RESEARCH UNIT

PO Box 15 Cape Town 8000 Republic of South Africa
Tel: 27 (21) 403 8273 Fax: 27 (21) 403 8118
www.parliament.gov.za

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

28 July 2021

2019/20 LOCAL GOVERNMENT AUDIT OUTCOMES

TABLE OF CONTENTS

LIST OF ACRONYMS

Acronym	Full Name
AG	Auditor-General
DM	District Municipality
EC	Eastern Cape Province
FS	Free State Province
GP	Gauteng Province

Research Unit | Authors: P. Ntaka & Y. Brown
Contact details: pntaka@parliament.gov.za and ybrown@parliament.gov.za

KZN	KwaZulu-Natal Province
LP	Limpopo Province
LM	Local Municipality
MET	Metropolitan Municipality
MFMA	Municipal Financial Management Act No. 56 of 2003
MI	Material Irregularity
MM	Municipal Manager
MP	Mpumalanga Province
NC	Northern Cape Province
NW	North West Province
PAA	Public Audit Act No.5 of 2018
UIF & W	Unauthorised; irregular; and fruitless and wasteful expenditure
WC	Western Cape Province

1. INTRODUCTION

The Consolidated General Report on the Local Government Audit Outcomes for 2019/20 as published by the Auditor-General of South Africa (AGSA) referred to as the “AG” provides an account of how municipalities have spent their budgets and how they have performed for the year 2019/20.

The findings and recommendations of the report are aimed at empowering oversight structures within municipalities but also oversight structures external to the municipality such as the Select Committee on Finance and the Select Committee on Appropriations. The audit recommendations serve as an action plan for municipalities to take corrective action to ensure that the municipality achieves reliable financial statements, are able to give credible reports on service delivery, and complies with legislation. As such, the audit recommendations also serve as an oversight plan for the Select Committee on Finance and the Select Committee on Appropriations to identify oversight focus areas, areas for support and areas that may require intervention with regard to financial and expenditure management of the municipalities.

Given this background, this brief aims to report on the audit outcomes for 2019/20 and highlight critical oversight areas for the consideration of the Select Committee on Finance and the Select Committee on Appropriations.

2. OVERVIEW OF 2019/20 AUDIT OUTCOMES

This section provides an overview of the Local Government audit outcomes for 2019/20 as reported by the AG.

2.1. 2019/20 Audit Outcomes

Table 1 below shows the audit outcomes for Local Government in 2019/20, compared to the 2018/19 outcomes. A total of 27 municipalities received clean audits (i.e. unqualified audit opinion with no findings) in 2019/20, an improvement from the 20 municipalities in 2018/19. Similarly, there is an improvement in the number of municipalities receiving unqualified audit opinions with findings and qualified audit opinions, as follows:

- The number of municipalities that received an unqualified audit opinion with findings declined from 94 municipalities in 2018/19 to 89 municipalities in 2019/20;
- The number of municipalities that received a qualified audit opinion with findings declined from 93 municipalities in 2018/19 to 66 municipalities in 2019/20; and
- The number of municipalities that received a disclaimer of audit opinion declined from 39 municipalities in 2018/19 to 12 municipalities in 2019/20. Audits that were finalised after the legislated deadline of 23 April 2021 show that another ten municipalities received a disclaimer of audit opinions, which brings the total disclaimer of audit opinions for 2019/20 to 22 municipalities.

Between 2018/19 and 2019/20, the audit outcome remains unchanged with six municipalities receiving an adverse audit opinion with findings, whereas for outstanding audits, there is a significant increase in the number of audits not finalised by the legislated date from five municipalities in 2018/19 to 57 municipalities in 2019/20.

Table 1: Local Government audit outcomes for 2018/19 and 2019/20

Audit Opinion	Number of Municipalities		Improved	Regressed	Unchanged
	2018/19	2019/20			
Unqualified with no findings	20	27			
Unqualified with findings	94	89			
Qualified with findings	93	66			
Adverse	6	6			
Disclaimer	39	12			
Audit not finalised at legislated date	5	57			
Total	**257**	**257**			

Source: Auditor-General of South Africa (2021a)

Note:

The Municipal Financial Management Act (MFMA), (No. 56 of 2003), Section 126 (1)(a) states that: "The accounting officer of a municipality must prepare the 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".

The municipal financial year-end falls on 30 June of each year and therefore the cut-off date for submission to the Auditor-General is the 31 August of each year. A municipality that has an entity/ties are required to prepare consolidated financial statements and the cut-off date for submission to the Auditor-General is 30 September of each year.

The final cut-off date for the inclusion of audit outcomes in the 2019/20 Municipal Financial Management Act (MFMA) Consolidated General Report was 23 April 2021.[1] By 04 June 2021, 32 audits were subsequently finalised and these include:

- Great Kei (Eastern Cape)
- Mangaung Metro and Mantsopa (Free State)
- Emfuleni (Gauteng)
- Ugu District and Nquthu (KwaZulu-Natal)
- Mopani District, Greater Tzaneen and Lepelle Nkumpi (Limpopo)
- Gert Sibande District, Dipaleseng, Emalahleni, Lekwa, Nkomazi, Dr Pixley Ka Isaka Seme and City of Mbombela (Mpumalanga)
- Magareng, Richtersveld, Ubuntu, Umsobomvu, Kgatelopele and !Kheis (Northern Cape)
- Ngaka Modiri Molema District, Matlosana, Lekwa Teemane, Madibeng, Mamusa and Ramotshere Moiloa (North West)
- Beaufort West, Kannaland, Laingsburg and Matzikama (Western Cape)

25 audits had not been finalised and are still outstanding, the main reasons for the delay include:

- Financial statements submitted late by nine municipalities;
- Financial Statements outstanding by five municipalities;
- Delays in audit by one municipality; and
- Auditee delays ten municipalities.[2]

Note:

- The AG's report does not name the 25 municipalities whose audits are yet to be finalised.

- The Select Committees on Finance and Appropriations may consider requesting the AG's office to provide the Committees with a report naming the 25 municipalities and the reason why their audit is outstanding.

2.2. Provincial Overview

Table 2 provides a provincial overview of audit outcomes in 2019/20, compared to the 2018/19 outcomes.

[1] Auditor-General of South Africa (2021a), p. 50.

[2] ibid. (2021a), p. 50.

It shows that with the exception of the Free State and North West province, which did not have any of its municipalities achieving a clean audit (i.e. **unqualified audit opinion with no findings**) for both 2018/19 and 2019/20, all the other provinces had at least one municipality receiving a clean audit in 2019/20:

- The Eastern Cape, Gauteng, KwaZulu-Natal, Mpumalanga, Northern Cape and Western Cape Local Government saw a slight improvement in the number of municipalities receiving clean audits between 2018/19 and 2019/20.
- Between 2018/19 and 2019/20, Limpopo's audit outcome remains unchanged, with one municipality achieving a clean audit for both financial periods under review.

Table 2: Local Government audit outcomes per province, 2018/19 and 2019/20

	Unqualified with no findings		Unqualified with findings		Qualified with findings		Adverse		Disclaimer		Audit not finalised at legislated date	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
Eastern Cape	1	2	15	15	13	14	0	2	8	4	2	2
Free State	0	0	3	4	9	11	0	0	3	0	8	8
Gauteng	1	2	8	7	0	1	0	0	0	0	2	1
KwaZulu-Natal	1	2	32	32	18	14	0	1	2	3	1	2
Limpopo	1	1	6	13	16	7	0	1	1	0	3	5
Mpumalanga	2	3	5	2	5	3	2	2	4	1	2	9
Northern Cape	1	3	8	6	12	10	0	0	6	1	4	11
North West	0	0	0	1	8	6	0	0	9	3	5	12
Western Cape	13	14	14	9	2	0	0	0	0	0	1	7

Source: Auditor-General of South Africa (2020 & 2021a)

With respect to **unqualified audit opinions with findings**:

- Municipalities in Gauteng, Mpumalanga, the Northern Cape and Western Cape saw an improvement in their audit outcomes as is evidenced by the decline in the number of municipalities receiving an unqualified audit opinion with findings in 2019/20 when compared to 2018/19 audit outcomes.
- Municipalities in the Free State, Limpopo and North West experienced a regression in their audit outcomes, with the number of municipalities receiving unqualified audit opinions with findings growing between 2018/19 and 2019/20.
- The audit outcomes of municipalities in the Eastern Cape and KwaZulu-Natal remain unchanged for the period under review.

