2024-25 LOCAL GOVERNMENT AUDIT OUTCOMES: KWAZULU NATAL

CIGFARO AUDIT AND FINANCE TRAINING (AFS READINESS)

30 July 2026

AUDITOR-GENERAL
SOUTH AFRICA

Advocating for an effective government culture

MISSION

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

VISION

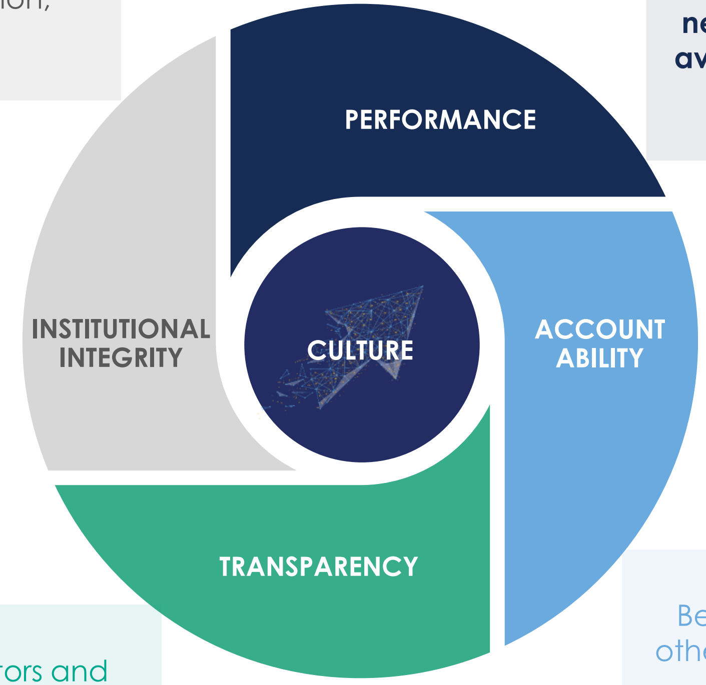
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Implement and maintain **institutionalised controls** to ensure leadership and officials **behave ethically, comply with legislation and act in best interest** of institution, **avoiding conflicts of interest**

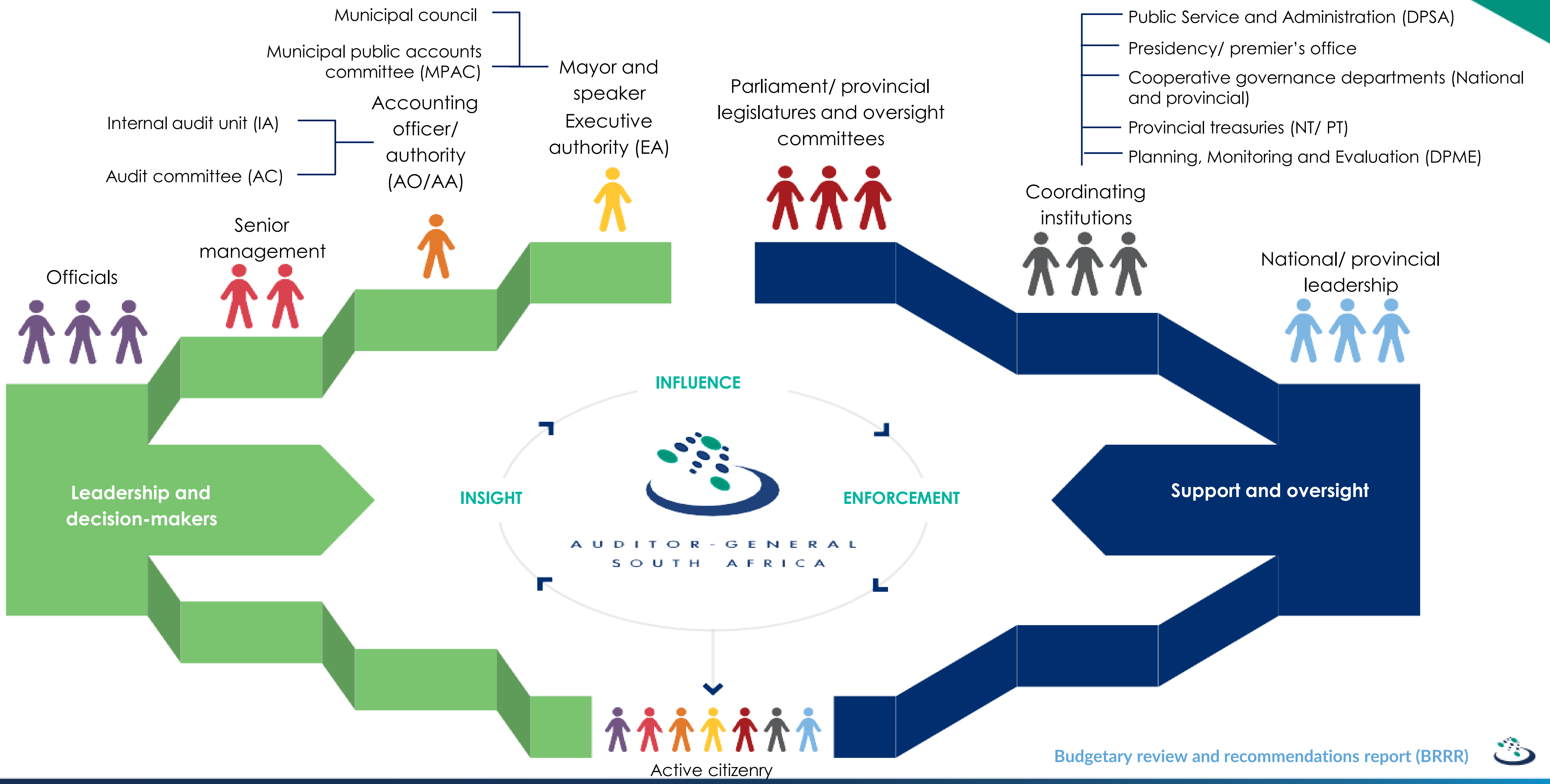
Demonstrate commitment to improving lived realities of South Africans by **delivering on legislated mandate and strategic objectives aligned to people's needs**, being **financially sustainable**, and **avoiding harm to public and public sector institutions**



Provide public, oversight, auditors and other stakeholders with **timely, relevant and reliable information on institution's finances, performance, use of resources and compliance with legislation**

Be responsive to public, oversight and other stakeholders through **reporting and providing answers on mandated responsibilities fulfilled, actions taken and decisions made**; ensure **swift consequences** for transgressions and poor performance

All have a role to play in accountability ecosystem



Limited improvement with rising service delivery and accountability breakdowns

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Total
2020-21 (Last year of previous administration)	3	36	13	0	3	55
2023-24	7	37	8	2	1	55
2024-25	4	43	7	1	0	55
Cut-off date: 31 March 2026	7%	78%	13%	2%	0%	

Movement from previous year *

- 6 (R12,59 bn) ▲
- 45 (R111,36bn) ►
- 4 (R1,45bn) ▼

Movement over administration *

- 14 (R7,82bn) ▲
- 38 (R116,89bn) ►
- 3 (R683,04 mln) ▼

**The movement also includes the budget of the municipalities per category of movement.*

Movement over administration

Unqualified with no findings (clean):

1. Umlalazi ▲
2. Richmond ▲
3. ■ City of Umhlatuze ►
4. ◆ King Cetshwayo ►

Unqualified with findings:

