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# ABRIDGED VERSION | MFMA OF THE CONSOLIDATED GENERAL REPORT | 2016-17



AUDITOR-GENERAL  
SOUTH AFRICA





**MFMA**  
2016-17



**AUDITOR - GENERAL**  
**SOUTH AFRICA**

*Auditing to build public confidence*

## **ABRIDGED VERSION** OF THE CONSOLIDATED GENERAL REPORT

This is an abridged version of the MFMA 2016-17 consolidated report. It seeks to highlight key audit findings and the accompanying messages. At the heart of this version is quick and easy to read information for people on the go.

*AGSA Communication Team*

### **Our reputation promise/mission**

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





## PERFORMANCE SNAPSHOT

Movement from the previous year is depicted throughout this booklet as follows:



### Clean audits



**13%**   
(2015-16: 20%)

OVERALL REGRESSION  
IN AUDIT OUTCOMES



**45** Regressed  
**16** Improved

### Quality financial statements



**61%**   
(2015-16: 68%)

**22% (53)**

Municipalities  
submitted financial  
statements without  
material misstatements

**R757 million**

(2015-16: R752 million)

Cost of consultants to assist in  
financial statement preparation

**42% (101)**

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

### No findings on compliance with legislation



**14%**   
(2015-16: 21%)

### Irregular expenditure



**R28,376 bn**  
(2015-16: R16,212 bn)

### Quality performance reports

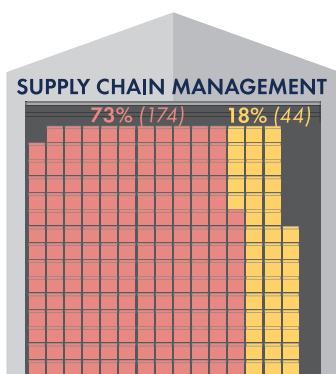


**37%**   
(2015-16: 48%)

**51% Achievement  
(120) reported not reliable**



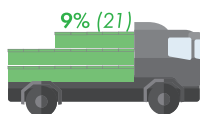
## SUPPLY CHAIN MANAGEMENT COMPLIANCE



Not able to audit procurement of **R1,296 billion** due to  
missing or incomplete information

**R2,075 billion** in prohibited awards to other state officials

False declarations of interest made by **1 440 suppliers**



Uncompetitive and unfair procurement  
processes at **67% of municipalities**

With no findings   
 With findings   
 With material findings

## EFFECTING CONSEQUENCES

**55%** Compliance with legislation on implementation of consequences **regressed**

**39%** Investigation of previous year's unauthorised, irregular and fruitless and wasteful  
expenditure **regressed** (closing balance not dealt with is R66,925 billion)

**29%** Investigations into supply chain management findings we reported in previous  
year **slightly regressed**



ABRIDGED VERSION OF THE CONSOLIDATED GENERAL REPORT

MFMA  
2016-17



## STATUS OF CONTROLS

- 22%** Overall internal controls **slightly regressed**
- 17%** Basic financial and performance management controls **regressed**
- 20%** Information technology controls **slightly improved**

## HUMAN RESOURCE MANAGEMENT

### MUNICIPAL MANAGER

VACANCIES **27% (65)** ▼

VACANT for 6 months or more - **17% (41)**



### CHIEF FINANCIAL OFFICER

VACANCIES **28% (68)** ▼

VACANT for 6 months or more - **21% (51)**



## FINANCIAL HEALTH

**DEFICIT**  
(expenditure exceeded revenue)

2016-17 **31% (66)** ▲  
2015-16 **33% (68)**

**CREDITOR-PAYMENT PERIOD > 30 DAYS**

87% (183) ▼  
82% (170)

## VULNERABLE FINANCIAL POSITION

2016-17 **31% (73)** ▼  
2015-16 **26% (59)**

Fruitless and wasteful expenditure of **R1,1 billion** incurred by those in vulnerable financial position

## ASSURANCE PROVIDERS

▼ OVERALL REGRESSION IN ASSURANCE PROVIDED BY ROLE PLAYERS

Senior management and municipal managers **regressed**

Mayors, councils and municipal public accounts committees **slightly regressed**

Internal audit units and audit committees **regressed**

National and provincial role players **regressed**

## INFRASTRUCTURE



**26%** water projects exceeded completion date

**46%** had no water maintenance plan

**22%** did not budget for maintenance of water infrastructure

**40%** had water losses of more than 30%

**35%** did not assess condition of water infrastructure



**26%** road projects exceeded completion date

**55%** did not have approved road maintenance plan/priority list for renewal and routine maintenance ▼

**27%** did not assess condition of all road infrastructure ▼

## METROS ▼

Almost **55% (R195 billion)** of the total municipal expenditure budget of **R362 billion** was managed by metros



Financial statements ▲



Compliance ▼



Performance reports ▲



Irregular expenditure ▼

**R12,456 bn (8 metros [100%])**

## ROOT CAUSES



**77%** ▼

Slow response in improving internal controls and addressing risk areas



**61%** ▼

Inadequate consequences for poor performance and transgressions



**59%** ▼

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



# CLEAN AUDITS 2016-17 (municipalities)

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

## EASTERN CAPE

Ingquza Hill  
Senqu

## FREE STATE

No municipality in the Free State achieved a clean audit

## GAUTENG

Midvaal

## KWAZULU-NATAL

Okhahlamba  
Ray Nkonyeni  
uMhlabuyalingana

uMhlathuze  
uMuziwabantu  
Umzumbe

## LIMPOPO

No municipality in Limpopo achieved a clean audit

## MPUMALANGA

Ehlanzeni District  
Nkangala District

## NORTHERN CAPE

ZF Mgcawu District

## NORTH WEST

No municipality in North West achieved a clean audit

## WESTERN CAPE

Cape Winelands District  
Overberg District  
West Coast District  
Bergriver  
Breede Valley  
Cape Agulhas  
Cederberg  
Drakenstein  
George  
Hessequa  
Langeberg

Matzikama  
Mossel Bay  
Overstrand  
Prince Albert  
Saldanha Bay  
Stellenbosch  
Swartland  
Swellendam  
Theewaterskloof  
Witzenberg





# // MAIN MESSAGES

> >





## MAIN MESSAGES ON AUDIT OUTCOMES

### ACCOUNTABILITY CONTINUES TO FAIL IN LOCAL GOVERNMENT

We report an overall deterioration in the audit results of South Africa's municipalities and municipal entities for 2016-17 in our latest general report on local government audit outcomes. The report highlights that accountability continues to fail in local government, and it points to glaring governance, leadership and oversight lapses that have contributed immensely to the undesirable audit results.

Despite our constant and insistent advice and caution to those charged with governance and oversight about administrative lapses since 2013, this counsel has largely not been heeded. When we released the 2011-12 municipal audit outcomes in August 2013, one of the matters we highlighted was a lack of decisive leadership to address the lack of accountability by ensuring consequences against those who flouted basic processes that hampered effective municipal governance. We reported weaknesses in internal control and the risks that needed attention in local government by providing root causes for audit findings and recommendations to remedy these underlying causes. It is now five years later, and we are still faced with the same

accountability and governance challenges we had flagged throughout these years. There has been no significant positive change towards credible results; instead we are witnessing a reversal in audit outcomes.

Although there are municipalities in some provinces that are diligently working hard to attain and maintain the desirable audit outcomes through an entrenched culture of accountability and decisive leadership, those outcomes and efforts are overshadowed by the many elements of regressions in the local government audit outcomes.

Our general report on the 2016-17 local government audit results comes a few weeks after Finance Minister Nhlanhla Nene had told Parliament in a written parliamentary response that 112 municipalities do not have money to carry out service delivery plans for the current financial year, and that only 14 of these have approved financial recovery plans. The minister's announcement supports our consistent message, over the years, that most municipalities' governance and financial affairs – their going concern status – were not in a good state.

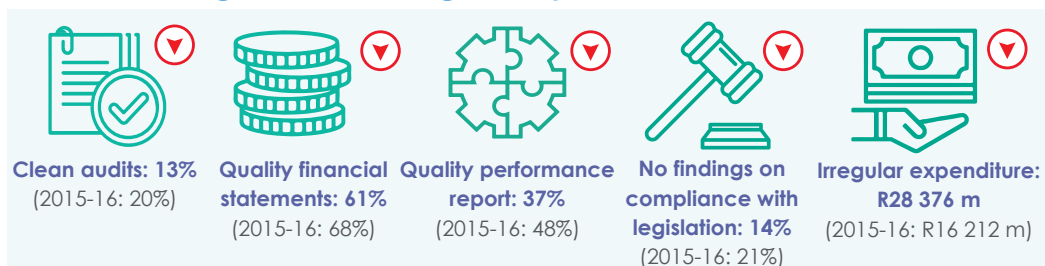
### INDICATORS OF ACCOUNTABILITY FAILURES IN LOCAL GOVERNMENT

For years now, we have consistently shared audit messages that emphasise the importance of accountability in the management of municipal affairs, starting with appropriate planning focused on the needs of citizens, and instituting appropriate internal control and supervision that will ensure proper financial and performance management. This is tied to respect for the law in the running

of municipalities, monitoring by all assurance providers that budget and performance targets are achieved, and that there are consequences for mismanagement and non-performance.

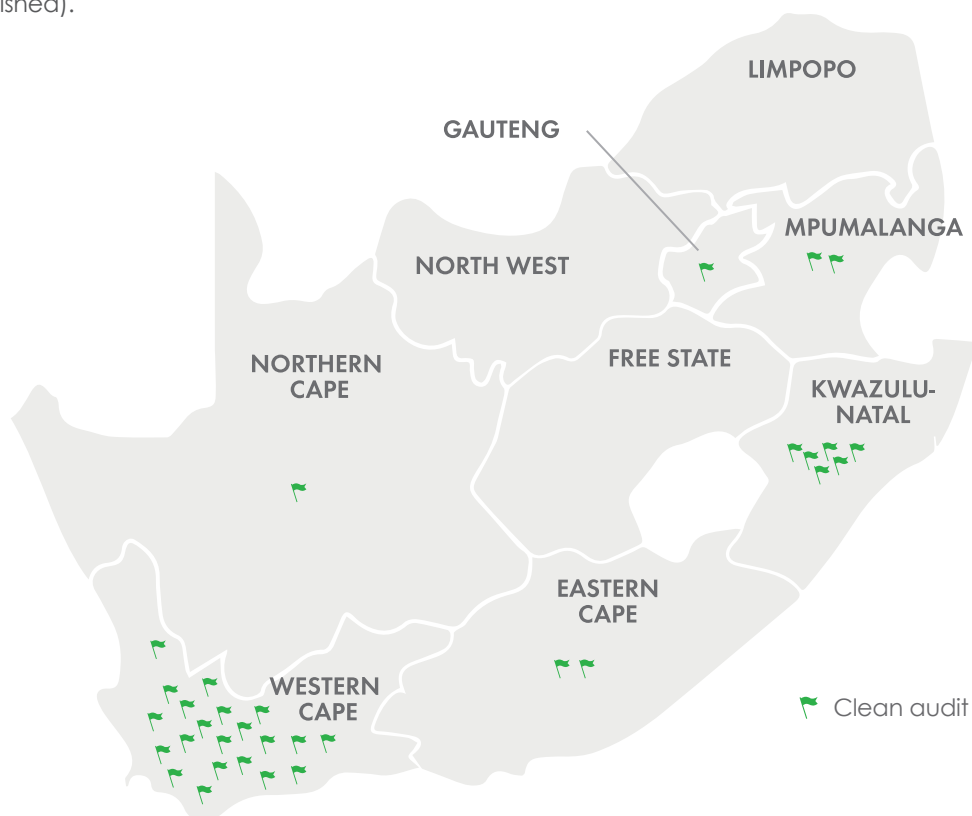
At most municipalities, these basic controls have not been implemented. The following were the main indicators of accountability failures in local government during the year under review:

#### Audit outcomes regressed and irregular expenditure increased



We audited 257 municipalities and 21 municipal entities in 2016-17. The number of municipalities decreased from 278, with the amalgamation of some municipalities (37 municipalities were closed down and 16 new municipalities were established).

