

2

The status of progress on the audit outcomes

2. Overall audit outcomes

Local government consists of 278 municipalities and 52 municipal entities. The audit outcomes of the municipalities are analysed in sections 2 to 5 and those of municipal entities are summarised in section 6.

We set the cut-off date for inclusion of the audit outcomes in this report as 31 January 2016. By this date:

- the financial statements of Phumelela (Free State) were still outstanding
- the audits of Dikgatlong (Northern Cape), Ikwezi (Eastern Cape), Ngwathe (Free State) and Renosterberg (Northern Cape) were still being performed, as the financial statements had not been received by the legislated submission date
- the audit of Bojanala district (North West) was still underway, although the financial statements had been received by the legislated date.

Figure 1 reflects the audit outcomes of the 278 municipalities and table 1 analyses the movement in audit outcomes per type of municipality over five years.

Figure 1: Improvement in audit outcomes of municipalities

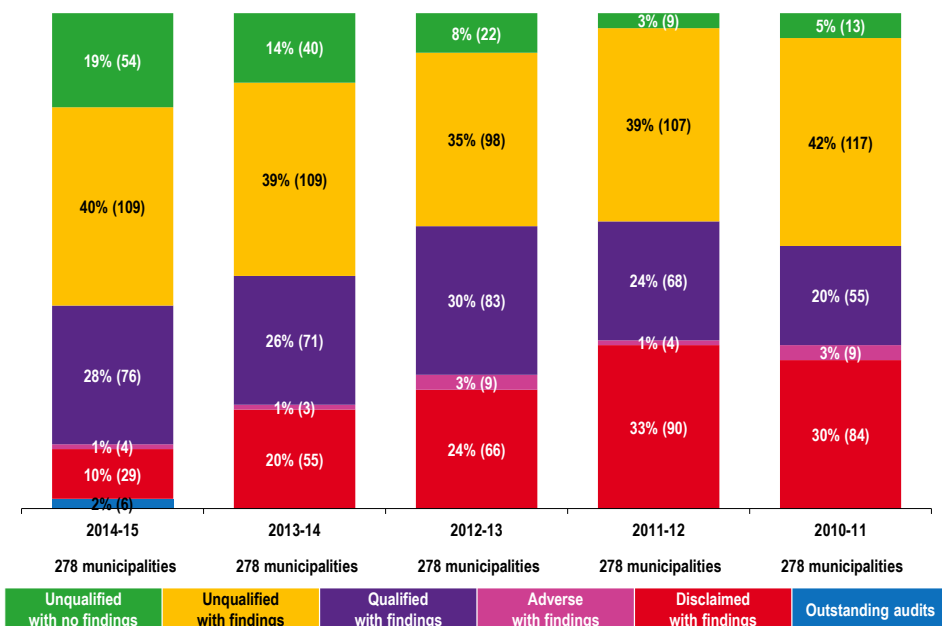


Table 1: Movement in audit outcomes over five years

Movement Audit outcome	143 Improved	92 Unchanged	37 Regressed	6 Outstanding audits
Unqualified with no findings = 54	3 (MET), 12 (DM), 31 (LM) 2 (DM), 1 (LM) 1 (LM)	2 (DM) 2 (LM)		
Unqualified with findings = 109	1 (MET), 3 (DM), 19 (LM) 2 (LM) 1 (MET), 1 (DM), 24 (LM)	1 (MET) 9 (DM) 42 (LM)	3 (DM) 3 (LM)	1 (DM)
Qualified with findings = 76	1 (MET), 1 (DM), 3 (LM) 2 (DM), 35 (LM)	2 (DM) 17 (LM)	3 (LM) 1 (MET), 2 (DM), 9 (LM)	1 (LM)
Adverse with findings = 4			2 (LM) 1 (DM), 1 (LM)	1 (LM)
Disclaimed with findings = 29		1 (DM) 16 (LM)	4 (LM) 1 (DM), 6 (LM) 1 (DM)	3 (LM)

MET – metropolitan municipality DM – district municipality LM – local municipality
Colour of number indicates audit opinion from which municipality has moved

There has been an overall improvement in the audit outcomes since 2010-11, with 53% of municipalities improving. Only 13% had regressed, while 34% remained unchanged since 2010-11. The audit outcomes of six of the eight metros, 21 (49%) district municipalities and 116 (52%) local municipalities have improved.

