

3 Status of progress on the audit outcomes

3.1 Overall audit outcomes

Local government consists of 278 municipalities and 51 municipal entities. We analyse the audit outcomes of municipalities in sections 3 to 10 and those of municipal entities in section 11.

We set the cut-off date for inclusion of the audit outcomes in this report as 15 January 2017. By this date, 15 audits were still outstanding. More information in this regard is provided in section 3.2.

Figure 1 reflects the audit outcomes of the 278 municipalities, while table 1 analyses the movement in audit outcomes per type of municipality from the previous year.

Figure 1: Slight improvement in audit outcomes since the previous year

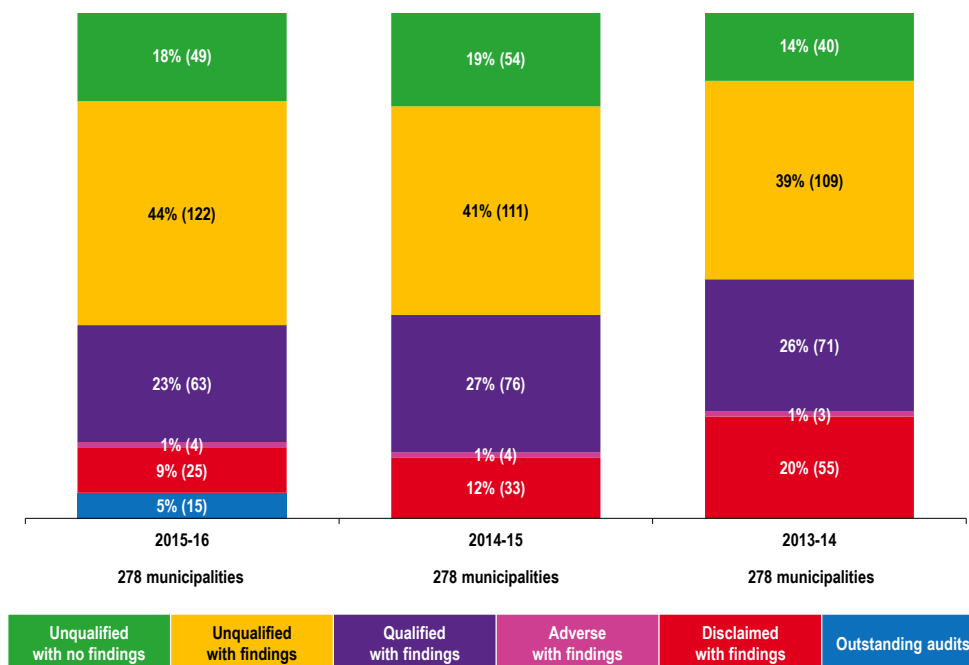


Table 1: Movement in audit outcomes from 2014-15 to 2015-16

Audit outcome	Movement			
	Improved	Unchanged	Regressed	Outstanding audits
Unqualified with no findings = 49	42	185	36	15
Unqualified with findings = 122	2 (DM), 7 (LM)	1 (MET) 12 (DM) 27 (LM)	2 (MET) 4 (DM) 7 (LM)	1 (MET) 2 (LM)
Qualified with findings = 63	1 (LM) 8 (LM)	2 (MET) 4 (DM) 38 (LM)	1 (LM) 3 (DM), 6 (LM)	3 (LM)
Adverse with findings = 4	2 (DM), 1 (LM)		1 (LM)	
Disclaimed with findings = 25		2 (DM) 11 (LM)	1 (LM) 10 (LM) 1 (DM)	9 (LM)

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

There has only been a slight improvement in the overall audit outcomes. In total, 42 (15%) of the municipalities improved their outcomes – seven district municipalities and 35 local municipalities; 36 (13%) regressed – including two of the metros; and 185 (67%) remained unchanged.

