



Media Statement

State of Municipal Finances: Act now or face the consequences....

Johannesburg, 30 June 2021 – The Auditor General of South Africa (AGSA) painted a bleak picture over the state of municipal finances in the 2019-20 local government audit outcomes. Local government finances continued to worsen with concerns on financial health, which ultimately has a negative impact on service delivery to communities and alleviating poverty, writes Natasha Soopal CA(SA), SAICA Senior Executive: Public Sector and Enabling Competencies.

27% of the country's municipalities have significant doubt on the ability to continue as going concern. This ultimately means that these municipalities may not be able to meet its financial obligations as they fall due. This was further confirmed by the fact that on average 63% of municipal debtors are irrecoverable, resulting in creditors being greater than the available cash at year end for 49% of the municipalities. The average creditor payment period of municipalities is 209 days. The long creditor payment period days have a negative impact on the sustainability of small medium enterprises and place severe cash flow constraints on other government institutions such as the water boards and Eskom. Municipalities owed Eskom and the water boards R12.41billion and R8.78 billion respectively at year end.

It was further highlighted that 46% of the estimated recoverable revenue and equitable shares received by municipalities have been used for salaries and council remuneration. As a result of this, less funds were available to provide service delivery and maintenance to the infrastructure.

Only 2% of expenditure was spent towards the maintenance of infrastructure as opposed to the norm of 8%. Infrastructure is critical and directly linked to the economic development and growth in the country as it increases productivity and improves the quality of life for many communities. It further assists in the development of poverty alleviating solutions and providing access to basic needs such as transportation. The lack of infrastructure and maintenance thereof in poor communities significantly impact the lives of the people living in those communities. For example, when a community lacks transport infrastructure like roads, it means that the people from that community are unable to travel to cities, or places where job opportunities exist, not to mention access to quality health care facilities which may require transportation.

Maintaining infrastructure in good condition is critical as infrastructure wears over time and neglected infrastructure will result in degradation of the asset with negative effects on service delivery. This also leads to greater cost of reconstruction over time, which could be avoided and the money better spent elsewhere.

Of great concern, is that 22 municipalities (9%) received a disclaimer of opinion, meaning that these municipalities could not provide evidence for most amounts and disclosures reflected in the financial statements. As a result of this, the AGSA could not express an opinion on the credibility of those financial statements. The AGSA performed alternative procedures to confirm amounts disclosed in the financial statements, and through those procedures confirmed from third parties such as the treasuries that the 22 municipalities that received a disclaimer, received funds totalling R6,49 billion in equitable shares and conditional grants during the year. They further confirmed through the bank statements that these municipalities only had a balance of R0,98 billion at year end. So, what happened with the difference of R5.51 billion received by those municipalities and how did it impact the communities it service? Unfortunately, the AGSA could not confirm what was done with the money from receipt of the funds to the year-end bank balance.

SAICA therefore urges those charged with governance including parliamentary oversight committees, oversight institutions, council and management to implement interventions to improve accountability and sound financial disciplines urgently, as a lack thereof has a significant impact on service delivery to communities and ultimately the national economy.

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