



The audit outcomes reflect a net regression over the term of the previous administration. This was partly due to inadequate leadership action in responding to key risk areas, political infighting and instability in key positions. **The lack of enforcement of accountability and consequence management by leadership also persisted amid some improvements in audit outcomes since the previous year.**

In 2020-21, eThekweni, which accounted for 53% (R47 billion) of the local government budget in the province, retained its unqualified opinion with findings. To improve its audit outcome, the metro should focus on strengthening its monitoring and review of procurement and consequence management. Four district municipalities (Amajuba, Ugu, uMzinyathi and Uthukela) received a qualified opinion and one (uMkhanyakude) received a disclaimed opinion. District municipalities with qualified opinions continued to struggle with basic financial management. Political instability, inexperienced officials and system-related challenges led to the poor opinions at the three disclaimed municipalities, all of which were under administration. Inkosi Langalibalele, which was formed when uMtshezi and Imbabazane merged in 2016-17, was again disclaimed in 2020-21. The amalgamation created significant challenges with the credibility of the financial records, which the municipality is still grappling with despite using consultants and having an administrator in place since 2016-17. Although three municipalities obtained a clean audit opinion, this did not always translate into effective and efficient service delivery, as they did not achieve all of their key service delivery targets. Sustainably improving provincial audit outcomes will require a committed and stable political and administrative leadership with experienced and competent officials who are actively involved in creating a strong control environment.

Despite adequately capacitated and skilled finance units and support from consultants and coordinating departments, the consistent poor quality of financial statements remains concerning. The quality of the submitted financial statements regressed over the five-year period. Although municipalities paid R698 million to financial reporting consultants over this period, there was only limited improvement in control environments and audit outcomes. Management did not adequately implement and monitor action plans to improve the control environment. In addition, the lack of standardised processes, poor record management and inadequate review and reconciliation of financial reports persisted. Consultants should only be used in favourable control environments, with adequate support being provided and skills being transferred to ensure that the limited public funds are spent effectively and responsibly.

Poor financial management practices, such as ineffective revenue and debt collection processes, continued to plague municipalities. This had a negative effect on service delivery, as municipalities struggled to pay outstanding creditors on time. The accounts of Eskom and the water boards were R1,85 billion in arrears. Municipalities also struggled to practise sound financial management and budget monitoring, as 15% of them reported deficits for the year. The metro has plans to secure new borrowings by issuing R1 billion in bonds, which will help to improve its liquidity and fund service delivery initiatives.

The reliability of performance reporting improved over the five-year term, but remained a challenge at some municipalities. Unreliable performance reporting does not provide a true reflection of service delivery and may contribute to service delivery protests. For example, uMkhanyakude had material findings on its annual performance report and was plagued by going concern challenges, which affected its ability to provide services. This, in turn, resulted in community protests. Municipalities must improve their record-keeping practices and the efficiency of their systems and processes for collating and reporting performance information to ensure that the achievements they report for key service delivery infrastructure projects are credible. While most of the province's infrastructure funding was spent, poor project management resulted in quality defects on housing, water, sanitation and other projects. Municipalities should diligently monitor key infrastructure projects to ensure that resources are used economically and effectively to help the economy grow. The current state of disaster due to the recent floods in the province is likely to exacerbate the challenges municipalities face in completing planned infrastructure projects.

Most municipalities (89%) still struggled to implement preventative controls over supply chain management processes, which contributed to the high levels of irregular expenditure. The closing balance of irregular expenditure incurred more than doubled over the term of the previous administration, from R7,19 billion in 2016-17 to R14,45 billion in 2020-21. Consequences were not implemented effectively, which created a culture of tolerance for transgressions as most municipalities did not deal sufficiently with the increasing irregular expenditure. Councils investigated and wrote off 17% of the prior year closing balance, with most of these investigations having concluded that no official was liable. To reduce irregular expenditure, municipalities need to implement and monitor effective and standardised processes, including procurement checklists, to ensure that officials adhere to supply

chain management legislation. The new administration should focus on enabling council committees to ensure robust and timeous investigations that will result in consequences being enforced against responsible officials.

We issued notifications for material irregularities relating to unfair procurement processes, payment for goods or services not received or not used, interest on late payments, revenue not billed, and assets not safeguarded. Most of the municipal managers are taking appropriate action in response to the notifications, but the timeliness of these actions could be improved.

The support provided by the coordinating departments helped to improve the control environments at some municipalities. We urge these departments to collaborate consistently with management; conduct proactive risk assessments; and perform a thorough diagnostic analysis of audit outcomes, quality of action plans and corrective action taken. This will ensure the greatest impact on audit outcomes. The provincial leadership has committed to implementing our recommendations and insights by working closely with municipalities, especially those with disclaimed or qualified audit opinions. Leadership will direct financial experts assigned to municipalities towards key areas reported on and will address the adequacy of resources at municipalities to reduce the load on allocated administrators. The speaker of the provincial legislature also committed to collaborate with all role players through internal working sessions to improve oversight and accountability.

**Preventative controls and consequence management need to be further strengthened to trigger sustainable audit outcomes.** Leadership and management must also pay closer attention to service delivery – and to transparency in reporting on service delivery – to ensure that funds are used efficiently to maximise service delivery and ultimately improve the lived reality of citizens.