30 July 2014

Auditor-General encouraged by emerging positive trend in local government audit results, but calls on government leadership to intensify drive towards total good governance

PRETORIA – Fifteen municipalities and two municipal entities improved their previous year's audit outcomes to progress to financially unqualified opinions with no findings (commonly known as a 'clean audit'), increasing the number of clean audits to 30 in the 2012-13 financial year, Auditor-General (AG) Kimi Makwetu announced today. Overall, there were 63 improvements in different categories of audit outcomes against 25 regressions.

The AG's report, his first since his appointment last year, covers the audit outcomes of South Africa's municipalities and municipal entities – these have a combined total expenditure of R268 billion for the financial year under review (2012-13). This expenditure was made up of R62 billion for employment cost (including councillor remuneration), R166 billion for goods and services, and R40 billion in capital expenditure.

In its annual audits, the Auditor-General of South Africa (AGSA) examines fair presentation and absence of material misstatements in financial statements; reliable and credible performance information for purposes of reporting on predetermined performance objectives; and compliance with all laws and regulations governing financial matters.

Unqualified with no findings (clean audit)

The audited institution achieves a clean audit when the financial statements are unqualified, with no reported audit findings in respect of either reporting on predetermined objectives or compliance with laws and regulations.

Out of the 319 audits completed, 22 municipalities and 8 municipal entities achieved clean audits. This constitutes an overall 9% as compared to the 5% obtained in 2012. And, amongst the 30 clean audits, 13 have sustained this achievement since 2011-12.

Makwetu says auditees in this category have demonstrated impeccable levels of discipline and oversight in their financial management and operational activities.

"At these auditees, the breakdown of controls is easily detected and corrected timeously. Such environments are characterised by readily available documentation. Most importantly, they have accountable managers and leaders who are able to provide explanations and additional evidence in support of the transactions they are reporting on. They also have the support of strong oversight by mayors and councils that back the efforts of municipal managers and chief financial officers.

"We commend the Western Cape and KwaZulu-Natal provinces for already tracking double digits in this category. They have also acknowledged that it is some way to go still to sustain and institutionalise these disciplines while they work hard to improve controls at other municipalities. So it is work in progress but shows good positive signs," says the AG.

Unqualified with findings

One hundred and thirty-eight auditees (41%) received financially unqualified opinions with findings. These are auditees that have passed the critical test of fair presentation of financial statements, which means that they accounted accurately for the financial transactions they have carried out. However, the 'with findings' aspect suggests that these auditees may not have been transparent in the manner in which they conducted their activities as there were instances where they did not follow the required processes.

Such deviations from internal controls, Makwetu says, were largely in the area of supply chain management. In this category there are a number of auditees that incurred unauthorised, irregular as well as wasteful and fruitless expenditure due to material deviations from internal controls that govern these transactions. Also, this is a category of auditees that submitted financial statements that were initially unreliable and incorrect. This was mainly due to absence of basic recording, approval, regular reporting and follow up on monitoring oversight controls.

He said the longer the auditees remain in this category, the more the unwanted practices settle and permeate the environment through ongoing and uncorrected weaknesses in control.

"When these basic control deficiencies persist, they fester into the environment until there is no way to account for transactions and activities. When auditees start to conduct public business according to their own defined rules rather than those generally accepted and approved, poor governance becomes inevitable. This is usually prominent in environments where there is lack of transparency and consequences.

"It is our considered view that, when government business is conducted outside the controlled environment, in all likelihood it becomes a free for all where any transaction is capable of being executed without the related accountability. As a result, opportunities for realisation of service delivery objectives are lost and recovery becomes almost a nightmare. It is desirable that the leadership of municipalities take this issue seriously as it is a condition prevalent in all categories of audit outcomes outside of the clean audit environment," Makwetu cautions.

Qualified audit opinions

Eighty-four auditees (25%) received 'qualified' audit opinions, which means that they were unable to adequately and accurately account for all the financial effects of the transactions and activities they conducted. In this regard, the financial statements they presented were unreliable in certain areas.

Many auditees in this category furnished the AGSA with performance information that either was not useful or was unreliable, which compromised the ability to drive effective accountability.

The AG says his office found out that a number of rules and regulations that apply to financial management and reporting matters were not observed as required in specific legislation. In this regard, there were many instances where there were deviations relating to supply chain management and inappropriate reporting on performance.

Adverse opinions

The eight auditees (2%) with adverse audit opinions performed similarly to those with qualified opinions, with the exception that the conditions regarding unreliable financial statements were common in most areas of the financial statements. This is unlike the qualified opinion where this is limited to certain areas. Auditees in this category have demonstrated extreme levels of lack of accountability for financial statements.

The AG says this is a classic example of controls that have broken down everywhere. “Here, all business cycles of the institution have deficient controls. This state of affairs increases the levels of financial exposure and multiplies the prospects for significant losses that could result in most service delivery and programme objectives not being achieved.”

