



During the term of the previous administration, we saw a notable improvement in audit outcomes, especially in the adverse and disclaimed opinions of municipalities such as Mogalakwena, Thabazimbi and Modimolle-Mookgophong. As we highlighted in our 2019-20 general report, we remained concerned about how sustainable this was, as the **improvements were driven by an overreliance on consultants and audit adjustments with little to no improvements in the control environment.**

Municipalities spent more than R971 million on consultants for financial reporting over the five-year period. This included R245 million in 2020-21, despite municipalities employing officials who should have performed some of the functions. These funds could have been spent to help individuals in key positions obtain the required skills, improve the control environment, and address service delivery challenges. Despite the excessive use of consultants, we identified material errors in the financial statements submitted for auditing by all municipalities except Waterberg. These errors were due to deficiencies in internal control, unreliable information supplied to consultants, and inadequate controls to monitor consultants' deliverables.

Municipalities continued to contravene legislation and we reported material non-compliance at most municipalities. The most common findings related to material misstatements in the financial statements; unauthorised, irregular, and fruitless and wasteful expenditure; and procurement and contract management. Municipalities incurred R1,8 billion in irregular expenditure in 2020-21, mostly resulting from non-compliance with supply chain management legislation. Municipalities also did not sufficiently investigate and resolve 83% (R5 billion) of the prior year irregular expenditure closing balance of R6 billion, which thus increased to R9 billion. This excessive increase in irregular expenditure heightens the risk of funds intended for service delivery being

misused. Oversight structures must set a strong tone and cultivate a culture of holding officials accountable for transgressions.

The province's financial health continued to deteriorate despite our consistent calls for the provincial leadership to attend to the crisis. As a result, we identified five municipalities (Ba-Phalaborwa, Musina, Mopani, Thabazimbi and Modimolle-Mookgophong) as being in a vulnerable financial position, with the latter three having been in this state for five years. This indicates that the provincial interventions deployed at these municipalities were ineffective. The municipalities could not recover money from consumers for services rendered. Together with ineffective budgetary management processes, this led to delays in paying creditors. This state of affairs can be seen in the large outstanding debt amount of R3,2 billion, which includes interest owed to Eskom and the water boards; the average creditor payment period of 166 days; and the low spending on infrastructure maintenance and resultant dilapidated infrastructure assets and poor service delivery. In addition to the substantial amount of irregular expenditure, municipalities incurred R3,6 billion in unauthorised expenditure – a significant increase from the previous year and an indication of inadequate budgetary processes. To curb this deterioration in financial health, we urge the provincial treasury and the provincial cooperative governance, human settlements and traditional affairs department to

help municipalities improve their budget and cash flow management processes, and to develop and implement strategies that will improve revenue and debt collection.

We issued 10 material irregularities with an estimated financial loss of R1,2 billion. Seven of these material irregularities related to prohibited investments made, one to revenue not billed, one to payments for work not done, and one to non-qualifying customers receiving free basic electricity. Overall, we find it encouraging that municipal managers were responsive and took appropriate action to ensure that no further financial losses were suffered, including enhancing the internal control environment, investigating the irregularities and holding the responsible officials accountable. Municipalities also updated their investment policies to prevent prohibited investments from recurring.

It is concerning that all municipalities except Waterberg and Capricorn had to make adjustments to the performance reports they submitted for auditing. These misstatements occurred because corrective action was not taken to address identified control weaknesses and reviews were not adequate, which resulted in differences between the performance reported and the relevant supporting documentation. If municipalities cannot account for their performance, we cannot conclude that services are being delivered consistently and at the required quality. Without relevant and measurable performance plans, municipalities may be unable to appropriately address the key needs of the citizens they serve.

In a province facing water service delivery challenges, it is concerning to note delays in projects such as upgrading the Vondo water treatment works and constructing the Phiphidi reservoir in the Vhembe district. Both of these projects were planned to have been completed by July 2020 and the delays have denied citizens their basic right to a fresh water supply. We also noted that the original scope of work increased significantly, which could lead to irregular expenditure in future. Ultimately, the impact of these delays is a continued shortage of infrastructure, delayed services to

citizens, and the deterioration of existing infrastructure. Leadership needs to increase oversight of project management and implement consequences for those responsible for failings.

To improve the overall control environment at municipalities, leadership must set the tone for sound financial disciplines and must strengthen detective and preventative controls. Municipal public accounts committees and councils should lead by example and ensure that there are consequences for accountability failures. The provincial treasury and provincial cooperative governance department must help municipalities to develop appropriate action plans that address the root causes identified through our audits. Municipalities must also fill key vacancies and capacitate their finance units through skills transfer and training programmes, with the support of the premier's office, provincial treasury and provincial cooperative governance department. Municipalities should embrace the support provided and increase the skills of their own personnel in the process. To improve the quality of the information submitted for auditing, municipal managers and the provincial treasury must drive a process of preparing credible in-year financial statements and performance reports.

#### **Capacitation of officials in key positions is required for sustainable improvements.**

We are therefore encouraged by the premier's commitment that the provincial treasury will help municipalities build capacity within their finance units, as well as his instruction to municipalities to reduce their consultant spending by 60% and his call for municipalities to implement consequences for wrongdoing immediately. We also acknowledge the commitments made by the provincial legislature and provincial cooperative governance department to capacitate councillors through training programmes so that they can better understand their roles as an oversight body. We call upon the provincial leadership to closely monitor the implementation of these commitments, to ensure a positive impact on both the state of local government and the lives of the people of Limpopo.