UNIVERSITY OF CAPE TOWN

Audit Outcomes and Financial Health of Municipalities in South Africa

A **Dissertation** presented to

The **Development Finance Centre (DEFIC)**
Graduate School of Business
University of Cape Town

In partial fulfilment
of the requirements for the Degree of

Master of Commerce in Development Finance

by

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SHZSAM002

February 2023

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PLAIGARISM DECLARATION

I, SAMUKELISIWE REJOYCE SHOZI, hereby declare that the work on which this thesis is based is my original work (except where acknowledgements indicate otherwise) and that neither the whole work nor any part of it has been, is being or is to be submitted for another degree in this or any other university. I authorise the University to reproduce for the purpose of research either the whole or any portion of the contents in any manner whatsoever.

Signature: Signed by candidate

Date: 13 February 2023

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DEDICATION

I dedicate this dissertation to two matriarchs: my great-grandmother, Khulu Mavis MaNdlovu Majozi and my grandmother, Khulu Nomabheka MaMajozi Ndabezitha. I am today because they were!

I also dedicate this dissertation to my wonderful sister, Thandeka E Shozi, who cherished education and progress. She would have undoubtedly been proud to see and walk this journey with me!

They are etched in my heart forever!

ACKNOWLEDGEMENTS

I express my sincere gratitude to my supervisor, Abdul Latif Alhassan (PhD), without whom I would not have reached this end goal. This is for his sound advice, guidance, expertise and knowledge in research. I am encouraged and inspired by his interest, precision and passion. I also thank him for the data. The words ‘thank you’ are simply not enough. Through the countless revisions and breaks I took off from my research and when I could not go on, he remained patient and guided me. I am truly thankful for all his time, effort, work and sacrifice which enabled me to finish this dissertation. I believe he was God-sent!

I would also like to thank my MCom friends who were – and continue to be – generous and willing to share knowledge, advice, notes and tips about our course work, research and career paths. I am in awe; theirs have left me humbled. The long nights and early mornings in the seminar rooms paid off and will continue to do so. We have formed life-time friendships and networks.

I also thank my colleagues, family, my niece – Anelisa, siblings and my mom for their behind-the-scenes support, effort and encouragement.

Thank you, thank you, thank you!

I will forever be grateful for this chapter of my life and all who contributed positively so that I could complete and submit my work. This exceptional and incredible journey, at times fraught with lonely, strenuous and difficult choices, has left me better, wiser, with exceptional life skills and more learned than when I started the MCom course.

I thank God for everything!

ABSTRACT

The regressing financial health, unfavourable annual audit outcomes, severed reputation for service delivery failures and resultant protests of South Africa's municipalities have raised a public furore. Several multi-stakeholder interventions purporting to address the financial mismanagement, audit regression and service delivery backlogs have been initiated by both the provincial and national governments. The intended impact and goal of these support interventions are yet to be realised.

The objectives of this study were to examine the root causes that have cumulatively culminated in the deterioration of the financial health of the municipalities and investigate the relationship between financial conditions and audit outcomes not only in dysfunctional municipalities but also by studying the effect on all 257 municipalities in South Africa using data sourced from the 2016–2017, 2017–2018, 2018–2019 and 2019–2020 annual financial statements and reports from the Auditor-General of South Africa.

In the first stage, descriptive statistics employed the median values of the variables: cash solvency, budget solvency, long-term solvency, service-level solvency and the financial condition index. The ordinary least squares estimation technique was employed to examine the relationship between financial health and audit outcomes using cross-sectional data from 257 municipalities sourced from the 2018–2019 financial year.

The findings from the regression analysis indicated that no relationship exists between financial performance and the audit outcomes of financially distressed municipalities. The recommendations include eliminating political deployees assigned for administrative and technical appointments to allow for a clear separation between political representatives and competent, skilled and professional officials executing their roles and responsibilities objectively in a municipality. Further studies can improve existing literature by extensively examining the relationship between regressing financial performance, audit outcomes in dysfunctional and distressed municipalities and the role played by the political and administrative leadership.

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LIST OF ACRONYMS AND ABBREVIATIONS

AFS	Annual Financial Statements
AGSA	Auditor-General of South Africa
COGTA	Corporate Governance and Traditional Affairs
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
DoRA	Division of Revenue Act
DPME	Department of Planning, Monitoring and Evaluation
FCI	Financial Condition Index
FFC	Financial and Fiscal Commission
GDP	Gross Domestic Product
INEP	Integrated National Electrification Programme
ISS	Institute for Security Studies
LGTAS	Local Government Turnaround Strategy
MFMA	Municipal Finance Management Act
MFSI	Municipal Financial Sustainability Index
MIG	Municipal Infrastructure Grant
MSA	Municipal Systems Act
NDP	National Development Plan
NT	National Treasury
OLS	Ordinary Least Squares
PARI	Public Affairs Research Institute
PMG	Parliamentary Monitoring Group
SAICA	South African Institute of Chartered Accountants
SALGA	South African Local Government Association
SAMWU	South African Municipal Workers Association
SIU	Special Investigating Unit
STATS SA	Statistics South Africa
UIFW	Unauthorised, Irregular, Fruitless and Wasteful
USB	University of Stellenbosch Business School
WSIG	Water Services Infrastructure Grant

CHAPTER 1: INTRODUCTION

1.1 Introduction and Background of the Study

South Africa is considered one of the most progressive countries on the African continent as a result of democracy, its citizen-centric constitution and the independence and stability of its institutions such as the Judiciary, the Reserve Bank and Parliament. Despite the remarkable strides achieved post the apartheid government era, numerous material, financial, socio-economic and development challenges continue to assail its citizens (World Bank, 2019).

The socio-economic challenges are indicated by the country recording one of the highest Gini coefficients in the world, currently recorded at 0.63 (Van Dalsen & Simkins, 2019). This high inequality index has manifested in a citizenry facing unequal access to work opportunities, high unemployment and economic growth which is not pro-poor (World Bank, 2019). Besides the high Gini coefficient and the low economic metric – gross domestic product (GDP), South Africa also determines and bases its success or progress on the stability and finances of its local government, which comprises 257 municipalities.

The performance of local municipalities indicates the health of the country's heartbeat and reveals the health of public institutions at the most atomised level (Good Governance Africa, 2019). Chapter 8, s 73(1) and s 73(2) of the Municipal Systems Act (MSA) enlists the general duties of a municipality as the provision of services – a provision enshrined in the Constitution of the Republic of South Africa (hereafter, the Constitution) (Constitution, 1996). Local Government is thus a sphere of government at the coalface of service delivery for its citizens and the same sphere at the forefront of implementing the country's development goals which are cited in the National Development Plan (NDP) 2030 (National Planning Commission, 2012).

The state or health of a country's local government finances can be measured using various metrics. The National Treasury (NT), the custodians of the Municipal Finance Management Act (MFMA), designed and issued metrics in Circular 71 to provide norms and ratios assessing the financial health and performance of municipalities. Another measure of their financial health would be through annual audits undertaken for all 257 municipalities by the office of the Auditor-General. The audit outcomes emanate from a direct examination of the annual financial statements (AFS) baring the overall financial affairs of the municipalities. The weakening and depleting pool of municipal financial resources was yet again highlighted in the 2018–2019 Consolidated General Report on Local Government Audit Outcomes (MFMA 2018–2019 General Report, 2019).

As financial resources gradually deplete, socio-economic and development goals are hampered, giving rise to service delivery protests, as reported by Municipal IQ, which stem from community unrest, increasing unemployment and inadequately maintained infrastructure on which communities rely (Gous, 2019). For these South African municipalities, securing development and infrastructure financing or similar development financing schemes will become increasingly difficult, given the deteriorating accountability which impairs the financial health of municipalities and related infrastructure (Parliamentary Monitoring Group, 2019).

In South Africa, the Development Bank of Southern Africa (DBSA) is a key development finance institution. The DBSA undertakes development finance projects, financing which is broadly defined as and raised for infrastructure including roads, bridges, hospitals and airports through public and private sector partnerships together with the relevant industry role players (DBSA, 2023). Further, the University of Stellenbosch Business School outlines development finance as a financing intervention and mechanism for infrastructure which includes housing and energy projects and interventions which promote economic growth (University of Stellenbosch Business School, 2023). Such funding or loan schemes are designed and tailor-made to support the development efforts of local communities combining the public and private sectors in a manner that benefits the long-term health of communities (Council of Development Finance Agencies, 2020).

Development finance requires programmes and solutions to challenges that local businesses, industry, real estate and the environment create (CDFA, 2020). Given the currently constrained fiscus and distressed and dysfunctional municipalities reported by the Department of Corporative Governance and Traditional Affairs (COGTA), the development goals and development finance initiatives outlined in the NDP may be underachieved or unrealised (COGTA, 2018).

In the July 2020 AGSA media release (AGSA, 2020), a few of the leading root causes for deteriorating local government finances included a breakdown in internal controls, the absence of consequence management, poor administrative exercise over their financial affairs and a continued disregard for the audit recommendations as there are no legal ramifications for those who falter in their duties of maintaining a sound and fair state of affairs (MFMA 2018–2019 General Report, 2020, p10).

Various pieces of South Africa’s statutes, outlined by Alkaster (2020), some of which outline remedial and legal consequences that should ensue in instances of breach of oath of office, including the Municipal Finance Management Act (MFMA), 56 of 2003, the MSA, 32 of 2000, the Public Audit Amendment Act (PAA), 05 of 2018, Municipal Structures Act, 117 of 1998, NT Regulations and Prescripts and the Municipal Performance Regulations, have not been effectively used or enforced to extract accountability for gross or deliberate negligence. Mahlangu (2019) provides an example of the investments in VBS, a mutual bank, as an example where political and administrative leaders overlooked legislative prescripts and instead approved and invested in a mutual bank – the investment which is expressly prohibited by the MFMA.

Kekana (2018) elaborates on the disregard of the statute through investments undertaken in VBS as these investment funds were earmarked for municipal service delivery which was impacted and resulted in the near collapse of the same municipalities. In s 173, the MFMA criminalises misconduct by municipal officials and this includes the deliberate or negligent flouting of investment regulations (MFMA, 2003). The application of s 173 is yet to take legal course for those responsible.

In the 2014 Ten Year local government review, the Department of Planning, Monitoring and Evaluation (DPME) cited governance challenges to which the weakening of institutional capabilities in municipalities had given rise (Smit, 2019). Among other factors were the ineffective and inefficient administrations faltering on service delivery while being susceptible to political patronage and interference, weak compliance with complex reporting standards (i.e., poor quality financial statements presented to the Auditor-General for audit purposes) and a declining skills base to deal with socio-economic legacies (DPME, 2014).

To address this financial mismanagement and audit regression challenges, the provincial and national governments introduced multi-stakeholder interventions (Alhassan & Biepke, 2016). Despite these initiatives, the number of financially distressed municipalities is increasing while the support interventions have not yielded the desired turnaround.

1.2 Research Problem and Research Question

The Constitution and s 73 of the MSA assigns municipalities the responsibility of delivering various basic services to communities, including road infrastructure, housing, water, electricity, health and sanitation (Municipal Systems Act, 2000). This means ensuring that all citizens both in rural and urban areas are not restricted but instead all gain access to these basic services. Maharaj's (2012) study elaborated that basic services form the foundation and fundamental building blocks which result in an improved quality of life and adequate supply of water and sanitation services which are necessary for life, well-being and human dignity. The challenge is the rising spate of service delivery protests (Municipal IQ, 2019) and crime as communities turn to ulterior alternatives and means to ill-gain these basic services while on the other hand, municipalities increasingly become bankrupt, distressed and dysfunctional.

By June 2019, Municipal IQ, the local government data and intelligence service hub had reported an eclipse of 140 service delivery protests when compared to 137 in 2016 and 82 in 2011 (Gous, 2019). These were staged by angry communities airing grievances and dissatisfaction through service delivery protests and concerns within municipalities' ambits, with Gauteng being the protest capital (Gous, 2019).

The Protest and Public Violence Monitor Unit at the Institute for Security Studies (ISS) has been tracking and monitoring demonstrations since 2013. The ISS data indicates an average of eight protests per day for July 2020 with the most populous provinces Gauteng, Eastern Cape, Western Cape and KwaZulu-Natal experiencing protests as communities feel the socio-economic hardships and poor services resulting from poor policy implementation and fundamental failures of political leaders, some of whom are faced with a myriad of corruption scandals (Patel, 2020). Coupled with this challenge of corruption, is the chronic underspending of budgets which also ultimately results in service delivery protests and public violence (Merlon, 2018).

The question is why municipalities are failing to deliver on their legislated mandates of delivering basic services (Meza & Pérez-Chiqués, 2020). Municipalities are equally increasingly over-indebted as they owe their suppliers and creditors for water and electricity services. Current Eskom debt stands at R18,1 billion (with R11,1 billion in arrears) and water board debt stands at R9,74 billion (AGSA, 2019). Could the various pieces of legislation be impeding and burdening municipalities with reporting requirements and creating regulation strangulation or could it be the failure of leaders elected in municipalities to deliver to their communities, or a combination of regulation strangulation, inept leaders and unethical practices such as awarding tenders for services to cronies and related parties who then fail to deliver services (Smit, 2019)?

According to Ratings Afrika's Municipal Financial Sustainability Index (MFSI) 2018, the municipal sector faces collapse as financial governance continues to deteriorate creating a crisis as errant employees and leaders are not held accountable, yet less than a quarter of the top 100 municipalities from a total of 257 reported a profit or surplus for the 2018 financial year (Ryan, 2019). The NT website published a chart identifying municipalities with serious financial problems per criteria listed in s 138 and s 140 of the MFMA which include failure to make payments when due, defaulting on financial obligations and late submission of financial statements to the Auditor-General (National Treasury, 2020). In the June 2020 charts, elaborated on in Glasser and Wright's (2020) study, 200 municipalities had more than R1 million outstanding debt which was more than 90 days overdue (approximately 77% of municipalities), 54 municipalities recorded an operating deficit of more than 5% of total direct revenue and 146 municipalities recorded misstatements in their financial statements.

Industry role players are slow in implementing recommendations and, in several instances, the recommendations of the auditors are disregarded. In a report to Parliament by the Special Investigating Unit (SIU), indicators pointed to limited or no capacity to root out maladministration or fraud-related instances with only 239 criminal referrals being made over the past 17 years (Smit, 2019). Stakeholders both at national and provincial spheres of government have not held to account those charged with governance and administrative lapses which gradually cripple local government (Kekana, 2019). The corrective action and legal ramifications are not enforced even when outlined within existing local government legislation. The SIU further reported that corruption will continue to thrive due to inadequate skills, poor governance, high staff turnover and the failure to investigate financial misconduct arising from unauthorised, wasteful and irregular expenditure (Smit, 2019).

Determining, addressing and gradually eliminating the root causes and contributing factors to the increasingly dysfunctional and deteriorating financial health of local government would benefit the country's limited and over-burdened fiscus (Mbulawa, 2019) by freeing up funds and earmarking them for service delivery. It would reduce the burden on organisations such as the South African Local Government Association (SALGA), national and provincial treasuries and the Department of Co-operative Government and Traditional Affairs (COGTA) that employs funds, time, resources and hands-on support to deal with local government setbacks (News24, 2018).

