CORRUPTION RISK ASSESSMENT REPORT:

MAKANA LOCAL MUNICIPALITY

December 2025

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EXECUTIVE SUMMARY

This report presents the findings of a targeted corruption risk assessment for the Makana Local Municipality (MLM), focusing on identifying structural vulnerabilities within financial management, public procurement, and human resource recruitment systems. Situated within the Sarah Baartman District of the Eastern Cape Province, MLM is anchored by the historic and culturally significant city of Makhanda. Despite possessing a diversified and inherently resilient economic base driven by government services, retail trade, and prestigious educational institutions, the municipality has been severely crippled by over a decade of uninterrupted administrative, fiscal, and political failure.

Primary qualitative insights were gathered through focus group discussions (FGDs) with local civil society stakeholders, community representatives, and advice office networks. These findings were systematically corroborated with secondary source documentation, including consecutive statutory reports from the Auditor-General of South Africa (AGSA), regional media investigations from *Grocott's Mail*, and unadopted municipal anti-corruption frameworks.

The diagnostic assessment reveals that formal regulatory compliance and legislative parameters are systematically bypassed to serve factional patronage networks. In financial management, an engineered collapse of internal control systems and basic accounting workflows has resulted in six consecutive disclaimed audit opinions and an accumulation of over R2-billion in irregular, fruitless, and wasteful expenditure. Procurement processes suffer from severe manipulation, non-competitive contract awards, and a near-total absence of needs planning or post-award implementation tracking. Recruitment mechanisms are heavily compromised by nepotism, irregular long-term "acting" loops, and the political placement of unqualified personnel in critical administrative roles.

This report maps these specific operational decision points, evaluates deep-rooted cross-cutting drivers, and delivers targeted multi-stakeholder recommendations designed to dissolve the culture of impunity and restore administrative integrity to the municipality.

1. INTRODUCTION AND MUNICIPAL OVERVIEW

1.1 Municipal profile

The Makana Local Municipality (MLM) is a category B local municipality situated within the Sarah Baartman District Municipality in the interior of the Eastern Cape province, South Africa. The historic city of Makhanda (formerly Grahamstown) serves as the primary administrative, cultural, and educational hub of the jurisdiction. The municipality holds localised executive and legislative authority over necessary public competencies, including municipal planning, water and sanitation provisioning, electricity distribution, refuse collection, and localised infrastructure development.

The economic profile of Makana is exceptionally unique among struggling local state entities, anchored by a resilient and high-value institutional core. Its primary economic pillars consist of public sector government services, a bustling retail and services trade, and a world-class educational sector dominated by Rhodes University and prestigious independent schooling networks (such as St. Andrew's College and the Diocesan School for Girls). Furthermore, the municipality annually hosts the globally renowned National Arts Festival, historically a premier macroeconomic catalyst for tourism and external investment, whose operational potential has been heavily restricted by municipal decline.

1.2 Governance challenges and context

Makana represents one of South Africa's most acute institutional paradoxes, where immense socio-cultural capital sits alongside a comprehensive collapse of local state governance. Politically, the municipal council is led by an African National Congress (ANC) majority holding 14 out of 27 council seats, with executive authority concentrated under the executive mayor. The municipality has been defined by long-standing, systemic instability, giving rise to landmark litigation in the Eastern Cape High Court (Unemployed People's Movement v The Minister of COGTA), which ordered the dissolution of the council due to a complete failure to fulfil its constitutional service delivery obligations.

To address ethical vulnerabilities, the municipality drafted a Fraud Prevention and Anti-Corruption Policy in 2012. However, this framework has remained an unadopted draft for over a decade, resulting in a severe institutional enforcement gap. There is minimal operational awareness among staff, a total absence of independent internal verification channels, and a complete lack of functional whistle-blowing protections. Consequently, national oversight mandates are routinely ignored, leaving the administrative arm highly vulnerable to factional political capture.

