

Metro Budget Notes

July 2019

NOTHING ABOUT US WITHOUT US: **An Informal Settlement Perspective on the 2017/18** **Audit Findings for Metropolitan Municipalities**

by Carlene van der Westhuizen with Teboho Tsietsi and Albert van Zyl

This note reviews the Auditor General's findings on local governments for 2017/18 from the perspective of informal settlement residents in metropolitan municipalities (Metros)¹. Informal settlement residents depend on Metros for basic services such as water, sanitation, electricity, and waste removal, as well as for the upgrading of their settlements. The performance of Metros is therefore of critical importance to them.

While the audit outcomes for Metros remain mostly unchanged from the previous financial year, the Auditor General raises concerns about the financial health of some of the Metros and several problems that impact service delivery to informal settlements in particular². We discuss these problems in more detail below.

This report shows that because of the problems with procurement, informal settlement residents (who receive most of their services from private contractors), feel the consequences of poor financial management more heavily than anyone else.

Of equal concern is the Auditor General's reminder that local governments are continuing to not act on its recommendations. While the Public Audit Amendment Act of 2018 will enable the Auditor General to act against the most blatant cases, this problem is too big to leave to the Auditor General alone. The Social Audit Network (SAN) has shown that informal settlement residents themselves can work with government to monitor services and financial management. Such citizen-based monitoring needs to be done on a much larger scale if we are going to turn the tide. SAN is therefore engaging with several parts of government to scale up citizen-based monitoring.

Problems with procurement and supply chain management

In many informal settlements, residents receive temporary basic services (such as water delivered by water tankers and chemical toilets) from private contractors appointed through the procurement process. Problems with procurement therefore have a direct bearing on informal settlements.

¹ See <https://www.agsa.co.za/Reporting/MFMAReports/2017-2018MFMA.aspx> for the consolidated general report.

² The findings only relate to seven of the eight metropolitan municipalities; Buffalo City, Nelson Mandela Bay, City of Johannesburg, City of Ekurhuleni, eThekweni, City of Tshwane and City of Cape Town. The audit of Mangaung had not been finalised at the time of this report.

Over the last few years, community-led social audits of the problems with the delivery of these services have found evidence of contract violation by service providers, a lack of monitoring of service delivery by the responsible municipality (including no provision for fault reporting), and vague bid specifications³. In addition, they found evidence of contracts being extended on a verbal basis or through a deviation process, but without a proper evaluation of the delivery of the service⁴.

In the 2017/18 audit findings the Auditor General found a number of examples of lack of compliance with procurement legislation in all Metros:

- In some Metros, the performance of contractors was not monitored on a monthly basis, and in addition, proper contract performance monitoring measures were not in place,
- In some cases, contracts were found to have been extended or modified without the approval of the relevant official,
- Some Metros did not invite competitive bids or did not justify deviations from the competitive bidding process, and
- In some cases, the criteria applied in the evaluation of bids were different from those in the bid specifications or criteria were not specified at all.

The scale of these problems is shown by the fact that 95 per cent of irregular expenditure by the Metros is attributed to non-compliance with supply chain legislation or procurement processes. It is therefore clear that informal settlements are impacted much more heavily than anyone else by these problems.

Infrastructure projects and grant management

The Auditor-General also specifically audited infrastructure projects. These projects cover a number of services that are important to informal settlement residents such as water, sanitation, roads, electricity, and housing. Some of the common problems found by the Auditor General include:

- Quality issues due to the inadequate monitoring and supervision of service providers by Metros;
- Delays in projects beyond their planned completion dates;
- Planning documents not including targets and indicators to measure the performance of the projects;
- Underspending, as well as overspending in some cases of annual project budgets;
- Non-compliance with supply chain management requirements; and
- Annual or multi-year project targets not achieved.

While not specific to the Metros, the Auditor General also identified shortcomings in the maintenance of infrastructure by municipalities. Similar to some of the challenges described above, the Auditor General highlighted underspending of grants, delays in project completion, and non-compliance with supply chain management legislation. These findings resonate with the experiences of residents in informal settlements who experience a lack of maintenance of services such as ablution blocks, flush toilets, and the VIP toilet structures⁵.

³ See <https://socialaudits.org.za/reports/> for the reports.

⁴ Van der Westhuizen, C. 2018. Systemic challenges facing the procurement of outsourced basic services for informal settlements. Available online <https://www.internationalbudget.org/publications/south-africa-systemic-challenges-facing-the-procurement-of-outsourced-basic-services-for-informal-settlements/>

⁵ See for example https://socialaudits.org.za/wp-content/uploads/2018/01/thembelihle-social-audit-report_20180202.pdf

Other findings

The Auditor General found that the overall financial health of Metros had regressed from the previous year, including an increase in unauthorised expenditure. The Auditor-General examined the leadership, financial and performance management, and governance of Metros to try to identify the reasons for financial health issues and other challenges. He identified a regression in all of these areas, and specifically mentioned the slow response by management to audit recommendations, and a lack of consequences for poor performance and transgressions as main reasons for this regression.

What is Financial Health? The financial health of a municipality or a Metro refers to its ability to meet its financial and service delivery obligations. To assess a Metro's financial health, the Auditor-General looks at certain indicators, including the Metro's ability to collect money owed to it and how much debt it has.

What the Auditor General thinks should be done

To address some of the findings above, the Auditor-General recommends that:

- the implementation of quarterly monitoring of audit action plans;
- the implementation of proper financial record keeping, and daily and monthly controls to make sure that all financial transactions are accurate and processed on time;
- improved monitoring by management and accounting officers in a Metro to make sure that internal controls are followed, risks are managed, and outcomes are achieved; and
- that steps should be taken against Metro officials who do not comply with relevant legislation or who show persistent poor performance.

But is this enough?

The Auditor General reminds us of these problems every year. As we argued above, informal settlement residents themselves can help to address these problems on a much larger scale. The Social Audit Network is therefore engaging with several parts of government to try and make this happen.

One of the most serious barriers to citizen-based monitoring that SAN has identified, is that it can take up to six months to obtain the procurement information needed to do a social audit. Metros and national actors like the Office of the Chief Procurement Officer should therefore work together more closely to make sure that the following documents and information are published and easily accessible:

- For each tender, the full set of tender documents including the bid specifications – for at least the duration of the contract;
- Detailed information on the tender awards;
- Any additional agreements such as delivery schedules or service agreements that did not form part of the original bid specifications and were concluded after the award of the tender;
- Detailed information about any deviations from and extensions to contracts; and
- The annual procurement plan (list of upcoming bid opportunities).

International Budget Partnership South Africa

<https://www.internationalbudget.org/budget-work-by-country/ibps-work-in-countries/south-africa/>

Contact: Carlene van der Westhuizen email: cvanderwesthuizen@internationalbudget.org

Facebook: [internationalbudgetpartnershipsouthafrica](https://www.facebook.com/internationalbudgetpartnershipsouthafrica)

