



1 September 2020

## **FINANCIAL OVERVIEW OF MUNICIPALITIES UNDER SECTION 139 INTERVENTIONS PER PROVINCE**

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## DEFINITION OF TERMS

The Auditor General (A-G) uses certain concepts in explaining audit outcomes of departments, municipalities and entities. The following concepts are defined as follows:

**Financially unqualified** - the financial statements of the department or public entity are free of material errors or omissions.

**Financially unqualified audit opinion with findings** - the financial statements contain no material misstatement. Unless a clean audit outcome, findings have been raised on predetermined objectives and/ or compliance with laws and regulations.

The A-G makes a distinction between financially unqualified with findings and with no findings. The difference is that if a department is financially unqualified with findings although financial statements are free from errors, there are issues that have to be correct so that the department can be clean. Departments and entities can also receive modified audit opinions which means that financial statements have misstatements and there is no evidence to substantiate what is contained in the financial statements. Modified opinions refers to qualified; adverse and disclaimer of opinions.

**Qualified audit opinion** - the financial statements contain material misstatements in specific amounts or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially overstated or understated.

**Adverse audit opinion** - the financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.

**Disclaimer of audit opinion** - the department or entity provided insufficient evidence or documentation on which to form an audit opinion.



**Unauthorised expenditure** - is expenditure that was in excess of the amount budgeted or allocated by government to the entity, or that was incurred not in accordance with the purpose for which it was intended.

**Irregular expenditure** - is expenditure that was incurred without complying with applicable laws and regulations or actions required to be taken prior to incurring the expenditure.

**Fruitless and wasteful expenditure** - refers to the expenditure that was made in vain and could have been avoided had reasonable care been exercised

**Supply chain management** - procurement by a department or entities of goods and services by inviting quotations and tenders, awarding contracts to companies or individuals, and monitoring the quality and timeliness of goods and services provided.

**Going Concern** - means that an entity has the resources needed in order to continue to operate indefinitely. If an entity is not a “going concern”, it means the entity has gone bankrupt.

**Emphasis of Matters** - is a type of paragraph in an auditors’ report on financial statements. Such paragraph is included to indicate a significant uncertainty or other matter, which is disclosed appropriately in the notes forming part of the financial statements, but which the auditor considers significant or important enough to mention in their report.

**Notes to the financial statements** - is the additional information provided in an entity’s financial statements. This is done mainly for the sake of clarity.



## A. NORTH WEST PROVINCE

### 1. Introduction

The financial state of municipalities in the North West Province is concerning. Amongst other many unresolved challenges faced by the Province, a key issue relates to the poor financial health of many municipalities. This has a direct bearing on the ability of financially distressed municipalities to fulfil their Constitutional mandate of delivering quality basic services to its communities. It is therefore important for policymakers to identify issues raised by the Auditor-General (AG) in these municipalities, which contribute to poor audit outcomes as well as financial mismanagement.

This brief provides a financial overview of the municipalities under section 139 interventions in the North West. The brief will specifically focus on the municipalities that the National Council of Provinces (NCOP) has received a Notice of Intervention for, namely: Ramotshere Moiloa Local Municipality (LM), Tswaing (LM), Madibeng (LM), JB Marks (LM) and Dr Ruth Segomotsi Mompati District Municipality (DM).

### 2. Provincial Overview

Table 1 below shows the municipalities under Section 139 interventions in North West. It reveals that the majority of the municipalities under section 139 interventions can be classified as rural. With the exception of the Dr Ruth Segomotsi Mompati (DM), interventions for the remainder of the municipalities commenced in August 2020 and are set to expire in January 2021, where the majority of the municipalities have been subjected to more than one intervention thus far. Notably, Tswaing (LM) and Madibeng (LM) are on their fifth and sixth intervention, respectively<sup>1</sup>. They were both under section 139 interventions for the first time in 2009/10.

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<sup>1</sup> In their report, Ledger and Rampedi (2019) outline the repeat interventions of various municipalities.



**Table 1. North-West municipalities Under Section 139 Intervention**

Municipality	District	Rural /Urban <sup>2</sup>	Start	Expires on	Repeat Interventions
<b>Ramotshere Moiloa Local Municipality</b>	Ngaka Modiri Molema	Rural	August 2020	January 2021	Second intervention
<b>Tswaing Local Municipality</b>	Ngaka Modiri Molema	Rural	August 2020	January 2021	Fifth intervention
<b>Madibeng Local Municipality</b>	Bojanala Platinum	Urban	August 2020	January 2021	Sixth intervention
<b>JB Marks Local Municipality</b>	Dr Kenneth Kaunda	Urban	August 2020	January 2021	Second Intervention
<b>Dr Ruth Segomotsi Mompoti District Municipality</b>	<b>The local municipalities in the district are:</b> Greater Taung, Kagisano-Molopo, Lekwa-Teemane, Mamusa, Naledi	Rural	May 2019	N/A	First of multiple interventions

Source: Parliament (2020); COGTA (2019); Ledger and Rampedi (2019)

### 3. Audit Outcomes

In 2018/19, no municipality in the North West achieved a clean audit. This makes the North West the only province without unqualified financial audit outcomes. There is a regression in audit outcomes of most municipalities in the Province.

Table 2 below shows a five-year review of audit outcomes for the five municipalities under section 139 interventions:

- Ramotshere Moiloa (LM) received disclaimed audit opinions with findings in both 2017/18 and 2018/19. There has been a deterioration in audit outcomes since 2015/16;
- Tswaing (LM) received a qualified audit opinion with findings in 2018/19, which has remained unchanged for the last three years;
- Madibeng (LM) has consistently received a disclaimed audit opinion with findings since 2015/16;
- JB Marks (LM) received a qualified audit opinion with findings in both 2017/18 and 2018/19;

<sup>2</sup> Category A, B1 and B2 municipalities are classified as urban, while category B3, B4 and C2 are classified as rural (FFC, 2016)



- Dr Ruth Segomotsi Mompoti (DM)'s audit outcomes have been deteriorating since 2015/16. It received a disclaimed audit opinion with findings in 2018/19.

**Table 2. Five-year audit outcomes (2014/15 – 2018/19)**

Municipality	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Ramotshere Moiloa Local Municipality</b>	Unqualified with findings	Qualified with findings	Qualified with findings	Disclaimed with findings	Disclaimed with findings
<b>Tswaing Local Municipality</b>	Disclaimed with findings	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings
<b>Madibeng Local Municipality</b>	Qualified with findings	Disclaimed with findings	Disclaimed with findings	Disclaimed with findings	Disclaimed with findings
<b>JB Marks Local Municipality</b>	*N/A	*N/A	Disclaimed with findings	Qualified with findings	Qualified with findings
<b>Dr Ruth Segomotsi Mompoti District Municipality</b>	Qualified with findings	Unqualified with findings	Unqualified with findings	Qualified with findings	Disclaimed with findings

Source: Auditor General (2015-2019); **\*Note:** data unavailable/not yet amalgamated

## 4. Financial Management

### 4.1. Supply Chain Management

In 2018/19, findings on non-compliance with laws and regulations relating to uncompetitive or unfair procurement processes were reported for Madibeng, while material findings were reported for Ramotshere Moiloa Local Municipality, Tswaing Local Municipality, JB Marks Local Municipality and the Dr Ruth Segomotsi Mompoti District Municipality.

Material findings on inadequate contract management were also reported for the Ramotshere Moiloa Local Municipality, Tswaing Local Municipality, JB Marks Local Municipality and the Dr Ruth Segomotsi Mompoti District Municipality for the period under review.

The major consequence of non-compliance with supply chain management legislation has been an increase in the overall irregular expenditure in the Province.



