



AUDITOR - GENERAL
SOUTH AFRICA

Buffalo City Metropolitan Municipality

Audit Outcomes 2023-24

29 January 2025





MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.



Five-year audit outcomes

	2023-24	2022-23	2021-22	2020-21	2019-20
Audit outcome					
Material findings - compliance with legislation	Yes	Yes	Yes	Yes	Yes
Material findings - performance report	Yes	Yes	Yes	Yes	Yes

Unqualified with findings Qualified

Financial statements – Qualified with findings

- **Material misstatements** were uncorrected for PPE, revenue and repairs and maintenance.

Financial reporting consultant costs

- R10,92m mainly for asset management

Performance planning, reporting and achievement

The performance management system and related controls were not maintained and were inadequately implemented for performance planning, monitoring, measurement, review, reporting and improvement processes, as required by the municipal planning and performance regulation 7(1). The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA. Only **62%** of key service delivery targets were achieved.

Compliance and irregular expenditure

- **Material non-compliance areas:** Material misstatements in submitted financial statements; expenditure management; asset management; consequence management; strategic planning and performance management; procurement and contract management; HR management; revenue management and environment management.
- **Irregular expenditure:** R1,32 billion incurred.

5 material irregularities – R96,72 m estimated financial loss (30 June 2024)

Pollution of water resources continues to occur despite interventions by management.

There is slow implementation to address the below-market rental of municipal properties.

Control measures to prevent vandalism and theft of the assets have been implemented however the sourcing of funding to complete construction is still in progress.

Two MIs were resolved as further financial loss of R92 million was prevented because these consumers are now being billed.

Financial planning and performance

Total budget R10,72 bn
OPEX R9,38 bn
CAPEX R1,34 bn

Unfunded budget	No
Budget for capital expenditure below norm (10%-20%)	6%
Budget for maintenance below norm (8%)	2%
Unauthorised expenditure – overspending	R403 m

Credit rating **GCR | A | Negative**
(30 June 2024)

Going concern uncertainty	No
Debt collection ratio	151 days
Eskom & water boards debt in arrears	R0
Water losses (Norm 15% - 30%)	37,74% (R147,96 m)
Fruitless and wasteful expenditure	R0,69 m

Status of key positions – 30 June 2024



Mayor: Mayor in position

Municipal manager: In the position for 12 months

Chief financial officer: In the position for 56 months

Infrastructure projects & environmental management

- No material underspending of grants.
- Infrastructure project findings: Delayed projects and project management issues impacting costing and quality.
- Environmental management: Material findings on WWTWs not having valid operating licenses and non-operational.

