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OF THE REPUBLIC OF SOUTH AFRICA



LOCAL GOVERNMENT AUDIT OUTCOMES: 2022/23

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ACRONYMS

AG	Auditor General
DM	District Municipality
EC	Eastern Cape
LM	Local Municipality
GP	Gauteng Province
ICM	intermediate city municipality
FS	Free State
KZN	KwaZulu-Natal
MFMA	Municipal Finance Management Act
MI	material irregularities
MET	metropolitan municipality
MP	Mpumalanga
NC	Northen Cape
NW	North-West
PAA	Public Audit Act
WC	Western Cape

EXECUTIVE SUMMARY

Municipalities are at the forefront of service delivery as they are close to the people. Financial Management in municipalities remains an area of concern as mismanagement strips the citizens of quality services. For the 2022/23 financial year, the Auditor-General (AG) reported that there was a regression in the number of municipalities receiving clean audits from 38 to 34 and an improvement on municipalities receiving unqualified audits with findings. The number of municipalities that failed to submit annual financial statements by the legislated date of 31 March increased by 8 from 2 in 2021/22 to 10 in 2022/23 which is concerning.

The Municipal Finance Management Act (MFMA) prohibits municipalities from incurring unauthorised, irregular, fruitless and wasteful expenditure. In 2022/23, municipalities incurred a total of R22.5 billion in unauthorised expenditure compared to the R23.4 billion incurred in 2021/22. Although this is a decline, it is still alarmingly high. Municipalities also incurred a total of R27.0 billion in irregular expenditure in 2022/23 when compared to the R28.3 billion incurred in 2021/22 which although its not corruption but creates an environment conducive for corruption to take place as the money is not spent in accordance with relevant legislation. A total of R6.7 billion was incurred in fruitless and wasteful expenditure in 2022/23 when compared to the R4.5 billion incurred in the previous financial year. This money has been spent in vain and could have been avoided if proper care was taken.

The expanded powers allows the AG to raise non-compliance with, or contravention of, legislation, fraud, theft or a breach of fiduciary duty identified during an audit performed that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public. To date a total of 368 material irregularities have been identified, an increase of 92 MIs from the 268 MIs reported in last year. This ranges from procurement irregularities, related to revenue management. This also shows an environment of weak internal controls as irregularities can be avoided in an environment with strong controls and a fully functional *accountability ecosystem* which includes municipal councils, municipal public accounts committees, audit committees and internal auditors. If any part of the ecosystem fails to effectively play its role, this not only has a negative impact on the effectiveness of the ecosystem as a whole, it also tends to undermine the ability of other stakeholders to effectively play their roles.

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1. INTRODUCTION

The purpose of this brief is to report on the Local Government audit outcomes for the 2022/23 financial year. The brief will provide a summary of the audit outcomes for 2022/23 compared to the previous financial year, the mismanagement of public funds, key material audit findings for 2022/23 and conclude with the status of identified material irregularities.

2. OVERVIEW OF 2022/23 AUDIT OUTCOME

Table 1 below shows the audit outcomes for Local Government in 2022/23 compared to the 2021/22 outcomes. A total of 34 municipalities received clean audits (i.e., an unqualified audit opinion with no findings) in 2022/23, a regression from the 38 municipalities in 2021/22. This regression is observable across all the categories of audit opinions, except for a disclaimer of audit opinion whereby the number of municipalities receiving disclaimers declined in 2022/23 compared to 2021/22.

- The number of municipalities that received an unqualified audit opinion with findings increased by four from 105 municipalities in 2021/22 to 110 municipalities in 2022/23;
- The number of municipalities that received a qualified audit opinion with findings in increased by one from 84 municipalities in 2021/22 to 85 municipalities in 2022/23;
- The number of municipalities that received an adverse audit opinion remained constant at six municipalities in both 2021/22 and 2022/23; and
- The number of municipalities that received a disclaimer of audit opinion declined by ten from 22 municipalities in 2021/22 to 12 municipalities in 2022/23.

Table 1: Local Government Audit Outcomes for 2022/23

Audit Opinion	Number of Municipalities		Improved	Regressed
	2021/22	2022/23		
Unqualified with no findings	38	34		
Unqualified with findings	105	110		
Qualified with findings	84	85		
Adverse	6	6		
Disclaimer	22	12		
Audit not finalised at legislated date	2	10		
Total	257	257		

Source: Auditor-General of South Africa (2024b)

The number of audits not finalised by the legislated date increased by eight, from two municipalities in 2021/22, to ten municipalities in 2022/23.