## 4.2. Irregular Expenditure

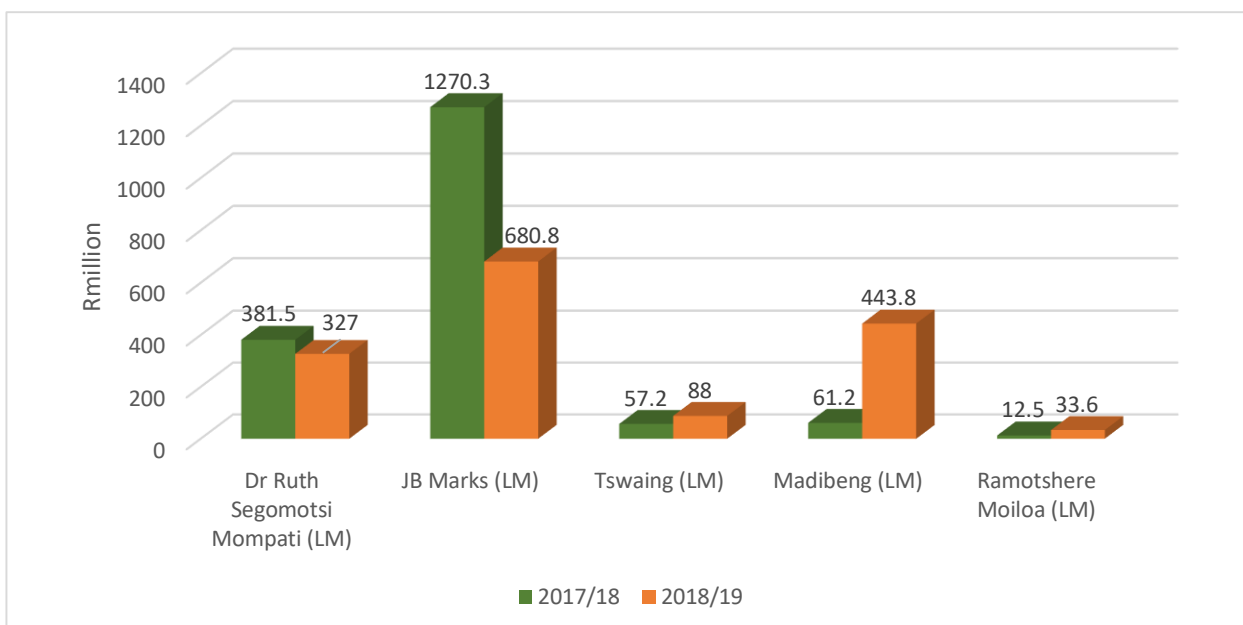
In 2018/19, the total irregular expenditure for North West is R3.7 billion. 43 per cent of the total irregular expenditure is from five municipalities: Madibeng Local Municipality, Ramotshere Moiloa Local Municipality, Tswaing Local Municipality, JB Marks Local Municipality and the Dr Ruth Segomotsi Mompoti District Municipality.

Figure 1 below shows that, with the exception of the Dr Ruth Segomotsi Mompoti District Municipality and JB Marks Local Municipality, the remainder of the municipalities saw an increase in irregular expenditure between 2017/18 and 2018/19:

The significant increase in irregular expenditure incurred by the Madibeng Local Municipality is concerning. The irregular expenditure increased from R61.2 million in 2017/18 to R443.8 million in 2018/19, which translates to a 625 per cent increase. The Auditor General (AG) attributes this to poor leadership and blatant disregard of any authority or law.

Whilst the JB Marks Local Municipality experienced a decline in irregular expenditure between 2017/18 and 2018/19, the amount of R680.8 million for 2018/19 is high and concerning (it accounts for 19 per cent of the total irregular expenditure of the Province). According to the AG, this irregular expenditure can be attributed to bid adjudication committees not being properly constituted, non-compliance with laws relating to procurement and contract management and a tolerance for deviations from competitive processes without sound reasons.

**Figure 1. Irregular Expenditure: 2017/18 - 2018/19**



Source: Annexure 1 of the 2017/18 and 2018/19 Auditor General's Consolidated General Report





### 4.3. Unauthorised Expenditure

Total unauthorised expenditure for the North West Province increased from R1.2 billion in 2017/18 to R1.9 billion in 2018/19. The unauthorised expenditure of the five municipalities under review account for 10 per cent of the province's total unauthorised expenditure of R1.9 billion in 2018/19.

Figure 2 below shows that the Madibeng Local Municipality did not incur any unauthorised expenditure in both 2017/18 and 2018/19, while the Dr Ruth Segomotsi Mompati District Municipality, JB Marks Local Municipality and Ramotshere Moiloa Local Municipality experienced a decline in unauthorised expenditure for the period under review:

- The Dr Ruth Segomotsi Mompati District Municipality was able to reduce its unauthorised expenditure by 95 per cent from R163.7 million in 2017/18 to R8.8 million in 2018/19;
- The JB Marks Local Municipality was able to reduce its unauthorised by 40 per cent from R168.6 million in 2017/18 to R101.9 million in 2018/19;
- The Ramotshere Moiloa Local Municipality also experienced a decline in unauthorised expenditure. It declined by 21 per cent from R23.3 million in 2017/18 to R18.4 million in 2018/19.

In contrast, the Tswaing Local Municipality experienced an increase in its unauthorised expenditure:

- It saw a 1 per cent increase of R400 000 between 2017/18 and 2018/19. In the 2017/18 annual report<sup>3</sup> it was highlighted that no criminal or disciplinary steps had been taken to address the issue of unauthorised expenditure, so there is lack of consequence management to deal with unauthorised expenditure in 2018/19<sup>4</sup> as it is prohibited by the MFMA.

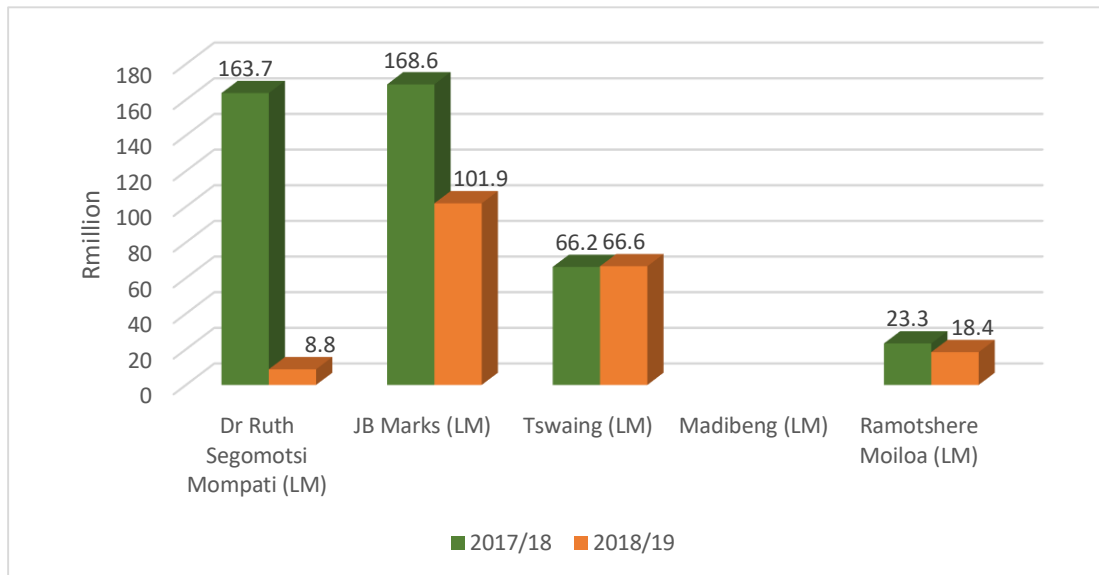
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<sup>3</sup> Tswaing 2017/18 Annual Report, pg 56.

<sup>4</sup> The 2018/19 Annual report is not available.