Accountability and consequences

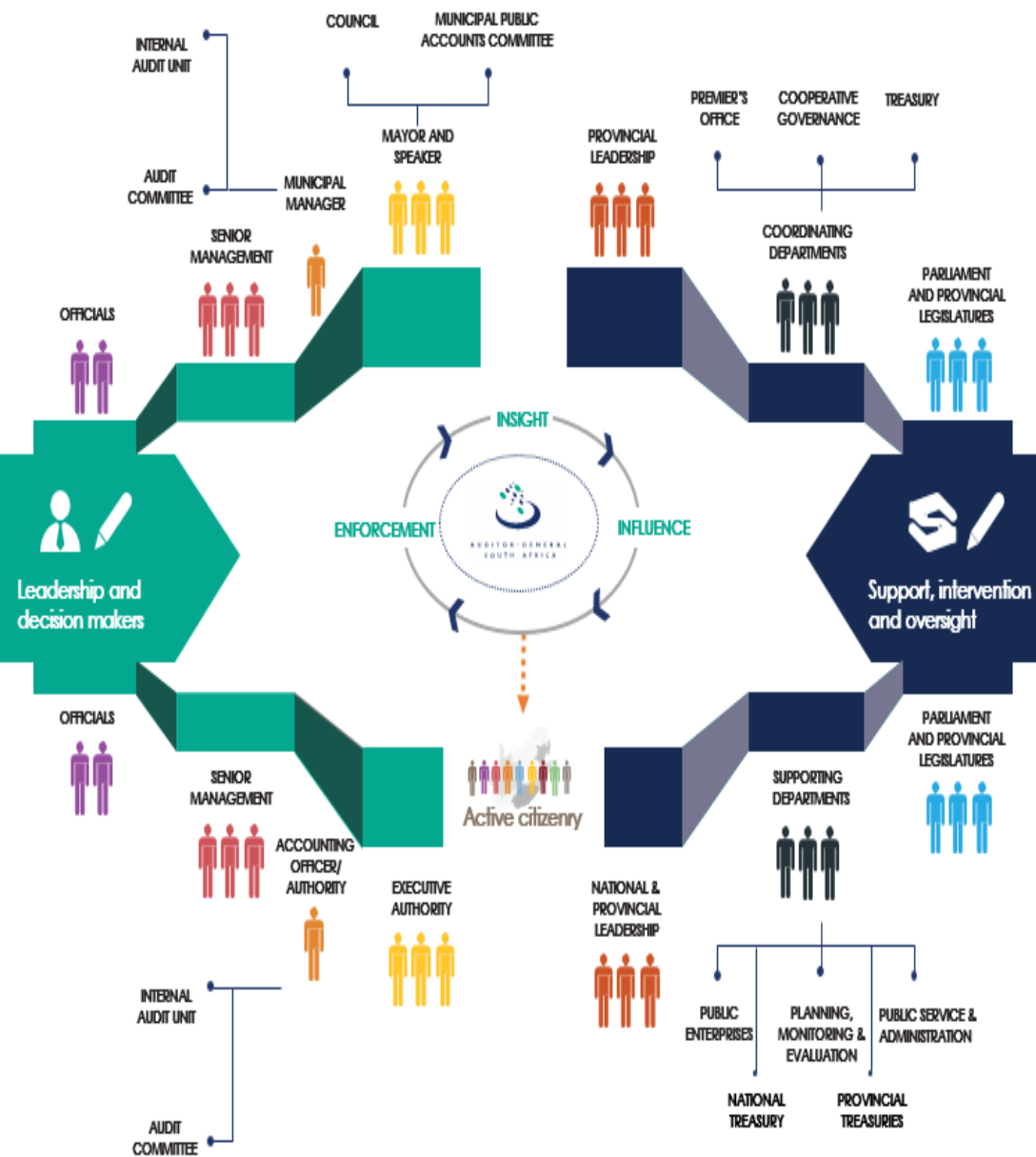
Expenditure	Incurred	Written off	Closing balance
Irregular	R1.32bn	R1.63bn	R10.56bn
Unauthorised	R403m	-	R403m

Non-compliance findings on consequence management

Irregular and fruitless and wasteful expenditure identified in prior year were not investigated to determine if a person was liable for the expenditure.

Key commitments

Improve coordination between directorates and ensure that irregular expenditure is reduced; MPACs to improve consequence management processes; Council to implement action plan on billing system and to ensure revenue collection, as well as be proactive in finding solutions to ageing infrastructure.



The metro's **poor financial management, weak financial health, and deteriorating infrastructure**, combined with its **inability to effectively plan, monitor, and report on performance**, highlight persistent weaknesses in critical municipal operations. These issues are not receiving the required attention, resulting in public frustration over inadequate service delivery, adverse socio-economic impacts, and ongoing challenges with providing essential services such as water, electricity, and road infrastructure. This further hinders economic development in the region.

The mayor's and MPAC's interventions in Revenue, Property, Plant, and Equipment and prevention of irregular expenditure failed to improve the audit outcomes. To improve governance and financial management, the mayor and MPAC needs stronger oversight, remedial actions, and accountability.

The Accounting Officer did not address all the internal control deficiencies, material findings, and non-compliance findings which indicates ineffective leadership controls.

The internal audit unit reviewed fixed assets and revenue billing processes, and identified findings in these areas indicating little progress had been made. The internal audit also reviewed performance reporting and identified significant findings which indicated that the control weaknesses had not ben addressed.

The audit committee's recommendations to management are not promptly addressed, limiting its effectiveness in providing assurance.

The findings and recommendations of **National Treasury** demonstrates a high level of correlation between financial management, service delivery and institutional challenges highlighted in our reports.



