



AUDITOR-GENERAL
SOUTH AFRICA

LOCAL GOVERNMENT 2021-22 AUDIT OUTCOMES

Audit outcomes for financial year ended 30 June 2022

Status of material irregularities at 15 February 2023

A culture of accountability will improve service delivery



MISSION AND VISION

VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

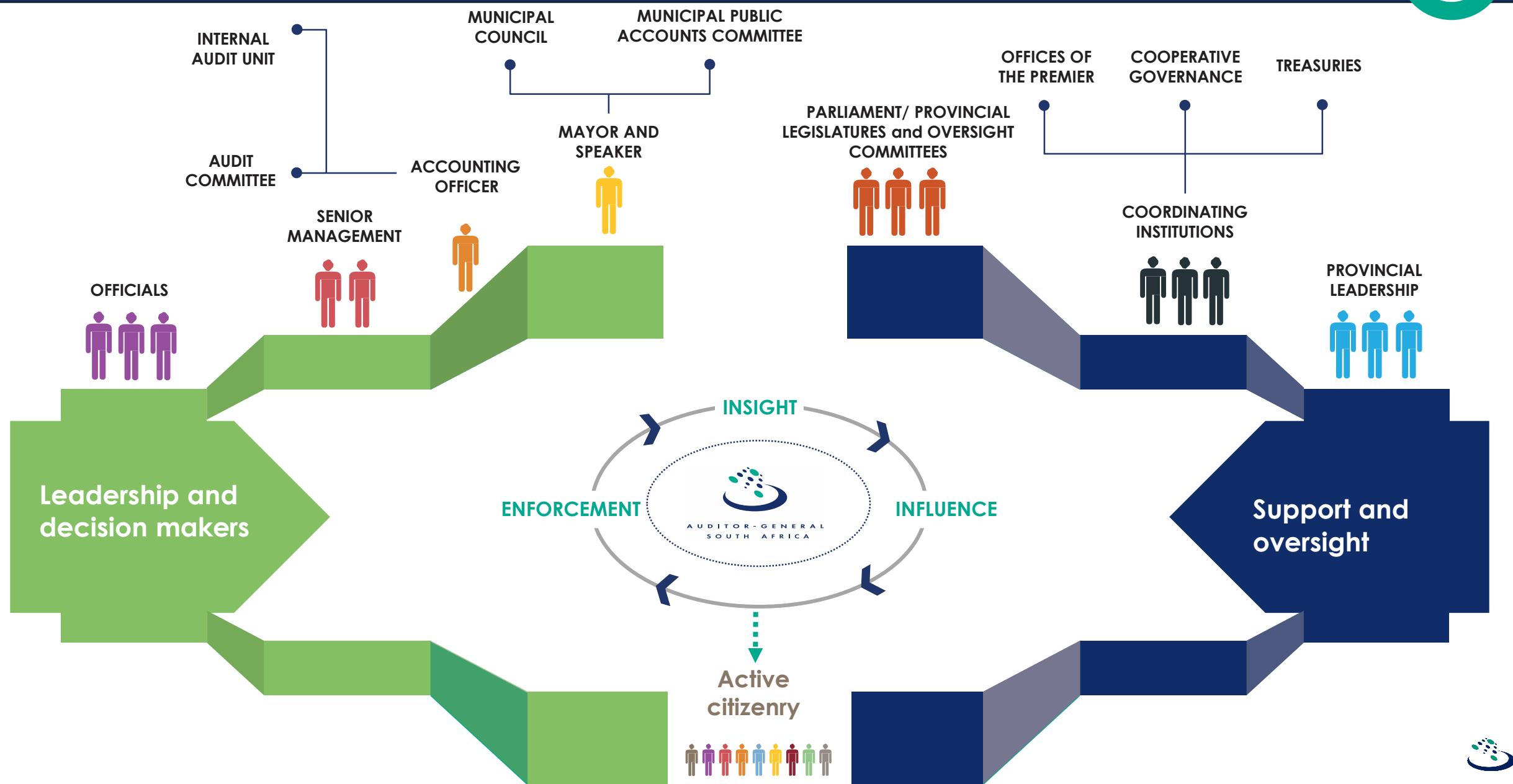
MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence

