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## Auditor-general says state of local government remains dire

**CAPE TOWN** – Auditor-General (AG) Tsakani Maluleke calls on local government authorities to use their remaining year in office to provide effective and efficient governance and service delivery to improve the lives of the people of South Africa.

This call to action follows the AG's release of the 2023-24 general report on the local government audit outcomes, tabled in Parliament today.

The AG called on all levels of government, including all role players in the accountability ecosystem, to work together to enhance institutional capability and improve the culture of municipalities through diligent oversight and decisive action on municipal failures.

Maluleke says challenges in local government remain, despite several engagements and advocacy from her office year after year. However, she says when support is provided by provincial and national government, progress can be realised, as observed with the reduction of disclaimer opinions over the past two financial years.

Maluleke highlighted that since municipal leaders came into office following the 2021 local government elections, municipalities have been characterised by delayed action to respond to concerns raised by the national audit office. Such sluggish action, she said, did not only result in undesirable audit outcomes but also had a “negative impact on the lived realities of South Africans”.

She further added that when municipalities do not effectively manage their performance, finances and infrastructure, they are unable to deliver on key government priorities that are intended to improve the lives of South Africans.

## **Mayors, councils and executive authorities are failing to fulfil their legislated responsibilities**

“The messages in the last three general reports of the Auditor-General of South Africa (AGSA) have been aimed at the local government administration that took office in 2021 – the mayors, speakers and council members who were elected to represent their communities. We called on them to work with urgency to overhaul a local government characterised by insufficient accountability, failing service delivery, poor financial management and governance, weak institutional capability and widespread instability.

“Each year, we also engaged with those in national and provincial government tasked with overseeing and supporting local government, including premiers, ministers, members of executive councils and portfolio committees in provincial legislatures and Parliament, imploring them to intervene and assist municipalities that were failing in order for those municipalities to regain control of their financial, performance and compliance management and ensure effective service delivery to their residents.

“Despite the commitments made in response to these calls, action has been too slow. Based on the overall audit outcomes in 2023-24, the results from the detailed work that we performed at metropolitan municipalities (also known as metros) and local municipalities with repeated disclaimer audit opinions, we can only conclude that little has changed, and that local government continues to be in a dire state,” said the AG.

Maluleke says, “Legislation is clear on what the responsibilities of mayors, councils and executive authorities are – it is the diligent and effective implementation of these responsibilities that is lacking.”

## **State of local government remains poor**

The AG reported that, overall, there has been little change and action has been too slow.

## Audit outcomes

She added that the trend of **poor audit outcomes continued**, with only 41 municipalities (16%) obtaining clean audits.

“While 59 municipalities have improved their audit outcomes since 2020-21 (the last year of the previous administration), 40 have regressed,” said Maluleke.

She highlighted that the most prevalent audit outcome in 2023-24 was an unqualified audit opinion with findings on performance information and/or compliance – which 99 municipalities (39%) received.

She cautioned that “this is not an achievement to be celebrated or stay in”.

“While the audit opinion on the financial statements of these municipalities may be unqualified (unmodified) meaning that their published financial statements are credible, the material findings on performance information mean that their performance reports are not credible while the material findings on compliance signal continued disregard for legislation or significant lapses in control. These 99 municipalities could easily lose their unqualified status if they do not address the remaining challenges in their control environment. Notably, of the 99 municipalities that received unqualified audit opinions, 71 failed to submit quality financial statements and relied on the audit process to correct the errors identified by the auditors. Of the 8 metros, 4 received unqualified audit opinions, after only 3 submitted quality financial statements for audit.

Municipalities continued with the practice of spending significant financial resources on hiring consultants to assist them with preparing financial statements for audit. In 2023-2024, 219 municipalities spent a combined R1.47 billion on financial reporting consultants, with 130 of these municipalities still submitting financial statements that had errors in the areas where consultants did work, indicating that the spend was not effective. We included a similar message on the ineffective use of financial reporting consultants in our 2013-14 general report – little has changed in the decade since then.

We remain concerned that not enough attention is being paid to the significant weaknesses in financial management, performance management and compliance obligation and the resultant impact on South Africans.”

