Audit outcomes for financial year ended 30 June 2022
Status of material irregularities at 15 February 2023

A culture of accountability will improve service delivery
MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.
All have a role to play in accountability ecosystem.

Leadership and decision makers:
- OFFICIALS
- SENIOR MANAGEMENT
- ACCOUNTING OFFICER
- MAYOR AND SPEAKER
- INTERNAL AUDIT UNIT
- AUDIT COMMITTEE

Municipal institutions:
- MUNICIPAL COUNCIL
- MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

Parliamentary and Provincial institutions:
- PARLIAMENT/ PROVINCIAL LEGISLATURES and OVERSIGHT COMMITTEES
- OFFICES OF THE PREMIER
- COOPERATIVE GOVERNANCE
- COORDINATING INSTITUTIONS
- PROVINCIAL LEADERSHIP
- TREASURIES

Support and oversight:
- Active citizenry
Overall audit outcomes

<table>
<thead>
<tr>
<th></th>
<th>Unqualified with no findings (clean)</th>
<th>Unqualified with findings</th>
<th>Qualified with findings</th>
<th>Adverse with findings</th>
<th>Disclaimed with findings</th>
<th>Outstanding audits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2020-21</strong></td>
<td>41</td>
<td>100</td>
<td>78</td>
<td>4</td>
<td>25</td>
<td>9</td>
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<tr>
<td><strong>As tabled</strong></td>
<td>41</td>
<td>100</td>
<td>83</td>
<td>4</td>
<td>26</td>
<td>3</td>
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<tr>
<td><strong>2020-21</strong></td>
<td>38</td>
<td>104</td>
<td>78</td>
<td>6</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td><strong>2021-22</strong></td>
<td>15%</td>
<td>40%</td>
<td>30%</td>
<td>2%</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Submission of financial statements by legislated date improved from 81% to 91%

- Non-submission of financial statements – 3
- Late submission of financial statements – 12
- Delays by auditee – 1
### Audit outcomes by type of auditee

<table>
<thead>
<tr>
<th>Type of Auditee</th>
<th>Unqualified with no findings (clean)</th>
<th>Unqualified with findings</th>
<th>Qualified with findings</th>
<th>Adverse with findings</th>
<th>Disclaimed with findings</th>
<th>Outstanding audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan municipalities</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Intermediate cities</td>
<td>5</td>
<td>16</td>
<td>15</td>
<td>0</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>District municipalities</td>
<td>13</td>
<td>16</td>
<td>10</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Local municipalities</td>
<td>18</td>
<td>69</td>
<td>51</td>
<td>3</td>
<td>12</td>
<td>13</td>
</tr>
</tbody>
</table>

Total: 166
## Provincial audit outcomes

<table>
<thead>
<tr>
<th>Province</th>
<th>Unqualified</th>
<th>Qualified</th>
<th>Adverse</th>
<th>Disclaimed</th>
<th>Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC</td>
<td>3</td>
<td>18</td>
<td>13</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
| From previous year: | 8           | 4                     | Late submission of financial statements = 2  
|           |             |                       | Delays by auditee = 1                      |
| FS       | 7           | 8         | 8       | 1          |             |
| From previous year: | 2           | 1                     | Non-submission of financial statements = 2  
|           |             |                       | Late submission of financial statements = 4  |
| GP       | 2           | 5         | 2       | 1          | 1           |
| From previous year: | 1           | 4                     |                                           |
| KZN      | 4           | 37        | 11      | 1          | 1           |
| From previous year: | 9           | 4                     | Late submission of financial statements = 1  |
| LP       | 2           | 13        | 11      | 1          |             |
| From previous year: | 4           | 4                     |                                           |
| MP       | 2           | 9         | 7       | 1          | 1           |
| From previous year: | 3           | 3                     |                                           |
| NC       | 4           | 6         | 15      | 4          | 2           |
| From previous year: | 1           | 2                     | Late submission of financial statements = 2  |
| NW       | 3           | 10        | 1       | 6          | 2           |
| From previous year: | 3           | 2                     | Non-submission of financial statements = 1  
|           |             |                       | Late submission of financial statements = 1  |
| WC       | 21          | 6         | 1       | 1          | 1           |
| From previous year: | 2           | 4                     |                                           |
Without proper financial planning, controls & reporting, municipalities cannot deliver services and responsibly use & account for taxpayers’ money.