Note: Legislated date for submission of financial statements

The Municipal Financial Management Act (MFMA), (No. 56 of 2003), Section 126 (1)(a) states that: “The accounting officer of a municipality must prepare the annual financial statements of the municipality and, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing”.

The municipal financial year-end falls on 30 June of each year and therefore the cut-off date for submission to the Auditor-General is the **31 August of each year**. A municipality that has an entity/ies are required to prepare consolidated financial statements, and the cut-off date for submission to the Auditor-General is **30 September of each year**.

The final cut-off date for inclusion of the audits in the 2022/23 Municipal Financial Management Act (MFMA) Consolidated General Report was 31 March 2024.¹ Of the ten outstanding audits:²

- Seven municipalities submitted their financial statements late.
- One municipality audit was delayed during the audit process due to protest actions.
- Two municipalities have not submitted 2022/23 financial statements as per the legislated date of 31 August 2023 and has outstanding financial statements. These are Ditsobotla Municipality in the North-West Province (that has financial statements which are outstanding for two years), and Maluti-a-Phofung Municipality in the Free State Province (that has financial statements which are outstanding for three years).

Table 2 below provides a provincial perspective of the 2022/23 outcomes of municipalities per Province.

Table 2: Provincial breakdown of Local Government Audit Outcomes for 2022/23

Audit Opinion	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North West	Western Cape
Unqualified with no findings	4	0	1	4	0	2	3	0	20
Unqualified with findings	19	6	6	39	18	7	6	3	6
Qualified with findings	13	10	3	10	8	10	17	12	2
Adverse	0	0	0	1	1	1	0	2	1
Disclaimer	3	3	1	0	0	0	2	3	0
Audit not finalised at legislated	0	4	0	0	0	0	3	2	1

Source: Auditor-General of South Africa (2024b)

The Western Cape Province leads with the number of municipalities that have received clean audit outcomes for 2022/23 with 20 municipalities, followed by the Eastern Cape Province and KwaZulu-Natal Province with four municipalities each, the Northern Cape Province with three municipalities, Mpumalanga Province with two municipalities and Gauteng Province with one municipality.

While none of the municipalities in the Free State Province, Limpopo Province and North-West Province received a clean audit opinion. These three Provinces, together with the Northern Cape

¹ Auditor-General of South Africa (2024c), p. 14.

² Auditor-General of South Africa (2024c), p. 17.

Province and Eastern Cape Province, also account for the largest number of municipalities that either received an adverse or disclaimer of audit opinion or failed to submit their annual financial statements for audit as per the legislated date.

2.1. Clean Audits

A clean audit opinion means that the municipality’s financial statements and performance report give a transparent and credible account of its finances and its performance against set targets. Stated differently, these accountability reports present a reliable picture of that municipality’s performance – whether good or bad.³

As mentioned, only 34 municipalities of a total of 257 municipalities received a clean audit. The 34 municipalities are comprised of one metropolitan municipalities (MET), four intermediate city municipalities (ICM), 11 district municipalities (DM), and 18 local municipalities (LM). Four of the 34 municipalities that received a clean audit opinion for 2022/23 **improved** from an unqualified audit opinion with findings in 2021/22, see Table 3 below.

Table 3: Clean Audit Outcomes for 2022/23

Number	Municipality	Province	Type	2021/22	2022/23	Change in audit opinion
1	City of Cape Town Metro	WC	MET	Unqualified with no findings	Unqualified with no findings	Unchanged
2	Cape Winelands District	WC	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
3	Ehlanzeni District	MP	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
4	Frances Baard District	NC	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
5	Garden Route District	WC	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
6	Joe Gqabi District	EC	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
7	King Cetshwayo District	KZN	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
8	Namakwa District	NC	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
9	Nkangala District	MP	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
10	Overberg District	WC	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
11	West Coast District	WC	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
12	ZF Mgcawu District	NC	DM	Unqualified with no findings	Unqualified with no findings	Unchanged
13	Bergriver	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
14	Bitou	WC	LM	Unqualified with findings	Unqualified with no findings	Improved
15	Breede Valley	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
16	Cape Agulhas	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
17	Drakenstein	WC	ICM	Unqualified with no findings	Unqualified with no findings	Unchanged
18	George	WC	ICM	Unqualified with no findings	Unqualified with no findings	Unchanged
19	Hessequa	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
20	Langeberg	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
21	Midvaal	GP	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
22	Mnquma	EC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
23	Mossel Bay	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
24	Okhahlamba	KZN	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
25	Oudtshoorn	WC	LM	Unqualified with findings	Unqualified with no findings	Improved
26	Overstrand	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
27	Saldanha Bay	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
28	Senqu	EC	LM	Unqualified with findings	Unqualified with no findings	Improved
29	Stellenbosch	WC	ICM	Unqualified with no findings	Unqualified with no findings	Unchanged
30	Swartland	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
31	uMhlathuze	KZN	ICM	Unqualified with no findings	Unqualified with no findings	Unchanged
32	Umlalazi	KZN	LM	Unqualified with findings	Unqualified with no findings	Improved
33	Winnie Madikizela-Mandela	EC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged
34	Witzenberg	WC	LM	Unqualified with no findings	Unqualified with no findings	Unchanged