We reported that there were four cases under investigation by external organisations:

- **The first is in relation to an SIU investigation into councillors' qualifications at an institution of higher learning:** This was still in progress at the date of this report.
- **The second is an SIU investigation in relation to procurement irregularities in the electricity department:** Our audit of the bid process revealed the following:
 - *Unjustifiable Tender Validity Period Extension:* The extension of the tender validity period was not in compliance with the Construction Industry Development Board (CIDB) guideline of 12 weeks.
 - *Concerns with Bid Handling Procedures:* The bid register is compiled solely by Supply Chain Management (SCM) officials rather than being verified or completed by the bidders themselves. The bid register lacks safeguards to prevent manipulation, as bidders do not sign to verify the tendered amounts or details.
 - *Discrepancy in Tendered Amounts:* An inspection of the bid closing register for contract ED 420, dated 31 May 2022 (provision of logistics for an electrical store in Mdantsane), revealed discrepancies: The tendered amount per the bid closing register differed to the tendered amount per the bidding documents and award letter by approximately R1 million. A second bid register, also dated 31 May 2022, was later submitted, reflecting a different amount.

These findings highlight a significant control deficiency in the bid handling and closing process, compromising transparency, accuracy, and fairness.

- **The third case is being investigated by the Hawks and relates to an unlawful appointment of a legal firm through a deviation from normal procurement processes:** This was still in progress at the date of this report. Unjustifiable deviations are a concern at BCMM and this has resulted in non-compliance findings on SCM being reported.
- **A case pertaining to structures under COVID-19 was investigated by the SIU and has been finalised. The matter must still be referred to the Disciplinary Board of Council:** Our audit revealed that the expenditure for the COVID-19 project involving the Duncan Village Temporary Residential Units (TRU) exceeded the predetermined budget. Our audit noted that this project was delayed for 15 months and incurred fruitless & wasteful expenditures. These findings also had an impact on the Implementing Agent (Housing Development Agency).



Financial management controls

- Proper record keeping
- Daily and monthly controls
- In-year and year- end reporting
- Review and monitor compliance



Good Concerning Intervention required

Material misstatements on AFS reported

Property, Plant, and Equipment

The municipality lacked standard operating procedures for asset management transactions such as impairments, work-in-progress classification, and revaluation resulting in material misstatements. This absence undermines the ability to ensure consistent, accurate, and complete recognition in the financial statements.

Revenue for Sewerage Service charges

Material misstatements were reported due to slow progress in implementing the prior years' recommendations and the action plan for sewerage service charges. As a result, management was unable to review and rectify the complete population of sewerage pans within the affected financial year. This has also led to a loss of potential revenue that could not be billed to consumers. Daily and monthly processing and reconciliation disciplines have not been incorporated into the internal controls around sewerage (pans) resulting in billing errors and limitations.

Repairs and maintenance

Inaccurate monthly capital reconciliations were prepared. This resulted in material misstatements as the municipality recognised items as repairs when they should have been recorded as assets.

Impact: The lack of transparency in financial reporting could lead to management making decisions on inaccurate and unreliable figures. Further, the negative outcomes could contribute to a decline in public confidence in the City's management of public resources.

Significant internal control deficiencies – financial records and financial statements

Proper preparation of regular, accurate, and complete financial reports that are supported and evidenced by reliable information was not implemented. Controls over daily and monthly processing and reconciling of transactions were not implemented.

Key recommendations and responses – financial records and financial statements

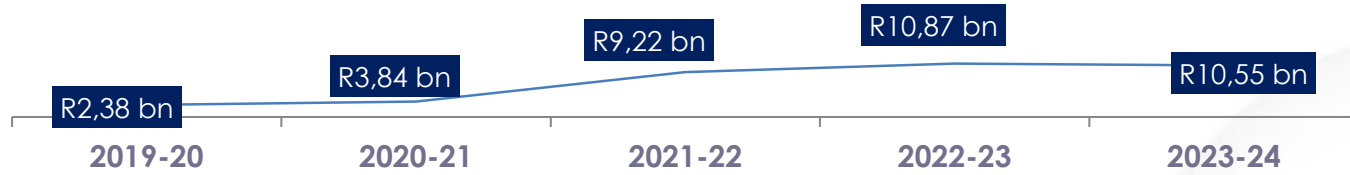
The population for sewerage pans must be verified by the Revenue Management department and corrected within the financial year. This should be audited by the internal audit unit and the audit committee should track the progress made (commitment made in 2020-21 – in progress).

The population for repairs and maintenance incurred must be verified by the Budget and Treasury Office and corrected within the financial year before the next financial year end. This should be audited by the internal audit unit and the audit committee should track the progress made (commitment made in 2023-24 – in progress).