**Poor financial planning**
- Unfunded budgets: 112 (44%)
- Unauthorised expenditure of R25.47bn: 175 (68%)
- Insufficient budget for infrastructure maintenance: 203

**Inadequate financial controls**
- Basic controls not in place or not effective:
  - 88% Review & monitor compliance
  - 87% In-year & year-end reporting
  - 77% Daily & monthly controls
  - 75% Proper record keeping

**Unreliable reporting**

**Contributing factors to poor financial planning and reporting**

**Skills and capacity**
- Finance unit:
  - Salary cost = R10.75bn
  - Average vacancy rate = 18%
  - CFO vacancies = 52 (22%)
  - CFO avg. months in position = 49

- Municipal manager:
  - Vacancies = 77 (32%)
  - Vacancies at disclaimed / adverse = 70%

  Use of financial reporting consultants is still prevalent

**Governance and accountability**
- Limited impact of support by IA, AC
- Some impact of support by coordinating institutions
- Council instability & coalitions at municipalities, particularly at metros
- Some impact by councils (approving budgets, monitoring spending, checking AFS against budget)

**Impact**
- Less transparency and accountability
- Limited ROI for national / provincial interventions
- Lack of stability + political uncertainty = councils not properly fulfilling oversight role
- Negative impact on finances and service delivery
Ineffective use of consultants for financial reporting

Total cost = R1,61bn (R1,36bn in 2020-21)
- 216 municipalities paid R1,55bn (2020-21: 204 municipalities paid R1,34bn)
- Province paid R0,06bn (2020-21: R0,02bn)
Consultant cost: 13% of total financial reporting cost of R12,36bn

Reasons for appointing consultants
- Lack of skills – 118 (53%) municipalities
- Vacancies – 15 (7%) municipalities
- Combination of lack of skills and vacancies – 87 (40%) municipalities

Nature of consultant work at municipalities
- Asset management: R0,55bn (34%)
- Tax services: R0,47bn (29%)
- Preparation/review of financial statements: R0,42bn (26%)
- Accounting services: R0,08bn (5%)
- Other services: R0,09bn (6%)

Outcomes: financial statements after correction

Recurring appointment at 178 (81%)

62% (137) of financial statements submitted for auditing included material misstatements in area of consultant work

Consultant cost: 13% of total financial reporting cost of R12,36bn

Reasons consultants were ineffective
- Work not adequately reviewed
- Inadequate / no records & documentation
- Did not deliver
- Poor project management
- Appointed too late

MIs focus on ineffective use of consultants (value not received)

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Consultant spend per province and outcome

### Consultant cost per province (no. of municipalities)

<table>
<thead>
<tr>
<th>Province</th>
<th>2021-22</th>
<th>2020-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>R154.88m (33)</td>
<td>R137.27m (31)</td>
</tr>
<tr>
<td>Free State</td>
<td>R32.29m (13)</td>
<td>R35.03m (13)</td>
</tr>
<tr>
<td>Gauteng</td>
<td>R150.19m (7)</td>
<td>R148.67m (5)</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>R205.60m (46)</td>
<td>R263.18m (26)</td>
</tr>
<tr>
<td>Limpopo</td>
<td>R279.68m (26)</td>
<td>R245.37m (20)</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>R156.63m (17)</td>
<td>R245.37m (20)</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>R126.95m (26)</td>
<td>R110.05m (24)</td>
</tr>
<tr>
<td>North West</td>
<td>R282.33m (20)</td>
<td>R249.08m (20)</td>
</tr>
<tr>
<td>Western Cape</td>
<td>R45.25m (27)</td>
<td>R42.67m (27)</td>
</tr>
</tbody>
</table>

