Muni eMonitor

Municipal Finance Management Act (MFMA)

COMPLIANCE REPORT

FOR THE 2023/24 FINANCIAL YEAR

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

30 YEARS OF FREEDOM
South Africa 1994 - 2024

2023-2024

Municipal Finance Management Act

ANNUAL COMPLIANCE REPORT

As at 30 June 2024

Audit Outcomes of the 2022/23 Financial Year

Analysis Document

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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List of abbreviations

AFS	Annual Financial Statements
AC	Audit Committee
AGSA	Auditor-General South Africa
AAP	Audit Action Plans
BTO	Budget and Treasury Office
CEO	Chief Executive Officer
CFO	Chief Financial Officer
EC	Eastern Cape
FRP	Financial Recovery Plan
FM	Financial Management
FMCMM	Financial Management Capability Maturity Model
FMIP	Financial Management Improvement Programme
FS	Free State
CoGTA	Department of Cooperative Governance and Traditional Affairs
GP	Gauteng
GVR	General Valuation Roll
IDP	Integrated Development Plan
IA	Internal Audit
IT	Information Technology
IYM	In Year Monitoring
KZN	KwaZulu-Natal
LGSETA	Local Government Sector and Education Training Authority
LP	Limpopo
MCCR	Municipal Cost Containment Regulations
Metro	Metropolitan Municipality

MFIP	Municipal Finance Improvement Programme
MFMA	Municipal Finance Management Act
MM	Municipal Manager
MP	Mpumalanga
MSA	Municipal Structures Act
mSCOA	Municipal Standard Chart of Accounts
MTREF	Medium-Term Revenue and Expenditure Framework
MTSF	Medium-Term Strategic Framework
NERSA	National Energy Regulator of South Africa
NC	Northern Cape
NDM	Non-Delegated Municipality
NTSPME	National Treasury Strategic Planning, Monitoring & Evaluation
NW	North West
OCPO	Office of the Chief Procurement Officer
PT	Provincial Treasury
SALGA	South African Local Government Association
SARS	South African Revenue Services
SAPS	South African Police Service
SEZs	Special Economic Zones
SCM	Supply Chain Management
SMME	Small Medium Micro Enterprises
SoLGF	State of Local Government Finances
SOD	System of Delegation
SOP	Standard Operating Procedure
STATSSA	Statistics South Africa
UIFWE	Unauthorised, Irregular & Fruitless and Wasteful Expenditure
WC	Western Cape

Executive summary

National Treasury (NT), in conjunction with Provincial Treasuries (PTs), are responsible for monitoring the level of compliance with the applicable laws and regulations in municipalities and municipal entities as required by section 5 (2)(c)(i) and section 5 (4)(a)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA). This report provides the status of MFMA compliance and implementation derived from the Muni eMonitor system, the web-enabled Financial Management Capability Maturity Model (FMCMM) and Audit Action Plan (AAP) system, and information sourced from other related documents. It covers the 2023/24 municipal financial year (FY) (01 July 2023 to 30 June 2024). It also includes information from the prior municipal FY that highlights trends and patterns. This report focuses on systems of delegation, senior management vacancies, asset management, supply chain management, Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFWE), consequence management, cost containment, Annual Financial Statements (AFS), Internal Audit (IA) and Audit Committees (AC). The report excludes budget and spending reports which are covered in other in-year publication reports issued by the National Treasury.

One of the major trends throughout the report is the lack of reporting and/or the provision of credible information submitted by municipalities. This reveals that management and council are not providing and exercising sufficient oversight over required information submitted by their institutions, resulting in continued compliance gaps, internal control deficiencies, lack of consequence management and negative or regressed audit outcomes. The weaknesses in management oversight are further underscored by the recent discovery upon introducing the two-pot retirement system, which enabled employees to draw down from their pension funds, that municipalities had failed to make payment of pension fund contributions on behalf of employees to the relevant pension funds. Management had failed to discharge their responsibilities and statutory obligations effectively. Furthermore, the lack of reporting or provision of credible and complete information inhibits oversight institutions, such as National and Provincial Treasuries as well as other oversight authorities, in developing and implementing impactful support initiatives and measures, compelling them to rely on audited information which is normally only available when the next municipal financial year has already been concluded.

The MFMA requires municipalities to maintain regularly reviewed and properly signed Systems of Delegations (SODs) to enhance governance, operational efficiency, and accountability; however, a recent assessment across all provinces shows mixed results. A total of one hundred and nineteen (119) municipalities indicated that SODs were signed by both the delegator and delegatee, whilst at sixty-nine (69) municipalities SODs were not signed, and sixty- nine (69) municipalities did not respond to the evaluation. This inconsistency raises concerns about weak internal controls, lack of consequence management, and reduced administrative and operational effectiveness. To address these gaps, municipalities must ensure regular updates to SODs in alignment with section 79 of the MFMA, strengthen training and support, implement robust monitoring mechanisms, and promptly sign off delegations to provide clear accountability for officials at all levels. Ultimately, embracing best practices from higher-performing municipalities and instituting standardised processes will help improve compliance, mitigate financial and governance risks, and promote efficient service delivery.

The report highlights that municipalities are still struggling to fill key positions, with the highest number of vacancies nationally in the following positions: Chief Risk Officers, sixty-two (62) vacancies, Chief Audit Executives, thirty-nine (39) vacancies and Head of Assets, with thirty (30) vacancies. Vacancies in these key positions directly impact a municipality's ability to identify risk factors and implement risk mitigation strategies and effective controls. High vacancies in the heads of asset management coupled with a significant number of municipalities without asset management units, fifty-five (55) municipalities could explain why so many municipalities are still struggling with effective asset management. It was noted that, 48% of municipalities nationwide have indicated that they will use consultants to assist them with implementing the asset management function. Furthermore, 57% of municipalities with asset management units in place, will still be making use of consultants for this discipline. The 2022/23 Auditor-General of South Africa (AGSA) MFMA General report also noted that most municipalities spent money on consultants in asset management. Municipalities are encouraged to prioritise the capacitation and upskilling of their asset management units and structures. Establishing and maintaining these units is crucial for optimising resource use, enhancing service delivery, and ensuring transparency and compliance.

Whilst one hundred and eighty-six (186) municipalities have adopted cost containment policies, implementation of the policies appears to be a challenge. There are still a significant number of municipalities that are heavily reliant on consultants. Municipalities indicated that they would be using consultants mostly in the areas of asset management, AFS preparation, audit support and estimates of landfill site provisions. The AGSA reported that in the 2022/23 financial year, municipalities spent R1,35 billion on consultants to help with financial reporting. This amount appears to have decreased over the past year; however, the expenditure on using consultants is still proportionally high. It was noted that there are one hundred and forty-four (144) (56%) municipalities that do not have consultancy reduction plans in place, and fifty-seven (57) municipalities did not report if they have such plans. Furthermore, eighty-two (82) municipalities either do not have clauses for skills transfer in their service level agreements (SLA) with consultants or did not report in this area.

The Municipal Cost Containment Regulations require each municipality to develop a council-approved consultancy reduction plan that demonstrates how the municipality will reduce its reliance on consultants over a period of time. It is, therefore, very concerning that most municipalities appear not to be getting value for money on the work performed by consultants - only thirty-four (34) municipalities nationally received clean audits in the 2022/23 FY. One hundred and eighty-five (185) municipalities reported that they performed quality reviews on the work performed by consultants in the 2023/24 FY. It would be interesting to see if this review translated into value for money and improved audit outcomes upon the conclusion of the 2023/24 audit.

An analysis of the Unauthorised, Irregular, Fruitless, and Wasteful Expenditure (UIFWE) across municipalities for the 2023/2024 financial year reveals significant challenges in financial governance and compliance with the MFMA. High levels of unauthorised, irregular, fruitless, and wasteful expenditure persist, with certain municipalities reporting significant increases. This indicates systemic governance failures and financial mismanagement. Irregular expenditure remains the most significant contributor to UIFWE balances, reflecting widespread non-compliance with procurement and financial regulations. Another critical challenge is the inadequacy of internal controls and accountability mechanisms to prevent and address UIFWE. Many municipalities lack robust systems to ensure the timely implementation of council resolutions on the recoverability or write-off of UIFWE. The high reliance on write-offs rather than recoveries across municipalities indicates a failure to hold individuals accountable for financial misconduct.

Moreover, the minimal recovery efforts and substantial amounts of prior years' UIFWE being identified in the current year suggest persistent governance issues that have not been effectively addressed. The reporting mechanisms also present challenges, with many municipalities failing to inform relevant authorities about UIFWE incidents and the steps taken to prevent their recurrence. Non-responsiveness and partial reporting hinder transparency and accountability, obstructing accurate monitoring and enforcement of compliance. There is also a significant lack of reporting of alleged irregular expenditure that constitutes a criminal offence to the South African Police Service (SAPS), particularly in cases involving accounting officers. This raises concerns about municipalities' commitment to upholding ethical standards and legal obligations.

The 2023/24 financial year emphasises the critical role of Disciplinary Boards in enforcing the MFMA’s provisions and promoting sound financial governance in municipalities across South Africa. One hundred and forty-seven (147) municipalities that reported to have established disciplinary boards, meaning they can conduct full investigations, make disciplinary recommendations, and address financial misconduct cases. Effective Disciplinary Boards are essential to upholding accountability, curbing financial mismanagement, and maintaining public trust in municipal governance. Municipalities must build and maintain robust disciplinary structures supported by sufficient resources, skilled personnel, and clear procedural guidelines to achieve this. Addressing these issues will improve the disciplinary process and reinforce a culture of ethical financial management, ensuring that public resources are used efficiently and responsibly.

Non-compliance with SCM regulations remains a challenge in municipalities. Municipalities either fail to update their SCM policies to ensure compliance with the latest regulations or have not developed them. This lack of compliance undermines the constitutional public sector procurement principles as outlined in section 217 of the Constitution. Another significant challenge is the failure to address audit findings timeously. Although municipalities are required to review their SCM processes and implement corrective measures to resolve issues identified in audits, many fail to do so effectively. This has resulted in recurring irregularities, including irregular and wasteful expenditures. Insufficient risk management also poses a critical challenge. Municipalities continue to struggle to establish and enforce robust frameworks to prevent fraud, corruption, and favouritism in the procurement processes.

Operational and capacity gaps further impede effective SCM practices. Many municipalities lack the necessary infrastructure, systems, and human resources to manage SCM activities. Contract management is a notable area of concern, with only one hundred and twenty-three (123) municipalities reporting adequate capacity to oversee contracts effectively. In addition, monitoring contractor performance remains inadequate, as only one hundred and seventy-nine (179) municipalities reported conducting monthly performance reviews, as required by section 116 of the MFMA, to implement corrective actions when necessary. The absence of Standard Operating Procedures (SOPs) compounds these challenges. Of the two hundred and fifty-seven (257) municipalities, only one hundred and sixty-six (166) had approved SOPs to ensure consistency and transparency in their SCM processes. Many municipalities failed to submit accurate and complete SCM-related data, undermining treasury oversight and municipal accountability. These reporting deficiencies hinder a comprehensive assessment of SCM practices and obscure the true extent of non-compliance across municipalities.

The Financial Management Capability Maturity Model (FMCMM) serves as a vital diagnostic tool to evaluate and enhance municipalities' financial management processes, spanning areas like internal controls, revenue management, and risk mitigation. Initially introduced in 2015, its uptake and enforcement were inconsistent, limiting intended improvements. In 2022, the rollout of an automated web-enabled FMCMM system—guided by MFMA Circular 114—streamlined the assessment process via 21 modules, generated actionable improvement plans, and enabled real-time tracking of implementation. While some municipalities, notably in the Eastern Cape, have shown notable improvements and better audit outcomes, many continue to struggle with persistent challenges identified by the Auditor-General, including weaknesses in revenue management, debt, supply chain processes, ICT, and HR capacity. Ongoing refinements to the system, driven by municipal feedback, underscore National Treasury's commitment to strengthening financial governance, with Provincial Treasuries playing a key oversight role and municipalities urged to complete assessments, address findings diligently, and leverage the FMCMM to support better service delivery.

Although municipalities are improving in submitting their AFS timeously to the AGSA, the quality of the AFS continues to remain a challenge. This is substantiated by municipalities failing to address their audit findings by the end of the next financial year. The Audit Action Plan web-enabled system shows that as at 30 June 2024, municipalities were struggling to develop credible actions to address audit findings as there were still a high number of audit action plans not yet developed or under development. Of the ten thousand three hundred and forty (10 340) findings uploaded on the system, only one thousand and sixteen (1 016) (under 10%) were recorded as having been addressed. It is unclear whether this accurately reflects the actual status quo or whether municipalities fail to use and report accurately on the Audit Action Plan system. Nevertheless, it remains a concern as there is a significant risk that many municipalities will have repeat audit findings in forthcoming financial years' audits based on the reporting data from municipalities.

There is also a concerning trend that whilst municipalities are including in their AFS preparation plans processes for the review of the AFS by internal audit, the audit committee and PT/NT, the late preparation of the AFS and audit files often results in these assurance providers being unable to perform a review or that the review notes are not implemented due to time constraints to submit the AFS on time. Only one hundred and fifty- six (156) municipalities indicated that internal audit reviewed the 2023/24 AFS prior to submission to AGSA, a similar trend was also noted for the review by audit committees, where the audit committees at one hundred and sixty-three (163) municipalities reviewed the municipality's 2023/2024 AFS before submission to AGSA, whilst others municipalities failed to report on the audit committee review. Therefore, it is unclear whether there will be a significant improvement in the 2023/24 municipal audit outcomes.

The AGSA has consistently flagged municipality compliance with laws and regulations as a significant weakness. Too many municipalities are still not taking compliance reporting seriously or seeing it as a burden. Conducting municipal business in line with the relevant laws and regulations and reporting thereon timeously and in a credible manner indicates a municipality with good governance as the foundation of its operations. Compliance reviews assist oversight authorities and structures in identifying areas where support is required. Municipalities are therefore encouraged to ensure timely, accurate reporting as required by the MFMA so that oversight is undertaken based on credible compliance data that truly reflects the state of affairs within municipalities.

The 2023/24 compliance report reveals alarming negative trends in municipal governance, highlighting a pervasive lack of credible reporting and oversight that jeopardises financial integrity across South Africa's municipalities. Despite the National and Provincial Treasuries' mandate to enforce compliance with the Municipal Finance Management Act, critical vacancies in key positions, excessive reliance on consultants, and persistent non-compliance with supply chain management regulations have led to significant governance failures. The staggering levels of Unauthorised, Irregular, Fruitless, and Wasteful Expenditure (UIFWE) reflect systemic issues that undermine public trust and hinder effective service delivery. As municipalities struggle to address audit findings and implement robust internal controls, the urgent need for enhanced accountability and transparency has never been more critical. This report serves as a clarion call for immediate action to rectify these deficiencies and restore confidence in municipal financial management.

Overall, the following are the key issues emanating from this report, which are expounded on further in the report.

- **Oversight and Compliance**: The National and Provincial Treasuries are tasked with monitoring municipal compliance with the Municipal Finance Management Act (MFMA), yet significant gaps in oversight and reporting persist.
- **Data Credibility Issues**: A major trend is the lack of credible information from municipalities, hindering effective oversight and leading to compliance gaps and negative audit outcomes.
- **Vacancies in Key Positions**: High vacancy rates in critical roles like Chief Risk Officers and Chief Audit Executives undermine municipalities' risk management and asset management capabilities.
- **Consultant Dependency**: Despite cost containment policies, municipalities remain heavily reliant on consultants, particularly in asset management and financial reporting, with insufficient plans for reducing this dependency.
- **Supply Chain Management (SCM) Challenges**: Non-compliance with SCM regulations and inadequate contract management continue to undermine procurement processes, leading to irregular and wasteful expenditures.
- **Financial Mismanagement**: Persistent issues with Unauthorised, Irregular, Fruitless, and Wasteful Expenditure (UIFWE) highlight systemic governance failures and inadequate accountability mechanisms.
- **Disciplinary Board Effectiveness**: While disciplinary boards are established in many municipalities, only a fraction are operational, limiting their ability to address financial misconduct effectively.
- **Audit Action Plan Deficiencies**: Municipalities struggle to address audit findings, with a significant number of unresolved issues, risking repeat findings and poor audit outcomes.
- **Internal Audit and Review Delays**: Late preparation of Annual Financial Statements (AFS) often prevents thorough reviews by internal audit and audit committees, impacting audit quality.
- **Need for Improved Governance**: Consistent non-compliance with laws and regulations underscores the need for municipalities to prioritise governance and accurate reporting to enable effective oversight and support.

Other National Treasury divisions may use this report, Heads of Departments (HODs) of Provincial Treasuries, the South African Local Government Association (SALGA), the Department of Cooperative Governance (DCoG), as well as oversight committees in parliament and the provincial legislatures to inform support measures and decision making.

Introduction

The local sphere of government in South Africa plays a crucial role in the overall governance and development of the country, serving as the primary interface between the state and local communities. It is essential to ensure that citizens' needs and priorities are addressed effectively and efficiently, as local governments are responsible for delivering basic services such as water, sanitation, waste management, and housing. The importance of a functional local government lies in its ability to promote participatory democracy, enhance accountability, and foster community engagement in decision-making processes. South Africa can achieve sustainable development, social cohesion, and economic growth by empowering municipalities to respond to the unique challenges and opportunities within their jurisdictions. A well-functioning local government is, therefore, vital for realising the constitutional mandate to provide equitable access to services, uplift marginalised communities, and ultimately contribute to the stability and prosperity of the nation as a whole.

The Municipal Finance Management Act (MFMA) is a cornerstone of financial governance in South Africa, designed to promote transparency, accountability, and sound financial management within municipalities. Its importance lies in establishing a framework that ensures municipalities operate within their financial means, effectively manage public resources, and deliver essential services to their communities. Compliance with all sections of the MFMA is critical, as it not only safeguards public funds but also enhances the credibility and integrity of local government institutions. Adhering to the MFMA fosters responsible budgeting, financial reporting, and performance management, which are essential for building public trust and confidence in local governance. Furthermore, compliance with the MFMA enables municipalities to identify and mitigate financial risks, thereby ensuring sustainable service delivery and promoting socio-economic development. Ultimately, the MFMA serves as a vital tool for enhancing the efficiency and effectiveness of local governments, contributing to the overall stability and growth of South Africa.

The Municipal Systems Act 32 of 2000, particularly sections 55, 56, and 57, establishes the foundational framework for the appointment, roles, and accountability of key personnel in municipal administration, ensuring effective governance and service delivery. Section 55 outlines the responsibilities of the municipal manager as the head of administration and accounting officer, emphasising their role in implementing the Integrated Development Plan (IDP), managing municipal services, and ensuring compliance with applicable legislation, including the Municipal Finance Management Act (MFMA). Section 56 governs the appointment of senior managers directly accountable to the municipal manager, requiring that such appointments be based on relevant skills and expertise while promoting equity and fairness. Section 57 mandates written employment contracts and performance agreements for municipal managers and their direct reports, linking performance objectives to the municipality's strategic goals and ensuring accountability through measurable targets. These provisions collectively aim to promote transparency, efficiency, and compliance with the MFMA, forming a critical component of municipal governance and financial management.

Section 5(2)(c)(i) and Section 5(4)(a)(i) of the MFMA require that both the National Treasury and Provincial Treasuries monitor and assess compliance by municipalities and municipal entities with the Municipal Finance Management Act. Furthermore, section 5(2)(d) empowers the National Treasury to investigate any financial management and internal control system in any municipality or municipal entity and recommend improvements. National Treasury launched two web-enabled systems, namely the *Muni eMonitor system* and the *FMCMM and Audit Action Plan system,* to improve the efficiency of its monitoring and oversight responsibilities over municipalities and municipal entities. These systems also aim to improve effective reporting, strengthen internal control and support risk mitigation strategies and oversight by management and other assurance providers at municipalities and municipal entities.

The Muni eMonitor System was launched in November 2023 to strengthen the capacity and capability of municipalities and municipal entities to report on compliance with the provisions of the MFMA and its regulations, to improve information flows for public accountability, to enhance monitoring, oversight, support measures and effective reporting by various stakeholders in municipalities, municipal entities, PTs and National Treasury. Numerous capacity-building sessions were undertaken with the various stakeholders, and Muni eMonitor champions were identified in every municipality and provincial treasury. The system consists of two main components: the MFMA Legislated Calendar with the Actions Management function and the Evaluations Questionnaire function. The implementation plan for the two main components are as follows: *MFMA Legislated Calendar with the Actions Management function* - All monthly Actions appearing under the legislative calendar for each month must be processed within the specific month they appear in the calendar. *Evaluations Questionnaire* – Evaluations (covering various financial management disciplines) will be published by the National Treasury (on a quarterly and ad hoc basis) for municipalities to complete and submit on the system within the deadlines stipulated by the National Treasury. (NB! These Evaluations replaced the previous quarterly NT Reporting Requirements that municipalities were required to complete and report in an Excel format.)

National Treasury developed the *FMCMM* in 2015 as a self-assessment tool for municipalities and municipal entities to measure their financial management capability and maturity levels. The tool was converted into a web-enabled system in 2022. FMCMM levels 1,2,3 consist of twenty-one (21) modules covering various financial management disciplines. The purpose of the assessment is for municipalities/ municipal entities to identify gaps in their internal controls, policies, and procedures and to proactively develop actions to mitigate risks and address the identified shortcomings. The web-enabled system also includes an automated *Audit Action Plan* (AAP) component for municipalities and municipal entities to track the resolution of their findings raised by the AGSA during the external audit. Municipalities/ municipal entities develop audit action plans to address their findings on the web-enabled system and monitor and report on progress in implementing the approved actions to address those findings in real-time. The web-enabled Audit Action Plan system also ensures more effective and rigorous engagement between Provincial and National departments and municipalities, contributing to ongoing support to improve audit outcomes. NT issued MFMA Circulars 113, 114 and 125 to provide further details on the FMCMM and Audit Action Plan systems as well as the Muni eMonitor system.

Methodology

Sections 5(2)(c)(i) and 5(4)(a)(i) of the MFMA require the National Treasury (NT), in conjunction with Provincial Treasuries (PTs), to monitor and assess compliance by municipalities and municipal entities with the Act. Furthermore, Section 5(2)(d) empowers NT to investigate any system of financial management and internal control in any municipality and recommend improvements.

National Treasury monitors MFMA compliance in local government primarily through two web-enabled systems, namely, the Muni eMonitor system and the Financial Management Capability Maturity Model (FMCMM) and Audit Action Plan (AAP) system.

The primary source of the data for in this report, was extracted from the Muni eMonitor system in October 2024. Where other related data sets exist, such as the AGSA reports, these were used to validate actual MFMA compliance and governance where possible.

The objective of the MFMA Compliance Report is to provide the consolidated status of MFMA compliance and implementation across all nine (9) provinces.

It covers the 2023/24 municipal financial year, namely for the period 01 July 2023 to 30 June 2024, reflecting information submitted by municipalities for the first year of the rollout of the Muni eMonitor system. The report also includes some information from the prior municipal financial years to highlight trends and patterns over time. However, the credibility of the report may be compromised where municipalities have not been completed and accurately reported in the evaluations submitted.

Throughout the 2023/24 FY, the National Treasury has requested all municipalities to submit the quarterly MFMA compliance reporting requirements now referred to as Evaluations on the Muni eMonitor system for review and oversight. Even though municipalities were given the opportunity to verify the accuracy and consistency of the data submitted, there are still discrepancies between the data on the Muni eMonitor system and the information in the audited annual financial statements and annual reports. It remains the responsibility of a municipality to ensure that data on the Muni eMonitor system reconciles with the audited information since the National Treasury primarily utilises the data from Muni eMonitor system to conduct the analysis for reporting of information. The approach is meant to enforce compliance with the requirements of the MFMA.

Focus areas included in the report are Systems of Delegation, Senior Management Vacancies, Asset Management, Cost Containment and Use of Consultants, Supply Chain Management, Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFWE), Consequence Management, Audit Action Plans, Internal Audit (IA) and Audit Committees (AC) and Annual Financial Statements (AFS).

Finally, this report considers mainly the nexus between the MFMA statutory obligations and reported governance and compliance outcomes.

Limitations of the reporting data

Disclaimer: It is important to note that the Muni eMonitor system is a live system, and as such, there may be variations between the data extracted at the time and the current data in the system. NT acknowledges that these discrepancies are inherent due to the dynamic nature of the system and should be considered when interpreting the results presented in this report.

The main limitation of this report relates to the overall national submission rate of the various quarterly Evaluations by municipalities on the Muni eMonitor System, which currently stands at an aggregated seventy-six percent (76%), broken further below as per the compliance status table. This leaves a balance of twenty-four percent (24%) of municipalities that did not respond to the Muni eMonitor system across various provinces.

The table below shows the percentage of submissions by municipalities for each of the provinces per quarter of the 2023/24 financial year. Provinces where municipalities submitted most of the required Evaluations were the Eastern Cape (99%) and Mpumalanga (96%). The province with the least number of required Evaluations submitted was Limpopo (52%) and the Free State (62%). It should be noted that the submission of the evaluations across the various disciplines vary per municipality and per province and the analysis in the table below is based on the aggregate of the quarterly evaluations submitted.

MFMA statutory obligations and reported governance and compliance outcomes

PROVINCE	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4	TOTAL
Eastern Cape	99%	99%	99%	96%	**99%**
Free State	68%	63%	67%	51%	**62%**
Gauteng	89%	88%	79%	73%	**82%**
KwaZulu Natal	71%	69%	65%	51%	**64%**
Limpopo	61%	58%	50%	41%	**52%**
Mpumalanga	99%	99%	96%	92%	**96%**
North West	85%	81%	81%	71%	**80%**
Northern Cape	82%	81%	79%	63%	**76%**
Western Cape	83%	80%	70%	64%	**74%**

It is regrettably noted that despite numerous communications, other municipalities did not comply with the above legislative requirements and failed to submit all quarterly reporting. It is important to note that failure to resolve these transgressions can be construed as financial misconduct in section 171 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

The quality and credibility of the data submitted directly by the municipalities (primary data source) also remains a challenge. We are however of the view that, despite the limitation of the data, the publication of this report will over time change the attitude of municipalities towards compliance reporting and ultimately the credibility of the data reported into the systems referred to above.

Specifically excluded from the report is information relating to budget management and implementation since data in this regard are covered in other in-year publication reports issued by the National Treasury.

Purpose and overview

The objective of this report is to present a comprehensive consolidated report on the state of compliance with the MFMA and its supporting regulations across all two hundred fifty-seven (257) municipalities in South Africa for the 2023/24 municipal financial year. The report analyses the current trends in implementing the MFMA and its applicable regulations across the entire sector. The analysis utilises primary data obtained from National Treasury (NT) reporting systems, complemented by secondary data sources. The reporting frequency is predominantly a combination of monthly and quarterly reports. This report edition focuses on the 2023/24 financial year, offering a comprehensive overview of the submission trends observed from 01 July 2023 to 30 June 2024.

The following functional areas are covered:

1. Systems of Delegations (SOD)
2. Senior Management Vacancies (SMV)
3. Asset management
4. Cost containment
5. Unauthorised, Irregular, Fruitless and Wasteful expenditure (UIFW)
6. Consequence Management
7. Supply Chain Management (SCM)
8. AFS, Audit Action Plans, Internal Audit and Audit Committees
9. FMCMM
10. Use of Consultants

Review and revision of the systems of delegations (SODS)

Municipalities need to maintain a well-functioning system of delegations and keep delegations up to date to enable administrative and operational efficiency. Section 79 of the MFMA requires that the accounting officer of a municipality (a) must develop an appropriate delegation system that will maximise administration and operational efficiency and provide adequate checks and balances in the municipality's financial administration. In addition, subsection (c) requires the accounting officer to review delegations regularly and, if necessary, amend or withdraw any of those delegations.

MFMA Circular number 73 states that a municipality must periodically review its system of delegations for validity and completeness, and specific responsibility must be assigned to an official to manage, maintain and monitor delegations in the municipality. A municipality's delegations must be aligned to measurable objectives and the organisational structure.

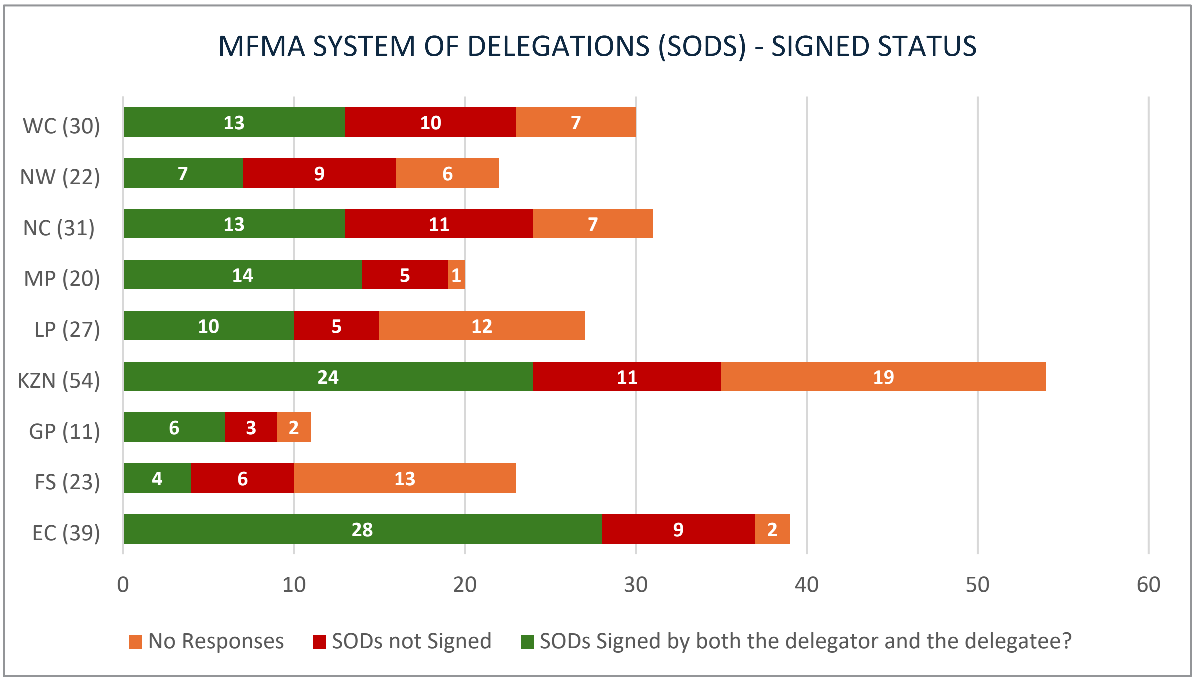
Moreover, the following principles must be implemented:

- Any delegation or authorisation to perform a power or duty must be in writing.
- A municipality's system of delegation must be reviewed when a new council is elected or appointed when a new municipal manager is appointed, when there is a change to the organisational structure due to reorganising or restructuring or when there are amendments to municipal policies or legislation.

It is, therefore, a legislative requirement that all municipalities review, table, and adopt the system of delegation in council together with the municipality's budget and related policies for the 2023/2024 financial year as per Section 79 of the MFMA read together with MFMA Circular 73. The system of delegations is also an important tool in the accountability ecosystem within municipalities as it forms the foundation for holding municipal officials below the accounting officers accountable. It is, therefore, critical that municipalities have a system of delegation, which is approved by the municipal council, to ensure effective accountability and enable consequence management.

SOD's signed by both the delegator and delegatee

The information below provides a high-level analysis of the extent to which municipalities ensure that delegations to specific positions are signed by both the delegator and delegatee, across all provinces.



A total **of one hundred and nineteen (119) municipalities indicated that SODs were signed by both the delegator and delegatee**, whilst at sixty-nine (69) municipalities SODs were not signed, and sixty-nine (69) municipalities did not respond to the evaluation.

NT notes the high compliance levels in some provinces: EC with twenty-eight (28) out of thirty-nine (39) municipalities having signed the SODs. It is the province with one of the highest compliance rates, with about 71.8% of municipalities having SODs signed by both the delegator and delegatee. Only nine (9) municipalities in the province indicated that the SODs were not signed, and two (2) municipalities did not respond, indicating a general strong adherence to good governance principles in this province. In MP province, fourteen (14) out of twenty (20) municipalities (or 70% of all municipalities in the province) had signed SODs, which indicates high compliance in the province. Only one (1) municipality did not respond, further suggesting solid governance in the province.

Moderate compliance was noted in some provinces: in GT province, six (6) out of eleven (11) municipalities (54.5% of the municipalities in the province) reported that both parties signed SODs, whilst three (3) municipalities indicated that they were not signed, and two (2) municipalities did not provide responses. While compliance in this area is moderate, municipalities in this province still need responsiveness.

In LP province, ten (10) out of twenty-seven (27) municipalities (representing 37%) reported to have signed SODs, with five (5) municipalities indicating that they were not signed, and twelve (12) municipalities did not provide responses. This shows a moderate to low compliance rate, with a significant number of municipalities not reporting at all.

In the NC province, thirteen (13) out of thirty-one (31) municipalities (representing 41.9% of the province) reported to have signed SODs. In comparison, eleven (11) municipalities reported that they were not signed, and seven (7) municipalities did not provide the required information.

Low compliance and high non-response in some provinces are areas of concern: in the FS province, only four (4) out of twenty-three (23) municipalities (17.4% of all municipalities in the province) had signed SODs, with six (6) municipalities having unsigned SODs and thirteen (13) municipalities did not respond. This is concerning as a high proportion of municipalities are either not ensuring the sign-off of their SODs or not reporting on the signoffs at all.

Although twenty-four (24) out of fifty-four (54) KZN municipalities (44.4%) indicated to have signed SODs, eleven (11) municipalities reported to have unsigned SODs, and a significant number (nineteen (19) municipalities) have not responded to the evaluation. This is a major concern as the high non-response rate could imply a lack of data or unwillingness to comply with compliance reporting requirements.

In NW province, only seven (7) out of twenty-two (22) municipalities (or 31.8% of all municipalities in the province) have signed SODs, with nine (9) municipalities indicating that they are not signed, and six (6) municipalities did not respond to the evaluation. This is indicative of the low compliance with the SODs process.

Conclusion

While some provinces have made impressive strides, there are clear disparities in performance across the country. Proactive measures to address the gaps, particularly in the LP, KZN and FS, will be essential for improving overall national progress.

Proactive measures can enhance governance and ensure that the SODs remain relevant and effective in supporting municipal functions as well as consequence management. Acknowledged delegations are an important instrument in the accountability ecosystem as they form the foundation for addressing financial misconduct by officials below the accounting officer.

Municipalities cannot overemphasise the existence and relevance of signed-off delegation systems. Outdated systems of delegation impact administrative and operational efficiency. Similarly, lack of reporting and low levels of reporting compromise oversight and signal distress for administrative and operational efficiency. Adherence to section 79 of the MFMA is crucial for maintaining good governance, financial accountability, and effective service delivery. Regular training, robust internal controls, and a culture of accountability can help mitigate non-compliance risks.

Treasury recommendations

- **Encourage municipal action:** Encourage all municipalities to prioritise reviewing and singing their SODs to ensure compliance with the MFMA and to enhance governance practices.
- **Increase Monitoring and Support:** Implement a more structured follow-up process, especially in municipalities with unsigned SODs.
- **Boost Engagement in Low-Response municipalities:** Investigate the root causes of no responses and address any barriers to communication, such as miscommunication or insufficient resources for review and feedback.
- **Allocate Resources to Underperforming municipalities:** Municipalities with higher percentages of unsigned SODs should be provided with additional support to accelerate the process.

- **Benchmarking Best Practices:** Provinces such as EC and MP, which have demonstrated a high level of progress, could be used as models for best practices. Sharing these practices across other provinces/municipalities could help improve compliance performance.
- **Targeted Training and Awareness:** Provide additional training sessions for all municipal officials concerning SOD to highlight the importance thereof.

Municipal recommendations

- **Align SODs with MFMA & Circular 73**: Ensure the SODs are reviewed in alignment with Section 79 of the MFMA and MFMA Circular 73.
- **Establish Clear SOD Review Triggers**: Stipulate and monitor triggers for SODs review in the municipal policy (e.g., a new council, new Municipal Manager, restructuring, or legal changes).
- **Assign an Official**: Designate an official to manage, maintain, and monitor the SODs, ensuring compliance with reporting requirements.
- **Mandate Written Records**: All delegations or authorisations are required to be documented in writing, per the MFMA and Circular 73.
- **Define Roles Clearly**: Specify the roles and responsibilities of both the delegator and the delegatee in each delegation.
- **Enforce Joint Signoffs**: Implement a mandatory sign-off procedure for both the delegator (e.g., Municipal Manager, Mayor, or Council) and the delegatee.
- **Adopt Electronic Systems**: Incorporate electronic document management to track and store signed copies of delegations, ensuring auditability.
- **Maintain Centralised Archives**: Keep all signed delegations' centralised records (hardcopy and electronic).
- **Use Standardised Templates**: Develop templates detailing delegation date, scope, limits, conditions, and sign-off fields.
- **Implement Monitoring Tools**: Create checklists to regularly assess if SODs are current, signed, and effectively used.
- **Integrate Consequence management**: Implement consequence management procedures for non-compliance or delayed SOD reviews.
- **Leverage Signed SODs**: Use signed delegations to address financial misconduct and hold officials accountable.
- **Include SODs in Induction**: Incorporate SOD modules in orientation for newly appointed officials.

Senior management vacancies

When the MFMA was promulgated, the language used regularly referred to, "Let the managers manage, but hold them accountable". Section 2(a) of the MFMA provides that:

> *2. The object of this Act is to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements for-*
>
> *(a) ensuring transparency, accountability, and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and municipal entities:*

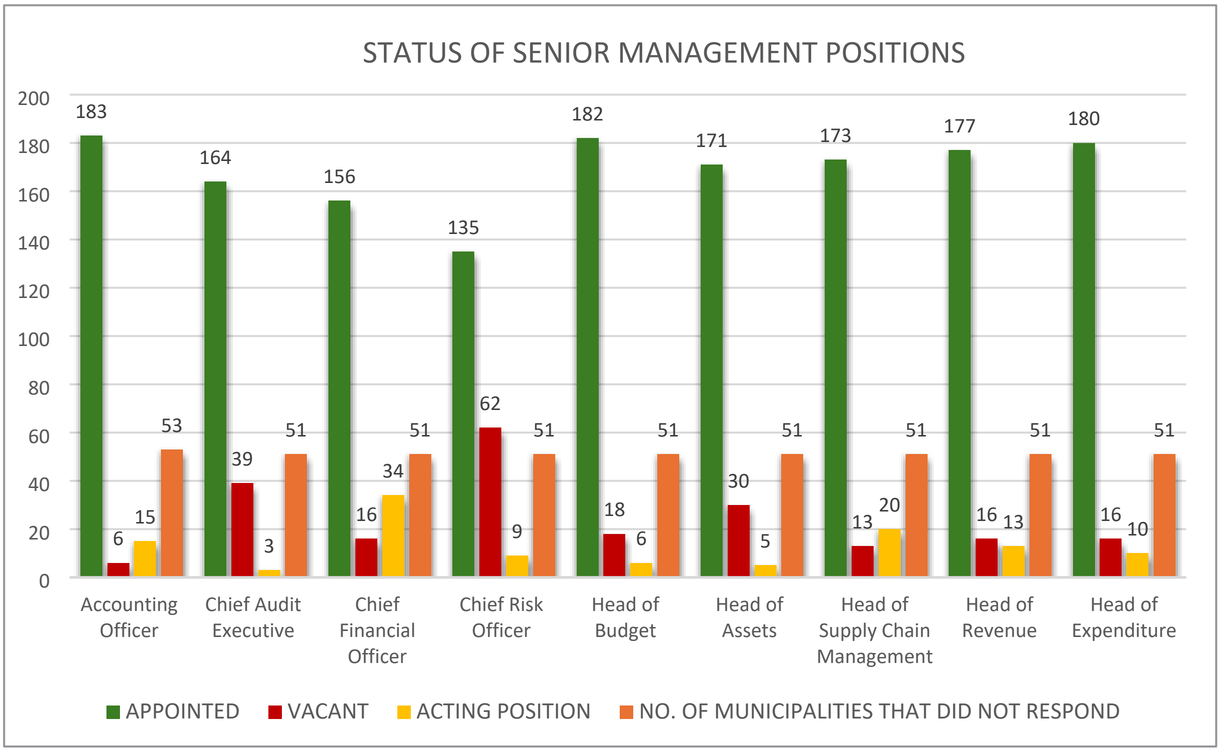
In any organisation, leadership plays a vital role in furthering the goals and aspirations of the organisation, and this holds true for municipalities as well, where the constitutional mandate is to provide service delivery to communities in South Africa. It is, therefore, critical that leadership positions are filled timeously with the right calibre of personnel capable of pursuing the mission and vision of local government and providing direction to the municipality where they are placed.

The AGSA MFMA report for the 2022/2023 financial year has indicated that the overall root causes of poor performance in local government will remain unresolved as long as there are inadequate skills and capacity, governance failures, and a lack of accountability and consequences. Stability in senior management appointments is key to addressing critical weaknesses and securing improvements in local government *(MFMA report, 2024: 96).*

The reported information presented below indicates that significant effort is required to address the high vacancy levels in several critical senior manager positions. National Treasury has seen the negative effects on the control environment of longstanding vacancies and instability in key senior management positions, compromising the effectiveness of financial and performance management, compliance with relevant legislation, service delivery, consequence management and audit outcomes of municipalities. Over the years, the National Treasury has observed that municipalities with stability in senior management generally perform well and achieve better outcomes in all aspects of their operations. The key positions considered in this report include accounting officers/municipal managers, chief financial officers, chief audit executives, heads of risk management, supply chain management, revenue and expenditure management and risk management. Vacancies in asset management are dealt with in the section pertaining to that area of operations.

In the 2023/2024 financial year, two hundred and six (206) out of the country's two hundred and fifty-seven (257) municipalities had completed the senior management vacancies evaluation on the Muni eMonitor system. The breakdown per province of municipalities that completed the evaluation and those that had not attempted the evaluation are indicated below:

The graph below depicts the national status of Senior Management positions at the end of Quarter 2:



Of the respondents, eighty-two percent (82%) of the critical senior management positions were filled, twelve percent (12%) were vacant, and six percent (6%) were occupied by officials in an acting capacity. The highest number of vacancies nationally pertained to Chief Risk Officers (62 vacancies), Chief Audit Executives (39 vacancies) and thereafter, Head of Assets, with thirty (30) vacancies. The information in the graph above was at the end of the Q2 evaluation period and may have subsequently changed by financial year end.

The grid below highlights where vacancies existed and where positions were occupied in an acting capacity in the 2022/2023 financial year for non-delegated municipalities (municipalities that report directly to the NT):

		AO	CFO	CAE	Head of SCM	Head of Budget	Head of Revenue	Head of Expenditure	Head of Risk
1	Buffalo City MM	✓	✓	✓	✓	Acting	✓	✓	✓
2	City of Cape Town	✓	✓	✓	✓	✓	✓	✓	✓
3	City of Ekurhuleni	✓	✓	✓	✓	Acting	✓	✓	✓
4	City of Johannesburg	DID NOT RESPOND APPROPRIATELY							
5	City of Mbombela	✓	✓	✓	✓	✗	✓	✓	✓
6	City of Tshwane	✓	✓	✓	✗	✓	✗	✓	✓
7	eThekwini	✓	✓	✓	Acting	✓	✓	✓	✓
8	George LM	✓	✓	✓	✓	Acting	Acting	✓	✓
9	Mahikeng LM	DID NOT RESPOND							
10	Mangaung M	✓	Acting	✓	✓	Acting	Acting	Acting	✓
11	Msunduzi M	✓	✓	✓	✓	✓	✓	✓	✓
12	Nelson Mandela Bay MM	✓	✓	✓	✓	✓	✓	✓	✓
13	OR Tambo DM	DID NOT RESPOND							
14	Polokwane LM	✓	✓	✓	Acting	✓	✓	✓	✓
15	Rustenburg LM	✓	Acting	✓	Acting	✓	✓	✓	✓
16	Sol Plaatje LM	✓	Acting	✓	Acting	✓	Acting	Acting	✓
17	uMhlathuze LM	✓	✓	✓	✓	✓	✓	✓	✓

Except for the City of Johannesburg, Mahikeng LM and OR Tambo DM, who did not complete the evaluation/or respond appropriately, all non-delegated municipalities indicated that the Accounting Officer, Chief Audit Executive and Head of Risk positions were filled.

The City of Cape Town, Msunduzi, Nelson Mandela Bay and uMhlathuze municipalities reported no vacancies in the key senior management vacancies listed in the table above.

At Mangaung Metropolitan Municipality, the municipality reported acting officials in the positions of the Chief Financial Officer, Head of Budget, Head of Revenue and Head of Expenditure. The municipality regressed in 2021/2022 from an unqualified audit with findings outcome to a qualified audit outcome, where it has remained for 2022/2023. The annexures to the AGSA MFMA General report for the 2022/2023 financial year indicate that the municipality had repeat audit qualification paragraphs relating to revenue and expenditure management. It was also noted that the municipality displayed material unfavourable indicators in terms of its financial health. Consultant costs increased the pressure of the financial strain on the municipality. The total consultant fees spent by the municipality for the 2022/2023 financial year amounted to R14,64 million.

At Sol Plaatje Local Municipality, the positions of Chief Financial Officer, Head of Supply Chain Management, Head of Revenue and Head of Expenditure were occupied by acting officials. The municipality has stagnated on a qualified audit outcome for five (5) years in a row since 2018/2019. The annexures to the AGSA MFMA General report for the 2022/2023 financial year indicated that the municipality had repeat audit qualification paragraphs relating to revenue and a new qualification in expenditure. The AGSA also reported repeat findings on non-compliance with respect to expenditure management, revenue, UIFWE and supply chain management. It was also noted that the municipality displayed material unfavourable indicators regarding its financial health.

The City of Tshwane Metropolitan Municipality reported vacancies for Head of Supply Chain Management and Head of Revenue. The city had repeat non-compliance findings in the areas of UIFWE and expenditure management, as well as supply chain management related risks. The City's financial health evidenced material unfavourable indicators.

The City of Mbombela Municipality reported a vacancy in the head of budget management position. The municipality received an unqualified with findings opinion over the past two (2) financial years, however the AGSA reported unfavourable findings on their financial health.

George Local Municipality reported that the Head of budget management and revenue management was not filled. The municipality obtained an unqualified audit outcome without findings for the last three (3) consecutive financial years.

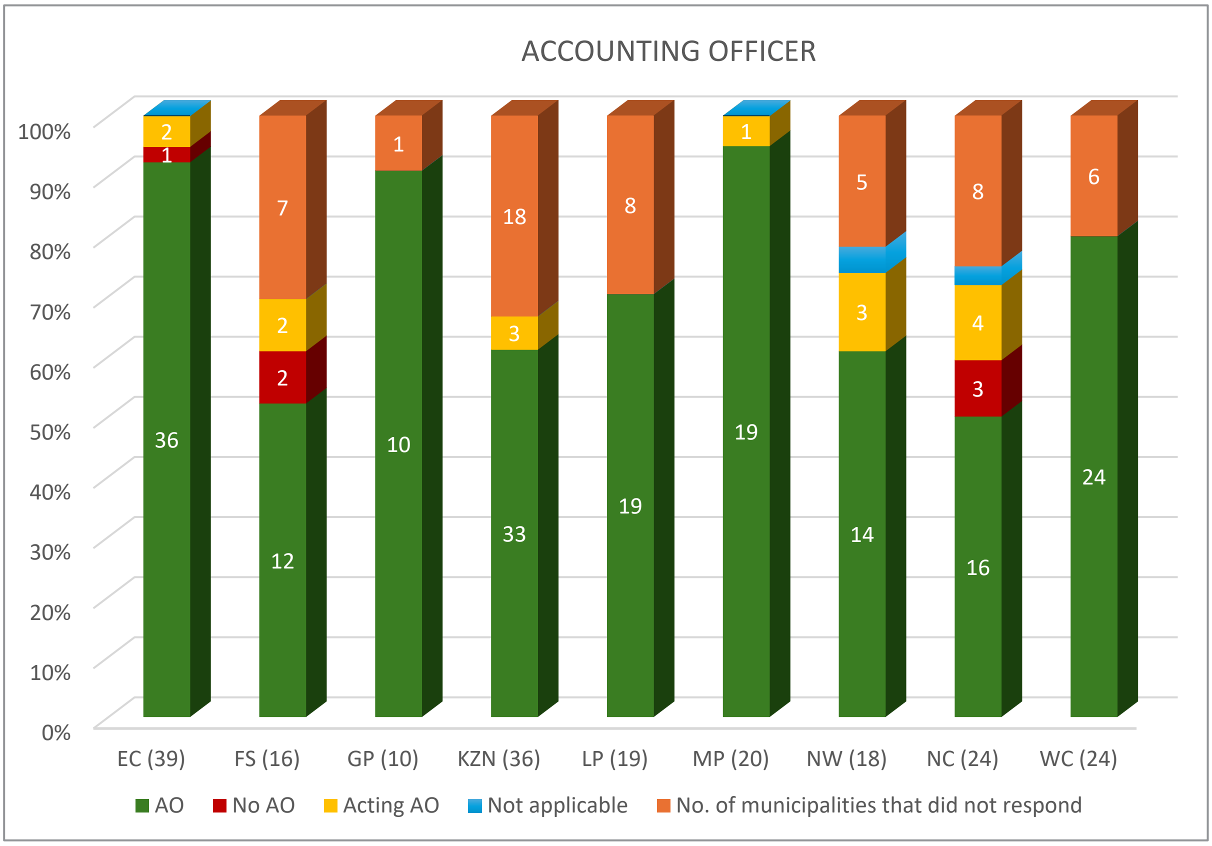
Rustenburg Local Municipality reported that officials in an acting capacity occupied the positions of Chief Financial Officer and Head of supply chain management. The municipality moved out of a disclaimer in 2018/2019 but has since stagnated on a qualified audit outcome for three (3) years in a row since 2018/2019. The annexures to the AGSA MFMA General report for the 2022/2023 financial year indicate that the municipality has failed to adequately address all areas of qualification in the audit opinion as well as all compliance findings from the previous year. It was also noted that the municipality displayed material unfavourable indicators in terms of its financial health.

eThekwini Municipality reported a vacancy for the Head of supply chain management. The metro has consistently maintained an unqualified with findings audit outcome for the last five (5) financial years, and the AGSA has raised findings concerning expenditure, procurement, UIFWE and supply chain management.

Despite Polokwane Local Municipality having obtained an unqualified with findings audit outcome for the past two (2) financial years, a repeat and a new finding was reported by the AGSA in expenditure management as well as repeat findings in procurement and supply chain management. The municipality reported a vacancy in the head of supply chain management.

Both Buffalo City and the City of Ekurhuleni municipalities reported a vacancy in the head of budget management position, and both regressed in the audit outcome in 2023/24 to a qualified audit opinion and unqualified with findings opinion respectively. They both also had unfavourable findings on their financial health.

Accounting Officers (AO's)



The province with the highest number of municipalities that did not complete the evaluation is KwaZulu Natal (eighteen (18) municipalities), followed by Limpopo province (eight (8) municipalities) and the Free State province (seven (7) municipalities.) The overall percentage of municipalities that did not complete the evaluation on senior management vacancies is substantial, constituting twenty (20) percent of all municipalities nationwide.

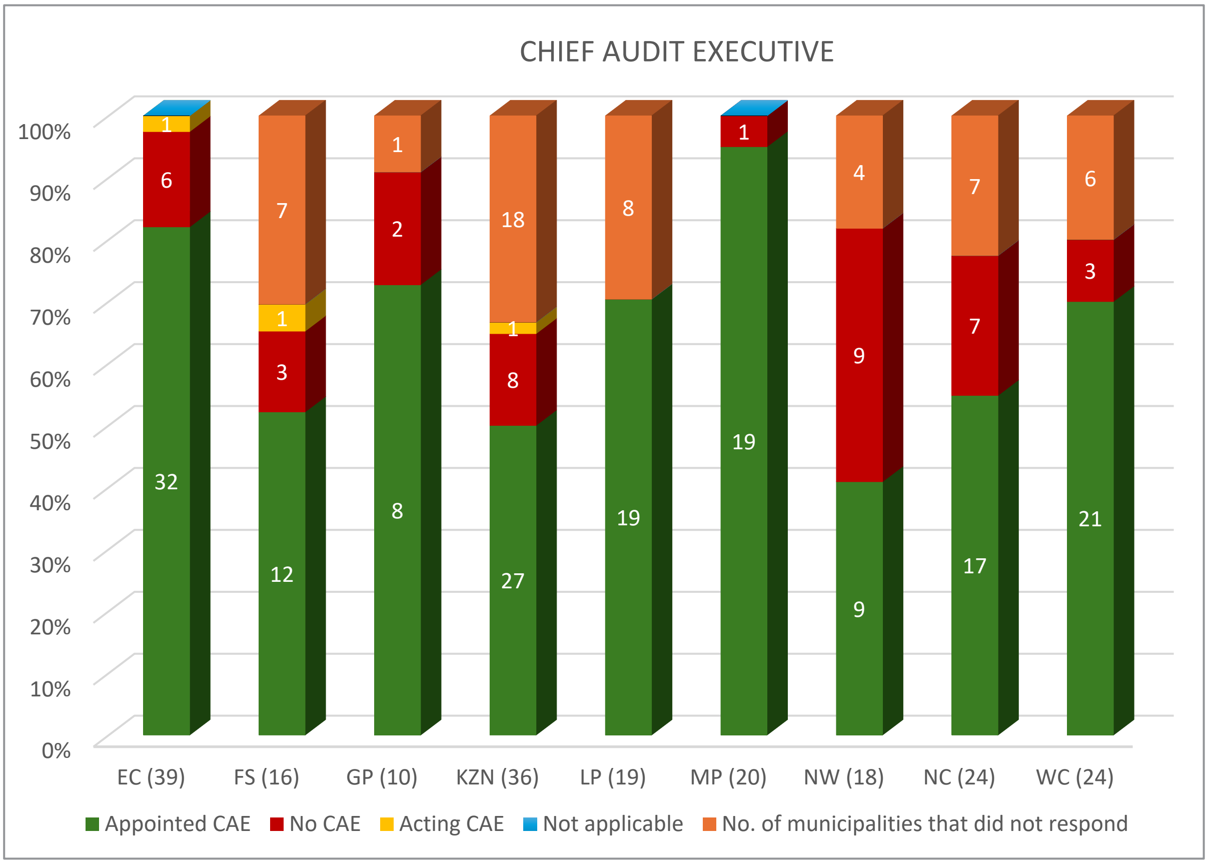
A total of one hundred and eighty-three (183) out of the two hundred and four (204) municipalities that furnished the relevant information have appointed municipal managers. Six (6) municipalities reportedly did not have accounting officers, and fifteen (15) municipalities reported to have acting accounting officers. Two municipalities, namely Dr Kenneth Kaunda in the North West and Phokwane LM in the Northern Cape indicated, that the question as to whether the position of the accounting officer at the municipality was permanently filled, was not applicable to them and hence they it is recorded as non-responsive.

Chief Audit Executives

The internal audit unit occupies an advisory position to the Accounting Officer and reports functionally to the independent Audit Committee as per section 165 (2)(b) of the MFMA. The Chief Audit Executive heads this unit which reports administratively to the Municipal Manager.

Strong leadership by the Chief Audit Executive (CAE) impacts the quality of the financial and performance information produced by municipalities. Internal audit recommendations regarding internal controls and financial discipline and the implementation of such recommendations by management contribute significantly to a strong control environment and improved audit outcomes.

The graph below depicts the status of filling the Chief Audit Executive position at municipalities as per the completed number of evaluations.



Of the two hundred and six (206) municipalities that completed the senior management vacancies evaluation, sixty-four percent (64%) – one hundred and sixty-four (164) municipalities – indicated that this position was filled. The North West province had the highest number of municipalities without a CAE (nine (9)), followed by Kwazulu-Natal (eight (8)), Northern Cape (seven (7)) and the Eastern Cape (six (6)), while three (3) municipalities had officials in an acting capacity.