Source: Auditor-General of South Africa (2024b)

³ Auditor-General of South Africa (2024c), p. 19.

The Auditor-General (AG) reported on the reasons for municipalities that lost their clean audit status, which was attributed largely due to vacancies in key positions, a slow response to implementing recommendations to sustain the outcomes, and inadequate monitoring and review of controls relating to compliance.⁴

2.2. Disclaimers

A disclaimed audit opinion means that a municipality could not provide the AG with evidence for most of the information in its financial statements and therefore the AG could not express an opinion on whether the financial statements were credible or determine what the municipality had done with the funds that it received for the year.

Municipalities that receive a disclaimer of audit opinion are also typically unable to provide supporting documentation for the achievements that they report in their performance reports and do not comply with key legislation.⁵

Twelve of the 257 municipalities received a disclaimer of audit opinion for 2022/23, of which eight municipalities have consistently received a disclaimer of audit opinion in the last five financial years as shown in Table 4 below.

Table 4: Disclaimer Audit Outcomes for 2022/23

Number	Municipality	Province	Type	2018/19	2019/20	2020/21	2021/22	2022/23
1	Amathole District	EC	DM	Disclaimer	Adverse	Adverse	Disclaimer	Disclaimer
2	!Kheis	NC	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
3	Joe Morolong	NC	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
4	Lekwa Teemane	NW	LM	Disclaimer	Disclaimer	Qualified with findings	Disclaimer	Disclaimer
5	Makana	EC	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
6	Maquassi Hills	NW	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
7	Masilonyana	FS	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
8	Merafong City	GP	ICM	Unqualified with findings	Unqualified with findings	Adverse	Disclaimer	Disclaimer
9	Mohokare	FS	LM	Qualified with findings	Qualified with findings	Qualified with findings	Qualified with findings	Disclaimer
10	Nketoana	FS	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
11	Ratlou	NW	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer
12	Sundays River Valley	EC	LM	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer

Source: Auditor-General of South Africa (2024b)

The other four municipalities audit opinion regressed over time, as follows:

- Merafong Municipality in Gauteng Province regressed from an unqualified audit opinion with findings in both 2018/19 and 2019/20 to an adverse audit opinion in 2020/21, and to a disclaimer of audit opinion in 2021/22 and 2022/23.
- One new entrant in the form of Mohokare Municipality in the Free State Province, whereby the audit opinion regressed from a qualified audit opinion with findings in 2018/19 to 2021/22 to a disclaimer of audit opinion in 2022/23.

⁴ Auditor-General of South Africa (2024c), p. 19.

⁵ Auditor-General of South Africa (2024c), p. 19.

- Lekwa Teemane Municipality in the North-West Province's audit opinion improved from a disclaimer in 2018/19 and 2019/20 to a qualified audit opinion with findings in 2020/21 but could not sustain the progress. In 2021/22, the audit opinion regressed to a disclaimer and have remained unchanged in 2022/23.
- Amathole District Municipality in the Eastern Cape Province failed to make any tangible progress in its audit opinion over the last five years, fluctuating between disclaimer and adverse audit opinions.

Nonetheless, there are some positive movements as shown by the following municipalities that have improved from a disclaimer of audit opinion in 2021/22 to a qualified audit opinion with findings in 2022/23 and these are:

- Kgetlengriver Municipality in the North-West Province;
- Lekwa Municipality in Mpumalanga Province; and
- Renosterberg Municipality in the Northern Cape Province.

