

INTRODUCTION

02

This report reflects on the audit outcomes of local government for the financial year ended 30 June 2020.

As in all areas of our life, the covid-19 pandemic also had a significant impact on our audits:

- The finance minister gave municipalities subject to the Municipal Finance Management Act a **two-month extension for submission of financial statements** – from 31 August to 31 October 2020. For consolidated financial statements, it was moved to 30 November 2020.
- The **legislated audit completion date** for municipalities **moved** – from 31 October to 31 December 2020. For the audits of consolidated financial statements, it was moved to 31 January 2021.
- We **balanced the normal audit of the 2019-20 financial year with a real-time covid-19 audit**, which looked at the financial management of local government's covid-19 initiatives that commenced in May 2020 and continued beyond the financial year-end of June 2020. As part of this audit, we audited payments, procurement and delivery as they occurred until 31 December 2020. Thus, we effectively also performed an advanced audit of the 2020-21 financial year at selected municipalities. The results of this real-time audit will be reported separately in our third special report on government's financial management of funding made available for covid-19 initiatives.

Over the past four years we have consistently warned the current administration against the deterioration of accountability in local government and demonstrated through the audit results the impact of accountability failures, yet poor audit outcomes remain widespread and the state of financial health continues to be severely strained.

In the previous report, the theme centred on accountability failures in local government,

especially in relation to financial management. Our focus therefore remains on the importance of accountability for government spending but we have expanded the central theme of this report to *Ethical and accountable leadership should drive the desired change.*

In section 3, we thus begin by reflecting on the **audit outcomes in local government**, covering key areas of financial and performance management and reporting, the state of financial health, and compliance with key legislation.

In section 4, we draw attention to those **municipalities that received disclaimed audit opinions** on their financial statements and look at what is needed to turn around the situation at these poor-performing municipalities. These municipalities were not adequately attended to during the term of this administration and in some cases are now in an even worse position than in the first year of administration.

In section 5, we report on the second year of implementation of our expanded mandate. We provide comprehensive insight on the **material irregularity process and include the outcomes of those material irregularities identified up to 11 June 2021.**

Section 6 provides an overview of the **results and reflections per province.**

To further supplement this report, the following can be found on our website (www.agsa.co.za):

- **Detailed annexures** that provide the key results per municipality
- **Educational information** on our audit process and the terminology we use

Please note the following important matters when reading this report:

- We are responsible for auditing 257 municipalities and 20 municipal entities. To simplify our reporting and ensure that our message is focused, this report covers only the municipalities. Unless otherwise indicated, the outcomes of the municipal entities are included in the annexures to this report (which are available on our website), but not in the analysis in this report.
- We set the cut-off date for inclusion of audit outcomes in this report as 23 April 2021, at which date 57 audits were still outstanding. The number of outstanding audits excludes two metropolitan municipalities (City of Tshwane and City of Johannesburg) that were finalised shortly after the cut-off date and are thus included in the analysis in this report.
- To determine the movements from the previous year, we compared the results of the completed audits for municipalities with their results in 2018-19. In some cases, we also compared the results of the completed audits to their results in 2016-17 (the first year of the current administration).
- When studying the figures, please note that the percentages are calculated based on all completed audits of 200 municipalities, unless indicated otherwise – such as in the following instances:
 - We applied a reduced audit approach at 10 municipalities, of which the audit of only three (Modimolle-Mookgophong – LP, Govan Mbeki – MP and Maquassi Hills – NW) had been finalised by the cut-off date of 23 April 2021. We follow this approach in response to the disclaimed opinions they receive year after year and the general limitations experienced in performing audits in these environments to build efficiencies into our audit process. The impact of applying the approach is that we did not perform some of the assessments and value-adding procedures at these auditees. Where we report on these matters (such as the assurance provided by internal audit units and audit committees), the percentages are calculated based on only 197 municipalities.
 - In section 4, we also include the outcomes of audits concluded since our initial cut-off date of 23 April 2021.