

2

The status of, progress on and provincial analyses of the audit outcomes

Figure 1: Improvement in audit outcomes (all auditees)

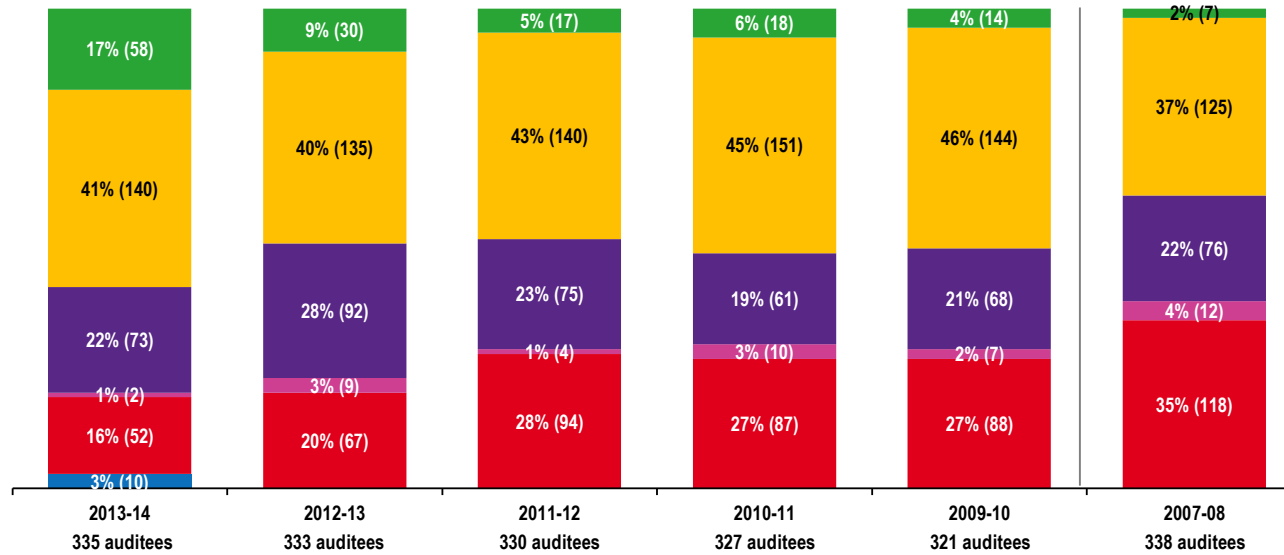


Figure 4: Timeliness of submission and auditing of financial statements

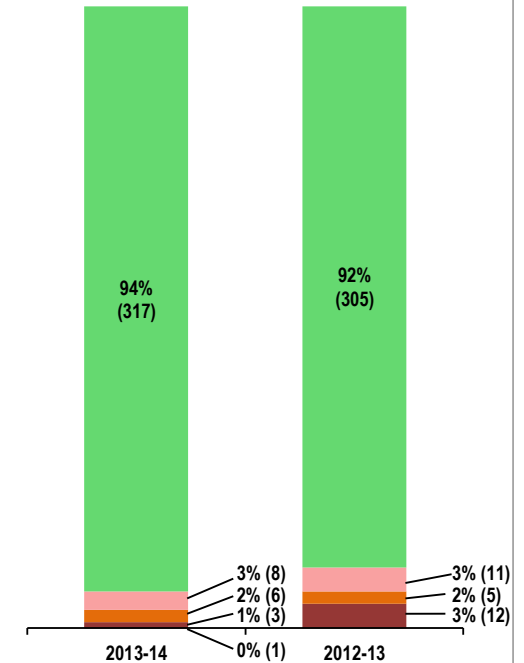


Figure 2: Improvement in audit outcomes (municipalities)

