

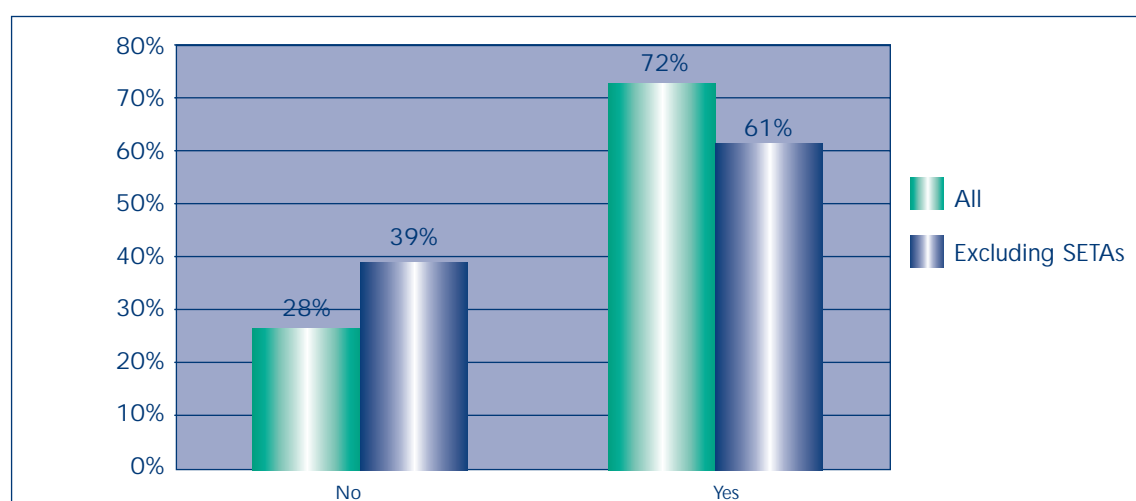


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**Criterion 1: The performance information (specifically the measurable objectives and the measures/indicators) reflected in the annual report should agree with the performance information in the annual budget for 2004-05 and the objectives as per the approved strategic/corporate plan.**

The results of the review were as follows:

**Figure 17. Agreement between annual report, strategic/corporate plan and annual budget**



In 72% of the public entities reviewed, the objectives and performance information reflected in the annual report agreed with the objectives reflected in the annual budget and objectives as per the strategic/corporate plans. However, this percentage reduces to 61% when the SETAs, included in the sample reviewed, are excluded. The following shortcomings were identified:

- Objectives were reflected in the strategic/corporate plans and annual budgets without being addressed or being diluted in the annual reports.
- Objectives were not reported on in the annual reports.
- Objectives as per the strategic/corporate plans and annual budget differed while no report on progress against predetermined objectives was included in the annual report.
- Objectives were not included in the annual budget or strategic/corporate plans.
- Strategic/corporate plans and annual budgets were not available.
- Comprehensive and extensive lists of objectives were formulated by some public entities, making the proper management, control and reporting thereon very difficult.

The most apparent reason for the above findings is that guidance on performance information and reporting does not exist for public entities. Thus, the non-achievement of planned objectives will not always be completely reflected in the annual reports although resources were allocated in terms of the annual budget for the achievement of such objectives.

Another factor is that the planning basis, funding and reporting requirements in the public domain are not aligned, resulting in a lack of clear accountability with regard to performance information.



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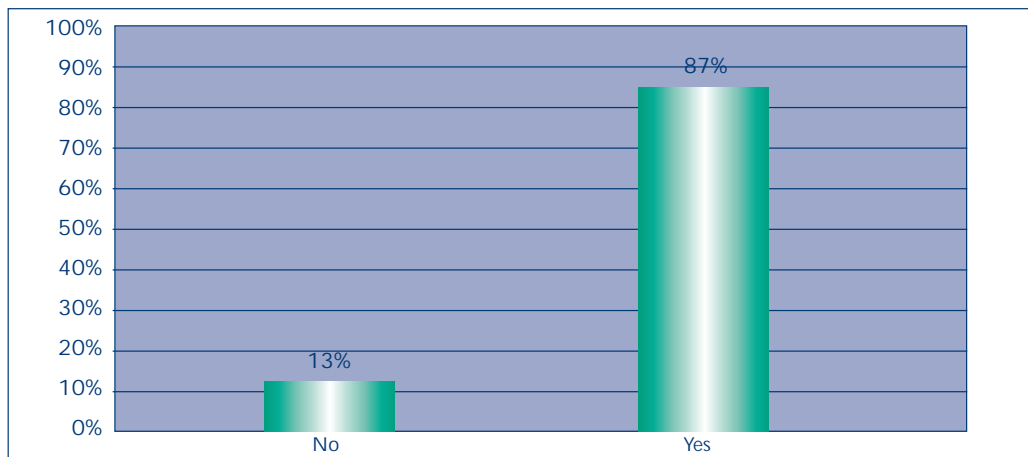
**Criterion 2: Measurable objectives should be formulated to be specific, measurable and time bound.**

In terms of guidance provided by the National Treasury in this regard, the following have reference and can be used as best practices: <sup>1</sup>

- Measurable objectives are defined as specific, quantifiable outcomes that can be achieved within a foreseeable time.
- A measurable objective should be an observable action that describes what the programme will do.
- Measurable objectives serve as a roadmap for achieving the department's goals and define the actual impact on the public rather than focusing on the level of effort that is expended.
- Objectives could be measured by means of setting expected outcomes, programme outputs, indicators (measures) and targets of the institution's programmes.

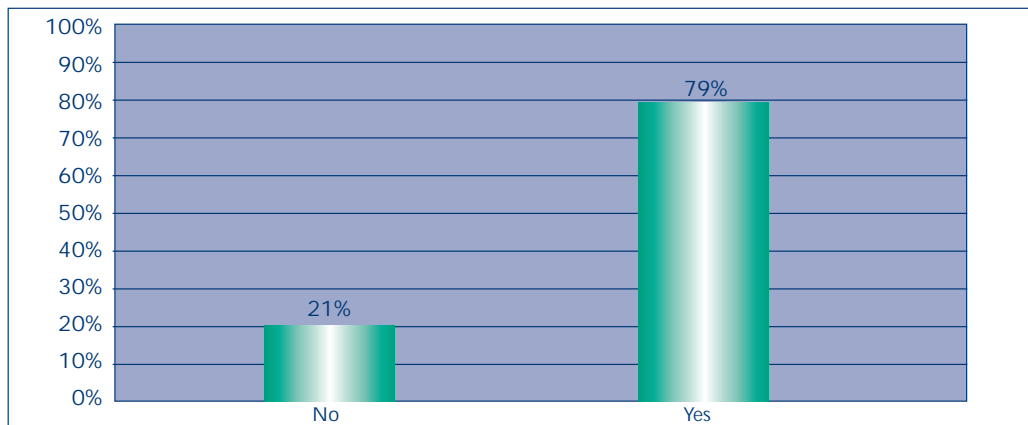
The results of the review were as follows:

**Figure 18. Specific measurable objectives**



As can be seen from figure 18, in 87% of the public entities analysed, specific measurable objectives were formulated.

**Figure 19. Level of performance measurable**

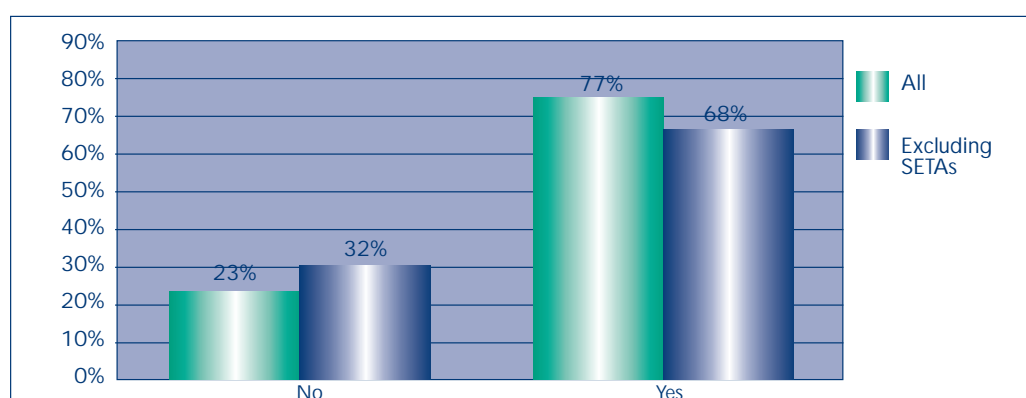




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The extent to which the objectives are measurable provides an indication of the planned impact on the public and stakeholders involved. In 21% of the public entities reviewed it was not possible to evaluate such an impact.