1. ★ eThekwini ►
2. ◆ Zululand ►
3. ◆ Harry Gwala ►
4. ◆ Ilembe ►
5. ◆ Umgungundlovu ►
6. ◆ Ugu ▲
7. ■ Kwadukuza ►
8. ■ Ray Nkonyeni ►
9. ■ Alfred Duma ►
10. ■ Msunduzi ►
11. ■ Newcastle ►
12. Ulundi ►
13. uPhongolo ►
14. Mthonjaneni ►
15. Abaqulusi ▲
16. eDumbe ▲
17. Okhahlamba ▼
18. Mandeni ►
19. Maphumulo ►
20. Ndwedwe ►
21. Dannhauser ▲
22. eMadlangeni ▲
23. Jozini ►
24. Umhlabuyalingana ►
25. Big Five Hlabisa ►
26. Mtubatuba ▲
27. Umzimkhulu ►
28. Johannes Phumani Phungula ►
29. Greater Kokstad ►
30. Dr Nkosazana Dlamini Zuma ►
31. Umuziwabantu ►
32. Umzumbe ►
33. Umdoni ►
34. Mkhambathini ►
35. Mpofana ▲
36. Umshwathi ▲
37. Msinga ►
38. Umvoti ►
39. Nquthu ▲
40. Umngeni ▲
41. Uthukela Water ►
42. Mfolozi ►
43. Nkandla ►

Qualified with findings:

1. ◆ Umkhanyakude ▲
2. Inkosi Langabilele ▲
3. ◆ Amajuba ►
4. ◆ Uthukela ►
5. ◆ Umzinyathi ►
6. Endumeni ►
7. Nongoma ▼

Adverse with findings:

1. Impendle ▼

◆ District
★ Metro
■ Intermediate city

- Unqualified with no findings (clean)
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Outstanding audit

Improvement ▲ | Unchanged ► | Regression ▼

Overall outcome movements year on year shows limited progress

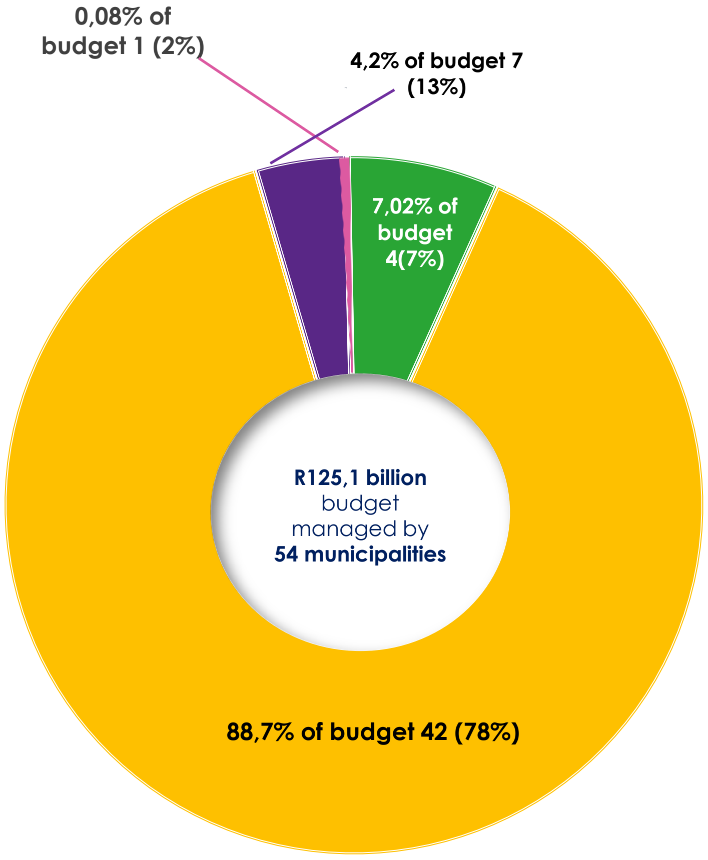
Movement

Audit outcome

Audit outcome	Improved 6	Unchanged 45		Regressed 4
Unqualified with no findings = 4		1. Umlalazi 2. City of Umhlatuze 3. King Cetshwayo District 4. Richmond		
Unqualified with findings = 43	1. Mtubatuba 2. Umdoni 3. Msunduzi 4. Umzumbe	5. eThekwini Metropolitan 6. Mkhambathini 7. Harry Gwala District 8. Uthukela Water (Pty) Ltd 9. Umhlabuyalingana 10. Dannhauser 11. Newcastle 12. Mandeni 13. Umuziwabantu 14. eMadlangeni 15. Maphumulo 16. Ray Nkonyeni 17. Johannes Phumani Phungula 18. Umgungundlovu District 19. uPhongolo 20. Nquthu 21. Okhahlamba	22. iLembe District 23. Ndwedwe 24. Dr. Nkosazana Dlamini 25. Ugu District 26. Zululand District 27. Greater Kokstad 28. Mthonjaneni 29. Umzimkhulu 30. Umngeni 31. eDumbe 32. Abaqulusi 33. Nkandla 34. Alfred Duma 35. Jozini 36. Mpofana 37. Mfolozi 38. Big Five Hlabisa 39. Ulundi 40. Kwadukuza	1. Msinga 2. Umvoti 3. uMshwathi
Qualified with findings = 7	5. Umzinyathi District 6. Endumeni	41. Uthukela District 42. Amajuba District 43. Umkhanyakude District	44. Inkosi Langalibalele 45. Nongoma	
Adverse with findings = 1				4. Impendle

Budget managed by municipalities per outcome; complacency in yellow zone

Audit outcomes



(Budget based on estimated expenditure budget for 2024-25)

42 municipalities with unqualified audit opinion with findings

High levels of non-compliance

- **41 (98%)** with material non-compliance with key legislation
- **R7,08 bn** in irregular expenditure – 91% of total IE incurred by municipalities

Reporting that is not credible

- **31 (74%)** material misstatements in financial statements submitted for auditing
- **34 (81%)** material misstatements in performance reports submitted for auditing
- **17 (40%)** had performance reports that were not useful and/or reliable

Financial performance

- **R3,03 bn** unauthorised expenditure – 67% of total
- **R0,49 bn** fruitless and wasteful expenditure – 78% of total

44 material irregularities – 67% of all MIs

- **37** financial loss – **R1,56bn**
- **7** harm to general public

Complacency evident from stagnation in category

Unqualified with no findings (clean) | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimed with findings

eThekwini Metropolitan –Financial management, performance, compliance and ICT

Audit outcomes

	2024-25	2023-24	2022-23	2020-21
	Last 3 years			Last year of previous administration
Audit outcome				
IT Audit outcome				

Financial statements and financial management

- A well-resourced and skilled finance unit, supported by strong governance structures including internal audit and audit committee oversight, has enabled the production of credible financial statements free of material misstatements for three consecutive years
- eThekwini Metro, responsible for 57% (R71bn) of the total local government budget, remains the largest municipal spender and a major economic hub. However, financial management pressures persist due to weak debt collection, high receivable impairments, and delayed creditor payments, which contribute to liquidity constraints and potential debt covenant non-compliance.
- It was identified that on-functional water meters resulted in consumers not being billed for water usage. This matter led to the issuing of a material irregularity to the accounting officer, with an estimated financial loss of R659,73 million.