The work of the Auditor-General, which has required increased frequency of audit and performance of additional diagnostics, would bear fruit as their recommendations would be heeded and implemented by those charged with the implementing of consequence management tools and practices. The state would generally benefit as a developmental local government means socio-economic development needs are considered and placed at the forefront (National Development Plan 2030, p 14). Therefore, this study focuses on the following questions:

- What is the effect of audit outcomes on the financial health/condition of municipalities in South Africa?
- What is the effect of changes in audit outcomes on the financial health/condition of municipalities in South Africa?

1.3 Research Objectives and Hypotheses

The purpose of this study is to explain the various reasons and root causes that have cumulatively culminated in the deterioration of the financial affairs of municipalities. The specific objectives include:

- to investigate the relationship between the financial condition and audit outcomes of municipalities in South Africa
- to examine the changes in audit outcomes on the financial condition of municipalities in South Africa.

The research hypotheses are:

H0: There is no relationship between the financial performance and audit outcomes of financially distressed municipalities.

H1: There is a positive relationship between the financial performance and audit outcomes of financially distressed municipalities.

1.4 Scope and Justification of the Study

Buthelezi (2019), in the ProBono publication, defined municipalities as the most basic units of government in the country and as such, they have to provide basic services while contributing to fostering development in the regions or jurisdictions they govern. Section 151(3), No. 108 of the Constitution established municipalities to function as independent and autonomous spheres for service delivery and to discharge certain responsibilities for and on behalf of the provincial and national spheres of government (Constitution, 1996).

In the 2011 Local Government Budgets and Expenditure Review, the NT emphasised the importance of municipalities to structure and manage their administration, budgeting and planning processes to give priority to s 153 of the Constitution and participate in national and provincial development programmes (National Treasury, 2011). Municipalities thus play an important role in facilitating development and a growing economy and discharging the state's developmental goals.

A developmental local government also attracts foreign investment which indirectly results in the creation of employment opportunities. Financial development, therefore, has a significant positive effect on economic growth, especially in developing countries. A developmental local government would synchronise with the state's NDPs and objectives as outlined in the NDP 2030. Studies and research in the local government sphere have not always completely focused on the relationship between regulation strangulation and leadership and how these significantly contribute to deteriorating municipal financial health and regressing audit outcomes (Glasser & Wright, 2020).

Current reports and studies cite that local government faces dire financial constraints and is on the brink of collapse. Further to the financial distress is an increase in reported statistics relating to widespread procurement irregularities as officials and political leaders alike steal goods and services earmarked for service delivery and siphon funds into personal bank accounts, the result of which are minimal or with no consequences because they enjoy political protection (Corruption Watch, 2013).

In conclusion, examining this relationship will also assist stakeholders such as the SALGA, the national and provincial treasuries and COGTA. The work of Auditor-General's recommendations would be heeded and implemented by those charged with the responsibility of good governance. The state would ultimately benefit as a developmental local government means development needs are considered and placed at the forefront to take the country forward.

1.5 Organisation of the Study

Chapter 1 of this study presents the background of the study and introduces the problem statement, research objectives and hypotheses and justification of the study. Chapter 2 presents a summary and critical synthesis of the literature and relevant research associated with the regression in financial health and regressing audit outcomes. Chapter 3 presents the methodology and procedures used for data collection and analysis. Chapter 4 contains an analysis of the data and a presentation of the findings/results. Chapter 5 offers a summary and discussion of the study's findings, policy recommendations and recommendations for future research.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This section provides an overview of the structure, financial condition (position) and the overall audit outcomes in local government (municipalities) including audit theories and practices applied when assessing financial statements presented for auditing purposes by the municipalities. In addition, the empirical literature will be reviewed.

2.2 Overview of Local Government in South Africa

2.2.1 Structure of local government in South Africa

Local government, i.e., municipalities and municipal entities, were established in terms of s 152 of the Constitution, Act No. 108 of 1996. The 257 municipalities in the country are spread across the nine provinces. The Constitution and the Municipal Structures Act, 117 of 1998 provided for the legislative framework for local government and established three categories of municipalities: Category A – Metros (municipalities that have exclusive municipal executive and legislative authority in their areas), Category B – Local Municipalities (municipalities that share municipal executive and legislative authority in their areas with Category C municipalities within whose area they fall) and Category C – District Municipalities (municipalities that have municipal executive and legislative authority in areas that include more than one municipality). There are currently eight metropolitan, 44 district and 205 local municipalities.

The Constitution gives the sector powers to function as an independent and autonomous sphere of government responsible for service delivery and discharging certain responsibilities for and on behalf of the provincial and national spheres of government (Constitution, 1996). With the autonomy, s 156 of the Constitution further details the constitutional mandate of municipalities which includes that a municipality structure and manage its administration, budgeting and planning processes to give priority to the basic needs of the community, promote the social and economic development of the community and participate in national and provincial development programmes.

The executive and legislative authority of the municipality is vested in the municipal council (Constitution, 1996). COGTA, through various units and interventions, was established to ensure a functional and developmental local government delivering on its constitutional mandate. The department oversees the Municipal Infrastructure Support Agent (MISA) tasked with supporting and providing technical capacity in all infrastructure-related areas. COGTA's vision and objectives are concurrent with Chapter 13 of the NDP which is to build a capable and developmental state. Municipalities thus play an important role in facilitating development as South Africa strives to build a growing economy caring for its people and discharging its developmental goals of being a progressive and developmental state.

2.2.2 Legislation

The sector is regulated and legislated and the statutes include the MFMA, 56 of 2003, the MSA, 32 of 2000, the Preferential Procurement Policy Framework (PPPF) Act 2000, the Municipal Structures Act, 117 of 1998, the Municipal Property Rates Act, 06 of 2004, the NT Regulations, Circulars and Prescripts, the Municipal Performance Regulations, the Intergovernmental Relations Act, 13 of 2005, the BBBEE Act, 46 of 2013, the Organised Local Government Act, 52 of 1997, the Division of Revenue Act (enacted annually), the White Paper on Local Government, 1998, the Municipal Demarcation Act, 27 of 1998 and the Constitution of the Republic of South Africa, 108 of 1996.

2.2.3 Overview of the financial health of local government

The poor financial health of municipalities is well-researched as it is a common challenge in both first and third-world countries (Mbulawa, 2019). South African municipalities are not immune to poor financial health. In 2018, the then Minister of COGTA, Dr Zweli Mkhize, reported an increase from 55 to 87 in the number of dysfunctional municipalities which required urgent intervention to prevent their collapse (Herman, 2018). Dr Mkhize also reported an increase from 13 to 24 in the number of municipalities placed under s 139 (5) of the Constitution (Evans, 2018). A municipality is placed under s 139 (5) or administration due to a crisis in its financial affairs, failure to adequately service financial and credit obligations and/or due to serious persistent material breach of its obligations to provide basic services (Constitution, 1996).

The Constitution requires the provincial government to intervene once a municipality fails to discharge its mandate and function as per s 73 of the MSA (2000). COGTA cites a range of root causes for maladministration which include crippling financial mismanagement, unspent conditional grants, spiralling debt with under-collected revenues, collapsing infrastructure and governance failures as councils are dysfunctional (Evans, 2018). The Parliamentary Monitoring Group (PMG) also noted a decline in the number of municipalities operating a clean administration due to a lack of consequences for transgressions and irregularities. This they attributed to political in-fighting as well as interference leading to a deterioration in accountability which impaired financial health, service delivery goals and the maintenance of infrastructure (Parliamentary Monitoring Group, 2019). The MFMA 2018–2019 Consolidated Outcomes Report reflects a further regression in the financial position of municipalities in the country (AGSA, 2019b). The overall assessment of the financial vulnerability of municipalities across the country is indicated in Table 2.1.

Table 2.1: Assessment of financial health of municipalities in South Africa

PROVINCE	OVERALL ASSESSMENT*			MOVEMENT FROM PREVIOUS YEAR	VULNERABLE POSITION*	
	Good	Of concern	Intervention required			
Eastern Cape	19% (7)	43% (16)	38% (14)	▼	27% (10)	▲
Free State	0% (0)	13% (2)	87% (13)	▼	80% (12)	▲
Gauteng	12% (1)	44% (4)	44% (4)	▼	44% (4)	►
KwaZulu-Natal	15% (8)	68% (36)	17% (9)	▼	15% (8)	▼
Limpopo	8% (2)	79% (19)	13% (3)	▲	13% (3)	▲
Mpumalanga	28% (5)	17% (3)	55% (10)	▼	39% (7)	▼
Northern	11% (3)	26% (7)	63% (17)	▲	56% (15)	▲
North West	6% (1)	12% (2)	82% (14)	▼	65% (11)	▼
Western Cape	72% (21)	21% (6)	7% (2)	▼	7% (2)	▼
TOTAL	21% (48)	41% (95)	38% (86)	▼	31% (72)	▼

Source: 2018–2019 MFMA Report (AGSA, 2019)

Overall, a total of 72 or 31% of municipalities are in a financially vulnerable position as they are not able to render services nor collect revenues adequately into the foreseeable future. Table 2.1 also indicates that 95 or 41 % of municipalities have a vulnerable position that is of concern. A total of 86 or 38%of municipalities require immediate intervention. Immediate intervention would assist in improving the overall cash position and cash on hand to defray service delivery obligations such as provision of water, payment of salaries, refuse removal and sanitation services. In this case, they are classified as being in a net deficit (expenses or expenditure exceeds revenues collected) position at the end of the financial year.

During 2018–2019, the consolidated net deficit amounted to R6,29 billion for 65 or 34% of these municipalities. In commercial terms, they are bankrupt. Expenditure in these municipalities exceeds revenue by a total of R6,29 billion, i.e., expenditure for creditors, salaries and other statutory payments exceeded the revenues collected from services and revenues received by way of grants and allocations.

In 2019, Ratings Afrika presented an article outlining how the municipal sector faced collapse as less than a quarter of the top or best 100 municipalities reported a surplus or profit in the 2018 financial year (Ryan, 2019). Municipalities fail to generate adequate revenues owing to lapses in or poor consumer billing systems and strategies, theft of water and electricity infrastructure and resulting distribution losses. The MFMA 2018–2019 General Report listed the Free State (R1,57 billion), Gauteng (R1,10 billion) and the North West (R0,98 billion) as the three major contributing provinces to the consolidated net deficit position (AGSA, 2019b).

The report also listed that 7 or 58% of municipalities in the Free State and 6 or 75% of municipalities in the North West provinces were in a net deficit position and these were also the provinces with regressing audit results (AGSA, 2019b). Municipalities with relatively weaker cash flow positions, such as the Metropolitan Municipality of Mangaung in the Free State Province will experience additional cash flow pressures (Moody's Investor Service, 2020).

This is attributed to a lack of willingness by both the administrative and political leadership to implement austerity measures and practise good financial disciplines as they are not held accountable for these transgressions as reported in the MFMA 2018–2019 Report (AGSA, 2019b). The resulting net deficit position means financial obligations to creditors such as Eskom and water boards are also not serviced or are under-serviced for periods longer than the statutory norm of 30 days. This amounts to a breach of s 65 (2) (e) of the MFMA which requires all monies owed by the municipality to be settled within 30 days (MFMA, 2003).

Failure to service Eskom, water board debts and various creditors was the norm in 173 of the 257 municipalities. Coupled with the net deficit position and outstanding debt obligations, 181 of the 257 municipalities are unable to recover debts owed to them. These monies are classified as debt irrecoverable and in monetary terms refer to services rendered to the public for which the municipalities will no longer be able to collect revenue. The undesirable local government financial health and net deficit position are also attributed to billions employed wastefully as accounting disciplines and legal prescripts are disregarded due to administrative and governance lapses (Evans, 2018). This is exacerbated by the expenditures which occur or take place in ways that are contrary to regulatory prescripts and policies. These are irregular (expenditure not incurred in the manner prescribed by legislation), unauthorised (expenditure municipalities incur without having made provision in an approved budget or expenditure incurred contrary to grant conditions) and fruitless and wasteful expenditure (expenditure incurred in vain which could have been avoided had reasonable care been taken) reported in the MFMA 2018–2019 Report (AGSA, 2019b).

Irregular expenditure incurred by 241 or 94% of municipalities for the 2018–2019 financial year was recorded as R32,06 billion as detailed in the third column of Table 2.2. This amount has increased gradually when compared to the 2016–2017 and 2017–2018 financial years. From the municipalities classified as being in a vulnerable financial position, their total fruitless and wasteful expenditure was recorded at R1,47 billion.

Table 2.2: UIFW expenditure

UIFW (unauthorised, irregular, fruitless and wasteful) Indicators	**2016–2017***	**2017–2018***	**2018–2019***
Irregular Expenditure	R28,38	R25,20	R32,06
Unauthorised Expenditure	R12,60	R12,90	R15,91
Fruitless and Wasteful Expenditure	R1,53	R1,30	R3,12

Source: 2017–2018 and 2018–2019 MFMA Report (AGSA 2018, 2019)

*The amounts in the table are in billions

In 2013, Corruption Watch's Bongi Mlangeni cited the local government as the weakest link following the Auditor-General's reports highlighting inadequate financial controls and the organisation receiving numerous reports of misuse of public funds, abuse of resources and maladministration – 22% of which implicated municipalities (Corruption Watch, 2013). Furthermore, the South African Municipal Workers Union (SAMWU) lamented the financial distress plaguing the sector leaving a loophole for fraud and corruption coupled with a lack of accountable leaders which translates to stalled service delivery (Corruption Watch, 2013). Data collected by Corruption Watch in June 2017 still indicated that corruption and financial mismanagement stemmed from thematic areas of bribery, embezzlement of funds, theft of resources and procurement irregularities (Corruption Watch, 2017).

The expenditure incurred in Table 2.2 contravenes the provisions in s 62(1)(e) and s 95 of the MFMA and NT Circular 97 requiring accounting officers to prevent such and ensure resources are efficiently and economically managed. In certain cases, the goods and services are received but acquired at hyper-inflated prices, e.g., for 500ml still water bottles acquired for a municipal conference or event retailing at R10 to R12, the municipality accepts and pays R25 to R30 per bottle to the contractor or service provider. Although the goods were received, the excess price resulted in fruitless and wasteful expenditure which would have been otherwise avoided had a contractor with reasonable pricing been selected (Shoba, 2020).

In other cases, the goods and services are invoiced and paid for, however, they are never received, are received in sub-standard quality or are received in a manner or form which renders them useless (Van der Westhuizen, Chigwata, & De Visser, 2020). This is a continuing trend as these expenditures are increasing annually as reflected in Table 2.2.

The poor financial health and declining or under-collected revenues will continue into the upcoming financial years given the economic challenges presented by the COVID-19 pandemic. Since the declaration of the National State of Disaster, the number of financially vulnerable municipalities will likely increase due to further economic contractions, an increase in the unemployment rate compounded by increasing retrenchments and job losses which will erode household and disposable income. This economic contraction will create a rise in the number of consumers unable to pay for basic municipal services such as property rates, taxes, electricity and water (Moody’s Investor Services, 2020). This will negatively impact revenue collection rates, resulting in a substantial increase in irrecoverable debt and subsequently a rise in municipalities' operating expenditure (Moody’s Investor Services, 2020).