**Figure 20. Achievement of objective linked to time**



In 23% of the public entities reviewed objectives could not be directly linked to time and when the SETAs are excluded from the sample, the percentage increases to 32%. The lack of linking performance delivery to timelines poses another challenge to the accountability processes, as a key question is often: "When will the service be delivered?"

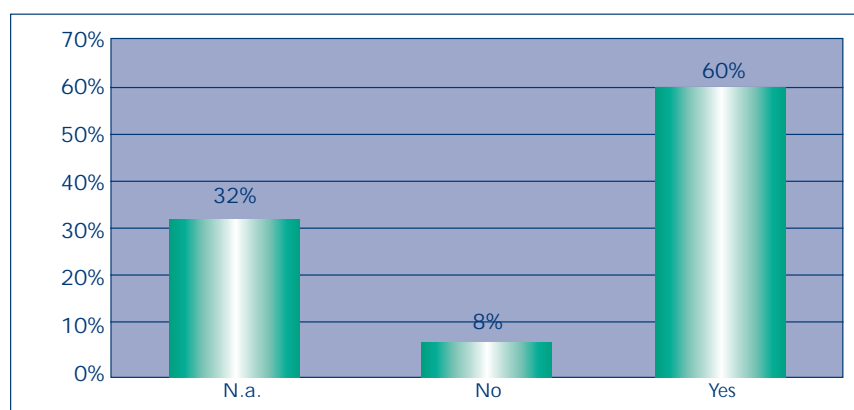
In conclusion, the root cause for measurable objectives not to be specific, measurable and linked to time can be attributed to a lack of guidance, training and support to public entities in formulating relevant performance objectives, measures and targets.

**Criterion 3: Subprogrammes should be grouped together so that their outputs contribute to a single measurable objective for the programme.**

Although it is recognised that for some of the public entities subprogrammes are not used, as reflected in the graph below, the analysis revealed that 60% of the public entities adequately grouped subprogrammes together to provide a bigger picture.

The results of the review were as follows:

**Figure 21. Subprogrammes grouped to contribute to a single objective per programme**



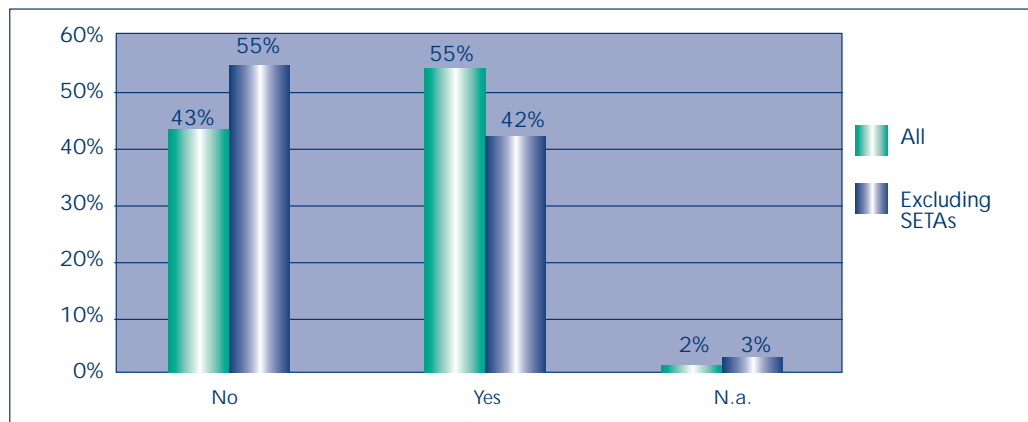


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**Criterion 4: Measurable objectives and performance indicators should be consistent from one reporting period to the next – i.e. consistent with quarterly and annual reporting.**

Consistency between performance information reflected in the annual report and quarterly reports could only be confirmed in 55% of the public entities analysed (42% excluding the SETAs included in the sample) as in most of the cases no quarterly reports were compiled. This clearly reflects that reporting on performance is a once-a-year exercise with limited in-year monitoring and reporting on performance. In terms of TR 29.3.1 and TR 30.2.1, the accounting authority of a public entity must establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action.

**Figure 22. Objectives/indicators are consistent from one period to the next**



**Criterion 5: The performance information should be presented in a way that is straightforward and meaningful and should not be fragmented in the annual report or difficult to follow.**

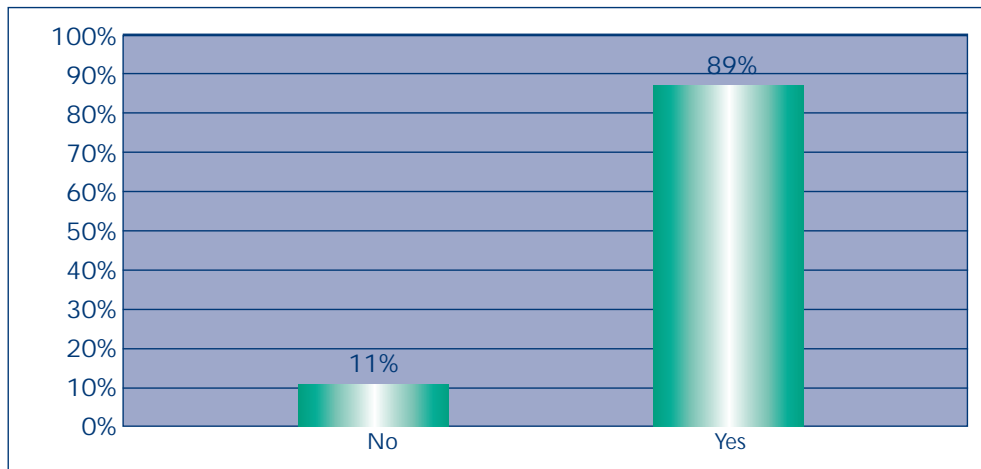
Another criterion for good reporting on performance information is understandability. The readers for whom the report is intended should be able to clearly understand the contents of the report, which can be achieved by using terminology and reasoning that is comprehensible to any lay reader, especially when technical matters are discussed.

The results of the review were as follows:



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**Figure 23. Presentation is straightforward and meaningful**

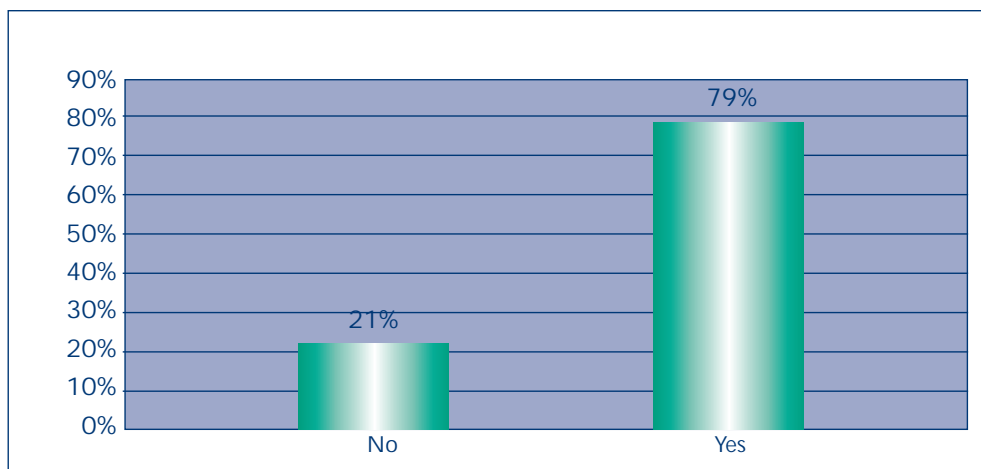


Overall the findings under this criterion were positive in that for 89% of the public entities analysed, the performance information was presented in a straightforward and meaningful manner.