2. CORRUPTION RISKS IN FINANCIAL MANAGEMENT: KEY FINDINGS

2.1 Overview of framework

Financial management within MLM is statutory bound by the Municipal Finance Management Act (MFMA) No. 56 of 2003, National Treasury circulars, and the Public Finance Management Act (PFMA) parameters. The principal objective of these statutory standards is to guarantee robust transaction tracking, clean cash flow reconciliations, and strict consequence management.

However, the internal control environment at Makana has experienced a near-total collapse. The Auditor-General has issued six consecutive disclaimed audit opinions, the most severe and damaging audit classification possible, stating that the municipality's financial records are so poor, incomplete, and unreliable that they cannot be audited. AGSA explicitly concluded that the municipality's fiscal management actions constitute "active harm" to its residents.

2.2 Corruption risks in budget formulation and public participation

The budget formulation process is highly exclusive, shifting away from a transparent administrative exercise into a closed system controlled by a small, politically connected group of senior administrators and politicians. This engineered opacity creates severe operational risks:

- **Systemic budget padding:** Financial planners deliberately inflate expenditure estimates, introduce vague line items, and allocate funds to low-priority projects to create an upfront surplus. This padding bypasses MFMA spending rules and creates ready-made pools of capital that can be diverted without triggering automated budgetary over-run alerts.
- **Total exclusion of public participation:** Contrary to Chapter 4 of the MFMA, public budget consultations have been reduced to an uncoordinated, non-transparent exercise that actively blocks inputs from ward committees, technical experts, opposition councillors, and ordinary residents. This exclusion prevents communities from tracing allocations, shielding arbitrary spending changes from citizen-led monitoring.

2.3 Corruption risks in spending authorisation and financial reporting

The spending authorisation environment functions as a "corruption ecosystem" where political patronage routinely overrides transactional verification systems:

- **Accumulated billions in irregular expenditure:** The municipality has accumulated over R2-billion in unauthorised, irregular, fruitless, and wasteful expenditure, showing a deliberate failure of accounting officer oversight.
- **Deliberate destruction of internal accounting controls:** Basic day-to-day and monthly controls – including standard bank reconciliations, expense tracking, and journal entry verifications – are intentionally dismantled or left unexecuted to mask unauthorised outflows of cash.
- **Severe de-funding of public assets:** While operational line items are padded, critical infrastructure maintenance budgets have been systematically reduced to an alarming 0.2% of property asset value, far below the National Treasury norm of 8%. This funding gap directly drives the collapse of local water networks and raw sewage spills from dysfunctional wastewater treatment plants.

2.4 Corruption risks in payroll management

The payroll infrastructure operates with minimal internal verification, exposing the high-volume municipal wage register to ongoing fraud:

- **Vulnerability to phantom employees:** Inadequate system audits and poor human resource records create a permissive environment for unverified appointments and potential "ghost workers" on the municipal payroll.
- **Unverified acting allowance exploitation:** The extensive use of temporary acting appointments in senior finance roles has led to the processing of unverified acting allowances and unearned benefits without clear council approvals.

2.5 Factors driving or enabling financial risks

- **Substandard financial statements:** The intentional submission of unreliable, non-credible financial reporting to AGSA ensures that deep-seated fiscal manipulation cannot be easily traced.

- **Absence of executive consequence management:** Political shielding by the executive council has completely neutralised disciplinary measures. This collapse in accountability was highlighted when close to R900-million in irregular expenditure was written off by the council without any formal forensic investigation or individual penalties.

3. CORRUPTION RISKS IN PROCUREMENT: KEY FINDINGS

3.1 Overview of framework

Public procurement within MLM is statutory governed by Section 217 of the Constitution, the MFMA, and supply chain management (SCM) regulations, which mandate a fair, equitable, transparent, competitive, and cost-effective acquisition framework. In Makana, however, the SCM environment has been entirely captured by political patronage networks, converting public tenders into a protected space for capital extraction.

