



AUDITOR-GENERAL
SOUTH AFRICA

Select committee on Appropriations METRO ANALYSIS

Date: 20 September 2023

A culture of accountability will improve service delivery



VISION AND MISSION

VISION

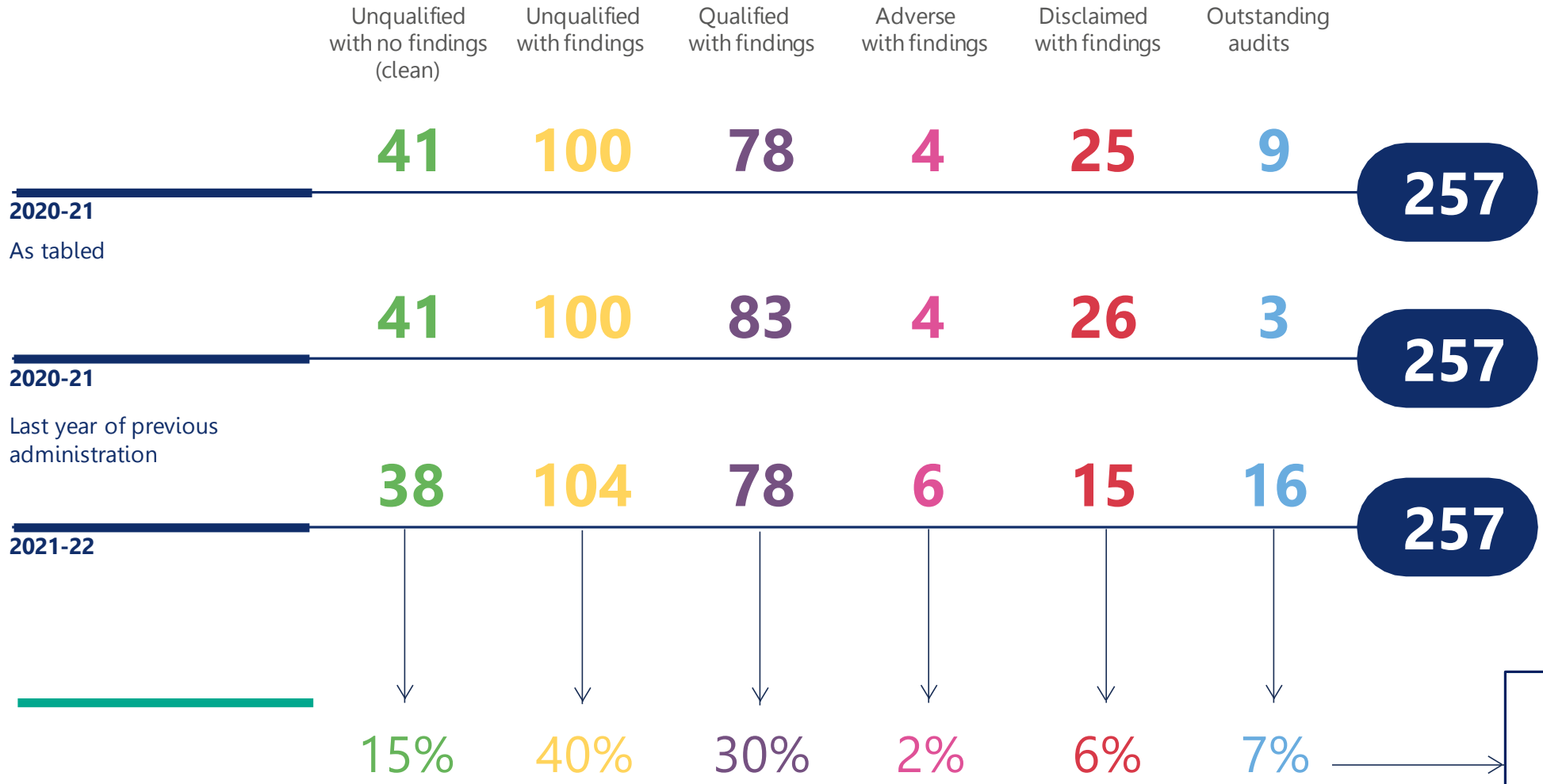
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