To ensure the simplicity of reporting and targeted messaging, the latest report focuses on only the municipalities. The audit outcomes of the municipal entities are included in the report's annexures (available on [www.agsa.co.za](http://www.agsa.co.za)).



### Overall audit outcome regression

Of the audited municipalities, the audit outcomes of 45 regressed while those of 16 improved. Only 33 municipalities (13%) managed to produce quality financial statements and performance reports, as well as complied with all key legislation, thereby receiving a clean audit - as depicted on the map above.

### Poor quality of submitted financial statements and performance reports

Credible financial statements and performance reports are crucial to enable accountability and transparency, but municipalities are failing in these areas. Not only did the unqualified opinions on the financial statements decrease from 68% to only 61%, but the financial statements provided to us for auditing were even worse than in the previous year. Only 22%

of the municipalities could give us financial statements without material misstatements. In addition, the performance reports of 62% of the municipalities that produced reports had material flaws and were not credible enough for the council or the public to use.

### Highest level of non-compliance with key governance laws since 2012-13

We reported material non-compliance with key legislation at 86% of the municipalities. This is the highest percentage of non-compliance since 2012-13. Municipalities with material compliance findings on supply chain management increased from 63% to 73%.

### Irregular expenditure increased, but municipalities improve its detection and reporting

There was a 75% increase in municipal irregular expenditure, from R16,212 billion in the previous year to R28,376 billion in the year under



review. However, municipalities made a significant effort in 2016-17 to identify and transparently report on irregular expenditure incurred in previous years. This accounts for R15,026 billion of the total, being irregular expenditure incurred in prior years but only identified and reported in 2016-17. While there is a notable improvement in detection, the more robust prevention of irregular expenditure is encouraged.

The remaining R13,350 billion relates to payments or expenses incurred in 2016-17 by the new local government administration, which represented 4% of the local government expenditure budget. It includes payments made on contracts irregularly awarded in a previous year – if the non-compliance was not investigated and condoned, the payments on these multi-year contracts continue to be viewed and disclosed as irregular expenditure.

### Little improvement in the accountability cycle

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The recommendations we made last year to ensure that the basics are in place, thereby improving accountability and audit outcomes, did not receive the necessary attention at most municipalities. This is evidenced by the findings from our audits that included attention not being paid to audit action plans, poor performance planning and budgeting (resulting in unauthorised expenditure of R12,6 billion), and regressions of varying degree in the status of internal control and the assurance provided by the different role players in local government.

#### Failure to investigate findings

Of most concern is that our consistent and insistent calls for stricter consequences have not been heeded. We reported material non-compliance with legislation dealing with consequences at 55% of the municipalities. This lack of consequences is also evident in municipalities again not paying sufficient attention to the findings on supply chain management and the indicators of possible fraud or improper conduct that we reported and recommended for investigation. In 2015-16, we reported such findings at 148 municipalities, of which 47% did not investigate any of the findings and 24% investigated only some of the findings.

In 2016-17, we reported these types of findings at 145 of the municipalities, 71% of which also had such findings in 2015-16.

In addition, the council at 61% of the municipalities failed to conduct the required investigation into all instances of unauthorised, irregular and fruitless and wasteful expenditure reported in the previous year – a regression from the previous year's 52%.

#### Failure to take action on findings

Sufficient steps were also not taken to recover, write off, approve or condone unauthorised, irregular and fruitless and wasteful expenditure as required by legislation. As a result, the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with totalled R65,32 billion, while that of unauthorised expenditure was R43,5 billion and that of fruitless and wasteful expenditure was R4,24 billion.

### Increasingly difficult environment for auditing

The audit environment in which our audit teams had to work became more hostile, with increased contestation of audit findings and pushbacks whereby our audit processes and motives were questioned. At some auditees, pressure was placed on audit teams to change conclusions purely to avoid negative audit outcomes or the disclosure of irregular expenditure – without sufficient grounds. Some auditees used delaying tactics whereby information and evidence were not provided as requested. Leadership should set the tone for accountability – if audit outcomes are not as desired, energy should be directed to addressing the problem and not to coercing the auditors to change their conclusions.

### ACCOUNTABILITY FAILURES IMPACTS NEGATIVELY ON THE LIVES OF CITIZENS

Local government accountability failures result in municipalities not achieving their objectives, which in turn has a negative impact on the lives of citizens. Our audits highlighted the following three key areas of impact:

#### Financial health of municipalities

The inability to collect debt from municipal consumers was widespread. In these





circumstances, it is inevitable that municipalities will struggle to balance their books. In total, 31% of the municipalities disclosed a deficit – the total deficit for these municipalities amounted to R5,6 billion.

The financial woes of local government also weighed heavily on municipal creditors. The impact of this inability to pay creditors was most evident in the huge sums owed for the provision of electricity and water to Eskom and the water boards, respectively.

A combination of various factors, including poor revenue and budget management and the non-payment of creditors, led to 31% of the municipalities disclosing in their financial statements that they might not be able to continue operating. Although they have to continue to do so, they were reporting that they were in a particularly vulnerable financial position at the end of the financial year.

While the poor economic climate does play a role in the deterioration of municipalities' financial health, many are just not managing their finances as well as they should.

### Fruitless and wasteful expenditure

Fruitless and wasteful expenditure amounted to R1,5 billion (a 71% increase from the previous year). It is difficult to say how much money is lost through irregular processes, as this needs to be determined through an investigation, but the non-compliance we reported at 78% of the municipalities can potentially lead to a financial loss.

### Shortcomings in the development and maintenance of infrastructure

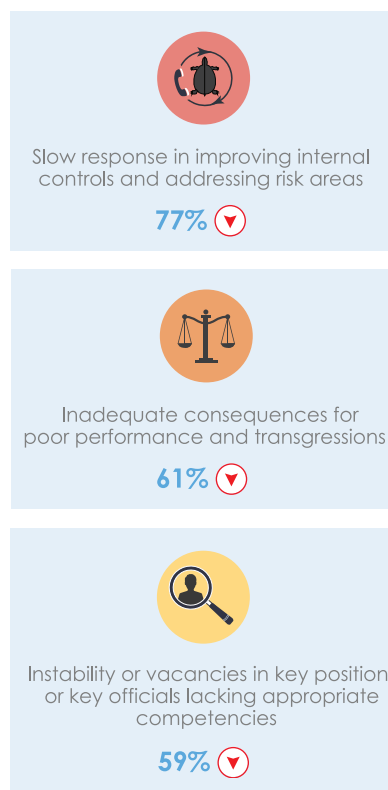
Our audits again identified a number of shortcomings in the development and maintenance of infrastructure by municipalities. These included the underspending of grants, delays in project completion, poor quality workmanship, and inadequate monitoring of contractors.

These are symptoms of the larger problem that local government has with managing finances, performance and projects and with taking accountability for outcomes. Although funding and support are generally available from national government for the development and maintenance of municipal infrastructure, the

non-delivery thereof at some municipalities and the impact on communities are the issues that need the most focused attention by all role players to ensure that the objective of a better life for all is achieved.

## REASONS FOR THE ACCOUNTABILITY FAILURES

Our message on the root causes of poor audit outcomes has remained consistent over the years, but we saw a regression in the rate that municipalities are addressing the following three main root causes:



The following are some of the major contributors to the accountability failures and the regression in audit outcomes:

- Vacancies and instability in key positions slowed down systematic and disciplined improvements.
- Inadequate skills led to a lack of oversight by councils (including the mayor) and insufficient implementation and maintenance of financial and performance management systems by the administration.







- Political infighting at council level and interference in the administration weakened oversight and the implementation of consequences for transgressions, and made local government less attractive for professionals to join.
- Leadership's inaction, or inconsistent action, created a culture of 'no consequences', often due to inadequate performance systems and processes.
- At some municipalities there was a blatant disregard for controls (including good record keeping) and compliance with key legislation, as it enabled an environment in which it would be easy to commit fraud.
- Leadership did not take repeated audit recommendations and warnings of risks for which they needed to prepare seriously.
- Municipalities focused on obtaining unqualified financial statements at a great cost by using consultants and auditors, which was to the detriment of credible performance reporting and compliance with key legislation.
- Provincial and national role players did not sufficiently support municipalities.

## PARLIAMENT FINALISING DELIBERATIONS ON POSSIBLE REFERRAL POWERS FOR US

Our pronouncement on the continuing lack of accountability in local government comes at a time when the parliamentary committee responsible for our office – the multi-party Standing Committee on the Auditor-General – is finalising its deliberations on possible amendments to the Public Audit Act, the legislation that governs our operations as the country's supreme audit institution.

The amendments will provide us with the power to refer material irregularities to appropriate authorities to investigate as well as with a level of remedial power, including the recovery of money lost as a result of such irregularities. Material irregularities will include any non-compliance with legislation, fraud or theft, or a breach of fiduciary duty that caused or is likely to cause a material financial

loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public.

## CONCLUSION

We have seen again and again that many of the municipal problems we have flagged, can be turned around through strong, ethical and courageous leadership in the administration and council, with the support of provincial government. Also, we have consistently and insistently advised, cautioned and at times cajoled those charged with local governance and oversight that if the basic principles of accountability – built around strong internal control and good governance – are in place, municipalities should be well geared to live up to the expectations of the communities that they serve. Nothing more needs to be said about the seriousness of the accountability failures in local government.

As the country's supreme audit office, we have always understood that we have an important role to play in the public sector accountability chain. To this effect, we go beyond the basic auditing and reporting role of the auditor. During the year, we proactively engage municipalities – through our status of records reviews – with the aim of flagging internal control weaknesses and to trigger early corrective action. Through our management, audit and general reports, we have also been reporting the weaknesses in internal control and the risks that need attention in local government. In our reports, we provide root causes for audit findings and recommendations to address these. We ensure that our messages are heard through engagements with senior officials, municipal managers, mayors, municipal public accounts committees, and councils.