Disclaimers

Fifty-nine auditees (18%) received **disclaimed** audit opinions. These auditees were unable to provide the required evidence to enable the auditors to perform tests to satisfy themselves regarding the fair presentation of financial statements.

Makwetu says at these auditees, the stewardship over their financial affairs is not at desirable and acceptable levels. Such environments are characterised by a failure to provide credible evidence to support amounts and disclosures in financial statements. “The auditor is, inevitably, unable to conclude on any of the assertions that are made by management on the financial statements of the auditee. Anything could have happened to the financial resources entrusted upon the auditee and the auditor has significant uncertainty about the financial statements, and thus unable to express an opinion on whether the financial statements can be relied upon,” he said.

Non-compliance with relevant laws and regulations

The AG’s report shows that in the year under review, 90% of auditees had findings on compliance with laws and regulations, many of which related to the area of supply chain management. Irregular expenditure was reported at 265 auditees (83%), mainly due to the lack of basic controls and inadequate implementation of appropriate consequences where there has been poor performance or transgressions.

The AG cautions that “the value of these controls cannot be emphasised enough as they are an important mechanism to narrow the space for widespread abuse of the public resources that are required to provide services to citizens”.

Ineffective use of consultants in financial reporting

Makwetu says he is concerned that 261 auditees (82%) were unable to produce financial statements that were free of material misstatements, with 110 auditees (35%) receiving financially unqualified opinions only because they had corrected all the material misstatements identified during the auditing process. This, he says, is despite the fact that most municipalities used consultants (external service providers) to assist with the preparation of financial statements, with a total spend of R695 million. He says in many cases such spending on external service providers was over and above the fixed cost of employment paid to those who are employed to fulfil financial management and reporting responsibilities. “It is evident that improvements in audit outcomes will be attained and sustained only if local government builds the institutional capacity required to maintain adequate internal controls, systems and processes,” says the AG.

Irregular expenditure

Makwetu says as a result of significant breakdown in controls, municipalities and entities entered into transactions in contravention of regulations and other prescripts. The AGSA has classified these as irregular expenditure which totalled R11,6 billion for the period under review. "We have ascertained through audit tests that R8 billion of this amount represents goods and services that were received despite the normal processes governing procurement not being followed. The balance of R3,6 billion is at risk due to lack of supporting documentation, and we were therefore unable to confirm whether goods and services were received or not," he cautions.

Key actions by leadership

Makwetu says the auditees that advanced to, and those that have sustained, clean audits have demonstrated that such audit results can be achieved by all in local government. The winning formula of these auditees, the AG says, is:

a) introducing basic accounting and daily control disciplines
b) enforcing compliance with all legislation
c) employing staff in accounting and financial management positions with the required level of technical competence and experience
d) calling for information and reports regularly with a view to supervising implementation of financial management improvement plan
e) allowing the chief financial officer to be in charge of the financial records and report thereon to the municipal manager
f) the council keeping the monitoring of the financial improvement plan on its quarterly meeting agenda, and
g) the municipal manager reviewing management accounts with the chief financial officer every month.

The AG says his office is encouraged by the responses and commitments of the premiers, speakers, members of executive council (MECs) responsible for finance and local government, as well as the respective chairpersons of portfolio committees at all legislatures met during July 2014.

"All these leaders have recognised the importance of prioritising these basic but very significant actions for municipalities. Our office remains ready to redouble its effort to work closely with all of them towards achieving transparent and accountable financial management and governance. It is for these reasons that we call upon all municipal councils across all the nine provinces to, at a minimum, adopt and follow the above examples diligently throughout the year. With these simple practical steps, the dawn of a substantially improved financial management and performance reporting in local government will be accelerated. This is a goal within reach and a key ingredient in building trust in the credibility and accountability of local government. This could add to the arsenal required to restore trust in local government's capacity to deliver services to citizens."

Makwetu says he is equally buoyed by how Cooperative Governance and Traditional Affairs Minister Pravin Gordhan has received the AGSA's good governance messages and the minister's commitment to shift to a higher gear in his department's drive to support and enable the local government.

Gordhan was recently quoted by media agencies as saying that "every municipality should have a sound and functional management system with the appropriate level of internal control. Municipalities should also cut wasteful expenditure and focus expenditure on investment infrastructure in performing the service delivery role that they are required to perform".

The AG says it is heartening to hear the minister emphasising the same messages the AGSA has been spreading. This, Makwetu concludes, "could only signal a major push in the drive towards wholesale good governance in municipalities, and my office will continue to be part of such developmental initiatives by working closely with those charged with governance and oversight".

Issued by: Auditor-General of South Africa

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Media note: The *Consolidated general report on the MFMA local audit outcomes* and all individual provincial reports are available on www.agsa.co.za.