The AG noted that the improvement in the 2022/23 audit opinion of Kgetlengriver Municipality was due to the support provided by the Provincial Treasury, which seconded an official to assist the municipality with record and document management and to strengthen the Municipal Finance Unit. The Municipality also improved its internal controls, including those relating to proper record keeping and effective audit action plans.⁶

The improvement in the 2022/23 audit opinion of Lekwa Municipality was due to the filling of vacancies in key senior management positions, implementation of Audit Action Plans and improved record keeping. The Municipality approved and implemented a Record-Management Policy that covers financial and performance information. Senior officials attended Audit Steering Committee Meetings to provide progress on requested information and Audit Action Plan commitments. The Municipality also received support from the Provincial Treasury and Cooperative Governance Department to address past qualification areas to improve financial reporting.⁷

Note: National and Provincial Government Support Required

The AG has previously focused on the urgent intervention and support needed from National and Provincial Government to municipalities with a history of disclaimed audit opinions. As the success stories have shown, support from National and Provincial Government can greatly assist municipalities in not only improving their audit outcomes, but it also sets these municipalities on more stable and sustainable path in terms of its finances and governance and ultimately being able to fulfill their service delivery mandate.

The AG highlighted the serious financial management failures at these municipalities and the impact of poor administration on the community. The AG has also used their enforcement mandate to accelerate change at these municipalities by issuing notifications of material irregularities.

⁶ Auditor-General of South Africa (2024c), p. 21.

⁷ Auditor-General of South Africa (2024c), p. 21.

3. MISMANAGEMENT OF PUBLIC FUNDS

This section reports on the mismanagement of public funds, specifically:

- *Unauthorised Expenditure* refers to spending that is over budget or not used for the intended purpose.
- *Irregular Expenditure* refers to spending that is not compliant with applicable legislation and procedures.
- *Fruitless and Wasteful Expenditure* refers to pointless spending that could have been avoided such as incurring penalty payments.

Note:

The figures quoted in this section refer to amounts that were disclosed in the 2022/23 audit process, and therefore excludes outstanding audits and amounts yet to be uncovered.

3.1. Unauthorised Expenditure

In 2022/23, municipalities incurred a total of R22.5 billion in unauthorised expenditure compared to the R23.4 billion incurred in 2021/22. This constitutes a decrease of R884.6 million or 3.8 per cent in unauthorised expenditure from the R23.4 billion reported in 2021/22.

Table 5 below shows the ten municipalities that incurred the largest Rand value in unauthorised expenditure.

Table 5: Unauthorised Expenditure for 2022/23

Number	Municipality	Province	Type	2021/22	2022/23	
				Unauthorised Exp (R'm)	Unauthorised Exp (R'm)	Percentage share of Total for all municipalities
1	Emfuleni	GP	ICM	2 708,9	2 214,1	9,8%
2	City of Johannesburg Metro	GP	MET	391,2	1 290,0	5,7%
3	Mangaung Metro	FS	MET	1 254,0	1 195,2	5,3%
4	Matjhabeng	FS	ICM	1 474,9	1 067,6	4,7%
5	Polokwane	LP	ICM	540,5	1 040,6	4,6%
6	Emalahleni	MP	ICM	909,9	921,2	4,1%
7	City of Mbombela	MP	ICM	539,8	780,3	3,5%
8	Mopani District	LP	DM	509,8	588,7	2,6%
9	Enoch Mgijima	EC	ICM	406,6	487,9	2,2%
10	Govan Mbeki	MP	ICM	786,3	458,7	2,0%
Total for top ten municipalities				9 521,9	10 044,3	44,6%
Total for all municipalities				23 429,2	22 544,6	100,0%

Source: Auditor-General of South Africa (2023a and 2024a)

The ten municipalities collectively incurred R10.0 billion in unauthorised expenditure, which accounts for 44.6 per cent of the total R22.5 billion uncovered and disclosed thus far in 2022/23. The largest Rand value amount was incurred by the Emfuleni Municipality at R2.2 billion, accounting for 9.8 per cent of the total R22.5 billion in unauthorised expenditure incurred in 2022/23. This is an

improvement for Emfuleni Municipality from the R2.7 billion unauthorised expenditure incurred in 2021/22. The City of Johannesburg at R1.3 billion or 5.7 per cent incurred the second-largest Rand value amount in unauthorised expenditure.

The green-shaded blocks in the sixth column indicate an improvement, that is, the Rand value of unauthorised expenditure incurred by the municipality declined in 2022/23 when compared to the previous financial year. For example, Govan Mbeki Municipality incurred unauthorised expenditure of R458.7 million in 2022/23, which is R327.6 million less than the R786.3 million incurred in 2021/22.