We believe that the leaders in administrative and oversight structures such as the national and provincial treasuries, national and provincial departments that deal with local government, municipal councils and municipal public accounts committees have a key role to play in improving the current local government audit outcome picture. It is now up to these leaders to act decisively on our recommendations, to ultimately ensure a better life for the citizens of South Africa.







# // AUDIT OUTCOMES





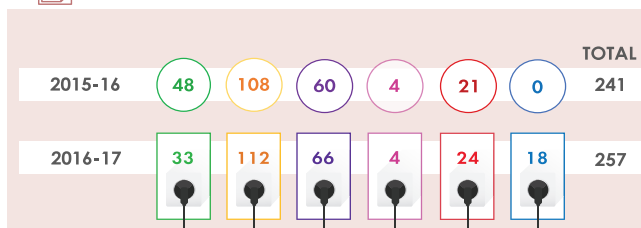
## SUMMARY OF AUDIT OUTCOMES



OVERALL REGRESSION  
IN AUDIT OUTCOMES



### OVERALL AUDIT OUTCOMES



### LOCAL GOVERNMENT EXPENDITURE BUDGET



### MOVEMENT

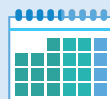
16  $\Delta$  Improved 45  $\nabla$  Regressed

### CLEAN AUDIT MOVEMENTS



30  $\Delta$  Remained clean  
17  $\nabla$  Regressed  
3  $\Delta$  New clean audits  
1 Outstanding

### OUTSTANDING AUDITS

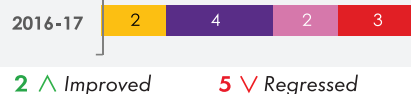


Cut-off date for inclusion of the audit outcomes in this report is **15 January 2018**

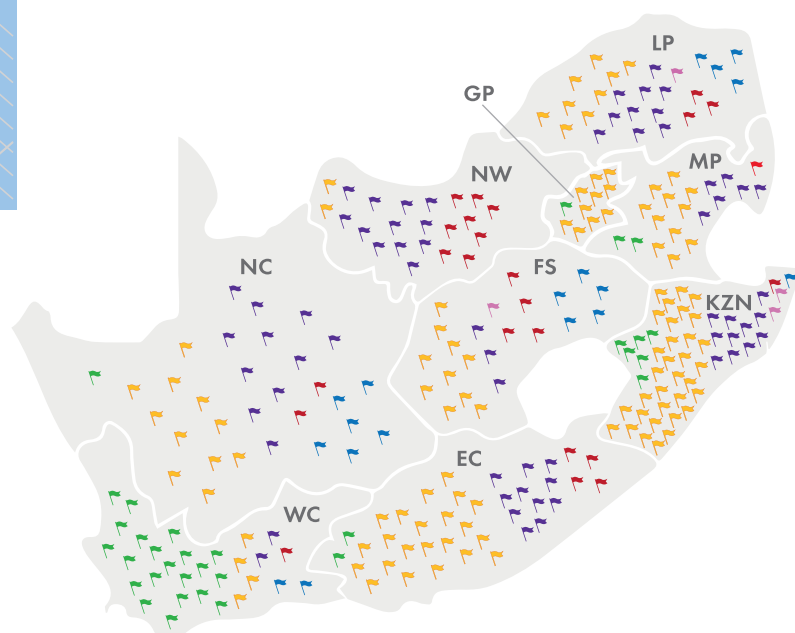
### REASONS FOR 18 OUTSTANDING AUDITS

Financial statements not submitted - 2 (11%)  
Financial statements submitted late - 15 (83%)  
Delay in the audit - 1 (6%)

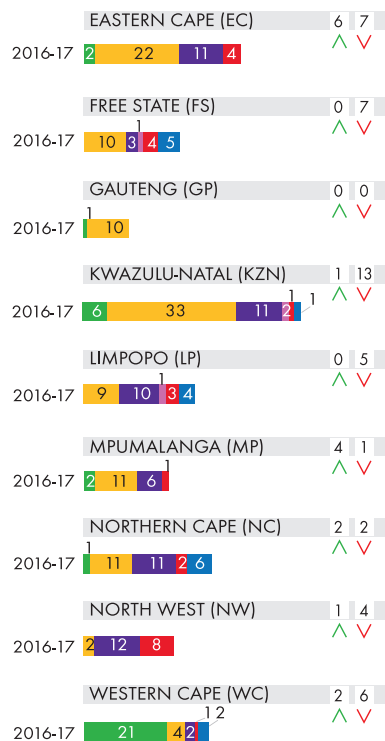
### RESULTS OF 11 AUDITS SUBSEQUENTLY FINALISED BEFORE DATE OF THIS REPORT



### PROVINCIAL AUDIT OUTCOMES AND MOVEMENTS



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



ABRIDGED VERSION OF THE CONSOLIDATED GENERAL REPORT

MFMA  
2016-17



## FINANCIAL STATEMENTS



REGRESSION IN QUALITY  
OF FINANCIAL STATEMENTS



Timely submission of financial statements

MOVEMENT

2016-17

2015-16



Quality of financial statements submitted for auditing



22% (53)

34% (76)



Quality of published financial statements



61% (145)

68% (153)

**92 municipalities (39%)**  
achieved unqualified  
audit opinions only  
because they **corrected**  
**all misstatements**  
identified during the  
audit

### QUALIFICATION AREAS

(on audited financial statements)

MOVEMENT

2016-17

2015-16

Property, infrastructure, plant and equipment



27% (64)

20% (44)

Receivables



24% (57)

15% (34)

Revenue



23% (55)

18% (40)

Irregular expenditure



23% (54)

22% (49)

### AUDIT OPINIONS VS MEDIUM-TERM STRATEGIC FRAMEWORK (MTSF) TARGETS FOR 2019

AUDIT OPINIONS

MTSF TARGETS

ACHIEVED?

Financially unqualified

61% (145)

65% or more



Qualified

27% (66)

Less than 20%



Adverse and disclaimed

12% (28)

Less than 15%



### PROVINCIAL VIEW

PROVINCE	TIMELY SUBMISSION OF FINANCIAL STATEMENTS		QUALITY OF FINANCIAL STATEMENTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED FINANCIAL STATEMENTS	
	Number	Movement from 2015-16	Number	Movement from 2015-16	Number	Movement from 2015-16
Eastern Cape	38 (97%)	⬇️	4 (10%)	⬇️	24 (62%)	⬇️
Free State	16 (89%)	⬆️	1 (6%)	⬇️	10 (56%)	⬇️
Gauteng	11 (100%)	⬆️	4 (36%)	⬇️	11 (100%)	⬆️
KwaZulu-Natal	53 (100%)	⬆️	15 (28%)	⬇️	39 (74%)	⬇️
Limpopo	20 (87%)	⬇️	0 (0%)	⬆️	9 (39%)	⬇️
Mpumalanga	20 (100%)	⬆️	4 (20%)	⬇️	13 (65%)	⬆️
Northern Cape	24 (96%)	⬆️	1 (4%)	⬇️	12 (48%)	⬆️
North West	22 (100%)	⬆️	0 (0%)	⬆️	2 (9%)	⬇️
Western Cape	27 (96%)	⬇️	24 (86%)	⬇️	25 (89%)	⬇️
<b>Total</b>	<b>231 (97%)</b>	<b>⬆️</b>	<b>53 (22%)</b>	<b>⬇️</b>	<b>145 (61%)</b>	<b>⬇️</b>

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## PERFORMANCE REPORTS



REGRESSION IN QUALITY  
OF PERFORMANCE REPORTS



TARGET

MOVEMENT

2016-17

2015-16



Performance reports prepared



98% (235)

97% (219)



Quality of performance reports submitted for auditing



10% (23)

19% (41)



Quality of published performance reports



38% (89)

50% (109)

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

### FINDINGS ON PERFORMANCE REPORTS

MOVEMENT

2016-17

2015-16

Performance indicators and targets not useful



46% (108)

39% (86)

Achievement reported not reliable



51% (120)

45% (99)

No underlying records or planning documents



4% (10)

New focus area

### MOST COMMON USEFULNESS FINDINGS

**28%** Not well defined **20%** Not consistent **17%** Not verifiable **16%** Not measurable **14%** Not specific

### PROVINCIAL VIEW

PROVINCE	PERFORMANCE REPORTS PREPARED		QUALITY OF PERFORMANCE REPORTS SUBMITTED FOR AUDITING		QUALITY OF PUBLISHED PERFORMANCE REPORTS	
	Number	Movement from 2015-16	Number	Movement from 2015-16	Number	Movement from 2015-16
Eastern Cape	39 (100%)		2 (5%)		12 (31%)	
Free State	18 (100%)		0 (0%)		3 (17%)	
Gauteng	11 (100%)		1 (9%)		4 (36%)	
KwaZulu-Natal	53 (100%)		7 (13%)		25 (47%)	
Limpopo	23 (100%)		1 (4%)		3 (13%)	
Mpumalanga	20 (100%)		2 (10%)		8 (40%)	
Northern Cape	22 (88%)		0 (0%)		6 (27%)	
North West	21 (95%)		0 (0%)		2 (9%)	
Western Cape	28 (100%)		10 (36%)		26 (93%)	
Total	235 (98%)		23 (10%)		89 (38%)	





## COMPLIANCE WITH KEY LEGISLATION



INCREASE IN NON-COMPLIANCE  
FROM 79% (177) TO 86% (206)

### MOST COMMON NON-COMPLIANCE AREAS

### MOVEMENT

2016-17

2015-16



Quality of financial statements



78% (186)

66% (149)



Management of procurement and contract management



73% (175)

62% (140)



Prevention of unauthorised, irregular and fruitless and wasteful expenditure



72% (171)

72% (161)



Effecting consequences



56% (134)

50% (112)

Non-compliance by 78% (186) of municipalities can potentially lead to a financial loss

### OTHER NOTABLE NON-COMPLIANCE AREAS

2016-17

### MOVEMENT

### MOST COMMON FINDINGS PER AREA



Expenditure management

55% (132)



Creditors not paid within 30 days - 51% (121)



Asset management

39% (94)



Ineffective system of internal control for assets - 32% (77)



Strategic planning and performance management

36% (86)



No performance management system established or adopted - 10% (24)



Human resource management

33% (79)



No policies/procedures to measure/evaluate staff performance - 23% (54)



Revenue management

30% (71)



Revenue due not recorded - 23% (56)

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## PROVINCIAL VIEW

PROVINCE	MUNICIPALITIES WITH NO FINDINGS ON COMPLIANCE	
	Number	Movement from 2015-16
Eastern Cape	2 (5%)	
Free State	0 (0%)	
Gauteng	1 (9%)	
KwaZulu-Natal	6 (11%)	
Limpopo	0 (0%)	
Mpumalanga	2 (10%)	
Northern Cape	1 (4%)	
North West	0 (0%)	
Western Cape	21 (75%)	
Total	33 (14%)	

