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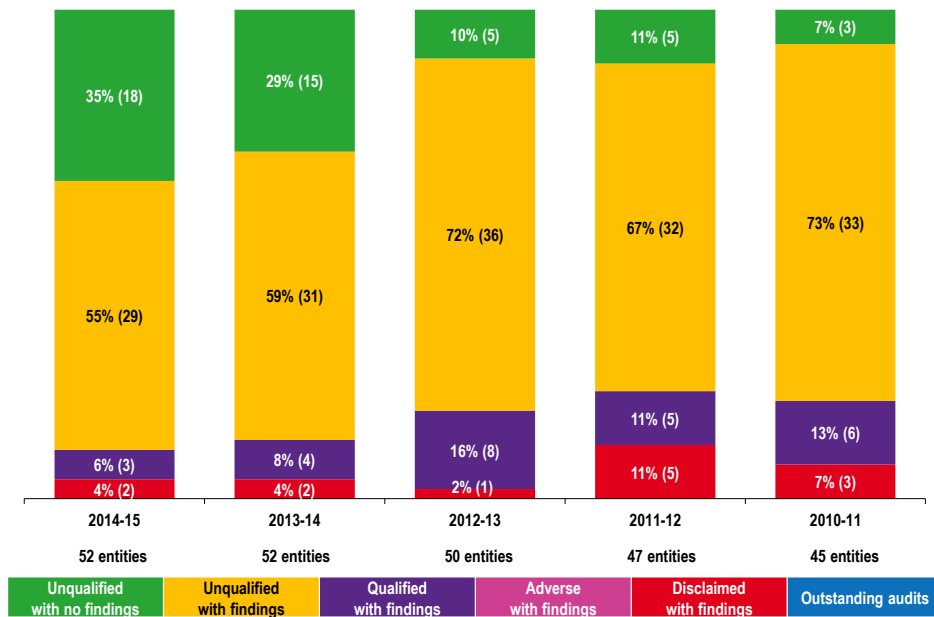
Municipal entities

6. Municipal entities

Local government includes 52 municipal entities. The number of entities has decreased to 52 from 57 in 2013-14 due to the closure of one entity in the Western Cape and the exclusion from our analysis of four KwaZulu-Natal entities due to their relatively small sizes or low level of activity. The prior years' comparative figures in this section exclude these five entities.

Figure 1 depicts the audit outcomes of the 52 entities over five years.

Figure 1: Improvement in audit outcomes of entities

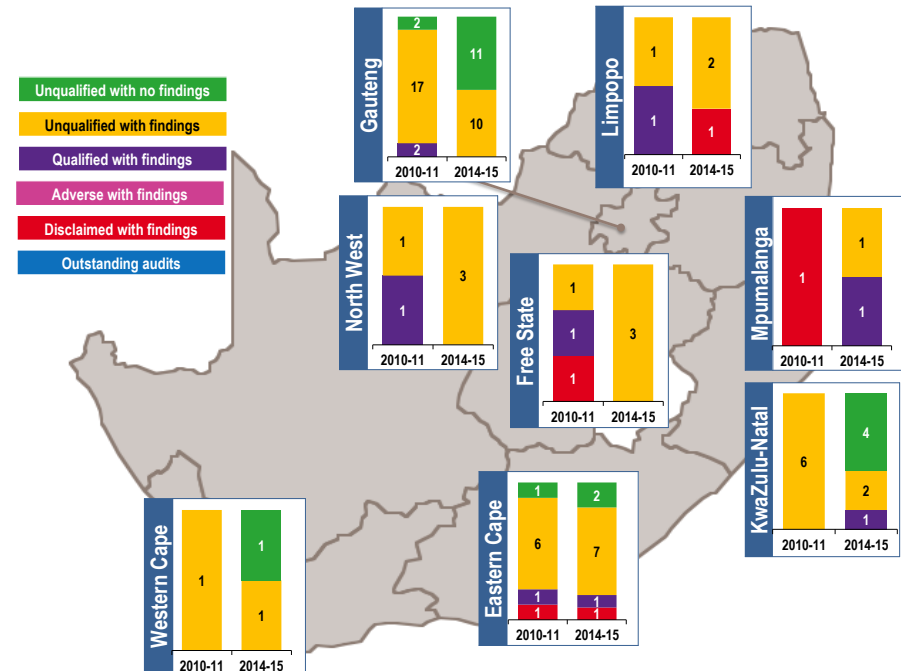


There has been an overall improvement in the **audit outcomes** of entities since 2010-11 and as from 2013-14. The number of entities with clean audit opinions has increased six-fold since 2010-11.

