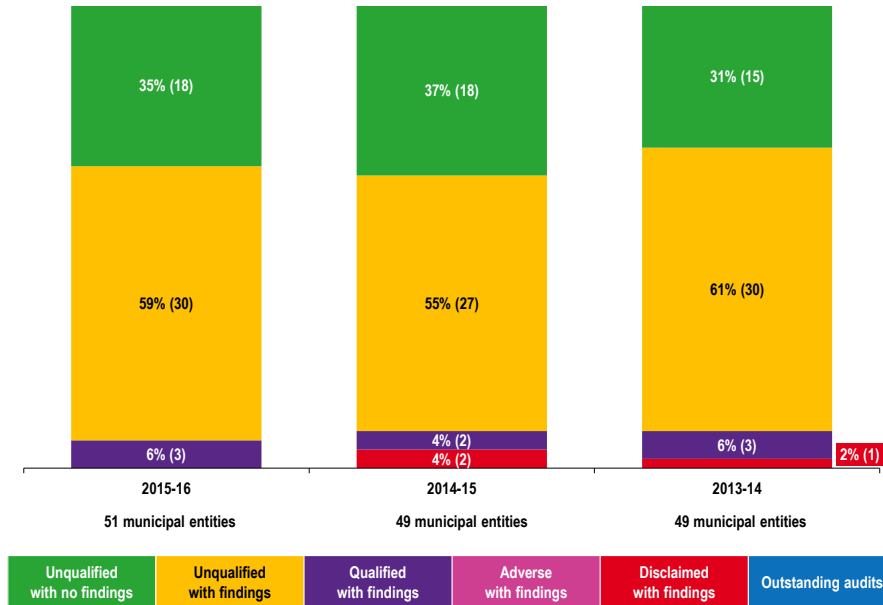


11 **Municipal entities**

11. Municipal entities

Figure 1 depicts the audit outcomes of municipal entities over three years – four entities were excluded from our analysis in this report, due to their relatively small size or low level of activity.

Figure 1: Slight improvement in audit outcomes of entities

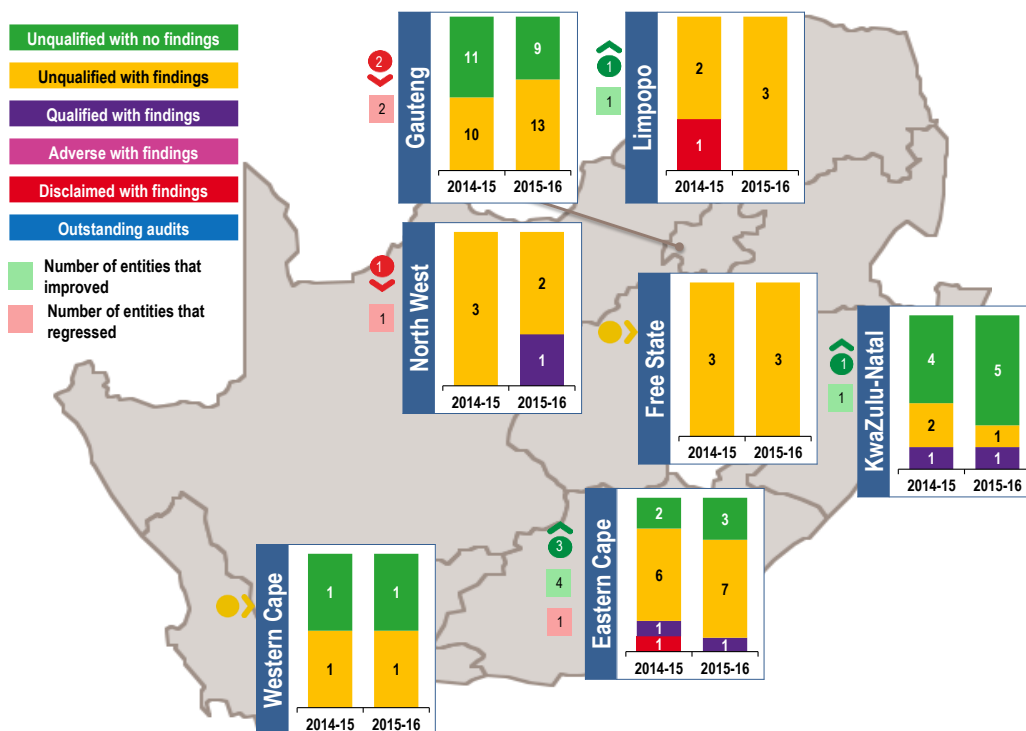


As reflected in figure 1, there had been a **slight improvement overall in the audit outcomes** of entities since the previous year. The audit outcomes of 12% of the entities had improved, 8% had regressed and 76% remained unchanged (45% remaining as unqualified with findings).