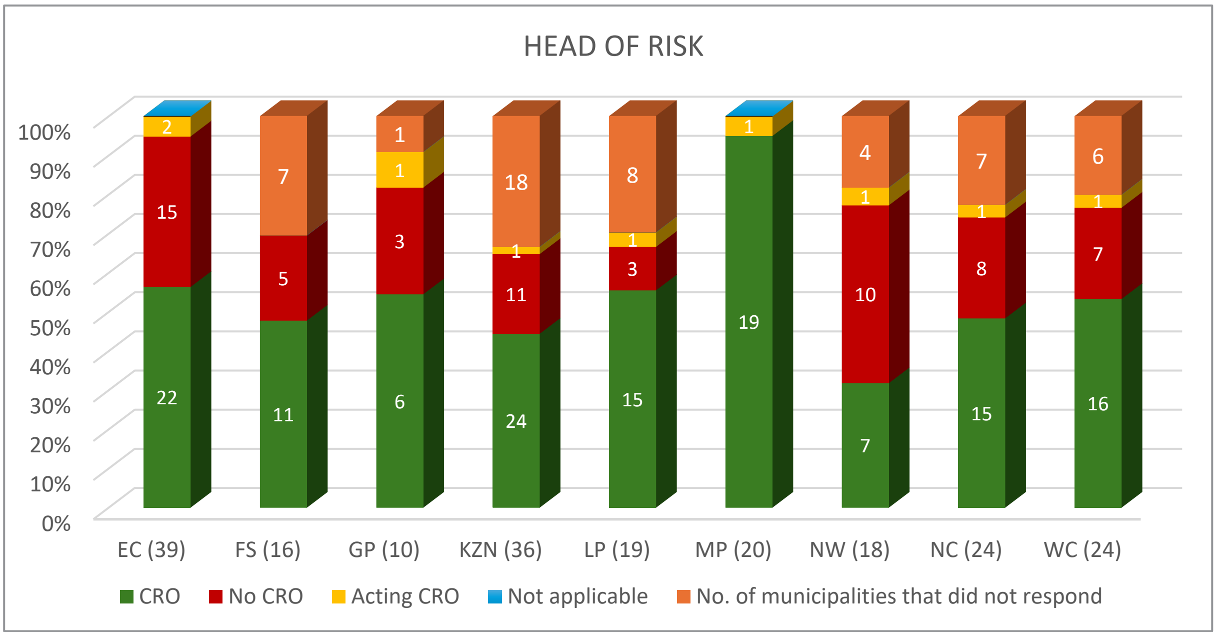
Of the thirty-nine (39) municipalities that indicated that they did not have an appointed CAE, the audit outcomes of twenty-eight (28) showed a stagnation, there were four (4) regressions, and three (3) audits had not yet been finalised at the time of the publication of the AGSA report.

There were however four (4) municipalities where improvements were noted: at Tokologo Local Municipality, the audit outcome improved from a disclaimed audit outcome to a qualified audit outcome. However, the AGSA expressed concern that the audit outcome may not be sustainable due to the municipality's reliance on consultants without ensuring skills transfer to municipal officials. Both Madibeng Local Municipality and Naledi Local Municipality in the North West were under provincial intervention. At Kgetlengrivier Local Municipality, the AGSA attributed the improvement in audit outcome to the support provided to the municipality in terms of the deployment of a seconded official by the provincial treasury to assist the municipality with record and document management and to bolster the municipal finance unit.

Head of Risk

In more recent times there has been a move towards the creation of separate risk management units within municipalities mainly to ensure the objectivity of the internal audit function which also reviews the work performed by risk management. Internal audit then provides an independent assessment of the effectiveness of risk management which focuses on proactive identification, assessment and mitigation of risks that would impact the operations and effectiveness of municipalities.

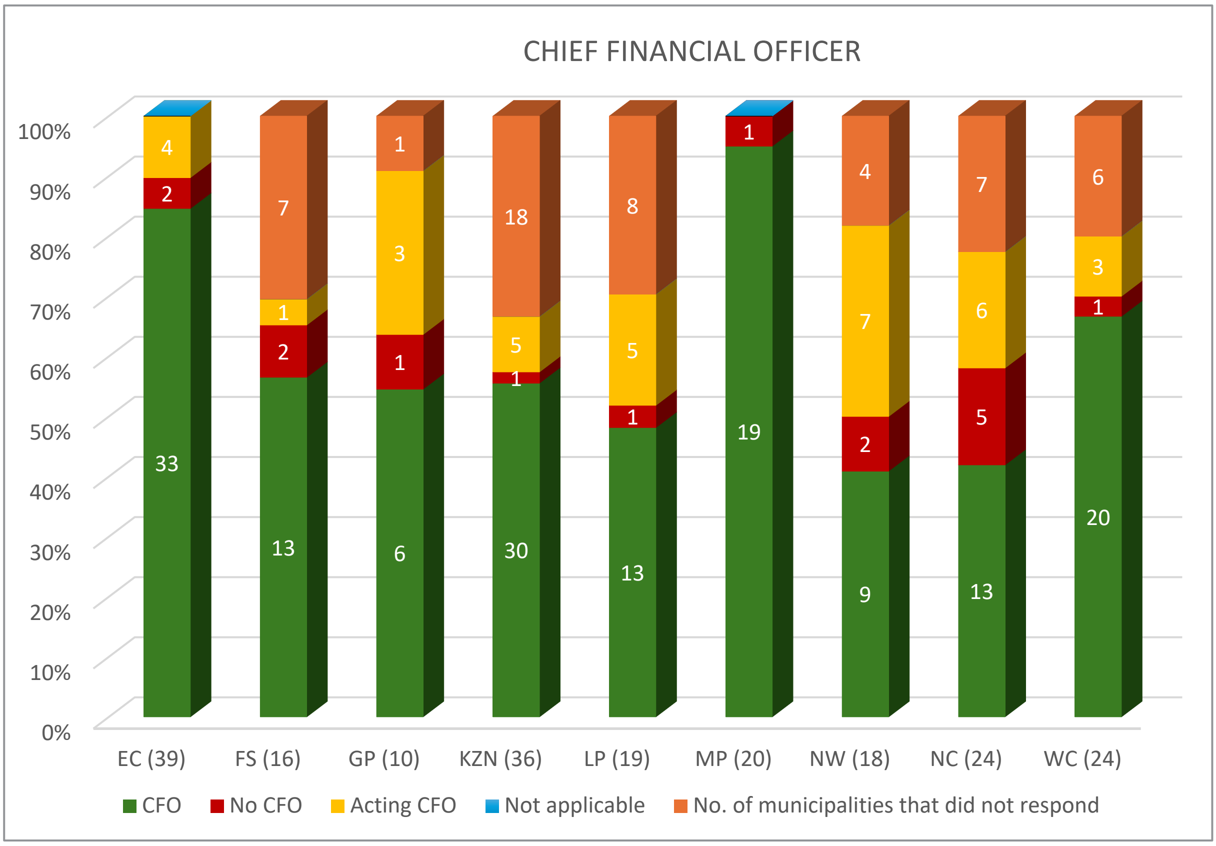
Vacancies in the head of risk management positions in local government is shown in the graph below:



It is noted with concern that sixty-two (62) out of the two hundred and six (206) municipalities, including two (2) NDMs, namely the City of Johannesburg and City of Tshwane, indicated vacancies for Chief Risk Officers. It was reported that one hundred and thirty-five (135) municipalities had appointed heads of risk management, and nine (9) had acting heads. Provinces with the highest number of vacancies were the Eastern Cape (fifteen (15) vacancies), KwaZulu Natal (eleven (11) vacancies) and the North West (ten (10) vacancies).

It is evident from the numbers that many municipalities do not prioritise risk management, thus placing these municipalities at risk.

Chief Financial Officer



It was reported that one hundred and fifty-six (156) out of the total of two hundred and six (206) municipalities that completed the senior management vacancies evaluation have appointed CFOs, sixteen (16) did not have CFOs, while thirty-four (34) municipalities had acting CFOs. The Northern Cape had the highest number of CFO vacancies, namely five (5) at Namakwa, Khai-Ma, Ubuntu, Dikgatlong and Magareng local municipalities. There was no province where the position of CFO had been filled in all the municipalities.

An analysis of audit outcomes for the 2022/2023 financial year shows that where the accounting officer and chief financial officer positions have not been filled, the audit outcomes of municipalities stagnated or regressed. This is true for the six (6) municipalities that reported not having an appointed accounting officer/municipal manager, as well as fourteen (14) of the sixteen (16) municipalities that reported not having an appointed CFO. At the remaining two (2) municipalities, the audit had not yet been finalised by the AGSA at the date of the MFMA report.

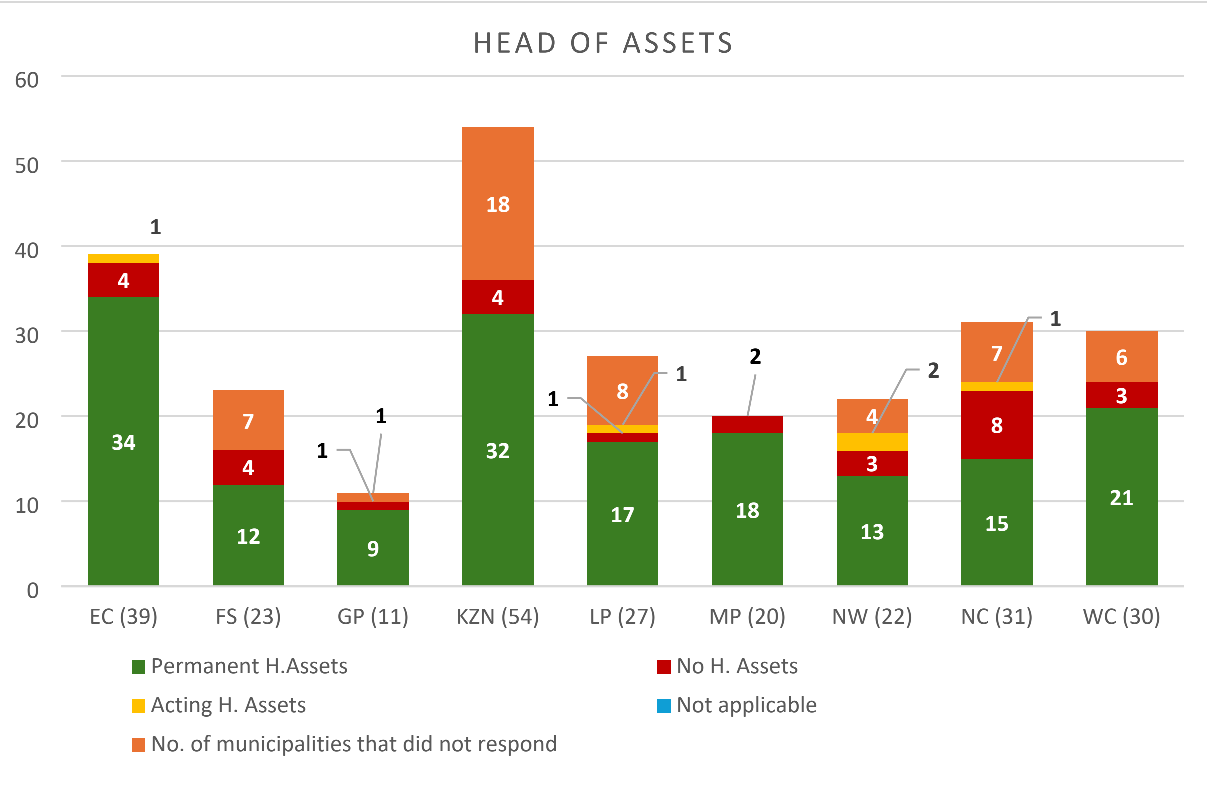
The AGSA further noted that improvements in the audit outcome at Lekwa Local Municipality in Mpumalanga province could be partially attributed to the filling of key senior management vacancies. It was noted that Mohokare Local Municipality in the Free State regressed to a disclaimed audit outcome due to instability in senior management and leadership positions, including those of the chief financial officer and municipal manager.

The following senior managers are delegated their responsibilities by the Chief Financial Officer and vacancies in these critical positions are discussed in further detail below:

1. Head of Assets
2. Head of Budget
3. Head of Expenditure
4. Head of Revenue
5. Head of Supply Chain Management

Of concern are municipalities where there are multiple senior management vacancies as it undermines accountability and the strength of review in the systems of internal control. The following municipalities have reported vacancies in all five (5) of the abovementioned positions: City of Johannesburg GP), Mthonjaneni LM (KZN), Dipaleseng (MP) and Central Karoo (WC).

Head of Assets



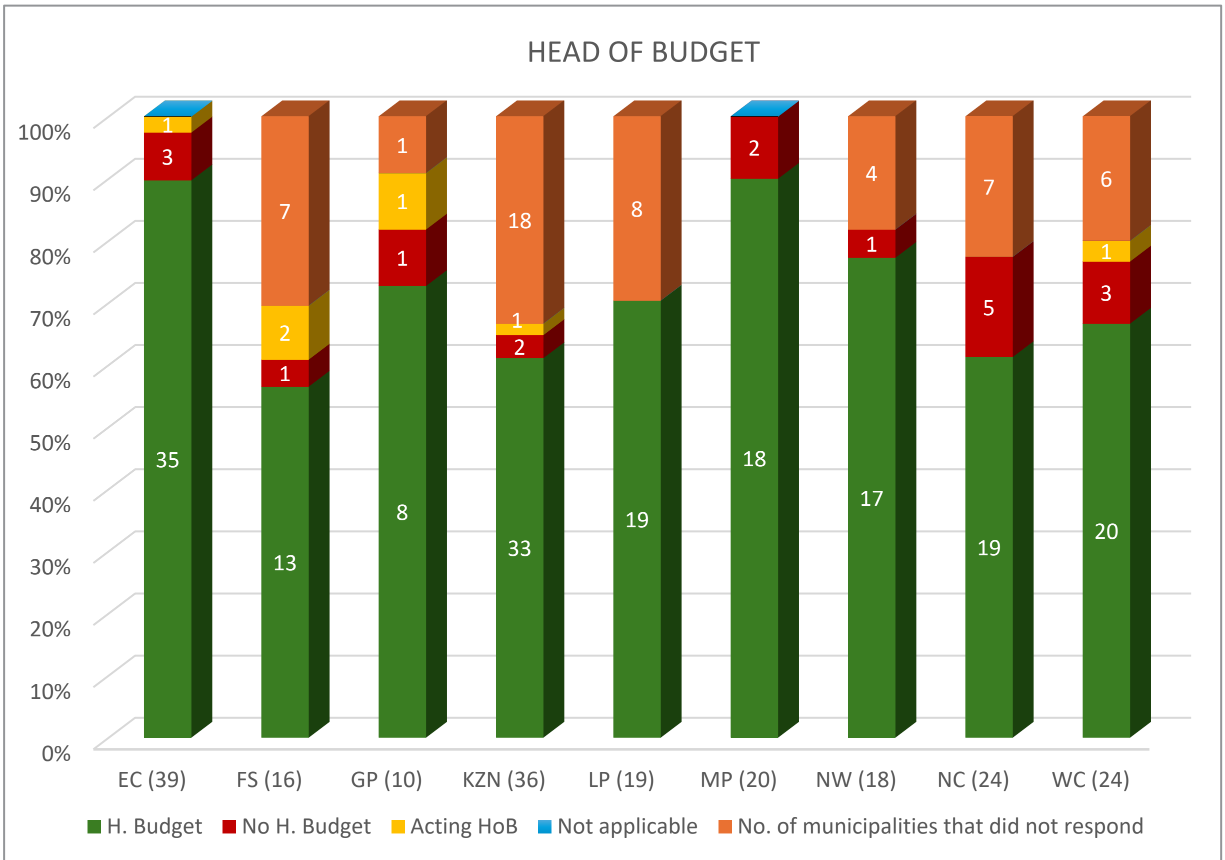
Out of the two hundred and fifty-seven (257) municipalities nationally, a total of **one hundred and seventy-one (171) municipalities reported to have appointed heads of asset management units** that are capacitated to effectively manage assets, and a total of thirty (30) municipalities indicated they do not have heads of asset management in place, which could negatively impact on asset oversight. A total of five (5) municipalities reported to have appointed acting officials in these positions, providing only a temporary solution but potentially impacting the effectiveness of asset management. A total of fifty-one (51) municipalities did not respond to the asset management evaluation, as published on the Muni eMonitor system.

The high appointment rate in one hundred and seventy-one (171) municipalities suggests commitment to asset management practices, and this capacity can lead to improved oversight, better maintenance of assets, and enhanced accountability. Similarly, the risk for the thirty (30) municipalities that have not appointed asset management heads may face challenges such as inadequate asset tracking, maintenance issues, and potential mismanagement, increasing the risk of asset losses.

Further analysis of asset management is included in the asset management write up below.

Head of Budget

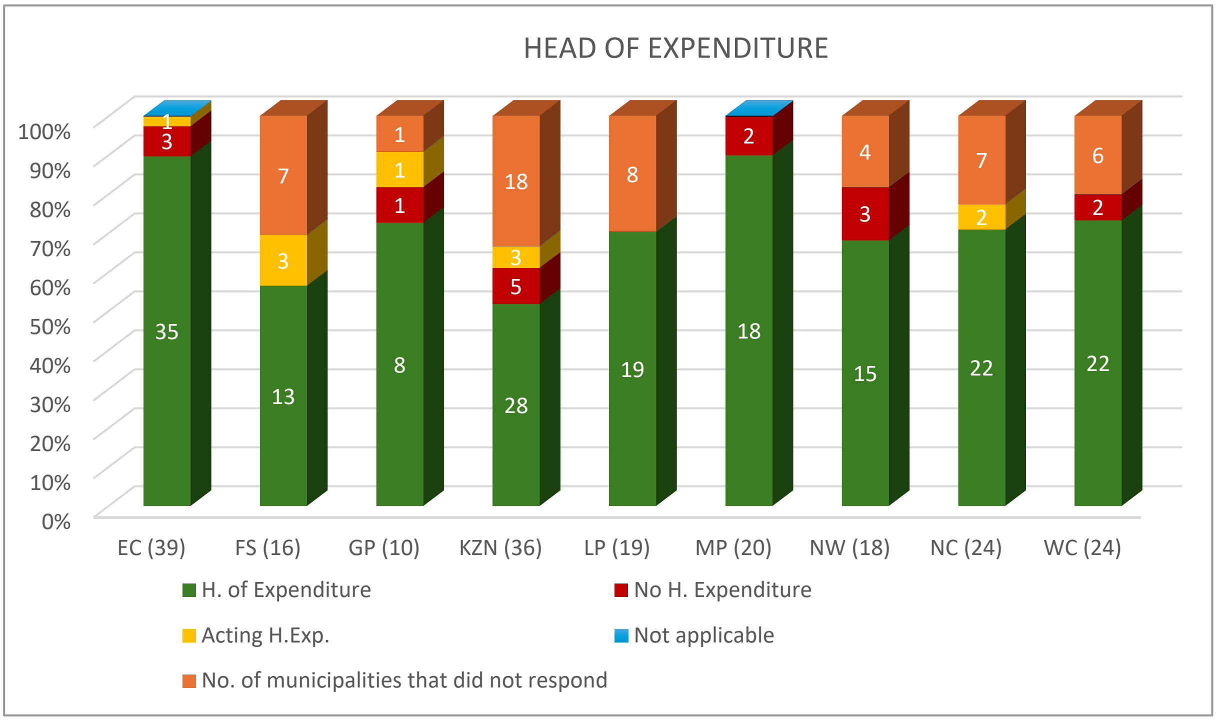
Nine percent (9%) of the municipalities (eighteen (18) municipalities that completed the senior management vacancies evaluation indicated that they do not have a Head of Budget. The distribution per province of the status of the position, as per the completed evaluations, is indicated in the graph below:



The Eastern Cape was the only province where all municipalities completed the evaluation, and three (3) municipalities, namely Inxuba Yethemba Local Municipality, Port St Johns Local Municipality and Joe Gqabi District Municipality, indicated that they do not have a Head of Budget. Port St Johns Local Municipality also features amongst the top contributors nationally to unauthorised expenditure as per the AGSA Annexure A to its MFMA report. All respondents from Limpopo province (nineteen (19) municipalities) indicated that they had appointed heads of budget. However, at the time of this report, eight (8) municipalities had not yet completed the evaluation pertaining to senior management vacancies. The province with the highest number of non-responders was KZN, where eighteen (18) municipalities have not yet completed the evaluation. In addition to the five (5) municipalities in the Northern Cape that responded to indicate that they do not have appointed heads of budget, seven (7) municipalities had not yet completed the evaluation. Six (6) municipalities were reported to have acting heads of budget.

Thirteen (13) of the eighteen (18) municipalities that reported not having a head of budget had repeat findings with regards to UIFWE. The above graph shows that fifty-one (51) municipalities had not completed the senior management vacancy evaluation.

Head of Expenditure



Of the two hundred and six (206) municipalities that responded to the senior management evaluation, seventy (70) percent indicated that they had permanently appointed heads of expenditure in place.

Ten (10) municipalities reported having acting heads of expenditure, namely, Walter Sisulu Local Municipality in the Eastern Cape, Masilonyana Local Municipality, Phumelela Local Municipality, Mangaung Metropolitan Municipality in the Free State, Merafong City in Gauteng, uMgungundlovu District Municipality, uMzinyathi District Municipality, uMdoni Local Municipality in Kwazulu-Natal and Sol Plaatje Local Municipality and Dawid Kruiper Local Municipality in the Northern Cape.

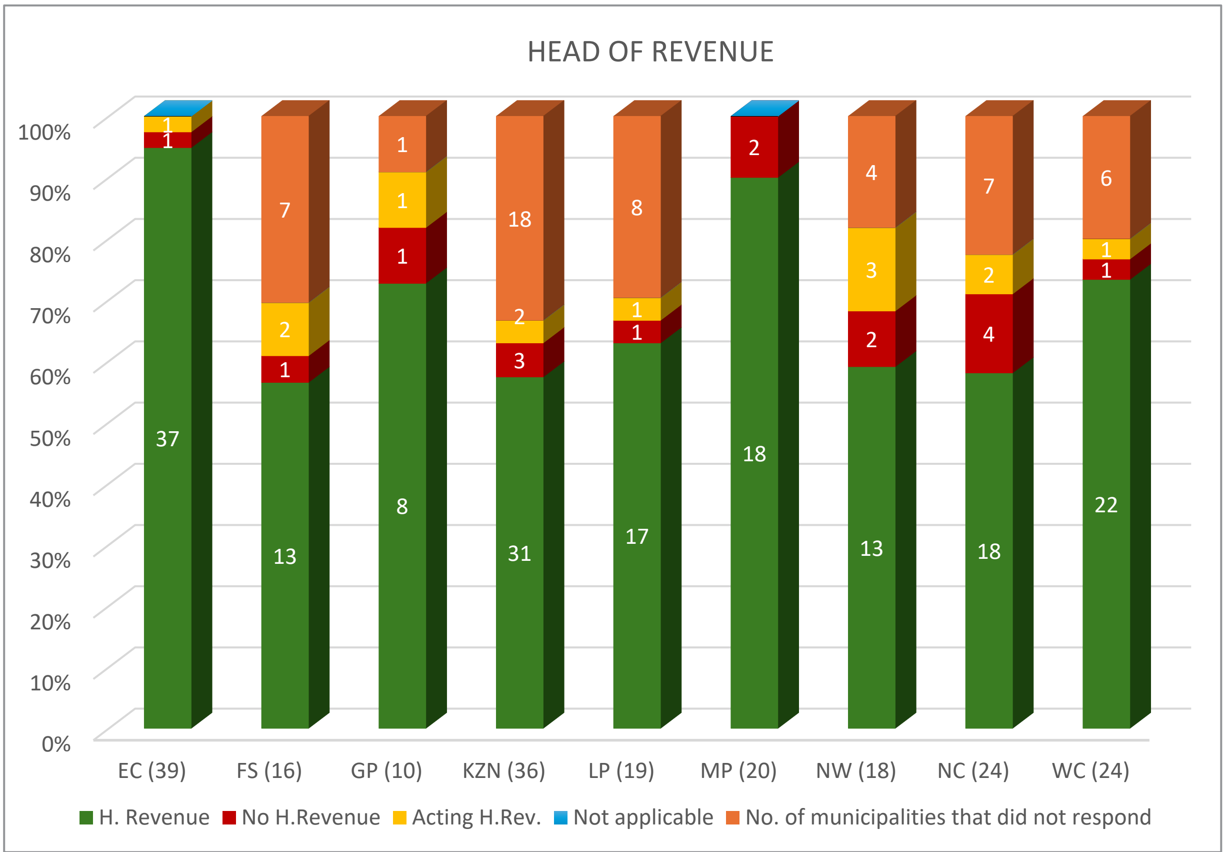
Sixteen (16) municipalities indicated that they had no head of expenditure, namely Inxuba Yethemba Local Municipality, Port St Johns Local Municipality, Nelson Mandela Metropolitan Municipality in the Eastern Cape, City of Johannesburg in Gauteng, Mpofana Local Municipality, uMhlabuyalingana Local Municipality, Mthonjaneni Local Municipality, Mandeni Local Municipality and Greater Kokstad Local Municipality in Kwazulu-Natal, Dipaleseng Local Municipality and Govan Mbeki Local Municipality in Mpumalanga, Moses Kotane Local Municipality, Tswaing Local Municipality and Bojanala Platinum

District Municipality in the North West and Witzenberg Local Municipality and Central Karoo District Municipality in the Western Cape.

Mpofana Local Municipality (KZN) and Dipaleseng Local Municipality (MP) reported qualifications in UIFWE and repeat findings in terms of non-compliance with UIFWE. Other municipalities that also received non-compliance findings on UIFWE were Inxuba Yethemba Local Municipality (EC), Nelson Mandela Metropolitan Municipality (EC), Mthonjaneni Local Municipality (KZN) and Govan Mbeki Local Municipality (MP). Ten (10) out of the sixteen (16) municipalities that indicated that they had no head of expenditure received findings in expenditure management by the AGSA in the 2022/2023 financial year audit.

Except for Mandeni Local Municipality (KZN) and Witzenberg Local Municipality (WC), all of the sixteen (16) municipalities without heads of expenditure received non-compliance findings from the AGSA for UIFWE.

Head of Revenue

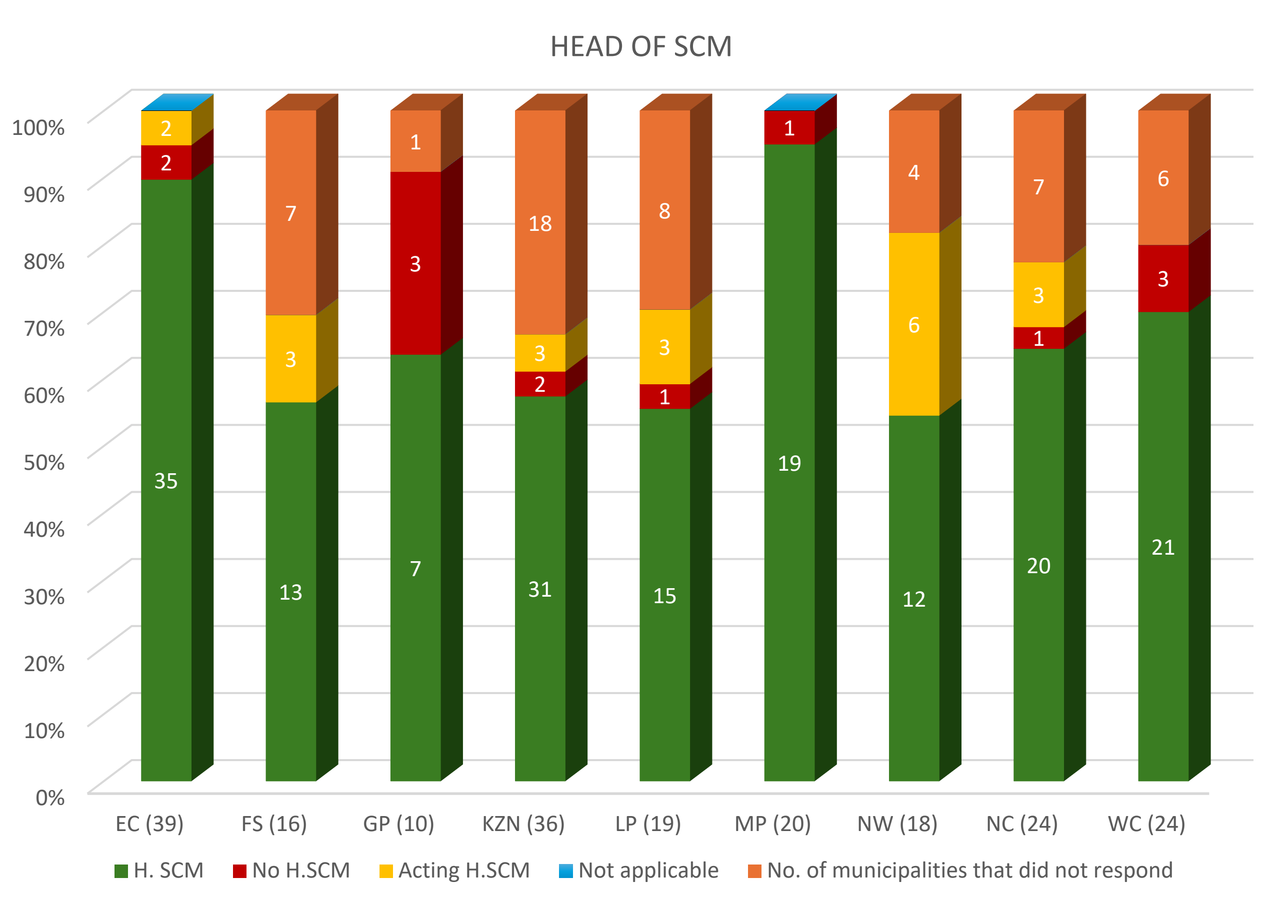


In the Eastern Cape, only Port St. Johns Local Municipality reported not having a head of revenue, and the municipality received a new qualification in this area in the 2022/2023 audit. Of the sixteen (16) municipalities nationwide that indicated that the head of revenue was not filled, four (4) municipalities had repeat qualification paragraphs in their audit outcomes, as well as non-compliance findings, on revenue, namely Nketoana Local Municipality (FS), Tswaing Local Municipality (NW), Kamiesberg Local Municipality (NC) and Siyathemba Local Municipality (NC). Mpofana Local Municipality (KZN) had repeat findings on revenue management, and uMhlabuyalingana (KZN) and Lekwa (NW) had new findings on revenue management in the 2022/2023 audit. The audit of the following municipalities revealed material unfavorable indicators with regards to their financial health, namely Pixley Ka Seme District Municipality, Kamiesberg Local Municipality and Siyathemba Local Municipality (NC), Lekwa (MP), Mpofana Local Municipality (KZN) Tswaing Local Municipality (NW) and Nketoana Local Municipalilty (FS).

Thirteen (13) municipalities indicated that they have acting heads of revenue, namely Kouga Local Municipality in the Eastern Cape, Tokologo Local Municipality and Phumelela Local Municipality in the Free State, Merafong Local Municipality in Gauteng, uMzinyathi District Municipality and uMdoni Local Municipality in Kwazulu-Natal, Capricorn District Municipality in Limpopo, Kgetlengrivier Local Municipality, Mamusa Local Municipality and Maquassi Hills Local Municipality in North West, Sol Plaatje Local Municipality and Dawid Kruiper Local Municipality in the Northern Cape and Hessequa Local Municipality in the Western Cape. Of these municipalities, the only two (2) municipalities that were not noted as having financial health challenges were Umdoni Local Municipality (KZN) and Hessequa Local Municipality (WC). Merafong Local Municipality (GP) had a new qualification paragraph pertaining to revenue in its audit outcome for 2022/2023, and uMzinyathi District Municipality, Kgetlengrivier Local Municipality, Mamusa Local Municipality, Maquassi Hills Local Municipality and Sol Plaatje Local Municipality were unable to resolve prior year qualification findings, resulting in repeat findings on revenue management in the 2022/2023 audit.

The filling of vacancies with skilled and experienced heads of revenue will lead to significant improvements in the financial health of municipalities. It is critical that the head of revenue position is filled as it directly impacts the sustainability of an institution for the collection of revenue. The quarter four “State of Local Government Report” indicated that while municipalities in aggregate assumed a collection rate of 82.8 per cent for the adjustments budget, aggregated actual collection performance against billing was only 63.1 per cent.

Head of Supply Chain Management



Of the two hundred and four (204 municipalities) that completed the evaluation, a total of one hundred and seventy-three (173) municipalities indicated that they have a head of supply chain management. Twenty (20) municipalities indicated that they have acting officials, and thirteen (13) municipalities indicated that they do not have an official in this position. The thirteen (13) municipalities where there was no head of supply chain management appointed were distributed as follows: three (3) each in Gauteng and the Western Cape provinces, followed by two (2) in the Eastern Cape and KwaZulu-Natal provinces, respectively and one (1) each in the Limpopo, Mpumalanga and Northern Cape provinces. All of the municipalities that completed the evaluation in the Free State and North West reported that the head of supply chain management position was filled.

The AGSA MFMA General report for the 2022/2023 financial year reported that of the thirteen (13) municipalities that reported vacancies in the position of head of supply chain management, eight (8) municipalities, namely Ngquza Hill Local Municipality and Nelson Mandela Metropolitan Municipality in the Eastern Cape, West Rand City, City of Johannesburg and City of Tshwane Metropolitan Municipalities in Gauteng, Mthonjaneni and Greater Kokstad Local Municipalities in Kwazulu-Natal, Maruleng Local Municipality in Limpopo, Dipaleseng Local Municipality in Mpumalanga, Frances Baard District Municipality in the Northern Cape and Bergrivier Local Municipality, Theewaterskloof Local Municipality and Central Karoo District Municipality in the Western Cape had repeat findings in both the areas of UIFWE and procurement management and Central Karoo (WC) and Greater Kokstad had new findings in UIFWE.

Conclusion

The findings presented in this report underscore the persistent and widespread issue of senior management vacancies in municipalities, which significantly impact governance, financial sustainability, and service delivery. The MFMA was promulgated to foster sound financial management through transparency, accountability, and structured responsibility principles. However, the persistent vacancies in key positions such as Municipal Managers, Chief Financial Officers, Chief Audit Executives, and Heads of various critical functions reflect a structural deficiency that undermines these principles. The correlation between unfilled senior management positions and stagnation or regression in audit outcomes, poor financial health indicators, and repeated non-compliance findings from the Auditor-General South Africa (AGSA) highlights the urgency of addressing this governance failure.

The 2022/2023 AGSA municipal audit report indicates that while some municipalities have taken steps toward filling critical positions, the prevalence of acting officials and vacant posts remains alarmingly high. The data demonstrates a direct link between instability in leadership and recurring financial mismanagement issues, including UIFWE, procurement irregularities, and weak expenditure and revenue management. The reliance on acting officials and consultants further compounds financial pressures on municipalities, often leading to unsustainable audit outcomes. Municipalities with stable and competent senior management have consistently shown better governance outcomes, reinforcing the need for strategic and long-term appointments rather than interim solutions that do not address the root causes of non-performance.

To achieve the objectives set out in the MFMA, municipalities must prioritise filling key leadership positions with skilled and experienced professionals who can drive institutional stability and accountability. The National Treasury, in collaboration with provincial and municipal leadership, must implement targeted interventions to accelerate permanent appointments, strengthen capacity-building initiatives, and ensure that governance structures support sustainable financial management. Without urgent and decisive action, the risks associated with leadership instability will continue to hinder service delivery and weaken the financial resilience of municipalities. Addressing these vacancies is not just a matter of compliance but a fundamental necessity for ensuring municipalities fulfil their constitutional mandate to serve communities effectively and uphold the principles of good governance.

Treasury recommendations

- **Develop a Centralised Talent Pool for Senior Management Positions:** Establish a provincial database of pre-screened and qualified candidates for key municipal positions to enable quick temporary placement when vacancies arise in municipalities.
- **Deploy Provincial Support Teams for High-Risk Municipalities:** Assign specialised financial, audit, and risk experts teams to temporarily assist municipalities with severe governance and financial instability due to vacant positions.

- **Increase Oversight and Reporting on Vacancy Rates:** Require quarterly reporting on senior management vacancies from municipalities and investigate prolonged vacancies for intervention where so required.
- **Provide Incentives for Filling Critical Vacancies:** Introduce financial and administrative incentives (e.g., additional grant funding or performance-based rewards) for municipalities that maintain full senior management teams.

Municipal recommendations

- **Enforce a Fixed Recruitment Timeline for Senior Management:** Adopt a clear policy mandating that all critical senior management vacancies must be filled within three months of a position becoming vacant.
- **Strengthen Recruitment Processes to Attract Competent Candidates:** Implement transparent and competitive hiring processes that prioritise candidates with relevant qualifications and experience.
- **Develop and Implement Succession Planning Strategies:** Establish structured mentorship and career development programs for mid-level managers to prepare them for senior leadership roles.
- **Enforce Performance Accountability for Acting Officials:** Set clear performance targets and time limits for acting officials and avoid prolonged temporary appointments.

Asset management

In terms of Section 63 of the MFMA, the Accounting Officer of a municipality is responsible for:

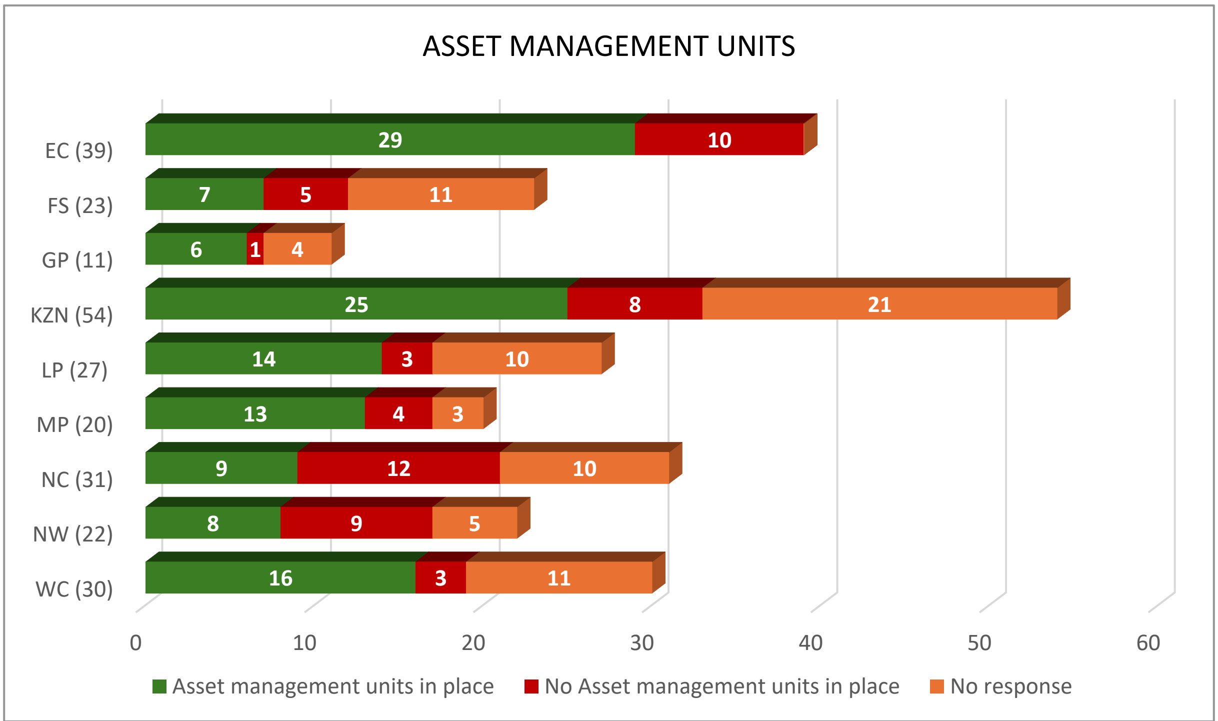
(a) The management of the municipality's assets, including the safeguarding and maintaining those assets.

(b) The Accounting Officer is further required to take all reasonable steps to ensure that the municipality maintains a system of internal control of assets, including an asset register and that assets are valued in accordance with the standards of Generally Recognised Accounting Practice (GRAP).

(c) A municipality implements and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality.

Asset management at municipalities

The graph below depicts the status of the number of municipalities that reported to have asset management units that are capacitated to manage the assets of the municipality effectively:



The graph above shows that **one hundred and twenty- seven (127) municipalities have asset management units in place**, whilst fifty-five (55) municipalities do not have an asset management unit to effectively manage their assets. Seventy- five (75) municipalities did not respond to the evaluation. The provinces with the highest number of asset management units are EC (74%) and MP (65%), which indicates stronger asset management structures in these areas. GP (54%), WC (53%) and LP (52%) also show significant numbers, suggesting a relatively well-established framework for asset management in these provinces.

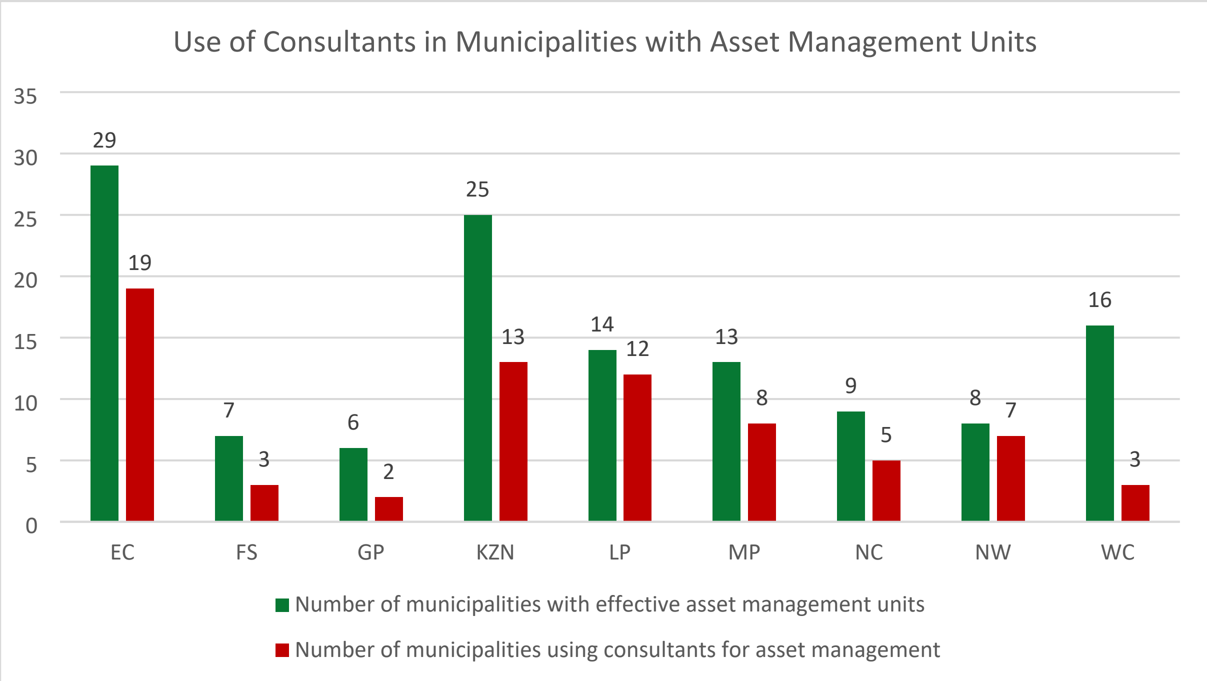
NW has the highest number of municipalities without any asset management units, forty-one (41%), revealing a significant gap in the performance of the asset management function in municipalities in this province. NC (38%) and EC (25%) also indicated a high number of municipalities where no asset management unit had been established. Moreover, there were a large number of municipalities that did not respond to the asset management evaluations, particularly in the FS (47% of municipalities), KZN (39% of municipalities), WC and LP (both at 37% of municipalities).

Potential implications or consequences relating to the absence of asset management units/processes at municipalities are as follows:

- Municipalities may lose or misplace assets without proper tracking and management, leading to financial losses.
- Lack of oversight results in inefficient use of assets through underutilisation or overutilisation, impacting directly on service delivery.
- Poorly managed assets increase wear and tear, resulting in higher maintenance and replacement costs.
- Without asset management, budgeting becomes challenging, making it difficult to allocate funds appropriately for repairs, upgrades, or replacements.
- Inefficient asset management causes delays in providing essential services to the community, affecting public satisfaction and trust.
- Inability to meet community needs: if assets are not effectively managed, municipalities may struggle to respond to the community's needs, resulting in service gaps.
- Municipalities may fail to meet legal and regulatory requirements regarding asset management, leading to potential allegations of financial misconduct cases.
- The absence of a structured asset management system may hinder accurate reporting and audits, complicating compliance with the required standards.
- Municipalities may struggle to make informed decisions about future investments without accurate asset data, or improvements may be compromised.
- Municipalities may find planning for future growth or expansion challenging without a clear understanding of existing assets.
- Poor asset management hinders infrastructure projects, affecting the municipality’s ability to support economic growth.

The absence of asset management units may hinder a municipality's efficiency, accountability, and ability to serve its community effectively. Establishing and maintaining these units is crucial for optimizing resource use, enhancing service delivery, and ensuring transparency and compliance.

Use of Consultants for Asset Management



Of the one hundred and twenty-seven (127) municipalities that reported that they had asset management units to effectively manage their assets, **seventy-two (72)** of the **municipalities (57%) reported that they will still be making use of consultants for asset management**.

NW (88%) and LP (86%) show the highest number of municipalities using consultants to compile asset registers, despite having asset management units thus indicating a strong reliance on external expertise for asset management. EC (66%), MP (62%), NC (56%) and KZN (52%) also demonstrate significant use of consultants, suggesting that municipalities in these provinces also place over-reliance on consultants. WC (19%), GP (33%) and FS (43%) have a relatively low number of municipalities not using consultants, indicating potential confidence in internal capabilities relating to asset management processes.

The overall reported data from the Muni eMonitor system highlights varying levels of reliance on consultants by municipalities across different provinces for compiling asset registers. While some municipalities effectively utilize external expertise, others may need to strengthen their internal capacities to reduce consultancy fees.

Conclusion

The asset management compliance assessment findings reveal significant disparities across municipalities in terms of asset management capacity and reliance on consultants. While some provinces, such as the EC and MP, exhibit stronger asset management frameworks, others, notably NW and NC, show considerable gaps. The absence of dedicated asset management units in many municipalities poses severe risks, including asset misplacement, inefficient utilisation, increased maintenance costs, and regulatory non-compliance. Additionally, the over-reliance on consultants in most municipalities with asset management units highlights a potential gap in internal expertise, which may impact long-term sustainability and effective financial management.

To ensure that municipalities comply with section 63 of the MFMA and adopt best practices in asset management, both provincial treasuries and municipalities must take targeted action. Strengthening internal controls, enhancing capacity-building initiatives, and reducing dependency on consultants will be critical in fostering a sustainable and transparent asset management environment. Addressing these challenges proactively will improve service delivery and promote financial stability and regulatory compliance across all municipalities.

Treasury recommendations

- **Strengthen Asset Management Oversight and Enforcement:** Conduct regular compliance assessments to ensure municipalities adhere to section 63 of the MFMA, with corrective action plans for non-compliant municipalities.
- **Provide Capacity-Building and Training Programs:** Implement structured training initiatives to equip municipal officials with the necessary skills to manage assets effectively and reduce reliance on consultants.
- **Support the Establishment of Permanent Asset Management Units:** Provide advisory support to municipalities struggling to establish dedicated asset management units to ensure compliance and efficiency.
- **Promote Collaboration Between Municipalities:** Facilitate knowledge-sharing platforms where municipalities can exchange best practices, lessons learned, and innovative asset management solutions.
- **Reduce Municipal Dependence on Consultants:** Encourage municipalities to build internal expertise by gradually phasing out consultant reliance through structured skills development programs.

Municipal recommendations

- **Invest in Training and Skills Development:** Prioritise ongoing capacity-building initiatives for asset management personnel to enhance competency and self-sufficiency. Train municipal officials to manage assets effectively and reduce reliance on external consultants**.**
- **Develop a Skills Transfer Implementation Plan:** Ensure that every consultant engagement includes a structured skills transfer program monitored by the Chief Financial Officer (CFO).
- **Enforce Strict Cost Containment Measures:** Reduce unnecessary consultant expenditures by ensuring that funds are allocated toward internal capacity-building initiatives.
- **Establish and Maintain a GRAP-Compliant Fixed Asset Register:** Develop and continuously update asset registers to enhance tracking and accountability. Ensure all assets are accurately recorded, valued, and monitored in line with GRAP standards to avoid overreliance on consultants.

- **Develop and Implement SOPs:** Municipalities must create clear SOPs for asset management to standardise practices and improve efficiency. Adopt formalized asset acquisition, maintenance, and disposal procedures to enhance governance**.**
- **Strengthen Internal Controls:** Conduct periodic internal and external audits to proactively identify weaknesses and address discrepancies. Implement stringent internal audit processes to prevent mismanagement and ensure compliance**.**

Cost containment

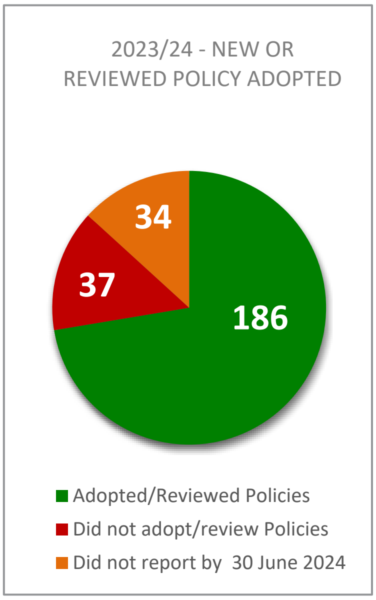
There are many municipalities finding themselves in positions of financial distress over the past few years. Therefore, revenues must be optimised, and costs must be contained to ensure financial sustainability. The Local Government: Municipal Cost Containment Regulations (MCCR) were promulgated on 7 June 2019 and came into effect on 1 July 2019. Sections 62(1)(a) and 95(a) of the MFMA stipulate that the Accounting Officers of municipalities and municipal entities, respectively, are responsible for managing the financial administration of the institutions and must, for this purpose, take all reasonable steps to ensure that the resources are used effectively, efficiently and economically.

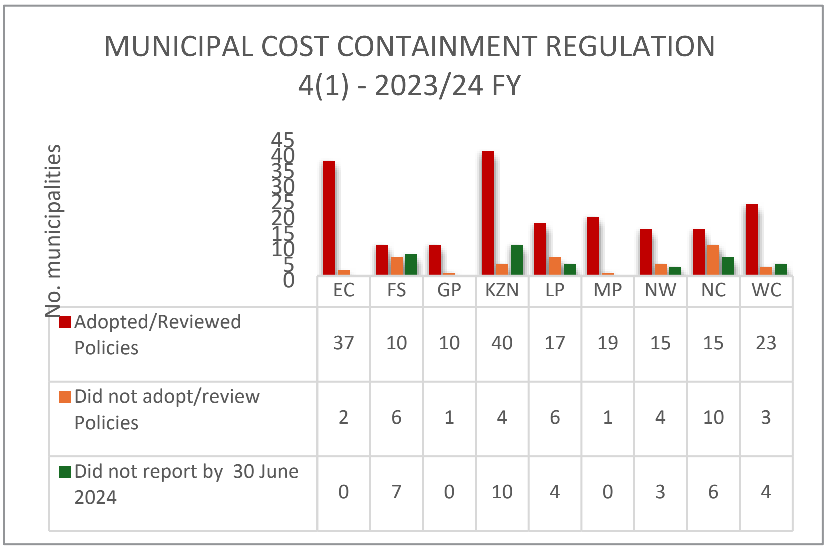
In terms of the legal framework, the key principles being promoted are that elected councils and accounting officers are required to institute appropriate measures to ensure that the limited resources and public funds are prudently utilised to ensure value for money and that the service delivery mandates are achieved. This will necessitate council policies to align with the legislation's spirit and intent while promoting the concept of cost versus benefits at all levels and ensuring that such savings can be better utilised for improvements in service delivery. Currently, the National Treasury is reviewing the MCCR to enhance it.

In the 2023/2024 financial year, municipalities were required to report whether they had a new or recently reviewed and adopted cost containment policy. Municipalities had to report whether there were any incidents of non-adherence to the cost containment policy. The response rates for each question are reflected below.

Cost Containment Policies 2023/2024 FY

This dashboard illustrates the national status and provincial distribution of municipalities for the 2023/2024 fiscal year, highlighting those with newly reviewed and adopted cost containment policies.





	EC	FS	GP	KZN	LP	MP	NW	NC	WC
Adopted/Reviewed Policies	37	10	10	40	17	19	15	15	23
Did not adopt/review Policies	2	6	1	4	6	1	4	10	3
Did not report by 30 June 2024	0	7	0	10	4	0	3	6	4

As per the 2023/2024 reporting requirements, a total of **one hundred and eighty-six (186) municipalities had reviewed and adopted their cost containment policies**. The total of one hundred and eighty-six (186) municipalities is made up of seven (7) metros, thirty-three (33) district municipalities and one hundred and forty-six (146) local municipalities. A total of thirty-seven (37) municipalities reported that their municipal councils had not adopted the cost containment policies, while no information was available from thirty-four (34) municipalities on the status of the policies in the council.

There is a substantial disparity in compliance rates across the different provinces. While statistics from some provinces, such as the EC with thirty-five (35) municipalities (95%), MP with nineteen (19) municipalities (95%), and GP with ten (10) municipalities (91%) demonstrate high levels of compliance, others, like WC with only twenty-three (23) municipalities (77%), KZN with forty (40) municipalities (74%), NW with fifteen (15) municipalities (68%), LP with seventeen (17) municipalities (63%), NC with fifteen (15) municipalities (48%), and FS with ten (10) municipalities (43%), exhibit lower levels of compliance.

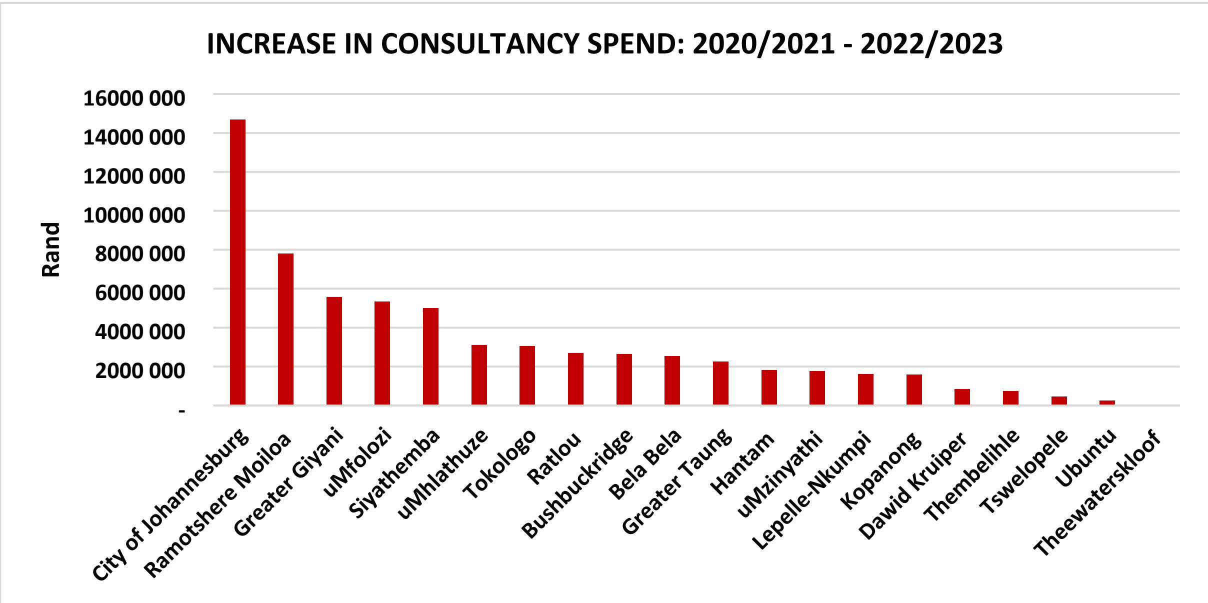
Having cost containment policies in place demonstrates a commitment from the municipal councils to austerity measures and to reduce wastage. It also enables the efficient utilisation of municipal resources, thus freeing up funds for service delivery impediments. Hence, municipalities that do not have a council-approved cost containment policy in place must do so urgently to ensure compliance with the regulatory framework.

