



**MEDIA ALERT
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TO ALL MEDIA HOUSES
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2022/23 FINANCIAL YEAR AUDIT OUTCOMES OF GAUTENG MUNICIPALITIES

The Gauteng Provincial Treasury welcomes the audit outcomes of the 2022/23 financial year recently tabled by the Auditor General of South Africa (AGSA), Tsakani Maluleke. The Gauteng Province, the nerve-centre of the South African economy, has 11 municipalities in total, of which 3 are category A or metropolitan municipalities, 2 district municipality and 6 local municipalities. The overall audit outcomes stabilised in 2022/23, with 7 out of the 11 municipalities receiving unqualified opinions. While most municipalities maintained the same outcomes as in the 2021/22 financial year, the City of Ekurhuleni saw a regression, while the City of Tshwane registered notable improvements.

Defining audit opinions/outcomes

The starting point must be to define audit opinions/outcomes. There are 4 categories of audit opinions/outcomes: adverse, disclaimer, qualified and unqualified (with and without findings). A disclaimer of audit opinion indicates that the municipality provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements. An adverse opinion indicates that the municipality's financial statements contain material misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements. A qualified audit opinion indicates that the municipality's financial statements contain material misstatements in specific amounts, or there is insufficient evidence for the AGSA to conclude that specific amounts included in the financial statements are not materially misstated. An unqualified audit with findings indicates that the municipality's financial statements contain no material misstatements. However, findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects. An unqualified audit without findings, also known as a clean audit, indicates that a municipality's financial statements are free from material misstatements and there are no material findings on reporting on performance objectives or non-compliance with legislation.

Five-year overview of audit outcomes of Gauteng municipalities

Over a five year period, from the 2018/19 to the 2022/23 financial years, Midvaal Local Municipality maintained clean audits. In the same period, the City of Johannesburg, West Rand District Municipality, Sedibeng District Municipality and Lesedi Local Municipality have

maintained unqualified audits with findings. The City of Tshwane, which maintained unqualified audits with findings for the first three years under review, received an adverse opinion in the 2021/22 financial year. The metro received a qualified opinion in the 2022/23 financial year, marking a significant improvement. Rand West City Local Municipality, which received qualified opinions in the 2019/20 and 2020/21 financial years, saw an improvement in 2021/22 with an unqualified audit outcome, which it has since maintained. In the period under review, Emfuleni Local Municipality obtained qualified outcomes in the first two years, an unqualified outcome with findings in the 2020/21 financial year, and two consecutive qualified outcomes in the succeeding financial years. Merafong over the last 5 years have received consistently a negative audit opinion, going from a very positive audit opinion namely a unqualified audit opinion to disclaimer opinion, mainly due to problems with its financial management systems, management of the audit process, availing audit information in time and management instability, which now seems addressed. Mogale City also went from a very positive audit opinion namely a unqualified opinion to that of a qualified audit opinion mainly due to challenges audit findings in property plant and equipment audit findings, this has also received major attention with the introduction of interim financial statements for the 2023/2024 audit to address these audit findings prior to the new audit of 2023/2024. The City of Ekurhuleni, which received an unqualified outcome with findings in the first year under review, and three consecutive clean audits subsequently, received an unqualified outcome with findings in the 2022/23 financial year. This marks a regression.

Credible financial statements

The number of Gauteng municipalities that submitted credible financial statements for auditing increased by 5% - from 33% to 38%. This improvement is attributed to intensified reviews by senior management, internal audit units, audit committees and the Gauteng Provincial Treasury (GPT), the Gauteng Department of Cooperative Governance and Traditional Affairs (COGTA) and the South African Local Government Association (SALGA). It should be noted that 2023 was the first time that sector departments combined efforts in strengthening the review process. This initiative, coupled with the production of interim financial statements, is aimed at improving the quality of reporting by municipalities, resulting in financial statements free from material misstatement and/or omissions.