3.2 Risks across the procurement lifecycle

- **Manipulation of needs assessments:** The foundational step of procurement planning is routinely bypassed or ignored. Rather than tying acquisitions to the IDP and SDBIP, spending is deliberately shifted to unbudgeted, reactive items. This lack of objective specification planning allows officials to manufacture artificial emergencies, and design vague bid specifications that favour pre-selected commercial syndicates and cause wasteful overspending.
- **Opaque tender advertisements:** Open contracting data standards are completely absent. Tender invitations, evaluation parameters, and final scoring registries are withheld from public view. Documentation is frequently lost or destroyed, creating a lack of data that prevents external accountability groups or competing vendors from tracking the fairness of the bidding process.
- **Bid evaluation and award capture:** The selection and evaluation of bidders are dictated by patronage networks rather than competitive merit. In 2024, the Special Investigating Unit (SIU) was formally authorised to probe severe corruption and maladministration across seven major municipal contracts flagged for inflated pricing, favouritism, and collusive fronting.

- **Substandard contract management:** SCM tracking units fail to monitor vendor delivery. Contractors routinely receive full disbursements for incomplete, inflated, or entirely non-existent infrastructure work. This structural breakdown was demonstrated by the internal exposure of a R2.6-million water pump tender where payments were processed but no operational machinery was delivered, worsening the municipal water crisis.

3.3 Factors driving procurement risks

- **Deliberate systemic silence:** Whistle-blower protection within the procurement directorate is completely non-existent. Insiders who observe bid-rigging or irregular contract approvals are intimidated, demoted, or dismissed, removing necessary internal warning triggers.
- **Erosion of investigative evidence:** The systematic omission and destruction of SCM documentary records ensure that external law enforcement bodies such as the Hawks, SIU, or Public Protector struggle to secure the specific documentary trails required for successful prosecution.

4. CORRUPTION RISKS IN RECRUITMENT: KEY FINDINGS

4.1 Overview of framework

Human resource recruitment within MLM is governed by the Municipal Systems Act No. 32 of 2000, employment equity parameters, and public service staffing guidelines. These frameworks require apolitical, professionalised administration where all appointments are merit-based and open to competitive public scrutiny. In practice, recruitment functions as a core mechanism for local state capture.

4.2 Risks across recruitment stages

- **Job crafting and pre-selection:** Vacancies are routinely altered to favour predetermined individuals. SCM and HR personnel craft hyper-specific criteria, narrow experience caps, or obscure qualification combinations tailored exclusively to match a preferred political ally’s profile. Community testimonies have exposed instances where favoured candidates were provided with interview questions and answers by high-ranking municipal officials prior to the interview.

- **The long-term acting loophole:** Rather than executing competitive recruitment, the municipality uses "backdoor appointments," keeping favoured individuals in critical senior administrative roles such as acting CFO or acting director, in an acting capacity for several years. This bypasses statutory open selection protocols and is eventually converted into permanent placement via truncated, non-transparent internal processes.
- **Cadre deployment and score rigging:** Appointment scoring matrices are regularly manipulated. Panellists intentionally underestimate highly skilled external professionals while over-scoring politically loyal cadres, giving disproportionate weight to subjective, unverifiable criteria like "local liaison knowledge" over technical engineering or financial certifications.
- **Panel capture and ghost shortlisting:** Selection and interview panels are completely dominated by union representatives and political councillors loyal to the ruling faction, while independent technical observers are sidelined. HR departments frequently engage in "ghost shortlisting", populating applicant records with fictitious candidates to present a false impression of open competition while securing a pre-determined deployment outcome.

4.3 Factors driving recruitment risks

- **The reward-over-merit structure:** The dominant political faction uses municipal jobs as patronage commodities to reward political loyalty and secure factional cohesion, treating technical competence as entirely irrelevant.
- **Severe HR department capture:** The HR division is intentionally under-skilled and subjected to intense political pressure, causing personnel to routinely skip mandatory qualification vetting, SAQA credential tracking, and background reference checks. This allows individuals with fraudulent qualifications to be placed into highly technical positions.