Audit outcomes regressed in 2011-12. After the 2011 election, instability followed as a result of the change in political leadership and the fact that municipal manager contracts were not renewed. The effect of inexperienced mayors and new municipal and senior managers was most evident at municipalities in Mpumalanga (38% regressed), Limpopo (37% regressed) and KwaZulu-Natal (26% regressed).

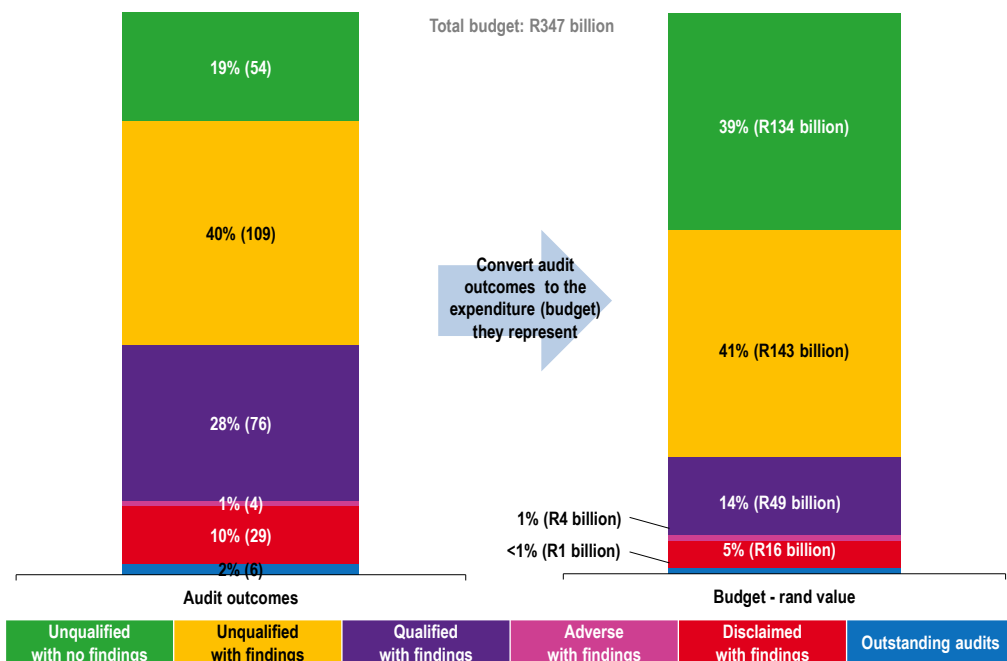
As from 2012-13 a steady improvement in audit outcomes was noted in all provinces, with the number of clean audits increasing over the period.

The number of municipalities with clean audit opinions increased to 54 (19%) in 2014-15, of which almost 65% (35) had also received clean audit opinions in 2013-14. This is an encouraging sign that improvements at these municipalities are sustainable. Metros and district municipalities should be leading by example in the local government sphere, yet only three metros (38%), 16 district municipalities (37%) and 35 local municipalities (16%) received clean audit opinions.

In total, 79 (72%) of the 109 municipalities that received an unqualified audit opinion with findings in 2014-15 had recorded the same opinion last year. Only 19 of these municipalities have been able to progress to clean audits since the previous year. Although some progress had been made towards financially unqualified audit opinions (as detailed in section 3.1), municipalities still need to address their material findings on the quality of the annual performance reports (APRs) and compliance with legislation.

The **municipal budget** in 2014-15 was R347 billion, of which R281 billion was operating expenditure and R66 billion capital expenditure. Figure 2 reflects the audit outcomes of the municipalities versus the budget allocations.