The corporate asset management unit needs to establish and implement SOPs over asset management that are compliant with GRAP. In addition, the population of PPE must be verified by the Assets and Risk Management and Budget and Treasury Office and corrected within the financial year. This should be audited by the internal audit unit and the audit committee should track the progress made (commitment made in 2020-21 – in progress).



Irregular Expenditure Closing Balance



Overall observation

The closing balance of the irregular expenditure decreased from R10,87 billion from the previous year to R10,55 billion at the end of 2023-24. The movement is explained by BCMM incurring R,1 32 billion in irregular expenditure in the current year and council wrote off R1,63 billion.

What is the culture?

Some of the goods and services of a transaction value above R750 000 for competitive bids were procured without inviting competitive bids, as required by SCM Regulation 19(a).

Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1)

Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2).

Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM Regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act

What are the contributing root causes to the culture?

Consequence management procedures were not adequately implemented, as investigations were not started in a timely manner. Inadequate consequence management contributes to inadequate discipline by staff towards adhering to procurement legislation.

Who should do what and when to change the culture?

The executive authority and the accounting officer must set the right tone at the top by implementing appropriate guidelines to enforce compliance, training responsible staff members, and ensuring that all instances of irregular expenditure are investigated in a timely manner to allow for effective consequence management processes.

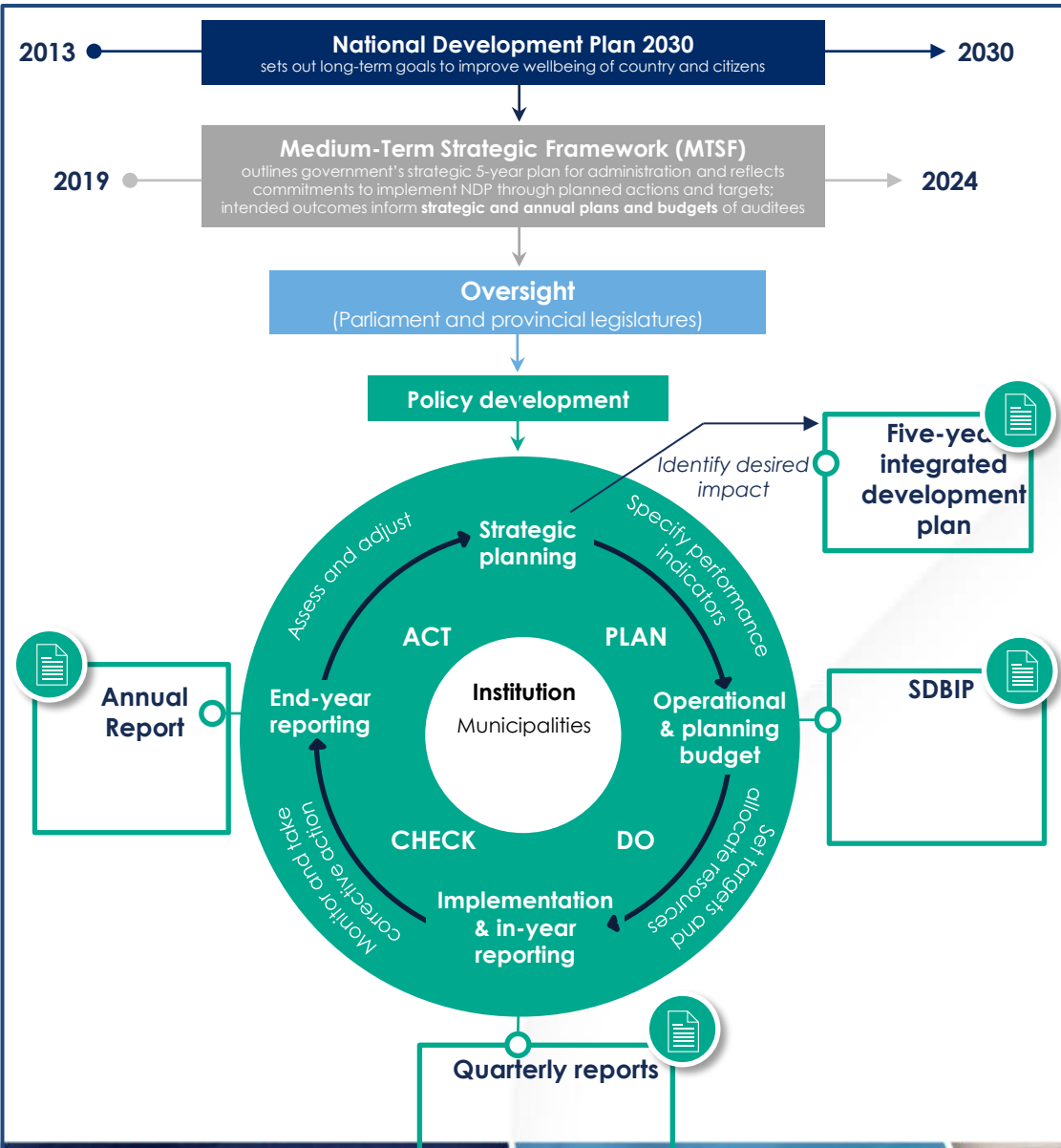
Impact of irregular expenditure incurred

