



EASTERN CAPE

Overall, the audit outcomes in the province regressed over the term of the previous administration. Management did not adequately promote transparency and accountability or safeguard the public purse against all possible abuses. As a result, we notified municipal managers of 27 material irregularities with an estimated financial loss of R254 million to date. **Efforts to institutionalise preventative controls have not yielded the desired outcomes.**

While outcomes improved in the last two years of the five-year period, these improvements might not be sustainable. Despite using consultants, most municipalities (including those with improved audit outcomes) submitted financial statements for auditing that contained material misstatements, which required correction to achieve better outcomes. Municipalities spent R154 million on consultants in 2020-21 and R663 million over the past five years. The main reason given was inadequate skills, although municipalities were generally adequately capacitated with a 17% vacancy rate in the finance units. Municipalities derived limited value from this spending as it did not lead to improved audit outcomes, mainly due to inefficiencies on the part of municipalities (e.g. a lack of, or inadequate, records to support transactions). The financial challenges faced by the province mean that municipalities cannot continue to rely on consultants and must use their resources more responsibly.

We saw evidence of overreliance on consultants at Walter Sisulu, which appointed consultants to prepare financial statements. However, these consultants left during the audit, taking with them information and data, which contributed to the municipality's disclaimed audit opinion. We saw similar overreliance at Chris Hani, which spent R34 million for value-added tax submissions.

Chris Hani, Makana, Sundays River Valley and Walter Sisulu received disclaimed audit opinions because they could not account for funds allocated to them due to inadequate record keeping. These municipalities had to

repay prior year unspent funds allocated for infrastructure projects, which shows how poor discipline leads to poor financial management – ultimately hampering desperately needed service delivery to citizens. Makana had been disclaimed for the past three years, and we notified the municipal manager of a material irregularity relating to substantial harm due to the municipality's inability to deliver on its service delivery mandate.

Poor financial management practices continued to plague municipalities. We reported a material uncertainty relating to the financial sustainability of nine municipalities. At seven of these municipalities, we notified the municipal managers of material irregularities based on excessive interest relating to late payments of Eskom and the South African Revenue Service. The salary bill for all of the municipalities within the province exceeded the equitable share of R11,2 billion received from national government, and competed with service delivery for the limited government funds. Despite the financial constraints, municipalities still did not use allocated funds responsibly. For example, we notified the municipal manager at Intsika Yethu of a material irregularity with an estimated financial loss of R18 million because a contractor was paid for the construction of a gravel road and related material that were not completed or delivered.

Municipalities' continued failure to contract for goods and services in compliance with legislation placed further pressure on the public purse. We identified 24 municipalities (62%) that transgressed procurement

legislation mostly by opting not to follow a competitive bidding process but instead using deviations that were not justifiable. This increased the risk that they might have paid a higher price than what they should have for goods or services. Municipalities also incurred irregular expenditure of R3,1 billion during 2020-21, adding to the irregular expenditure incurred in prior years of R24,1 billion that had not been investigated. This resulted in a lack of accountability and allowed the responsible individuals to continue to contravene legislation. Nelson Mandela Bay incurred 44% of the irregular expenditure (R1,4 billion), mainly due to awarding contracts based on deviations that were not justifiable. The metro also did not investigate most of the prior years' irregular expenditure, ending with a closing balance of R17,7 billion. The municipal public accounts committee's last sitting to deal with irregular expenditure was in November 2019.

The quality of performance information remains a concern, with management failing to implement the necessary preventative controls linked to service delivery reporting. Most municipalities (56%) had material findings on their performance reports, including Buffalo City, which did not have adequate systems to report on the common indicators determined for metros by the National Treasury.

Although the province was plagued by droughts over the five-year term, it did not respond to this with the necessary urgency. The provision of water services rests with the two metros and five district municipalities, as well the seven local municipalities in the Sarah Baartman district. According to their records, these water service providers produced 476 million kilolitres of water compared to 464 million kilolitres in the previous year, but most of them could not reliably report on their performance for water service delivery. Municipalities also did not adequately maintain their ageing infrastructure, spending only 1% of their total expenditure on repairs and maintenance – far less than the norm of 8%. In OR Tambo, we identified water infrastructure projects that were not functioning, even though they were reported as complete in the annual performance report. Nelson Mandela Bay did not set any indicators in its service delivery and budget implementation plan for key projects to address

the continuing drought and water shortages. Alfred Nzo, Dr Beyers Naudé and Ndlambe were the only municipalities to report that they had achieved all of their water service delivery targets. The water service providers incurred water losses of R546 million in 2020-21, putting further pressure on water delivery, with 10 of the 14 water service providers incurring water losses above the norm of 30%.

The premier's office, the provincial cooperative governance and traditional affairs department and the provincial treasury collaborated on a number of initiatives to help local government build capacity, improve administrative and financial management, and monitor and report on performance. However, these initiatives did not yield the desired results, as municipalities did not cooperate with these support departments and were slow to implement their recommendations. Interventions by the provincial government at Makana, Enoch Mgijima and Amathole have not yielded any noticeable progress.

Through the material irregularity process, management has shown that municipalities can deal appropriately with irregularities. We observed improvements in internal controls, responsible officials being identified, disciplinary processes being initiated, and criminal investigations being referred to public bodies where there were elements of theft or fraud.

Provincial **leadership must take swift action to strengthen the control environment and instil accountability** to ensure that objectives within the province are met. In this vein, the premier has committed to ensure that political appointees have the necessary qualifications for their positions and not just political standing; that accountability is taken more seriously, with a greater focus on addressing underperformance, poor financial reporting and irregular expenditure; and that focused attention is given to disclaimed audit opinions, saying it is unacceptable for a municipality to be unable to account for its finances. The provincial treasury has committed to identifying skills gaps at municipalities and providing assistance where necessary, particularly when it comes to preparing financial statements. The provincial treasury will also continue to assist with compiling audit improvement plans and monitoring their implementation.