Provincial Distribution of Unadopted Policies and Non-Reporting Municipalities

- The **EC** had two municipalities, Raymond Mhlaba Local Municipality and Elundini Local Municipality, that had not adopted or reviewed cost containment policies. However, no municipalities in the Eastern Cape failed to report on the Muni eMonitor system by the deadline.
- In the **FS**, six municipalities, namely, Tokologo Local Municipality, Tswelopele Local Municipality, Lejweleputswa District Municipality, Kopanong Local Municipality, Dihlabeng Local Municipality, and Phumelela Local Municipality, had not adopted or reviewed their cost containment policies. Additionally, seven municipalities, did not report on this information.
- **GP** had only one municipality, the City of Johannesburg, that had not adopted or reviewed its cost containment policy. No municipalities in Gauteng failed to report.
- In **KZN** province, four municipalities, namely, uMzinyathi District Municipality, uMhlathuze Local Municipality, uMfolozi Local Municipality, and Newcastle Local Municipality, had not adopted or reviewed cost containment policies. In addition, ten municipalities, did not report on this information.
- In **LP**, six municipalities, namely, Thabazimbi Local Municipality, Greater Letaba Local Municipality, Greater Giyani Local Municipality, Bela Bela Local Municipality, Modimolle-Mookgophong Local Municipality, and Lepelle-Nkumpi Local Municipality, had not adopted or reviewed cost containment policies. Four municipalities failed to report on this information.

- **MP** had only one municipality, Bushbuckridge Local Municipality, that had not adopted or reviewed its cost containment policy, whilst no municipality failed to report.
- In the **NW**, four municipalities, namely, Dr Kenneth Kaunda District Municipality, Greater Taung Local Municipality, Ramotshere Moiloa Local Municipality, and Ratlou Local Municipality, had not adopted or reviewed their cost containment policies. Three municipalities did not report on this information.
- **NC** had ten municipalities, namely, Dawid Kruiper Local Municipality, Hantam Local Municipality, Kai Garib Local Municipality, Kamiesberg Local Municipality, Magareng Local Municipality, Siyathemba Local Municipality, Sol Plaatje Local Municipality, Thembelihle Local Municipality, Ubuntu Local Municipality, and Umsobomvu Local Municipality, that had not adopted or reviewed their cost containment policies. Six municipalities, failed to report on this information.
- In **WC**, Kannaland Local Municipality, Langeberg Local Municipality, and Theewaterskloof Local Municipality had not adopted or reviewed their cost containment policies. Three municipalities failed to report on this information.

An analysis of the consultancy spend of the above **thirty-seven (37) municipalities** that did not adopt **or review their cost containment policies**, revealed that they **spent a total of R 452, 3 million on consultants over the past 3 financial years (2020/21- 2022/23)**. Furthermore, twenty (20) out of the thirty-seven (37) municipalities showed an overall increase of R 15,8 million in consultancy spend between 2020/21 and 2022/23. This is indicated in the table below:



Source: AGSA MFMA General Reports

Implementation of Cost Containment Policies

In terms of Regulation 15(1) of the MCCR, the disclosure of cost containment measures applied by municipalities must be included in the in-year reports, and annual cost savings must be disclosed in the annual reports. Beyond these disclosures, an analysis of how funds saved are redirected, the expenditure choices made, the impact on service delivery, and the state of finances in municipalities are equally important.

Reports to Council as required in terms of Regulation 15(2)

Reports to Council as required in terms of Regulation 15(2)									
Provinces	Quarter 1	%	Quarter 2	%	Quarter 3	%	Quarter 4	%	Annual Average
EC	22	56%	23	59%	22	56%	24	62%	58%
FS	5	22%	2	9%	2	9%	2	9%	12%
GP	7	64%	7	64%	4	36%	4	36%	50%
KZN	40	74%	39	72%	40	74%	28	52%	68%
LP	9	33%	8	30%	8	30%	9	33%	31%
MP	4	20%	5	25%	6	30%	8	40%	29%
NW	5	23%	2	9%	3	14%	2	9%	14%
NC	5	16%	4	13%	4	13%	2	6%	12%
WC	25	83%	25	83%	21	70%	15	50%	72%

Overall, compliance rates exhibit considerable variation across different regions. For instance, the WC demonstrates consistently high compliance, with an average of 72% of municipalities disclosing in-year and annual cost savings. Conversely, the NC shows persistently low compliance rates, averaging only 12% throughout the year.

There are notable regional differences in compliance trends. For instance, in the EC, 58% of municipalities disclosed cost savings, while in GP, this figure stands at 50%, indicating that only half of the municipalities in these regions are compliant with the requirements of Regulation 15(1). In contrast, KZN exhibits a higher compliance rate of 68%, whereas LP shows a significantly lower compliance rate of 31%.

A total of ninety-three (93) municipalities in quarter 1, ninety-two (92) municipalities in quarter 2, ninety -two (92) municipalities in quarter 3 and eighty-two (82) municipalities in quarter 4 failed to comply with the reporting requirements outlined in Regulation 15(2) of the MCCR. This non-compliance is evident across various provinces, highlighting inconsistencies in adherence to reporting standards. The low submission rate hinders the ability of the municipal council to effectively monitor and oversee cost containment initiatives to make timely interventions.

Conclusion

Implementing cost-containment policies remains critical to municipal financial sustainability, ensuring that public funds are utilised prudently to maximize service delivery. Despite the legislative framework outlined in the MCCR and the MFMA, compliance with cost containment policies remains inconsistent across municipalities. While some provinces demonstrate commendable adherence, others exhibit concerning non-compliance trends, either by failing to adopt or review cost containment policies or by neglecting mandatory reporting requirements. The data highlights significant disparities in compliance levels, with provinces such as the NC and FS displaying the lowest levels of policy adoption and reporting while GP and MP show higher compliance rates.

The failure to adopt and enforce cost containment measures undermines the financial sustainability of municipalities and increases the risk of fiscal mismanagement. Non-adherence to these policies not only contravenes the MFMA but also compromises the ability of municipalities to redirect financial savings towards critical service delivery improvements. The inadequate reporting of cost containment measures, as stipulated in Regulation 15(2) of the MCCR, further exacerbates transparency and accountability challenges, preventing municipal councils from making informed decisions based on reliable financial data. Consequently, the Provincial Treasuries and municipalities must take decisive steps to ensure compliance, improve financial governance, and strengthen the institutional mechanisms necessary for effective cost-containment implementation.

Addressing these compliance shortcomings requires a multi-faceted approach that involves both Provincial Treasuries and municipalities taking proactive measures to enforce adherence to regulatory requirements. Enhanced oversight, capacity-building initiatives, and stringent accountability mechanisms are essential to fostering a culture of financial discipline within municipalities. The following recommendations outline specific interventions for provincial treasuries and municipalities to improve compliance and ensure effective implementation of cost containment measures.

Treasury recommendations

- **Strengthen Compliance Monitoring and Oversight:** Provincial Treasuries must enhance their oversight by conducting frequent compliance reviews and issuing directives to municipalities that fail to adopt and implement cost-containment policies. Establish a quarterly monitoring framework to track municipalities' compliance with cost containment regulations.
- **Enforce Accountability Measures for Non-Compliant Municipalities:** Municipalities that fail to adhere to cost containment policies should face financial and administrative consequences. Implement financial penalties or funding conditions for municipalities that fail to adopt or report on cost containment policies.
- **Capacity Building and Training Initiatives:** Provincial Treasuries should provide targeted training programs to improve municipal officials' financial management skills. Launch provincial training workshops for municipal finance teams on cost containment best practices.
- **Encourage Peer Learning and Best Practice Sharing:** High-compliance municipalities should be identified as benchmarks, and best practice case studies should be shared across provinces. Organize inter-municipal forums to exchange successful cost-containment strategies and implementation experiences.
- **Enhance Provincial Support for Struggling Municipalities:** The Provincial Treasury should prioritise municipalities with the lowest compliance rates by offering direct intervention programs for policy adoption and enforcement.

Municipal recommendations

- **Prioritise Adoption and Annual Review of Cost Containment Policies:** All municipalities must ensure their policies are formally adopted and reviewed annually, as mandated by the MCCR.
- **Enhance Internal Financial Governance and Reporting Structures:** Municipal accounting officers must establish robust internal mechanisms to monitor cost containment measures and ensure accurate, timely reporting.
- **Strengthen Internal Audit and Compliance Functions:** Internal auditors should be mandated to review cost containment adherence as part of routine financial audits.
- **Leverage Cost-Saving Strategies in Procurement and Expenditure Management:** Municipalities should adopt efficient procurement practices and reduce unnecessary expenses, ensuring optimal use of public funds. Implement procurement reforms to eliminate wasteful expenditure and maximize value for money.
- **Enforce Strict Cost Containment Measures:** Reduce unnecessary consultant expenditures by ensuring that funds are allocated toward internal capacity-building initiatives
- **Address Non-Compliance through Targeted Corrective Actions:** Municipalities that fail to comply should develop corrective action plans with clear timelines and accountability measures.

Unauthorised, irregular and fruitless and wasteful expenditure (UIFW&E)

The MFMA promotes sound financial governance within South African municipalities. This part of the report focuses on Unauthorised, Irregular, Fruitless, and Wasteful Expenditure (UIFWE), comprehensively analysing emerging trends over the past three years. Effective management of UIFWE is essential for fostering fiscal discipline, enhancing accountability, and ensuring efficient service delivery at the municipal level.

Over the last three years, municipalities have exhibited varying trends in UIFWE, reflecting differences in financial management practices and control environments. This report examines the amounts of UIFWE processed and not processed for the 2023/2024 financial year. By analysing these figures, we gain insights into the effectiveness of current financial controls, the responsiveness of municipalities in addressing UIFWE, and areas where improvements are necessary.

A fundamental aspect of MFMA compliance is the establishment of council or board-approved policies that govern UIFWE. Such policies provide a framework for preventing, detecting, and managing UIFWE incidents. This report identifies the municipalities implementing these policies, highlighting their commitment to adhering to legislative requirements and promoting good governance practices. In addition to policy adoption, implementing robust internal controls is crucial to ensure that resolutions regarding the recoverability or write-off of UIFWE are executed without undue delay. The report assesses the extent to which municipalities have established these controls and the effectiveness of their implementation. It also considers the value of in-year amounts affected by these controls, offering a practical perspective on their impact.

Aligning municipal strategies with national priorities is another critical focus area. The Medium-Term Strategic Framework (MTSF) set ambitious goals, including a 100% elimination of fruitless and wasteful expenditure and a 75% reduction of irregular expenditure by 2024. This report explores whether municipalities have developed strategies to achieve these targets, examining the feasibility and practicality of these objectives within the municipal context.

Effective communication and transparency are essential components of financial governance. The MFMA mandates that municipalities promptly inform the mayor, the Executive Council (MEC) member for local government in the province, and the Auditor-General of South Africa (AGSA) about any UIFWE incurred. This report evaluates municipalities' compliance with these reporting requirements, analysing the timeliness and thoroughness of their communications.

Furthermore, the report investigates whether municipalities proactively identify responsible individuals or initiate investigations into UIFWE incidents. Holding individuals accountable is crucial for deterring future occurrences and reinforcing the importance of compliance with financial regulations. The report examines the number of municipalities that promptly informed relevant authorities about persons responsible or under investigation for such expenditures.

Recovering or rectifying UIFWE and preventing its recurrence requires decisive action. This report assesses the steps municipalities have taken in this regard, including implementing corrective measures and strengthening internal controls. It also considers whether municipalities have communicated these actions to the mayor, the MEC, and the AGSA, as required by the MFMA.

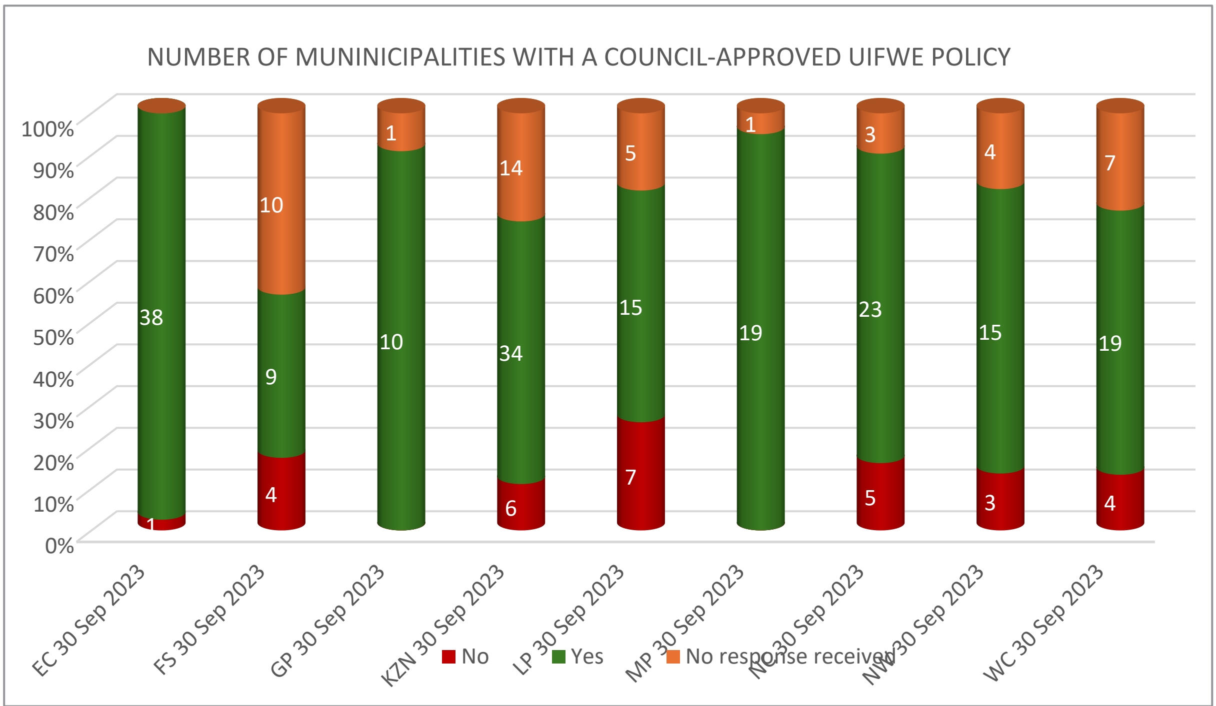
Legal accountability plays a significant role in deterring financial misconduct. The report highlights the number of municipalities that have reported cases of alleged irregular expenditure constituting a criminal offence to the South African Police Service (SAPS). This includes instances where charges have been laid against accounting officers, emphasising the importance of upholding ethical standards and legal obligations within municipal administrations. The report offers actionable recommendations to enhance financial management practices by providing a detailed analysis of these critical areas. Strengthening UIFWE controls and promoting compliance with the MFMA ensure adherence to legislative requirements and contribute to the overall improvement of municipal governance and service delivery.

In conclusion, the management of UIFWE is a multifaceted challenge that requires concerted efforts from all levels of municipal governance. Municipalities can significantly reduce UIFWE incidents, align with national objectives, and build public trust by implementing effective policies, controls, and communication strategies. This report serves as a resource for stakeholders seeking to understand the current state of UIFWE management and to identify opportunities for improvement in advancing sound financial governance.

Number of municipalities with a council-approved UIFWE policy

In the 2023/2024 financial year, **one hundred and eighty-two (182) municipalities reported having a council-approved UIFWE policy** as required by the MFMA as at 30 September 2023. A breakdown by province of municipalities with an SCM Policy and those without is shown below:

Number of municipalities with a council-approved UIFWE policy



The chart illustrates the adoption of the UIFWE policy by municipalities across the nine provinces as at 30 September 2023, categorised into "Yes" (compliant), "No" (non-compliant), and "No Response" (failure to report). The data reflects that the majority (70%) of municipalities across most provinces are compliant, while some provinces also display concerning levels of non-response. Non-compliance and non-response directly undermine municipal accountability, financial governance, and compliance with the MFMA.

In provinces such as the EC and MP, the proportion of compliant municipalities is exceptionally high, with thirty-eight (38) out of thirty-nine (39) municipalities (97%) in the EC and nineteen (19) out of twenty (20) municipalities (95%) for MP under "Yes." GP municipalities also have a high percentage (90%) of municipalities with council-approved UIFWE policies, with ten (10) out of the eleven (11) GP municipalities having council-approved UIFWE policies.

The "No Response" category further compounds the challenges in provinces such as the FS, KZN and WC. In FS, ten (10) out of twenty-three (23) municipalities, (43%) failed to report their status, representing the highest non-response rate across all provinces. In KZN, fourteen (14) out of fifty-four (54) municipalities, (26%) failed to report their status. Similarly, WC has seven (7) out of thirty (30) municipalities, (23%) in the "No Response" category, a critical failure in fulfilling basic reporting responsibilities. These non-responses obstruct accurate monitoring and hinder the ability to enforce compliance.

The analysis highlights a lack of compliance with the UIFWE policy across South Africa's municipalities, with relatively high non-compliance rates in provinces such as FS, KZN, LP, NW, NC and WC. Provinces like FS and WC also demonstrate concerning levels of non-responses, which raise significant governance and accountability concerns. This widespread failure to comply with the MFMA's reporting requirements poses risks to municipal financial management and public trust.

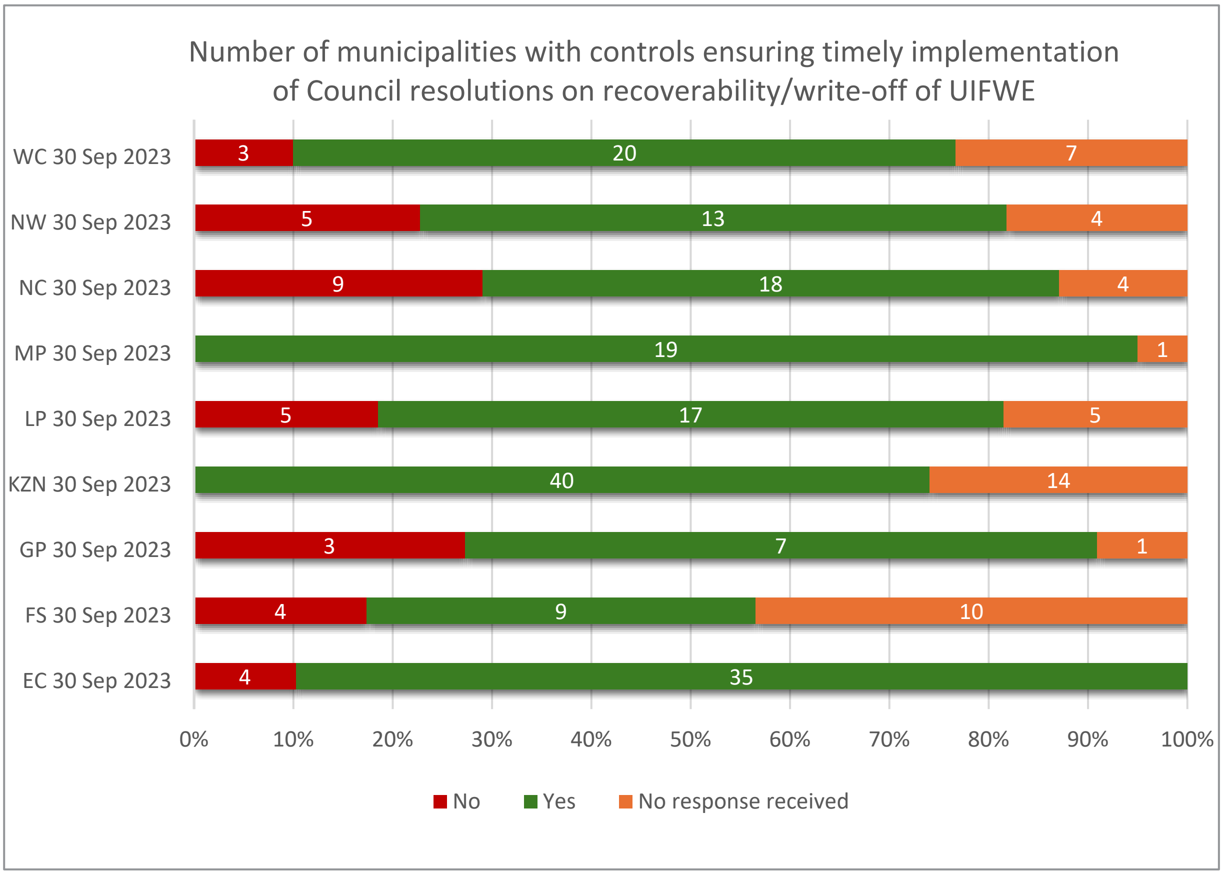
While relatively better-performing provinces such as KZN and the WC still have gaps, most municipalities adopting a UIFWE policy demonstrate that even provinces with stronger institutional capacity require targeted interventions to improve compliance. The "No Response" trend in some provinces, notably FS, KZN and WC, highlights systemic weaknesses in reporting mechanisms and suggests the need for stricter enforcement of accountability measures.

To address these challenges, it is recommended that provincial treasuries take immediate steps to improve municipal compliance with the UIFWE policy requirements. Key actions should include capacity-building programs, closer monitoring of municipalities with high non-compliance or non-response rates and implementing stricter penalties for non-reporting. Additionally, provinces showing progress, such as EC and MP, should be studied to identify and replicate best practices across underperforming provinces. Failure to act on these findings could result in continued governance failures and significant financial risks.

Number of municipalities with controls ensuring timely implementation of Council resolutions on recoverability/write-off of UIFWE

In the 2023/2024 financial year, **one hundred and seventy-eight (178) municipalities reported having controls to ensure timely implementation of council resolutions on the recoverability/write-off of UIFWE** as of 30 September 2023. A breakdown by province is provided below, highlighting municipalities that reported having such controls in place, those without controls, and those that did not respond.

Number of municipalities with controls ensuring timely implementation of Council resolutions on recoverability/write-off of UIFWE



The chart highlights the status of municipalities across South African provinces in ensuring controls for the timely implementation of council resolutions regarding the recoverability or write-off of UIFWE. It categorises municipalities into three groups: those with proper controls in place ("Yes"), those without controls ("No"), and those that failed to respond ("No Response").

In the EC, out of the thirty-nine (39) municipalities, thirty-five (35), (90%) reported having controls in place for the timely implementation of resolutions. In contrast, the FS reflected poor compliance, with only nine (9) municipalities (39%) having proper controls, while four (4) municipalities (17%) indicated a lack of controls "No," and ten (10), (44%) municipalities failed to respond. This high percentage of "No Response" municipalities in the FS province indicates serious lapses in oversight and accountability. The KZN province has the largest number of municipalities (54), with forty (40) municipalities, (74%) implementing controls and fourteen (14) municipalities, (26%) not responding. In MP, the situation is similar, with nineteen (19) municipalities, (95%) having controls and only one (1) municipality, (5%) reporting non-compliance. The NC, with nine (9) out of thirty-one (31) municipalities, (29%) indicated having no controls, eighteen (18) municipalities, (58%) reported having controls, and four (4), (13%) municipalities not responding, is of great concern.

The analysis reveals that municipalities lack proper controls for implementing Council resolutions related to UIFWE. This raises critical concerns about financial governance, accountability, and the effective implementation of the MFMA. Except for the MP, non-compliance is high in the other eight (8) provinces of municipalities without controls to ensure timely implementation of Council resolutions on recoverability/write-off of UIFWE based on the submissions made. The high percentage of "No Response" municipalities in provinces like FS, WC, and KZN is equally concerning, highlighting a breakdown of basic reporting and oversight mechanisms.

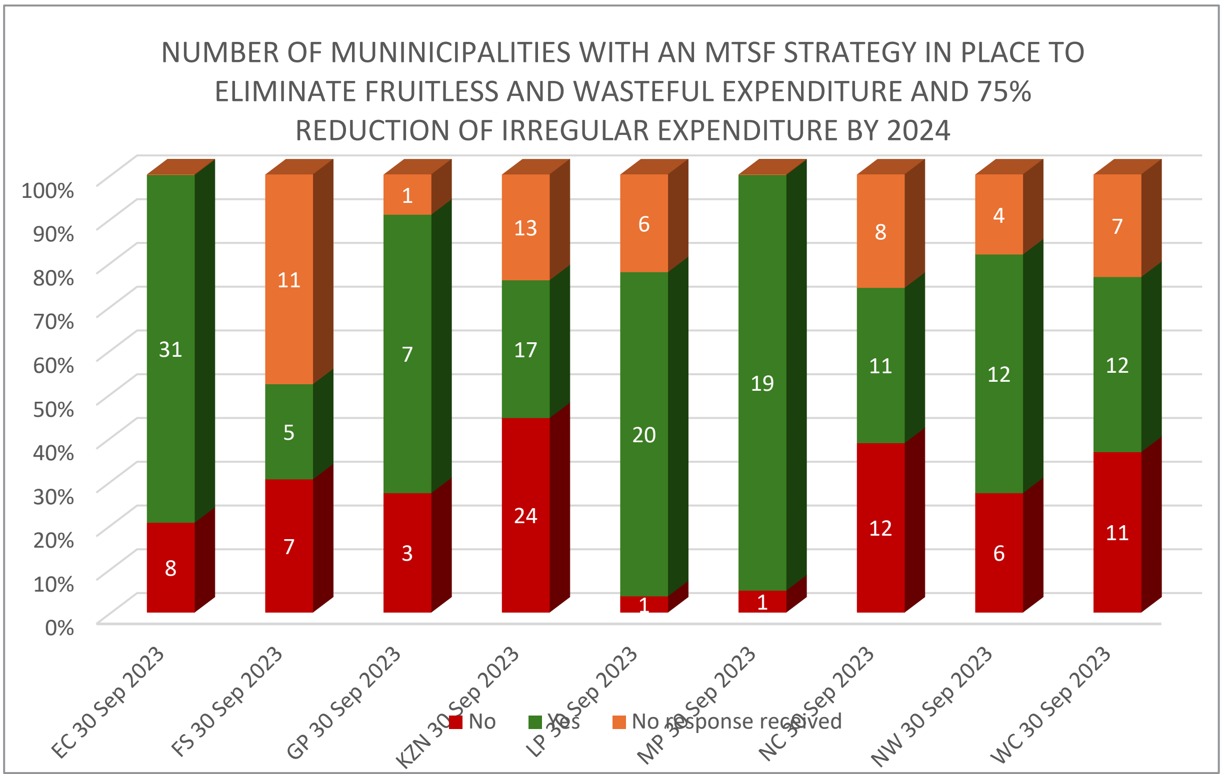
The lack of controls reflects poor governance practices and exposes municipalities to significant financial and reputational risks. As shown by the high numbers in the "No" and "No Response" categories, the widespread lack of accountability demands immediate action at both provincial and municipal levels.

To address these challenges, it is recommended that provincial treasuries implement stricter monitoring and capacity-building programs to enhance compliance. Targeted interventions are needed in provinces with the highest levels of non-compliance, such as FS, KZN and WC. Municipalities must be held accountable for non-responses through stronger enforcement measures and penalties. Best practices from better-performing provinces should be identified and replicated to create a uniform standard of compliance across the country.

Number of municipalities with a strategy in place to eliminate fruitless and wasteful expenditure and reduce irregular expenditure by 75% by 2024

As of 30 September 2023, **one hundred and thirty-four (134) municipalities reported that they had a strategy to eliminate fruitless and wasteful expenditure** and achieve a 75% reduction in irregular expenditure aligned to the Medium-Term Strategic Framework (MTSF). A provincial breakdown is provided below, detailing municipalities that have implemented the strategy, those that have not, and those that did not respond.

MTSF Strategy



The chart outlines municipalities' compliance across provinces in adopting the MTSF strategy to eliminate fruitless and wasteful expenditure and achieve a 75% reduction in irregular expenditure by 2024. Municipalities are grouped into three categories: those that have implemented the strategy ("Yes"), those that have not ("No"), and those that failed to respond ("No Response"). The data reveals significant governance challenges, with many municipalities failing to implement the strategy or report their status.

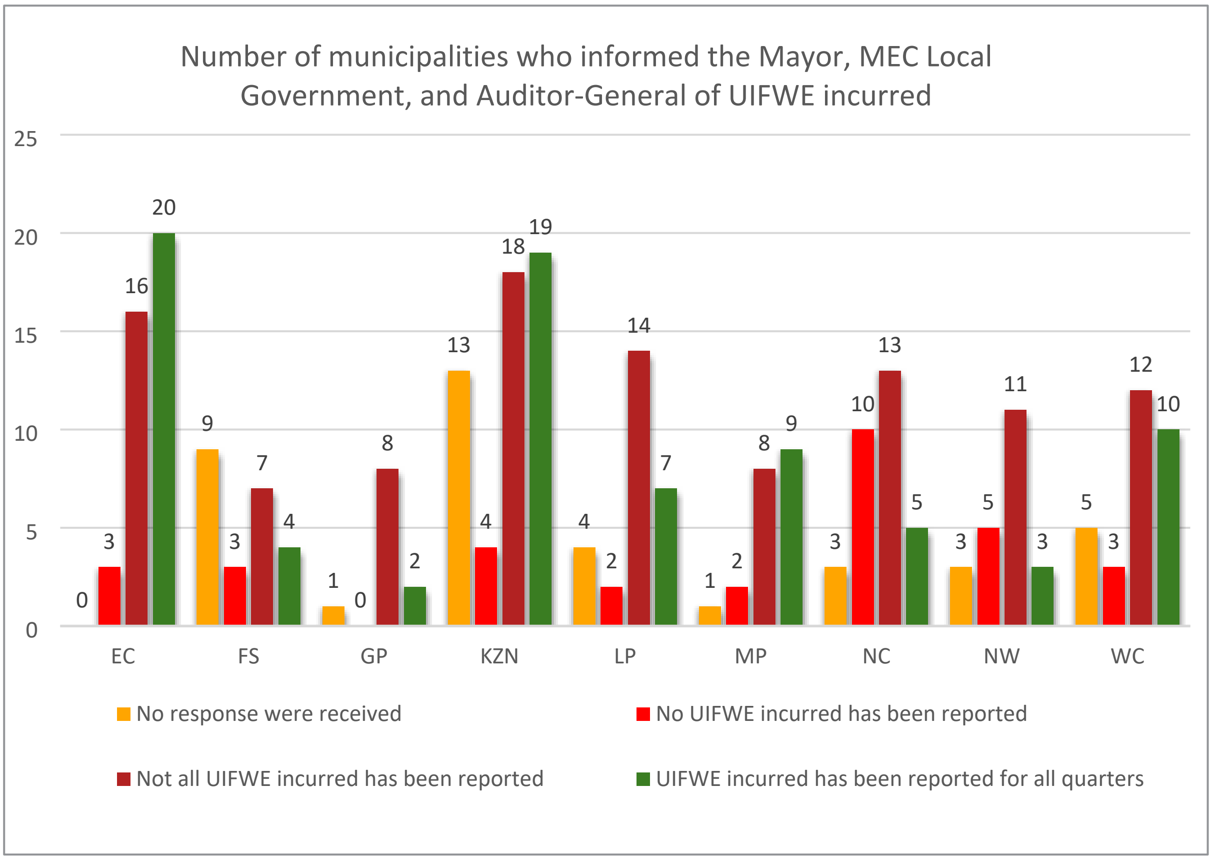
In the EC, out of thirty-nine (39) municipalities, thirty-one (31) municipalities (79%) had an MTSF strategy in place, while eight (8) municipalities, (21%) reported that they did not have an MTSF strategy in place. Similarly, in the FS, only five (5) municipalities, (22%) had implemented the MTSF strategy, with eleven (11), (48%) failing to report and the majority—seven (7) municipalities, (30%)—reported not having the MTSF strategy in place. The KZN province had the highest proportion of municipalities without an MTSF strategy at twenty-four (24) out of fifty-four (54), (45%) municipalities, alongside seventeen (17) municipalities with an MTSF strategy (31%) and only thirteen (13), (24%) failing to report. The MP province performed well, with only one (1) municipality reporting not having an MTSF strategy in place, representing 5% of their total and nineteen (19), (95%) municipalities reporting to have an MTSF strategy. Provinces like the NC, KZN and WC also showed a high level of municipalities that did not respond to confirm if they have MTSF strategies in place, with eight (8) municipalities, (27%) in the NC, with thirteen (13), (24%) municipalities in KZN and seven (7), (23%) in the WC.

It is recommended that the National Treasury, alongside provincial treasuries, implement urgent interventions to improve compliance. This should include stricter reporting enforcement mechanisms and increased oversight. The high non-response rates further necessitate implementing penalties for non-reporting to ensure greater accountability in financial governance. Without decisive action, a tangible reduction in the UIFWE will remain unattainable for most municipalities.

Number of municipalities who informed the Mayor, MEC, and Auditor-General of South Africa of UIFWE incurred

In the 2023/2024 financial year, municipalities across the provinces were assessed for reporting UIFWE to the Mayor, MEC, and AGSA. The report highlights the distribution of responses by municipalities, categorised as follows: municipalities that did not respond for all quarters, municipalities that provided no response for some quarters, those that reported no UIFWE incurred, those that reported not all UIFWE incurred, and those that reported UIFWE incurred for all quarters. A provincial breakdown outlines the reporting trends and compliance levels within the financial year.

Informing the Mayor, MEC Local Government and Auditor-General



The graph presents the reporting status of municipalities in informing their respective Mayors, MEC Local Government, and the AGSA regarding UIFWE incurred. In the EC, 51% of municipalities, twenty (20) out of thirty-nine (39) reported UIFWE incurred for all quarters, which is a promising sign of compliance. However, 41%, sixteen (16) municipalities failed to report all UIFWE incurred, indicating major gaps in full reporting. Meanwhile, 8%, three (3) municipalities) did not report any UIFWE incurred to the relevant stakeholders. This distribution highlights that while half of the municipalities are compliant, the remaining 50% demonstrate various levels of non-compliance in reporting UIFWE incurred to legislatively determined stakeholders.

In NW, only 14% of municipalities, three (3) out of twenty-two (22), reported UIFWE incurred for all quarters to relevant stakeholders, which is a low compliance rate. Also, 50%, eleven (11) municipalities failed to report all UIFWE incurred to the relevant stakeholders, indicating major gaps in full reporting. Meanwhile, 23%, five (5) municipalities did not report any UIFWE incurred to the relevant stakeholders, with 13% of municipalities, three (3) out of twenty-two (22) failing to respond for all quarters to confirm whether or not they have reported any UIFWE incurred to the relevant stakeholders. This distribution demonstrates various non-compliance levels in reporting UIFWE incurred by legislatively determined stakeholders.

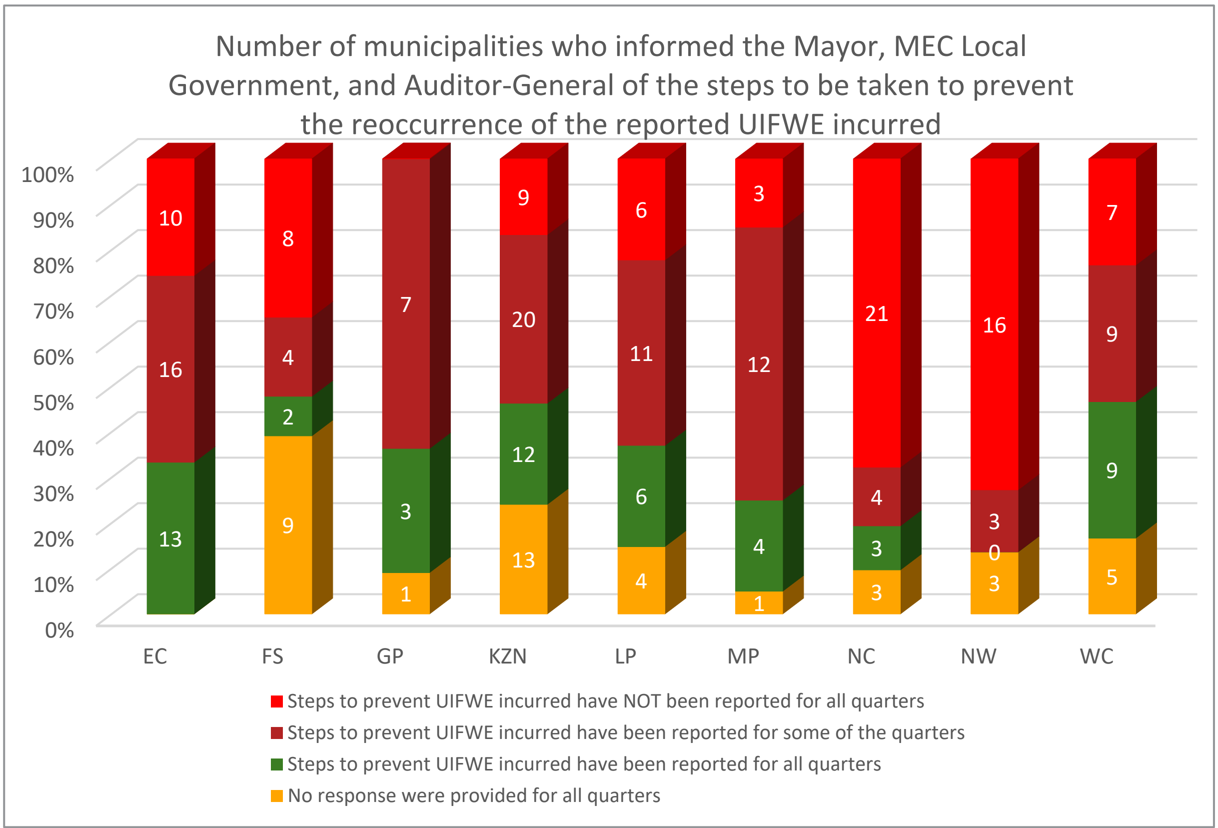
The FS province reveals considerable issues in reporting, with 39% of municipalities, nine (9) out of twenty-three (23), failing to respond for all quarters to confirm if they have reported any UIFWE incurred to the relevant stakeholders. Another 30%, seven (7) municipalities did not report all UIFWE incurred, and 14%, three (3) municipalities did not report any UIFWE incurred to relevant stakeholders. Only 17% of municipalities, four (4) out of twenty-three (23), managed to report UIFWE incurred for all quarters to relevant stakeholders. With more than 65% of municipalities either non-responsive or partially compliant, the province exhibits significant challenges in achieving transparency in UIFWE-incurred reporting to relevant stakeholders.

Across all provinces, the percentage of municipalities reporting UIFWE incurred for all quarters ranges from as low as 17% in the FS to 51% in the EC. Significant gaps remain nationwide, with many provinces showing high partial compliance with reporting UIFWE incurred to the relevant stakeholders. This uneven reporting landscape highlights the need for targeted improved oversight mechanisms and enhanced accountability frameworks to ensure uniform compliance. The high percentage of municipalities that fail to report fully (ranging from 49% to over 80% across provinces) underscores systemic issues in adherence to financial management frameworks. By addressing these gaps, municipalities can improve transparency, governance, and public trust.

Number of municipalities who informed the Mayor, MEC Local Government, and Auditor-General of the steps to be taken to prevent the reoccurrence of the reported UIFWE incurred

In the 2023/2024 financial year, municipalities were assessed for reporting and implementing measures to prevent UIFWE. The provincial breakdown categorises municipalities based on their responses as follows: municipalities that did not respond for all quarters, municipalities that did not respond for some quarters, those that reported steps to prevent UIFWE for all quarters, those that reported such steps for some quarters, and those that did not report any steps to prevent UIFWE for all quarters. This analysis highlights the compliance and efforts made across provinces during the financial year.

Reoccurrence of UIFWE Incurred



In the EC, 41%, sixteen (16) municipalities did not report UIFWE preventative steps for all quarters, while 33%, thirteen (13) municipalities reported UIFWE preventative steps consistently. Only 26%, ten (10) municipalities consistently reported no UIFWE preventative steps taken across all quarters. The EC also had no municipalities that failed to respond entirely, a slightly better result than the other provinces. However, the high proportion of non-compliance (67%) reflects significant accountability gaps.

The FS is the province with the highest percentage of municipalities not reporting any information of the UIFWE preventative steps taken, with 39%, (nine (9) municipalities) not providing responses of any UIFWE preventative steps taken to prevent UIFWE from reoccurring and 18% ,four (4) municipalities failing to report their UIFWE prevention steps for all quarters. Only 9%, two (2) municipalities reported that they informed the relevant stakeholders for all quarters of the UIFWE preventative steps taken to prevent the recurrence of the UIFWE reported. In comparison, 34%, eight (8) municipalities reported that they did not report any UIFWE prevention steps taken to prevent UIFWE from reoccurring.

The NC and NW provinces have reported municipalities that did not report UIFWE preventative steps to prevent the reoccurrence of reported UIFWE to the relevant stakeholders. In the case of NC, 67%, twenty-one (21) out of thirty-one (31) municipalities and the NW, 72%, sixteen (16) out of twenty-two (22) municipalities of municipalities reported that they did not report UIFWE preventative steps to prevent the reoccurrence of reported UIFWE to the relevant stakeholders.

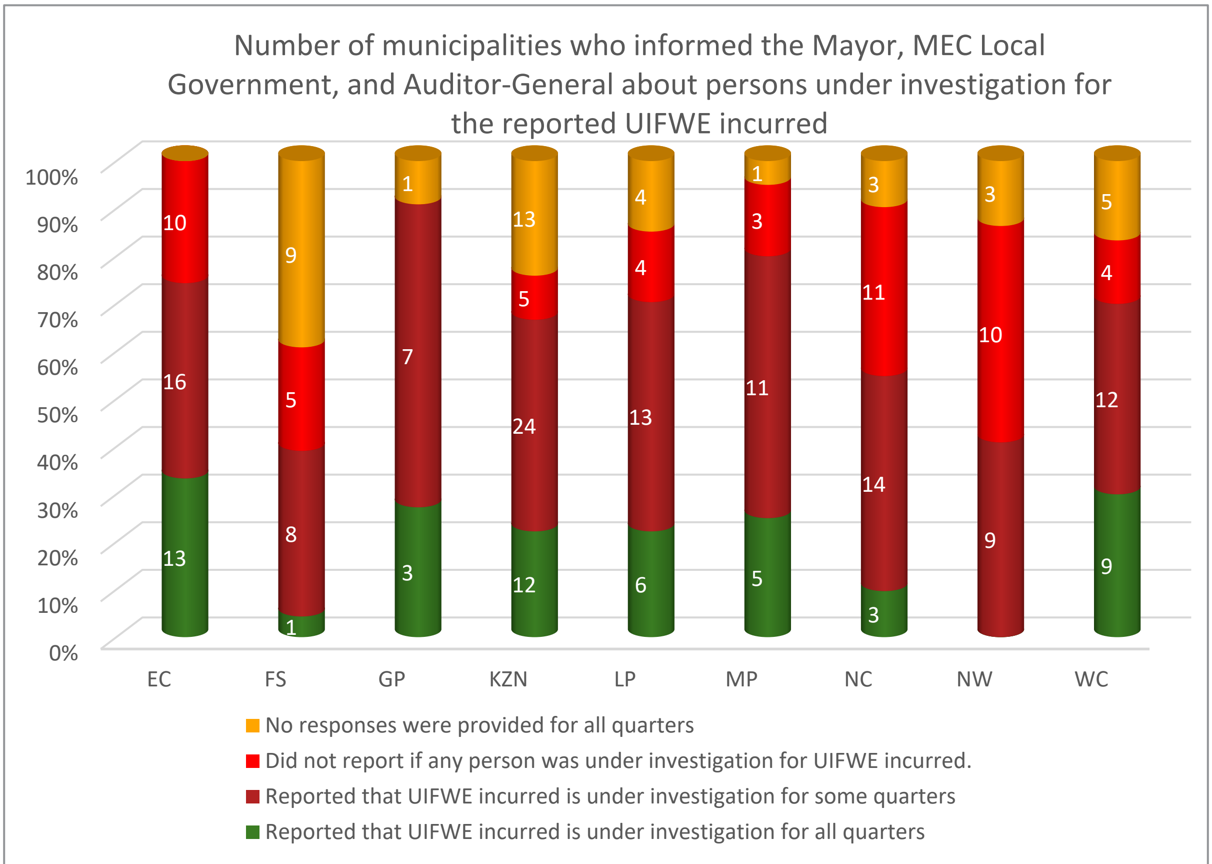
For the GP, KZN, WC, LP, and MP provinces, the number of municipalities that did not report UIFWE prevention steps for all the reported UIFWE is high, which confirms that the prevention of UIFWE is not considered a high priority for municipalities in these provinces. The GP leads the non-compliance in the provinces, with 64% of municipalities seven (7) out of eleven (11) municipalities not reporting UIFWE prevention steps for all the reported UIFWE to the relevant stakeholders.

The data reveals significant weaknesses in governance across provinces, with high rates of municipalities failing to consistently report steps to prevent UIFWE reoccurrence. To address these issues, provincial treasuries should adopt stricter enforcement mechanisms for non-responses and inconsistent reporting. To improve understanding of UIFWE reporting obligations, provincial treasuries must provide capacity-building initiatives to municipalities to effectively prevent UIFWE and meet MFMA compliance standards through such interventions.

Number of municipalities who informed the Mayor, MEC Local Government, and Auditor-General about persons under investigation for the reported UIFWE

In the 2023/2024 financial year, municipalities' efforts and reporting regarding investigations into UIFWE were evaluated. The assessment categorises municipalities across provinces as follows: those that reported that the UIFWE incurred is under investigation for all quarters, those that reported such investigations for some quarters, those that did not report whether any person was under investigation for UIFWE incurred, and those that did not respond for all quarters. This provincial breakdown provides a comprehensive view of municipal accountability and investigative actions during the financial year.

Persons under investigation for UIFWE reported



Non-responsiveness from municipalities regarding UIFWE investigations varies significantly across provinces, with the FS 39%, nine (9) municipalities and KZN 24%, thirteen (13) municipalities exhibiting the highest proportions of municipalities failing to report for all quarters, highlighting severe governance challenges. The EC with 26%, ten (10) municipalities, LP with 15%, four (4) municipalities, NW with 14%, three (3) municipalities, and NC with 10%, three (3) municipalities demonstrate moderate levels of non-responsiveness. The WC, with 17% five (5) municipalities, also requires targeted interventions to address the lack of reporting by municipalities in the WC. In contrast, GP, with 9%, one (1) municipality and MP, with 5%, one (1) municipality, showcased better reporting and accountability practices concerning the reporting of UIFWE investigations. The EC is the only province without a municipality that did not respond to the UIFWE investigations questionnaire.

The percentage of municipalities failing to report if any person was under investigation for UIFWE incurred was highest in the NW province with 45%, ten (10) municipalities and the NC with 35%, eleven (11) municipalities. The FS, with 35%, eight (8) municipalities, and EC, with 26%, ten (10) municipalities, also demonstrated high non-reporting rates, indicating persistent challenges in accountability. Other provinces, such as KZN, with 9%, five (5) municipalities and LP, with 15%, four (4) municipalities, showed slightly lower non-reporting rates but still require improvement. The WC, with 13%, four (4) municipalities, and MP, with 15%, three (3) municipalities, had the lowest levels of non-reporting, indicating relatively stronger governance practices in these regions. The GP is the only province without a municipality that did not report a failure to investigate UIFWE in all four quarters.

The WC municipalities had the highest proportion of municipalities consistently reporting that UIFWE was under investigation for all quarters with 30%, nine (9) municipalities, followed by MP with 25%, five (5) municipalities and the EC with 33%, thirteen (13) municipalities. GP province, with 27%, three (3) municipalities, KZN, with 22%, twelve (12) municipalities, and LP with 22%, six (6) municipalities performed moderately well in this category. In contrast, the FS with 4%, one (1) municipality and the NC with 10%, three (3) municipalities had the lowest compliance rates, with very few municipalities consistently reporting investigations. The NW had no municipality consistently reporting that UIFWE investigations were underway, demonstrating a total disregard for UIFWE investigation reporting requirements under the MFMA.

Municipalities reporting UIFWE investigations inconsistently (some quarters) were most prevalent in MP with 55% eleven (11) municipalities and KZN with 44%, twenty-four (24) municipalities, where a significant portion of municipalities reported partially but failed to achieve full transparency on UIFWE disclosures for all quarters. The EC, with 41%, sixteen (16) municipalities and LP, with 48%, thirteen (13) municipalities, also demonstrated only partial reporting of UIFWE investigations. Other provinces with moderate levels of partial reporting included the WC with 40%, twelve (12) municipalities and the NW with 41% nine (9) municipalities. GP, with 64%, seven (7) municipalities, the FS, with 35%, eight (8) municipalities and the NC, with 45%, fourteen (14) municipalities, showed lower rates of partial UIFWE investigation reporting, indicating less engagement in this category.

The reporting of UIFWE investigations by municipalities reveals significant disparities in accountability and responsiveness across provinces. Several provinces exhibit severe governance challenges, with high levels of non-responsiveness and inconsistent reporting. These gaps highlight systemic issues that undermine the ability to monitor and address UIFWE effectively. Some provinces, however, demonstrate relatively better practices, with a few achieving consistent reporting of investigations across all quarters.

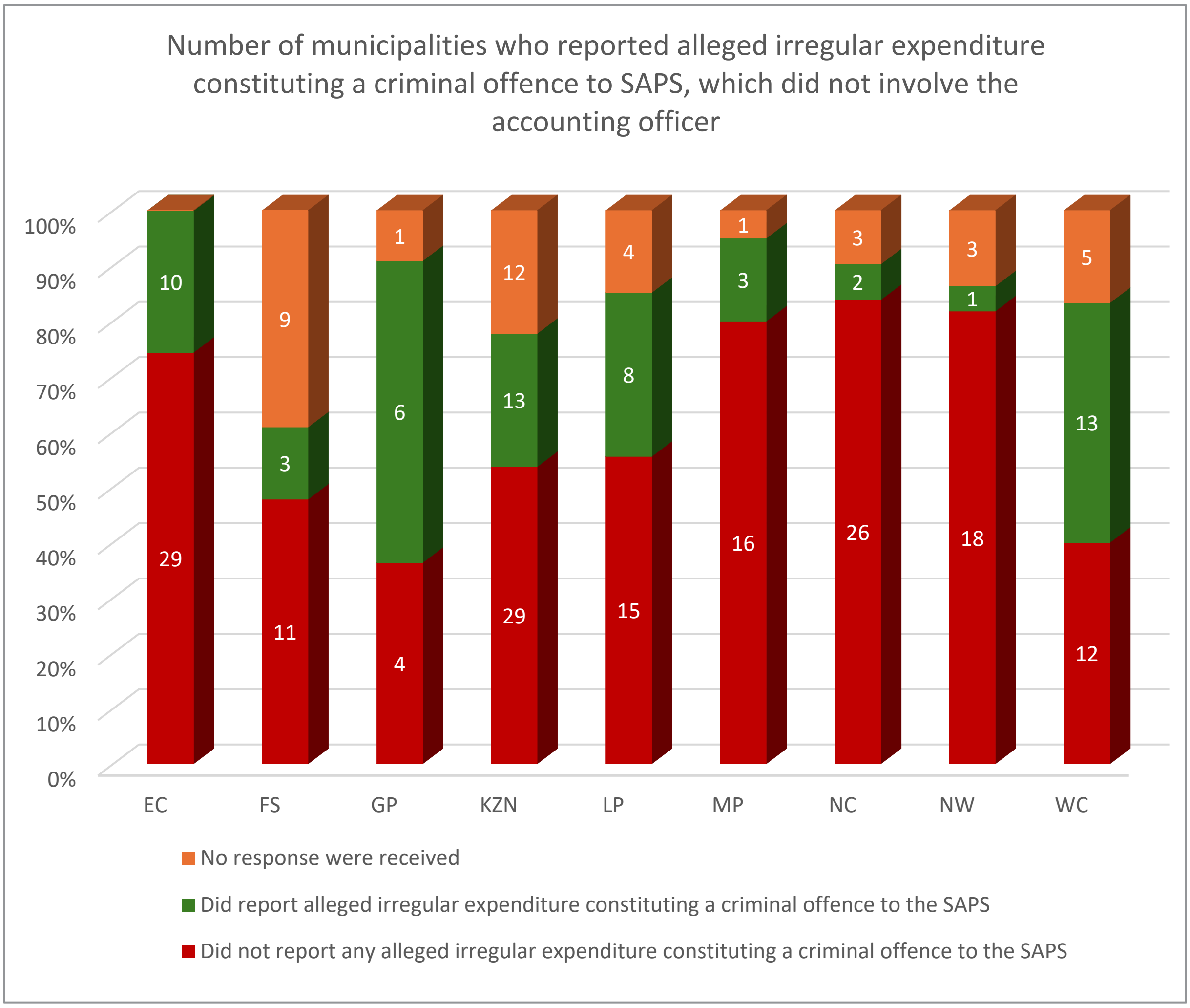
While some provinces show moderate levels of engagement, partial reporting remains a prevalent issue. Municipalities often fail to disclose UIFWE investigations consistently, instead opting for partial or incomplete reporting that undermines transparency. A few provinces stand out for their stronger governance practices, consistently meeting reporting obligations and demonstrating accountability mechanisms that align with MFMA requirements.

However, provinces with minimal or no consistent reporting require immediate intervention. The lack of robust oversight and enforcement in these regions is a major contributor to weak accountability, necessitating targeted measures to enhance compliance with UIFWE investigation reporting.

Number of municipalities that reported alleged irregular expenditure constituting a criminal offence which did not involve the accounting officer, to SAPS.

In the 2023/2024 financial year, municipalities provided feedback on their reporting of alleged irregular expenditure constituting a criminal offence, which did not involve the accounting officer, to the South African Police Service (SAPS). The analysis categorises municipalities across provinces into the following groups: those that did not respond, those that did not report any alleged irregular expenditure constituting a criminal offence, and those that did report such alleged irregular expenditure. This provincial breakdown highlights the level of compliance and transparency among municipalities in addressing irregular expenditure and aligning with legal reporting obligations during the financial year.

Alleged criminal offence reported to SAPS, other than of accounting officer



A total of thirty-eight (38) municipalities, (15%) out of the total two hundred and fifty-seven (257) municipalities did not respond to the questionnaire. Among the provinces, KZN recorded the highest number of non-responses, with twelve (12) municipalities representing 22.2% of the total non-responses. The FS followed with nine (9) municipalities, (39%), while LP recorded four (4) municipalities, (15%). Other provinces with non-responses include the MP with one (1) municipality, (5%), and the NC and NW with three (3) municipalities each. In the WC, five (5) municipalities, (17%) did not respond. All EC municipalities responded to the questionnaire during at least one quarter; hence, the EC does not have a single municipality that did not respond to the questionnaire. The fact that many municipalities failed to respond raises concerns about transparency or communication gaps, especially in provinces like KZN and the FS.

Most municipalities, one hundred and sixty (160) out of two hundred and fifty-seven (257), (63%), reported that they had not escalated any cases of alleged irregular expenditure to the SAPS. KZN and the EC provinces each had the highest number of municipalities in this category, namely twenty-nine (29) municipalities. The NC recorded twenty-six (26) municipalities, (83%), while LP followed with fifteen (15) municipalities, (56%) that had not escalated any cases of alleged irregular expenditure to the SAPS. Other provinces in this category include the FS with eleven (11) municipalities, (48%), the NW with eighteen (18) municipalities, (81%), the WC with twelve (12) municipalities, (40%), and MP with sixteen (16) municipalities, (80%). GP reported the lowest number in this category, with four (4) municipalities, (36%). These results suggest that many municipalities have not taken formal steps to report irregular expenditure that constitute a criminal offence to law enforcement, indicating potential inaction or a lack of accountability in handling these matters.

