

# The Municipal Audit Consistency Barometer



## Municipal Compliance With National Audit Standards (2011/12 - 2015/16)



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© DM Powell (project head and principal investigator), M O'Donovan (principal author and data analyst) and TC Chigwata (researcher) (2018). The Municipal Audit Consistency Barometer (Working Paper No. 4): Municipal Compliance with National Audit Standards (2011/12-2015/16). CAPE TOWN: Applied Constitutional Studies Laboratory – acsl-web.com. Editing by Advocacy Aid.

This project was made possible with the assistance of the Ford Foundation, the Charles Stewart Mott Foundation and the Open Society Foundation.



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## About the Municipal Audit Consistency Barometer series

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### What is the Municipal Audit Consistency Barometer?

The Municipal Audit Consistency Barometer (MAC-B) uses data published by the Auditor-General to measure **consistency in municipal compliance** with national audit standards **over a five-year period**. One of six possible consistency ratings is awarded to every municipality based on the audit outcome which it **consistently obtained** in a given five-year period.

Municipalities can receive one of six ratings based on the Auditor-General's findings: **unqualified without findings; unqualified with findings; qualified; adverse; disclaimer; and failed to submit** (the last three are the worst ratings and are denoted by the abbreviation 'ADF'). The definitions of the ratings can be found [here](#).

The MAC-B rating system is designed to produce a single consistency rating for the five-year period that accounts for the variation between the categories while minimizing the prevalence of ties in audit ratings. For example, if in the past five years a municipality received two unqualified audits without findings and three unqualified audits with findings, then MAC-B will place that municipality in the 'unqualified with findings' category.

Several key terms are used in the MAC-B, the report of the Auditor-General (AG), and in the wider public debate on the audit:

- **Consistent compliance:** There is consistent compliance when a municipality consistently obtains an 'unqualified without findings' opinion over the five-year period, which is the best possible opinion.
- **Clean audit:** This term is often used interchangeably by policy-makers to mean unqualified without findings and unqualified with findings. As such, the term is confusing and generally we do not use it, except when analysing progress against the policy targets for clean audits that the government set in 2009.
- **Unqualified:** This is merely a descriptive category for the two best opinions (unqualified without findings and unqualified with findings). It is used when necessary to draw attention to the combined trend.
- **ADF:** This is a descriptive category for the three worst opinions (**A**dverse, **D**isclaimer, **F**ailed to submit), which is used when necessary to draw attention to the combined trend.

This fourth issue (MAC-B4) covers the period 2011/12-2015/16, which corresponds to the 2011-2016 term of local government and allows for an assessment of an entire electoral term. During this period there were a total of 278 municipalities, eight of which were metropolitan municipalities, 44 were district municipalities, and 226 were local municipalities.

The consistency ratings are shown for

- **all municipalities;**
- **the three categories of municipality (metropolitan, district and local);**
- **the nine provinces;**
- **the seven classes of municipality, classifications used by some**

- **government departments; and**
- **the 27 major cities.**

The patterns established by these ratings represent patterns of consistent compliance and non-compliance with national audit rules, and they provide a reasonable indication of the extent to which municipalities have established the **systematic capability** to make efficient and equitable use of public resources, function as accountable administrations, and comply with the rule of law in their internal operations.

Citizens, civil society organisations, the media, the private sector and government can use the MAC-B ratings as benchmarks to engage in public debate, design policy and interventions, and hold local government accountable.

The findings of the most recent AG’s report (on the 2016/17 audit, published on 23 May, 2018) are not included in this MAC-B.

