



# Municipal Audit Consistency Barometer

MAC-B3 (2015 update)

2009/10 to 2013/14

Audit consistency as a measure of resilience in local government

DM Powell and M O'Donovan

# **Municipal Audit Consistency Barometer**

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By DM Powell and M O'Donovan

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## Contents

Audit consistency as a measure of resilience in local government .....	4
What is covered in the update (MAC-B3) .....	4
The key findings of MAC-B3.....	5
Why audit consistency is a useful tool for analysis and policy-making.....	5
The purpose of the Municipal Audit Consistency Barometer (MAC-B).....	6
How the MAC-B consistency ratings are determined .....	7
Audit consistency ratings for municipalities (2007/08-2013/14).....	7
Overview .....	10
Comparing municipal audit ratings by province.....	10
Comparing audit ratings by municipal class.....	12
Future trends.....	16
Schedules .....	19
Municipalities: Class A (Metros).....	19
Municipalities: Class B1 .....	19
Municipalities: Class B2 .....	20
Municipalities: Class B3 .....	22
Municipalities: Class B4 .....	27
District Municipalities: Class C1 .....	30
District Municipalities: Class C2.....	32

## Audit consistency as a measure of resilience in local government

### What is covered in the update (MAC-B3)

This is the third edition of the MAC-B Audit Consistency Barometer to be published. The first MAC-B was published before the national and provincial elections of May 2014. This iteration (referred to as MAC-B3) is an update to both that version and the update (MAC-B2) published last year. MAC-B2 represented a key milestone in local government development in that the period then reviewed coincided with the term of the national administration appointed after the 2009 national election. Until then the instrumental Department of Cooperative Governance and Traditional Affairs was under the stewardship of Sicelo Shiceka. After the 2014 election a new administrative cycle under the stewardship of Pravin Gordhan as minister of Cooperative Governance and Traditional Affairs (COGTA) began. Gordhan has adopted a pragmatic “back to basics approach” to local government. This approach swept aside the sweeping gestures of the Shiceka era, such as Operation Clean Audit. The focus is increasingly on compliance with the law, accountability, stepping-up performance, visible leadership and improving the management and administration of municipalities. The new approach has involved both support (particularly for municipalities short on skills) and the threat of sanctions. For example Gordhan has repeatedly called for under-qualified senior municipal managers to be removed and has also promised consequences for under-performance.

Referring to unqualified municipal managers Gordhan stated, *“We are asking provinces, make sure that people who occupy these positions are dismissed, and that the right kinds of people are appointed”*<sup>1</sup>. Referring to nonperforming and corrupt municipal officials Gordhan was quoted as saying *“At the moment, those consequences are not there. When consequences are not there continuously then a level of impunity develops.”*<sup>2</sup>

The Government’s priorities for local government are now contained in the Medium Term Strategic Framework (MTSF), the principal instrument through which the implementation of the National Development Plan is managed. The MTSF adopts a more realistic approach to improving audit outcomes, which is now seen as a key impact measure in the MTSF and is no longer a separate programme.

MAC-B3 provides a measure of the performance of the post 2009 administration and a benchmark against which the impact of Gordhan’s tenure can be assessed. In this document the new audit consistency ratings for municipalities are compared to those under the initial MAC-Bs. This results in systemic measures of municipal financial resilience while allowin for future comparisons between administrations.

The consistency ratings for municipalities are aggregated by province, municipality type and a more finely grained system of classifying municipalities. According to the finer classification municipalities are placed into one of seven categories (A, B1, B2, B3, B4, C1, C2) based on differences in their population size, settlement type and administrative functions. The system has been used by COGTA and National Treasury for

comparative analysis and is a useful tool for understanding the differences between municipalities.

The MTSF sees improving municipal audit outcomes as a key indicator of impact and sets the target of at least 75 percent of municipalities achieving an unqualified audit by 2019. Past ratings of municipalities are projected forward to see if that objective is to be met.

### The key findings of MAC-B3.

- In 2009, government introduced Operation Clean Audit (OCA) which required all municipalities to achieve clean audits by 2014 (i.e. audits that are unqualified and without findings). The reports of the Auditor-General show that the number of municipalities receiving clean audits has increased steadily since 2011/12 when 13 municipalities received clean audits. In the 2012/13 financial year the number rose to 22. By 2013/14 this number reached 40. Progress to the OCA objectives was thus most rapid immediately prior to the expiry of the Operation Clean Audit targets. However, only one-in-seven municipalities currently get clean audits.
- MACB-3 shows that only eight municipalities **consistently** received clean audits in the five years under review (2009/10 to 2013/14). This was a slight improvement on the previous five year period (2008/9 to 2012/13) where six municipalities consistently got clean audits. The new additions to the list are the Western Cape municipalities of Langeberg and Mossel Bay.
- Almost half (47 percent) of all municipalities **consistently** received an unqualified audit (with or without findings) during this period.
- Metropolitan municipalities fared slightly better than average and half of them consistently received unqualified audits during the period. Metropolitan municipalities were less likely than other types of municipalities to receive an ADF and, of the eight metros, only Mangaung consistently received an ADF.
- MACB-3 shows that the bulk of poor audits are from smaller municipalities with urban populations dispersed across small towns (called B3 locals). This concentration is largely because of the prevalence of this type of municipality.
- After the 2014 national and provincial elections, the new Minister for Cooperative Government, Pravin Gordhan replaced OCA 2014 with a much more pragmatic “back to basics” policy. Although the new targets are far more modest than the ones set by Operation Clean Audit (75 percent clean audits by 2019) MAC-B3 shows that on-going interventions will nevertheless be required if the new targets are to be met. However even if the targets are met they do not necessarily herald a period of consistent unqualified audits by municipalities.

### Why audit consistency is a useful tool for analysis and policy-making

The rules governing how a municipal council manages its financial resources are set by legislation (and the associated regulations) and are further guided by norms and standards set by the Treasury. To the extent that these rules are designed to ensure the efficient and equitable use of resources local government compliance reflects how resilient a local municipality is.

If the three spheres of government meet their constitutional obligations via the efficient and equitable use of resources then the state will be better able to endure the shocks brought about by economic, social and political change. The more misappropriation, waste and the misallocation of resources can be resisted the more resilient each government tier and the governance system as a whole will be. Each year the Auditor General (AG) assesses the extent to which municipalities adhere to the prescribed regulations and, in doing so, provides a measure of an important aspect of municipal resilience.

### **The purpose of the Municipal Audit Consistency Barometer (MAC-B)**

Each year the public debate on the AG's report on municipal audit outcomes tends to focus on the aggregate annual results and trends in relation to the report for the previous year. MAC-B, however, shifts the focus to consistency in audit outcome over a five year term and using the patterns that emerge as the basis for further analysis and decision-making. While the annual reports issued by the AG provide insight into the state of local government if we want to assess the extent to which the institution of local government is gaining resilience or showing fragility it is necessary to see beyond the fluctuations that typify audit opinions. Building resilient institutions is a long term and on-going project. The salient trends are thus long term trends, not annual fluctuations.