2.3 Overview of Audits in Local Government in South Africa

2.3.1 Audit theories, audit practices and audits of municipalities

The audit process

The annual municipal audits objectively assess the stewardship of public funds, the implementation of government policies and compliance with key legislation at the end of the financial year. The scope of the annual audit is prescribed in the Public Audit Act. The audit will ensure three focus areas: whether financial statements are free from material statements, an assessment of the credibility and reliability of predetermined objectives linked to service delivery and compliance with laws and regulations (AGSA, 2019).

The audit of financial statements

The financial statements submitted by municipalities are assessed for incorrect or incomplete classification of transactions or incorrect values placed on assets, liabilities or financial obligations and commitments. Upon completion, any of the five audit opinions described in Table 2.3 assessing the three focus areas are issued and reported in the final management and audit reports.

Table 2.3: Five categories of audit opinions

Audit Opinion	**Interpretation**
Financially unqualified with no findings (clean audit)	The financial statements are free from material misstatements and there are no material findings on reporting on predetermined objectives or non-compliance with legislation.
Financially qualified with findings	The financial statements contain no material misstatements. Findings have been raised on either reporting on predetermined objectives or non-compliance with legislation or both of these aspects.
Qualified	The financial statements contain material misstatements in specific amounts or there is insufficient evidence to conclude that specific amounts included in the financial statements are not materially misstated.

Audit Opinion	Interpretation
Adverse	The financial statements contain material misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.
Disclaimer	The municipality provided insufficient evidence and documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts or represents a substantial portion of the information contained in the financial statements.

Source: AGSA Committee presentation to Parliamentary Monitoring Group (2011)

Appendix A presents the 2018 National Audit Outcomes with qualified, adverse and disclaimer audit opinions for the municipalities of South Africa.

2.3.2 Overview of audit outcomes in local government

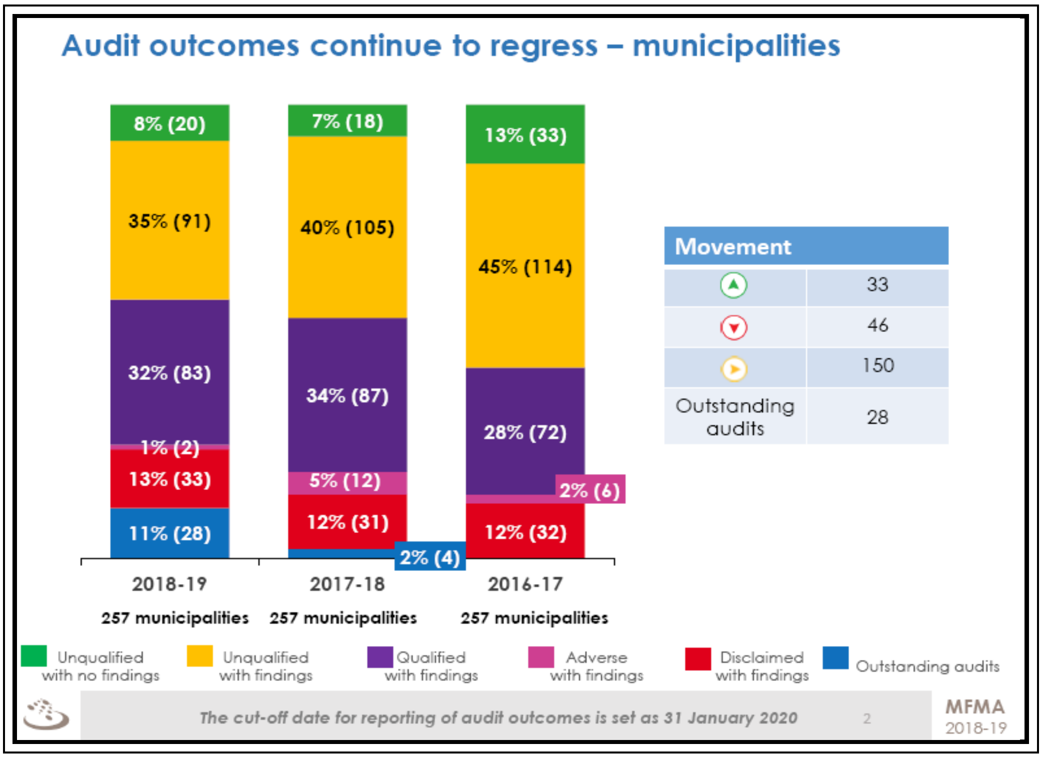
The national audit results are consistent with the deteriorating financial position of municipalities (BusinessTech, 2019). The MFMA 2018–2019 General Report reflects a further regression in audit outcomes and the financial position of municipalities due to slow or non-response in addressing risks, inadequate consequences for poor performance and financial transgressions and a persistent culture of financial misconduct (AGSA, 2019b). Steytler (2008) in the Dullah Omar Institute study found municipalities had become sheltered employment vehicles for politically connected individuals in senior management roles totally undermining legislation, efficiency and productivity and this was coupled with high turnover and vacancy rates.

Several municipalities are financially distressed due to inadequately capacitated or inadequately skilled leaders, increasing service delivery protests, poor financial management and fiscal imbalances which raises further concerns about their ability to absorb economic shocks (Chitiga-Mabugu & Monkam, 2013). If follows that political leadership (oversight function role) and the administration (day-to-day operations and financial management) perform functions without the requisite fidelity (Paradza, 2010). These functions include interpretation of statutes, investigating and holding to account inept officials and analysing financial and interrelated qualitative records. Collectively, this is reflected in the trend of poor quality financial statements, the prevalent use of consultants with little value-for-money, the vulnerable financial position and disregard for policies and regulations which resulted in irregular expenditure at R32,06 billion as reported in the MFMA 2018–2019 Report (AGSA, 2019b).

The audit outcomes also reflect shortcomings in the development and maintenance of infrastructure. In 2011, the South African Institution of Civil Engineering reported on underspending and the deterioration and ageing of bulk water infrastructure, inadequate maintenance of sanitation infrastructure and inadequate maintenance and overload in electricity infrastructure (Boshoff & Peters, 2015). The condition and maintenance of municipal infrastructure are important in ensuring the provision of services to communities (CSIR, 2007).

The performance snapshot section of the MFMA 2018–2019 Report cites challenges with water, road and sanitation infrastructure development projects underpinned by underspending budgets, delays in project completion, non-compliance with supply chain management legislation and irregular expenditure (Chitiga-Mabugu & Monkam, 2013). The value of infrastructure assets requiring maintenance is R317,68 billion, however, municipalities only incurred R8,5 billion in expenditure as reported in the 2018–2019 MFMA Reports (AGSA, 2019b). The national audit outcomes from the three financial years of 2016–2017, 2017–2018 and 2018–2019 for all 257 municipalities are presented in Figure 2.1; they indicate the relevant percentage in brackets per category of audit opinion. The detailed definitions for each audit opinion are outlined in Table 2.3.

Figure 2.1: 2016–2017 to 2018–2019 MFMA National Audit Outcomes



Source: 2018–2019 MFMA Report (AGSA, 2020)

A total of 118 or 46% of municipalities received unfavourable audit outcomes for the 2018–2019 financial year. The then Deputy Auditor-General noted with concern in the 2018–2019 MFMA Report that the number of outstanding audits had increased from 4 to 28. This was due to late submissions contravening the legislated MFMA deadline of 31 August annually and conveyed the lacklustre stance by the political and administrative leadership to account for the use of the public purse in a transparent manner and submit credible financial statements which fairly and adequately present the municipalities' financial health and position (AGSA, 2019).

Table 2.4 shows the provincial breakdown of the 118 or 46% of municipalities that received unfavourable audit opinions which were either a disclaimer, an adverse opinion or a qualified opinion – three of the most negative opinions. These are mainly clustered in the North West, Limpopo, Eastern Cape and Northern Cape provinces. The financial statements submitted contained incorrect and/or incomplete transactions and values placed on assets, liabilities and commitments; such misstatements comprised a substantial portion of the statement set and are a breach of s 122(1) of the MFMA which explicitly requires financial statements which fairly present the financial state of affairs of a municipality.

Table 2.4: 2018–2019 MFMA National Audit Outcomes

	Audit Opinions			
Province	**Qualified**	**Adverse**	**Disclaimer**	**Total**
Eastern Cape	13	-	8	21
Free State	9	-	3	12
KwaZulu-Natal	18	-	2	20
Limpopo	16	-	1	17
North West	8	-	9	17
Northern Cape	12	-	6	18
Mpumalanga	5	2	4	11
Gauteng	-	-	-	0
Western Cape	2	-	-	2
Total	**83**	**2**	**33**	**118**

Source: Author's estimates from 2018–2019 AGSA National Audit Outcomes (AGSA, 2019)

In the case of the disclaimers, 33 municipalities provided insufficient or incomplete evidence and documentation to support such transactions and the auditors could thus not express an opinion. In the case where misstatements were deliberate, it spoke to the lacklustre attitude displayed by both the administrative and political leadership whose fiduciary duty is prudent financial management and the overseeing of municipal finances as legislated in s 52, s 61(1) and s 62(1) of the MFMA (MFMA, 2003).

The MFMA 2018–2019 Report outlines that misstatements also occur due to negligence, fraud or error (AGSA, 2019b). The failure of municipalities to fulfil their constitutional mandates is primarily because of the incapacity of councillors, ineffective interventions, ineffective monitoring of interventions and poor management of transitions after interventions, as well as outright avoidance of interventions for political expedience (Merlon, 2018). The Auditor-General's 2018–2019 report theme is "Not much to go around, yet not the right hands at the till" (AGSA, 2020). Schermbucker (2020), in a GroundUp article, quotes the AGSA 2018–2019 media release's words, "the safe and clean hands that can be relied upon to look after the public's finances in local government are few and far between."

Of the 118 municipalities, those with serious or persistent material financial breaches have been placed under mandatory and discretionary provincial intervention as prescribed in s 138 and s 139 of the MFMA (MFMA, 2003) due to financial crises and financial problems. It means that the provincial government takes over the municipalities' responsibilities either with an appointed administrator when the council is dissolved or working with the council under a Financial Recovery Plan to place the municipality back in a sound and sustainable financial position to provide basic services or meet its financial commitments.

Table 2.5 shows that of the 118 municipalities with unfavourable audit outcomes, 40 municipalities' results had regressed, 66 had remained unchanged while 12 had improved even though their opinion was categorised as unfavourable, e.g., moving from a disclaimer to an adverse or qualified audit outcome will be an improvement as the auditors can at least obtain evidence and documents with which to verify transactions even though the financial statements still contain material misstatements.

Table 2.5: Movement in audit opinions

	Audit Opinion Evaluation			
Province	**Improved**	**Regressed**	**Unchanged**	**Total**
Eastern Cape	1	12	8	**21**
Free State	2	4	6	**12**
KwaZulu-Natal	3	7	10	**20**
Limpopo	3	3	11	**17**
North West	2	3	12	**17**
Northern Cape	1	5	12	**18**
Mpumalanga	-	6	5	**11**
Gauteng	-	-	-	**0**
Western Cape	-	-	2	**2**
Total	**12**	**40**	**66**	**118**

Source: Authors estimates from 2018–2019 AGSA National Audit Outcomes

The audit outcomes and movement in audit outcomes indicate that oversight responsibility, which lies with the administrative and political leadership, is lacking or inadequate given the billions unaccounted for and spent on questionable services and transactions over the past audit cycles (BusinessTech, 2020).

The MFMA 2016–2017 General Report highlighted three key problems that needed to be resolved to achieve a clean administration or favourable audit outcome. These entailed addressing (1) the lack of consequence management that (2) leads to non-compliance which

(3) leads to irregular expenditure. This cycle continues to repeat annually, resulting in increased irregular expenditure and poor financial governance (AGSA, 2018). The MFMA 2016–2017 result is similar to the results observed in the MFMA 2018–2019 Report (AGSA, 2019b).

To address the regression in audit outcomes, COGTA implemented three initiatives namely Project Consolidate between 2004 and 2009, the Local Government Turnaround Strategy (LGTAS) from 2009 to 2014 and the Back-to-Basics Programme from 2014 to 2018. These programmes and interventions were introduced to deal with, inter alia, the financial and audit results regression. Their objectives were to address municipal financial sustainability but none had tangible success.

The 2009–2014 COGTA LGTAS reported on the country’s lack of skills, poor financial governance and poor municipal fiscal and financial health (Mbulawa, 2019). LGTAS was an initiative preceded by Project Consolidate (2004–2009) which had very limited success in dealing with local government's financial state of affairs and the poor audit outcomes. In 2011, City Press reported that despite yielding minimal improvements in municipalities, projects such as Project Consolidate did not achieve the desirable intended purpose of bolstering anti-corruption, promoting local economic development, improving financial accountability and performance standards as high staff turnover of management, corruption and non-compliance continued to ensue (City Press, 2011).

Following these two initiatives, COGTA penned the Back-to-Basics Programme from 2014 to 2018 with the same objectives – yet to be realised (Mbulawa, 2019). This was followed by the observation by the then Minister of COGTA, Dr Zweli Mkhize, that the number of dysfunctional municipalities had increased from 55 to 78 (Herman, 2018). Following the increase in the number of dysfunctional municipalities (Herman, 2018), Dr Mkhize launched the Back-to-Basics Programme II in 2018 (COGTA, 2018). There is no indication as to why the current Back-to-Basics Programme II, continued from 2018, is expected to have greater success without rectifying the fiscal structural defects.

In any intervention, fiscal structural defects require attention. The 2012 Financial and Fiscal Commission’s (FFC) study revealed that revenue collection discrepancies and limitations impair the balance sheet which exacerbates financial health if coupled with increasing debt, fiscal imbalances and wastage through increasing UIFW expenditure. It follows that a municipality in a weak fiscal position may not be able to sufficiently absorb economic shocks consequently resulting in poor or under-provision of services (FFC, 2012).

Parallel to COGTA’s interventions, multiple stakeholder municipal interventions at national and provincial government levels were put in place including Auditor-General remedial actions and recommendations and the use of private sector consultants to bolster municipal systems and address skills shortages. Concurrent with reviewing the fiscal framework and imbalances and poor financial governance, a recommendation by the monitoring and evaluation department to address the skills deficit called for a move away from political deployees to create a clear separation between the political representatives and administrative leadership in a municipality. This would be supported by long-term skills development programmes for senior managers and technical professionals (DPME, 2014).

2.4 Conceptual Framework – Financial Conditions and Audit Outcomes

2.4.1 Financial conditions attributing to negative and regressing audit outcomes

Financial health assessment tools acting as early warning mechanisms would detect and arrest prevailing dysfunctions such that financial sustainability could be achieved and fiscal distress prevented. The assessment of the financial position of local governments and municipalities is undertaken using ratios including but not limited to cash solvency, budget solvency, long-term solvency and service-level solvency ratios (GASB, 2004) calculated on the figures and balances presented in the AFS.

