



AUDITOR-GENERAL
SOUTH AFRICA

MEDIA RELEASE

27 August 2024

Auditor-general says local government audit outcomes are not showing meaningful improvement

PRETORIA – Auditor-General (AG) Tsakani Maluleke on Tuesday, 27 August, called on all roleplayers in the accountability ecosystem to “work deliberately and with urgency” towards a culture of performance, accountability, transparency and institutional integrity to ultimately result in a better life for the people of South Africa.

She emphasised that those with direct control over service delivery should act within their mandate and play a greater role in improving institutional performance and the living conditions of citizens. The AG made this clarion call taking into consideration that the audit outcomes are not showing meaningful improvement.

The AG released the [2022-23 consolidated general report](#) on the local government audit outcomes. The report includes insights from audits of municipalities and their entities, and shares information, statistics and stories on the state of local government in the second year of the sixth administration.

“In [our previous report](#), we reported on weaknesses in service delivery planning, reporting and achievement; failing municipal infrastructure; and the increasing pressure on local government finances due to a lack of careful spending, compounded by councils not paying sufficient attention to these matters. The report also showcased the good work done at municipalities with clean audits; highlighted the eight metros for increased attention; and called for action to eradicate disclaimed audit opinions due

to the harm that these municipalities' lack of transparency and accountability causes their residents.

"We urged elected representatives to intensify their action towards instilling a culture of performance, transparency and institutional integrity, and to be accountable to the communities they serve," the AG continued.

Maluleke stated that this year's report builds on these previous messages and call to action.

Local government is instrumental in providing communities with essential services such as clean water, proper sanitation, reliable electricity, effective waste management, and well-maintained roads and municipal infrastructure. Good governance is key to ensuring these services are provided effectively. In this context, the AG welcomes the tone set by the President during the opening of Parliament and national government's decision to prioritise local government. This is a significant and encouraging development that we must all welcome, rolling up our sleeves and effectively playing our part as stakeholders in the local government accountability ecosystem.

State of local government remains poor

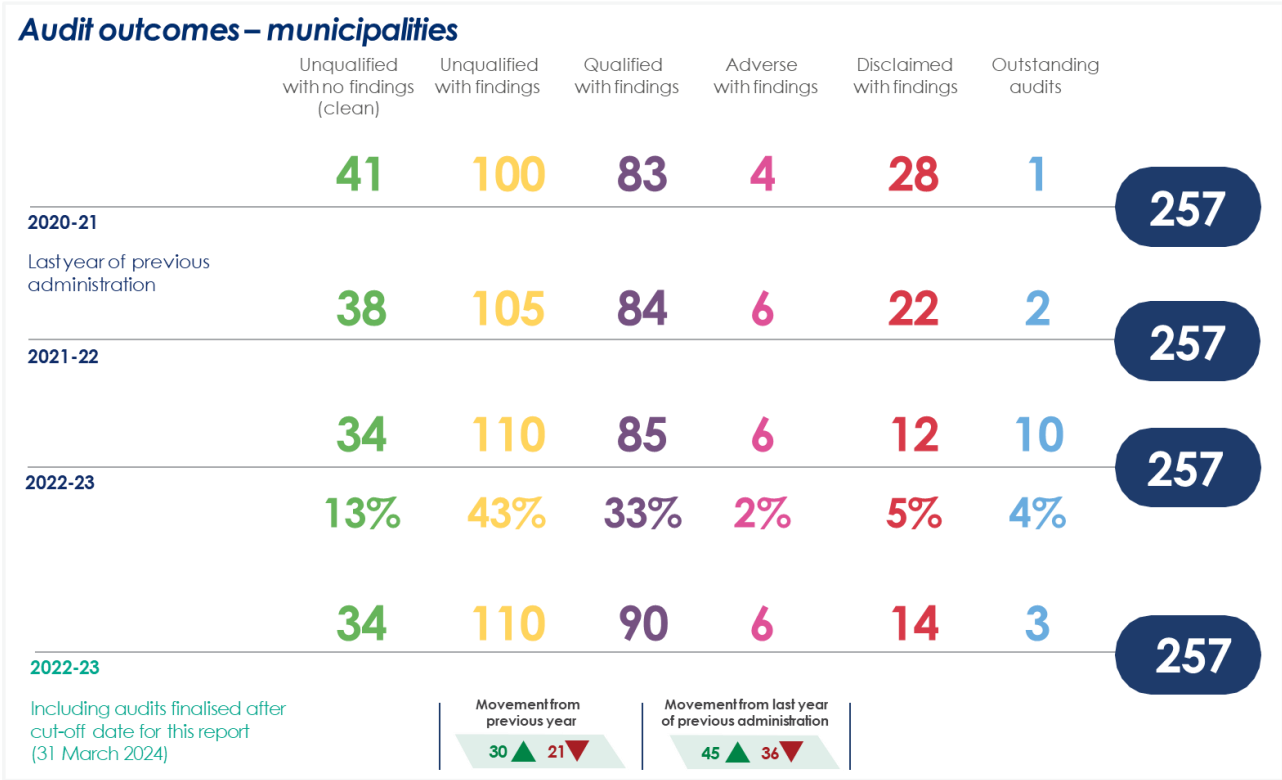
The AG reported that, overall, there has been little change and – despite commitments made by roleplayers in the [accountability ecosystem](#) for improvement – “action has been too slow and has had little impact on the lived realities of ordinary South Africans”.

