Auditing to build public confidence

AUDITOR-GENERAL
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Media release

Auditor-General urges South Africa's mayors to lead the drive towards clean administration by 2014

PRETORIA – With only two years left for the government's drive towards clean audits in all its spheres, Auditor-General Terence Nombembe today cautioned that for Operation Clean Audit 2014 to succeed, South Africa's mayors need to lead the movement towards the clean administration of their municipalities.

Announcing the 2009-10 municipal audit results, Nombembe said "improved municipal audit outcomes require a partnership that should be led by the mayors, but involves the invaluable inputs that the municipal accounts committees, provincial structures such as the Provincial Departments of Cooperative Governance and Treasuries, are able to provide; however, mayors should pioneer and lead this joint venture."

He said technical tools to support municipalities towards clean administration "are abundantly available. What is lacking in most municipalities, though, is the strong will of leadership to bring about the necessary change by ensuring that action plans and checklists to address previous years' audit findings are developed and implemented to the letter".

"As an integral part of this national partnership and drive towards improved audit outcomes, my office has gone ahead to develop and implement quarterly reviews and tracking systems that alert mayors and their administrations about matters of financial management, governance and leadership in their municipalities. Furthermore, we have made ourselves available, at all times, to the whole of the municipal leadership to discuss the benefits of these systems. The municipalities, with the leadership of their mayors who diligently implemented these plans, are

this year reaping the positive results in improved audit results. Unfortunately, many who made commitments in the previous years, have still not delivered on their promises," he said.

Audit outcomes

In his *Consolidated general report*, which summarises the audit outcomes of all the country's municipalities and related municipal entities, Nombembe said there was a marginal improvement in this year's results, "fractionally better than the previous year".

Of the 237 municipalities and 49 municipal entities audited, only seven (four: 2008-09) municipalities and 10 (one: 2008-09) municipal entities received 'clean' audit reports.

The municipalities with clean administration, as measured by the audit reports, are Mpumalanga's Ehlanzeni district municipality, Steve Tshwete and Victor Khanye municipalities; the City of Cape Town; the district municipalities of Metsweding (Gauteng) and Frances Baard (Northern Cape); and the local municipality of Fetakgomo (Limpopo).

The 10 municipal entities that achieved clean audit reports are Amathole Economic Development Agency (Eastern Cape); Gauteng's Brakpan Bus Company, Erwat, Joburg Property Company, Johannesburg Civic Theatre, Johannesburg Social Housing Company, Lethabong Housing Institute, and the Roodepoort Civic Theatre; and the Cape Town International Convention Centre and Overstrand Local Economic Development Agency in the Western Cape. None of the municipalities or municipal entities in the Free State, KwaZulu-Natal and the North West province obtained audit outcomes that fall within this category.

Nombembe said it was also worth noting that of the municipalities reported on, 57 had improved on their 2008-09 audit outcomes; however, 15 had regressed and 165 remained unchanged, while the audit outcomes of 12 of the 49 municipal entities reported on improved, two regressed and 32 remained unchanged.

KwaZulu-Natal and Gauteng registered the most notable overall improvements in audit outcomes – the two provinces recorded 12 and 11 improvements, respectively.

Other movements indicate that, of the 27 consolidated municipalities reported on, only the City of Cape Town improved to a 'financially unqualified with no findings' audit opinion. The audit outcomes of the three other metros with finalised audits, remained unchanged as financially unqualified with other matters that need to be addressed, for example, deficiencies in their reporting on service delivery and/or compliance with laws and regulations.

Nombembe said it was encouraging to note a significant reduction in the number of municipalities and municipal entities that received disclaimed audit opinions, which is considered one of the worst types of audit results (in other words, auditors were not provided with sufficient documentation to express an opinion).

Among other financial management issues that need to be addressed by municipalities and municipal entities, the AG raised concerns with regard to non-compliance with supply chain management prescripts; the extent and prevalence of ICT challenges; the ongoing need for and dependence on consultants to deliver financial statement-related work that full-time employees should be doing; and the increased level of unauthorised (total R4,969 million) and irregular (total R4,135 million) expenditure.

Audit of service delivery reporting

Since 2005-06, the AGSA, in partnership with the National Treasury, has been gradually phasing in and explaining the essence of auditing performance information, i.e. the audit of service delivery information. Current trends emerging from audits are not good, as highlighted by the following:

- On average, 84% (86%: 2008-09) of the municipalities and municipal entities did not fully comply with the regulatory requirements.
- For approximately 65% (57%: 2008-09), the performance information reported was not meaningful or useful.
- For approximately 48% (52%: 2008-09), the reported performance information was not supported by reliable evidence.
- For approximately 24% (38%: 2008-09), performance information was not received in time for audit purposes.

“The municipalities and entities that have moved from negative audit findings to improved results have shown that the challenges facing local government are not insurmountable. Where leadership has shown keen interest and played their part by getting involved in the key operations of their municipalities, the outcomes testify that others can follow suit and drive processes towards clean administration. Leadership need to improve results in this area by appointing dedicated human resources to manage performance information and formally incorporating service delivery in the performance management framework of municipalities.

From our side, we will do everything necessary to support the drive towards improved reporting on service delivery, because clean administration even in this important area is the ultimate feature of transparency and accountability," Nombembe concluded.

MEDIA NOTE: The *Consolidated general report* is available on www.agsa.co.za

ABOUT THE AGSA: The Auditor-General of South Africa (AGSA) is the country's supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers' money. This has been the focus of the AGSA since its inception in 1911 – the organisation will be celebrating its 100-year legacy of public sector auditing this year (2011).

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