### **Municipalities with clean audits**

Maluleke said that municipalities with clean audits, particularly those that have sustained this status over several years, are generally characterised by sound financial and performance management disciplines and perform their functions in accordance with applicable legislation.

“They generally manage projects well so that deficiencies are identified and rectified promptly and so that timelines, budgets and quality standards are adhered to. The well-functioning control environment and good systems present at these municipalities form a solid foundation from which councils can prioritise further improving the performance and service delivery of their municipalities.”

She added that the few municipalities (25) that have sustained their clean audit status every year since at least 2020-21 continue to be an example of what is possible, and encouraged those that lost their status to swiftly address the root causes of the regressions so that they can achieve a clean audit once again. She further called on the municipalities that obtained unqualified audit opinions with findings to work very hard to achieve a clean audit and to not be comfortable in that state.

## **Financial management, performance and reporting**

### **Submission of financial statements and performance reports**

Thirteen municipalities did not submit their financial statements for auditing by the legislated date. Seven of these municipalities (five of which are in the Free State) habitually disregard the legislated requirement and submit their financial statements late every year – or do not submit them at all. In 2023-24, these seven municipalities managed a combined budget of R6,85 billion.

A performance report should include information that is useful and reliable for both the council and the public to determine if the municipality delivered on its core mandated functions and is on track to deliver on its integrated development plan.

“We reported material findings on the usefulness and reliability of the information included in the performance reports of 119 municipalities (48%), including 6 of the 8 metros. The poor-quality performance reports were most prevalent in the Free State, Northern Cape and North West. As is the case with the financial statements, many municipalities – 63 in total (26%) – managed to avoid material findings on their performance reports by relying on the audit process to identify misstatements that they then corrected.

“The poorly prepared performance reports and significant activity required to make corrections in response to our audits also raise questions about the credibility of the in-year reporting and the effectiveness of performance monitoring throughout the year. The lack of proper planning and effective in-year monitoring, and the unreliable information being used for accountability and decision-making processes, contribute to the lack of service delivery by local government,” Maluleke noted.

### **Service delivery risks**

The AG’s report also provides insight into weaknesses that could prevent service delivery goals from being achieved if the administration and the council do not decisively address them. Below are some of the identified risks to service delivery:

Along with municipal managers, mayors and councils also contributed to **poor financial management** in municipalities:

- Councils again adopted unfunded budgets in 2023-24, contrary to advice given by the national and provincial treasuries. resulting in 113 municipalities (44%) operating with unfunded budgets.
- Among others, due to a combination of unreliable information and a lack of diligence and impactful decision-making by mayors and councils, in-year

- monitoring of financial performance had little impact in preventing the R31,79 billion in unauthorised expenditure incurred by 174 municipalities (68%).
- Municipalities lost revenue because they were not billing and collecting all the revenue that they were owed, and they estimated that 67,80% of the revenue that they disclosed in their financial statements would not be recovered. Water and electricity losses due to infrastructure neglect accounted for an additional R37,28 billion in lost revenue.

The AG cautions, “Municipal finances are severely troubled and even though funds are constrained, mayors, councils and municipalities are displaying little fiscal discipline. Money paid by residents and funded from the national purse is often wasted through poor financial and procurement decisions and project failures.”

“The limited funds that municipalities had were also not spent carefully. The main reasons for the continuing financial losses and waste were widespread poor payment practices, uncompetitive and uneconomical procurement practices, limited value and benefit received for money spent, and weaknesses in project management.

As a result, the financial health of municipalities remains weak. Poorly managed local government finances directly affect municipalities' ability to deliver the promised services to their communities and place further pressure on the already constrained public purse.

Creditors are not paid within legislated timelines, and the debt owed to Eskom and the water boards remains high and continues to increase. If these debts are not paid, communities are left without access to basic services such as electricity and water. This also makes it difficult for businesses to operate optimally, further adding to the struggling economy.

The Eskom debt-relief programme was intended to provide some relief to municipalities that struggled to pay the electricity supplier, but 53 of the participating municipalities (84%) are not complying with the conditions of the programme”, warns Maluleke.

## Infrastructure audits

During the period under review, the AGSA's audit work again incorporated numerous site visits to inspect the progress and quality of **infrastructure projects**. Auditors identified deficiencies at 87 of the 113 projects (77%) that were visited.