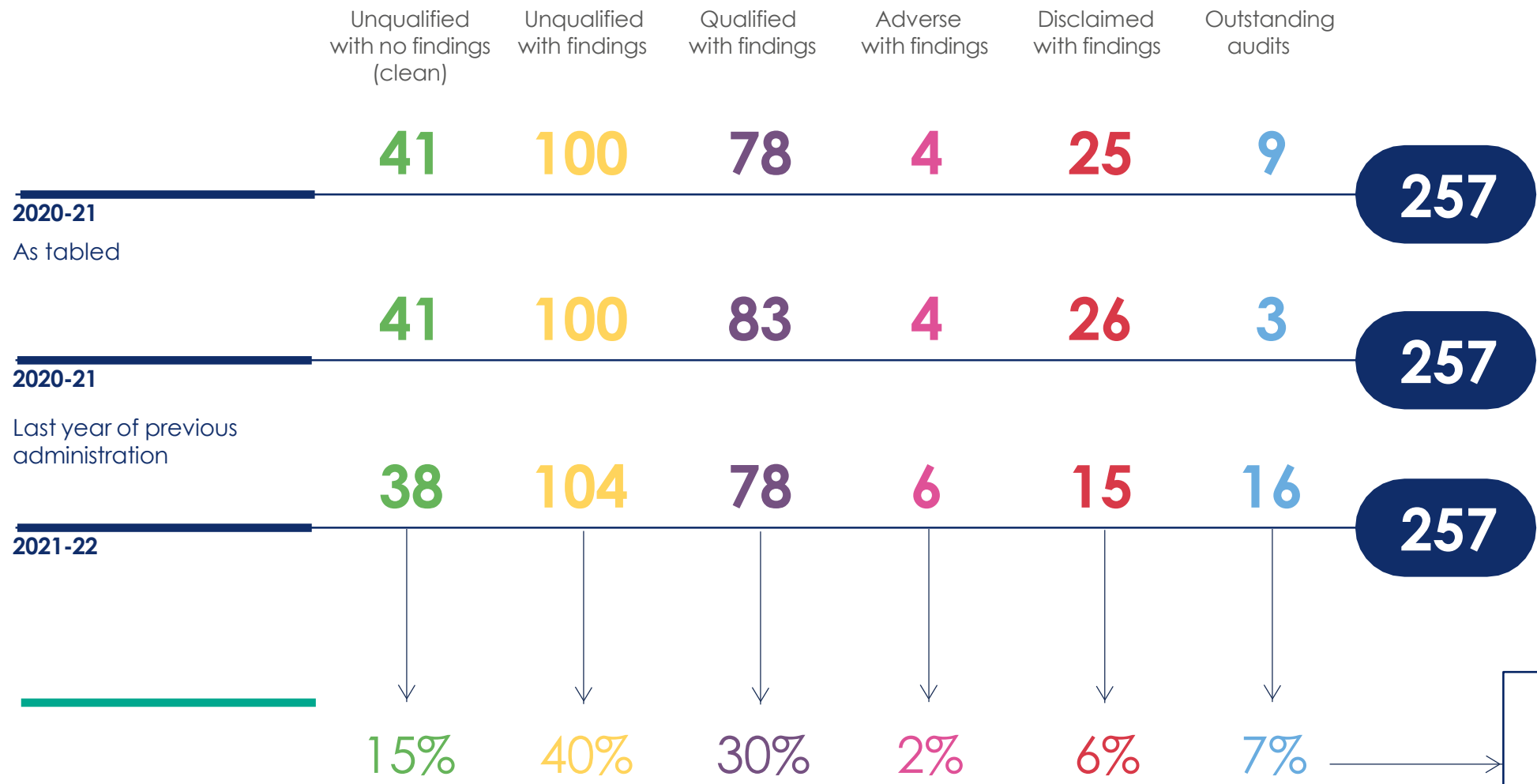


All have a role to play in accountability ecosystem

3



Overall audit outcomes



Submission of financial statements by legislated date improved from 81% to **91%**

- Non-submission of financial statements – 3

Late submission of financial statements – 12

Delays by auditee – 1



Audit outcomes by type of auditee



	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits		
Metropolitan municipalities	2	3	2	1	0	0	8	2 2
Intermediate cities	5	16	15	0	2	1	39	5 6
District municipalities	13	16	10	2	1	2	44	3 5
Local municipalities	18	69	51	3	12	13	166	23 16



Provincial audit outcomes

6



From previous year: 8 4

Late submission of financial statements – 2
Delays by auditee – 1



From previous year: 2 1

Non-submission of financial statements – 2
Late submission of financial statements – 6



From previous year: 1 4



From previous year: 9 4

Late submission of financial statements – 1



From previous year: 4 4



From previous year: 3 3



From previous year: 1 2

Late submission of financial statements – 2



From previous year: 3 2

Non-submission of financial statements – 1
Late submission of financial statements – 1



From previous year: 2 5

Without proper financial planning, controls & reporting, municipalities cannot deliver services and responsibly use & account for taxpayers' money

7

Poor financial planning

- Unfunded budgets: 112 (44%)
- Unauthorised expenditure of R25,47bn: 175 (68%)
- Insufficient budget for infrastructure maintenance: 203

Inadequate financial controls

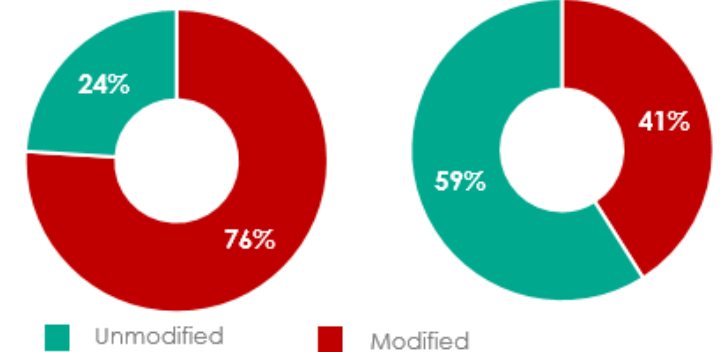
Basic controls not in place or not effective:

- | | |
|-----|------------------------------|
| 88% | Review & monitor compliance |
| 87% | In-year & year-end reporting |
| 77% | Daily & monthly controls |
| 75% | Proper record keeping |

Unreliable reporting

Before submission

After submission



Contributing factors to poor financial planning and reporting

Skills and capacity

Finance unit:

- Salary cost = R10,75bn
- Average vacancy rate = 18%
- CFO vacancies = 52 (22%)
- CFO avg. months in position = 49