### Consultant cost per audit outcome category (no. of municipalities)

- **Unqualified with no findings (clean)**: R58.52m (31 municipalities)
- **Unqualified with findings**: R580.96m (94 municipalities)
- **Qualified with findings**: R665.04m (74 municipalities)
- **Adverse with findings**: R176.41m (6 municipalities)
- **Disclaimed with findings**: R128.76m (15 municipalities)

**2021-22** | **2020-21**
Proper managing of available funds would leave more money for service delivery

- **R4,74bn**: Fruitless & wasteful expenditure
- **R5,19bn**: Estimated financial loss from non-compliance & fraud MIs

1. **Local government is financially distressed**
2. **Reduced revenue and funding**
3. **Lack of prudence in spending limited funds**
Poor financial management – pressure on local government finances

1 Local government is financially distressed

- Going concern challenges: 70 (29%)
- Creditors > available cash: 52%
- Total annual deficit = R11,87bn (excl. adverse & disclaimed)
- Expenditure > revenue: 79 (36%)
- Salaries & wages prioritised (incl. councillors) = R121,47bn (64% of own revenue + equitable share)

2 Reduced revenue and funding

Inadequate revenue management:
- Estimated recoverable own revenue = R112,88bn (34%)
- Avg. debt-collection period = 231 days
- Municipal debt write-off: R39,63bn
- Depend on equitable share (R77,84bn)
- Metros with downgraded credit rating:
  - Nelson Mandela Bay (EC)
  - City of Johannesburg (GP)
  - City of Ekurhuleni (GP)
  - City of Cape Town (WC)

3 Lack of prudence in spending limited funds

Poor payment practices
- Creditors not paid within 30 days: 84% of municipalities
- Average creditor-payment period = 258 days
- Eskom arrears = R36,36bn
- Water board arrears = R14,34bn
- Water losses = R11,91bn
- Payments for goods & services not received

Unfair or uncompetitive procurement practices
- 199 municipalities (83%)
- Limitation on audit of awards selected for testing = R2,42bn
- Prohibited awards to employees and councillors = R0,25bn

No or limited benefit received from money spent
- Consultants used, but finance unit had resources & skills
- Expensive IT systems with key controls not enabled
- Payments for software licences without licence agreements
**Service delivery failure – poor planning & unreliable reporting**

**Planning, budgeting and reporting cycle of government**

- **National Development Plan 2030** sets out long-term goals to improve wellbeing of country and citizens.
- **Medium-Term Strategic Framework (MTSF)** outlines government’s strategic 5-year plan for administration and reflects commitments to implement NDP through planned actions and targets.
- **Operational & planning budget**
- **Service delivery budget implementation plan**

**Policy development**

- **Strategic planning**
- **Identify desired impact**
- **Specify performance indicators**
- **Institution**
  - Municipality
  - Municipal entity

**Check**

- Implementation & in-year reporting
- End-year reporting
- Quarterly reports
- Annual report

**Act**

- Plans and adjust

1. **Planning incomplete and inadequate**

- Incomplete annual service delivery plans
- Indicators not measurable or relevant
- Annual targets set too low
- Support from provincial cooperative governance departments not effective/provided too late
- Challenges in adopting common indicators (lack of budgets, capacity & systems and processes) at metros not addressed

**E.g. of key service delivery targets not included in municipal plans**

**Water and sanitation**

- No. new sewer connections meeting minimum standards
- Frequency of unplanned water service interruptions
- % wastewater samples compliant with water-use licence conditions

**Energy and electricity**

- % unplanned outages restored within industry standard timeframes

**Housing and community facilities**

- % households living in adequate housing
- No. informal settlements assessed
Service delivery failure – poor planning & unreliable reporting (cont.)