About the AGSA: The 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 celebrated its 100-year public sector auditing legacy in 2011.

End.

ADDITIONAL MEDIA INFORMATION (Provincial highlights)

Eastern Cape MFMA 2012-13 audit outcomes highlights

- Eastern Cape has two metropolitan municipalities, six district municipalities, 37 local municipalities and 10 municipal entities. Fifty-two auditees (95%) submitted their financial statements (AFS) for the 2012-13 financial year for audit within the prescribed timelines, while Makana, Ngqushwa and Sundays River failed to do so. However, the financial statements submitted by most municipalities were again of poor quality, resulting in an unacceptable high level of material audit adjustments needed to produce credible financial statements.

- Only Elundini and Senqu municipalities, both located in the Joe Gqabi district, submitted financial statements that were free of material misstatements. Only 23% of auditees prepared and submitted reliable and useful performance information that was supported by an adequate audit trail.

- The overall total expenditure of the Eastern Cape municipalities amounted to R37,4 billion for the 2012-13 financial period. This amount is made up of R6,6 billion for payroll costs, including councillors, R26,1 billion for goods and services and R4,7 billion in capital expenditure. Two Eastern Cape metros accounted for 42% of total expenditure.

- As in past years, the Eastern Cape 2012-13 outcomes for municipalities reflect no unqualified audit opinion with no material findings on the quality of the annual performance report or compliance with legislation (also known as a “clean audit”). Overall, the Eastern Cape MFMA 2012-13 audit outcomes reflects nine (9) improvements. Chris Hani, Baviaans, Camdeboo, Inkwanca and Nxuba improved from adverse/ disclaimer to qualified, while Amahlati, Engcobo, Nyandeni and Tsolwana improved from qualified to unqualified with other matters. In contrast, Mnquma regressed from unqualified to qualified, while Gariep and Mhlontlo regressed from qualified to adverse and disclaimed, respectively.

- At district level, Joe Gqabi, Cacadu and Amathole are district municipalities that led by example with an unqualified opinion with limited findings on compliance, while OR Tambo and Alfred Nzo districts remain a serious concern, receiving disclaimers for the sixth year.

- Irregular expenditure reported on increased significantly from R2,2 billion in the previous year to R3,3 billion during the year under review. R3,2 billion of this amount constitutes irregular expenditure incurred due to non-compliance with supply chain management legislation and other applicable regulations. This includes awards made to suppliers in which officials of other state institutions, employees and councillors of the auditees had an interest. While in most cases (except for R717 million of the irregular expenditure which we could not audit due to lack of documentation) goods and services were delivered, it was impossible to confirm whether value for money was received. Irregular expenditure reported merely indicates that provisions of the legislation, which may include provisions aimed at ensuring that procurement processes are competitive and fair, were not adhered to.

- The province reflects a concerning picture on the drivers of the internal control environment, which is underpinned by a lack of commitment by political and administrative leadership to respond swiftly to our messages, a lack of policies, procedures and controls for document management, the absence of daily and monthly financial controls such as transactions and registers being processed, reviewed and reconciled, as well as poor monitoring of compliance with legislation.

- With regard to the financial health of municipalities, 12 (28%) had material going concern uncertainties that may have a significant impact on the financial sustainability of their day-to-day operations, while 84% of the municipalities in the province had difficulty in recovering their outstanding debt which could lead to difficulty in rendering services.

Free State's MFMA 2012-13 audit outcome highlights

- Free State has one metropolitan municipality, four district municipalities, 19 local municipalities and three municipal entities. The Nala municipality's financial statements were received too late for inclusion in the general report. Of the 26 auditees, 23 (88%) submitted their financial statements for the 2012-13 financial year within the prescribed timelines. All (100%) the financial statements and annual performance reports submitted for audit purposes contained material misstatements.

- Overall, the Free State continued on its journey, reflecting again a steady but slow year-on-year improvement in audit outcomes.

- It is of concern that there is no relationship between the decline in the number of disclaimers and the status of key controls, which raises questions regarding the sustainability of audit outcomes.

- Although government committed to clean audits by 2014, there has been a lack of progress in achieving clean audits in the Free State Province as no auditee in the province managed to do so.