Performance planning, reporting and achievement

- All performance indicators prescribed for metros were included in the service delivery and budget implementation plan

Material findings on reliability of reporting

- The audit outcome for the annual performance report was **qualified opinion**. Actual achievements did not align with the reported results for certain indicators and/or reported performance achievements were not adequately supported by evidence for four indicators and targets. Having a qualified opinion on performance information **does not bode well for a metro**, the biggest local government budget holder
- **87,27%** of key service delivery targets were achieved

Unqualified with no findings (clean) | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimed with findings

Compliance and irregular expenditure

- Material non-compliance was identified in expenditure control, procurement and contract management, consequence management, and environmental management
- Irregular expenditure totalled R4,48bn, with limited investigation into accountability. Weak leadership oversight contributed to procurement breaches, including conflicts of interest, unjustified deviations, and weak enforcement of consequences

IT controls

- **ICT governance, legacy systems and ageing IT infrastructure** remain a concern, weakening system stability, data integrity and business continuity
- **Chronic underinvestment in ICT and slow remediation of audit findings** are hindering digital transformation and service delivery improvements, with ICT spending at only 1% of the municipal budget and 77% of prior-year IT findings re-reported
- **Manual, spreadsheet-based processes** with limited automation and integration across Housing, Water and Sanitation, and Electricity undermine the reliability of performance information and the municipality's **ability to achieve its SDBIP service-delivery objectives**

Infrastructure findings and root causes: Service delivery failures across wastewater, pump stations, landfill sites, and capital projects are characterised by infrastructure breakdowns, environmental non-compliance, delays, and cost escalations. These findings are driven by weak planning and prioritisation, poor project and maintenance management, skills shortages, inadequate oversight, and weak accountability, resulting in a reactive approach to infrastructure delivery and ongoing deterioration of municipal assets.

Intermediate city municipalities (ICMs) are unqualified with gaps in service delivery

Overall outcomes *ICMs make up 21% of the local government budget and are a key gateway to improve services rendered

Municipal type	Movement in all ICM audit opinions since previous year	Clean	Unqualified
Intermediate cities (ICM)	▲	1	5

Insights on audit outcomes and financial health

- **Audit outcomes improved overall across ICMs**. The ICM's contribute R25,87 billion (21%) of the total local government budget. Msunduzi reflects an improvement from a previously qualified opinion
- **Newcastle and Alfred Duma had material findings on performance** reports, while the remaining ICMs had none
- **The financial health** of the six ICMs **shows varying degrees of strength**, with three ICMs in a concerning position and three performing well. **The most concerning is Msunduzi**, which bills the highest revenue among the six but has a very high irrecoverable debt level of 87%. No ICM reported a going concern risk in their financial statements

A **material irregularity** was identified at **Msunduzi Municipality** for the **failure to implement the credit control and debt collection policy for consumer debtors**. The municipality has **not taken appropriate action**, and the AGSA has **invoked its powers by issuing recommendations in the audit report**.

Information Technology controls at ICM's

IT controls across ICMs remain weak and uneven, with uMhlathuze and Alfred Duma showing some improvement, while Msunduzi, Ray Nkonyeni, Newcastle, and KwaDukuza continue to face significant weaknesses. **KwaDukuza in particular has weak cybersecurity controls that allowed unauthorised access and fraudulent transactions.**

Budget vs achievement of planned targets

Average budget spent	Average Target achievement
89%	65%

Insights on budget verse achievement of planned targets

- Most budgets were spent, ICMs only achieved on average 65% of service delivery targets. Ray Nkonyeni achieved 96% of its service delivery targets while KwaDukuza only achieved 38%. KwaDukuza experienced delays in the SCM process as well as poor performance from contractors coupled with poor cash flow planning

Insights on infrastructure

- Across ICM's, infrastructure maintenance was generally weak, with poor upkeep of facilities, environmental compliance failures, and service risks such as untreated wastewater discharge and delays in the provision of adequate housing projects.
- Transport and road projects faced delays, cost overruns, and quality issues, while water losses at City of Umhlatuze, Newcastle and Msunduzi municipalities remained high due to leaking infrastructure and slow repairs.
- Overall, inadequate maintenance planning and weak execution have resulted in infrastructure failure, financial losses, and unreliable service delivery.

- Umhlathuze:The Esikhaleni 15ML/day water treatment plant project experienced significant delays and poor value for money, with overpayments identified and recovery now underway through civil processes. The original contractor was terminated, and a new consulting engineer was appointed in 2024-25. Procurement processes were largely compliant in the follow-up review, and findings were not material, but prior issues remain unresolved. Integrated work between PABU, IBU, and RA strengthened oversight of key water infrastructure aimed at reducing water losses, though some contract management weaknesses were noted.
- Msunduzi: The Harewood Housing Project has been delayed by 72 months (vs 36 months planned) due to regulatory, coordination, and land acquisition challenges. Costs escalated significantly, including a projected R39.2m variance for 900 units. Payment and quantity discrepancies (about R1.2m–R1.6m) and SCM non-compliance were also identified, leading to contract cancellation and ongoing investigation through an MI process

District municipalities failing on the basics with big water losses

ROLE OF 10 DISTRICT MUNICIPALITIES *Districts make up 10% of the local government budget and are a key gateway to improve services rendered

- ❑ **Bulk service delivery** – Mainly water and sanitation

Overall outcomes

Municipal type	Movement in all district audit opinions since previous year	Clean	Unqualified	Qualified
District municipalities	▲	1	5	4

Insights on audit outcomes, financial health and IT

- ❑ **Overall audit outcomes remain a concern with 4 districts receiving a qualified opinion and some for more than 3 years, for example uMkhanyakude, uThukela and Amajuba**
- ❑ **Key qualification issues: relate to unbilled revenue and high water losses**
- ❑ **Districts collectively account for R12,93 billion (24%) of the total provincial budget excluding the metro budget**
- ❑ **Ugu demonstrated relatively stable IT controls while uThukela continues to experience ICT governance, cybersecurity and system access weaknesses**

A material irregularity was issued at both uMkhanyakude and uThukela District relating to poor revenue systems and debt collection

Water services not managed and delivered effectively and water losses on the rise

Key findings

- ❑ Underfunded maintenance for water infrastructure
- ❑ Shortage of engineers/technical staff
- ❑ No environmental policy or risk-monitoring processes
- ❑ No water & sanitation maintenance plan
- ❑ Insufficient budget to address service backlogs

Budget vs achievement of planned targets

Average budget spent	Average Target achievement
100%	61%

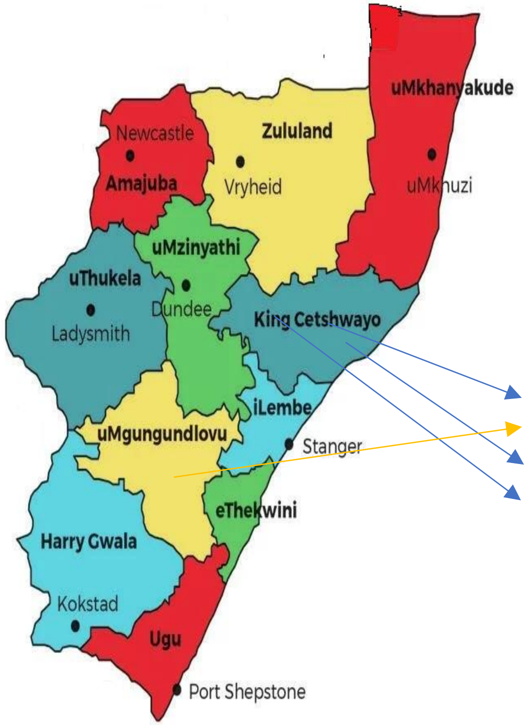
Insights budget verse achievement of planned targets and water losses