Performance reports

The quality of submitted performance reports improved from 50% to 54%. Commendably, residents were engaged during public participation sessions in setting priorities. However, in some instances the related performance targets were then either revised or not prioritised, resulting in communities not receiving the desired services. Targets not being achieved further affected the adequacy of basic services delivered to communities. In response to our previous year's call to action, the metros included the National Treasury's common performance indicators in their performance reports. However, greater urgency is required from accounting officers, mayors and members of mayoral committees to address service delivery challenges. Internal audit units and audit committees should intensify their quarterly assessment of performance information. Council oversight committees should hold executive leadership accountable for the implementation of service delivery plans.

Compliance with legislation

Compliance with legislation is not improving and remains a stumbling block towards good governance, as most municipalities still did not comply with procurement legislation.

Most common findings identified by AG relates to:-

- Expenditure management
- Unauthorised, irregular and fruitless and wasteful expenditure
- Procurement and contract management
- Material misstatements or limitation in submission of annual financial statements
- Consequence management

Some progress was made where municipalities investigated unauthorised, irregular, and fruitless and wasteful expenditure. Additionally, disciplinary boards were established to deal with cases of financial misconduct. We call upon the speakers of councils, municipal public accounts committees and other council committees to instil a culture of good governance by promptly investigating instances of unauthorised, irregular, and fruitless and wasteful expenditure and by ensuring that disciplinary boards are functioning as intended.

Interventions by the Gauteng Provincial Treasury moving forward

In aid of credible annual financial statements, the Gauteng Provincial Treasury (GPT) has embarked on operational plan support and monitoring activities. These include activities to improve the financial reporting control environment. On a quarterly basis, the team responsible assesses whether municipalities comply with the Municipal Finance Management Act (MFMA). These assessment reports identify opportunities for improvement within the financial reporting control environment. The GPT assess if municipalities are performing their key controls testing, while also assessing whether municipalities are implementing action plans developed in response to the outcomes of the previous year's audit process. These plans are a requirement in terms of section 131 of the MFMA. On a quarterly basis, the team also assesses the functionality of governance structures, internal audit activities and audit committees. The functionality of governance structures supports municipalities in achieving their own targets through systematic processes that identify and manage risks associated with the municipality's objectives.

Beyond the standard support given to municipalities, the GPT has also introduced new initiatives to improve the credibility of the annual financial statements (AFS). We have introduced the AFS Accelerator Program which requires municipalities to produce interim financial statements. The initiative was well received, most of our municipalities took up the challenge to produce these interim financial statements. We are working on onboarding other municipalities to do the same. These interim financial statements were reviewed by the Gauteng Provincial Government AFS review team with the aim of identifying opportunities to improve municipalities' audit outcomes. Another initiative explored was the introduction of the audit preparation workshop where the roles of municipal managers, chief financial officers,

audit committee chairpersons and chief audit executives were highlighted for the current audit process. The workshop was organised in conjunction with the AGSA, provincial COGTA and SALGA. The idea is to create a culture shift where annual financial statement preparation is viewed as a year-long process informed by daily, weekly, and monthly disciplines.

As part of our efforts to assist local government in attaining preferred audit outcomes, GPG, led by GPT, embarks on a technical AFS reviews before submissions to the AGSA for audit process. These reviews have been intensified in the current year to include testing at a source document level for high-risk areas. All our concerns during the reviews have been rectified before submissions to AG. We are pleased that all our municipalities have all managed to submit their draft AFS by 31 August 2024 as legislated. During the audit, we will continue with our technical support to local government by providing technical astuteness during the audits. We will identify if there are any matters for consistency application. We will escalate any technical disagreements to the Accounting Standards Board and National Treasury, Office of the Accountant General. g

Conclusion

As the Gauteng Provincial Treasury, we believe that while some audit outcomes of municipalities in the province are not ideal, there is room for improvement. We intend to continue to work together with the Office of the Auditor General of South Africa, Gauteng COGTA and SALGA, as well as our municipalities, to foster a culture of an accountability ecosystem and proactively monitor performance. Ultimately, our objective is to provide support to improve our municipalities' audit opinions, which has a direct impact on service delivery. Stronger fiscal controls will not only improve governance, but they will also allow for more resources to be directed towards critical areas of service delivery, ensuring that we build better and more resilient communities.

Issued by the Gauteng Provincial Treasury. For more information, please contact Castro Ngobese, Spokesperson for the MEC of Finance and Economic Development on castro.ngobese@gauteng.gov.za or 060 997 7790