Media Statement

For immediate release

28 June 2019

REGRESSION IN MUNICIPAL AUDIT FINDINGS HIGHLIGHTS NEED FOR INTENSIFIED AUDIT SUPPORT AND RENEWED FOCUS ON ACCOUNTABILITY AND CONSEQUENCE MANAGEMENT

The South African Local Government Association (SALGA) has noted that the Auditor General South Africa (AGSA)'s 2017/18 Audit Outcomes released on Tuesday, 26 June 2019, indicate a regression from the previous year audit results.

This is indeed a call for concern and a setback towards the vision to achieve a developmental local government that is built on the pillars of clean governance and financial accountability. The results also confirm that the Municipal Audit Support Program (MASP) for municipalities requires a much more rigorous and intensified approach, especially for most struggling municipalities. Furthermore, the Auditor General report illuminates the lack of accountability, failure to implement AGSA recommendations, and in some instances even disregarded.

Of particular concern in the AG report, is the highest level of non-compliance with key governance legislation since 2011/12, with 92% of municipalities failing to comply with key legislation. In addition to this, the AG found that irregular expenditure had declined slightly to R25,2 billion from R29,7 billion in the previous year, despite the slight decrease these figures are still unacceptably high. The irregular expenditure is mainly due to non-compliance with supply chain management regulations.

While the AG has in previous Audit Reports recognized the Municipal Audit Support Program by the South African Local Government Association (SALGA) as an intervention that is assisting struggling municipalities, namely those that obtained adverse and disclaimer audit opinions as well as those with audits that were not finalized by the legislated deadline, SALGA is concerned by the latest findings that show regressions. SALGA notes with concern the increase in the number of audits not finalized by the legislated deadline. In addition to this, as has been the case in previous years, the majority of findings still revolve around the quality of financial statements, quality of performance reporting, the financial health of municipalities and increases in unauthorized, irregular and fruitless or wasteful expenditure.

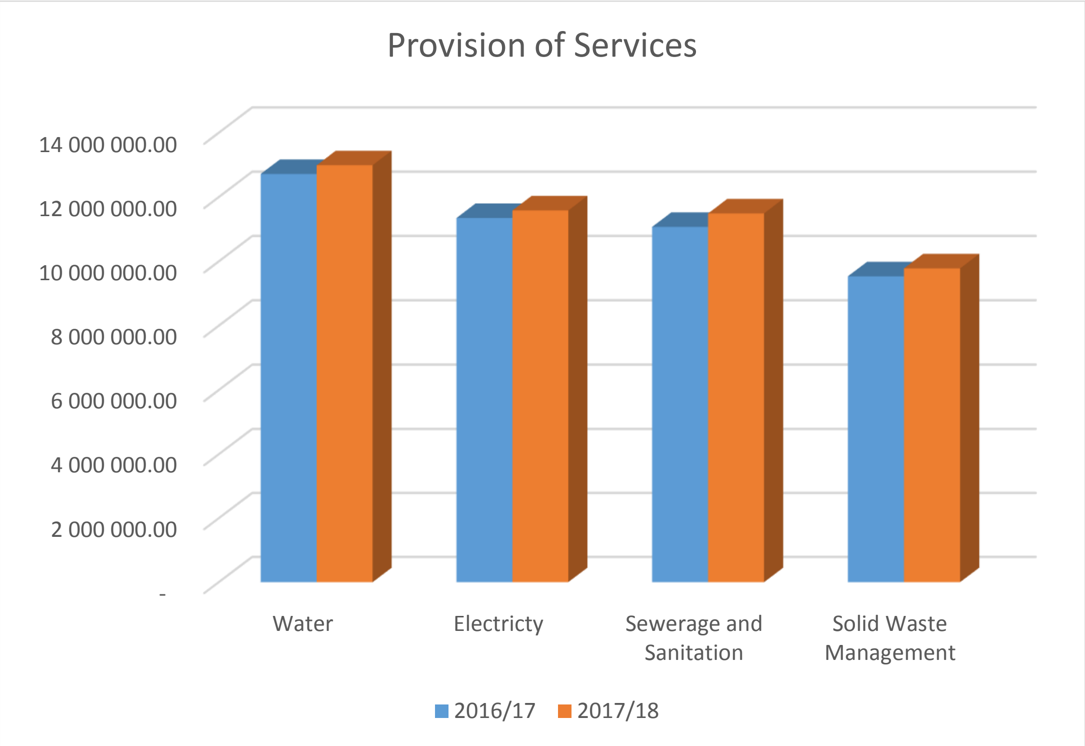
The AG correctly highlighted the deteriorating financial health of municipalities with 31% of municipalities categorized as financially vulnerable. In addition to this 39% of municipalities required intervention over the financial year under review. Eskom debt stood at R18,26 billion with arrears amounting to R9,12 billion while debt to Water Boards stood at R 9,05 billion with arrears at R5,85 billion. These figures, coupled with the inability of many municipalities to collect revenue pose a significant challenge for municipalities to pass credible funded budgets. The situation is not helped by intergovernmental debt owed to municipalities which totalled R72,4 billion in the 2018 financial year, according to the latest Financial census of municipalities for the year ended on 30 June 2019, as released on 26 June 2019. Municipalities themselves are owed money, often by consumers and institutions.