Breach of five pillars of procurement – equitable, fair, cost-effective, transparent, and competitive.
Lack of consequence management creates an environment in which it is easy to commit and conceal improper or illegal conduct.



Performance planning and reporting

Planning, budgeting and reporting cycle of government



Planning and reporting for service delivery

We evaluated the **usefulness and reliability of the reported performance** information in accordance with the criteria developed from the performance management and reporting framework for the following Strategic Outcomes:

- Strategic Outcome 2: A Green City (unqualified - targets achieved 90.19%; budget spent 151.19%).
- Strategic Outcome 3: A Connected City (disclaimed - targets achieved 68.75%; budget spent 94.42%).
- Strategic Outcome 4: A Spatially Transformed City (unqualified - targets achieved 41.67%; budget spent 98.00%).
- Strategic Outcome 5: A Well-Governed City (disclaimed - targets achieved 61.11%; budget spent 113.33%).

Strategic Outcome 2: A Green City

Key service delivery indicators not achieved **Planned target** **Reported achievement**

Percentage of Air Quality (AQ) monitoring stations providing data over a reporting year.	75%	0%
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Strategic Outcome 4: A Spatially transformed City

Key service delivery indicators not achieved **Planned target** **Reported achievement**

Number of new sewer connections meeting minimum standards.	300	234
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Number of new water connections meeting minimum standards.	300	234
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Number of serviced sites.	643	197
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Findings: Planning for service delivery

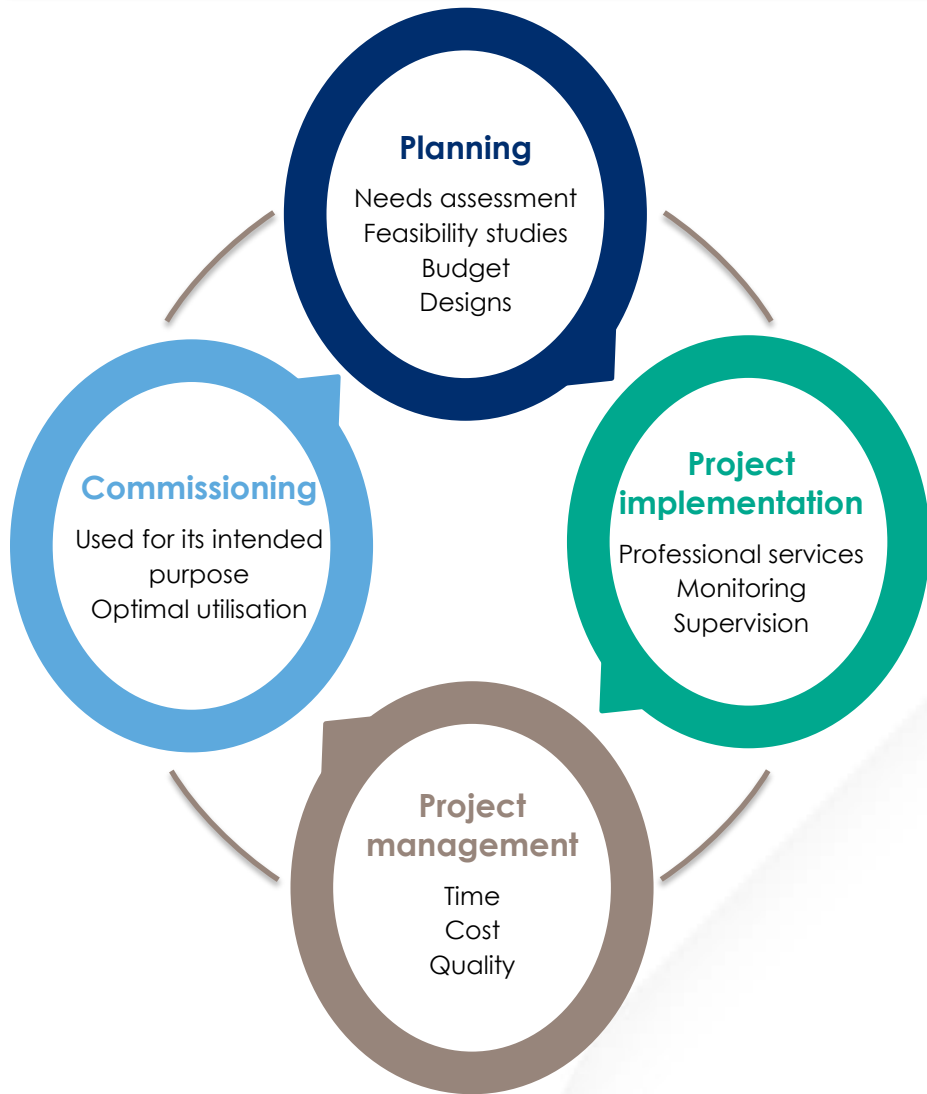
The performance management system and related controls were not maintained and were inadequately implemented for performance planning, monitoring, measurement, review, reporting and improvement processes, as required by municipal planning and performance management regulation 7(1).