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



Overall audit outcomes



Non-submission
 of financial statements – 3
Late submission
 of financial statements – 12
Delays by auditee – 1

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



Provincial audit outcomes



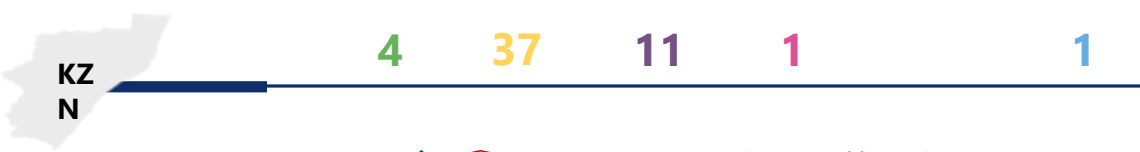
From previous year: 8 4
 Late submission of financial statements - 2
 Delays by auditee - 1



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

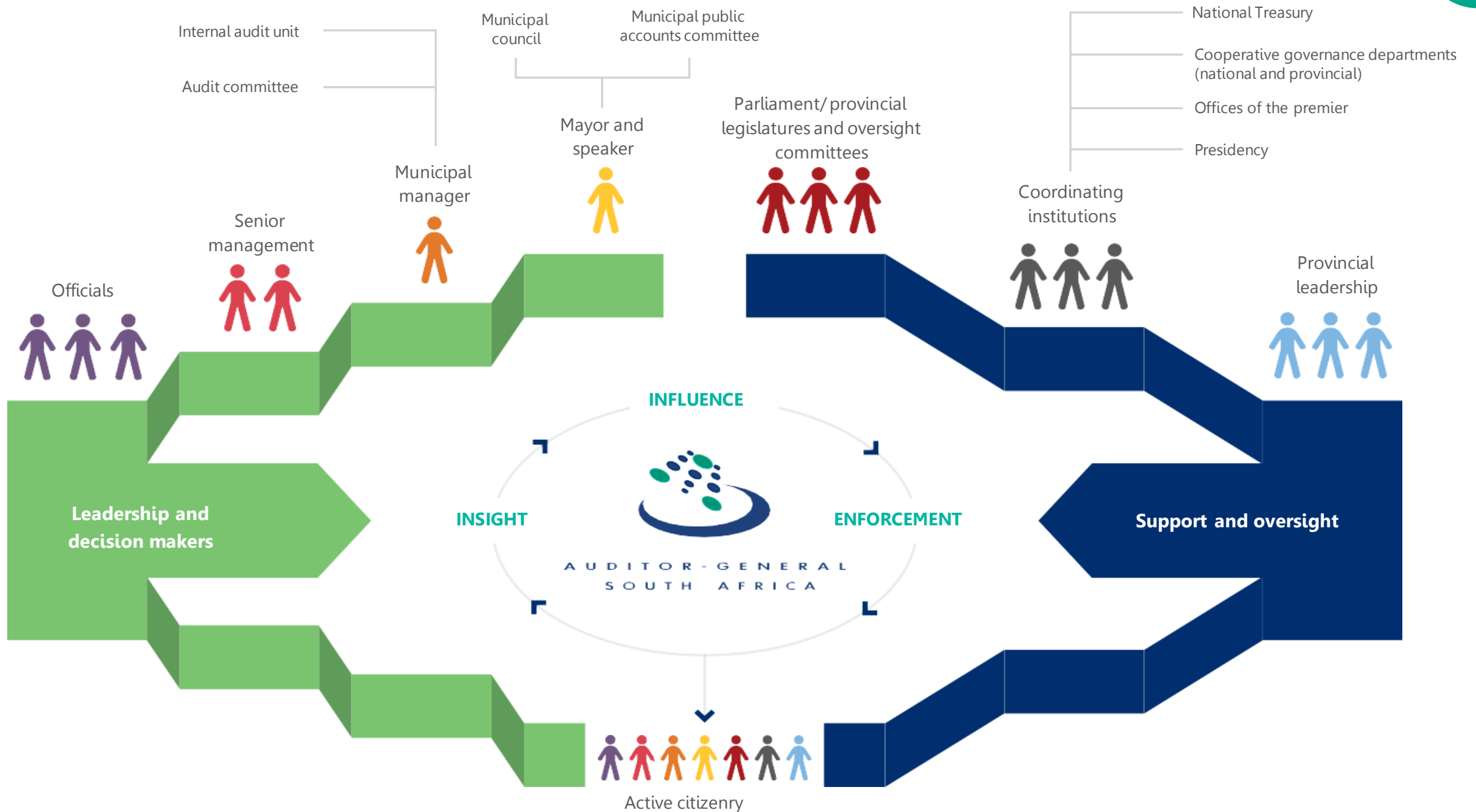


From previous year: 3 2
 Non-submission of financial statements - 1
 Late submission of financial statements - 1



From previous year: 2 5

Accountability ecosystem for metros



Metropolitan municipalities (metros) of South Africa

METROS AND THEIR ENTITIES

- Managed **R314,45bn (58%)** of 2021-22 local government expenditure budget
- Serve **8 361 167 households*** (45%) thus most of the people in the country

- Number of households*
- Population
- 2021-22 budget



City of Cape Town Metro (CoCT)

- 1 378 642
- 4 005 016
- R57,33bn



City of Johannesburg Metro (CoJ)

- 2 089 174
- 4 949 347
- R79,87bn

R32,89bn (metro) + R46,98bn (municipal entities)



Mangaung Metro (Mang)

- 284 365
- 787 803
- R8,55bn

R5,45bn (metro) + R3,18bn (municipal entity)



City of Tshwane Metro (CoT)

- 1 286 086
- 3 275 152
- R43,51bn



City of Ekurhuleni Metro (CoE)

- 1 448 801
- 3 379 104
- R48,05bn

R46,59bn (metro) + R1,46bn (municipal entities)



eThekweni Metro (eTh)

- 1 217 587
- 3 702 231
- R51,23bn