1. Reporting on delivery not credible
   - No evidence to support reported achievements
   - Inconsistencies in planned vs reported performance (indicators & targets)
   - IA & ACs could not improve quality of performance reporting

2. Performance report quality before & after audit adjustments
   - Before audit adjustments
     - 58 (24%)
   - After audit adjustments
     - 100 (42%)

3. Services not delivered
   - Examples of key targets not achieved by municipalities
     | Target | Actual |
     |--------|--------|
     | Underachievement of planned targets: |
     | Nelson Mandela Bay (EC) – no. of dwellings provided by metro with connections to mains electricity supply | 1 260 590 |
     | City of Ekurhuleni – % of callouts resolved within 24hrs – water | 85% 18% |
     | City of Cape Town (WC) – no. of human settlements opportunities provided (formal sites serviced) | 1 940 1 423 |
     | Underachievement of water and waste quality planned targets: |
     | Blue Crane Route (EC) – no. of bacteriological water samples and chemical water samples taken | 96 & 4 87 & 3 |
     | Bela-Bela (LP) – % of work completed for building sewer outfall from Aventura pump station to WWTW | 86% 67% |

Renosterberg (NC), Siyancuma (NC), Siyathemba (NC) and Ubuntu (NC) did not submit performance reports for 2021-22
Crumbling municipal infrastructure affects service delivery, causes harm to public

Infrastructure management and maintenance

Low maintenance spend:
- Avg. maintenance spend = 4%
- Maintenance spend ≤1% at 39% of municipalities
- Maintenance not prioritised when budgeting
- Preventative maintenance not effective
- Infrastructure assets deteriorate
- Asset qualifications – no credible information
- Poor state of WWTWs
  - Ineffective environmental management = polluted water sources
- MIS
  - Assets not protected (financial loss)
  - Polluted water sources (harm to public)
  - Landfill site mismanagement (harm to public)
- Facilities not used effectively

Sol Plaatje (NC): Contaminated water due to leaks from Riverton purification pipelines

Mangaung (FS): Untreated effluent flowing directly into environment (Botshabelo WWTW)

Resulting in
- Lower water quality
- Increased water losses
- Increased cost to replace/upgrade infrastructure & equipment
- Increased risk of mechanical breakdowns
- Risk to citizen health & harm to environment

Overall impact

Water supply issues due to breakdowns
Untreated wastewater discharged into water sources
No access to adequate sanitation
Poor health (unhygienic water and sanitation)
Some attention paid to eradicating disclaimers

**Insights**

**Human resource management**
- Overall avg. vacancy rates = 24%
- Vacancies at MM level – 8 (53%)
- Vacancies at CFO level – 7 (47%)
- Competency levels – only 2 MMs and 1 CFO had required competencies

**Consultants**
- Overreliance on consultants
- Limited skills transfer
- No needs assessment
- Used by 80% of repeatedly disclaimed municipalities (cost = R119,46m)

**Governance and accountability**
- Municipal support improvement plans – no significant impact
- Council and admin instability hampered implementation

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**Under intervention – January 2023**
- Dysfunctional municipalities (Cogta): 21
- Repeat disclaimer: 12
- New disclaimer (2021-22): 3
- Improvement: 9
- Outstanding – anticipated disclaimers in 2021-22: 8
- Total disclaimers – including anticipated (2021-22): 23

24 Mls
Eradicating disclaimed opinions will improve lives of communities

**Poor financial management**
- Financial statements with disclaimed opinion – not credible or reliable for decision-making
- No financial transparency and little accountability
- Previously disclaimed/outstanding financial statements:
  - EC: Sundays River Valley
  - FS: Tokologo, Maluti-A-Phofung, Nketoana
  - KZN: uMkhanyakude DM
  - NW: Ditsobotla, Mamusa