**It is noteworthy that the trend in the latest report has now regressed to the five-year mean in MAC-B, which confirms the central thesis of MAC-B that the consistent pattern of behavior is a robust predictor of compliance.**

The latest AG report highlights the following:

- **“Accountability continues to fail in local government”.** This is the theme of the report, and it points to glaring governance, leadership and oversight lapses that have contributed immensely to the undesirable audit results.
- ‘The AG audited 257 municipalities and 21 municipal entities. The number of municipalities decreased from 278, given that some of them were amalgamated in 2016 (37 municipalities were closed down and 16 new ones were established). The report is available at [www.agsa.co.za](http://www.agsa.co.za).
- ‘Overall audit outcome regression: Of the audited municipalities, the audit outcomes of 45 regressed, while those of 16 improved. Only 33 municipalities (13%) managed to produce quality financial statements and performance reports, as well as to comply with all key legislation, thereby receiving a clean audit.’

## Overview of audit compliance (2011/12-2015/16)

Category/class	Unqualified (without)	Unqualified (with + without)	Qualified	ADF
<b>Metro (A)</b>	1 (13%)	5 (63%)	3 (38%)	0
<b>27 Cities (A+B1)</b>	5 (19%)	16 (60%)	8 (30%)	3 (11%)
<b>District (C)</b>				
<b>C1</b>	7 (30%)	22 (96%)	1 (4%)	0
<b>C2</b>	3 (14%)	12 (57%)	3 (14%)	6 (29%)
<b>Local (B)</b>				
<b>B1</b>	4 (21%)	11 (58%)	5 (26%)	3 (16%)
<b>B2</b>	5 (19%)	18 (67%)	4 (15%)	5 (19%)
<b>B3</b>	7 (6%)	47 (42%)	28 (25%)	36 (32%)
<b>B4</b>	6 (9%)	34 (49%)	27 (40%)	8 (12%)

- During the period, 33 municipalities **consistently complied** with national audit standards, obtaining a MAC-B rating of **unqualified without findings**. This was an

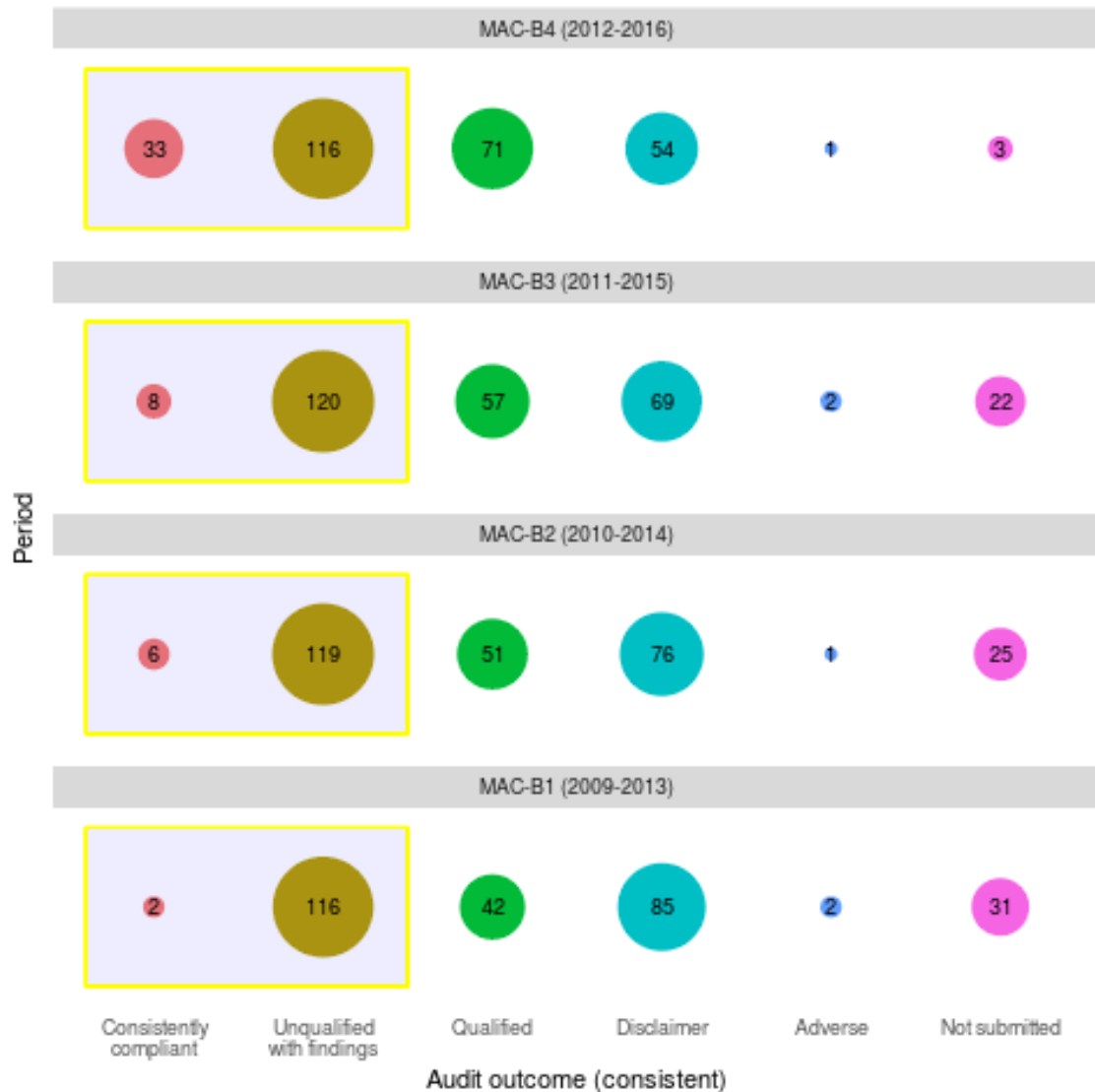
improvement on the previous five-year period covered by MAC-B3 (2010/11-2014/15), when eight municipalities were consistently compliant.