Buffalo City Metro (BC)

- 264 312
- 834 997
- R10,06bn



Nelson Mandela Bay Metro (NMB)

- 392 201
- 1 263 051
- R15,85bn

* 'Households' means individuals living together under the same roof or yard who share resources. The number is based on the National Treasury 2021-22 local government equitable share formula using 2016 Statistics South Africa community survey data.



Overall audit outcomes of metros

Unqualified with no findings (clean)

Unqualified with findings

Qualified with findings

Adverse with findings

1

5

2

0

8

2020-21

Last year of previous administration

2

3

2

1

8

2021-22

City of Cape Town



Buffalo City



Mangaung



City of Tshwane



City of Ekurhuleni



City of Johannesburg



Nelson Mandela Bay



eThekweni



Improvement



Regression



Unchanged



Inadequate financial controls

Basic controls not in place or not effective:

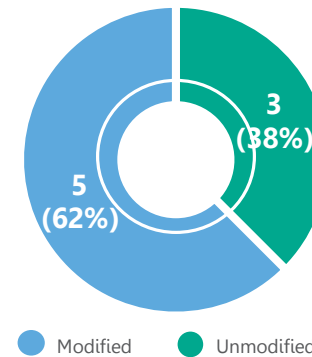
- 75% Review and monitor compliance
- 87% In-year and year-end reporting
- 75% Daily and monthly controls
- 75% Proper record keeping

Use of financial reporting consultants

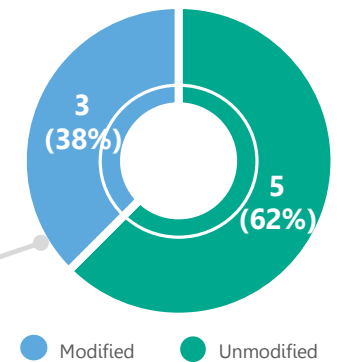
- Consultants **used at four metros** (Buffalo City, City of Ekurhuleni, City of Tshwane, Mangaung) at a cost of **R142,12m** for:
 - asset management
 - AFS review or preparations
 - other financial reporting services
- **Material misstatements identified in consultant area of work** at all except City of Ekurhuleni due to:
 - late appointment
 - consultants not delivering
 - lack of records and documents