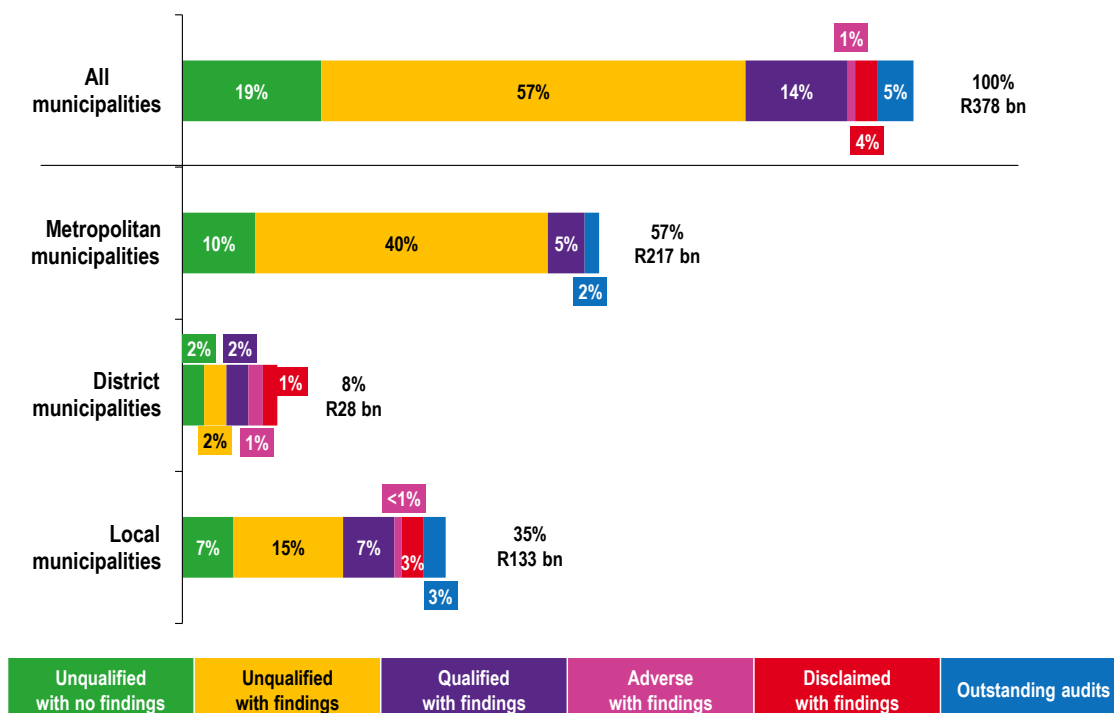
The slow rate of improvement in 2015-16 can be attributed to the lack of improvements in internal controls, the root causes not being addressed as well as the distraction – and in some cases instability – created by the elections that took place in the year. The re-demarcation of municipal boundaries that led to the amalgamation of 39 municipalities also created instability in the affected municipalities, with changes in the administration and some not having functioning councils or officials willing to take responsibility for the outcomes in the audit period. Only 15% of the municipalities affected by the re-demarcation showed an improvement in audit outcomes, while 23% regressed, the outcomes of 3% were outstanding, and the outcomes of the remainder (59%) were unchanged (of which three had disclaimed opinions).

In total, 82% (40) of the municipalities with clean audit opinions in 2014-15 obtained this outcome again in 2015-16, which is an encouraging sign that improvements at these municipalities are sustainable. Unfortunately, 14 municipalities lost their clean audit status and only nine moved into this category, resulting in an overall decrease in municipalities with clean audit opinions. Metros and district municipalities should be leading by example in the local government sphere, yet only one metro (City of Cape Town) and 14 district municipalities (32% of the total district municipalities) received clean audit opinions.

Overall, 88 (72%) of the 122 municipalities that received an unqualified audit opinion with findings in 2015-16 had recorded the same opinion in 2014-15. Only nine of these municipalities could progress to a clean audit this year. Although some progress had been made towards financially unqualified audit opinions (as detailed in section 4.1), municipalities still need to address their material findings on the quality of the performance reports and compliance with legislation.