**Figure 2. Unauthorised Expenditure, 2017/18 - 2018/19**



Source: Annexure 1 of the 2017/18 and 2018/19 Auditor General’s Consolidated General Report

#### 4.4. Fruitless and Wasteful Expenditure

For the North West, fruitless and wasteful expenditure increased from R114.4 million in 2017/18 to R280.2 million in 2018/19. The combined fruitless and wasteful expenditure of the Madibeng Local Municipality, Ramotshere Moiloa Local Municipality, Tswaing Local Municipality, JB Marks Local Municipality and the Dr Ruth Segomotsi Mompoti District Municipality make up 10 per cent of the Province’s total fruitless and wasteful expenditure in 2018/19.

Figure 3 below reveals that the Tswaing Local Municipality and Madibeng Local Municipality were able to reduce their fruitless and wasteful expenditure between 2017/18 and 2018/19:

- Tswaing Local Municipality reduced its fruitless and wasteful expenditure from R9.7 million in 2017/18 to R1.1 million in 2018/19, which translates to an 89 per cent reduction;
- Madibeng Local Municipality reduced its fruitless and wasteful expenditure from R21.5 million in 2017/18 to R6.3 million in 2018/19, which translates to a reduction of 71 per cent.

By contrast, the Dr Ruth Segomotsi Mompoti District Municipality, Ramotshere Moiloa Local Municipality and JB Marks Local Municipality experienced an increase in fruitless and wasteful expenditure between 2017/18 and 2018/19:

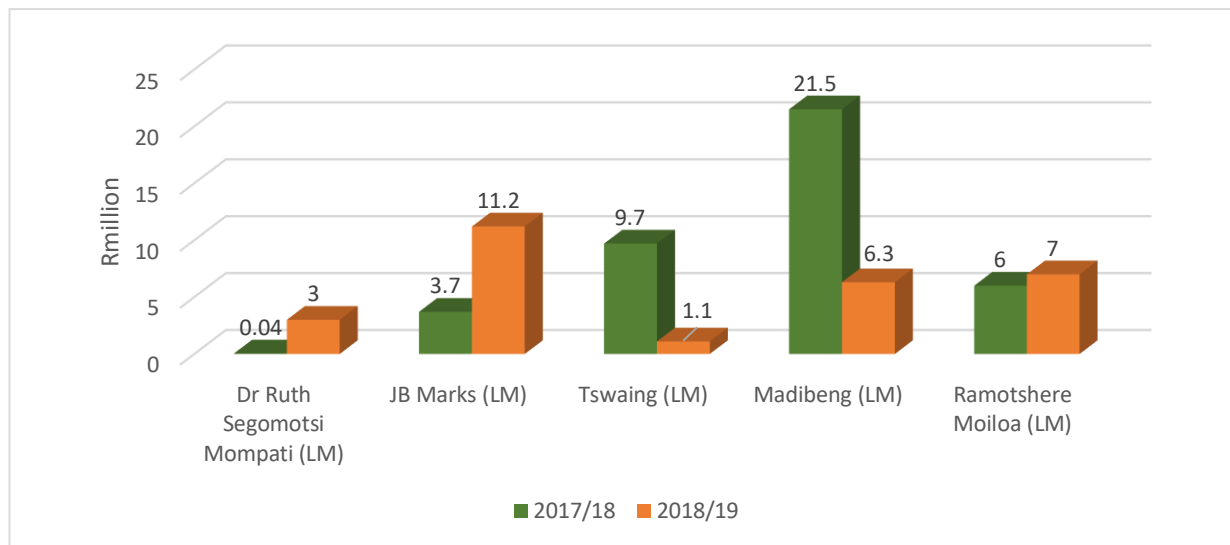
- the Dr Ruth Segomotsi Mompoti District Municipality experienced a significant increase from R40 000 in 2017/18 to R3 million in 2018/19. According to their annual report, the majority of the



disclosed fruitless and wasteful expenditure was as a result of reasonable steps not being taken to prevent it and it was also caused by interest incurred on overdue accounts<sup>5</sup>.

- Ramotshere Moiloa Local Municipality experienced an increase of 17 per cent in its fruitless and wasteful expenditure. It increased from R6 million in 2017/18 to R7 million in 2018/19.
- The JB Marks Local Municipality saw a significant increase in fruitless and wasteful expenditure. It increased from R3.7 million in 2017/18 to R 11.2 million in 2018/19. The municipality’s annual report reveals that the majority of the disclosed fruitless and wasteful expenditure was as a result of interest and penalties for late payments<sup>6</sup>. In addition to reasonable steps not being taken to prevent fruitless and wasteful expenditure, the annual report also highlighted that fruitless and wasteful expenditure incurred by the Municipality was not investigated in order to determine if any person was liable for the expenditure. This shows poor consequence management practices in place<sup>7</sup>.

**Figure 3. Fruitless and Wasteful Expenditure, 2017/18 - 2018/19**



Source: Annexure 1 of the 2017/18 and 2018/19 Auditor General’s Consolidated General Report

## 5. Leadership challenges and Use of Consultants

One of the key challenges faced by the majority of municipalities in North West, particularly those under section 139 interventions, relates to their inability to attract and retain skilled chief financial officers (CFOs)

<sup>5</sup> Dr Ruth Segomotsi Mompoti 2018/19 Annual Report, page 180

<sup>6</sup> JB Marks 2018/19 Annual Report, page 209.

<sup>7</sup> JB Marks 2018/19 Annual Report, page 211



and finance expertise. This has led to reliance on consultants to supplement financial reporting capacity. The persistent use of consultants by many municipalities in the Province has continued, but has not yielded desirable outcomes due to irregular appointment of consultants; not appointed timeously and work is not monitored or proper documentation is not provided.

Table 3 below highlights some of the leadership challenges that are faced by the Municipalities under review.

**Table 3: Leadership challenges and use of consultants**

Municipality	Concerns
Ramotshere Moiloa Local Municipality	<ul style="list-style-type: none"> <li>• R12.5 million spent on consultants in 2018/19</li> <li>• *2018/19 annual report unavailable</li> </ul>
Tswaing Local Municipality	<ul style="list-style-type: none"> <li>• R8.3 million spent on consultants in 2018/19</li> <li>• *2018/19 annual report unavailable</li> </ul>
Madibeng Local Municipality	<ul style="list-style-type: none"> <li>• <b>R35.4 million spent on consultants in 2018/19</b> (highest cost of consultants in the Province)</li> <li>• Received disclaimed audit opinion for four consecutive years despite the continued use of consultants</li> <li>• Other challenges relate to issue of late appointment of service providers to assist in clearing prior year findings; issue of poor co-ordination of requests for information; poor record keeping; poor audit co-ordination.</li> <li>• Instability at both (MM) and chief financial officer (CFO) level: the MM and CFO resigned following the investigation of the investment made to the VBS Mutual Bank; no further action has been taken pending the finalisation of the investigation.</li> <li>• Generally, leadership has failed to implement the discipline of financial controls over public funds. No consequence management practices in place to safeguard the municipality from continuing to incur financial losses.</li> </ul>
JB Marks Local Municipality	<ul style="list-style-type: none"> <li>• <b>R 15.3 million spent on consultants in 2018/19</b></li> <li>• The municipality did not have sufficient monitoring and reviewing controls to ensure that financial and performance reports submitted for audit were accurate and complete and that action plans developed were adequately and timeously implemented to address all prior year audit findings. <b>The implementation thereof was mostly done through consultants with limited transfer of skills to municipal staff.</b></li> <li>• Leadership did not adequately exercise their oversight responsibility regarding financial and performance reporting as well as compliance with legislation.</li> <li>• Roles and responsibilities not clearly defined and therefore caused disputes between administrator and the MM, where the role of administrator was being</li> </ul>



Municipality	Concerns
	confused with the role of the accounting officer in terms of the reference concluded with the Provincial Department of Cooperative Governance.
Segomotsi Mompoti District Municipality	<ul style="list-style-type: none"> <li>• <b>R15.6 million spent on consultants in 2018/19</b></li> <li>• There is an over reliance of the use of consultants without adequate internal review processes in place</li> <li>• The MM who was responsible for the investment of R150.7 million in VBS Bank during 2017/18 was suspended for a while but was reinstated without any disciplinary action being taken – even with the municipality being in financial distress because of this investment, which was written off as financial losses.</li> <li>• There are concerns around the stability of senior management leadership as key positions remain vacant, namely: CFO, Chief Audit Executive, Senior Manager for community services and Senior Manager for planning and development.</li> <li>• There is instability when it comes to political and administrative leadership of the municipality, which has implications for the appointment/ filling of vacant senior management positions.</li> </ul>

Source: latest annual reports of the various municipalities; \*notes: 2018/19 annual report unavailable; Auditor General (2019);

## 6. Conclusion

Based on the financial overview of the municipalities under section 139 interventions in the North West, it is clear that in order to address issues around deteriorating audit outcomes and the overall financial health of these Municipalities efforts need to be directed at implementing consequence management practices. Furthermore, leadership challenges, particularly around the persistent use of consultants, as well as the issue of non-compliance of supply chain management legislation must be addressed.