- ❑ While most budgets were spent, districts achieved only 61% of service delivery targets on average
- ❑ King Cetshwayo that had a clean audit only achieved 35% of its targets
- ❑ Overall, the main reasons for underperformance: SCM delays and cash-flow constraints
- ❑ COGTA has implemented a programme to reduce water losses, of which the tangible benefits are still to be seen

Impact

- ❑ Lack of maintenance of water infrastructure contributes to high water losses and poor quality of water
- ❑ Residents/communities are deprived of social services, leading to protests, as evidenced by the community unrest in uThukela District and uMkhanyakude districts
- ❑ Revenue enhancement and economic growth stifles as district municipalities cannot invest in infrastructure projects that create employment and livelihoods

Clean audits a solid foundation but still struggle with infrastructure management challenges



4 (23-24: 7)

1. King Cetshwayo
2. Richmond
3. uMhlathuze
4. Umlalazi

Common characteristics:

- Stable leadership in key positions (MM, CFO)
- Strong oversight from councils, audit committees, and internal audit units
- Institutionalised internal controls (not dependent on individuals)
- A culture of accountability led by mayors and senior management

Specific municipal successes:

- **King Cetshwayo District, uMlalazi, and City of uMhlathuze** sustained clean audits due to strong, accountable leadership and well-embedded controls
- **Richmond Municipality** sustained its clean audit because senior management implemented financial discipline and the mayor consistently monitored performance through credible monthly and quarterly reports

Clean audit, "a solid baseline" but need to be more people centric

- Financial health at both Umhlatuze and Richmond is assessed as *good*, although some concerns remain. King Cetshwayo District and Umhlatuze demonstrate strong revenue collection rates, enabling the availability of funds to support service delivery objectives
- King Cetshwayo District and Umhlatuze achieved less than 61% of their planned performance targets, indicating challenges in translating available financial resources into service delivery outcomes.
- Service delivery project failures were also evident in Umhlatuze and King Cetshwayo District, further affecting the implementation of key infrastructure and service initiatives.

Clean audit	Average budget spent	Average target achievement	Financial health	% of Irrecoverable debt	Infrastructure findings
Umhlatuze	**84%**	**60%**	**Good**	**18%**	**Yes**
King Cetshwayo	**95%**	**35,7%**	**Concerning**	**44%**	**Yes**
Umlalazi	**78%**	**90%**	**Concerning**	**76%**	[redacted]
Richmond	**100%**	**81%**	**Good**	**87%**	[redacted]

Overall reflection

- What we have identified is that all of these municipalities are governed well, however it is difficult to be conclusive and state that all their residents are receiving quality basic services. This is because service delivery targets and performance are based on budget availability fail to be achieved. Delivery of quality public services needs to be central at these municipalities while maintaining current governance profiles
- The general pitfalls of infrastructure project implementation are still prevalent within clean municipalities. Despite having better control environments, project management controls remains a challenge as there are still a regular occurrence of delays and extension of time payments. Positively, we observed these municipalities to be decisive in that they replace contractors when poor performance occurs

Infrastructure delivery and maintenance

Total infrastructure projects audited : 30

Value of projects audited: R1,3 billion

Electricity:	Housing:	Roads:	Water:	Sanitation	Solid Waste:	Wastewater:
1	2	12	4	2	4	5

Infrastructure project life cycle

PLANNING

- Needs assessment
- Feasibility studies
- Budget
- Designs

IMPLEMENTATION

- Professional services
- Monitoring
- Supervision

MANAGEMENT

- Time
- Cost
- Quality

COMMISSIONING

- Used for intended purpose
- Used optimally

What we found

Project Planning - Poor upfront planning, weak risk assessment, inadequate designs

Project Implementation - Contractor non-performance, quality defects, and incomplete/delayed projects

Project Management - Poor monitoring of cost, quality and progress; payments for sub-standard quality

Project Commissioning - Facilities unusable due to defects or lack of services

What caused this?

Systemic governance and operational weaknesses which include:

- Inadequate strategic planning and prioritisation
- Weak accountability enforcement
- Poor project/maintenance management
- Funding / budget misalignments
- Lack of co-ordination

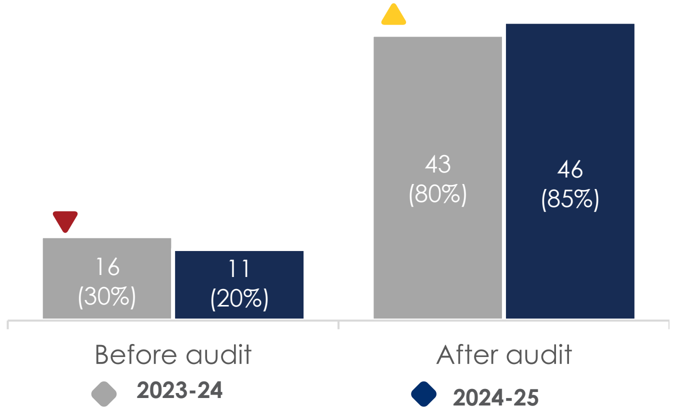
Impact

- Projects commenced without readiness, leading to delays, scope changes and funding shortfalls
- Extended delays with associated financial losses
- Fruitless and wasteful expenditure
- Service delivery failure, regulatory non-compliance, and reputational damage

Financial reporting – High costs to produce financial statements with quality still being an issue

Credibility AFS to enable accountability and transparency

AFS with no material misstatements



- Material misstatement in financial statements **before the conclusion of the audit** remains a problem *(gotten worse by 10% from prior year)*
- **Auditees continue to rely** on the audit process to identify and process material adjustments to obtain unqualified opinions
- Although consultants are used, the **expected return on these services is not realised** as financial statements still require material changes.
- The most common qualification areas were **cash flow statement**, **revenue and receivables from exchange transactions**, **expenditure and property, plant and equipment**

Overall – use & spend:

Ineffective use of consultants for financial reporting

- **R216 million** (2023-24: **R227 million**) – total cost of **financial reporting consultants**
- **49 municipalities** *(90%)* (2023-24: **48 municipalities** *(89%)*) used financial reporting consultants every year

Main reason for consultants' ineffectiveness	Nature of consultant's work	Main reason for appointment of consultants
• Consultant's work not timeously or adequately reviewed	• Asset management – **R65m** (2023-24: **R85m**) • Preparation or review of financial statements – **R53m** (2023–24: **R46m**) • Tax services cost – **R67m** (2023-24: **R69m**)	• Lack of appropriate skills – *(Vacancies are a secondary factor)*

Findings on consultants

- Consultants are recurring for majority of municipalities
- No consultancy reduction plan in place
- No evidence that skills transfer or training programmes took place
- Consultants appointed to perform work of a permanent or continuous in nature
- Consultants appointed without conducting needs assessment or gap analysis
- Consultants appointed at rates higher than those proposed by regulatory bodies
- Inadequate measures to monitor performance and delivery in a consultancy project