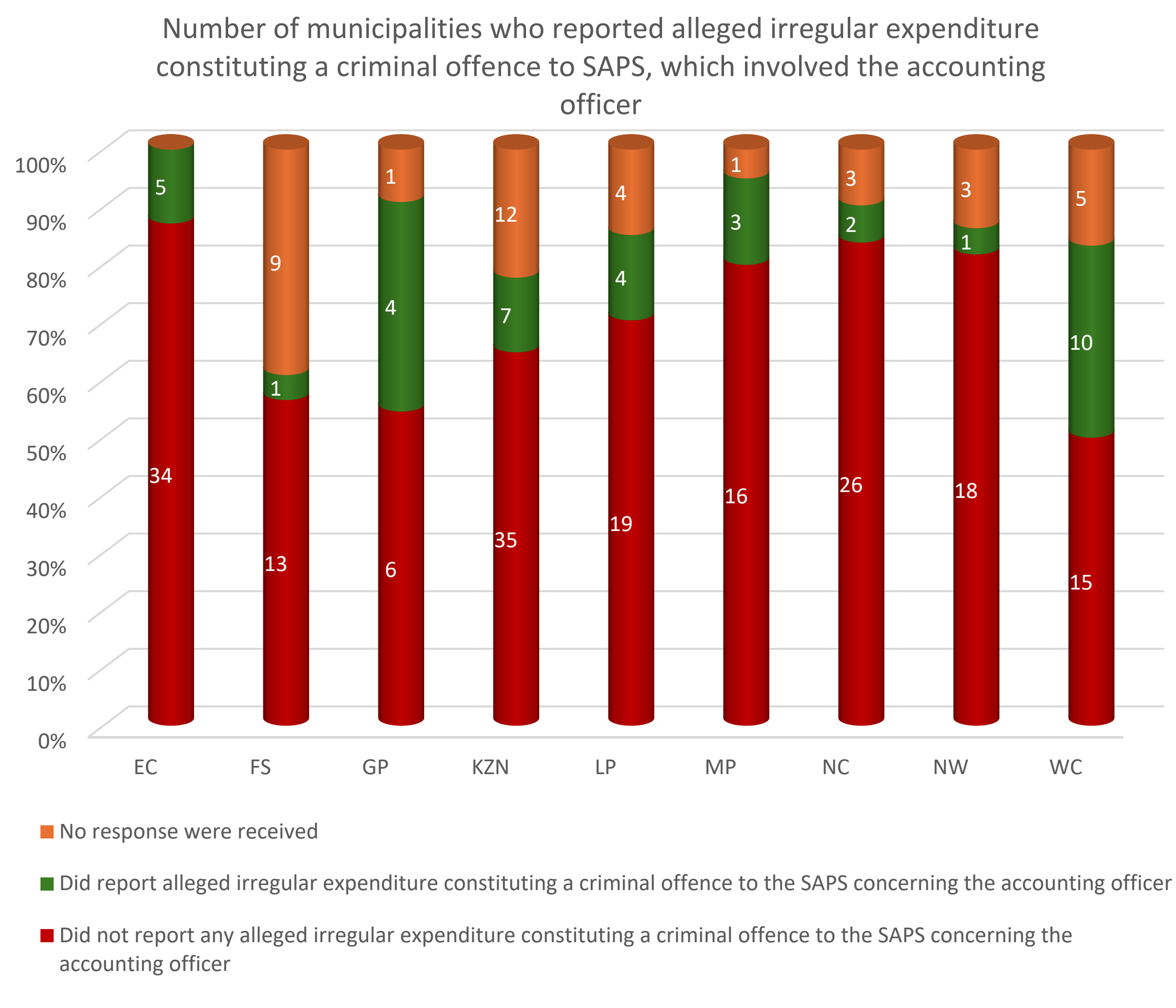
A total of fifty-nine (59) municipalities, (22%) indicated that they had reported cases of irregular expenditure to SAPS. The EC and KZN lead this category, with ten (10), (26%) and thirteen (13) municipalities, (24%), respectively. The WC reflected thirteen (13) municipalities, (43%), making it one of the top-performing provinces in this category. LP followed with eight (8) municipalities, (30%), and the FS recorded three (3) municipalities, (13%). The GP had six (6) municipalities, (54%) that reported such cases, while the MP and the NC recorded three (3) and two (2) municipalities, respectively. NW had the lowest, with only one (1) municipality, (5%) reporting cases. While these numbers suggest that some municipalities are addressing irregular expenditure, the overall proportion remains low, highlighting a need for greater accountability and action where alleged irregular expenditure also constitutes a possible criminal offence.

The analysis reveals that most municipalities (63%) have not reported cases of alleged irregular expenditure to the SAPS. Only 22% of municipalities have taken action to report such cases, while 15% did not respond. KZN and the EC have many non-reporting municipalities despite having relatively higher numbers of reporting municipalities. Provinces such as the WC and LP show stronger action in reporting irregular expenditure when compared to others like the NW and the NC, which lag behind. The lack of responses from thirty-eight (38) municipalities suggests gaps in communication or a potential unwillingness to engage on the issue, particularly in provinces like KZN and the FS, which have the highest non-response rates. Furthermore, the high proportion of municipalities that did not report cases to SAPS points to a concerning trend of inaction or lack of enforcement mechanisms in dealing with irregular expenditure.

Number of municipalities that reported alleged irregular expenditure constituting a criminal offence which involved the accounting officer, to SAPS

In the 2023/2024 financial year, municipalities provided feedback on their reporting of alleged irregular expenditure constituting a criminal offence to the South African Police Service (SAPS), specifically concerning accounting officers. The analysis categorizes municipalities into the following groups: those that did not respond, those that did not report any alleged irregular expenditure constituting a criminal offence, and those that did report such alleged irregular expenditure. This provincial breakdown provides insights into the accountability measures taken by municipalities and their adherence to legal reporting requirements during the financial year.

Alleged criminal offence reported to SAPS of accounting officer



The analysis examines whether municipalities reported cases of alleged irregular expenditure, constituting a criminal offence, to the South African Police Service (SAPS), specifically in cases involving the Accounting Officer. The responses are divided into three categories: municipalities that did not respond, those that did not report such cases, and those that did report.

Thirty-eight (38) municipalities (15%) did not respond to whether irregular expenditure, constituting a criminal offence, involving the Accounting Officer was reported to the SAPS. Among the provinces, KZN recorded the highest number of non-responses, with twelve (12) municipalities, (22%). FS followed with nine (9) municipalities, (39%), indicating a significant lack of engagement. WC had five (5) municipalities, (16.7%) that did not respond, while LP recorded four (4) municipalities, (15%). Both NC and NW reported three (3) municipalities, each (10% and 14%, respectively) as non-responding. The

MP and GP had only one (1) municipality each, accounting for 5% and 9%, respectively. All EC municipalities responded to the questionnaire during at least one quarter; hence, the EC did not have one municipality that did not respond to the questionnaire. These non-responses highlight a concerning trend of municipalities failing to communicate or engage, particularly in the FS and KZN, where the percentages of non-responses are disproportionately high.

The majority of municipalities, one hundred and eighty-two (182) out of the total of two hundred and fifty-seven (257), (71%), indicated that they did not report any cases of alleged irregular expenditure involving the Accounting Officer to the SAPS. In KZN, thirty-five (35) municipalities, (65%) did not report, making it the province with the highest number of non-reporting municipalities. The EC followed closely, with thirty-four (34) municipalities, (87%) not reporting, while the NC had twenty-six (26) municipalities, (84%) in this category. In MP, sixteen (16) municipalities, (80%) did not report, while LP recorded nineteen (19) municipalities, (70%). The WC had fifteen (15) municipalities, (50%) that did not report, while the NW recorded eighteen (18) municipalities, (82%). The FS had thirteen (13) municipalities, (57%), and GP had six (6) municipalities, (55%) that did not report.

Only thirty-seven (37) municipalities (14%) reported cases of alleged irregular expenditure involving the Accounting Officer to SAPS. The WC had the highest proportion of reporting municipalities, with ten (10) municipalities, (33%) taking action. KZN followed, with seven (7) municipalities, (13%) reporting. The EC recorded five (5) municipalities, (13%), while LP and GP each reported four (4) municipalities, accounting for 15% and 36% of their respective totals. In the MP province, three (3) municipalities, (15%) reported, while the NC had only two (2) municipalities, (7%) that escalated such cases. The NW and the FS each recorded just one (1) municipality, accounting for 5% and 4%, respectively. These numbers highlight that proactive reporting remains limited across most provinces, with WC and GP standing out as exceptions.

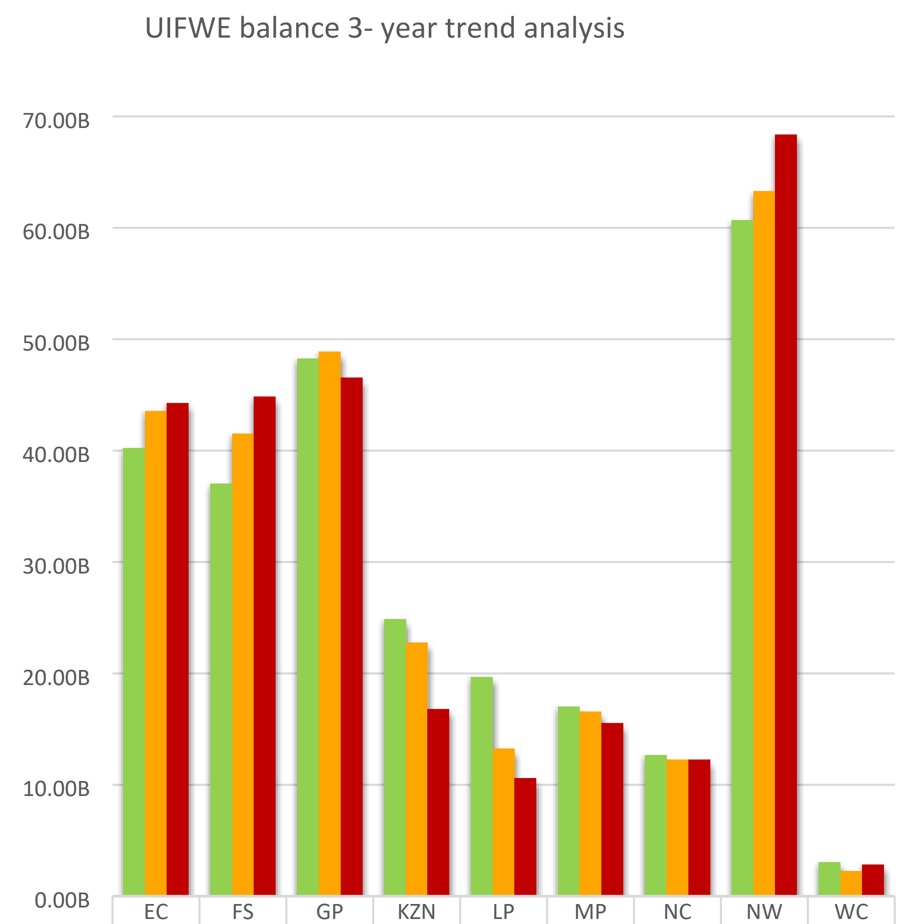
The data suggests that the overall reporting rates are low compared to the prevalence of such issues highlighted by the AGSA and media reports, with reference to irregular expenditure cases where the accounting officer is alleged to be involved. This context is crucial because while non-reporting does not inherently indicate a problem, it could reflect proper handling of cases internally or the absence of significant irregularities—the low number of reported cases, given the high levels of irregular expenditure reported nationally, raises concerns about whether municipalities are fully addressing or disclosing these issues.

In the broader context of irregular expenditure flagged by the AGSA and widespread concerns raised in the media, the low reporting rates to SAPS suggest either underreporting or a lack of enforcement in addressing irregularities. Non-reporting does not necessarily equate to negligence or bad governance—municipalities may address irregularities through internal mechanisms. However, given the high volume of irregular expenditure recorded nationally, the expectation is that more cases would involve the Accounting Officer and be escalated to SAPS. This discrepancy raises questions about whether municipalities are sufficiently investigating and escalating serious irregularities or whether systemic issues, such as inadequate capacity, lack of oversight, or reluctance to act, are at play.

UIFWE incurred as reported for the three financial years ending 30 June 2024

The comparison of UIFWE balances for the financial years 2021/2022, 2022/2023 and 2023/2024 provides insights into changes in irregular, unauthorised, fruitless and wasteful expenditure (UIFWE) across provinces. In 2021/2022, the total UIFWE balance was R263.54 billion, increasing in 2022/2023 to R264.41 billion; in 2023/2024, the reported UIFWE balance decreased by R2.24 billion, bringing the **cumulative total to R262.17 billion**. This represents an **overall decrease of 0.52% from 2021/2022 to 2023/2024**, with notable variations in increases and decreases across provinces. The UIFWE balance includes the UIFWE balances of the eight (8) metropolitan municipalities (metros). Below is an analysis of each province, including the 2023/2024 UIFWE balance and a brief analysis of the absolute and percentage changes.

UIFWE balance 3-year trend analysis



	EC	FS	GP	KZN	LP	MP	NC	NW	WC
UIFWE Balance 2021/2022	40.25B	37.03B	48.26B	24.88B	19.69B	17.01B	12.67B	60.69B	3.08B
UIFWE Balance 2022/2023	43.56B	41.54B	48.88B	22.77B	13.24B	16.59B	12.28B	63.29B	2.25B
UIFWE Balance 2023/2024	44.29B	44.86B	46.58B	16.82B	10.61B	15.54B	12.27B	68.36B	2.84B

In the 2023/2024 financial year, EC reported a UIFWE closing balance of R44.29 billion, reflecting a net increase of R730 million from the R43.56 billion UIFWE balance recorded in 2022/2023. This growth occurred despite writing off R7.80 billion in UIFWE for the 2023/2024 financial year, as R8.56 billion in new UIFWE was identified during the 2023/2024 financial year. Over the three-year period from R40.25 billion in 2021/2022 to R44.29 billion in 2023/2024, the EC has shown a continuous upward trend in UIFWE, highlighting the need for municipalities in the province to improve their UIFWE preventative controls significantly.

FS recorded a UIFWE balance of R44.86 billion at the end of the 2023/2024 financial year, increasing by R3.32 billion from R41.54 billion in 2022/2023. This was driven by identifying R6.45 billion in new UIFWE incurred for the 2023/2034 financial year, offset only partially by R3.13 billion in UIFWE write-offs. The province's UIFWE balance has grown from R37.03 billion in 2021/2022, indicating mounting financial management challenges that require urgent intervention to restore expenditure discipline and compliance with MFMA principles.

GP’s UIFWE balance decreased to R46.58 billion in the 2023/2024 financial year, down from R48.88 billion in 2022/2023. This net reduction of R2.30 billion was largely due to R13.92 billion in UIFWE write-offs and recoveries despite R11.62 billion in new UIFWE being incurred in the 2023/2024 financial year. While the decrease in the UIFWE balance from R48.26 billion in 2021/2022 reflects some progress, the persistently high levels of new UIFWE in 2023/2024 signal continued weaknesses in preventative financial controls that must be addressed.

KZN reported a significant decline in its UIFWE balance to R16.82 billion in 2023/2024 from R22.77 billion in 2022/2023, representing a net reduction of R5.95 billion. This was achieved through R13.90 billion in UIFWE write-offs despite R8 billion in new UIFWE incurred in the 2023/2024 financial year. The overall decline from a UIFWE balance of R24.88 billion in 2021/2022 reflects a positive trajectory in addressing historical UIFWE. Still, the consistent incurrence of new irregular expenditure indicates the need for strengthened preventative controls within KZN municipalities.

LP closed the 2023/2024 financial year with a UIFWE balance of R10.61 billion, down from R13.24 billion in 2022/2023, a reduction of R2.63 billion. This was achieved through R6.50 billion in UIFWE write-offs and recoveries despite R3.87 billion in new UIFWE being incurred during the 2023/2024 financial year. LP has shown improvement from its 2021/2022 UIFWE balance of R19.69 billion, but the high level of new UIFWE identified in 2023/2024 points to ongoing gaps in financial control measures that require attention.

MP recorded a UIFWE balance of R15.54 billion in 2023/2024, representing a net decrease of R1.05 billion from the R16.59 billion reported in 2022/2023. The reduction resulted from R8.05 billion in UIFWE write-offs despite the incurrence of R7 billion in new UIFWE for the 2023/2024 financial year. The overall UIFWE balance has declined since 2021/2022, when MP reported R17.01 billion in UIFWE. Still, the recurring nature of the new UIFWE highlights the need to reinforce preventative measures at the municipal level.

NC’s UIFWE balance remained virtually unchanged, decreasing marginally from R12.28 billion in 2022/2023 to R12.27 billion in 2023/2024. The province identified R2.13 billion in new UIFWE for the 2023/2024 financial year, nearly balanced by R2.14 billion in UIFWE write-offs. NC has shown minimal improvement since 2021/2022, when the UIFWE stood at R12.67 billion. This stagnation suggests that municipalities in NC must urgently implement robust financial controls to reduce the reoccurrence of UIFWE.

NW recorded the largest increase in UIFWE for the 2023/2024 financial year, with the closing balance rising to R68.36 billion from R63.29 billion in 2022/2023, an increase of R5.07 billion. The province identified R7.19 billion in new UIFWE for the 2023/2024 financial year, while only R2.13 billion was written off. From R60.69 billion in 2021/2022, the continued growth in NW's UIFWE balance signals systemic governance failures and ineffective UIFWE oversight, requiring urgent and coordinated corrective action.

WC reported a UIFWE balance of R2.84 billion at the end of the 2023/2024 financial year, up from R2.25 billion in 2022/2023, an increase of R595 million. This change was due to R1.21 billion in new UIFWE identified for the 2023/2024 financial year and R620 million in UIFWE write-offs, with no UIFWE recoveries reported. Although WC contributes only 1% of the national UIFWE balance total, the rise in UIFWE for 2023/2024 warrants attention. WC municipalities should strengthen their UIFWE preventative controls to maintain high compliance with the MFMA.

At a national level, the total UIFWE balance across all provinces decreased from R263.54 billion in 2021/2022 to R262.17 billion in 2023/2024, a net reduction of R1.37 billion. Provinces such as GP, KZN, LP, MP, and NC recorded net UIFWE balance reductions, indicating some success in addressing legacy UIFWE. However, high levels of new UIFWE incurred during the 2023/2024 financial year in these provinces reveal ongoing challenges in implementing preventative controls effectively.

In contrast, NW, FS, EC, and WC experienced net increases in UIFWE balances during 2023/2024, reflecting continued weaknesses in financial governance and limited success in curbing unauthorised and irregular expenditure. NW, in particular, poses a significant risk, with a persistently rising UIFWE trend that points to structural failures in oversight and accountability.

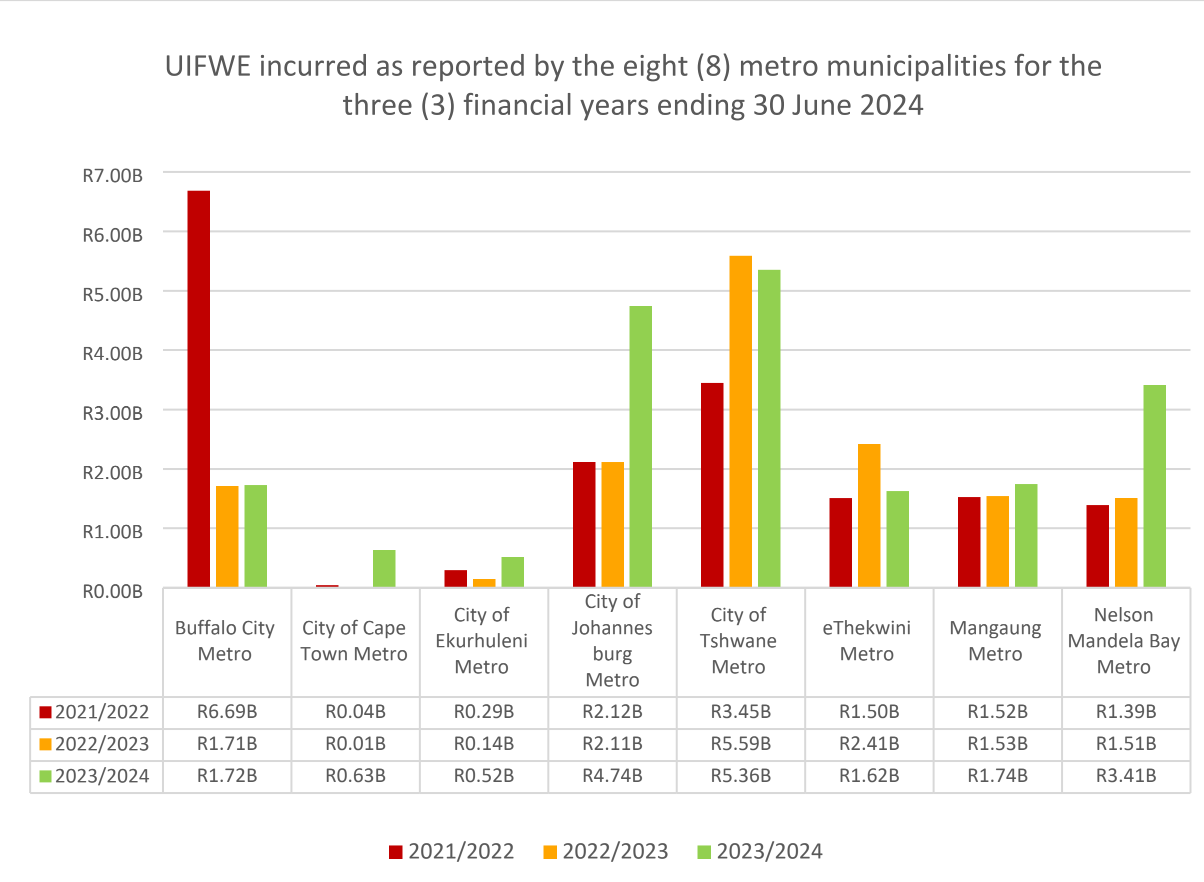
Looking forward, municipalities across all provinces must prioritise the institutionalisation of preventative controls as the primary mechanism to curb the incurrence of UIFWE. While processing historic UIFWE remains important, the focus must decisively shift to strengthening pre-transactional compliance frameworks, improving expenditure planning, and enhancing staff capacity in financial management.

UIFWE incurred as reported by the eight (8) metropolitan municipalities for the three financial years ending 30 June 2024

South Africa's eight (8) metropolitan (metro) municipalities—Buffalo City, City of Cape Town, City of Ekurhuleni, City of Johannesburg, City of Tshwane, eThekwini, Mangaung, and Nelson Mandela Bay—are classified as Category A municipalities under the Constitution. These metros are responsible for providing services to large, densely populated urban areas with significant economic activity. Given their critical service delivery role, the metros are expected to set the standard for good governance, financial discipline, and compliance. However, repeated instances of unauthorised, irregular, fruitless and wasteful expenditure (UIFWE) in metros highlight ongoing governance, procurement, and financial management challenges.

Monitoring UIFWE trends in these institutions is essential to understanding systemic weaknesses and developing targeted interventions to improve municipal performance. Below is an analysis of the eight (8) metros UIFWE incurred as reported in their annual audited financial statements for the three financial years 2021/2022, 2022/2023, and 2023/2024.

Metro municipalities' UIFWE incurred



	Buffalo City Metro	City of Cape Town Metro	City of Ekurhuleni Metro	City of Johannes burg Metro	City of Tshwane Metro	eThekwini Metro	Mangaung Metro	Nelson Mandela Bay Metro
2021/2022	R6.69B	R0.04B	R0.29B	R2.12B	R3.45B	R1.50B	R1.52B	R1.39B
2022/2023	R1.71B	R0.01B	R0.14B	R2.11B	R5.59B	R2.41B	R1.53B	R1.51B
2023/2024	R1.72B	R0.63B	R0.52B	R4.74B	R5.36B	R1.62B	R1.74B	R3.41B

In the 2023/2024 financial year, the eight metros collectively reported that they incurred R19.75 billion in total UIFWE, increasing from R15.02 billion in 2022/2023. Note that the UIFWE amount reported to be incurred includes UIFWE amounts that were incurred in prior financial years but were only disclosed in the eight metros' 2023/2024 annual financial statements. The City of Tshwane Metro continues to lead in the amount of UIFWE incurred for the last two financial years – 2022/2023 and 2023/2024, reporting R5.36 billion in 2023/2024 after a peak of R5.59 billion the year before. This persistent trend reflects serious and recurring governance failures, especially in budget control, procurement, and contract management. The City of Johannesburg Metro also experienced a significant increase, from R2.11 billion in 2022/2023 to R4.74 billion in 2023/2024, suggesting either ineffective corrective measures or newly emerging financial risks. These figures are concerning given the metros' scale and the expectations of compliance and best practices under the MFMA.

Nelson Mandela Bay Metro and the City of Ekurhuleni Metro have shown a sharp upward trend, with UIFWE incurred for a financial year rising to R3.41 billion and R521.71 million in 2023/2024. These increases follow relatively moderate levels in the previous year, indicating that preventative measures may be ineffective or inconsistently applied. Buffalo City Metro, while relatively stable, has maintained high UIFWE figures over three consecutive years (hovering around R1.7 billion), showing no significant progress in addressing underlying financial mismanagement issues. Mangaung Metro, similarly, has consistently incurred over R1.5 billion in UIFWE annually since 2021/2022, which points to entrenched governance challenges requiring immediate intervention.

While most metros are recording significant and consistent amounts of UIFWE incurred, the City of Cape Town Metro remains an outlier. It reported a considerable increase in UIFWE incurred for 2023/2024 to R634.26 million, following notably lower levels in 2021/2022 (R37.60 million) and 2022/2023 (R12.59 million). The increase is partly due to the City of Cape Town identifying irregular expenditure relating to prior financial years in the 2023/2024 financial year. Nonetheless, the City of Cape Town still maintains the lowest cumulative UIFWE across the three years, which could indicate more effective internal controls and a stronger compliance culture relative to its peers. Despite this, any increase in UIFWE must be addressed decisively to maintain governance integrity.

eThekwini Metro has shown a fluctuating pattern, with UIFWE incurred peaking at R2.41 billion in 2022/2023 before declining to R1.62 billion in 2023/2024. While the decrease is a positive signal, the overall levels remain high, and there is insufficient evidence to suggest that the underlying financial control environment has materially improved. As one of the country's largest metros, eThekwini's ability to control irregular, fruitless, and wasteful expenditures will remain a key indicator of progress in municipal financial management reform. The volatility in expenditure trends across metros suggests that corrective interventions have not been consistently applied or monitored, and the underlying causes of UIFWE—non-compliance, weak planning, and inadequate oversight—remain largely unaddressed.

The continued high levels of UIFWE across South Africa's metropolitan municipalities, especially in the 2023/2024 financial year, raise serious concerns about the effectiveness of financial governance in these high-capacity institutions. Despite their strategic importance, metros such as Tshwane, Johannesburg, Nelson Mandela Bay, and Mangaung continue demonstrating chronic non-compliance with MFMA provisions. The sharp increases in UIFWE in some metros and persistent levels in others indicate a systemic breakdown in expenditure management and a failure to institutionalise consequence management.

As custodians of a significant portion of public funds, metropolitan municipalities must be held to the highest standard of financial accountability. The National Treasury and oversight bodies must intensify support to improve internal audit capabilities, enforce procurement compliance, and address irregularities with appropriate disciplinary measures. The trends reflected in this report highlight the urgent need for corrective interventions to reduce annual UIFWE incurred and restore public confidence in local government. Strengthening financial management practices across metros is critical to achieving sustainable service delivery, long-term fiscal stability, and full alignment with the intent and spirit of the MFMA.

Oversight, monitoring and capacity building measures implemented by the National Treasury and Provincial Treasuries

In accordance with the provisions of the MFMA, the National Treasury (NT) and Provincial Treasuries (PTs) have played a critical role in supporting municipalities in preventing and processing UIFWE. Through structured initiatives and responsive engagement, the NT and PTs have sought to improve municipal financial governance, embed compliance with legislative requirements, and enable early identification and correction of financial mismanagement.

Among the key actions taken are:

1. **Capacity Building and Technical Support** – The NT and PTs have provided ongoing UIFWE training for municipal officials on MFMA compliance, procurement, budgeting, and financial reporting. Dedicated technical support has been deployed to high-risk municipalities for direct advisory assistance.

2. **Implementation of the Municipal Finance Improvement Programme (MFIP)** – Through the MFIP, the NT has deployed technical advisors to PTs and high-risk municipalities to enhance municipal capacity in financial management, internal control, and governance systems through hands-on mentorship to municipal officials by skilled advisors.

3. **Monitoring and Early Warning Mechanisms** – The NT and PTs monitor municipal financial health through in-year reporting, audit outcome reviews, and budget assessments, allowing for intervention when financial risks arise.

4. **Standardised Guidance on UIFWE Processing** – The NT has issued various MFMA circulars and guidelines that provide step-by-step clarity on the classification, disclosure, investigation, and recovery of UIFWE, in line with section 32 of the MFMA. In addition to the MFMA circulars issued by the NT, the NT has complemented the circulars with provincial workshops for PTs and municipalities focusing on the prevention and processing of UIFWE.

5. **Non-compliance with UIFWE processing requirements in the MFMA**– In addition to formally notifying mayors and accounting officers of non-delegated municipalities where there has been a persistent lack of prevention and processing of UIFWE, the National Treasury (NT) has also written to the MECs for Finance in all nine provinces. These letters identified the top 10 municipalities in each province with the highest UIFWE balances as at 30 June 2024. The purpose of the correspondence was to request MECs to provide NT with details on the actions they intend to take to assist and hold accountable the identified municipalities. Specifically, MECs were asked to outline measures to prevent further UIFWE from being incurred and to ensure the June 2024 UIFWE balances at the top 10 municipalities are processed by August 2025. This coordinated approach is aimed at strengthening both provincial oversight and consequence management, which is in line with the objectives of the MFMA.

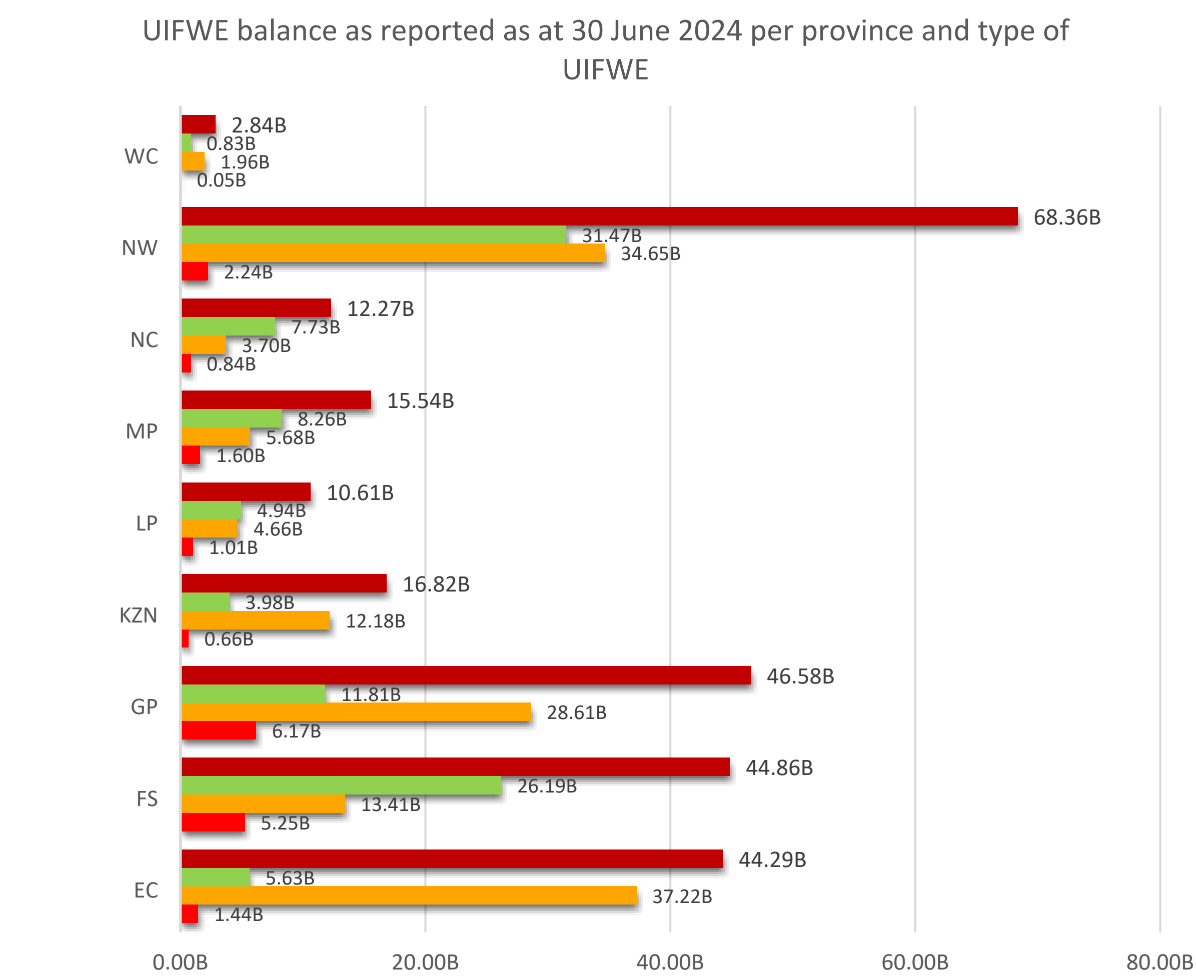
While these support mechanisms have contributed to improvements in several municipalities, it is increasingly clear that the effectiveness of financial oversight must now be reinforced through a more deliberate focus on consequence management. Ensuring that UIFWE is not only reported and investigated but also followed by consistent and fair disciplinary action is key to fostering a culture of accountability. NT and PTs should, therefore, intensify their support for municipalities in enhancing consequence management frameworks, including through the development of standardised procedures and capacity development for MPACs.

Such a shift—from procedural compliance to enforcement and accountability—will be essential to achieving the MFMA’s intent of promoting transparent, efficient, and ethical municipal financial governance.

UIFWE balance as at 30 June 2024 per type of UIFWE based on reported information

The UIFWE balances for 2023/2024 highlight key areas where governance systems have either succeeded or failed. Breaking down the UIFWE balances into their specific components, fruitless, irregular, and unauthorised expenditure—provides valuable insights into each province's type and scale of financial mismanagement. This analysis aims to assist in identifying the root causes of UIFWE and proposes interventions to promote compliance with financial regulations. Below is an analysis of each province's UIFWE balances, focusing on the composition of the reported amounts.

Type of UIFWE balance as at 30 June 2024



	EC	FS	GP	KZN	LP	MP	NC	NW	WC
Fruitless	1.44B	5.25B	6.17B	0.66B	1.01B	1.60B	0.84B	2.24B	0.05B
Irregular	37.22B	13.41B	28.61B	12.18B	4.66B	5.68B	3.70B	34.65B	1.96B
Unauthorised	5.63B	26.19B	11.81B	3.98B	4.94B	8.26B	7.73B	31.47B	0.83B
Total	44.29B	44.86B	46.58B	16.82B	10.61B	15.54B	12.27B	68.36B	2.84B

EC's total 2023/ 2024 UIFWE balance was R44.29 billion, with irregular expenditure making up 84.05% of the total (R37.22 billion). Unauthorised expenditure contributed R5.63 billion (12.71%), while fruitless expenditure was R1.44 billion (3.24%). The high level of irregular expenditure suggests systemic non-compliance with procurement and financial management regulations. Unauthorised expenditure indicates governance gaps in budget approval processes, while fruitless expenditure reflects inefficiencies in resource utilisation.

FS's total 2023/2024 UIFWE balance was R44.86 billion, with unauthorised expenditure making up 58.38% of the total (R26.19 billion). Irregular expenditure contributed R13.41 billion (29.90%), while fruitless expenditure was R5.25 billion (11.72%). The high level of unauthorised expenditure demonstrates significant weaknesses in expenditure control and budget compliance. Irregular expenditure points to continued challenges in procurement practices, while fruitless expenditure highlights operational inefficiencies.

GP's total 2023/2024 UIFWE balance was R46.58 billion, with irregular expenditure making up 61.41% of the total (R28.61 billion). Unauthorised expenditure contributed R11.81 billion (25.35%), while fruitless expenditure was R6.17 billion (13.24%). The high level of irregular expenditure reflects persistent shortcomings in financial controls and procurement compliance. Unauthorised expenditure indicates issues with effective budget management, while fruitless expenditure underscores inefficiencies in operational execution.

KZN's total 2023/2024 UIFWE balance was R16.82 billion, with irregular expenditure making up 72.40% of the total (R12.18 billion). Unauthorised expenditure contributed R3.98 billion (23.70%), while fruitless expenditure was R655.28 million (3.90%). The high irregular expenditure points to recurring non-compliance with procurement regulations. Unauthorised expenditure suggests governance challenges in budget processes, while fruitless expenditure indicates lower, yet present, inefficiencies in resource utilisation.

LP's total 2023/2024 UIFWE balance was R10.61 billion, with unauthorised expenditure making up 46.52% of the total (R4.94 billion). Irregular expenditure contributed R4.66 billion (43.94%), while fruitless expenditure was R1.01 billion (9.54%). The high level of unauthorised expenditure indicates severe governance failures in budget approval processes and expenditure controls. Irregular expenditure reflects issues with compliance with financial regulations, while fruitless expenditure shows inefficiencies in resource utilisation.

MP's total 2023/2024 UIFWE balance was R15.54 billion, with unauthorised expenditure making up 53.15% of the total (R8.26 billion). Irregular expenditure contributed R5.68 billion (36.53%), while fruitless expenditure was R1.60 billion (10.32%). The high level of unauthorised expenditure highlights major weaknesses in expenditure controls and budgetary governance. Irregular expenditure reflects ongoing challenges in procurement compliance, while fruitless expenditure signals inefficiencies in service delivery and operations.

NC's total 2023/2024 UIFWE balance was R12.27 billion, with unauthorised expenditure making up 62.98% of the total (R7.73 billion). Irregular expenditure contributed R3.70 billion (30.15%), while fruitless expenditure was R843.43 million (6.87%). The high level of unauthorised expenditure points to substantial governance challenges in budget oversight. Irregular expenditure suggests ongoing issues with financial management and procurement compliance, while fruitless expenditure reflects operational inefficiencies that require corrective action.

NW's total 2023/2024 UIFWE balance was R68.36 billion, with irregular expenditure making up 50.69% of the total (R34.65 billion). Unauthorised expenditure contributed R31.47 billion (46.04%), while fruitless expenditure was R2.24 billion (3.27%). The high levels of both irregular and unauthorised expenditures indicate severe and systemic failures in financial governance and procurement practices. Fruitless expenditure, though lower, still points to inefficiencies in resource planning and utilisation.

WC's total 2023/2024 UIFWE balance was R2.84 billion, with irregular expenditure making up 69.05% of the total (R1.96 billion). Unauthorised expenditure contributed R834.53 million (29.34%), while fruitless expenditure was R45.89 million (1.61%). While the total UIFWE is the lowest among all provinces, the dominance of irregular expenditure highlights persistent procurement challenges. Unauthorised expenditure indicates areas where governance can be improved, and fruitless expenditure, although minimal, reflects opportunities for increased efficiency.

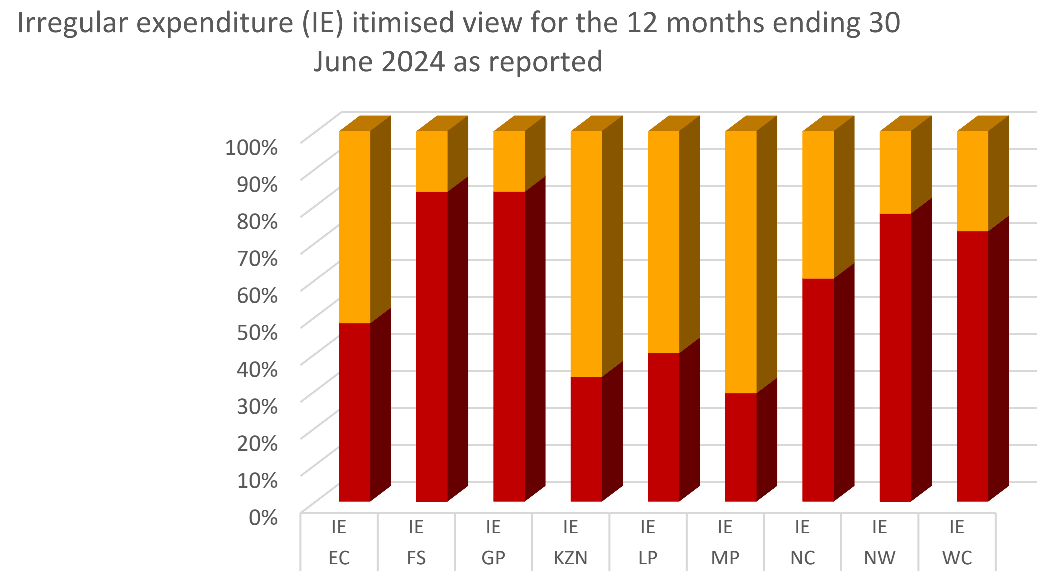
The 2023/2024 UIFWE analysis reveals persistent and systemic weaknesses in financial governance across provinces, with irregular expenditure emerging as the dominant component in most cases. This widespread non-compliance with mainly procurement regulations underscores the urgent need to strengthen supply chain management frameworks and enforce accountability mechanisms at all levels of government. The concentration of irregular expenditure, particularly in provinces such as EC, KZN, NW and GP, points to entrenched inefficiencies and regulatory breaches that continue to undermine the principles of transparent and cost-effective public spending as outlined in the MFMA.

Equally concerning is the scale of unauthorised expenditure reported in provinces such as NW, FS, and GP, which signals serious governance lapses in budget approval processes and financial oversight. These findings illustrate that financial controls are either weak or inconsistently applied, compromising the credibility of municipal budgets. Meanwhile, though lower in proportion, fruitless expenditure remains a notable concern, especially in GP and FS, as it reflects wasteful use of resources and poor operational planning. Addressing these challenges requires a multi-pronged approach that includes capacity-building for financial officials, enhanced oversight by provincial treasuries, and strict enforcement of corrective actions. Only through deliberate, sustained reform can municipalities fulfil their constitutional obligation to deliver services effectively and responsibly.

An analysis of the irregular expenditure for the 2023/2024 financial year as reported

Irregular expenditure is a key indicator of non-compliance with procurement and financial management regulations, which is a critical focus of the MFMA. For the 2023/2024 financial year, the reported irregular expenditure across provinces reveals significant governance, accountability, and financial control challenges. This analysis examines the irregular expenditure identified during the current year, amounts reported for recovery, amounts written off, and irregular expenditure from prior years that have been identified in the current year. The findings provide insights into systemic issues and inform recommendations for improved compliance with the MFMA. Below is an analysis of each province's irregular expenditure.

Irregular expenditure incurred for the period 2023/2024



	IE EC	IE FS	IE GP	IE KZN	IE LP	IE MP	IE NC	IE NW	IE WC
Sum of Amount Written-off in year	4.37 B	0.21 B	0.84 B	8.52 B	2.57 B	2.51 B	0.40 B	0.91 B	0.29 B
Sum of Amount approved for recovery in year	0.00 B	0.00 B	0.01 B	0.00 B	0.00 B	0.00 B	0.00 B	0.00 B	0.00 B
Sum of amount identified during the year	4.07 B	1.09 B	4.34 B	4.34 B	1.72 B	1.04 B	0.61 B	3.20 B	0.78 B

The EC reported R4.77 billion in irregular expenditure for the 2023/2024 financial year. No amount was approved for recovery, and R4.37 billion was written off, representing a substantial portion of the 2023/2024 year's irregular expenditure incurred. The lack of recovery efforts raises concerns regarding the implementation of consequence management and accountability mechanisms within the province. The high level of write-offs indicates that irregular expenditure is not being effectively addressed. These trends highlight deep-rooted financial governance issues that must be urgently rectified through improved oversight and enforcement of the MFMA.

The FS incurred R1.17 billion in irregular expenditure during the reporting year. No recoveries were approved, and R210 million was written off. The absence of recovery efforts suggests a lack of institutional will or capacity to hold officials accountable. This undermines the objectives of the MFMA, which promotes transparency, accountability, and efficient financial management. Persistent irregular expenditure without consequences creates an enabling environment for continued non-compliance and weakens public confidence in financial governance.

The GP reported R4.34 billion in irregular expenditure for the 2023/2024 period. Only R10 million was approved for recovery, while R840 million was written off. While the province was the only one to initiate any recovery, the amount recovered is insignificant when compared to the total irregular expenditure incurred. This reflects inadequate enforcement of corrective measures and a lack of deterrents for financial mismanagement. Addressing the root causes of irregular expenditure through improved procurement compliance and financial oversight is critical to reversing this trend.

The KZN incurred R4.34 billion in irregular expenditure, with no amount approved for recovery and a significant R8.52 billion written off. The value of the write-offs far exceeds the amount incurred in the current year, indicating that substantial historical irregular expenditure was also processed. This suggests long-standing governance and compliance challenges that have yet to be adequately addressed. The province's failure to pursue recoveries contributes to a cycle of poor accountability and continued regulatory non-compliance. Strengthening internal audit functions and enforcing disciplinary measures will be crucial to improving KZN's financial governance.

The LP reported R1.72 billion in irregular expenditure in the current year. Despite this, no recovery actions were initiated, and R2.57 billion was written off. The fact that write-offs exceeded current-year irregular expenditure implies that unresolved cases from previous years continue to burden the province's financial records. This pattern reflects deep deficiencies in governance structures and financial oversight mechanisms. Urgent intervention is required to improve compliance, establish accountability, and reinforce the principles of sound financial management as outlined in the MFMA.

The MP incurred R1.04 billion in irregular expenditure in the 2023/2024 financial year. No amount was approved for recovery, and a significant R2.51 billion was written off. This again highlights the accumulation of irregular expenditure over time without meaningful action to recover irregular expenditure. The absence of recovery efforts signals weak enforcement of financial regulations and a lack of consequences for non-compliance. Provincial leadership must prioritise implementing corrective actions, including enhanced monitoring and staff training on MFMA-aligned processes.

The NC reported R630 million in irregular expenditure during the year, with no recovery actions approved and R400 million written off. Although the overall figures are lower than other provinces, the trends remain concerning. Irregular expenditure continues to be a recurring issue, pointing to ongoing weaknesses in procurement and financial control processes. The lack of recovery highlights inefficiencies in consequence management and internal audit processes. Addressing these challenges will require both capacity building and firm commitment to the principles of good governance.

The NW incurred R3.20 billion in irregular expenditure for the current year. No amounts were approved for recovery, and R910 million was written off. These figures reflect a worrying trend in which irregular expenditure is recurring and going unchallenged. The consistent failure to recover losses suggests a lack of accountability and poor enforcement of financial policies. Immediate efforts are needed to investigate irregularities, recover funds, and prevent future procurement laws and financial control violations.

The WC reported R920 million in irregular expenditure for the 2023/2024 financial year. No recovery was approved, and R290 million was written off. While WC's figures are the lowest among the provinces, the lack of action on recovery and the volume of write-offs still raise concerns. This indicates that even in provinces with relatively better financial performance, there is insufficient focus on enforcing compliance and ensuring accountability. To maintain its standing, WC must reinforce its procurement and oversight frameworks and act decisively against irregularities.

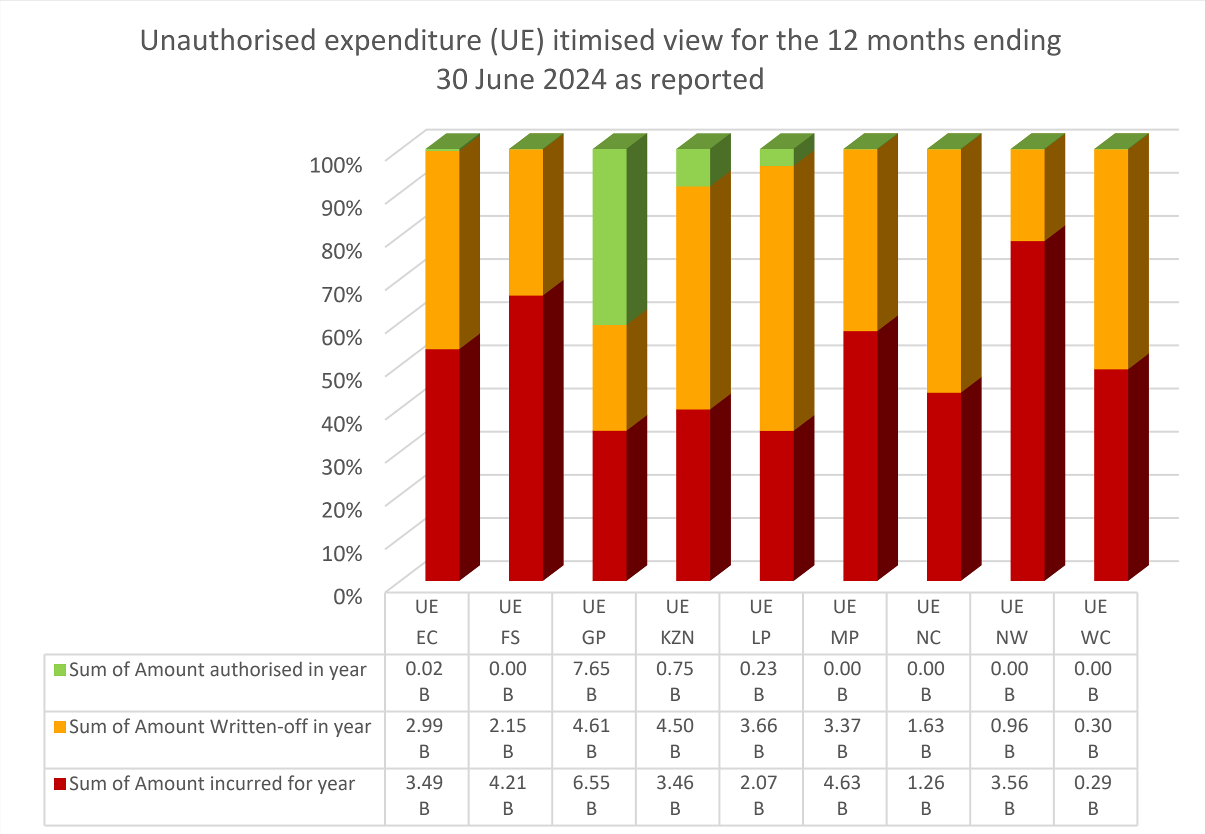
The analysis of irregular expenditure for the 2023/2024 financial year reveals serious shortcomings in financial governance across all provinces. A total of R22.13 billion irregular expenditure was incurred nationally, with the largest contributions coming from EC (R4.77 billion), GP (R4.34 billion), KZN (R4.34 billion), and NW (R3.20 billion). Alarmingly, only R10 million irregular expenditure—reported by GP—was approved for recovery, while alltogether a staggering R20.62 billion was written off, indicating that most of the irregular expenditure is being written off. KZN's R8.52 billion in irregular expenditure write-offs and LP and MP's write-offs exceeding current-year irregular expenditure incurred amounts highlight that unresolved and historical irregularities remain deeply embedded in provincial financial systems. Though lower in monetary terms, provinces like FS, NC, and WC also reflect a troubling absence of irregular expenditure recovery actions and ongoing write-offs, pointing to a broader issue of weak financial enforcement and accountability.

These outcomes suggest that municipalities largely fail to enforce the principles of accountability and consequence management as set out in the MFMA. The lack of recovery efforts demonstrates institutional tolerance of non-compliance and highlights systemic weaknesses in internal controls and oversight. Where irregular expenditure write-offs exceed amounts incurred in the year, it is evident that previous years' irregular expenditure remain unaddressed and continue to burden municipal finances. Addressing these shortcomings requires urgent, coordinated action, including improved internal audit functions, capacity building in supply chain management, and more rigorous enforcement of consequences of financial misconduct. Without such interventions, irregular expenditure will continue to erode fiscal discipline, hinder service delivery, and compromise the integrity of the public financial management system.

An analysis of the unauthorised expenditure for the 2023/2024 financial year as reported

Unauthorised expenditure is a significant indicator of financial mismanagement, reflecting expenditures that have been incurred without proper approval or beyond the allocated budget limits. This is a direct violation of the Municipal Finance Management Act (MFMA), which is designed to ensure sound financial management and governance in public institutions. For the 2023/2024 financial year, provinces reported unauthorised expenditure under four key categories: the amounts identified during the current year, amounts written off, prior years' unauthorised expenditure identified during the current year, and amounts reported to be authorised for the current (2023/2024) year. This report provides an analysis of these figures for each province, offering insights into governance challenges and identifying opportunities for improved compliance with the MFMA. Below is an analysis of each province's unauthorised expenditure.

Unauthorised expenditure incurred for the period 2023/2024



	UE EC	UE FS	UE GP	UE KZN	UE LP	UE MP	UE NC	UE NW	UE WC
Sum of Amount authorised in year	0.02 B	0.00 B	7.65 B	0.75 B	0.23 B	0.00 B	0.00 B	0.00 B	0.00 B
Sum of Amount Written-off in year	2.99 B	2.15 B	4.61 B	4.50 B	3.66 B	3.37 B	1.63 B	0.96 B	0.30 B
Sum of Amount incurred for year	3.49 B	4.21 B	6.55 B	3.46 B	2.07 B	4.63 B	1.26 B	3.56 B	0.29 B

The EC reported R3.49 billion in unauthorised expenditure during the 2023/2024 financial year. No amount was approved for recovery, and R2.99 billion was written off. Additionally, R20 million was authorised during the year. The high unauthorised expenditure write-offs illustrate ongoing governance and expenditure control failures. The lack of unauthorised expenditure prevention suggests that consequences for overspending are not being pursued, weakening the enforcement of budget accountability as outlined in the MFMA.

The FS incurred R4.21 billion in unauthorised expenditure during the reporting period, with no amounts recovered, written off, or authorised. This complete lack of action points to significant institutional weaknesses in dealing with unauthorised expenditure. The failure to pursue recoveries reflects a disconnect between budgeting and financial oversight. As a result, unauthorised expenditure remains unresolved and continues to undermine financial governance. This situation requires urgent intervention to restore compliance with MFMA provisions.

The GP recorded the highest level of unauthorised expenditure among all provinces, with R6.55 billion incurred during the year. No recoveries were initiated, but a substantial unauthorised expenditure amount of R4.61 billion was written off, and R7.65 billion was authorised. While the high authorisation figure suggests efforts were made to regularise certain unauthorised expenditure, the large amount written off indicates continued weaknesses in initial budget control and financial discipline. The fact that GP incurred more unauthorised expenditure than it authorised points to insufficient expenditure planning and budget execution oversight. This highlights the need for tighter upfront budgetary controls to avoid over-reliance on retrospective authorisation.

The KZN reported R3.46 billion in unauthorised expenditure, none of which was recovered. Unauthorised expenditure of R4.50 billion was written off, exceeding the current year's unauthorised amount, indicating a significant backlog of unauthorised expenditure being processed in the period under review. An amount of R750 million unauthorised expenditure was authorised for the period under review. Excessive unauthorised expenditure write-offs reflect structural failings in budget planning and compliance enforcement. Without proactive budget monitoring and stringent consequence management, the province's municipalities risk ongoing non-compliance with the MFMA.

The LP incurred R2.07 billion in unauthorised expenditure during the year. No amounts were recovered, and a concerning R3.66 billion was written off, again exceeding current-year figures, suggesting that historical unauthorised expenditure remains unresolved. R230 million was authorised during the year, but this is small in relation to the total amount written off. The data reflects ongoing fiscal management issues and a lack of commitment to rectifying past transgressions. Budget discipline and expenditure tracking improvements are urgently needed to address recurring unauthorised expenditure.

The MP reported R4.63 billion in unauthorised expenditure incurred for the period under review, with zero recovery and a high write-off unauthorised expenditure amount of R3.37 billion. No unauthorised expenditure was authorised, reflecting a lack of post-expenditure review or remediation. The inability to recover or regularise unauthorised expenditure undermines the MFMA's sound financial management and consequence enforcement principles. The province's municipalities financial controls appear weak, with no evidence of accountability for deviations from approved budgets. Comprehensive reform in budget oversight and enforcement mechanisms is necessary to address these issues.

The NC incurred R1.26 billion in unauthorised expenditure during the 2023/2024 period. No unauthorised expenditure were recovered, and R1.63 billion was written off, surpassing the current year's reported amount, indicating prior year unauthorised expenditure being written off in the current period under review. No authorisation of unauthorised expenditure occurred during the year. The complete absence of corrective action highlights entrenched governance and budgetary discipline weaknesses. This pattern must be addressed to prevent further erosion of financial accountability.

The NW reported R3.56 billion in unauthorised expenditure during the 2023/2024 period. No unauthorised expenditure amount was recovered, and R960 million was written off. The continued reliance on unauthorised expenditure write-offs rather than remediation or instituting consequence management undermines accountability. Greater oversight and a more structured approach to budget adherence are essential for compliance improvement.

The WC incurred an amount of unauthorised expenditure of R290 million during the 2023/2024 period, yet even this figure was not addressed through unauthorised expenditure recovery or authorisation. Unauthorised expenditure of R300 million was written off, exceeding the amount reported for the year, indicating legacy issues. Despite the province's relatively smaller unauthorised expenditure figures, the pattern of unresolved unauthorised expenditure persists. This shows that even stronger-performing provinces' municipalities have gaps in budget control and consequence management enforcement. Addressing these requires consistent application of MFMA principles, regardless of expenditure scale.

The total unauthorised expenditure reported across provinces for 2023/2024 amounted to R29.52 billion, with only R10 million approved for recovery. An overwhelming R24.16 billion unauthorised expenditure was written off, and R8.65 billion was authorised. GP led in both the total amount of unauthorised expenditure incurred and the amount authorised. However, in most provinces, such as FS, MP, and NC, no unauthorised expenditure recovery or authorisation was recorded, indicating a near-total absence of corrective action. The tendency to write off unauthorised expenditure without pursuing recovery or approval undermines the financial accountability framework intended under the MFMA.