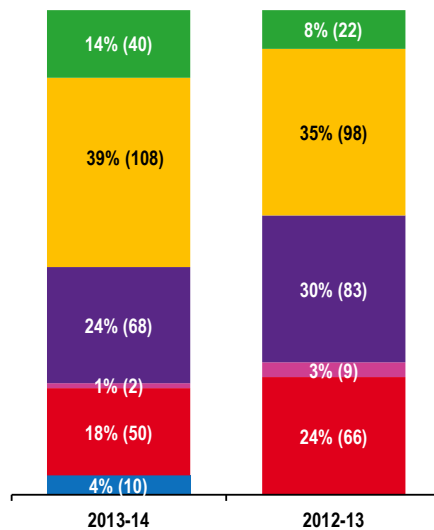
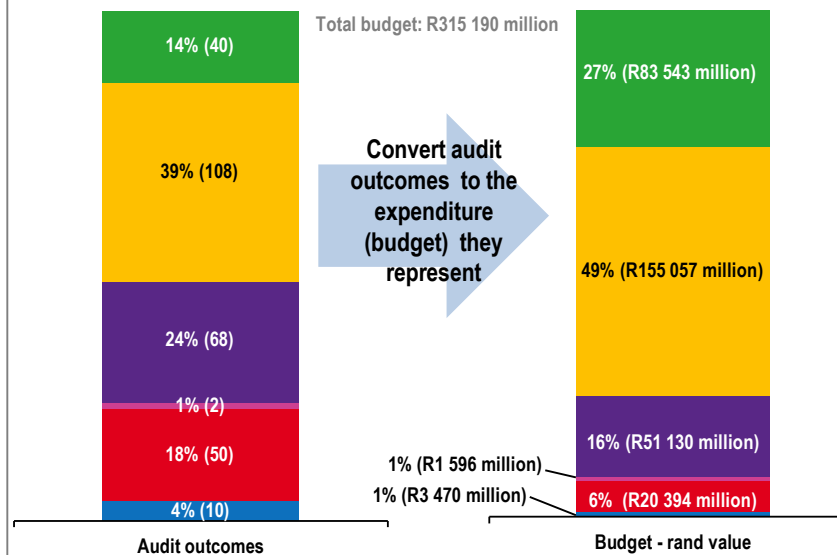


Figure 3: Audit outcomes vs budget allocation (municipalities)



2. Overall audit outcomes

Local government consists of 278 municipalities and 57 municipal entities. The number of municipal entities has increased to 57 from 55 in 2012-13 due to the establishment of two new municipal entities (one each in the Eastern Cape and Limpopo).

The current and prior year audit outcomes of the Setsoto Integrated Dairy in the Free State and the consolidated financial statements of Setsoto are not included, as these have been outstanding for three years and the backlog audit only started in 2013-14. The outcomes of the Cape Metropolitan Transport Fund and four dormant municipal entities, namely Fezile Dabi MD Trust, Metsimaholo Mayoral Trust, Krynaawlust Farming Trust and Metsweding Economic Development Agency, are also not included in this report.

Submission of financial statements for auditing and completion of the audits

Figure 4 shows that 323 auditees (96%) submitted their financial statements for auditing by 31 August 2014 (or by 30 September 2014 in the case of consolidated financial statements) as required by legislation. Gauteng and the Western Cape had a 100% timely submission rate, while the poorest submissions were in North West (88%) and Mpumalanga (91%).

Local government has made great strides in addressing the fundamentals of accountability by timeously producing financial statements. The rate of timely submissions has improved from 93% in 2012-13 and is a major improvement from the 78% in 2007-08.

The cut-off date we set for inclusion of the audit outcomes in this report was 20 January 2015. By this date:

- the financial statements of Thaba Chweu (MP) were still outstanding
- the audits of Aganang (LP), Msukaligwa (MP) and Renosterberg (NC) were still being performed, as the financial statements had not been received by the legislated date
- we had completed the audits of Gariep (EC), Metsimaholo (FS), Mpofana (KZN), Thabazimbi (LP), Kgatelopele (NC) as well as Greater Taung, Lekwa Teemane and Mamusa (all from NW) even though their financial statements had not been received by the legislated date
- the audits of Westonaria (GP), Umjindi (MP), Ngaka Modiri Molema (NW), Karoo Hoogland (NC), Nama Khoi (NC) and Kannaland (WC) were still

being performed, although the financial statements had been received by the legislated date.