**Infrastructure neglect**
- Low spending on maintenance
- No maintenance plans – reactive maintenance
- Project delays
- Lack of technical skills and vacancies in technical departments

**Impact on communities**

**Water and sanitation**
- No plans for basic water, sanitation services
- Backlogs not addressed
- Planned performance targets not achieved

**Wastewater and solid waste management**
- Ineffective environmental management
- Poor physical condition and operations of WWT infrastructure (vandalism, theft)
- No processes for wastewater treatment
- No processes to prevent pollution or degradation of environment
- Illegal waste dumping not regulated and monitored

**Makana (EC):**
Belmont wastewater treatment works not safeguarded and maintained to prevent depletion, vandalism and theft

**Makana (EC):**
Illegal waste dumping site

**Lekwa Teemane (NW):**
Uncontrolled dumping – continuing hazard at Christiana landfill site
Little movement in compliance with key legislation

**Status of compliance with key legislation**

<table>
<thead>
<tr>
<th>Status</th>
<th>No findings</th>
<th>Material findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>203</td>
<td>84%</td>
<td></td>
</tr>
</tbody>
</table>

**Status of compliance with SCM legislation**

<table>
<thead>
<tr>
<th>Status</th>
<th>No findings</th>
<th>Findings</th>
<th>Material findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>58</td>
<td>24%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>163</td>
<td>68%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Movement from previous year**

- Up: 5
- Down: 7

**Most common findings**

- Material misstatements on submitted AFS – 182 (76%)
- UIFWE not prevented – 177 (73%)
- Procurement & contract management – 163 (68%)
- Consequence management – 141 (59%)
- Expenditure management – 127 (53%)
- Strategic planning & performance management – 115 (48%)

**Weaknesses in procurement and payment processes increase risk of financial loss and fraud**

**2021-22 key findings**

<table>
<thead>
<tr>
<th>Weakness</th>
<th>Number of Municipalities</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncompetitive and unfair procurement processes</td>
<td>199</td>
<td>R0,25bn</td>
</tr>
<tr>
<td>Prohibited awards to employees and councilors</td>
<td></td>
<td>R0,25bn</td>
</tr>
<tr>
<td>Prohibited awards to other state officials</td>
<td></td>
<td>R2,49bn</td>
</tr>
<tr>
<td>Limitation on audit of awards selected for testing</td>
<td></td>
<td>R2,42bn</td>
</tr>
<tr>
<td>IE related to SCM (includes outstanding audits)</td>
<td></td>
<td>R28,63bn</td>
</tr>
</tbody>
</table>

**How leadership has dealt with prior year irregular expenditure**

- IE closing balance still high
- Money recovered in process of recovery: R0,003bn
- Written off: R11,36bn
- Condoned: R0,11bn
- Not dealt with: R107,63bn
- 90%
MI process addresses significant issues in local government

- Material financial loss (estimated R5,19bn)
  - Payments for goods and services not received
  - Unfair, uncompetitive or uneconomical procurement
  - Ineffective use of financial reporting consultants
  - Value for money not received
  - Revenue not billed or not recovered
  - Interest and penalties on late or non-payments
  - Asset and investment losses

- Substantial harm to public sector institutions
  - Repeated disclaimers
  - Non-submission of financial statements

- Substantial harm to general public
  - Pollution of water resources
  - Poor landfill site management

268 MIs on non-compliance and fraud, resulting in:

- 195 MIs
- 44 MIs
- 29 MIs
MI process is making an impact

From INACTION to ACTION

No actions were taken to address 87% of matters until we issued notifications

MI is resolved only when all possible steps have been taken to:
• Recover financial losses or remove/address harm caused
• Implement consequences
• Prevent any further losses and harm

Status of 182 active and assessed MIs*

- 29 16% Resolved MI
- 103 57% Appropriate action taken to resolve MI
- 50 27% No appropriate action taken – invoked our powers