- One-quarter of municipalities (26%) received **qualified audits**. This was an increase relative to MAC-B3, in which 20 per cent of municipalities received a qualified audit.
- One in five (21%) received an **ADF rating** (Adverse, Disclaimer, Failed to submit).
- District municipalities of class C1 were more likely to be **consistently compliant** (i.e. obtain a MAC-B rating of unqualified without findings) than any other type of municipality: just under one-third of C1's (30%) received this rating.
- For the first time, however, more than half (54%) of municipalities received **unqualified (with or without findings) audits**.
- By contrast, only 13 per cent of metropolitan municipalities managed this achievement.
- The best audit performance by local municipalities was among those with a large urban core that was not a city – that is, the B2 municipalities.
- There was significant **provincial** variation. All Western Cape municipalities received unqualified audit ratings (with or without findings). By contrast, less than one-quarter of North West municipalities received MAC-B ratings of **unqualified**.
- Almost half (44%) of the 27 major cities received a MAC-B rating of **qualified or ADF**. Under the previous MAC-B, almost half (48%) of the municipalities received a qualified or ADF rating.



## All municipalities (2011/12-2015/16)

Figure 1: Trend in MAC-B ratings for all municipalities



- Figure 1 compares the MAC-B4 ratings on the six possible audit ratings with the equivalent ratings in the three previous MAC-Bs. The individual rankings for each municipality can be found [here](#).
- The outcome 'consistently compliant' corresponds to the opinion 'unqualified without findings' issued by the Auditor-General, which represents the best possible outcome that can be obtained by a municipality.
- The two columns encompassed by the rectangle represent the rating 'unqualified', which corresponds to unqualified with or without findings.
- Note: The overall improvement on the initial MAC-B rating and over subsequent updates is attributable largely to the progressive discounting of the initial years, during which levels of compliance were low.

