financial reporting, including the salaries of finance officials and payment to consultants. Internal audit units and audit committees reviewed the prepared financial statements, while the provincial treasury and cooperative governance department provided support through the integrated municipal support plan. However, this support was not effective, as weak control environments hindered the intended benefits. Most municipalities still prioritised hiring consultants (without transferring skills) over institutionalising controls.

Since last year's general report, we have issued **material irregularity** notifications to six municipalities for using financial reporting consultants ineffectively. It is encouraging that some municipalities are responding positively to these notifications by strengthening their internal capacities. For example, Thembisile Hani Local Municipality filled vacancies in its finance unit and adopted a plan to prepare its financial statements internally, while Nkomazi and Chief Albert Luthuli local municipalities terminated the contract for a value-added tax consultant and prepared their returns internally. As a result, spending on consultants for financial reporting in the province decreased from R245,37 million last year to R195,37 million in 2022-23. This is a shift in the right direction. We recommend that municipalities focus on strengthening capacity within their finance units and improving their financial management controls to reduce their overreliance on **consultants**.

Most municipalities in the province do not have effective systems for collating and reporting on their performance information and for monitoring performance controls. Only four municipalities (20%) submitted credible **performance reports** for auditing. Unreliable performance information negatively affects transparency and accountability, hampering the oversight responsibilities of mayors and council committees. Some municipalities did not include targets for critical service delivery indicators in their planning documents and therefore did not budget for them,

which negatively affected communities. For example, the community served by Dr JS Moroka Local Municipality sometimes received brown drinking water from municipal taps because the municipality did not include an indicator relating to quality of water after purification in its planning documents. We also found that some municipalities did not achieve certain key targets, including those relating to water and wastewater infrastructure, which delayed the provision of water and sanitation services. Councils must prioritise community needs and ensure municipalities report transparently on their performance against planned targets.

Municipalities' poor financial and project management leads to the limited financial resources being mismanaged, which further hampers the completion of **infrastructure** projects, infrastructure maintenance and, ultimately, service delivery. Municipalities spent an average of 2% of the value of their infrastructure on maintaining that infrastructure, far below the norm of 8% set by the National Treasury. The lack of maintenance has led to infrastructure deteriorating, which resulted in water losses of R905,67 million in 2022-23, up from R604,62 million last year, as well as service delivery failures and environmental harm. We conducted environmental inspections of wastewater treatment works and landfill sites at six municipalities. These inspections confirmed neglected municipal infrastructure and ineffective environmental management that resulted, in some cases, in polluted water sources, and we have notified accounting officers of eight material irregularities because of this.

Despite spending a substantial portion of their infrastructure grants, municipalities faced significant project delays and quality issues due to persistent deficiencies in project planning and monitoring, as well as poor financial management; lack of oversight by accounting officers and councils; and ineffective project management units. The resulting delays in service delivery affected the daily lives of communities.

Poor budgeting, weak financial management controls and ineffective revenue-collection strategies are the main drivers of the **financial crisis** facing most municipalities in the province. Four municipalities (20%) reported significant doubt about their ability to continue operating, while 10 (50%) adopted unfunded budgets. This resulted

in unauthorised expenditure totalling R3,55 billion and operating deficits of R3,81 billion, which will cause some municipalities to draw on next year's budget to cover their 2022-23 expenses. These practices not only threaten municipal sustainability, but also mean that the municipalities will continue to deliver only limited services.

Municipalities also continued to struggle to collect the money owed to them for basic services. And with 61% of billed revenue deemed irrecoverable, they do not have enough funds to finance their operations and pay their suppliers. As a result, arrears owed to Eskom increased from R13,45 billion last year to R16,34 billion in 2022-23, and it took municipalities even longer to pay their creditors – an average of 592 days in 2022-23 compared to 456 days last year. This caused financial loss in the form of interest and penalties amounting to R1,64 billion – almost double last year's total of R835 million.

We reported **compliance** transgressions at 18 municipalities (90%) due to weak control environments and a lack of consequences for wrongdoing. We find it concerning that non-compliance is prevalent in the areas of procurement and contract management, which is also where most public funds are directed. Irregular expenditure remained high, although the R1,87 billion incurred in 2022-23 was slightly lower than the R2,08 billion incurred last year. However, this amount could be even higher as eight municipalities (40%) did not report all the irregular expenditure they should have reported in their financial statements. The closing balance of irregular expenditure that has not been investigated remains high at R5,62 billion because municipal public accounts committees and disciplinary boards do not have capacity to investigate this expenditure. We reported material non-compliance in this area at seven municipalities (35%).

We had notified accounting officers of 40 **material irregularities** on non-compliance with legislation resulting in financial losses estimated at R1,46 billion, as well as substantial harm to the general public and municipalities. We have seen positive signs in response to the notifications, with most municipalities taking some action to address some of these material irregularities and prevent them from recurring. These actions include

investigating the root causes of the irregularity, initiating payment arrangements with suppliers, processing and reconciling daily and monthly transactions for key items, and ensuring there is a proper filing system in place so that accounting records can be easily retrieved when required. However, we remain concerned that some of the responses to our notifications did not include adequate or sufficient supporting information, which delayed the overall process. We recommend that mayors, coordinating institutions and councils, in their oversight and monitoring roles, follow up regularly with accounting officers on the status of the material irregularities of which they have been notified.

In response to this year's audit outcomes, the leadership of various municipalities, along with the premier, the members of the executive council for finance and cooperative governance, and the speaker of the provincial legislature, committed to improving audit outcomes by developing and implementing effective action plans, and by implementing our recommendations. We believe that a significant impact can be achieved by focusing on the intermediate cities. We will follow up on the province's progress in implementing these commitments in the next audit cycle.

We call on all roleplayers in the **accountability ecosystem**, particularly internal audit units, audit committees, coordinating institutions and oversight structures, to fulfil their roles effectively and to work together to find lasting solutions for the four critical areas identified at the beginning of the current administrative term. They must implement effective preventative controls driven by leadership to build stronger control environments, and foster a culture of robust financial management, encompassing revenue collection, prudent spending, and prevention or speedy recovery of financial loss and wastage. Strict adherence to laws and regulations, particularly in supply chain management, should also be a top priority. This requires empowering relevant council committees such as municipal public accounts committees and disciplinary boards to deal with high balances of unauthorised, irregular, and fruitless and wasteful expenditure. This will be pivotal in shifting public sector culture within the province and improving the wellbeing of the people of Mpumalanga.

NORTHERN CAPE

A focus on financial viability will enable improved service delivery

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from previous year	Movement from last year of previous administration
2021-22	4	6	17	0	4	0	2 ▲ 1 ▼	
2022-23	3	6	17	0	2	3	3 ▲ 3 ▼	

In our previous general report, we encouraged the leadership of coordinating institutions and municipal leadership to shift the culture in local government by implementing our recommendations. We also highlighted the poor quality of performance reports, overreliance on consultants, poor management of resources under the control of local government, and material uncertainties relating to financial sustainability. As our messages were largely not heeded, the overall lack of progress is reflected in deficient service delivery and minimal impact on audit outcomes, despite the investment by provincial leadership and the use of consultants to support local government.

Although the submission rate for **financial statements** improved over the administrative term, it is concerning that only 25 municipalities (81%) submitted their financial statements on time, and three audits are still outstanding because the financial statements were submitted late. Kai !Garib and Kareeberg local municipalities submitted their financial statements only after we notified the accounting officers of material irregularities relating to the non-submission.

The overall **audit outcomes** for the province have improved slightly from last year due to two municipalities improving their outcomes and one regressing. Three of the province's 31 municipalities managed to achieve clean audits due to stability and skills at senior management level, while two received disclaimed audit opinions, illustrating the need for further intensified intervention. We acknowledge the provincial legislature's efforts to reduce disclaimed opinions and we encourage it to expand its focus to include municipalities with both qualified opinions and unqualified opinions with findings. Improved record keeping should be central in this, and Operation Clean Audit needs to form part of this initiative.

