

*Auditing to build public confidence*

# MEDIA RELEASE

13 August 2013

## **Auditor-General buoyed by local government leaders whose commitment has resulted in their entities' improved audit results**

**PRETORIA** – Three municipalities and three municipal entities improved their previous year's audit outcomes to progress to clean audit opinions in the 2011-12 financial year, while the local government audit results generally regressed in the year under review, Auditor-General (AG) Terence Nombembe announced today.

Clean audit opinions are achieved when the financial statements are unqualified and there are no reported audit findings in respect of either reporting on predetermined objectives or compliance with laws and regulations.

## **Leadership commitment sets the right tone towards improved audit results**

Releasing his last general report on local government before his fixed seven-year term as South Africa's AG ends in November, Nombembe said the exemplary results of the three municipalities – the Western Cape's local municipalities of George, Langeberg and Mossel Bay – and the municipal entities – Johannesburg Fresh Produce Market (Gauteng), Durban Marine Theme Park (Pty) Ltd and ICC and Durban (Pty) Ltd (both in KwaZulu-Natal) – are commendable, as they prove beyond doubt that clean administration is achievable where there is leadership commitment.

The winning formula of these auditees, the AG said, was that their leadership led by example and made concerted efforts to resolve audit matters raised in their previous year's audit reports, "and their results are a testimony that where political and administrative leadership set the right tone and work together to implement and constantly monitor basic internal controls, good governance is achievable".

He said the next step in the march towards wholesale clean administration was for these auditees to work hard to sustain their clean audit status as done by their eight counterparts – the three district municipalities of Waterberg (in Limpopo), Ehlanzeni (Mpumalanga) and West Coast (Western Cape); the three local municipalities of Umtshezi (KwaZulu-Natal), Steve Tshwete (Mpumalanga) and Swartland (Western Cape); and the two municipal entities Fezile Dabi District Municipality Trust (Free State) and Johannesburg Social Housing Company (Gauteng) – who maintained the clean audit results they had received in the previous year.

### **Unfortunately the overall municipal audit results regressed instead of emulating the exemplary tone**

Regrettably, the rest of the country's local government audit results are not that exemplary. Overall, the municipal audit outcomes have regressed, with only 48% of the auditees being able to obtain financially unqualified audit opinions, most of whom did so by correcting the mistakes identified through the audit process.

Local government consists of eight metropolitan municipalities, 44 district municipalities and 226 local municipalities (totalling 278 municipalities) as well as 60 municipal entities. The AGSA completed the audits of 317 (94%) of the 338 auditees that had submitted financial statements by 31 August 2012 (or by 30 September 2012 in the case of consolidated financial statements) within the legislated time frame of three months from receipt of the financial statements.

The AG's latest report shows that the progress towards clean audits has been slow, with the number of clean audits remaining at the same low level of 5% for the past three years, and the overall audit outcomes regressed, as 41 auditees improved, but 50 auditees regressed.

Moreover, almost half of the auditees that obtained a clean audit opinion were municipal entities, rather than municipalities. In the Free State, Gauteng and KwaZulu-Natal, almost all the clean audits were achieved by municipal entities, while in Limpopo, Mpumalanga and the Western Cape, all the clean audits were achieved by municipalities.

Unfortunately, the metropolitan municipalities faltered in their crucial role of providing exemplary leadership to smaller municipalities, as none of the eight metros obtained a clean audit opinion.

### **Government implements remedial actions, but these are still to yield the desired positive outcomes**

Nombembe said although his office was aware of efforts by the national, provincial and local spheres of government, as well as oversight structures, to implement actions to address the root causes and

remove impediments to total clean administration, these initiatives have not yet had the desired effect on audit outcomes.

Chief among the root causes of the poor audit results, the AG cited the lack of capacity in local government, which affected its ability to account for the public resources it has to administer on behalf of society. At 73% of the auditees, vacancies in key positions and key officials without the minimum competencies and skills continued to make it difficult for these auditees to produce credible financial statements and performance reports. In order to fill this gap, 71% of the auditees depended on consultants to assist with financial reporting. Although capacity building and the professionalisation of local government is an ongoing, multi-year project, Nombembe said he was concerned that municipalities are not using all the opportunities available for skills development.

The AG also called for decisive action against political leaders and municipal officials that deliberately or negligently ignore their duties and disobey legislation. Such transgressors, he said, “should be decisively dealt with through performance management and by enforcing the legislated consequences for transgressions”.

