CORRUPTION RISK ASSESSMENT REPORT: SENQU LOCAL MUNICIPALITY

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EXECUTIVE SUMMARY

This report presents the findings of a targeted corruption risk assessment for the Senqu Local Municipality (SLM), evaluating the internal control environment across its financial management, public procurement, and human resource recruitment systems. Positioned within the Joe Gqabi District of the Eastern Cape province along the border of the Kingdom of Lesotho, Senqu is a largely rural Category B municipality spanning 7 329 km² and encompassing 179 villages and three main urban centres (Lady Grey, Sterkspruit, and Barkly East).

In stark contrast to the widespread financial mismanagement and administrative failures characterising many Eastern Cape local state entities, Senqu stands out as one of the better-performing municipalities in the province. It achieved nine (9) consecutive clean audits between 2013/14 and 2021/22, and after a brief lapse, regained its clean audit status in the 2022/23 financial cycle. Primary qualitative insights and empirical data were gathered via secondary documentation reviews, statutory Auditor-General of South Africa (AGSA) reports, municipal integrated development plans (IDPs), and targeted stakeholder interviews.

Despite its strong audit performance, the diagnostic assessment identifies subtle, systemic vulnerabilities that pose ongoing corruption risks. High socio-economic stress manifesting in a 39% unemployment rate in 2023, an expansive indigent population, infrastructure decay, and heavy reliance on conditional grants places immense socio-political pressure on municipal systems. Operational risks remain in financial management due to an operating budget deficit driven by uncollected intergovernmental debt and recurring underspending on the municipal infrastructure grant (MIG). Procurement systems face vulnerabilities around stop-start project cycles and non-competitive deviations. Furthermore, recruitment practices suffer from the absence of a publicly accessible, standardised master recruitment policy, creating transparency gaps.

This report maps these specific operational decision points, evaluates cross-cutting systemic drivers, and delivers targeted multi-stakeholder recommendations to safeguard institutional integrity and sustain good governance.

1. INTRODUCTION AND MUNICIPAL OVERVIEW

1.1 Municipal profile

The Senqu Local Municipality (SLM) is a Category B local municipality positioned in the centre of the Joe Gqabi District in the northern region of the Eastern Cape province, South Africa. Under the Municipal Structures Act 117 of 1998, Category B municipalities share executive and legislative authority with a district municipality (Category C). Deriving its name from the indigenous seSotho name for the Orange River, Senqu is bordered by the Kingdom of Lesotho to the north, Elundini Municipality to the east, the Free State province to the west, and Chris Hani District to the south.

Headquartered in Lady Grey, the municipality spans a geographic area of 7 329 km² comprising 179 rural villages and three primary urban dwellings: Barkly East, Sterkspruit, and Lady Grey as its administrative hub. The municipality serves a population of 147 703 residents (StatsSA 2022), with over 70% residing in rural settlements. Despite its predominantly rural setting, Senqu is the highest-scoring municipality in the Eastern Cape according to Ratings Afrika and was dubbed the greenest municipality in the Eastern Cape in 2019.

Politically, the municipal council consists of 34 members elected by mixed-member proportional representation in the 1 November 2021 local government elections. The African National Congress (ANC) holds a majority with 25 seats, followed by the Economic Freedom Fighters (EFF) with 4 seats, the Sterkspruit Civic Association with 2 seats, and the United Democratic Movement (UDM) with 1 seat.

1.2 Governance challenges and context

While Senqu maintains an exceptionally strong audit record relative to its provincial peers, it operates within an environment of severe socio-economic distress and historical corruption risks. The municipality faces structural socio-economic pressures, including an unemployment rate reaching a 39% high in 2023, a large indigent population, infrastructure decay, and a heavy reliance on government grants for revenue.