3.2. Irregular Expenditure

Municipalities incurred a total of R27.0 billion in irregular expenditure in 2022/23 when compared to the R28.3 billion incurred in 2021/22. This constitutes a decrease of R1.3 billion or 4.5 per cent in irregular expenditure from the R28.3 billion reported in the previous financial year.

Table 6 below shows the ten municipalities that incurred the largest Rand value in irregular expenditure.

Table 6: Irregular Expenditure for 2022/23

Number	Municipality	Province	Type	2021/22	2022/23	
				Irregular Exp (R'm)	Irregular Exp (R'm)	Percentage share of Total for all municipalities
1	City of Tshwane Metro	GP	MET	1 253,0	3 816,9	14,1%
2	eThekweni Metro	KZN	MET	1 497,7	2 408,9	8,9%
3	Buffalo City Metro	EC	MET	6 523,5	1 713,3	6,3%
4	Nelson Mandela Bay Metro	EC	MET	1 380,7	1 401,4	5,2%
5	Masilonyana	FS	LM	-	867,9	3,2%
6	City of Johannesburg Metro	GP	MET	1 385,0	811,4	3,0%
7	Mogalakwena	LP	ICM	295,7	544,3	2,0%
8	Ngaka Modiri Molema District	NW	DM	411,9	485,9	1,8%
9	Mogale City	GP	ICM	181,1	467,8	1,7%
10	Enoch Mgijima	EC	ICM	117,6	416,2	1,5%
Total for top ten municipalities				13 046,2	12 934,0	47,9%
Total for all municipalities				28 268,9	27 001,4	100,0%

Source: Auditor-General of South Africa (2023a and 2024a)

The ten municipalities collectively incurred R12.9 billion in irregular expenditure, which accounts for 47.9 per cent of the total R27.0 billion uncovered and disclosed thus far in 2022/23. The largest Rand value amount was incurred by the City of Tshwane Metro at R3.8 billion, accounting for 14.1 per cent of the total R27.0 billion in irregular expenditure incurred by all the municipalities that have been audited to date in 2022/23. The eThekweni Metro at R2.4 billion or 8.9 per cent, incurred the second-largest Rand value in irregular expenditure.

The green-shaded blocks in the sixth column indicate an improvement, that is, the Rand value of irregular expenditure incurred by the municipality declined in 2022/23 when compared to the previous financial year. For example, the Buffalo City Metro incurred irregular expenditure of R1.7 billion in 2022/23, which is R4.8 billion less than the R6.5 billion incurred in the previous financial year.

3.3. Fruitless and Wasteful Expenditure

Municipalities incurred a total of R6.7 billion in fruitless and wasteful expenditure in 2022/23 when compared to the R4.5 billion incurred in the previous financial year. This constitutes an increase of R2.2 billion or 48.7 per cent in fruitless and wasteful expenditure from the R4.5 billion reported in 2020/21.

Table 7 below shows the ten municipalities that incurred the largest Rand value in fruitless and wasteful irregular expenditure.

Table 7: Fruitless and Wasteful Expenditure for 2022/23

Number	Municipality	Province	Type	2021/22	2022/23	
				Fruitless and Wasteful Exp (R'm)	Fruitless and Wasteful Exp (R'm)	Percentage share of Total for all municipalities
1	City of Tshwane Metro	GP	MET	845,4	1 345,3	20,0%
2	Emfuleni	GP	ICM	827,9	598,1	8,9%
3	Emalahleni	MP	ICM	273,8	534,1	8,0%
4	Matjhabeng	FS	ICM	180,7	341,6	5,1%
5	Govan Mbeki	MP	ICM	157,0	327,8	4,9%
6	Lekwa	MP	LM	104,4	309,8	4,6%
7	Matlosana	NW	ICM	113,2	233,4	3,5%
8	Msunduzi	KZN	ICM	0,7	153,2	2,3%
9	Mangaung Metro	FS	MET	83,9	140,7	2,1%
10	Merafong City	GP	ICM	74,2	138,4	2,1%
Total for top ten municipalities				2 661,2	4 122,4	61,4%
Total for all municipalities				4 515,4	6 714,5	100,0%

Source: Auditor-General of South Africa (2023a and 2024a)

The ten municipalities collectively incurred R4.1 billion in fruitless and wasteful expenditure, which account for 61.4 per cent of the total R6.7 billion uncovered and disclosed thus far in 2022/23. The largest Rand value amount was incurred by the City of Tshwane Metro at R1.3 billion, accounting for 20.0 per cent of the total R6.7 billion in fruitless and wasteful expenditure incurred by all the municipalities that have been audited to date in 2022/23. The Emfuleni Municipality at R598.1 million or 8.9 per cent, incurred the second-largest Rand value in fruitless and wasteful expenditure. This is an improvement of R229.8 million for the Emfuleni Municipality, from the R827.9 million incurred in the previous financial year.