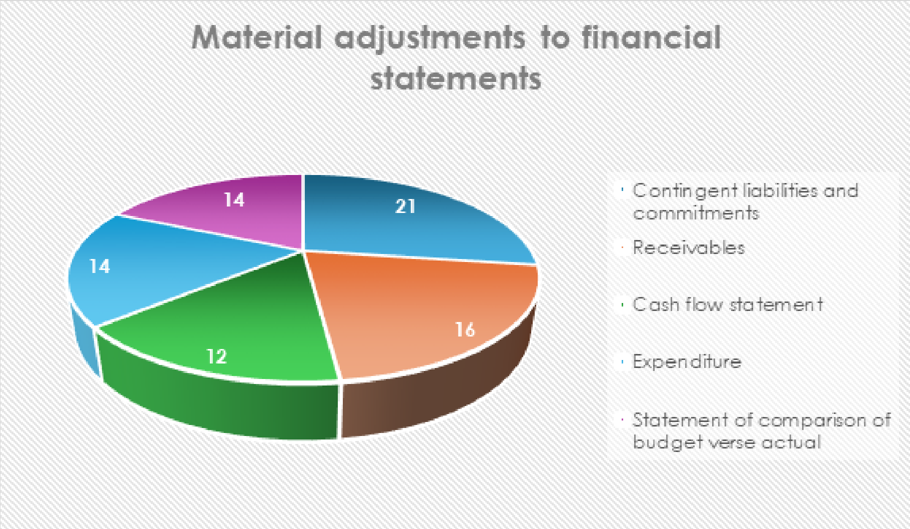
uMkhanyakude District Municipality – High spend- R17,3 m (2023-24: R10m)

- **Four** consultants were appointed
- **R11,3m** – paid for preparation and review of financial statements
- Audit opinion – **Qualified** *(also for the past two years) (**No improvement**)*
- **14** *qualification areas were identified*
- **Use of consultants non-compliances** – no needs assessment, no consultant reduction plan, contracts not monitored and no skills transfer

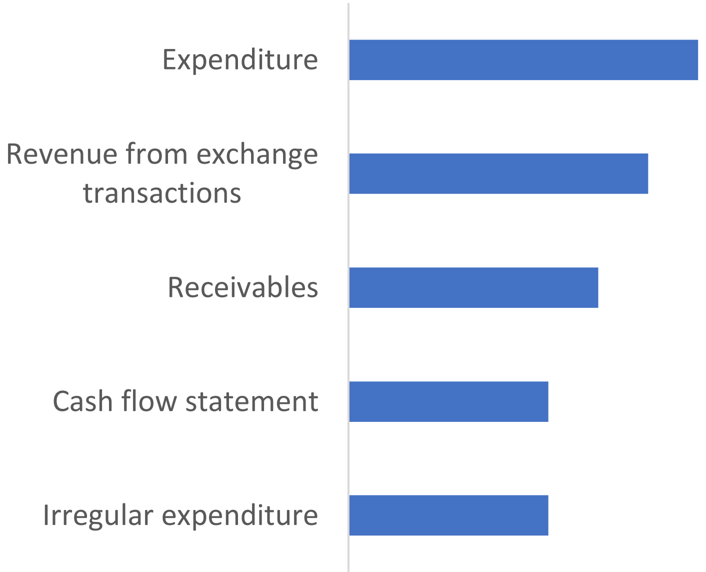
Movement from 2023-24

Improvement | Unchanged | Slight improvement | Slight regression | Regression

Most common material adjustments to financial statements and qualification areas



Qualification areas



If material adjustments cannot be processed, then qualifications arise.

Municipalities that attained qualified audit opinions
- Endumeni
- Umzinyathi District
- Umkhanyakude District
- Amajuba District
- Uthukela District
- Nongoma
- Inkosi Langalibalele

Key control deficiencies and root causes

Key internal control deficiencies identified across the qualified municipalities include:

- Inadequate record keeping controls over expenditure.
- Poor systems and inadequate monitoring of revenue recording.
- Limited understanding or poor application of GRAP requirements.
- Cash flow statements not reviewed for accuracy.
- Insufficient understanding of VAT requirements.
- Weak or inconsistent review of key financial estimates in the financial statements.
- Audit actions plans not monitored and not adequately addressing the root cause of the deficiencies noted.
- Failure to implement Provincial Treasury recommendations during the financial statement preparation process.

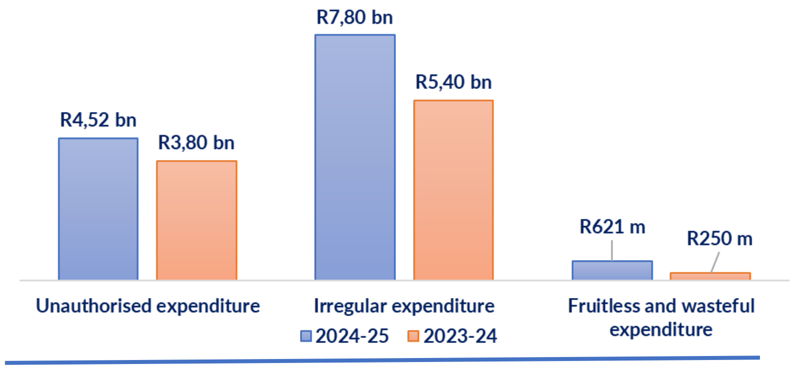
Impact

- Reduced credibility and public trust due to unreliable financial reporting
- Difficulty accessing funding and loans as lenders perceive higher risk
- Negative impact on service delivery due to poor financial management
- Increased pressure on governance structures to strengthen oversight and controls

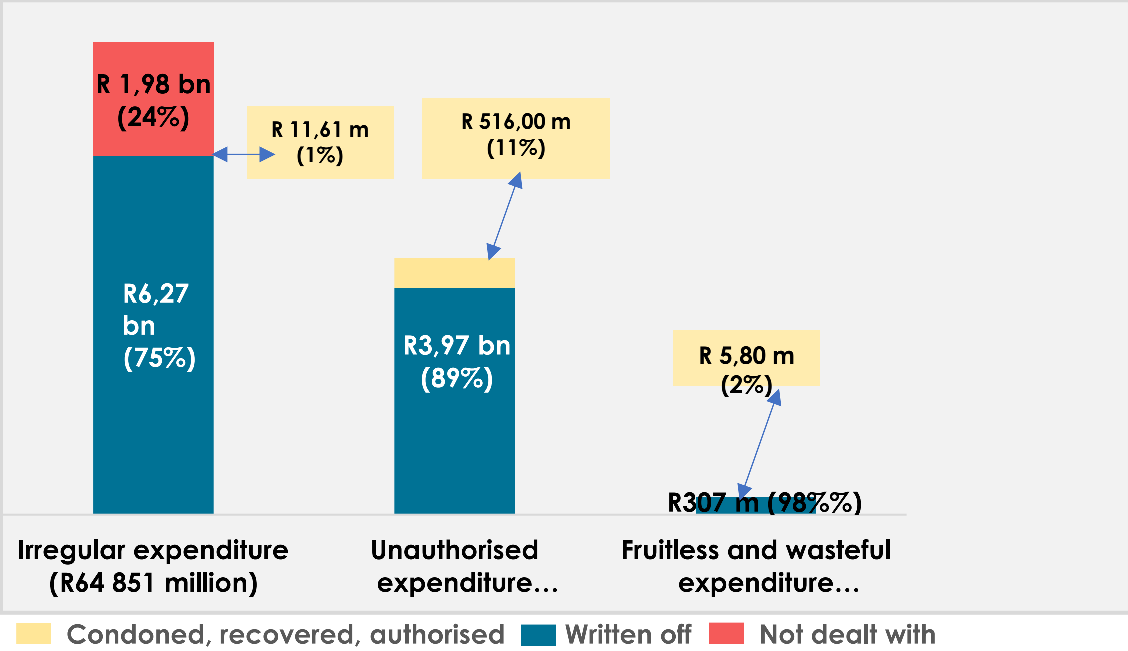
An example, is Uthukela District Municipality which received a revenue qualification due to poor revenue management, with 92% of debt deemed irrecoverable, weakening its revenue base and leading to going concern uncertainty, constrained cash flow, and underfunded infrastructure and maintenance. This has a negative impact on service delivery.