Movement in audit outcomes

Figure 1 reflects that there has been an overall improvement in the audit outcomes when compared to the previous year. Figure 2 illustrates the improvement in the audit outcomes of municipalities, while the table on the next page analyses the movement in the audit outcomes of municipalities and municipal entities since the previous year.

The number of auditees with clean audit opinions increased to 58 (17%), which represent 14% of the municipalities and 32% of the municipal entities in the country. Of these auditees, 27 also had clean audit opinions in 2012-13, which is an encouraging sign that the improvements at these auditees are sustainable.

Metros and district municipalities should be leading by example in the local government sphere, but only two metros (25%) and 12 district municipalities (27%) obtained clean audit opinions. A further 26 local municipalities (12%) also had clean audit opinions.

The 40 municipalities with clean audit opinions represent 27% of the total local government expenditure budget of R315 190 million, as reflected in figure 3.

In total, 92 (66%) of the 140 auditees that had an unqualified audit opinion with findings this year had the same opinion last year. Only 31 of these auditees could improve to clean audits since the previous year. Although there has been some progress towards financially unqualified audit opinions (as detailed in section 3.1), auditees still need to address the material findings on the quality of the APR and compliance with legislation. The progress over the past three years and the key findings in these areas are provided in sections 4.1 and 3.2.

Figure 1 also shows the improvement in audit outcomes since 2007-08. CoGTA launched operation clean audit in 2009 in response to the poor audit outcomes in 2007-08. Section 3.1 provides more information on the achievement of the targets of this programme and the new targets set by the MTSF.

Annexure 1 lists all auditees with their current and prior year audit outcomes, while annexure 2 lists the audit outcomes for the past five years.

Table 1: Movement in audit outcomes per auditee type

	102 Improved	194 Unchanged	27 Regressed	2 New auditee	10 Outstanding audits
Unqualified with no findings = 58	21 (MUN) 10 (ME)	19 (MUN) 8 (ME)			
Unqualified with findings = 140	37 (MUN) 6 (ME)	68 (MUN) 24 (ME)	3 (MUN)	2 (ME)	
Qualified with findings = 73	4 (MUN) 23 (MUN)	34 (MUN) 3 (ME)	7 (MUN) 2 (ME)		3 (MUN)
Adverse with findings = 2	1 (MUN)	1 (MUN)			1 (MUN)
Disclaimed with findings = 52		36 (MUN) 1 (ME)	2 (MUN) 1 (ME) 9 (MUN) 3 (MUN)		6 (MUN)