**Criterion 6: Actual performance should be indicated for each measure/indicator and reasons for any differences should be explained.**

Another requirement for good reporting on performance information is the analysis of information. As part of the analysis the reasons for variances should also be examined, analysed and explained. The results of the review were as follows:

**Figure 24. Actual performance reported per measure/indicator**



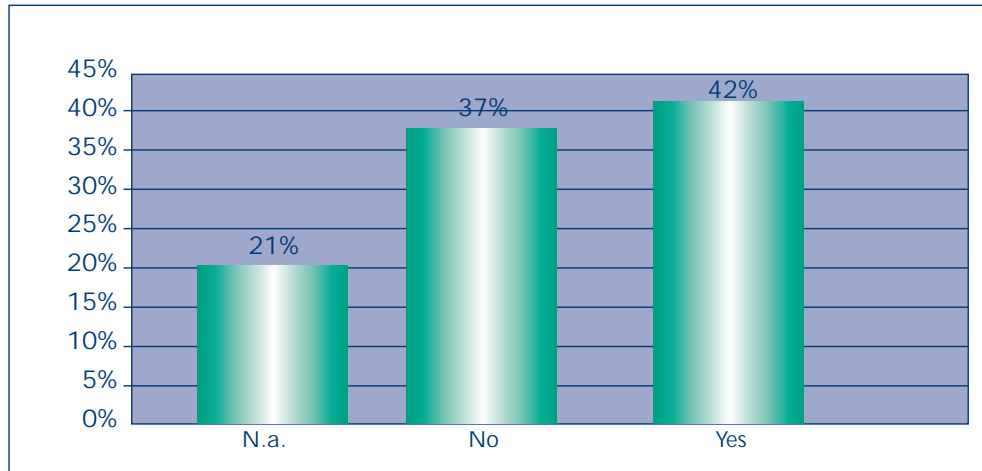
The reporting of performance against the measure/indicator provides an essential guide to the planned progress. A total of 79% of the public entities indicated actual performance for each measure/indicator and/or target.



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The reasons for any difference should be explained. The results of the review were as follows:

**Figure 25. Reasons for differences are explained**



This represents a major area for improvement. Only 42% of the public entities reviewed explained reasons for differences. Another concern is the 21% of cases where this was indicated as “not applicable”, as this may reflect inconsistent reporting on planned versus actual performance. An important recognition is that what is planned cannot always be achieved and the reasons “why not” are essential for the reader of the annual reports.

**5.7.2 A few general comments emanating from the reviews**

When compared to the previous year it is evident that a substantial number of public entities namely 50 (2003-04: 60) still did not report performance information in the annual reports as required by the PFMA. As a result the criteria could not be reviewed at all public entities.

The evaluation of criteria revealed a mixture of positive and negative results. The public entities reviewed succeeded to some extent (72%) in aligning the performance information in the annual budgets and strategic/corporate plans with the performance information in the annual reports. Other positive findings include those specifically related to the formulation of objectives to be specific and measurable and the presentation of performance information in a straightforward and meaningful way.

Continual improvement is, however, an integral part of any process and the public entities will always be challenged to improve on performance reporting. One area for improvement identified during this review is the consistency of reporting between reporting periods, with specific emphasis on quarterly reporting as required by the Treasury Regulations.

Another area of concern is the limited number of public entities reflecting on the reasons for the differences between planned and actual performance.

**5.7.3 Recommendations**

The recommendations as per paragraph 3.4 of this report are equally relevant to public entities.



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However, the lack of guidance regarding performance reporting for public entities should be addressed as a matter of urgency. This lack of guidance was also highlighted in my general report for 2003-04, paragraph 4.7 refers.

### 5.8 Irregular or fruitless and wasteful expenditure and material losses

Fruitless and wasteful expenditure is expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Irregular expenditure is expenditure incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including:

- The PFMA; or
- The State Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of that Act.

In total, the following were reported as irregular or fruitless and wasteful expenditure and material losses in the financial statements of the public entities:

**Table 16. Irregular or fruitless and wasteful expenditure and material losses**

Type	Amount (R'000)		Number of entities	
	2004-05	2003-04	2004-05	2003-04
Irregular expenditure	136 667	56 119	5	9
Fruitless and wasteful expenditure	27 506	29 049	27	16
Material losses	5 010	1 167	10	9

In the context of the annual financial statements, the reporting of irregular and fruitless and wasteful expenditure has remained in line with prior year expenditure. The irregular expenditure primarily comprises the R130 250 000 incurred by the State Information Technology Agency (SITA) and the R4 585 000 of the Tourism, Hospitality and Sport Education and Training Authority (THETA). The SITA expenditure is attributed to a combination of non-compliance with SITA procurement policies and procedures and inadequate project management processes, while the expenditure of THETA has been attributed to the inadequate monitoring of administrative expenditure.

The fruitless and wasteful expenditure total is again made up primarily by the R22 974 000 by SITA which is attributable to a combination of non-compliance with SITA procurement policies and procedures and inadequate project management processes.

Material losses due to criminal conduct encompass the R3 153 000 of the Health and Welfare Sector Education and Training Authority (HWSETA). This relates to inaccurate information being supplied by a third party so as to obtain a contract. Criminal action has been initiated against the said party.

### 5.9 Public entities' financial performance

Section 55(1)(b) of the PFMA requires the accounting authority for a public entity to prepare



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financial statements in accordance with generally accepted accounting practice, while TR 28.1.6 stipulates that those statements should conform with Statements of Generally Accepted Accounting Practice (GAAP). One of the qualitative characteristics of Statements of GAAP is comparability of financial statements of an entity over a period of time. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position and performance. Over time the private sector developed financial ratios which act as indicators of the financial position of an entity, but in the public sector no generally accepted ratios have been developed.

To compare the public entities, various analyses per schedule were performed to highlight current financial ratios.

**Table 17. Performance analysis criteria**

	Analysis	Purpose
1	Analysis of total revenue for the different PFMA schedules	Indicates the allocation of total revenue generated per PFMA schedule
2	Average revenue generated per PFMA schedule	Indicates the variances in the revenue-generating categories and per schedule
3	Total assets to total debt	Indicates the ratio by which total debt is covered by total assets
4	Current ratio analysis	Indicates the ratio by which current liabilities is covered by current assets
5	Disclosure of emoluments as required by TR 28.1.1	Indicates compliance with TR 28.1.1
6	Disclosure of staff cost	Indicates compliance with AC 101 par. 81-84

### 5.9.1 Analysis of total revenue for the different PFMA-scheduled public entities

Total revenue consists of government grants, investment income and other income. Other income consists of internally generated income, for example, sales of products or services provided and revenue received or imposed by legislation.

For the 158 (2003-04: 151) entities included in the analysis the total revenue was just over R224 billion (2003-04: R192 billion). Of this, schedule 2 public entities still accounted for the highest amount and percentage of income, namely R187 billion (83%) of income generated by all the public entities. Schedules 3A and 3B had a combined revenue of R37 billion (17%).