Two municipalities that had previously received disclaimed audit opinions (Kgatelopele and Renosterberg local municipalities) improved to qualified opinions in 2022-23, while Hantam Local Municipality regressed from a clean audit to an unqualified opinion with findings. The improvement at Kgatelopele can be attributed to filling the municipal manager, chief financial officer and deputy chief financial officer positions with skilled

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and experienced individuals. Renosterberg continues to struggle to fill vacancies in senior management positions but was able to improve its outcome due to the good work done by staff members seconded to the municipality by the provincial government. Some of these individuals have been with the municipality for more than a year and have been able to implement controls to resolve some of the challenges the municipality faces. However, we are concerned about whether this improvement is sustainable, as it may depend on the continued secondment of staff from the provincial treasury and cooperative governance department. The regression at Hantam was due to non-compliance with legislation. This can be attributed to the chief financial officer position becoming vacant during the audit, which affected the timeliness and efficiency of the municipality's responses to audit matters. The municipality needs to improve its systems and processes to lessen the dependence on individuals.

In 2022-23, municipalities in the province spent R432,73 million on salaries for staff in the finance units, and an additional R127,05 million on financial reporting **consultants** (25 municipalities). Despite this, only six municipalities (21%) were able to submit credible financial statements. Where the chief financial officer position was not vacant, those in the position had held it for an average of 73 months, which points to a lack of skills and competency in finance units rather than a lack of experience. At 16 of the 25 municipalities that used consultants (64%), we identified material misstatements in the consultants' areas of work, which not only brings the effectiveness of their work into question, but also confirms the need for competent individuals in the finance unit to conduct a thorough review to ensure that the municipality receives value for the money spent. Municipalities must also ensure that skills are transferred from the consultants to municipal employees. We encourage the provincial treasury to ensure that financial management units are optimally used to improve the quality of financial statements. The provincial treasury should also consider partnering with internal audit units and audit committees through joint meetings and training sessions, but this will only be effective if the roles of the internal audit units and audit committees in the province are strengthened.

Finance management practices such as poor revenue management and poor debt collection continued to stifle municipalities, and more than half of the municipalities in the province are **financially distressed**, with 17 municipalities (61%) reporting that they were not certain about their financial sustainability. Nearly three-quarters of municipalities (73%) will use more than half of next year's budget to pay for spending done in previous years, highlighting the extent of financial difficulties facing most municipalities in the province. Most municipalities depend on equitable share funds as 67% of municipal debt is not recoverable, mainly because proper credit control policies are not in place. Together with poor budgeting, this contributes to most municipalities preparing unfunded budgets and using the cash they have available to pay salaries, leaving very little for service delivery, infrastructure maintenance and to pay suppliers such as Eskom and the water boards on time. A clear focus on financial viability will enable municipalities in the province to improve their service delivery role. We urge the provincial and municipal leadership to build institutional capability and strength at municipalities so that they can be better equipped to maintain financial viability and drive service delivery.

Since we began implementing our expanded powers, we have notified accounting officers of 27 **material irregularities** in the province, 14 of which we raised in 2022-23. Some of the high-impact areas in which we issued material irregularity notifications are the ineffective use of consultants, the environmental impact of pollution, interest not being charged on overdue accounts, and payments relating to unauthorised debit orders. There is very little progress being made on addressing material irregularities because of either vacancies in municipal manager positions, or slow or inadequate responses by municipal managers. This remains the biggest stumbling block to the material irregularity process having the desired impact. We included recommendations in the audit reports of three municipalities due to the lack of progress made to address the material irregularities, and issued remedial action for one municipality that had not responded to our recommendations. We call on municipal leadership to respond urgently to material irregularities and for the leadership of coordinating institutions to be more involved and

increase their focus on this process. The material irregularities should be discussed in the legislature and accounting officers that are not responsive should be called to account.

Although we noted an overall improvement in **performance reporting**, the province continues to struggle in this area, as four municipalities again did not submit their performance reports for auditing and another 13 municipalities could not publish credible reports. Only seven municipalities were able to produce credible performance reports that did not require any adjustments. The poor state of performance reporting is due to a lack of capacity in municipal performance units, municipalities not prioritising monitoring and reporting on performance information, and proper record-management systems not being in place. This affects in-year reporting, monitoring and leadership decision-making because when planned and reported targets are not achieved or are not complete, as we reported at 10 municipalities in 2022-23, communities do not receive adequate services. We are busy notifying accounting officers of material irregularities where annual performance reports were not prepared or were prepared, but a performance management system has not been maintained due to a lack of records. We call on the municipal political leadership, with support from coordinating institutions, to emphasise the importance of adequate record-management processes to drive credible performance reporting.

Where municipalities did submit performance reports for auditing, local municipalities only achieved an average of 48% of their targets for basic service delivery programmes due to poor project management, slow procurement processes and financial constraints. Richtersveld Local Municipality did not achieve any of its targets relating to maintaining existing bulk **infrastructure** and services. It is concerning that the municipality spent 99,7% of its municipal infrastructure and water services infrastructure grants despite not having set targets or indicators for all basic services, including infrastructure. This was because it did not link the budget to strategic objectives and did not establish a performance management system. The lack of proper project management and monitoring has also led to ageing infrastructure not being adequately maintained in the province.

Most municipalities did not carry out proper preventative repairs and maintenance on infrastructure and spent an average of only 1% of the value of that infrastructure on repairing and maintaining it, compared to the National Treasury's suggested norm of 8%. This lack of maintenance was evident in the province and specifically affected water provision to residents of Sol Plaatje Local Municipality, who experienced frequent water interruptions and water shedding. The municipality experienced significant water distribution losses – 63,99% in 2022-23 and 64,63% last year – more than double the National Treasury norm of 30%, confirming the severity of the problem.

Existing infrastructure has not kept pace with the growing demands in the province and there are delays in building the new infrastructure needed to provide basic services. We visited key projects and found that they were not properly monitored to ensure that they stayed within planned timelines and to detect any possible overspending of amounts outlined in the initial contracts. Projects were significantly delayed by poor planning, vandalism and a lack of contract management disciplines. We call on the administrative leadership at municipalities to address the infrastructure challenges by capacitating project management units with appropriately skilled officials.

We remain concerned about **non-compliance with legislation**, as we saw a slight regression in this area from last year. Non-compliance relating to supply chain management legislation remains prevalent and is one of the main contributors to irregular expenditure. The closing balance of irregular expenditure remains high, at R3,43 billion, due to slow consequence management as action is not being taken against responsible officials. Municipal public accounts committees should urgently investigate all identified instances of non-compliance to ensure that the irregular expenditure closing balance is dealt with in line with legislation, and that consequence management is swiftly implemented, where appropriate. We are also concerned that municipalities incurred R417,58 million in fruitless and wasteful expenditure in 2022-23, compared to R205,66 million last year, which puts even more pressure on the province's available funding for service delivery. Coordinating institutions should

step up their support to municipalities, and should enforce investigating unauthorised, irregular, and fruitless and wasteful expenditure as well as applying consequence management.

Vacant key positions at municipal leadership level had not yet been filled at some municipalities, and the provincial cooperative governance department needs to focus on addressing this issue to bring stability to struggling municipalities. The required legislative reports are still not tabled on time, and the member of the executive council for local government should ensure that good-quality reports, setting out both the actual performance and the proposed remedial action where performance was lacking, are submitted to the provincial legislature on time so they can be used to facilitate the interventions needed to address any shortcomings in service delivery. The provincial cooperative governance department should also support municipalities to improve their planning and reporting of key performance indicators through capacitation and monitoring.

Councils should ensure that budgets and service delivery plans respond to the needs of the community, and should use in-year monitoring to confirm whether the mayor and municipal manager are taking corrective steps to address poor performance. The provincial treasury needs to play a key role in assisting municipalities with unfunded budgets. These are normally municipalities that are financially distressed and in need of financial recovery plans to become financially viable. The provincial treasury should also implement decisive actions to improve the control environment at auditees with modified audit outcomes. We call on the premier to influence the **accountability ecosystem** in the province to improve how money is spent, which will translate into improved service delivery. The culture will only shift once there is a change in the way officials are monitored and there are vigorous processes in place to hold staff accountable. This will ensure that the quality of life improves for all people living in the Northern Cape.