With respect to **qualified audit opinions with findings**, the majority of the provinces experienced an improvement in their audit outcomes, while only three provinces experienced a regression:

- The number of municipalities that received qualified audit opinions with findings declined between 2018/19 and 2019/20 for the KwaZulu-Natal, Limpopo, Mpumalanga, Northern Cape, North West and the Western Cape Local Government.

- The Eastern Cape, Free State and Gauteng Local Government saw an increase in the number of municipalities that received qualified audit opinions with findings between 2018/19 and 2019/20.

With the exception of the Eastern Cape, KwaZulu-Natal, Limpopo and Mpumalanga Local Government, none of the other provinces received an **adverse audit opinion** with findings in both 2018/19 and 2019/20:

- The number of municipalities that experienced adverse audit opinions with findings in the Eastern Cape, KwaZulu-Natal and Limpopo increased between 2018/19 and 2019/20.
- Mpumalanga's audit outcomes remained unchanged between 2018/19 and 2019/20, with two of its municipalities receiving an adverse audit opinion for both financial periods.

With respect to a **disclaimer of audit opinion**, KwaZulu-Natal was the only province that experienced a regression in its audit outcomes, while the majority of provinces experienced an improvement between 2018/19 and 2019/20:

- In the Eastern Cape, Free State, Limpopo, Mpumalanga Northern Cape, and North-West, the number of municipalities that received a disclaimer of audit opinions declined between 2018/19 and 2019/20. Audits finalised after the legislated date show that another three municipalities in Mpumalanga Province received a disclaimer of audit opinion, which brings the total to four municipalities for 2019/20 as it was in 2018/19.
- Municipalities in Gauteng and the Western Cape did not receive disclaimer audit opinions in 2018/19 and 2019/20. The audit of Beaufort Municipality in the Western Cape was finalised after the legislated date and the municipality subsequently received a disclaimer of audit opinion for 2019/20, regressing from a qualified audit opinion in 2018/19.
- The number of municipalities that received disclaimer audit opinions in KwaZulu-Natal increased between 2018/19 and 2019/20.

With the exception of the Eastern Cape, Free State and Gauteng, all the provinces experienced an increase in the number of **audits not finalised by the legislated date** for the period under review:

- Gauteng saw a slight decline in the number of outstanding audits between 2018/19 and 2019/20.
- The number of outstanding audits for municipalities in the Eastern Cape and Free State remained unchanged between 2018/19 and 2019/20.

As previously mentioned, out of 257 municipalities only 27 municipalities received a clean audit. Table 3 below shows that 14 of these municipalities are situated in the Western Cape. The City of Ekurhuleni, which is situated in Gauteng, is the only metropolitan municipality that was able to achieve a clean audit in 2019/20 improving from an unqualified audit opinion with findings in 2018/19. Twelve of the 27 municipalities that received a clean audit opinion in 2019/20 improved from an unqualified audit opinion with findings in 2018/19.

Table 3: Clean audits for 2019/20

Number	Municipality	Province	Type	2018/19	2019/20	Change in opinion
1	Elundini	EC	LM	Unqualified with findings	Unqualified with no findings	Improved
2	Senqu	EC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
3	City of Ekurhuleni Metro	GP	MET	Unqualified with findings	Unqualified with no findings	Improved
4	Midvaal	GP	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
5	Okhahlamba	KZN	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
6	uMhlathuze	KZN	LM	Unqualified with findings	Unqualified with no findings	Improved
7	Capricorn District	LP	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
8	Ehlanzeni District	MP	DM	Unqualified with findings	Unqualified with no findings	Improved
9	Nkangala District	MP	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
10	Steve Tshwete	MP	LM	Unqualified with findings	Unqualified with no findings	Improved
11	Frances Baard District	NC	DM	Unqualified with findings	Unqualified with no findings	Improved
12	John Taolo Gaetsewe District	NC	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
13	ZF Mgcawu District	NC	DM	Unqualified with findings	Unqualified with no findings	Improved
14	Cape Winelands District	WC	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
15	Central Karoo District	WC	DM	Unqualified with findings	Unqualified with no findings	Improved
16	Breede Valley	WC	LM	Unqualified with findings	Unqualified with no findings	Improved
17	Cape Agulhas	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
18	Drakenstein	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
19	Langeberg	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
20	Mossel Bay	WC	LM	Unqualified with findings	Unqualified with no findings	Improved
21	Overstrand	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
22	Prince Albert	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
23	Saldanha Bay	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
24	Swartland	WC	LM	Unqualified with findings	Unqualified with no findings	Improved
25	Swellendam	WC	LM	Unqualified with findings	Unqualified with no findings	Improved
26	Theewaterskloof	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
27	Witzenberg	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged

Source: Auditor-General of South Africa (2020 & 2021a)

2.3. Root Causes of Poor Audit Outcomes

The AG stated that the poor audit outcomes for 2019/20 are mainly attributable to three factors, namely:

- **Municipalities' slow response to the AG's recommendations**, particularly in respect of municipal leadership and strengthening internal controls:
    - The most common reason for not achieving a clean audit for 85.7 per cent (6) of metros, 77.2 per cent (122) of local municipalities and 68.6 per cent (24) of district municipalities, whose audits had been finalised by the time of the initial cut-off date of the report, was as a result of a slow response to improving key internal controls by management.[3]
    - Provinces, where no response to the recommendations of the AG was most common, was in Limpopo, North West, Free State and KwaZulu-Natal.[4]

- **Vacancies and instability in key positions** also contributed significantly to the poor audit outcomes of municipalities:[5]
    - At 63 municipalities (36 per cent), instability and vacancies in key positions were the root cause that hindered them from improving and sustaining their audit opinions.
    - Overall, the average vacancy rate at municipalities stood at 21 per cent, while that of both senior management and finance units stood at 18 per cent.
    - The average number of months that municipal managers and chief financial officers stay in their position is 42 months.