MUN – municipalities

ME – municipal entities

Colour of number indicates audit opinion from which auditee has moved

Figure 5: Provincial audit outcomes over past two years

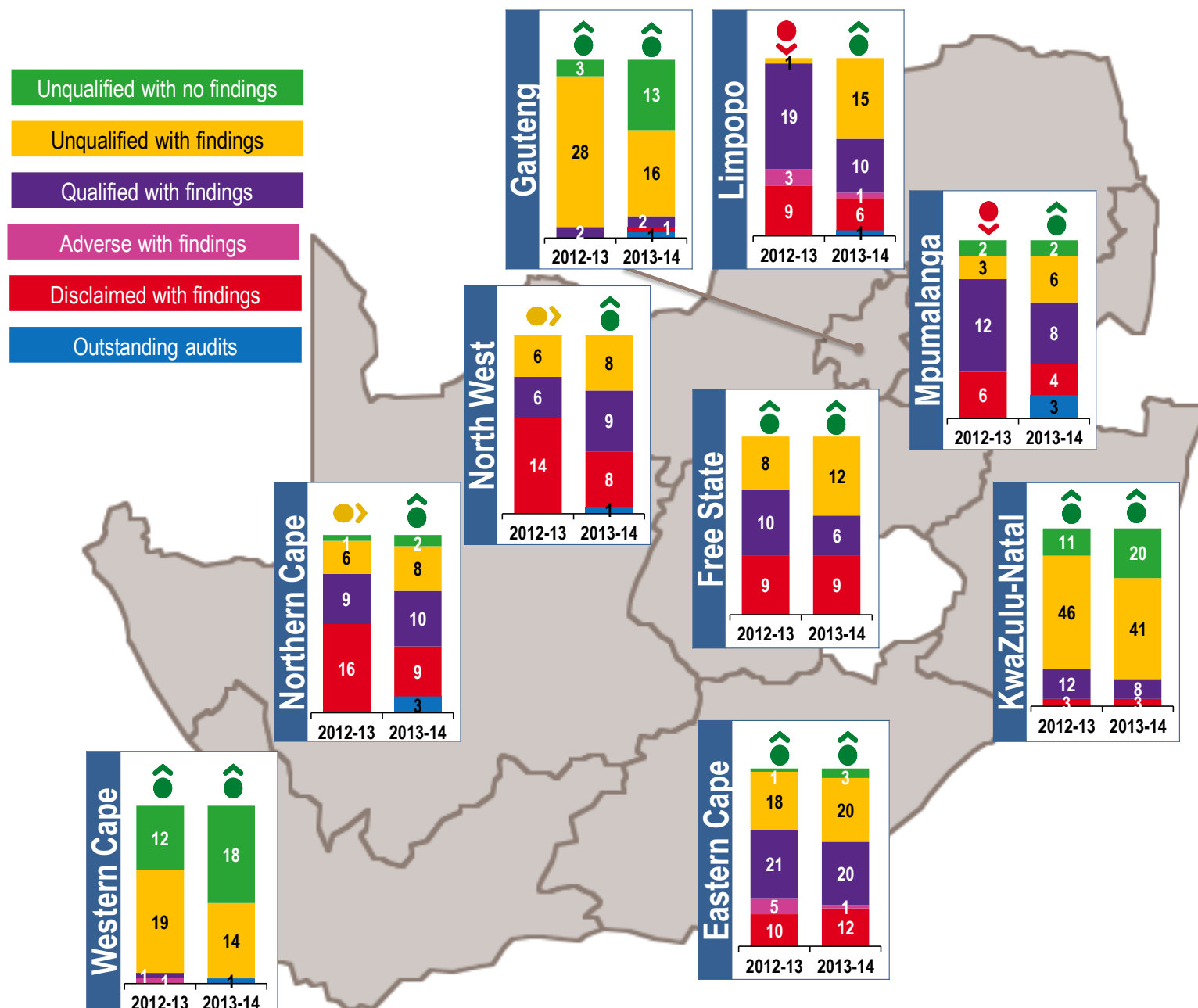


Figure 6: Provincial audit outcomes for 2007-08 and 2013-14

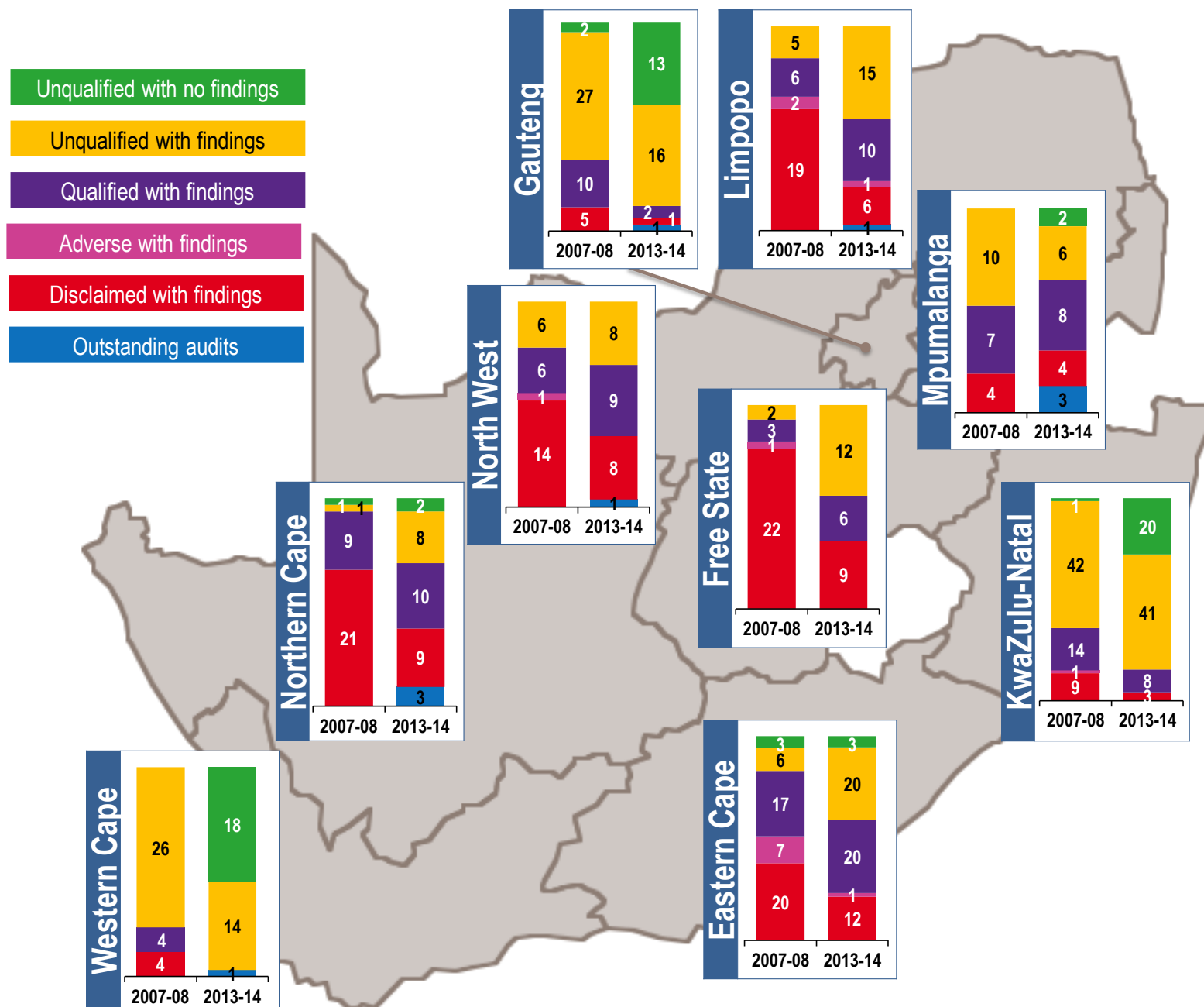


Table 2: Movement in provincial audit outcomes

Province	Unqualified with no findings (58)		Unqualified with findings (140)				Qualified with findings (73)			Adverse with findings (2)		Disclaimed with findings (52)		Outstanding audits (10)
	Improved	Unchanged	Improved	Unchanged	New	Regressed	Improved	Unchanged	Regressed	Improved	Unchanged	Unchanged	Regressed	
Eastern Cape	2	1	5	14	1		5	13	2		1	7	5	
Free State			5	7			1	4	1			8	1	
Gauteng	10	3		16				1	1				1	1
KwaZulu-Natal	12	8	7	31		3	3	4	1				3	
Limpopo			13	1	1		6	4		1		4	2	1
Mpumalanga		2	4	2			1	6	1			3	1	3
Northern Cape	1	1	6	2			5	2	3			8	1	3
North West			2	6			6	3				7	1	1
Western Cape	6	12	1	13										1
TOTAL	31	27	43	92	2	3	27	37	9	1	1	37	15	10