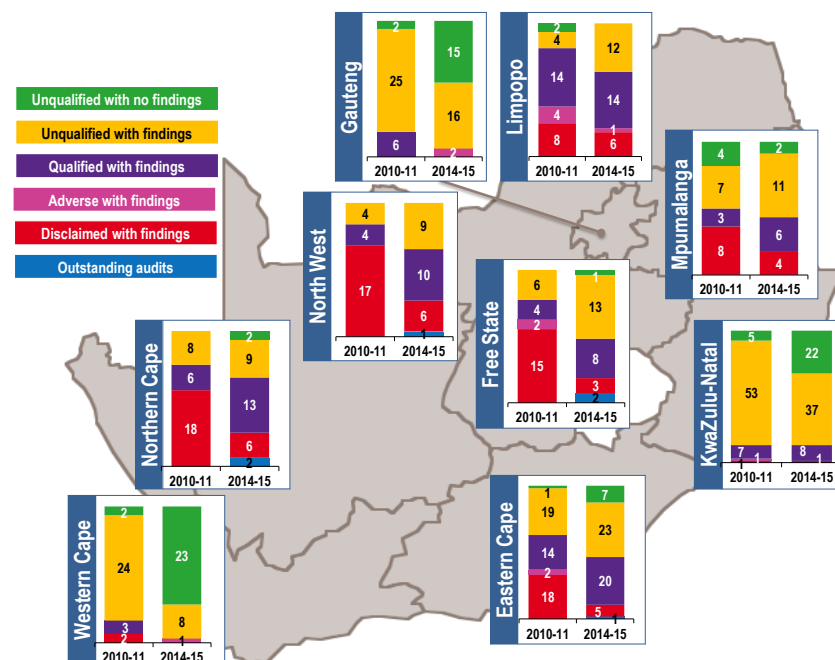
Figure 2: Audit outcomes vs budget allocations



The 54 municipalities with clean audit opinions represent 39% of the total local government expenditure budget.

Figures 3 and 4 show the provincial audit outcomes of 2010-11 compared to 2014-15 for all auditees (including municipal entities) and for municipalities respectively.

Figure 3: Provincial audit outcomes over five years (all auditees)



The audit outcomes of all provinces improved over the five-year period. The provinces with the highest number of auditees (municipalities and entities) with clean audit opinions in 2014-15 were the Western Cape (72%), Gauteng (45%) and KwaZulu-Natal (32%). The provinces with the poorest outcomes (based on the number of municipalities with disclaimed and adverse opinions or outstanding audits) were North West (27%), the Northern Cape (25%) and Limpopo (21%).

Figure 4: Provincial audit outcomes over five years (municipalities)