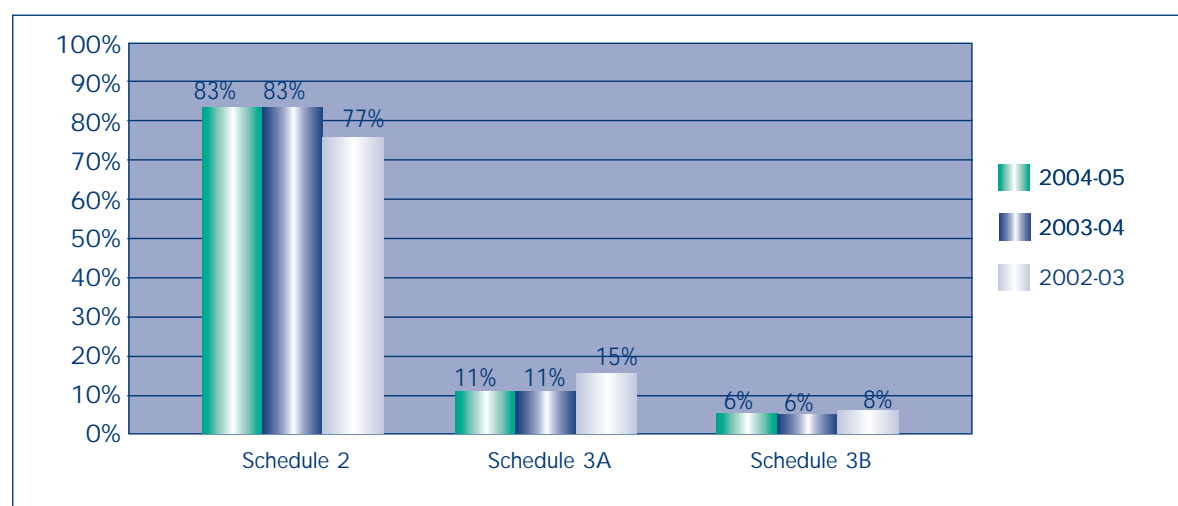
Revenue received by the South African Revenue Service (SARS), a schedule 3A entity, of R367 billion (2003-04: R315 billion) has been excluded since it represents taxes levied by government and collected by SARS on behalf of government on an agency basis.

Figure 26 provides a breakdown of the percentage of revenue generated per PFMA schedule, and it indicates that the allocation between the different schedules has not changed significantly from the prior financial period.

The average income per entity per schedule is depicted in table 18.



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**Figure 26. Breakdown of revenue generated per schedule****Table 18. Average income generated per entity per schedule**

	Number of entities	Average income per entity (R'000)	Total income (R'000)
Schedule 2	17	11 024 257	187 412 372
Schedule 3A	114	224 111	25 548 677
Schedule 3B	27	426 444	11 513 998
<b>Total</b>	<b>158</b>	<b>11 674 812</b>	<b>224 475 047</b>

### 5.9.2 Average revenue generated per PFMA schedule

Revenue per entity can be grouped into three categories, namely:

- Transfer payment
- Investment income
- Other revenue

Other income consists of internally generated income, for example, sales of products or services provided and revenue received or imposed by legislation. What is of significance in this analysis, is that the average transfer payment received per entity is rather immaterial in relation to its total revenue generated. Schedule 3A entities received the highest average transfer payment of 32% (2003-04: 30%) of their total income. Based on the analysis performed below, it is clear that there has been consistent generation of income per income item and PFMA schedule, year-on-year. Refer to figure 27 and table 19.



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Figure 27. Average revenue generation per PFMA schedule

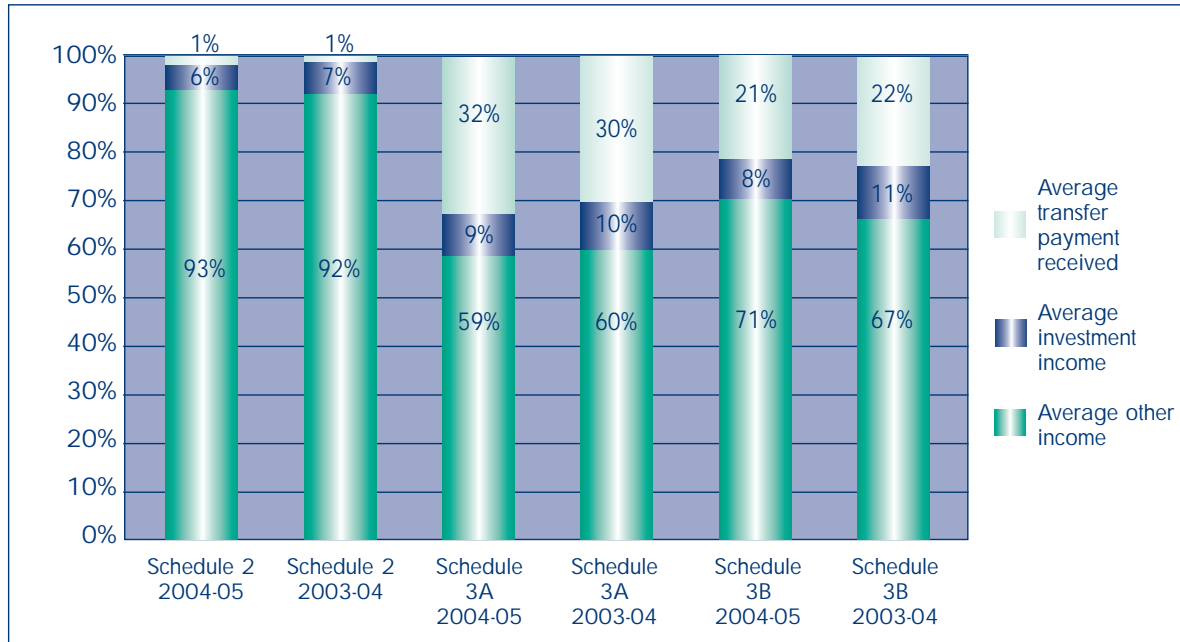


Table 19. Total revenue per category

	Schedule 2 (R'000)		Schedule 3A (R'000)		Schedule 3B (R'000)		Total (R'000)	
	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05	2003-04
Transfer payments	1 765 955	1 671 617	8 303 318	6 406 790	2 470 140	2 380 114	12 539 413	10 458 521
Investment income	10 760 168	11 584 960	2 150 570	2 161 401	903 632	1 145 760	13 814 370	14 892 121
Other income	174 886 249	146 729 163	15 094 789	12 934 230	8 140 226	7 195 688	198 121 264	166 859 081
<b>Total</b>	<b>187 412 372</b>	<b>159 985 740</b>	<b>25 548 677</b>	<b>21 502 421</b>	<b>11 513 998</b>	<b>10 721 562</b>	<b>224 475 047</b>	<b>192 209 723</b>

5.9.3 Total assets to total debt

This ratio indicates the number of times debt is covered by assets, which is important to both creditors and management. Management can determine the security of capital, while creditors can determine their safety margin.

Table 20 indicates the ratio of average assets to average debt in a ratio analysis.

Table 20. Total assets to total debt ratio

	Schedule 2	Schedule 3A	Schedule 3B
2004-05	1,67	1,67	1,88
2003-04	1,57	1,64	1,81

The above analysis demonstrates that the public entities on the whole are solvent, having sufficient assets to cover their debts.