The AG cautions, "We found that, all too often, work on projects is delayed, is costing more than planned and is of poor quality. New infrastructure is also not put into use as soon as it is ready. Existing infrastructure continues to deteriorate because it is not properly maintained and safeguarded."

Municipalities depend on **service providers and contractors** to deliver on their projects and programmes and to support their operations. Continued non-compliance with procurement legislation leads to unfair and uncompetitive processes, which often result in financial losses and in contractors not delivering the goods or services for which they were contracted.

"One of the root causes of project failures and financial loss is poor contract management and a reluctance to hold suppliers accountable for late and poor-quality delivery. In total, 214 municipalities (87%) had findings on non-compliance with procurement and contract management legislation in 2023-24. At 155 municipalities (63%), these findings were material."

**The lack of consequences** in local government continuously slows any progress towards improved service delivery and financial performance. In 2023-24, 132 municipalities (53%) did not comply with legislation on consequence management. When officials face consequences for their actions, this helps auditees to both recover the losses caused by those officials and deter others from disregarding legislation.

"The lack of consequences is most evident in the areas of poor and slow responses to investigating allegations of financial and supply chain management misconduct and fraud indicators; not investigating and/or not properly dealing with unauthorised, irregular, and fruitless and wasteful expenditure; and material non-compliance with legislation on consequence management."

Maluleke says that failure at municipal level has a direct and significant impact across our cities and towns, with residents and businesses facing regular disruptions in service delivery and having to contend with water leaks, potholes and filth on their streets.

“Municipalities are not operating landfill sites effectively and are neglecting wastewater treatment works, displaying a blatant disregard for the environment and the impact that the resultant pollution has on the wellbeing of nearby communities. Communities are yet to experience quality service delivery through new and well-maintained infrastructure, despite national government making available R68,4 billion for infrastructure projects in 2023-24.”

### **Material irregularity process**

Maluleke reported that her office continues to use its enhanced powers to demand action and accountability, but that the material irregularity (MI) process is not having the desired impact in local government.

She said that the nature of the Mis, which the national audit office has identified since the Public Audit Act was amended in April 2019, “mirrors the rising concerns on which we have been reporting”.

“Money is being lost through non-compliance with legislation and suspected fraud, and we have identified 285 MIs in this area with an estimated financial loss totalling R8,74 billion. These include payments made for goods and services that were not received, were of poor quality, were not in line with contracts or were to ineligible beneficiaries (72); Eskom, water boards, lenders and suppliers not being paid on time, resulting in interest charges (56); the inefficient use of resources, resulting in no or limited benefit for the money spent (40); revenue lost due to unbilled revenue, debt not recovered or unrecorded receipts (39); uneconomical procurement and procurement non-compliance, resulting in overpricing of procured goods and services (20); and assets not being properly maintained and safeguarded (20).

“We also identified 79 MIs that were causing substantial harm to local government accountability processes and financial health, and a further 80 MIs that were causing

substantial harm to the public due to action or inaction by municipalities – most of which related to pollution of water sources (56) and mismanagement of landfill sites (20).”

Maluleke reported that 48% of the 446 MIs that we have identified in local government since 2019 have been resolved by auditees thereby:

- preventing or recovering financial losses (an estimated R1,32 billion has been recovered, is in the process of being recovered or has been prevented)
- preventing further harm to the general public and public sector institutions
- implementing consequences for those responsible for the irregularities
- improving internal controls to prevent the irregularities from recurring.

Where the MIs were not dealt with swiftly or with the required seriousness, we included recommendations in audit reports, took remedial action and referred matters to relevant public bodies for investigation. The number of MIs where we have had to use our powers increases every year.

“The MI process is not having the desired impact in local government, due largely to instability in accounting officer positions; a slow response by accounting officers to our notifications, recommendations and remedial action; prolonged investigations or delays in concluding criminal proceedings; and delays in disciplining officials. Where we escalate the non-responsiveness to mayors and provincial government leaders, it is rare for them to act or for their actions to have a significant impact.”

She urged those roleplayers in the accountability ecosystem and other public bodies that have mandates and powers similar to – or more comprehensive than – those of the AGSA, to use them “to ensure that irregularities are dealt with swiftly and that similar instances are prevented”.