The MAC-B uses audit outcomes over many years as a large dataset covering most dimensions of local government, a statistical record of governance and performance that can be used as proxy for analyzing long-term systemic resilience in local government. The assumption at the heart of MAC-B is that the best indicator of current financial resilience of a local government is its performance in past audits. It is the pattern of past results, rather than intentions framed in policy, that are the most reasonable indicator of what can be expected in the municipality in future. For example, a municipality that has in recent years consistently received an adverse audit opinion, disclaimer or failed to submit their documentation (ADF) is more likely to continue receiving an ADF rating than it is to receive an unqualified audit. While there is some chance of it achieving the targeted clean audit there is a far higher probability that it won't. Given that audit outcomes fluctuate between years predicting audit outcomes cannot be done with absolute certainty. For instance, none of the municipalities that received a MAC-B rating of "unqualified audit without findings" obtained that outcome every year in the period under review.

The assumption that (all things being equal) past patterns will probably recur in future provides a useful basis for policy formulation, as well as further research. However to choose pathways for reform that contribute to municipal resilience a measure that incorporates audit consistency is required.

But the resilience of local government cannot be determined only by looking at the capability and performance of the local sphere of government alone. Under our Constitution local government is one of three spheres of government that are bound together in a system of cooperative government. National and provincial governments have their own constitutional responsibilities to ensure resilient local government.

Consistency in municipal audit data can also be used to measure how national government and provinces are contributing to building resilient local government through the discharge of their regulatory, oversight and intervention powers. By not using municipal audit data properly in policy-making national government has undermined its own interventions to improve municipal audit outcomes. Policy failure cannot count as contribution to building resilient local government because the failure to achieve national objectives is a signal of system-wide failure affecting local government as a whole. In MAC-B we also showed how consistency in audit data could also be used as an early warning system to flag serious and persistent financial problems. Poor audit outcomes is an indicator of distress in terms of legislation. And as provincial and national governments have a constitutional obligation to intervene under s139 of the Constitution by taking steps to address the financial problems, audit data can thus be used to measure the effectiveness of national and provincial interventions under s139 of the Constitution. Timely and effective corrective intervention by provinces (and national government in some circumstances) is an important institution for achieving resilient local government.

The Municipal Audit Consistency Barometer (MAC-B) therefore suggests a very different way of thinking about audit outcomes at two levels: First as a measure of systemic resilience in local government, and secondly as an indicator of the extent to which national/provincial government are fulfilling their obligations towards local government. In other words, MAC-B is a tool for assessing the capability of local government as a function of the system of cooperative governance as a whole.

#### **How the MAC-B consistency ratings are determined**

MAC-B categorizes each municipality according to the audit outcome it most consistently achieved in the previous five years. Each municipality is placed under one of the five opinions corresponding to the rating system used by the Auditor-General: Unqualified (with and without findings), Qualified, Adverse, Disclaimer, and Failed to submit. The rating system is designed to show sufficient variation between the categories while minimizing the prevalence of ties in audit ratings.

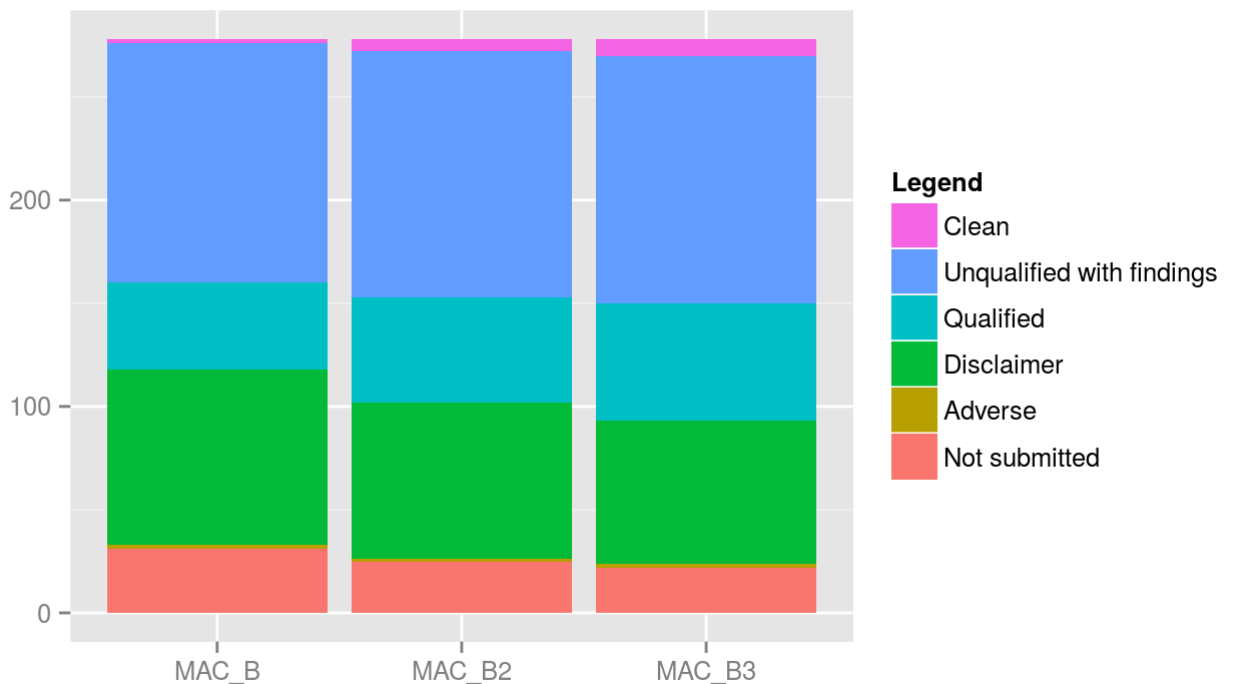
For example, if in the last five years a municipality received two “unqualified audit without findings” and three “unqualified audit with findings” then MAC-B will place that municipality under the “unqualified with findings” mode. MAC-B measures patterns of consistent compliance in a municipality over the last five years and that pattern is here deployed as a proxy of municipal resilience.

#### **Audit consistency ratings for municipalities (2007/08-2013/14)**

In June 2015 the Auditor General published his assessment of each municipality's financial statements for the 2013/14 financial year. That report indicates that the audit outcomes of many municipalities changed. However, the MAC-B series is intended to show consistency in audit outcomes over a prolonged period and unsustained fluctuations tend not to affect the ratings. MAC-B thus reflects the most consistent audit outcome that a municipality obtained in the most recent five-year term. Notwithstanding

the emphasis on consistency over the period there was a noticeable improvement between the initial MAC-B1 (which covered the period 2007/8 to 2011/12) and the subsequent updates, MAC-B2 (covering the period 2008/9 to 2012/13) and this version, MAC-B3. The improvement is attributable to (a) the continued inclusion of the relatively good audit outcomes of 2013/14 and (b) and the progressive discounting of the initial periods (2007/08 and 2008/9) where performance levels were particularly poor. The illustration below compares the original MAC-B rating with the subsequent updates.