Audit outcomes

She added that the trend of poor audit outcomes in local government continued, with only 34 municipalities (13%) obtaining clean audits, and no meaningful improvement over the first two years of the administration's term.

“While 45 municipalities have improved their audit outcomes since 2020-21 (the last year of the previous administration's term), 36 have regressed”, said Maluleke. She highlighted that the most prevalent audit outcome was an unqualified audit opinion on

the financial statements with findings on performance reporting and/or compliance with key legislation. She also expressed concern that these municipalities had made little effort to move out of this category, with 77 remaining there since the end of the previous administration's term.



Municipalities with clean audits

Maluleke said that municipalities with clean audits, particularly those that have sustained this status over several years, are generally characterised by sound financial and performance management disciplines and perform their functions in accordance with applicable legislation.

“They generally manage projects well so that deficiencies are identified and rectified promptly and so that timelines, budgets and quality standards are adhered to. The well-functioning control environment and good systems present at these municipalities form a solid foundation from which councils can prioritise further improving the performance and service delivery of their municipalities.”

She added that the few municipalities (30) that maintained their clean audit status continue to be an example of what is possible, and encouraged the eight municipalities that lost their status to swiftly address the root causes of the regressions so that they can achieve a clean audit once again. She further called on the municipalities who obtained unqualified with findings audit opinion to also work very hard to achieve a clean audit and not be comfortable in that state.

The AG noted that local government's inability to comply with legislation when conducting its operations remained the biggest obstacle for municipalities, with 86% receiving material compliance findings, regressing slightly from 85% in the previous year and 83% in 2020-21.

She added that, on the positive side, there were fewer municipalities with disclaimed audit opinions, which is the worst possible audit outcome. Over the administrative term, 18 municipalities, mostly in KwaZulu-Natal, Mpumalanga and North West, have moved out of this category. Fourteen municipalities received disclaimed opinions in 2022-23, including two municipalities whose audits were finalised after 31 March 2024, which was the cut-off date for this report. The AG commended the support provided by the provincial government to municipalities in the 6th administration and called for it to be sustained in the 7th administration as this support demonstrated positive signs of improvement.

Submission of financial statements

The AG commended the improvement in submitting financial statements by the legislated date and said that it is a discipline that must be sustained by all municipalities. The number of municipalities that submitted their financial statements for auditing on time continued to increase from the low submission rate of 81% in 2020-21 to 91% in 2021-22 and 94% in 2022-23.

