



In 2016-17, we reported on the stagnant audit outcomes in the province, with most municipalities receiving unqualified opinions with findings and only Midvaal securing a clean audit. We previously also highlighted that despite pockets of improvement, inadequate monitoring resulted in stagnant outcomes and increasing levels of unauthorised, irregular, and fruitless and wasteful expenditure. **Effective monitoring of preventative controls is key for favourable audit outcomes.** Therefore, we emphasised that auditees need to implement sound internal controls and that oversight structures need to hold municipal managers accountable for addressing the stagnant audit outcomes and for implementing consequences promptly.

In the first two years of the previous administration's term, municipalities produced good-quality financial statements and Gauteng was the only province without negative financial outcomes. However, over the past three years we have seen a concerning emergence of qualifications. In 2020-21, Rand West City received a qualified opinion for the second consecutive year, while Merafong City did not submit financial statements by the legislated date and regressed to an adverse opinion. It is commendable that the City of Ekurhuleni sustained a clean audit outcome for the past two years, and Midvaal for the past eight, as this indicates sound governance practices and effective preventative controls.

The province's service delivery model is unique, with a number of specialised municipal entities responsible for a significant portion of the province's municipal expenditure and service delivery programmes. While the four largest entities by budget allocation, namely City Power Johannesburg, Johannesburg Water, Pikitup Johannesburg and Johannesburg Roads Agency, sustained their unqualified audit opinions with findings, it is concerning that the audit outcomes of six other entities had regressed since 2016-17.

Despite the province having access to an abundance of skilled personnel, especially at metro level, eight

municipalities continued to rely on the audit process to produce quality financial statements. This negatively affected the ability of municipal managers to make key service delivery decisions in good time – to the detriment of citizens. In addition, since 2016-17, the province had spent R919,11 million on consultants for financial reporting. Most of this amount was spent by the City of Tshwane to produce a compliant fixed asset register that would allow the metro to manage all of its assets properly, which is key to service delivery. However, material corrections had to be made to the work of consultants in the submitted financial statements. Municipalities need to ensure that they do not waste their limited funds on consultants without deriving benefits, including adequate skills transfer from consultants to officials.

As part of their service delivery objectives, municipalities engaged residents through public participation sessions; however, they did not ensure that they addressed all service delivery concerns in their service delivery and budget implementation plans. Only the City of Ekurhuleni fully implemented the common performance indicators determined by the National Treasury. Municipalities also did not achieve all of the targets set, which negatively affected service delivery to residents. Despite ongoing reforms, eight municipalities did not publish credible performance reports, which

negatively affected the ability of both municipalities and residents to properly assess services committed to by the administration.

We remain concerned about non-compliance with legislation in the province, with little improvement year-on-year. Consequently, the closing balances of unauthorised, irregular, and fruitless and wasteful expenditure continued to increase, mainly due to additional amounts being incurred and the previous balances not being investigated promptly and resolved. The irregular expenditure incurred remained high, with the City of Johannesburg and the City of Tshwane incurring a combined R3,82 billion (85% of the total at municipal level). City Power, a municipal entity of the City of Johannesburg, incurred R1,03 billion (50% of the total at municipal entity level). These amounts represented 5%, 19% and 20% of these auditees' adjusted total capital and operational budgets (excluding expenditure on salaries and bulk purchases), respectively. Irregular expenditure increased the risk of funds meant for service delivery being misused. We again call on oversight structures to ensure that they promote a culture of accountability and consequences by fast-tracking investigations into unauthorised, irregular, and fruitless and wasteful expenditure, and holding those who are liable to account.

The financial health of all municipalities remained concerning, as revenue collection remained poor despite post-covid-19 recovery measures being implemented. In recent years, the three metros, which are responsible for 88% (R120,54 billion) of the provincial local government budget and service approximately 4,82 million households, have used listed bonds as part of their funding model. However, these metros were recently downgraded by ratings agencies, which will make it more difficult and costly for them to obtain the capital they need for key infrastructure projects.

The poor financial position of some municipalities also contributed to low levels of spending on the maintenance of infrastructure assets (below the norm of 8%). Most of these assets were nearing or exceeding their useful lives, which negatively affected the quality

of services received by citizens. Some municipalities did not spend their full grant allocations despite having only limited funds at their disposal. In some instances, they had to surrender funds to the National Treasury, which contributed to performance targets not being achieved and much-needed services not being delivered to citizens. Considering their poor financial position, municipalities should ensure that they spend their limited funds efficiently. They also need to eliminate losses from fruitless and wasteful expenditure, which reached the billion rand mark, to remain on track with rolling out critical services and infrastructure, as well as maintaining key service delivery assets.

We issued 15 material irregularities linked to various instances of non-compliance in the province, with an estimated financial loss of R390,14 million. We are beginning to see the impact of our material irregularity process, as most municipal managers have implemented corrective steps and initiated disciplinary processes, and are in the process of recovering financial losses. However, at the City of Tshwane, we included three recommendations in the audit report due to the slow progress made on committed actions. We also issued one material irregularity notification based on harm to the public due to the poor quality of water supplied to Hammanskraal residents.

Provincial leadership needs to **embed preventative control monitoring and timeous consequence management to improve audit outcomes**. We urge the incoming councils and municipal public accounts committees to hold municipal managers accountable so that funds are used to enable quality basic service delivery. The provincial legislature and portfolio committees should closely monitor any remedial action required for underperforming municipalities based on the MFMA section 131 and MSA section 47 reports of the MEC for local government.

Going forward, we will closely track the commitments made by key provincial leaders. This includes the premier's commitments to provide greater oversight of municipalities through the provincial cooperative governance and local government department and the

provincial treasury, to establish a war room focusing on improving municipal outcomes, and to use the premier's coordinating council to drive consequence management and accountability with the goal of having a sustained impact on service delivery. The

provincial treasury has also committed to conducting internal audit reviews at municipalities, training supply chain management officials and municipal public accounts committee members, and intensifying support to struggling municipalities.