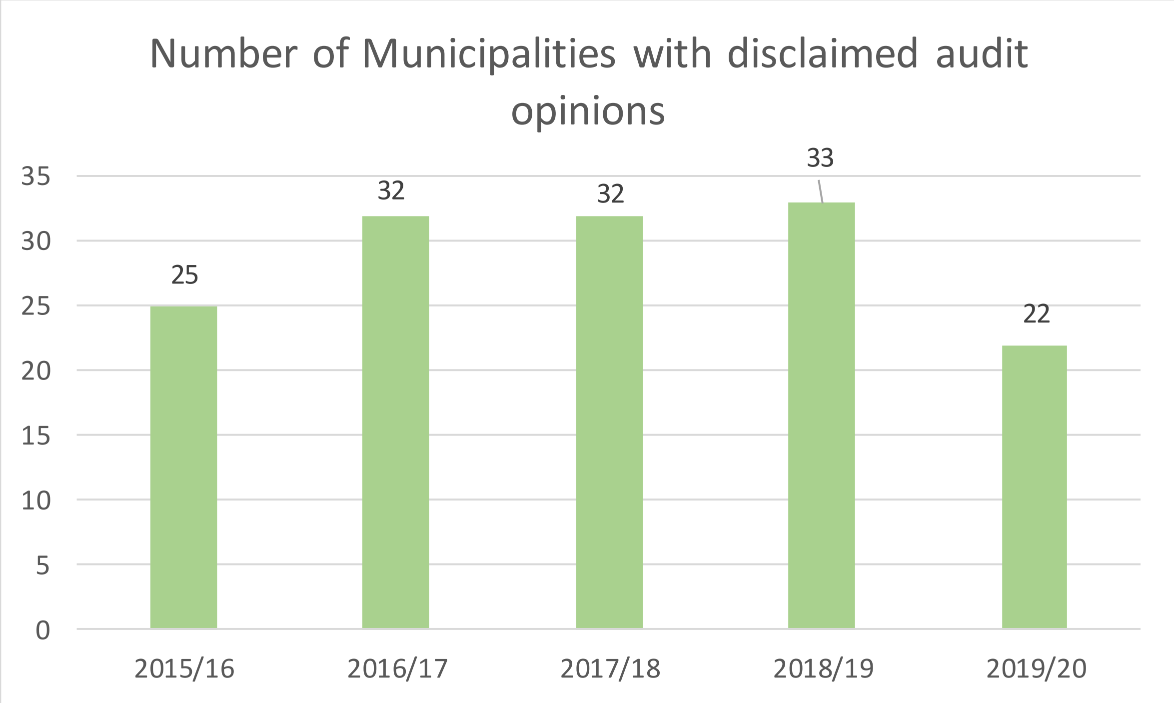
- **Lack of consequence management**, particularly in respect of non-compliance with legislation:[6]
    - Over 60 per cent of municipalities did not materially comply with legislation relating to effecting consequences.
    - The most common findings related to lack of investigation into allegations of financial and supply chain management misconduct and fraud, as well as investigations into unauthorised, irregular, and fruitless and wasteful expenditure.

3. TRENDS IN DISCLAIMER OF AUDIT OPINION

Over the last five years, there has been no improvement in the number of municipalities that have received a disclaimer of audit opinion, as shown in Figure 1 below.

[3] Auditor-General of South Africa (2021c).
[4] Auditor-General of South Africa (2021a), pp. 58-60.
[5] Ibid. (2021a), pp. 58-60.
[6] Auditor-General of South Africa (2021a), pp. 43-45.

Figure 1: Number of municipalities with disclaimers for the period 2015/16 to 2019/20



Source: Auditor-General of South Africa, (2017-2021a).

A disclaimed opinion means that a municipality could not provide the AG with evidence for most amounts and disclosures in their financial statements and nor could they provide supporting documentation for the achievements they report in their performance reports. Without evidence and supporting documentation, the AG cannot express an opinion on the credibility of a municipality's financial statements and performance reporting.

For 2019/20, 22 municipalities have received disclaimed audit opinions. This includes the 10 municipalities' audits (i.e. highlighted in bold in the last column, headed 2019/20) that were subsequently finalised after the cut-off date of 23 April 2021.

The North West Province has the largest number of municipalities with disclaimed audit opinions at seven, followed by KwaZulu-Natal Province and Mpumalanga Province with four municipalities each.

Table 4 shows the municipalities that received disclaimed audit opinions in 2019/20.

Table 4: Disclaimer of audit opinions for the period 2015/16 to 2019/20

Number	Municipality	Province	Type	2015/16	2016/17	2017/18	2018/19	2019/20
1	Chris Hani District	EC	DM	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
2	Ingquza Hill	EC	LM	Unqualified with no findings	Unqualified with no findings	Qualified	Disclaimer	Disclaimer
3	Makana	EC	LM	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
4	Sundays River Valley	EC	LM	Adverse	Qualified	Qualified	Disclaimer	Disclaimer
5	Amajuba District	KZN	DM	Qualified	Qualified	Qualified	Qualified	Disclaimer
6	Inkosi Langalibalele	KZN	LM	New auditee	Disclaimer	Adverse	Adverse	Disclaimer
7	Nquthu	KZN	LM	Unqualified with findings	Unqualified with findings	Unqualified with findings	Unqualified with findings	**Disclaimer**
8	uMzinyathi District	KZN	DM	Qualified	Adverse	Adverse	Disclaimer	Disclaimer
9	Dipaleseng	MP	LM	Unqualified with findings	Unqualified with findings	Qualified	Disclaimer	**Disclaimer**
10	Dr Pixley Ka Isaka Seme	MP	LM	Unqualified with findings	Unqualified with findings	Unqualified with findings	Disclaimer	**Disclaimer**
11	Govan Mbeki	MP	LM	Unqualified with findings	Unqualified with findings	Disclaimer	Disclaimer	Disclaimer
12	Lekwa	MP	LM	Unqualified with findings	Unqualified with findings	Qualified	Disclaimer	**Disclaimer**
13	!Kheis	NC	LM	Qualified	Qualified	Disclaimer	Disclaimer	**Disclaimer**
14	Kai !Garib	NC	LM	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
15	Dr Ruth S Mompati District	NW	DM	Unqualified with findings	Unqualified with findings	Qualified	Disclaimer	Disclaimer
16	Lekwa Teemane	NW	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	**Disclaimer**
17	Madibeng	NW	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	**Disclaimer**
18	Mamusa	NW	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	**Disclaimer**
19	Maquassi Hills	NW	LM	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
20	Ramotshere Moiloa	NW	LM	Qualified	Qualified	Disclaimer	Disclaimer	**Disclaimer**
21	Ratlou	NW	LM	Qualified	Qualified	Qualified	Disclaimer	Disclaimer
22	Beaufort West	WC	LM	Unqualified with findings	Disclaimer	Qualified	Qualified	**Disclaimer**

Source: Auditor-General of South Africa, (2021a).

Given that a number of municipalities that received audit opinions in the past have not submitted their financial statements for audit by the legislated date, means that the number of municipalities with disclaimed audit opinions for 2019/20 may increase by as much as 15 municipalities.

Table 5 shows municipalities' that may potentially receive a disclaimer of audit opinion, based on past performance, once their audits for 2019/20 are finalised.

Table 5: Municipalities with outstanding audits that may receive a disclaimer of audit opinion for 2019/20

Number	Municipality	Province	Type	2015/16	2016/17	2017/18	2018/19	2019/20
1	Joe Morolong	NC	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Audit not finalised at legislated date
2	Bojanala District	NW	DM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Audit not finalised at legislated date
3	Kgatelopele	NC	LM	Qualified	Disclaimer	Disclaimer	Disclaimer	Audit not finalised at legislated date
4	Ditsobotla	NW	LM	Qualified	Disclaimer	Disclaimer	Disclaimer	Audit not finalised at legislated date
5	Tokologo	FS	LM	Unqualified with findings	Disclaimer	Disclaimer	Disclaimer	Audit not finalised at legislated date
6	!Kheis	NC	LM	Qualified	Qualified	Disclaimer	Disclaimer	Audit not finalised at legislated date
7	Naledi	NW	LM	Unqualified with findings	Qualified	Disclaimer	Disclaimer	Audit not finalised at legislated date
8	Dr JS Moroka	MP	LM	Qualified	Qualified	Adverse	Disclaimer	Audit not finalised at legislated date
9	Nketoana	FS	LM	Qualified	Disclaimer	Qualified	Disclaimer	Audit not finalised at legislated date
10	Great Kei	EC	LM	Unqualified with findings	Unqualified with findings	Unqualified with findings	Disclaimer	Audit not finalised at legislated date
11	Mafube	FS	LM	Disclaimer	Disclaimer	Disclaimer	Audit not finalised at legislated date	Audit not finalised at legislated date
12	Maluti-A-Phofung	FS	LM	Qualified	Disclaimer	Disclaimer	Audit not finalised at legislated date	Audit not finalised at legislated date
13	Tsantsabane	NC	LM	Qualified	Disclaimer	Disclaimer	Audit not finalised at legislated date	Audit not finalised at legislated date
14	Renosterberg	NC	LM	Qualified	Qualified	Disclaimer	Audit not finalised at legislated date	Audit not finalised at legislated date
15	Masilonyana	FS	LM	Disclaimer	Disclaimer	Audit not finalised at legislated date	Audit not finalised at legislated date	Audit not finalised at legislated date

Source: Auditor-General of South Africa, (2021a).