- The audit outcome for Maluti-a-Phofung Water improved from a disclaimer to an unqualified opinion with findings on predetermined objectives and compliance with legislation.
- The audit outcomes for Centlec and the Mohokare and Kopanong municipalities improved from disclaimers to qualified opinions.
- These improvements in audit outcomes can be attributed to the mayors enhancing oversight and management responding timeously.
- The audit outcome of Xhariep District Municipality regressed from unqualified with findings to a qualified opinion.
- Mafube, Maluti-a-Phofung, Matjhabeng, Moqhaka, Naledi, Ngwathe and Phumelela have continuously received disclaimers/ adverse opinions for at least the past five years. Serious intervention is needed at these municipalities. Mantsopa has been receiving a disclaimer of opinion for the past two years, after regressing from a qualified opinion.
- The overall total expenditure for the Free State auditees amounted to R15,7 billion for the 2012-13 financial period (2011-12: R17,3 billion). This amount is made up of R3,3 billion (2011-12: R3 billion) for payroll costs (including councillors), R10,2 billion (2011-12: R11,1 billion) for goods and services and R2,2 billion (2011-12: R3,2 billion) in capital expenditure. The metro accounts for 22% (2011-12: 21%) of the total expenditure. As a result of the poor control environments, the quality of financial information submitted for audit remained poor despite an investment in consultants of R114 million (2011-12: R110 million) made by the auditees and the Department of Cooperative Governance and Traditional Affairs.
- Overall, there was a reduction in irregular expenditure reported to R1,060 billion compared to R1,193 billion in the prior year. Of the R1,060 billion, R1,039 billion constitutes irregular expenditure incurred due to non-compliance with supply chain management legislation and other applicable regulations. This includes awards made to suppliers in which officials of other state institutions, employees and councillors of the auditees had an interest. While in most cases (except in respect of R287 million of expenditure which we could not audit due to lack of documentation) goods and services were delivered, but it was impossible to confirm whether value for money was received. Irregular expenditure reported merely indicates that provisions of the legislation, which may include provisions aimed at ensuring that procurement processes are competitive and fair, were not adhered to. There has been an improvement in identifying irregular expenditure which is attributable to better detection processes being implemented by municipalities; however, of concern is that there has been no improvement in the prevention of irregular expenditure.

- There has been little improvement in the number of auditees that improved their financial health since the previous year. The following areas of concern have been identified in terms of the financial health and service delivery of municipalities:

- The net current liability position of the local municipalities (excluding the districts municipalities and entities) that are primarily responsible for service delivery is R2 billion.
- Financial pressure is created by the fact that it takes local municipalities an average of 583 days to collect amounts owed to them, but payments are made to creditors within an average of 190 days, a period that is almost three times shorter.
- To compensate for this negative cash flow some municipalities have resorted to using conditional grants to fund operating activities, which is indicative of a 31% decline in capital expenditure.

Gauteng's MFMA 2012-13 audit outcome highlights

- Gauteng has three metropolitan municipalities, two district municipalities, seven local municipalities and 25 municipal entities. All 37 auditees submitted their financial statements for the 2012-13 financial year for audit within the prescribed timelines. Sixty-eight per cent (68%) of auditees prepared and submitted reliable and useful financial performance information that was supported by an adequate audit trail.

- The overall total expenditure of the Gauteng municipalities amounted to R83,8 billion for the 2012-13 financial period. This amount is made up of R20 billion for payroll costs (including councillors), R52,2 billion for goods and services and R11,6 billion in capital expenditure. The three Gauteng metros accounted for 88% of the total.

- Overall, Gauteng's MFMA 2012-13 audit outcomes improved significantly compared to the previous year.

- Considerable attention and effort dedicated to prior year qualifications resulted in a significant reduction in auditees with qualified audit opinions.

- Only Randfontein and Westonaria remain qualified with findings on compliance.

- Sedibeng District Municipality was exemplary to other municipalities as they progressed to a financially unqualified audit opinion with no material findings on the quality of the annual performance report or compliance with legislation (also known as a "clean audit").

- The Johannesburg Social Housing Company and Johannesburg Fresh Produce Market maintained their financially unqualified audit opinion with no material findings on the quality of the annual performance report or compliance with legislation ("clean audit").

- Overall, there was a significant reduction in irregular expenditure reported to R466 million compared to R1,8 billion in the prior year. The R466 million constitutes irregular expenditure incurred due to non-compliance with supply chain management legislation and other applicable regulations. This includes awards made to suppliers in which officials of other state institutions, employees and councillors of the auditees had an interest. While in most cases goods and services were delivered, it was impossible to confirm whether value for money was received. Irregular expenditure reported merely indicates that provisions of the legislation, which may include provisions aimed at ensuring that procurement processes are competitive and fair, were not adhered to.

- The drivers that support these positive outcomes include commitment displayed by both political and administrative leadership to deal with audit findings and action plans; institutionalisation of good governance practices, including the role played by internal audit and audit committees; strong drivers of internal controls, with the focus on entrenching administrative basics and standard disciplines and processes which were continuously monitored; and implementation of commitments made in the previous year by the role players as this provides the essential assurance.

- While the municipalities and their respective entities are not in a financial health crisis, our analysis of financial health showed that some municipalities experienced financial difficulties which necessitate a viable intervention strategy to stabilise liquidity concerns and prevent the municipalities from getting into the red zone.