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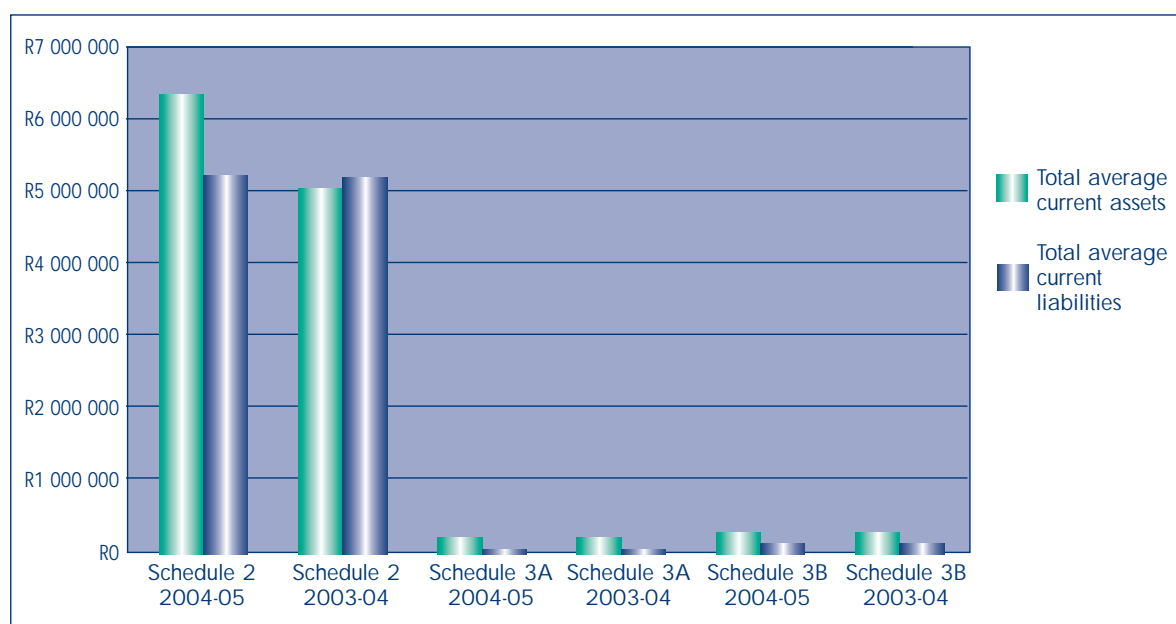
#### 5.9.4 Current ratio analysis

The liquidity of an entity revolves around its ability to meet its current liabilities out of current assets. The liquidity ratios are of concern not only to the short-term creditors, but also to the long-term creditors, as the entity's ability to remain liquid will directly affect its ability to repay long-term funds, for example out of cash flows.

The norm applied by the private sector for the current ratio is 2:1, meaning that there is two rands' worth of current assets for each one rand of current liabilities. The average liquidity ratio per schedule is depicted in table 21.

Figure 28 and table 21 indicate the liquidity in rand value and as a ratio respectively.

**Figure 28. Total current assets to current liabilities per PFMA schedule (R'000)**



Based on the analysis performed, there has been an improvement year-on-year in the schedule 2 and schedule 3B entities. However, it still raises concerns to note that the schedule 2 entities are not above the norm of 2:1 and that there has been a decrease in the ratio for the schedule 3A entities. Of concern is the fact that the schedule 2 entities are those with the highest value of assets as well as the highest value of debt.

**Table 21. Current ratios**

	Schedule 2	Schedule 3A	Schedule 3B
2004-05	1,22	2,65	2,05
2003-04	0,98	3,00	1,79



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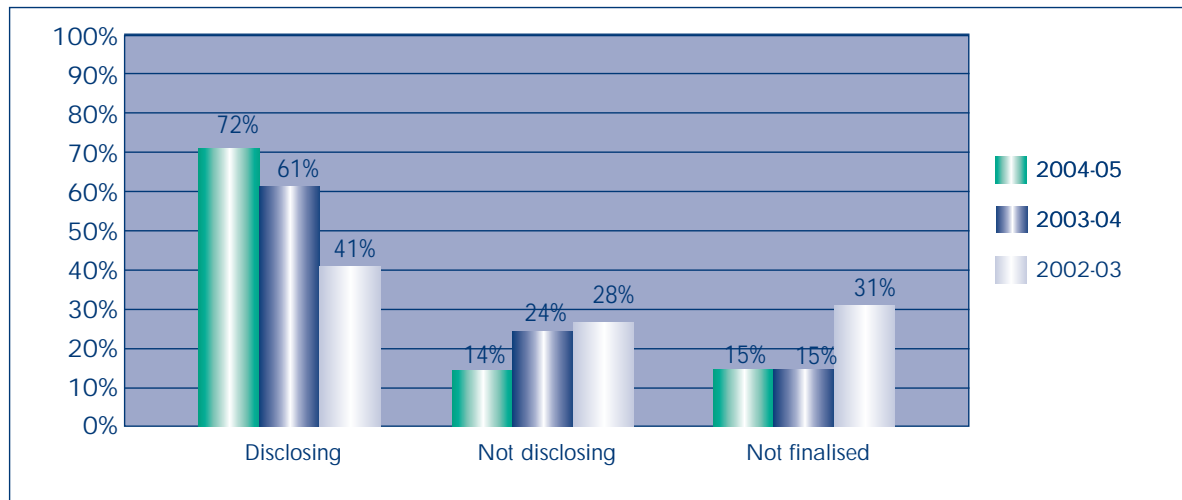
**5.9.5 Disclosure of emoluments as required by Treasury Regulation 28.1.1**

TR 28.1.1 stipulates that the annual financial statements must include a report by the accounting authority which must include the disclosure of remuneration in respect of all:

- (a) members of the accounting authority;
- (b) the chief executive officer or the person in charge of the public entity;
- (c) the chief financial officer;
- (d) persons serving on the public entity's senior management; and
- (e) members or persons in (a) to (d) above serving in other entities under the ownership control of the public entity.

Despite this requirement, 14% (2003-04: 24%) or 25 (2003-04: 44) of the entities did not disclose the information. However, for the entities that did disclose emoluments, the consistency of the information has not been confirmed for the purpose of this report, given the amendments made to the Treasury Regulations listed above.

**Figure 29. Entities disclosing directors' and executive members' emoluments**



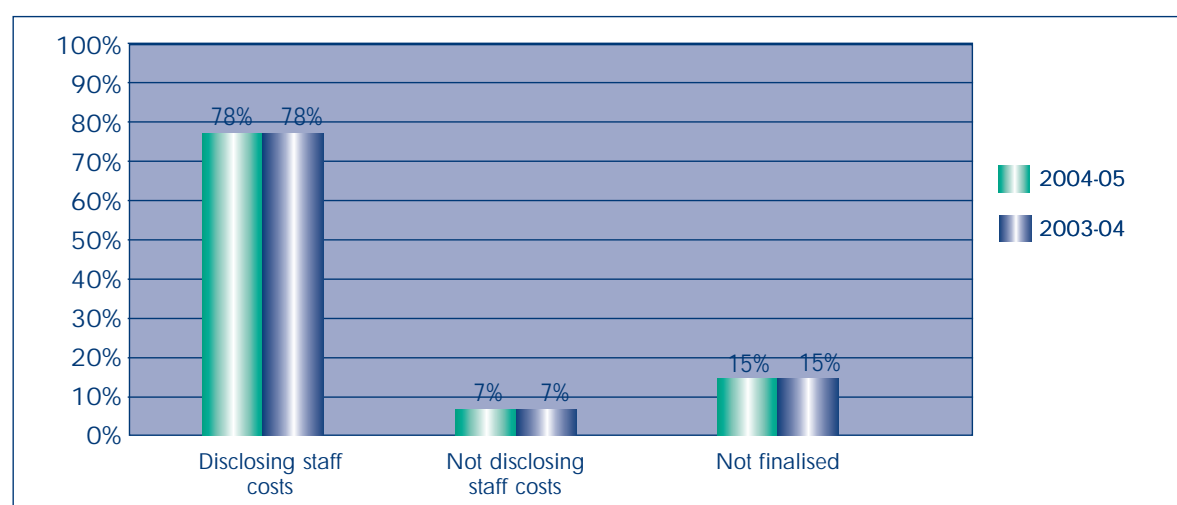
**5.9.6 Disclosure of staff cost**

Public entities should prepare annual financial statements in terms of Statements of Generally Accepted Accounting Practice (GAAP). Accounting Standard AC 101, paragraphs 81 and 84, requires the disclosure of staff costs. Seven per cent (2003-04: 7%) of the public entities did not disclose their staff costs. This percentage has remained constant from the previous financial period, which is of concern, as the requirement of disclosure relating to staff costs has been emphasised to all entities and it appears that this has not had the desired effect.