Non-compliance continues to drive up unauthorised, irregular and fruitless and wasteful spending

Annual unauthorised, irregular, fruitless and wasteful expenditure incurred



How have auditees dealt with all prior year unauthorised, irregular, fruitless and wasteful expenditure



Top 3 contributors - Unauthorised expenditure:

- Ugu District – R1,03 billion (2023-24: R1,10 billion)
- Umkhanyakude District – R484,4 million (2023-24: R171,80 million)
- Newcastle – R467,8 million (2023-24: R173,90 million)

Top 3 contributors – Irregular expenditure:

- eThekwini Metro – R4,48 billion (2023-24: R1,61 billion)
- Umdoni– R303,7 million (2023-24: R16,4 million)
- Abaqulusi– R265,3 million (2023-24: R125,6 million)

Top 3 contributors – Fruitless & wasteful expenditure:

- Msunduzi – R160,2 million (2023-24: R44,89 million)
- Newcastle– R71,60 million (2023-24: R24,00 million)
- eThekwini – R67,40 million (2023-24: R6,7 million)

*UIWE spending has **risen sharply** due to weak supply chain management and poor budget controls. **Compliance issues** remain serious and need stronger oversight, and the true amounts may be higher because four municipalities had **incomplete reporting** on irregular expenditure.*

***Progress in addressing prior years' unauthorised, irregular, fruitless and wasteful (UIFW) expenditure has improved.** However, a lack diligent and rigorous investigations has created an environment where transgressions continue to fester without deterrence. This is evident in the regression in SCM non-compliance.*

*At its core, **the persistence of UIFW is driven by a culture of weak accountability and limited consequences,** which undermines governance, erodes fiscal discipline, and perpetuates non-compliance. Unless this cycle is broken, financial leakages will continue to divert scarce financial resources and personnel away from service delivery priorities.*

Material non-compliance with key legislation

49 (91%) (2023-24: **47** (87%)) - municipalities had **material non-compliance findings**

Common non-compliance findings	Movement
Prevention of unauthorised, irregular & fruitless and wasteful expenditure	Unchanged
Material misstatement or limitations in submitted financial statements	Unchanged
Procurement and contract management	Regressed
Expenditure management	Slight regression
Consequence management	Slight regression
Revenue management	Slight regression
Strategic planning and performance management	Improvement

Topmost non-compliances

- Prevention of unauthorised, irregular & fruitless and wasteful expenditure **39 (72%)** (2023-24: **39 (72%)**)
- Material misstatement or limitations in submitted financial statements **38 (70%)** (2023-24: **38 (70%)**)

Weak financial management and fiscal sustainability risks

What we found

- 36% (2024: 27%) of municipalities **ended the year in deficit (expenditure more than revenue)**
- Next year's budget will pay for expenditure of previous year(s) – at 25% (2024:25%) **municipalities it will be more than half of their budgets**
- At 24 (2024:18) municipalities **more than 80% of debt cannot be recovered** – debt-collection period at 33 (2024: 16) municipalities was more than 90 days
- 4 (7%) (2024: 5 (9%)) **municipalities disclosed significant doubt** in financial statements about their **ability to continue operating as a going concern in the foreseeable future**
- Third party deductions overdue **amounted to R255,98 million** at 14 municipalities
- At 44 (2024: 35) municipalities the **creditor payment period** exceeded **30 days**

Unauthorised expenditure – R4,52 bn related to overspending (2023-24: R3,80 bn)

Financial losses due to:

1. Poor payment practices resulting in interest and penalties
2. Poor debt collection practices
3. Electricity and water distribution losses above acceptable norms

Asset management:

- At 74% (2024:81%) of municipalities **the repairs and maintenance expenditure** on infrastructure assets was below the norm of 8%
- At **58 %** of municipalities the asset rehabilitation expenditure on existing assets is below the norm of 40%

R620,58 mil fruitless and wasteful expenditure related to interest and penalties (2023-24: **R250,48 mil**)

Impact

- Going **concern uncertainties** at 4 municipalities :
  - Mpofana (>5 years)
  - Ugu District (>5 years)
  - uThukela District (>5 years)
  - Okhahlamba (1 year)
- Low debt collection rates lead to reduced budgets for essential services such as water, electricity, waste removal, and road maintenance
- Insufficient spending on **repairs and maintenance** resulting in **infrastructure deterioration**
- Poorly maintained infrastructure undermines **essential services** such as water supply, sanitation, roads, electricity, and waste management

Weak ICT governance, cyber security controls and aging IT infrastructure compromises financial management, data credibility, and oversight

What we found overall

- IT controls remain concerning across the province. Intervention is required at Msinga Municipality due to repeat findings despite new IT systems and ineffective cybersecurity controls at KwaDukuza Municipality enabled unauthorised access and fraudulent transactions
- **Widespread weaknesses in IT general controls** across the focus areas of ICT governance, security management, user access management, IT service continuity, program change management and physical and environmental controls were noted
- The **persistence of several IT control gaps** indicates that corrective actions committed to in previous years were either insufficient or not implemented with the urgency required
- The IT function remains **largely reactive rather than strategic**, heightening exposure to cybersecurity risks, reducing system reliability and limiting its ability to support digital transformation and improved service delivery

Detailed findings

- **ICT governance and strategic planning remain inadequate** due to poor alignment of Integrated Development Plans (IDPs) and ICT strategies, weak oversight by council, senior management and ICT governance committees, and the insufficient prioritisation and chronic underfunding of ICT projects, which continue to limit system modernisation and digital service delivery
- **Limited internal capacity and over-reliance on external service providers** further weakened controls, resulting in inappropriate system access and suboptimal administrative support
- **Significant control weaknesses in IT security and access management** including ineffective cybersecurity controls, inadequate user access monitoring, excessive and conflicting user rights assigned, and poor segregation of duties expose municipalities to cyber incidents, fraud, and service disruptions
- **Outdated and vulnerable IT infrastructure** such as servers in critical condition, continues to undermine system stability, data integrity and business continuity. Several municipalities still operate on outdated and unsupported technology or legacy platforms, increasing vulnerability and limiting control

Impact

- **Service delivery is hindered**, as outdated systems, fragmented ICT operations and manual processes slow down municipal operations, reduce reliability of financial and performance information and hinder the municipality's ability to respond effectively to residents
- **Compromised system reliability, data integrity and business continuity**, driven by outdated infrastructure, unsupported systems and weak ICT controls
- **Increased exposure to cyber and operational risks**, due to unmanaged vulnerabilities, inadequate governance, and poor alignment between ICT and business
- **Digital transformation is stalled,** limited funding, siloed ICT leadership and delayed modernisation projects prevent the municipality from modernising its technology environment, improving integration and enabling an efficient, future-ready municipality

Recommendations

- **Strengthen ICT Governance and Executive Oversight** – Municipal Managers and Council must ensure ICT strategies are fully aligned to IDPs, adequately funded and actively monitored through governance structures
- **Improve ICT Capability and Control Environment** – Heads of ICT should enforce robust IT security, user access management, and segregation of duties, and reduce reliance on external service providers through strengthened internal capacity
- **Modernise and Sustain ICT Infrastructure** – Municipal Management and Heads of ICT must implement a funded, risk-based ICT lifecycle management and modernisation programme to replace outdated systems, improve resilience, and support reliable service delivery

