



# **SALGA**

*South African Local Government Association*

## **Local Government Brief 05-2011**

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### **KEEPING THE BOOKS: THE AUDITOR-GENERAL'S CONSOLIDATED REPORT ON THE LOCAL GOVERNMENT AUDIT OUTCOMES 2009-10**

#### **1. THE PURPOSE OF THIS BRIEFING NOTE**

The purpose of this briefing note is to highlight key findings of the Auditor-General's consolidated report on the local government audit outcomes of the financial year 2009-10. The report holds important implications for the Local Government Turnaround Strategy.

#### **2. BRIEF OVERVIEW OF THE REPORT**

The Report has limited good news: the number of municipalities that have received a clean audit has increased marginally. A number of municipalities have improved their position. On the main, however, there is a clear indication that a lot still needs to be done in order to improve municipal audit outcomes. A few matters are highlighted in this briefing note.

#### **3. KEY FINDINGS**

##### **3.1 Submission of financial statements and useful comparisons**

A major challenge remains municipalities that do not submit their financial statements for auditing on time. To measure any improvement in the financial management of municipalities, the figures for 2009-10 financial year are compared with those for 2008-09. It is here that one major difficulty lies. In terms of the MFMA municipalities must submit their financial statements by 31 August (and consolidated statements, including those of municipal entities by 30 September). 227 municipalities managed to do so, a 2 percent improvement over the previous year. 24 municipalities submitted late but before 31 January 2011, while 22 had not done so by even then. The majority of the unaudited municipalities (53%) came from the North West and the Northern Cape.

### 3.2 Clean audits

The progress towards a clean audit by 2014 needs to be improved. There were 7 financially unqualified reports with no findings on predetermined objectives and/or compliance with legislation (3 better than the year before). A further 122 municipalities received an unqualified report but with findings (7 better than the year before).

The results were as follows for audits completed by June 2011:

Audit outcomes of municipalities	2009-10	2008-09
Financially unqualified with no findings	7	4
Financially unqualified with findings	122	113
Qualified opinion	57	50
Adverse opinion	11*	10
Disclaimer of opinion	57*	103
Total audited	254	280
Unaudited	29	3

\*8 audits were categorized as either a disclaimer/adverse opinion (which were then random allocated 4 to each category)

### 3.3 Relative improvements

Some overall improvements were discernable. Nearly a quarter of municipalities improved their position, while the bulk (70%) remained the same, while a small percentage (6) did worse. The most notable improvements came from Gauteng and KwaZulu-Natal. The concern that the AG expressed was that many municipalities have not addressed the qualification findings of 2008-09 and attracted further findings. In 38 municipalities adverse/disclaimer audit reports have been issued consistently for the past 5 to 6 years.

### 3.4 Supply chain management

The AG also performed an audit for compliance with the applicable legislation. Of particular importance was compliance with the supply chain management regulations. Although such an audit was performed on only 40% of municipalities who submitted their financial reports, the findings showed disregard for the procurement system which aims to minimize corruption. Some of the main problems include procuring services and goods from persons in the service of the state or their family members (63 or 56% of auditees) and uncompetitive or unfair procurement processes at 159 (56% of auditees). Contracts were awarded to the value of R76 million to persons in the employ of the municipality, including 19 councillors, a mayor and a municipal manager. A further R102 million was linked to contracts with close family members of persons in the service of the municipalities.

### 3.5 What makes for improved audit reports?

Given the fact that there were municipalities that improved their position, the AG addressed the important question of determining what factors led to such improvement. These observations are important for replication purposes. They include the following:

- i. Municipal leadership played an important role in attending to audit issues of previous years.
- ii. The appointment of experts helped to deal with specifically identified deficiencies.
- iii. Improved management of record keeping.

## 4. IMPLICATIONS

The question remains how will a clean audit of all municipalities be achieved by 2014 as intended? Is it a question of a lack of capacity, or is it a lack of leadership?

The question of capacity is being addressed by both the National Treasury and DCoG. The National Treasury's competency level regulations, which require appropriate qualifications from municipal managers as accounting officers as well as personnel responsible for supply chain management, kick in at the end of December 2012. The regulations indicate that no person who does not meet the requirements set out there in may perform the designated functions as from 1 January 2013. The new Systems Amendment Act of 2011 has also established the framework for laying down minimum competency and experience requirements for senior management. This framework still needs to be developed and implemented. Appropriately qualified persons for the management of a municipality's finances are essential.

As the AG reported, it is also a question of leadership. If there is a will, a clean audit is highly possible. It has been noted that the implementation of a sound supply management system requires sound leadership.

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