The municipal budget in 2015-16 was R378 billion, of which R310 billion was operating expenditure and R68 billion was capital expenditure. Figure 2 reflects the audit outcomes of the different categories of municipalities versus their budget allocations, rounded to the nearest billion.

Figure 2: Audit outcomes versus budget allocations



As can be seen in figure 2, the 49 municipalities with clean audit opinions represented only 19% of the total local government expenditure budget. However, it is encouraging that 76% of the budget was accounted for in financial statements that fairly presented the finances of the municipalities and could be relied upon by the users thereof. Almost 60% of the local government budget is managed by metros and 49% of citizens reside in metropolitan areas. If the remaining weaknesses in metros can be addressed, it will have a significant impact.

Figures 3 and 4 show the **provincial audit outcomes** of 2014-15 compared to 2015-16 for all auditees (including municipal entities) and for municipalities, respectively. Movement of 5% and less is indicated as follows:



-  Slight improvement
-  Slight regression

Figure 3: Provincial audit outcomes in 2015-16 compared to 2014-15 (all auditees)

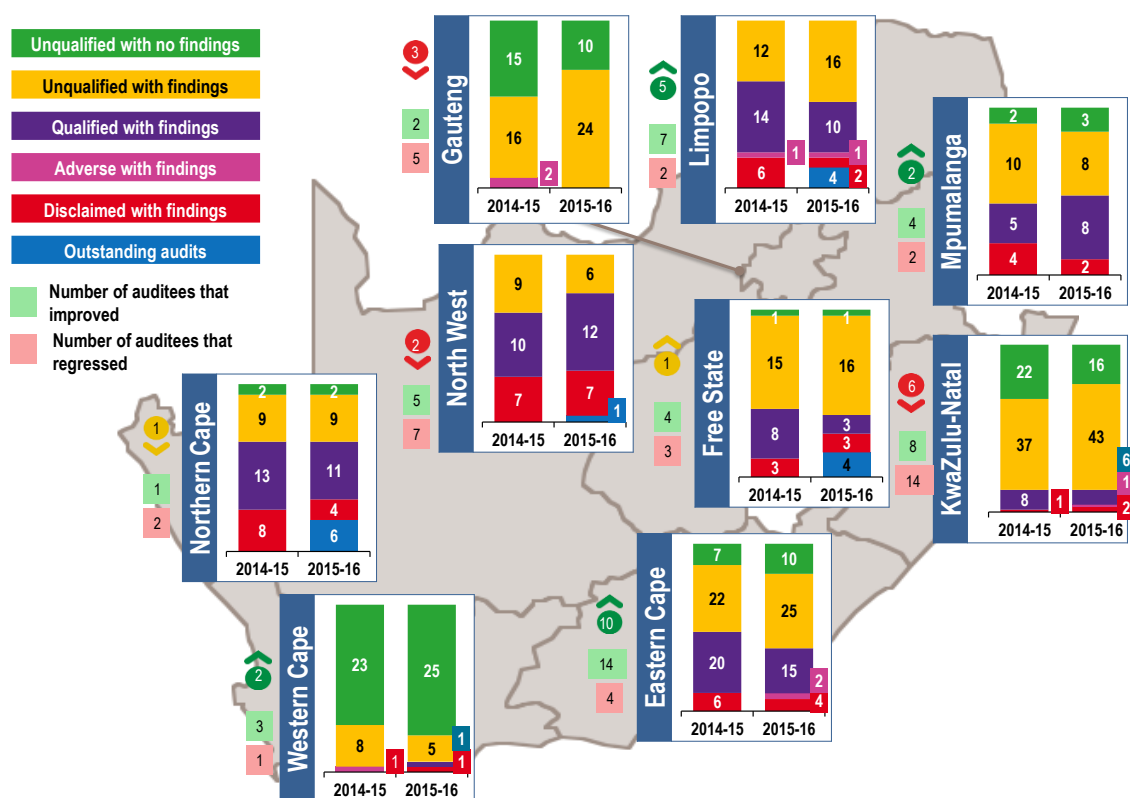
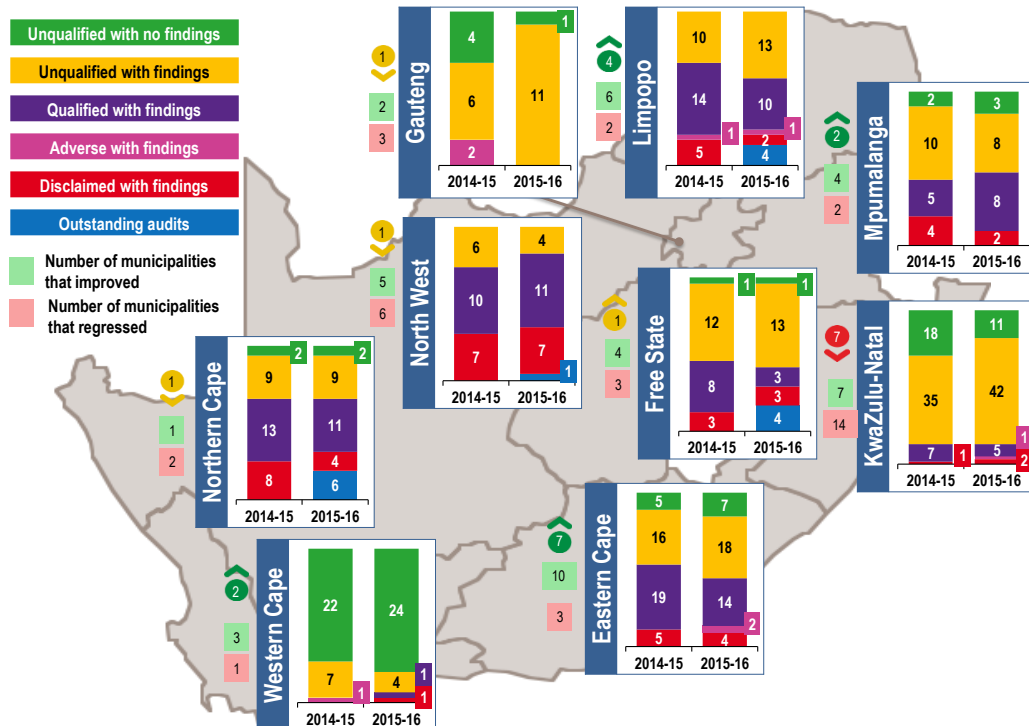