Municipalities that have persistently received a disclaimer of audit opinion typically do not comply with key legislation, have weak internal controls and lack leadership' oversight and accountability. This lack of responsiveness of the municipal leadership to attend to the poor audit findings of prior years together with the lack of proper records and the lack of credible financial reporting raises doubts about the ability of these municipalities to continue to operate as a going concern and their ability to deliver services.

The AG has had a closer look at the municipalities that have received a disclaimer of audit opinion and made the following observations:[7]

- Some of the municipalities that received a disclaimer of audit opinion are under Section 139 administration.

    - For example, eight of the 22 municipalities that received a disclaimer of audit opinion in 2019/20, have been under administration for a period of between one and four years. The eight municipalities are Makana Municipality (EC), Inkosi Langalibalele Municipality (KZN), uMzinyathi District Municipality (KZN), Govan

[7] Auditor-General of South Africa (2021a), pp. 67-68.

Mbeki Municipality (MPL), Lekwa Teemane (NW), Madibeng Municipality (NW), Maquassi Hills Municipality (NW) and Ratlou Municipality (NW).[8]

- Masilonyana Municipality, located in the Free State Province, has been under administration for 31 months, yet its financial and performance reporting has not improved, which is reflected in the poor service delivery in the area.

Note: This brings into question the effectiveness of Section 139 administration.

Given, that there have been 140 Section 139 interventions since 1998 to 2019, with some municipalities requiring repeat interventions, that is 26 municipalities required two interventions, while three municipalities required five interventions, it brings into question not only the effectiveness of these interventions but also the monitoring and support provided to Local Government.

The Constitution assigns an oversight and support role for national governments and particularly provincial governments over local government towards the achievement of the municipalities' constitutional service delivery obligations. Within a cooperative governance framework, national and provincial governments are expected to monitor using regulatory, statutory (i.e. reporting mechanisms mandated in legislation) and non-statutory (i.e. ad hoc reporting requests that are not legislated) mechanisms and to provide support (financial and non-financial support, e.g. technical advice) to local government, with interventions being used as last resort.

The FFC in their 2022/23 Division of Revenue Submission specifically looked at the effectiveness of the monitoring and support framework employed by national and provincial governments. The FFC finds some areas of weaknesses that need to be improved and these include:

- Consultation and coordination need to be improved between national, provincial and local government when implementing new regulations and reforms.
- Legislation that give rise to duplication of efforts and increases the reporting burden of municipalities need to be reviewed. For example: *The Municipal Systems Act (MSA) overseen by CoGTA and the Municipal Finance Management Act (MFMA) overseen by National Treasury to varying degrees, both pieces of legislation speak to municipal tariffs, revenue and expenditure management, yet reporting lines are different.*
- A lack of substantive oversight and accountability by Municipal Councils results in the endorsement of unfunded budgets. In some instances, the advice and recommendations provided by national and provincial stakeholders are also not heeded by Municipal Councils and administrations.
- Moreover, national and provincial governments need to ensure that monitoring, capacity building and Section 139 interventions are evaluated with a view to determining what works or what does not, as the implementation of the oversight framework and the oversight capacity of each province differ.

Source: FFC (2021), pp. 131-147.

[8] Auditor-General of South Africa (2021a), p. 67.

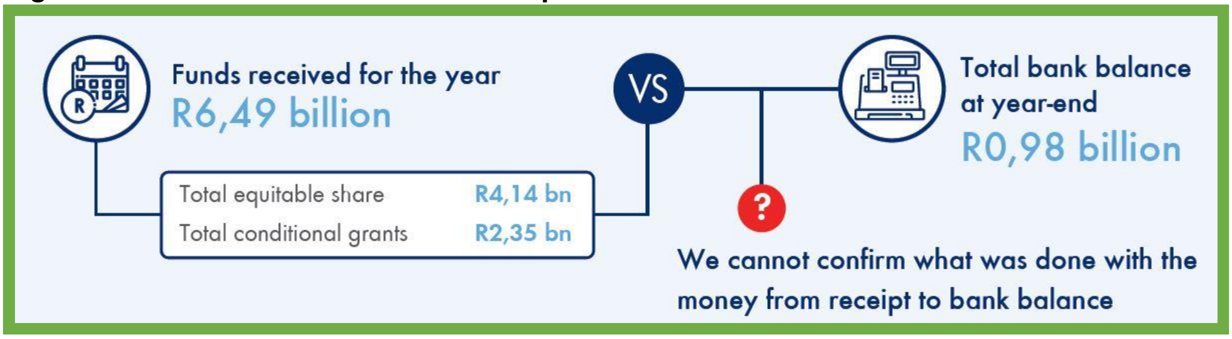
- Some of the municipalities that received a disclaimer of audit opinion were not able to deliver services as required and the Department of Cooperative Governance determined them to be dysfunctional.

- Some municipalities have received persistent disclaimers of audit opinions for more than a decade. For example:

  - Maluti-a-Phofung Municipality, located in the Free State Province, has received a disclaimed audit opinion in 14 of the last 15 years.
  - Lekwa Teemane Municipality, located in the North West Province, has received a disclaimed audit opinion in 13 of the last 14 years.

- The AG cannot account for R5.51 billion in public funds due to a lack of proper record-keeping and credible financial reporting. The R5.5 billion is the sum of the total funds in terms of equitable share and conditional grant funding that was received by the 22 municipalities and what the total bank balance of the 22 municipalities at financial year-end, as shown in Figure 2 below. Figure 2 illustrates the impact of a lack of proper record-keeping and a lack of credible financial reporting.

Figure 2: R5.51 billion in unaccounted public funds



Source: Auditor-General of South Africa, (2021a).

- Lastly, material irregularities were issued to 15 of the 22 municipalities that received disclaimed audit opinions in 2019/20.

All the municipalities with disclaimed audit opinions have the following in common: instability at both the political and administrative leadership level, weak oversight by councils, poor financial health, disruptive protests and strikes all result in poor performance, coupled with a lack of consequences that all ultimately contribute to the poor audit outcomes of these municipalities.

4. FINANCIAL HEALTH OF MUNICIPALITIES

4.1. Going Concern Status

Table 6 below shows a provincial overview of municipalities that disclosed significant doubt in their financial statements in 2019/20 compared to 2018/19. It shows that the overall number of municipalities in financial distress declined from 72 municipalities in 2018/19 to 53 in 2019/20. Moreover, it should be noted that over a quarter (i.e. 27 per cent) of municipalities responsible for 7 per cent of the expenditure budget have disclosed that there is significant doubt that they will be able to continue with their operations in the near future as a going concern. This means that these municipalities do not have sufficient revenue to cover their expenditure and they owe more money than they have.

In 2019/20, the Free State, Northern Cape and Eastern Cape have the highest number of municipalities in financial distress, while the Western Cape, Mpumalanga, Limpopo and Gauteng have the least. Notably, the Western Cape was able to reduce the number of municipalities in financial distress from two in 2018/19 to zero in 2019/20.