Municipal manager:

- Vacancies = 77 (32%)
- Vacancies at disclaimed / adverse = 70%

Use of financial reporting **consultants** is still prevalent

Governance and accountability

- **Limited impact** of support by IA, AC
- **Some impact** of support by coordinating institutions
- Council instability & coalitions at municipalities, particularly at metros
- **Some impact** by councils (approving budgets, monitoring spending, checking AFS against budget)

Impact

- Less transparency and accountability
- Limited ROI for national / provincial interventions
- Lack of stability + political uncertainty = councils not properly fulfilling oversight role
- Negative impact on finances and service delivery

Ineffective use of consultants for financial reporting

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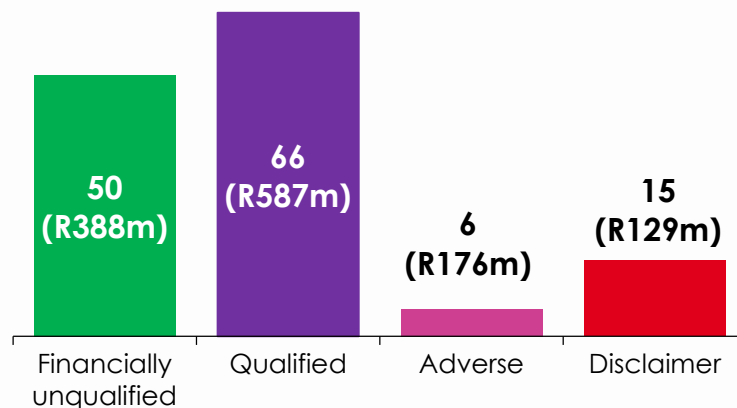
Total cost = R1,61bn (R1,36bn in 2020-21)

- 216 municipalities paid R1,55bn (2020-21: 204 municipalities paid R1,34bn)
- Province paid R0,06bn (2020-21: R0,02bn)

Consultant cost: 13% of total financial reporting cost of R12,36bn

62% (137) of financial statements submitted for auditing included material misstatements in area of consultant work

Outcomes: financial statements after correction



Reasons for appointing consultants

- Lack of skills – 118 (53%) municipalities
- Vacancies – 15 (7%) municipalities
- Combination of lack of skills and vacancies – 87 (40%) municipalities

Nature of consultant work at municipalities

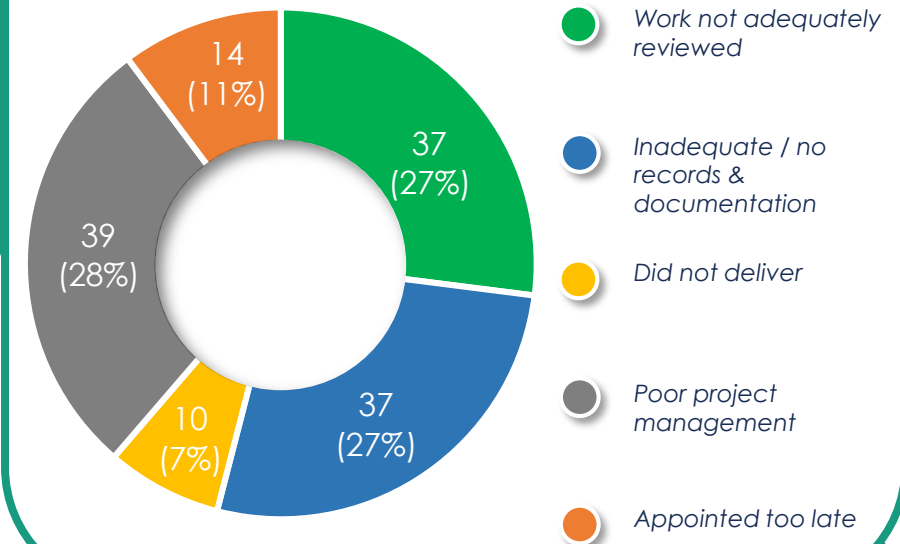
- **Asset management:** R0,55bn (34%)
- **Tax services:** R0,47bn (29%)
- **Preparation/review of financial statements:** R0,42bn (26%)
- **Accounting services:** R0,08bn (5%)
- **Other services:** R0,09bn (6%)

Recurring appointment at 178 (81%)



MIs focus on ineffective use of consultants (value not received)