The cash solvency ratio assists in determining the availability of cash to cover expenses. The budget solvency ratio indicates the effectiveness with which the budget is drafted and implemented to meet service delivery objectives. The long-term solvency ratio indicates the ability to settle long-term debts and obligations. The service-level solvency ratio speaks to the ability to service capital obligations and projects to meet community needs. Collectively, these ratios provide a composite picture of the financial health of the institution.

The fundamental or core existence of a municipality is vested in s 152 – the provision of basic services and fostering development (Constitution, 1996). This constitutional requirement differentiates and distinguishes a municipality from a private company operating for commercial activities or profit; a municipality exists solely and wholly for service delivery provisions. Pursuant to this, all structures, administration, budgeting and processes in the municipality rest on discharging the service delivery obligation, without which, they would not exist. The NT does however not expressly include the service delivery solvency ratio in the financial condition of municipalities. Encompassing a measure and analysis of service delivery provides a more prudent and holistic assessment as service delivery depends largely on the financial health and management of such health or financial conditions (Coetzee & Kleynhans, 2019).

Mbulawa (2019) cites the global financial health assessment as incomplete if service delivery is not measured, evaluated or assessed adequately as it is designed to confirm whether the local government fiscal framework is distressed. Thus, a financial condition or health assessment would not be composite or accurate without the service delivery metric or ratio. With an appropriately designed metric, the NT would better assess and respond to improving the overall local government financial health of municipalities. The four financial condition ratios and indicators are defined below:

- Cash solvency ratio measures the available cash resources to discharge obligations such as Eskom, service providers and consultants. It is advisable to have sufficient cash resources which will be indicated by a high ratio (MFMA Circular 71, National Treasury).
- The budgetary solvency ratio is based on operating revenue earmarked by a municipality from transactions. With less revenue, the ratio would be low indicating limited revenue available to service expenses, commitments and obligations (MFMA Circular 71, National Treasury).
- Long-term solvency ratio measures a municipality's ability to settle long-term debts while continuing to exist and transacting into the foreseeable future as a going concern. A high ratio indicates the ability to transact and operate as a going concern, in other words being financially viable (MFMA Circular 71, National Treasury).
- The service delivery solvency ratio indicates various capital and long-term projects undertaken to provide services to communities (Mbulawa, 2019).

The financial condition metrics incorporated in this study are presented in Table 2.6 below.

Table 2.6: Financial condition ratios

Financial Condition Indicator	**Ratio**
Cash solvency	– Cash ratio – Liabilities ratio
Budgetary solvency	– Operating ratio
	– Property tax revenue ratio

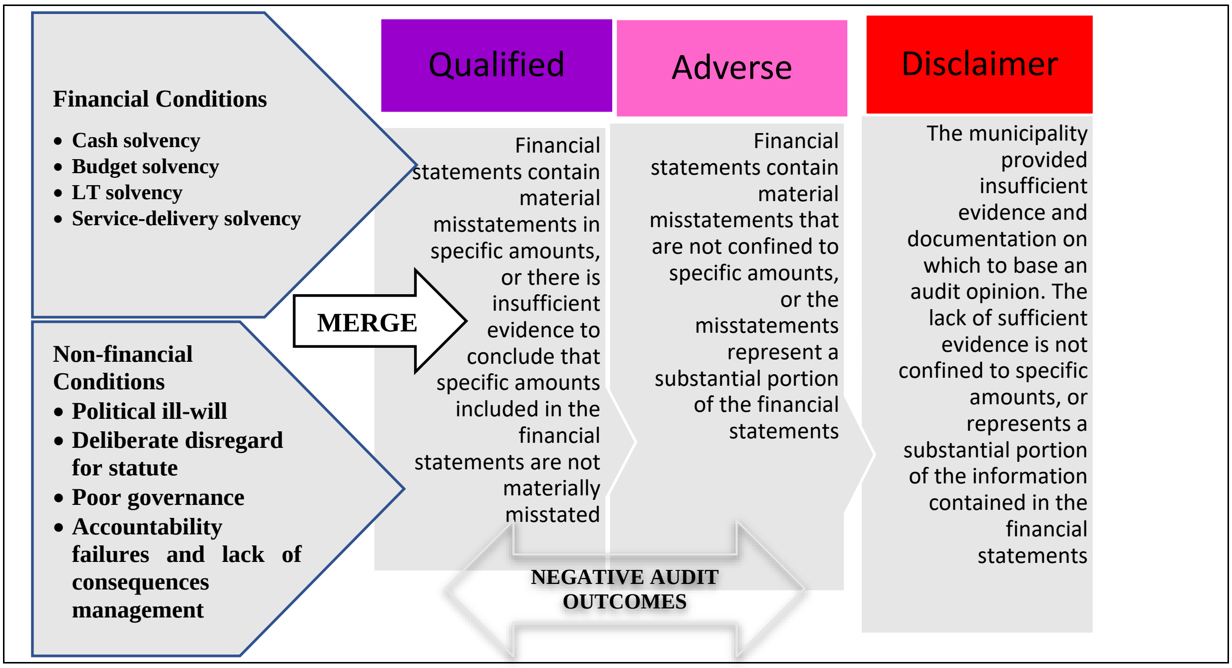
	– Intergovernmental revenue ratio
Long-term solvency	– Fund balance ratio
	– Outstanding general long-term debt ratio
	– Governmental debt service ratio
	– Unfunded pension liability ratio
Service-level solvency	– Outstanding general long-term debt per capita
	– General Fund operating revenues per capita
	– General Fund expenditures per capita
	– Debt Service Fund expenditures per capita
	– Capital Projects Fund expenditures per capita

Source: Maher and Nollenberger (2009)

These financial condition indicators, if unfavourable, will result in financial distress which is also marked by poor audit outcomes. In 2016, Ratings Afrika reported 93% of municipalities as financially distressed. These municipalities are the same basket of municipalities categorised as dysfunctional and have shown a reduction in the number of clean audits, i.e., an increase in negative audit outcomes when compared to the MFMA 2016–2017 Report results (AGSA, 2018).

From the financial condition metric in Table 2.6, Mbulawa (2019) corroborates that systematic fiscal and financial distress and failure result in negative audit outcomes as reported by the Auditor-General. From the audit of the financial statements, on which the four financial condition ratios are calculated, the audit outcomes are produced in an audit report. The three most unfavourable audit outcomes, i.e., qualified, adverse and disclaimer, illustrate financial management challenges that lead to regression in financial health. Figure 2.2 illustrates the financial condition ratios and non-financial factors merging to collectively form the underlying root causes for negative and regressing audit outcomes.

Figure 2.2: Factors indicating poor and regressing audit outcomes



To gradually reverse or arrest this annual and repetitive cycle of negative audit outcomes and increasing irregular expenditure, legally binding consequences and criminal proceedings need to be instituted for financial misconduct as defined in both s 172 and s 174 of the MFMA and the MFA, in addition to exercising effective financial governance (MFMA 2016–2017 General Report). Immediate intervention would assist in improving the overall cash position freeing up cash and cash resources to defray financial obligations and commitments and prevent continued scenarios of collapse or municipalities placed under s 139 (MFMA, 2003) administration given the 87 municipalities currently reported as dysfunctional (Herman, 2018).

Irrecoverable debt (long-term solvency ratio), inadequate billing mechanisms, declining operating revenues (budget solvency ratio) and shortfalls in cash available (cash solvency ratio) are the collective root cause for the under-collection in revenues and failed service delivery projects (service delivery solvency ratio) (Municipal IQ, 2019; ISS, 2019; MFMA 2018–2019 General Report). Sections 62(1)(d) and 78(1)(c) of the MFMA require that reasonable steps be taken to prevent UIFW expenditure which is one of the more prevalent root causes from which year-on-year negative audit findings emanate. The collective categories of the three different types of MFMA prohibited expenditures wherein monies can be saved by acquiring goods and services within the ambits of the procurement regulations and prescripts (retail price and acceptable quality) also account for the vulnerable financial position.

Arresting crippling financial mismanagement, unspent grants, spiralling debt and under-collected revenues, collapsing infrastructure and governance failures in dysfunctional councils are the basic building blocks needed to deal effectively with regressing financial health (Evans, 2018).

2.4.2 Non-financial conditions attributing to negative and regressing audit outcomes

Non-financial conditions also contribute to negative audit outcomes. The regression in national audit results is consistent with the deteriorating leadership accountability and regressing financial health in municipalities (BusinessTech, 2020). Inadequate consequences for poor performance and transgressions also hamper progress as officials are not held accountable (MFMA 2018–19 General Report).

The legislative and executive authority of a municipality rests with the council and the political leadership as per s 4 of MSA, 2000. The mayor provides political oversight while administratively supported by the municipal managers to ensure that service delivery obligations are fulfilled. However, political interference in the administration carried out by officials or strained relations between the two result in service delivery being hampered (Mngomezulu, 2020).

In recent years, the escalating and violent service delivery protests nationally stem from communities frustrated with the slow pace of or no service delivery (Mngomezulu, 2020). The result once the Auditor-General assesses the predetermined objectives (service delivery component) through the accompanying financial statements includes the three negative outcomes: a qualified, adverse and disclaimer of opinion.

Challenges cited in the MFMA 2018–2019 General Report have and continue to attest to inadequate accountability and local government being perceived as a self-enrichment vehicle for politicians and the administration (AGSA, 2020). Pretorius (2017) cites the May 2014 City Press news article where a lack of transparency and political interference were the main conduits brewing dysfunction and financial regression in municipalities; 176 service delivery protests were recorded in 2014 across three categories – structural (poverty, unemployment), governance-related (erosion in leadership and lack of accountability) and systemic (nepotism, maladministration and fraud). This highlights the deliberate disregard for statute and the lack of instituted consequences, weak governance controls and political ill-will (DPME, 2014).

Collectively, the result is a devastating impact, indicating that weaknesses in accountability and poor leadership have resulted in another year of dismal financial outcomes in local municipalities (Shoba, 2020). The then Auditor-General, Kimi Makwetu, in the MFMA 2017–2018 Report, urged municipal leaders to take active roles in holding those charged with misconduct accountable to curb the inappropriate financial behaviour municipalities have engaged (AGSA, 2018).

2.5 Empirical Literature

Municipal financial results and audit outcomes have received significant research, scoping and attention for the past several years in South Africa. Studies have been conducted by, among other organisations and academic institutions, Statistics South Africa, the NT, the FFC, SALGA, the UWC Dullah Omar Institute, Ratings Afrika, Public Affairs Research Institute (PARI) and Good Governance Africa.

The NT detailed attributing factors to the deterioration and regression in financial health in its State of Local Government Finances and Financial Management Report (National Treasury, 2017). The report cites, as root causes for financial distress and deterioration, underspending of capital budgets, over-reliance on national and provincial grants, vacant posts in key senior management, significant electricity and water losses which deplete revenues when undetected or unresolved, inadequate budgets for repairs and maintenance and poor asset management (National Treasury, 2017). These root causes equally result in negative audit outcomes. Despite the extensive work done in examining the root causes and main reasons for the distressed financial position, extensive research examining the disservice created by the political leadership and the role they play in maladministration and financial regression is limited in these reports.

Ratings (2018) published reports assessing the financial sustainability and governance of South Africa's municipalities by using the MFSI. The MFSI assesses how the country's municipalities manage their finances and how this impacts service delivery. This was based on AFS for the year ended 30 June 2018 (Ratings Afrika, 2018). Worryingly, the 2018 index confirmed that municipalities were in financial distress, lacking proper budget planning and failing to exercise adequate fiscal discipline, with expenses often exceeding income which resulted in losses. This is qualified by reports that municipalities at financial year-end were in a net deficit position with only R1,4 billion in revenues, whereas the combined expenses/losses amount to R13,3 billion (Ratings Afrika, 2018). This hampers or stalls service delivery with catastrophic consequences for residents and businesses, which in turn could encourage political unrest as seen in rising protest action (Gous, 2019). Despite the extensive detail and work done in examining the root causes and main reasons for the distressed financial position, further studies examining the disruption created by the political leadership and other contributors to the financial crisis are limited.

Brand (2018) examined the costs the state bears due to a dysfunctional local government sphere. The trend analysis indicates that municipalities are now dysfunctional due to size, structure and blatant disregard for the rule of law in addition to corruption and political interference (Brand, 2018). The study further elaborated on the serious spiralling financial crisis of a typically dysfunctional municipality often characterised or identified by low debt collection, large amounts owed to service providers and creditors, water losses as a result of dilapidated infrastructure and tender fraud/corruption which ultimately breaks down service delivery. Although the author has identified root causes for the financial crisis and recommended investigations into the size, structure and governance structures in place, the details examining the deterioration created by political leadership and the causal link between financial dysfunction and regressing audit outcomes are limited.

Coetzee and Kleynhans (2019) in their study of KwaZulu-Natal municipalities investigated several socio-economic factors such as unemployment and non-working age population affecting their financial condition and tested this across 51 municipalities. This indicates that non-financial conditions do impair financial health as high unemployment means communities with limited or no disposable income will not pay for municipal services thereby limiting revenue collection for service delivery (Coetzee & Kleynhans, 2019). Municipalities with these financial challenges also are the same ones that hardly receive clean audits (i.e., they receive negative audit outcomes). Their study showed the link between deteriorating financial health from declining or under-collected revenue and non-financial factors and negative audit outcomes and service delivery.

Ledger and Rampedi (2019) for PARI conducted an s 139 study wherein municipalities were placed under administration due to persistent or material breach of obligations. The study referred to 15 municipalities that for the last three consecutive years had achieved a disclaimer or adverse audit opinion due to a collapse in governance, leadership structures and the considerable misappropriation of public funds and remained in a state of operational and financial failure. These municipalities were technically insolvent and hampered the delivery of basic services; the challenges were exacerbated by disintegrating infrastructure. Ledger and Rampedi (2019) traced the operational and financial failure to maladministration and political interference. The municipalities were turned into vehicles for political battles for appointing officials or awarding contracts to service providers who would obey their instructions and disregard the MFMA provisions which prohibit councillors or political principal interference with the administration function.

Mbulawa’s (2019) study to understand the financial sustainability of municipalities encompassed the service delivery component in measuring the financial condition of municipalities because service delivery is the municipality’s core business, without which an adequate financial and audit assessment would be misleading or inaccurate. The study explains the role cadre deployment and political interference play in hampering not only service delivery but also how they actively promote regressing financial health and negative audit outcomes (Mbulawa, 2019).

Pretorius's (2017) study focuses on the conflicted relationship between political and administrative leadership in executing the service delivery mandate. The municipalities sampled in the Free State Province are marred by the interrelated triple challenge of negative audit outcomes, cadre deployment or political secondment into administration roles, regressing financial health and degenerating into poor service delivery (Pretorius, 2017). This regression in audit outcomes has been reported by the Auditor-General for the past five years (AGSA, 2018).

Siddle and Koelble (2016) in their study on the ability of local government to deliver on its developmental mandate, cite that political interference, in particular of the tender process, among other governance challenges, is a common complaint in financial management. Among institutional issues listed as facing local government, a lack of accountability, ineffective audit and oversight committees, non-compliance with statutes, maladministration and political interference adversely affect municipalities in delivering their constitutional mandate.