4. KEY MATERIAL FINDINGS

This section highlights the 2022/23 findings in key audit areas for the 247 municipalities' audits that were finalised by the cut-off date of 31 March 2024,⁸ for inclusion in the consolidated audit report, as follows:

⁸ Auditor-General of South Africa (2024c), p. 14.

4.1. Financial Management and Non-compliance with Procurement Legislation

The AG reported that there was little change in municipalities' financial health and financial management in 2022-23, when compared to 2021/22, and observed the same recurring issues, as follows:

- **Unfunded budgets** – 108 municipalities or 42 per cent adopted unfunded budgets in 2022/23 compared to the 111 municipalities or 45 per cent in 2021/22.⁹
- **Weaknesses in Revenue Management** – the issues are threefold, namely, revenue losses, consumers not billed correctly or receiving free services that they are not entitled to, and debt owed is not collected, as follows:¹⁰
 - 128 (or 90 per cent) of the 143 municipalities that are water services providers incurred water distribution losses estimated at R13.89 billion, with 46 per cent recording an average water loss above the 30 per cent norm.
 - 148 (or 91 per cent) of the 163 municipalities that provide electricity lost a combined R19.12 billion, and 66 per cent had an average electricity loss above the 10 per cent norm.
 - revenue disclosed in the financial statements of 28 per cent of municipalities was materially misstated because not all revenue was billed, there was inadequate audit evidence for the amounts shown as billed, or the amounts were recorded incorrectly.
 - In 2022/23, municipalities took an average of 152 days to collect the amounts they were owed and wrote off or impaired (wrote down) R52.32 billion in debt that was not paid to them.
- **Inadequate financial management controls** – the AG noted that there has not been much improvement in the status of these controls, despite the shortcomings being reported and the recommendations provided in the audit reports. The findings are as follows:¹¹
 - 71 of the 247 audited municipalities require intervention in proper record keeping compared to 84 municipalities in 2021/22;
 - 87 of the 247 audited municipalities require intervention in daily and monthly controls compared to 98 municipalities in 2021/22;
 - 113 of the 247 audited municipalities require intervention in in-year and year-end reporting compared to 110 municipalities in 2021/22; and
 - 125 of the 247 audited municipalities require intervention in reviewing and monitoring compliance compared to 98 municipalities in 2021/22.
- **Non-compliance with procurement legislation** – often result in irregular expenditure being incurred and hence a financial loss to the municipality. The AG's finding are as follows:¹²

⁹ Auditor-General of South Africa (2024c), p. 62.

¹⁰ Auditor-General of South Africa (2024c), p. 63.

¹¹ Auditor-General of South Africa (2024c), p. 76.

¹² Auditor-General of South Africa (2024c), p. 68.

- 207 municipalities (86 per cent) were non-compliant with the supply chain management legislation, of which 64 per cent had material findings.
- 190 municipalities (77 per cent) were found to have implemented uncompetitive and unfair procurement processes, of which 58 per cent had material findings.
- 117 municipalities (47 per cent) were non-compliant with contract management legislation, of which 35 per cent had material findings.

4.2. Quality of Performance Reports

The quality of performance reporting has not improved. The AG reported finding similar weaknesses in Municipal Performance Plans and Reports as reported in the previous financial year, which demonstrates that performance management is not receiving the required attention from municipal managers and councils.¹³ Five municipalities did not submit annual performance reports. This meant that there was no transparency on, or accountability by the administration to the council or communities for municipal performance.¹⁴

A total of 48 per cent (i.e. 117 of 242 municipalities), municipal performance reports had material findings and are therefore not credible. If the AG had not allowed municipalities to correct the flaws, a total of 73 per cent (i.e. 176 of 242 municipalities) would have had material findings.¹⁵

