

EXECUTIVE SUMMARY

This general report includes insights from the 2023-24 audits of municipalities and municipal entities, as well as information, statistics and stories on the state of local government in the third year of the 6th administration in local government.

In our previous general report, we raised the alarm that there has been little change in the poor state of affairs in local government since the end of the 5th administration's term. We also reported that, despite commitments made for improvement, action has been too slow and has had little impact on the lived realities of South Africans.

Our call to action was again directed to the political leadership of municipalities, urging them to instil a culture of performance, transparency and institutional integrity, and to be accountable to the communities they serve. We also reminded them that there is limited time left in their term to leave a legacy of improved governance and service delivery.

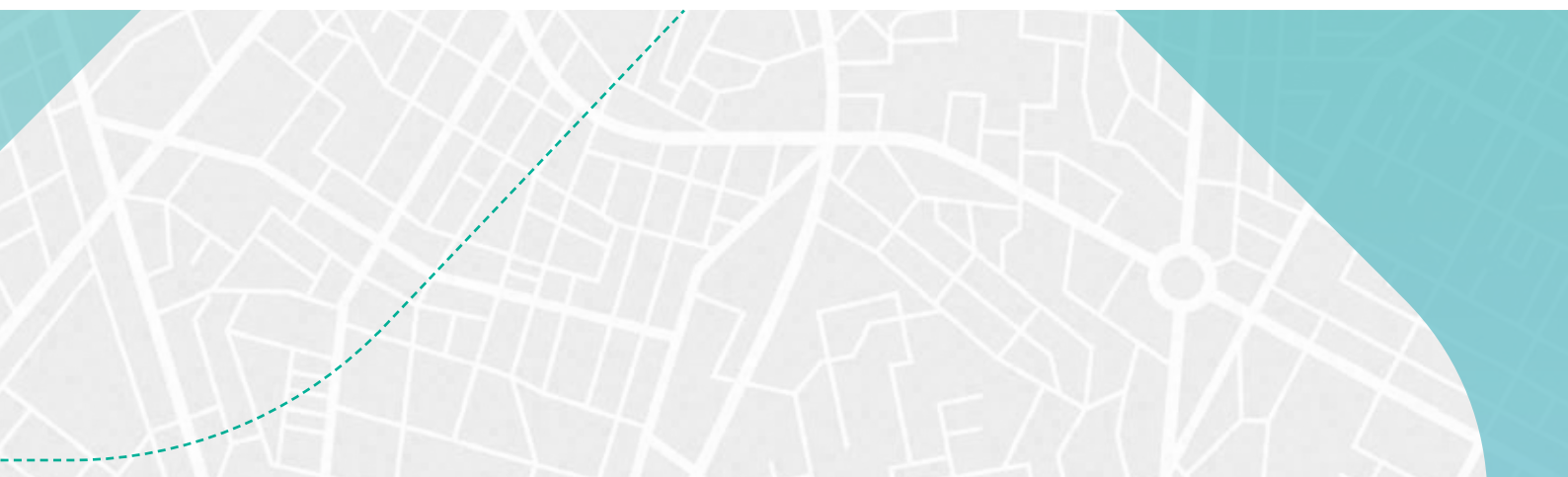
Based on the overall audit outcomes in 2023-24, the results from the detailed work that we performed at metropolitan municipalities and municipalities with disclaimed audit opinions, and the matters that we identified as posing significant risks to municipal service delivery, we can only conclude that little has changed and that local government remains in a dire state.

AUDIT OUTCOMES

The trend of **poor audit outcomes continued**, with only 41 municipalities (16%) obtaining clean audits. While 59 municipalities have improved their audit outcomes since 2020-21 (the last year of the previous administration), 40 have regressed.

Thirteen municipalities did not **submit their financial statements and performance reports for auditing by the legislated date**. Seven of these municipalities (five of which are in the Free State) disregard the legislated requirement and submit their financial statements and performance reports late every year – or do not submit them at all. In 2023-24, these seven municipalities managed a combined budget of R6,85 billion.