Table 6: Municipalities in Financial Distress per province, 2018/19 and 2019/20

Province	Number of Municipalities in Financial Distress	
	2018/19	2019/20
Eastern Cape	10	10
Free State	12	11
Gauteng	4	3
KwaZulu-Natal	8	8
Limpopo	3	3
Mpumalanga	7	2
Northern Cape	15	11
North West	11	5
Western Cape	2	0
Total	**72**	**53**

Source: Auditor-General of South Africa (2020 & 2021a)

4.2. Debt management and sustainability indicators

Table 7 below compares the 2018/19 debt management and sustainability indicators with the 2019/20 indicators. It shows that with the exception of one sustainability indicator, there has been a regression in the performance of all the indicators between 2018/19 and 2019/20:

- Irrecoverable debt averaged around 59 per cent in 2018/19 and increased to 63 per cent in 2019/20.
- The average debt collection period increased from 181 days in 2018/19 to 203 days in 2019/20, which suggests that municipalities are experiencing challenges with collecting old debt. These low debt collection levels can also affect the municipalities' ability to pay creditors on time.
- Creditors' greater than available cash at year-end decreased from 51 per cent in 2018/19 to 49 per cent in 2019/20, which suggests that the number of municipalities unable to maintain positive cash flows to pay its creditors declined slightly for the period under review.

- The average creditor-payment period increased from 180 days in 2018/19 to 209 days in 2019/20, which suggests that municipalities are struggling to meet their short-term debt obligations.
- The money owed to Eskom by year-end that was in arrears grew from R11.31 billion in 2018/19 to R12.41 billion in 2019/20, where the highest contributors to these arrears are located in Mpumalanga (R2.64 billion), Free State (R5.88 billion) and the Eastern Cape (R1.02 billion).[9]
- The money owed to water boards by year-end that was in arrears grew from R6.24 billion in 2018/19 to R8.78 billion in 2019/20, where the highest contributors to these arrears are located in North West (R0.90 billion), Free State (R4.14 billion) and Gauteng (R2.03 billion).[10]

Table 7: Debt management and sustainability indicators, 2018/19 and 2019/20

Indicator	2018/19	2019/20
Average irrecoverable debt	59%	63%
Average debt-collection period (days)	181	203
Creditors> available cash at year end	51%	49%
Average creditor-payment period (days)	180	209
Eskom arrears (R'billion)	11,31	12,41
Water Boards arrears (R'billion)	6,24	8,78

Source: Auditor-General of South Africa (2020 & 2021a)

4.3. Revenue management and expenditure indicators

Table 8 shows the revenue management and expenditure indicators for 2018/19 and 2019/20. In 2018/19 expenditure on salaries and wages amounted to R91.3 billion, which translates to 40 per cent of own revenue and 166 per cent of the Local Government Equitable Share allocation. In 2019/20, expenditure on salaries and wages decreased to R74.4 billion, which translates to 27 per cent of own revenue and 130 per cent of the equitable share.

The AG estimates that the revenue that will be recoverable to be R103.76 billion in 2019/20, which means that a large portion (46 per cent) of the estimated recoverable revenue and the equitable share allocation was used to pay salaries and wages.[11] While expenditure on the maintenance of infrastructure of assets increased from R8.5 billion in 2018/19 to R13.61 billion in 2019/20, the amount spent remains insufficient as it translates to only 3.7 per cent of the value of infrastructure assets that municipalities should maintain and safeguard.[12]

[9] Auditor-General of South Africa (2021a), p. 23.

[10] ibid. (2021a), p. 23.

[11] Auditor-General of South Africa (2021a).

[12] According to the Auditor General (2021a and 2021b), this expenditure on maintenance accounts for only 2 per cent of the expenditure budget, which falls short of the norm of 8 per cent.

Table 8: Revenue management and expenditure indicators, 2018/19 and 2019/20

Indicator	2018/19	2019/20
Muncipal Revenue	Total = R324 billion : own revenue(R226 billion), equitable share(R55 billion), other conditional grants (R43 billion)	Total= R358,4 billion: own revenue (R259,4 billion),equitable share (R57,20 billion), other conditional grants (R41,80 billion)
Expenditure on salaries and wages (including councillor remuneration)	R91,3 billion	R74,4 billion
Value of infrastructure assets that should be maintained and safeguarded (R' billion)	R317,68 billion	R366,33 billion
Expenditure on maintenance of infrastructure asssets (R' billion)	R8,5 billion	R13,61 billion

Source: Auditor-General of South Africa (2020 & 2021a)

5. OVERVIEW OF UIF&W EXPENDITURE

This section reports on the incurrence of unauthorised; irregular; and fruitless and wasteful (UIF&W) expenditure that was discovered and disclosed during the 2019/20 audit compared to the previous financial year.

- Unauthorised Expenditure refers to spending that is over-budget or not used for the intended purpose.
- Irregular Expenditure refers to spending that is not compliant with the applicable legislation and procedures.
- Fruitless and Wasteful Expenditure refers to pointless spending that could have been avoided such as incurring penalty payments.

Note:

The figures quoted in this section refer to amounts that were disclosed in the 2019/20 audit process, and therefore excludes outstanding audits and amounts yet to be uncovered.

5.1. Unauthorised Expenditure

In 2019/20, municipalities incurred a total of R14.61 billion in unauthorised expenditure compared to the R11.98 billion incurred in 2018/19. This constitutes an increase of R2.6 billion or 22 per cent in unauthorised expenditure from the R11.98 billion recorded in 2018/19.

The largest amount was incurred by the City of Tshwane Metro at R2.25 billion, accounting for 15.4 per cent of the total R14.61 billion in unauthorised expenditure incurred by all the municipalities that have been audited in 2019/20. eThekwini Metro at R1.78 billion or 12.2 per cent incurred the second-largest amount of unauthorised expenditure.

Table 9 below shows the top ten municipalities that incurred the largest Rand value of unauthorised expenditure. Together the ten municipalities incurred R8.67 billion in unauthorised expenditure, which accounts for 59.3 per cent of the total R14.61 billion uncovered and disclosed thus far in 2019/20.

Table 9: Unauthorised Expenditure for 2019/20

Number	Municipality	Province	Type	2018/19	2019/20	
				Unauthorised Exp (R'm)	Unauthorised Exp (R'm)	Percentage share of Total for all municipalities
1	City of Tshwane Metro	GP	MET	-	2 249,1	15,4%
2	eThekwini Metro	KZN	MET	0,0	1 778,8	12,2%
3	Matjhabeng	FS	LM	-	1 499,1	10,3%
4	Vhembe District	LP	DM	571,2	725,1	5,0%
5	Msunduzi	KZN	LM	170,0	564,7	3,9%
6	Govan Mbeki	MP	LM	-	551,2	3,8%
7	Enoch Mgijima	EC	LM	-	480,5	3,3%
8	Maquassi Hills	NW	LM	60,8	340,1	2,3%
9	Dr Ruth S Mompati District	NW	DM	66,6	248,7	1,7%
10	Mkhondo	MP	LM	256,2	230,9	1,6%
Total for top ten municipalities				**1 124,8**	**8 668,2**	**59,3%**
Total for all muniicpalities				**11 975,4**	**14 608,3**	**100,0%**

Source: Auditor-General of South Africa, (2020 & 2021a).

First, note that the dashes in the fifth column of Table 9 indicate that these municipalities' audits were outstanding as they had not submitted their financial statements by the cut-off date for inclusion in the 2018/19 Consolidated Local Government Audit Report. Secondly, the green-shaded blocks in the sixth column indicate an improvement, that is, the Rand value of unauthorised expenditure incurred by the municipality declined in 2019/20 when compared to the previous financial year. For example, Mkhondo Municipality incurred unauthorised expenditure of R230.9 million in 2019/20, which is R25.3 million less than the R256.2 million incurred in 2018/19.

5.2. Irregular Expenditure

Municipalities incurred a total of R19.32 billion in irregular expenditure in 2019/20 when compared to the R21.46 billion incurred in 2018/19. This constitutes a decrease of R2.1 billion or 10 per cent in irregular expenditure from the R21.46 billion recorded in 2018/19.

The largest amount was incurred by the City of Tshwane Metro at R2.53 billion, accounting for 13.1 per cent of the total R19.32 billion in irregular expenditure incurred by all the municipalities that have been audited in 2019/20. Nelson Mandela Bay Metro at R1.37 billion or 7.1 per cent incurred the second-largest amount of irregular expenditure.