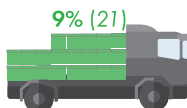
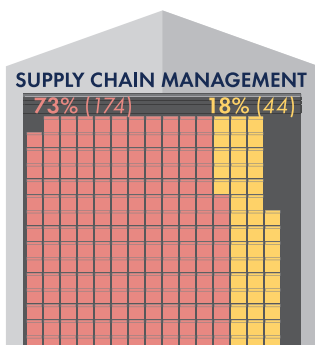




## SUPPLY CHAIN MANAGEMENT (SCM)



MORE MUNICIPALITIES COMPLIED WITH SCM LEGISLATION, BUT INCREASE IN MATERIAL NON-COMPLIANCE FINDINGS FROM 63% (141) TO 73% (174) LED TO OVERALL REGRESSION



Not able to audit procurement of **R1 296 million** due to **missing or incomplete information** at 52 municipalities (22%)

Most common in:

- Gauteng (R830 million)
- North West (R155 million)
- Mpumalanga (R106 million)

■ With no findings ■ With findings ■ With material findings

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

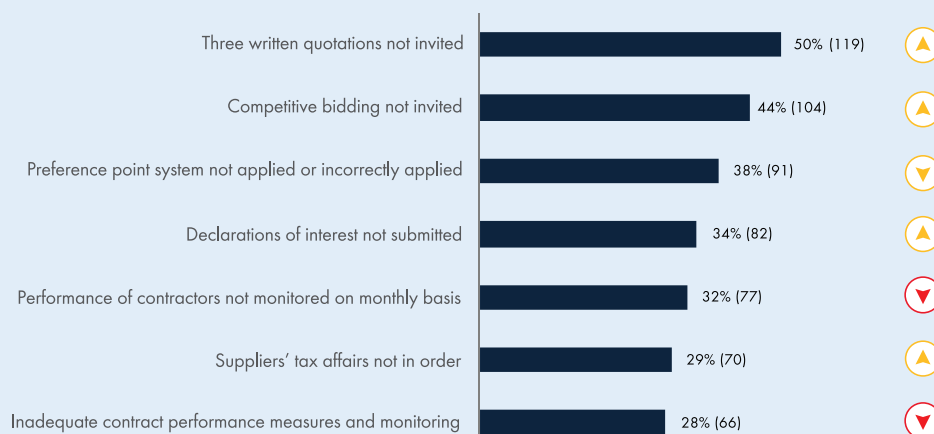
FINDINGS	MOVEMENT	NUMBER OF MUNICIPALITIES WITH AWARDS	AMOUNT (R MILLION)
Prohibited awards to other state officials	▼	64% (153)	R2 075
Prohibited awards to employees and councillors	▲	21% (49)	R15
At 22 municipalities, awards valued at <b>R7,92 million</b> were made to councillors, with the values ranging from <b>R4 200</b> to <b>R4,07 million</b> per councillor			
Awards to close family members of employees	▼	41% (99)	R320
At 26 municipalities (11%), awards to close family members were not disclosed in the financial statements as required			

## UNCOMPETITIVE OR UNFAIR PROCUREMENT PROCESSES AND CONTRACT MANAGEMENT

Findings on **uncompetitive and unfair procurement processes** at 81% of the municipalities, of which 67% was material non-compliance

Findings on **contract management** at 44% of the municipalities, of which 33% was material non-compliance

Most common findings were the following:



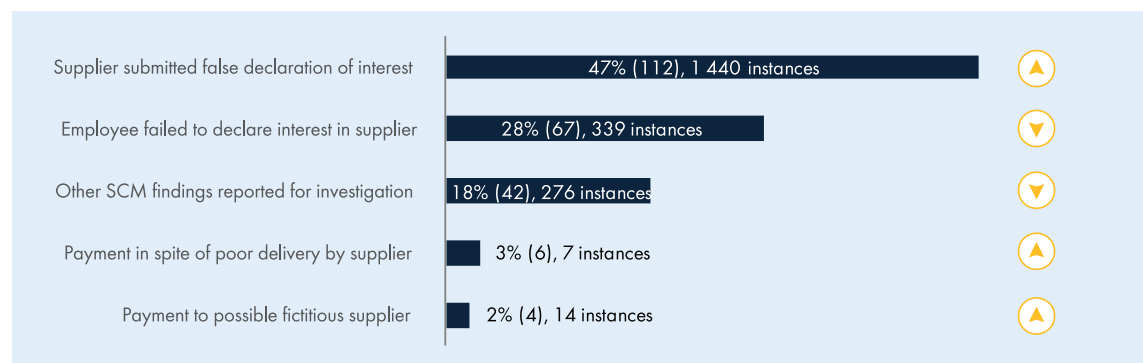
## LOCAL PROCUREMENT

Municipalities are required to procure certain commodities from local producers; **58 municipalities** (57%) out of 102 where we audited local procurement failed to comply with regulation on promotion of local producers on awards amounting to **R587 million**

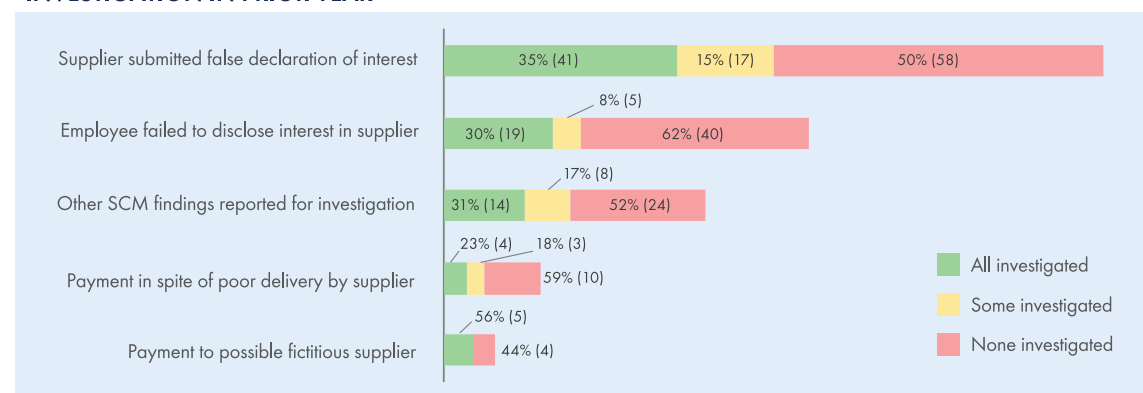
## FALSE DECLARATIONS BY SUPPLIERS AND NON-DISCLOSURE BY EMPLOYEES

FINDINGS	MOVEMENT	NUMBER OF MUNICIPALITIES	NUMBER OF SUPPLIERS/EMPLOYEES	AMOUNT (R MILLION)
Suppliers owned or managed by employees of another state institution made false declarations	▲	41% (98)	1 232	R1 495
Suppliers owned or managed by employees and councillors of the municipality made false declarations	▼	8% (18)	49	R2
Suppliers owned or managed by close family members of employees of the municipality made false declarations	▲	10% (23)	173	R24
Employees of the municipality failed to declare their own interest either as part of the procurement processes or through annual declarations	▼	12% (29)	77	R9
Employees of the municipality failed to declare their family members' interest	▼	19% (46)	254	R88

## FINDINGS REPORTED FOR INVESTIGATION DURING THE AUDIT PROCESS IN CURRENT YEAR



## FOLLOW-UP OF PREVIOUS YEAR'S SUPPLY CHAIN MANAGEMENT FINDINGS REPORTED FOR INVESTIGATION IN PRIOR YEAR





## UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE (UIFW)

	IRREGULAR Non-compliance with legislation in process leading to expenditure	UNAUTHORISED Expenditure more than budget or not in accordance with grant or budget conditions	FRUITLESS AND WASTEFUL Expenditure made in vain – could have been avoided if reasonable care was taken
How much was disclosed in 2016-17?	<b>R28,376 billion at 215 municipalities (90%)</b>  75% increase from R16,212 billion in 2015-16 	<b>R12,603 billion at 161 municipalities (67%)</b>  9% decrease from R13,814 billion in 2015-16 	<b>R1,526 billion at 204 municipalities (85%)</b>  71% increase from R890 million in 2015-16 
Is all of it 2016-17 expenditure?	<b>No</b>  R15,026 billion (53%) was expenditure in previous years only uncovered and disclosed in 2016-17  R13,35 billion (47%) was expenses in 2016-17, which included payments on ongoing contracts irregularly awarded in a previous year  Based on analysis of top 26 contributors, <b>16% (± R4,5 billion) represented non-compliance in 2016-17</b>	<b>Yes</b>	<b>No</b>  R280 million (18%) was expenditure in previous years only uncovered and disclosed in 2016-17  <b>R1,246 billion (82%) was expenses in 2016-17</b>
How much of the 2016-17 local government budget does it represent?	4%	4%	< 1%
Is this the total amount?	<b>No</b>  80 municipalities (33%) did not know total amount and were still investigating to determine full amount  53 municipalities (22%) were qualified on the <b>completeness</b> of their disclosure  We could also not audit procurement processes valued at R1,296 billion due to missing or incomplete documentation – it is not known whether any part of this amount might represent irregular expenditure	<b>No</b>  17 municipalities (7%) were qualified on the <b>completeness</b> of their disclosure	<b>No</b>  8 municipalities (3%) were qualified on the <b>completeness</b> of their disclosure





	IRREGULAR	UNAUTHORISED	FRUITLESS AND WASTEFUL
What was main cause?	<b>Non-compliance with supply chain management legislation (99%), related to:</b> <ul style="list-style-type: none"> <li>Procurement without following a competitive bidding or quotation process – R8,322 billion (30%)</li> <li>Non-compliance with procurement process requirements – R18,092 billion (64%)</li> <li>Inadequate contract management – R1,738 billion (6%)</li> </ul>	<b>Overspending of budget (99,5%)</b>  Of the R12,54 billion overspent, R5,055 billion (40%) related to actual payments in excess of the budget  R7,485 billion (60%) related to non-cash items, representing the poor estimation of, for example, asset impairments	<b>Penalties and interest on overdue accounts and late payments (74%)</b> – mostly as a result of municipalities' poor financial health
Did the municipalities detect this expenditure?	<b>79% identified by municipality and remainder by audit process</b>  Many municipalities implemented processes to fully uncover irregularities of previous years – partly to address prior year qualifications on irregular expenditure (R7,476 billion) but also to correct past irregularities	<b>79% identified by municipality and remainder by audit process</b>	<b>93% identified by municipality and remainder by audit process</b>
Does it mean this money was wasted?	<b>Possibly – it can only be determined through a council investigation</b>  Goods and services were received for R23,265 billion (83%) of the expenditure related to supply chain management, but were not received for R12 million (< 1%), while we did not audit the remaining 17%  We cannot confirm if value for money was received for all of these goods and services	<b>No</b>	<b>Yes</b>