- Between 2011/12 and 2015/2016, 12 per cent of municipalities were **consistently compliant** (i.e. consistently received unqualified without findings audit opinions) during the five-year period.
- The rate of consistent compliance increased relative to the MAC-B3 period, when only three per cent of municipalities were consistently compliant.
- Under MAC-B4, 149 municipalities (54% of the total) consistently received **unqualified audits**, compared with 128 municipalities (46%) under MAC-B3 and 118 (42%) in the original MAC-B.
- One-quarter of municipalities (26%) consistently received **qualified** reports, an increase on MAC-B3, when one-fifth (20%) received the rating.
- In MAC-B4, 58 municipalities (21%) consistently received an adverse opinion or a disclaimer, or failed to submit the required information on time (**ADF**), compared to 33 per cent in MAC-B3. The decline is due mainly to a reduction in the number of municipalities failing to submit audit information. That number declined from 22 under MAC-B3 to three under MAC-B4.
- ADF ratings have declined generally since the first MAC-B, when as many as 42 per cent of municipalities received the rating.

## Metropolitan, district and local municipalities (2011/12-2015/16)

Table 1: Consistent audit outcomes by class of municipality (2011/12-2015/16)

Class	Total municipalities (%)	Not submitted (%)	Adverse (%)	Disclaimer (%)	Qualified (%)	Unqualified with findings (%)	Consistent compliance (%)
Metros	8 (2.9%)	0 (0%)	0 (0%)	0 (0%)	3 (38%)	4 (50%)	1 (13%)
Local	226 (81.3%)	3 (1%)	1 (0%)	48 (21%)	64 (28%)	88 (39%)	22 (10%)
District	46 (15.8%)	0 (0%)	0 (0%)	6 (14%)	4 (9%)	23 (55%)	10 (23%)
<b>Total</b>	<b>278</b>	<b>3</b>	<b>1</b>	<b>54</b>	<b>71</b>	<b>116</b>	<b>33</b>

- Table 1 shows the MAC-B4 consistency ratings by category of municipality – metropolitan, district and local – for the 2011/12-2015/16 term.
- District municipalities were more likely to get a MAC-B rating of **unqualified without findings** than other municipal categories. Just under one-quarter (20%) of district municipalities received this rating. Metropolitan municipalities were next most likely to get this rating (13%), followed by local municipalities.
- District municipalities were also more likely to get a MAC-B rating of **unqualified with findings** than municipalities in other categories. More than half of district municipalities (55%) received this rating, followed by half (50%) of metropolitan municipalities; 39 per cent of local municipalities obtained a MAC-B rating of unqualified with findings.
- A MAC-B rating of **qualified** was most prominent among metropolitan municipalities (38%), followed by local municipalities (28%), and least prominent among districts (9%).
- No metropolitan municipalities received a MAC-B rating of **ADF**, and only six districts received that rating (14%). All the district ADF's were due to disclaimers as opposed to adverse or failure to submit. Almost one-quarter of local municipalities (23%) received an ADF rating. Only one municipality consistently got an adverse audit, and the vast majority of ADF ratings are attributable to disclaimed audits.



## The nine provinces (2011/12-2015/16)

Table 2: Audit outcomes of municipalities by province (2011/12-2015/16)

Province	Total municipalities (%)	Not submitted (%)	Adverse finding (%)	Disclaimer (%)	Qualified audit (%)	Unqualified with findings (%)	Unqualified without findings (%)
Eastern Cape	45 (16.2%)	0 (0.0%)	1 (2%)	10 (22%)	18 (40%)	15 (33%)	1 (2%)
Free State	24 (8.6%)	1 (4%)	0 (0%)	8 (33%)	6 (25%)	9 (38%)	0 (0%)
Gauteng	12 (4.3%)	0 (0%)	0 (0%)	0 (0%)	2 (17%)	8 (67%)	2 (17%)
KwaZulu-Natal	61 (21.9%)	0 (0%)	0 (0%)	2 (3%)	7 (11%)	43 (70%)	9 (15%)
Limpopo	30 (10.8%)	0 (0%)	0 (0%)	7 (23%)	14 (47%)	9 (30%)	0 (0%)
Mpumalanga	21 (7.6%)	0 (0%)	0 (0%)	5 (24%)	8 (38%)	6 (29%)	2 (9%)
Northern Cape	32 (11.5%)	2 (6%)	0 (0%)	11 (34%)	9 (28%)	8 (25%)	2 (6%)
North West	23 (8.3%)	0 (0%)	0 (0%)	11 (48%)	7 (30%)	5 (22%)	0 (0%)
Western Cape	30 (10.8%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	13 (43%)	17 (57%)
Total	278	3	1	54	71	116	33

