CORRUPTION RISK ASSESSMENT REPORT:

UMZIMVUBU LOCAL MUNICIPALITY

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EXECUTIVE SUMMARY

This report presents the findings of a targeted corruption risk assessment for the Umzimvubu Local Municipality (ULM), evaluating internal governance controls across its financial management, public procurement, and human resource recruitment systems. Situated within the Alfred Nzo District in the Eastern Cape province, ULM encompasses 28 administrative wards centred on Mount Frere and Mount Ayliff. While the municipality recently celebrated achieving a clean audit outcome for the 2023/2024 financial cycle, significant socio-economic challenges such as high unemployment, widespread poverty, rural underdevelopment, and severe service delivery backlogs in water, sanitation, housing, electricity, and roads continue to strain local administration.

Primary qualitative insights were gathered through focus group discussions (FGDs) with local civil society stakeholders, ward committee representatives, and community members. These findings were systematically triangulated with secondary documentation, including statutory reports from the Auditor-General of South Africa (AGSA), court rulings (such as high court preservation orders in municipal fraud cases), municipal policy manuals, and local media investigations.

The diagnostic assessment demonstrates a notable disconnect between operational reality and formal policy frameworks such as the Anti-Fraud and Corruption policy, Supply Chain Management (SCM) policy, Payroll Procedure Manual, and Compliance Management Framework. Financial management remains vulnerable to opaque budget formulation, tokenistic public consultation, unauthorised spending, and ghost employee exposures. Procurement systems suffer from unannounced project planning, limited tender advertising platforms, subjective shortlisting, unverified payment disbursements, and weak contract monitoring. Recruitment practices are compromised by opaque shortlisting, unmanaged panel conflicts of interest, unverified background checks, and politically influenced final appointments.

This report maps these specific operational vulnerabilities, identifies cross-cutting systemic drivers, and delivers actionable multi-stakeholder recommendations to safeguard clean governance and public integrity.

1. INTRODUCTION AND MUNICIPAL OVERVIEW

1.1 Municipal profile

The Umzimvubu Local Municipality (ULM) is a Category B municipality situated within the Alfred Nzo District in the northern region of the Eastern Cape Province, South Africa. It is governed in accordance with the Municipal Structures Act 117 of 1998 and Municipal Systems Act 32 of 2000. Political leadership is provided by an elected municipal council comprising 28 administrative wards, led politically by the executive mayor, speaker, chief whip, and portfolio committee chairpersons.

The administrative structure is headed by the municipal manager as the accounting officer, supported by senior managers directing key line departments including Finance, Infrastructure Development, Local Economic Development (LED), and Corporate Services. Governance is structurally participatory, using ward committees, the integrated development plan (IDP) representative forum, and community development workers (CDWs) to facilitate citizen engagement. Oversight is reinforced through an independent Audit and Performance committee, an internal audit unit, and a performance management system aligned to statutory IDP targets.

1.2 Governance challenges and context

Despite statutory governance frameworks, ULM operates under severe socio-economic constraints. High unemployment, poverty, and income inequality remain widespread, compounded by limited local economic opportunities, weak tourism development, and restricted agricultural market access. Critical service delivery backlogs persist across water provisioning, sanitation, housing, electricity distribution, and rural access road maintenance.

To promote clean governance and mitigate corruption risks, ULM has adopted a suite of internal policies and control frameworks, including an anti-fraud and corruption policy, a risk management strategy, internal audit and audit committee charters, a budget policy, an SCM policy, a contract management policy, a compliance management framework, and a payroll procedure manual policy. Furthermore, the municipality celebrated achieving a clean audit outcome from AGSA for the 2023/24 financial cycle.

However, law enforcement interventions such as a High Court preservation order granted in mid-2025 regarding an alleged R21-million fraud case within the municipality and persistent internal control gaps highlight that statutory compliance on paper does not completely shield administrative workflows from fraudulent exploitation and governance failures.

2. CORRUPTION RISKS IN FINANCIAL MANAGEMENT: KEY FINDINGS

2.1 Overview of framework

Effective financial management is central to the credibility, performance, and sustainability of local government. Financial management within ULM is statutory governed by the Municipal Finance Management Act (MFMA) No. 56 of 2003, Municipal Standard Chart of Accounts (mSCOA) regulations, National Treasury guidelines, and internal policies such as the budget policy, SCM policy, payroll procedure manual policy, and audit and internal control frameworks. While recent improvements, such as achieving a clean audit in 2023/2024, demonstrate technical accounting progress, deep operational vulnerabilities exist across budgeting, spending, reporting, payroll management, and audit responsiveness.

2.2 Corruption risks in budget formulation and public participation

The budget formulation process is vulnerable due to limited transparency, as draft budgets and preliminary financial information are not consistently made accessible for timely public inspection. Community members reported that they often do not receive early insight into how capital project priorities are determined, creating opportunities for arbitrary allocation of resources or unbudgeted line adjustments to project budgets without clear technical justification. This lack of openness weakens accountability and increases the likelihood that certain projects may be prioritised for reasons unrelated to community need.