## PROVINCIAL VIEW

	IRREGULAR (R BILLION)	UNAUTHORISED (R BILLION)	FRUITLESS AND WASTEFUL (R BILLION)
Eastern Cape	R13,558 48% of total <b>35% of provincial local government budget</b>	R1,446 12% of total 4% of provincial local government budget	R0,179 12% of total < 1% of provincial local government budget
North West	R4,294 15% of total <b>22% of provincial local government budget</b>	R1,185 9% of total <b>6% of provincial local government budget</b>	R0,192 13% of total 1% of provincial local government budget
Gauteng	R3,653 13% of total 3% of provincial local government budget	R2,009 16% of total 2% of provincial local government budget	R0,204 13% of total < 1% of provincial local government budget
KwaZulu-Natal	R2,449 9% of total 4% of provincial local government budget	R1,545 12% of total 2% of provincial local government budget	R0,051 3% of total < 1% of provincial local government budget
Mpumalanga	R1,996 7% of total <b>10% of provincial local government budget</b>	R1,334 11% of total <b>7% of provincial local government budget</b>	R0,273 18% of total 1% of provincial local government budget
Limpopo	R1,317 5% of total <b>7% of provincial local government budget</b>	R1,068 8% of total <b>6% of provincial local government budget</b>	R0,243 16% of total 1% of provincial local government budget
Free State	R0,675 2% of total <b>5% of provincial local government budget</b>	R2,899 23% of total <b>21% of provincial local government budget</b>	R0,325 21% of total 2% of provincial local government budget
Northern Cape	R0,261 1% of total 4% of provincial local government budget	R1,034 8% of total <b>16% of provincial local government budget</b>	R0,055 4% of total 1% of provincial local government budget
Western Cape	R0,173 < 1% of total < 1% of provincial local government budget	R0,083 1% of total < 1% of provincial local government budget	R0,004 < 1% of total < 1% of provincial local government budget

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



## TOP 10 CONTRIBUTORS – UNAUTHORISED EXPENDITURE

All of these municipalities have incurred unauthorised expenditure for the past 3 years, except Msunduzi and Enoch Mgijima

MUNICIPALITY	DISCLOSED (R BILLION)	NATURE
Matjhabeng (FS)	R1,031	Overspending of budget R0,474 million (46%) related to non-cash items
Mangaung Metro (FS)	R0,722	Overspending of budget R0,671 million (93%) related to non-cash items
City of Tshwane Metro (GP)	R0,62	Overspending of budget R0,168 million (27%) related to non-cash items
Emfuleni (GP)	R0,595	Overspending of budget R0,217 million (36%) related to non-cash items
City of Johannesburg Metro (GP)	R0,502	Overspending of budget R0,113 billion (22%) related to non-cash items
Nelson Mandela Bay Metro (EC)	R0,432	Overspending of budget R0,432 billion (100%) related to non-cash items
Msunduzi (KZN)	R0,4	Overspending of budget R0,336 billion (84%) related to non-cash items
Vhembe District (LP)	R0,375	Overspending of budget R0,249 billion (66%) related to non-cash items
Gamagara (NC)	R0,374	Overspending of budget R0,364 billion (97%) related to non-cash items
Enoch Mgijima (EC)	R0,323	Overspending of budget R0,323 billion (100%) related to non-cash items
<b>Total for top 10</b>	<b>R5,374</b>	This constitutes 43% of the total unauthorised expenditure  R3,347 billion (62%) of top 10 value related to non-cash items

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## TOP 10 CONTRIBUTORS – IRREGULAR EXPENDITURE

All of these municipalities have incurred irregular expenditure for the past 3 years

MUNICIPALITY	DISCLOSED (R BILLION)	INCURRED IN 2016-17 (R BILLION)	MAIN NON- COMPLIANCE	KEY PROJECTS AFFECTED	GRANTS AFFECTED* (R BILLION)
Nelson Mandela Bay Metro (EC)	R8,184	R0,045 (0,5%)	99% related to non-compliance with procurement process requirements	Water infrastructure, road infrastructure, and housing	R1,318 (USDG)
OR Tambo District (EC)	R3,082	R0,680 (22%), of which R0,097 (14%) represents non-compliance in 2016-17	99% related to procurement without following competitive bidding or quotation processes	Water infrastructure	R0,713 (MIG/RBIG)
City of Tshwane Metro (GP)	R1,825	R1,211 (66%), of which R0,231 (19%) represents non-compliance in 2016-17	83% related to procurement without following competitive bidding or quotation processes	Smart prepaid contract (R0,699 billion), Wi-Fi contract (R0,079 billion), and fleet management contract (R0,130 billion)	N/A
Rustenburg (NW)	R0,984	R0,540 (55%) The portion that represents non-compliance in 2016-17 could not be determined due to poor document management at municipality	100% related to non-compliance with procurement process requirements	Rustenburg rapid transport (various sub-contracts)	R0,145 (PTNG)
Ngaka Modiri Molema District (NW)	R0,828	R0,164 (20%) The portion that represents non-compliance in 2016-17 could not be determined due to poor document management at municipality	80% related to procurement without following competitive bidding or quotation processes	Water infrastructure and sanitation	R0,015 (MIG)





MUNICIPALITY	DISCLOSED (R BILLION)	INCURRED IN 2016-17 (R BILLION)	MAIN NON- COMPLIANCE	KEY PROJECTS AFFECTED	GRANTS AFFECTED* (R BILLION)
City of Johannesburg Metro (GP)	R0,706	R0,706 (100%), of which R0,393 (56%) represents non-compliance in 2016-17	100% related to non-compliance with legislation on contracts	ICT - SAP upgrade	N/A
City of Ekurhuleni Metro (GP)	R0,591	R0,367 (62%)	59% related to non-compliance with procurement process requirements	Refuse removal, housing infrastructure (e.g. housing, dwelling and lifts projects), chemical toilets (i.e. sanitation), and road infrastructure	R0,420 (PTNG)
Buffalo City Metro (EC)	R0,584	R0,287 (49%), none of which represents non-compliance in 2016-17	77% related to non-compliance with procurement process requirements	Multi-year contract for road infrastructure	R0,532 (USDG)
Madibeng (NW)	R0,562	R0,562 (100%), of which R0,504 (90%) represents non-compliance in 2016-17	80% related to non-compliance with procurement process requirements	Water infrastructure and sanitation	R0,051 (MIG)
Moretele (NW)	R0,557	R0,139 (25%) The portion that represents non-compliance in 2016-17 could not be determined due to poor document management at municipality	100% related to non-compliance with procurement process requirements	Water infrastructure and sanitation	R0,019 (MIG)
<b>Total for top 10</b>	<b>R17,903</b>	<p>This constitutes 63% of the total irregular expenditure disclosed in 2016-17</p> <p>R11,265 billion (63%) of top 10 value resulted from non-compliance with procurement process requirements, while R5,617 billion (31%) related to procurement without following competitive bidding or quotation processes</p>			

\*MIG: municipal infrastructure grant  
PTNG: public transport network grant  
RBIG: regional bulk infrastructure grant  
USDG: urban settlement development grant



## TOP 10 CONTRIBUTORS – FRUITLESS AND WASTEFUL EXPENDITURE

All of these municipalities have incurred fruitless and wasteful expenditure for the past 3 years, except Rand West City (new municipality)

MUNICIPALITY	DISCLOSED (R BILLION)	NATURE
Matjhabeng (FS)	R0,187	Eskom interest of R0,182 billion; remainder relating to penalties and interest – Sars and other creditors
Mopani District (LP)	R0,164	Payment for work that had to be redone due to poor quality
Nelson Mandela Bay Metro (EC)	R0,11	Mostly payments to rectify faulty work and for damages awarded in court
Emalahleni (MP)	R0,079	Eskom interest of R0,078 billion
Emfuleni (GP)	R0,06	Penalties and interest on late payment of accounts
Rand West City (GP)	R0,055	Mostly related to interest: Eskom – R0,02 billion, Sars – R0,01 billion, and Rand Water – R606 807
Lekwa (MP)	R0,043	Eskom interest of R0,04 billion; remainder relating to penalties and interest – Sars, AGSA and Telkom
City of Tshwane Metro (GP)	R0,042	Mostly related to standing time, interest and re-application of licence at Temba water purification plant
Msukaligwa (MP)	R0,041	Eskom interest of R0,02 billion and Department of Water Affairs interest and penalties of R0,021 billion
Ditsobotla (NW)	R0,037	Eskom interest of R0,024 billion; remainder relating to penalties and interest – Sars and AGSA
<b>Total for top 10</b>	<b>R0,818</b>	This constitutes 54% of the total fruitless and wasteful expenditure  R0,365 billion (45%) of top 10 value related to interest on late payments to Eskom



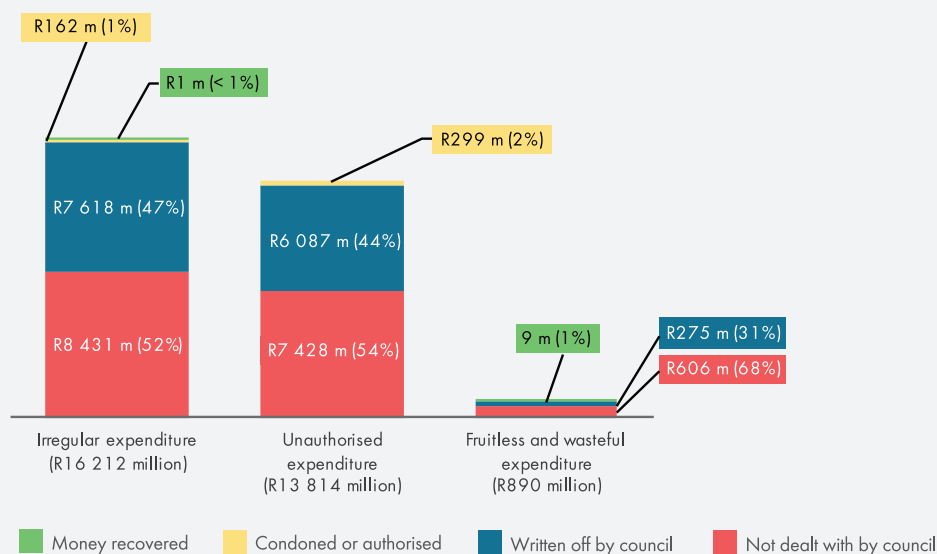
## INVESTIGATION AND FOLLOW-UP OF PRIOR YEAR UIFW



Investigations by municipalities of all prior year instances regressed from 103 (48%) to 84 (39%)

UIFW disclosed must be investigated by the council to determine impact and responsible person/s. Based on the outcome of the investigation, the next steps can include condonement/authorisation, recovery or write-off.