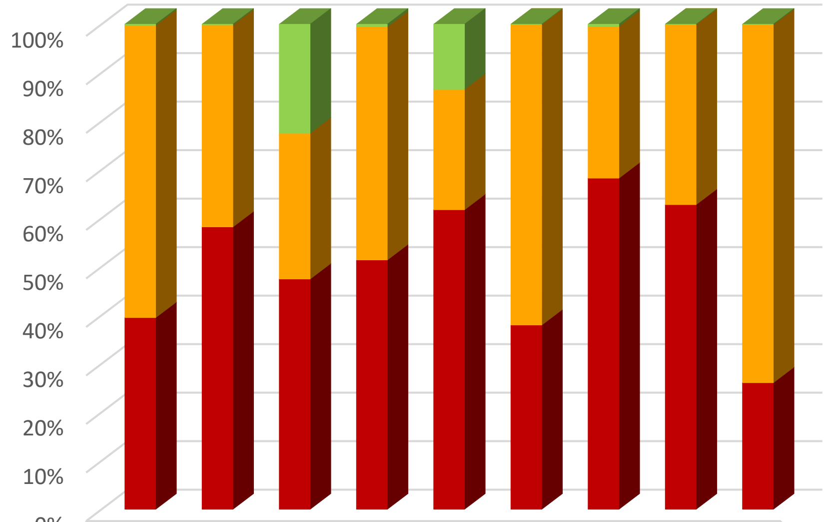
These provincial outcomes reflect a pervasive lack of consequence management and weak implementation of budget oversight processes. The failure to recover unauthorised expenditure or obtain proper authorisation reflects systemic gaps in financial planning, monitoring, and post-expenditure evaluation. This trend is particularly concerning in the context of limited public resources and increasing service delivery pressures. To reverse this trajectory, municipalities must prioritise enforcing compliance measures, invest in financial management capacity, and foster a culture of accountability across all departments in a municipality with a focus on vote expenditure control.

An analysis of the fruitless and wasteful expenditure for the 2023/2024 financial year as reported

Fruitless and wasteful expenditure represents funds that were spent unnecessarily or negligently and provided no value to the public. This type of expenditure undermines the financial accountability and efficiency principles mandated by the MFMA. For the 2023/2024 financial year, provinces reported fruitless and wasteful expenditure under several key categories: amounts identified in the current year, amounts written off, prior years' expenditures identified in the current year, amounts reported for recovery, and the total expenditure. This report provides a detailed analysis of these figures, identifying governance and compliance challenges and offering insights into improving financial management. Below is an analysis of each province's fruitless and wasteful expenditure.

Fruitless and wasteful expenditure incurred for the period 2023/2024

Fruitless and wasteful expenditure (F&WE) itimised view for the 12 months ending 30 June 2024 as reported



	F&WE EC	F&WE FS	F&WE GP	F&WE KZN	F&WE LP	F&WE MP	F&WE NC	F&WE NW	F&WE WC
Sum of Amount approved for recovery in year	0.00 B	0.00 B	0.35 B	0.00 B	0.02 B	0.00 B	0.00 B	0.00 B	0.00 B
Sum of Amount Written-off in year	0.44 B	0.77 B	0.46 B	0.18 B	0.03 B	2.18 B	0.11 B	0.26 B	0.03 B
Sum of amount identified during the year	0.29 B	1.07 B	0.73 B	0.20 B	0.08 B	1.33 B	0.24 B	0.43 B	0.01 B

The EC reported R290 million in fruitless and wasteful expenditure during the 2023/2024 financial year. No amount was approved for recovery, while R440 million was written off—exceeding the amount identified for the year. This suggests that prior-year fruitless expenditure continues to be a burden on the province's municipalities finances. The complete absence of fruitless and wasteful expenditure recovery action points to a lack of consequence management and weak financial accountability mechanisms. These outcomes reflect the need for EC municipalities to strengthen its internal controls and take more decisive steps to address inefficiencies in public financial management.

The FS identified R1.07 billion in fruitless and wasteful expenditure for the year under review. Despite the high value, no fruitless and wasteful expenditure amount was recovered, and R770 million was written off. The figures highlight severe operational inefficiencies and the absence of corrective follow-up. With no recovery approved, FS demonstrates minimal enforcement of financial discipline despite significant financial losses due to fruitless and wasteful expenditure incurred. Immediate governance interventions are necessary to restore compliance with MFMA requirements and promote accountability across departments in municipalities.

The GP reported R730 million in fruitless and wasteful expenditure during the 2023/2024 financial year. Encouragingly, R350 million was approved for fruitless and wasteful expenditure recovery—the highest of any province—while R460 million was written off. This indicates a relatively stronger approach to addressing financial inefficiencies. The province’s fruitless and wasteful expenditure recovery efforts are commendable, but greater emphasis should be placed on preventative controls and budget monitoring to avoid future fruitless spending. GP’s case shows that recovery is possible with enforcement.

The KZN recorded R200 million in fruitless and wasteful expenditure for the year. Fruitless and wasteful expenditure of R180 million was written off, and no recovery actions were recorded. The fruitless and wasteful expenditure write-offs nearly match the amount identified, pointing to a recurring failure to hold accountable those responsible for inefficient or negligent spending. This pattern demonstrates weak consequence management and undermines public confidence in financial governance. KZN municipalities must prioritise stronger oversight and follow-up procedures to curb future wasteful expenditure.

The LP identified R80 million in fruitless and wasteful expenditure for the year. R30 million was written off, and a modest R20 million was approved for recovery. While the recovery effort is a positive sign, it remains small in comparison to the level of inefficiency identified. The province needs to implement tighter controls and training to address the root causes of financial mismanagement. Continued attention to consequence enforcement and regular internal audits will help LP municipalities limit fruitless spending in future financial cycles.

The MP reported the highest level of fruitless and wasteful expenditure nationally at R1.33 billion. More concerning is the R2.18 billion written off—significantly exceeding the amount of fruitless and wasteful expenditure identified in the current year. This suggests that MP is still dealing with a large volume of unresolved fruitless and wasteful expenditure from prior years. No recoveries were approved, indicating a complete lack of accountability for financial losses. The MP municipalities must urgently reform their financial oversight processes and ensure effective consequence management to prevent ongoing fruitless and wasteful expenditure.

The NC recorded R240 million in fruitless and wasteful expenditure during the 2023/2024 period. Fruitless and wasteful expenditure of R110 million was written off, and no recovery was approved, signalling weak enforcement of MFMA compliance. The failure to initiate recovery actions reflects institutional inefficiencies and a lack of governance will to recover fruitless and wasteful expenditure. Without meaningful accountability, fruitless and wasteful expenditure will continue to be absorbed without consequence. The NC municipalities must implement proactive internal controls and foster a culture of financial responsibility across departments.

The NW reported R430 million in fruitless and wasteful expenditure during the financial year. Fruitless and wasteful expenditure of R260 million was written off, and, like many provinces, no recovery efforts were approved. This indicates that inefficient or wasteful spending is being tolerated rather than addressed. The NW municipalities must strengthen internal audit capabilities and ensure consequence management policies are actively enforced. Ignoring these issues will only reinforce non-compliance and encourage ongoing mismanagement of public funds.

The WC reported the lowest fruitless and wasteful expenditure incurred for the period under review, with R10 million identified during the 2023/2024 financial year. Despite the low figure, R30 million was written off, pointing to unresolved fruitless and wasteful expenditure cases from previous years. No fruitless and wasteful expenditure recovery efforts were initiated. While WC’s performance appears better relative to other provinces, the lack of action in recovering fruitless and wasteful expenditure still presents concerns.

Municipalities collectively identified R4.39 billion in fruitless and wasteful expenditure in the 2023/2024 financial year. A total of R4.46 billion was written off—surpassing the current-year identified amount—indicating that historical fruitless and wasteful expenditure remains a major issue. Only R370 million of fruitless and wasteful expenditure was approved for recovery, with GP accounting for the majority of that amount. EC, FS, MP, NC, NW, and WC reported no fruitless and wasteful expenditure recoveries despite having significant levels of write-offs. MP, in particular, stands out for its disproportionate write-offs, highlighting long-term inefficiencies that remain unaddressed.

These findings reflect a systemic weakness in enforcing consequence management and applying effective internal controls across most provinces. The routine write-off of fruitless and wasteful expenditure, without recovery efforts or accountability, undermines the objectives of the MFMA and weakens the integrity of public finance. Urgent reforms are needed to build financial governance capacity, strengthen audit systems, and consistently apply disciplinary measures. Without these interventions, fruitless and wasteful expenditure will continue to drain public resources and impair the delivery of essential services.

Conclusion

In conclusion, managing UIFWE remained a significant challenge for South African municipalities in the 2023/2024 financial year. Addressing these challenges is critical for fostering fiscal discipline, enhancing accountability, and ensuring efficient service delivery. By implementing robust internal controls, strengthening accountability mechanisms, and improving reporting and transparency, municipalities can significantly reduce UIFWE incidents.

The recommendations outlined below aim to promote compliance with the MFMA, enhance financial governance, and align municipal operations with national objectives. It is possible to overcome the systemic issues identified through concerted efforts at all levels of municipal governance, including support from provincial and national authorities. This will improve financial management and build public trust and confidence in municipal administrations.

Ultimately, the effective management of UIFWE is essential for the sustainable development of municipalities and the well-being of the communities they serve. It requires commitment, collaboration, and a proactive approach to addressing financial governance challenges. By taking decisive action, municipalities can improve their financial health, enhance service delivery, and contribute to the overall progress of South Africa's local government sector.

The analysis of UIFWE across South African municipalities for the 2023/2024 financial year reveals significant challenges in financial governance and compliance with the MFMA. A pervasive issue is the varying levels of compliance with UIFWE policies across provinces. While some provinces like the MP and the WC show high compliance rates, most provinces, namely the FS, KZN, LP, NW, and NC demonstrate significant non-compliance and high levels of non-response from municipalities. This inconsistency undermines efforts to establish uniform financial governance standards nationwide.

High levels of UIFWE persist, with certain provinces reporting alarming increases. For instance, NC NW, and FS recorded the largest increases in UIFWE balances, both in absolute terms and as percentages. This indicates systemic governance failures and financial mismanagement in these regions. Irregular expenditure remains the largest contributor to UIFWE balances, reflecting widespread non-compliance with procurement and financial regulations. Unauthorised expenditure is also prevalent, particularly in provinces like LP and NW, highlighting significant challenges in budget approval processes and expenditure controls.

Another critical challenge is the inadequacy of internal controls and accountability mechanisms to prevent and address UIFWE. Many municipalities lack robust systems to ensure the timely implementation of council resolutions on the recoverability or write-off of UIFWE. The high reliance on write-offs rather than recoveries across provinces indicates a failure to hold individuals accountable for financial misconduct. Moreover, the minimal recovery efforts and substantial amounts of prior years' UIFWE being identified in the current year suggest persistent governance issues that have not been effectively addressed.

The reporting mechanisms also present challenges, with many municipalities failing to inform relevant authorities about UIFWE incidents and the steps taken to prevent their recurrence. Non-responsiveness and partial reporting hinder transparency and accountability, obstructing accurate monitoring and enforcement of compliance. Additionally, there is a significant lack of reporting of alleged irregular expenditure constituting a criminal offence to the SAPS, particularly in cases involving accounting officers. This raises concerns about municipalities' commitment to upholding ethical standards and legal obligations.

PT recommendations

- **Strengthen oversight and compliance enforcement:** Provincial treasuries must conduct regular compliance reviews on municipal financial management practices to ensure adherence to the MFMA and other relevant regulations.
- **Implement capacity-building programs:** Provincial treasuries should establish structured training and capacity-building initiatives to enhance municipal finance officials’ understanding of financial controls, UIFWE prevention, and regulatory compliance.
- **Enhance support for policy development:** Provincial treasuries must provide municipalities with guidelines and templates to develop and implement council-approved UIFWE policies and financial management frameworks.
- **Facilitate inter-municipal knowledge sharing:** Provincial treasuries should promote the adoption of best practices by facilitating platforms where well-performing municipalities can share lessons with struggling counterparts.
- **Improve consequence management:** Provincial treasuries should ensure that municipalities hold officials accountable for UIFWE incidents by implementing robust consequence management frameworks.
- **Support municipalities in aligning with the MTSF:** Provincial treasuries should assist municipalities in developing strategies to meet the MTSF’s targets for reducing UIFWE.

Municipal recommendations

- **Develop and enforce a council-approved UIFWE policy:** Municipalities must ensure that a robust UIFWE policy is approved by the council and implemented to prevent, detect, and manage UIFWE incidents.
- **Strengthen internal controls for financial management:** Municipalities should establish and enforce controls to ensure compliance with financial regulations and prevent UIFWE from occurring.
- **Ensure timely implementation of Council resolutions:** Municipalities must act swiftly on council resolutions regarding UIFWE recoverability or write-offs to enhance accountability and financial discipline.
- **Align municipal budgets with legal expenditure frameworks:** Budgets must be strictly aligned with legal spending limits to avoid unauthorised expenditures and ensure prudent financial management.
- **Enhance reporting and transparency on UIFWE matters:** Municipalities must promptly report UIFWE incidents to the Mayor, MEC for Local Government, and the AGSA, MPAC, as required by law.
- **Implement measures to prevent UIFWE recurrence:** Corrective actions and preventative strategies must be developed and reported to relevant stakeholders to minimise the risk of future UIFWE incidents.
- **Ensure accountability for UIFWE-related criminal offences:** Where UIFWE constitutes a criminal offence, municipalities must report cases to SAPS and ensure disciplinary actions against responsible officials.
- **Recover financial losses from responsible officials:** Municipalities must take decisive legal and administrative steps to recover unauthorised, irregular, and wasteful expenditures from those responsible.
- **Promote financial literacy and ethics among officials:** Municipalities should establish continuous training programs to educate financial officers and municipal leadership on compliance, ethics, and good financial governance practices.

Consequence management

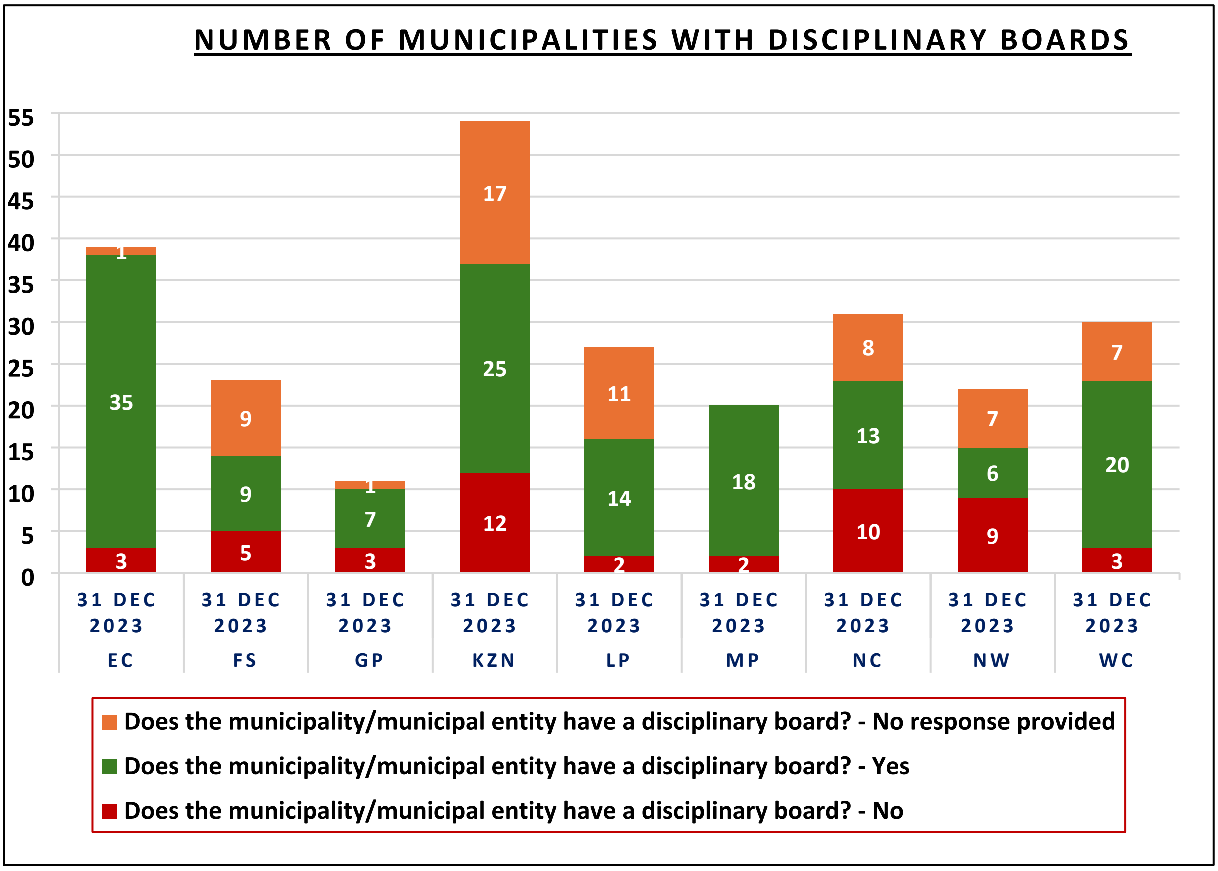
Introduction

This part of the report assesses disciplinary governance in South African municipalities, analysing the implementation of consequence management in local government in the 2023/2024 financial year. It examines the existence of Disciplinary Boards (DC boards), their function, and their effect in promoting adherence to the MFMA. DC Boards are charged with investigating financial misconduct by municipal officials and enhancing accountability to ensure the effective management of all finances. This initiative was necessary in response to a demand emanating from increased expectations about transparent governance. Nonetheless, the results of this report lay bare the substantial variations in municipal enforcement efforts and illustrate important successes as well as ongoing weaknesses regarding detecting and deterring financial improprieties.

Disciplinary governance is central to enforcing the MFMA's provisions, requiring that municipalities exercise strict accountability and transparency in financial decision-making. DC Boards are mandated to oversee, investigate, and recommend disciplinary actions related to financial misconduct. Municipalities can better prevent UIFWE by strengthening disciplinary governance, supporting long-term financial sustainability and public trust.

Number of Municipalities with Established Disciplinary Boards

The establishment of a DC board is a critical requirement for financial governance. In the 2023/2024 financial year, as of 31 December 2023, only one hundred and ninety-six (196) out of the two hundred and fifty-seven (257) municipalities in South Africa reported on the evaluations on the establishment of DC Boards as required by the MFMA. A breakdown per province of municipalities that completed the disciplinary board evaluation on the Muni eMonitor system and those that did not are indicated below.



The graph above indicates that **one hundred and forty-seven (147) municipalities, 57% have established DC boards in place**, whilst forty-nine (49) municipalities do not have DC boards, and sixty-one (61) municipalities did not respond to the evaluation. The provinces with the highest percentage of established DC boards are EC and MP provinces with 90% of municipalities having established DC boards in both provinces. The provinces with the highest percentage of municipalities with no DC boards are NW province with 41% of municipalities not having such boards in placed followed by NC with 32% of municipalities as well as GP with 27% of municipalities respectively.

In the following provinces: FS (39%), KZN (31%), LP (41%) NC (26%) and WC (23%) of municipalities did not provide a response to the evaluations. The lack of response in these provinces raises concerns about oversight, accountability, and transparency within municipal governance structures.

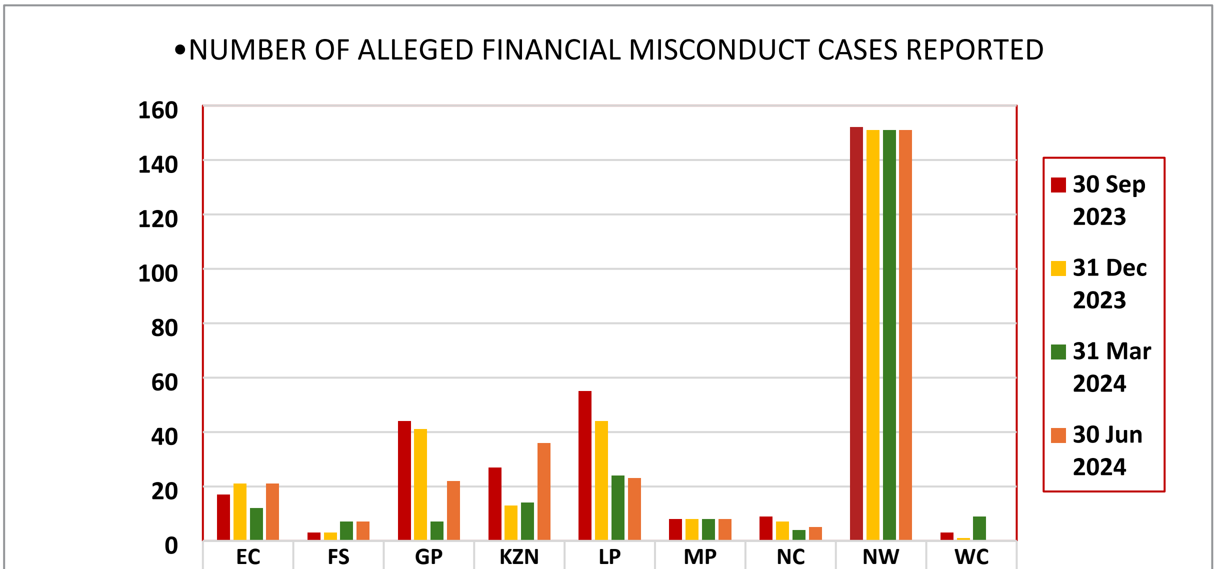
In conclusion, while some provinces show strong numbers of established DC boards, the overall picture is clouded by a significant lack of responses from many municipalities. This raises critical questions about monitoring, enforcement, and municipal governance standards. To improve transparency and accountability, there is a need for stricter reporting requirements and better enforcement mechanisms to ensure municipalities accurately disclose the status of their disciplinary boards.

Alleged Financial Misconduct Cases Reported

Municipal financial misconduct poses significant risks to public resources and undermines the principles of sound financial management, as financial misconduct contributes to UIFWE. Cases of alleged financial misconduct must be addressed promptly and effectively to safeguard public funds and maintain accountability to ensure that municipal funds are effectively applied to provide municipal services. The role of the Disciplinary Board is central to ensuring that allegations are investigated thoroughly and appropriate corrective action is taken in line with applicable regulations. This section of the report focuses on alleged financial misconduct cases reported within municipalities, highlighting the processes and outcomes of consequence management as contemplated in the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings. It aims to provide an overview of the investigations, disciplinary actions, and lessons learned to strengthen governance and compliance frameworks.

A breakdown of the number of reported alleged financial misconduct cases per province is indicated below.

Financial Misconduct cases



	EC	FS	GP	KZN	LP	MP	NC	NW	WC
30 Sep 2023	17	3	44	27	55	8	9	152	3
31 Dec 2023	21	3	41	13	44	8	7	151	1
31 Mar 2024	12	7	7	14	24	8	4	151	9
30 Jun 2024	21	7	22	36	23	8	5	151	0

The graph illustrates the number of alleged financial misconduct cases reported across various provinces over four reporting periods: 30 September 2023, 31 December 2023, 31 March 2024, and 30 June 2024. In EC, the cases fluctuated, starting at seventeen (17) in September 2023, rising to twenty-one (21) in December, decreasing to twelve (12) in March, and increasing again to twenty-one (21) in June. FS reported consistently low numbers, with three (3) cases in September 2023, seven (7) in both December and March and the same figure in June. GP saw a decline in cases from forty-four (44) in September to forty-one (41) in December, then a significant drop to seven (7) in March, before rising again to twenty-two (22) in June. KZN experienced a drop from twenty-seven (27) in September to thirteen (13) in December before increasing to fourteen (14) in March and thirty-six (36) in June.

In LP, the cases initially stood at fifty-five (55) in September, dropping to forty-four (44) in December, further decreasing to twenty-four (24) in March, and finally settling at twenty-three (23) in June. MP maintained relatively stable numbers, with eight (8) cases in September, increasing to nine (9) in December, decreasing slightly to eight (8) in March, and rising again to thirteen (13) in June. NC displayed a downward trend, with nine (9) cases in September, eight (8) in December, seven (7) in March, and five (5) in June. NW had the highest number of reported cases across all periods, remaining constant at one hundred and fifty-two (152) in September, decreasing marginally to one hundred and fifty-one (151) in December, March, and June. WC reported very low figures, with three (3) cases in both September and December, increasing slightly to nine (9) in March but then dropping to zero (0) in June.

The overall trends suggest that while some provinces have experienced fluctuations in financial misconduct cases, others, such as NW, have persistently high numbers, which may indicate ongoing governance challenges. The decreases observed in some provinces, such as GP and LP, may suggest improved internal controls or effective disciplinary interventions. Conversely, the rise in cases in provinces like KZN and EC highlights potential concerns regarding oversight mechanisms. The role of functional disciplinary boards is crucial in addressing financial misconduct effectively, and the data suggests that some provinces may need to strengthen these structures to ensure accountability and reduce financial irregularities over time.

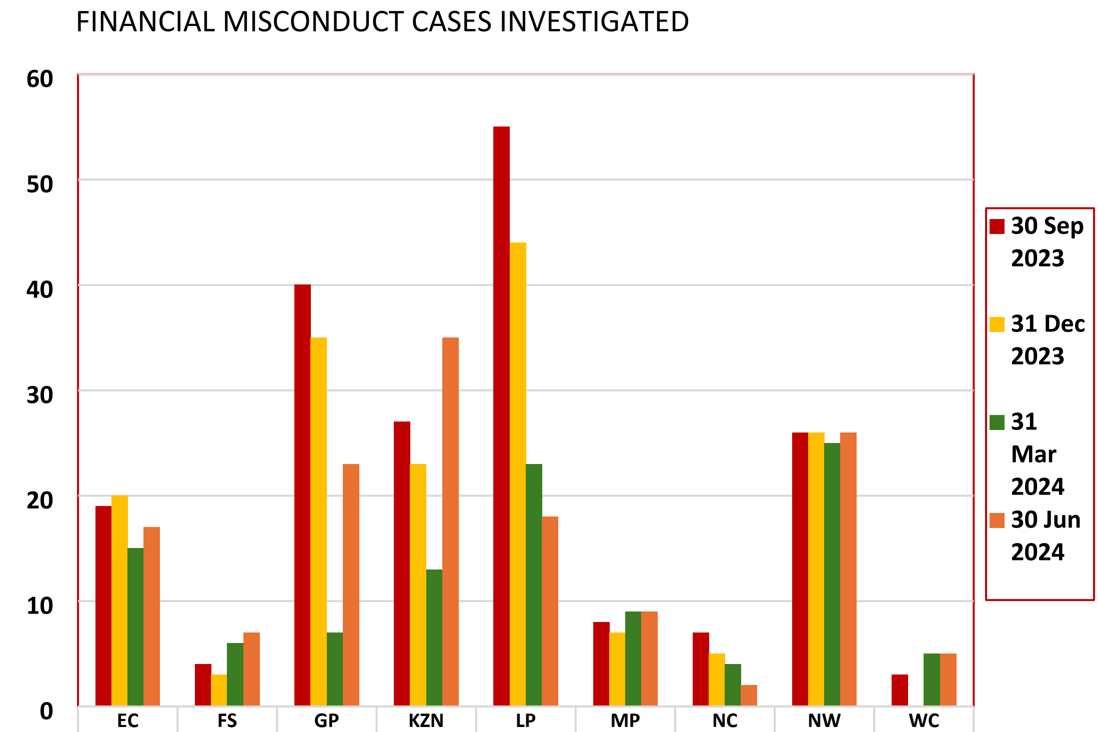
Given the high balance of UIFWE in municipalities, the number of reported cases of alleged financial misconduct is low. This low reporting of financial misconduct allegations versus the high UIFWE balances indicates a worrying trend. It is specifically stated that in addition to increasing the effectiveness of UIFWE prevention controls, the reporting and processing of financial misconduct allegations will contribute to lower UIFWE been incurred in the future. The low reporting rate of alleged financial misconduct directly contributes to the high UIFWE balances at a municipal level, as officials are not subjected to consequence management for UIFWE incurred, including UIFWE repeatedly incurred.

Reporting financial misconduct cases is a positive indicator that municipalities are identifying and documenting irregularities. However, merely reporting these cases without follow-up investigations or disciplinary action falls short of the MFMA’s requirements. Disciplinary Boards are essential for responding to these allegations, enforcing accountability, and implementing preventive measures.

Financial Misconduct Cases Investigated

Investigating alleged financial misconduct is necessary to determine the root causes that led to financial misconduct and to identify corrective actions. Financial misconduct cases go unresolved without investigations, leading to repeated transgressions and increased financial risk of financial wastage in municipalities. In the 2023/2024 financial year, the backlog of uninvestigated cases remains a significant concern, highlighting the need for improved investigative capacity and more active DC Boards. Please refer to the graph below concerning the financial misconduct cases investigated, highlighting key trends and insights over the specified period.

Financial Misconduct Cases Investigated



	EC	FS	GP	KZN	LP	MP	NC	NW	WC
30 Sep 2023	19	4	40	27	55	8	7	26	3
31 Dec 2023	20	3	35	23	44	7	5	26	0
31 Mar 2024	15	6	7	13	23	9	4	25	5
30 Jun 2024	17	7	23	35	18	9	2	26	5

In EC, the number of financial misconduct cases investigated fluctuated over time, with nineteen (19) cases in September 2023, twenty (20) in December 2023, fifteen (15) in March 2024, and seventeen (17) in June 2024. In comparison, the number of cases reported remained relatively stable, ranging from twelve (12) to twenty-one (21) over the same period, showing a general alignment between reported and investigated cases. FS had a low number of cases investigated, from four (4) in September 2023 to seven (7) in June 2024, with reported cases ranging from three (3) to seven (7). This suggests that most reported cases were investigated. GP had a high number of cases investigated in September 2023 at forty (40), but this declined drastically to seven (7) in March 2024, despite reported cases being between forty-four (44) and twenty-two (22), indicating a backlog or a slowdown in investigations.

KZN followed a similar pattern, where twenty-seven (27) cases were investigated in September 2023, reducing to thirteen (13) in March 2024, while reported cases ranged from twenty-seven (27) to fourteen (14), suggesting that investigations were not keeping pace with reported incidents. LP had a significant gap between reported and investigated cases, with fifty-five (55) cases reported in September 2023 but only eighteen (18) investigated by June 2024, pointing to a lack of enforcement or resource challenges.

In MP, reported cases fluctuated between eight (8) and twenty-four (24), while the number of cases investigated remained relatively stable, from seven (7) to nine (9), indicating that many reported cases were not followed up. NC saw a steady decrease in both reported and investigated cases, from seven (7) cases investigated in September 2023 down to two (2) in June 2024, with reported cases also decreasing from nine (9) to five (5), suggesting that the province had limited financial misconduct incidents. NW had an extreme disparity, with one hundred and fifty-two (152) cases reported across all periods, but only twenty-six (26) cases investigated consistently, highlighting a massive enforcement gap or backlog. WC had the lowest numbers, with only three (3) cases investigated in September 2023, none in December 2023, and five (5) cases in March 2024 and June 2024, while reported cases dropped to zero (0) by June 2024.

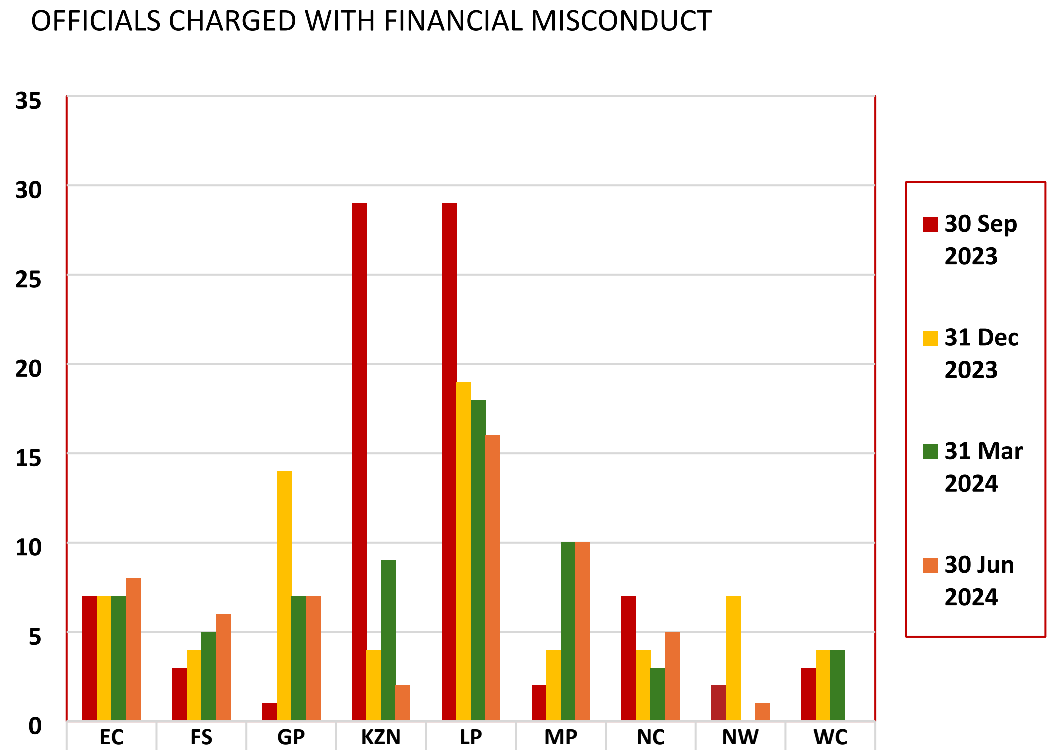
Overall, the data indicates a substantial gap between reported financial misconduct cases and those investigated, particularly in NW and LP, where a high volume of cases remained unresolved. Despite consistent reporting, GP and KZN also experienced declining investigations, suggesting possible inefficiencies in addressing misconduct. Provinces such as FS and WC had a close alignment between reported and investigated cases, but their overall numbers were relatively low. The disparity between reported and investigated cases highlights concerns about resource allocation, investigative capacity, and the overall effectiveness of financial misconduct oversight across the provinces.

In KZN and MP, the total number of financial misconduct cases investigated exceeded those reported in some periods, suggesting that municipalities may have included cases from the previous financial year (2022/2023) in their investigations. In KZN, the total number of cases investigated over the four reporting periods was ninety-eight (98), while the total number of cases reported was ninety (90), indicating that additional cases from prior years were likely included in the investigations. Similarly, in MP, the total number of cases investigated was thirty-three (33), while the total number of cases reported was thirty-two (32). This pattern implies that municipalities in these provinces were working through backlogs or prioritizing previous financial misconduct cases alongside newly reported ones, but it may also indicate that municipalities are inadvertently reporting incorrectly.

Officials Charged with Financial Misconduct

Charging officials with financial misconduct is critical in enforcing the MFMA and setting a precedent for accountability. When pursued transparently and consistently, formal disciplinary charges serve as a powerful deterrent against financial transgressions. However, for the 2023/2024 financial year, the gap between reported cases and formal charges highlights ongoing challenges in translating investigations into disciplinary outcomes. Please refer to the graph below concerning the number of officials charged with financial misconduct, highlighting key trends and insights over the specified period.

Financial Misconduct Charges



	EC	FS	GP	KZN	LP	MP	NC	NW	WC
30 Sep 2023	7	3	1	29	29	2	7	2	3
31 Dec 2023	7	4	14	4	19	4	4	7	4
31 Mar 2024	7	5	7	9	18	10	3	0	4
30 Jun 2024	8	6	7	2	16	10	5	1	0

The data for the 2023/2024 period shows that **268 municipal officials have been charged** with financial misconduct. The relatively low number of charges compared to reported cases indicates potential delays in investigative processes or reluctance to formalise charges.

The EC province shows a slight increase from seven (7) officials charged in September 2023 to eight (8) in June 2024. FS follows a similar trend, rising from three (3) to six (6) officials over the same period. GP saw a significant surge from one (1) official in September 2023 to seven (7) by June 2024, indicating an increase in enforcement actions. KZN, which started with a high of twenty-nine (29) in September 2023, saw a sharp decrease to four (4) in June 2024, suggesting a possible resolution of earlier cases or a decline in new incidents.

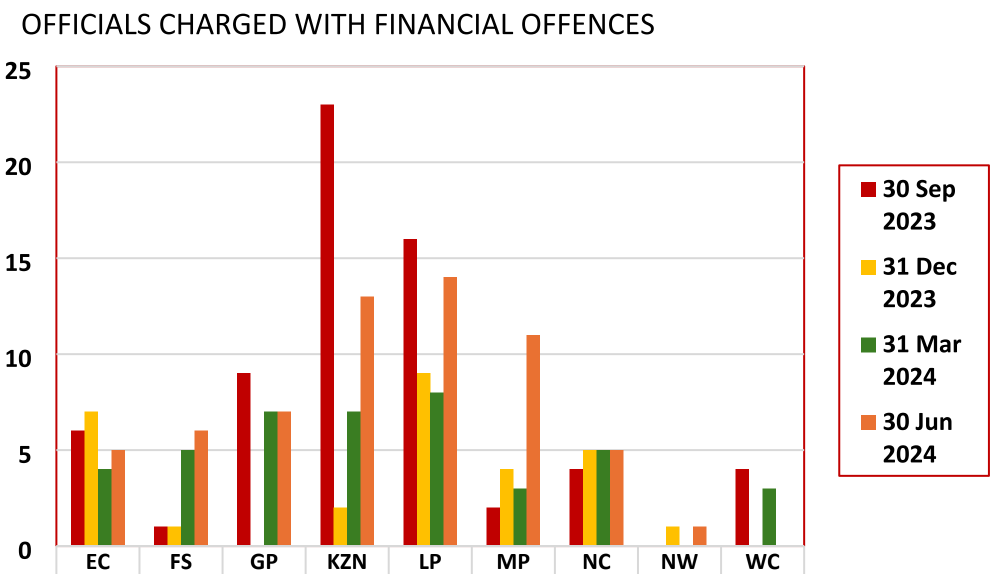
LP exhibited a steady downward trend, from twenty-nine (29) in September 2023 to sixteen (16) in June 2024, which could indicate improved compliance or case resolutions. MP, however, saw an increase from two (2) to ten (10) officials charged over the period, signalling rising financial misconduct cases. NC saw a decrease from seven (7) in September 2023 to five (5) in June 2024, reflecting either improved governance or fewer reported incidents. NW had fluctuating numbers, starting at two (2), peaking at seven (7) in December 2023, and ending at one (1) in June 2024, showing inconsistency in financial misconduct charges. WC remained relatively stable, moving between three (3) and four (4) officials charged over the period.

When comparing these figures to the chart on "Financial Misconduct Cases Investigated," it is clear that not all investigated cases lead to charges. Provinces such as LP and GP saw many cases investigated, but a decrease in officials charged could indicate stronger internal controls or case dismissals. In contrast, MP and FS show an increase in charges, which may reflect more effective investigations translating into legal action. KZN, despite a decline in officials charged, still had a significant number of cases investigated, raising questions about case resolutions. The data suggests that while financial misconduct cases are being investigated, the outcomes vary, possibly due to legal process differences or case complexities.

Officials Charged with Financial Offences

The MFMA emphasises the importance of financial accountability within municipalities, including prosecuting officials who commit financial offences. Charging officials ensures accountability and serves as a deterrent to other potential offenders. This section analyses the trends and patterns in charging officials across provinces, highlighting discrepancies in enforcement and providing insights into the effectiveness of municipal oversight mechanisms. Please refer to the graph below concerning officials charged with financial offences, highlighting key trends and insights over the specified period.

Official Financial Offences charges



	EC	FS	GP	KZN	LP	MP	NC	NW	WC
30 Sep 2023	6	1	9	23	16	2	4	0	4
31 Dec 2023	7	1	0	2	9	4	5	1	0
31 Mar 2024	4	5	7	7	8	3	5	0	3
30 Jun 2024	5	6	7	13	14	11	5	1	0

The number of officials charged in EC province fluctuated over time. The cases started at six (6) on 30 September 2023, increased slightly to seven (7) on 31 December 2023, dropped to four (4) on 31 March 2024, and rose again to five (5) on 30 June 2024. In FS, the number of cases remained low initially but later increased. The cases remained at one (1) on 30 September 2023 and one (1) on 31 December 2023, before increasing significantly to five (5) on 31 March 2024 and further rising to six (6) on 30

June 2024. In GP, the number of cases started high before dropping sharply and later stabilising. The province recorded nine (9) on 30 September 2023, saw a sharp decline to zero (0) on 31 December 2023, but recovered to seven (7) on 31 March 2024, maintaining the same figure at seven (7) on 30 June 2024.

KZN initially had the highest number of cases but saw a drastic drop before increasing again. The cases stood at twenty-three (23) on 30 September 2023, then fell significantly to two (2) on 31 December 2023, increased to seven (7) on 31 March 2024, and rose further to thirteen (13) on 30 June 2024. In LP, the number of cases fluctuated across the four periods. The cases were sixteen (16) on 30 September 2023, then dropped to nine (9) on 31 December 2023, further decreased to eight (8) on 31 March 2024, but increased again to fourteen (14) on 30 June 2024. In MP, the cases showed an overall increasing trend over the four periods. The cases started at two (2) on 30 September 2023, rose to four (4) on 31 December 2023, slightly declined to three (3) on 31 March 2024, and then sharply increased to eleven (11) on 30 June 2024.

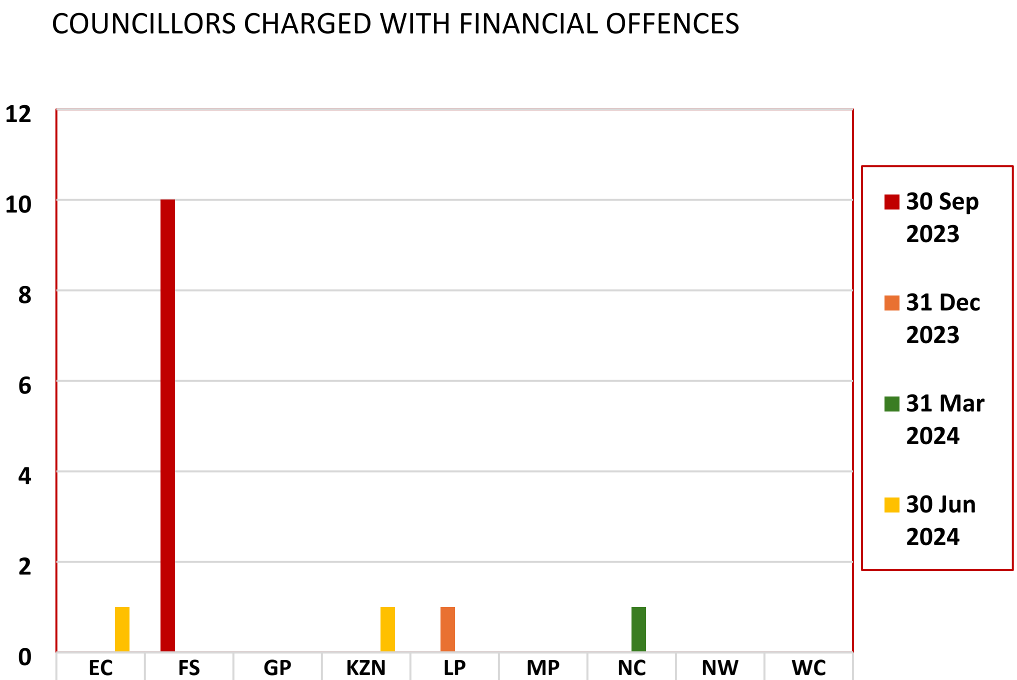
In the NC, the number of cases remained relatively stable over time. The cases were four (4) on 30 September 2023, increased slightly to five (5) on 31 December 2023, remained the same at five (5) on 31 March 2024, and continued at five (5) on 30 June 2024. In NW, the cases remained low throughout the four periods. The province had zero (0) on 30 September 2023, increased slightly to one (1) on 31 December 2023, dropped back to zero (0) on 31 March 2024, and then rose again to one (1) on 30 June 2024. In the WC, the number of cases showed a downward trend with fluctuations in between. The cases started at four (4) on 30 September 2023, dropped to zero (0) on 31 December 2023, increased to three (3) on 31 March 2024, and then declined again to zero (0) on 30 June 2024.

The data indicates varying trends in the number of officials charged with financial offences across different provinces. KZN had the highest number of cases at the start but saw a sharp decline before rising again, while LP and MP exhibited an increasing trend in the most recent quarter. GP experienced a sharp drop in cases before stabilizing, while NC remained relatively unchanged throughout the period. WC showed a declining trend, indicating either reduced financial misconduct or fewer reported cases. These trends suggest that financial offences and enforcement efforts vary across provinces, highlighting the need for continuous monitoring and intervention to address financial misconduct effectively.

Councillors Charged with Financial Offences

The role of councillors in municipal governance is pivotal, as they oversee financial decisions and ensure the integrity of municipal operations. However, when these leaders are implicated in financial offences, it undermines public trust and jeopardises the financial health of municipalities. Holding councillors accountable is essential to maintaining ethical governance and reinforcing the principles outlined in the MFMA. This section examines the trends and patterns in charging councillors with financial offences across provinces, shedding light on the efficacy of enforcement mechanisms at the leadership level. Please refer to the graph below concerning councillors charged with financial Offences, highlighting key trends and insights over the specified period.

Councillors charged with financial offences



	EC	FS	GP	KZN	LP	MP	NC	NW	WC
30 Sep 2023	0	10	0	0	0	0	0	0	0
31 Dec 2023	0	0	0	0	1	0	0	0	0
31 Mar 2024	0	0	0	0	0	0	1	0	0
30 Jun 2024	1	0	0	1	0	0	0	0	0

In the EC province, there were no recorded financial offence charges against councillors on 30 September 2023, 31 December 2023, and 31 March 2024. However, by 30 June 2024, one (1) councillor was charged. In the FS, a significant number of charges were reported on 30 September 2023, with ten (10) councillors facing financial offence charges. However, no further charges were recorded in subsequent periods, showing a decline in reported cases. GP had no charges recorded in any of the four periods under review, indicating a consistent absence of reported financial offences among councillors in this province.

KZN recorded no financial offence charges for councillors on 30 September 2023, 31 December 2023, and 31 March 2024. However, by 30 June 2024, one (1) councillor was charged. LP had one (1) councillor charged on 31 December 2023, but no further cases were reported before or after that period. MP did not report any charges for councillors in any of the periods, suggesting no recorded financial offences among councillors in this province.

The NC had no charges in the first two periods; however, one (1) councillor was charged on 31 March 2024, with no additional cases reported in the following quarter. NW and WC did not record any councillors charged with financial offences in any of the four periods, similar to some other provinces.

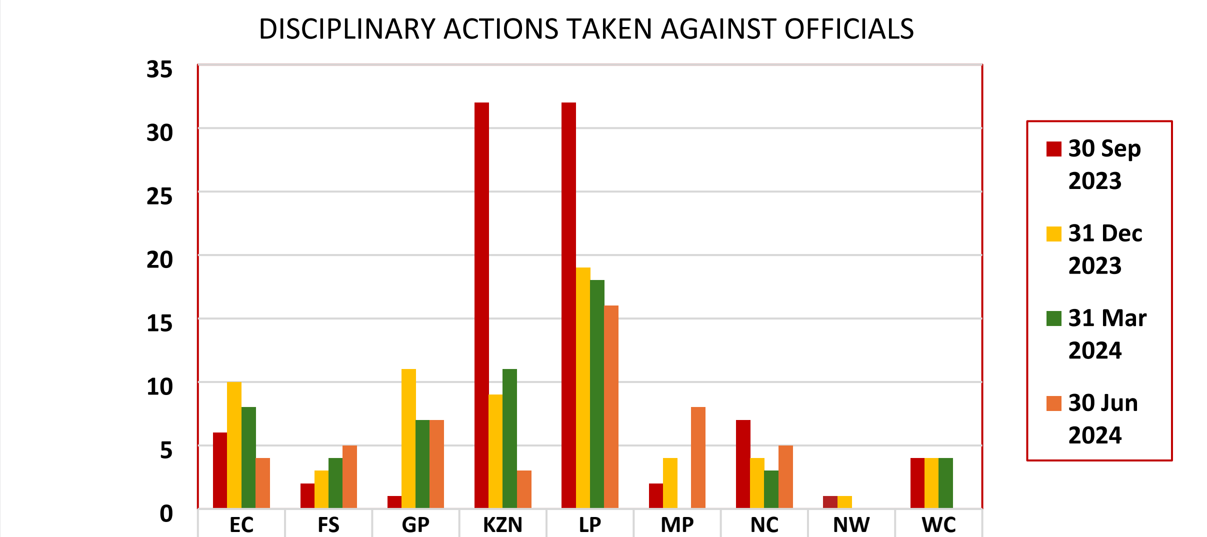
In the 2023/2024 financial year, fourteen **(14) councillors** have been reported to the SAPS on allegations of financial offences. Leadership accountability is essential for the integrity of municipal governance. The FS stands out with a disproportionately high number of councillors being reported to the SAPS for allegations of financial offences. This raises concerns about systemic governance issues at the leadership level, where misuse of authority and financial mismanagement appear prevalent. In other provinces, such as LP and GP, the number of councillors being reported to the SAPS for allegations of financial misconduct remains low, possibly indicating either better compliance or a failure to detect leadership-level misconduct.

The overall trend in the data indicates a significant decrease in the number of councillors charged with financial offences over time. FS had the highest recorded cases on 30 September 2023, with ten (10) charges, but no further cases were reported in the subsequent periods. Other provinces, such as EC, LP, and NC, recorded isolated cases in different quarters, but these numbers remained low. Several provinces, including GP, KZN, MP, NW, and WC, consistently reported no charges, suggesting either improved financial compliance or a lack of reported offences. The overall reduction in cases suggests progress in governance and accountability, but continuous monitoring is essential to ensure that financial misconduct among councillors is effectively prevented.

Disciplinary Actions Taken Against Officials

Disciplinary actions are a critical component of the accountability framework within municipal governance. They serve as both a corrective measure and a deterrent, ensuring that officials who engage in financial misconduct face appropriate consequences. The MFMA underscores the importance of disciplinary procedures in reinforcing ethical behaviour and maintaining public confidence in municipal operations. This section explores the trends in disciplinary actions taken against officials across provinces, highlighting the effectiveness of enforcement mechanisms and identifying areas where procedural delays or gaps may undermine accountability. Please refer to the graph below concerning disciplinary actions against officials, highlighting key trends and insights over the specified period.

Disciplinary actions taken against officials



	EC	FS	GP	KZN	LP	MP	NC	NW	WC
30 Sep 2023	6	2	1	32	32	2	7	1	4
31 Dec 2023	10	3	11	9	19	4	4	1	4
31 Mar 2024	8	4	7	11	18	0	3	0	4
30 Jun 2024	4	5	7	3	16	8	5	0	0

In the EC province, disciplinary actions taken against officials peaked at ten (10) on 31 December 2023, before declining to four (4) by 30 June 2024. This trend is closely aligned with the number of officials charged with financial misconduct, which showed minor fluctuations, rising slightly from seven (7) in September 2023 to eight (8) in June 2024. In FS, both disciplinary actions and financial misconduct charges increased steadily. Disciplinary actions rose to five (5) in March 2024, while financial misconduct charges followed a similar pattern, increasing from three (3) in September 2023 to six (6) in June 2024. GP saw a notable rise in disciplinary actions, particularly from one (1) in September 2023 to eleven (11) in December 2023, later fluctuating to seven (7) in June 2024.

In KZN, disciplinary actions significantly decreased from thirty-two (32) in September 2023 to three (3) in June 2024, closely mirroring the decline in financial misconduct charges from twenty-nine (29) – (29) in September 2023 to two (2) in June 2024. LP showed a similar trend, with disciplinary actions reducing from thirty-two (32) in September 2023 to sixteen (16) in June 2024, while financial misconduct charges declined from twenty-nine (29) to sixteen (16) in the same period. In MP, disciplinary actions and financial misconduct cases increased, with the latter peaking at ten (10) in June 2024.

The NC province saw a decline in disciplinary actions, dropping from seven (7) in September 2023 to five (5) in June 2024, while financial misconduct cases where officials were charged followed a similar downward trend. NW had consistently low numbers, with disciplinary actions and financial misconduct charges remaining between one (1) and zero (0). WC experienced relatively stable trends, with both disciplinary actions and financial misconduct cases fluctuating around four (4) before dropping to zero (0) in June 2024.

Overall, KZN and LP initially had the highest number of disciplinary actions against officials and financial misconduct charged against officials in September 2023. Still, both saw a consistent decline, indicating either successful interventions or reduced detection of cases. GP exhibited an early rise in both categories, which later stabilized. EC, FS, and MP demonstrated gradual increases, suggesting a growing number of reported and addressed cases. NC, NW, and WC had consistently low numbers, with NC and WC recording zero cases by June 2024. These trends suggest that while some provinces successfully reduced disciplinary actions and financial misconduct cases, others, such as GP and MP, continued to experience fluctuations in reported incidents.

Disciplinary actions are the final step in the accountability chain and serve as a deterrent against future misconduct. KZN and LP are exemplary, with disciplinary actions closely mirroring their charging statistics. The KZN and LP provinces disciplined over thirty (30) individuals in the first quarter, demonstrating a robust commitment to following through on charges. EC, however, exhibits a troubling pattern of delay, with fewer disciplinary actions taken relative to the number of officials charged. This gap highlights potential procedural inefficiencies, such as prolonged hearings or inadequate coordination between investigative and disciplinary structures in the municipalities. Similarly, GP shows sporadic disciplinary action, further indicating challenges in enforcement.

Although disciplinary actions have been implemented, this is insufficient to match the number of reported financial misconduct allegations. This contradiction implies that processing disciplinary actions against officials is not receiving the attention it deserves or that municipalities find it challenging to discipline municipal officials for financial misconduct.

Conclusion

Effective consequence management ensures financial accountability and governance within South African municipalities. The establishment and functionality of Disciplinary Boards, as mandated by the MFMA, play a crucial role in identifying, investigating, and addressing financial misconduct. However, the 2023/2024 compliance report highlights significant disparities in the enforcement of consequence management, with many municipalities failing to establish disciplinary boards. Additionally, underreporting of financial misconduct cases and a low rate of investigations and disciplinary actions raise concerns about the commitment to enforcing financial accountability. The failure to act on financial misconduct contributes to ongoing financial irregularities, including unauthorised, irregular, fruitless, and wasteful expenditure (UIFWE), which undermines service delivery and public trust.

The data from the 2023/2024 financial year points to several key challenges that undermine the effectiveness of Disciplinary Boards, thereby limiting their capacity to uphold the MFMA's provisions. Firstly, many municipalities face resource constraints, making it difficult to conduct thorough investigations or implement disciplinary actions. Secondly, deficiencies in disciplinary governance, including a lack of finance, investigations, and legal compliance training, further hinder boards from functioning effectively.

Moreover, burdensome disciplinary procedures often result in lengthy resolution processes, weakening the deterrent effect of disciplinary measures and fostering an environment where financial misconduct appears low-risk. A significant discrepancy also exists between recommended sanctions and their actual enforcement, pointing to lax follow-through by municipal administrations. Consistent oversight and transparent reporting are necessary to address this shortfall and foster uniform discipline across municipalities.

Despite these challenges, the 2023/2024 period underscores the critical role of Disciplinary Boards in promoting accountable and transparent financial management within local government. When properly resourced and staffed with competent, well-trained individuals, these boards serve as an essential pillar of ethical governance by curbing financial mismanagement and sustaining public trust. Investing in the training of Disciplinary Board members, safeguarding their independence, streamlining procedural guidelines, and ensuring robust enforcement of sanctions can significantly improve the disciplinary process and reinforce a culture of responsible financial stewardship. By adopting these measures and strengthening Disciplinary Boards, municipalities will be better equipped to fulfil the MFMA's objectives, establish an enduring accountability system, and ensure that public resources are managed effectively and responsibly.

The data reveals that while some municipalities, particularly in provinces such as the WC and GP, demonstrate relatively better compliance in reporting financial misconduct and taking disciplinary action, others, such as the NW and NC, exhibit alarmingly high non-response rates. This suggests a lack of transparency, ineffective governance mechanisms, or deliberate non-compliance. Even in municipalities that report financial misconduct cases, the significant gap between reported cases and actual disciplinary action indicates weaknesses in the enforcement process. The backlog of uninvestigated cases and the failure to charge and prosecute officials further exacerbate the issue, allowing financial misconduct to persist without consequences.

Addressing these challenges requires a multi-faceted approach involving both Provincial Treasuries and municipalities. Strengthening oversight mechanisms, enhancing investigative capacity, enforcing stricter compliance measures, and promoting transparency in reporting and disciplinary actions are essential steps toward ensuring financial accountability. The following recommendations provide targeted actions for both Provincial Treasuries and municipalities to improve consequence management and foster a culture of financial discipline.