Over the five-year period the audit outcomes of 46% entities have improved, 6% have regressed and 35% remained unchanged (29% remaining in the 'with findings' category).

Figure 2 shows the provincial audit outcomes of entities for 2010-11 compared to 2014-15.

Figure 2: Provincial audit outcomes over five years



Audit of financial statements

The entities' financial statement submission rate has steadily improved over the five-year period from 87% (39 entities) in 2010-11 to 100% in 2014-15. Audit opinions on financial statements have improved from 20% financially qualified in 2010-11 to 10% financially qualified in 2014-15. There was also a slight improvement in the quality of the annual financial statements submitted for audit - from 58% of the entities submitting financial statements in 2010-11 with material misstatements to 56% in 2014-15.

In 2014-15 the most common qualification areas were the financial statement items of expenditure, irregular expenditure and employee cost.

Compliance with key legislation

The improvement over the five-year period in the number of entities with no findings on compliance is encouraging – from only 6% in 2010-11 to 35% with no findings on compliance in 2014-15.

The most common compliance findings in the current year and the progress made in addressing these since 2010-11 are as follows:

- Quality of financial statements submitted – 29 entities (56%) (2010-11: 26 [58%])
- Prevention of irregular and fruitless and wasteful expenditure – 23 entities (44%) (2010-11: 24 [58%])
- Management of procurement and/or contracts – 19 entities (37%) (2010-11: 21 [47%])
- Strategic planning and performance management – 14 entities (27%) (2010-11: four [9%])
- Management of expenditure and payments – 13 entities (25%) (2010-11: nine [20%]).

The number of entities where we reported SCM findings has increased slightly from 64% in 2011-12 to 67% in 2014-15. The most common SCM areas in which entities had findings were uncompetitive or unfair procurement processes at 29 entities (2011-12: 26); inadequate contract management at seven entities (2011-12: six); and awards to other state officials at seven entities (2011-12: 10). Limitations in the planned scope of audit of awards were experienced at four entities (2011-12: seven).

Irregular expenditure incurred

There has been a significant increase of 53% (R114 million) since 2010-11 and 74% (R140 million) since the previous year. The main contributors (67%) to increased irregular expenditure in 2014-15 are Johannesburg Metropolitan Bus Services, East Rand Water CARE Company, Centlec and Pikitup Johannesburg. The significant increase that occurred in 2011-12 was as a result of the high irregular expenditure incurred by Pikitup Johannesburg – R572 million and Centlec – R345 million.

Findings on annual performance reports

Forty-eight entities (92%) had prepared their 2014-15 APRs. This is at similar level as in 2010-11.

There has been an overall increase since 2010-11 in the number of entities with no material findings on the quality of their APRs – improving from 49% in 2010-11 to 67% in 2014-15.

In total, 25 entities (52%) submitted APRs that contained no material misstatements - an improvement compared to 0% in 2010-11.

In 2014-15 the APR of one entity (2010-11: three) was not reliable, while two (2010-11: seven) were not useful and 10 (21%) (2010-11: seven) were neither

reliable nor useful, indicating that further attention is required from those in charge of oversight and governance.

Status of entities' financial health

There has been an improvement in the status of financial health of entities since the previous year (2014-15: 38% [20 entities]; 2013-14: 31% [16 entities]), but a regression since 2012-13 when 50% (25 entities) had a good financial health status. The overall regression can in part be attributed to the poor economic conditions prevailing in the country over the past several years, which is characterised by high consumer debt and debtor default.

Almost 19% of the entities had a going concern uncertainty in 2014-15. This is cause for concern, but represents an improvement compared to the 25% in the previous year as well as the 30% since 2012-13. The following financial health indicators have regressed since 2012-13:

- Debt-collection period of 90 days
- Entities' current liability position (current liabilities exceeding their current assets)
- Deficit having been incurred for the year (expenses exceeding their revenue).

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 financial health, SCM practices and compliance with legislation.