### HOW HAS COUNCIL DEALT WITH THE 2015-16 UIFW?



### HOW HAS COUNCIL DEALT WITH ALL THE UIFW TO DATE?



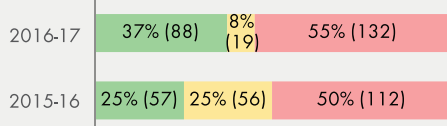


## FRAUD AND LACK OF CONSEQUENCES



SLIGHT INCREASE IN MATERIAL NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES

### NON-COMPLIANCE WITH LEGISLATION ON IMPLEMENTING CONSEQUENCES



With no findings With findings With material findings

Most common findings were the following:

- Irregular expenditure identified in prior year was not investigated at 122 municipalities (51%)
- Fruitless and wasteful expenditure identified in prior year was not investigated at 114 municipalities (48%)
- Unauthorised expenditure identified in prior year was not investigated at 100 municipalities (42%)

### MECHANISMS TO DEAL WITH LACK OF CONSEQUENCES



**Inadequate mechanisms for reporting and investigating transgressions and possible fraud at 82 municipalities (34%)**

Most common findings were the following:



Disciplinary board not established at 56 municipalities (23%)



No policies regarding investigations of allegations and disciplinary procedures at 46 municipalities (19%)



No hotline or other process to report fraud at 32 municipalities (13%)

### INADEQUATE FOLLOW-UP OF ALLEGATIONS OF FINANCIAL AND SUPPLY CHAIN MANAGEMENT MISCONDUCT AND FRAUD

Allegations not investigated

34% (29)



Investigations took longer than 3 months

33% (28)



Allegations not properly investigated

7% (6)



CONTRIBUTE TO

AND



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



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



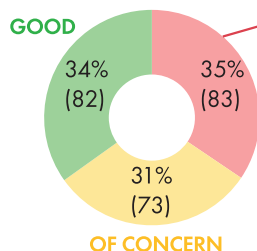




## FINANCIAL HEALTH



SLIGHT REGRESSION  
IN FINANCIAL HEALTH



### INTERVENTION REQUIRED

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

### VULNERABLE FINANCIAL POSITION

31% (73)   
26% (59)

Fruitless and wasteful expenditure of **R1,1 billion** incurred by those in vulnerable financial position

■ 2016-17 ■ 2015-16

### SUSTAINABILITY INDICATORS

#### NET CURRENT LIABILITY POSITION

43% (90)   
40% (83)

#### BANK IN OVERDRAFT

3% (7)   
2% (4)

#### DEFICIT (expenditure exceeded revenue)

31% (66)   
33% (68)

#### Consolidated deficit of R5,6 billion

Major contributors from:

- Mpumalanga - R1,8 billion (32%)
- Free State - R1 billion (19%)
- Gauteng - R1 billion (19%)

86% (57) of those with deficits also incurred unauthorised expenditure amounting to R5,8 billion

### CREDITOR PAYMENTS

#### CREDITOR-PAYMENT PERIOD > 30 DAYS

87% (183)   
82% (170)

#### CREDITOR-PAYMENT PERIOD > 90 DAYS

47% (100)   
42% (87)



#### AVERAGE CREDITOR-PAYMENT PERIOD

161 DAYS   
140 DAYS

#### ESKOM ARREARS - R9,4 billion

71% of arrears concentrated in Free State (49%) and Mpumalanga (22%)

Source - Eskom annual report: March 2017

#### WATER BOARD ARREARS - R6,5 billion

Free State contributed R2,6 billion (40%) to total

Source - Treasury database: 30 September 2017

### REVENUE MANAGEMENT INDICATORS

#### MORE THAN 10% OF DEBT IRRECOVERABLE

92% (195)   
95% (196)

#### DEBT-COLLECTION PERIOD > 90 DAYS

55% (115)   
51% (106)



#### AVERAGE DEBT-COLLECTION PERIOD

187 DAYS   
178 DAYS

## PROVINCIAL VIEW

PROVINCE	OVERALL ASSESSMENT*			INDICATORS*							
	GOOD	OF CONCERN	INTERVENTION REQUIRED	VULNERABLE FINANCIAL POSITION	CREDITOR-PAYMENTS > 30 DAYS	MORE THAN 10% OF DEBT IRRECOVERABLE	DEFICIT				
Eastern Cape	32% (12)	42% (16)	26% (10)		24% (9)	86% (30)	94% (33)	26% (9)			
Free State	0% (0)	0% (0)	100% (18)		94% (17)	100% (13)	100% (13)	85% (11)			
Gauteng	18% (2)	46% (5)	36% (4)		45% (5)	91% (10)	82% (9)	45% (5)			
KwaZulu-Natal	47% (25)	30% (16)	23% (12)		19% (10)	86% (43)	100% (50)	10% (5)			
Limpopo	39% (9)	39% (9)	22% (5)		9% (2)	89% (17)	89% (17)	21% (4)			
Mpumalanga	25% (5)	50% (10)	25% (5)		20% (4)	89% (17)	89% (17)	42% (8)			
Northern Cape	8% (2)	36% (9)	56% (14)		56% (14)	96% (22)	87% (20)	65% (15)			
North West	14% (3)	27% (6)	59% (13)		45% (10)	86% (12)	86% (12)	50% (7)			
Western Cape	86% (24)	7% (2)	7% (2)		7% (2)	70% (19)	89% (24)	7% (2)			

\*including municipalities with disclaimed/adverse opinions

\*excluding municipalities with disclaimed/adverse opinions















## INFRASTRUCTURE DEVELOPMENT AND MAINTENANCE
















COMPLIANCE WITH DIVISION OF REVENUE ACT  
REMAINED UNCHANGED AT 87%, BUT PROJECT  
MANAGEMENT WEAKNESSES REMAINED WIDESPREAD



### MANAGEMENT OF INFRASTRUCTURE GRANTS




 <b>FUNDING</b>	MUNICIPAL INFRASTRUCTURE GRANT (MIG) 518 projects (209 municipalities)	PUBLIC TRANSPORT NETWORK GRANT (PTNG) 15 projects (10 municipalities)	URBAN SETTLEMENT DEVELOPMENT GRANT (USDG) 30 projects (8 municipalities)
Available to spend (percentage of funds spent)	R15,09 billion (94%) 	R5,85 billion (93%) 	R11,14 billion (96%) 
Underspending by more than 10%	46 municipalities (22%) 	4 municipalities (40%) 	2 municipalities (25%) 
Used for intended purpose	198 municipalities (95%) 	10 municipalities (100%) 	8 municipalities (100%) 

 <b>FINDINGS</b> (per project)	MUNICIPAL INFRASTRUCTURE GRANT (MIG)	PUBLIC TRANSPORT NETWORK GRANT (PTNG)	URBAN SETTLEMENT DEVELOPMENT GRANT (USDG)
Targets not achieved/ not evaluated	38% (199) 	47% (7) 	23% (7) 
Reported achievements not reliable	14% (70) 	13% (2) 	7% (2) 
Supply chain management findings	27% (142) 	13% (2) 	20% (6) 
Not correctly accounted for in financial statements	5% (26) 	None 	17% (5) 

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### ROAD INFRASTRUCTURE

 <b>ROAD INFRASTRUCTURE DELIVERY FINDINGS</b>	2016-17	2015-16
No approved road maintenance plan/priority list for renewal and routine maintenance	55% (107) 	50% (89)
No assessment of condition of all infrastructure	27% (53) 	18% (32)

**43% (84)** of the municipalities did not implement corrective action to address all findings raised in the previous year





## ROAD PROJECT PLANNING FINDINGS

- 31% (61)** - No standard for infrastructure procurement and delivery management
- 13% (25)** - No needs/cost estimates for road projects
- 12% (23)** - No detailed project plan completed during planning phase
- 11% (21)** - No feasibility study conducted



## ROAD PROJECT MANAGEMENT FINDINGS

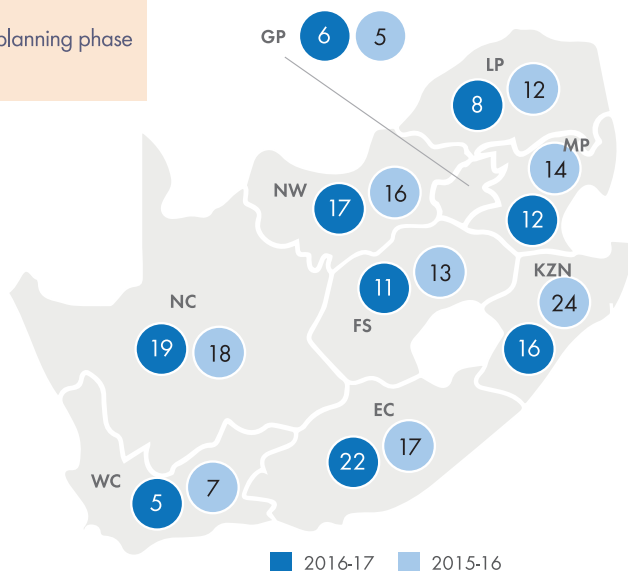
- 26% (51)** - Road projects exceeded planned completion date
- 12% (24)** - No penalties imposed for projects not completed on time
- 9% (18)** - No processes for project progress reporting
- 9% (17)** - Construction sites not timeously handed over to contractors
- 8% (16)** - Work completed not verified prior to payment

## PROVINCIAL VIEW



### FINDINGS

AFFECTING DELIVERY OF ROAD INFRASTRUCTURE



## PROVISION OF WATER AND SANITATION

### PERFORMANCE PLANNING AND REPORTING BY MUNICIPALITIES THAT ARE WATER AUTHORITIES

	WATER		SANITATION	
Indicators not planned in SDBIP/IDP*	6% (8)	▲	8% (11)	▲
Indicators and targets not useful	4% (5)	▲	4% (5)	▲
Reported achievements not reliable	9% (13)	▲	10% (14)	▶
Targets for indicators not achieved	11% (15)	▲	6% (8)	▲

### WATER AND SANITATION INFRASTRUCTURE PROJECTS

	WATER		SANITATION	
Exceeded completion date	26% (36)	▲	22% (30)	▲
With significant supply chain management findings	21% (29)	▲	17% (24)	▶
Project did not address cause of backlog	18% (25)	▲	16% (21)	▲
	WATER		SANITATION	
Used for intended purpose	95%	▼	97%	▼
Not fully utilised	27%	▼	16%	▼
Underspending more than 10%	17%	▼	10%	▲