- Table 2 shows the municipal audit consistency ratings by province for the nine provinces.
- The leftmost column shows the number and percentage of municipalities in the province. The other columns show the municipalities in each category, with the percentage of municipalities falling into each audit category (row percentages).
- There was **significant variation in ratings across provinces**. Although 54 per cent of municipalities received MAC-B ratings of unqualified audits (with or without findings), audit performance varied significantly among the nine provinces.
- The extent of this variation can be seen, for example, by contrasting the North West and Western Cape provinces. In the North West, less than one-quarter (22%) of local municipalities received an unqualified MAC-B rating (with or without findings). In the Western Cape, all local, district and metropolitan municipalities consistently obtained an unqualified rating.

Half of the municipalities (52%) that received MAC-B ratings of **consistent compliance** (unqualified without findings) were in the Western Cape. In that province, 57 per cent of municipalities obtained a MAC-B rating of unqualified without findings (consistently compliant).

The provinces that were most **consistently compliant** were, in order, the Western Cape (51%), KwaZulu-Natal (27%) Northern Cape, Mpumalanga, and Gauteng (6% each). One municipality in the Eastern Cape received this rating (3% of the total), but no Free State, Limpopo or North West municipality consistently received this rating.

One-third (37%) of municipalities that received a MAC-B rating of **unqualified with findings** were in KwaZulu-Natal. This rating is most prominent in the province, and 70 per cent of municipalities there obtained it. In terms of the prominence of unqualified with findings, KwaZulu-Natal is followed (in order) by Gauteng (67%), Western Cape (43%), Free State (38%), Eastern Cape (33%), Limpopo (30%), Mpumalanga (29%), Northern Cape (25%) and the North West (22%).

- Almost half (47%) of the 30 Limpopo municipalities obtained **qualified** MAC-B ratings. The prominence of this rating is slightly lower in the Eastern Cape (40%) where, given its larger number of municipalities, a greater number of qualified ratings were obtained. The provinces with the next highest prevalence of qualified ratings were Mpumalanga (38%), North West (30%), Northern Cape (28%), Free State (25%), Gauteng (17%) and KwaZulu-Natal (11%). No municipality consistently obtained a qualified audit in the Western Cape.
- Three municipalities consistently **failed to submit** their audit documentation. Only one municipality consistently received a MAC-B rating of **adverse**. These two ratings, combined with disclaimers, form the ADF category to indicate consistent and substantial failure in municipal financial management.
- Almost half (47%) of municipalities in the North West province received a MAC-B rating of **ADF**. In the Free State, more than one-third (37%) received the rating, followed by the Eastern Cape and Mpumalanga (24%), Limpopo (23%) and KwaZulu-Natal (3%). No Gauteng or Western Cape municipality consistently received ADF ratings.

## Class of municipality – A, B1, B2, B3, B4, C1, C2 (2011/12-2015/16)

Table 3: COGTA's municipal classification system in overview

Municipal class	Description
A	Metropolitan municipalities
B1	Secondary cities, which are those local municipalities with the largest budgets
B2	Local municipalities with a large town as core
B3	Local municipalities with small towns and a substantial urban population but no large town as a core
B4	Local municipalities that are mainly rural, utilise communal tenure and have a few small towns
C1	District municipalities which are not water services authorities
C2	District municipalities which are water services authorities

Table 4: Consistent audit outcomes by class of municipality (2011/12-2015/16)