QUALITY OF FINANCIAL STATEMENTS BEFORE AND AFTER AUDITING

Before submission



After submission



Ekurhuleni
Cape Town
eThekweni

Tshwane
Mangaung
Nelson Mandela
Bay

Most common qualification areas – revenue, expenditure, payables, accruals and borrowings and irregular expenditure



1 Insights on metro finances

Budgets

- Unauthorised expenditure of **R3,16bn** due to **budget overspending** by 4 metros
- **Insufficient budgeting for capital expenditure and maintenance**
 - 4 metros budgeted <10% on capital expenditure
 - Only 4% average spend on infrastructure maintenance – no metro spent norm of ≥8% on maintenance except City of Cape Town

Financial performance

- **Going concern challenges:** Mangaung (>5 yrs), City of Tshwane (2 yrs)
- **Creditors > available cash:** All metros except Nelson Mandela Bay and City of Cape Town
- **Expenditure > revenue** (deficit): Buffalo City, Mangaung, City of Tshwane (totalling **R3,14bn**)
- **High debt**–gearing ratios
- No metros paid **creditors within 30** days (avg.) – avg. creditor-payment period = 141 days
- **Eskom** arrears **R0,88bn** (3 metros), **water boards** arrears = **R0,38 bn** (2 metros)

Credit ratings

- Only three metros assessed by ratings agencies as **above investment grade** – City of Ekurhuleni, eThekweni and Buffalo City.
- **Further credit ratings downgrades** for Nelson Mandela Bay and Mangaung (30 June 2023)

2 Root causes

- **Inadequate long-term planning**
- Salaries (employees and councillors) and operational expenditure **prioritised over capital expenditure**
- Economic downturn affecting revenue collection, but metros **do not always bill all revenue owed** and **poor debt collection practices** contribute to unfunded budgets
- **Lack of prudence in spending limited funds:**
 - Unfair or uncompetitive procurement practices
 - Poor payment practices
 - Value for money not always achieved
 - Controls not implemented to ensure limited funds are spent appropriately for best value

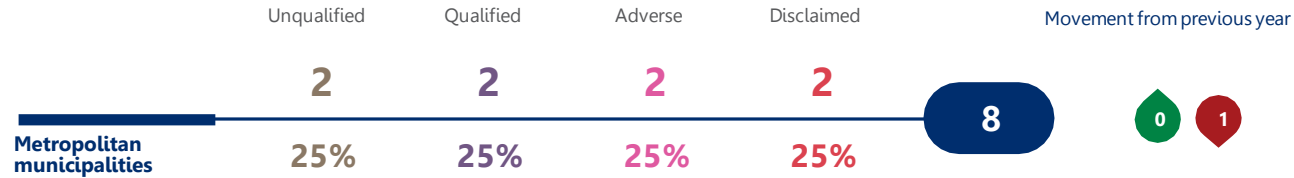
R1,29 bn fruitless & wasteful expenditure

R0,58 bn estimated financial loss from non-compliance & fraud MIs

3 Impact

- Poorly budgeted and managed finances directly **affect metros' ability to deliver promised services to communities**
- Lack of maintenance to ageing infrastructure resulted in **service delivery disruptions/failures and losses** (e.g. water losses = **R7,31bn**)
- Poor credit ratings lead to higher borrowing costs, and further strain budget – potential **higher tariffs affecting consumers**
- Poor procurement practices result in money being lost due to higher prices/best supplier not appointed – **eroding limited service delivery funds**
- Late payments to creditors results in suppliers and contractors **not delivering and delays to projects and services to communities**. Interest on late payments places **further strain on funding, creating a cycle of** further late payments

Our opinion on performance reports



Public participation and implementation of common performance indicators for metros (per National Treasury circular 88)

- **Public participation processes** took place across all metros, but intended benefit was not always realised
- Nelson Mandela Bay, Mangaung and City of Tshwane included all prescribed **common indicators in their SDBIPs**, while other metros are phasing in its implementation
- eThekweni and Nelson Mandela Bay **set targets of 0** to comply with requirements to include common indicators
- Buffalo City, City of Johannesburg, Mangaung, Nelson Mandela Bay, City of Tshwane included Indicators that were **not measurable**

