



Overall, the province continued on an upward trajectory, with a year-on-year improvement in audit outcomes. From 2016-17, the previous administration continued to build on the foundation laid by its predecessors. The **firm leadership tone and strong control environment contributed to positive outcomes** and the new administration should continue in this vein to sustain the positive outcomes and drive improved service delivery. Audit committees and municipal public accounts committees should continue providing oversight and governance to sustain the improvement, and the province should maintain focus on effective financial management disciplines to support the good financial health at most municipalities.

In 2020-21, 18 municipalities sustained their clean audit outcome, with seven of these remaining clean since the first year of the previous administration. All of the district municipalities except Garden Route sustained their clean audit outcome from the previous year, with Cape Winelands and West Coast having achieved this outcome for the past five years. The poor outcomes of some municipalities within the Central Karoo and parts of the Garden Route were due to instability in political and administrative leadership and an inability to attract and retain suitably skilled staff due to their geographic location.

These factors further led to the delayed completion of the Beaufort West, Kannaland and Laingsburg audits because their financial statements were submitted late (over the past four years, Kannaland and Laingsburg had submitted their financial statements late at least twice). All three of these municipalities received qualified opinions and had material findings on their performance reports. The reported performance was not supported by sufficient evidence and performance targets were changed without the required approval. The unreliability of performance information at these municipalities affected the delivery of services to communities, as decisions about targets and budgets were made based on information that was not credible.

Strong, institutionalised financial reporting disciplines were a hallmark of all the municipalities that received an unqualified opinion on their financial statements, with only Bitou and Prince Albert requiring material corrections to achieve this outcome. These municipalities were supported by capacitated and competent finance units under the direction of chief financial officers who had occupied the position for at least three years, enabling the required stability and direction. The support provided by the provincial treasury in the form of workshops and reviews also enhanced the quality of financial reporting. Consultants were appointed to assist with the financial reporting process at 25 municipalities at a cost of R32 million. Over the term of the previous administration, R161 million was spent on consultants and 20 municipalities made use of these services annually. Most municipalities used consultants for matters that were highly technical and required specialised skills.

Generally, the quality of performance reports was good; however, leadership (particularly at council level) needs to pay more attention to formulating and monitoring the implementation of indicators and targets that address the service delivery needs of all residents. Our audit visits to municipalities showed continuing service delivery challenges, particularly relating to informal households. This is because municipalities did not have adequate

systems and processes to accurately measure the number of informal households within their boundaries. The quality of service delivery was also not reported on; for example, municipalities reported on the number of taps installed but not whether the taps were actually working. The common set of indicators for metros (as determined by the National Treasury) was not fully implemented at the City of Cape Town due to a lack of systems and processes, with the achievement of some indicators and targets being set and reported as zero.

Irregular expenditure, which was incurred at 27 municipalities, decreased to R1,23 billion from R1,38 billion in the previous year. Non-compliance in the area of procurement caused almost all of the irregular expenditure and the material findings we raised on compliance. Municipalities should continue to focus on this area and develop detailed procurement plans to prevent findings, particularly those relating to deviations from competitive procurement processes. They should also continue investigating and dealing with irregular expenditure – the closing balance decreased from R2,66 billion in the previous year to R1,50 billion in the current year.

Over the term of the previous administration, the City of Cape Town regressed from a clean audit outcome to a financially unqualified opinion with findings on compliance with legislation relating to supply chain management and the prevention of irregular expenditure. The metro's outcome remained unchanged from 2018-19 to 2020-21. We commend the metro on the quality of its financial statements and performance report that were free from material misstatements. The metro spent R2,68 billion on repairing and maintaining of its assets (valued at R53 billion). At 5% of the value of the assets, the spending was below the norm of 8%. This resulted in the metro not meeting its spending performance target on repairing and maintaining of 95%, which will affect the long-term service delivery potential of these assets. The metro continued to face service delivery challenges and some community concerns were not incorporated into the integrated development plan. We saw instances where container toilets were in an unhygienic

condition and in need of maintenance because they were not being serviced at the required intervals. Additionally, final effluent at wastewater treatment plants did not comply with licence requirements; and the minimum limits for chloride, suspended solids and E-coli were significantly exceeded.

We issued two material irregularity notifications to the City of Cape Town – one for payments to service providers for goods and services not received, and one for paying external contractors for excessive standby hours because a needs analysis was not performed. Upon receiving the notifications, the municipal manager initiated a forensic investigation and is currently implementing recommendations.

To improve in the area of compliance and to prevent possible material irregularities, municipal managers and senior managers need to lead by example, cultivate a culture of compliance, and ensure that consequences for accountability failures are effected swiftly, bravely and consistently.

During a recent engagement, the premier committed to intensify support to municipalities with defective control environments and service delivery challenges. This will include considering and collaborating on strategic initiatives to address skills shortages as well as enhancing current support initiatives, particularly the municipal governance review and outlook, technical integrated municipal engagements, and a joint district and metropolitan approach. These initiatives cover the implementation of municipal strategic and operational plans, and their alignment to good governance practices; and the strengthening of coordination with the provincial treasury, local government and other partners in the accountability ecosystem so that service delivery and the lived experience of citizens are continuously focused on and improved. The MECs for finance and local government should look at strategic ways to improve revenue collection at municipalities and we encourage them to intervene and influence municipal leadership. **The intervention of coordinating ministries and leadership stability are encouraged to address unfavourable outcomes.**