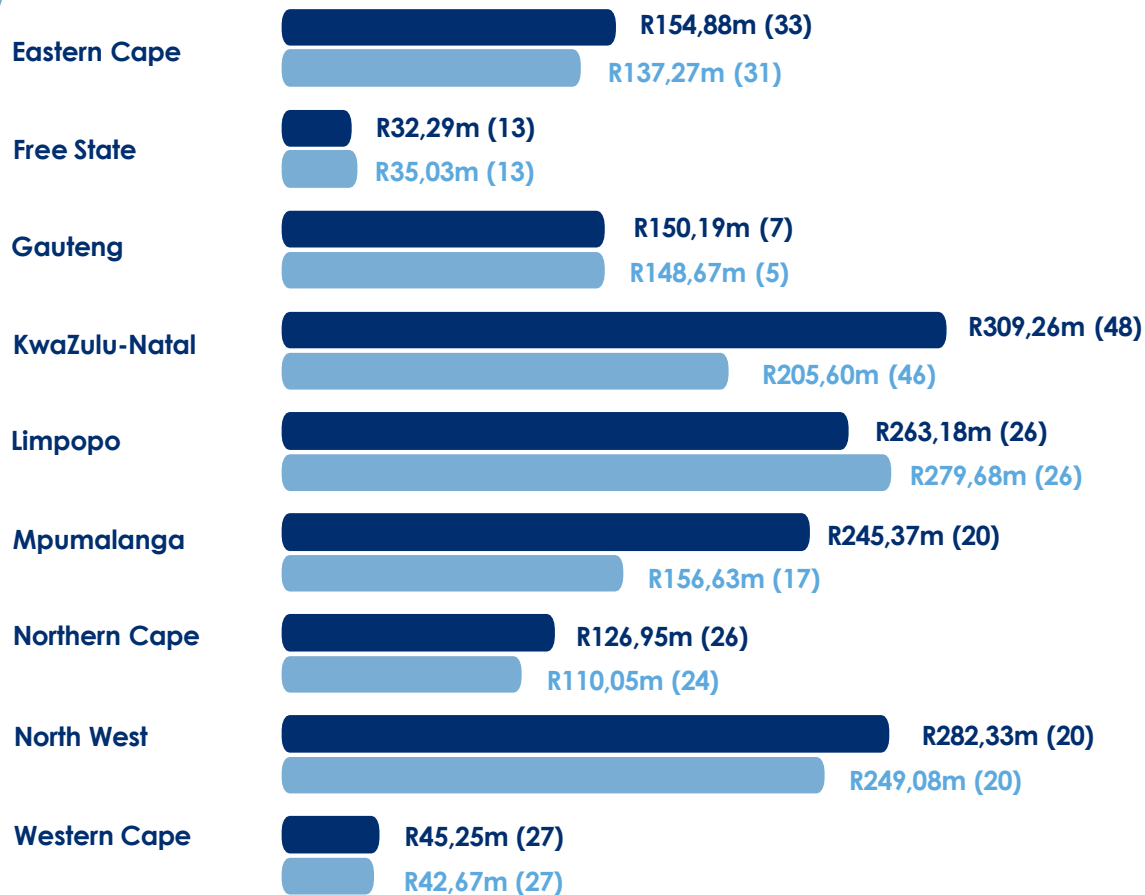
Reasons consultants were ineffective



Consultant spend per province and outcome

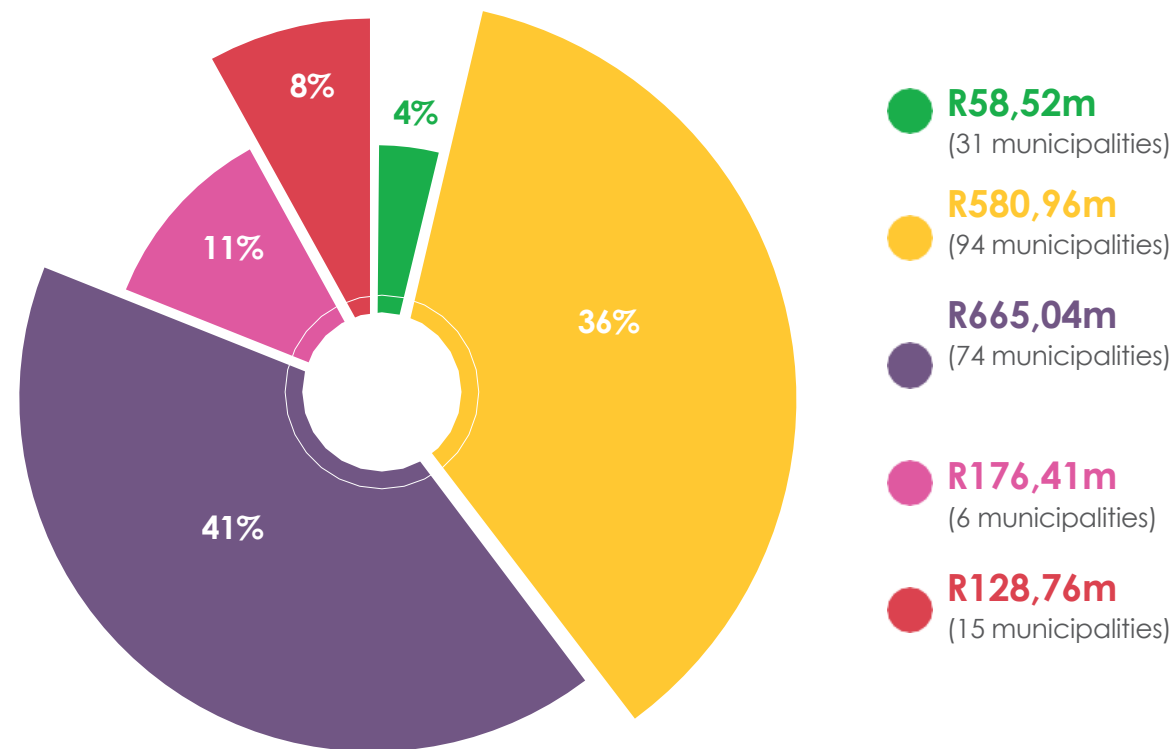
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Consultant cost per province (no. of municipalities)



2021-22 2020-21

Consultant cost per audit outcome category (no. of municipalities)



Unqualified with no findings (clean) Unqualified with findings Qualified with findings Adverse with findings Disclaimed with findings