NORTH WEST

Strengthen capabilities to enforce and monitor accountability

	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from previous year
2021-22	0	3	10	1	7	1	5 ▲ 1 ▼
2022-23	0	3	12	2	3	2	6 ▲ 1 ▼

In our previous general report, we urged administrative and political leadership at municipal and provincial level to continue focusing on key enablers of improved audit outcomes and service delivery. To better the lives of the people in the province, we recommended that they address instability in administrative leadership, the lack of institutionalised preventative controls, compromised accountability and general poor performance. We also advised that all roleplayers in the **accountability ecosystem** should make incremental positive changes in their areas of responsibility to achieve sustainable improvements in audit outcomes and service delivery, and that councils should create an enabling environment for turnaround strategies and recovery plans.

We commend the provincial cooperative governance department and treasury for the support they provided to municipalities. The strong and positive tone set by provincial leadership in turning around governance in local government has led to an overall improvement in the provincial **audit outcomes**. Five municipalities (Ngaka

Modiri Molema District Municipality, and Moretele, Kgetlengrivier, Madibeng and Naledi local municipalities) improved their audit outcomes in 2022-23. We are encouraged by the decrease in disclaimed audit opinions from seven last year to three in 2022-23 (Lekwa-Teemane, Maquassi Hills and Ratlou local municipalities), as it demonstrates the growing recognition of financial statements as a crucial mechanism for accountability. In part, the decrease can be attributed to the material irregularities we reported to accounting officers for failing to maintain complete and proper records as required by legislation, which prompted coordinating institutions to provide consistent, focused and heightened municipal support.

We found that some municipalities relied on the work of consultants without building capacity in municipal finance units to achieve sustainable improvements in audit outcomes. Municipalities spent R214,79 million on **consultants** for financial reporting due to vacancies and a lack of skills. Although this is less than the R282,33 million spent in the province last year, we did not see any

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evidence of skills being transferred, staff being identified for training, or clauses to train and transfer skills being included in consultant contracts.

The poor quality of **financial statements** submitted for auditing points to basic internal control disciplines that are lacking, and no consequences being instituted against officials who fail to execute basic day-to-day responsibilities. The financial reporting process should be initiated early and, where consultants are needed, accounting officers should ensure that they are brought in well ahead of time. More timely preparation of financial statements and performance reports will also give internal audit units and audit committees the opportunity to assist with quality assurance processes through comprehensive reviews.

Ditsobotla Local Municipality has not submitted its financial statements for the past two years (2021-22 and 2022-23) and we notified the municipality's accounting officer of a material irregularity because of this. Encouragingly, the provincial treasury is helping the municipality prepare the outstanding financial statements, and the 2021-22 statements are being finalised. The municipality has committed to submit all outstanding financial statements by 31 August 2024, together with its 2023-24 financial statements.

The overall quality of planning, monitoring and reporting on key targets remains concerning – municipalities submitted **performance reports** for auditing without complete and accurate underlying records, and reported performance information that was invalid and inaccurate. These issues mainly resulted from a lack of understanding of how performance information should be prepared and presented, inadequate reviews, and insufficient skills and capacity within performance reporting and implementing units (e.g. technical services units).

In response to persistent water supply challenges, water services authorities initiated multiple **infrastructure** projects to increase communities' access to water. We visited some of these projects and found that they were significantly delayed due to poor planning, unfunded budgets and a lack of contract management disciplines. Apart from negatively affecting service delivery, this also put

pressure on provincial finances due to contract variations. In addition, municipalities did not spend R160,78 million of capital grants relating to water infrastructure. Internal audit units, audit committees and the relevant council committees should ensure that service delivery reporting is validated, projects are visited, reports are promptly reviewed so that progress can be tracked, and corrective actions are implemented without delay.

Non-compliance remained widespread, with all 20 audited municipalities having material findings in this area, which was made worse by non-compliance not being investigated and consequences not being implemented against those responsible. Key positions remaining vacant added to the lack of accountability within finance units. Non-compliance with supply chain management legislation accounted for 85% of the R3,45 billion in irregular expenditure in 2022-23. The high levels of annual irregular expenditure have resulted in a closing balance of R31,90 billion that has not been dealt with or investigated.

Some municipal public accounts committees are not capacitated or equipped to deal with irregular expenditure investigations. Where they do have the capacity, municipal managers are not adequately supporting them with resources or information. The South African Local Government Association, in collaboration with the provincial cooperative governance department, should strengthen the support provided to municipal councils and municipal public accounts committees, starting with training on investigating irregular expenditure and adhering to legislative requirements.

Since we began implementing our expanded powers, we have identified 53 **material irregularities** relating to non-compliance and possible fraud in the province, which resulted in a likely financial loss of R1,10 billion as well as substantial harm to the public and municipalities. In response to these material irregularities, municipalities have recovered R22,04 million, are in the process of recovering a further R53,19 million, and prevented potential financial losses estimated at R139,09 million. However, some material irregularities with a financial impact are still being dealt with. For example, we issued material irregularity notifications to the municipal managers

of Madibeng and Rustenburg local municipalities because of payments totalling R19,68 million into private accounts (pointing to possible fraud), and payments of R33,22 million to a supplier for work on the rapid transport project that was not performed, respectively. We have also referred eight material irregularities relating to substantial harm to the public to other public bodies for further investigation.

Councils should regularly follow up on the material irregularities reported to them and take resolutions for accounting officers to act on the outcomes of completed investigations. Audit committees should establish a clear reporting mechanism for material irregularities and foster a reporting culture that enhances transparency and encourages early detection and intervention.

The **financial health** of municipalities further deteriorated, as municipalities still did not collect all the revenue owed to them and instead continued to rely on municipal grants to fund their operations and capital infrastructure projects. They continued to struggle with financial sustainability issues, made worse by significant water losses – eight municipalities lost R300,25 million (approximately 35% of total treated water) due to a lack of preventative maintenance, theft and vandalism. The lack of maintenance was also evident during our visits to the Ventersdorp and Orkney wastewater treatment works at JB Marks and City of Matlosana local municipalities, respectively. Sewage was overflowing into adjacent water sources with no evidence of any steps being taken to stop the pollution.

Sixteen municipalities adopted unfunded budgets because their budgets were based on projected revenue rather than expected receipts. This resulted in unauthorised expenditure increasing to R2,45 billion in 2022-23. Fruitless and wasteful expenditure remained high at R571 million, mainly due to interest and penalties, as municipalities struggled to pay their service providers on time. It is encouraging that some municipalities are taking advantage of the National Treasury's debt-relief initiative. For example, Naledi Local Municipality has taken steps to rearrange its monthly payments to Eskom. If it continues to pay its current debt, a third of the debt may be cancelled each year. So far,

the municipality has had R68,11 million in interest cancelled or reversed. Municipalities should take full advantage of the debt-relief initiative while also reviving and fully implementing proper financial management practices for revenue management, debt collection and credit control.

In last year's general report, we reported that heavy rainfall and flooding affected Deelpan – a village in the Ngaka Modiri Molema district – and left residents destitute and displaced. While we acknowledged the support offered by district and local municipalities, we raised concerns about the slow progress in finding permanent solutions. Progress has since been made, with provincial government reporting that five hectares of land have been made available by traditional leaders, and that 103 houses and one business site in phase 1 of the project are close to completion. Going forward, we will track and report on the project to determine whether it is completed on time and within budget.

While we continue to socialise and spotlight the need for accountability at council level, it remains the responsibility of provincial leadership to set the tone for unwavering compliance and credible reporting of service delivery initiatives. The acting premier has committed to ensure that municipalities stabilise senior management positions, while the provincial treasury – through its support initiatives – has committed to advocate for good internal control practices such as avoiding non-compliance, investigating irregular expenditure, and monitoring material irregularities. Administrative leadership must continue to strengthen capabilities and hold councils and their committees accountable for the desired culture shift.