Provincial audit outcomes

Figure 5 shows that the highest number of municipalities with clean audit opinions was in the Western Cape (55%), Gauteng (39%) and KwaZulu-Natal (28%). The provinces with the poorest outcomes, based on the number of auditees with disclaimed and adverse opinions or outstanding audits, were the Northern Cape (38%), North West (35%) and the Free State (33%). As shown in figure 6, the audit outcomes have improved since 2007-08 – to a lesser degree in Mpumalanga.

We noted fairly strong financial management and control disciplines in most of the municipalities in Gauteng, KwaZulu-Natal and the Western Cape, but remaining areas of control deficiency were still common even in improved areas.

In the Eastern Cape, Mpumalanga and the Northern Cape, progressive positive movement was limited with significant financial management and control deficiencies. The financial management disciplines were very weak in the Free State, Limpopo and North West, with significant control weaknesses at most municipalities.

Deficient controls make systems vulnerable to widespread abuse and sometimes lead to a loss of adequate audit trails to substantiate transactions.

Despite this, the audit outcomes of all provinces improved. Table 2 summarises the movement in the audit outcomes per province, which is further discussed below. The names of auditees with clean audit opinions and with disclaimed or adverse opinions are included – the 23 auditees with disclaimed opinions for the past five years or more are also highlighted.

Eastern Cape

Retained clean audit (1)	Mandela Bay Development Agency
Improved to clean audit (2)	Sarah Baartman District and Senqu
Regressed to disclaimed opinion (5)	Great Kei, Mbizana, Inkwanca, Ndlambe and Ntabankulu
Repeat disclaimed opinion (7)	Lukhanji (five years or more), Makana (five years or more), Ikwezi, Inxuba Yethemba, OR Tambo District, Ngqushwa and Sundays River Valley

Repeat adverse opinion (1)

Mhlontlo

Only 5% of the auditees obtained a clean audit outcome, 36% were financially unqualified with findings, while most auditees (59%) were qualified (36%), adverse (2%) or disclaimed (21%). The Eastern Cape has the only auditee with a repeat adverse opinion and the highest number of auditees with disclaimed opinions – 12 auditees, of which the seven listed above also previously had a disclaimed opinion.

Overall, the audit outcomes show an improvement with 12 auditees (21%) improving, two of which achieved a clean audit for the first time. However, the Eastern Cape (along with KwaZulu-Natal) had the highest number of auditees whose outcomes had regressed – seven auditees, of which the five listed above had regressed to a disclaimed opinion.

We have identified the following auditees in the Eastern Cape that require special intervention from national and provincial role players to improve their audit outcomes: *OR Tambo District, Great Kei, Inxuba Yethemba, Ngqushwa, Mbizana, Inkwanca, Ntabankulu, Ndlambe, Makana, Sundays River Valley and Lukhanji.*

Free State

Regressed to disclaimed opinion (1)	Letsemeng
Repeat disclaimed opinion (8)	Matjhabeng (five years or more), Nala (five years or more), Phumelela, Moqhaka (five years or more), Mafube (five years or more), Maluti-A-Phofung (five years or more), Ngwathe (five years or more) and Mantsopa

The Free State is one of three provinces with no clean audits. In total, 44% of the auditees were financially unqualified with findings, while most (56%) were either qualified (22%) or disclaimed (34%). Of the nine auditees with disclaimed opinions, the eight listed above also had disclaimed opinions previously. The Free State has the highest percentage of auditees with disclaimed opinions. Overall, the audit outcomes improved with six auditees (22%) improving and two regressing (7%), one of which regressed to a disclaimed opinion.