*Progress in MAC-B ratings.*



The comparison shows that the number of municipalities (local, district and metropolitan) who fail to submit reports, receive adverse audits or disclaimers continued to decrease just as the proportion receiving qualified and unqualified audits increased (slightly).

With the improvements 128 municipalities now consistently receive unqualified audit reports (with or without findings). This amounts to 46 percent of all municipalities. This group of 128 municipalities display consistent compliance with financial norms and standards and can be considered somewhat resilient in this regard. In the original MAC-B only 118 municipalities fell into this category.

In the other municipalities the AG has seen the need to, at the very least, qualify his findings with statements reflecting reservations about their financial conduct. Fifty seven municipalities, or 21 percent of the total, now consistently receive qualified reports. To



the extent that these factors render their' finances vulnerable to abuse these municipalities can be considered fragile.

Even more fragile are the 91 municipalities (33 percent of the total), that consistently receive an adverse opinion, a disclaimer or fail to submit the required information. These are collectively referred to as 'ADF'. In the first MAC-B 43 percent of municipalities received an ADF. In the latest MAC-B two municipalities consistently received an adverse audit. "Adverse audits" arise from financial statements that "contain misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements"<sup>3</sup>. Adverse audits thus, with the exception of failing to submit the statements, reflect the greatest breach of financial norms and standards.

The municipalities which consistently get adverse audits are Mhlontlo and Modimolle. Several others municipalities remain vulnerable to falling into this category. For example, in 2012/13 eight municipalities received adverse audits and without consistent improvements the number of adverse MAC-B ratings may well increase. Table 1 below shows the consistency ratings (by municipality type) for the period 2009/10 to 2013/14. The percentage of municipalities appearing in each row is also shown.

**Table 1: Most consistent audit outcome by municipality type: 2009/10 to 2013/14.**

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	<b>Total No. 276</b>	<b>District No. 44</b>	<b>Local No. 224</b>	<b>Metro No. 8</b>
Not submitted	22 (8.0%)	3 (6.8%)	19 (8.5%)	0 (0.0%)
Adverse	2 (0.7%)	0 (0.0%)	2 (0.9%)	0 (0.0%)
Disclaimer	67 (24.3%)	6 (13.6%)	60 (26.8%)	1 (12.5%)
Qualified	57 (20.7%)	6 (13.6%)	48 (21.4%)	3 (37.5%)
Unqualified with findings	120 (43.5%)	27 (61.4%)	90 (40.2%)	3 (37.5%)
Clean	8 (2.9%)	2 (4.5%)	5 (2.2%)	1 (12.5%)

Source: MLGI MAC-B3 (2015)

In the table above the MAC-B3 consistency ratings are shown for metropolitan, district and local governments. In the period under review (financial year 2009/10 to 2013/14) metropolitan and district municipalities tended to receive better audit results than local municipalities. Sixty three percent of metropolitan and district municipalities consistently received unqualified audits. Only 42.4 percent of local municipalities consistently

received unqualified audits. About a third (36.2 percent) of local municipalities received a MAC-B3 rating of ADF. Almost a quarter of all district municipalities (22.7 percent), fall into this category.

Of the three municipal types metropolitan municipalities tend to be the most resilient (more subtle distinctions between municipal types are made later). While half of the metropolitan municipalities consistently received unqualified audits compared to two-thirds of district municipalities the latter were far more likely to have received an ADF. Only one metropolitan municipality (Mangaung) consistently received an ADF audit. Thus one-in-eight metros consistently received an ADF compared to one-in-five district municipalities.

### Overview

MAC-B3 reflects an improvement of the initial MAC-B rating where 19 of the 48 municipalities who now receive qualified audits received worse ratings under the initial MAC-B.

Nevertheless most municipalities (54%) still fail to exhibit financial resilience and do not submit the required information on time, receive a qualified audit, an adverse opinion or a disclaimer. In the most vulnerable group (local municipalities) 58 percent of the total received a qualified or ADF MAC-B3 rating.

### Comparing municipal audit ratings by province

Nationally an average of 46.4 percent of municipalities receive unqualified audits. However there is massive variation in audit performance between provinces. The extent of provincial variation can be seen by contrasting the North West province and Kwazulu-Natal province. In North West province 18 municipalities (82 percent) consistently receive disclaimers, fail to submit their information to the AG or get adverse ratings. By contrast in Kwazulu-Natal province only 11 percent of municipalities fall into those categories. Of the nine provinces the Western Cape has the highest proportion of municipalities that consistently receive unqualified audit reports (with or without findings). In that province ninety percent of municipalities get unqualified audits. By contrast, in Limpopo province fewer than 15 percent of municipalities consistently receive unqualified audits.

**Table 2: Audit outcomes of municipalities by province 2008/09 to 2013/14.**

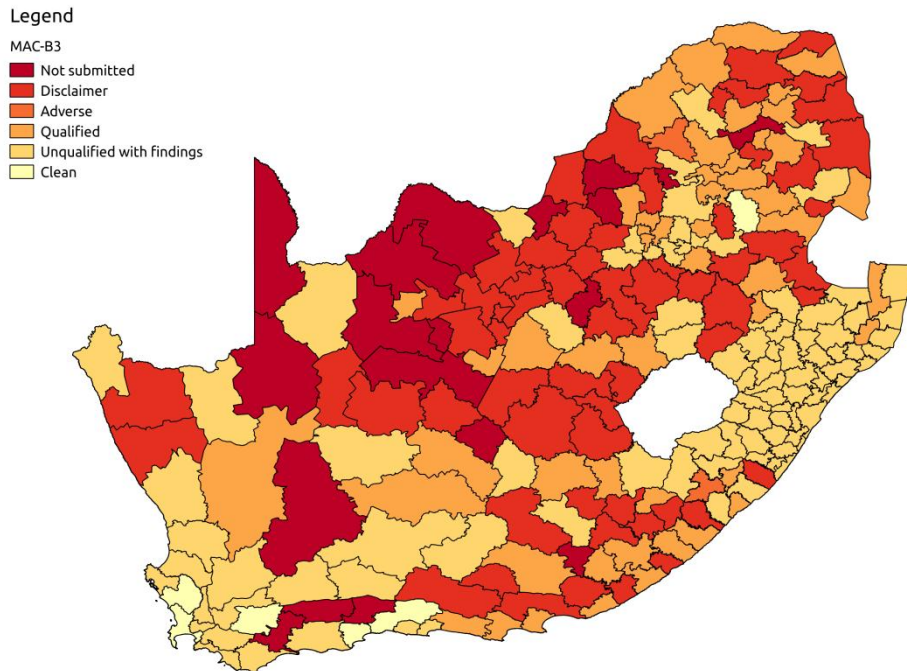
	<b>Total No. 276</b>	<b>Not submitted No. 22</b>	<b>Adverse No. 2</b>	<b>Disclaimer No. 67</b>	<b>Qualified No. 57</b>	<b>Unqualified with findings No. 120</b>	<b>with Clean No. 8</b>
Eastern Cape	44 (15.9%)	1 (4.5%)	1 (50.0%)	16 (23.9%)	15 (26.3%)	11 (9.2%)	0 (0.0%)