To counter potential corruption risks and maintain operational control, the municipality has adopted a suite of governance and control frameworks. These include a fraud prevention plan, a risk management strategy approved in May 2024, a formal supply chain management (SCM) policy, and recruitment procedures outlined in the 2022–2027 Integrated Development Plan (IDP). In addition, the municipality’s audit committee uses a combined assurance model based on five (5) lines of defence against potential corruption and administrative risks:

- **Management (Level 1):** First point of decision-making within line function spheres of control.
- **Actions (Level 2):** Showcasing operational implementation of decision directives.
- **Controls (Level 3):** Control measures ensuring internal institutional accountability.
- **Risk (Level 4):** Identifying mitigating factors across operational domains.
- **Combined assurance (Level 5):** External controls and independent oversight stemming from external audit structures.

Historical law enforcement actions such as the March 2013 arrests of six employees, including the former municipal manager and chief financial officer (CFO), over fraud and corruption charges amounting to R57 000, as well as ongoing October 2024 Hawks investigations into alleged corruption involving an official receiving R120 000 from a service provider, highlight that persistent vigilance remains essential.

2. CORRUPTION RISKS IN FINANCIAL MANAGEMENT: KEY FINDINGS

2.1 Overview of framework

Financial management and budgetary formulation in Senqu Local Municipality are guided by the Municipal Finance Management Act 56 of 2003 (MFMA), Generally Recognized Accounting Practice (GRAP), Municipal Standard Chart of Accounts (mSCOA), and National Treasury guidelines alongside Sections 214, 215, and 227 of the South African Constitution. The municipality’s internal framework includes annually reviewed policies: the integrated development policy (IDP) and budget policy, long-term financial planning policy, cost containment policy, asset management and insurance policy, credit control and debt collection policy, property rates and tariff service policy, virement policy, supply chain management policy, and audit committee charter.

Key strategic planning instruments include the Long-Term Financial Plan (LTFP) and the Medium-Term Revenue and Expenditure Framework (MTREF). Under Section 126(2) of the MFMA, accounting officers must submit annual financial statements to AGSA by 31 August annually. Senqu consistently meets this legislated deadline, achieving nine (9) clean audits over a 10-year period (2013/14 to 2021/22, and regaining clean status in 2022/23).

2.2 Corruption risks in budget formulation and public participation

Budget formulation is technically coordinated by the CFO and the mayor’s budget steering committee following mSCOA standardised regulations. The latest budget process plan was adopted on 4 August 2025. For the 2023/24 mid-term budget, 54.66% (R45.31-million) of the total R82.88-million capital budget was funded directly from the municipality's own cash-backed capital replacement reserve. Despite these strengths, specific operational vulnerabilities exist:

- **Language and literacy barriers to financial data:** While MTREF budget reports, LTFP assumptions, and quarterly reports are published on the municipal website and National Treasury's *Vulekamali* portal, they require basic numeric literacy and comprehension of English. In a municipality with a large indigent rural population facing smart device and data access constraints, these technical formats limit citizen oversight.
- **Uncertainty regarding meaningful public participation:** Public consultation is conducted via local newspapers, radio stations, ward meetings, and online platforms. However, publicly available documentation lacks published records of attendance registers, public submissions, or feedback summaries proving how community input directly altered final budget allocations. In years with financial constraints (such as 2022/23), ward meetings were replaced by bringing ward representatives into council chambers, restricting grassroots reach.

2.3 Corruption risks in spending authorisation and financial reporting

Spending authorisation is a multi-tiered process governed by the MFMA, SCM policy, virement policy, and monitored via the Service Delivery and Budget Implementation Plan (SDBIP). Annual reports and AGSA findings are reviewed by the municipal public accounts committee (MPAC) before oversight reports are submitted to the Eastern Cape Provincial Legislature in Bhisho. However, structural financial risks remain:

- **MTREF operating deficit:** Senqu operates at a structural deficit throughout the MTREF because it fails to efficiently collect debts from government institutions owing monies to the municipality. Operating deficits indicate that revenue is insufficient to sustain operating expenditure, exhausting cash reserves.

- **MIG capital grant underspending:** MPAC explicitly noted that continued underspending of the MIG remains an ongoing concern, recommending the strict enforcement of consequence management against responsible officials.