KwaZulu-Natal's MFMA 2012-13 audit outcomes highlights

- KwaZulu-Natal has one metropolitan municipality, 10 district municipalities, 50 local municipalities and 11 municipal entities. All 72 auditees submitted their financial statements for the 2012-13 financial year within the prescribed timelines. Twenty-one per cent (21%) of the auditees submitted financial statements that were free from material misstatements. Forty-six per cent (46%) of the auditees prepared and submitted reliable and useful performance information that was adequately supported.

- The overall total expenditure for the Kwazulu-Natal's municipalities amounted to R47 billion for the 2012-13 financial year. This amount is made up of R10,8 billion for payroll costs (including councillor remuneration), R29,7 billion for goods and services and R6,5 billion in capital expenditure. The metropolitan municipality accounts for 51% of total expenditure.

- Overall, KwaZulu-Natal's MFMA 2012-13 audit outcomes improved compared to the previous year. Nineteen (26%) municipalities improved their audit opinions compared to the previous year whereas six municipalities and two municipal entities had regressed since the previous year.

- Seven (10%) municipalities and four (6%) municipal entities received a financially unqualified audit opinion with no material findings on the quality of the annual performance report or compliance with legislation (also known as a "clean audit"). The seven municipalities progressed from unqualified with other findings in the previous year, while the four municipal entities retained their prior year clean audit status.

- Forty municipalities (56%) were unable to improve on their prior year audit opinions, which remained unchanged. Thirty-seven (51%) municipalities were again financially unqualified with findings. Hlabisa Municipality and Newcastle Municipality retained qualified opinions and Uthukela District Municipality again received a disclaimer.

- Overall, irregular expenditure increased by 14% and was reported at R1,78 million compared to R1,56 million in the previous year. The R1,78 million constitutes irregular expenditure incurred due to non-compliance with supply chain management legislation and other applicable regulations. This includes awards made to suppliers in which officials of other state institutions, employees and councillors of the auditees had an interest. While in most cases (except in respect of R103 million of irregular expenditure which we could not audit due to lack of documentation) goods and services were delivered, it was impossible to confirm whether value for money was received. Irregular expenditure reported merely indicates that provisions of the legislation, which may include provisions aimed at ensuring that procurement processes are competitive and fair, were not adhered to.

- The drivers that support these positive outcomes include commitment displayed by both political and administrative leadership together with oversight role players to monitor progress on action plans to address audit findings. Additionally, key drivers that contributed included the performance of detailed reviews and reporting to council on the quality of financial and performance reports as well as the institutionalisation and continuous monitoring of the basics of daily and monthly controls. The timely implementation of commitments made in the previous year by the key role players and support and assistance from cooperative governance and traditional affairs and the provincial treasury, where vacancies and skills deficiencies were prevalent, also influenced the positive outcomes. The assurance provided by key role players, largely management and leadership, has decreased since the previous year, hence their efforts on assurance need to be amplified.

- Our analysis of financial health showed that the number of municipalities experiencing going concern problems had increased, together with poor cash flow and debt management and underspending on capital budgets and conditional grants. Fiscal discipline to improve liquidity and ensure excellence in debt administration and cash flow requires a coordinated effort from financial and performance management units at municipalities.

Limpopo's MFMA 2012-13 audit outcome highlights

- Limpopo has five district municipalities, 25 local municipalities and 2 municipal entities. At the date of finalisation of the general report, the results of six municipalities and one municipal entity were not yet available. Of the total of 25 auditees reported on, only 12% had prepared and submitted reliable and useful financial performance information that was supported by an adequate audit trail.

- The overall total expenditure for the Limpopo municipalities amounted to R9,7 billion for the 2012-13 financial period. This amount is made up of R2,3 billion for payroll costs (including councillors), R4,4 billion for goods and services and R3,1 billion in capital expenditure.

- Overall, Limpopo's MFMA 2012-13 audit outcomes reflect a regression for the third consecutive year.

- Three transversal matters had a negative impact on the audit outcomes of most of the municipalities, namely non-disclosure of a contingent liability arising from a court case with SALGA; the incorrect disclosure of certain roads under the control of the district; and legacy matters which affected 28% of auditees and relate to historical issues where sufficient supporting documentation for opening balances cannot be provided.

- Despite efforts made by municipalities and coordinating departments (provincial treasury and CoGHSTA), the same root causes of poor results identified in prior years are still relevant. The most significant for a number of years is that at 88% of municipalities, some key officials lack minimum competencies and skills (including 25% of CFOs). There are vacancies in key positions, with 16% of CFO positions being vacant at year-end.

- No municipality obtained an unqualified opinion. The Polokwane Housing Association, a municipal entity, improved from a qualified to an unqualified with findings opinion.