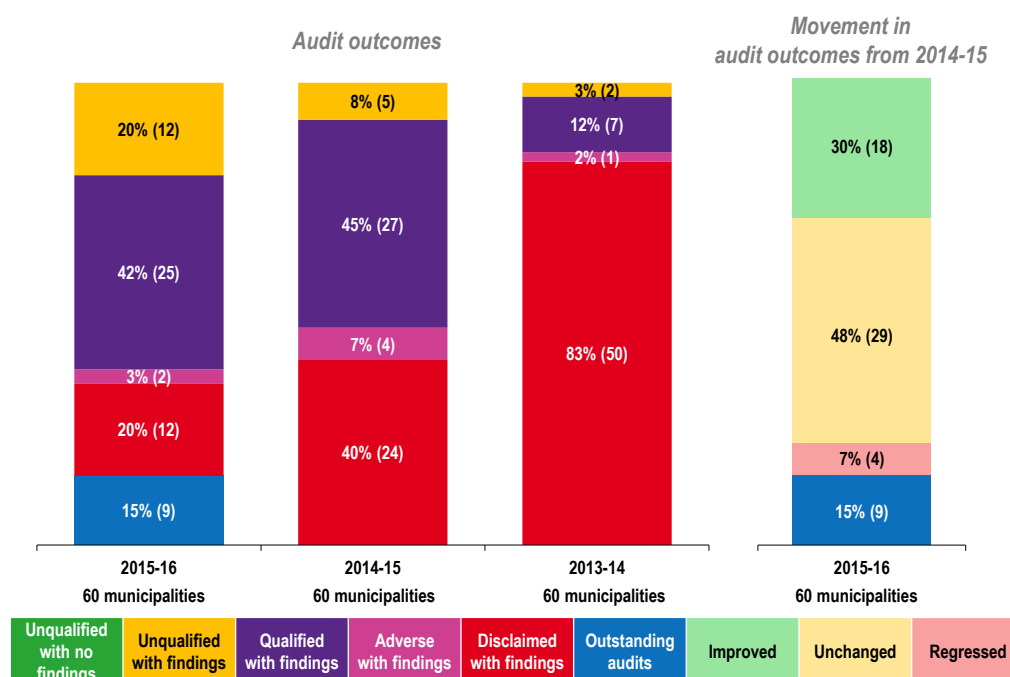
Figure 4: Provincial audit outcomes in 2015-16 compared to 2014-15 (municipalities)