Classes	Total municipalities (%)	Not submitted (%)	Adverse (%)	Disclaimer (%)	Qualified (%)	Unqualified with findings (%)	Consistent compliance (%)
A	8 (2.9%)	0 (0%)	0 (0%)	0 (0%)	3 (38%)	4 (50%)	1 (13%)
B1	19 (6.8%)	0 (0%)	0 (0%)	3 (16%)	5 (26%)	7 (37%)	4 (21%)
B2	27 (9.7%)	0 (0%)	0 (0%)	5 (19%)	4 (15%)	13 (48%)	5 (19%)
B3	111 (39.9%)	3 (3%)	0 (0%)	33 (30%)	28 (25%)	40 (36%)	7 (6%)
B4	69 (24.8%)	0 (0%)	1 (1%)	7 (10%)	27 (39%)	28 (41%)	6 (9%)
C1	23 (8.3%)	0 (0%)	0 (0%)	0 (0%)	1 (4%)	15 (65%)	7 (30%)
C2	21 (7.6%)	0 (0%)	0 (0%)	6 (29%)	3 (14%)	9 (43%)	3 (14%)
<b>Total</b>	<b>278</b>	<b>3</b>	<b>1</b>	<b>54</b>	<b>71</b>	<b>116</b>	<b>33</b>

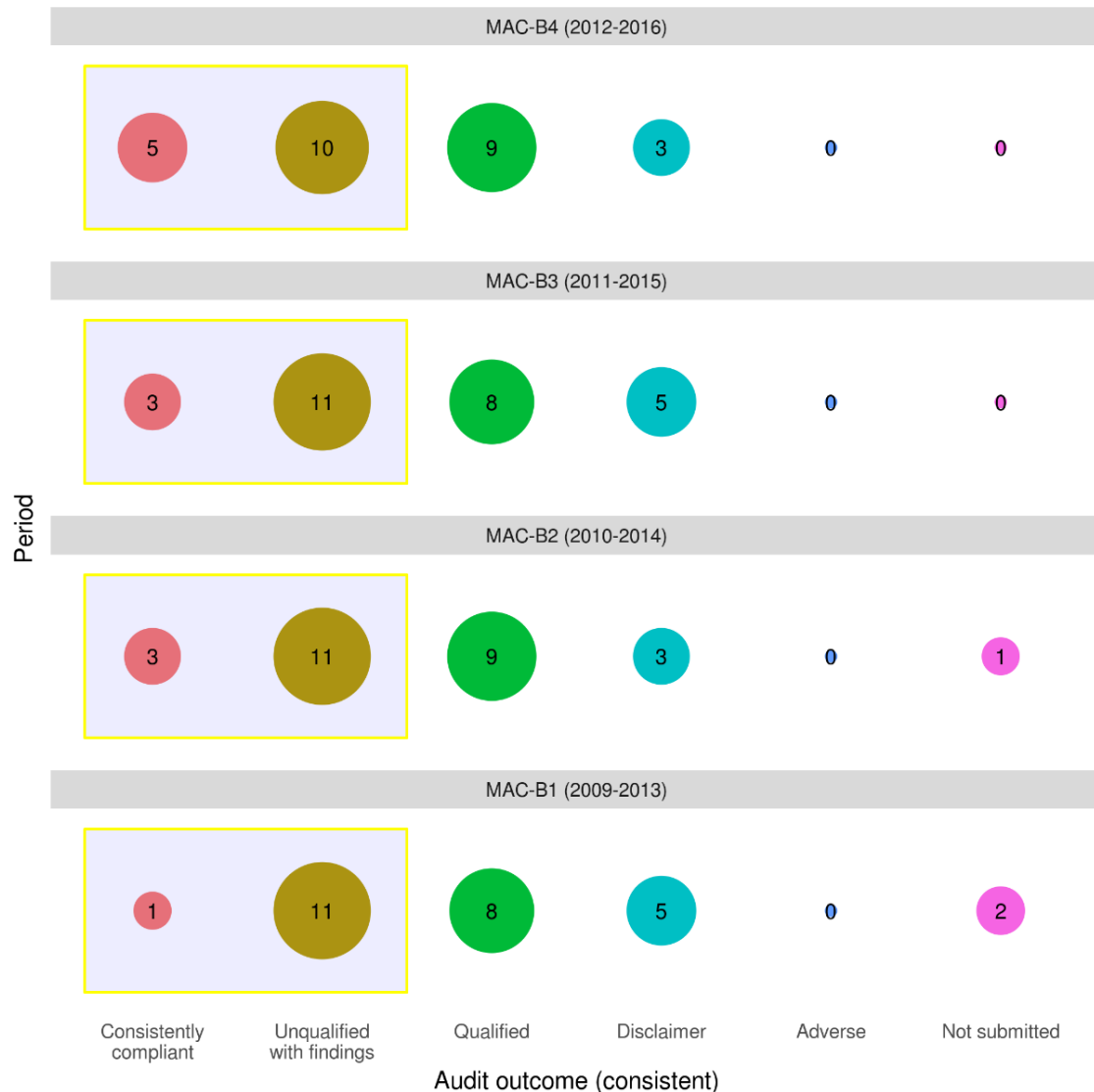
- The Department of Cooperative Government and Traditional Affairs (COGTA), which is the national department responsible for the local government policy, employs a more fine-grained subdivision of the three categories of municipality (A, B, C).
- Seven different **classes** (see Table 3) are distinguished from one another on the basis of settlement patterns, service delivery responsibilities, resource levels, and administrative capacity.
- For example, one of the key indicators of a district municipality's administrative burden is whether it or the local municipalities in its jurisdictional area are water services authorities, which leads to the primary distinction made between two C classes of district municipality.
- Table 4 shows the consistency ratings for the seven classes.
- District municipalities of class C1 were more likely to get a MAC-B rating of **consistently compliant** (unqualified without findings) than any other municipal category. Just under one-third (30%) received this rating. Municipalities of class B1 were next most likely (21%), followed by (in order) B2 (19%), C2 (14%), A (13%), B4 (9%) and B3 (6%).
- Class C1 municipalities were also more likely to get a MAC-B rating of **unqualified with findings** than municipalities in other classes. Almost two-thirds of C1's (65%) received this rating, followed by half (50%) of A (metropolitan) municipalities. B2