A **disclaimed audit opinion** is the worst opinion a municipality can get as it means that we could not find evidence for most of the information in its financial statements. The lack of transparency in how these municipalities use public funds and deliver services significantly weakens accountability,



which often leads to residents being deprived of service delivery and harmed by the municipalities' actions or inaction. Municipalities, as well as national and provincial government, paid attention to our message over the years to work together to eradicate disclaimed audit opinions, which resulted in 17 municipalities moving out of this category in 2021-22 and 2022-23 – testament to the positive impact of intergovernmental support. However, progress slowed in 2023-24, with only three municipalities improving from, and four others regressing into, this category. There are seven municipalities that have repeatedly received disclaimed audit opinions – for three to eight consecutive years. Most of these seven 'repeat disclaimers' are in the Eastern Cape and North West, and require urgent attention from the members of the executive councils for local government and for finance, with the support of the premier.

In 2023-24, the most common outcome was an **unqualified audit opinion with findings** – which 99 municipalities (39%) received. This is not an outcome to celebrate or to stay in. While the opinion on these municipalities' financial statements may be unqualified (often due to corrections made based on our findings), the material findings on performance mean that their performance reports are not credible, while the material findings on compliance signal a disregard for legislation or significant lapses in control. These 99 municipalities could easily lose their unqualified status if they do not address the remaining challenges in their control environment. We also remain concerned that not enough attention is being paid to the significant weaknesses in meeting performance and compliance obligations and the resultant impact this has on the lives of South Africans.

Overall, the outcomes in the three areas that we audit each year paint a picture of municipalities that do not have the institutional capability to produce credible and useful financial and performance reports. They also do not have the institutional integrity to ensure that municipal leadership and officials consistently behave ethically, comply with legislation, and act in the best interest of the municipality and its residents.

In summary, the 2023-24 audit results for the 247 municipalities at which the audits had been completed by 31 January 2025 (the cut-off date for inclusion in this report) were as follows:

1. A total of 107 municipalities (43%), mainly in the Eastern Cape, Northern Cape and North West, received modified audit opinions due to material misstatements in their **financial statements** – 90 (35%) received qualified audit opinions, six (2%) received adverse audit opinions and 11 (4%) received disclaimed audit opinions. Of the 99 municipalities that received unqualified audit opinions with findings, 77 (31%) did so by relying on the audit process to identify errors in their financial statements that they then corrected.

Municipalities continued to contract **consultants** to perform functions for which finance units are responsible, stating vacancies and a lack of skills in the finance unit as reasons. However, using financial reporting consultants has become a permanent solution for many municipalities – most notably in Limpopo and North West. Municipalities did not effectively use these expensive resources, which had a price tag of R848,85 million in 2023-24, and they had little impact at the 101 municipalities (46%) where we identified material misstatements in the areas of the consultants' work. We included a similar message on the ineffective use of financial reporting consultants in our 2013-14 general report – little has changed in the decade since then.

2. A **performance report** should include information that is useful for both the council and the public to determine if the municipality delivered on its core mandated functions (such as delivering basic services) and is on track to deliver on its integrated development plan. The reported achievements must also be reliable. We reported material findings on the usefulness and reliability of the information included in the performance reports of 119 municipalities (48%). The poor-quality performance reports were most prevalent in the Free State, Northern Cape and North West. As is the case with the financial statements, many municipalities – 63 in total (26%) – managed to avoid material findings by relying on the audit process to identify misstatements that they then corrected.

The poorly prepared performance reports and significant activity required to make corrections in response to our audits also raise questions about the credibility of the in-year reporting and the effectiveness of performance monitoring throughout the year. The lack of proper planning and effective in-year monitoring, along with unreliable information being used for accountability and decision-making processes, contribute to the lack of service delivery by local government.

3. **Non-compliance** with legislation remained high, with 206 municipalities (83%) materially not complying with key legislation. A total of 201 municipalities (81%) received material compliance findings in all three years of the current administration, indicating a clear disregard for compliance with limited consequences. Non-compliance has resulted in irregular expenditure of R87,03 billion having been incurred over the three years of the current administration.

Municipalities with **clean audits**, particularly those that have sustained this status over several years, are generally characterised by sound financial and performance management disciplines and perform their functions in accordance with applicable legislation. The well-functioning control environment and good systems at these municipalities form a solid foundation from which councils can prioritise further improving the performance and service delivery of their municipalities. The 25 municipalities that have sustained their clean audit status every year since 2020-21 continue to be an example of what is possible.