5. CROSS-CUTTING ISSUES AND SYSTEMIC DRIVERS

- **Political capture of the administrative interface:** The single most critical cross-cutting driver is the treatment of municipal structures as spoils for political consolidation. The boundary between political leadership and professional administration is intentionally blurred, creating a unified incentive structure where recruitment, procurement, and budget formulation are collectively hijacked to maintain a patronage network.

- **Systemic neutralisation of oversight structures:** Checks and balances are intentionally dismantled from within. The Municipal Public Accounts Committee (MPAC) is politically captured and denied technical resources, ensuring it cannot scrutinise financial records. Consequence management has collapsed entirely; internal disciplinary structures are deliberately delayed or sabotaged, rendering irregular transactions risk-free for compromised officials.
- **The criminalisation of integrity:** A pervasive institutional culture of impunity actively penalises ethical behaviour. Staff members who refuse to sign off on irregular SCM instructions or attempt to report payroll fraud are framed as agitators, subjected to intense intimidation, and forced out of the institution. This negative selection process ensures that only compliant or complicit employees remain within the administrative system.
- **Provincial and law enforcement supervision vacuum:** Although the Auditor-General consistently documents severe irregularities, the provincial Department of Cooperative Governance and Traditional Affairs (COGTA) has been ineffective in enforcing decisive statutory interventions. This lack of provincial enforcement, paired with slow criminal justice processing times, creates a supervision vacuum where the local political elite operates with total administrative freedom.

6. RECOMMENDATIONS AND MITIGATION STRATEGIES

6.1 For provincial government (COGTA and provincial treasury)

- **Enforce direct Section 139 interventions:** Initiate a full, uncompromised provincial intervention in terms of Section 139(1)(c) of the Constitution to dissolve the non-compliant council, bypass local political capture, and appoint an independent, technically competent administrator.
- **Mandate independent external vetting:** Enforce a strict provincial directive requiring all senior municipal appointments (Section 56/57 roles) to be managed exclusively by independent, external evaluation panels, with mandatory credential validation directly through SAQA before any employment contract is finalised.
- **Apply fiscal treasury sanctions:** In accordance with the MFMA, withhold all non-statutory discretionary grant allocations from municipal directorates that fail to implement external audit remediation plans or accumulate unauthorised spending lines.

6.2 For Makana Local Municipality (administrative and council levels)

- **Formally adopt and enforce the anti-corruption policy:** Immediately finalise, formally adopt, and integrate the long-stalled 2012 Fraud Prevention and Anti-Corruption Policy into daily administrative workflows, introducing automated transactional tracking mechanisms.
- **Establish an open contracting SCM portal:** Eradicate procurement opacity by establishing an open online contracting portal where all municipal procurement plans, upcoming tender technical specifications, supplier evaluation scores, and final award pricing registers are published for public view.
- **Dismantle the acting position loophole:** Implement a rigid, non-extendable 90-day legislative cap on all temporary acting appointments in senior technical and financial directorates, forcing the immediate execution of open, publicly advertised merit-based recruitments.
- **Reconstruct core accounting controls:** Immediately re-institutionalise mandatory, daily bank ledger reconciliations, clean up expenditure tracking sheets, and implement automated separation of duties across all SCM transactional decision points.

6.3 For civil society, community-based organisations (CBOs), and residents

- **Deploy community social accountability audits:** Leverage local civil society coalitions and academic partnerships (such as Rhodes University networks) to form independent monitoring forums that physically track municipal infrastructure project sites, documenting execution delays and reporting failures directly to the SIU and AGSA.
- **Execute coordinated PAIA requests:** Systematically use the Promotion of Access to Information Act (PAIA) to legally demand access to hidden SCM bid score sheets, unvouched-for municipal expense records, and HR candidate shortlisting panel minutes.
- **Establish external whistle-blowing channels:** Establish and fund independent, secure, and anonymously managed third-party whistle-blower channels completely outside the control of the municipal administration to protect ethical employees and gather prosecutable insider evidence of procurement fraud.

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