	<b>Total No. 276</b>	<b>Not submitted No. 22</b>	<b>Adverse No. 2</b>	<b>Disclaimer No. 67</b>	<b>Qualified No. 57</b>	<b>Unqualified with findings No. 120</b>	<b>Clean No. 8</b>
Free State	24 (8.7%)	1 (4.5%)	0 (0.0%)	13 (19.4%)	4 (7.0%)	6 (5.0%)	0 (0.0%)
Gauteng	12 (4.3%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	4 (7.0%)	8 (6.7%)	0 (0.0%)
Kwazulu- Natal	61 (22.1%)	0 (0.0%)	0 (0.0%)	2 (3.0%)	5 (8.8%)	54 (45.0%)	0 (0.0%)
Limpopo	30 (10.9%)	2 (9.1%)	1 (50.0%)	10 (14.9%)	13 (22.8%)	4 (3.3%)	0 (0.0%)
Mpumalanga	21 (7.6%)	0 (0.0%)	0 (0.0%)	7 (10.4%)	8 (14.0%)	4 (3.3%)	2 (25.0%)
North West	22 (8.0%)	7 (31.8%)	0 (0.0%)	10 (14.9%)	1 (1.8%)	4 (3.3%)	0 (0.0%)
Northern Cape	32 (11.6%)	8 (36.4%)	0 (0.0%)	9 (13.4%)	7 (12.3%)	8 (6.7%)	0 (0.0%)
Western Cape	30 (10.9%)	3 (13.6%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	21 (17.5%)	6 (75.0%)

Source: MLGI MAC-B3 (2015)

Map 1 below shows the geographic distribution of the MAC-B3 ratings in local and metropolitan municipalities. District municipalities are excluded from the map. A concentration of local municipalities with poor consistency ratings in the hinterland and, to a lesser extent, the Eastern Cape is evident. By contrast local municipalities in coastline provinces of kwaZulu-Natal and the Western Cape have noticeably higher ratings. Similarly, metropolitan municipalities also obtain higher ratings than local municipalities. Although the Western Cape arguably has the best audit outcomes the province has a relatively poor record of failing submitting the required information to the AG. In the Western Cape ten percent of municipalities consistently failed to submit their documentation timeously. This is slightly above the national average of nine percent.

**Map 1: MAC-B3 rating of local and metropolitan municipalities**



## Comparing audit ratings by municipal class

The Constitution distinguishes between three types of municipalities: metropolitan, district and local. These are the basic building blocks of local government. The Department of Co-operative Governance and Traditional Affairs (COGTA) further disaggregates these categories on the basis of their settlement patterns and service obligations. These factors used in the disaggregation are those that impact on the municipalities' resource levels, administrative capacity and the services burden they carry. One of the primary indicators of the administrative burden of municipal government is whether or not the provision of water services falls to them or to another tier of government. As a result the primary distinction between the two types of district municipalities is whether or not they are water service authorities.

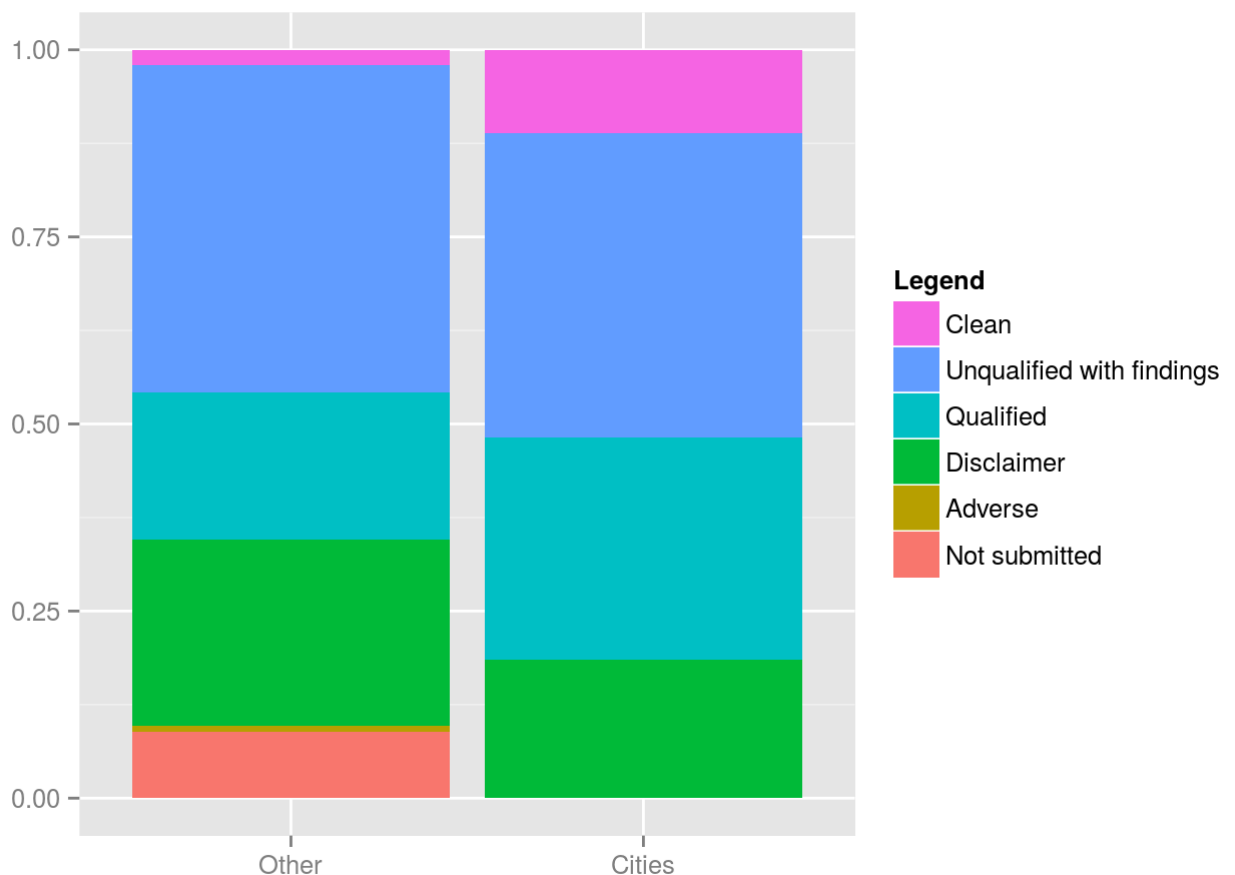
The disaggregated classes used by COGTA are:

- A: Metropolitan municipalities.
- B1: Secondary cities, these are the local municipalities with the largest budgets.
- B2: Local municipalities with a large town as core.
- B3: Local municipalities with small towns, a significant urban population but with no large town as a core.
- B4: Local municipalities which are mainly rural with communal tenure and a few small towns.