Reporting on delivery not credible

Findings	Metros impacted
Achievement reported not reliable Reported achievements not supported by evidence	6 (Buffalo City, CoJ, CoT, eThekweni, Mangaung, NMB)
Performance indicators and targets not useful Inconsistencies in planned versus reported performance (Indicators and targets) and indicators not measurable	5 (Buffalo City, CoJ, CoT, Mangaung, NMB)

Material non-compliance findings on strategic planning and performance management reported – Buffalo City, City of Johannesburg, City of Tshwane, Mangaung and Nelson Mandela Bay

- Challenges in implementing common performance indicators due to lack of capacity and supporting systems and processes
- Performance reporting not credible due to in-year monitoring controls and project management disciplines not being in place
- Weaknesses raised previously not addressed due to slow response by municipal leadership



Achievement of planned targets by metros

Average achievement of targets for selected key service delivery programmes audited – **54%**

Achievement per metro

Mangaung	13%	City of Ekurhuleni	77%*
Buffalo City	44%	City of Cape Town	87%*
eThekweni	46%		
City of Tshwane	49%		
Nelson Mandela Bay	50%		
City of Johannesburg	69%		

** Although all targets not achieved, metros with clean audit outcomes were able to report credibly to communities and oversight, enabling decision making*

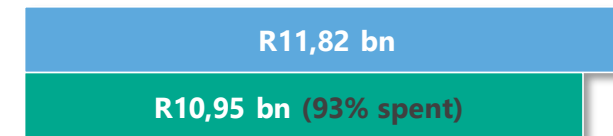
Infrastructure projects

Total projects audited – **81**

Findings reported:

- **Delays** (all metros) – 26 projects (32%)
- **Cost overruns** – 18 projects (23%) at 4 metros (City of Cape Town, Buffalo City, Mangaung and Nelson Mandela Bay)
- **Poor build quality** – 9 projects (11%) at 3 metros (City of Cape Town, Buffalo City and eThekweni)

Use of infrastructure grants



- Total grant income
- Total grant expenditure

• **Highest underspending** of USDG R272,35 million (34%) and PTNG R92,79 million (41%) - Mangaung

Infrastructure-related MIs

- **Infrastructure not safeguarded** resulted in loss and impacting on service delivery e.g. at City of Tshwane assets at Annlin reservoir project were stolen/vandalised
- **Payment for goods/services not received** e.g. at City of Tshwane contractor paid for an informal trading facility at Barolak taxi rank that was not constructed



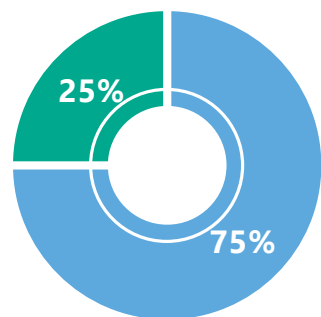
Public harmed due to neglect of wastewater treatment works (WWTW) and landfill sites

6 MIs

- **Untreated/ inadequately treated sewage discharged into environment** due to infrastructure neglect – City of Tshwane (Rooiwal WWTW), Mangaung (Botshabelo and Sterkwater WWTWs)
- **Lack of compliance with environmental legislation** – WWTWs operating without licences (Buffalo City, Mangaung, eThekweni)
- **Mismanagement at landfill site** resulted in harm to the public – Mangaung (Southern waste landfill)
- **Communities exposed to contaminated water** sources and pollution



Material non-compliance with key legislation

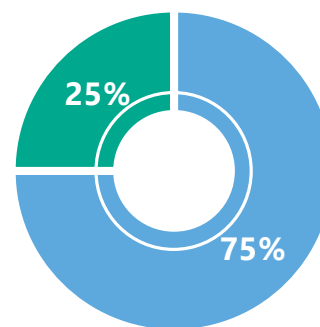


- 6 Metros with material findings
- 2 Metros with no findings:
 - City of Cape Town (WC)
 - City of Ekurhuleni (GP)

Movement from Previous year



Status of compliance with legislation on procurement and contract management



- 6 Metros with material findings
- 2 Metros with no findings:
 - City of Cape Town (WC)
 - City of Ekurhuleni (GP)