At more than 70% of the auditees, the lack of consequences for poor performance and transgressions slowed down improvement in local government audit outcomes. To help local government deal with transgressions, the AG’s office has compiled a booklet on the legislation to be used in dealing with the wrongdoers.

“I also call on the councillors of 76% of the auditees where I have encountered slow responses in addressing the poor audit outcomes to prioritise their pursuit of the knowledge and skills they need to perform their oversight duties and insist on support from national and provincial government for their continuous development. If councillors do not feel equipped and enabled to effectively oversee municipal administration, they will not be able to hold municipal management to account and enforce consequences for poor performance and transgressions. They must also effectively and ethically apply the leadership skills that earned them the trust of their communities and strengthen their resolve to oversee and steer their municipalities towards achieving developmental objectives, adhering to legislation and accounting for actions in a credible and transparent manner. Furthermore, there is a critical need to strengthen the municipal public accounts committees and support the important role they play, as this will further bolster the oversight mechanisms.”

### **Improved audit results are still within reach, all it takes is an ethical leadership tone driven by commitment and a sense of service to the country**

The AG said although progress towards clean audits is slow, he was encouraged by examples across the country where the commitment of leaders and officials has resulted in improved audit outcomes.

“I am confident that similar results can be achieved, from the smallest local municipality to the biggest metro. Those who progressed to and maintained clean audits have done so by consistently taking ownership of their municipal performance practices and insisting on adequately qualified staff and effective performance management practices. These simple basics can work for any municipality or entity – all it takes to instil these disciplines is the right, ethical leadership tone driven by a sense of duty and service to South Africans who patiently wait for services in the respective municipalities,” Nombembe cautioned.

He said his office would continue to work closely with all those charged with governance and oversight as part of the drive towards the realisation of clean administration in municipalities in the country.

**End.**

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**MEDIA NOTE:** The *Consolidated general report on the MFMA local government audit outcomes* and all individual provincial reports are available on [www.agsa.co.za](http://www.agsa.co.za).



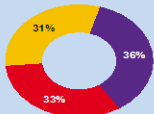




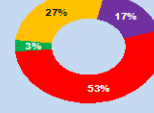




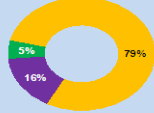




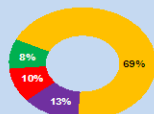




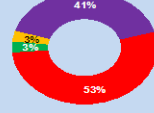




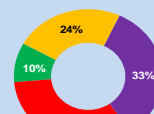




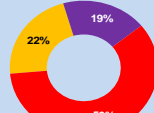




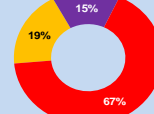




**About the AGSA:** The AGSA is the country’s supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers’ money. This has been the focus of the AGSA since its inception in 1911 – the organisation celebrated its 100-year public sector auditing legacy in 2011.

## Additional information for the media

### Summary of audit outcomes for current and prior year

Audit outcomes	Total		Metropolitan municipalities		District municipalities		Local municipalities		Municipal entities	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Unqualified with no findings (clean audits)	17	17	0	0	3	5	6	8	8	4
Unqualified with findings	144	157	4	5	26	24	76	88	38	40
Unqualified financial statements	48% ↔	52%	50% ↓	63%	66% ↔	66%	36% ↓	42%	77% ↔	79%
Qualified opinion, with findings	71	62	3	1	6	9	55	45	7	7
Adverse opinion, with findings	3	10	0	1	1	2	2	6	0	1
Disclaimer of opinion, with findings	82	85	1	1	8	4	67	77	6	3
Number of audit reports not issued by 31 March 2013 *	21	3	0	0	0	0	20	2	1	1
Outstanding audits and qualified financial statements	52% ↔	48%	50% ↓	37%	34% ↔	34%	64% ↓	58%	23% ↔	21%
Total number of audits	338	334	8	8	44	44	226	226	60	56
Findings on reporting on predetermined objectives (PDO) only	1	4	0	0	1	0	0	2	0	2
Findings on compliance with laws and regulations only	65	70	3	3	16	9	25	31	21	27
Findings on both PDO and compliance	234	240	5	5	24	30	175	183	30	22
Total number of audits "with findings"	300	314	8	8	41	39	200	216	51	51