Public participation mechanisms, while formally established under the public participation policy, present substantial risks in practice. Many residents are unaware of budget consultation meetings or find the published documents too technical to engage with meaningfully. Despite formal requirements for public involvement, participants noted that their input seldom influences the final budget. This undermines confidence in the process and raises concerns that public consultations are treated merely as a compliance exercise rather than a genuine platform for accountability.

2.3 Corruption risks in spending authorisation and financial reporting

The authorisation of spending poses significant risks, particularly where expenditure occurs outside approved budgetary processes. Instances of unauthorised spending were highlighted as a recurring concern, often compounded by delayed responses from the municipality when such irregularities are raised. Weak enforcement of internal controls and inconsistent application of financial procedures create opportunities for misuse of funds and weaken fiscal discipline.

Financial reporting practices also pose a severe risk to financial integrity. Reports are often incomplete, excessively technical, or released late, preventing effective oversight by the public and external stakeholders. Missing details in financial statements, especially regarding expenditure patterns, increases the likelihood that irregular spending may go undetected. The absence of clear explanations for variances between budgeted and actual spending further compromises transparency.

Finally, although the municipality has shown recent improvement in audit outcomes, responsiveness to audit findings remains uneven. Participants expressed frustration at the slow pace of corrective action, with some internal control concerns recurring across multiple audit cycles. Weak mechanisms for tracking and documenting corrective measures create a risk that systemic financial weaknesses persist and continue to be exploited.

2.4 Corruption risks in payroll management

In the area of payroll management, the risk of ghost employees emerged as a significant issue. Community feedback indicated concerns about unverified individuals receiving salaries despite not actively working for the municipality. Weak verification processes, combined with insufficient or infrequent physical payroll headcounts and audits, create conditions in which fictitious or duplicate employees can be added to or retained on the payroll system without detection.

Furthermore, inadequate transactional reconciliations regarding irregular allowance additions and unverified personnel updates inflate the municipal wage bill, directly diverting operational funds away from essential public service delivery.

2.5 Factors driving or enabling financial risks

- **Proactive information suppression:** Key financial records including detailed SCM plans, monthly expenditure sheets, and variance reports are not proactively disclosed to the public.
- **Gaps in segregation of duties:** Incomplete segregation of duties and manual accounting overrides enable unauthorised transactions.
- **Weak consequence management:** Infrequent disciplinary sanctions for financial non-compliance signal that financial misconduct carries minimal professional risk.

2.6 Impacts of financial management corruption

Corruption within financial management processes has severe implications. Financial losses resulting from ghost workers, unauthorised spending, and inflated project costs diminish resources available for essential public services. Service delivery is severely impaired, causing persistent backlogs in water, sanitation, housing, roads, and electricity provision. Public trust is eroded as residents lose confidence in municipal integrity.

Institutionally, unaddressed financial weaknesses entrench systemic failures and jeopardise external credibility, while socio-economically, resource mismanagement disproportionately impacts low-income, rural households reliant on municipal support.

3. CORRUPTION RISKS IN PROCUREMENT: KEY FINDINGS

3.1 Overview of framework

The procurement function within ULM represents the primary interface between public funds and private commercial entities. It is governed by an established SCM policy (aligned with the MFMA and Preferential Procurement Policy Framework Act), a contract management policy, and a compliance management framework. Despite these statutory guardrails, practical implementation reveals operational vulnerabilities across every phase of the procurement lifecycle.

3.2 Risks across the procurement lifecycle

- **Opaque procurement planning:** Procurement plans, project timelines, and estimated contract values are withheld from public view. Communities often discover capital projects only when contractors arrive on site, preventing verification of whether tenders align with genuine IDP needs.

- **Selective tender advertising:** Tender notices are selectively advertised across restricted platforms or published for unusually short durations, limiting competitive bidding and favouring suppliers with insider knowledge or political connections.
- **Subjective shortlisting and repeat vendor capture:** Certain contractors are repeatedly shortlisted regardless of poor historical performance. Evaluation committees exercise broad discretion without published scoring methodologies or independent observer oversight.
- **Opaque tender awards:** Winning bidders are announced without publishing detailed evaluation reports, scoring matrices, or award rationales, creating fertile ground for conflicts of interest, kickbacks, and patronage.
- **Weak contract management and unverified disbursements:** Project completion is plagued by frequent delays and weak monitoring. Contractors receive full disbursements despite missing specifications or failing deadlines, while non-performance penalties are rarely enforced.

3.3 Factors driving procurement risks

- **Unregulated evaluator discretion:** Absence of mandatory, published scoring criteria and conflict-of-interest declarations gives evaluation committees unchecked discretion.
- **SCM unit capacity constraints:** Understaffing and lack of specialised technical skills within the SCM unit prevent rigorous bid evaluation and physical site inspection.
- **Community disengagement from SCM oversight:** Public exclusion from procurement tracking prevents civil society from auditing project quality or reporting bid-rigging.