Sikhakane and Reddy (2011) cite service delivery, witnessed by rising protests among citizens given poor service provision, as the main challenge faced by municipalities and the general lack of accountability by the municipalities. Given the operational and financial failures stemming from poor governance, maladministration and political challenges as reported in the MFMA General 2018–2019 Report (AGSA, 2020), municipalities that obtained the adverse, qualified and disclaimer audit opinions in the 2018–2019 audits were failing to deliver basic services. In an effective environment, municipal officials implement, without fear, pressure or favour, pro-community decisions and services while being supported by independent and objective political oversight structures that report back to their wards that services will indeed be delivered; the two are interdependent.

Sikhakane and Reddy (2011) state that the relationship is compromised, strained and exacerbated by a lack of political accountability as the administration and the politicians are at logger heads and forced to implement political decisions irresponsive to public service delivery. This is the prevalent scenario of political interference as administrators are not politically neutral but loyal to politicians who retain or renew their employment contracts in exchange for the execution and authorisation of transactions breaching the MFMA provisions.

2.6 Summary

As can be observed from the studies evaluated above, the gap between the impact that leadership has on the deteriorating municipal financial health and the regression in audit outcomes is the reality. Therefore, this study will detail the relationship between deteriorating financial health and how it is brought about by an unskilled and inexperienced political and administrative leadership as prior studies and research in the local government sphere have not always focused entirely on the relationship between regulation strangulation and political and administrative leadership and how these significantly contribute to the deteriorating municipal financial health and the negative audit outcomes.

Examining this relationship will also assist stakeholders such as SALGA, the national and provincial treasuries and COGTA that employ funds, time, resources and hands-on support to deal with the deteriorating financial position and health in local government. The state would ultimately benefit as a developmental local government means development needs are considered and placed at the forefront in taking the country forward.

CHAPTER 3: METHODOLOGY

3.1 Introduction

This section presents the research approach, methodology and procedures used for collecting data to analyse the financial health and performance, audit outcomes and the role of the political leadership in municipalities. It presents the research design and techniques used, their reliability, validity and credibility and explains the limitations of the design, techniques and methods used.

3.2 Research Approach

This study uses the quantitative method which Sheard (2018) notes as research involving data converted through statistical techniques to *analyse the data to explain or describe characteristics, find correlations or test hypotheses*. The research questions and objectives will be addressed through the quantitative methods approach as the study will examine the correlation between deteriorating financial health and poor audit outcomes and the role of the administrative and political leadership. In addition, the quantitative data will explain the deterioration in finances and seek to explain further how and why municipal financial health and performance are in their current position.

3.3 Research Design

The study follows a quantitative explanatory design which Bhattacherjee (2012) defines as a type of design aimed at answering questions and explaining the problems or phenomena in the results. The results of the research are expected to explain the significance and relationship between the audit outcomes, the political and administrative leaders and the dysfunctional and financially distressed municipalities.

In their assessment of the financial conditions of municipalities, Coetzee and Kleynhans (2019) state that non-financial factors also have significant effects on regressing financial health. Thus, the first objective and question will not only be addressed effectively by quantitative data but other non-financial variables and non-financial factors. The second research question and objective, relating to understanding the role played by the administrative and political leadership in deteriorating financial health, is open-ended and aims to describe the phenomenon under investigation. The quantitative data and non-financial factors and variables will provide a multi-faceted view and an in-depth analysis and understanding of the deteriorating financial health of municipalities.

McGregor and Murnane (2010) described three types of research paradigms: positivism, post-positivism or interpretivism and pragmatism. This study uses the positivism paradigm as the quantitative data result will be unbiased because it will not be based on the views of the researcher but will be more precise and based on the results stemming from the statistical analysis.

3.4 Sampling, Data Collection and Analysis

The next sub-sections explain the population and sample, data collection and data analysis techniques for the study.

3.4.1 Population and sampling

The target population and sample in this study consist of the financial data of all 257 municipalities, including the population of the 118 municipalities with negative audit outcomes, i.e., qualified, adverse and disclaimer audit opinions. This allowed the researcher to use relevant and reliable data focused on the objectives of the study. Creswell (2014) states that a good procedure is to draw the sample from the same population for the qualitative and quantitative phases of a study.

3.4.2 Data sources and collection

The research was conducted using secondary data, i.e., municipal financial health data compiled from the NT and Statistics South Africa for the 2018–2019 period. Other data was obtained from AGSA from the 2018–2019 Local Government Audit Outcomes covering one financial year. The data were considered credible as they were sourced from reputable institutions (NT, Stats SA and AGSA) – the custodians of financial, economic, audit, census and related data for the country. The audit and financial data were relied upon as accurate, reliable and valid as the audit reports and financial data are independently audited; AGSA data were further verified through a pre-issuance examination process. The data were stringently verified for credibility and reliability before publication.

3.4.3 Model specification and definition of variables

The research employed regression techniques to test the relationship between the financial performance (financial health) and regressing audit outcomes of distressed municipalities, i.e., financial performance and financial health as a function of audit outcomes (Coetzee & Kleynhans, 2019). The regression model is specified as

$$FC_i = \beta_0 + \beta_1 AO_i + \beta_k X_k + \varepsilon_i$$

Where FC_i and AO_i denote financial conditions and audit outcomes of municipality i, respectively; X and ε represent control variables and error terms, respectively.

3.4.4 Dependent variables: financial condition

In this research, four indicators of financial health – cash solvency, budget solvency, long-term solvency and service delivery ratios – were employed as the dependent variables.

Cash solvency: This gives an indication of available cash resources and a municipality's ability to meet fixed operating commitments and to discharge debt obligations such as Eskom and service providers such as consultants. This is also defined similarly by Clark, Ritonga and Wickremasinghe (2012). It is measured by evaluating the cash and quick ratios which measure available cash, investments and cash equivalents to be covered by the current and other liabilities. It is advisable to have sufficient cash resources, which will be indicated by a high ratio.

Budget solvency: This indicates the ability of a municipality to generate adequate operating revenue throughout the financial year from various exchange transactions including service charges and property taxes, with which operating expenses will equate to or sufficiently covered. This is explained by Nollenberger, Groves and Valente (2003). In this case, the budget will remain funded or in surplus and adequate to deliver services. It is measured with the operating and surplus per capita ratio which will compare and calculate operating revenue and operating expenses and through revenue available concerning the population receiving municipal services in that municipal jurisdiction. With less revenue, the ratio would be low indicating limited revenue available for service expenses, commitments and obligations.

Long-term solvency: This indicates a municipality's ability to settle long-term liabilities while continuing to exist and transact as a going concern in the foreseeable future. Thus, the ratio according to Nollenberger et al. (2003) indicates long-term financial viability or sustainability. It is measured with the net assets and long-term liability ratio which calculate total long-term liabilities against the available total assets. The net assets (equity) ratio, which is net assets against total assets, is also used as a measure. A high ratio indicates the ability to transact and operate as a going concern, in other words being financially viable (Bikam & Chakwizira, 2021).

Service-level solvency: Clark, Ritonga and Wickremasinghe (2012) describe this as the ability of a municipality to render or deliver services to its communities. The ratios that reflect revenue collected from property taxes collected and expenditure incurred in delivering services after collecting revenue are the property tax per capital, revenue per capital and expenditure per capital ratio. The results of the ratio will indicate the various capital and long-term projects undertaken to provide services to the communities or the population in that municipal jurisdiction.

Financial Condition Index: Following Wang et al. (2007) and Clark (2015), the financial condition indicators are combined using an equal weighting approach to construct the financial condition index (FCI). The process first involves the inverse conversation of property tax per capital, revenue per capital and expenditure per capital ratio, long-term liability ratio and long-term liability per capita followed by the normalisation to restrict the variables to between 0 and 1. The average of all the indicators is estimated to derive the FCI.

3.4.5 Independent variables

Audit Outcomes are the opinions expressed on whether the financial statements fairly present the financial position and operations of the municipalities at the end of the financial year (AGSA, 2020). For this study, three of the most concerning audit opinions were included. These are qualified opinion, adverse opinion and a disclaimer. It is captured as a dummy variable defined as 0 for qualified opinion, 1 for adverse opinion and 2 for disclaimer. The financial indicators used in this analysis are described in Table 3.1.

Table 3.1: Indicators to measure financial health and MFMA National Audit Outcomes

Dependent Variables		
Cash Solvency	Current ratio	Current assets/current liabilities
	Quick ratio	Cash and cash equivalents, investments, receivables/current liabilities
	Cash ratio	Cash and cash equivalents, investments/current liabilities
Budget Solvency	Surplus per capita ratio	Surplus/population
	Operating ratio	Operating revenue/operating expenses
Long-term Solvency	Net assets ratio	Net assets/total assets
	Long-term liability ratio Long-term liability per capita	Long-term liabilities/total assets Long-term liabilities/population
Service Solvency	Property tax per capital	Property tax /population
	Revenue per capital	Revenues/population
	Expenditure per capital	Expenses/population
Financial Condition	Financial condition index	Average of cash, budget, long-term and service solvencies
Independent Variables		
Audit Opinion	Defined as 0 for municipalities with disclaimer opinion, 1 for adverse opinion, 2 for qualified, 3 for qualified with findings and 4 for financial unqualified with findings	
Audit Progress	Defined as 0 for municipalities with regressed evaluation, 1 for unchanged and 2 for improved	
Control		
Municipality Type	Type A, Type B and Type C	A – Metropolitan Municipality B – Local Municipality and Secondary Cities C – District Municipality

Dependent Variables		
Province	Total of nine provinces in which municipalities in South Africa are situated are defined from 0–8	0 – Eastern Cape, 1 – Free State, 2 – Gauteng; 3 – KZN, 4 – Limpopo, 5 – Mpumalanga, 6 – Northern Cape, 7 – North West, 8 – Western Cape
Population	Population in each municipality	Total population per municipality determined per STATS SA census
Administrative Intensity	Staff and operating costs to total expenditure	Operating costs, employee costs, Eskom and water board debt, payments to suppliers and creditors for administration services to the municipality

3.4.6 Estimation and analysis techniques

The quantitative analytical design chosen for this study was cross-sectional. The study used cross-sectional data which included multiple variables around the financial health, financial condition and audit outcomes of all municipalities to estimate the linear regression. The cross-sectional data focused on in the study relate to the 2018 financial year comparing the different municipalities across all provinces in the country. Hayashi (2000) references linear regression as an essential and foundational tool for modern econometrics in particular for the finance field due to the availability of simpler estimators and ease of interpretation including the interpretation of coefficients.

The estimation technique used is the ordinary least squares (OLS) method. Hasan and Alam (2018) state that the OLS method can be used if the cross-sectional data follows a normal distribution without a heterogeneity problem. Miller (2006) describes the OLS technique as efficient in determining the best fit for a model given its extensive use in regression analysis and estimation.

Stata software was used for the review and analysis of municipal financial and audit outcomes data for the 2018 period. After testing the linear regression model assumptions of multicollinearity, auto-correlation and heteroskedasticity, the test results of and resulting implications for the study are presented in Chapter 4.

3.5 Reliability and Credibility

Validation refers to the trustworthiness and credibility of the data and is required as researcher bias may arise given their subjectivity (UCT GSB, 2019). The researcher was careful to address the reliability and validity of the carefully selected data, sample and population for both the qualitative and quantitative data phases of the study. The quantitative research data are credible and reliable as NT, STATS SA and AGSA are national and trusted custodians of financial, economic, audit, census and related data for the country. All reports, audit reports and financial data are independently audited. The data were thus stringently verified for credibility and reliability before publication.

3.6 Research Limitations

Research limitations were included previously. The main limitation in the quantitative section relates to the time frame, which is limited to 2018, strictly one financial year, even though comparisons were made to the other financial years. Should the period have been extended, more conclusions could have been drawn. For the entire study, the limitation relates to inadequate resources to study the political and administration leadership in all 257 municipalities extensively. However, the results from the audit reports and outcomes provide a fair representation as far as possible.

3.7 Summary

The quantitative method research approach used for this study addresses the research objectives and questions more accurately and holistically than any other method. The research design was outlined, including data sources, data collection and analyses and the reliability and credibility thereof. The limitations were also described. The next chapter presents a discussion of the findings.

CHAPTER 4: DISCUSSION OF RESULTS

4.1 Introduction

This chapter presents the results of the analysis of the financial health and financial condition of local government for the 257 municipalities in South Africa for the period covering the 2017–2018 financial year. The outputs are presented in the descriptive statistics (mean, median and standard deviation) and inferential statistics (correlation analysis and regression results) sections that follow.

4.2 Descriptive Statistics

The descriptive statistics of the observed data are presented in Tables 4.1 and 4.2. Overall 257 municipalities (items of data) were available. However, given the cases where municipal financial data or financial statements were not available, the total analysis of data ranged from 253 to 257.

Table 4.1: Summary statistics of financial indicators

	Mean	Median	SD	Min	Max	N
CR	1.9720	1.0382	2.9054	0.0678	23.6752	257
QR	1.0051	0.3388	1.9135	-3.8534	14.5358	253
CAR	0.9755	0.2073	1.9016	0.0000	14.5425	257
OR	2.0893	0.9905	5.7223	0.0140	57.2622	256
SURPC	-0.5483	-0.0077	7.4101	-113.8802	23.0143	257
NETAR	0.7411	0.8162	0.3348	-1.4435	1.8230	257
LTLR	0.1018	0.0501	0.1680	0.0000	1.5385	257
LTPC	0.6675	0.3460	5.2140	-76.9311	24.1723	257
PTPC	0.5275	0.3202	0.6271	0.0000	3.2859	256
REVPC	3.8138	2.8022	3.2329	0.1506	24.1695	257
EXPPC	4.3621	2.5159	7.8174	0.0000	115.4997	257

Note: CR = current ratio, QR = quick ratio, CAR = cash ratio, OR = operating ratio, SURPC = surplus per capita, NETAR = net assets ratio, LTLR = long-term liability ratio, LTLPC = long-term liability per capita, PTPC = property tax per capita, REVPC = revenue per capita, EXPPC = expenses per capita

Table 4.2: Summary statistics of financial condition

	Mean	Median	SD	Min	Max	N
Cash solvency	0.1380	0.0956	0.1152	0.0010	0.8985	253
Budget solvency	0.4320	0.4244	0.0600	0.0000	0.9230	256
Long-term solvency	0.2332	0.2338	0.0560	0.0024	0.9028	256
Service solvency	0.0509	0.0277	0.0701	0.0020	0.6028	197
FCI	0.2118	0.1982	0.0397	0.1576	0.4326	193

Note: FCI = financial condition index

4.2.1 Financial indicators

The cash ratio in Table 4.1 is 0.2073 meaning that for every rand, a municipality only has 20 cents to cover the long-term obligations or the municipality can only cover 20% of liabilities. Table 4.2 reports the median values of each indicator covering the 2018 financial year. Thus, the trend is observed for that period. The median is a better statistic in representing the population (Kamnikar, Kamnikar, & Deal, 2006).