Table 10 below show the top ten municipalities that incurred the largest Rand value of irregular expenditure. Together the ten municipalities incurred R9.38 billion in irregular expenditure, which accounts for 48.6 per cent of the total R19.32 billion uncovered and disclosed thus far in 2019/20.

Table 10: Irregular Expenditure for 2019/20

Number	Municipality	Province	Type	2018/19	2019/20	
				Irregular Exp (R'm)	Irregular Exp (R'm)	Percentage share of Total for all municipalities
1	City of Tshwane Metro	GP	MET	-	2 530,1	13,1%
2	Nelson Mandela Bay Metro	EC	MET	-	1 372,2	7,1%
3	eThekwini Metro	KZN	MET	2 341,4	1 072,0	5,6%
4	City of Johannesburg Metro	GP	MET	816,2	1 045,6	5,4%
5	OR Tambo District	EC	DM	981,0	696,2	3,6%
6	City of Cape Town Metro	WC	MET	950,4	669,2	3,5%
7	Moses Kotane	NW	LM	96,1	624,4	3,2%
8	uMkhanyakude District	KZN	DM	494,3	476,4	2,5%
9	Fetakgomo Tubatse	LP	LM	149,0	457,9	2,4%
10	Mogalakwena	LP	LM	-	436,9	2,3%
Total for top ten municipalities				**5 828,4**	**9 380,9**	**48,6%**
Total for all muniicpalities				**21 459,0**	**19 315,3**	**100,0%**

Source: Auditor-General of South Africa, (2020 & 2021a).

First, note that the dashes in the fifth column of Table 10 indicate that these municipalities' audits were outstanding as they had not submitted their financial statements by the cut-off date for inclusion in the 2018/19 Consolidated Local Government Audit Report. Secondly, the green-shaded blocks in the sixth column indicate an improvement, that is, the Rand value of irregular expenditure incurred by the municipality declined in 2019/20 when compared to the previous financial year. For example, eThekwini Metro incurred irregular expenditure of R1.07 billion in 2019/20, which is R1.27 billion less than the R2.34 billion incurred in 2018/19.

5.3. Fruitless and Wasteful Expenditure

Municipalities incurred a total of R1.97 billion in fruitless and wasteful expenditure in 2019/20 when compared to the R2.07 billion incurred in 2018/19. This constitutes a decrease of R100.8 million or 4.9 per cent in fruitless and wasteful expenditure from the R2.07 billion recorded in 2018/19.

The largest amount was incurred by the City of Tshwane Metro at R300.1 million, accounting for 15.2 per cent of the total R1.97 billion in fruitless and wasteful expenditure incurred by all the municipalities that have been audited in 2019/20. Matjhabeng Municipality at R281.9 million or 14.3 per cent incurred the second-largest amount of fruitless and wasteful expenditure.

Table 11 below show the top ten municipalities that incurred the largest Rand value of fruitless and wasteful irregular expenditure. Together the ten municipalities incurred R1.2 billion in fruitless and wasteful expenditure, which account for 60.9 per cent of the total R1.97 billion uncovered and disclosed thus far in 2019/20.

Table 11: Fruitless and Wasteful Expenditure for 2019/20

Number	Municipality	Province	Type	2018/19	2019/20	
				Fruitless &Wasteful Exp (R'm)	Fruitless &Wasteful Exp (R'm)	Percentage share of Total for all municipalities
1	City of Tshwane Metro	GP	MET	-	300,1	15,2%
2	Matjhabeng	FS	LM	-	281,9	14,3%
3	Govan Mbeki	MP	LM	-	202,2	10,3%
4	Nelson Mandela Bay Metro	EC	MET	-	90,9	4,6%
5	Msukaligwa	MP	LM	29,6	74,2	3,8%
6	Modimolle-Mookgophong	LP	LM	47,5	55,6	2,8%
7	Rand West City	GP	LM	47,8	54,9	2,8%
8	Mogalakwena	LP	LM	-	50,4	2,6%
9	Merafong City	GP	LM	29,2	48,3	2,4%
10	Ngwathe	FS	LM	113,5	42,9	2,2%
Total for top ten municipalities				**267,6**	**1 201,4**	**60,9%**
Total for all muniicpalities				**2 072,3**	**1 971,4**	**100,0%**

Source: Auditor-General of South Africa, (2020 & 2021a).

First, note that the dashes in the fifth column of Table 11 indicate that these municipalities' audits were outstanding as they had not submitted their financial statements by the cut-off date for inclusion in the 2018/19 Consolidated Local Government Audit Report. Secondly, the green-shaded block in the sixth column indicates an improvement, that is, the Rand value of fruitless and wasteful expenditure incurred by the municipality declined in 2019/20 when compared to the previous financial year. For example, Ngwathe Municipality incurred fruitless and wasteful expenditure of R42.9 million in 2019/20, which is R70.6 million less than the R113.5 million incurred in 2018/19.

The incurrence of unauthorised; irregular; and fruitless and wasteful expenditure in 2019/20 show that municipalities continue to mismanage public funds. Unauthorised expenditure increased by R2.6 billion or 22 per cent from the R11.98 billion recorded in 2018/19 to R14.61 billion in 2019/20.

Some positive movements are noted in the decline in the Rand value of irregular, and fruitless and wasteful expenditure that has been disclosed thus far in the 2019/20 audit process.

However, given that there are 57[13] outstanding municipal audits due to the non-submission of financial statements by the audit cut-off date, means that UIF &W expenditure totals can increase, as new amounts are uncovered and disclosed.

6. MATERIAL IRREGULARITIES IDENTIFIED IN THE 2019/20 AUDIT

This section reports on how the AG has implemented their expanded mandate as per the Amendment to the Public Audit Act No.5 of 2018 (PAA) and progress made to date.

[13] Auditor-General of South Africa (2021b), p.9.

6.1. Process for issuing material irregularities (MIs)

The amendment to the PAA introduced the concept of material irregularity (MI). The MI refers to any non-compliance with, or contravention of, legislation, fraud, theft or a breach of fiduciary duty identified during an audit performed that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.

Once a MI has been identified, the amendment to the PAA, which became effective as of 01 April 2019 means that an audit now entails three key additional steps that go beyond the traditional audit and reporting mandate. These three additional steps are: [14]

i. Refer a suspected MI to a public body with a mandate and powers that are suitable for the nature of the specific suspected material irregularity.
ii. Make recommendations in the audit report on how an MI should be addressed, within a stipulated period.
iii. If the accounting officer or accounting authority fails to implement the remedial action, including a directive to quantify and recover financial loss, the AG must issue a certificate of debt in the name of the relevant accounting officer or accounting authority.

The definition of the MI guides the audit process for identifying and referring MIs.[15]

First, irregularities are identified during the normal audit process, whereby the audit focus is on compliance with key legislation as well as consider governance and control as part of the audit. The audit process can also identify possible fraud and theft, which is reported to the municipal management for investigation.

- This step, therefore, meets the first threshold of the MI definition, which is that there needs to be an irregularity (which is non-compliance, fraud, theft or breach).

Second, the audit process prior to the amendment did not require the AG to consider the impact of the irregularities identified.

- The amendment requires that the AG consider the impact of the irregularity, for example, loss, misuse or harm caused. This is the second threshold that must be met for it to be a material irregularity.

Once an MI has been identified, an MI may be referred to a public body, if it requires further investigation. The MM is required to cooperate with the public body and implement any remedial actions and recommendations made to improve controls to prevent a recurrence. The AG role with regard to the MI referral to a public body is to monitor the progress of the investigation and follow up the implementation of any remedial actions and recommendations in the audit process.

[14] Makwetu (2019), p. 2.

[15] Auditor-General of South Africa (2021b), p.18.