3.4 Impacts of procurement corruption

Procurement corruption causes substantial financial losses through inflated contract prices and payments for incomplete or substandard infrastructure. Service delivery fails as roads remain incomplete, water systems malfunction, and public buildings deteriorate. Legitimate small, emerging, and local businesses are excluded when tenders are captured by politically connected networks, stifling local economic development and perpetuating inequality.

4. CORRUPTION RISKS IN RECRUITMENT: KEY FINDINGS

4.1 Overview of framework

Human resource recruitment is governed by the Municipal Systems Act, Municipal Staff Regulations, ULM Employment Policy, and Experiential Training Policy. Despite these formal structures, procedural implementation gaps undermine merit-based hiring.

4.2 Risks across recruitment stages

- **Exclusionary vacancy advertising:** While vacancies are published on print and digital portals, detailed selection procedures and shortlisting criteria are withheld. Overreliance on digital platforms without local radio or ward-level outreach excludes rural job seekers without internet access.
- **Nepotism and politically mediated shortlisting:** Community stakeholders reported that shortlisting routinely bypasses objective merit, favouring candidates with personal, political, or familial ties to senior officials overqualified external applicants.
- **Unmonitored interview panels and score rigging:** Interview panels operate without independent observers or standardised, published scoring criteria. Panel selection processes are opaque, and conflict-of-interest declarations are not enforced, allowing personal networks to override competence.
- **Compromised background vetting:** Reference checks and qualification verifications are vulnerable to internal manipulation. Negative findings including criminal records or past misconduct are overlooked to favour politically connected applicants.
- **Centralised final appointment authority:** Final hiring authority for senior administrative and Section 56/57 posts is concentrated under the municipal manager and municipal council, allowing political loyalty to override panel recommendations without published justifications.

4.3 Factors driving recruitment risks

- **Political patronage in administrative hiring:** Political party influence over municipal appointments treats public jobs as patronage commodities rather than technical roles.
- **Vetting system vulnerabilities:** Inadequate investment in automated background verification systems enables qualification fraud to go undetected.

- **Socio-economic job pressure:** High local unemployment increases socio-political pressure on officials to secure jobs for relatives or political allies.

4.4 Impacts of recruitment corruption

Recruitment corruption leads to the appointment of unqualified staff, resulting in administrative inefficiencies, weak decision-making, and compromised service delivery across all municipal departments. It severely damages public trust, demoralises competent staff, and excludes qualified youth and marginalised groups from municipal job opportunities.

5. CROSS-CUTTING ISSUES AND SYSTEMIC DRIVERS

The specialised findings across financial management, public procurement, and HR recruitment reveal five profound, cross-cutting systemic drivers that impair accountability throughout ULM:

- **Persistent lack of administrative transparency:** Across budget formulation, tender awards, and HR shortlisting, critical operational data is systematically withheld from public view, fostering widespread mistrust.
- **Collapse of consequence management:** Delayed or absent disciplinary action against officials implicated in financial irregularities or non-performance normalises unethical behaviour across departments.
- **Politicisation of the administrative interface:** Centralisation of executive decision-making under political council structures allows patronage networks to capture senior recruitment and procurement awards.
- **Acute technical capacity limitations:** Understaffed SCM, HR, and internal audit units lack technical expertise and verification tools, weakening internal controls.
- **Community disengagement and rural information barriers:** Technical reporting formats and digital-only communications isolate rural residents, neutralising citizen-led social accountability.

6. RECOMMENDATIONS AND MITIGATION STRATEGIES

6.1 For provincial government (COGTA and provincial treasury)

- **Enforce strict audit remediation tracking:** Mandate that provincial treasury actively monitors ULM's internal control remediation, withholding discretionary grant allocations if recurring control failures or fraud cases persist.
- **Standardise independent HR and vetting oversight:** Require independent external observers on all senior municipal appointment panels and enforce direct SAQA credential verification before contracts are finalised.

6.2 For Umzimvubu Local Municipality (administrative and council levels)

- **Establish digital transparency portals:** Mandate the immediate public publication of draft budgets, SCM procurement plans, tender evaluation scorecards, award rationales, and HR shortlisting criteria on an open portal.
- **Enforce physical payroll audits:** Implement bi-annual physical employee headcounts and automated PERSAL-SARS cross-referencing to eradicate ghost worker risks.
- **Strengthen contract management:** Enforce strict financial penalties and contract termination for non-performing vendors in accordance with the contract management policy.

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

- **Deploy community infrastructure audits:** Form local civic monitoring forums across Mount Frere and Mount Ayliff to track capital project execution and report substandard work directly to AGSA.
- **Use PAIA channels:** Systematically demand access to hidden municipal financial records, tender score sheets, and HR panel scoring registers using the Promotion of Access to Information Act (PAIA).

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