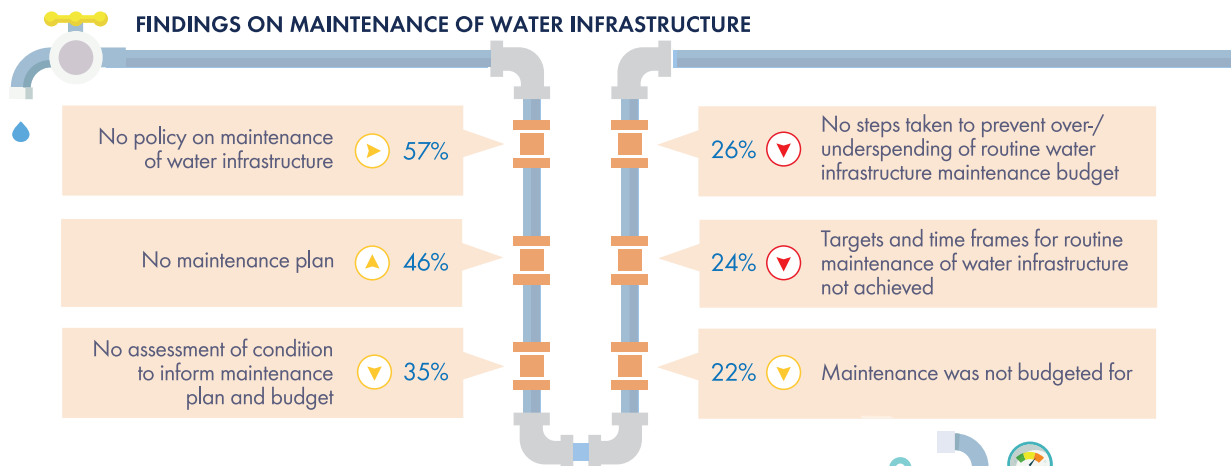
\*SDBIP/IDP: service delivery and budget implementation plan/integrated development plan



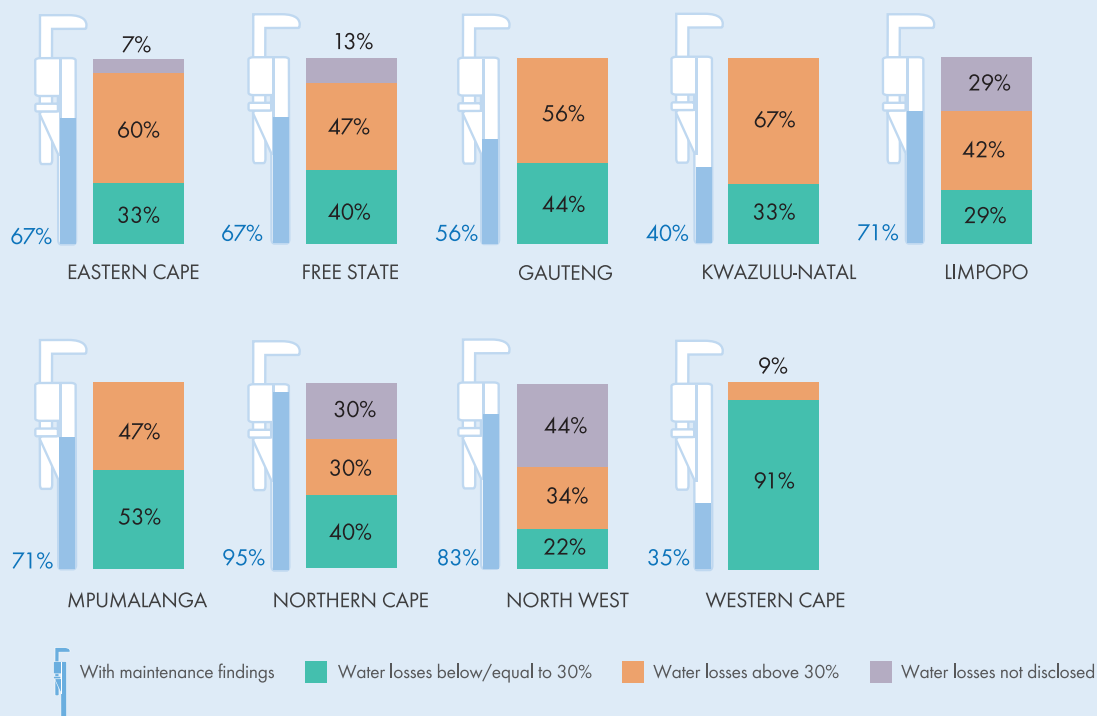


## MAINTENANCE OF WATER INFRASTRUCTURE AND EXTENT OF WATER LOSSES

### FINDINGS ON MAINTENANCE OF WATER INFRASTRUCTURE



### MAINTENANCE WEAKNESSES AND WATER LOSSES





## HUMAN RESOURCE (HR) MANAGEMENT



SLIGHT REGRESSION IN GOOD  
HR MANAGEMENT CONTROLS -  
FROM 28% (62) TO 24% (58)

### AVERAGE VACANCY RATES

OVERALL 21%

SENIOR MANAGEMENT 28%

FINANCE UNITS 18%

Resourcing of 48% (114) of the finance units assessed as either concerning or requiring intervention

### KEY POSITIONS - VACANCIES, STABILITY AND ACHIEVEMENT OF COMPETENCY REQUIREMENTS

#### MUNICIPAL MANAGER

VACANCIES 27% (65)

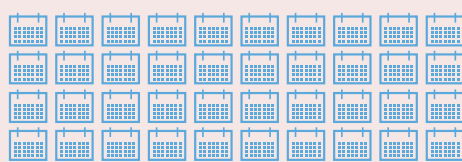
VACANT for less than 6 months - 10% (24)



VACANT for 6 months or more - 17% (41)



STABILITY 40 months (Average number of months in position)



COMPETENCY 10% (17)

Did not meet minimum requirements - 6% (11)



Minimum competencies not assessed/  
limitations - 4% (6)



#### CHIEF FINANCIAL OFFICER

VACANCIES 28% (68)

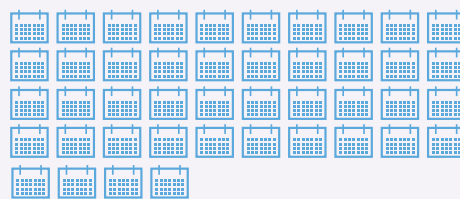
VACANT for less than 6 months - 7% (17)



VACANT for 6 months or more - 21% (51)



STABILITY 44 months (Average number of months in position)



COMPETENCY 11% (19)

Did not meet minimum requirements - 8% (14)



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



### STABILITY\* IN KEY POSITIONS PRODUCED BETTER AUDIT OUTCOMES

#### MUNICIPAL MANAGER

\*Average number of months in position



#### CHIEF FINANCIAL OFFICER

\*Average number of months in position



Unqualified with no findings



Unqualified with findings



Qualified with findings



Adverse and disclaimed with findings

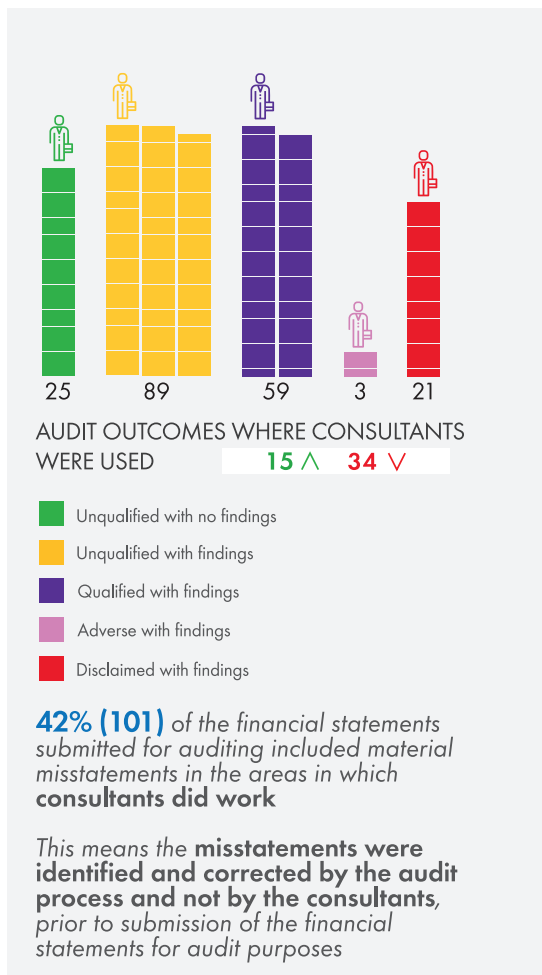




## EFFECTIVE USE OF CONSULTANTS

Local government spent an estimated **R2 772 million** on consultancy services in **2016-17**

**CONSULTANTS USED FOR FINANCIAL REPORTING SERVICES - R757 million** (2015-16: R752 million)



### REASONS WHY FINANCIAL REPORTING CONSULTANTS WERE INEFFECTIVE



**AUDITEE INEFFECTIVENESS**

27% (54)



**POOR PROJECT MANAGEMENT**

12% (23)



**CONSULTANT DID NOT DELIVER**

12% (23)



**LACK OF RECORDS AND DOCUMENTS**

9% (17)



**CONSULTANT APPOINTED TOO LATE**

9% (17)

### MANAGEMENT OF CONSULTANTS - ALL SERVICES

At **69%** of the **227** municipalities that used consultancy services, significant weaknesses were identified in the following areas:



**54%** Performance management and monitoring



**48%** Transfer of skills



**31%** Planning and appointment process



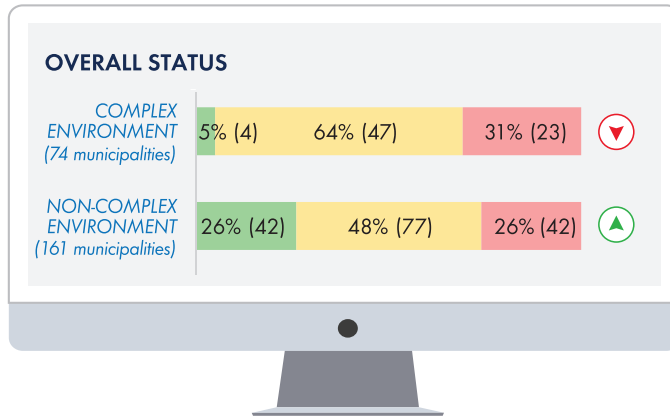


## INFORMATION TECHNOLOGY (IT) CONTROLS



SLIGHT IMPROVEMENT  
IN IT CONTROLS

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



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

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

### COMPLEX ENVIRONMENT



#### INFORMATION TECHNOLOGY FOCUS AREAS



##### SECURITY MANAGEMENT

15% (11) 59% (44) 26% (19) ▼



##### USER ACCESS MANAGEMENT

14% (10) 54% (40) 32% (24) ▼

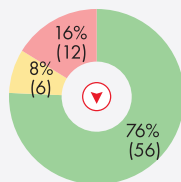


##### IT CONTINUITY

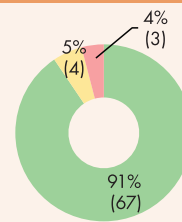
26% (19) 43% (32) 31% (23) ▼



#### QUALIFICATIONS AND EXPERIENCE – chief information officers or IT managers



#### USE OF IT CONSULTANTS



Good Of concern Intervention required

At the 74 municipalities with complex IT environments, only 9% appointed IT consultants due to a shortage of skills or to fill vacant positions. Although the other 91% did not appoint IT consultants to fill vacant positions, they were still using IT consultants to support them. The total approximate cost for IT consultants at these municipalities was R540 million.