The provincial cooperative governance department, together with the South African Local Government Association, should supplement our influence and capacitation engagements with municipal troikas (speaker of council, chief whip and executive mayor) and the chairpersons of council committees. Supporting them with specific interventions that will enable them to diligently fulfil their responsibilities is a positive step towards setting the right tone, improving control environments, and bringing positive change to the people of the province.

WESTERN CAPE

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Citizens' priorities must be adequately considered and planned for

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	Unqualified with no findings (clean)	Unqualified with findings	Qualified	Adverse	Disclaimed	Outstanding	Movement from previous year
2021-22	21	6	1	1	1	0	2 ▲ 4 ▼
2022-23	20	6	2	1	0	1	3 ▲ 7 ▼

03 Service delivery and financial performance

Last year, we reported that 70% of municipalities in the province had attained clean audits and attributed that success to the presence of competent, well-capacitated staff whose dedication and proficiency underpinned these positive outcomes. We cautioned municipalities to ensure effective monitoring of compliance with legislation, which was the area slowing down the upward trajectory.

04 Material irregularities

In 2022-23, the province largely maintained the **positive outcomes**, bar a slight regression in municipalities with clean audits to 69%. The slight regression underscores our previous messages to the municipal leadership to intensify controls around compliance with laws and regulations. This area was mainly responsible for six municipalities (21%) not being able to achieve clean audits. Since the last year of the previous administration, the number of municipalities that attained clean audits has dropped from 76% to 69%, while 17 municipalities (59%) have been able to sustain their clean audit status over the same period through solid control environments upheld by competent staff.

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We commend Bitou and Oudtshoorn local municipalities that improved to clean audits due to stable leadership and the implementation and monitoring of credible audit action plans, respectively. However, the outcomes of Knysna, Prince Albert, Swellendam and Theewaterskloof local municipalities regressed. At Knysna and Theewaterskloof, vacancies of the chief financial officer position and within the finance unit led to a breakdown in daily disciplines. As a result, Knysna received a qualified audit opinion and Theewaterskloof regressed from a clean audit to an unqualified audit opinion with findings. At Swellendam, we were unable to audit all material service delivery performance indicators after some of the municipality's records were lost after the municipal building was set on fire.

The quality of municipal **financial statements** was good, with 26 municipalities (90%) receiving an unqualified audit opinion, either with or without findings. This achievement is reassuring, as these municipalities were responsible for 98% of the province's R92,61 billion municipal

expenditure budget. These municipalities had stable finance units with good daily accounting disciplines and regular in-year reporting, thus ensuring that these disciplines were institutionalised. We also assessed 18 of these municipalities (69%) as having good **financial health**. The support provided by the provincial treasury through technical forums and workshops contributed to this strong financial control environment. However, more focused intervention is required at the three municipalities that received a qualified or adverse audit opinion.

We remain concerned about Beaufort West Local Municipality, as it was again qualified in 2022-23 despite having a financial recovery plan in place. The municipality did manage to reduce the number of material misstatements reported by implementing a credible action plan to address the previously reported root causes of the misstatements. Laingsburg Local Municipality received an adverse opinion despite paying R4,06 million to **consultants** to assist with preparing its financial statements. The municipality has a long-serving chief financial officer, but the combination of a high vacancy rate and lack of skills within the finance unit, an ineffective internal audit unit, and a non-functional audit committee for half the year, resulted in poor record keeping and inadequate reviews of the financial statements persisting. The resulting lack of credible financial statements prevents users from relying on them and affects decision-making on the municipality's operations and service delivery performance, which ultimately has an impact on its residents.

Although the overall quality of **performance reporting** by municipalities is commendable, we remain concerned about key in-year and year-end reporting controls, as the performance reports of 12 municipalities (41%) required material adjustments and only eight of these municipalities (27%) were able to prevent material findings being reported. There was also some misalignment between the performance targets set by City of Cape Town Metro and three intermediate cities (Drakenstein, George and Stellenbosch local municipalities) relative to the budget allocated. For example, on average, 96% of the allocated budget was spent but only 69% of the targets were achieved. Some of the targets that were not

achieved related to key basic services, such as service requests for the non-collection of refuse and the number of new electricity connections installed for registered informal settlements, negatively affecting the wellbeing of communities. In a very constrained economy where municipalities are struggling to pay suppliers on time, as in the case of Matzikama Local Municipality, we urge municipalities to manage their budgets effectively to ensure that they meet their planned performance targets.

We did not note any significant shortcomings in the **infrastructure** projects we assessed relating to housing, electricity, roads, solid waste as well as water and sanitation at City of Cape Town Metro, and George and Stellenbosch local municipalities. As the City of Cape Town's Sir Lowry's Pass housing project was still in progress, there is an opportunity for the metro to rectify the delays and quality defects we noted mainly as a result of poor project management and a lack of regular inspections. We commend George for the effective project management practices it employed when upgrading its water treatment plant – based on our site visits and the progress reports, the project was on schedule and being managed effectively, and spending was in line with progress made.

Compliance with legislation continues to hinder municipalities in their quest for wholesale clean administration, as we reported material findings at nine municipalities (31%) in the province – a slight regression from last year's 28%. Municipalities also continued to struggle with preventing unauthorised, irregular, and fruitless and wasteful expenditure. In 2022-23, they incurred R295,02 million in unauthorised expenditure, R588,66 million in irregular expenditure, and R37,41 million in fruitless and wasteful expenditure because they did not address the deficiencies and control weaknesses in procurement and contract management that we reported in previous years. To curb the downward trend, municipalities must develop and implement robust action plans to address these deficiencies. The closing balances of irregular and unauthorised expenditure decreased in 2022-23, from R1,22 billion to R1,14 billion and from R1,86 billion to R0,84 billion, respectively. We find it encouraging that municipal public accounts committees responded to our prior-year call to

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action by continuing to fulfil their responsibility of investigating the closing balances of unauthorised, irregular, and fruitless and wasteful expenditure, resulting in write-offs. On a positive note, Breede Valley Local Municipality did not incur any unauthorised, irregular, or fruitless and wasteful expenditure – the only municipality to achieve this feat. We encourage this municipality to take the lead in the province and share with other municipalities its best practices.

Since we began implementing our expanded powers, we have notified accounting officers in the province of four **material irregularities** that have caused an estimated financial loss of R58,10 million. We have seen the material irregularity process having an impact, with half of the material irregularities having been resolved. This was due to the municipal manager of City of Cape Town Metro investigating the material irregularities and holding the relevant officials accountable, while ensuring that internal controls were strengthened and that financial losses were either recovered or prevented. However, we had to brief the new municipal manager at Beaufort West Local Municipality on the ongoing material irregularities that were previously issued to ensure that he understands his responsibility in addressing these irregularities. We are awaiting his responses on both matters – not billing the basic electricity charge to retail and commercial customers, and paying an employee more than allowed by the

remuneration policy. We previously included recommendations for the latter irregularity in the municipality's audit report, and we are following up with the municipal manager to assess the progress made in implementing these recommendations.

We urge municipalities to continue to lead by example and embed a culture of compliance and adherence to ensure that consequences for accountability failures are implemented swiftly, especially at the poorly performing municipalities. The provincial local government department must devise coordination strategies to address instability in councils, ensure critical positions such as those of the chief financial officer are filled promptly, and explore options within the law to become more involved in addressing the political instability at poorly performing municipalities. Municipal councils and mayors should enhance performance planning and budget monitoring to ensure that the needs of citizens are properly considered and planned for, and that resources are being fully and optimally used to enable the achievement of service delivery targets. The speaker of the legislature committed to review the standing rules of the portfolio committee dealing with local government to ensure that the committee has direct oversight on issues relating to municipalities and to enable regular reporting to the legislature on the committee's resolutions and recommendations.