### **Audit outcomes of metropolitan municipalities**

Maluleke reported that the overall audit outcomes of metros have continued to regress since 2020-21, despite metros typically having greater capacity and bigger budgets to

more easily attract suitably skilled and competent professionals to improve their outcomes.

In 2023-24, the eight metros were responsible for service delivery to 8,9 million households – 46% of all households in the country. The metros and their municipal entities were responsible for 57% of the estimated local government expenditure budget.

Maluleke cautioned that metros' financial health remains concerning as they struggled to improve their revenue-collection levels despite implementing financial recovery plans and turnaround strategies. Infrastructure delivery and maintenance are also still not receiving enough attention at metros.

“The lack of accountability at most metros is clear from the slow response to unauthorised, irregular, and fruitless and wasteful expenditure, as well as the ineffective accountability structures and processes that we observed. It is rare for metro leadership (including mayors) to account to provincial legislatures and Parliament.

“A culture of performance, accountability, transparency and institutional integrity is not ingrained in the metros. Fully functional and high-performing metros will have a significant impact on the lives of most South Africans and businesses – which makes it a goal worth working towards,” the AG stated.

### **Impact of poor municipal performance on the lives of citizens**

Maluleke re-emphasised the fact that when municipalities do not effectively manage their performance, finances and infrastructure, this directly affects the delivery of key government priorities that are intended to improve the lives of South Africans.

“Services and infrastructure in the basic areas of water, sanitation, waste management, electricity, housing and roads are not consistently and sustainably delivered, despite the budgeted funds being spent. Deteriorating living conditions and harm caused by polluted water sources and landfill sites are also widespread.

“When money and resources are wasted, there are reduced funds available for service delivery priorities and, eventually, there is a greater burden on taxpayers. The lack of credible reporting on performance and finances weakens not only municipal accountability processes, but also the councils’ ability to assess municipalities’ performance or to make decisions in response to underachievement,” she cautioned.

## **A call to action**

The AG’s report urges elected representatives to use the remaining year of their administrative term to intensify their actions and act with urgency towards instilling a culture of performance, transparency and institutional integrity, and to be accountable to the communities they serve. The report identifies three main weaknesses that hold back local government progress, namely:

- Governance failures;
- Inadequate institutional capability;
- Lack of accountability and consequences.

For these governance lapses to be remedied for the benefit of the citizenry, the national audit office calls for the following actions:

1. **Build capable institutions with intergovernmental support:** Support from all spheres of government – through coordinated and collaborative efforts in partnership with municipal leadership – is needed to promote strong governance within municipalities.
2. **Professionalise and capacitate local government:** Skills and capacity gaps can be addressed through a concerted effort to support and implement local government professionalisation initiatives. In pursuing professionalisation, all roleplayers should strive towards a future where local government is a career of choice for professionals and where scarce skills can thrive and be retained.
3. **Instil a culture of ethics and accountability:** A shared vision of responsiveness, consequence management, accountability and ethical behaviour is essential to ensure that actions are taken promptly and that individuals are held accountable.

Responsiveness to and support for the **material irregularity process** will demonstrate leadership commitment to accountability, contribute to the protection of resources and strengthen institutional integrity.

## Conclusion

We call on the political leadership in all three spheres of government and the elected representatives of the citizens in councils, Parliament and the provincial legislatures for diligent oversight and decisive action on municipal failure to turn around the culture in local government.

This report and our call to action are directed to the mayors, councils and executives in national and provincial government and provincial legislatures that are failing in their oversight duties and are allowing local government to deteriorate.

Despite my continued advocacy for intergovernmental support and collaboration, the opposite is evident in the lack of partnership between the three spheres of government at most municipalities and in the weak oversight by provincial legislatures and Parliament – particularly at metros. Where the political leadership of municipalities respond well to the support and guidance provided by national and provincial government, improved governance follows.

“We remain committed to partnering with and supporting the local government accountability ecosystem through our audits, the use of our expanded powers as granted by the Public Audit Act amendments, and the many initiatives that we have implemented to assist and guide all roleplayers. We trust that the insights and recommendations in this report will be of value in this pursuit,” the AG concluded.

**End.**

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