SERVICE DELIVERY RISKS

While we do not review the performance of local government, our work provides insight into weaknesses that could prevent service delivery goals from being achieved – if they are not decisively addressed by the administration and the council. These risks to service delivery are as follows:

- Municipal managers, mayors and councils all contributed to poor **financial management** in municipalities. Councils again adopted unfunded budgets in 2023-24, contrary to advice given by the national and provincial treasuries. A budget is unfunded when the budgeted expenditure is more than the projected revenue. When the mid-year adjustments budget was done, most of the adjusted budgets remained unfunded, resulting in 113 municipalities (44%) operating with unfunded budgets.

Due to a combination of unreliable information and a lack of diligence and impactful decision-making by mayors and councils, in-year monitoring of financial performance had little impact in preventing the R31,79 billion in unauthorised expenditure incurred by 174 municipalities (68%). At year-end, the total deficit in local government was R11,29 billion, with 90 municipalities (39%) having spent more money than they had available.

Of the 113 municipalities that adopted unfunded budgets, 91 (81%) incurred unauthorised expenditure. Of these 91 municipalities, 53 (58%) of which the audits had been completed at the cut-off date, incurred deficits. Municipalities with unfunded budgets, unauthorised expenditure and deficits were most prevalent in the Free State, Gauteng and North West.

Municipalities lost revenue because they did not bill or collect all revenue owed to them, and they estimated that 67,80% of the revenue that they disclosed in their financial statements would not be recovered. Water and electricity losses due to infrastructure neglect accounted for an additional R37,28 billion in lost revenue.

The limited funds that municipalities had were also not spent carefully. The main reasons for the continuing financial losses and waste were widespread poor payment practices, uncompetitive and uneconomical procurement practices, limited value and benefit received for money spent, and weaknesses in project management.

As a result, the financial health of municipalities remains weak. Poorly managed local government finances directly affect municipalities' ability to deliver the promised services to their communities and place further pressure on the already constrained public purse. Creditors are not paid within legislated timelines, and the debt owed to Eskom and the water boards remains high and continues to increase. The Eskom debt-relief programme was intended to provide some relief to municipalities that struggled to pay the electricity supplier, but 53 of the participating municipalities (84%) are not complying with the conditions of the programme. If these debts are not paid, communities are left without access to basic services such as electricity and water. This also makes it difficult for businesses to operate optimally, further adding to the struggling economy.

The desired impact of national and provincial interventions to help financially distressed municipalities deal with their challenges has not yet been realised. We urge them to continue and intensify this support.

- Our audit work incorporated numerous site visits to inspect the progress and quality of **infrastructure projects**. We identified deficiencies at 87 of the 113 projects (77%) that we visited. We found that, all too often, work on projects is delayed, costs more than planned and is of poor quality. New infrastructure is also not commissioned for use upon completion. Existing infrastructure continues to deteriorate because it is not properly maintained and safeguarded.
- Municipalities depend on **service providers and contractors** to deliver on their projects and programmes and to support their operations. Continued non-compliance with procurement legislation leads to unfair and uncompetitive processes, which often result in financial losses and contractors not delivering the goods or services for which they were contracted.

One of the root causes of project failures and financial loss is poor contract management and a reluctance to hold suppliers accountable for late and poor-quality delivery. In total, 214 municipalities (87%) had findings on non-compliance with procurement and contract management legislation in 2023-24. At 155 municipalities (63%), these findings were material.

- The **lack of consequences** in local government will continue to slow progress towards improved service delivery and financial performance. In 2023-24, 132 municipalities (53%) did not comply

with legislation on consequence management. When officials face consequences for their actions, this helps auditees to recover the losses caused by those officials and deter others from disregarding legislation.

The lack of consequences is most evident in the areas of poor and slow responses to investigating allegations of financial and supply chain management misconduct and fraud indicators; not investigating and/or not properly dealing with unauthorised, irregular, and fruitless and wasteful expenditure; and material non-compliance with legislation on consequence management.

METROPOLITAN MUNICIPALITIES

In 2023-24, the eight metropolitan municipalities (commonly known as metros) were responsible for service delivery to 8,9 million households – 46% of all households in the country. The metros and their municipal entities were responsible for 57% of the estimated local government expenditure budget.

Metros typically have better capacity and bigger budgets and can more easily attract suitably skilled and competent professionals. Therefore, their audit outcomes are expected to be better and they should be setting an example to other municipalities. However, the overall audit outcomes of metros have continued to regress since 2020-21.

We do not audit the performance of metros but, through our work on their financial statements, performance reports, and infrastructure and environmental management, we identified that both their **financial and service delivery-related performance** are at risk.