- C1: District municipalities which are not water services authorities.
- C2: District municipalities which are water services authorities.

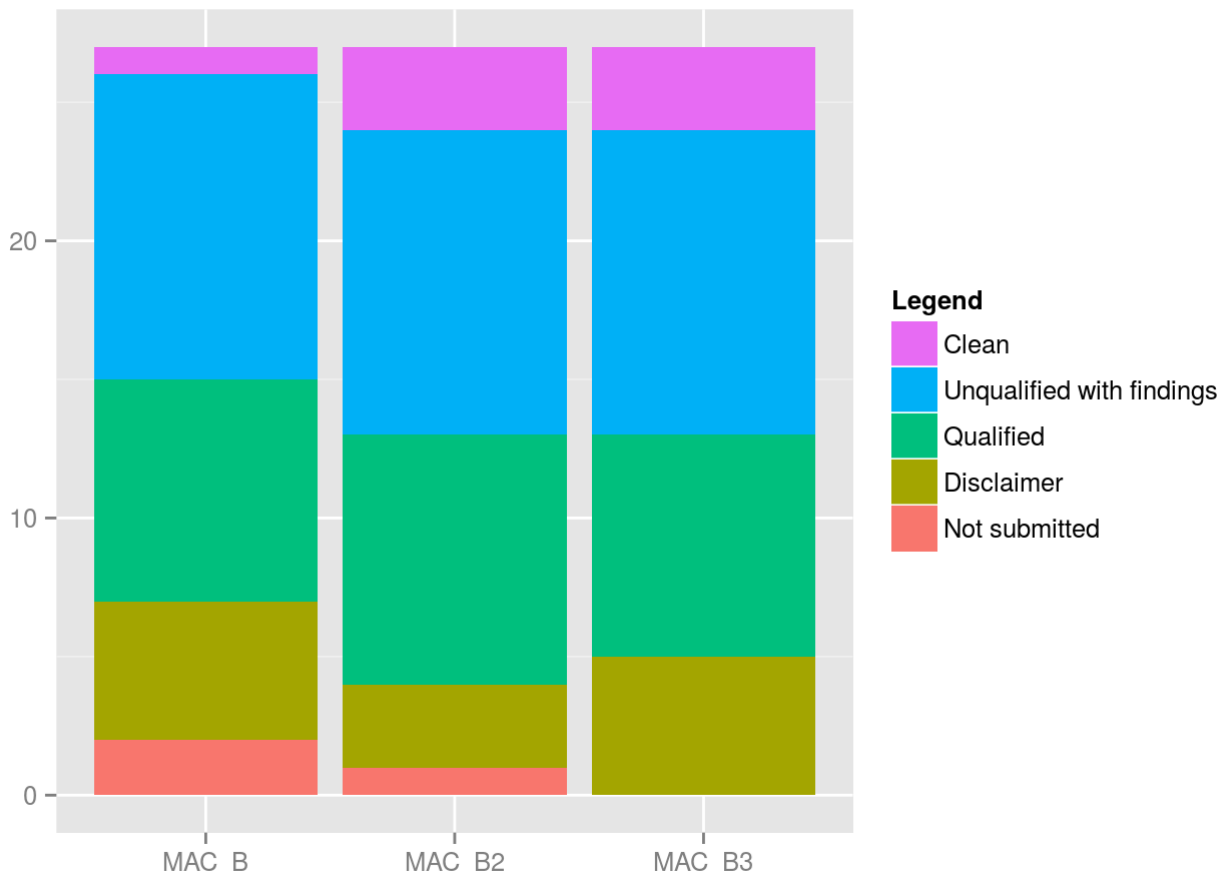
The audit performance of the municipalities varies markedly by these municipal classes. Of particular interest are the 27 largest cities represented by the A and B1 categories. These areas contain a substantial part of the national population and highest concentrations of economic activity and human capital. Despite the concentration of wealth and human capital in the cities just more than half, (52 percent) consistently receive unqualified audits. By contrast a slightly smaller proportion of the other municipalities (46 percent) consistently get qualified audits. Thus while cities do tend to fare better than other municipalities in audit outcomes the advantage presented by their high levels of urbanisation and greater economic opportunity is modest. The MAC-B3 rating of the 27 cities and all other municipalities are compared in the next illustration. One obvious difference is the extent to which municipalities that are not cities fail to submit audit data.

**Comparison of MAC-B3 rating of cities and other municipalities.**



The improvement of the MAC\_B ratings of the 27 cities over time is illustrated below. It is apparent that the move away from “failed to submit” took place over the last few years.

*Trend in MAC-B for cities.*



Although metropolitan municipalities have, by far, the greatest administrative capacity their audit performance is overshadowed by that of C1 district municipalities (i.e. district municipalities that are not water service authorities). The vast majority (86 percent) of the 23 C1 municipalities consistently receive unqualified audits and none receive ADF opinions. The corresponding figures for metropolitan municipalities are 50 and 13 percent respectively. The C1 district municipalities also perform significantly better than their C2 counterparts (ie. district municipalities which are also water service authorities). Less than half (43 percent) of the C2 municipalities consistently receive unqualified audit opinions. Their performance is thus significantly poorer than that of metropolitan municipalities and C1’s.

Among local municipalities the best audit performance is by those with a large urban core i.e. the B2 municipalities. Sixty percent of municipalities in this group consistently receive unqualified audits. By contrast only 30 percent of B3 municipalities (i.e. those

municipalities with a significant urban population but are not centred on a large town) receive unqualified audit opinions. More than half (54 percent) of B3s receive ADF opinions. The proportion of B3 municipalities that receive ADF opinions is twice that of B4 municipalities which, by definition, have no significant urban infrastructure. Even though B4 municipalities may find it difficult to attract qualified municipal staff they nevertheless perform better than their B3 counterparts.

Given that B3 municipalities have poorer MAC-B3 ratings than the rural B4 municipalities it is questionable whether poor audit performance can be attributed to the inability of the municipalities to attract sufficiently skilled administrative staff to small towns. While it appears that urban infrastructure may contribute to better audit performance (by widening access to the pool of available skills) the larger population also adds to the administrative burden and the financial complexity of these municipalities. The balance between administrative burden and skills availability is clearly one of the factors influencing audit outcomes.

The table below summarizes the audit outcomes by class of municipality. It shows that the largest number of disclaimers is in B3 municipalities, as are the largest number of municipalities failing to submit documentation. However, B3 municipalities are also more numerous.