If the MI does not require further investigation, then the municipal manager (MM) is notified and is provided 20 working days to respond with a written submission and evidence on what actions have been taken or planned to address the material irregularity. If the AG is satisfied that the MM's response and actions are appropriate, more time is allocated to the MM to implement any further planned actions, which would be reported in the next audit cycle. If the AG concluded that the MM did not take appropriate action, recommendations are included in the audit report on what the municipal manager should do to address the material irregularity by a specified date. The MM is yet again required to provide the AG with a written submission and evidence regarding the implementation of the AG's MI recommendations and reasons why the recommendations were not implemented by the stipulated date. The AG will assess the MM's written response to determine whether the MM should be granted more time to implement the recommendation or whether the MM should be issued with remedial action for implementation by a specified date.

Thereafter, the AG would follow up whether the remedial actions have been implemented. If not, the MM is notified of the intention to issue a certificate of debt. The MM has the right to state his or her case and must provide the AG with a written submission as to the reasons why he/she should not be issued a certificate of debt within 20 days of the notification. The AG will assess the MM's written submission and conclude whether the process for issuing a certificate of debt should proceed. If it proceeds, the MM may give an oral representation to the MI Advisory Committee on reasons not to issue a certificate of debt. The MI advisory Committee after hearing the MM's oral representation, recommends a course of action to the AG, either to issue a certificate of debt or not.

The MI process from identification to the issue of a certificate of debt is a long and tedious process of follow-ups, which from start to finish is approximately 19 months or more. The reason for such a long-time period is that the MI process needs to be fair, reasonable and adhere to the principles of administrative justice, by providing MM's sufficient time to take action, implement recommendations and remedial steps as well as state their case for not taking the required action should that be the case.[16]

Lastly, it is important to note that a MI is only fully resolved:

- If the loss or further losses is prevented; and/or
- Any losses that were incurred have been recovered or all possible steps have been taken to recover the losses; and
- Appropriate steps have been taken against the person or party responsible for the loss.[17]

6.2. Progress in implementing expanded MI mandate

The AG used a phased-in approach with regard to the implementation of its MI mandate, which was guided by the MI definition.

[16] Auditor-General of South Africa (2021a), p.98.

[17] ibid. (2021a), p.97.

The MI audit was implemented in nine municipalities in 2018/19, as part of the general audit process.[18] The MI audit focus was on non-compliance with legislation that resulted in or was likely to result in, a material financial loss.

In 2019/20, the number of municipalities increased to 57, which includes the metros, most of the secondary cities (classified as such by the National Treasury based on their rapidly increasing population and economic growth) and some of the smaller municipalities and municipal entities that had high irregular expenditure in the past.[19] The scope of the MI audit process was expanded to include any non-compliance with, or contravention of, legislation that resulted in, or is likely to result in, a material financial loss, as well as whether it was due to fraud, theft or a breach of fiduciary duty. The prevalence of municipalities with a disclaimer of audit opinion at the conclusion of the 2019/20 audit process also compelled the AG to expand the MI audit focus further by considering the harm caused to a public sector institution (the municipality) by this persistent lack of proper documents and records.

6.3. MIs identified in 2019/20

As shown in Table 12 below, in the second year of the implementation of the expanded mandate, 96 material irregularities (MIs) were identified across 57 selected municipal auditees.[20] The bulk of the identified MIs (75) that resulted in a material financial loss relate to four key areas, namely procurement and payments, interest and penalties, revenue management, and investment and assets.

With respect to the total estimated financial loss, MIs relating to interest and penalties, which amount to R1.03 billion, account for the largest share of the financial loss (i.e. 50.8 per cent) and MIs relating to procurement and payments, which amount to R288.4 million, account for the smallest share (i.e. 14.2 per cent).

The identified 21 MIs that relate to repeat disclaimed audit opinions contribute to substantial harm to municipalities, as it places them in vulnerable financial positions and it adversely affects their service delivery performance.

[18] Auditor-General of South Africa (2021a), p.94.

[19] ibid. (2021a), p.94.

[20] In the first year of the implementation of the expanded mandate, nine auditees were selected and 6 MIs were identified by the AG, (Auditor-General of South Africa, 2021a, p. 11).

Table 12: Identified Material Irregularities for Selected 57 Auditees in 2019/20

Number of Material Irregularities	Nature of Material Irregularities	Description	Impact/Estimated Financial Loss	As Percentage of Total Estimated Financial Loss
21	Disclaimers	Full and Proper Records not kept (repeat disclaimed opinions)	Resulting in substantial harm to municipality (lack of service delivery and a vulnerable financial position	
1	Procurement and payments	Non-compliance in procurement processes leading to overpricing of goods and services procured	R2,5 million	0,1%
18	Procurement and payments	Payment for goods or services not received or invalid salary payments	R285,9 million	14,0%
23	Interest and penalties	Eskom, water boards, lenders and suppliers not paid on time resulting in interest	R979,3 million	48,1%
11	Interest and penalties	Payroll and value-added tax returns not on paid on time/incorrectly calculated resulting in South African Revenue Service (SARS) interest	R54,7 million	2,7%
8	Revenue management	Revenue not billed	R182,3 million	9,0%
2	Revenue management	Debt not recovered	R149,4 million	7,3%
3	Investments and assets	Loss of investments	R264,9 million	13,0%
9	Investments and assets	Assets not safeguarded resulting in loss	R116,6 million	5,7%
Total MIs= 96			**Total Estimated Financial Loss=R2,04 billion**	**100,0%**

Source: Auditor-General of South Africa (2021a)

Table 13 below provides a provincial overview of identified MIs in 2019/20. It shows that the KwaZulu-Natal municipalities' had the largest number of MIs by the time the audit report was finalised by the legislated date:

- 18 MIs were identified with an estimated financial loss of R248.5 million at five municipalities.

The North West municipalities' had the second largest number of MIs (17) but the estimated financial loss of R451 million at seven municipalities was greater than all the other provinces, followed by Mpumalanga municipalities' whose estimated financial loss for the seven identified MIs amounted to R255.23 million at four municipalities.

Table 13: Identified Material Irregularities by Province, 2019/20

Province	Number of Material Irregularities	Nature of Material Irregularities	Estimated Financial Loss
Eastern Cape	6	Payment for goods not received Interest due to late payment Not billing for services rendered Full and proper records not kept (repeat disclaimer)	R188.7 million at 4 municipalities
Gauteng	9	Assets Interest and penalties Revenue management (interest not charged on outstanding consumer debt) Payments	R208.5 at 2 municipalities
KwaZulu-Natal	18	Interest and penalties Assets not safeguarded Revenue not billed/collected	R248.36 at 5 municipalities
Limpopo	1	Payments made for services not rendered	R13 million at 1 municipality
Mpumalanga	7	Interest and penalties Fuller and proper records not kept (repeat disclaimer)	R255.23 at 4 municipalities
Northern Cape	3	Interest (Eskom not paid on time) Substantial harm to public sector institution (based on repeat disclaimer)	R12.1 million at 3 municipalities
North West	17	Investments and assets Interest and penalties Revenue management Procurement and payments	R451 million at 7 municipalities
Western Cape	2	Payments for services not rendered Overpricing of goods and services procured	R9 million at 1 municipality

Source: Auditor-General of South Africa (2021a)

7. CONCLUSION

In 2019/20, we note an improvement in the number of municipalities receiving clean audits (i.e. unqualified audit opinion with no findings), that is 27 municipalities compared to the 20 that received a clean audit in 2018/19. However, what is concerning is the increased number of municipalities that fail to submit the financial statements for audit within the legislated deadline. The number of outstanding audits increased from five municipalities in 2018/19 to 57 municipalities in 2019/20.