SALGA is of the view that municipalities must honour their commitments and pay their debts, having said this, it is clear that some municipalities face serious financial constraints and simply do not have the capacity to stick to payment arrangements with Eskom and Water Boards in particular. SALGA continues to engage relevant stakeholders in an attempt to find a workable solution for the parties involved.

In addition to this, SALGA together with National Treasury, Cooperative Governance and Traditional Affairs department, and other stakeholders play an active part through the national revenue management and intergovernmental debt initiatives to address the issue of inter-governmental debt owed to municipalities. Given the financial constraints faced by municipalities, SALGA continues to engage National Treasury with proposals on reviewing the grant framework in order to assist municipalities to improve their financial health.

While municipal audit outcomes have shown regression over the past year, it is worth noting that this has not translated into a break down in service delivery. The report published by Stats SA indicates that there has been a marginal increase in the delivery of municipal services for the period under review as depicted in the graph below.

(Information courtesy of Stats SA)



Services	2016/17	2017/18	Percerntage Change
Water	12,718,048.00	12,989,037.00	2.1
Electricty	11,349,674.00	11,584,093.00	2.1
Sewerage and Sanitation	11,074,358.00	11,492,380.00	3.8
Solid Waste Management	9,536,496.00	9,782,686.00	2.6

Having said this, we dare not be complacent to the gravity of the situation highlighted by the AGSA, improved compliance and financial management remains an important tool for enhancing efficient service delivery.

The AG highlighted the importance of the amended Public Audit Act which has now been enacted into law. The act is critical in giving powers to the AG to enforce accountability and consequence management. In anticipation of this, SALGA has over the past year embarked on a number of capacity building initiatives for the council including assisting municipalities with the establishment of Disciplinary Boards and training of Municipal Public Accounts Committees. The amendments to the act now place an onus on municipalities to address gaps in the implementation of consequence management expeditiously.

Since the launch of the MASP in 2014, SALGA has provided hands-on support to selected municipalities in the form of assisting with financial accounting assistance, preparation of annual financial statements and providing technical reviews and guidance. In addition, transversal support has been provided to all red zone municipalities through training in Councilor Capacity Building, Annual Financial Statements, Asset Management, Revenue Management, Revenue Enhancement, Debt Management as well as Internal Audit and Municipal Public Accounts Committee (MPAC) Workshops.

Despite the overall regression in audit outcomes during the 2017/18 Audit cycle, SALGA is pleased that 22 municipalities showed an improvement in their audit opinions. Eleven municipalities moved from qualified to unqualified. Three municipalities moved from disclaimer to adverse. SALGA commends Ba-Phalaborwa; Thaba Chweu; Beaufort West and JB Marks municipalities who with the support of SALGA moved from disclaimer opinions to qualified audit opinions. Joe Qabi and Gert Sibande District Municipalities also moved from unqualified with findings to unqualified with no findings, this shows that despite the challenging environment improvement is possible when the commitment is there.

SALGA notes with dismay the increasing levels of intimidation of employees of the Auditor General and urges all municipalities to co-operate and work with the AG as they execute their mandate for the common good of all stakeholders.

SALGA sees some potential downside risk for audit outcomes in the near future. The audit of Municipal Standard Chart of Accounts (MSCOA) compliance and the implementation of the PAA will place greater demands and scrutiny on all municipality's governance and compliance pillars. SALGA urges all municipalities which received negative audit outcomes to place emphasis on improving their control environment and implementing their audit action plans in order to improve their audit outcomes. To the municipalities that have maintained positive outcomes or improved, greater effort will be required to maintain this positive trend. SALGA urges all municipalities to view with the requisite seriousness, the recommendations of the AG and to implement these expeditiously over the coming financial year.

SALGA remains committed to working with all key stakeholders, such as the Department of Cooperative Governance and Traditional Affairs, National and Provincial Treasuries, as well as municipalities to intensify audit support interventions for troubled municipalities in Leadership, Governance, Financial Management and Institutional Capacity, which are the four pillars of MASP.

SALGA also congratulates all the municipalities that performed well in the latest audits and continue to consistently achieve a clean audit status. Furthermore, SALGA commends the AG for its continuing efforts in strengthening accountability and highlighting the state of local government in managing the public purse as prescribed by the Municipal Finance Management Act (MFMA).

END

Issued By: South African Local Government Association

For further media enquiries, please contact:

Sivuyile Mbambato | Email: smbambato@salga.org.za | Mobile: 073 897 8519