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USING OUR EXPANDED MANDATE

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In this section, we list the details and status of the 78 material irregularities where we used our expanded mandate. Where we took a combination of actions on a material irregularity, we include the specific material irregularity in each of the applicable tables.

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RECOMMENDATIONS IN AUDIT REPORTS

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We included recommendations on 27 material irregularities in the audit reports of 16 auditees. The table reflects the status of these material

irregularities at 29 February 2024, except for the material irregularities on the repeatedly disclaimed audit opinions which reflect the status at 12 June 2024.

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Material irregularities

Material irregularities at recommendations stage

Auditee	Material irregularity	Latest recommendation implementation date	Status
Harm to public sector institution – repeatedly disclaimed audit opinion			
Nketoana Local Municipality (FS)	Full and proper records not kept (2019-20), causing substantial harm to municipality	28 June 2024	Follow-up not yet due
Interest and penalties			
City of Matlosana Local Municipality (NW)	Late payments to Eskom, resulting in interest	1 July 2024	Follow-up not yet due
	Late payments to water supplier, resulting in interest	1 July 2024	Follow-up not yet due

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Auditee	Material irregularity	Latest recommendation implementation date	Status
City of Mbombela Local Municipality (MP)	Late payments to Eskom, resulting in interest	1 July 2024	Follow-up not yet due
	Late payments to water supplier, resulting in interest	1 July 2024	Follow-up not yet due
Emalahleni Local Municipality (MP)	Late payments to Eskom, resulting in interest	1 July 2024	Follow-up not yet due
	Late payments to Department of Water and Sanitation, resulting in interest	1 July 2024	Follow-up not yet due
Inxuba Yethemba Local Municipality (EC)	Late payments to Eskom, resulting in interest	1 July 2024	Follow-up not yet due
Matjhabeng Local Municipality (FS)	Late payments to Eskom, resulting in interest	30 June 2024	Follow-up not yet due
Moqhaka Local Municipality (FS)	Late payments to Eskom, resulting in interest	30 June 2024	Follow-up not yet due
Ngwathe Local Municipality (FS)	Late payments to Eskom, resulting in interest	30 June 2024	Follow-up not yet due
	Late payments to Department of Water and Sanitation, resulting in interest	30 June 2024	Follow-up not yet due
Raymond Mhlaba Local Municipality (EC)	Late payments to Eskom, resulting in interest	1 July 2024	Follow-up not yet due
Sol Plaatje Local Municipality (EC)	Late payments to Eskom, resulting in interest	1 July 2024	Follow-up not yet due
Payments			
Beaufort West Local Municipality (WC)	Employee paid more than allowed by remuneration policy	6 March 2024	Follow-up not yet due

Auditee	Material irregularity	Latest recommendation implementation date	Status
Chris Hani District Municipality (EC)	Payment of value-added tax consultants for which no value was received	15 January 2024	Assessing implementation information
Mangaung Metro (FS)	Payment for extension of time not in terms of contract, relating to construction of trunk routes for Integrated Public Transport Networks roads	28 January 2024	Assessing implementation information
Procurement			
Ngaka Modiri Molema District Municipality (NW)	Procurement of generators at excessive prices (Boikhutsong pump stations), resulting in overpricing of procured goods and services	31 January 2024	Assessing implementation information
Ngaka Modiri Molema District Municipality (NW)	Procurement of generators at excessive prices (Boitshepegi), resulting in overpricing of procured goods and services	31 January 2024	Assessing implementation information
Resource management			
Mangaung Metro (FS)	Inadequate safeguarding of zoo animals, resulting in animals that could not be located and verified	8 July 2024	Follow-up not yet due
Naledi Local Municipality (NW)	Reasonable steps not taken to ensure equivalent value obtained for payments made to consultant	30 June 2024	Follow-up not yet due
Ngaka Modiri Molema District Municipality (NW)	Assets that could not be verified and were presumed stolen or vandalised were written off due to lack of internal control system to safeguard assets	29 May 2023	Assessing implementation information
Ngaka Modiri Molema District Municipality (NW)	Failure to keep full and proper records of municipality's financial affairs, resulting in ineffective use of financial consultants	30 May 2023	Assessing implementation information
uMkhanyakude District Municipality (KZN)	Write down of water meters due to damage from poor storage	1 July 2024	Follow-up not yet due
uMkhanyakude District Municipality (KZN)	Unused water pipes not appropriately safeguarded, resulting in impairment losses	1 July 2024	Follow-up not yet due
Revenue management			
City of Matlosana Local Municipality (NW)	Money owed by fresh produce market from 2017-18 not collected	9 August 2024	Follow-up not yet due
uMkhanyakude District Municipality (KZN)	Water service charges not billed monthly, resulting in loss of revenue	1 July 2024	Follow-up not yet due

REMEDIAL ACTION

We took remedial action for 22 material irregularities at 16 auditees. The table reflects the status of these material irregularities at 29 February 2024, except for the material irregularities on the repeatedly disclaimed audit opinions which reflect the status at 12 June 2024.

The remedial actions for these material irregularities were not implemented by some auditees. We are in the process of requesting intervention from provincial leadership, councils and audit committees to oversee and monitor implementation, as provided for in the Material Irregularity Regulations.

Material irregularities at remedial action stage

Auditee	Material irregularity	Latest recommendation implementation date	Status
Harm to public sector institution – repeatedly disclaimed audit opinion			
Ditsobotla Local Municipality (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Remedial action not implemented
Joe Morolong Local Municipality (NC)	Full and proper records not kept (2019-20), causing substantial harm to municipality	12 October 2024	Follow-up not yet due
Kai !Garib Local Municipality (NC)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Remedial action not implemented
Lekwa-Teemane Local Municipality (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Remedial action not implemented
Madibeng Local Municipality (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Remedial action not implemented
Maluti-a-Phofung Local Municipality (FS)	Full and proper records not kept (2018-19), causing substantial harm to municipality	7 March 2024	Remedial action not implemented
Mamusa Local Municipality (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Remedial action not implemented
Masilonyana Local Municipality (FS)	Full and proper records not kept (2017-18), causing substantial harm to municipality	19 October 2024	Follow-up not yet due
Naledi Local Municipality (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	19 October 2024	Follow-up not yet due
Tokologo Local Municipality (FS)	Full and proper records not kept (2018-19), causing substantial harm to municipality	7 March 2024	Remedial action not implemented
Interest and penalties			
Matjhabeng Local Municipality (FS)	Late payment of employees' taxes to South African Revenue Service, resulting in interest and penalties	23 April 2024	Follow-up not yet due

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Auditee	Material irregularity	Latest recommendation implementation date	Status
uMkhanyakude District Municipality (KZN)	Late payments to supplier, resulting in interest	1 July 2024	Follow-up not yet due
Payments			
City of Tshwane Metro (GP)	Overpayment on fuel purchase	4 February 2024	Assessing implementation information
	Overpayment on water tankering services to communities	3 February 2023	Assessing implementation information
Ngaka Modiri Molema District Municipality (NW)	Payment for security services without services being rendered	3 February 2023	Assessing implementation information
	Overpayment of service provider delivering sanitation services	3 February 2023	Assessing implementation information
Procurement			
Dr Ruth Segomotsi Mompati District Municipality (NW)	Unfair disqualification of supplier based on functionality for value-added tax-recovery services, resulting in overpricing	14 November 2023	Assessing implementation information
Resource management			
JB Marks Local Municipality (NW)	Inadequate safeguarding of sports complexes, resulting in vandalism and impairment losses	1 December 2022	Assessing implementation information
Ngaka Modiri Molema District Municipality (NW)	Assets that could not be verified and were presumed stolen were written off due to lack of internal control system to safeguard assets (2019-20)	11 April 2022	Assessing implementation information
uMkhanyakude District Municipality (KZN)	Unverified assets written off	1 July 2024	Follow-up not yet due
Revenue management			
City of Tshwane Metro (GP)	Interest not levied on outstanding sundry consumer debtors	15 May 2023	Assessing implementation information
uMkhanyakude District Municipality (KZN)	Failure to collect long-outstanding debts	1 July 2024	Follow-up not yet due

REFERRAL TO PUBLIC BODIES FOR INVESTIGATION

We referred 30 material irregularities at 12 auditees to five public bodies – the Department of Water and Sanitation, the Special Investigating Unit, the Directorate for Priority Crime Investigation

(the Hawks), the Public Protector and the Department of Forestry, Fisheries and the Environment – for investigation. The table reflects the status of these material irregularities at 27 March 2024.