Findings: Reporting

The strategic outcomes - **A Connected City and A Well Governed City strategic outcomes** had material findings reported. The standard operating procedures (SOPs) for implementing the performance policy framework were inadequate, lacking clarity on input information, processing, and output requirements. Some indicators were inaccurately reported, not all had SOPs, and records management and review processes were insufficient. Certain targets were underachieved despite full budget utilisation. Additionally, the performance framework and policy remain unapproved by the council."

Impact

- The information provided in the performance reports is not reliable enough for the council, the public, and other stakeholders to effectively assess the municipality's performance.
- The municipality's failure to accurately report on performance targets highlights major flaws in report preparation, hindering monitoring and corrective actions and contributing to missed targets and unreliable reporting.
- The lack of credible data and information severely limits the metro's ability to plan effectively for service delivery to address emerging challenges, and to make informed decisions. Strengthening data credibility and reporting processes is critical to improving service delivery and accountability.



Key projects

Zwelitsha WWTW plant	Umzonyana WTW (Buffalo River Pump station)
<p>The main objective of the project was to amalgamate the four works into one regional works: namely Bhisho WWTW, Schornville WWTW, Zwelitsha WWTW and Breidbach. The contract was terminated in November 2021 due to non-payment by the BCMM. The contract value was R386,89 million. During the site visit on 15 October there was no activity.</p> <p>The following issues were identified:</p> <ul style="list-style-type: none"> i. The Certificate of Completion for Civil Works was issued on 30 November 2021, despite some listed works remaining unfinished. i. Mechanical equipment installed in 2021 remains unused, risking expiry of warranties risk of expiry of guarantees and warranties. ii. Installed machinery and equipment were vandalized and cables were stolen. iii. The wastewater treatment site and grounds were poorly maintained. 	<ul style="list-style-type: none"> ▪ The project is for the replacement of delivery cross connection valves on the pumping main at the Buffalo River Pump Station (BRPS) and the associated pipework. ▪ The project commenced in August 2023 to be completed in June 2024. During the audit in October 2024 the project was still in progress. The contract value was R8,7 million while total expenditure was R 7,2 million. <p>The following issues were identified:</p> <ul style="list-style-type: none"> i. Site progress was behind schedule: Main Line 01, planned for 19 October 2023 to 20 September 2024, had not started as of the 15 October 2024 site visit. ii. Pumping Main Line 02 was planned for 29 November 2023 to 7 October 2024, but as of 15 October 2024, only the upstream main line was refurbished iii. The discharge side valve on Line 2 was leaking.

Water projects to affected communities are significantly delayed and water tanker suppliers are being utilised for pro-longed periods of time. Certain contractors are being contracted for prolonged periods and are unduly benefiting financially from these contracts.