Another concerning trend is the number of municipalities that are receiving a disclaimer of audit opinion, which currently stand at 22 municipalities. However, this number may increase by much as 15, when the outstanding audits are finalised. Secondly, a significant proportion of the municipalities that have received a disclaimer of audit opinion in 2019/20 have received a disclaimer of audit opinion in the last year or more. A disclaimer of audit opinion is indicative of weak internal controls and a lack of leadership oversight and accountability, which places the municipality in a very precarious position with regard to it being a going concern and its ability to deliver services. The prevalence of municipalities with disclaimer of audit opinions at the conclusion of the 2019/20 audit process also compelled the AG to expand the MI audit focus further by considering the harm caused to a public sector institution (the municipality) by this persistent lack of proper documents and records to account for public funds spent.

Herewith are some issues for the consideration of the Select Committee on Finance and the Select Committee on Appropriation: Parliamentary Committees:

- The City of Ekurhuleni, which is situated in Gauteng Province, is the only metropolitan municipality that was able to achieve a clean audit in 2019/20 improving from an unqualified audit opinion with findings in 2018/19. This is concerning, as a lack of clean audit reflects negatively on how investors view the credit risks of municipalities, particularly metropolitan municipalities that need to borrow for infrastructure investments that will contribute to growth, employment and improved livelihoods of growing urban populations.

    - The Select Committees on Finance and Appropriations may consider requesting the metropolitan municipalities to present their Audit Action Plans detailing how they will address the AG recommendations and how they will proceed towards a clean audit opinion.

- For both 2018/19 and 2019/20, the Free State and North West were the only provinces that did not have any of its municipalities achieve a clean audit.

- The root causes of poor audit outcomes mainly relate to municipalities' slow response to the AG's recommendation for municipal leadership to strengthen its internal controls, vacancies and instability in key senior management positions and a lack of consequence management when it comes to non-compliance with legislation. The concern is that these root causes serve to slow down and reverse any gains that have been made over the years and impact negatively on good governance and service delivery.

- Some of the municipalities that received a disclaimer of audit opinions are under Section 139 administration, for example, eight of the 22 municipalities that received a disclaimer of audit opinions in 2019/20, has been under administration for a period of between one and four years.

    - The Select Committee on Finance may consider requesting the Department of Cooperative Governance and Traditional Affairs to provide a Committee with a report of what interventions have been underway to improve the financial management and reporting systems of municipalities that are under Section 139 administration that continue to receive a disclaimer of audit opinion.

- The AG cannot account for R5.51 billion in public funds due to a lack of proper record-keeping and credible financial reporting. The R5.5 billion is the sum of the total funds in terms of equitable share and conditional grant funding that was received by the 22 municipalities and what the total bank balance of the 22 municipalities amount to at financial year-end.

- The number of municipalities in financial distress declined from 72 municipalities in 2018/19 to 53 in 2019/20. However, it should be noted that over a quarter (i.e. 27 per cent) of municipalities responsible for 7 per cent of the expenditure budget have disclosed that there is significant doubt that they will be able to continue with their operations in the near future as a going concern. This means that these municipalities do not have sufficient revenue to cover their expenditure and they owe more money than they have.

- Irrecoverable debt averaged around 59 per cent in 2018/19 and increased to 63 per cent in 2019/20.

- The average debt collection period also increased from 181 days in 2018/19 to 203 days in 2019/20, which suggests that municipalities are experiencing challenges with collecting old debt. These low debt collection levels can also affect the municipalities' ability to pay creditors on time.

- Expenditure on the maintenance of infrastructure of assets increased from R8.5 billion in 2018/19 to R13.61 billion in 2019/20, however, this amount spent remains insufficient as it translates to only 3.7 per cent of the value of infrastructure assets that municipalities should maintain and safeguard, which fall short of the 8 per cent norm.
    - The Select Committees on Appropriations may consider requesting National Treasury to provide a report on the status of maintenance budget and expenditure within the Local Government Sector and the implications of inadequate maintenance expenditure on the operational lifespan of service delivery infrastructure.

- Unauthorised expenditure increased by R2.6 billion or 22 per cent from the R11.98 billion recorded in 2018/19 to R14.61 billion in 2019/20.

- Some positive movements are noted in the decline in the Rand value of irregular, and fruitless and wasteful expenditure that has been disclosed thus far in the 2019/20 audit process. However, given that there are 57 outstanding municipal audits due to the non-submission of financial statements by the audit cut-off date, means that UIF &W expenditure totals can increase, as new amounts are uncovered and disclosed.

    - The Select Committee on Appropriations may consider requesting the AG's office to provide a report on the final Rand value of unauthorised, irregular, and fruitless and wasteful expenditure that was uncovered and disclosed, when the all the municipal audits for 2019/20 have been finalised. Furthermore, report on whether any of the UIF&W expenditure qualify as a material irregularity.

- The MI audit was implemented in nine municipalities in 2018/19, as part of the general audit process, and this has increased to 57 municipalities in 2019/20.

- 96 material irregularities (MIs) were identified across the 57 selected municipal auditees in 2019/20.

- The bulk of the identified MIs (75) that resulted in a material financial loss relate to four key areas, namely procurement and payments, interest and penalties, revenue management, and investment and assets.

- With respect to the total estimated financial loss, MIs relating to interest and penalties, which amount to R1.03 billion, account for the largest share of the financial loss (i.e. 50.8 per cent) and MIs relating to procurement and payments, which amount to R288.4 million, account for the smallest share (i.e. 14.2 per cent).

  - The Select Committee on Appropriations may consider requesting the AG's office to provide a report on the number of MIs that have been resolved since the implementation of the MI audits, the number of MIs that proceeded to the issuance of a certificate of debt, and the Rand value of funds that have been recovered.

REFERENCES

Auditor-General of South Africa, (2021a). *MFMA 2019-20 Consolidated General Report on the Local Government Audit Outcomes.* [Online] Available from: https://www.agsa.co.za/Reporting/MFMAReports/MFMA2019-2020.aspx. [Accessed on: 01 July 2021].

Auditor-General of South Africa, (2021b). *Presentation on Local Government Audit Outcomes and Findings on COVID 19 municipal relief funding to the Joint Parliamentary Hearing of SCOPA and the PC on COGTA.* Parliament of the Republic of South Africa: Cape Town.

Auditor-General of South Africa, (2019c). MFMA 2019-20 Consolidated General Report on the Local Government audit outcomes, Annexure 2. [Online] Available from: https://www.agsa.co.za/Reporting/MFMAReports/2017-2018MFMA.aspx. [Accessed on: 19 July 2021].

Auditor-General of South Africa, (2020). *MFMA 2018-19 Consolidated General Report on the Local Government Audit Outcomes.* [Online] Available from: https://www.agsa.co.za/Reporting/MFMAReports/MFMA2018-2019.aspx. [Accessed on: 06 July 2021].

Auditor-General of South Africa, (2019). *MFMA 2017-18 Consolidated General Report on the Local Government audit outcomes, Annexure 1.* [Online] Available from:

https://www.agsa.co.za/Reporting/MFMAReports/2017-2018MFMA.aspx. [Accessed on: 06 July 2021].

Auditor-General of South Africa, (2018). *MFMA 2016/17 Consolidated General Report on the Local Government audit outcomes, Annexure 1.* [Online] Available from: http://www.agsa.co.za/Reporting/MFMAReports/MFMA2016-2017.aspx. [Accessed on: 06 July 2021].

Auditor-General of South Africa, (2017). *MFMA 2015/16 Consolidated General Report on the Local Government audit outcomes, Annexure 1.* [Online] Available from: http://www.agsa.co.za/Reporting/MFMAReports/MFMA2015-2016.aspx. [Accessed on: 06 July 2021].

Financial and Fiscal Commission, (2021). *Submission for the Division of Revenue 2022/23.* [Online] Available from: <http://www.ffc.co.za > [Accessed 07 June 2021].

Makwetu, K. (2019). *Audit Act Amendments aim to foster Clean Governance in the Public Sector.* Audit Perspectives. [Online] Available from: https://www.agsa.co.za/Portals/0/AuditPerspectiveAGApril2019.pdf. [Accessed on: 06 July 2021].