Treasury recommendations

- **Conduct quarterly reviews on municipal Disciplinary Board effectiveness and establishment:** Ensure compliance with the MFMA and effective oversight of financial misconduct by reviewing board functionality every three months.
- **Provide capacity-building programs for municipal disciplinary boards:** Strengthen investigative skills within municipalities to ensure timely and effective financial misconduct investigations.
- **Mandate standardised reporting templates for financial misconduct cases:** Ensure uniformity, transparency, and completeness in reporting financial misconduct cases and the actions taken.
- **Implement a digital case tracking system for financial misconduct:** Monitor financial misconduct cases from reporting to resolution using already available digital tools to enhance accountability at every stage without incurring costs.
- **Facilitate inter-municipal knowledge-sharing forums:** Encourage mentorship by pairing compliant municipalities with struggling ones to improve consequence management best practices.

Municipal recommendations

- **Establish and operationalise Disciplinary Boards:** Ensure effective oversight, investigation, and resolution of financial misconduct cases in all municipalities.
- **Increase the pace of financial misconduct investigations:** Allocate dedicated resources and personnel to reduce backlog of unresolved financial misconduct cases.
- **Charge and discipline officials found guilty of financial misconduct:** Enforce accountability by taking firm disciplinary action to deter future transgressions.
- Develop clear disciplinary processes and standard operating procedures with defined timelines: Ensure financial misconduct cases are resolved efficiently without unnecessary delays.
- **Capacity-Building and Training**: Municipalities should request their respective provincial treasuries to train their disciplinary board members and equip them with investigation techniques and legal compliance skills.
- **Enhanced Monitoring and Reporting of Sanctions:** Municipalities should prioritise regular monitoring and transparent reporting on the status and outcomes of disciplinary actions recommended by disciplinary boards.

Supply chain management

Introduction

Effective and compliant Supply Chain Management (SCM) practices are pivotal to South African municipalities' financial sustainability and operational efficiency under the MFMA. The SCM framework established by the MFMA seeks to instil principles of fairness, equity, transparency, competitiveness, and cost-effectiveness in all procurement processes. Given the critical role of SCM in enabling municipalities to deliver services and maintain infrastructure, it is essential that these entities rigorously adhere to SCM regulations. However, achieving and maintaining compliance requires sound policies and procedures, robust systems, continuous monitoring, and the ability to address emerging challenges such as fraud, corruption, and irregular expenditure.

This section of the report undertakes a detailed evaluation of the SCM practices in municipalities and municipal entities, structured around a series of key questions that provide a holistic view of compliance and operational efficiency for the twelve (12) months ended 30 June 2024. The analysis begins with assessing whether the SCM policies adopted by councils or boards of directors comply with all regulatory requirements. This forms the foundation of a municipality's procurement framework and reflects its commitment to adhering to legal standards. It also examines whether municipalities have reviewed their SCM processes to address findings from previous audit cycles, highlighting their responsiveness and commitment to continuous improvement.

Risk management is another critical focus area. The report evaluates whether municipalities have implemented strategies to mitigate risks such as fraud, corruption, favouritism, and other irregular practices in executing SCM policies. This includes assessing whether municipalities have approved and implemented standard operating procedures (SOPs) to ensure consistency and compliance across all areas of SCM. The existence of an approved procurement plan for the current financial year is also scrutinised, as this document is crucial for aligning procurement activities with budgetary and service delivery priorities.

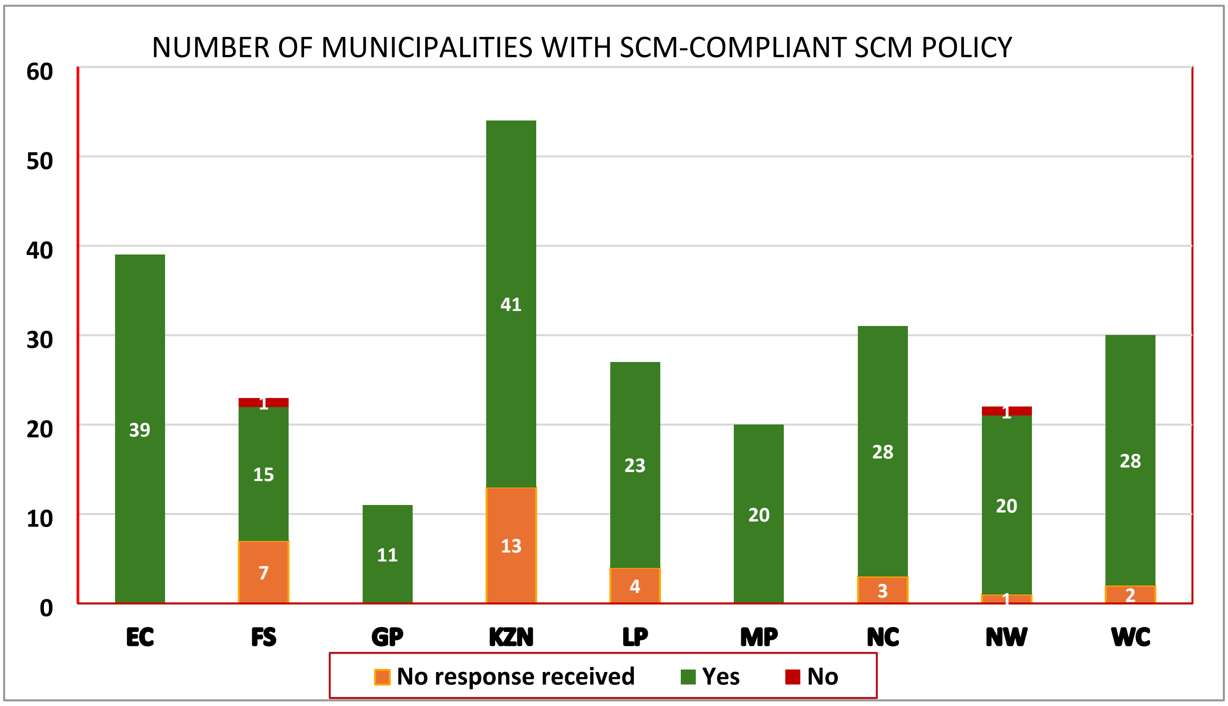
The analysis extends to operational capacity, examining whether municipalities possess the necessary administrative and technical resources, such as contract management units or project management teams, to oversee procurement and contract implementation effectively. Proper contract management is critical to ensuring service delivery commitments are met and contractors' performance is monitored continuously. In this regard, the report assesses whether performance monitoring mechanisms are in place and whether corrective actions are taken when necessary.

This report aims to provide a nuanced understanding of SCM compliance across South African municipalities by addressing these comprehensive and detailed questions. It highlights areas of success where municipalities have aligned with regulatory expectations and identifies gaps that require targeted interventions. Ultimately, this analysis seeks to support municipalities in strengthening their SCM practices to effectively fulfil their mandates and comply with the MFMA's principles of good governance and financial accountability.

Number of Municipalities with SCM-compliant SCM Policy

In the 2023/2024 financial year, as of 30 September 2023, two hundred and twenty-five **(225) municipalities reported having a SCM-compliant SCM Policy** as required by the MFMA. A breakdown per province of municipalities with an SCM-compliant SCM Policy and those without is indicated in the graph below:

SCM Policy



The chart above provides a comprehensive view of municipalities in each province that have adopted SCM policies compliant with the MFMA. The MFMA aims to ensure sound and sustainable financial management in municipalities, and SCM compliance is a critical aspect of this framework. The chart categorises municipalities into three groups: those with compliant policies (labelled "Yes"), those without (labelled "No"), and those where no responses were received (labelled "No response received"). This breakdown allows for the evaluation of SCM policy implementation and identifies areas for improvement or further investigation.

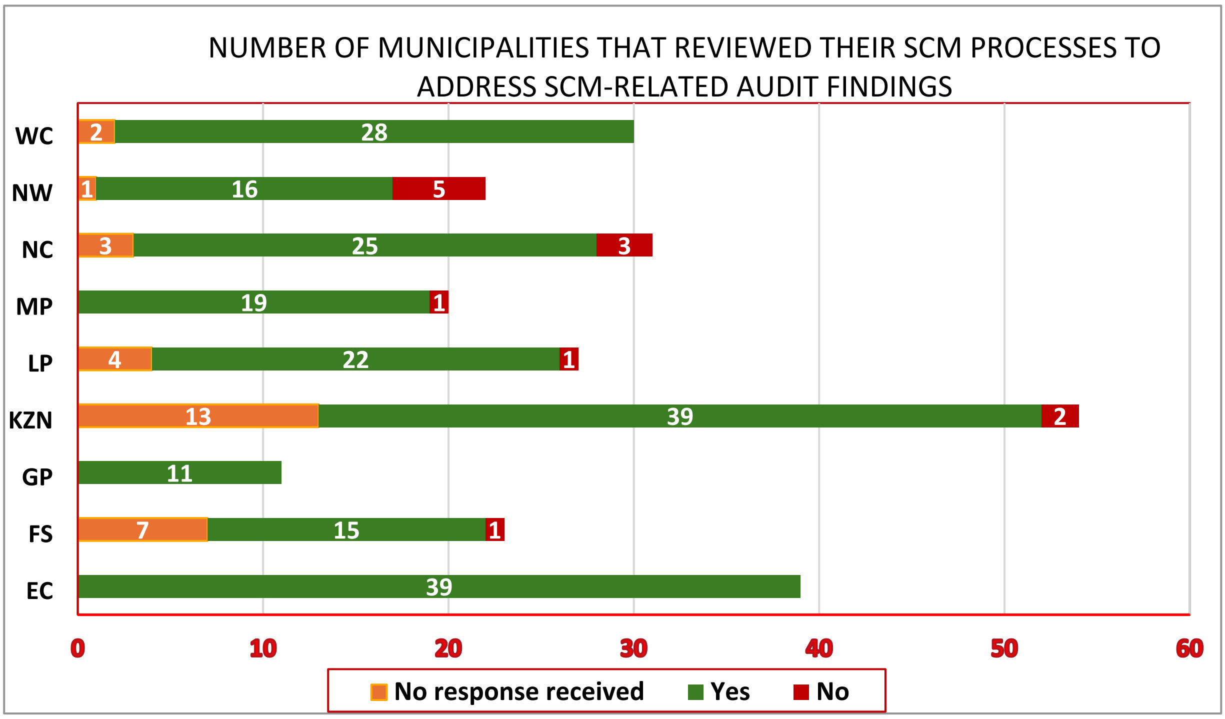
The data reveals a generally high level of SCM compliance across provinces. Notably, KwaZulu-Natal (KZN) and the Eastern Cape (EC) provinces lead in the number of compliant municipalities, with forty-one (41) and thirty-nine (39) municipalities, respectively. Western Cape (WC), Northern Cape (NC), and Mpumalanga (MP) provinces also report a strong showing of compliant municipalities, each recording between twenty (20) and twenty-eight (28) municipalities with SCM policies in place. However, provinces like the Free State (FS) and North West (NW) show instances of non-compliance, with one municipality in each confirming not having a SCM-compliant SCM policy in place. These instances of non-compliance, though minimal, highlight potential governance or resource challenges in meeting MFMA requirements.

Another key concern is the presence of no responses received in provinces such as KZN (thirteen -13 municipalities), FS (seven – 7 municipalities), and LP (four – 4 municipalities), where data on SCM policy compliance were not reported. Other provinces such as GP (eleven - 11 municipalities), NC (three - 3 municipalities), NW (one - 1 municipality), and WC (two - 2 municipalities) also had municipalities that did not respond, further emphasizing the need for improved data collection and compliance tracking. This raises questions about the accuracy and completeness of reporting, which is crucial for effective oversight and accountability. Addressing these gaps is essential to ensure full transparency and clarify SCM policy adherence across all municipalities. While the overall compliance rate is encouraging, further effort is required to address data inconsistencies and ensure that all municipalities meet the MFMA's financial management standards.

Number of municipalities that reviewed their SCM processes to address SCM-related audit findings

As at 30 September 2023, in the 2023/2024 financial year, two hundred and fourteen (214) municipalities reported having reviewed their SCM processes to address SCM-related audit findings, as required by the MFMA. A breakdown per province of municipalities that have completed these reviews, those that have not, and those with incomplete data is provided below.

SCM Related Audit Findings



The chart indicates the number of municipalities in each province that reviewed their SCM processes to address SCM-related audit findings. Reviewing SCM processes is critical in ensuring compliance with the MFMA and addressing any weaknesses or irregularities identified during audits. The data is divided into three categories: municipalities that have reviewed their SCM processes (labelled "Yes"), those that have not ("No"), and municipalities which did not provide a response ("No response received").

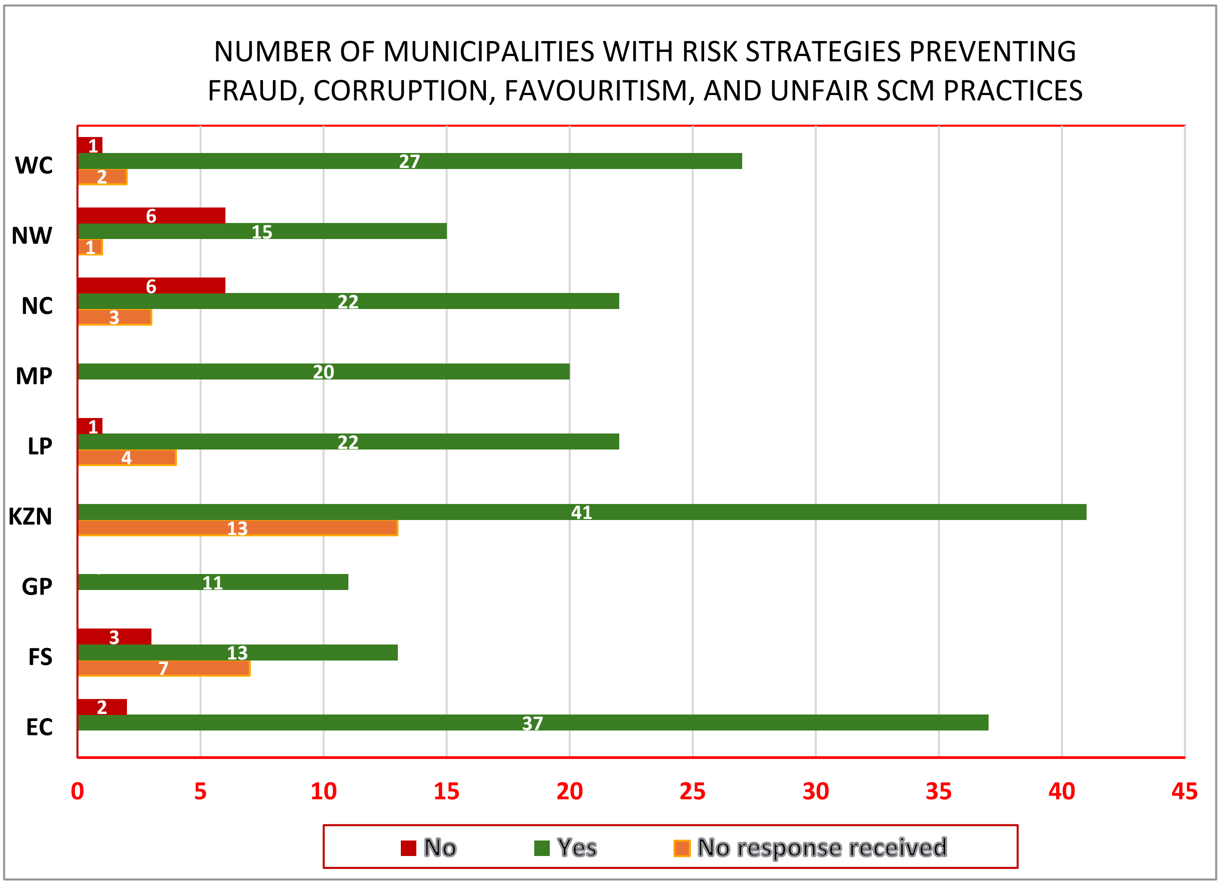
Most municipalities in most provinces have actively reviewed their SCM processes to address audit findings. Eastern Cape (EC), KwaZulu-Natal (KZN), and Western Cape (WC) provinces show strong compliance, with thirty-nine (39) municipalities in EC, thirty-nine (39) municipalities in KZN, and twenty-eight (28) municipalities in the WC completing reviews. Northern Cape (NC), Limpopo (LP), and Mpumalanga (MP) provinces also reported high numbers of municipalities that conducted these reviews, further underscoring a positive trend toward addressing SCM-related audit issues.

However, the chart also points out areas of concern. Some provinces show municipalities that have not reviewed their SCM processes, such as North West (NW) province, with five (5) non-compliant municipalities and Northern Cape (NC) province, with three (3) municipalities. Additionally, a significant number of municipalities did not respond, particularly in KZN (thirteen - 13) and FS (seven - 7) municipalities, indicating incomplete reporting. This lack of data impedes a full assessment of the SCM process reviews. Addressing these gaps in reporting is crucial for ensuring transparency and accountability. Overall, while the data indicates significant progress in addressing SCM audit findings, there remains room for improvement in ensuring that all municipalities are compliant and that reporting is complete and accurate.

Municipalities with risk strategies preventing fraud, corruption, favouritism, and unfair SCM practices

As at 30 September 2023, in the 2023/2024 financial year, two hundred and eight (208) municipalities reported implementing risk strategies to prevent fraud, corruption, favouritism, and unfair SCM practices, as required by the MFMA. A breakdown per province of municipalities that have implemented these strategies, those that have not, and those with incomplete data is provided below.

SCM Practices



The chart above provides an overview of municipalities across provinces implementing risk strategies to prevent fraud, corruption, favouritism, and unfair Supply Chain Management (SCM) practices. Such risk strategies are crucial for promoting transparency, accountability, and fairness in the procurement processes, as mandated by the MFMA. The data categorises municipalities into three groups: those with risk strategies in place ("Yes"), those without such strategies ("No"), and those where information was not provided ("No response received").

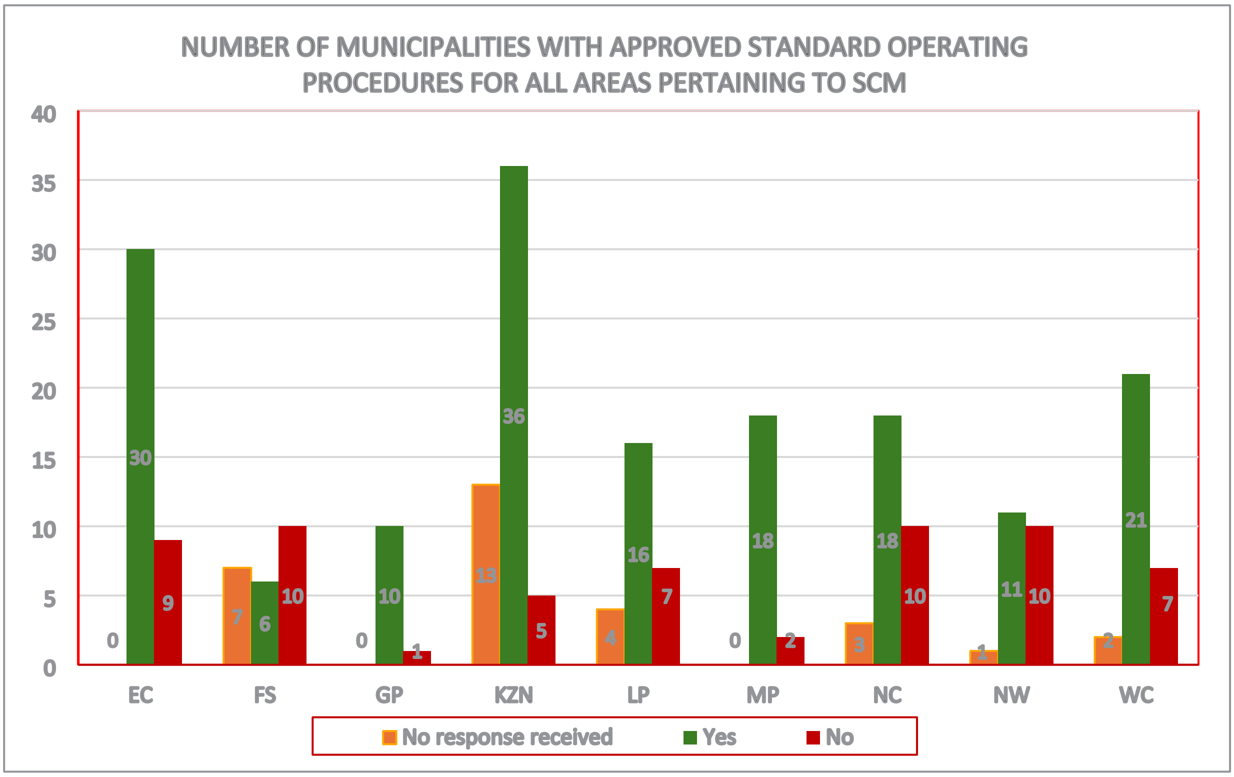
The data indicates that most municipalities have adopted risk strategies to mitigate SCM-related risks. KwaZulu-Natal (KZN) province stands out, with forty-one (41) out of fifty-four (54) municipalities reporting implementing such strategies. Eastern Cape (EC) province follows closely with thirty – seven (37) out of thirty-nine (39) municipalities, and Western Cape (WC) reported twenty-seven (27) out of thirty (30) municipalities having adopted the relevant risk strategies. Other provinces such as Gauteng (GP), Limpopo (LP), Northern Cape (NC), and Mpumalanga (MP) also show strong adherence, with most of their municipalities having implemented these strategies. This reflects a widespread recognition of the importance of robust risk management practices in reducing vulnerabilities in SCM processes.

However, the chart also highlights areas for improvement. The NW and NC provinces have the highest number of municipalities without risk strategies, with six (6) municipalities each falling into the "No" category. Additionally, municipalities that did not provide a response are an issue in provinces such as KZN (with thirteen (13)) and FS (with seven (7)), which makes it challenging to assess compliance in these areas fully. Addressing these gaps is essential to ensure all municipalities are held to the same standard and are actively working to prevent fraud and corruption. In summary, while there is commendable progress in most provinces, a concerted effort is needed to improve compliance and data completeness to uphold the MFMA's objectives.

Number of municipalities with approved standard operating procedures for all areas pertaining to SCM

As at 30 September 2023, in the 2023/2024 financial year, **one hundred and sixty-six (166) municipalities reported having approved Standard Operating Procedures (SOPs)** for all areas pertaining to Supply Chain Management (SCM), as required by the MFMA. A breakdown per province of municipalities that have approved SOPs, those that have not, and those with incomplete data is provided below.

Standard Operating Procedures - SCM



The chart illustrates the number of municipalities with approved Standard Operating Procedures (SOPs) for all Supply Chain Management (SCM) areas across various provinces. Each province is divided into three categories: municipalities that responded "Yes" to having approved SOPs, municipalities that responded "No," and those that did not provide a response. In Eastern Cape (EC), a total of thirty (30) municipalities confirmed having approved SOPs, while nine (9) municipalities did not have approved SOPs. In Free State (FS), only six (6) municipalities had approved SOPs, ten (10) municipalities did not have them, and seven (7) municipalities did not respond. In Gauteng (GP), ten (10) municipalities had approved SOPs, another ten (10) municipalities did not have them, and one (1) municipality did not have approved SOPs. KwaZulu-Natal (KZN) had the highest number of approvals, with thirty-six (36) municipalities confirming that they had approved SOPs, while five (5) municipalities did not have them, and thirteen (13) municipalities did not respond.

In Limpopo (LP), sixteen (16) municipalities confirmed having approved SOPs, seven (7) municipalities did not have them, and four (4) municipalities did not respond. In Mpumalanga (MP), eighteen (18) municipalities had approved SOPs, while two (2) municipalities did not have approved SOPs in place. In Northern Cape (NC), eighteen (18) municipalities confirmed having approved SOPs, while ten (10) municipalities did not, and three (3) municipalities did not respond. In North West (NW), eleven (11) municipalities had approved SOPs, while ten (10) municipalities did not, and one (1) municipality did not respond. Lastly, in the Western Cape (WC), a total of twenty-one (21) municipalities had approved SOPs, seven (7) municipalities did not have them, and two (2) municipalities did not respond.

Most provinces show a positive trend towards approving SOPs for Supply Chain Management (SCM), with KZN leading significantly in compliance in absolute terms. However, some provinces, such as Free State (FS) and NW, have a notable number of municipalities that have not approved SOPs, which may indicate challenges in implementation, capacity, or adherence to regulatory requirements. Additionally, non-responses, particularly in KZN and EC, suggest that further engagement may be necessary to ensure full accountability and accurate reporting. While progress has been made in many areas, there are still gaps in the adoption of SOPs across some provinces, highlighting the need for further investigation into the reasons behind rejection and non-responses.

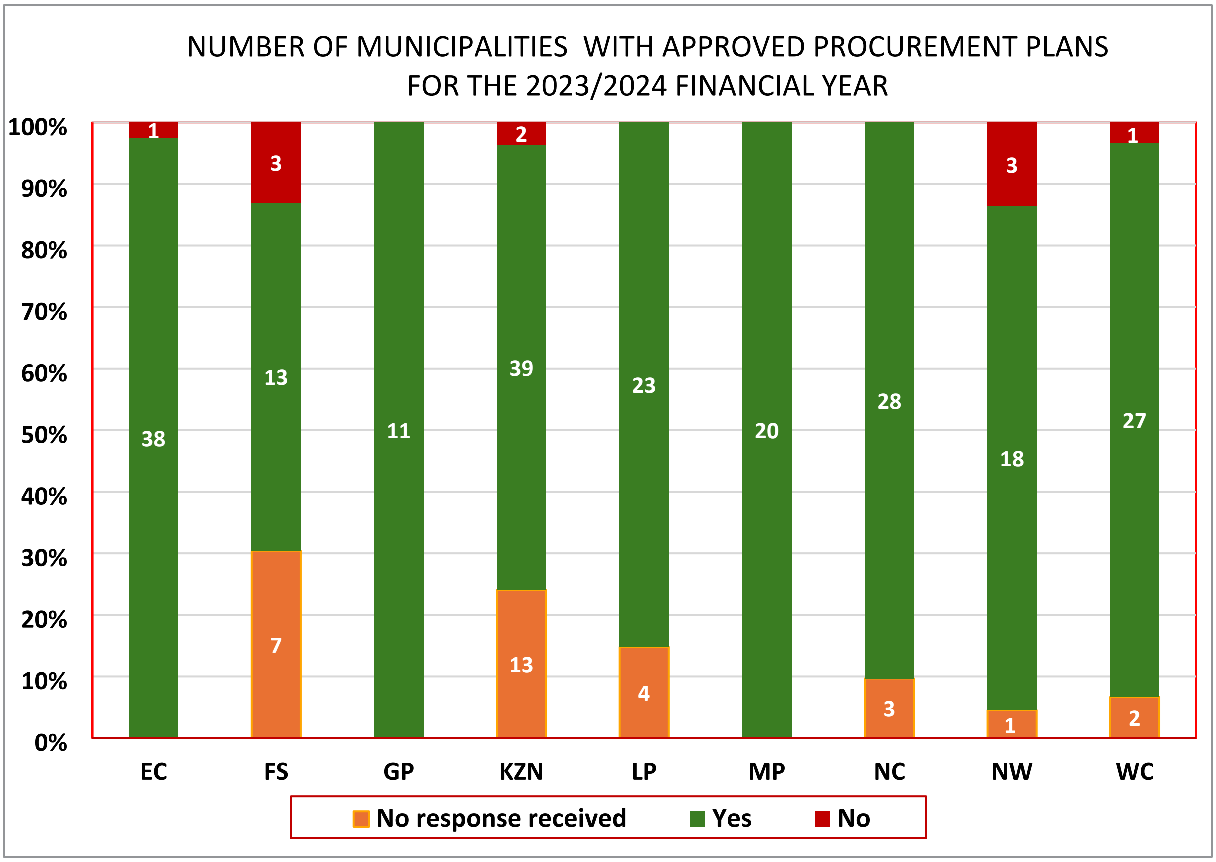
Number of municipalities with approved procurement plans for the current financial year

As at 30 September 2023, in the 2023/2024 financial year, **two hundred and seventeen (217) municipalities reported having approved procurement plans, as required by the MFMA**. A well-structured procurement plan is essential for ensuring efficient resource allocation, cost-effectiveness, and the timely delivery of goods and services. A clear procurement strategy enhances transparency and accountability while also reducing risks associated with delays, budget overruns, and non-compliance with regulations.

From the perspective of UIFWE, proper procurement planning plays a critical role in financial management. It helps to reduce unspent funds by ensuring that allocated budgets are fully utilised within the financial year. Without proper planning, organizations may find themselves in a situation where funds are left unspent due to delays in procurement processes or poor planning, leading to inefficiencies. Additionally, procurement planning helps to minimise wasteful expenditure by preventing unnecessary or overpriced purchases. When procurement is done haphazardly or without due diligence, municipalities may end up spending on goods and services that are not essential, of poor quality, or purchased at inflated prices. This leads to financial losses and affects service delivery and organisational performance.

Procurement planning is not just a compliance requirement but a fundamental process that drives efficiency, accountability, and value for money. By implementing a well-thought-out procurement strategy, municipalities can significantly reduce financial mismanagement, improve service delivery, and enhance overall operational effectiveness. A breakdown per province of municipalities that have approved procurement plans, those that have not, and those with incomplete data are provided below.

Procurement Plans



The chart illustrates the number of municipalities in each province that have approved procurement plans for the 2023/2024 financial year. The responses are categorized into three groups: municipalities that have submitted approved procurement plans ("Yes"), municipalities that have not approved procurement plans ("No"), and municipalities that have not provided a response ("No response received").

In Eastern Cape (EC), thirty-eight (38) municipalities have complied with procurement planning requirements, with only one (1) municipality failing to approve its plan. Free State (FS) presents a compliance concern, with thirteen (13) municipalities having approved plans, while three (3) municipalities did not approve their plans, and seven (7) failed to provide a response. Gauteng (GP) recorded eleven (11) municipalities with approved plans, with no outstanding approvals or non-responses, indicating full compliance. KwaZulu-Natal (KZN) demonstrated a high level of compliance, with thirty-nine (39) municipalities approving their plans, while two (2) municipalities failing to approve their plans; however, thirteen (13) municipalities failed to provide a response, raising concerns regarding reporting and accountability.

In Limpopo (LP), twenty-three (23) municipalities approved their procurement plans, while four (4) did not respond. Mpumalanga (MP) demonstrated full compliance, with twenty (20) municipalities approving their procurement plans and no municipalities failing to approve or respond. Northern Cape (NC) had twenty-eight (28) municipalities in compliance, while three (3) municipalities failed to provide a response. North West (NW) reported eighteen (18) municipalities with approved procurement plans, with three (3) failing to comply and one (1) municipality failing to provide a response. Western Cape

(WC) showed strong compliance, with twenty-seven (27) municipalities approving their procurement plans, one (1) municipality failing to approve, and two (2) not responding.

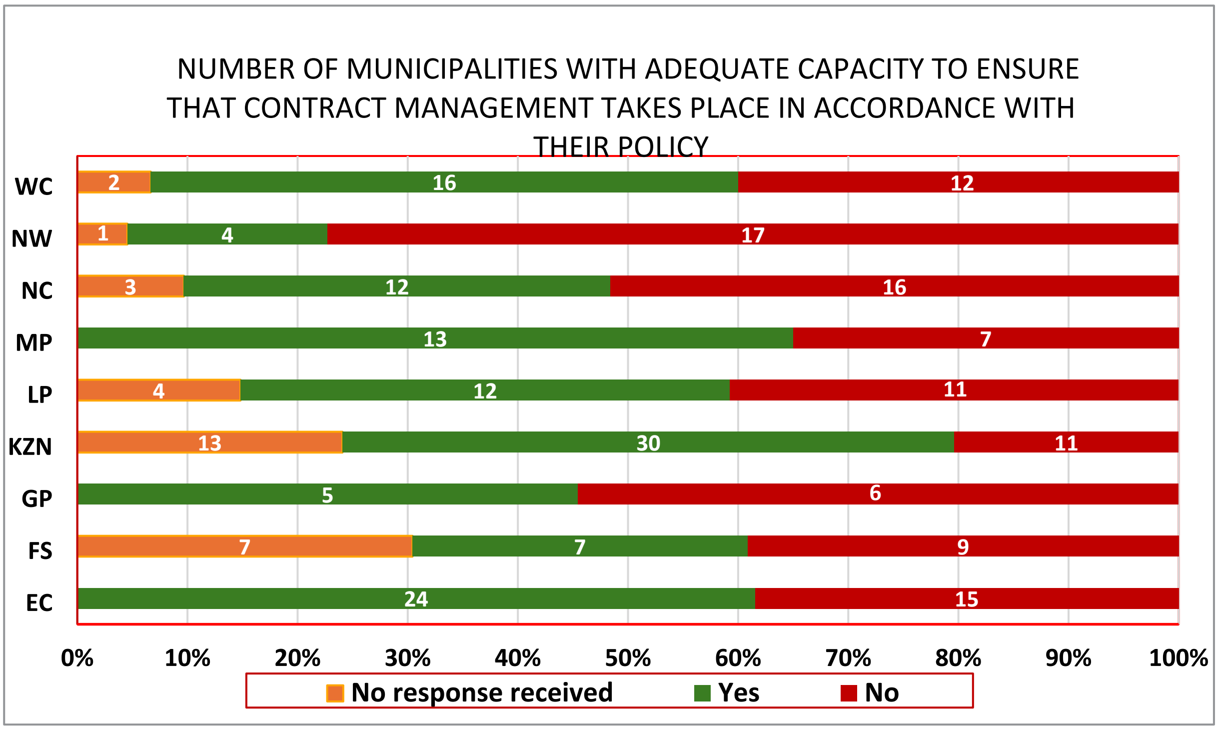
The overall analysis suggests that most municipalities have approved procurement plans, as indicated by the predominant green bars in the chart. However, certain provinces, such as FS, KZN, and LP, have a notable number of municipalities that did not provide a response, which could indicate potential gaps in compliance or communication. The presence of municipalities that have not approved procurement plans, though minimal, raises concerns about financial planning and expenditure management. Ensuring that all municipalities submit their procurement plans on time is essential to improving financial oversight, preventing unspent funds, and reducing wasteful expenditure.

These gaps underscore the need for enhanced monitoring and support to ensure all municipalities adhere to procurement planning requirements. In summary, while the overall compliance rate is high, targeted interventions are necessary to address non-compliance and improve data completeness.

Municipalities with adequate capacity to ensure that contract management takes place in accordance with their policy

As at 30 September 2023, in the 2023/2024 financial year, **one hundred and twenty-three (123) municipalities reported having adequate capacity in contract management, administrative capacity, and project management** to ensure compliance with their contract management policies, as required by the MFMA. Below is a breakdown per province of municipalities with adequate capacity, those without, and those with incomplete data.

Contract Management



The analysis of the chart presents an overview of the number of municipalities in each province that have adequate capacity to ensure that contract management takes place in accordance with their policy. The assessment includes responses categorized as "Yes," "No," and "No Response Received." The findings are critical in evaluating compliance with the Municipal Finance Management Act (MFMA) and the overall governance effectiveness of municipalities in contract management.

In the Western Cape (WC) province, sixteen (16) municipalities confirmed they have adequate capacity, while twelve (12) reported they do not, and two (2) did not respond. North West (NW) had four (4) municipalities affirming capacity, while seventeen (17) lacked capacity, and one (1) municipality did not respond. Northern Cape (NC) showed twelve (12) municipalities with adequate capacity, while sixteen (16) municipalities lacked capacity, and three (3) municipalities did not respond. Mpumalanga (MP) had thirteen (13) municipalities with adequate capacity, while seven (7) municipalities reported a lack of capacity.

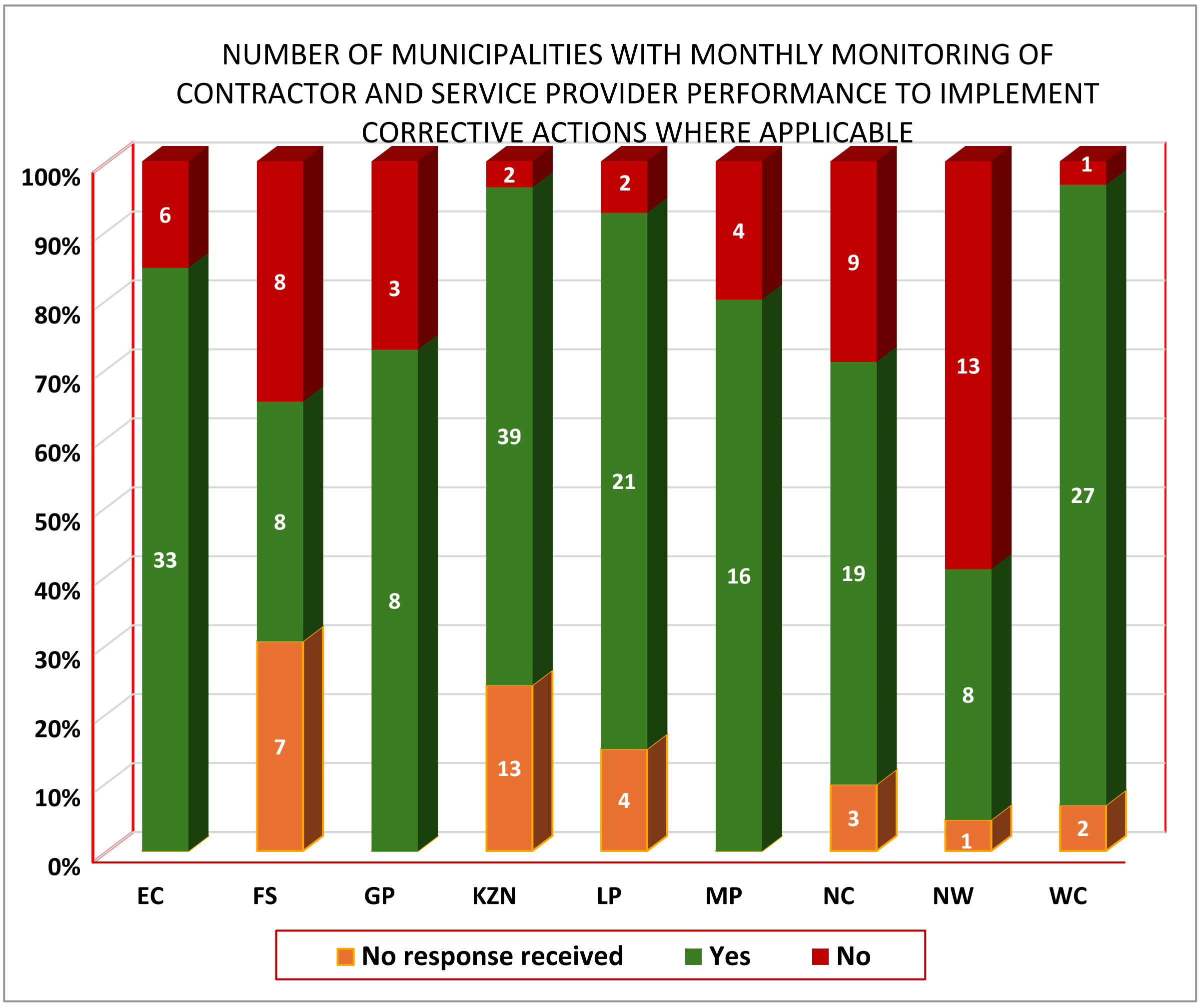
Limpopo (LP) had twelve (12) municipalities confirming capacity, eleven (11) municipalities lacking capacity, and four (4) municipalities that did not respond. KwaZulu-Natal (KZN) showed thirty (30) municipalities with adequate capacity, while eleven (11) municipalities lacked capacity, and thirteen (13) municipalities did not respond. Gauteng (GP) had five (5) municipalities with adequate capacity and six (6) municipalities lacking capacity. Free State (FS) reported seven (7) municipalities confirming capacity, nine (9) municipalities lacking capacity, and seven (7) municipalities not responding. Eastern Cape (EC) demonstrated twenty-four (24) municipalities with adequate capacity, while fifteen (15) municipalities lacked capacity.

The overall findings highlight significant gaps in contract management capacity across municipalities, with some provinces demonstrating stronger compliance than others. KZN, EC, and MP exhibit higher levels of compliance, while NW and NC show concerning levels of inadequacy. The high number of non-responses in KZN and FS raises municipal accountability and transparency concerns. Given these results, urgent interventions, including capacity-building programs, stricter oversight, and enhanced accountability mechanisms, should be implemented to ensure that municipalities comply with MFMA contract management requirements. Addressing these gaps and enhancing capacity in non-compliant municipalities should be a priority to ensure effective contract oversight and adherence to the MFMA.

Municipalities with monthly monitoring of contractor and service provider performance to implement corrective actions where applicable

As at 30 September 2023, in the 2023/2024 financial year, **one hundred and seventy-nine (179) municipalities reported monitoring contractor and service provider performance monthly** to implement corrective actions, as required by the MFMA. A breakdown per province of municipalities that conduct such monitoring, those that do not, and those with incomplete data is provided below.

Service Provider Performance



The analysis of the chart provides insights into the number of municipalities within each province that conduct monthly monitoring of contractor and service provider performance to implement corrective actions where applicable. This assessment is crucial in determining municipal compliance with the MFMA and the effectiveness of contract management oversight. The responses are categorized as "Yes" for municipalities conducting monthly monitoring, "No" for those that do not, and "No Response Received" for those that did not provide feedback.

In Eastern Cape (EC), thirty-three (33) municipalities confirmed they conduct monthly monitoring, while six (6) municipalities do not. Free State (FS) had eight (8) municipalities confirming compliance, eight (8) municipalities lacking monitoring, and seven (7) municipalities that did not respond. Gauteng (GP) reported that eight (8) municipalities were conducting monthly monitoring, and three (3) were not complying. KwaZulu-Natal (KZN) recorded thirty-nine (39) municipalities complying, while two (2) municipalities reported non-compliance and thirteen (13) municipalities did not respond. Limpopo (LP) had twenty-one (21) municipalities that conduct monthly monitoring, two (2) municipalities that do not, and four (4) municipalities that did not respond.

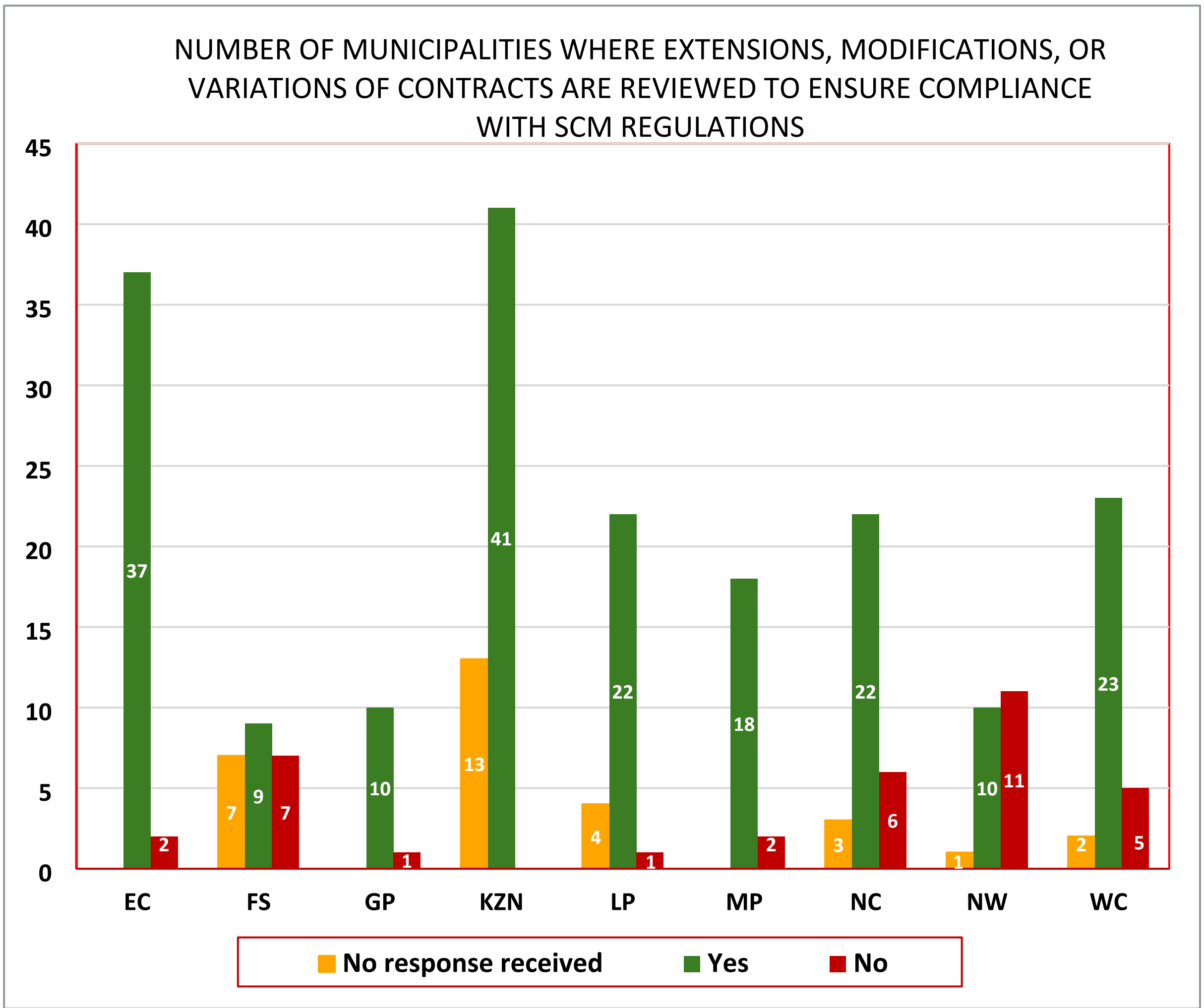
Mpumalanga (MP) reported sixteen (16) municipalities with monitoring in place and four (4) municipalities lacking such measures. Northern Cape (NC) had nineteen (19) municipalities monitoring contractor performance, while nine (9) municipalities lacked compliance, and three (3) municipalities did not respond. North West (NW) showed eight (8) municipalities conducting monitoring, while thirteen (13) municipalities do not comply. Western Cape (WC) had twenty-seven (27) municipalities monitoring performance, with one (1) municipality not complying, and two (2) municipalities not responding.

The findings indicate that KZN, EC, WC, and LP demonstrate a strong commitment to monthly monitoring of contractor and service provider performance, with most municipalities complying. However, NW and NC reflect concerning levels of non-compliance, while the high number of non-responses in KZN and FS raises accountability concerns.

While there is notable progress in implementing monthly monitoring, further interventions are necessary in provinces with weaker compliance to enhance contract oversight and ensure adherence to MFMA regulations. Municipalities with low compliance levels should prioritise implementing corrective measures to improve service delivery accountability.

Municipalities where extensions, modifications, or variations of contracts are reviewed to ensure compliance with SCM regulations

SCM Regulations



The analysis of the chart presents the number of municipalities in each province where extensions, modifications, or variations of contracts are reviewed to ensure compliance with Supply Chain Management (SCM) regulations. This assessment is crucial in determining the effectiveness of municipal oversight in contract amendments and adherence to regulatory frameworks under the Municipal Finance Management Act (MFMA). The responses are categorized as "Yes" for municipalities that conduct reviews, "No" for those that do not, and "No Response Received" for municipalities that did not provide feedback.

In Eastern Cape (EC), thirty-seven (37) municipalities confirmed they reviewed contract modifications, while two (2) municipalities did not comply. Free State (FS) had nine (9) municipalities conducting reviews, seven (7) municipalities not complying, and seven (7) municipalities that did not respond. Gauteng (GP) reported that ten (10) municipalities were conducting reviews, and one (1) municipality was not complying. KwaZulu-Natal (KZN) recorded forty-one (41) municipalities complying, and thirteen (13) municipalities did not respond. Limpopo (LP) had twenty-two (22) municipalities conducting reviews, one (1) municipality not complying, and four (4) municipalities that did not respond.

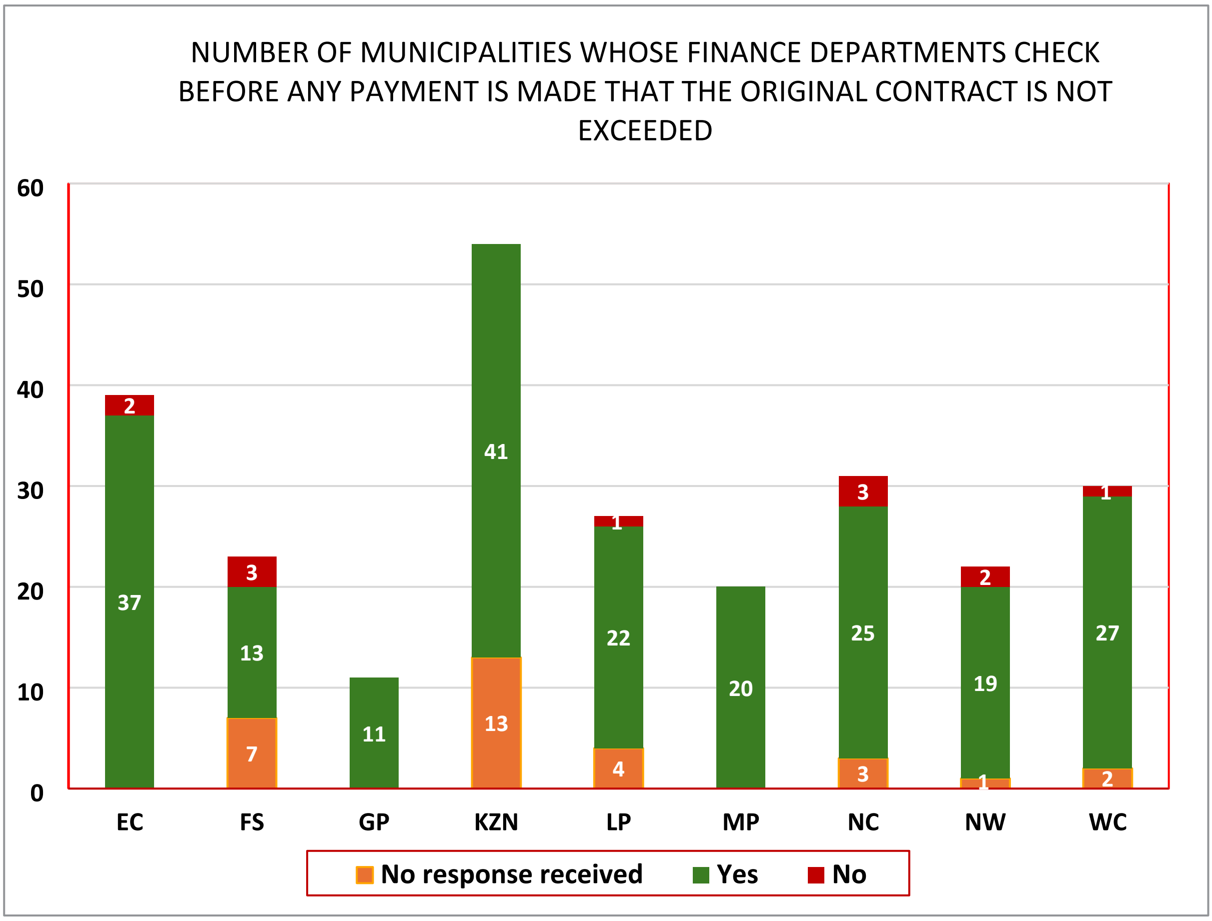
Mpumalanga (MP) reported eighteen (18) municipalities with review mechanisms in place, while two (2) municipalities did not comply. Northern Cape (NC) had twenty-two (22) municipalities conducting reviews, while six (6) municipalities lacked compliance, and three (3) municipalities did not respond. North West (NW) showed ten (10) municipalities conducting reviews, while eleven (11) municipalities did not comply, and one (1) municipality did not respond. Western Cape (WC) had twenty-three (23) municipalities conducting reviews, with five (5) municipalities not complying and two (2) municipalities not responding.

The findings indicate that KZN, EC, LP, MP, NC, and WC demonstrate high compliance in reviewing contract extensions and modifications in line with SCM regulations. However, NW and FS exhibit lower compliance levels, raising concerns about contract management oversight. Additionally, the high number of non-responses in KZN and FS indicates gaps in accountability and reporting. While most municipalities have review mechanisms in place, those with lower compliance levels must strengthen their oversight functions to ensure adherence to MFMA regulations and enhance contract governance.

Municipalities whose finance departments check before any payment is made that the original contract price is not exceeded

As at 30 September 2023, in the 2023/2024 financial year, **two hundred and fifteen (215) municipalities reported having financial controls to ensure that payments do not exceed the original contract amount,** as required by the MFMA. A breakdown per province of municipalities that conduct these checks, those that do not, and those with incomplete data is provided below.

SCM payments



The analysis of the chart presents the number of municipalities in each province whose finance departments check before any payment is made to ensure that the original contract is not exceeded. This assessment is critical in evaluating municipal compliance with the Municipal Finance Management Act (MFMA) and the effectiveness of financial controls to prevent unauthorised expenditure. The responses are categorized as "Yes" for municipalities that perform these checks, "No" for those that do not, and "No Response Received" for municipalities that did not provide feedback.

In Eastern Cape (EC), thirty-seven (37) municipalities confirmed that they conducted these financial checks, while two (2) municipalities did not comply. Free State (FS) had thirteen (13) municipalities conducting checks, three (3) municipalities not complying, and seven (7) municipalities that did not respond. Gauteng (GP) reported that eleven (11) municipalities were performing checks. KwaZulu-Natal (KZN) recorded forty-one (41) municipalities complying, while thirteen (13) municipalities did not respond. Limpopo (LP) had twenty-two (22) municipalities conducting checks, one (1) municipality not complying, and four (4) municipalities that did not respond. Mpumalanga (MP) reported that twenty (20) municipalities had financial control measures in place.

Northern Cape (NC) had twenty-five (25) municipalities conducting checks, while three (3) municipalities lacked compliance and three (3) municipalities that did not respond. North West (NW) showed nineteen (19) municipalities conducting checks, while two (2) municipalities did not comply, and one (1) municipality did not respond. Western Cape (WC) had twenty-seven (27) municipalities conducting financial checks, with one (1) municipality not complying and two (2) municipalities not responding.

The findings indicate that KZN, EC, WC, NC, LP, and MP demonstrate a high level of compliance in ensuring that payments do not exceed the original contract amount, aligning with MFMA requirements. However, FS and NW show lower compliance levels, raising concerns about financial control measures. Additionally, the high number of non-responses in KZN and FS suggests gaps in accountability and reporting. While most municipalities have financial controls in place, those with lower compliance levels must strengthen their oversight mechanisms to prevent unauthorised expenditure and improve financial governance.

Conclusion

The 2023/2024 SCM compliance report highlights several systemic and persistent challenges impacting the effectiveness and integrity of procurement processes across municipalities in South Africa. These challenges undermine service delivery, increase financial risks, and weaken governance structures, requiring urgent intervention to ensure full compliance with MFMA and SCM regulations.

A major area of concern remains non-compliance with SCM policies. Despite the MFMA mandating that municipalities adopt and implement procurement policies that align with regulatory standards, many municipalities either failed to update or develop these policies. This issue was most prevalent in Free State (FS) and North West (NW), where several municipalities lacked SCM-compliant policies, creating transparency, competitiveness, and cost-effectiveness gaps. Additionally, incomplete reporting in KwaZulu-Natal (KZN) and Limpopo (LP) made it difficult to assess the true extent of non-compliance.

Another critical challenge was the failure to address audit findings. Municipalities are required to review their SCM processes and implement corrective actions based on audit recommendations, yet many failed to do so effectively. The North West (NW) and Free State (FS) provinces had high numbers of unresolved audit findings, leading to recurring irregular and wasteful expenditures. For the 2023/2024 financial year, only two hundred and fourteen (214) municipalities had actively reviewed their SCM processes to address audit concerns, pointing to a widespread failure to strengthen procurement oversight.

Insufficient risk management strategies further compromised procurement integrity. Despite the importance of fraud prevention, anti-corruption measures, and ethical procurement practices, only two hundred and eight (208) municipalities had reported implementing robust risk management frameworks. The Northern Cape (NC) and North West (NW) provinces were among the worst affected, as several municipalities failed to establish effective risk prevention measures, exposing public funds to fraud and irregular procurement practices.

Municipalities also struggled with capacity constraints, particularly in contract management and contractor performance monitoring. Only one hundred and twenty-three (123) municipalities reported having adequate capacity to manage contract execution, while only one hundred and seventy-nine (179) municipalities conducted monthly performance reviews to implement corrective actions. The absence of Standard Operating Procedures (SOPs) further contributed to inconsistencies in SCM implementation, with only one hundred and sixty-six (166) out of two hundred and fifty-seven (257) municipalities reporting that they had approved SOPs. These deficiencies hindered accountability and effective contract oversight.