Infrastructure delivery: Water World Project (WWP)

The Water World project aimed to enhance tourism by creating a unique water park for BCMM and visitors, with facilities such as new entrances, braai areas, trade stalls, and swimming pools. Initially set for completion in August 2021 with an R103.11 million contract, the project was halted on 20 April 2023 due to disputes.

East London Water- World Project Findings

The project incurred further delays and penalties was not charged - BCMM failed to impose R2.28 million in penalties on the contractor for delays beyond the revised completion date.

Poor Project Contract Management - Management took over a year to terminate the contractor after issuing a default notice on 14 February 2022. The contractor was terminated in April 2023 after abandoning the site. The 18-month project is now delayed by 38 months.

Remedial work to be carried out - No action plan was submitted for remedial works before the contractor abandoned the site on 3 April 2023 and was officially terminated on 20 April 2023. Defects were not remedied, and no maintenance occurred, leaving overgrown vegetation prone to reptile habitation. Completion and remedial costs are estimated at R42.2 million

Performance guarantee not recalled from Contractor post abandonment of the site - Management indicated that they did not recall the performance guarantee post-termination. Management also indicated that the Performance Guarantee is valid till completion of the project. However, on verifying the validity of the guarantee, we confirmed that the guarantor does not appear on the database of the Authorised Financial Service Providers and is therefore not authorised to render any intermediary services in terms of the Financial Advisory and Intermediary Services Act, 2002 (FAIS) Act. Consequently, the portion of the insured amount of R10,31 million payable to the BCMM under the stipulated conditions could not be enforced and is therefore regarded as a financial loss.

Materials left on-site exposed to external conditions - During the 28 October 2024 site visit, auditors found material worth R810,698 unsecured after the contractor's termination on 20 April 2023, risking vandalism, damage, or theft, which could lead to extra procurement costs for BCMM.

In the year of award of the tender, the entire contract was deemed to be irregular and disclosed as such due to inadequate composition of the Bid Adjudication Committee

R44,26 million of fruitless and wasteful expenditure was incurred in the previous year but discovered in the current year and relates to poor project management during the construction of the Water World. Furthermore, the project has been impaired by R52,61 million.

Crescent Recreational Park, assigned to BCMDA under the Integrated Beachfront Programme, aims to uplift the local area and attract tourists. The contractor's contract increased from R87.77M to R104.88M, with R99.55M spent. The consultant's contract rose from R5.58M to R13.93M, with R12.19M spent. Initially set for completion on 12 August 2021, the project was completed on 28 June 2024.

Construction of Court Crescent project Findings

Poor Contract Management - No extension of time was approved beyond 30 September 2022. The R5.18M increase covering the extension of time aspect lacked transparency, with no documented reasons or breakdown, compromising contract requirements.

Overall Project delay – The Court Crescent project, initially planned for completion by 12 August 2021, was completed in sections and received its final certificate on 28 June 2024, resulting in a 34-month delay and the failure to meet the original timeline.

Under- utilization of facilities - A site visit was conducted by the audit team on 29 October 2024 and underutilization of the Court Crescent facilities was noted. Should the non-utilization of the facilities continue, this could result in expenditure being made in vain.

In the year of award of the tender, the entire contract was deemed to be irregular and disclosed as such due to inadequate composition of the Bid Adjudication Committee.

In the year under review, it was ascertained that the contract was not awarded to the bidder that scored the highest points.

R4,64 million of fruitless and wasteful expenditure was incurred in the previous year but discovered in the current year and relates to poor project management during the construction of the Court crescent project.



The audit of environmental management involved stakeholder interaction, review of documentation, and site visits at selected sites within the Nahoon Bulk Outfall Sewer (NBOS). The Nahoon River and Estuary was identified as a focus area due to bulk outfall sewer discrepancies, increased communal developments, and pollution. The audit followed up on the 2022 Communication of Audit Findings and Material Irregularity notifications, focusing on site management, operations, and compliance with wastewater effluent quality disposal standards. The Zwelitsha WWTW audit assessed treatment, infrastructure, and effluent quality disposal practices.