## B. GAUTENG PROVINCE

### 1. Introduction

South Africa's cities have a key role to play in the country's development prospects, especially because they contribute quite significantly to the economy of the country as well as the region. Gauteng is the country's economic hub; therefore, an urgent need exists to address any challenges to ensure continued growth and provision of services that citizens expect from the Government. Failure to address those challenges will threaten financial sustainability and the ability to deliver on key services.

This section provides a brief financial overview of the Johannesburg Metropolitan Municipality (City of JHB).

### 2. Audit Outcome

As illustrated in table 1 below, over the five-year period, the City of JHB has maintained an unqualified audit opinion with findings. The Auditor General (AG) raised the fact that instability at the political and administrative level resulted in the Metro not being able to implement or monitor controls such as the adequacy of existing asset and revenue reconciliations, frequent asset verifications and meter reading to determine actual usage as well as supply management controls. Though the Metro was able to subsequently correct these errors, which resulted in the Metro receiving an unqualified audit opinion with findings on compliance, it still highlights that the issue of instability at the political and administrative level has a direct bearing on the audit outcomes of a municipality and should therefore be addressed urgently.

While the Metro has been able to consistently receive these audit outcomes, the deterioration of the audit outcomes of its smaller entities warrants attention:

- The Johannesburg Property Company has regressed from its clean audit outcomes, which were sustained for four years between 2014/15 and 2017/18. In 2018/19, the entity received an unqualified audit opinion with findings;
- Similarly, the Johannesburg City Parks also regressed from its clean audit outcomes which were sustained for the last two years. In 2018/19, the entity received an unqualified audit opinion with findings;
- The Brakpan Bus Company received a disclaimer of audit opinion with findings, which reflects a regression in its audit outcomes; and
- The AG highlighted that the deterioration of the audit outcomes of the smaller entities was due to inadequate monitoring of internal controls, which led to non-compliance with legislation.



**Table 1. Audit outcomes of the City of Johannesburg and the entities (2014/15 – 2018/19)**

<b>Auditee</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
<b>Johannesburg Metropolitan Municipality</b>	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings
<b>Municipal Entities:</b>					
<b>Johannesburg Property Company</b>	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with no findings	Unqualified with findings
<b>Johannesburg City Parks</b>	Unqualified with findings	Unqualified with findings	Unqualified with no findings	Unqualified with no findings	Unqualified with findings
<b>Brakpan Bus Company</b>	Unqualified with no findings	Unqualified with no findings	Unqualified with findings	Unqualified with findings	Disclaimed with findings

Source: Auditor General (2015-2019); \*Notes: data unavailable/not yet amalgamated

### 3. Financial Management

#### 3.1 Supply Chain Management

In 2018/19, material findings on non-compliance with laws and regulations relating to uncompetitive or unfair procurement processes were reported for the City of Johannesburg. Material findings on inadequate contract management and awards to close family members as well as awards to other state officials were also reported for the Metro for the period under review.

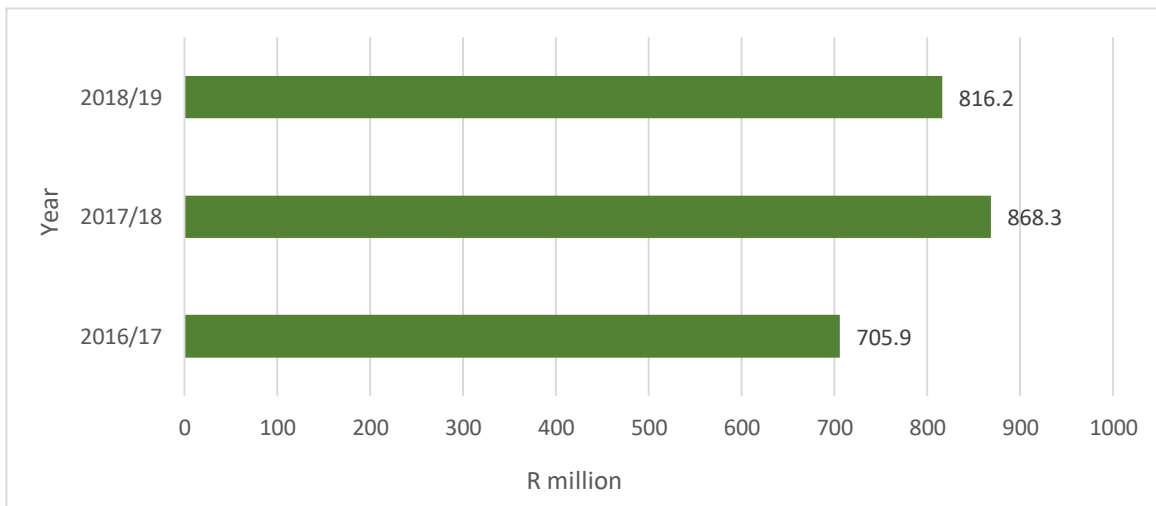
The major consequence of non-compliance with supply chain management legislation has been an increase in the overall irregular expenditure for the Metro, which makes it one of the top 10 contributors to irregular expenditure across the Province.



### 3.2 Irregular Expenditure

Figure 1 below shows that, although irregular expenditure within the Metro has decreased from R868.3 million in 2017/18 to R816.2 million in 2018/19, it remains high. The AG attributes this to non-compliance with laws relating to procurement and contract management. The City of Johannesburg did not take reasonable steps to prevent irregular expenditure (Annual Report: 2018/19).

**Figure 1. Irregular Expenditure (2016/17 - 2018/19)**



Source: Annexure 1 of the 2016/17 - 2018/19 Auditor General's Consolidated General Report

### 3.3 Unauthorised Expenditure

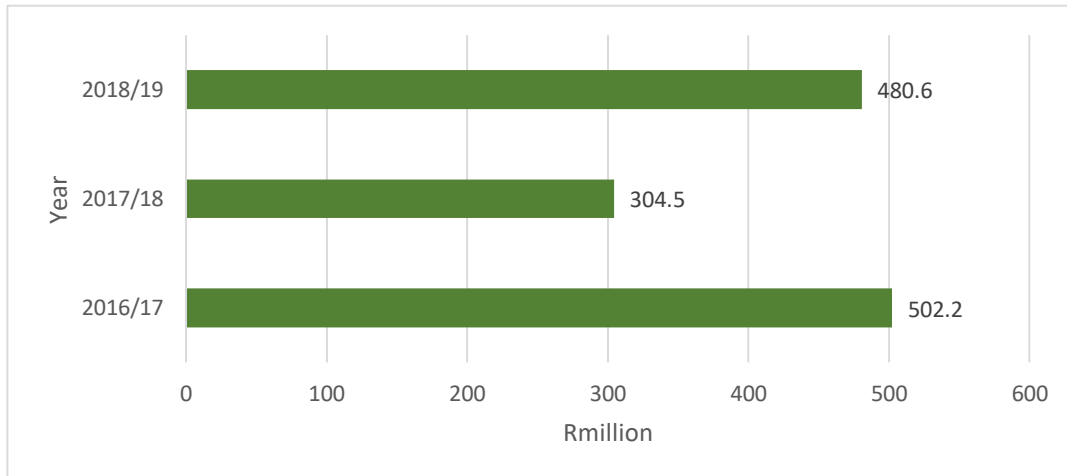
Figure 2 below shows that the City of Johannesburg was able to reduce its unauthorised expenditure by 39 per cent from R502.2 million in 2016/17 to R304.5 million in 2017/18. However, there was a significant increase of 58 per cent and unauthorised expenditure increased to R480.6 million in 2018/19, making it one of the top 10 contributors to unauthorised expenditure in the country.