Material irregularities referred to public bodies

Auditee	Material irregularity	Referral date	Public body	Status
Landfill site mismanagement, resulting in harm to public				
Mangaung Metro (FS)	Poor management of Southern waste landfill site, resulting in harm to public	27 March 2024	Department of Forestry, Fisheries and Environment	Referral being considered by public body
Metsimaholo Local Municipality (FS)	Poor management of Sasolburg waste landfill site, resulting in harm to public	27 March 2024	Department of Forestry, Fisheries and Environment	Referral being considered by public body
Ngwathe Local Municipality (FS)	Poor management of Vredefort waste landfill site, resulting in harm to public	27 March 2024	Department of Forestry, Fisheries and Environment	Referral being considered by public body
Payments				
Chris Hani District Municipality (EC)	Payment for extension of time without any value on water services project	6 July 2022	Special Investigating Unit	Referral being considered by public body
Emalahleni Local Municipality (MP)	Unfair disqualification of bidder	21 November 2022	Public Protector	Investigation in progress
JB Marks Local Municipality (NW)	Inadequate planning and budgeting for construction of floodline canal, resulting in project being abandoned and limited benefit derived from money spent	10 June 2023	Special Investigating Unit	Referral being considered by public body
Matjhabeng Local Municipality (FS)	Payment for attenuation dam (to control flow of stormwater) not constructed on Nyakallong stormwater system phase 1, resulting in harm to public	17 June 2021	Directorate for Priority Crime Investigation (Hawks)	Investigation in progress
Pollution of water sources, resulting in harm to public				
JB Marks Local Municipality (NW)	Pollution of water resource (Ventersdorp wastewater treatment works and pump stations), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress

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Auditee	Material irregularity	Referral date	Public body	Status
Kopanong Local Municipality (FS)	Pollution of water resource (Gariiep Dam wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress
Madibeng Local Municipality (NW)	Pollution of water resource (Mothotlung wastewater treatment plant), resulting in harm to public	30 June 2023	Department of Water and Sanitation	Investigation in progress
	Pollution of water resource (Letlhabile wastewater treatment plant), resulting in harm to public	30 June 2023	Department of Water and Sanitation	Investigation in progress
Mangaung Metro (FS)	Pollution of water resource (Botshabelo wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress
	Pollution of water resource (Sterkwater wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress
Masilonyana Local Municipality (FS)	Pollution of water resource (Winburg wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress
Matjhabeng Local Municipality (FS)	Pollution of water resource (Phomolong wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress
	Pollution of water resource (Hennenman wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress
Metsimaholo Local Municipality (FS)	Pollution of water resource (Witpan wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress
	Pollution of water resource (Deneysville wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress
	Pollution of water resource (Oranjeville wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress
Moqhaka Local Municipality (FS)	Pollution of water resource (Kroonstad wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress
	Pollution of water resource (Viljoenskroon wastewater treatment works), resulting in harm to public	27 February 2024	Department of Water and Sanitation	Investigation in progress

Auditee	Material irregularity	Referral date	Public body	Status
Ngaka Modiri Molema District Municipality (NW)	Pollution of water resource (Coligny wastewater treatment works), resulting in harm to public	30 June 2023	Department of Water and Sanitation	Investigation in progress
	Pollution of water resource (Itsoseng wastewater treatment works), resulting in harm to public	30 June 2023	Department of Water and Sanitation	Investigation in progress
	Pollution of water resource (Lichtenburg/Blydeville wastewater treatment works), resulting in harm to public	30 June 2023	Department of Water and Sanitation	Investigation in progress
	Pollution of water resource (Lehurutshe wastewater treatment works), resulting in harm to public	30 June 2023	Department of Water and Sanitation	Investigation in progress
	Pollution of water resource (Zeerust wastewater treatment works), resulting in harm to public	30 June 2023	Department of Water and Sanitation	Investigation in progress
Procurement				
Ngaka Modiri Molema District Municipality (NW)	Procurement of water service material, tools and electrical components without following competitive bidding process, resulting in overpricing	7 July 2023	Special Investigating Unit and Public Protector	Investigation in progress
	Procurement of generators at excessive prices (Boikhutsong pump stations), resulting in overpricing of procured goods and services	7 July 2023	Special Investigating Unit	Investigation in progress
	Procurement of generators at excessive prices (Boitshepegi), resulting in overpricing of procured goods and services	7 July 2023	Special Investigating Unit	Investigation in progress
Resource management				
Mangaung Metro (FS)	Inadequate safeguarding of zoo animals, resulting in impairment	18 March 2024	Public Protector	Referral being considered by public body

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CERTIFICATE-OF-DEBT PROCESS

If accounting officers do not implement our recommendations, we take remedial action that covers the areas of recovery, prevention and consequences. If the remedial actions are also not implemented and the material irregularity involves a financial loss, we can move towards the certificate-of-debt stage.

Last year, we started the certificate-of-debt process for two material irregularities at Ngaka Modiri Molema District Municipality in North West, as detailed below.

Details of certificate-of-debt process

Material irregularity	Status
Failure to monitor contract for construction work to municipal office building and gate house, resulting in contract extension that included items already paid for as part of original contract	
After considering the written representations and substantiating documents provided by the accounting officer in February 2023, we concluded that the accounting officer did not provide adequate reasons not to proceed with the certificate-of-debt process.	
In June 2023, the accounting officer was invited to provide oral representation to the advisory committee on material irregularities in accordance with the Material Irregularity Regulations.	
On 15 March 2024, the advisory committee issued a report to the auditor-general with their recommendations on proceeding with the process. The auditor-general is considering these recommendations.	
Infrastructure and movable assets that could not be verified and were presumed stolen, were written off due to lack of internal control system to safeguard assets	
After considering the written representations and substantiating documents provided by the accounting officer in February 2023, we concluded that we will not proceed with the certificate-of-debt process.	
On 20 July 2023, we granted the accounting officer an additional six months to complete the actions in progress to address the material irregularity. We received information on these actions in February 2024 and are currently assessing them.	