2.4 Corruption risks in payroll management

Payroll administration involves monthly processing, review, and reconciliation subject to annual external AGSA audits and quarterly internal audits. To manage potential ghost worker risks and unearned benefits, the municipality enforces its 'Zero Tolerance to Fraud and Corruption Policy', Staff Code of Ethics, and national verification strategies including:

- **PERSAL and third-party data matching:** Executing PERSAL system tests to identify duplicate identity numbers or inactive employees, cross-referencing records against external databases such as the South African Revenue Service (SARS) and Department of Home Affairs (DHA).
- **Physical verification and consequence protocols:** Conducting regular physical employee verification, freezing salaries of unverified listings, recovering funds, and initiating disciplinary or legal action against implicated offenders.

2.5 Factors driving or enabling financial risks

- **Intergovernmental debt collectability:** Inability to collect monies owed by government bodies drains operational liquidity and creates long-term MTREF deficits.
- **Socio-economic and digital exclusion:** Data costs and language barriers prevent rural indigent communities from accessing online financial reports and interrogating budget assumptions.
- **Staff capacity constraints:** Under-capacitation of administrative staff leads to potential loss of institutional memory and technical know-how.

3. CORRUPTION RISKS IN PROCUREMENT: KEY FINDINGS

3.1 Overview of framework

Public procurement within Senqu is governed by a dedicated SCM unit implementing its SCM policy, aligned with the MFMA and Preferential Procurement Policy Framework Act (PPPFA) B-

BBEE principles. Procurement is structured under the Strategic Procurement Framework (Version 2, approved May 2025), which mandates competitive bidding, published evaluation criteria, written reasons for unsuccessful bidders, and formal appeal procedures.

3.2 Risks across the procurement lifecycle

- **Needs assessment and demand management:** Needs assessment is conducted through a structured demand management system integrated with the IDP and SDBIP. Departmental directors coordinate detailed needs analyses and specification costing. However, telephonic councillor interviews highlight a 'stop-start' approach to project management cycles, where water projects (such as Joe Gqabi) were halted mid-way for budget adjustments, while others (Ndungunya) were completed and others (Mlamli, Majuba) remain in progress.
- **Tender execution delays and non-completion:** Municipal performance reviews (2021/22 to 2023/24 annual reports) noted that no new road construction projects were fully completed within schedule, with work restricted to basic maintenance. Major capital works, such as the Sterkspruit Driving License Testing Centre (target June 2025), faced implementation delays across foundation and concrete casting phases.
- **Non-competitive bidding and deviations:** Open tendering is standard, but deviations are permitted under specific SCM policy conditions (e.g., sole source, urgent emergencies, or material irregularities in public bids). Non-competitive deviations require written justification and oversight by internal audit, the audit committee, MPAC, AGSA, National Treasury's Office of the Chief Procurement Officer (for awards over R1-million), and reporting to the provincial legislature in Bhisho.

3.3 Factors driving procurement risks

- **Contractor timelines and project halts:** The appointment of service providers unable to adhere to project timelines leads to budget adjustments and delayed infrastructure delivery.
- **Procedural treatment of public participation:** Public engagement in demand planning is sometimes treated by officials as a bureaucratic imposition rather than a genuine mechanism to gather community buy-in.

4. CORRUPTION RISKS IN RECRUITMENT: KEY FINDINGS

4.1 Overview of framework

Human resource recruitment guidelines are fragmentally referenced under 'Workforce planning and personnel administration' in the 2022–2027 IDP. The IDP states that recruitment must follow predefined specifications, competency requirements, affirmative action, and the Employment Equity Act. The municipality uses a competency-based framework incorporating competence-based individual development plans (CBIDPs) with set targets to measure employee performance, prioritising competence alongside formal qualifications.