Poor financial management – pressure on local government finances

10

Proper managing of available funds would leave more money for service delivery

R4,74bn

fruitless & wasteful expenditure

R5,19bn

estimated financial loss from non-compliance & fraud MIs



Local government is financially distressed



Reduced revenue and funding



Lack of prudence in spending limited funds



1 Local government is financially distressed

- Going concern challenges: **70 (29%)**
- Creditors > available cash: **52%**
- Total annual deficit = **R11,87bn** (excl. adverse & disclaimed)
- Expenditure > revenue: **79 (36%)**
- Salaries & wages prioritised (incl. councillors) = **R121,47bn** (64% of own revenue + equitable share)

2 Reduced revenue and funding

Inadequate revenue management:

- Estimated recoverable own revenue = **R112,88bn (34%)**
- Avg. debt-collection period = **231 days**
- Municipal debt write-off: **R39,63bn**
- Depend on equitable share (**R77,84bn**)
- Metros with downgraded credit rating:
 - Nelson Mandela Bay (EC)
 - City of Johannesburg (GP)
 - City of Ekurhuleni (GP)
 - City of Cape Town (WC)

22
MIs

3 Lack of prudence in spending limited funds

Poor payment practices

- Creditors not paid within 30 days: **84%** of municipalities
- Average creditor-payment period = **258 days**
- Eskom arrears = **R36,36bn**
- Water board arrears = **R14,34bn**
- Water losses = **R11,91bn**
- Payments for goods & services not received

38
MIs

Unfair or uncompetitive procurement practices

- 199 municipalities (83%)
- Limitation on audit of awards selected for testing = **R2,42bn**
- Prohibited awards to employees and councillors = **R0,25bn**

3
MIs

No or limited benefit received from money spent

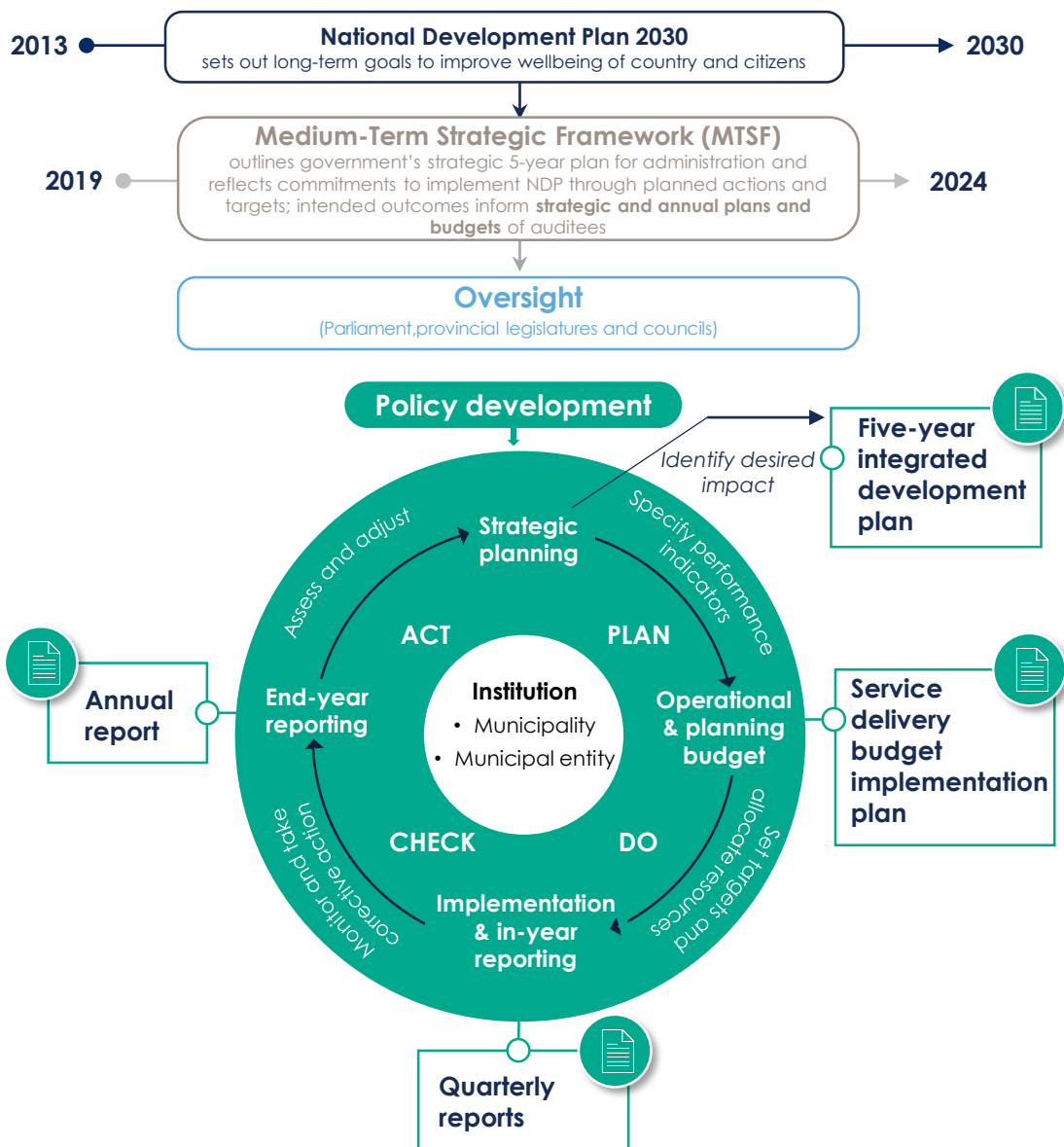
- **Consultants** used, but finance unit had resources & skills
- Expensive **IT systems** with key controls not enabled
- Payments for **software licences** without licence agreements