We have identified the following auditees in the Free State that require special intervention from national and provincial role players to improve their audit

outcomes: Letsemeng, Mafube, Maluti-A-Phofung, Mantsopa, Matjhabeng, Moqhaka, Nala, Ngwathe and Phumelela.

Gauteng

Retained clean audit (3)	Sedibeng District, Joburg Market and Johannesburg Social Housing Company
Improved to clean audit (10)	Ekurhuleni Metro, Midvaal, Mogale City, Brakpan Bus Company, Joburg City Theatres, Ekurhuleni Development Company, Johannesburg Roads Agency, Lethabong Housing Institute, Pharoe Park Housing Company and Germiston Phase II Housing Company
Regressed to disclaimed opinion (1)	West Rand Development Agency

A total of 39% of the auditees obtained a clean audit outcome as a result of the 10 auditees (30%) that improved to a clean audit status. Most of the remainder of the auditees were financially unqualified with findings (50%); with only two auditees being qualified and a single auditee being disclaimed for the first time. The audit outcome of Westonaria was outstanding at time of this report.

We have identified the following auditees in Gauteng that require special intervention from national and provincial role players to improve their audit outcomes: *Westonaria, Randfontein and West Rand Development Agency.*

KwaZulu-Natal

Retained clean audit (8)	Durban Marine Theme Park, Ubuhlebezwe, uMhlathuze, uMzimkhulu, uThungulu District, Safe City Pietermaritzburg, uThungulu House Development Trust and uThungulu Financing Partnership
Improved to clean audit (12)	Dannhauser, eMnambithi / Ladysmith, Ezinqoleni, ICC – Durban, Ilembe District, Mandeni, Richmond, uMgungundlovu District, Umzumbe, Zululand District, Ilembe Management Development Enterprise and Ugu South Coast Tourism

Regressed to disclaimed opinion (3)	Amajuba District, Hlabisa and Jozini
--	--------------------------------------

KwaZulu-Natal has the highest number of auditees with clean audit outcomes – 20 auditees, which is 28% of the auditees in the province. Most of the remainder of the auditees were financially unqualified with findings (57%), while 11% were qualified and 4% disclaimed. The province also had the highest number of auditees (22 auditees, or 31%) that improved their audit outcomes, but also (along with the Eastern Cape) the highest number of regressions. Seven auditees regressed, of which three regressed to disclaimed opinions, as listed above.

We have identified the following auditees in KwaZulu-Natal that require special intervention from national and provincial role players to improve their audit outcomes: *uMkhanyakude District, uThukela District, Newcastle, Amajuba District, Hlabisa and Jozini.*

Limpopo

Regressed to disclaimed opinion (2)	Fetakgomo and Tubatse
Repeat disclaimed opinion (4)	Ba-Phalaborwa (five years or more), Ephraim Mogale, Thabazimbi and Vhembe District
Improved to adverse opinion (1)	Mopani District

Limpopo is one of three provinces with no clean audits. In total, 45% of the auditees were financially unqualified with findings, while most (51%) were qualified (30%), adverse (3%) or disclaimed (18%). The audit outcome of Aganang was still outstanding at the date of this report. Of the six auditees with disclaimed opinions as listed above, four also had a disclaimed opinion previously.

Overall, the audit outcomes improved with 20 auditees (63%) improving and only two regressing (both to a disclaimed opinion). The audit outcomes in Limpopo improved the most of all the provinces, but improved from a low base and the outcomes remain poor overall.