Material findings are as follows:¹⁶

- **Not reliable** (at 92 municipalities or 38 per cent) – reported achievements against planned targets that were not reliable due to a lack of evidence, or the AG had proof that the reported achievements were not correct.
- **Not measurable** (at 61 municipalities or 25 per cent) – performance indicators are not well defined, that is, no clear indication of what the indicator measures, performance targets did not meet SMART criteria (that is, it wasn't specific, measurable and/or time bound), as well as verifiable processes and methods were not in place to measure achievements.
- **Not relevant** (at 10 municipalities or 4 per cent) – reported on performance indicators that measure an achievement that is not related to the municipality's mandate or what the planned objective is intended to achieve, and performance targets that are unrelated to what the performance indicators are measuring.
- **Missing indicators** (at 45 municipalities or 19 per cent) – performance documents excluded key indicators that measure performance against mandatory functions relating to basic services. A failure to measure key service delivery achievements implies that this achievement was not planned or budgeted for and therefore most likely it was not delivered.
- **Not consistent** (at 31 municipalities or 13 per cent) – performance indicators or targets reported in the performance report differed from those committed to in the performance plan, changes to indicators and/or targets were made without obtaining approval and the reported achievement differed from the achievement defined by the performance indicator and target.
- **Not correctly presented** (at 27 municipalities or 11 per cent) – the presentation of the performance did not include a year-on-year comparison, did not report on measures taken or

¹³ Auditor-General of South Africa (2024c), p. 34.

¹⁴ Auditor-General of South Africa (2024c), p. 34

¹⁵ Auditor-General of South Africa (2024c), p. 36.

¹⁶ Auditor-General of South Africa (2024c), pp. 37-38.

planned to improve performance where a target was underachieved, and the manner in which performance was presented did not allow for ease of understanding or facilitate comparison to the performance plan.

The AG attributed the poor quality of performance reports to inadequate performance management systems and error-prone manual processes, a lack of skills and capacity at both the administrative level and at council level, unreliable or incomplete reporting and underachievement tolerated by council, audit committees and internal audit units not being sufficiently involved in the performance reporting process, and 'Off-the-books' planning and reporting.¹⁷

5. STATUS OF IDENTIFIED MATERIAL IRREGULARITIES

This section reports on how the AG has implemented their expanded mandate as per the Amendment to the Public Audit Act No.5 of 2018 (PAA) and the progress made to date. The amendment to the PAA introduced the concept of Material Irregularity (MI). The MI refers to any non-compliance with, or contravention of, legislation, fraud, theft or a breach of fiduciary duty identified during an audit performed that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.

A **total of 360 MIs** has been identified up to 31 January 2024, an increase of 92 MIs from the 268 MIs reported in last year. Accounting officers, through the MI process, have been able to take action to prevent or recover financial losses estimated at **R924.1 million** since 2019 (an increase of R444.5 million from the R479.6 million reported last year) of which:¹⁸

- R261.7 million in financial loss has been recovered;
- R444.3 million in financial loss is in the process of being recovered; and
- R218.1 million in financial loss has been prevented.

Actions taken to prevent and recover financial losses include:¹⁹

- 26 fraud/ criminal investigations were instituted.
- 6 supplier contract was terminated where money was being lost.
- 116 instances whereby internal controls have been improved to prevent recurrence.
- 80 officials who were identified as being responsible for the financial loss have been subjected to a disciplinary process.

¹⁷ Auditor-General of South Africa (2024c), p. 45.

¹⁸ Auditor-General of South Africa (2024c), p. 84.

¹⁹ Ibid., p. 84.

5.1. Nature of Material Irregularities

Table 8 below describes the nature of the MIs according to seven broad categories.

Table 8: Nature of identified Mis

Material Irregularities (MIs)		2021/22	2022/23	Increase
Type	Nature	Number	Number	/decreas
Procurement and payment	Non-compliance in procurement processes resulting in overpricing of goods and services procured or appointed supplier not delivering.	9	8	↓
	Uneconomic procurement resulting in overpricing of goods and services procured.	3	7	↑
	Payments for goods and services not received, or of poor quality, or not in line with contract , and provided to inelligible beneficiaries.	38	60	↑
Resource Management	Assets not safeguarded resulting in loss.	19	19	↔
	Loss of investments.	13	15	↑
	Inefficient use of resources resulting in no or limited benefit derived for money spent.	17	41	↑
Revenue Management	Revenue not billed.	22	32	↑
	Debt not recovered.	2	4	↑
Interets and penalties	Eskom, Water Boards, Lenders and Suppliers not paid on time resulting in ineterest.	49	51	↑
	Payroll and value-added tax returns not paid on time or incorrectly claculated resulting in South African Revenue Service (SARS) interest and penalties.	18	19	↑
Fraud and compliance	Suspected fraud resulting in loss.	3	3	↔
	Non-compliance resulting in penalties.	1	1	↔
Harm to general public	Non-compliance with environmental legislation resulting in pollution of water resources.	24	38	↑
	Landfill site mismanagement resulting in harm to the public.	5	10	↑
Harm to public sector institution	Full and proper records not kept as evidenced by repeat disclaimed opinions resulting in substantial harm to municipalities.	24	25	↑
	Non-submission of financial statements.	21	25	↑
	Lack of proper performance-related records	-	1	↑
	Non-submission of financial statements.	-	1	↑
Total MIs		268	360	↑