Material irregularities (MIs) - number identified, impact and status

66 MIs identified on **non-compliance and suspected fraud**, resulting in:

56 Material **financial loss** (estimated R1,82 bn)

- 31 **Payments** for goods and services not received / of poor quality / not in line with contract / to ineligible beneficiaries / not made or not made in time / no benefit from cost
- 3 Unfair, uncompetitive or uneconomical **procurement**
- 2 **Interest and penalties**
- 2 **Inefficient use of resources** resulting in no/limited benefit derived for money spent
- 12 **Debt** not recovered/ **unbilled** revenue
- 5 **Assets** not safeguarded
- 1 **Fraud**, resulting in loss

7 Substantial **harm to general public**

- 2 **Poor landfill site management**, resulting in harm to the general public
- 3 **Pollution of water resources**, resulting in harm to the general public
- 1 **Assets not safeguarded**, resulting harm to general public
- 1 **Poor project management**, resulting in harm to general public

3 Substantial **harm to public sector institution**

- 1 **Non-submission** of annual financial statements
- 1 Repeated **disclaimed auditee**
- 1 **Lack of controls,** resulting in harm to institution

Observation from MI process

- Through the MI process, we have observed that accounting officers are increasingly taking appropriate steps to address material irregularities. As a result, 40 of the 66 MIs have been successfully resolved
- The actions taken by the accounting officers have led to a positive shift in culture, with auditees improving their internal controls. As a result, there has been no recurrence of the same MIs among the auditees

Impact made

R204,2 mln *Financial loss* ***recovered, prevented*** *or* ***being recovered***

R1,52 mln (4 MIs)	Financial loss **recovered**
R9,41 mln (4 MIs)	**Financial loss prevented**
R193,27 mln (8 MIs)	Financial loss **in process of being recovered**

- **43 MIs** – **Internal controls improved** to prevent recurrence
- **14 MIs** – **30 Responsible officials identified** and **disciplinary process completed/in process**
- **1 MI** – **Submitted overdue financial statements**
- **3 MIs** – **Fraud/criminal investigations** instituted
- **1 MI** – **Repeat disclaimed opinions prevented**
- **2 MIs** – **Supplier contracts stopped** where money was being lost
- **5 MIs** – **Addressing harm to general public**

Status of MIs

- **40** **Resolved**
- **14** **Appropriate action** being taken to resolve MI
- **1** **Not pursued further**

9

- 2 **Recommendations** included in audit report
- 4 **Referral** to other investigating bodies
- 1 **Referral and recommendations**
- 2 **Remedial action**

- **1** **Response received on notification** – in process of assessing action
- **1** **Recently notified**

Call to action

Rising service delivery, infrastructure, and financial failures driven by weak governance

Key areas for attention

1. **Poor planning, preventative controls and long-term financial discipline**
2. **Institutional instability and limited leadership capacity**
3. **Weak accountability and consequences**

Our recommendations

Recommendations to accounting officers

- Accounting officers must treat audit recommendations and **post-audit action plans as binding management tools**, supported by clear timelines, assigned accountability, and regular monitoring
- Consequence management must be enforced decisively against transgressors, while focused attention is given to **strengthening revenue collection, cash-flow management, infrastructure maintenance, and project delivery**

Recommendations to Councils and Mayors

- Councils and Mayors must provide firm oversight and **hold management accountable for repeat audit findings** by demanding measurable progress on post-audit action plans
- **Governance stability must be restored** through the timely filling of critical vacancies and limiting prolonged acting appointments.
- Councils must **reject unfunded budgets**, realign expenditure towards core services, and ensure that **MPACs are functional** and adequately capacitated

Recommendations to IA and AC

- **Internal audit units and audit committee's must provide proactive assurance** on the implementation of audit action plans and the effectiveness of consequence management
- **Repeat findings**, governance weaknesses, and slow corrective progress must be **escalated early by the chair of the audit committee to council**, to prevent audit regression

Recommendations to MPAC

- **MPACs must act decisively** on audit findings related to unauthorised, irregular, fruitless and wasteful expenditure by ensuring timely, credible, and impact-driven investigations
- **Disciplinary processes, recovery of losses**, and criminal referrals where warranted must follow
- **Persistent non-cooperation** and governance failures should be **escalated to council and COGTA,** and progress reports must be a standard agenda item in monthly council meetings

MFMA audit readiness

AUDITOR-GENERAL
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Step by step approach to clean audits

Clean audit process flow

Step 1: Leadership Commitment

Set the tone at the top: **Zero tolerance for mismanagement**

Include clean audits as a **strategic goal**

Develop an **Audit Readiness Plan** aligned to IDP and SDBIP

Step 2: Strengthen Governance Structures

Ensure active **Municipal Public Accounts Committee (MPAC)**

Appoint skilled and independent **Audit Committee**

Regular oversight meetings and follow-up on **AGSA findings**

Step 3: Effective Risk Management

Update and monitor a **Risk Register**

Link risks to **strategic objectives and controls**

Conduct quarterly **risk assessments**

Step 4:Improve Financial Management

Daily, monthly, and quarterly **financial reconciliations**

Proper **asset and liability management**

Clear **delegation of financial responsibilities**

Implement **mSCOA** fully and correctly

Step 5: Quality Performance Information (PDOs)

Align **IDP** → **SDBIP** → **Performance Agreements**

Use SMART indicators (Specific, Measurable, Achievable, Relevant, Time-bound)

Document **evidence** for every reported achievement

Step 6: Legal Compliance Culture

Maintain an **updated compliance checklist**

Train officials on key legislation: **MFMA, MSA, SCM Regulations**

Monitor **SCM processes** to ensure transparency and compliance

Recommendations to improve the quality of submitted financial statements

- Municipalities should have adequate capacity and the required skills in place. The tasks, roles and resources required for the accounting and reporting function have been defined
- Municipalities must have well-established effective and standardised processes for daily and monthly accounting disciplines. Officials understand what should be done and are enabled to execute their duties in a consistent and effective manner
- Proper record keeping means that transactions are processed in a complete, accurate and timely manner and facilitates the availability of sound and up to date records to support in-year and year-end financial reporting
- Reviewers with the appropriate knowledge and skills as well as relevant qualifications should regularly review the accounting records and this should include performing spot checks of the records to the underlying documentation supporting the transactions
- The year-end financial statements, which are submitted for audit cannot be the first set of financial statements that the finance unit of the institution prepares for the financial year
- Devise action plans to specifically address the external and internal audit findings and assign clear responsibility to specific staff members to carry out action plans and ensure that the responsibilities assigned are executed effectively and consistently through monitoring
- Internal audit should review the financial statements for accuracy, compliance, and adequacy of internal controls, and report any material misstatements or weaknesses to management and the audit committee
- The audit committee should provide independent oversight by evaluating the integrity of the financial reporting process, reviewing key judgments, and ensuring that management addresses identified issues before approval
- Implement skills transfer plans were consultants are used to prepare the GRAP financial statements in effort to upskill existing officials and reduce reliance on consultants

GRAP reporting framework updates

GRAP pronouncements effective for financial periods commencing on or after 1 April 2025.