## SUPPORT TO LOCAL GOVERNMENT

### PROGRESS TOWARDS IMPLEMENTATION OF SUB-OUTCOMES OF REVISED MEDIUM-TERM STRATEGIC FRAMEWORK INITIATIVES

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

##### Programme management office and municipal asset management

###### Municipalities not utilising municipal asset management system

15 (6%)

###### Municipalities not receiving related assistance from Department of Cooperative Governance (DCoG)

8 (3%)

PROVINCE	EASTERN CAPE	FREE STATE	GAUTENG	KWAZULU-NATAL	LIMPOPO	MPUMALANGA	NORTHERN CAPE	NORTH WEST	WESTERN CAPE
Municipalities not utilising municipal asset management system	5% (2)	28% (5)	0% (0)	0% (0)	0% (0)	5% (1)	16% (4)	14% (3)	0% (0)
Municipalities not receiving related assistance from DCoG	3% (1)	6% (1)	0% (0)	0% (0)	0% (0)	0% (0)	20% (5)	5% (1)	0% (0)

53% (8) of those not utilising Municipal Infrastructure Support Agent's asset management system or similar were also qualified on assets

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

##### Public participation

PROVINCE	EASTERN CAPE	FREE STATE	GAUTENG	KWAZULU-NATAL	LIMPOPO	MPUMALANGA	NORTHERN CAPE	NORTH WEST	WESTERN CAPE	TOTAL
Ward-level improvement plans not submitted for auditing	3	1	0	1	0	0	2	1	0	8
Ward-level improvement plans not developed	9	5	0	0	0	5	11	5	3	38
Ward-level improvement plans did not address basic concerns	0	1	0	0	0	2	1	2	0	6
Ward committees not established for each ward	7	0	2	1	0	0	3	2	1	16

#### SUB-OUTCOME 4: SOUND FINANCIAL AND ADMINISTRATION MANAGEMENT

##### Implementation of back-to-basics (B2B) programme

⚠️ SLIGHT REGRESSION IN NUMBER OF MUNICIPALITIES NOT REPORTING ON A MONTHLY BASIS

###### No monthly reporting on B2B

2016-17 15% (37)

2015-16 14% (32)

PROVINCE		EASTERN CAPE	FREE STATE	GAUTENG	KWAZULU-NATAL	LMPOPO	MPUMALANGA	NORTHERN CAPE	NORTH WEST	WESTERN CAPE
No monthly reporting on B2B	2016-17	41% (16)	22% (4)	0% (0)	6% (3)	0% (0)	10% (2)	12% (3)	32% (7)	7% (2)
	2015-16	23% (8)	39% (7)	0% (0)	0% (0)	5% (1)	21% (4)	33% (8)	19% (4)	0% (0)
	Movement	<div>▼</div>	<div>▲</div>	<div>▶</div>	<div>▼</div>	<div>▲</div>	<div>▲</div>	<div>▲</div>	<div>▼</div>	<div>▼</div>





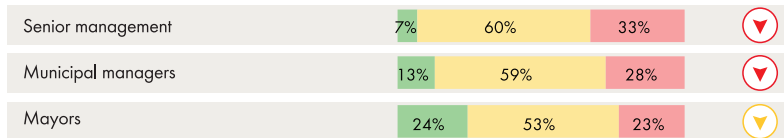


## ASSURANCE PROVIDERS



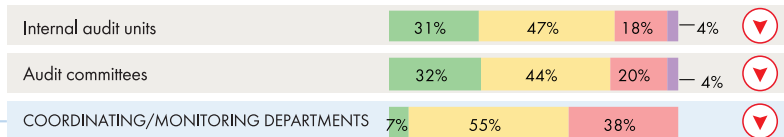
OVERALL REGRESSION IN ASSURANCE PROVIDED BY ROLE PLAYERS

### ASSURANCE PROVIDED BY MANAGEMENT / LEADERSHIP



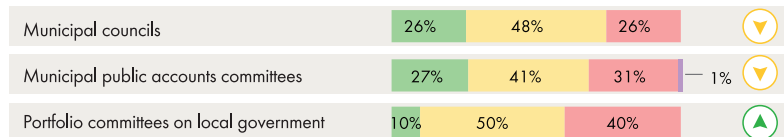
Low levels of assurance show a breakdown in a crucial element of the improvement cycle, being the monitoring to ensure that internal controls are adhered to, risks are managed, and outcomes are achieved

### INTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT



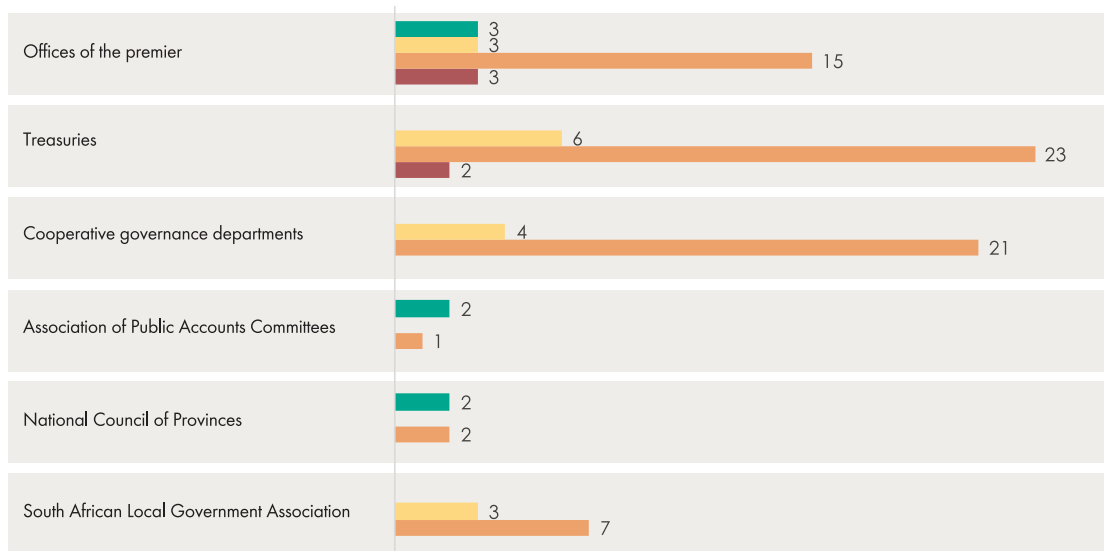
FINDINGS	INTERNAL AUDIT UNITS	AUDIT COMMITTEES
Fully compliant with legislation	83% (190)	82% (188)
Positive impact on audit outcomes	39% (89)	53% (121)
Evaluates reliability of financial information	87% (200)	89% (204)
Evaluates reliability of performance information	84% (194)	86% (198)
Evaluates compliance with key legislation	89% (205)	88% (203)
Interacts with executive authority	N/A	90% (207)

### EXTERNAL INDEPENDENT ASSURANCE AND OVERSIGHT



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

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



Completed - significant impact Completed - limited impact In progress Not implemented



## STATUS OF METROS

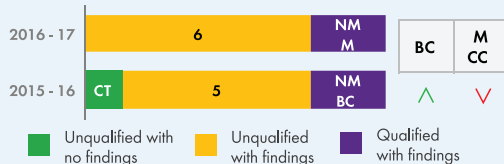


OVERALL REGRESSION IN AUDIT OUTCOMES

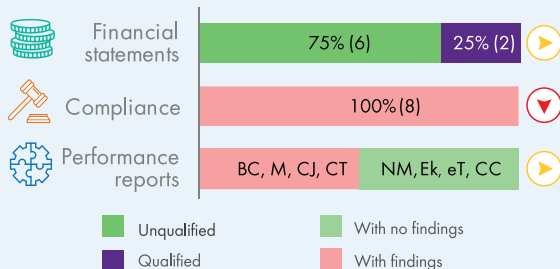


### AUDIT OUTCOMES

Almost 55% (R195 billion) of the total municipal expenditure budget of R362 billion was managed by metros



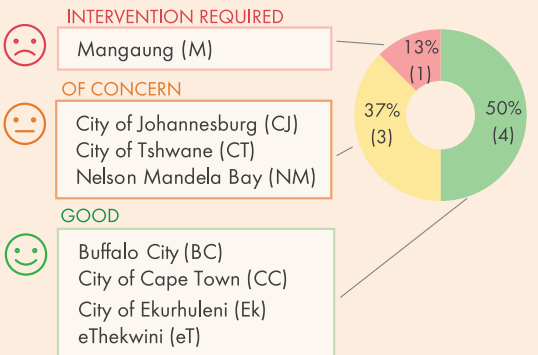
### AUDIT OUTCOMES ON THREE KEY AREAS



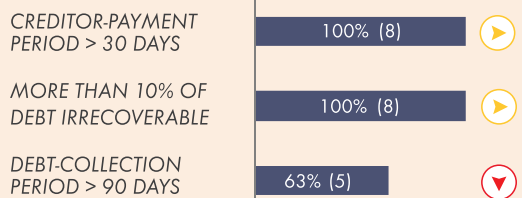
eThekweni and City of Cape Town submitted their financial statements and performance reports with no material misstatements



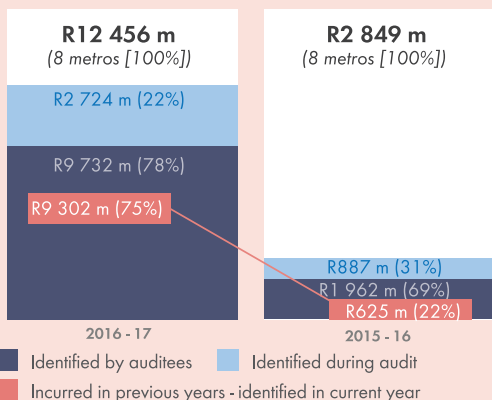
### FINANCIAL HEALTH



### FINANCIAL HEALTH INDICATORS



### IRREGULAR EXPENDITURE



### VACANCIES AND STABILITY

	MUNICIPAL MANAGER	CHIEF FINANCIAL OFFICER
Vacancies at year-end	None (Green Up Arrow)	CJ* (Yellow Right Arrow)
Stability (Average number of months in position)	23 (Red Down Arrow)	63 (Red Down Arrow)

\*Vacant for less than 6 months



### FINDINGS ON SUPPLY CHAIN MANAGEMENT

METROS	UNCOMPETITIVE PROCESS	INADEQUATE CONTRACT MANAGEMENT	AWARDS TO CLOSE FAMILY MEMBERS	LIMITATION	AWARDS TO EMPLOYEES
Buffalo City Metro	Green	Green	Green	Green	Green
City of Johannesburg Metro	Red	Red	Red	Green	Yellow
City of Tshwane Metro	Red	Green	Yellow	Red	Green
City of Ekurhuleni Metro	Red	Green	Yellow	Red	Yellow
eThekweni Metro	Yellow	Green	Yellow	Green	Yellow
Mangaung Metro	Yellow	Red	Green	Yellow	Green
Nelson Mandela Bay Metro	Red	Red	Red	Green	Green
City of Cape Town Metro	Red	Yellow	Green	Green	Green

Green = With no findings, Yellow = With findings, Red = With material findings





## MFMA 2016-17

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