- The Waterberg District Municipality, which had a clean audit opinion for the past two years, regressed to a qualified opinion

- Overall, there was no movement in irregular expenditure reported to R418 million compared to R422 million in the prior year. The R418 million constitutes irregular expenditure incurred due to non-compliance with supply chain management legislation and other applicable regulations. This includes awards made to suppliers in which officials of other state institutions, employees and councillors of the auditees had an interest. While in most cases (except in respect of R276m of irregular expenditure which we could not audit due to lack of documentation) goods and services were delivered, it was impossible to confirm whether value for money was received. Irregular expenditure reported merely indicates that provisions of the legislation, which may include provisions aimed at ensuring that procurement processes are competitive and fair, were not adhered to.

- The drivers that will support improved outcomes include commitment by both political and administrative leadership to deal with audit findings and action plans; institutionalisation of good governance practices, including the role played by internal audit and audit committees; strong drivers of internal controls, with the focus on entrenching administrative basics and standard disciplines and processes which must be continuously monitored; and implementation of commitments made in the previous year by the role players as this provides the essential assurance.

- While the municipalities and entities are not in a financial health crisis, our analysis of financial health showed that some municipalities experienced financial difficulties which necessitate a viable intervention strategy to stabilise liquidity concerns and prevent the municipalities from getting in the red zone.

Mpumalanga's MFMA 2012-13 audit outcome highlights

- ✓ Mpumalanga has three district municipalities and 18 local municipalities. All 21 auditees submitted their financial statements and annual performance reports for the 2012-13 financial year for auditing within the prescribed timelines.

- ✓ The overall total expenditure of Mpumalanga municipalities amounted to R11,7 billion for the 2012-13 financial period. This amount is made up of R3,2 billion in payroll costs (including councillors), R6,4 billion for goods and services and R2,1 billion in capital expenditure.

- ✓ Overall, Mpumalanga's MFMA 2012-13 audit outcomes have regressed compared to the previous year.

- ✓ Stability in both the political and the administrative leadership at the Ehlanzeni District Municipality and the Steve Tshwete Local Municipality resulted in these municipalities maintaining their financially unqualified audit opinion with no material findings on the quality of the annual performance report or compliance with legislation (in other words, a 'clean audit') over the past four years.

- ✓ Considerable attention and effort dedicated to prior year qualification areas resulted in improvements at the Lekwa and Nkomazi local municipalities from disclaimed to qualified opinions with findings on compliance and performance reporting.

- ✓ Instability in leadership and a lack of competencies resulted in a failure to implement and monitor basic financial disciplines and action plans to address audit findings. These, in turn, weakened the internal control environment, resulting in unfavourable audit outcomes. This was especially the case at Bushbuckridge, Emalahleni, Msukaligwa, Mkhondo and Thaba Chweu, which all received disclaimed audit opinions.

- ✓ All municipalities had internal audit units, audit committees and municipal public accounts committees, but the failure of municipalities to implement their recommendations impacted on the assurance provided by these governance and oversight structures.

- ✓ Poor record keeping and inadequate monitoring of consultants, among other things, had a negative impact on the audit outcomes of municipalities that engaged consultants.

- ✓ Support provided by the coordinating departments to struggling municipalities did not yield the desired results as such support was not adequately coordinated and monitored. Municipalities under administration or where coordinating departments intervened failed to improve their audit outcomes due to the late introduction of these interventions.

- ✓ The leadership in the province undertook to strengthen the capacity of the coordinating departments to improve the quality of their interventions at struggling municipalities.

- ✓ Overall, there was a significant increase in the irregular expenditure reported, from R248 million in the prior year to R617 million in the current year. The R617 million constitutes irregular expenditure incurred due to non-compliance with supply chain management legislation and other applicable regulations. This includes awards to suppliers in which officials of other state institutions or employees and councillors of the auditees had an interest. While in most cases (except in respect of irregular expenditure of R242 million that we could not audit due to a lack of documentation) goods and services were delivered, it was not possible to confirm whether value for money was received. The reported irregular expenditure merely indicates that provisions of legislation were not adhered to, which may include provisions aimed at ensuring that procurement processes are competitive and fair.

- ✓ While the municipalities are not in a financial health crisis, our analysis of financial health showed that some municipalities experienced financial difficulties. A viable intervention strategy is needed to stabilise liquidity concerns and prevent the municipalities from getting in the red zone. Two municipalities were put under administration during the year in terms of section 139 of the Constitution.

The Northern Cape's MFMA 2012-13 audit outcome highlights

- The Northern Cape has five district municipalities and 27 local municipalities. Twenty-seven of the 32 municipalities submitted their financial statements for the 2012-13 financial year for audit within the prescribed timelines. Seven per cent (7%) of auditees prepared and submitted reliable and useful financial performance information that was supported by an adequate audit trail.

- The overall total expenditure of the Northern Cape municipalities amounted to R5,5 billion for the 2012-13 financial period. This amount is made up of R1,5 billion for payroll costs (including councillors), R3,1 billion for goods and services and R835 million in capital expenditure.