Data gaps and inconsistent reporting remain major obstacles to effective SCM governance. Many municipalities failed to submit complete and accurate procurement data, limiting oversight and making it difficult to track compliance trends. KwaZulu-Natal (KZN) and Free State (FS) reported thirteen (13) and seven (7) blank data entries, respectively, highlighting the need for improved data management and reporting mechanisms to strengthen transparency and accountability in SCM processes.

Treasury recommendations

- **Ensure Municipal SCM Policies Are Compliant and Regularly Updated:** Provincial Treasuries must monitor and enforce the regular updating and alignment of municipal SCM policies with MFMA and regulatory standards.
- **Support Municipalities in Resolving Audit Findings:** Provincial Treasuries must assist municipalities in addressing recurring audit issues by providing guidance, technical support, and structured corrective action plans.
- **Strengthen Risk Management and Fraud Prevention Measures:** Provincial Treasuries must ensure that municipalities implement effective fraud prevention strategies and regular risk assessments to mitigate corruption and irregular procurement practices.
- **Enhance Capacity for Effective SCM Implementation:** Provincial Treasuries must support municipalities by providing training to strengthen contract management, procurement planning, and financial oversight.
- **Encourage Municipalities to Implement Standard Operating Procedures (SOPs):** Provincial Treasuries must require municipalities to develop and implement SOPs to ensure consistent and transparent SCM processes.
- **Monitor Compliance with Contract Management Requirements:** Provincial Treasuries must enforce regular assessments of municipal contract management processes to ensure effective service delivery and financial accountability.
- **Strengthen Oversight of Municipal Procurement Planning:** Provincial Treasuries must mandate that municipalities develop and submit procurement plans to align procurement activities with budgetary and service delivery priorities.

Municipal recommendations

- **Adopt and Maintain SCM Policies That Meet Compliance Standards:** Municipalities must regularly review and update their SCM policies to align with MFMA and national regulatory requirements.
- **Ensure Timely Resolution of Audit Findings:** Municipalities must develop structured plans to address audit recommendations and implement corrective actions to prevent repeat financial irregularities.
- **Implement Strong Risk Management and Anti-Corruption Measures:** Municipalities must establish and enforce risk management strategies to prevent fraud, favouritism, and irregular expenditure in procurement processes.

- **Improve Contract Management and Service Delivery Oversight:** Municipalities must allocate resources and personnel to monitor contracts and supplier performance to ensure value for money and service delivery compliance.
- **Strengthen SCM Data Collection and Reporting Processes:** Municipalities must implement standardised data tracking and reporting systems to ensure accuracy and completeness in procurement records.
- **Prevent Conflicts of Interest in Procurement Practices:** Municipalities must strictly enforce declaration policies and conduct supplier background checks to avoid awarding contracts to individuals or entities linked to public officials.
- **Develop and Implement Standard Operating Procedures (SOPs):** Municipalities must create SOPs for all SCM processes to ensure consistency, accountability, and regulatory compliance.
- **Ensure Effective Financial Controls in Payment Processes:** Municipalities must implement strict financial oversight mechanisms to prevent payments exceeding contract values and unauthorized expenditures.
- **Improve Monitoring of Supplier and Contractor Performance:** Municipalities must conduct regular performance evaluations to ensure service providers meet contractual obligations and implement corrective actions when necessary.

FMCMM

The Financial Management Capability Maturity Model (FMCMM) serves as a critical diagnostic tool for assessing the financial management capability and maturity of municipalities and municipal entities. First introduced in 2015, the FMCMM aimed to evaluate the development and effectiveness of internal controls, monitor financial management capability and identify weaknesses requiring corrective action. Municipalities were expected to implement remedial measures to enhance their policies, procedures, and processes, ultimately leading to improved audit outcomes. However, due to limited uptake and inconsistent enforcement across provinces, the tool did not achieve its full intended impact.

The National Treasury launched an automated, web-enabled FMCMM system in 2022 to strengthen municipal financial management and ensure efficient, standardised assessments. The updated platform provides a more efficient and streamlined approach to completing assessments across twenty-one (21) modules, reducing administrative burdens and improving accuracy in financial capability evaluations.

Key enhancements introduced in the web-enabled FMCMM system include:

- Automated Action Plans: The system translates assessment findings into corrective action plans, ensuring weaknesses identified are linked to structured remediation steps.
- Internal Control Accountability: The system assigns specific responsibilities to relevant section heads, ensuring that the implementation of financial controls is monitored and enforced.
- Real-Time Alerts and Accessibility: Reviewers at different levels of government receive automated alerts at various stages of the assessment process, facilitating proactive intervention and compliance monitoring.
- Integration Across Government Spheres: The platform provides access to key stakeholders across all three spheres of government, promoting collaboration and alignment in financial oversight.

To support the effective rollout of the web-enabled FMCMM, MFMA Circular 114, titled "Web-enabled Implementation of the Financial Management Capability Maturity Model (FMCMM)", was issued. This circular outlined:

- Module completion timelines within the financial year.
- Training programs for stakeholders, including provincial treasuries, municipalities, and municipal entities.
- Recorded training sessions are available upon request to ensure continuous learning and capacity building.

The adoption of the web-enabled FMCMM has positively impacted municipalities that have embraced it. Notably, provinces such as the Eastern Cape have improved audit outcomes, indicating enhanced financial controls and governance practices.

However, a significant number of municipalities continue to exhibit persistent financial management deficiencies, as highlighted in the 2022/2023 Auditor-General of South Africa (AGSA) audit findings. Key problem areas include:

- **Revenue Management:** Continued instances of lost revenue due to inadequate billing and collection systems.
- **Liability Management:** High levels of debt owed to Eskom and water boards remain unresolved.
- **Supply Chain Management:** Weaknesses in procurement processes, leading to irregular, fruitless, and wasteful expenditure.
- **Human Resources and Capacity Building:** Persistent vacancies in key financial management roles and a lack of financial management skills.
- **Information and Communications Technology (ICT):** Limited investment in ICT controls and inadequate cybersecurity measures.
- **Risk Management:** Weak risk assessment frameworks leading to financial mismanagement vulnerabilities.
- **Asset Management:** Inefficient tracking and maintenance of municipal assets, impacting service delivery.

Despite the availability of the web-enabled FMCMM system, enforcement remains inconsistent, contributing to high levels of non-compliance:

- 86% of municipalities received material non-compliance findings.
- 77% of municipalities were found to have inadequate financial controls.
- Increasing trends in fruitless and wasteful expenditure indicate persistent governance weaknesses.

Municipalities are strongly encouraged to integrate the FMCMM into their financial governance frameworks to address these ongoing challenges. The system provides a structured approach to rectifying financial control weaknesses, ensuring sustainable improvements in audit outcomes and service delivery efficiency.

Since the launch of the web-enabled FMCMM, the National Treasury has gathered constructive feedback from municipalities and other stakeholders. This feedback informs system enhancements to improve functionality, usability, and alignment with MFMA compliance objectives.

Conclusion

The FMCMM remains a critical tool in improving municipal financial management capability and ensuring compliance with the MFMA. While progress has been noted in certain provinces, the overall pace of adoption remains slow, and many of the weaknesses identified in 2015 persist.

Treasury recommendations

- **Enhance Oversight and Enforcement:** Provincial treasuries should actively monitor municipal compliance with the web-enabled FMCMM system and enforce corrective measures for persistent financial management deficiencies.
- **Provide Tailored Capacity-Building Initiatives:** Training programs should be customised to address specific municipal challenges in revenue management, financial controls, and compliance with MFMA regulations.
- **Facilitate Regular Financial Management Reviews:** Provincial treasuries should conduct periodic financial management capability assessments to track municipalities' progress and provide targeted support where weaknesses persist.
- **Strengthen Support for Revenue Management Improvements:** Provincial treasuries should assist municipalities in enhancing their billing, revenue collection, and debt recovery processes to mitigate revenue losses.
- **Monitor and Address Key Financial Risks:** Provincial treasuries should implement proactive risk management strategies to help municipalities mitigate supply chain, liability, and asset management issues.
- **Encourage Municipal FMCMM 123 Compliance:** Ensure that all municipalities and their entities complete the required FMCMM 123 evaluations.
- **Enforce Compliance and Escalate Non-Compliance:** Follow up with municipalities that are not completing assessments and escalate non-compliance to governance structures.
- **Promote Internal Audit Involvement:** Reinforce the role of internal audit in verifying the quality and accuracy of assessments.
- **Ensure Implementation of Action Plans:** Emphasize that completing FMCMM 123 is just the first step—municipalities must also implement system-generated action plans.
- **Raise Awareness in Municipal Engagements:** Consistently communicate the requirement for all municipalities to complete FMCMM 123 assessments at a minimum.
- **Encourage Progression to FMCMM 456:** Support high-performing municipalities in attempting the qualification questions for FMCMM 456 to advance their financial management maturity.

Municipal recommendations

- **Ensure Full Implementation of the Web-Enabled FMCMM System:** Municipalities should complete all twenty-one (21) modules as required, implement system-generated corrective actions, and integrate findings into financial management strategies.
- **Strengthen Internal Financial Controls:** Municipalities should establish clear accountability measures, ensure adherence to financial regulations, and implement robust financial control mechanisms to reduce material non-compliance findings.

- **Address Key Management and Skills Gaps:** Immediate action should be taken to fill critical vacancies in finance departments and ensure continuous training for financial management personnel.
- **Improve Revenue Collection and Debt Recovery Strategies:** Municipalities should implement efficient revenue collection mechanisms, actively manage outstanding debt, and develop policies to minimise financial losses.
- **Enhance Supply Chain and Expenditure Management:** Strict compliance with procurement regulations should be enforced to reduce unauthorised, irregular, fruitless, and wasteful expenditures, ensuring efficient use of public funds.
- **Develop and Implement a Comprehensive Risk Management Plan:** Municipalities should conduct regular risk assessments and establish proactive mitigation strategies to prevent financial mismanagement and fraud.
- **Prioritise Asset Management and Maintenance:** A structured asset management framework should be adopted to ensure proper municipal asset tracking, maintenance, and optimisation for sustainable service delivery.
- **Maintain Accurate System User Records:** Regularly review and update user registrations, removing individuals who are no longer required to access the system.
- **Complete Minimum Module Requirements:** Ensure all required modules are completed in line with the rollout plan.
- **Quality Assure Assessments Before Submission:** Review completed assessments for accuracy, address queries, and resubmit as necessary.
- **Monitor Assessment Completion Progress:** Track the status of module completion regularly to ensure timely compliance.
- **Communicate Changes in Assigned Champions:** Keep Provincial and National Treasury informed of any updates regarding individuals responsible for FMCMM assessments.

Audit action plans for findings raised in the 2022/2023 audit

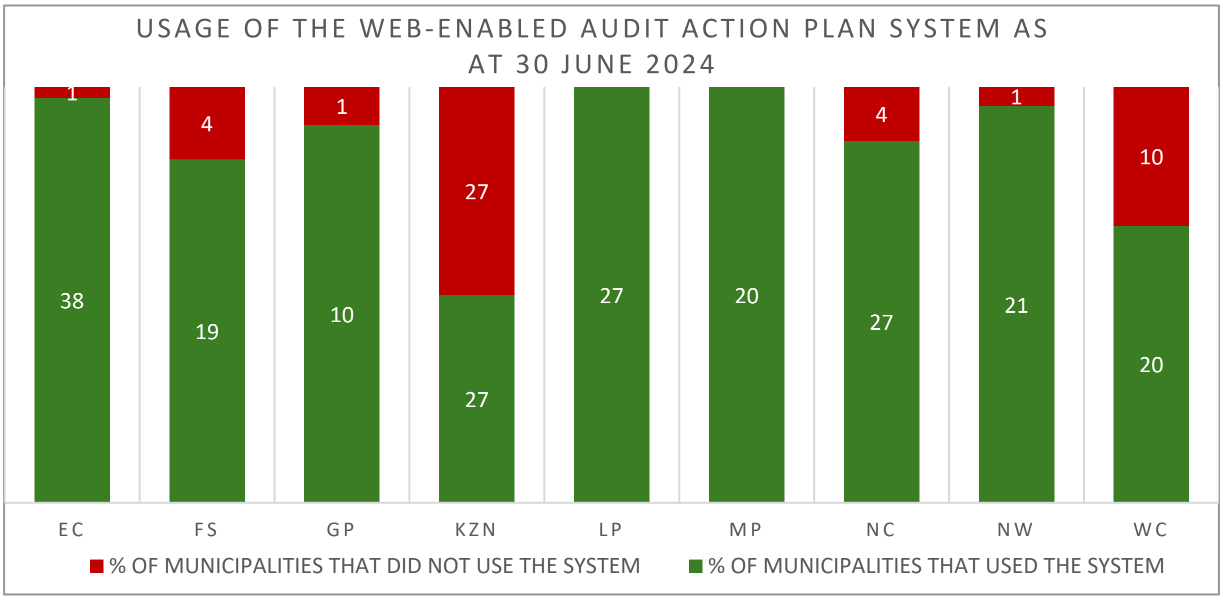
The effectiveness of an Audit Action Plan is measured through the successful implementation of timely and appropriate actions, thereby preventing a recurrence of the audit findings in subsequent audits. Ultimately, proper planning and the effective application of appropriate actions to address the root causes of findings raised by the AGSA should improve the audit outcome. However, one of the most significant trends in municipal audit outcomes reported by the AGSA is the serial recurrence of issues raised year after year in audits.

National Treasury has, therefore, developed a web-enabled audit action plan application to support municipalities in this area better. The advantages of technology have been harnessed to increase efficiency in municipal reporting and accelerate the provision of real-time assistance to municipalities across the country. Efficient reviews of audit action plans by PTs and the NT can also constitute a proactive early warning system to detect possible bottlenecks and challenges in resolving audit findings raised.

Section 131 of the MFMA requires municipalities to address issues raised by the AGSA in the annual audit report of municipalities. These remedial measures are captured in municipalities' audit action plans. National Treasury has developed the web-enabled Audit Action Plan, which tracks the progress made by municipalities in addressing external audit findings and allows for monitoring of the review of the proposed actions to address the findings, as well as the implementation of approved actions to effectively resolve those findings and prevent re-occurrence of the relevant findings.

However, as at 30 June 2024, only **two hundred and nine (209) out of the total number of two hundred and fifty-seven (257) municipalities in the country were utilising the online system**. The distribution of the uptake of the application per province is shown in the graph below:

Audit Action Plan System

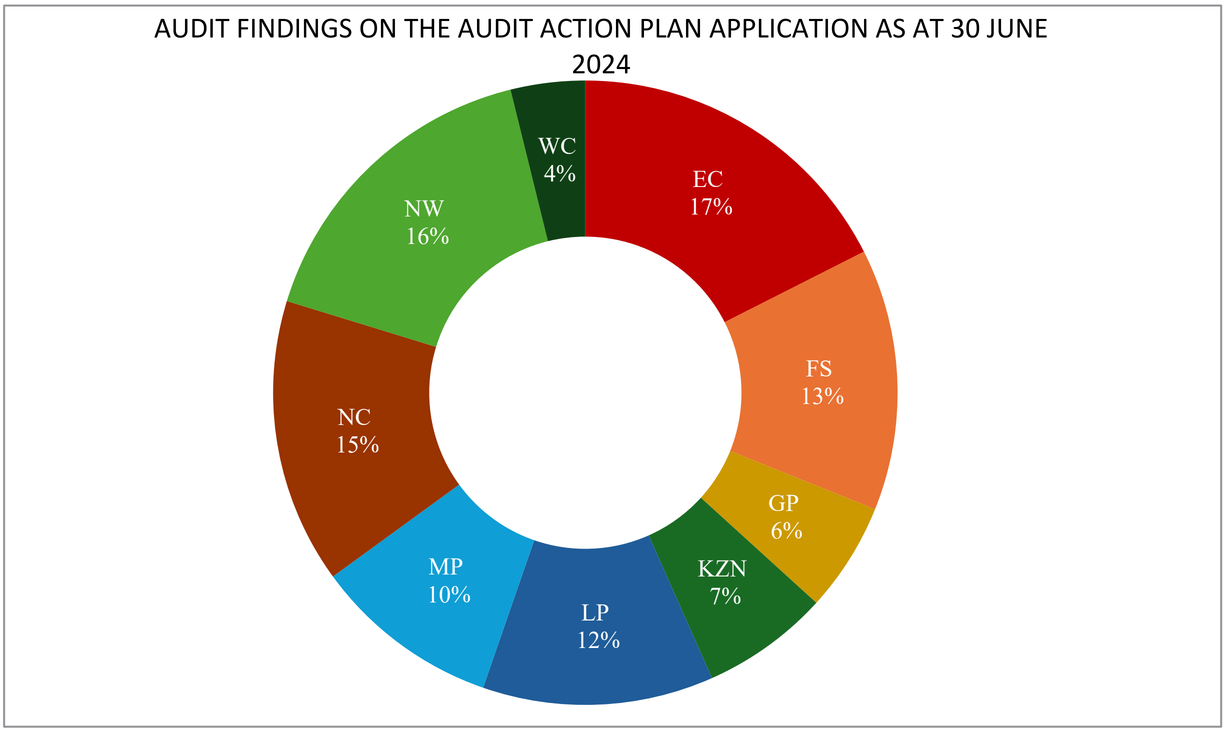


The numbers on the bars in the graph above indicate the actual number of municipalities that were /were not using the system. At the same time, the shaded areas reflect the numbers as a percentage of all municipalities in the respective provinces.

The provinces that had most embraced the system as at 30 June 2024 were Limpopo (LP) and Mpumalanga (MP), where all municipalities had engaged with the system. These provinces were followed by the Eastern Cape (EC), Gauteng (GP) and North West (NW) provinces, where only one (1) municipality had not yet captured findings on the system in each of the provinces. The province with the highest number of municipalities that did not use the system was KwaZulu Natal (KZN) province, where fifty percent (50%) - twenty-seven (27) municipalities – did not attempt to use the online audit action plan system. KwaZulu Natal is followed by the Western Cape (WC), where one-third (ten (10) municipalities) had not yet made use of the system.

As at 30 June 2024, a total of **ten thousand three hundred and forty (10 340) audit findings pertaining to the 2022/2023 audit had been uploaded on the system.** The distribution per province is indicated below:

Audit Action Plan Application

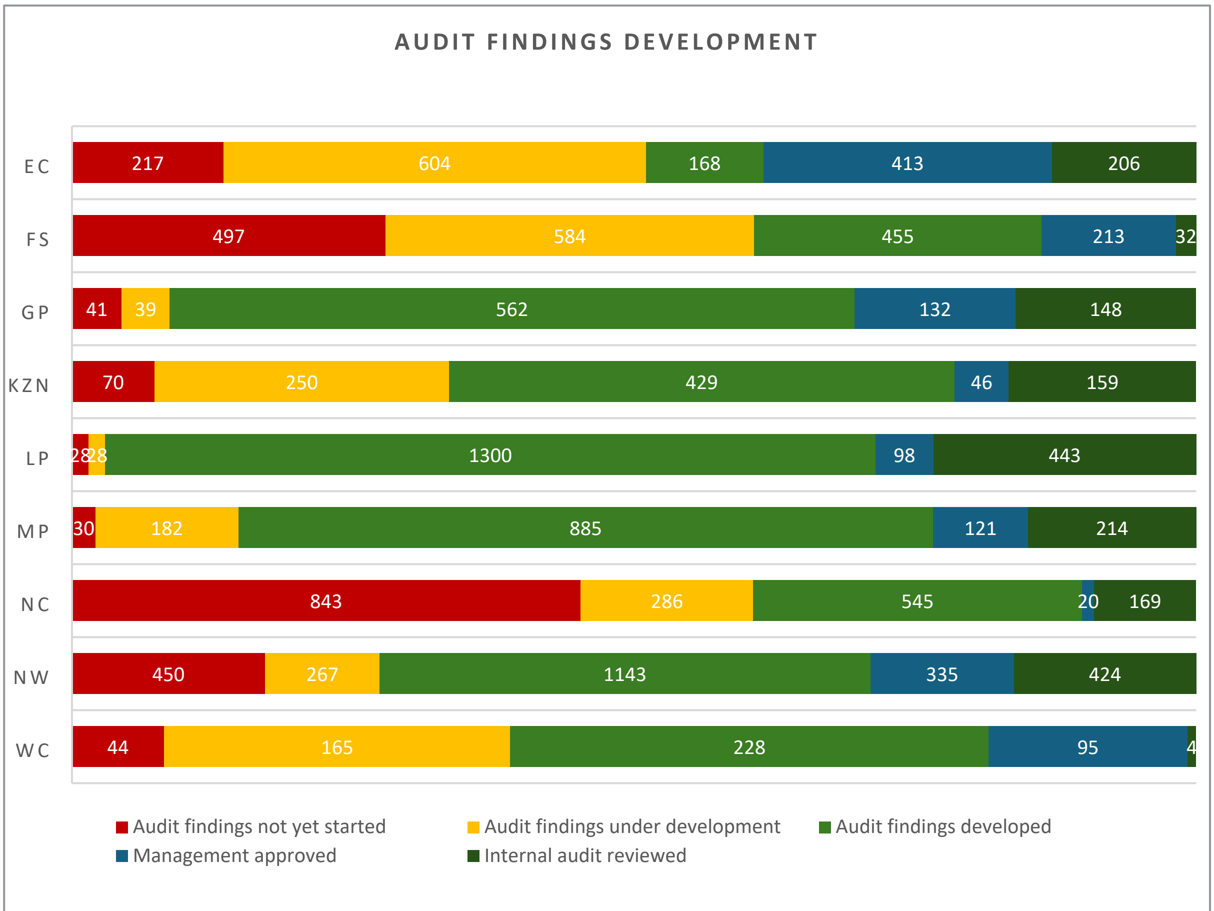


The Eastern Cape (EC) recorded the highest proportion of audit findings uploaded on the system, at seventeen percent (17%), demonstrating a strong commitment to capturing audit findings and addressing financial management concerns through the web-enabled system. The North West (NW) followed closely with sixteen percent (16%), indicating a proactive approach by municipalities in ensuring that audit findings are recorded for tracking and resolution. The Northern Cape (NC) contributed fifteen percent (15%) of the total uploads, reflecting a relatively strong level of compliance with the system's requirements. The Free State (FS) accounted for thirteen percent (13%), showing a fair level of engagement but highlighting opportunities for further improvement in audit action planning.

The Limpopo (LP) province recorded twelve percent (12%) of the uploaded audit findings, demonstrating a reasonable level of adoption of the web-enabled system. Mpumalanga (MP) accounted for ten percent (10%), suggesting moderate use of the system by municipalities, with room for increased participation. The KwaZulu-Natal (KZN) province uploaded seven percent (7%) of the total findings, indicating lower levels of engagement compared to other provinces, which may suggest gaps in audit action planning and follow-up. Gauteng (GP), despite being a major economic province, Gauteng (GP) recorded six percent (6%) of the total uploads, highlighting the need for enhanced efforts to ensure municipalities fully utilise the system. The Western Cape (WC) had the lowest proportion of audit findings uploaded at four percent (4%), suggesting either fewer findings were recorded or a lower level of system engagement by municipalities in the province.

The data suggests that provinces such as EC, NW, and NC are leading in the use of the Audit Action Plan system, demonstrating a higher level of commitment to transparency and audit resolution processes. Meanwhile, provinces like GP and WC have lower percentages of findings uploaded, indicating underutilisation of the system. The overall results emphasize the need for targeted support and system adoption initiatives in KZN, GP, and WC to ensure that all municipalities fully engage with the web-enabled audit action plan system for improved financial management and MFMA compliance.

Detailed below is the status per province of these findings in terms of the further development of the action plans to address the findings raised by the AGSA and the implementation of the developed action plans:



The above statistics were taken from the Audit Action Plan system as at 30 June 2024. The Eastern Cape (EC) province recorded two hundred and seventeen (217) audit findings that have not yet been started, with six hundred and four (604) still under development. However, one hundred and sixty-eight (168) findings have been developed, four hundred and thirteen (413) have been internally reviewed, and two hundred and six (206) have been approved by management. The Free State (FS) had a high number of unresolved audit findings, with four hundred and ninety-seven (497) not yet started and five hundred and eighty-four (584) still under development. The province reported four hundred and fifty-five (455) developed findings, two hundred and thirteen (213) internally reviewed, and thirty-two (32) approved by management.

The Gauteng (GP) province showed a more advanced stage of audit resolution, with only forty-one (41) findings not started, thirty-nine (39) under development, five hundred and sixty-two (562) developed, one hundred and thirty-two (132) internally reviewed, and one hundred and forty-eight (148) approved. KwaZulu-Natal (KZN) had seventy (70) findings not started, two hundred and fifty (250) under development, four hundred and twenty-nine (429) developed, forty-six (46) internally reviewed, and one hundred and fifty-nine (159) approved.

The Limpopo (LP) province demonstrated strong progress in resolving audit findings, with only twenty-eight (28) not started and one thousand three hundred (1,300) already developed, making it the highest in this category. The province also recorded ninety-eight (98) internally reviewed findings and four hundred and forty-three (443) approved. Mpumalanga (MP) followed a similar trend, with only thirty (30) not started, one hundred and eighty-two (182) under development, eight hundred and eighty-five (885) developed, one hundred and twenty-one (121) internally reviewed, and two hundred and fourteen (214) approved.

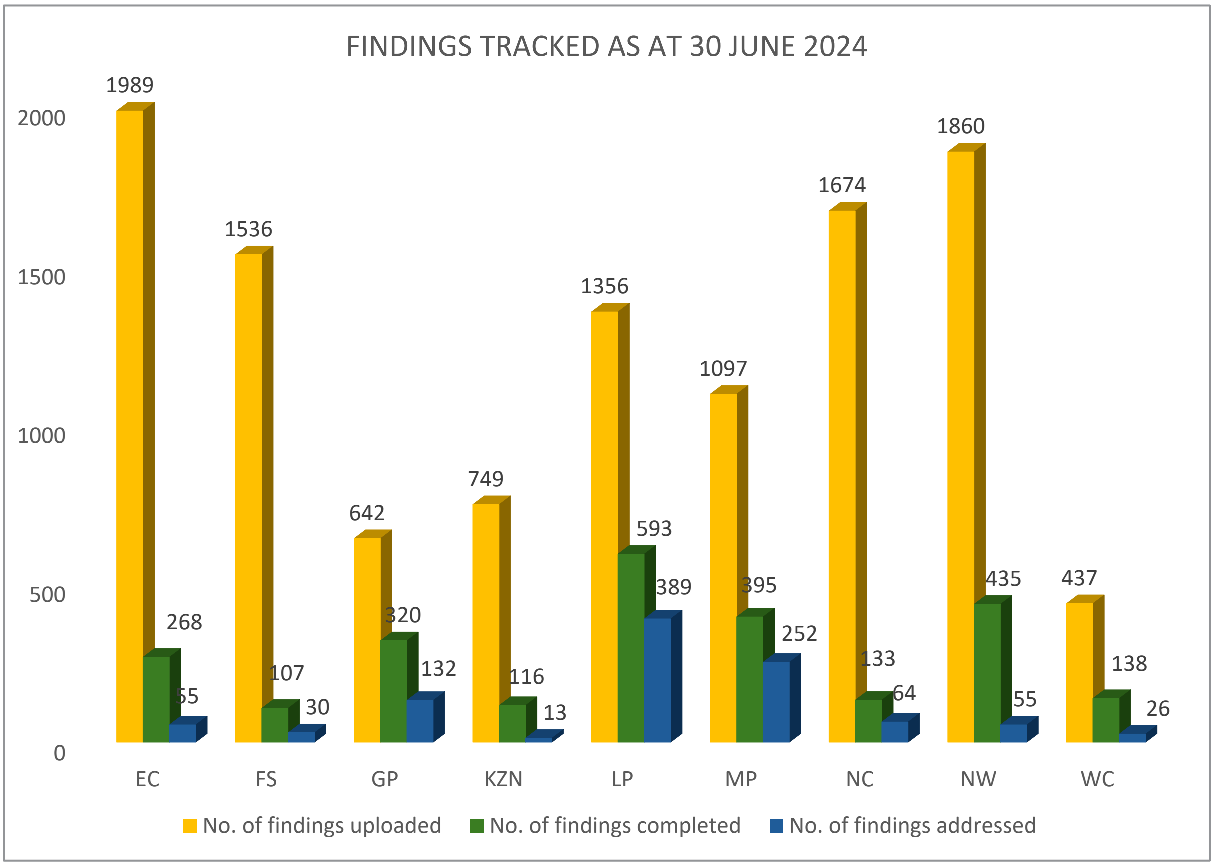
The Northern Cape (NC) province showed significant delays, with eight hundred and forty-three (843) findings not started, two hundred and eighty-six (286) under development, five hundred and forty-five (545) developed, twenty (20) internally reviewed, and one hundred and sixty-nine (169) approved. The North West (NW) province had four hundred and fifty (450) audit findings not started, two hundred and sixty-seven (267) under development, one thousand one hundred and forty-three (1,143) developed, three hundred and thirty-five (335) internally reviewed, and four hundred and twenty-four (424) approved. The Western Cape (WC) had forty-four (44) not started, one hundred and sixty-five (165) under development, two hundred and twenty-eight (228) developed, ninety-five (95) internally reviewed, and four (4) approved.

The data highlights significant disparities in audit resolution progress across provinces. LP, GP, and MP are leading in developing and resolving audit findings, indicating strong compliance with the usage of the web-enabled Audit Action Plan system. Conversely, NC, NW, and FS exhibit substantial backlogs, with high numbers of findings not yet started, suggesting potential weaknesses in financial oversight and audit action plan implementation. The KZN, EC, and WC provinces demonstrate moderate progress but require further improvements to enhance their audit resolution processes. The overall results indicate that targeted interventions are necessary in NC, NW, and FS to ensure municipalities fully engage with the audit action plan system and improve compliance with the MFMA.

Transversal challenges identified are the approval of developed action plans by management and the review of the developed action plans by internal audit units at the municipalities: EC reflected the highest number of action plans that had been approved by management and LP province the highest number of developed action plans reviewed by internal audit. Internal audit activity in the WC and FS provinces were low.

The under-utilisation of the system is reflected in the total number of findings indicated as addressed on the system, amounting to one thousand and sixteen (1 016) findings, as compared to the number of findings uploaded on the system (ten thousand three hundred and forty (10 340)) as at 30 June 2024. This is indicated in the graph below:

Findings



The province with the highest number of findings indicated as addressed was Limpopo (LP) province, followed by Mpumalanga (MP) province; however, the number of findings addressed was still low compared to the number of audit findings raised and uploaded onto the system.

In the Eastern Cape (EC), the implementation of only 50% of developed audit action plans was being tracked on the system as at 30 June 2024, with two hundred and sixty-eight (268) of the audit action plans indicated as having been completed and fifty-five (55) the findings were indicated as having been addressed.

In the Free State (FS), Implementation of 757 audit action plans have not yet commenced/were not tracked on the system.

All Gauteng (GP) municipalities, except West Rand Municipality, had captured findings on the system by 30 June 2024. Eighty-eight percent (88 %) of the findings had received attention in the development stage, but only one hundred and thirty-two (132) audit action plans had been approved by management, and one hundred and forty-eight (148) were reviewed by internal audit. The implementation of eighteen percent (18%) of the approved audit action plans had not yet started.

Kwazulu Natal (KZN) province reflected poor progress in uploading findings and developing and implementing action plans to address the findings by the AGSA. The municipalities in the province lagged significantly behind in terms of usage of the system and review of action plans by municipal officials.

In Limpopo (LP), all twenty-seven (27) municipalities in the province and one entity, namely Polokwane Housing Association, are currently using the online audit action plan system.

In Mpumalanga (MP), as at 30 June 2024, all twenty (20) municipalities in the province were using the system. However, it was noted that the implementation of only 34% of audit action plans was being tracked on the system.

In the Northern Cape (NC), municipalities that have not engaged with the system as of 30 June 2024 were Hantam Local Municipality, Kareeberg Local Municipality, Tsantsabane Local Municipality and Ubuntu Local Municipality.

In the North West, the web-enabled system appeared to have been embraced: as at 30 June 2024, one thousand eight hundred and sixty (1 860) audit findings had been uploaded on the system. However, of concern was that the implementation of five hundred and ninety-four (594) findings raised by the AGSA has not yet started as at 30 June 2024.

For the financial year ended 30 June 2024, the audit action plan web-enabled tool uptake in the Western Cape has been slow. As at 30 June 2024, only four hundred and thirty-seven (437) audit findings had been captured on the system. Although all audit actions had been indicated as approved by the Council, only the following approvals were recorded on the system: ninety-five (95) audit actions had been approved by management, and internal audit had only reviewed four (4) action plans that had been developed.

Major challenges identified relating to the effectiveness of audit action plans include:

- Failure to use the online application as prescribed by the National Treasury.
- Possible use of parallel audit action plans in the old Excel format or other systems used in the past.

Conclusion

The findings tracked as at 30 June 2024 indicate significant disparities in the extent to which provinces are utilising the web-enabled Audit Action Plan System. LP, MP, and GP have demonstrated commendable progress in developing and implementing audit action plans, with LP showing the highest number of reviewed action plans and MP tracking implementation effectively. Conversely, the NC, NW, FS, and KZN exhibit substantial backlogs in finalising audit action plans, indicating weaknesses in governance and audit resolution processes. EC, WC, and FS have recorded relatively moderate progress but still require targeted intervention to improve their audit resolution efforts.

The data further highlights critical challenges in audit action plan implementation, including low levels of management approval, inadequate internal audit review, and slow progress in addressing findings raised by AGSA. The underutilisation of the system is evident in the total number of findings uploaded compared to the low number of findings addressed. This suggests that municipalities may still be relying on outdated systems such as Excel spreadsheets or other internal mechanisms instead of using the web-enabled Audit Action Plan System as prescribed by the National Treasury (NT). The FS and NC reflect the highest number of unresolved findings, requiring urgent intervention.

To strengthen compliance with the Municipal Finance Management Act (MFMA), provincial treasuries and municipalities must take decisive action to improve the utilisation of the audit action plan system. While LP and MP lead in system adoption, FS, NC, KZN, and NW require significant improvements in capturing, reviewing, and finalising their audit action plans. Targeted interventions such as capacity-building programs, strict enforcement of compliance measures, and technical support from PTs and NT are necessary to ensure that all municipalities effectively address their audit findings, thereby preventing a recurrence of issues raised in subsequent audit cycles.

Treasuries recommendations

- **Enforce the mandatory use of the web-enabled Audit Action Plan system:** PTs must issue formal directives to municipalities emphasizing compliance with the system and discontinuing parallel systems such as Excel spreadsheets.
- **Conduct provincial training and capacity-building workshops:** PTs should provide hands-on training to municipal officials on developing, reviewing, and tracking audit action plans effectively within the system.
- **Implement regular audit action plan reviews:** PTs should conduct two-monthly assessments of the quality and completeness of audit action plans uploaded by municipalities and provide feedback.
- **Introduce a monitoring and reporting framework:** PTs must develop a structured monitoring system to track municipal progress in addressing AGSA findings.
- **Provide direct technical support and system assistance:** Dedicated audit action plan support teams should be assigned to municipalities facing implementation challenges.
- **Enhance accountability measures for non-compliant municipalities:** PTs should escalate non-compliance to councils and municipal public accounts committees (MPACs) to enforce corrective action.
- **Ensure internal audit and management review compliance:** PTs must actively monitor whether internal audit units and municipal management are reviewing and approving developed action plans.
- **Align audit action plan implementation with financial recovery plans:** Municipalities in financial distress should be required to integrate audit action planning into their broader financial turnaround strategies.

Municipal recommendations

- **Prioritise the full adoption of the web-enabled Audit Action Plan system:** Municipalities must phase out outdated reporting methods and ensure that all audit findings are uploaded and tracked within the system.

- **Ensure timeous development of action plans for all findings:** Municipal officials must take immediate action to capture and develop responses to AGSA findings to prevent delays in implementation.
- **Increase internal audit unit involvement in reviewing action plans:** Internal audit units should actively verify the completeness and adequacy of action plans before submission for management approval.
- **Strengthen municipal leadership oversight:** Municipal councils and MPACs should regularly review the progress of audit action plans and hold accounting officers accountable for implementation.
- **Enforce strict deadlines for audit action plan approvals:** Accounting Officers must ensure that all developed action plans are reviewed and approved within a set timeframe to facilitate timely execution.
- **Enhance interdepartmental collaboration on audit findings:** All municipal departments must work collectively to address financial and non-financial findings to improve audit outcomes.
- **Increase tracking and updating of action plans on the system:** Municipalities should regularly update the status of audit findings on the web-enabled system to reflect real-time progress.
- **Implement corrective measures for recurring findings:** Municipalities must analyse the root causes of recurring AGSA findings and implement sustainable solutions to prevent future occurrences.
- **Improve consequence management for non-compliance:** Disciplinary action should be taken against officials who fail to resolve audit findings.
- **Leverage external technical support where needed:** Municipalities struggling with implementation should seek assistance from PTs, NT, and external audit specialists to improve their processes.

Internal audit and audit committee reviews

The feedback received from the completed evaluations on the Muni eMonitor system reflects that the value that audit committees and internal audit units can provide to improve financial discipline, processes, and financial and performance reporting was not realised in the year that ended 2023/2024. The AGSA has urged municipalities to strengthen audit committees (AC), internal audit units, municipal public accounts committees and disciplinary boards, as the audit outcomes were an indication that the work of these governance structures did not have much impact because management did not implement the recommendations of internal audit: at 48% of municipalities internal audit was having little to no impact on financial and performance management and compliance with legislation.

In terms of section 216(1)(c) of the Constitution of the Republic of South Africa, (Act 108 of 1996), national legislation must prescribe measures to ensure both transparency and expenditure control in all spheres of government by introducing uniform treasury norms and standards. Section 165 of the MFMA requires each municipality and municipal entity to have an internal audit unit. Internal audit advises the accounting officer and reports to the audit committee on the implementation of the internal audit plan and matters relating to Internal audit; Internal controls; Accounting procedures and practices; Risk and risk management; Performance management; Loss control; Compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation; and perform any such other duties as may be assigned to it by the accounting officer.

The MFMA further makes provisions for establishing internal audit activity to assist the Accounting Officer and the AC in effectively discharging their responsibilities. As such, the internal audit function plays a critical role in supporting the accountability ecosystem for local government as it provides an independent view of the effectiveness of municipal controls and processes. MFMA Circular No. 65 provides guidance for the establishment of Internal Audit Units within municipalities as prescribed in Chapter 14 of the MFMA.

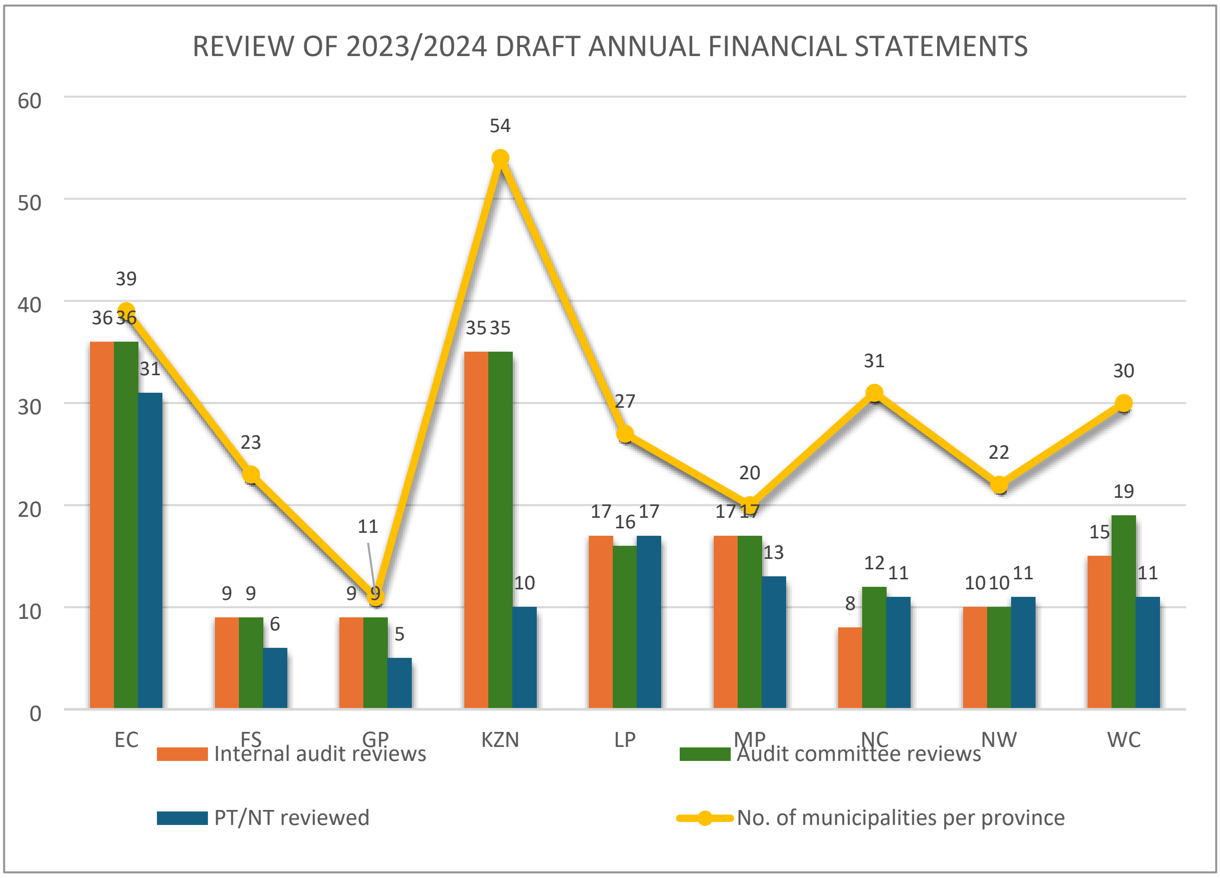
Internal audit

Internal audit units have an important role to play in the audit governance function and ensure compliance with the relevant GRAP standards throughout the audit cycle. This is achieved by reviewing support for the resolution of matters as per the audit action plans and reviewing the draft financial statements against relevant accounting standards and the prepared audit file. Within the municipality's combined assurance and in accordance with its approved charter and internal audit plan, the internal audit function provides the audit committee and management with independent, risk-based, and objective assurance, advice, insight and foresight.

Review of the 2023/2024 draft annual financial statements

The graph below depicts the disclosure by municipalities of the extent to which internal audit, audit committee and provincial treasury / National Treasury reviews were undertaken of the 2023/2024 draft annual financial statements prior to submission to the AGSA.

Internal Audit, Audit Committee and PT review of draft AFS for 2023/24 FY



The above information was extracted from the information submitted by municipalities on the Muni eMonitor system. Only one hundred and seventy-eight (178) out of the total of two hundred and fifty-seven (257) municipalities responded to the questions pertaining to whether the draft annual financial statements were submitted to internal audit, the audit committee and provincial or National Treasury for review before submission to the Auditor General of South Africa. **One hundred and fifty- six (156) municipalities reported that their internal audit units reviewed the draft AFS's, whilst one hundred and sixty-three (163) audit committees reviewed the AFS's** prior to submission to the AGSA for audit.

The graph shows that most provinces did not maximise the quality value added by internal audits and audit committees reviewing the draft annual financial statements. The chart provides a comprehensive view of the 2023/2024 draft annual financial statements across the provinces, focusing on internal audit reviews, audit committee reviews, PT/NT reviews, and the number of municipalities per province. In the Eastern Cape (EC) province, there were thirty-six (36) internal audit reviews, thirty-six (36) audit committee reviews, and thirty-one (31) PT/NT reviews, with a total of thirty-nine (39) municipalities. The Free State (FS) recorded significantly lower figures, with nine (9) internal audit reviews, nine (9) audit committee reviews, and six (6) PT/NT reviews out of twenty-three (23) municipalities.

The Gauteng (GP) province had nine (9) internal audit reviews, nine (9) audit committee reviews, and five (5) PT/NT reviews, indicating limited oversight activities compared to its eleven (11) municipalities. KwaZulu-Natal (KZN) demonstrated the highest figures with thirty-five (35) internal audit reviews, thirty-five (35) audit committee reviews, and ten (10) PT/NT reviews, covering fifty-four (54) municipalities. Limpopo (LP) recorded seventeen (17) internal audit reviews, sixteen (16) audit committee reviews, and seventeen (17) PT/NT reviews, covering twenty-seven (27) municipalities. Mpumalanga (MP) had seventeen (17) internal audit reviews, seventeen (17) audit committee reviews, and thirteen (13) PT/NT reviews across twenty (20) municipalities.

The Northern Cape (NC) reflected moderate oversight, with eight (8) internal audit reviews, twelve (12) audit committee reviews, and eleven (11) PT/NT reviews among thirty-one (31) municipalities. North West (NW) presented an even lower engagement, recording ten (10) internal audit reviews, ten (10) audit committee reviews, and eleven (11) PT/NT reviews, covering twenty-two (22) municipalities. Western Cape (WC) had fifteen (15) internal audit reviews, nineteen (19) audit committee reviews, and eleven (11) PT/NT reviews, with a total of thirty (30) municipalities.

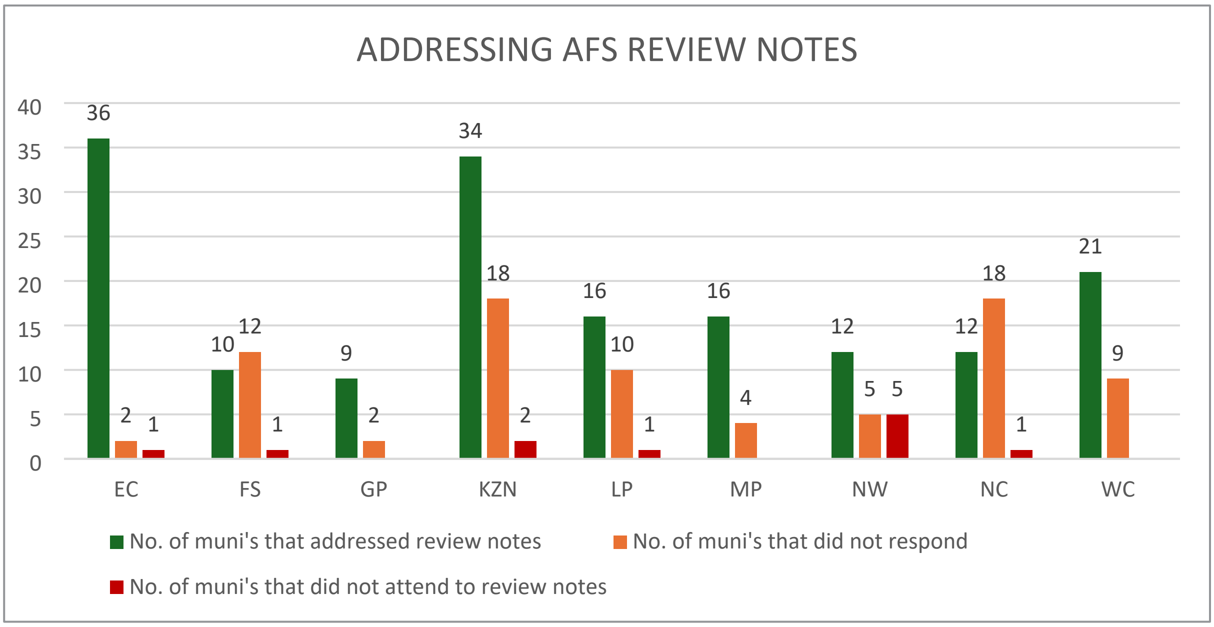
The data highlights significant discrepancies in audit oversight across provinces. KZN exhibited the highest audit review numbers, aligning with its high municipal count, whereas FS and GP showed relatively weak oversight. MP, LP, and WC demonstrated moderate engagement, while NC and NW lagged in certain areas. Strengthening financial oversight mechanisms, particularly in FS, GP, and NW, will be critical in ensuring improved financial accountability and compliance with the MFMA.

The following municipalities reported that the AFS was submitted to the AGSA without having been reviewed by the internal audit, the audit committee or by PT/NT:

- KwaZulu Natal uThukela DM,
- Northern Cape Emthanjeni LM, Kareeberg LM, Tsantsabane LM,
- Western Cape Stellenbosch LM
- Eastern Cape Kou-Kamma LM and
- North West JB Marks LM

The graph below depicts the responses provided by municipalities as to whether or not the review notes raised by internal audit, audit committee and provincial/National Treasury were attended to:

AFS Review Notes



A total of **one hundred and sixty- six (166) municipalities addressed the review notes** for their AFS's, whilst eleven (11) municipalities did not attend to the review notes. The remaining eighty (80) municipalities did not respond to the evaluation. The chart provides an analysis of how municipalities in each province addressed the review notes for their annual financial statements. The Eastern Cape (EC) province had the highest level of compliance, with thirty-six (36) municipalities addressing the review notes, while two (2) municipalities did not respond, and one (1) did not attend to the review notes. Free State (FS) showed a concerning trend, where ten (10) municipalities addressed the review notes, but twelve (12) did not respond, and one (1) failed to attend to the review notes. Gauteng (GP) had nine (9) municipalities that addressed the review notes, while two (2) did not respond. KwaZulu-Natal (KZN) performed relatively well, with thirty-four (34) municipalities addressing the review notes, but eighteen (18) did not respond, and two (2) failed to attend.

Limpopo (LP) recorded sixteen (16) municipalities that addressed the review notes, while ten (10) did not respond, and one (1) failed to attend. Mpumalanga (MP) had sixteen (16) municipalities that addressed the review notes, while four (4) did not respond. North West (NW) presented a significant concern, with twelve (12) municipalities addressing the review notes, while five (5) did not respond, and another five (5) failed to attend. Northern Cape (NC) had twelve (12) municipalities that addressed the review notes, but eighteen (18) did not respond, and one (1) failed to attend to the review notes. Western Cape (WC) had twenty-one (21) municipalities addressing the review notes, while nine (9) did not respond.

The data highlights varying levels of compliance across provinces. EC and KZN had the highest number of municipalities addressing review notes, demonstrating strong financial governance. However, FS, NW, and NC showed a high number of municipalities not responding or failing to attend to the review notes, which raises concerns about accountability and compliance with the MFMA. Efforts should be made to strengthen financial oversight and accountability in FS, NW, and NC while maintaining high levels of compliance in EC, KZN, and WC.

Reasons provided by the ten (10) municipalities for failure to address findings raised by internal audit, audit committee and provincial treasury/National Treasury included:

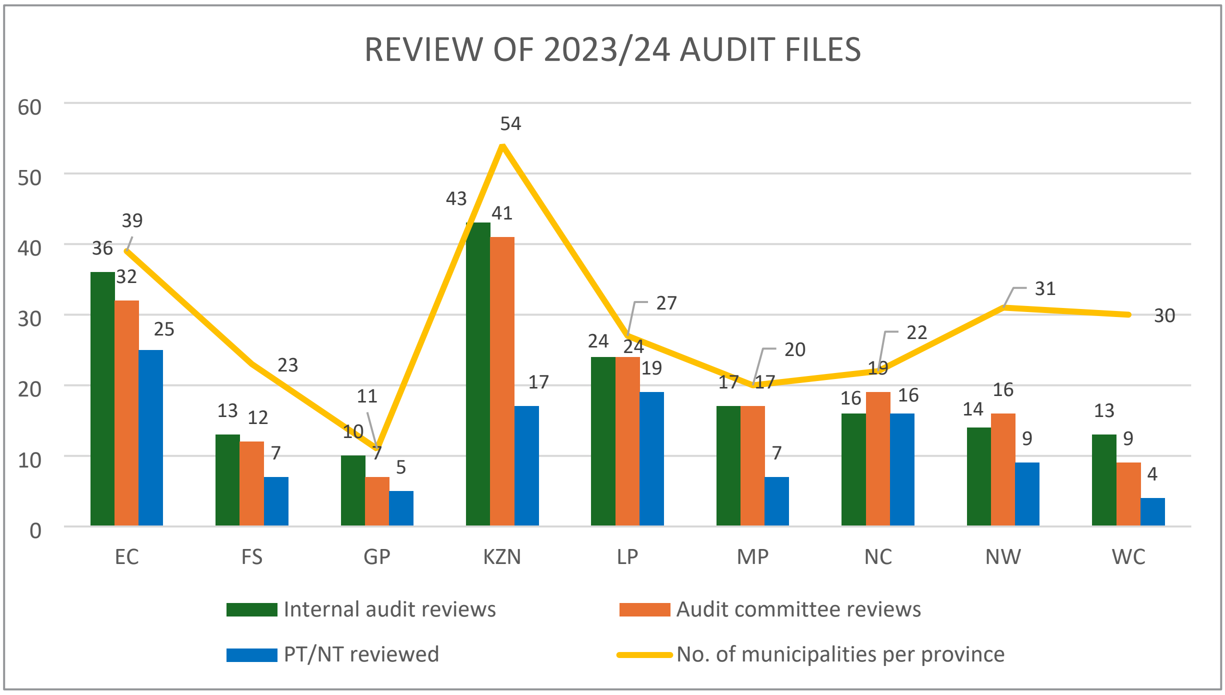
- The pre-audited AFS were not sent to provincial treasury for review.
- The pre-audited AFS were only finalised few minutes before the submission deadline.
- No draft AFS were prepared.
- The AFS are not yet ready for review and submission.
- A quality set of draft AFS could not be provided to internal audit, provincial treasury or the audit committee prior to submission to the AG. No review could therefore be made and thus no review notes could be issued.
- Because the audit file and AFS were not sent for review, there was no review notes to be taken into consideration.
- Due to time constraints, management could not attend to all review notes.
- There was no time for review.

Review of the 2023/2024 audit files

Thorough preparation of audit files containing supporting schedules, registers, ledgers and reconciliations in support of all amounts and disclosures in the annual financial statements assists municipalities and the Auditor General of South Africa in verifying the accuracy and completeness of amounts disclosed when they are referenced to line items and amounts in draft financial statements. Having a reviewed file and contents also facilitates the smooth flow of the annual audit.

The graph below depicts the disclosure by municipalities as to the extent to which internal audit, audit committee and provincial treasury / National Treasury reviews were undertaken of the supporting audit files for the 2023/2024 draft annual financial statements prior to submission of the files to the AGSA.

Internal Audit, Audit Committee and PT review of audit files for 2023/24



The above statistics were collated from the information submitted by municipalities on the Muni eMonitor system. One hundred and thirty-five (135) out of the total of two hundred and fifty-seven (257) municipalities responded to the questions pertaining to whether the audit files were submitted to internal audit, the audit committee and provincial or National Treasury for review before submission to the Auditor General of South Africa.

One hundred and eighty- six (186) municipalities reported that their internal audit units reviewed the audit files, whilst one hundred and seventy- seven (177) audit committees reviewed the audit files prior to submission to the AGSA for audit. The graph shows once again that most provinces are not maximising the quality value add that internal audit and audit committees bring regarding the review of the audit files. The chart provides an analysis of the status of the 2022/2023 audit files review across all provinces, focusing on internal audit reviews, audit committee reviews, and PT/NT reviews in relation to the number of municipalities per province. The Eastern Cape (EC) province demonstrated a strong review process, with thirty-six (36) internal audit reviews, thirty-two (32) audit committee reviews, and twenty-five (25) PT/NT reviews, covering thirty-nine (39) municipalities. The Free State (FS), however, showed limited engagement, with thirteen (13) internal audit reviews, twelve (12) audit committee reviews, and only seven (7) PT/NT reviews out of twenty-three (23) municipalities. Gauteng (GP) showed some engagement with ten (10) internal audit reviews, seven (7) audit committee reviews with only five (5) PT/NT reviews covering eleven (11) municipalities.