“The improvements were due to accounting officers responding positively to our material irregularity notifications on this matter as well as provincial government supporting municipalities to act on commitments made to submit financial statements on time. Financial statements again being submitted late, or not at all, were the main

reason for us not completing the 2022-23 audits of 10 municipalities by 31 March 2024. Seven of these audits have since been finalised.”

Performance planning and reporting processes

The AG reported that her office “continued to identify significant weaknesses in performance planning and reporting processes. We found non-compliance with legislation on strategic planning and performance management at 45% of all municipalities, and at 91% of municipalities with disclaimed audit opinions.”

She added that 48% of municipal performance reports included information that was not useful and/or not reliable, making it difficult for roleplayers to assess municipal performance and implement corrective action where service delivery is not at the required level. “Of importance is that if we had not allowed municipalities to correct the misstatements that we identified in the submitted performance reports, even more would have published performance reports that were not credible.”

The AG reported that the performance plans of 19% of municipalities, including five metros, excluded indicators that measure performance on their core mandated functions.

Infrastructure for service delivery

As part of its annual regularity audit, the national audit office audits grant management processes as well as selected infrastructure projects and reports its findings to municipalities and to national and provincial roleplayers. Emphasis is on the money being lost due to poor contract management and limited maintenance, and the impact that infrastructure neglect has on local communities.

The AG reported that auditors identified deficiencies on 72% of the 75 projects that were visited.

“We found that, all too often, work on projects is delayed, is costing more than planned and is of poor quality, and that new infrastructure is not put into use as soon as it is

ready. Existing infrastructure continues to deteriorate because it is not properly maintained and safeguarded," she explained.

Financial health of municipalities remains weak

Financial reporting

The quality of financial reporting has not improved much, as municipalities continue to rely on the audit process to identify misstatements for correction.

"If not for this process, only 26% would have received unqualified audit opinions in 2022-23, compared to the 58% that eventually did so. Despite the amount spent by municipalities on consultants to ensure good-quality financial statements, the expected benefits were not always evident," the AG noted.

Financial management

Maluleke reported that poor financial management remained prevalent, saying that municipalities lost revenue because they were not billing and collecting revenue, and because of water and electricity losses resulting from infrastructure neglect.

"Municipalities were also not careful with their spending practices. The main reasons for the continuing financial losses and waste were poor payment practices, uncompetitive and uneconomical procurement practices, limited value and benefit received for money spent, and weaknesses in project management.

"Unfunded budgets and high unauthorised expenditure clearly show the weaknesses in financial planning. As a result, the financial health of municipalities remains weak. Poorly managed local government finances directly affect municipalities' ability to deliver the promised services to their communities and place further pressure on the already constrained public purse. Creditors are not paid within legislated timelines and, specifically, the debt owed to Eskom and the water boards remains high and continues to increase. If these debts are not paid, communities are left without access to basic services such as electricity and water. This also makes it difficult for businesses to operate optimally, further adding to the struggling economy," cautioned the AG.

She added that the desired impact of national and provincial interventions to help financially distressed municipalities deal with their challenges has not yet been realised, urging them to continue and intensify this support.

Material irregularity process

Maluleke reported that her office continues to use its enhanced powers to demand action and accountability, adding that she is pleased with the impact the material irregularity process is making.

Since 2019, financial losses of an estimated R924,1 million have been recovered, are in the process of being recovered or have been prevented because of this process. Accounting officers have also acted to strengthen internal controls and to address the non-submission of financial statements; the underlying causes and impact of disclaimed audit opinions; the pollution caused by neglected wastewater treatment plants and mismanaged landfill sites; infrastructure neglect and project failures; inefficient use of resources; poor procurement, payment and revenue management practices; non-payment of Eskom and water boards; ineffective use of financial reporting consultants; and assets not being safeguarded.

"Most accounting officers are taking action to resolve material irregularities, but where the material irregularities were not dealt with swiftly or with the required seriousness, we included recommendations in audit reports, took remedial action and referred matters to relevant public bodies for investigation (where appropriate)," the AG explained.