**Table 3: Consistent audit outcomes by class of municipality: 2009/10 to 2013/14.**

	<b>Total No. 276</b>	<b>Not submitted No. 22</b>	<b>Adverse No. 2</b>	<b>Disclaimer No. 67</b>	<b>Qualified No. 57</b>	<b>Unqualified findings No. 120</b>	<b>with Clean No. 8</b>
A	8 (2.9%)	0 (0.0%)	0 (0.0%)	1 (1.5%)	3 (5.3%)	3 (2.5%)	1 (12.5%)
B1	19 (6.9%)	0 (0.0%)	0 (0.0%)	4 (6.0%)	5 (8.8%)	8 (6.7%)	2 (25.0%)
B2	27 (9.8%)	2 (9.1%)	0 (0.0%)	6 (9.0%)	3 (5.3%)	15 (12.5%)	1 (12.5%)
B3	110 (39.9%)	13 (59.1%)	1 (50.0%)	38 (56.7%)	22 (38.6%)	34 (28.3%)	2 (25.0%)
B4	68 (24.6%)	4 (18.2%)	1 (50.0%)	12 (17.9%)	18 (31.6%)	33 (27.5%)	0 (0.0%)
C1	23 (8.3%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	3 (5.3%)	18 (15.0%)	2 (25.0%)
C2	21 (7.6%)	3 (13.6%)	0 (0.0%)	6 (9.0%)	3 (5.3%)	9 (7.5%)	0 (0.0%)

<b>Total No. 276</b>	<b>Not submitted No. 22</b>	<b>Adverse No. 2</b>	<b>Disclaimer No. 67</b>	<b>Qualified No. 57</b>	<b>Unqualified findings No. 120</b>	<b>with Clean No. 8</b>
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Source: MLGI MAC-B3 (2015)

Most metropolitan municipalities consistently receive unqualified audits and only one of the eight consistently receives an ADF. The audit performance of metropolitan municipalities is notably better than that of B1 municipalities.

## Future trends

Following the establishment of Mangaung and Buffalo City municipalities five years ago Midvaal and Emfuleni municipalities are set to be merged to create a fourth Gauteng metropolitan municipality. Similar moves are afoot to combine other municipalities including Westonaria and Randfontein. Only B1 municipalities can be considered candidates for metropolitan status as they are centered on large cities and have large budgets.

Proposals to combine some B1 and local municipalities to form new metropolitan municipalities invites the inference that increasing the number of metropolitan municipalities will lead to better audit outcomes. In turn, the creation of more metropolitan municipalities may result in improved audit outcomes, better service delivery and more resilient urban areas. However the track record of B1 municipalities has been poor, and the newest metropolis, Mangaung and Buffalo City, both formerly B1's, now consistently obtain poor audit outcomes. The amalgamation of Midvaal and Emfuleni calls for the incorporation of a B1 municipality that consistently gets qualified audits (Emfuleni) with a far smaller B2 municipality, Midvaal, that consistently gets unqualified audits. There is an open question as to whether the amalgamated audit outcome will be that of the larger or the smaller component.

The updates to the MAC-B rating reflect the gradual improvements in audit outcomes. The updates simultaneously incorporate the most recent AG ratings while excluding the oldest (and often the poorest) ratings. The improvement in the MAC-B3 ratings relative to MAC-B is thus only partly due to better audit outcomes for 2013/14 as a role is also played by the audit outcomes of 2008/9 and then 2009/10 falling out of the years considered. Despite this the rate of improvement remains modest and it will be some time before clean audits are achieved by all municipalities. Operation Clean Audit (OCA) originally anticipated that all municipalities would obtain clean audits by 2014. That objective was not realised and it has since been surpassed by the more modest objective set by Outcome 9 of the Medium Term Strategic Framework, which sets out Government's plan over the next five years to implement the National Development Plan. According to that plan the audit objectives of municipalities is that by 2019:

- less than a quarter of municipalities will obtain qualified audits.



- no municipality will obtain adverse opinions or disclaimers.
- 75 percent of municipalities will obtain unqualified audits.

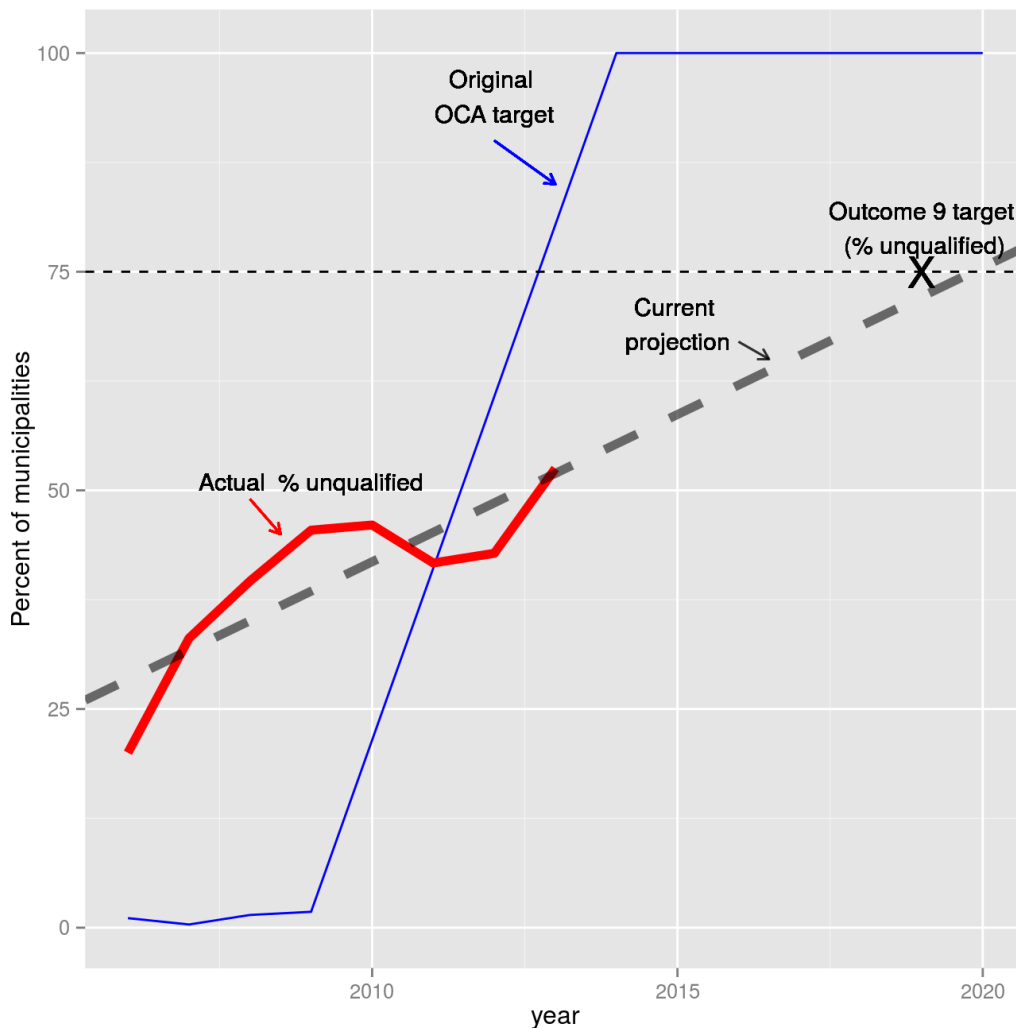
This third objective corresponds to 25 percent or fewer municipalities receiving adverse, disclaimed or qualified opinions or failing to submit the required documentation on time.