The quick ratio in Table 4.1 is below the normal range of 1.2–2 and at 0.3338 which is considered an unfavourable position as municipalities will not be able to defray obligations with their liquid assets – an indication signalling failure to invest in adequate revenue-generating activities. This trend signals a weakening financial position and financial health and is attributed to inefficient current asset management. The inefficient current asset management is consistent with the CSIR (2007) study which identified ongoing failures in recovering from maintenance backlogs and carrying out preventative maintenance programmes to effect and deliver reliable and sustainable services. In future, this ratio needs to increase as it threatens or indicates unfavourable cash balances which could potentially lead to bankruptcy and failure to deliver services.

In addition, the surplus per capita ratio is negative at -0.0077 indicating that the municipality incurs more debt and expenses in delivering services per citizen in its population as compared to available, generated and collected income and revenue per citizen resulting in a net deficit for the budget under review. The CSIR (2007) study results are consistent in identifying inadequate budgets and the predicaments due to financial distress which render failure to fund infrastructure maintenance and, subsequently, to deliver sustainable services.

The revenue per capita in Table 4.1 may be skewed unless income/revenue generated is evenly distributed among the population/citizens. However, South Africa has one of the highest Gini coefficients in the world indicating severe income inequality (World Bank, 2019). This hampers revenue collection for municipalities where revenues expected for collection by way of property rates, taxes and service charges are diminished given the increasing inequality and unemployment which creates a ripple effect and dictates that an increasing proportion of the population fails to pay for services rendered by the municipality given their low income and/or disposable income.

The results allude to the AGSA MFMA 2018–2019 Citizens Report (AGSA, 2019b) which indicated a growing trend of non-payment of municipal services by 60% of households and established businesses and 79% of municipalities requiring urgent intervention. Furthermore, the long-term liability ratio in Table 4.1 is 0.0501 which means that a municipality is only able to cover 5 cents in long-term obligations or the municipality can only cover 5% of liabilities.

4.2.2 Indicators for financial condition

The summary statistics of the four indicators for financial condition – cash solvency, budget solvency, long-term solvency and service solvency – are presented in Table 4.2.

The **cash solvency** ratio mean (median) of 0.1380 (0.0956) indicates insufficient current assets (readily available for conversion into liquid cash) to cover current liabilities which should not be the norm. Based on this ratio, it is concluded that municipalities have weak/poor cash solvency as current liabilities are in excess of current assets. This observation is consistent with the AGSA MFMA 2018–2019 Citizens Report (AGSA, 2019b) wherein R53,52 billion is owed by municipalities to creditors, R18,91 billion to Eskom and R43,20 billion to water boards, yet municipalities only had R43,20 billion in cash reserves. An average of 79% of municipalities require urgent intervention due to their vulnerable financial position; the failure of 60% of the debt owed by households and established businesses for their municipal accounts will never find its way to municipalities' bank accounts due to failed attempts in converting outstanding debt into cash.

The **budget solvency** mean (median) value of 0.4330 (0.4244), which is below the value of 1, indicates inadequate revenues to cover operational expenditures – a weak fundamental in so far as maintaining a favourable financial position. Municipalities thus have weak budgetary solvency. This is in line with the passing of unfunded budgets, wherein in 2018, the

Parliament's Select Committee on Appropriation (SeCOA) expressed concern about the increase in unfunded budgets from 83 in 2017–2018 to 113 in the 2018–2019 financial year. An unfunded budget indicates a challenge in the availability and realistic collection of cash, cash reserves and revenue resources to defray operating expenses.

Table 4.2 reports that the median value for the **long-term solvency** ratio is 0.2338. Every rand of long-term debt/reserves disclosed in the financial statements is guaranteed by 4.27716 of assets/cash. This indicates poor reserve availability and an inability to fulfil long-term obligations as and when they fall due. This aligns with the SALGA 2015 research which cites financial sustainability as the greatest threat to municipalities given their weakened ability to manage expenditure and long-term obligations; the increasing financial indebtedness results in adverse impacts on service delivery.

In future, this financial position would impair the ability of municipalities to borrow on the market for infrastructure, investments, service-delivery-related capital projects and obtaining additional financing by way of issuing bonds (only applicable in cases where metropolitan municipalities would have been eligible to issue bonds). These findings are consistent with Boshoff and Peters (2015) who state that with economic decline, customers' ability to service municipal accounts is diminished as poverty rates rise and increase outstanding debt forcing the municipalities to trim asset-care programmes.

Municipalities then do recognise the need for but have been unable to focus on comprehensive asset and infrastructure plans given the burden arising from their strained financial capacity; minimal maintenance resources are set aside which creates a ripple effect to the detriment of revenue-generating infrastructure resulting in impaired service delivery and long-term financial obligations.

The mean and median of the ratio **service-level solvency** in Table 4.2 are 0.0509 and 0.0277, respectively. There is no set benchmark or threshold which states that service delivery is now good or bad, however, the higher the ratio, the better service delivery would be to communities. The result can be read as 2% in the rand, which is relatively low, thus, municipalities need to improve substantially in delivery services as they are legally constituted and mandated to deliver services, one of the sole reasons for their existence. The 2% report observation is in line with Gous (2019) who reports an increase in community unrest and protests stemming from disgruntled communities who receive inadequate services as recorded by Municipal IQ data.

4.2.3 Financial condition index

Based on the four dimensions comprising the FCI, municipalities find themselves in a compromised financial position due to excessive debt and inappropriate amounts of liabilities which are inadequately covered by cash reserves, revenue, budget deficits wherein operating expenses exceed revenue generated and insufficient current assets readily available for conversion into liquid cash to defray costs. Financial independence and flexibility are overall weak as most rely on grant funding and would not be able to absorb economic and pandemic shocks such as a recession or a pandemic without the government injecting assistance, disaster funding or bailouts.

These observations are also consistent with the PARI 2019 report wherein non-existent service delivery results from the deteriorating state of municipal finances and financial management (Ledger & Rampedi, 2019). This was cited as a critical contributor as it was shown that 113 or 44% of municipalities approved unfunded budgets in the 2018–2019 financial year indicating plans to expend monies and funds they did not have. The report findings were aligned with SAMWU findings on the 30 municipalities unable to pay workers' salaries. Furthermore, a March 2019 court action by Eskom attributing its financial troubles to debts owed to it by municipalities allowed sheriffs to attach movable assets at Maluti-a-Phofung in the Free State due to R3 billion debt outstanding. This is but one court ruling in favour of the creditors but similar cases have occurred in other provinces in the country.

4.3 Correlation Analysis Results

Table 4.3 is the correlation coefficient matrix designed to determine the relationship between the dependent and independent variables. Jain and Jhunjhunwala (2006) describe correlation matrix analysis as measuring the extent of the direction and degree of a relationship between variables. The correlation matrix presented shows that no multicollinearity was observed among the independent or control variables for all correlation coefficients below 0.7. This is the multicollinearity threshold described by Kennedy (2008). For the variables wherein the correlation coefficients were greater than 0.7 (i.e., cash solvency, service solvency and administrative intensity), multicollinearity existed among the variables.

Table 4.3: Correlation matrix

	1	2	3	4	5	6	7	8	9	10	11
1. FCI	1.000										
2. Cash Solvency	0.816	1.000									
	0.000										
3. Budget Solvency	0.294	0.014	1.000								
	0.000	*0.831*									
4. Long-term Solvency	0.614	0.158	-0.038	1.000							
	0.000	*0.012*	*0.544*								
5. Service Solvency	0.790	0.449	0.081	0.418	1.000						
	0.000	*0.000*	*0.257*	*0.000*							
6. Auditop	0.208	0.293	0.017	-0.062	0.059	1.000					
	0.004	*0.000*	*0.787*	*0.328*	*0.416*						
7. Auditprog	-0.040	-0.050	-0.055	0.054	0.016	0.242	1.000				
	0.587	*0.430*	*0.384*	*0.398*	*0.825*	*0.000*					
8. Population	0.155	0.141	-0.002	0.126	0.187	0.059	0.008	1.000			
	0.031	*0.025*	*0.972*	*0.045*	*0.009*	*0.354*	*0.901*				
9. Administrative Intensity	0.259	-0.067	0.760	-0.063	0.091	0.026	-0.012	-0.033	1.000		
	0.000	*0.288*	*0.000*	*0.320*	*0.205*	*0.678*	*0.854*	*0.603*			
10. Municipality Type	0.238	0.171	0.097	0.020	0.347	0.086	0.067	0.379	0.104	1.000	
	0.001	*0.006*	*0.121*	*0.749*	*0.000*	*0.172*	*0.286*	*0.000*	*0.097*		
11. Province	-0.319	-0.007	-0.199	-0.112	-0.402	-0.010	-0.081	-0.186	-0.176	0.048	1.000
	0.000	*0.907*	*0.001*	*0.075*	*0.000*	*0.879*	*0.199*	*0.003*	*0.005*	*0.445*	

Note: AUDITOP = audit opinion, AUDITPROG = audit progress; italicised values denote p-values

The correlation between cash solvency and FCI is very high at 0.816; this means they are positively correlated with each other. Similarly, the correlation between service solvency, which is 0.790, and FCI indicates a high positive correlation which means service solvency directly impacts the financial condition index and that administrative intensity and budget solvency have a high positive correlation. These two independent variables have a high positive correlation which shows that there is multicollinearity between variables.

The FCI depends on four independent variables – cash solvency, budget solvency, long-term solvency and service solvency. Of these, cash solvency has the highest correlation with FCI and is followed by service solvency, long-term solvency and budget solvency which means that the FCI of the municipality is highly dependent on cash solvency indicating available cash resources and the municipality's ability to meet debt obligations; a lower FCI means that there is a lack of availability of cash resources and vice versa.

The FCI also has a dependence on budget solvency which is the ability to generate adequate operating revenue throughout the financial year. The higher value of budget solvency shows a higher number of exchange transactions and a better FCI. The long-term solvency indicator is an indication of a municipality's ability to settle long-term liabilities and transact at the same time. The correlation between audit option and cash solvency is below 0.293 < 0 which means that cash solvency has a low impact on audit option. The correlation between audit option and budget solvency is 0.017 < 0 which is not significant and means that budget solvency has near to no effect on audit option. Long-term solvency has a negative correlation at -0.062 and service solvency and audit option also has a very low correlation at 0.059.

Cash solvency, budget solvency, long-term solvency, service solvency, audit opinions, population, administrative intensity and municipality type are positively related to the FCI; all other factors are held constant. This means a regression (devaluation) in the audit outcomes/opinions will result in a regression in the financial health or financial condition of municipalities.

This also holds that for administrative intensity, highly remunerated politically deployed employees in roles that are under-capacitated and who lack the requisite competencies and qualifications and/or inappropriate skills and the related high and increasing remuneration bill attached to them will result in the negative or regressing financial health and financial position of municipalities. There is a negative correlation between the province in which a municipality is located and the financial condition of a municipality.

4.4 Regression Results

The results of the effect of audit outcomes (opinion and progress) on the financial condition of municipalities in South Africa are presented in Table 4.4. The first model uses the dimensions of the FCI as the dependent variable while the second model uses the aggregate FCI as the dependent variable. The F-test value for all regression models is significant at 1% indicating the validity of the estimated regression models. In terms of the explanatory power of the models which is reflected by the R-square, the budget solvency model has the highest explanatory power (65.88%) followed by service solvency (38.92%), cash solvency (19.43%) and long-term solvency (13.25%), respectively.

Table 4.4: Determinants of financial health

Dependent Variable	Cash Solvency		Budget Solvency		Long-Term Solvency		Service Solvency		FCI	
	Coefficient	*Std. err.*	*Coefficient*	*Std. err.*	*Coefficient*	*Std. err.*	*Coefficient*	*Std. err.*	*Coefficient*	*Std. err.*
Constant	-0.0179	0.1463	0.4225***	0.0077	0.1990***	0.0247	0.0427	0.0311	0.1835	0.0297***
Audit Opinion (Disclaimer)										
Adverse	0.0096	0.0416	0.0048**	0.0022	0.0154**	0.0070	0.0151	0.0098	0.0190	0.0094**
Qualified	0.0264	0.0251	0.0031**	0.0013	0.0131***	0.0042	0.0013	0.0054	0.0106	0.0052**
Financially Qualified	0.0914***	0.0280	0.0045***	0.0015	0.0162***	0.0046	0.0016	0.0063	0.0168	0.0061***
Financially Unqualified (Clean Audit)	0.1449***	0.0411	0.0028	0.0022	0.0145**	0.0069	0.0012	0.0096	0.0199	0.0093**
Audit Progress (Regressed)										
Unchanged	-0.0257	0.0179	0.0004	0.0009	-0.0044	0.0030	-0.0019	0.0040	-0.0057	0.0038
Improved	-0.0662***	0.0258	0.0001	0.0013	-0.0060	0.0043	-0.0127**	0.0058	-0.0110	0.0057*
Log (Population)	0.0099	0.0099	-0.0010*	0.0005	0.0027	0.0017	-0.0017	0.0021	0.0011	0.0020
Administrative Intensity	-0.0037	0.0027	0.0221***	0.0003	-0.0008*	0.0005	0.0046***	0.0010	0.0068	0.0010***
Municipality Type (A)										
B	0.0204	0.0465	-0.0012	0.0025	0.0076	0.0079	0.0115	0.0094	0.0030	0.0090
C	0.0488	0.0429	0.0017	0.0023	0.0036	0.0073	-0.0084	0.0152	0.1101	0.0132***
Province (EC)										
Free State	-0.0104	0.0348	0.0183***	0.0019	-0.0142**	0.0059	-0.0065	0.0080	-0.0181	0.0075**
Gauteng	-0.1146***	0.0392	0.0041**	0.0021	-0.0311***	0.0069	-0.0140	0.0085	-0.0259	0.0081***
KZN	-0.0087	0.0235	0.0031**	0.0012	-0.0071*	0.0040	0.0096*	0.0050	-0.0032	0.0048
Limpopo	0.0009	0.0284	0.0032**	0.0015	-0.0100**	0.0048	0.0215**	0.0105	-0.0090	0.0101
Mpumalanga	-0.0181	0.0314	0.0019	0.0016	-0.0198***	0.0052	-0.0101	0.0065	-0.0175	0.0064***
Northern Cape	-0.0419	0.0298	-0.0027*	0.0015	-0.0186***	0.0050	-0.0156**	0.0064	-0.0173	0.0062***
North West	-0.0232	0.0326	0.0050***	0.0017	-0.0191***	0.0055	0.0030	0.0070	-0.0084	0.0068
Western cape	-0.0250	0.0298	0.0002	0.0016	-0.0236***	0.0050	-0.0229***	0.0064	-0.0128	0.0062**
F (18, 229)	3.07***		24.88***		1.96**		6.16***		5.02***	
Prob > F	0.0001		0.0000		0.0128		0.0000		0.000	
R-squared	0.1943		0.6588		0.1325		0.3892		0.3457	
Adj R-squared	0.131		0.6323		0.0649		0.326		0.2769	
Root MSE	0.10824		0.03539		0.05468		0.05802		0.03394	
Municipalities	248		251		250		193		190	

Note: ***, ** and * denote significance at 1%, 5% and 10%, respectively

The value of RMSE of 0.03394, 0.03539, 0.05468 and 0.05802 for Models E, B, C and D, respectively, is very low, hence, the error in actual values and fitted values is very small compared to 0.01824 which is higher for Model A. The F-test values for the regression models (A, B, C, D and E) are all significant at 5% (p-value is $0.0000 < 0.05$), therefore, it is significant and, hence, the regression results on the determinants of financial conditions of municipalities are valid. The R-square value ranges between 0.1325 (Model C) and 0.6588 (Model B) which indicates that the long-term solvency model has the lowest explanatory power at 13.25% while budget solvency has the highest explanatory power at 65.88%.

