

## Local Government Brief: 02/2012

### A Local Government Perspective on the Municipal Finance Audits

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#### 1. The Purpose of the briefing

The Auditor General released the findings of the assessment of 2010/11 Municipal Audit outcomes. This briefing provides SALGA's perspective on the findings.

#### 2. Overview

The initial public response to this week's Auditor-General report on municipal finances was something of a horror story; a picture of virtual collapse of financial management in many local governments, including the major cities. A closer examination of the AG's findings and a better understanding of the nature of these audits paint a different picture.

First, it is not accurate that there is somehow a meaningful difference between a "clean audit" and an "unqualified audit". The reality is that, the concept of clean audits is a national government initiative and not necessarily an international accounting standard.

At the same time, it has to be acknowledged that there are indeed problems, and some municipalities have a long way to go before they can reassure citizens that public money is being properly managed.

However, having acknowledged the problem areas, it is equally important to note some significant improvements as follows:

- Almost half of municipalities -- 128 in total -- received unqualified audits, where their financial statements contain no material misstatements and there was full compliance with the law. Thirteen of these municipalities received completely unqualified audits, whilst 115 municipalities has unqualified audits with findings;
- Less than 20% of municipalities received qualified audits - that is, there were material misstatements or insufficient evidence for the AG to conclude that specific amounts are not overstated or understated. This does not automatically translate into financial mismanagement - rather, it suggests shortcomings in applying financial procedures. It is important that this 20% moves from "qualified" to "unqualified" audits to continue to build public confidence in the management of public resources
- Only 2% of municipalities (seven municipalities in total) received adverse audit reports;
- The number of municipalities whose audit reports have disclaimers has dropped from 77 in the last financial year to 35; and

- Unauthorized expenditure has decreased from R6.3 billion to R4.3 billion, this improvements can be attributed to the new system and controls and better financial management.

The audit results vary across different provinces, for example, 53 of the 61 KwaZulu Natal municipalities (87%) received financially unqualified audits. This is a dramatic increase from the 38 municipalities (62%) which received unqualified audits in 2007/08.

Municipalities in other provinces have also improved. Blue Crane Route in the Eastern Cape, for example, received a disclaimer in 2004/05 but, six years later, received an unqualified opinion. Richtersveld in the Northern Cape improved its audit opinion from an adverse opinion in 2004/05 to an unqualified opinion in 2010/11.

On the other hand, there are problem areas that should not be overlooked- particularly in the Eastern Cape, Free State and North-West, which received the majority of disclaimers. SALGA and its stakeholders must focus support initiatives to assist municipalities in these provinces to improve the audit findings. The focus must also be on the seven municipalities which received adverse audit opinion, particularly those which have regressed from a qualified opinion to adverse.

### **3. Implications**

The AG's report<sup>1</sup> is specific on what must be done going forward and has the support of SALGA. It includes tightening supply chain management processes and ensuring better knowledge of good governance among officials and political leadership. At the same time, it has to be acknowledged that the regulatory environment is constantly changing, and municipalities need time to adapt and fully comply with these new financial regimes.

The Finance Minister, Pravin Gordhan<sup>2</sup> highlights the need for municipal officials to be held accountable, and for action to be taken against those who violate financial management regulations.

**A detailed report can be found on the SALGA website**

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<sup>1</sup> The 2010/11 General reports on audit outcomes of local government tabled in Parliament on 23 July 2012

<sup>2</sup> Minister's speech at the release of Auditor General's audit outcomes on local government audit results on 23 July 2012