17
MIs

Service delivery failure – poor planning & unreliable reporting

12

Planning, budgeting and reporting cycle of government



1

Planning incomplete and inadequate

- Incomplete annual service delivery plans
- Indicators not measurable or relevant
- Annual targets set too low
- Support from provincial cooperative governance departments not effective/ provided too late
- Challenges in adopting common indicators (lack of budgets, capacity & systems and processes) at metros not addressed

E.g. of key service delivery targets not included in municipal plans



Water and sanitation

- No. new sewer connections meeting minimum standards
- Frequency of unplanned water service interruptions
- % wastewater samples compliant with water-use licence conditions



Energy and electricity

- % unplanned outages restored within industry standard timeframes



Housing and community facilities

- % households living in adequate housing
- No. informal settlements assessed

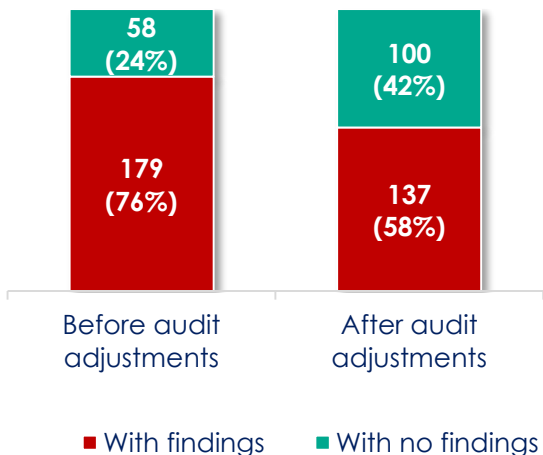


2

Reporting on delivery not credible

- No evidence to support reported achievements
- Inconsistencies in planned vs reported performance (indicators & targets)
- IA & ACs could not improve quality of performance reporting

Performance report quality before & after audit adjustments



3

Services not delivered

Examples of key targets not achieved by municipalities

Target Actual

Underachievement of planned targets:

Nelson Mandela Bay (EC) – no. of dwellings provided by metro with connections to mains electricity supply	1 260	590
City of Ekurhuleni – % of callouts resolved within 24hrs – water	85%	18%
City of Cape Town (WC) – no. of human settlements opportunities provided (formal sites serviced)	1 940	1 423

Underachievement of water and waste quality planned targets:

Blue Crane Route (EC) – no. of bacteriological water samples and chemical water samples taken	96 & 4	87 & 3
Bela-Bela (LP) – % of work completed for building sewer outfall from Aventura pump station to WWTW	86%	67%

Renosterberg (NC), Siyancuma (NC), Siyathemba (NC) and Ubuntu (NC) did not submit performance reports for 2021-22



Crumbling municipal infrastructure affects service delivery, causes harm to public

14

Infrastructure management and maintenance

Low maintenance spend:

- Avg. maintenance spend = 4%
- Maintenance spend $\leq 1\%$ at 39% of municipalities
- Maintenance not prioritised when budgeting
- Preventative maintenance not effective
- Infrastructure assets deteriorate
- Asset qualifications – no credible information
- Poor state of WWTWs
 - Ineffective environmental management = polluted water sources
- MIs
 - Assets not protected (financial loss)
 - Polluted water sources (harm to public)
 - Landfill site mismanagement (harm to public)
- Facilities not used effectively



Sol Plaatje (NC):
Contaminated water due to leaks from Riverton purification pipelines



Mangaung (FS):
Untreated effluent flowing directly into environment (Botshabelo WWTW)

Resulting in

- Lower water quality
- Increased water losses
- Increased cost to replace/upgrade infrastructure & equipment
- Increased risk of mechanical breakdowns
- Risk to citizen health & harm to environment