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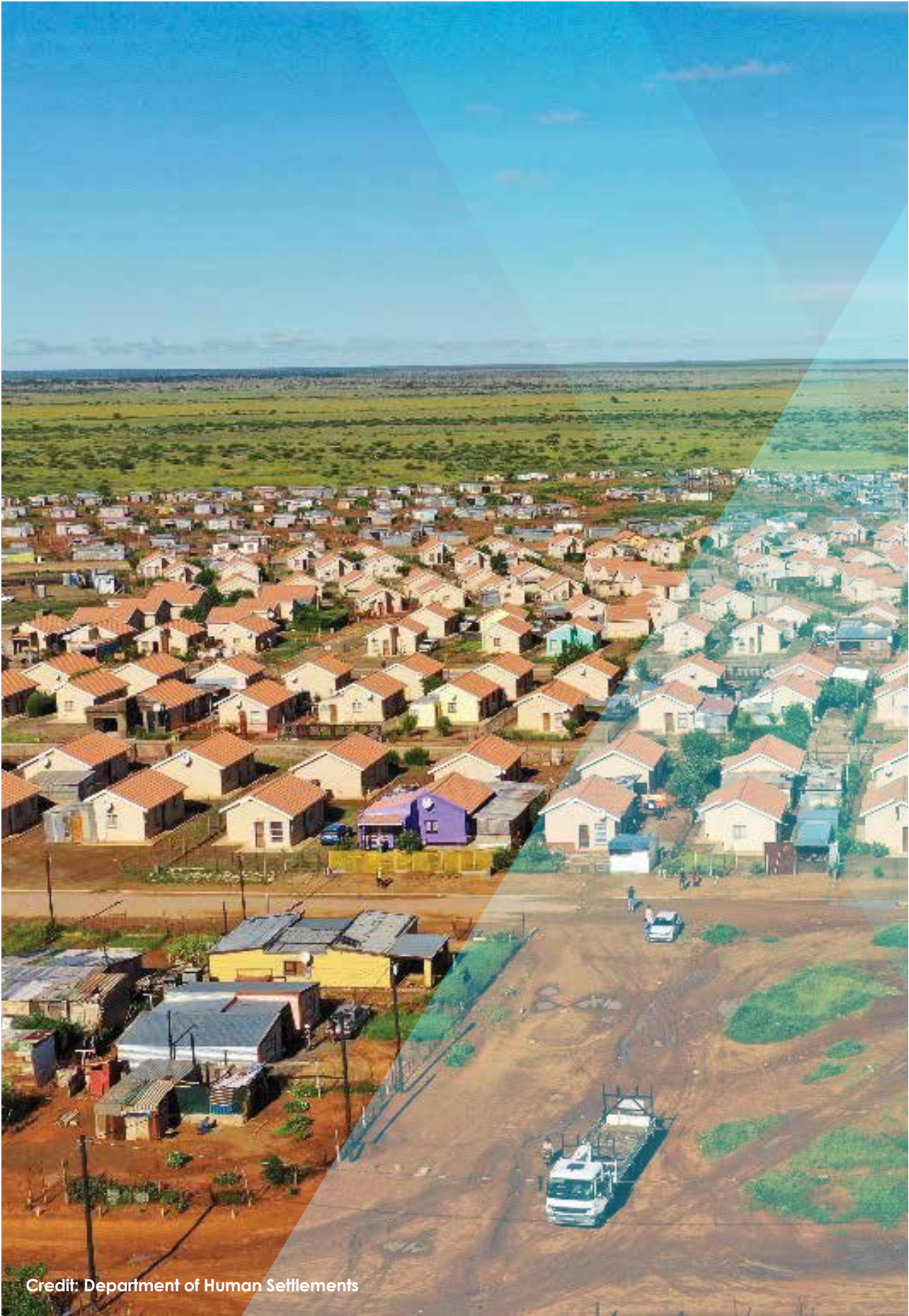
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BEST PRACTICES: MUNICIPALITIES WITH CLEAN AUDITS

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WHY DO WE FOCUS ON CLEAN AUDITS?

Municipalities that achieve clean audits have strong control environments that enable reliable financial and performance reporting and good practices that can be replicated. However, these municipalities do not necessarily fully deliver on their service delivery mandate.

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WHY IS A CLEAN AUDIT IMPORTANT?

When a municipality receives a clean audit, this means it has accurate records that allow it to communicate transparently to communities about whether and when their needs will be met. This enables the council and everyone with an interest in the municipality – particularly communities, community organisations, and those in national and provincial government who need to oversee the municipality's performance and provide the support it needs to succeed – to judge how the municipality is doing and to take action where necessary.

Municipalities that have institutionalised controls and systems in place to plan, measure, monitor and account for their finances and performance are more likely to have a solid foundation on which councils can build to improve their performance and deliver most of the promised services.

Sustained, consistent and meaningful clean audits translate into improvements in the lived realities of ordinary South Africans.

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CLEAN AUDITS IN 2022-23

Per municipal category

Metropolitan municipalities	1
Intermediate cities	4
District municipalities	11
Local municipalities	18

Movement from previous year

Improved to clean audit status

4

Sustained clean audit status

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Lost clean audit status

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WHAT WE FOUND AT MOST CLEAN MUNICIPALITIES

They plan for service delivery

- Their performance indicators cover all their core delivery functions and are aligned to their mandate.
- They consider the service delivery needs of approved informal settlements and include these in the service delivery plans.

They effectively deal with complaints

- They have established complaints management systems and methods that are accessible to their residents for reporting faults.
- They run regular awareness campaigns and address complaints promptly.

They meet public participation requirements

- They have established policies and processes to enable residents to participate in the integrated development plan process.
- Their ward committee system functions effectively.
- The public takes part in the municipalities' initiatives to foster public engagement.

They consider community needs when budgeting

- Their budget process involves adequate public participation.
- The ward committee system assists in ensuring that community needs are considered during the budget process.

GOOD PRACTICES OF CLEAN MUNICIPALITIES

They invest in key infrastructure projects and use grant funding effectively

- They perform better in all areas of infrastructure delivery – from planning the project to ensuring it is up and running and ready to serve the public.
- They invest in infrastructure projects that improve the lives of their residents, such as roads, water supply, sanitation and electricity.
- They manage projects well (deficiencies are promptly identified and corrected; and timelines, budgets and quality standards are adhered to).
- They use grants effectively, making sure the money is used for the intended purpose.

They have a strong, well-performing ecosystem

- They have a stable, well-resourced, competent municipal administration, with few vacancies and low turnover in key municipal positions.
- They foster a culture of good governance and enforcing accountability where necessary, which is set by the municipal manager and supported by senior management.
- Their audit committees, councils and municipal public accounts committees provide independent assurance and lead by example to create the robust ecosystem needed to sustain their clean audit status.

- Political leaders understand their role to deliver on the promises of those who elected them and support active citizenry, which is crucial to ensure that the needs of the public are heard and acted on, and that municipal leaders are held accountable for any wrongdoing.

They have established controls

- They have sound financial and performance management disciplines and perform their functions according to applicable legislation.
- They plan adequately, implement effectively and report credibly on their performance.
- They have good controls and processes in place, which are consistent with our preventative control guides (available on our website: www.agsa.co.za), to ensure that funds are spent legally and that they report accurately on how they have spent funds and delivered services.

They prioritise services based on available funding

- They include key service delivery priorities in their planning and reporting documents.
- They align municipal resources with key priorities to meet community needs and communicate credibly to communities on their decisions when all needs cannot be prioritised.

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WHAT SHOULD BE DONE

Good outcomes start with a strong leadership tone to do the right thing – one that emphasises ethical conduct.

A clean audit is desirable, and municipalities should adopt the good practices of those that achieve this status so that they can fulfil their mandates and take care of their residents.

Key roleplayers in the accountability ecosystem can play a part in achieving this as follows:

Councils and municipal managers should:

- pay attention to financial management, material irregularities, credible financial statements and performance reports, and consequence management
- focus on the stabilisation and capacitation of the administration.

Coordinating institutions (such as provincial treasuries, cooperative governance departments and premiers' offices) **should:**

- monitor, support and strengthen the capacity of municipalities
- intervene where necessary.

Active citizenry (members of the public) should:

- ensure that their needs are heard and acted on
- hold municipal leaders accountable for any wrongdoing
- use public participation processes, joint ward committees and available channels to report any indicators of abuse, mismanagement, fraud and service delivery failures.