According to the AG, the nature of this unauthorised expenditure relates to overspending on non-cash items. The annual report attributes this unauthorised expenditure to reasonable steps not taken to prevent it so there are no systems in place to prevent incurring unauthorised expenditure.





**Figure 2. Unauthorised Expenditure, 2017/18 - 2018/19**



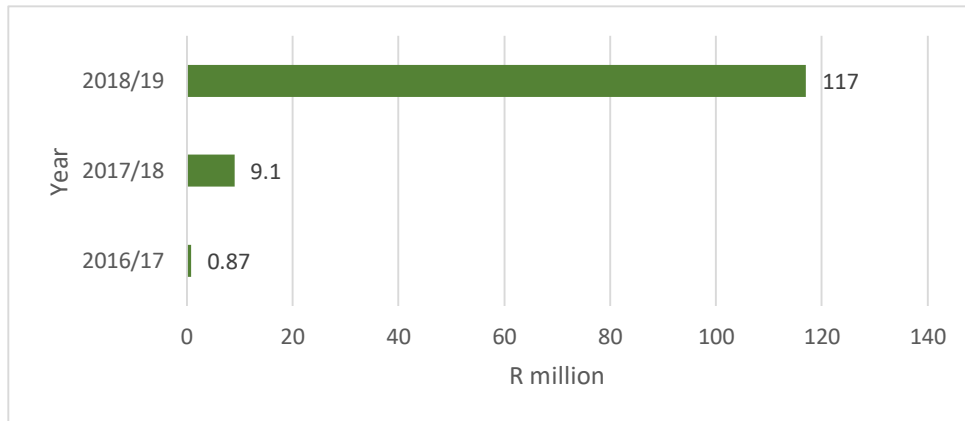
Source: Annexure 1 of the 2016/17 - 2018/19 Auditor General's Consolidated General Report

### 3.4 Fruitless and Wasteful Expenditure

As shown in figure 3 below, fruitless and wasteful expenditure has increased sharply over the three years under review. Between 2016/17 and 2018/19 it grew by R116.1 million. The nature of this expenditure relates to discontinued projects, information and technology licenses not being utilised. According to the annual report, the expenditure was incurred due to lack of consequence management and practices or controls not being implemented.



**Figure 3. Fruitless and Wasteful Expenditure, 2017/18 - 2018/19**



Source: Annexure 1 of the 2016/17 - 2018/19 Auditor General’s Consolidated General Report

#### 4 Leadership Challenges

The key challenge faced by the City of Johannesburg relates to poor leadership stemming mainly from instability at council level. The continuous change of leadership also presents a significant challenge because it results in inconsistent strategic direction for the Metro. The AG notes that while the group chief financial officer position was filled during the year, it had been vacant for almost two years and the position of the head of strategy was vacant for over a year. Key management positions not being filled contributed to material errors in the financial statements, evidence not provided for the reported achievement of some performance indicators, and inadequate assurance provided by internal audit as they did not review management’s action plans.

#### 5 Conclusion

Based on the financial overview of the City of Johannesburg, efforts need to be directed at implementing consequence management practices and addressing leadership challenges.



## C. EASTERN CAPE PROVINCE

### 1. Introduction

Local government is the sphere that is considered to be closest to the people, where the Constitution mandates it to promote sustainable service delivery. Given the central role that local government plays in the delivery of basic services, especially to indigent households, municipalities need to be in a good state so as to ensure that they are able fulfil their developmental mandate. It is therefore important to get an understanding of the current state of local government finances and their financial management if public finances and ultimately the service delivery performance of municipalities are to be renewed.

This brief provides a financial overview of the Makana Local Municipality (LM) in the Eastern Cape, which is under Section 139 interventions.

### 2. Provincial Overview

Table 1 below shows that Makana Local Municipality (LM) is located in the Sarah Baartman District and it can be considered as an urban municipality. Thus far, there has been two interventions.

**Table 1. Municipalities Under Section 139 Intervention.**

Municipality	District	Rural /Urban <sup>8</sup>	Repeat Interventions
Makana Municipality	Local Sarah Baartman	Urban (B2)	Second intervention since March 2015

Source: Ledger and Rampedi (2019)

### 3. Audit Outcome

As illustrated in table 2 below, after four years of receiving a qualified audit opinion with findings, the audit outcomes of Makana (LM) regressed to a disclaimer of audit opinion with findings in 2018/19.

The Auditor General (AG) highlighted that this was attributable to poor record keeping or accounting practices and prolonged instability in a dysfunctional internal control environment.

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<sup>8</sup> Category A, B1 and B2 municipalities are classified as urban, while category B3, B4 and C2 are classified as rural (FFC, 2016)



**Table 2. Audit Outcomes (2014/15 – 2018/19)**

<b>Municipality</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Makana Local Municipality	<b>Qualified with findings</b>	<b>Qualified with findings</b>	<b>Qualified with findings</b>	<b>Qualified with findings</b>	<b>Disclaimer with findings</b>

Source: Auditor General (2015-2019)

#### 4. Financial Management

##### 4.1 Supply Chain Management

In 2018/19, material findings on non-compliance with laws and regulations relating to uncompetitive or unfair procurement processes were reported for Makana local municipality.

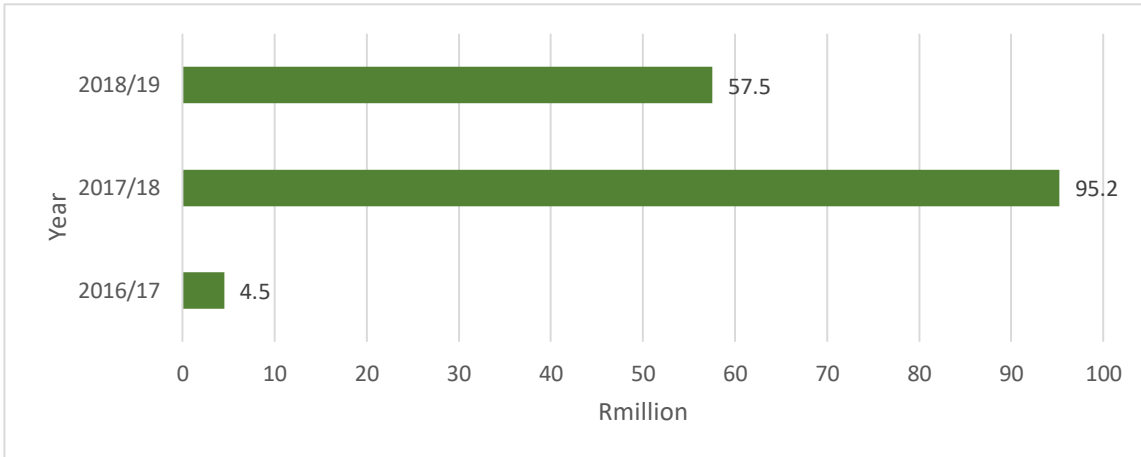
Material findings on inadequate contract management and awards to close family members were also reported for the period under review, while findings on awards to other state officials were also reported by the AG.

##### 4.2 Irregular Expenditure

As shown in figure 1 below, irregular expenditure in the Makana (LM) increased significantly between 2016/17 and 2017/18. It increased from R4.5 million to R95.2 million within one year. Between 2017/18 and 2018/19, the Municipality has been able to reduce its irregular expenditure by 40 per cent, which is a big improvement even though irregular expenditure of R57.5 million is still high compared to 2016/17.