municipalities were slightly less likely to get the rating (48%), followed by C2 (43%), B4 (41%), B1 (37%) and B3 (36%).

- A MAC-B rating of **qualified** was most prominent among B4 and metropolitan municipalities. Almost half of these municipalities consistently received qualified audit (39% and 38%, respectively). Qualified MAC-B ratings were next most prevalent among B1 (26%), B3 (25%), B2 (15%) and C2 (14%) municipalities. Only four per cent of C1's (i.e. district municipalities which are not water service authorities) consistently received qualified audits.
- The largest number of disclaimers were in B3 municipalities, as were the largest number of municipalities that failed to submit documentation. B3's had the highest prevalence of ADF ratings (36%). No metropolitan or district municipality of class C1 had an ADF MAC-B rating. Almost one-third (29%) of C2's got this rating, as did 19 per cent of B2's, followed by B1's (16%) and B4's (11%).

## The 27 major cities in the A and B1 classes (2011/12-2015/16)

Figure 2: Trends in MAC-B ratings for the 27 major cities



- The country's 27 largest cities – represented by the A and B1 COGTA categories – warrant closer examination as they contain the majority of South Africa's population and concentration of economic activity and human capital. The compliance and accountability of major cities thus affect the well-being of most of the country's population and the economic health of the country as a whole.
- Figure 2 shows how the MAC-B ratings of cities have changed over the MAC-B periods.
- The number of cities that were **consistently compliant** (a rating of **unqualified without findings**) increased from one to five.
- The most likely MAC-B rating for the cities was **unqualified with findings**. Just more than one-third (37%) of cities obtained this rating – a figure that has remained largely unchanged for the full series of the MAC-B reports.

- None of the major cities received a MAC-B rating of **adverse or not submitted**.
- The number of **disclaimed** ratings dropped from five to three since the initial MAC-B of 2009-2013.
- Despite their economic influence and better access to human capital, 44 per cent of the largest cities consistently received **qualified or ADF ratings**.