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**Figure 30. Disclosure of staff costs (excluding directors' and executive members' emoluments)**



### 5.10 Consolidation of museums

The Department of Arts and Culture has 26 schedule 3A entities, of which 12 are museums. Of these 12 museums, two have yet to provide information to me. An analysis of the 10 entities for which information has been received was performed and it was determined that the average income, expenditure and asset value per museum was very low in comparison with the other schedule 3A entities (table 22).

**Table 22. Average income, expenditure and asset value for museums in comparison with other schedule 3A entities**

	Schedule 3A (114 entities) R'000	Department of Arts and Culture - museums (10 entities) R'000
Average income	224 111	27 605
Average expenditure	(201 472)	(16 847)
Average asset value	412 306	26 993

The average income, expenditure and asset value per museum compare unfavourably with the average income per entity for schedule 3A entities. This raises the question whether the museums should continue to exist as separate entities or whether they should rather be consolidated to form one single public entity. Also refer to table 14 that lists the entities which received qualified audit opinions for the past three financial years. For the current year three museums under the control of the Department of Arts and Culture received qualified audit opinions. In addition, of the 10 museums, nine received emphasis of matter paragraphs. Complying with the accounting principles as set out in the Statements of Generally Accepted Accounting Practice and legislation is a daunting task, and it may thus be beneficial if the museums are consolidated into a single entity to strengthen internal control mechanisms and improve accountability.



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**5.11 Governing structures**

Audit committees and internal audit functions are two governing structures which the PFMA requires to be established.

**5.11.1 Audit committees**

The accounting authority of a public entity must establish an audit committee as a subcommittee of the accounting authority. The audit committee must have a chairperson who must:

- Be independent
- Be knowledgeable about the status of the position
- Have the required business, financial and leadership skills
- Not be the chairperson of the accounting authority
- Not be a person who fulfils an executive function in the public entity

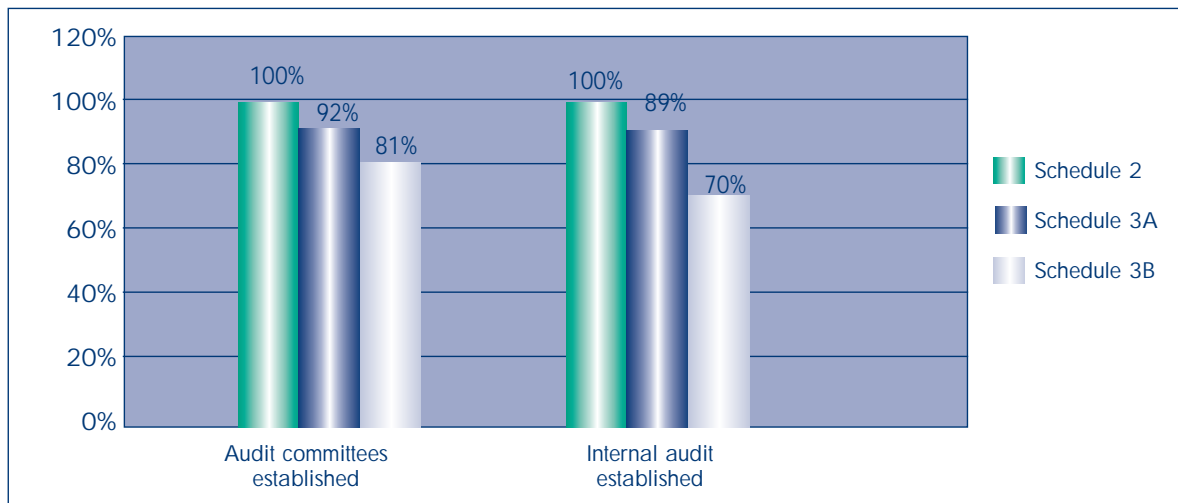
The majority of the members who are appointed by the accounting authority shall be non-executive (TR 27.1.4). Committee members need not all be members of the accounting authority. The majority of the persons serving on an audit committee must be financially literate.

**5.11.2 Internal audit**

In terms of TR 27.2.2, all public entities must have an internal audit function, which must report directly to the accounting authority and at all audit committee meetings. The function must be independent of activities that are audited, without limitation on its access to information.

The purpose, authority and responsibility of the internal audit function must, in consultation with the accounting authority, be formally defined in an audit charter and be consistent with the definition of internal auditing as formulated by the Institute for Internal Auditors. External auditors may not perform the internal audit function.

**Figure 31. Governance analysis per the public entity schedule**





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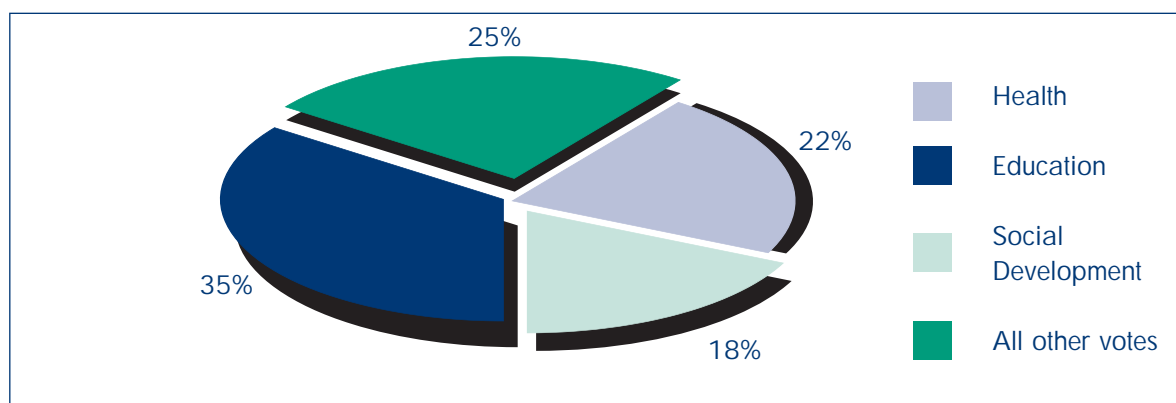
## SECTION 6: PROVINCIAL OVERVIEW

For the provincial overview, a conclusive analysis could not be performed, as the audits of the following provincial departments had not yet been finalised:

- Education
  - Free State
  - Gauteng
  - Northern Cape
  - North West
- Health
  - Northern Cape
- Social Development
  - Northern Cape

The Northern Cape has not finalised the audits for all the above sectors. The above non-finalised audits could skew the analysis performed on the audit reports.

**Figure 32. Provincial budget for all votes**



The figure above shows that the budgeted expenditure for the three main votes represents 82% of the total provincial budgeted expenditure.

Education is the single largest area of expenditure, with Social Development receiving the largest increase during the current financial period. The total expenditure of R152 billion for these three main sectors approximately equals the total expenditure of R153 billion, which includes transfer payments for all the national departments.



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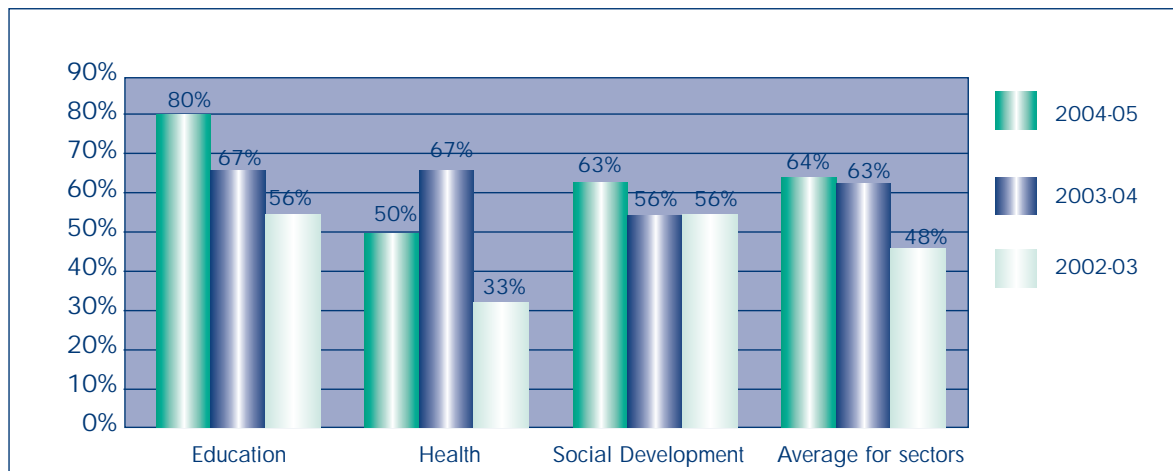
**Table 23. Total provincial expenditure on Education, Health and Social Development**