Movement from Previous year



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

Most common areas of findings	Number of metros
Unauthorised, irregular, fruitless and wasteful expenditure not prevented	6 (75%)
Procurement and contract management	6 (75%)
Consequence management	6 (75%)
Material misstatements in financial statements submitted for audit	5 (63%)
Strategic planning and performance management	5 (63%)
Expenditure management	4 (50%)

Findings were in the following areas	Number of metros/amount
Uncompetitive and unfair procurement processes	7 (88%)
Prohibited awards to employees and councillors	5 (R0,18 billion)
Prohibited awards to other state officials	5 (R1,78 billion)
Limitation on audit of awards	2 (R0,89 billion)

2 MIs

R12,55bn 2021-22 Irregular expenditure incurred due to non-compliance with legislation

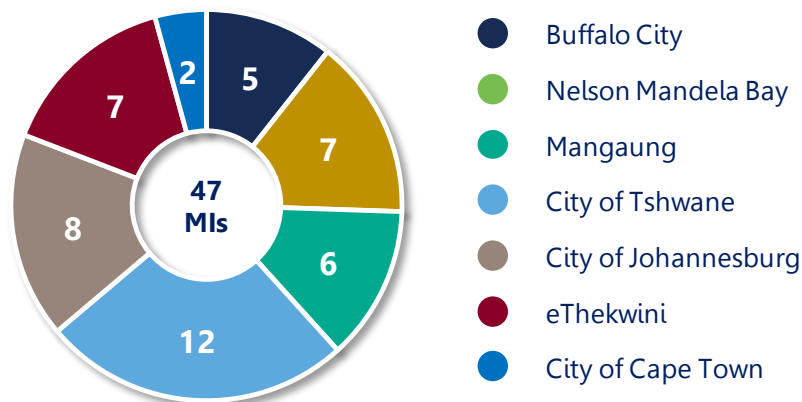
R11,6bn (92%) is due to non-compliance with supply chain management legislation



47 MIs on non-compliance and fraud, resulting in:

- 41** material **financial loss** (estimated R432,4 million)
 - **Payments** for goods and services not received
 - Unfair, uncompetitive or uneconomical **procurement**
 - **Value for money** not received
 - **Revenue** not billed or recovered
 - Interest and penalties **on late or non-payments**
 - **Asset and investment** losses
- 6** substantial **harm to the general public**
 - **Pollution of water** resources
 - Poor **landfill site management**

MIs identified at all metros, except City of Ekurhuleni



Status of MIs

- 7** **Resolved MI**
- 25** **Appropriate action** taken by metro to resolve MI
- 1** **Recommendations** included in audit report
- 3** **Remedial action taken** as recommendations were not implemented
- 11** **Response received on notification** – in process of assessing action



Impact of Mis

91% of MIs not dealt with until notified

R211,83 m

Financial loss in process of recovery/
recovered

1

Substantial harm in process of being
addressed

15

Internal controls improved to prevent
recurrence

14

Responsible officials identified and
disciplinary process completed or in
process

4

Suspected fraud/criminal investigations
instituted

Examples of actions taken

City of Cape Town: The municipal manager has filed R3 million in civil claims against contractors for plumbing and installation of water management devices billed that were not included on the job cards, resulting in overpayments.

City of Tshwane: Repairs and maintenance at Rooiwal WWTW were delayed or not done since 2010 because of limited funding and a breakdown in intergovernmental processes. This resulted in continued spilling and discharge of effluent into the Apies River and Leeuwkop Dam over a number of years. There has been slow but deliberate progress made to address the matter, which included providing water tanker services to Hammanskraal residents, implementing budgeting processes and reaching out to various roleplayers for funding and support.

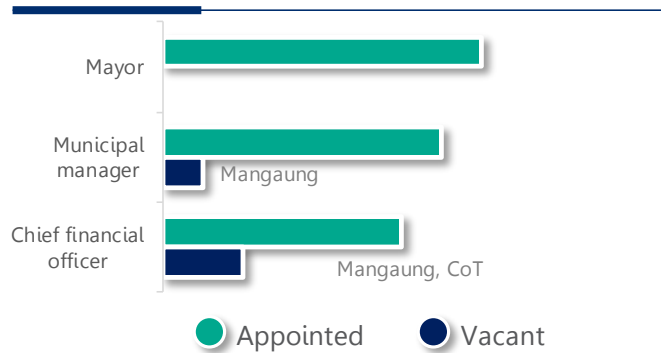
Buffalo City: The metro did not calculate revenue for water services on a monthly basis, resulting in an estimated R9,6 million revenue loss. Standard operating procedures were developed to guide the flow of information from the source to the financial system, and the affected consumers are now being billed correctly.