Metros are plagued by poor revenue management, debt collection and budgeting practices, coupled with financial losses due to poor-quality spending. Metros have listed debt and significant loans to service, while they are financially strained. City of Tshwane and Mangaung metros have – for at least the past four years – disclosed significant doubt on their ability to continue fully operating as a going concern.

Weaknesses in infrastructure project delivery and ineffective preventative maintenance are as common in metros as in other municipalities, despite having better access to resources. Most metros did not adequately assess the condition of roads and infrastructure for solid waste and wastewater, and some did not have maintenance plans.

Five metros did not comply with environmental management legislation, including not having valid operating licences for their wastewater treatment works and landfill sites, and not maintaining or safeguarding their wastewater treatment works. Infrastructure neglect and non-compliance with environmental management often result in harm to the public. Since 2021, we have notified accounting officers at five metros and three municipal entities of 15 material irregularities related to the poor management of wastewater treatment works and landfill sites.

As is the case with other municipalities, metros must be **transparent in their financial and performance reporting** and display financial accountability to enable them to perform well financially and deliver in line with their planned objectives. Four metros received modified opinions on their financial statements, while six had material findings on their performance reports.

Institutional integrity refers to the importance of metros institutionalising controls to ensure that leadership and officials behave ethically, comply with legislation, act in the metro's best interest and avoid conflicts of interest. Through our audits, we identified a lack of such institutional controls. This was most evident in the lack of compliance with legislation by all metros, except City of Cape

Town, the high levels of irregular expenditure (R33,29 billion since 2021-22) and incidents of conflicts of interest in 2023-24.

Metros can only achieve their goals and objectives effectively with sufficient **institutional capability**. In other words, they need resources, skills, strong governance and effective management; good systems, processes and controls; and effective coordination and collaboration between different stakeholders, both within and outside the metro. In this report, we highlight that these capabilities are not in place, as evidenced by weak internal controls, a lack of integration and coordination of functions, instability in key leadership positions, and ineffective internal audit units and audit committees. Our 2023-24 audits also revealed significant deficiencies in the information technology environment of metros, along with cybersecurity vulnerabilities, as these areas are not prioritised and information technology is not viewed as a strategic enabler.

The lack of **accountability** at most metros is clear from the slow response to unauthorised, irregular, and fruitless and wasteful expenditure, as well as the ineffective accountability structures and processes that we observed. It is rare for metro leadership (including mayors) to account to provincial legislatures and Parliament.

A culture of performance, accountability, transparency and institutional integrity is not ingrained in the metros. Fully functional and high-performing metros will have a significant impact on the lives of most South Africans and businesses – which makes it a goal worth working towards.

IMPACT

When municipalities do not effectively manage their performance, finances and infrastructure, it directly affects the delivery of key government priorities that are intended to improve the lives of South Africans. Services and infrastructure in the basic areas of water, sanitation, waste management, electricity, housing and roads are not consistently and sustainably delivered, despite the budgeted funds being spent. Deteriorating living conditions and harm caused by polluted water sources and landfill sites are also widespread.

When money and resources are wasted, there are reduced funds available for service delivery priorities and, eventually, there is a greater burden on taxpayers. The lack of credible reporting on performance and finances weakens not only municipal accountability processes, but also the councils' ability to assess municipalities' performance or make decisions in response to underachievement.

MATERIAL IRREGULARITIES

The nature of the material irregularities that we have identified, since the Public Audit Act was amended in April 2019, mirrors the rising concerns on which we have been reporting.

Money is being lost through non-compliance with legislation and suspected fraud, and we have identified 285 material irregularities in this area with an estimated financial loss totalling R8,74 billion. This includes payments made for goods and services that were not received, were of poor quality, were not in line with contracts or were to ineligible beneficiaries (72); Eskom, the water boards, lenders and suppliers not being paid on time, resulting in interest charges (56); the inefficient use of resources, resulting in no or limited benefit for the money spent (40); revenue lost due to revenue not billed, debt not recovered or unrecorded receipts (39); uneconomical procurement and procurement non-compliance, resulting in overpricing of procured goods and services (20); and assets not being properly maintained and safeguarded (20).

We also identified 79 material irregularities that were causing substantial harm to local government accountability processes and financial health, and a further 80 material irregularities that were causing substantial harm to the public due to action or inaction by municipalities – most of which related to pollution of water sources (56) and mismanagement of landfill sites (20).