We have identified the following auditees in Limpopo that require special intervention from national and provincial role players to improve their audit outcomes: *Ba-Phalaborwa, Vhembe District, Ephraim Mogale, Greater Tubatse and Thabazimbi.*

Mpumalanga

Retained clean audit (2)	Ehlanzeni District and Steve Tshwete
Regressed to disclaimed opinion (1)	Emakhazeni
Repeat disclaimed opinion (3)	Emalahleni, Mkhondo and Umjindi Local Economic Development Agency (five years or more)

Two auditees (9%) in Mpumalanga retained their clean audit outcome. A total of 26% of the auditees were financially unqualified with findings, while most (65%) were qualified (35%) or disclaimed (17%), or their outcomes were outstanding at the time of this report, namely Msukaligwa, Thaba Chweu and Umjindi. Of the four auditees with disclaimed opinions, three as listed above also had disclaimed opinions previously.

Overall, the audit outcomes improved with five auditees (22%) improving and two (9%) regressing, one to a disclaimed opinion as listed above.

We have identified the following auditees in Mpumalanga that require special intervention from national and provincial role players to improve their audit outcomes: *Emalahleni, Bushbuckridge, Thaba Chweu, Msukaligwa and Mkhondo*.

Northern Cape

Retained clean audit (1)	ZF Mgcawu District
Improved to clean audit (1)	Frances Baard District
Regressed to disclaimed opinion (1)	Magareng

Repeat disclaimed opinion (8)

Dikgatlong (five years or more), Phokwane (five years or more), Ga-Segonyana (five years or more), Kamiesberg (five years or more), Thembelihle (five years or more), !Kheis (five years or more), Tsantsabane (five years or more) and Kgatelopele

The Northern Cape had two auditees (6%) with clean audit opinions, but only 25% were financially unqualified with findings, while most (69%) were qualified (31%) or disclaimed (28%), or their outcomes were outstanding at the time of this report (10%). The outstanding opinions are those of Renosterberg, Nama Khoi and Karoo Hoogland. Of the nine auditees with disclaimed opinions, eight as listed above also had the same opinion previously.

We have identified the following auditees in the Northern Cape that require special intervention from national and provincial role players to improve their audit outcomes: *Dikgatlong, Phokwane, Ga-Segonyana, Kamiesberg, Thembelihle, Kgatelopele, !Kheis, Tsantsabane, Karoo Hoogland, Renosterberg, Nama Khoi, Magareng and Mier*.

North West

Regressed to disclaimed opinion (1)	Dr Ruth S Mompoti District
Repeat disclaimed opinion (7)	Ditsobotla (five years or more), Lekwa Teemane (five years or more), Mamusa (five years or more), Maquassi Hills (five years or more), Tswaing (five years or more), Ventersdorp (five years or more) and Greater Taung

North West is one of three provinces with no clean audits. A total of only 31% of the auditees were financially unqualified with findings, while most (69%) were either qualified (35%) or disclaimed (31%). The audit outcome of Ngaka Modiri Molema was still outstanding at the time of this report. The eight auditees with disclaimed opinions include seven as listed above that also had the same opinion previously.

Overall, the audit outcomes improved with eight auditees (31%) improving and only one regressing – to a disclaimed opinion as listed above. However, the overall outcomes for this province remain poor.

We have identified the following auditees in North West that require special intervention from national and provincial role players to improve their audit outcomes: *Tswaing, Mamusa, Lekwa Teemane, Maquassi Hills, Greater Taung, Ventersdorp and Ditsobotla.*

Western Cape

Retained clean audit (12)	Swartland, Theewaterskloof, West Coast District, Witzenberg, Langeberg, Breede Valley, Cape Town International Convention Centre, City of Cape Town Metro, George, Knysna, Mossel Bay and Overstrand
Improved to clean audit (6)	Bitou, Cape Agulhas, Cape Winelands District, Drakenstein, Eden District and Hessequa

Most of the auditees in the Western Cape (55%) obtained clean audit outcomes, with the remainder all receiving a financially unqualified opinion with findings. The audit outcome of Kannaland was still outstanding at the time of this report.

The outcomes show an overall improvement with seven auditees (21%) improving and none regressing.

Kannaland and *Oudtshoorn* require special intervention from national and provincial role players to improve their audit outcome.

[This page is intentionally left blank.]