These objectives reflect varying degrees of ambition and attainability. Currently about one quarter of municipalities obtain qualified audits. The first objective has thus already been met. In contrast to the second objective one-fifth of municipalities currently receive adverse opinions or disclaimers. The second target is to reduce this proportion to zero. According to the NDP about half of all municipalities currently get qualified audits, and the third objective is to increase this proportion to 75 percent. However if recent trends are projected to 2019 it seems that the third objective will not be met.

In 2013/14 only 46 percent of municipalities received unqualified audits. This figure is lower than the base figure cited in the NDP (50 percent). Projections of performance after 2006/7 show that 75 percent of municipalities will get unqualified audits in 2020/21 - one year after the target date. Projections based only on the past two years are more optimistic.

The illustration below contrasts performance and projections in audit outcomes (i.e. not of the MAC\_B ratings) for the post 2006/7 period. Actual performance is shown by the red line. Projections of that performance is illustrated by the dashed line. Trends in unqualified audits suggest that current trends fall just shy of the Outcome 9 target (indicated by the "X").

*Time trend in audit opinions.*



The above illustration shows trends in audit outcomes. The blue line shows the original Operation Clean Audit objective – 100 percent compliance (i.e. clean audits) by 2014. This objective was not attained, and will not be reached in the medium term. The actual rate in unqualified audits is represented by the red line. This shows the proportion of unqualified audits for each year. The dotted line ( projection of current trends) indicates that 75% of municipalities will get unqualified audits shortly after 2019.

Although the MTSF objectives (outcome 9) are far more modest than those of OCA 2014 it seems that extraordinary interventions will be required for the targets to be met. COGTA has hinted that these interventions may include lessening the administrative burden that audits impose on smaller municipalities. Minister Gordhan recently called for a review of Generally Accepted Accounting Practice (GRAP) required of all municipalities. GRAP, as the financial reporting system that municipalities have to comply with, is thought “too onerous and complicated for smaller local councils that don’t have to go to the bond market or banks to raise money”.<sup>4</sup> Moreover in some

municipalities the cost of complying with audit requirements is increasingly being presented as an impediment to service delivery.

Consistently improving audit outcomes is key to enhancing local government resilience. Central to achieving this objective is to ensure that municipalities do not routinely miss the targets set by national government. To this end enhanced support to municipalities may be less important than ensuring that there are obvious consequences for those responsible for poor governance and mismanagement.

However it is also essential to ensure that targets are reviewed on the basis of actual performance and, if necessary, are adjusted to reflect changing circumstances. Monitoring governance quality and assessing the viability of the targets will continue to be the core focus of MLGI’s research agenda.

## Schedules

### Municipalities: Class A (Metros)

<b>name</b>	<b>MAC_B3</b>
Cape Town	Clean
Ekurhuleni	Unqualified with findings
eThekweni	Unqualified with findings
Tshwane	Unqualified with findings
Buffalo City	Qualified
Johannesburg	Qualified
Nelson Mandela	Qualified
Mangaung	Disclaimer

### Municipalities: Class B1

<b>name</b>	<b>MAC_B3</b>
George	Clean
Steve Tshwete	Clean

Drakenstein	Unqualified with findings
Emfuleni	Unqualified with findings
Govan Mbeki	Unqualified with findings
Mbombela	Unqualified with findings
Msunduzi	Unqualified with findings
Stellenbosch	Unqualified with findings
Tlokwe	Unqualified with findings
uMhlathuze	Unqualified with findings
Mogale City	Qualified
Newcastle	Qualified
Polokwane	Qualified
Rustenburg	Qualified
Sol Plaatje	Qualified
Emalahleni	Disclaimer
Madibeng	Disclaimer
Matjhabeng	Disclaimer
Matlosana	Disclaimer

### Municipalities: Class B2

name	MAC_B3
Mossel Bay	Clean
//Khara Hais	Unqualified with findings

Breede Valley	Unqualified with findings
Dihlabeng	Unqualified with findings
Emnambithi/Ladysmith	Unqualified with findings
Greater Kokstad	Unqualified with findings
Hibiscus Coast	Unqualified with findings
Knysna	Unqualified with findings
Kwadukuza	Unqualified with findings
Merafong City	Unqualified with findings
Midvaal	Unqualified with findings
Mogalakwena	Unqualified with findings
Overstrand	Unqualified with findings
Saldanha Bay	Unqualified with findings
Umdoni	Unqualified with findings
Umngeni	Unqualified with findings
Emakhazeni	Qualified
Randfontein	Qualified
Westonaria	Qualified
King Sabata Dalindyebo	Disclaimer
Lukhanji	Disclaimer
Makana	Disclaimer
Metsimaholo	Disclaimer

Moqhaka	Disclaimer
Msukaligwa	Disclaimer
Mafikeng	Not submitted
Oudtshoorn	Not submitted

### Municipalities: Class B3

<b>name</b>	<b>MAC_B3</b>
Langeberg	Clean
Swartland	Clean
Abaqulusi	Unqualified with findings
Beaufort West	Unqualified with findings
Bela-Bela	Unqualified with findings
Berg River	Unqualified with findings
Bitou	Unqualified with findings
Camdeboo	Unqualified with findings
Cape Agulhas	Unqualified with findings
Cederberg	Unqualified with findings
eMadlangeni	Unqualified with findings
Endumeni	Unqualified with findings
Hessequa	Unqualified with findings
Kareeberg	Unqualified with findings
Khai-Ma	Unqualified with findings

Kwa Sani	Unqualified with findings
Lainsburg	Unqualified with findings
Lesedi	Unqualified with findings
Matatiele	Unqualified with findings
Matzikama	Unqualified with findings
Mkhambathini	Unqualified with findings
Mpofana	Unqualified with findings
Mthonjaneni	Unqualified with findings
Mtubatuba	Unqualified with findings
Nketoana	Unqualified with findings
Prince Albert	Unqualified with findings
Richtersveld	Unqualified with findings
Theewaterskloof	Unqualified with findings
Tsolwana	Unqualified with findings
Tswelopele	Unqualified with findings
Umsobomvu	Unqualified with findings
Umstshezi	Unqualified with findings
Umuziwabantu	Unqualified with findings
Umvoti	Unqualified with findings
Witzenberg	Unqualified with findings
Big Five False Bay	Unqualified with findings

Amahlati	Qualified
Blue Crane Route	Qualified
Dipaliseng	Qualified
Emthanjeni	Qualified
Gamagara	Qualified
Gariep	Qualified
Hantam	Qualified
Kou-Kamma	Qualified
Kouga	Qualified
Lephalale	Qualified
Maletswai	Qualified
Masilonyana	Qualified
Mookgophong	Qualified
Musina	Qualified
Ndlambe	Qualified
Nkonkobe	Qualified
Pixley Ka Seme	Qualified
Sakhisizwe	Qualified
Setsoto	Qualified
Tokoloko	Qualified
Ubuntu	Qualified



