

## **NEWS RELEASE**

For immediate release

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### **SALGA WELCOMES CONTINUED POSITIVE TREND IN AUDIT OUTCOMES AS LOCAL GOVERNMENT MARKS THE END OF THE 3<sup>RD</sup> TERM**

As South Africa approaches the end of the current term of Local Government this year, SALGA welcomes the release of the 2014/2015 MFMA Audit Outcomes by the Auditor General (AG) which reflects improvements in all categories of audit opinions. It is very pleasing that the outcomes over the 5 year timeframe of this term of Local Government continues to reflect a positive trend which needs to be maintained. The audit outcomes picture at the beginning of this term of Local Government reflected only 16 auditees who received unqualified opinions with no other matters or “clean audit” opinions while the number at the end of this term improved to 74 auditees. The audit outcomes at the beginning of the term also reflected 96 auditees who received adverse, disclaimers and audits not finalized while the number at the end of this term improved to only 41 auditees. Kwazulu-Natal, Gauteng and Western Cape are the provinces that reflect the municipalities with the bulk of the positive audit outcomes. Special acknowledgment goes to the Free State which achieved its first ever “clean audit” municipality, Thabo Mofutsanyana District Municipality. If this trajectory can be maintained without significant regressions then the audit outcomes picture during the next term of Local Government could be even more positive.

The AG report is re assuring the nation in that more than 80% of the total operating budgets of approximately R347 billion in all 272 municipalities in the country, is managed and spent by municipalities that received unqualified audits. It is that the majority of municipalities are accounting prudently for the public funds they receive and collect from citizens and from the fiscus.

We believe that the Auditor General’s (AG’s) Report is a key indicator of the state of local government and the information and insight presented in the report is aimed at empowering oversight structures as well as leaders in local government to focus on issues that will result in reliable financial statements, credible reporting on performance against predetermined objectives and compliance with laws and regulations.

The AG’s cannot be read in isolation from the Stats SA’s Non-Financial Census of Municipalities which points to an ever increasing number of consumer units receiving services from local government and the General Household Survey which provides the latest statistics on education, health, the labour market, dwellings, access to services and facilities, transport, and the quality of life in South Africa, as well as Section 71 Report

released by National Treasury.

SALGA is encouraged that its bold and correct initiatives of committing municipalities to implement a National Anti-Corruption strategy and to adopt consequences & accountability framework in November 2013 at an Anti-Corruption Summit, is bearing positive results. It was at that Anti-Corruption Summit where all municipalities pledged to fight and expose all forms of maladministration and corruption in their municipalities and implement consequences management system on incidences of wrong doing. As a result of the first year of implementing this framework in 2013/14 financial year, the AG reported in that year's results that more than 50% of municipalities implemented consequences and accountability framework and systems by taking action against wrong doing in their administrations. The current 2014/15 years results by the AG demonstrates a growing increase trend to 60% of municipalities that implemented consequences management systems and taking action against wrong doing. It means our capacity building investment is delivering positive results and SALGA will intensify its support measures until such time that all municipalities implement 100% consequences for wrong doing to deter incidences of maladministration and corruption.

SALGA is also most pleased that our Municipal Audit Support Program (MASP) contributed meaningfully towards these improvements. The MASP focused on those municipalities who obtained adverse audit opinions, disclaimers of audit opinions and those municipalities whose audits were not finalized by the legislated deadline. These municipalities were categorized as "red zone" municipalities and they numbered 60 based on the 2013/14 audit outcomes. The number of red zone municipalities has decreased to 39 and this trajectory needs to be maintained while at the same time ensuring that there is no regression of those municipalities who have migrated out of the red zone.

Since the launch of the MASP SALGA has provided transversal support to all red zone municipalities in the form of Councillor Capacity Building Workshops, Revenue Management workshops, Revenue Enhancement workshops, Debt Management Workshops, Municipal Public Accounts Committee (MPAC) Workshops and Internal Audit workshops. Hands on support was also provided to 25 of the red zone municipalities and 8 of these municipalities improved their audit outcomes and migrated out of the red zone.

The 8 municipalities whose audit outcomes improved are:

- Nala
- Great Kei
- Ba-Phalaborwa
- Lekwa Teemane
- Greater Taung
- Nama Khoi
- Amajuba
- Hlabisa

It is worth noting that Nala, Great Kei, Ba-Phalaborwa and Lekwa Teemane had been achieving disclaimer audit opinions on a recurring basis for the last 5 years and they were assisted to improve their audit outcomes to progress out of the red zone. Nala improved from a disclaimer all the way to an unqualified audit opinion.

The AG's report also reflects some very encouraging trends with regards to some of the key risk areas, root causes and reportable matters. SALGA is particularly encouraged that the AG's report reflects that in the 2014/15 financial year improvement in the quality of submitted financial statements compared to the prior financial year and while there is still room for improvement this is a clear indication that accountability is improving within Local Government.

Some of the other notable improvements are the improvements in the most common qualification areas namely:

- Property, Infrastructure & Equipment,
- Irregular Expenditure and
- Revenue

The AG's report has also identified areas of regression and as organized local government, SALGA calls on all member municipalities to urgently address the root causes, risk areas and reportable matters identified by the AG in his report as having regressed. Regressions were reflected in human resource management, strategic planning & performance management, financial health of municipalities and increases in unauthorized, irregular and fruitless & wasteful expenditure.

The critical success factors in addressing all the risks, root causes and reportable matters in the AG's report are proper record keeping, instilling a culture of basic financial administrative discipline coupled with basic internal control processes, addressing the capacity constraints, monitoring compliance & performance, preparing & monitoring accurate budgets and implementing an adequate consequence & accountability framework or policy. Underpinning all of this has to be a relatively stable political environment and a healthy professional relationship between the Administration and the Executive with clear lines of accountability. The attainment of the right level of all these levers of success is going to come over a period of time and will require the collective and collaborative effort of municipalities; support providers such as SALGA, National Treasury & COGTA; and the AG's office.

SALGA is committed to working with the other support providers to ensure that municipalities can be incrementally and sustainably improved in the 4 pillars of the MASP: Leadership, Governance, Financial Management and Institutional Capacity and we are confident that if these 4 pillars are improved then the resultant audit outcomes will improve.

SALGA wishes to take the opportunity to call on all citizens, business customers and government departments to pay timeously for services and also pay arrear debt that

currently stands at approximately R120 billion countrywide.

Non-payment for any service has a knock-on effect within the service delivery value chain. Whilst municipalities have a responsibility to provide sustainable services, citizens, businesses and indeed government departments also have a responsibility to pay for the services they use.

- **END** -

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For any media enquiries please contact:

Tahir Sema

Manager: Communications

Mobile: 082 940 3403

E-mail: [tsema@salga.org.za](mailto:tsema@salga.org.za)

Sivuyile Mbambato

Media Relations Officer

Mobile: 073 897 8519

Email: [smbambato@salga.gov.za](mailto:smbambato@salga.gov.za)