- Overall, the Northern Cape's MFMA 2012-13 audit outcomes improved slightly compared to the previous year.

- The fact that 13 municipalities were disclaimed (12 repeat disclaimers) is concerning. The number of municipalities with qualified audit opinions also remains high at 25% or eight municipalities (2011-12: seven or 22%).

- ZF Mgcawu District Municipality was exemplary to other municipalities as they progressed to a financially unqualified audit opinion with no material findings on the quality of the annual performance report or compliance with legislation (also known as a "clean audit"), thereby becoming the first municipality in the Northern Cape to achieve a clean audit since the 2009-10 financial year.

- Overall, there was a slight increase in irregular expenditure reported amounting to R544 million compared to R498 million in the prior year. The R544 million constitutes irregular expenditure incurred due to non-compliance with supply chain management legislation and other applicable regulations. This includes awards made to suppliers in which officials of other state institutions, employees and councillors of the auditees had an interest. While in most cases (except in respect of R84m of irregular expenditure which we could not audit due to lack of documentation) goods and services were delivered, it was impossible to confirm whether value for money was received. Irregular expenditure reported merely indicates that provisions of the legislation, which may include provisions aimed at ensuring that procurement processes are competitive and fair, were not adhered to.

- The drivers that support these outcomes remained mostly stagnant, which is a strong indicator of the political and administrative leadership's inability to effectively manage municipalities in the province. Leadership needs to take their role far more seriously and work much harder in an effort to create a more accountable and effective local government in the Northern Cape.

- There has been little improvement since the prior year in the number of municipalities with audit findings on supply chain management. The only municipality that improved, with no findings reported on supply chain management, was ZF Mgcawu District Municipality.

- Our assessment indicated that 16 municipalities have material findings on financial health. Included in these 16 municipalities are the 13 municipalities with disclaimed audit opinions. The outcome remained stagnant when compared to the prior year. Only three municipalities had no findings on financial health.

North West's MFMA 2012-13 audit outcome highlights

North West has four district municipalities, 19 local municipalities and four municipal entities. All auditees submitted their financial statements for the 2012-13 financial year for audit within the prescribed timelines.

- These auditees spent R3,0 billion on employee costs (including councillor remuneration) and R9,6 billion on other operational expenditure (goods and services) during 2012-13. The total capital expenditure was R2,4 billion during this period.
- Overall, the audit outcomes for North West local government for the 2012-13 financial year remained unchanged with only six (22%) municipalities and entities receiving an unqualified opinion with findings.
- There were no clean audits in the province - clean audits are achieved by those auditees that are able to produce financial statements free from material misstatements and can measure and report on their performance in a manner which is useful and reliable and complies with key legislation.
- The majority of the audit outcomes still constitute modified opinions (22% qualified with findings and 56% disclaimer opinions), with 14 municipalities having repeat disclaimers for two or more years.
- These municipalities continue to struggle to provide sufficient supporting documentation for amounts in financial statements and the achievements they report in their annual performance reports due to lack of basic daily financial disciplines and internal controls and poor record management. This reflects a gross lack of accountability and transparency in the use of government resources.
- It is encouraging to note that the province has sustained its ability to submit all the financial statements within the legislated deadline after dealing with backlogged financial statements in 2012. However, the quality of these financial statements is still below the required standard mainly due to the vacancies or instability of key positions at the auditees or failure by officials in these positions to meet the minimum competencies prescribed.
- As in the previous year, there has been widespread use of consultants at these auditees to assist with the financial reporting due to the vacancies and lack of skills, but because of the status of the accounting records and internal controls at the auditees, this could not translate into improved audit outcomes.
- The responsibility of senior leadership at the auditees to deal with poor records management, institutionalising sustainable internal controls and daily financial disciplines that support reliable reporting, must be emphasised. Little progress has been made over the years in capacitating finance and other units with the right skills set and filling of key vacant positions in these units, an area which must be prioritised. It remains to be seen whether this ongoing assistance from consultants will translate into dealing with the underlying systemic issues and controls as well as the longer-term benefit of skills transfer.
- In 2012-13 irregular expenditure of R2 815,7 million was incurred by the auditees mainly due to non-compliance with supply chain management legislation over procurement processes. This amount included awards made to suppliers in which officials of other state institutions, employees and councillors of the auditees had an interest and furthermore included instances of uncompetitive and unfair procurement processes being followed. While in most cases, except in respect of R1 667 million of irregular expenditure which we could not audit due to lack of documentation, goods and services were delivered, it was impossible to confirm whether value for money was received. Irregular expenditure reported merely indicates that provisions of the legislation, which may include provisions aimed at ensuring that procurement processes are competitive and fair, were not adhered to.
- The main reason for the pandemic lack of improvement in audit outcomes remains the senior leadership at the auditees not taking our messages seriously. The lack of commitment and resolve of mayors and management of municipalities remains a primary concern in the North West.
- Lack of consequences for continued transgression and failure to address prior year audit findings also played a major role – municipal managers, CFOs, mayors and councils should be held accountable for continued poor performance.
- These obstacles are evident in the province and the impact of not dealing decisively with these challenges is being felt in the form of poor outcomes, lack of service delivery and flagrant transgression of laws and regulations at municipalities. The willingness of the political leadership to intervene at the right levels has been the challenge.