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Figure 2 compares the provincial audit outcomes of entities in 2014-15 and 2015-16.

Figure 2: Provincial audit outcomes of entities over two years



Audit of financial statements

The entities' financial statement submission rate had slightly regressed from 100% in 2014-15 to 98% in 2015-16, as one municipal entity submitted its financial statements late. The audit opinions on **financial statements** slightly improved from 8% that had either qualified or disclaimed opinions in 2014-15 to only 6% that were financially qualified in 2015-16. There was no improvement in the quality of the financial statements submitted for auditing – 53% of the entities submitted financial statements with **material misstatements** in both 2014-15 and 2015-16.

In 2015-16, the most common qualification areas were the financial statement items of expenditure, irregular expenditure, employee cost as well as payables, accruals and borrowings.

Compliance with key legislation

There had been a slight decrease in the number of entities with no findings on **compliance** over the two-year period – from 37% in 2014-15 to 35% in 2015-16.

The most common compliance findings in the current year and the progress made in addressing these since 2014-15 are as follows:

- Quality of financial statements submitted – 27 entities (53%) (2014-15: 26 [53%])
- Management of procurement and/or contracts – 19 entities (37%) (2014-15: 18 [37%])
- Prevention of irregular and fruitless and wasteful expenditure – 18 entities (35%) (2014-15: 22 [45%])
- Management of expenditure and payments – 12 entities (24%) (2014-15: 12 [24%])
- Consequence management – 11 entities (22%) (2014-15: 12 [24%])

The number of entities where we reported **SCM findings** had decreased from 69% in 2014-15 to 63% in the current year. The most common SCM areas in which entities had findings were uncompetitive or unfair procurement processes at 22 entities (2014-15: 27); inadequate contract management at seven entities (2014-15: seven); and awards to other state officials at 16 entities (2014-15: seven). Limitations in the planned scope of the audit of awards were experienced at only three entities (2014-15: four).

Irregular expenditure incurred

There had been a slight increase in **irregular expenditure** from R331 million in 2014-15 to R338 million in 2015-16. The main contributors (62%) to the increased irregular expenditure were Durban Marine Theme Park (R60 million), East Rand Water Care Company (R44 million), Maluti-A-Phofung Water (R42 million), Pikitup Johannesburg (R33 million), and Johannesburg Metropolitan Bus Services (R32 million).

Findings on performance reports

In total, 46 entities (90%) had prepared their 2015-16 **performance reports**. This is a slight regression from 2014-15 when 47 entities (96%) had done so. There had been a slight increase overall in the number of entities with no material findings on the quality of their performance reports from 69% in 2014-15 to 71% in 2015-16.

In total, 26 entities (51%) submitted performance reports that contained **no material misstatements** – a slight improvement from 2014-15.

Of the 46 submitted performance reports, the performance reports of two entities (2014-15: one) were not **reliable**, while those of five (2014-15: two) were not **useful** and those of three (2014-15: 10) were neither reliable nor useful, indicating that further attention is required from those in charge of oversight and governance in this regard.

Status of entities' financial health

There had been an improvement in the status of **financial health** of entities since the previous year – 29 entities (57%) had a good financial health status in 2015-16 compared to 25 entities (51%) in 2014-15.

Almost 12% of the entities had a **going concern uncertainty** in 2015-16. Although this is an improvement from the 20% in the previous year, it remains a cause for concern. The following financial health indicators had regressed since 2014-15:

- Creditor-payment period of 90 days
- Creditors as a percentage of cash and cash equivalents more than 100%

The continued improvement in the audit outcomes of entities is encouraging, but the leadership of the entities and parent municipalities should pay attention to their compliance with legislation, SCM practices and financial health.