The **audit outcomes of four provinces had improved** since the previous year, with the Eastern Cape showing the greatest improvement. The outcomes of **KwaZulu-Natal regressed significantly** and the remainder of the provinces either slightly improved or slightly regressed. The provinces with the highest number of municipalities with clean audit opinions in 2015-16 were the Western Cape (80%), KwaZulu-Natal (18%) and the Eastern Cape (16%). The provinces with the poorest outcomes (based on the number of municipalities with disclaimed and adverse opinions or outstanding audits) were North West (35%), the Northern Cape (31%) and the Free State (29%). The provincial summaries in section 12 provide detail on the reasons for the movements in audit outcomes in the provinces.

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

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



As can be seen in figure 5, the audit outcomes of **only 30% of the identified municipalities had improved** since the previous year. However, the number of disclaimed and adverse opinions had decreased significantly since 2013-14 at these municipalities.

In 2015-16, 41 (68%) of the identified municipalities **received assistance from national and provincial role players**. Table 2 shows the extent of support provided and our assessment of whether the assistance is making a difference in the audit outcomes of the municipality (some of the municipalities received support from more than one role player).

Table 2: Support provided and assessment of the impact

Assistance provided by	Municipalities that received assistance	Assistance had no impact	Assistance had limited impact	Assistance contributed to improved audit outcomes
National Treasury and provincial treasuries	40 (67%)	15%	50%	35%
Provincial Cogtas	28 (47%)	21%	58%	21%
Offices of the premier	6 (10%)	17%	66%	17%
Salga	9 (15%)	33%	56%	11%

Despite receiving assistance from more than one role player, Ba-Phalaborwa and Vembe District (both in Limpopo) still regressed to a disclaimed opinion. Five municipalities (Inxuba Yethemba in the Eastern Cape, Mafube in the Free State, Emalahleni in Mpumalanga, and Mamusa and Ventersdorp both in North West) received disclaimed opinions for the past three years in spite of interventions by the provincial treasuries, provincial Cogtas and the National Treasury.

The assistance provided by national and provincial role players is making a difference at some municipalities even if it does not always translate into improved audit outcomes. However, the coordination between the different role players and the quality of the assistance provided need attention in some provinces. Section 8 provides more detail on the levels of support in the different provinces by their treasuries and Cogtas in pursuit of the achievement of the MTSF and implementation of the B2B programme – there we also raise concerns about inadequate support and monitoring by the departments of cooperative governance and the resulting impact on municipalities. Section 12 provides further information at provincial level on the impact of provincial government on municipalities.



Improvements in **audit outcomes** can be achieved if all elements of the **PLAN+DO+CHECK+ACT** cycle are implemented. Section 10 provides recommendations in this regard.