**Figure 1. Irregular Expenditure, 2016/17 - 2018/19**

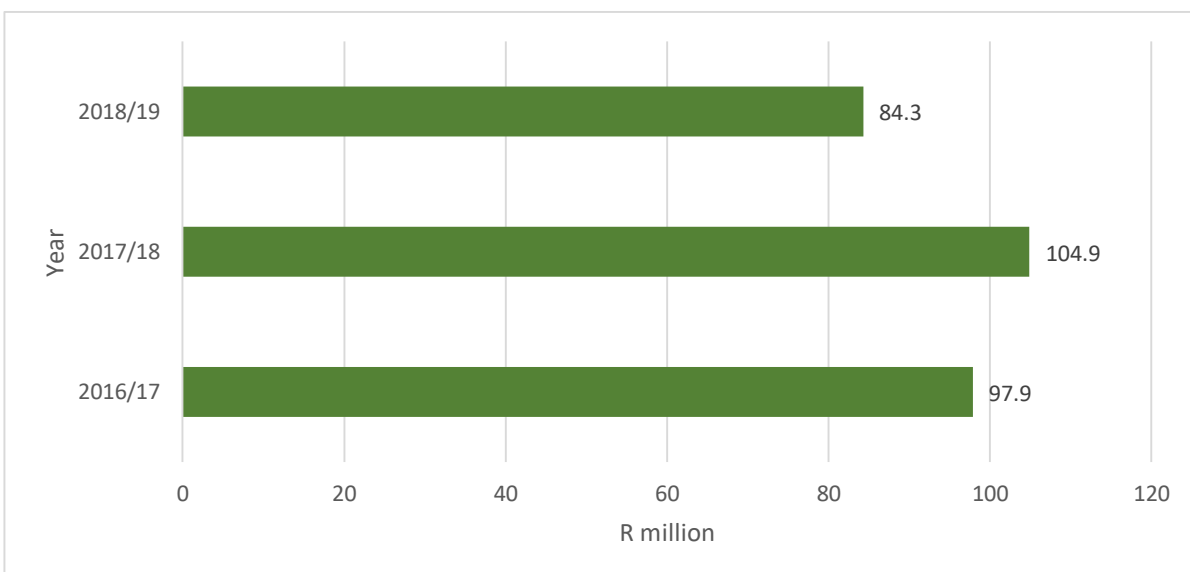


Source: Annexure 1 of the 2016/17 and 2018/19 Auditor General’s Consolidated General Report

### 4.3 Unauthorised Expenditure

Figure 2 below shows that between 2016/17 and 2017/18, unauthorised expenditure in the Makana local municipality increased by 7 per cent from R97.9 million to R104.9 million. In 2018/19, the Municipality was able to reduce its unauthorised expenditure. It decreased by 20 per cent to R84.3 million in 2018/19.

**Figure 2. Unauthorised Expenditure (2016/17 - 2018/19)**



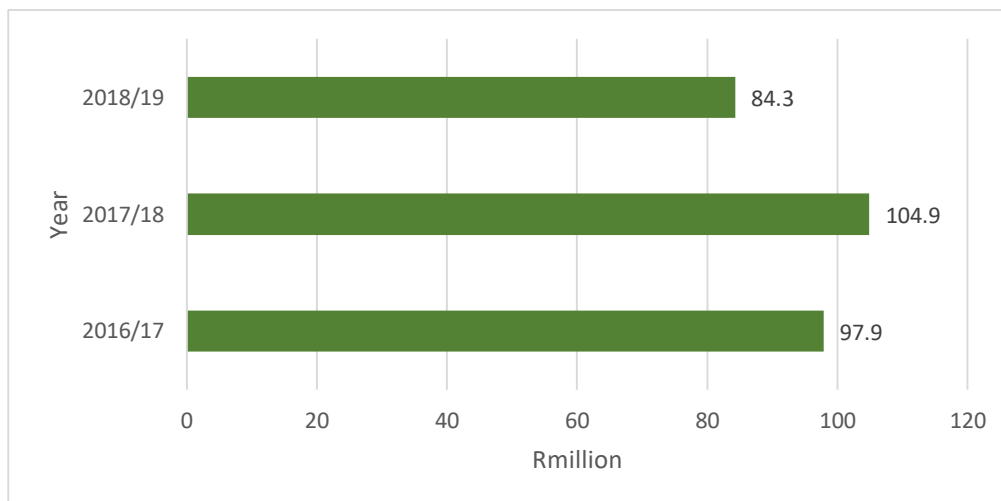
Source: Annexure 1 of the 2016/17 and 2018/19 Auditor General’s Consolidated General Report



#### 4.4 Fruitless and Wasteful Expenditure

As shown in figure 3 below, fruitless and wasteful expenditure in the Makana local municipality has been increasing over the three years. It has increased from R6.6 million in 2016/17 to R12.8 million in 2018/19.

**Figure 3. Fruitless and Wasteful Expenditure, 2016/17 - 2018/19**



Source: Annexure 1 of the 2016/17 - 2018/19 Auditor General's Consolidated General Report

#### 4.5 Leadership Challenges

The Makana LM has been plagued by issues of instability at the senior management level. The AG noted that while the municipal manager (MM) position was only filled during the year after it had been vacant for more than four years. During the financial year, the council passed a vote of no confidence in the Mayor, who subsequently resigned. Furthermore, the position of the Internal Audit Manager was not filled for the full year. The consequence of these leadership challenges is poor decision-making, which has implications for service delivery.

### 5. Conclusion

Based on the financial overview of Makana LM in Eastern Cape, it is clear that in order to address issues around deteriorating audit outcomes and the overall financial health of the Municipality, efforts need to be



directed at implementing consequence management, ensuring compliance with supply chain management legislation and prescript; addressing leadership challenges.

## D. KWAZULU-NATAL PROVINCE

### 1. Introduction

This brief provides a financial overview of the municipalities under Section 139 interventions in Kwa-Zulu-Natal, namely: Umzinyathi District Municipality (DM) and Mpofana Local Municipality (LM).

### 2. Provincial Overview

Table 1 below shows the Municipalities under Section 139 interventions in the Kwa-Zulu Natal. It indicates that Mpofana LM and UMzinyathi DM can be classified as rural. Both Municipalities have been subjected to more than one intervention thus far.

**Table 1. Municipalities Under Section 139 Intervention.**

Municipality	District	Rural /Urban <sup>9</sup>	Repeat Interventions
<b>Mpofana Local Municipality</b>	uMgungundlovu District Municipality	Rural (B3)	It was subjected to its 3 <sup>rd</sup> intervention by 2018
<b>UMzinyathi District Municipality</b>	<b>Municipalities located in this district:</b> Endumeni Local Municipality, Nquthu Local Municipality, uMsinga Local Municipality and Umvoti Local Municipality	Rural (C2)	It was subjected to its 2 <sup>nd</sup> intervention by 2016

Source: Parliament (2020); Ledger and Rampedi (2019)

<sup>9</sup> Category A, B1 and B2 municipalities are classified as urban, while category B3, B4 and C2 are classified as rural (FFC, 2016)



### 3. Audit Outcome

As shown by table 2 below, the audit outcomes of the UMzinyathi DM and Mpofana LM have regressed over the 5 year period:

- In 2014/15 UMzinyathi DM received an unqualified audit opinion with findings and a qualified audit opinion with findings in 2015/16. It maintained an adverse audit opinion with findings in 2016/17 and 2017/18. In 2018/19, the audit outcome regressed, with the municipality receiving a disclaimed audit opinion with findings. According to the Auditor General (AG), this is mainly as a result of governance failures.
- After 2016/17, the Mpofana LM maintained a disclaimed audit opinion with findings between 2017/18 and 2018/19/

**Table 2. Audit Opinion, 2014/15 – 2018/19**

Auditee	2014/15	2015/16	2016/17	2017/18	2018/19
<b>UMzinyathi District Municipality</b>	Unqualified with findings	Qualified with findings	Adverse with findings	Adverse with findings	Disclaimed with findings
<b>Mpofana Local Municipality</b>	Qualified with findings	Disclaimed with findings	Qualified with findings	Disclaimed with findings	Disclaimed with findings

Source: Auditor General (2015-2019); \*Notes: data unavailable/not yet amalgamated

### 4. Financial Management

#### 4.1 Supply Chain Management

In 2018/19, material findings on non-compliance with laws and regulations relating to uncompetitive or unfair procurement processes, inadequate control management and awarding of tenders to state officials were reported for the UMzinyathi DM.