The KwaZulu-Natal (KZN) displayed the highest level of audit oversight, with forty-three (43) internal audit reviews, forty–one (41) audit committee reviews, and seventeen (17) PT/NT reviews across fifty-four (54) municipalities. Limpopo (LP) had both twenty-four (24) internal audit reviews and audit committee reviews, and nineteen (19) PT/NT reviews out of twenty-seven (27) municipalities. Mpumalanga (MP) reported seventeen (17) internal audit reviews, seventeen (17) audit committee reviews, and seven (7) PT/NT reviews, demonstrating a relatively higher compliance level among twenty (20) municipalities. Northern Cape (NC) recorded sixteen (16) internal audit reviews, nineteen

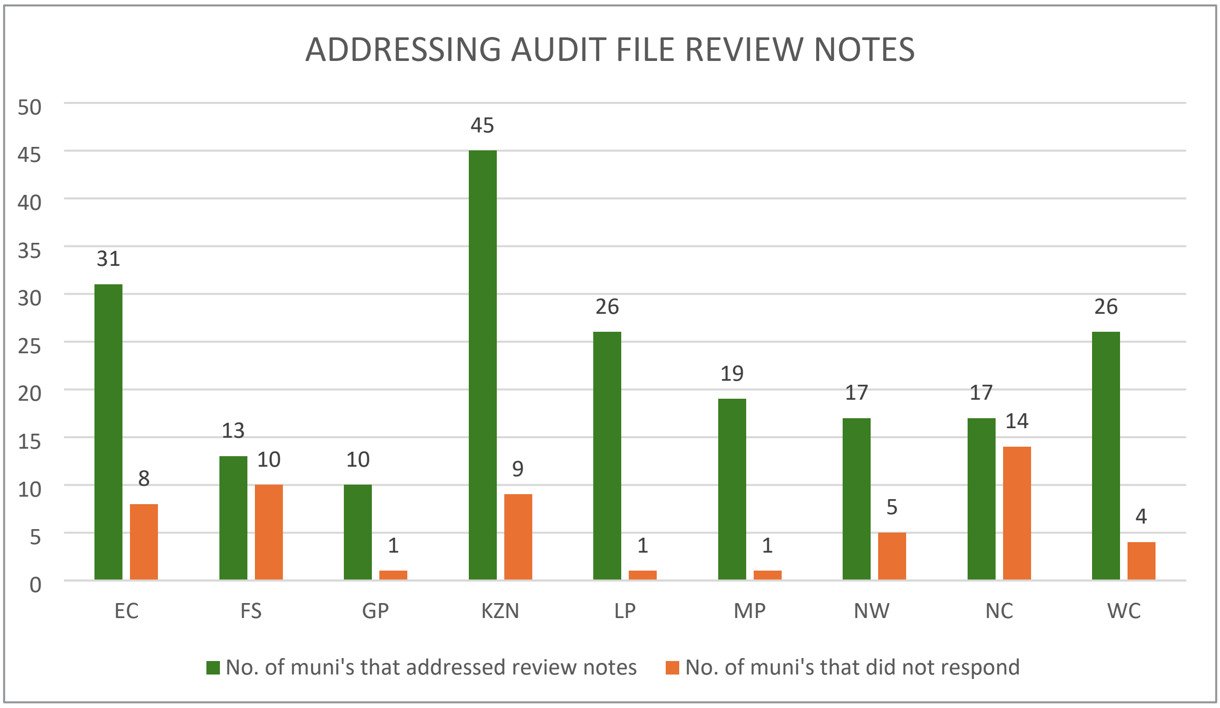
(19) audit committee reviews, and sixteen (16) PT/NT reviews across thirty-one (31) municipalities, showing weaker oversight levels.

North West (NW) exhibited a similarly low engagement, with fourteen (14) internal audit reviews, sixteen (16) audit committee reviews, and nine (9) PT/NT reviews, covering twenty-two (22) municipalities. Western Cape (WC) showed moderate audit oversight, with thirteen (13) internal audit reviews, nine (9) audit committee reviews, and four (4) PT/NT reviews across thirty (30) municipalities.

The data highlights disparities in financial oversight across provinces. KZN, EC, and MP exhibited strong compliance in their audit review processes, whereas FS, GP, NC, and NW demonstrated relatively lower engagement, indicating gaps in financial governance and accountability. LP and WC showed moderate compliance, but improvements are needed to enhance financial oversight. Strengthening internal controls, particularly in FS, GP, NC, and NW, is necessary to ensure full compliance with the MFMA. Maintaining the high levels of engagement observed in KZN, EC, and MP will be essential to sustaining good financial governance.

The table below shows the number of municipalities per province that reported that their audit file(s) were submitted to the AGSA without having been reviewed by the internal audit, the audit committee or by PT/NT:

Audit file Review Notes



A total of **two hundred and four (204) municipalities addressed the review notes** for their audit file. The remaining fifty- three (53) municipalities did not respond to the evaluation. The chart provides an analysis of the extent to which municipalities in each province addressed audit file review notes, highlighting those that responded and those that did not. The Eastern Cape (EC) provinces demonstrated strong compliance, with thirty-one (31) municipalities addressing review notes, while eight (8) municipalities failed to respond. Free State (FS) recorded thirteen (13) municipalities that addressed review notes, but ten (10) did not respond, indicating a significant gap in accountability.

Gauteng (GP) had ten (10) municipalities addressing review notes, with only one (1) municipality failing to respond, demonstrating strong compliance. KwaZulu-Natal (KZN) had the highest number of municipalities addressing review notes, with forty-five (45) municipalities responding, but nine (9) municipalities still did not provide feedback, highlighting an area for improvement.

Limpopo (LP) recorded twenty-six (26) municipalities that addressed review notes, with only one (1) municipality failing to respond, reflecting strong adherence to financial oversight. Mpumalanga (MP) had nineteen (19) municipalities addressing review notes, while one (1) municipality did not respond, demonstrating a high level of compliance. North West (NW) had seventeen (17) municipalities addressing review notes, but five (5) municipalities did not respond, pointing to some level of non-compliance. Northern Cape (NC) showed a concerning trend, with seventeen (17) municipalities addressing review notes but fourteen (14) municipalities failing to respond, reflecting a lack of engagement. Western Cape (WC) had twenty-six (26) municipalities addressing review notes, while four (4) municipalities did not respond, indicating a generally high level of compliance.

The data highlights that KZN, EC, LP, MP, and WC had the highest number of municipalities addressing audit review notes, indicating strong financial governance. GP also performed well, with only one municipality failing to respond. However, NW, FS, and NC exhibited significant levels of non-responsiveness, suggesting weaker financial oversight. Strengthening accountability measures in NW, FS, and NC is necessary to ensure full compliance with the MFMA. Meanwhile, the high levels of engagement observed in KZN, EC, LP, and WC should be maintained as best practices for municipal financial management.

Reasons provided for failure to address findings raised by the internal audit, audit committee and provincial treasury/National Treasury included:

- Provincial treasury and/or National Treasury did not review the audit file.
- Delays by municipal officials in submitting information.
- Because the audit file and AFS were not sent for review, there were no review notes to be taken into consideration.
- Due to time constraints, management could not attend to all review notes.
- The file was submitted on 30 Aug 2024, and there was no time left to review.

The reasons provided for the failure to review the audit files and draft annual financial statements and failure to attend to review queries raised signify a lack of adequate planning with regards to the AFS process plan, the setting of unrealistic deadlines, as well as failure to strictly monitor and adhere to the agreed and approved timeframes of the AFS process plan.

Conclusion

The analysis of the 2023/2024 internal audit and audit committee reviews of draft financial statements and audit files reveals significant inconsistencies across the provinces in terms of governance structures and financial oversight. KZN, EC, LP, MP, and WC exhibited strong compliance, with a high number of municipalities submitting their financial statements and audit files for review. However, FS, GP, NC, and NW demonstrated weaker audit engagement, with a significant number of municipalities failing to submit their documents for review. The lack of internal audit and audit committee reviews in these provinces suggests weaknesses in financial governance, non-compliance with the MFMA, and a lack of accountability. The failure of municipalities to implement audit recommendations further exacerbates the situation, limiting the impact of these governance structures.

Municipalities in FS, NC, and NW showed the highest levels of non-responsiveness in addressing audit file review notes, indicating poor financial discipline and weak internal control mechanisms. The primary reasons for non-compliance include time constraints, delays in finalizing annual financial statements, and inadequate planning. The failure to review audit files and AFS before submission to the AGSA demonstrates a critical need for municipalities to improve their AFS process planning and ensure timely internal reviews before submission deadlines. Strengthening accountability measures and ensuring that audit committees and internal audit units are given the necessary authority to drive compliance is key to improving financial oversight.

The FS, NC, NW, and GP provinces must take urgent corrective actions to improve their audit compliance frameworks and enhance financial governance. The KZN, EC, LP, and WC provinces should maintain their high levels of audit compliance while working on further improvements to ensure complete financial discipline.

Treasuries recommendations

- **Strengthen internal audit and audit committee functionality:** Provincial Treasuries must ensure that all municipalities establish and capacitate internal audit units and audit committees as per MFMA requirements.
- **Improve financial oversight and monitoring:** Provincial Treasuries should implement stricter oversight mechanisms to ensure municipalities comply with audit processes and financial reporting standards.
- **Provide training and capacity-building programs:** Provincial Treasuries should continuously train municipal officials on financial management, audit requirements, and compliance with the MFMA.
- **Increase technical support to municipalities:** Deploy provincial treasury officials to assist municipalities with AFS preparation, audit queries, and compliance issues.
- **Monitor and evaluate the impact of internal audits:** Regular assessments should be conducted to determine whether audit committee recommendations are implemented and improve financial oversight.

Municipal recommendations

- **Prioritise early AFS preparation:** Municipalities must adhere to strict timeframes for drafting financial statements and ensure they are ready for internal review well before AGSA submission deadlines.
- **Enhance the authority of audit committees:** Municipal management must act on recommendations from audit committees to improve financial controls and prevent repeat findings.

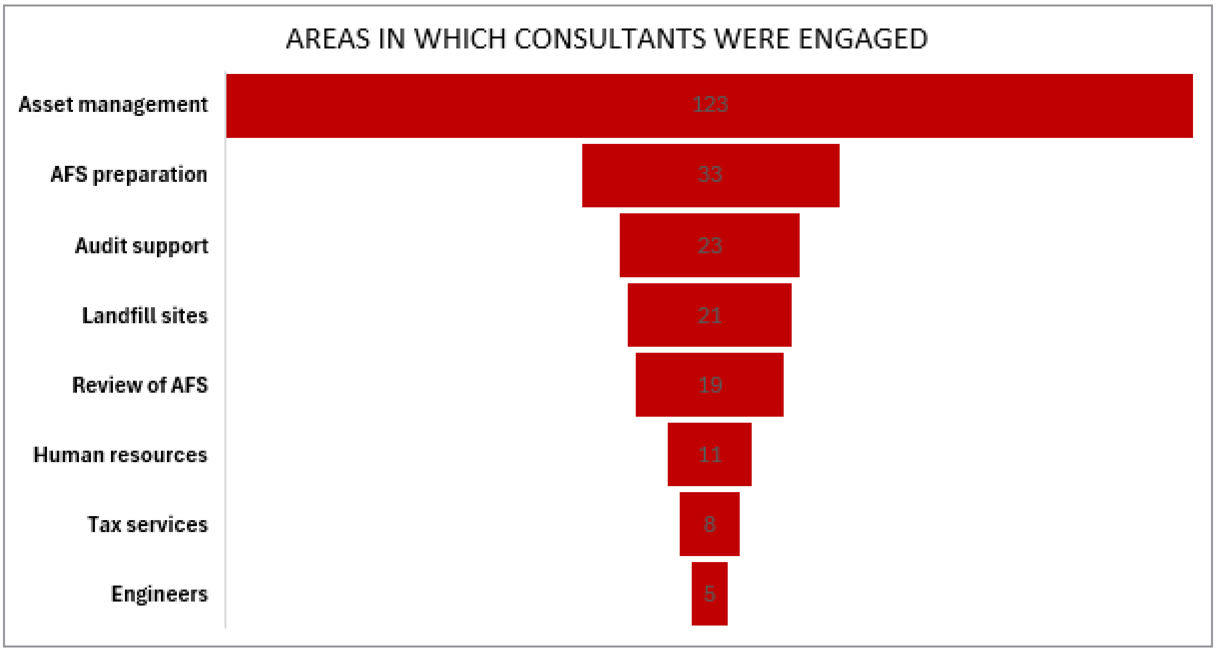
- **Ensure proper documentation and record-keeping:** Municipalities should maintain organised, audit-ready financial records to support timely and accurate submissions.
- **Strengthen the role of internal audit units:** Internal audit units should be given full independence and authority to assess financial performance and compliance.
- **Increase accountability for non-compliance:** Officials responsible for delays in audit reviews and non-submission of AFS must be held accountable through performance evaluations and, where appropriate, disciplinary actions.
- **Implement a structured audit action plan:** Municipalities must develop and monitor action plans to address AGSA audit findings and internal audit recommendations effectively.
- **Improve coordination with Provincial Treasuries:** Municipalities should engage with Provincial Treasuries for guidance and support in improving financial reporting and audit processes.
- **Conduct regular audit committee meetings:** Municipal audit committees should meet quarterly to review financial performance, compliance reports, and internal audit findings.
- **Utilise technology for better financial reporting:** Municipalities should adopt financial management systems that facilitate accurate and timely financial reporting.

Use of consultants

Reducing municipalities' heavy reliance on consultants has been a focus area of the National Treasury in recent years. Municipalities were required to indicate the top three areas in which the consultants work or will be performing. The analysis of responses received through the Muni eMonitor system revealed that municipalities depend not only on consultants to perform basic compliance and compile the draft AFS and audit files but also for specialist functions such as actuarial valuations for employee benefits provisions or estimation of landfill site provisions.

The graph below depicts the most common areas where consultants were engaged:

Consultants



The graph above shows that majority of municipalities are still reliant on consultants in the areas of asset management. It was earlier reported that 127 municipalities indicated that they do not have fully capacitated asset management units to effectively manage their assets. This implies that municipalities with effective asset management units are still using consultants to assist them with asset management functions. Municipalities still appear to be struggling in building their own internal capacities, skill sets and capabilities to effectively deal with asset management.

Municipalities also appear to still be appointing consultants in the areas of AFS preparations, audit support and Landfill sites. The AGSA also reported in the 2022/23 MFMA General Report that majority of consultants were appointed in these areas.

Consultants and Annual Financial Statement preparation

Consultant work relating directly to the preparation/review of draft Annual Financial Statements, namely Annual Financial Statement preparation and Review of Annual Financial Statements, amounted to 29% of the responses received. The AGSA, however, reported that in the 2022/23 financial year, municipalities spent a total of R1,35 billion on consultants to help with financial reporting and that it was noted that the spending was on the decrease since the previous administration.

The table below shows the in-house capacity as reported by municipalities to compile financial statements for the 2023/2024 financial year.

Internal Capacity

PROVINCE	No. of muni's with capable officials to compile AFS	No. of muni's WITHOUT capable officials to compile AFS	No. of muni's that did not respond	TOTAL NUMBER OF MUNICIPALITIES
Eastern Cape	30	9	0	**39**
Free State	9	5	9	**23**
Gauteng	10	1	0	**11**
Kwazulu-Natal	38	6	10	**54**
Limpopo	13	7	7	**27**
Mpumalanga	16	3	1	**20**
North West	9	8	5	**22**
Northern Cape	15	7	9	**31**
Western Cape	19	4	7	**30**
TOTAL	**159**	**50**	**48**	**257**

In the Eastern Cape (EC), a total of thirty (30) municipalities has officials capable of compiling AFS, while nine (9) municipalities do not have such officials. Notably, all municipalities in the province responded, reflecting full engagement in the assessment process. Similarly, in the Free State (FS), nine (9) municipalities have the required capacity, while five (5) lack capable officials. However, nine (9) municipalities did not respond, indicating a potential gap. The Gauteng (GP) province presents a positive scenario, with ten (10) municipalities having capable officials and only one (1) municipality lacking such officials. The full response rate in GP further demonstrates a strong commitment to compliance.

The Kwazulu-Natal (KZN) province shows a majority of municipalities thirty-eight (38) have capable officials, while six (6) municipalities lack the necessary personnel. However, ten (10) municipalities did not respond, which may hinder a complete assessment. In Limpopo (LP), thirteen (13) municipalities have officials capable of compiling AFS, but seven (7) do not, and another seven (7) failed to respond, raising concerns about municipal governance. Mpumalanga (MP) demonstrates relatively strong compliance, with sixteen (16) municipalities having the required personnel, three (3) municipalities without capable officials, and only one (1) municipality that did not respond.

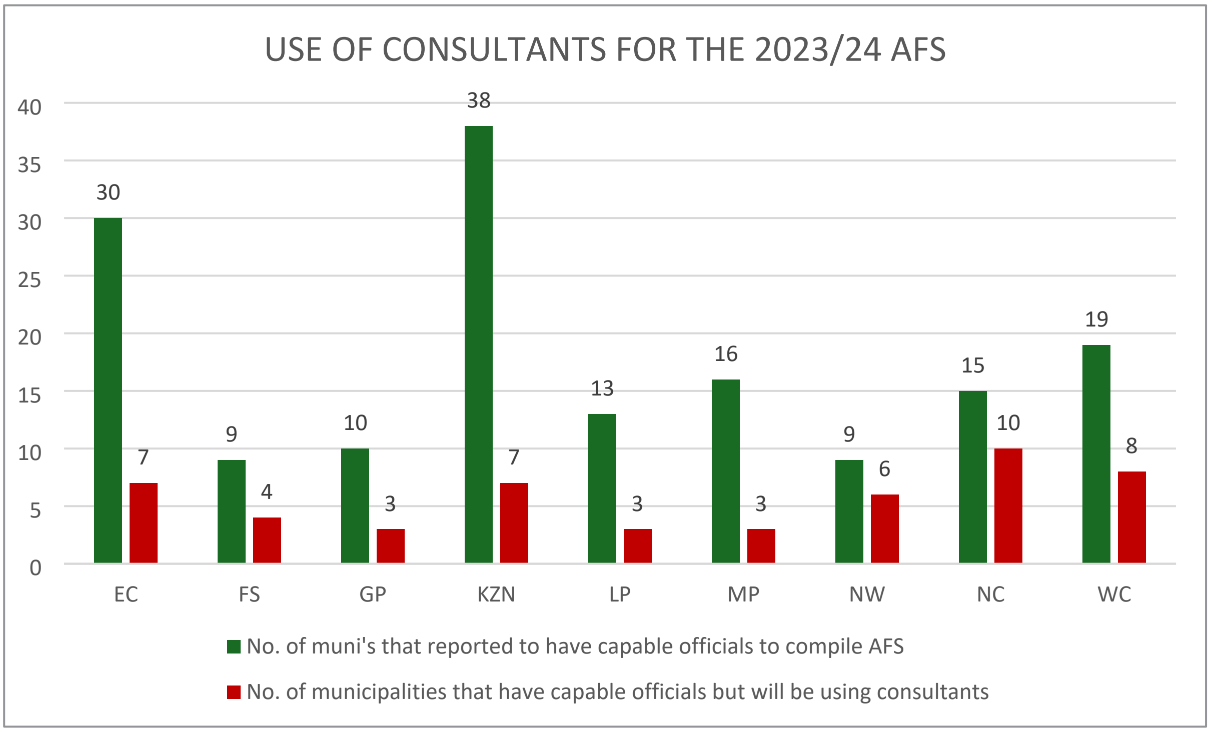
The North West (NW) province reflects significant challenges, with only nine (9) municipalities possessing the necessary capacity, eight (8) lacking capable officials, and five (5) municipalities failing to respond. In the Northern Cape (NC), fifteen (15) municipalities have competent officials, while seven (7) municipalities lack such capacity, and nine (9) did not respond. Western Cape (WC) shows a similar pattern, with nineteen (19) municipalities equipped with capable officials, four (4) lacking personnel, and seven (7) failing to respond.

In conclusion, GP and MP have the highest proportion of municipalities with capable officials, demonstrating strong compliance with MFMA requirements. The EC, KZN, LP, NC, and WC provinces show relatively positive trends but require attention from municipalities that lack skilled personnel.

The FS and NW present notable concerns due to a combination of municipalities without capable officials and a significant number of non-responses, which may indicate deeper administrative challenges. Addressing these capacity gaps and ensuring full participation in assessments is critical for enhancing financial accountability across all provinces.

The graph below highlights the provincial distribution of municipalities that have officials capable of producing the annual financial statements but have also appointed consultants to assist with the annual financial statements.

Use of Consultants



The analysis of the use of consultants for the preparation of the Annual Financial Statements (AFS) for the 2023/2024 financial year highlights significant variations across provinces. A total of **one hundred and fifty- nine (159) municipalities reported to have capable officials to compile the AFS**, whilst fifty-one (51) municipalities indicated that they will still use consultants even though they have capable officials at the municipality to prepare the AFS.

In the Eastern Cape (EC) province, a total of thirty (30) municipalities reported having capable officials to compile the AFS, of which seven (7) municipalities, despite having capable officials, will still be using consultants. In Free State (FS), nine (9) municipalities reported having capable officials, four (4) still opting for consultant support. Gauteng (GP) had ten (10) municipalities with reported capable officials, while three (3) will still utilise them.

KwaZulu-Natal (KZN) stands out, with thirty-eight (38) municipalities reporting capable officials, whilst seven (7) will still use consultants. In Limpopo (LP), thirteen (13) municipalities have capable officials, with three (3) still making use of them. Mpumalanga (MP) reported sixteen (16) municipalities with officials competent to compile the AFS, while three (3) will still engage them.

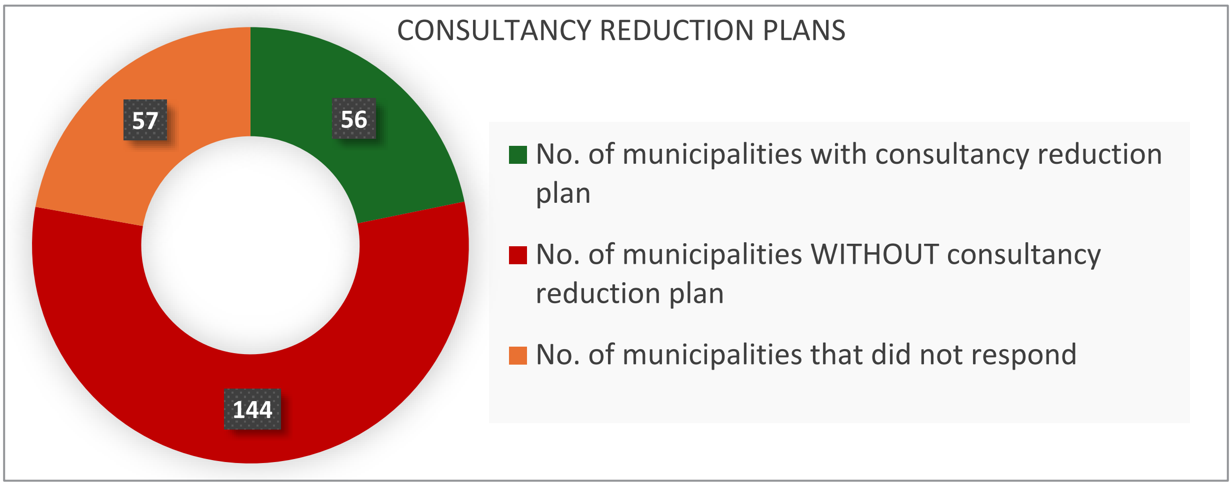
The North West (NW) recorded nine (9) municipalities with capable officials, whereas six (6) will still rely on external assistance. The Northern Cape (NC) had fifteen (15) municipalities reporting capable officials, while seven (7) will still engage them. Lastly, Western Cape (WC) showed nineteen (19) municipalities with competent officials, while eight (8) will still use consultants.

The data indicates that while the majority of municipalities across EC, FS, GP, KZN, LP, MP, NW, NC, and WC have reported having capable officials to compile their AFS, a significant number still opt to engage AFS consultants. The KZN has the highest number of municipalities with capable officials, while NW has the lowest number of municipalities avoiding consultants despite having the required capacity. This suggests a need for further assessment into why some municipalities continue to use consultants despite having qualified personnel, possibly pointing to workload challenges, capacity constraints, or historical reliance on external assistance. The overall trend demonstrates that while there is progress in financial management capacity, strategic interventions are required to reduce consultant dependency further.

Municipalities making use of consultants are required to monitor the work of consultants and review the quality of the work thereby ensuring value for money is achieved ad that no findings are raised by the AGSA as well as prevent repeat findings from recurring. In addition, municipalities are required to develop consultancy reduction plans and develop skills transfer plans to build internal capacity at municipalities to prepare the AFS in-house, as well as support in the recruitment and retention of skilled and experienced financial management practitioners who can compile AFS and produce GRAP compliant asset registers.

Input into the graphs below, was extracted from the AFS Process Plan evaluation of the fourth quarter of the 2023/2024 financial year.

Consultancy Reduction Plans



The number of municipalities that did not have a consultancy reduction plan represents 56% of all municipalities in the country, and this excludes others that may be included in the fifty-seven (57) municipalities that did not complete the evaluation on the system. The drive to reduce the reliance on consultants still has a long way to go, despite the reduction in the spending noted by the AGSA in it's MFMA Report for the 2022/2023 financial year.

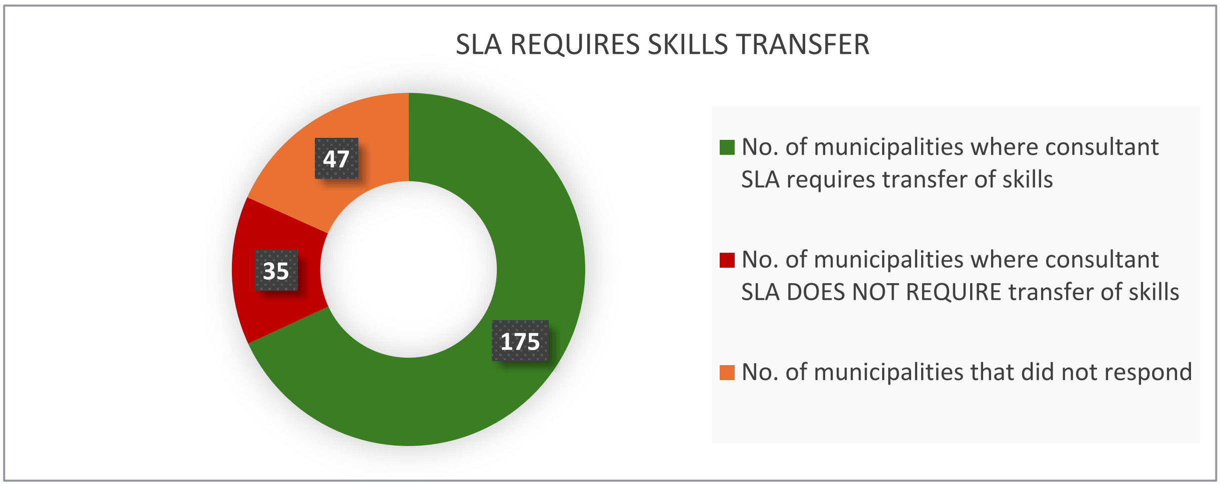
Included in the municipalities that reported not to have a consultancy reduction plan are the following twelve (12) metros: Buffalo City, Nelson Mandela Bay, OR Tambo, City of Tshwane, City of Ekurhuleni, City of Johannesburg, eThekwini, City of Mbombela, Rustenburg, Sol Plaatje, City of Cape Town and George.

The provinces with the highest numbers of municipalities without consultancy reduction plans were the Eastern Cape, where twenty-seven (27) out of the thirty-nine (39) municipalities in the province did not have consultancy reduction plans, Kwazulu-Natal, where twenty-three (23) out of the fifty-four (54) municipalities in the province did not have consultancy reduction plans and the Western Cape, where twenty-one (21) out of the thirty (30) municipalities in the province reported that they did not have consultancy reduction plans.

Note that the number pertaining to Kwazulu-Natal may be understated as twenty (20) municipalities in the province did not complete the evaluation at the date of this report. Nine (9) out of the twenty-three municipalities in the Free State also did not respond, and seven (7) municipalities were each in Limpopo, Northern Cape, and the Western Cape. Integral to the appointment of consultants should be that the service level agreement should include requiring skills transfer from the consultant to municipal staff. Without this requirement, the reliance on consultants and accompanying costs will continue.

The chart below depicts the status of service level agreements with consultants as at 30 June 2024 in the country: 68% of municipalities reported that the service level agreements require the transfer of skills, 14% reported that the service level agreements do not require the transfer of skills and 18% of municipalities did not complete the evaluation on the Muni eMonitor system.

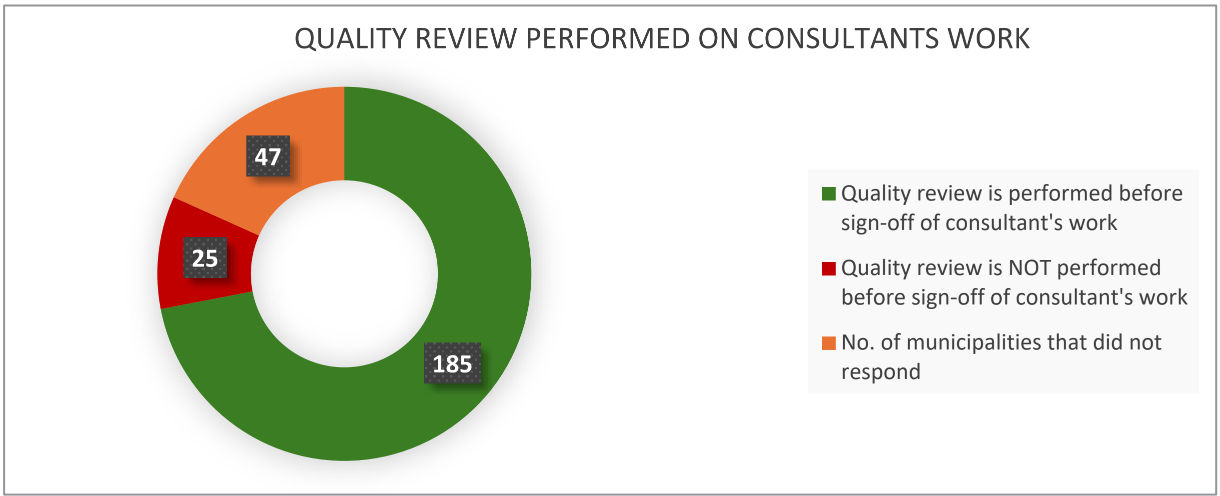
Skills Transfer



Kwazulu-Natal reported the highest number of municipalities where the service level agreements of consultants did not require a transfer of skills (eight (8) municipalities) and was also the province that had the largest number of municipalities that did not complete the evaluation (ten (10) municipalities). Nine (9) municipalities in the Free State did not complete the evaluation, and seven (7) municipalities in each of the following provinces did not respond: Limpopo, Northern Cape and Western Cape.

Where consultants are contracted, it is further required that the work of the consultants is quality reviewed before payment is made. The graph below shows that only 72% (seventy-two percent) of municipalities indicated that quality assurance was performed before payment was made to consultants.

Reviews



The above is an indication that there is still significant reliance on consultants to the extent that they are left to complete work, and payment is made without the check being performed to ensure the institution receives the quality and work that has been contracted for. Reasons for this may be traced back to a lack of personnel or skills to perform the review. Therefore, the vicious cycle needs to be broken: municipalities must ensure that the transfer of skills by consultants is embedded in all contracts so that municipal staff are upskilled to understand the work and ultimately review what has been performed. Evidence and confirmation of the transfer of skills must be required, and the planned transfer must be made to officials who are permanently employed by the municipality.

Conclusion

The analysis of consultant usage for AFS preparation indicates a continued reliance on external consultants despite many municipalities reporting that they have capable officials. Provinces such as KZN, EC, and NC exhibit the highest number of municipalities engaging consultants, even where internal capacity exists, suggesting inefficiencies in skills utilisation or other operational constraints. Conversely, GP and MP demonstrate a stronger ability to rely on internal personnel, with fewer municipalities outsourcing AFS preparation. NW raises significant concerns, with the highest percentage of municipalities using consultants despite reporting internal capacity, indicating a systemic issue that requires immediate intervention.

Where municipalities can compile their annual financial statements internally but appoint external service providers, this contradicts the Municipal Cost Containment Regulations, which stipulate that consultants should only be engaged if internal capacity is absent. Furthermore, the absence of consultancy reduction plans in many municipalities, particularly in the EC, KZN, and WC provinces, demonstrates the need for stronger provincial oversight to ensure that municipalities actively work towards financial self-sufficiency. Additionally, a significant number of municipalities do not enforce skills transfer within consultant contracts, which further perpetuates dependence on external expertise rather than fostering internal capability.

A key concern is that only seventy-two percent (72%) of municipalities perform quality assurance before paying consultants, which raises risks of inadequate financial oversight and potential mismanagement of resources. The failure of municipalities to embed skills transfer in service-level agreements means that consultants continue to be contracted for the same functions year after year without upskilling municipal staff. The KZN, FS, LP, NC, and WC provinces have the highest number of municipalities that did not include skills transfer clauses in their consultant contracts, pointing to a major governance lapse. Therefore, strategic interventions are required at both municipal and provincial levels to improve financial management capacity, reduce long-term reliance on consultants, and ensure compliance with regulatory frameworks.

Treasury recommendations

- **Implement Annual Capacity Assessments:** Conduct annual assessments of municipal financial management capacity to identify gaps and provide targeted support to reduce reliance on consultants.
- **Develop and Enforce Consultancy Reduction Plans:** Require all municipalities to submit detailed consultancy reduction plans outlining clear steps to build internal financial management capacity.
- **Enhance Training Programs for Municipal Officials:** Establish intensive financial management training programs to upskill municipal finance personnel.
- **Monitor Compliance with Cost Containment Regulations:** Conduct quarterly compliance reviews to ensure that municipalities adhere to Municipal Cost Containment Regulations regarding consultant appointments.
- **Implement a Provincial Support Team:** Deploy provincial financial experts to municipalities struggling with AFS preparation, providing hands-on assistance rather than outsourcing to consultants.
- **Review and Improve Recruitment Strategies:** Support municipalities in attracting and retaining qualified finance professionals, including offering competitive salaries and incentives to reduce consultant dependency.

Municipal recommendations

- **Develop a Skills Transfer Implementation Plan:** Ensure that every consultant engagement includes a structured skills transfer program monitored by the Chief Financial Officer (CFO).
- **Enhance In-House Training and Mentorship:** Provide continuous professional development for municipal finance staff through accredited financial management courses, training and workshops.
- **Prioritise Internal Staff for AFS Preparation:** Assign AFS preparation responsibilities to internal officials before considering consultants, reinforcing the capacity of in-house teams.
- **Improve Retention Strategies for Finance Professionals:** Implement attractive career progression paths, competitive salaries, and incentives to retain skilled finance personnel.

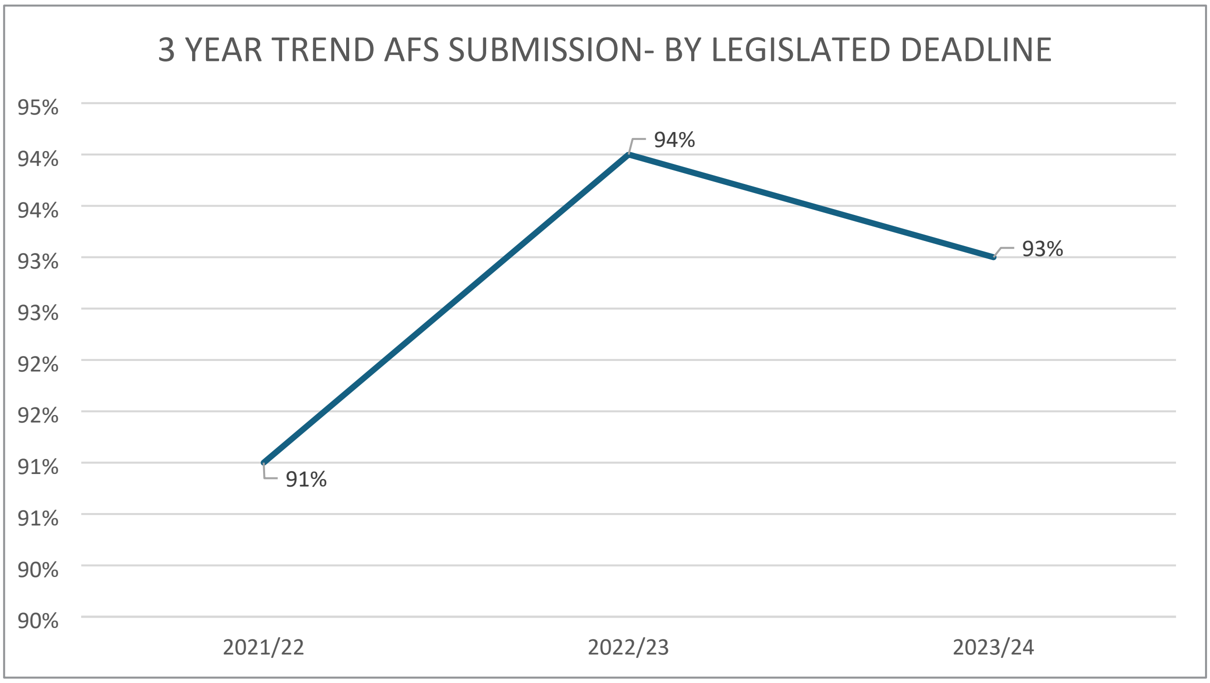
- **Establish Internal Financial Review Committee:** Form a dedicated AFS review committee within municipalities to monitor financial reporting and reduce consultant dependency.
- **Monitor and Evaluate Consultant Performance:** Conduct regular reviews of consultant engagements, ensuring value-for-money and alignment with contract deliverables.
- **Enforce Strict Cost Containment Measures:** Reduce unnecessary consultant expenditures by ensuring that funds are allocated toward internal capacity-building initiatives.
- **Improve Financial Planning and Budgeting Processes:** Strengthen financial planning frameworks to ensure that municipal budgets prioritize in-house skill development rather than consultant fees.

2023/2024 Annual financial statement submissions

Reasonable annual financial statement process plans that are strictly monitored and adhered to result in the timely submission of credible annual financial statements by municipalities to the AGSA. Section 126(1)(a) of the MFMA requires the accounting officer of a municipality to prepare the annual financial statements of a municipality within two (2) months after the end of the financial year and submit those statements to the AGSA for auditing.

Section 126(1)(b) also requires the accounting officer of the municipality to prepare consolidated annual financial statements within three (3) months after the end of the financial year and submit those statements to the AGSA for auditing.

The graph below depicts a 3-year trend for AFS submissions to the AGSA by the legislated deadline over the past 3 financial years:



It was noted that there has been an improvement in compliance with submissions by the legislated date by municipalities, with a reported submission of 91% in 2021-22 and 94% in 2022-23. The improvements were attributed to positive responses by accounting officers to the twenty-five (25) material irregularities issued by the AGSA since 2022 and the support provided by provincial governments.

A total of **two hundred and thirty- nine (239) municipalities (93%) submitted their 2023/24 AFS for audit** by the legislated deadline of 31 August 2024 which depicts a slight decline from that in the previous financial year. However, of the eighteen (18) municipalities that did not submit the AFS by 31 August 2024, ten (10) of the municipalities subsequently submitted their AFS's the next day, by 1 September 2024. Majority of these municipalities indicated ICT related challenges as reasons for the delay in submissions. Therefore, two hundred and forty- nine (249) municipalities amounting to 97% of municipalities had submitted their 2023/24 AFS's to the AGSA by 1 September 2024.

The following eight (8) municipalities that did not submit the AFS to the AGSA by 1 September 2024, are namely: Masiloyana LM (FS), Kopanong LM (FS), Mohokare LM (FS), Mafube LM (FS), Kagisano-Molopo LM (NW), !Kheis (NC), Ubuntu (NC) and Laingsburg LM (WC). Subsequently the AGSA wrote to the Minister of Finance on 29 October 2024 and indicated that five (5) of the eight (8) municipalities still did not submit their 2023/24 AFS for audit by the date of the letter. Kagisano-Molopo LM, Ubuntu (NC) and Laingsburg LM (WC) subsequently submitted their 2023/24 AFS's for audit by 29 October 2024.

The actions by the accounting officers of those municipalities that did not submit the 2023/24 AFS's timeously are clear acts of financial misconduct in terms of the MFMA and must be investigated further in terms of chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

Support provided to municipalities by the National Treasury in respect of the preparation of the annual financial statements and audit support

The National Treasury has developed a "Strategy to address Municipal Performance Failures" which contains the plan of action of both the National and provincial treasuries to address the concerns raised by the AGSA and other concerns noted by government. These include:

- The development and rollout of the web-enabled Audit Action Plan in 2022;
- The development and rollout of the web-based Financial Management Capability Maturity Model (FMCMM) in 2022;
- The development and rollout of a web-enabled Muni e Monitor and MFMA calendar system which aims to assist municipalities and municipal entities to comply, monitor, support and report on compliance with the MFMA and its supporting regulations in 2023;
- All revenue-related work and initiatives are carried out under the auspices of the Municipal Revenue Management Improvement Programme;
- An Unauthorised, Irregular, Fruitless and Wasteful Expenditure Reduction Strategy (UIFWE Reduction Strategy) was issued;
- Various MFMA circulars were issued providing clear guidance and standards for financial management and reporting aimed at reducing instances of UIFWE, including focusing on consequence management;
- Training Programs were held to enhance the capacity of financial officers, MPACs, Disciplinary Boards, and other relevant municipal officials through targeted training sessions;
- Direct Support and Oversight was provided by implementing support programs in municipalities identified with high levels of UIFWE;
- Support was provided to SALGA through their various governance structures to capacitate councillors. There are also plans to establish a National MPAC Chairs Forum;

- The Consequence Management and Accountability (CMA) Framework was issued, which outlines a number of key processes and procedures that must be in place for the successful implementation of consequence management by municipalities and municipal entities;
- The process to amend the MFMA to enhance financial management and governance is at an advanced stage;
- The Public Procurement Act 28 of 2024 was assented to by the President on 18 July 2024;
- During the current phase of the Municipal Finance Improvement Programme (MFIP), specialist advisors were assigned to municipalities, National Treasury and provincial treasuries;
- Training was provided on GRAP standards, its interpretation and application, and advice on readiness in preparing annual financial statements in municipalities and municipal entities;
- An MFMA Coordinators meeting is hosted twice a year with various stakeholders during September and March of each financial year;
- Non delegated municipalities (NDM) Chief Financial Officer (CFO) Forums are held on a bi-annual basis; and
- ongoing support is provided via the Local Government Financial Management Grant (FMG) is designed to assist municipalities to augment their own resources to promote and support reforms in financial management and build capacity in municipalities to implement the MFMA.

National Treasury has also embarked on the development of a Capability Development Programme (CDP) alongside a cohesive NT strategy aimed at bolstering local government. This strategy is designed to enhance financial management and service delivery and will be undertaken in collaboration with the CoGTA, SALGA, and various other institutions.

Most recently, in response to the call to action requested by the AGSA for government departments to collaborate support initiatives to municipalities, an Interministerial Committee (IMC), in conjunction with CoGTA, was established to jointly support municipalities. The IMC will be responsible for monitoring the various activities and review processes towards improving municipal audit outcomes for municipalities with weak internal controls, qualified, adverse, and disclaimer audit findings. National Treasury is participating in this initiative to ensure a holistic response to the municipal failures.

Support provided to municipalities by the provincial treasuries in respect of the preparation of the annual financial statements and audit support

Provincial treasuries reported the following support to municipalities for the preparation of annual financial statements relating to the 2023/2024 financial year:

Eastern Cape Provincial Treasury

- At Dr Beyers Naude LM, the provincial treasury initiated an audit readiness engagement to detect early warning signs during the AFS preparations.
- Closely monitored and reviewed “Key Reconciliations” of prioritised municipalities as per the Provincial Audit Outcomes Strategy.

- Review of the municipality’s restatements and provision of written feedback thereon.
- Review of draft annual financial statements for GRAP compliance.
- Provided GRAP workshop on improving the quality of financial statements jointly with AGSA, ASB & NT MFIP Advisors.
- Attendance at audit steering committee meetings and provide guidance during audit disputes.
- Conducted AFS readiness sessions with all delegated municipalities and advised on areas where improvement is required.
- Developed AFS Review Tools and conducted a district workshop for all Internal Auditors to implement the tools.
- Developed a support plan for Koukamma LM to assist with the areas that were identified in the Audit report. Due to instability at the municipality, the support plan was never discussed, but a meeting was scheduled with the municipality for 18 July 2024 regarding the required support and AFS readiness.
- Reviewed interim financial statements and provided a detailed report for municipalities to consider.

Free State Provincial Treasury

- Conducted accounting and asset management forums where GRAP updates, as well as emerging risks, common findings and best practices were presented, discussed and shared.
- Monitored the implementation of audit action plans.
- Reviewed the draft Annual Financial Statements as per the resolutions of the audit action plan forum held by FSPT.
- Appointed a panel of experts to assist municipalities such as Kopanong LM with the preparation of AFS.
- Worked with the Matjhabeng LM to resolve prior year audit findings.
- Provided guidance and support to municipalities by providing AFS Preparation guidance and an AFS preparation template.

Gauteng Provincial Treasury

- Ensured that municipalities prepared the interim financial statements and AFS, and submitted them to PT for review.
- Drafted reports with the findings that needed to be taken into consideration prior to submission of the AGSA.
- Organised GRAP training for municipal and entity officials.
- At Merafong City, the manager of accounting and reporting did a handover engagement with the municipality's current consultants.
- At Rand West City, ensured that the previous year's findings were resolved prior to submitting to AGSA.

Kwazulu-Natal Provincial Treasury

- The provincial treasury reported that due to capacity constraints, it provides support to a limited number of municipalities after conducting an analysis at the commencement of the financial year.
- AFS reviews
- Monitored the AFS Preparation Plan to ensure compliance and adherence to established timelines.
- Offered audit assistance to address any issues that arose during the audit process.
- Provided post-implementation of Annual Financial Statement (AFS) project reports to municipalities during the period under review.
- Provided post-implementation support on the Revenue and Debt Management Project Reports to municipalities during the period under review.
- Provided Financial Management support to municipalities during the period under review.

Limpopo Provincial Treasury

- Visited the Greater Letaba LM on 14 August 2024, to view some of the hard copy documents.
- Reviewed AFS process plans, provided recommendations where challenges/shortcomings were identified, and monitored implementation.
- Reviewed draft AFS and audit files before submission to the AGSA.
- Attended audit steering committee meetings and audit committee meetings where the draft AFS was discussed.
- Reviewed interim financial statements and the audit files and provided feedback to the municipality.
- Provided technical guidance when requested.

Mpumalanga Provincial Treasury

- Attended audit steering committee meetings.
- Provided GRAP Training.
- Provided hands-on support during the AFS preparations and reviewed the audit file and AFS before submission to AGSA for audit.

North West Provincial Treasury

- At Madibeng LM and Moretele LM, the provincial treasury introduced the AFS acceleration plan.
- Reviewed AFS preparation plans.
- Conducted quality reviews of the interim financial statements.
- Provided a municipal financial recovery plan team onsite.
- Held capacity-building workshops on a qualitative review of the AFS.
- Reviewed the AFS together with the audit file and provided feedback letters to assist municipalities.

- City of Matlosana was requested to submit their AFS Plan for monitoring and Interim Financial Statement for review and feedback.
- Attended AFS steering committee meetings to monitor whether the AFS preparation plans were adhered to or followed and provided support with the review of completed sections.

Northern Cape Provincial Treasury

- Reviewed the interim statements.
- Issued circular 50 on how to compile the audit file.
- Issued the GRAP checklist.
- Regularly reviewed MFMA reporting requirements.
- Reviewed the AFS preparation plan and draft AFS.
- Regular reminders on compliance were sent out.
- Held meetings to discuss progress on the audit action and AFS preparation plans.
- An AFS Preparation Plan was disseminated, and updates were constantly monitored and received.
- Assessed audit action plans.
- Reviewed audit files upon submission.
- Engaged with the John Taolo Gaetsewe District municipality to assess its readiness to submit the draft 2023/24 AFS and provided feedback on the submitted interim financial statements.
- At Kamiesberg LM, placed an Intern at the municipality for almost two months to assist with the audit processes and audit file. A technical advisor and deputy director for SCM were also assigned to the municipality to assist with the prior years' assets and accounting related matters, as raised by the AGSA.
- Two FASSET interns were placed at Kheis LM, as well as an assistant director and MFIP Advisor to assist with the preparation of the Audit File, 2022/23 audit action plan, reconciliations of Trade and Other Payables as well as the calculation of the Landfill Sites provision.
- For Kgatelopele LM, a letter was issued, stating the submission dates for the AFS preparation plan, progress reports on the AFS preparation plan, draft AFS for review and AFS submission to AGSA.

Western Cape Provincial Treasury

- Review of the unaudited AFS when submitted by the municipality.
- Held an annual GRAP update workshop,
- Provided technical assistance/opinions as and when requested by the municipality.
- Conducted GRAP Checklist reviews.
- Held an AFS Consistency Workshop.
- Conducted audit readiness support engagements.
- Performed draft AFS high-level reviews prior to submission to AGSA.

Conclusion

The overall trend in AFS submissions reflect a notable improvement in compliance, with the majority of municipalities meeting the legislated deadlines. However, despite this progress, persistent challenges remain in ensuring the quality and accuracy of financial reporting and full adherence to audit readiness requirements. Late submissions, unresolved prior-year findings, and weak internal controls indicate that some municipalities continue to struggle with financial governance and compliance with the MFMA. While external support and oversight have contributed to enhanced submission rates, a more sustainable solution requires municipalities to build stronger internal financial management capacity and ensure greater accountability in financial reporting.

One of the most pressing concerns is the continued reliance on consultants, even in municipalities with capable financial officials. This trend increases costs and hinders skills development among municipal finance teams, leading to repeated challenges in financial reporting. Additionally, material irregularities, non-compliance with audit recommendations, and weak oversight mechanisms undermine some municipalities' financial health. The lack of consequence management for non-compliance further exacerbates these challenges, making it essential for clear accountability structures and disciplinary measures to be enforced where necessary.

Going forward, a dual approach is needed—municipalities must take greater responsibility for improving internal controls, financial planning, and audit preparation, while provincial and national oversight structures must intensify support, enforcement, and capacity-building efforts. Strengthening internal financial management structures, ensuring continuous skills development, and embedding proactive monitoring mechanisms will help municipalities comply with AFS submission deadlines and improve audit outcomes. A commitment to sound financial governance, strict adherence to MFMA regulations, and long-term investment in municipal financial management capacity is critical to achieving sustainable improvements in local government financial accountability.

Treasury recommendations

- **Enhance monitoring of AFS submission deadlines:** Implement real-time tracking and early warning systems to identify municipalities at risk of missing submission deadlines.
- **Increase technical assistance for struggling municipalities:** Assign dedicated financial specialists to municipalities with poor audit outcomes or repeated non-compliance to improve reporting quality.
- **Strengthen audit preparation oversight:** Conduct pre-audit reviews of AFS to identify errors and non-compliance before submission to the AGSA.
- **Improve training for municipal financial officers:** Offer regular GRAP, MFMA, and financial reporting workshops to upskill municipal officials and reduce the risk of audit findings.
- **Develop provincial AFS readiness support teams:** Deploy provincial treasury officials to assist municipalities in drafting quality AFS, ensuring adherence to audit recommendations and financial reporting standards.
- **Mandate annual financial statement dry runs:** Require municipalities to submit draft financial statements for review before the final AFS deadline to ensure errors are addressed proactively.

- **Enhance coordination with AGSA and National Treasury:** Strengthen intergovernmental collaboration to provide structured financial management interventions in municipalities with chronic financial challenges.
- **Enforce financial recovery plans for high-risk municipalities:** Introduce mandatory financial recovery interventions for municipalities that consistently fail to submit AFS on time or receive adverse audit opinions.
- **Encourage municipalities to complete Muni eMonitor evaluations on time:** Ensure that they submit their evaluations by the due dates to allow effective monitoring and intervention where needed.
- **Follow up on outstanding AFS submissions:** Engage with municipalities that have not yet submitted their AFS to the AGSA and provide the necessary support to ensure compliance.
- **Request bi-weekly progress updates on AFS submissions:** Require municipalities to report their progress on outstanding AFS submissions every two weeks to track improvements and identify any ongoing challenges.
- **Provide direct assistance to municipalities facing submission challenges:** Identify and address issues causing delays in AFS submission, offering technical and administrative support where required.
- **Support municipalities in developing action plans for AFS preparation:** Assist municipalities in creating structured AFS preparation plans and strengthening internal controls to ensure timely and accurate submissions in the future.

Municipal recommendations

- **Complete all overdue Muni eMonitor evaluations:** Ensure that all outstanding evaluations are submitted on the system to provide accurate data for compliance tracking and provincial oversight.
- **Report weekly to the provincial treasury on AFS submission progress:** Maintain regular communication with provincial treasury, providing updates on any outstanding AFS and challenges faced.
- **Implement strong internal controls and review mechanisms:** Establish financial management controls and oversight procedures to ensure that AFS are credible, accurate, and completed within the required timelines.
- **Ensure internal audit and audit committees review AFS:** Strengthen financial governance by having both interim and draft AFS reviewed by internal auditors and audit committees before final submission.
- **Establish an AFS compliance calendar:** Develop and implement an AFS process plan with clearly defined timelines, monitored by the Chief Financial Officer (CFO) to ensure adherence.
- **Strengthen internal controls and financial reporting systems:** Conduct monthly reconciliations and internal reviews to improve the accuracy of financial statements before submission.

- **Ensure continuous skills development of finance staff:** Enroll finance personnel in MFMA and GRAP training programs to enhance technical competencies and reduce reliance on consultants.
- **Conduct quarterly interim financial statement reviews:** Submit draft financial statements for review every quarter to identify and correct errors ahead of the AGSA submission deadline.
- **Improve coordination with Provincial Treasury and AGSA:** Engage provincial treasury early in the AFS preparation process to ensure guidance and oversight in resolving financial reporting challenges.
- **Develop and enforce internal audit action plans:** Establish an audit findings response team to address previous material irregularities and prevent repeat audit findings.
- **Reduce reliance on consultants for AFS preparation:** Implement a structured skills transfer program where internal staff are trained to take over financial reporting responsibilities.
- **Conduct independent pre-audit reviews of AFS:** Appoint an internal audit committee or external reviewer to assess the quality of financial statements before submission.
- **Enhance oversight by Municipal Public Accounts Committees (MPACs):** Strengthen MPAC review of financial statements, ensuring that oversight committees actively monitor financial performance.
- **Enforce strict accountability for non-compliance:** Implement disciplinary measures for officials responsible for AFS delays or errors, ensuring consequence management for financial mismanagement.

Conclusion

Compliance with the MFMA is fundamental and must underpin fiscal and financial management. Considering that it is more than twenty (20) years after the enactment of the MFMA in local government, compliance with the Act by municipalities should be seen as a basic condition that exists. Based on the compliance gaps identified in this report and material non-compliance matters covered in the AGSA Audit Reports year-on-year, it is clear that some municipalities have not progressed acceptably to ensure adherence to the MFMA and create the required control environment that fosters compliance.

Weaknesses and compliance gaps proliferate, and there is also slow progress in addressing recurring issues raised by the Auditor-General in Audit Reports. A significant number of audit findings were reported as unresolved at the end of June 2024. Lack of capacity with respect of the preparation of AFS and GRAP-compliant asset registers has plagued the sector for years, with many municipalities reporting challenges in preparing and compiling these documents in-house. Decisions to outsource should be aimed at achieving efficiencies and should show the necessary savings attained from the decision; however, the benefits of outsourcing are few and far between. Despite municipalities paying exorbitant consultancy fees, the AGSA continues to raise findings on work performed by consultants.

Addressing historical UIFWE, minimal amounts were reported as processed through MPACs and municipal councils, with even lesser amounts processed with respect to UIFWE identified in-year. As a result, there is little evidence to show relating to the implementation of consequence management in respect of UIFWE expenditure incurred and in a number of other areas of non-compliance, such as non-adherence to SCM regulations and Cost Containment Regulations, failure to publish municipal documents, non-compliance with reporting requirements on SCM, Investment monitoring, and Cost containment measures, amongst others.

The FMCMM is designed to support municipalities in monitoring their financial management capability and help identify areas of financial weaknesses to improve their financial position and overall sustainability. FMCMM Action Plans are expected to be developed to address the identified weaknesses; however, municipalities are not using the opportunity to assess and identify their internal control deficiencies. Furthermore, for those who did the assessment, the development and implementation of Action Plans by municipalities has been slow.

Until the sector moves beyond the elementary issues of basic compliance with the MFMA, attaining financially sound municipalities and municipal entities across the board may be a far reality. Compliance must be a basic condition in local government, and non-compliance should be the exception. The aim should be to create agile and resilient municipalities and municipal entities that can navigate and be responsive to the complex and changing world in which we find ourselves.

National Treasury is currently undergoing a process to amend the MFMA to address municipal finance matters that will contribute to addressing concerns highlighted in the report. It is scheduled to be published for public comments in the second quarter of the calendar year of 2025.

Municipal Finance
Management Act (MFMA)

COMPLIANCE REPORT

FOR THE 2023/24 FINANCIAL YEAR

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REPUBLIC OF SOUTH AFRICA