Sector	Total expenditure 2004-05 R million	Total expenditure 2003-04 R million	Total expenditure 2002-03 R million
Education	64 619	60 233	52 711
Health	40 345	37 573	33 407
Social Development	47 580	42 374	32 517
<b>Total</b>	<b>152 544</b>	<b>140 180</b>	<b>118 635</b>

**6.1 Audit opinions**

Figure 33 below depicts the unqualified audit opinions (clean opinions) issued per sector over the past three years. The overall average of the three sectors is also shown. In the Education and Social Development sectors there has been a continuation of the increase in the number of qualified opinions for the past year, with only the Health sector showing an improvement. The most significant deterioration can be found in the Education sector where only one of five provincial departments received an unqualified opinion in 2004-05, as compared to the 2003-04 reports where three of the nine provincial Education departments had unqualified audit opinions. Notably for the Education sector, only five of the nine provinces had their audits finalised at the time of this report. The number of qualified (not clean) audit opinions has increased overall from 63% to 64% for all three sectors. Only one province, namely Limpopo, received unqualified audit opinions for all three sectors.

**Figure 33. Number of qualified (not clean) audit reports by sector**



**6.2 Matters emphasised**

**6.2.1 Education sector**

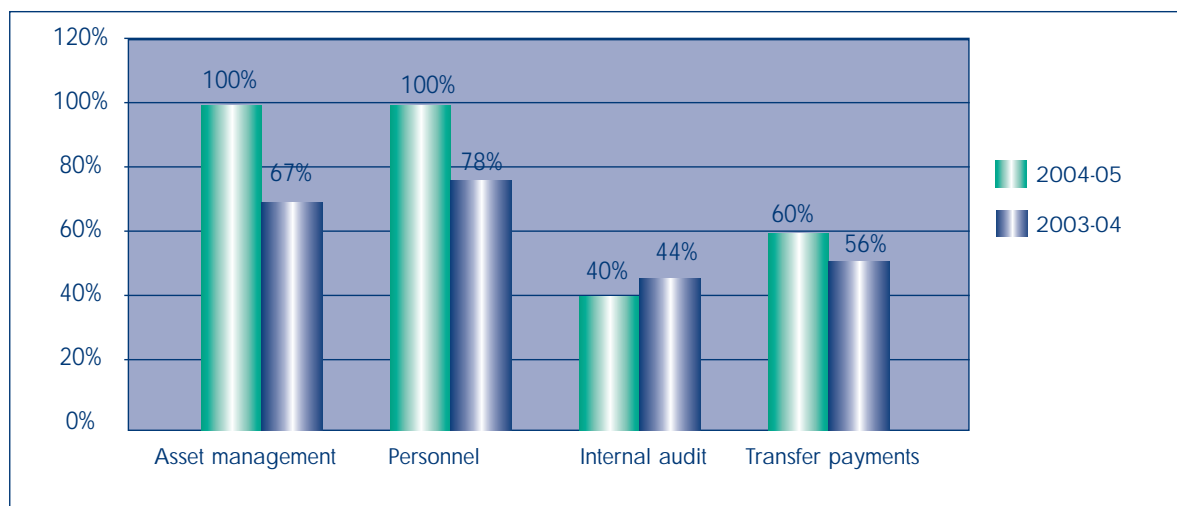
The main matters emphasised in all sectors were similar and in line with those reported for the national departments. Figure 34 below illustrates the key issues reported.



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Of the five finalised provincial audits, asset management and personnel issues were the primary areas of reporting, as is demonstrated in figure 34, with an increase in the reporting of transfer payment issues as well.

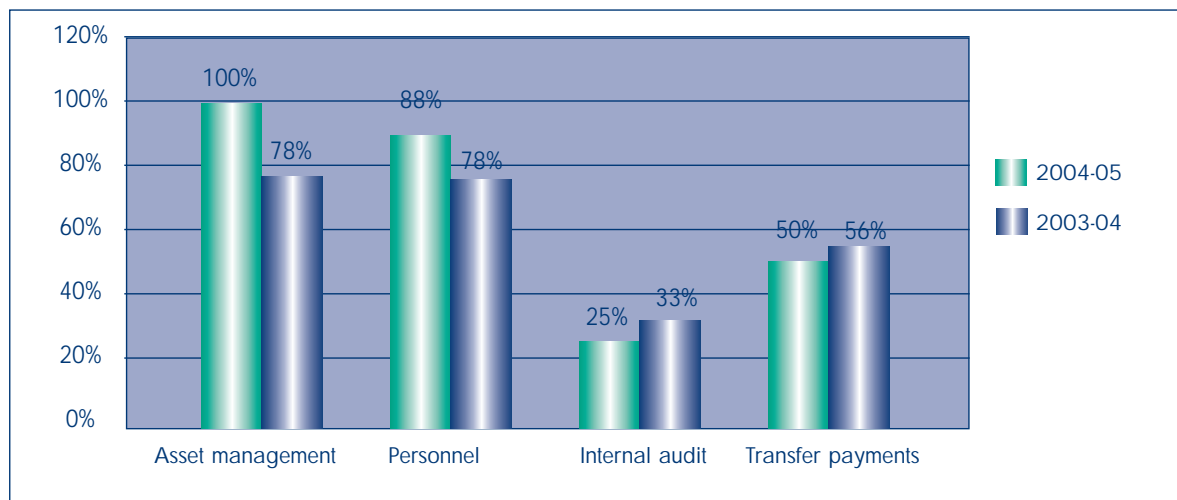
**Figure 34. Matters emphasised in the Education sector**



### 6.2.2 Health sector

Figure 35 below demonstrates that asset management was reported on in eight out of the eight finalised provincial audits, as compared to the seven out of nine provinces in 2003-04. Personnel, revenue, expenditure and compliance with the Division of Revenue Act were additional areas reported on, appearing in seven of the eight finalised provincial audits. Unauthorised expenditure was also reported in four of the eight finalised audits.

**Figure 35. Matters emphasised in the Health sector**





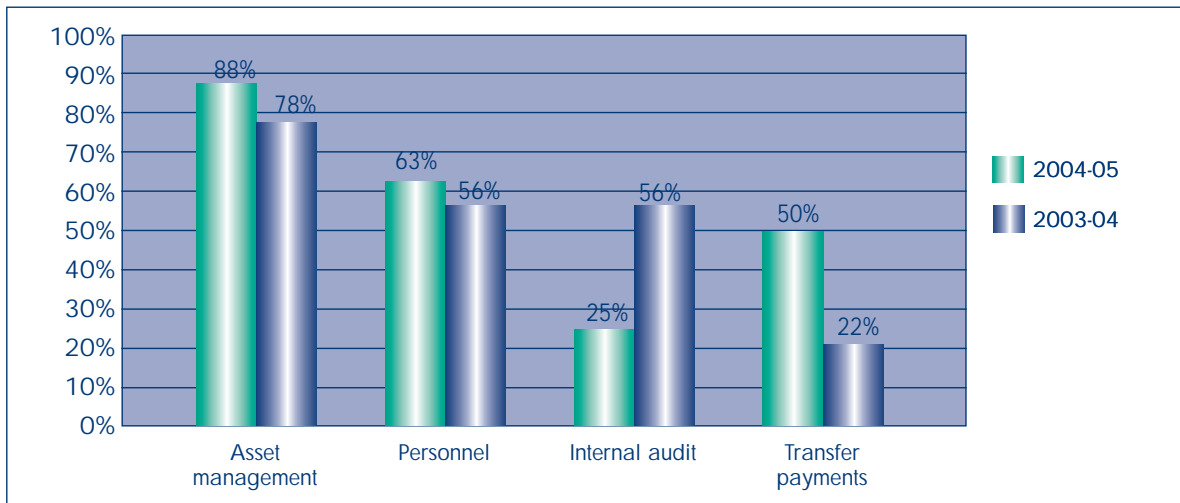
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**6.2.3 Social Development sector**

Figure 36 below shows a similar trend to the other sectors, with asset management and personnel once again featuring strongly in the analysis.