HONOUR ROLL OF CLEAN MUNICIPALITIES IN 2022-23

4 | Eastern Cape



Joe Gqabi DM

Mnquma LM

Senqu LM

Winnie Madikizela-Mandela LM

1 | Gauteng



Midvaal LM

4 | KwaZulu-Natal



King Cetshwayo DM



Okhahlamba LM



uMhlathuze LM



Umlalazi LM

2 | Mpumalanga



Ehlanzeni DM



Nkangala DM

3 | Northern Cape



Frances Baard DM



Namakwa DM



ZF Mgcawu DM

20 | Western Cape



Bergriver LM



Bitou LM



Breede Valley LM



Cape Agulhas LM



Cape Winelands DM



City of Cape Town MM



Drakenstein LM



Garden Route DM



George LM



Hessequa LM



Langeberg LM



Mossel Bay LM



Oudtshoorn LM



Overberg DM



Overstrand LM



Saldanha Bay LM



Stellenbosch LM



Swartland LM



West Coast DM



Witzenberg LM

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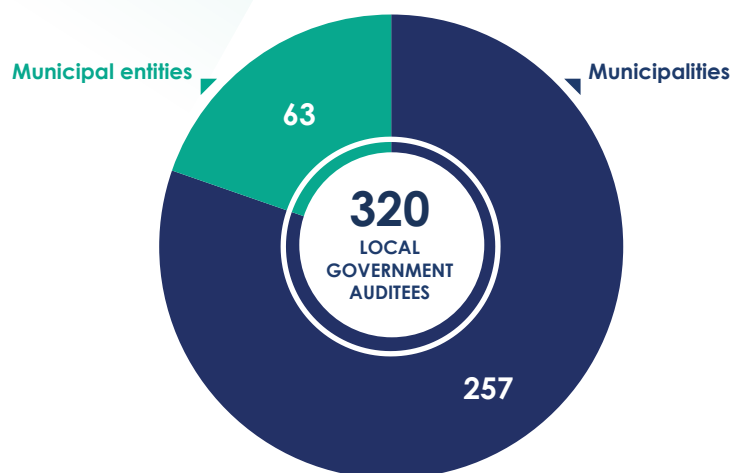
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AUDIT FACT SHEET

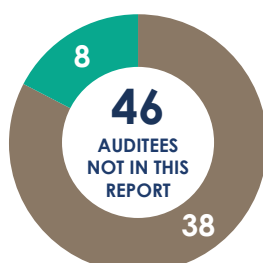
AUDITEES IN LOCAL GOVERNMENT



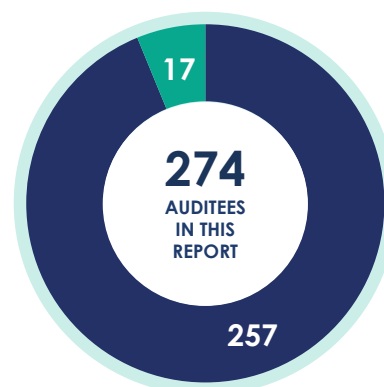
AUDITEES COVERED, AND NOT COVERED, IN THIS REPORT

Not included in this report

- ▼ **Dormant municipal entities** (audit outcomes available on our website)
- ▼ **Small municipal entities** (audit outcomes available on our website)



Included in this report

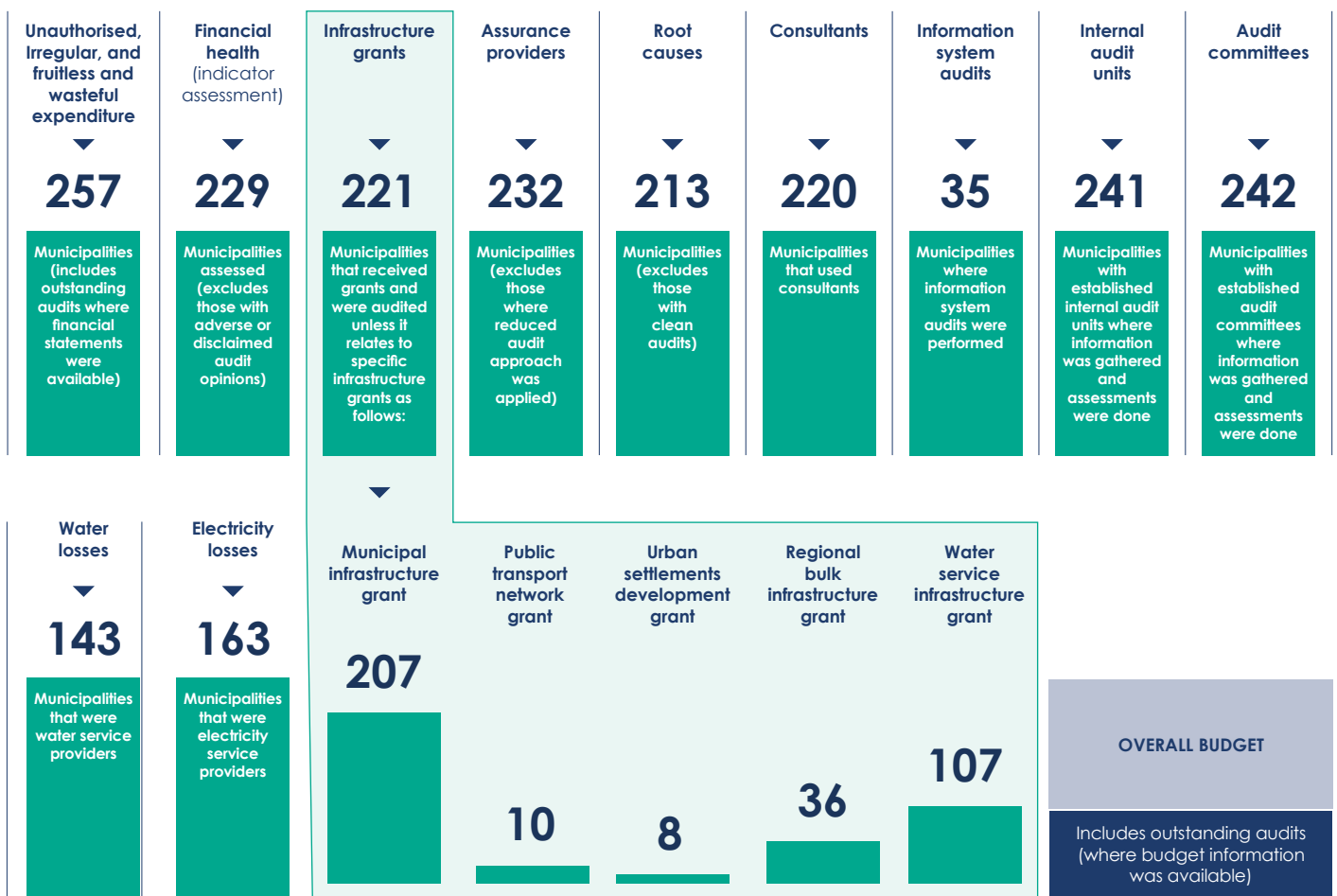


- ▼ **Municipalities**
Audit results for municipal entities are consolidated with parent municipalities; these outcomes are shown for consolidated municipalities
- ▼ **Municipal entities**
Included in audit outcomes, financial health, and service delivery planning and reporting

NUMBERS AND PERCENTAGES ARE BASED ON

247
COMPLETED
AUDITS

EXCEPT FOR:



HOW WE SHOW MOVEMENT

Where we indicate improvement or regression in outcomes and findings, we compare the results of completed audits for 2022-23 to their results in 2021-22 (previous year) and 2020-21 (last year of previous administration)

▲ Improvement

▼ Regression

WHAT THE DIFFERENT AUDIT OPINIONS MEAN



A financially unqualified opinion with no findings (**clean audit**) means the auditee:

- produced quality financial statements free of material misstatements (in other words, errors or omissions that are so significant that they affect the credibility and reliability of the financial statements)
- produced quality performance reports that measure and report on performance in a manner that is useful and reliable
- complied with key legislation relating to financial and performance management.



A **financially unqualified opinion with findings** means the auditee was able to produce good-quality financial statements that had no material misstatements, but struggled to produce good-quality performance reports and/or to comply with all relevant key legislation.



A **financially qualified opinion with findings** means the auditee produced financial statements that contained material misstatements that were not corrected before the financial statements were published. The auditee also had challenges with the quality of its performance report and/or compliance with key legislation.



An **adverse opinion** with findings means that the auditee's financial statements included so many material misstatements that we disagreed with virtually all the amounts and disclosures included there.



A **disclaimed opinion** with findings means that we could not conclude or express an opinion on the credibility of the auditee's financial statements because there was no evidence to support most of the amounts and disclosures included there. Usually, auditees with adverse and disclaimed opinions also cannot provide supporting documents for the achievements they report in their performance reports, and do not comply with key legislation.

NOTES

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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