The following GRAP pronouncements, or amendments to such pronouncements, became effective for the first time for financial statements covering periods beginning on or after 1 April 2025 (i.e. these pronouncements are effective for 31 March, 30 June and 31 December 2026 year-ends):

GRAP pronouncements	
New pronouncements	**Amended pronouncements**
• GRAP 104 on *Financial instruments* (revised) • IGRAP 22 on *Foreign Currency Transactions and Advance Consideration*	None

- GRAP 104 (revised) introduces significant changes to the accounting for financial instruments compared to the previous (2009) version of the standard.
- These changes align GRAP 104 (revised) more closely with the latest international financial instrument accounting principles in IPSAS 41 Financial Instruments and IFRS 9 Financial Instruments.
- The most significant changes are in the areas of scope, classification and impairment. GRAP 104 (revised) brings loan commitments and financial guarantee contracts into scope, provides clearer guidance on concessionary arrangements, shifts to a principles-based classification approach based on the contractual cash flow characteristics test (SPPI) and business model assessment, replaces the incurred-loss model with a forward-looking expected credit loss model for impairment, and enhances disclosures.

Municipalities must ensure that the enhanced disclosures in terms of GRAP104 are adequately disclosed in their financial statements for the 30 June 2026 financial period.

GRAP pronouncements effective for future financial periods

The ASB has issued the following GRAP pronouncements that will become effective for financial periods commencing on or after the indicated dates, as determined by the Minister of Finance (i.e. these pronouncements are not yet effective for 31 March, 30 June and 31 December 2026 year-ends)

GRAP pronouncement	Effective date
GRAP 1 on *Presentation of Financial Statements* (2022 amendments related to going concern)	1 April 2027
GRAP 103 on *Heritage assets* (amended)	1 April 2027
GRAP 105 on *Transfer of Functions Between Entities Under Common Control* (amended)	1 April 2027
GRAP 106 on *Transfer of Functions Between Entities Not Under Common Control* (amended)	1 April 2027
GRAP 107 on *Mergers* (amended)	1 April 2027
Improvements to Standards of GRAP (2023)	To be determined

Recommendations to improve predetermined objectives

Define Clear Objectives

Clearly define predetermined objectives relevant to the municipality's goals and mission. Ensure that these objectives are specific, measurable, achievable, relevant, and time-bound

Establish performance measures

Develop performance measures or key performance indicators (KPIs) aligned with each predetermined objective. These measures should quantitatively assess progress toward achieving the objectives

Allocate adequate resources

Allocate sufficient resources, including budgetary allocations, personnel, and technology, to support the achievement of these predetermined objectives

Implement monitoring mechanisms/controls

Establish robust monitoring mechanisms to track progress toward predetermined objectives regularly. This may involve periodic reviews, data collection, performance reports, and stakeholder feedback.

Maintain documentation and evidence

Maintain comprehensive documentation and evidence related to the implementation of activities aimed at achieving plan targets. This documentation should include reports, records, meeting minutes, and any other relevant information.

Perform internal reviews

Conduct internal reviews or self-assessments quarterly to evaluate progress and identify any deviations from the predetermined objectives. Address any issues or gaps identified during these reviews promptly (internal audit)

Transparency and Accountability

Foster a culture of transparency and accountability within the municipality. Communicate openly with stakeholders about financial matters and provide access to relevant information

MFMA audit scope 2025-26- Predetermined Objectives

- The Public audit manual (PAM) provides for reasonable assurance engagements, limited assurance engagements and findings engagements for AOPO.
- The **opinion or conclusion** on the audit of the reported performance information **will not be included in the auditor's report for 2024-25**.
- Scoping of subject matters should be done with a bias towards those that deal with the delivery of basic services (i.e. water and sanitation, housing and electricity) and related infrastructure.

Recommendations to address compliance findings

Basic SCM checklists to monitor compliance with SCM regulations

Trainings and workshops on the application of SCM regulations and other compliance requirements applicable to the municipality

Investigation of previous UIFWE balances

Disciplinary steps in terms of the disciplinary policies should be taken against officials who permit UIFWE

Enhance review processes to detect and correct errors early, reducing the risk of material misstatements in the financial statements.

Establish monitoring and oversight mechanisms to track implementation of audit action plans and prevent recurrence of findings.

Internal audit should perform regular compliance audits and advise management on gaps in legislation adherence and control weaknesses.

The audit committee should provide independent oversight on compliance with applicable laws and regulations and review key risk areas

MFMA audit scope 2025-26- Compliance

The following are the compliance themes selected for the 2025-26 MFMA audit cycle:

- Annual financial statements, performance reports and annual reports
- Asset management
- Consequence management
- Environmental management (metros' only)
- Expenditure management
- Human resource management
- Procurement and contract management
- Revenue management
- Strategic planning and performance management
- Utilisation of conditional grants
- Oversight and governance

Value adding work: Infrastructure focus

Infrastructure

The state of public infrastructure in South Africa is at the edge of collapse and generally at risk of failing to serve its purpose, impacting on the delivery of basic services to the citizens of the country. In addition, government has also not been able to execute infrastructure projects with agility to enable creation of jobs or work opportunities or to stimulate economic growth

Focus

- Interrogating **the mandate** of various stakeholders responsible for regulating, implementing, monitoring and enforcing infrastructure
- **Intergovernmental planning** not enabling functioning communities and/or functional infrastructure which are accessible to enable service delivery.
- **Key service delivery indicators** are included in annual service delivery/performance plans, which affects the lives of citizens.
- Non-maintenance of infrastructure **(preventative/planned maintenance)** leads to inflated emergency costs and aged/compromised infrastructure that does not serve the intended purpose.
- Audit infrastructure project delivery stages which incorporate planning, project implementation (including time, cost, build quality) and commissioning.

Critical success factors

- Effective infrastructure coordination, collaboration and deliverables **that are synchronised** in the eco-system.
- **Proper needs assessment** and feasibility studies conducted prior to constructing infrastructure and to aid in the process of prioritisation of various infrastructure projects.
- Non-performing contractors and/or professional service providers being **held accountable for non-performance**.
- **Comprehensive planned maintenance** programmes that are executed in a timely manner to ensure that existing infrastructure remains functional.
- Effective **monitoring and enforcement by regulatory bodies** in infrastructure.

Risk areas (Accounting)

- Reliance on experts (Management, external) affecting impairment values.
- Management does not review the appropriateness and reasonability of assumptions (Useful lives, depreciation methods, asset condition, desktop measurements, past estimates not reviewed for relevance, benchmarks not adapted and blanket approaches, asset components not depreciated separately, repairs +maintenance+breakdowns+performance of asset not factored into valuations).
- Genuine public concerns on infrastructure yet no impairments.

M•Y•A•P
MULTI YEAR AUDIT PLAN

Value adding work: Spotlight on housing

Housing :Metros and other municipalities

Focus

- ***Community engagements*** *took place and specific needs raised.*
- *Confirm* ***alignment between community needs*** *identified and projects approved.*
- *Confirm process to assess the need, identification, and release of land.*
- *Confirm whether* ***town planning*** *considered social needs i.e., schools, hospitals etc.*
- *Determine alignment between* ***completion*** *of houses and* ***availability*** *of bulk infrastructure.*
- ***Needs assessment*** *through community engagements (IDPs/Business Plans).*
- ***Land*** *– needs assessment, identification, and release.*
- ***Town and bulk infrastructure planning*** *and implementation to support development of sustainable human settlements and integrated communities.*

Critical success factors

- *Provide impactful insights to influence the identified role players in the accountability ecosystem to implement effective and transparent processes for the prioritisation and allocation of housing to the deserving citizens.*

Risk areas (Accounting)

- ***Reliance on experts (Management, external)***
- ***Accounting for bulk infrastructure (GRAP 109, vs GRAP 17)***
- ***GRAP 11, 12, 17***
- ***Accounting for land (IGRAP 18)***

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