Overall impact



Water supply issues due to breakdowns



Untreated wastewater discharged into water sources



No access to adequate sanitation

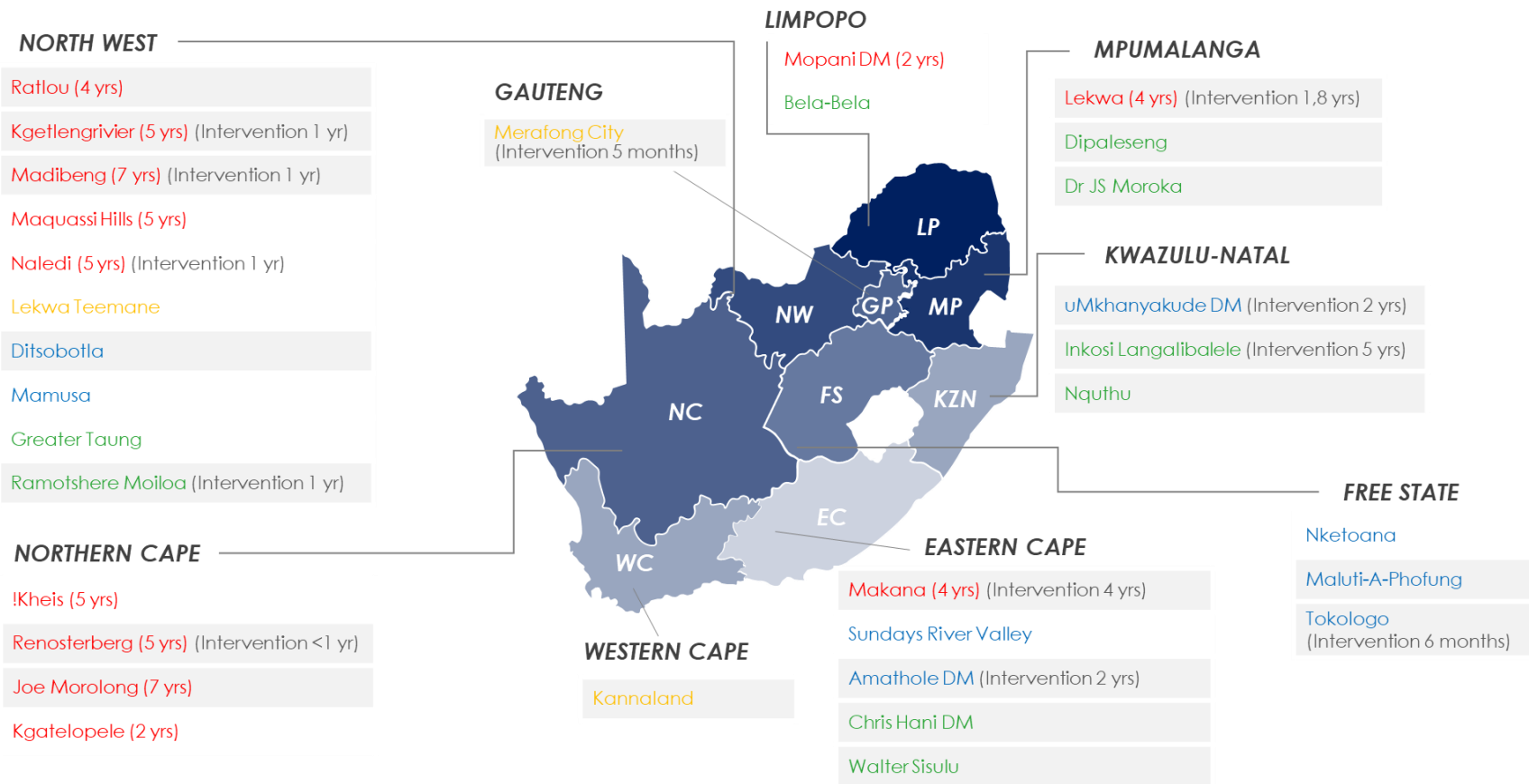


Poor health (unhygienic water and sanitation)



Some attention paid to eradicating disclaimers

15



● Repeat disclaimer (12)
 ● New disclaimer (2021-22) (3)
 ● Improvement (9)
 ● Outstanding – anticipated disclaimers in 2021-22 (8)

Total disclaimers – including anticipated (2021-22) (23)

Insights

Human resource management

- Overall avg. vacancy rates = 24%
- Vacancies at MM level – 8 (53%)
- Vacancies at CFO level – 7 (47%)
- Competency levels – only 2 MMs and 1 CFO had required competencies

Consultants

- Overreliance on consultants
- Limited skills transfer
- No needs assessment
- Used by 80% of repeatedly disclaimed municipalities (cost = R119,46m)

Governance and accountability

- Municipal support improvement plans – no significant impact
- Council and admin instability hampered implementation

Under intervention – January 2023 (12)

Dysfunctional municipalities (Cogta) (21)

24 MIs



Eradicating disclaimed opinions will improve lives of communities

16



Poor financial management

- Financial statements with disclaimed opinion – not credible or reliable for decision-making
- No financial transparency and little accountability
- Previously disclaimed/outstanding financial statements:
 - EC: Sundays River Valley
 - FS: Tokologo, Maluti-A-Phofung, Nketoana
 - KZN: uMkhanyakude DM
 - NW: Ditsobotla, Mamusa



Infrastructure neglect

- Low spending on maintenance
- No maintenance plans – reactive maintenance
- Project delays
- Lack of technical skills and vacancies in technical departments



Impact on communities

Water and sanitation

- No plans for basic water, sanitation services
- Backlogs not addressed
- Planned performance targets not achieved

Wastewater and solid waste management

- Ineffective environmental management
- Poor physical condition and operations of WWT infrastructure (vandalism, theft)
- No processes for wastewater treatment
- No processes to prevent pollution or degradation of environment
- Illegal waste dumping not regulated and monitored



Makana (EC):

Belmont wastewater treatment works not safeguarded and maintained to prevent depletion, vandalism and theft



Makana (EC):

Illegal waste dumping site

Lekwa Teemane (NW):

Uncontrolled dumping – continuing hazard at Christiana landfill site

7
MIs



Little movement in compliance with key legislation

17

Status of compliance with key legislation



■ With no findings ■ With material findings

Movement from previous year

5 ↑ 7 ↓

Status of compliance with SCM legislation



■ With no findings ■ With findings ■ With material findings

Weaknesses in procurement and payment processes increase risk of financial loss and fraud