4.4.1 Cash solvency (Model A)

From the results in Model A, the coefficients for municipalities with adverse, qualified, financially qualified and financially unqualified audit opinions are observed to be positive. This indicates that when compared with municipalities with disclaimed audit opinions, municipalities with adverse, qualified, financially qualified and financially unqualified audit opinions are observed to be associated with a higher cash solvency although significance is observed only for municipalities with financially qualified and financially unqualified audit opinions at 1%.

Specifically, municipalities with financially unqualified findings and financially unqualified with no findings audit opinions have a positive relationship with cash solvency at a 1% significance level when compared to those with disclaimers. This suggests that, for the former municipalities, the stable and sound financial, legal, political and administrative control environment contributes positively and significantly to their ability to effectively use cash resources and invest such cash resources to generate further income and participate in revenue-generating capital projects.

This aligns with the MFMA 2018–2019 Citizen's Report wherein the unqualified audit opinions signify municipal activities are conducted according to the book, financial statements contain no material misstatements and the municipalities have reported properly on their performance objectives (AGSA, 2019b). Furthermore, cash resources have been used ideally and for their intended purpose, confirming that those charged with service delivery obligations have created a sound environment for the delivery of services. The observation for municipalities with adverse and qualified opinions in the MFMA 2018–2019 Citizens Report indicates that these municipalities did not manage nor account for their finances to achieve the best results and rules, policies and procedures were flouted resulting in incomplete information and records to account for expenditure undertaken.

The coefficients for municipalities with unchanged and improved audit progress are negative but significance (1%) is only observed for municipalities with improved audit progress. This indicates that municipalities with improved audit progress are characterised by low cash solvency when compared with municipalities with regressed audit progress. This observation is contrary to the MFMA 2018–2019 Citizen's Report which suggests as municipalities improve their control environment and align their activities with legislative prescripts and procedures, they can account for spending; and use cash resources for optimal purposes which would result in improved service delivery and a sound financial environment (improved cash position).

The coefficient of the population is positive which indicates that population size is positively related to cash solvency although insignificant. An increase in population will result in an increase in cash solvency by 0.99% as a larger amount of the population consumes municipal services and by default, this should normally result in an increase in payments received for these services.

Mazibuko (2014) cited the challenges faced by municipalities with outdated systems and incorrect consumer billing data. This results in cash leakages from consumers refusing to pay for incorrect bills, their disregard of payment obligations due to poor service delivery, falsely registering as indigents to qualify for free basic services or failure of the increased population to register for services they consume. Once a municipality undertakes a data cleansing exercise to update details of property ratepayers, consumers of municipal services and those due to pay levies including the portion from the increase in population eligible to pay for municipal services and addresses incorrect billing challenges, the outcome will be an increase in cash generated. This is in line with Mazibuko's (2014) study which found municipal billing systems, if configured with the appropriate turnaround strategy to serve demand notices and the collection of debt from individual customers, would enable efficient cash recycling.

The result indicates the negative effect of administrative intensity on cash solvency which suggests that an increase in administrative intensity (staff costs) results in a 0.37% reduction in cash solvency. Operating and maintaining a municipality includes, but is not limited to, employee costs, servicing Eskom and water board debt commitments and payments to suppliers and creditors who render administration services to the municipality, such as facilities and office cleaning contractors. It follows that an increase in the running and operating costs does, to a limited extent, reduce cash solvency or cash resources. According to Tran and Dollery's (2022) study, the limited impact could be attributed to the fact that improved administration and operations result in improved efficiency and cost savings or reduction in unnecessary expenditure. Studies by Adler and Borys (1996), Van Helden and Huijben (2014) and Walker (2013) conclude that municipalities with higher resources in administrative intensity will perform better given that improved coordination saves the municipality costs and frees up cash resources due to efficiency gains resulting in improved performance.

Using a metropolitan municipality (Municipality Type A) as a reference, a positive coefficient is observed for secondary city and local municipalities (Municipality Type B), although insignificant. This means secondary city municipalities are associated with higher cash solvency compared with metropolitan municipalities. Similarly, a positive coefficient is observed for district municipalities (Municipality Type C) which indicates that district municipalities are associated with higher cash solvency when compared with metropolitan municipalities as districts primarily focus on limited functions of water and electricity, unlike the metros that render a wide range of services.

The results indicate that secondary cities and local and district municipalities have more cash and resources when compared to metropolitan municipalities. The result was not expected and is not in line with Stats SA 2020 Financial Census of municipalities which details that the working capital of metropolitan municipalities at R86,2 billion exceeds that of local/secondary cities and district municipalities reported at R55,5 billion and R10,8 billion, respectively (Stats SA, 2020). Working capital indicates cash resources available and accessible to service operations and represents the financial health of a municipality.

Using the Eastern Cape Province as a reference, the coefficient of the Free State, KZN, Limpopo, Mpumalanga, Northern Cape, North West, and Western Cape provinces are observed to be negative which indicates that municipalities in the Eastern Cape are associated with higher cash solvency. However, the effect is only significant for municipalities in Gauteng Province. On the contrary, the coefficient for Limpopo Province is positively related to cash solvency, indicating municipalities in Limpopo are associated with higher cash solvency although insignificant.

The results of the Eastern Cape and Limpopo contrast the 2018 NT State of Local Government Finances and Financial Management Report which listed municipalities with insufficient cash coverage to fund operations (National Treasury, 2018). From the report, 121 non-metropolitan municipalities and 3 metropolitan municipalities have cash coverage results indicating failure to meet prudent standards and 55 local municipalities and 15 district municipalities have cash coverage of less than three months of operational expenditure (National Treasury, 2018). This indicates that municipalities continue to struggle to implement financially prudent practices to prevent cash and liquidity problems.

4.4.2 Budget solvency (Model B)

According to results in Model B, using municipalities with disclaimed audit opinions as a reference, municipalities with adverse and qualified audit opinions are observed to be associated with higher budget solvency at a 5% significance level while those with financially unqualified audit opinions are associated with higher budget solvency at a 1% significance level. Using municipalities with disclaimed audit opinions as a reference, municipalities with financially unqualified with no findings opinions are associated with higher budget solvency, although not significant.

This suggests that municipalities are guaranteed annual budget funding from governmental transfers, allocations, grants and subsidies from the fiscus as prescribed in the Division of Revenue Act (DoRA) while also collecting revenue to finance the budget through property rates, taxes, levies, fines and penalties (Stats SA, 2019), in addition to receiving donor funding regardless of their audit opinions as theirs is a constitutionally prescribed and legislated mandate (Constitution, 1996). The distinguishing factor is how efficiently each municipality employs these budget allocations. Through the MFMA 2018–2019 General Report (AGSA, 2019b), the different audit opinions then indicate whether administrative and political leadership created a conducive environment for efficient resource utilisation and service delivery while practising prudent budgetary measures.

Using the municipalities with regressed audit outcomes as a reference, municipalities with improved and unchanged audit opinions are observed to have a positive relationship with budget solvency, although insignificant. This is in line with the DoRA which provided for the allocation of revenue to all municipalities regardless of the audit opinion and changes thereto.

The coefficient of the population is negative and significant at 10% indicating an increase in population results in a 0.100% reduction in budget solvency. The negative relationship is attributed to the budget being spread to service a larger population and, in the case of South Africa with a higher unemployment rate, municipalities have increasing indigents while other households are not adequately servicing their municipal bills which impairs revenue collection and reduces budget resources. Wang et al. (2007) cite that performance in budget solvency varies greatly. This would be similar to South African municipalities; variable population sizes with variable income per capita depending on geographical location result in varied results.

The coefficient of administrative intensity is positive and significant indicating that an increase in administrative intensity results in a 0.221% increase in budget solvency. Administrative intensity includes employee or staff costs. An increase in employee or staff costs in the case where the new staff complement runs the municipalities' operations efficiently and effectively, procedurally implementing NT cost-containment measures, results in a reduction in expenditure; the savings increase the budgetary funds available.

This finding is consistent with studies by Andrews, Boyne and Mostafa (2017), Rutherford (2015) and Ryu and Christensen (2019) who found that, as administrative intensity significantly influences municipal performance, it follows that implementing cost-containment measures by the NT and reduction in wasteful expenditure results in a municipality improving in budget solvency.

Using a metropolitan municipality (Municipality Type A) as a reference, a negative coefficient is observed for a secondary city or local municipality (Municipality Type B), although insignificant. This means secondary cities or local municipalities are associated with lower budget solvency when compared with metropolitan municipalities. Kumar and Reddy (2019) state that metropolitan municipalities are catalysts for economic development and due to their proximity to central business districts and their location in economic hubs or major cities of the country, it follows that the DoRA allocates greater revenue capital to them rather than a local municipality or secondary city resulting in a substantial budget.

Using a metropolitan municipality (Municipality Type A) as a reference, a positive coefficient is observed for a district municipality (Municipality Type C), although insignificant. A district municipality is associated with higher budget solvency compared with metropolitan municipalities. This result is not consistent with the budget allocation as per the DoRA.

Although a district municipality performs bulk services, such as water and electricity, and receives a substantially higher fiscal allocation, it does not exceed that of a metropolitan municipality.

Using the Eastern Cape Province as a reference, the coefficients of the Free State, Gauteng, KZN, Limpopo, Mpumalanga and North West provinces are observed to be positive which indicates that they are associated with higher budget solvency compared with municipalities in the Eastern Cape, with significance at 1% observed for Free State and North West and 5% for Gauteng, KZN and Limpopo. However, the coefficients for Mpumalanga and Western Cape Province are not statistically significant.

On the contrary, the coefficient for the Northern Cape Province is observed to be negative which indicates that municipalities in Eastern Cape are associated with higher budget solvency at a 10% significance level. Municipalities in the Northern Cape are situated in rural and arid regions and are grant-dependant given the limited economic activity with limited budgetary resources and receive a smaller portion of equitable share from the DoRA It follows they would have less budget solvency when compared to municipal activity in the Eastern Cape.

4.4.3 Long-term solvency (Model C)

From the results of Model C, using municipalities with disclaimed audit opinions as a reference, municipalities with adverse and financially unqualified with no findings audits have a positive relationship with higher long-term solvency at a 5% significance level. Using municipalities with disclaimed audit opinions as a reference, municipalities receiving qualified and financially unqualified findings opinions are observed to have a positive relationship with long-term solvency at a 1% significance level.

This suggests that municipalities are presumed to operate in the long run as the Constitution provides for their mandatory service delivery obligation and receive equitable share and grant funding despite their audit opinion. A municipality will remain in existence given this constitutional mandate and continue operating into the foreseeable future despite SAICA's June 2021 State of Municipal Finances reporting the going concern assumption challenges for 69 or 27% of South African municipalities (SAICA, 2021).

Using the municipalities with regressed audit outcomes as a reference, there is a negative relationship between municipalities with unchanged and improved audit outcomes with long-term solvency, although insignificant. As the Constitution provides for the mandatory existence of municipalities, grants and equitable share allocations through the DoRA, audit opinion changes do not provide impetus for municipalities to improve their outcomes as there is guaranteed annual funding and allocations, despite the movement in audit outcomes.

The result of the log (population) is 0.0027 indicating a positive relationship between the population and long-term solvency, i.e., an increase in population results in a 0.27% increase in long-term solvency. The relationship is statistically insignificant. As the population increases, municipalities also increase the provision of municipal services accordingly. Provided the consumption and billing data systems are efficient, it follows that revenue collection would increase while consumers settle or pay their outstanding and normal debts for the consumption of services. This bodes well as financial sustainability is achieved indicating long-term sustainability and long-term solvency.

This is in line with Mazibuko's (2014) recommendation that sound municipal billing systems are critical for long-term financial sustainability to improve collection and reverse the dwindling consumer confidence due to billing inaccuracies and the service delivery challenges consumers are experiencing.

The result of administrative intensity is -0.0008 indicating a negative relation between administrative intensity and long-term solvency at a 10% significance level. This indicates that an increased way of investing resources to conduct and maintain the affairs and operations, such as adequately financing budget measures and activities, of a municipality efficiently results in no future benefit. However, investing such resources would instead lead to a reduction or decrease in long-term solvency. This result is not expected as investing in efficient operations should steer or improve long-term solvency and viability.

The results contrast the observation by Tran and Dollery (2022) that administrative intensity does affect municipal financial sustainability. The result also contrasts with Bolívar, Galera, Muñoz and Subirés' (2014) finding that by increasing and expending resources in improving current financial health, solvency challenges such as budget constraints, unfunded budgets and practising prudent financial management by timeously settling off current debts, a municipality should be able to achieve financial independence by way of long-term solvency.

Using a metropolitan municipality (Municipality Type A) as a reference, a positive coefficient is observed for a secondary city or local municipality (Municipality Type B) and a district municipality (Municipality Type C), although insignificant. This indicates that secondary city or local municipalities and district municipalities are associated with positive or higher long-term solvency when compared with metropolitan municipalities. This result is not expected as metropolitan municipalities are situated in the economic hubs of the major cities in the country with prime business and commercial activities and, accordingly, would be in a better position to have higher long-term solvency. The result is also not in line with the Stats SA July 2020 census which considered metropolitan municipalities as being in a better financial and working capital position when compared with secondary cities and local and district municipalities (Stats SA, 2020).

Using the Eastern Cape Province as a reference, the coefficients of the Free State and Limpopo provinces are observed to be negative which indicates that municipalities in the Eastern Cape are associated with higher long-term solvency at a 5% significance level. Using the Eastern Cape Province as a reference, the coefficients of the Gauteng, Mpumalanga, Northern Cape, North West and Western Cape provinces are observed to be negative indicating municipalities in the Eastern Cape are associated with higher long-term solvency at a 1% significance level. Using the Eastern Cape Province as a reference, the coefficient of the KZN Province is observed to be negative which indicates that municipalities in the Eastern Cape are associated with higher long-term solvency at a 10% significance level.

The results above are not expected as the Eastern Cape Province has 2 municipalities performing well while roughly 30 are between average and dysfunctional being marred by financial viability and sustainability challenges which impact long-term solvency as detailed by Ngumbela (2021).

The results above also contrast with the 2018 NT State of Local Government Finances Report which cites insufficient coverage for financing operations in 121 non-metropolitan municipalities and 3 metropolitan municipalities where financial performance data failed to meet prudent standards and operational expenditure requirements (National Treasury, 2018). These indicators provide insight that long-term solvency is impaired in Eastern Cape municipalities and the results above contrast with these findings as the reports detail that municipalities continue to struggle to implement financially prudent practices for improved long-term solvency.