Source: Auditor-General of South Africa (2024c)

The **360 MIs** fall broadly under the following categories:

- 75 of the identified MIs are related to matters of the **procurement and payment**;
- 75 of the identified MIs are related to matters of **resource management**;
- 36 of the identified MIs are related to matters of **revenue management**;
- 70 of the identified MIs are related to **penalties and interests**;
- 4 of the identified MIs are related to matters of **fraud and compliance**;
- 48 of the identified MIs are related to matters that caused **harm to the public**; and
- 52 of the identified MIs are related to matters that caused **harm to the public sector institution**.

5.2. Status of Material Irregularities

The current status of the 360 MIs identified is as follows:²⁰

- **103 MIs in total have been resolved** of which 57 MIs were resolved in 2021/22 and 46 MIs were resolved in 2022/23.
 - An MI is resolved when all possible steps have been taken to recover financial losses or remove or address any harm caused as well as actions have been taken to implement consequences against those involved; and to prevent any further losses and harm.
- **117 MIs are in the process of being resolved**, that is, accounting officers have made some progress in implementing their proposed actions.
- **70 MIs require the invocation of the AG’s powers/expanded mandate** due to the failure of the accounting authority to take appropriate action to address and resolve the identified MIs.
 - The AG may use the expanded mandate to include recommendations in the audit reports or the AG may invoke additional powers of referral and remedial action, may refer a matter to a public body for further investigation and the last resort being the issuing a certificate of debt. Further action taken with regard to the 70 MIs include:²¹
 - 24 MIs – recommendations were included in the audit report.
 - 22 MIs – remedial actions are a binding instruction by the AG that outlines the action the auditee must take to address the MI.
 - 27 MIs - was referred to public bodies for further investigation.
 - 3 MIs - recommendations were included in the audit report and was referred to public bodies for further investigation.
 - 2 MIs – a notice of certificate of debt was issued to Ngaka Modiri Molema District Municipality in the North West Province.
- **28 MIs are awaiting a decision as to whether the AG will invoke powers** of referral and remedial action.
- **23 MIs responses are being assessed** – that is the subsequent actions taken by accounting officers were in the process of being evaluated.
- **11 MIs responses are not due yet.**

Table 9: Status of 360 MIs

Status of MIs	Number
Resolved*	103
Appropriate action being taken to resolve MI	117
No appropriate action taken - invoke AG powers	78
No appropriate action taken - decision on invoking AG powers in process	28
Notification response received - in process of assessing actions	23
Notified and awaiting response	11
Total MIs	360

²⁰ Auditor-General of South Africa (2024c), p. 88.

²¹ Auditor-General of South Africa (2024c), p. 90.

Source: Auditor-General of South Africa (2024c)

The AG reported that these MIs were mainly resolved through a combination of the following actions:²²

- 23 by preventing or recovering financial losses;
- 28 by preventing further harm to the general public and public sector institutions;
- 21 by implementing consequences for those responsible for the irregularities; and
- 77 by improving internal controls to prevent the irregularities from recurring.

6. CONCLUSION

The AG's Report of the 2022/23 Local Government Audit Outcomes show that overall, there has been a regression in the audit outcomes compared to 2021/22. There is correlation between good financial management and service delivery. Although the report focuses on financial management, due to the correlation between the two, it is possible that service delivery has also been compromised.

The audit qualification areas previously identified are recurring and will only be resolved if municipal management and councils address these in an appropriate manner, and that is, by placing greater emphasis on monitoring the implementation of Audit Action Plans, maintaining basic principles of proper financial record keeping and reporting, strengthening internal financial controls and cultivating a performance culture that underlies good governance, transparency and accountability to communities.

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²² Auditor-General of South Africa (2024c), p. 89.

Auditor-General of South Africa, (2024b). *MFMA 2022-23 Consolidated General Report on the Local Government Audit Outcomes, Annexure 3*. [Online] Available from: <https://www.agsa.co.za/Reporting/MFMAReports/MFMA2021-2022.aspx>. [Accessed on: 01 October 2024].

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