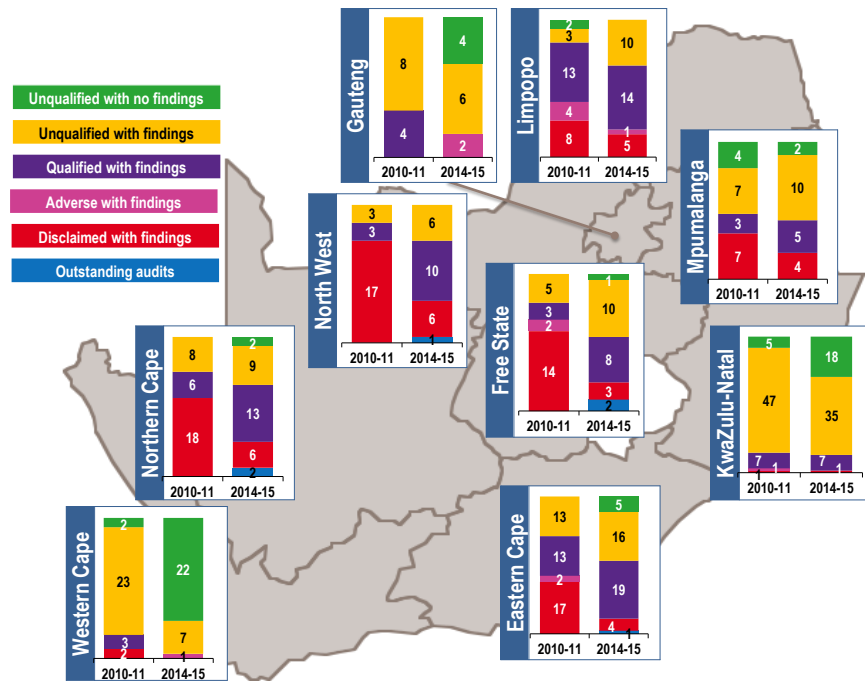
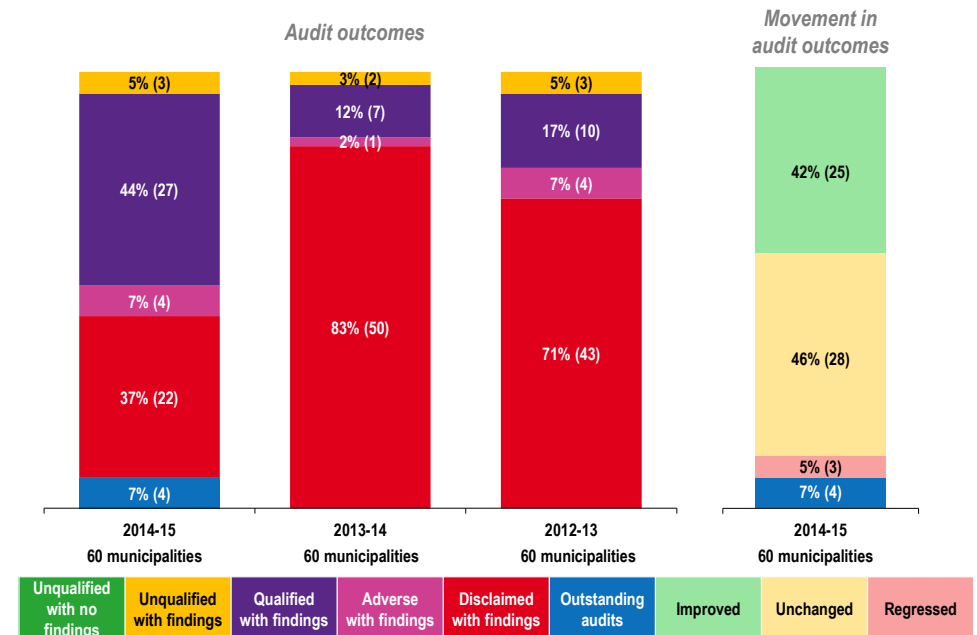


Figure 5 depicts the movement in audit outcomes of these municipalities.

Figure 5: Movement in audit outcomes of the 60 identified municipalities requiring special intervention



The support provided to municipalities by provincial and national government through a number of different programmes, including operation clean audit, treasuries and departments of cooperative governance, direct support to targeted municipalities, the provision of funding for consultants and Salga's municipal audit support programme, has contributed to the improvement in audit outcomes over the five-year period. The AGSA-driven initiatives during this period that were focused on elevating the importance of basic disciplines in driving good governance also had an impact in elevating the importance of aspiring to achieve clean audits.

We identified 60 municipalities in our 2013-14 general report that required special intervention by national and provincial role players to improve their audit outcomes. In 2014-15, these municipalities received assistance as follows:

- 82% from their provincial treasury
- 70% from their provincial department of cooperative governance
- 28% from their provincial offices of the premier
- 92% from consultants.

As per figure 5, only 42% improved on their audit outcomes but even where audit outcomes did not improve, there were some improvements in controls or a reduction in the number of areas in the financial statements qualified. It is therefore possible that the audit outcomes of these assisted municipalities may improve in future.

Annexure 1 lists all auditees with their current and prior year audit outcomes, while annexure 2 lists the audit outcomes for the past five years.