4.2 Risks across recruitment stages

- **Absence of an accessible standalone recruitment policy:** Desktop research and operational inquiries confirm that Senqu Local Municipality does not publish a standalone, formal human resource recruitment and selection policy online. While job advertisements provide detailed instructions, deadlines, addresses, and feedback timelines, there is no public text detailing evaluation panel composition, scoring criteria, conflict-of-interest declarations, or vetting procedures.
- **Executive final decision-maker discretion:** Under South African municipal legal frameworks, the final decision-maker (municipal manager or municipal council) is not strictly bound by the selection panel's recommendation and may appoint another suitable candidate or re-advertise the post, provided written objective justifications are given. Without published panel evaluation reports, this discretion creates potential operational exposure to subjective preference.
- **Research and field access constraints:** Attempts to secure focus group discussions and interviews within the Human Resource Directorate were unsuccessful due to logistical, operational, and administrative inaccessibility, limiting empirical field verification of internal hiring practices.

4.3 Factors driving recruitment risks

- **Weak internal procedural transparency:** Unpublished recruitment procedures prevent external oversight of shortlisting matrices, vetting rigor, and panel independence.
- **Rural talent attraction bottlenecks:** Limited human-resource capacity in remote rural settings undermines recruitment oversight and limits the pool of skilled technical applicants.

5. CROSS-CUTTING ISSUES AND SYSTEMIC DRIVERS

- **Capacity constraints and skills shortages in rural contexts:** Spanning 7 329 km² in a remote setting, Senqu struggles to attract and retain skilled accountants, auditors, engineers, and project managers. This human-resource capacity limit undermines internal audit oversight, contract monitoring, and payroll verification.

- **Structural socio-economic and patronage pressures:** A 39% unemployment rate, high rural indigent population, and heavy grant dependency create socio-political pressures. Demand for jobs and EPWP/CWP allocations creates conditions where recruitment or procurement decisions face localised patronage pressures.
- **Opacity in non-financial and procedural documentation:** While audited financial statements are exemplary, non-financial data such as SCM evaluation scoring registers, contract performance tracking logs, recruitment panel deliberations, and public participation attendance records remains publicly inaccessible, limiting external scrutiny.
- **Gaps in oversight follow-through and consequence management:** Even with a formal five-level combined assurance model, internal oversight is weakened if audit committee findings or MPAC recommendations regarding MIG grant underspending and intergovernmental debt recovery are not followed by strict administrative enforcement.

6. RECOMMENDATIONS AND MITIGATION STRATEGIES

6.1 For provincial government (COGTA and provincial treasury)

- **Intergovernmental debt recovery assistance:** Facilitate structured interventions between provincial state departments and SLM to recover outstanding debt owed to the municipality and resolve the MTREF operating deficit.
- **Technical engineering and project support:** Deploy technical project management support to rural municipalities to prevent stop-start capital infrastructure project delays and assist in fully expending MIG grant allocations.

6.2 For Senqu Local Municipality (administrative and council levels)

- **Publish master HR recruitment policy:** Formally adopt and publish a standalone, comprehensive HR recruitment and selection policy on the municipal website, detailing panel composition, scoring criteria, and vetting protocols.
- **Enhance digital SCM and non-financial transparency:** Establish an online portal publishing procurement evaluation registries, non-competitive tender deviation justifications, contractor performance logs, and public participation feedback summaries.

- **Address language and data accessibility barriers:** Translate executive summaries of key IDP, MTREF budget, and audit reports into seSotho and isiXhosa, making simplified summaries available across ward offices.
- **Enforce strict consequence management for grant underspending:** Implement MPAC recommendations regarding MIG underspending, establishing monthly performance tracking for technical infrastructure projects.

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

- **Deploy local infrastructure monitoring forums:** Form community coalitions in Sterkspruit, Lady Grey, and Barkly East to monitor capital project implementation timelines and report contract halts directly to MPAC.
- **Use PAIA for non-financial records:** Systematically request access to recruitment panel evaluation matrices, SCM bid registers, and public participation attendance logs using the Promotion of Access to Information Act (PAIA).
- **Mobilise via whistle-blowing facilities:** Use the municipal fraud prevention plan whistle-blowing platforms to report suspected payroll irregularities, ghost workers, or tender collusion.

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