* 182 active and assessed MIs = 268 raised - 6 resolved previously - 55 being assessed - 25 responses not yet due

**Actions Taken by Auditees**

- R150,55m Financial loss recovered
- R18,85m Financial loss prevented from taking place
- R310,16m Financial loss in process of being recovered

- 46 Internal controls improved to prevent recurrence
- 58 Responsible officials identified and disciplinary process completed or in process
- 14 Fraud/criminal investigations instituted
- 1 Supplier contracts stopped where money is being lost
- 15 Outstanding financial statements submitted
If accounting officers do not take appropriate action, we take action

50

27%
No appropriate action being taken – invoked our powers

Recommendations in audit report as AO took little or no action to address MI

- Beaufort West LM (WC)
- City of Malmesbury LM (NW) – 2
- City of Mbombela LM (MP) – 2
- Dr Ruth Segomotsi Mompati DM (NW)
- Emalahleni LM (MP) – 2
- Inxuba Yethemba LM (EC)
- Matjhabeng LM (FS)
- Ngaka Modiri Molema DM (NW) – 2
- Raymond Mhlaba LM (EC)
- uMkhanyakude LM (KZN) – 6
- Various municipalities with disclaimed opinions – 14

Remedial action issued as our recommendations were not implemented

- City of Tshwane Metro (GP) – 3
- JB Marks LM (NW)
- Msunduzi LM (KZN)
- Ngaka Modiri Molema DM (NW) – 4

Notice of certificate of debt process

- Ngaka Modiri Molema DM (NW) – 2

Referred to public bodies for further investigation

- Chris Hani DM (EC)
- Emalahleni LM (MP)
- Matjhabeng LM (FS)

Recommendations in audit report and referral to public bodies

- Amajuba DM (KZN)
- Ngaka Modiri Molema DM (NW) – 2

Our recommendations and remedial actions deal with prevention, recovery and consequences
Root causes underpinning state of local government

1. Inadequate skills and capacity
2. Governance failures
3. Lack of accountability and consequences
Activating the accountability ecosystem

CALL TO ACTION

1. Support professionalising local government
2. Fill vacancies with competent people
   Upskill municipal officials and council members
   Reduce reliance on consultants
3. Coordinating institutions – support struggling municipalities
4. Ensure stability in councils
   Strengthen MPACs and disciplinary boards
5. Implement recommendations from internal audit units and audit committees
6. Strengthen financial and performance management disciplines
   Strengthen preventative controls
7. Local government MECs – better reports to provincial legislatures on action plans and performance
   Provincial legislatures – respond promptly and track resolutions
8. Implement NT guidance for dealing with UIFW expenditure
   Adopt NT consequence management and accountability framework
   Council – monitor MI status (quarterly) and oversee resolutions

By working together and leveraging the strengths of all stakeholders, we can build resilient, responsive municipalities that deliver quality services and improve the lives of all our people.
The MFMA general report will be tabled on 31 May 2023

What will be available on our website

1. Fast-facts page on audit outcomes per municipality
2. Key information on audit outcomes per municipality
3. Overview of audit outcomes and commitments per province
4. Information tables that list all municipalities and include details on:
   • Audit opinions on the financial statements (and over the past five years); areas qualified in the financial statements; findings on performance reports, compliance with legislation and specific risk areas; unauthorised, irregular, and fruitless and wasteful expenditure; financial health indicators; supply chain management findings; root causes; and material irregularities
   • Assessment of auditees’ key controls at the time of the audit
   • Consultant costs

Additional reports

After the general report is tabled, we will table additional reports focusing specifically on material irregularities identified at municipalities and their status, and on the metro sector. We will also publish a clean audit report on our website.

Preventative control guides

1. Importance of preventative controls
2. Tone and control culture
3. Institutionalised internal controls
4. Procurement of goods and services
5. Preparation of financial statements
6. Asset management
7. Infrastructure delivery process