Western Cape's MFMA 2012-13 audit outcome highlights

- The Western Cape has one metropolitan municipality, five district municipalities, 24 local municipalities and two municipal entities. Thirty of the 32 auditees (94%) submitted their financial statements for the 2012-13 financial year within the prescribed timelines. Fifty-six per cent (56%) of auditees prepared and submitted reliable and useful performance information that was supported by an adequate audit trail.

- The overall total expenditure for the Western Cape municipalities amounted to R42,8 billion for the 2012-13 financial period. This amount is made up of R11,3 billion for payroll costs (including councillors), R24,1 billion for goods and services and R7,4 billion in capital expenditure. The metro accounts for 70% of the total.
- Overall, the Western Cape's MFMA 2012-13 audit outcomes improved significantly compared to the previous year.
- Considerable attention and effort dedicated to prior year qualifications resulted in a significant reduction in auditees with qualified and disclaimed audit opinions, from four auditees to one auditee.
- Only Kannaland Municipality retained its adverse opinion with findings on compliance and performance information.
- Seven auditees (22%) managed to move from financially unqualified with findings to a clean audit outcome, while five auditees (16%) maintained their clean audit outcomes of 2012.
- Overall, there was a reduction in irregular expenditure reported, down to R102,7 million compared to R114,3 million in the prior year. The R101,6 million constitutes irregular expenditure incurred due to non-compliance with supply chain management legislation and other applicable regulations. This includes awards made to suppliers in which officials of other state institutions, employees and councillors of the auditees had an interest. While in most goods and services were delivered, it was impossible to confirm whether value for money was received. Irregular expenditure reported merely indicates that provisions of the legislation, which may include provisions aimed at ensuring that procurement processes are competitive and fair, were not adhered to.
- The drivers that support these positive outcomes include commitment displayed by both political and administrative leadership to deal with audit findings and action plans; institutionalisation of good governance practices, including the role played by internal audit and audit committees; strong drivers of internal controls, with the focus on entrenching administrative basics and standard disciplines and processes which were continuously monitored; and implementation of commitments made in the previous year by the role players as this provides the essential assurance.
- While the municipalities and their respective entities are not in a financial health crisis, our analysis of financial health showed that some municipalities experienced financial difficulties which necessitate a viable intervention strategy to stabilise liquidity concerns and prevent the municipalities from getting in the red zone.

List of auditees with clean audits.

Auditee	Province	District municipality	Movement
Mandela Bay Development Agency	EC	Nelson Mandela Bay Metro	Improved
Sedibeng District	GP	Sedibeng District	Improved
Johannesburg Fresh Produce Market	GP	City of Johannesburg Metro	Unchanged
Johannesburg Social Housing Company	GP	City of Johannesburg Metro	Unchanged
Durban Marine Theme Park (Pty) Ltd	KZN	eThekwini Metro	Unchanged
Msinga	KZN	uMzinyathi District	Improved
Ntambanana	KZN	Uthungulu District	Improved
Okhahlamba	KZN	uThukela District	Improved
Ubuhlebezwe	KZN	Harry Gwala/ Sisonke District	Improved
uMhlathuze	KZN	Uthungulu District	Improved
uMzimkhulu	KZN	Harry Gwala/ Sisonke District	Improved
Uthungulu District	KZN	Uthungulu District	Improved
Ehlanzeni District	MP	Ehlanzeni District	Unchanged
Steve Tshwete	MP	Nkangala District	Unchanged
Swartland	WC	West Coast District	Unchanged
Theewaterskloof	WC	Overberg District	Improved
West Coast District	WC	West Coast District	Unchanged
Witzenberg	WC	Cape Winelands District	Improved
ZF Mgcawu District	NC	ZF Mgcawu District	Improved
Langeberg	WC	Cape Winelands District	Unchanged
Breede Valley	WC	Cape Winelands District	Improved
Cape Town International Convention Centre	WC	City of Cape Town Metro	Improved
City of Cape Town Metro	WC	City of Cape Town Metro	Improved
George	WC	Eden District	Unchanged
Knysna	WC	Eden District	Improved
Mossel Bay	WC	Eden District	Unchanged
Overstrand	WC	Overberg District	Improved
Safe City Pietermaritzburg	KZN	Umgungundlovu District	Unchanged
uThungulu House Development Trust	KZN	Uthungulu District	Unchanged
uThungulu Financing Partnership	KZN	Uthungulu District	Unchanged

END