



The audit outcomes of the province regressed over the term of the previous administration. During the five-year period, the province did not achieve any clean audits. **Inaction by political and administrative leadership continued to be a deliberate obstruction to municipalities' effective functioning.** The provincial leadership should be very concerned about this state of affairs.

Municipalities did not have the discipline to submit their financial statements by the legislated date. In 2020-21, only 52% of municipalities submitted their financial statements on time, compared to 80% in 2016-17. By the date of this report, the audits of seven municipalities had not been completed as a result of the late or non-submission of financial statements. We escalated the non-submission to the relevant councils and the provincial leadership, but their response was ineffective. We notified the responsible accounting officers and authority that the non-submission of financial statements constitutes a material irregularity, as delays in the accountability processes are causing substantial harm to these municipalities. The lack of transparency for the finances and performance of these auditees should not be tolerated by councils, provincial leadership or oversight.

Poor financial management disciplines and in-year financial reporting processes meant that none of the municipalities could prepare credible financial statements in 2020-21. They continued outsourcing their responsibility by appointing consultants after year-end to prepare the financial statements and to construct and correct the underlying information. A total of R254 million had been spent on consultants since 2016-17. The reliance on the audit process to identify errors in the poor-quality financial statements submitted for auditing also continued. All auditees needed to make significant adjustments to correct material errors in the figures presented. If this had not

been allowed, another seven auditees (41%) would have received qualified audit opinions.

Four municipalities have a history of disclaimed opinions and their 2020-21 financial statements were not submitted or only recently submitted for auditing. When a municipality receives a disclaimed opinion, it means that we could not determine if public funds were appropriately accounted for due to a lack of adequate record keeping and credible financial reporting. This state of affairs has systematically destroyed these institutions, contributing to their poor financial health and negatively affecting their ability to deliver basic services. We issued material irregularity notifications to the applicable municipal managers based on the substantial harm caused to these municipalities.

We performed additional audit work on the infrastructure and payment profiles of Masilonyana, Maluti-A-Phofung and Tokologo. We determined that only Masilonyana had a plan and budget for the routine maintenance of infrastructure assets, while Maluti-A-Phofung and Tokologo had no plan to ensure that their infrastructure assets were properly maintained. The municipalities were not fulfilling their service delivery mandates. For example, all seven wastewater treatment works at Maluti-A-Phofung collapsed and the plants were not operational due to a combination of poor management, theft and vandalism. This resulted in raw sewage being discharged into the environment. We issued notifications of material irregularities for four of these plants due to the likely substantial harm to the

public. In addition, our data analytics revealed that these municipalities were exposed to the risk of not being able to detect fraudulent activities because they did not use unique identifiers for transactions in the bank statements and the general ledger.

Municipalities have gone backwards in meeting project deadlines for infrastructure projects. In 2016-17, only 10% did not meet project deadlines, but this had increased to 60% in 2020-21. For example, at Metsimaholo, the project for installing 4 000 sewer connections was delayed by almost two years due to poor planning. During the course of the project, additional houses needing sewer connections were also identified and additional time was needed for repairs.

Most municipalities struggled to perform preventative maintenance and safeguard their infrastructure assets, because they spent only 1% of their infrastructure value on repairs and maintenance, compared to the norm of 8%. Repairs were only done after assets had broken down. For example, a wastewater treatment plant that was earmarked to be decommissioned in Moqhaka continued to be used while design challenges on the new plant were being addressed. Due to the lack of maintenance over a number of years, the plant was not functioning effectively, resulting in sewage spillage that contaminated the Vals River.

Financial health continued to deteriorate across the province. Eleven auditees (73%) disclosed (or should have disclosed) a material uncertainty whether they would be able to meet their financial obligations as they became due. The debt of these municipalities exceeded what they can convert to cash to pay for it by R8,69 billion (2019: R7,41 billion). The amounts they owed to Eskom and the water boards continued to increase, reaching R12,45 billion (2019: R10,52 billion). Unmetered consumption, theft and a lack of maintenance resulted in average water losses of 49% and electricity distribution losses of 20%.

On 1 January 2020, the provincial executive intervened at Mangaung by imposing, and assuming responsibility for, a recovery plan that aimed to secure the metro's ability to provide basic services and meet its financial commitments. The National Treasury

withheld conditional grant funding of R429,02 million due to underspending that resulted from delays in completing grant-funded projects. This placed further strain on the metro's financial health and also had a negative impact on service delivery. The metro spent less than 2% of its infrastructure budget on repairs and maintenance, resulting in infrastructure such as roads and water networks further deteriorating. Service delivery protests increased as residents grew increasingly dissatisfied with pothole-riddled roads, having to go for days without water, and refuse sometimes not being collected for weeks. Although the metro held public participation sessions where the needs of the community were received and planned for, many of the planned targets were not achieved because they were not prioritised and/or because of a lack of funding. Since projects were not completed, the communities' needs were not addressed, which negatively affected their lives.

We continued to identify and report material findings on compliance with legislation at all auditees, including in the area of procurement and contract management. Irregular expenditure remained high – the closing balance increased from R7,63 billion to R9,18 billion because the municipal public accounts committees did not perform timeous investigations. The lack of consequences has created a culture of impunity and a complete disregard for the rule of law at all levels of municipal officials.

In a province where there is such dire need for service delivery, continued waste, disregard for legislation and a lack of consequences are unacceptable. Every rand spent is a precious resource that should be used wisely.

We notified municipal managers of 24 material irregularities. Material irregularities issued for late payments to Eskom resulted in the affected municipalities negotiating payment plans, as well as increased scrutiny of accounts received to ensure that they were accurately billed, significantly reducing the amount of interest incurred. Municipalities also took action where late payments were made to the South African Revenue Service for pay-as-you-earn deductions. Although most municipal managers are taking the material irregularity process seriously, in some

cases they were slow to implement the planned actions. This led to one material irregularity being referred to a public body for investigation. Intervention and council oversight are vital to ensure that these material irregularities are addressed and do not recur.

Urgent action to strengthen controls is required to achieve the desired outcome. All role players should be dedicated to rebuilding strong and credible municipalities with high levels of transparency, integrity and accountability. The provincial treasury, the MEC for local government and the provincial cooperative governance and traditional affairs department should intensify interventions to support and strengthen the capacity of municipalities. The MEC must also

strengthen the processes of compiling MFMA section 131 and MSA section 47 reports. These reports were not effective as they did not determine whether municipalities had adequately addressed all the findings reported in the audit report or proposed remedial action to address the findings.

The incoming councils should set the correct tone at the top. They have the opportunity to deal with years of impunity and lack of consequences and to champion improved audit outcomes. They should ensure that there is stability in administrative leadership vacancies are filled, and officials are capacitated to perform their duties. This will ensure service delivery and earn the trust of their communities.