Similarly, findings on non-compliance with laws and regulations relating to uncompetitive or unfair procurement processes and inadequate control management were reported for the Mpofana LM for the year under review.



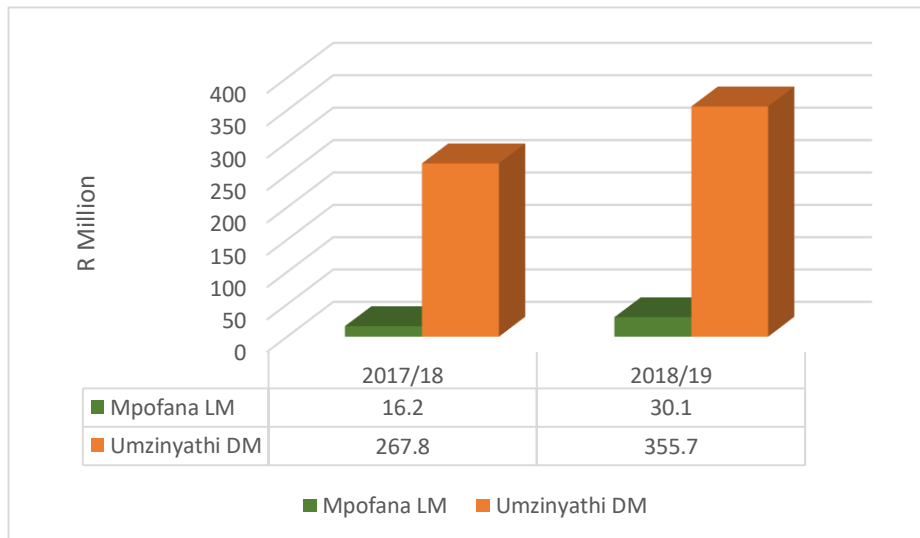


## 4.2 Irregular Expenditure

Figure 1 below shows that, both the UMzinyathi DM and Mpofana LM saw an increase in irregular expenditure between 2017/18 and 2018/19:

- The Mpofana LM's irregular expenditure increased from R16.2 million in 2017/18 to R30.1 million in 2018/19, which translates to an 86 per cent increase;
- UMzinyathi's irregular expenditure increased from R267.8 million in 2017/18 to R355.7 million in 2018/19, which translates to a 33 per cent increase. According to the Municipality's annual report<sup>10</sup>, this is largely as a result of poor consequence management, where irregular expenditure does not get investigated and consequently no consequence management.

**Figure 1. Irregular Expenditure, 2017/18 - 2018/19**



Source: Annexure 1 of the 2017/18 and 2018/19 Auditor General's Consolidated General Report

<sup>10</sup> UMzinyathi Annual Report (2019)

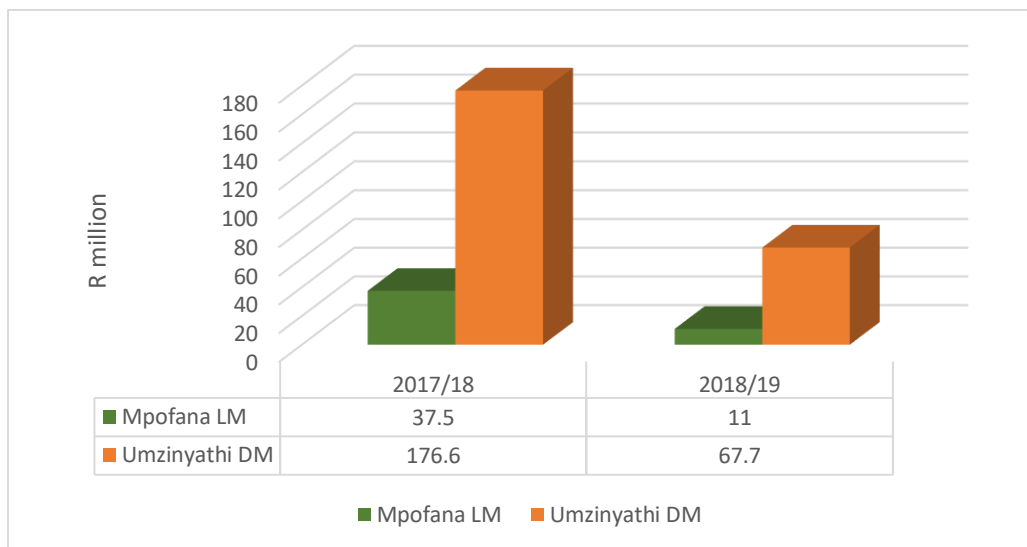


### 4.3 Unauthorised Expenditure

Figure 2 below shows that, both the UMzinyathi DM and Mpofana LM were able to reduce their unauthorised expenditure between 2017/18 and 2018/19:

- The Mpofana LM’s unauthorised expenditure decreased from R37.5 million in 2017/18 to R11 million in 2018/19, which translates to a 71 per cent reduction.
- UMzinyathi’s unauthorised expenditure decreased from R176.6 million in 2017/18 to R67.7 million in 2018/19, which represents a 62 per cent reduction.

**Figure 2. Unauthorised Expenditure, 2017/18 - 2018/19**



Source: Annexure 1 of the 2017/18 and 2018/19 Auditor General’s Consolidated General Report

### 4.4 Fruitless and Wasteful Expenditure

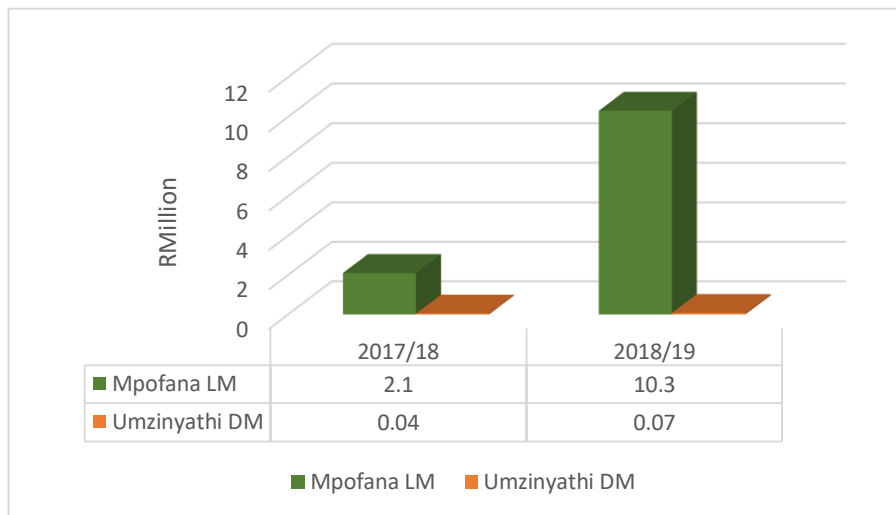
Figure 3 below shows that, both the UMzinyathi DM and Mpofana LM saw a significant increase in fruitless and wasteful expenditure between 2017/18 and 2018/19:

- The Mpofana LM’s fruitless and wasteful expenditure increased from R2.1 million in 2017/18 to R10.3 million in 2018/19.