Audit outcomes of metropolitan municipalities

Maluleke reported that the overall audit outcomes of metropolitan municipalities (also known as metros) have *worsened* since the last year of the previous administration, despite metros typically having greater capacity and bigger budgets to more easily attract suitably skilled and competent professionals to improve their outcomes.

Metros' financial health remains concerning, as they struggled to improve their revenue-collection levels despite implementing financial recovery plans and turnaround strategies.

“Infrastructure delivery and maintenance still do not receive enough attention at metros,” the AG highlighted, “as can be seen in projects being delayed, grant funding having to be returned to the National Treasury, and a lack of consequences for poor performance.”

Impact of poor municipal performance on the lives of citizens

Maluleke warned that when municipalities do not properly manage their performance, finances and infrastructure, it directly affects the delivery of key government priorities that are intended to improve the lives of South Africans.

“It hampers the consistent and sustainable delivery of services and infrastructure in the basic areas of water, sanitation, waste management, electricity, housing and roads – despite budgeted funds being spent. Deteriorating living conditions and harm caused by polluted water sources and poorly managed landfill sites are widespread.

“Wasted money and resources means reduced funding for service delivery priorities and, eventually, a greater burden on taxpayers. The lack of credible reporting on performance and finances weakens not only municipal accountability processes, but also the council's ability to assess the municipality's performance or to make decisions in response to underachievement. These continuing failures in the most critical part of municipal operations are not receiving the necessary attention from the elected leadership,” cautioned the AG.

A call to action

The AG's report urges elected representatives to intensify their actions and act with urgency towards instilling a culture of performance, transparency and institutional integrity, and to be accountable to the communities they serve. The report identifies three main weaknesses that hold back local government progress, namely:

- [Inadequate skills and capacity](#)
- [Governance failures](#)
- [A culture of no accountability and consequences](#)

These are the same root causes that Maluleke's office has highlighted consistently since the start of the administrative term.

For these governance lapses to be remedied for the benefit of the citizenry, the national audit office calls for the following actions:

- **Professionalising and capacitating local government**: Skills and capacity gaps can be addressed through a concerted effort to support and implement local government professionalisation initiatives. In pursuing professionalisation, municipal managers, councils and provincial leadership should strive towards a future where local government is a career of choice for professionals and where people with scarce skills can thrive and be retained.
- **Capable institutions with intergovernmental support**: Support from all spheres of government – through coordinated and collaborative efforts in partnership with municipal leadership – will promote strong governance within municipalities.
- **A culture of ethics and accountability**: A shared vision of responsiveness, consequence management, accountability and ethical behaviour is essential to ensure that actions are taken promptly and that individuals are held accountable.

Conclusion

The AG called on the broader accountability ecosystem – particularly councils (including mayors), legislatures, provincial leadership and coordinating institutions and their executive authorities – to act deliberately and with urgency towards a culture of performance, accountability, transparency and institutional integrity so as to transform local government and improve service delivery.

“Service delivery improvements and the responsible use of the limited funds available will only be enabled when municipalities are capable, cooperative, accountable and responsive, and when they deliver on their mandates. Municipal leadership, councils and mayors play a critical role in setting the tone for ethical behaviour, good governance and accountability; and in creating a culture that fosters trust and confidence in local government.

“We remain committed to partnering with and supporting the local government accountability ecosystem through our audits, the use of our expanded powers as granted by the Public Audit Act amendments, and the many initiatives that we have implemented to assist and guide all roleplayers. We trust that the insights and recommendations in this report will be of value in this pursuit,” the AG concluded.

End.

Issued by: Auditor-General of South Africa

Contact: Africa Boso 0713653024 Africab@agsa.co.za



Follow the AGSA on X : [@AuditorGen_SA](https://twitter.com/AuditorGen_SA)

Media note: The consolidated general report on the audit outcomes of local government is available on interactive website www.agsareports.co.za. The website also contains additional information on each municipality.