## Progress made in the provinces towards obtaining clean audits

Improvements and regressions in audit opinions	Summary of movement in audit outcomes	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
 	<b>No clean audits.</b> Six auditees improved their 2010-11 audit outcomes (four disclaimed auditees and one adverse auditee improved to qualified, and one auditee improved from qualified to unqualified with findings). The only auditee with a clean audit in the previous year regressed to unqualified with findings. Both the metropolitan municipalities in the province were qualified, while three of the six district municipalities were unqualified with findings. Of the remaining three district municipalities one obtained an adverse audit opinion and the other two disclaimers of opinions.			
 	<b>Retained clean audit:</b> Fezile Dabi District Municipality Trust Six auditees improved their 2010-11 audit outcomes (two auditees successfully dealt with their prior year qualification and moved to unqualified with findings, and four auditees moved from disclaimed to qualified). Two auditees regressed from qualified to disclaimed. The only metropolitan municipality in the province was disclaimed, while the four district municipalities were unqualified with findings. We did not finalise the audits of two auditees on time due to the late receipt of the annual financial statements (which have subsequently been finalised) and two auditees not submitting annual financial statements for auditing.			
 	<b>Retained clean audit:</b> Johannesburg Social Housing Company <b>Improved to clean audit:</b> Johannesburg Fresh Produce Market Only three auditees improved and two regressed, of which one was previously unqualified with no findings. One of the three metropolitan municipalities was qualified, while two were unqualified with findings. The two district municipalities were both unqualified with findings.			
 	<b>Retained clean audit:</b> Umtshezi Local Municipality <b>Improved to clean audits:</b> Durban Marine Theme Park (Pty) Ltd and ICC, Durban (Pty) Ltd <b>New auditees with clean audits:</b> Safe City Pietermaritzburg, uThungulu Financing Partnership and uThungulu House Development Trust Five auditees improved and 15 auditees regressed, of which four regressed to unqualified with findings after receiving a clean audit report in the previous year. The metropolitan municipality and six of the 10 district municipalities were unqualified with findings. Two district municipalities were qualified and two were disclaimed.			
 	<b>Retained clean audit:</b> Waterberg District Municipality The results reflect three improvements and 10 regressions, one of which was from a clean audit opinion in the previous year. Two auditees regressed from unqualified to disclaimed. Only one of the five district municipalities received a clean audit, while one was qualified and the remaining three were disclaimed. At the time of the report, we had not finalised the audit of one auditee due to the late receipt of the annual financial statements.			
Province and overall movement	Summary of movement in audit outcomes	2011-12 results	Percentage of auditees with PDO findings and direction of movement	Percentage of auditees with compliance findings and direction of movement
 	<b>Retained clean audits:</b> Ehlanzeni District Municipality and Steve Tshwete Local Municipality Five auditees improved, while seven regressed. Two of the auditees regressed from receiving clean audits in the previous year to being unqualified with findings in the current year. Two of the three district municipalities were unqualified with findings, while one received a clean audit. Due to the late receipt of the financial statements of two municipalities, the audits were not finalised as at 31 March 2013. The audits of these two auditees were subsequently finalised.			
 	<b>No clean audits.</b> Of the three auditees that improved, two progressed to unqualified with findings, while one progressed to a qualified opinion. Three auditees regressed: one from unqualified to qualified and two from unqualified to disclaimed. Of the five district municipalities, three were unqualified with findings and two were qualified. As at 31 March 2013, we had not finalised the audits of 10 auditees due to the late receipt of the annual financial statements. Subsequently, the audits of seven auditees were finalised.			
 	<b>No clean audits.</b> Four auditees improved and two auditees regressed. Nine municipalities and one municipal entity received a disclaimer of opinion for the third consecutive year. Two of the four district municipalities were unqualified with findings, one was qualified, and one was disclaimed.			
 	<b>Retained clean audits:</b> Swartland Local Municipality and West Coast District Municipality <b>Improved to clean audits:</b> George Local Municipality, Langeberg Local Municipality and Mossel Bay Local Municipality Three auditees progressed to clean audits, while two auditees retained their clean audit status. Only one auditee regressed from unqualified with findings to qualified. The metropolitan municipality and four of the five district municipalities were unqualified with findings, while only one district received a clean audit. Only one of the four audits outstanding at 31 March 2013 was subsequently finalised.	