3.2 Outstanding audits

We set the cut-off date for inclusion of the audit outcomes in this report as 15 January 2017. By this date, **15 audits had not been completed** (5% of our total municipal audits), compared to six audits that had been outstanding at the same time last year.

Tables 1 and 2 provide detail on the **reasons for the audits not having been finalised**.

Table 1 lists the four audits that had not been completed by the date of this report and provides the reasons for the late finalisation.

Table 1: Outstanding audits

No.	Province	Municipality	Reason
1	Limpopo	Thabazimbi	No financial statements submitted
2	Northern Cape	Magareng	No financial statements submitted
3		Phokwane	No financial statements submitted
4		Renosterberg	No financial statements submitted

Table 2 includes the **11 audits that were finalised after 15 January** – it provides the reasons for the late finalisation, the outcomes of the audit and the unauthorised, irregular as well as fruitless and wasteful expenditure incurred (the 2014-15 amounts are indicated in *italics*). The practice to submit financial statements late in an attempt to improve or sustain the previous year’s audit outcomes should not be encouraged.

Table 2: Audits subsequently finalised

Number	Municipality	Province	Reason for late finalisation of audit	Movement from previous year's audit outcome	2015-16 audit outcomes			2014-15 audit outcomes			2015-16 Unauthorised, irregular and fruitless and wasteful expenditure		
					Audit opinion	Predetermined objectives	Compliance with legislation	Audit opinion	Predetermined objectives	Compliance with legislation	Unauthorised expenditure Amount R million	Irregular expenditure Amount R million	Fruitless and wasteful expenditure Amount R million
1	Mangaung Metro (consolidated audit)	FS	Late submission of financial statements (14 December 2016) and qualification matters had to be addressed	Unchanged		R	R		R	R	654,7 (987,1)	8,3 (8,1)	0,7 (0,21)
2	Maluti-A-Phofung (consolidated audit)	FS	Late submission of financial statements (6 March 2017)	Improved		R	R		R	R	746,5 (953,5)	117,55 (30,8)	143,94 (73,6)
3	Matjhabeng	FS	Late submission of financial statements (18 October 2016)	Improved		R	R		R	R	812,4 (443,3)	305,7 (226,1)	150 (151,8)
4	Phumelela	FS	Late submission of financial statements (11 October 2016)	Unchanged		R	R		R	R	95,7 (162,3)	9,9 (5,9)	6 (3,7)
5	Greater Giyani	LP	A number of audit issues related to property and equipment and the cash flow statement had to be addressed	Unchanged		A	R		R	R	13 (0)	7,3 (16,8)	7,6 (0,03)
6	Mogalakwena	LP	Late submission of financial statements (2 November 2016)	Improved		R	R		R	R	121 (45,3)	487,5 (175,5)	0,3 (0,39)
7	Mutale	LP	Late submission of financial statements (27 October 2016)	Unchanged		R	R		R	R	0 (0)	2,2 (0,18)	0,1 (2)
8	Dikgatlong	NC	Late submission of financial statements (7 October 2016)	Improved		R	R		R	R	61 (114,5)	13,2 (0)	3,7 (1,4)
9	Gamagara	NC	Outstanding issues on assets resulting from uncertainties of ownership between Gamagara and Tsantsabane had to be addressed	Improved		R	R		R	R	179,2 (63,3)	63,5 (204,6)	0,6 (0,005)
10	Tsantsabane	NC	Late submission of financial statements (27 October 2016)	Improved		R	R		R	R	26 (6,2)	4,5 (3,9)	4,7 (1,3)
11	Rustenburg (consolidated audit)	NW	Delayed commencement of the audit and lack of municipality's capacity to deal with the high volume of audit findings	Regressed		R	R		R	R	427,6 (13,4)	759 (3 061,6)	0,9 (0,54)

Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Addressed (A)	Repeat (R)
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Annexure 1 lists all auditees with their current and prior year audit outcomes, while annexure 3 lists the audit outcomes for the past five years. Both annexures indicate which municipalities were identified as requiring special intervention.