Findings

Site visited	Assessed	Main concern/s
Zwelitsha WWTWs	Concerning	Partially functional old Plant (vandalism, theft, delays with new Plant)
Schornville WWTWs	Critical	Non-functional (collapsed) – vandalism / theft, delays with new Plant
Bisho WWTWs	Concerning	Partially functional (vandalism, theft, delays with new Plant)
Breidbach WWTWs	Concerning	Partially functional (vandalism, theft, delays with new Plant)
Yellow Woods Wastewater Pump Station (other Phakamisa North & South)	Critical	Non-functional (collapsed) – vandalism / theft Confirmed as non-functional (vandalized)
Reeston Wastewater Pump Station	Critical	Non-functional – vandalism / theft (wastewater diverted)
Reeston WWTWs	Critical	Non-functional (No inflow from main pump station) – vandalism /theft
Second Creek Wastewater Pump Station (Pump Station + treatment)	Critical	Non-functional (blocked / overflows) – vandalism / theft All observed/confirmed as non-functional

Impact

Extreme impacts may cause serious ill health or even death of humans through diseases such as diarrhea (caused by polluted or contaminated water). Improper dischargers or disposers of substances into the river above the levels of acceptability (disposal quality standards) creates a liability to carry the cost to prevent such harm or for remedying the effects of pollution by, amongst others, rehabilitating the pollution or damage caused.

Cause

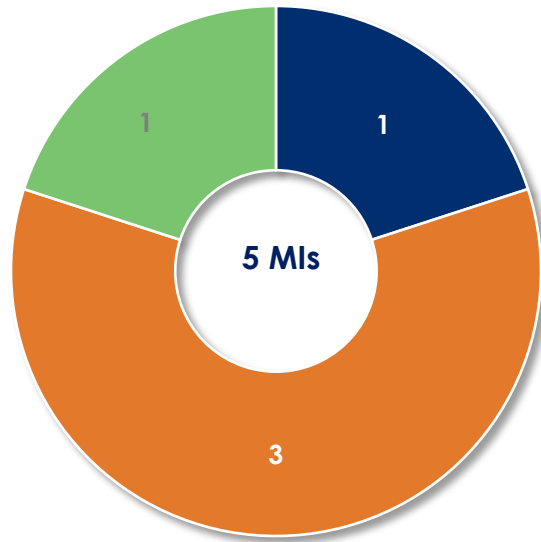
Poor and ineffective wastewater treatment and waste disposal services often contravene and fail to comply with legislative requirements for operation.

Only 3 of the 15 WWTWs are functional

12 do not have licences



Material irregularities



- Asset management
- Revenue management
- Harm to general public

MI DESCRIPTION

- Pollution of water resource not prevented.
- Loss of revenue from rental of municipal properties.
- Vandalism and theft of completed assets.
- Revenue for water services not calculated on a monthly basis – resolved.
- Revenue for refuse removal services not calculated on a monthly basis – resolved.

Observations from MI process

Pollution of water resource continue to re-occur despite interventions by management.

There is slow implementation of addressing the below market rental of municipal properties.

Adequate safeguards to prevent vandalism and theft of completed assets have been implemented however the funds to remedy and complete the asset still needs to be secured.

The two MIs resolved relating to revenue not billed have prevented further financial loss of R92 million as these consumers are now being billed.

Recommendations to oversight

Monitor the implementation of the remedial actions taken by the accounting officer to address the MIs.



Key root causes

Employees are not held accountable by senior management and Council for their performance and transgressions.

MPAC and Disciplinary Board are responsible for the investigation of irregular expenditure however they have not concluded this process and implemented consequence management.

There is ineffective oversight responsibility regarding compliance, financial and performance reporting. The slow progress in implementing prior year key audit recommendations has resulted in repeat findings.

There is ineffective implementation of the audit intervention plan to adequately address previous findings on financial statements, predetermined objectives and compliance with legislation.

There is inadequate document management and record-keeping systems to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Key recommendations

MPAC and the Disciplinary Board charged with the investigation of irregular expenditure should start the process timeously and effect consequence management where necessary.

The audit intervention plan must be implemented timeously, monitored by the City Manager and Executive Committee and implemented in line with what is to be actioned. This plan should be reviewed by the audit committee prior to it being implemented and Internal audit and the audit committee should monitor the progress made throughout the year.

Employees should be held accountable for their performance and transgressions by senior management and Council.

There should be an effective system of document management and record-keeping systems and oversight by City Manager, Executive Committee and the Audit Committee to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.



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Auditor-General South Africa