2021-22 key findings	
Uncompetitive and unfair procurement processes	199 municipalities (83%)
Prohibited awards to employees and councilors	R0,25bn
Prohibited awards to other state officials	R2,49bn
Limitation on audit of awards selected for testing	R2,42bn
IE related to SCM (includes outstanding audits)	R28 ,63bn

Most common findings

- Material misstatements on submitted AFS – 182 (76%)
- UIFWE not prevented – 177 (73%)
- Procurement & contract management – 163 (68%)
- Consequence management – 141 (59%)
- Expenditure management – 127 (53%)
- Strategic planning & performance management – 115 (48%)

How leadership has dealt with prior year irregular expenditure

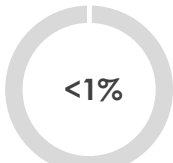
R136,0 bn
2021-22



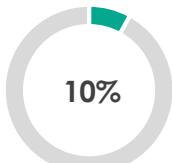
R119,10 bn
2020-21



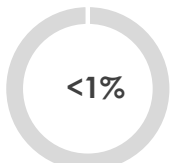
IE closing balance
still high



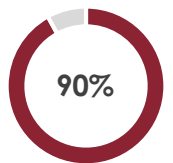
R0,003bn
Money recovered or in
process of recovery



R11,36bn
Written off



R0,11bn
Condoned



R107,63bn
Not dealt with



MI process addresses significant issues in local government

18

2018-19

9
auditees

6
MIs



2019-20

57
auditees

96
MIs



2020-21

94
auditees

185
MIs



2021-22

170
auditees

268
MIs

268 MIs on **non-compliance and fraud**, resulting in:

195

Material **financial loss** (estimated R5,19bn)

- **Payments** for goods and services not received
- Unfair, uncompetitive or uneconomical **procurement**
- Ineffective use of financial reporting **consultants**
- **Value for money** not received
- **Revenue** not billed or not recovered
- Interest and penalties **on late or non-payments**
- **Asset and investment** losses

44

Substantial **harm to public sector institutions**

- Repeated **disclaimers**
- **Non-submission** of financial statements

29

Substantial **harm to general public**

- Pollution of water resources
- Poor **landfill site management**



MI process is making an impact

19



From **INACTION** to **ACTION**

No actions were taken to address **87%** of matters until we issued notifications

MI is resolved only when all possible steps have been taken to:

- Recover financial losses or remove/address harm caused
- Implement consequences
- Prevent any further losses and harm

Status of 182 active and assessed MIs*



29

16%
Resolved MI



103

57%
Appropriate action taken to resolve MI



50

27%
No appropriate action taken – invoked our powers



ACTIONS TAKEN BY AUDITEES

R150,55m

Financial loss **recovered**

R18,85m

Financial loss **prevented** from taking place

R310,16m

Financial loss **in process of being recovered**

46

Internal controls improved to prevent recurrence

58

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

14

Fraud/criminal investigations instituted

1

Supplier contracts stopped where money is being lost

15

Outstanding financial statements submitted

* 182 active and assessed MIs = 268 raised - 6 resolved previously - 55 being assessed - 25 responses not yet due



If accounting officers do not take appropriate action, we take action

20



50

27%

No appropriate action being taken – invoked our powers

Recommendations in audit report as AO took little or no action to address MI

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

Remedial action issued as our recommendations were not implemented

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

Notice of certificate of debt process

- Ngaka Modiri Molema DM (NW) – 2

Referred to public bodies for further investigation

- Chris Hani DM (EC)
- Emalahleni LM (MP)
- Matjhabeng LM (FS)

Recommendations in audit report and referral to public bodies

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

Our recommendations and remedial actions deal with **prevention, recovery** and **consequences**





Inadequate skills and capacity



Governance failures



Lack of accountability and consequences



CALL TO ACTION

1

Support **professionalising local government**

2

Fill vacancies with competent people
Upskill municipal officials and council members
Reduce reliance on consultants

3

Coordinating institutions – **support** struggling municipalities

4

Ensure stability in councils
Strengthen MPACs and disciplinary boards

5

Implement recommendations **from internal audit units and audit committees**

6

Strengthen **financial and performance management disciplines**
Strengthen **preventative controls**

7

Local government MECs – better **reports to provincial legislatures** on action plans and performance
Provincial legislatures – respond promptly and track resolutions

8

Implement NT guidance for **dealing with UIFW expenditure**
Adopt NT **consequence management and accountability framework**
Council – monitor **MI status (quarterly)** and oversee resolutions

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



RESOURCES



What will be available on our website

1. Fast-facts page on audit outcomes per municipality
2. Key information on audit outcomes per municipality
3. Overview of audit outcomes and commitments per province
4. Information tables that list all municipalities and include details on:
 - Audit opinions on the financial statements (and over the past five years); areas qualified in the financial statements; findings on performance reports, compliance with legislation and specific risk areas; unauthorised, irregular, and fruitless and wasteful expenditure; financial health indicators; supply chain management findings; root causes; key recommendations; and material irregularities
 - Assessment of auditees' key controls at the time of the audit
 - Consultant costs



Additional reports

After the general report is tabled, we will table additional reports focusing specifically on material irregularities identified at municipalities and their status, and on the metro sector. We will also publish a clean audit report on our website.



Preventative control guides

1. Importance of preventative controls
2. Tone and control culture
3. Institutionalised internal controls
4. Procurement of goods and services
5. Preparation of financial statements
6. Asset management
7. Infrastructure delivery process



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