City of Tshwane: The metro paid for an informal trading facility that was not constructed. Disciplinary actions have been taken against the implicated official.

City of Tshwane: Between November 2019 and October 2020, the metro paid salaries to employees who did no work. A forensic investigation was initiated and in December 2022 a criminal case was opened against the former official and member of council. The investigation is ongoing.



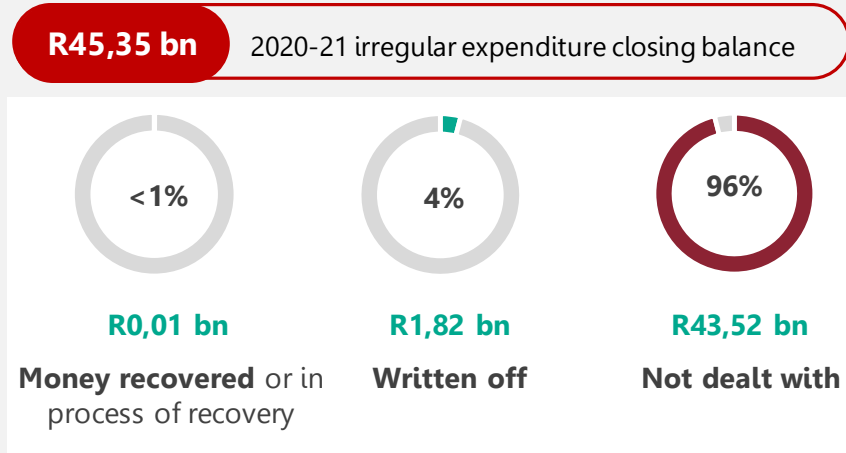
Status of key positions by 30 June 2023



Effectiveness of council and support structures

- Effectiveness of council affected by **instability** (e.g. City of Johannesburg, City of Tshwane). Mangaung council not quorate to make key decisions on adjustment budgets during 2023.
- Mangaung under **provincial intervention** since January 2020 without impact, and **national intervention** since April 2022
- Municipal public accounts committees (MPAC)** slow to deal with UIFW – particularly City of Johannesburg, City of Tshwane, Mangaung and Nelson Mandela Bay. Lack of formalised council/committee meetings to deal with UIFW – MPAC sub-committee at Nelson Mandela Bay has not convened for years.
- Disciplinary board** not established at Mangaung

How leadership dealt with prior year IE



Support by coordinating institutions

National Treasury and Department of Cooperative Governance **implemented initiatives** to assist metros, but **impact has not been evident** in improved outcomes/performance

National Treasury support provided:

- Mangaung:** Implementation of s139 intervention and rolling out municipal finance improvement programme
- City of Tshwane:** compiling and tracking financial recovery plan, seconding staff to deal with qualifications, reviewing draft financials and performance reports
- Continuing to support and respond to issues arising from implementation of MFMA circular 88 planning, budgeting and reporting reforms

Department of Cooperative Governance support provided:

- Series of support sessions and engagements for municipalities country-wide as part of piloting process
- Seconded staff to assist metros (e.g. Mangaung)

Consequence management findings

Investigations took longer than 3 months	4 metros
Lack of investigations determine if a person was liable for prior year:	
• fruitless and wasteful expenditure	• 4 metros
• Irregular expenditure	• 5 metros
- Unauthorised expenditure	4 metros

- Limited resources and vacancies in **investigation units**
- Large backlogs and insufficient budget

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

Adopt NT **consequence management and accountability framework**
Council – monitor **MI status (quarterly)** and oversee resolutions
Oversight – **enhance accountability** over local government spending.

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



THANK YOU



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa



AUDITOR - GENERAL
SOUTH AFRICA