Transfer payment reporting has increased significantly with four out of eight provinces reporting on this as compared to two out of the nine provinces in 2003-04. Personnel, revenue and expenditure issues were reported in five of the eight finalised provincial audits. Unauthorised expenditure as well as non-compliance with the Division of Revenue Act was also reported in four of the eight finalised provincial audits.

**Figure 36. Matters emphasised in the Social Development sector**





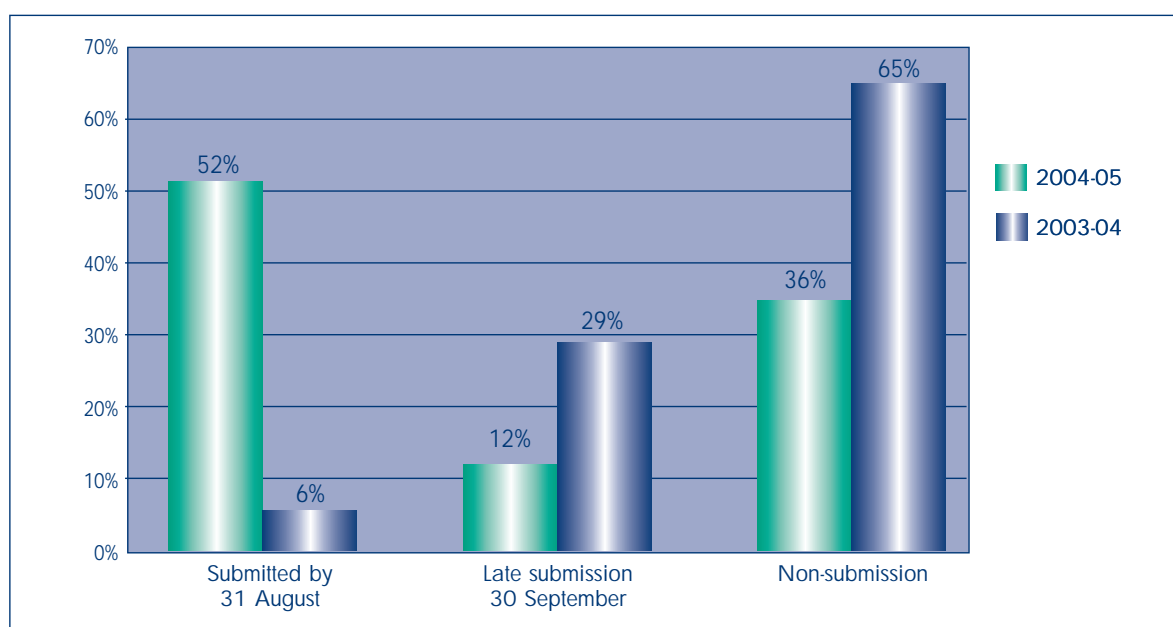
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## SECTION 7: LOCAL GOVERNMENT OVERVIEW

Currently there are 284 municipalities in the country. This is the first year of the implementation of the Municipal Finance Management Act, 2003 (No. 56 of 2003) (MFMA) at the municipalities. Section 126(1)(a) of the MFMA requires all accounting officers to prepare annual financial statements of the municipality and, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing.

Of the 284 municipalities, only 148 (52%) met the submission date of 31 August 2005 as prescribed by the MFMA. A further 35 (12%) submitted annual financial statements between 1 September 2005 and 30 September 2005, while 101 (36%) had not submitted annual financial statements by 30 September 2005. The last two categories, which made up 48% (136 municipalities), are not complying with the MFMA. In the previous year, six per cent met the submission date of 31 August 2004 as intended by the MFMA. Twenty-nine per cent submitted annual financial statements between 1 September 2004 and 30 September 2004, while 65% had not submitted annual financial statements by 30 September 2004. Refer to figure 37.

**Figure 37. Submission of financial statements by municipalities - compliance with section 126(1)(a)**



From the 2003-04 audits conducted, an alarming trend of audit outcomes was identified. The following is an extract from the *General report on the outcomes of local government for the financial year ended 30 June 2004* [RP 73/2005]. "Only 95 (34 per cent) of the 284 audits had been finalised by 30 April 2005, while the audits of only 23 (46 per cent) of the top 50 had been finalised by 30 April 2005. If the high-capacity municipalities are excluded, only 72 (31 per cent) of the audits of medium- and low-capacity municipalities had been finalised.



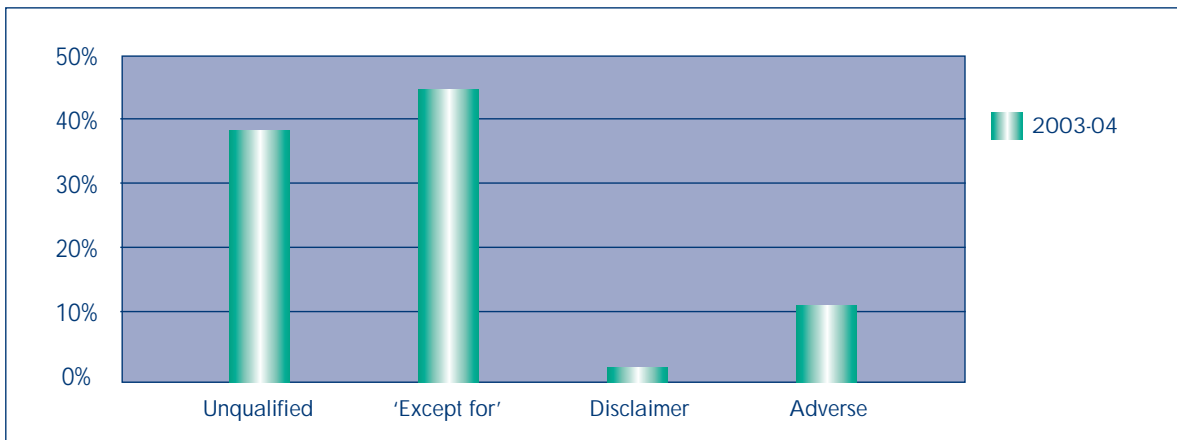
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Of the 95 audits that were finalised, 58 (61 per cent) were qualified. The distribution of the audit opinions was as follows, and is depicted in figure 35 (originally figure 6):

- Twenty-seven were unqualified (39 per cent).
- Forty-five were 'except for' (not clean) (47 per cent).
- Three were 'disclaimers' (serious) (three per cent).
- Ten had an 'adverse' (serious) audit opinion (11 per cent).

(A disclaimer or adverse audit opinion represents the most severe type of audit opinion.)

**Figure 38 (6). The 2003-04 audit opinions for all municipalities that had been audited**



An analysis of the 23 audit reports of the top 50 municipalities that had been finalised, indicated the following:

- Sixteen were unqualified (70 per cent), compared to sixteen (37 per cent) in 2002-03.
- Fifteen of those sixteen included emphasis of matter paragraphs. Nkangala District Municipality was the only municipality that had an unmodified ('clean') report.
- Five were qualified ('except for') (22 per cent), compared to fifteen (35 per cent) in 2002-03.
- One had a 'disclaimer' (four per cent), compared to eleven (26 per cent) in 2002-03.
- One had an 'adverse' opinion (four per cent), compared to one (two per cent) in 2002-03."