Victor Khanye	Qualified
!Kheis	Disclaimer
Ba-Phalaborwa	Disclaimer
Baviaans	Disclaimer
Dikgatlong	Disclaimer
Ditsobotla	Disclaimer
eDumbe	Disclaimer
Ga-Segonyana	Disclaimer
Great Kei	Disclaimer
Ikwezi	Disclaimer
Inkwanca	Disclaimer
Inxuba Yethemba	Disclaimer
Kamiesberg	Disclaimer
Kopanong	Disclaimer
Lekwa	Disclaimer
Lekwa-Teemane	Disclaimer
Letsemeng	Disclaimer
Mafube	Disclaimer
Magareng	Disclaimer
Maluti-A-Phofung	Disclaimer
Mamusa	Disclaimer

Mantsopa	Disclaimer
Maquassi Hills	Disclaimer
Mkhondo	Disclaimer
Mohokare	Disclaimer
Naledi	Disclaimer
Nama Khoi	Disclaimer
Ngwathe	Disclaimer
Phokwane	Disclaimer
Phumelela	Disclaimer
Ramotshere Moiloa	Disclaimer
Siyathemba	Disclaimer
Sundays River Valley	Disclaimer
Thaba Chweu	Disclaimer
Thabazimbi	Disclaimer
Thembelihle	Disclaimer
Tswaing	Disclaimer
Umjindi	Disclaimer
Ventersdorp	Disclaimer
Modimolle	Adverse
Kagisano	Not submitted
Kai! Garib	Not submitted

Kannaland	Not submitted
Karoo Hoogland	Not submitted
Kgatelopele	Not submitted
Kgetleng River	Not submitted
Mier	Not submitted
Nala	Not submitted
Nxuba	Not submitted
Renosterberg	Not submitted
Siyancuma	Not submitted
Swellendam	Not submitted
Tsantsabane	Not submitted

#### **Municipalities: Class B4**

<b>name</b>	<b>MAC_B3</b>
Dannhauser	Unqualified with findings
Elundini	Unqualified with findings
Ezinqoleni	Unqualified with findings
Imbabazane	Unqualified with findings
Impendle	Unqualified with findings
Indaka	Unqualified with findings
Ingquza Hill	Unqualified with findings
Ingwe	Unqualified with findings

Mandeni	Unqualified with findings
Maphumulo	Unqualified with findings
Maruleng	Unqualified with findings
Mfolozi	Unqualified with findings
Msinga	Unqualified with findings
Ndwedwe	Unqualified with findings
Nkandla	Unqualified with findings
Nongoma	Unqualified with findings
Nquthu	Unqualified with findings
Ntambanana	Unqualified with findings
Nyandeni	Unqualified with findings
Okhahlamba	Unqualified with findings
Ratlou	Unqualified with findings
Richmond	Unqualified with findings
Senqu	Unqualified with findings
Ubuhlebezwe	Unqualified with findings
Ulundi	Unqualified with findings
Umhlabuyalingana	Unqualified with findings
Umlalazi	Unqualified with findings
uMshwathi	Unqualified with findings
uMzimkhulu	Unqualified with findings

Umzimvubu	Unqualified with findings
Umzumbe	Unqualified with findings
uPhongolo	Unqualified with findings
Vulamehlo	Unqualified with findings
Albert Luthuli	Qualified
Blouberg	Qualified
Dr J S Moroka	Qualified
Elias Motsoaledi	Qualified
Ephraim Mogale	Qualified
Fetakgomo	Qualified
Greater Letaba	Qualified
Greater Tzaneen	Qualified
Hlabisa	Qualified
Jozini	Qualified
Mbhashe	Qualified
Mnquma	Qualified
Nkomazi	Qualified
Ntabankulu	Qualified
Port St. Johns	Qualified
Thembisile Hani	Qualified
Thulamela	Qualified

Tubatse	Qualified
Aganang	Disclaimer
Bushbuckridge	Disclaimer
Engcobo	Disclaimer
Greater Giyani	Disclaimer
Greater Taung	Disclaimer
Intsika Yethu	Disclaimer
Makhado	Disclaimer
Makhudutamaga	Disclaimer
Mbizana	Disclaimer
Molemole	Disclaimer
Mutale	Disclaimer
Ngqushwa	Disclaimer
Mhlontlo	Adverse
Joe Morolong	Not submitted
Lepelle-Nkumpi	Not submitted
Moretele	Not submitted
Moses Kotane	Not submitted

### District Municipalities: Class C1

name	MAC_B3
Ehlanzeni	Clean

West Coast	Clean
Bojanala Platinum	Unqualified with findings
Cacadu	Unqualified with findings
Cape Winelands	Unqualified with findings
Central Karoo	Unqualified with findings
Dr. Kenneth Kaunda	Unqualified with findings
Eden	Unqualified with findings
Fezile Dabi	Unqualified with findings
Frances Baard	Unqualified with findings
Gert Sibande	Unqualified with findings
Lejweleputswa	Unqualified with findings
Namakwa	Unqualified with findings
Nkangala	Unqualified with findings
Overberg	Unqualified with findings
Sedibeng	Unqualified with findings
Thabo Mofutsanyana	Unqualified with findings
Waterberg	Unqualified with findings
West Rand	Unqualified with findings
ZF Mgcwacu	Unqualified with findings
John Taolo Gaetsewe	Qualified
Pixley Ka Seme	Qualified

Xhariep	Qualified
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### District Municipalities: Class C2

<b>name</b>	<b>MAC_B3</b>
Amajuba	Unqualified with findings
Amatole	Unqualified with findings
H Gwala	Unqualified with findings
Ilembe	Unqualified with findings
Joe Gqabi	Unqualified with findings
Umgungundlovu	Unqualified with findings
Umzinyathi	Unqualified with findings
Uthungulu	Unqualified with findings
Zululand	Unqualified with findings
Capricorn	Qualified
Ugu	Qualified
Umkhanyakude	Qualified
Alfred Nzo	Disclaimer
Chris Hani	Disclaimer
Greater Sekhukhune	Disclaimer
OR Tambo	Disclaimer
Uthukela	Disclaimer
Vhembe	Disclaimer



Dr. Ruth S Mompoti	Not submitted
Mopani	Not submitted
Ngaka Modiri Molema	Not submitted

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1. <http://m.timeslive.co.za/thetimes/?articleId=14221029>↵
2. <http://mg.co.za/article/2012-07-23-incompetence-and-lack-of-skills-behind-financial-rot>↵
3. “General report on the local government audit outcomes of Gauteng for 2013-14” pg.78. Auditor general South Africa, Pretoria.↵
4. <http://www.financialmail.co.za/features/2014/08/07/local-government-rules-can-get-in-the-way-of-desired-results>.↵