In total, 48% of the 446 material irregularities that we have identified in local government since 2019 have been resolved by auditees:

- preventing or recovering financial losses (an estimated R1,32 billion has been recovered, is in the process of being recovered or has been prevented)
- preventing further harm to the general public and public sector institutions
- implementing consequences for those responsible for the irregularities
- improving internal controls to prevent the irregularities from recurring.

Where the material irregularities were not dealt with swiftly or with the required seriousness, we included recommendations in audit reports, took remedial action and referred matters to relevant public bodies for investigation. The number of material irregularities where we have to use our powers increases every year.

The material irregularity process is not yet having the desired impact in local government, due largely to instability in accounting officer positions; a slow response by accounting officers to our notifications, recommendations and remedial actions; prolonged investigations or delays in concluding criminal proceedings; and delays in disciplining officials. Where we escalate the non-responsiveness to mayors and provincial government leaders, it is rare for them to act or for their actions to have a significant impact.

Some roleplayers in the accountability ecosystem and other public bodies have mandates and powers similar to, or more comprehensive than ours, which they should use to ensure that irregularities are dealt with swiftly and that similar instances are prevented.

CALL TO ACTION

We repeat our call from previous general reports that all roleplayers in the local government accountability ecosystem should work deliberately and with urgency towards a culture of performance, accountability, transparency and institutional integrity.

There is only a year left in the current administrative term for mayors, speakers and council members of municipalities to leave a legacy of improved governance and service delivery.

Through the insights from our audits and our experience with the material irregularity process, we identified three main shortcomings in local government that hold back progress, and we have reported on these root causes throughout the current administrative term. They are:

- governance failures
- inadequate institutional capability
- lack of accountability and consequences.

The recommendations we made in prior years to address these root causes remain, as little progress has been made to implement them fully and successfully:

- 1. Build capable institutions with intergovernmental support:** Support from all spheres of government – through coordinated and collaborative efforts in partnership with municipal leadership – is needed to promote strong governance within municipalities.
- 2. Professionalise and capacitate local government:** Skills and capacity gaps can be addressed through a concerted effort to support and implement local government professionalisation initiatives. In pursuing professionalisation, all roleplayers should strive towards a future in which local government is a career of choice for professionals and where scarce skills can thrive and be retained.
- 3. Instil a culture of ethics and accountability:** A shared vision of responsiveness, consequence management, accountability and ethical behaviour is essential to ensure that actions are taken promptly and individuals are held accountable. Responsiveness to – and support for – the **material irregularity process** will demonstrate leadership commitment to accountability and contribute to the protection of resources and the strengthening of institutional integrity.

We also have a direct call to action to the political leadership in all three spheres of government and the elected representatives of the citizens in councils, Parliament and the provincial legislatures: *diligent oversight and decisive action on municipal failure will change the local government culture.*

This report and our call to action are directed to the mayors, councils and executives in national and provincial government and provincial legislatures that are failing in their oversight duties and allowing local government to deteriorate.

Local government processes and oversight responsibilities are well-defined in legislation. The mayor and council have key responsibilities in municipal planning, budgeting, monitoring, reporting and accountability processes. In our audits, we identified that at the worst performing municipalities, these officials are either not doing what legislation requires of them or are not performing their duties effectively.

If municipalities are failing in their reporting responsibilities, are not performing well or are not addressing our findings, legislation enables national and provincial government and the legislatures to ensure that the required corrective action is taken – and even to intervene where necessary. However, we found that members of the executive councils for local government did not comply in this area, while provincial legislatures provided little to no oversight. The provinces in which we raised these findings are also those that received poor audit outcomes, namely the Eastern Cape, Free State, Limpopo, Northern Cape and North West.

The most recent consolidated report on municipal performance and the responses to issues raised in our audit reports, tabled by the cooperative governance minister in Parliament in January 2025, related to the 2020-21 financial year. This backlog disempowers Parliament and prevents it from making a meaningful contribution to improving municipal performance.

We urge all roleplayers in the accountability ecosystem to fulfil their designated roles and to play their part effectively and without fear or favour to ensure accountability for government spending to improve the lives of all South Africans.

We remain committed to partnering with and supporting the public sector through our audits, the use of our expanded powers, as granted by the Public Audit Act amendments, and the many initiatives that we have implemented to assist and guide all roleplayers in the accountability ecosystem. We trust that the insights and recommendations in this report will be of value in this pursuit.