- UMzinyathi’s fruitless and wasteful expenditure increased from R40 000 in 2017/18 to R70,000 in 2018/19. According to the Municipality’s annual report<sup>11</sup>, similarly to the case of irregular expenditure, this is also as a result of poor consequence management, where fruitless and wasteful expenditure does not get investigated.

**Figure 3. Fruitless and Wasteful Expenditure, 2017/18 - 2018/19**



Source: Annexure 1 of the 2017/18 and 2018/19 Auditor General’s Consolidated General Report

## 5 Conclusion

Based on the financial overview of the Mpofana LM and UMzinyathi DM, efforts need to be directed at implementing consequence management and avoiding irregular, fruitless and wasteful expenditure.

<sup>11</sup> UMzinyathi Annual Report (2019)



## E. FREE STATE PROVINCE

### 1. Introduction

This section provides a brief overview of the financial state of the Maluti-A-Phofung Local Municipality (LM) in the Free State province, which has been subject to repetitive section 139 interventions. The municipality has not submitted financial statements for two past consecutive years, therefore the financial analysis in this paper will be limited due to non-availability of financial information. A brief provincial overview will be discussed followed by audit outcomes. In the latter part of the paper, a short discussion on the impact of the intervention by the provincial government will be provided.

### 2. Provincial Overview

Table 1 below shows that the Maluti-A-Phofung LM is located in the Thabo Mofutsanyana District in the Free State and it is classified as a rural municipality. The Municipality has been under Section 139 interventions at least once.

Municipality	District	Rural /Urban <sup>12</sup>	Repeat Interventions
Maluti-A-Phofung Local Municipality	Thabo Mofutsanyana District	Rural (B3)	At least once

Source: Parliament (2019)

### 3. Audit Outcomes

As illustrated in table 2 below, the audit outcomes of the Maluti-A-Phofung LM have deteriorated over the 5 years. The municipality received a disclaimer of audit opinion with findings in 2014/15. In 2015/16, the audit outcomes improved shown by the qualified audit opinion with findings in 2015/16. In 2016/17, audit outcomes regressed with the Municipality receiving a disclaimer of audit opinion with findings. In 2017/18 and 2018/19, the Maluti-A-Phofung Municipality failed to submit financial statements, which resulted in the audit not being finalised at legislated date for both years.

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<sup>12</sup> Category A, B1 and B2 municipalities are classified as urban, while category B3, B4 and C2 are classified as rural (FFC, 2016)



**Table 2. Audit Outcomes (2014/15 – 2018/19)**

Auditee	2014/15	2015/16	2016/17	2017/18	2018/19
Maluti-A-Phofung Local Municipality	Disclaimer with findings	Qualified with findings	Disclaimer with findings	Audit not finalised at legislated date	Audit not finalised at legislated date

Source: Auditor General (2015-2019);

#### 4. impact of intervention by provincial government

The decision for the Provincial Government to place the Maluti-A-Phofung LM under administration in terms of Section 139 of the Constitution has not resulted in favourable outcomes for the Municipality. This is evident in the Municipality's failure to submit financial statements for two consecutive years. Maluti-A-Phofung LM did not implement controls for supply chain management, which resulted in significant irregular expenditure. In addition, service delivery did not improve, as was reflected by the number of service delivery protests for electricity and water services that took place in the Municipality.

Some of the reasons for the interventions not yielding any results relates to:

- Administrators were not able to work effectively with municipal officials nor council owing to the respective parties not having clearly defined roles and responsibilities; and
- Significant political instability, led to some councillors resigning. The consequence of this was that the council ended up not having enough members to form a quorum, which impacted on the strategic direction and delivery of services. Consequently, key decisions could not be made and provision of the required leadership and oversight to enable effective service delivery in a financially sustainable manner was severely constrained.

#### 5. Conclusion

Based on the financial overview of Maluti-A-Phofung LM, it is clear that in order to address the challenges faced by this Municipality, amongst other things, political and administrative stability and the culture of accountability needs to be restored urgently.



## F. NORTHERN CAPE PROVINCE

### 1. Introduction

This section provides a brief overview of the financial state of the municipalities under Section 139 interventions in the Northern Cape. The focus is specifically on the municipalities that the National Council of Provinces (NCOP) has received a Notice of Intervention for, namely: Phokwane Local Municipality (LM) and Renosterberg Local Municipality (LM). The two municipalities have not submitted financial statements for two consecutive years; 2017/18 and 2018/19, therefore the financial analysis will be limited. A brief provincial overview will be analysed and a discussion on audit outcomes. The section will conclude with a short discussion on some of the challenges faced by the municipalities under review.

### 2. Provincial Overview

Table 1 below shows the two municipalities under Section 139 interventions in the Northern Cape. It reveals that both Municipalities under section 139 interventions can be classified as rural. Interventions for the Phokwane LM and the Renosterberg LM commenced in July and August 2020, respectively. Phokwane has been subjected to at least one intervention thus far and data is unavailable for Renosterberg.

**Table 1. Municipalities Under Section 139 Intervention.**

Municipality	District	Rural /Urban <sup>13</sup>	Start	Expires on	Repeat Interventions
<b>Phokwane Local Municipality</b>	Frances Baard District	Rural (B3)	July 2020	N/A	one intervention
<b>Renosterberg Local Municipality</b>	Pixley Ka Seme District	Rural (B3)	August 2020	September 2020	*data unavailability

Source: Parliament (2020); Ledger and Rampedi (2019)

<sup>13</sup> Category A, B1 and B2 municipalities are classified as urban, while category B3, B4 and C2 are classified as rural (FFC, 2016)



### 3. Audit Outcome

As illustrated by table 2 below, the audit outcomes of Phokwane LM and Renosterberg LM have deteriorated over the 5 years:

- In 2014/15 and 2015/16, the Phokwane LM received a disclaimer of audit opinion with findings. In 2016/17, the audit outcomes improved. This is reflected by the qualified audit opinion with findings that the Municipality received in that year. Thereafter, audit outcomes regressed, with the Municipality failing to submit financial statements in both 2017/18 and 2018/19, which resulted in the audit not being finalised by the legislated date for both years.
- In 2014/15, the Renosterberg received a disclaimer of audit opinion with findings. In 2015/16 and 2016/17 the audit outcomes improved to a qualified audit opinion with findings. Similarly, to Phokwane, in 2017/18 and 2018/19, the Municipality failed to submit financial statements, which resulted in the audit not being finalised at legislated date for both years.

**Table 2. Audit Opinion, 2014/15 – 2018/19**

Municipality	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Phokwane Local Municipality</b>	Disclaimed with findings	Disclaimed with findings	Qualified with findings	Audit not finalised at legislated date	Audit not finalised at legislated date
<b>Renosterberg Local Municipality</b>	Disclaimed with findings	Qualified with findings	Qualified with findings	Audit not finalised at legislated date	Audit not finalised at legislated date

Source: Auditor General (2015-2019)

### 4. key Challenges faced by northern cape’s municipalities

This section highlights some of the key challenges faced by the Phokwane LM and Renosterberg LM, which may provide an explanation as to why the two municipalities have failed to submit financial statements for two consecutive years.

The key challenges are mainly a consequence of poor leadership:

- Officials who do not perform their duties are not held accountable by Municipal Managers and senior management. There is no consequence management system in place;



- Poor internal controls environment, which creates an environment that allows for non-compliance with supply chain management processes;
- Poor oversight and administration of: daily processing of transactions and the recording of daily transactions onto the accounting system;
- Shared internal audit services and centralisation of audit committee model<sup>14</sup> have not provided the required assurance:
  - Confirms the concerns around centralised functions having an inward focus and where work done for local municipalities is often of a lower standard because it does not get to cover all the risk areas;
  - Shared services are costly, which may present a challenge for already financially distressed municipalities;

## 5. Conclusion

Based on the financial overview of the two Municipalities under Section 139 interventions in the Northern Cape, it is clear that poor leadership challenges need to be addressed urgently.

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<sup>14</sup> Centralised at district level





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