4.4.4 Service solvency (Model D)

From the results in Model D, using municipalities with disclaimed audit opinions as a reference, municipalities with adverse, qualified, financially unqualified with findings and financially unqualified with no findings audit opinions are observed to be associated with a higher service solvency, although insignificant. All municipalities are tasked by the Constitution with service delivery projects in their municipal jurisdiction irrespective of audit outcomes and financial health. Even in the case where municipal services are offered to an unsatisfactory degree, there will still be a positive relationship with service solvency.

Using the municipalities with regressed audit outcomes as a reference, there is a negative relationship between municipalities with unchanged audit outcomes with service solvency, although insignificant. Using the municipalities with regressed audit outcomes as a reference, there is a negative relationship between municipalities with improved audit outcomes with service solvency at a 5% significance level. This observation is contrary to the MFMA 2018–2019 Citizen’s Report (AGSA, 2019) which suggests that as municipalities improve their control environment and align their activities with legislative prescripts, financial resources are channelled for the intended purposes which solidifies the control environment, improves the foundation for service delivery and creates a sound financial environment.

The result of the log (population) is -0.0017 indicating a negative relationship between the population and service solvency, although insignificant. An increase in the population without adequate equitable share and improvements to the local government funding model and municipal billing systems impair the pool of cash and revenue resources while increasing the burden in each municipal jurisdiction to expend services over what would now be a larger population size (including undocumented citizens and immigrants). This in turn reduces or decreases the efficiency, quality and number of services delivered and thus reduces service solvency. Furthermore, the decrease in service solvency indicates increasing customer dissatisfaction and loss of public confidence in a municipality’s ability to bill correctly and render adequate services

Mazibuko (2014) cited the challenges faced by municipalities, including outdated data and billing systems, which produce incorrect consumer billing data. This results in cash leakages as consumers refuse to pay incorrectly calculated bills which creates a knock-on effect and hampers the ability of a municipality to deliver services of the appropriate standard and quality. This results in decreased service solvency.

The result of administrative intensity is 0.0046 indicating a positive relationship between administrative intensity and service solvency at a 5% significance level. An increase in administrative intensity would result in a 0.46% increase in service solvency as improvements and efficiencies in cost-containment measures and efficient operations effected by efficient staff result in cost savings which are channelled to meet the Constitution's mandatory obligation of service delivery. This results in improved service delivery indicated by an increase in service solvency.

Tran and Drollery (2022) maintain that increases in administration and operations result in improved efficiencies which save the municipality costs, thus, freeing up resources which can be channelled to service delivery projects and increase service solvency and result in improved performance. On the contrary, Boon and Verhoest (2014) and Peters (2001) assert that the trade-offs, where municipalities incur increased expenditure on back-office administration which channels funds away from frontline service delivery, impede municipal performance and service solvency.

Using a metropolitan municipality (Municipality Type A) as a reference, a positive coefficient is observed for a secondary city or local municipality (Municipality Type B), although insignificant. This indicates that secondary cities or local municipalities are associated with higher service solvency when compared to metropolitan municipalities. The result is inconsistent as the DoRA allocates grants and revenue for service delivery for all municipalities and, thus, they all deliver services with metropolitan municipalities providing even more services to a greater extent given their location in all major cities and among primary economic and business activity hubs across the country.

Using a metropolitan municipality (Municipality Type A) as a reference, a negative coefficient is observed for a district municipality (Municipality Type C), although insignificant. This means that a district municipality is associated with lower service solvency when compared to a metropolitan municipality. The results are consistent with the DoRA as metropolitan municipalities provide even more services to a greater extent given their location in all major cities and economic and business activity hubs across the country as compared to a district municipality.

Using the Eastern Cape Province as a reference, the coefficient of the Free State, Gauteng, Mpumalanga and North West provinces are observed to be negative which indicates that municipalities in the Eastern Cape are associated with higher service solvency, although insignificant. Using the Eastern Cape Province as a reference, the coefficient of the KZN Province is observed to be positive which indicates that municipalities in the Eastern Cape are associated with lower service solvency at a 10% significance level.

Using the Eastern Cape Province as a reference, the coefficient of the Limpopo Province is observed to be positive which indicates that municipalities in the Eastern Cape are associated with lower service solvency at a 5% significance level. Using the Eastern Cape Province as a reference, the coefficient of the Northern Cape Province is observed to be negative which indicates that municipalities in the Eastern Cape are associated with higher service solvency at a 5% significance level.

Using the Eastern Cape Province as a reference, the coefficient of the Western Cape Province is observed to be negative which indicates that municipalities in the Eastern Cape are associated with higher service solvency at a 1% significance level. The result for the Free State is not consistent with the MFMA 2018–2019 Report (AGSA, 2019b) which states that Eastern Cape municipalities fare better when compared to those in the Free State with regards to service delivery objectives.

The result for KZN is expected and consistent with the MFMA 2018–2019 Report that Eastern Cape municipalities in the province fare below par concerning service delivery objectives when compared to other provinces such as KZN. The result for Limpopo is consistent with the MFMA 2018–2019 Report that Eastern Cape municipalities fare below par concerning service delivery objectives when compared to Limpopo Province. The results for Northern Cape are consistent with the MFMA 2018–2019 Report that Eastern Cape municipalities fare above par with service delivery objectives when compared to the Northern Cape Province. The Northern Cape Province is predominantly rural with limited access to basic services and receives a smaller portion of equitable share via the DoRA which negatively hampers service delivery for municipalities in the Northern Cape.

The result for the Western Cape is not consistent with the MFMA 2018–2019 Report that Eastern Cape municipalities fare below par concerning service delivery objectives when compared to the Western Cape Province. The Western Cape is reported as having the best service delivery in the country, far above that of the Eastern Cape's municipalities.

4.4.5 Financial condition index (Model E)

From the results in Model E, using municipalities with disclaimed audit opinions as a reference, municipalities with adverse, qualified, financially unqualified findings and financially unqualified with no findings audit opinions are observed to be associated with a higher FCI, although insignificant. As all municipalities are legislated by the Constitution with service delivery mandates, there will always be a degree of financial health, whether stable or requiring serious intervention as per the MFMA 2018–2019 General Report. Given this observation, there will always be a positive relationship with the FCI as a measure of financial health.

Using the municipalities with regressed audit outcomes as a reference, there is a negative relationship between municipalities with unchanged and improved audit outcomes with the FCI, although insignificant. A change or movement in the audit opinion or outcome has no significant impact on the FCI. This result is expected as AGSA cites the objective of the audit as expressing or providing assurance on whether financial statements fairly present the finances of a municipality which is not the same as indicating the FCI (AGSA, 2019).

The result of the log (population) indicates a positive relationship between the population and the FCI, i.e., an increase in population results in a 0.11% increase in the FCI as a larger amount of the population consumes municipal services and default results in an increase in payments received for these services. The relationship is statistically insignificant. Taking advantage of the economic profile of the population and having adequate billing systems with the aid of technology means higher collection rates which yield greater revenue, thus, improving the FCI. The MFSI 2020 result is consistent with the result as the index detailed that where operating performance, liquidity management, debt governance, budget practices, affordability and infrastructure development are sound, it follows that the municipality gains from the collection of cash and revenue for services rendered to an increasing population which would increase the overall FCI.

The result of administrative intensity is 0.0068 indicating a positive relationship between administrative intensity and the FCI, although insignificant. An increase in administrative intensity results in a 0.68% increase in the FCI. An increase in administrative intensity, which comprises employee costs and operating expenses, wherein a municipality's operations are efficient and effective by implementing cost-containment and the regulatory cost-curbing reforms pronounced by NT, decreases general and wasteful expenditure; the savings increase and improve the FCI. Van Helden and Huijben (2014), Walker (2013) and Adler and Borys (1996) cite that municipalities that expend an increased number of resources in administrative intensity achieve efficiency gains leading to improved financial performance and financial sustainability. This finding is consistent with Andrews et al. (2017), Rutherford (2015) and Ryu and Christensen (2019) who found that increased administrative intensity significantly influences municipal performance. Adler and Borys (1996), Van Helden and Huijben (2014) and Walker (2013) assert that municipalities with higher resources in administrative intensity will perform better given the improved coordination (Andrews et al., 2017). The results lend to an improvement in the FCI.

Using a metropolitan municipality (Municipality Type A) as a reference, a positive coefficient is observed for a secondary city and local municipality (Municipality Type B), although insignificant. This means that secondary city municipalities are associated with a higher FCI when compared with metropolitan municipalities. Similarly, a positive coefficient is observed for district municipalities (Municipality Type C) which indicates that district municipalities are associated with a higher FCI compared with metropolitan municipalities. The result is consistent in that municipalities, despite their category, receive guaranteed financial muscle from the fiscus in the form of equitable shares, grants, and donations which is consistent with the result as provided for in the NT annual budget allocations as per the DoRA allocations.

Using the Eastern Cape Province as a reference, the coefficient of the Free State, Gauteng, KZN, Limpopo, Mpumalanga, Northern Cape, North West and Western Cape provinces are observed to be negative which indicates that municipalities in the Eastern Cape are associated with a higher FCI, although insignificant. This is not consistent with the MFMA 2018–2019 Report findings that Eastern Cape municipalities are far below par when compared with the financial health and financial condition of other provinces in the country.

The results from the analysis provide evidence that the null hypothesis is not rejected and that there is no relationship between financial performance and audit opinions/outcomes of financially distressed municipalities.

CHAPTER 5: RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This chapter provides a summary of the findings presented in Chapter 4. The first sub-section summarises and concludes the study. The second sub-section presents recommendations. Finally, recommendations for future studies are presented.

5.2 Summary and Conclusion of the Study

The objective of the study was to highlight the reasons and root causes that have culminated in the deterioration of the financial health of municipalities. The research employed regression analysis techniques to examine the relationship between financial performance (financial health) and audit outcomes and examined the financial condition indices for municipalities. The data analysed was the 2017–2018 financial year's AFS and the Auditor-General's MFMA Audit Outcomes Report was for all 257 municipalities. The sample accounted for 74% to 98% of municipalities in South Africa.

5.2.1 Financial indicators

In the first stage, the median values, which Kamnikar et al. (2006) state as better at representing a population, were used. The cash ratio indicated that for every rand, a municipality has 20 cents to cover long-term obligations. The long-term liability result indicated that only 5% of liabilities can be covered by a municipality. The quick ratio at 0.3338 below the norm showed an unfavourable position as insufficient liquid assets would be available to convert into cash to defray costs and obligations as they fall due. The surplus per capita ratio at -0.0077 highlighted that more debt and expenses were incurred in delivering services per citizen in the population when compared to available income and revenue per citizen, resulting in a net deficit.

The result above was expected as it signalled inefficient current asset management, a weakening financial position and underfunded budgets consistent with the CSIR (2007) study identifying ongoing financial distress, failures to maintain assets and inadequate budgets in municipalities. The impact and consequences are inadequate infrastructure maintenance and failure to deliver sustainable services.

The revenue per capita result indicates diminishing revenue collection coupled with increasing unemployment and increasing size of the population unable to service municipal accounts with limited or no income or disposable income. This finding was expected as the MFMA 2018–2019 Citizens Report (AGSA, 2019b) supports the conclusion of a growing trend of non-payment of municipal services by 60% by households and established businesses.

5.2.2 Financial condition indicators

The findings relating to financial condition indicators were expected as Ratings Afrika 2018 MFSI reports highlighted inadequate fiscal discipline, a trending norm of expenses exceeding revenue and income, which resulted in a net deficit position, and an increasing lack of proper budget planning and financial distress.

The cash solvency ratio of 0.1380 reflected insufficient current assets to cover current liabilities; the budget solvency ratio of 0.4330 (below the value of 1) reflected inadequate revenue to cover operational expenditure; the long-term solvency ratio of 02.338 reflected poor reserve levels and the inability to fulfil long-term obligations and the service-level solvency ratio of 0.0509 (a low ratio) reflected the need to improve service delivery. These ratios are consistent with the Ratings Afrika 2018 index.

Gous (2019) notes the catastrophic consequences of these distressing ratios – political and civil unrest. Disgruntled communities repeatedly default to public violence and destruction of infrastructure assets such as roads and municipal buildings as a mechanism to draw attention to the need for service rendering in their municipal jurisdictions.

Weak financial independence and flexibility are evident overall as municipalities increasingly rely on grant funding and are not able to absorb economic and pandemic shocks, such as those caused by a recession, natural disaster or pandemic, without government injecting assistance. Brand (2018) elaborates on the spiralling financial crisis of a typically dysfunctional municipality. The results of this study bear testimony to low debt collection, large amounts owed to creditors, water losses as a result of dilapidated infrastructure and tender irregularities which all impede service delivery.

5.2.3 Regression model results

The regression results indicated that no relationship between financial health and the audit outcomes of financially distressed municipalities exists.

The finding that municipalities with financially unqualified opinions (clean audits) have a positive and statistically significant relationship with cash solvency was expected. A sound financial, legal, political and administrative control environment contributes to the effective and efficient use of municipal resources. The positive audit outcome does not always signal financial health and adequate cash solvency. A municipality cannot achieve clean audits while financially insolvent or bankrupt. NT does not penalise or use audit outcomes as a proxy to allocate equitable shares and grants but instead employs the equitable share formula. The audit outcomes only assure that governance and key controls are in place and that financial statements are presented fairly and free from material misstatements.

The findings relating to municipality location, population and type indicated a similar trend for all municipalities where an increase in the number of indigent households coupled with poor servicing of municipal bills impaired revenue collection and reduced budget resources. This result contrasted the Wang et al. (2007) observation that performance in budget solvency varies greatly in municipalities based on variable population size and variable income per capita. The finding is, however, consistent with the World Bank (2019) study that South Africa’s high Gini coefficient breeds economic inequality and unemployment, the ripple effect resulting in municipalities not generating adequate revenue and budget income to sustain service provision.

The unexpected result from the study was the observation of a positive relationship with long-term solvency. Although municipalities are legally mandated by the Constitution to deliver services and operate in the long-term foreseeable future, Herman's (2018) observation highlights an increase in dysfunctional municipalities from 55 to 78. The number of dysfunctional municipalities has subsequently increased and similar going concern assumptions are highlighted in the SAICA 2021 State of Municipal Finances Report on financial sustainability concerns (SAICA, 2021).

The unexpected result indicated a positive relationship with service-level solvency. Gous (2019) observes that the large majority of municipalities provide inadequate services giving rise to service delivery protests as reported in Municipal IQ. Gossel and Koelble (2021) also report the ongoing collapse of the local government’s ability to fulfil its constitutional service delivery mandate. The positive relationship with service solvency could be attributed to the Constitution’s legal mandates that service delivery objectives be undertaken despite the quality or frequency of the services and irrespective of audit outcomes and the financial health of the municipality (Gossel & Koelble, 2021).

The findings also indicated a positive relationship with the FCI; this measure of financial health was also observed despite the audit outcomes. Municipalities continue to receive the DoRA allocations from NT despite reported financial health indicators, which are dire and require serious intervention, as per MFMA 2018–2019 General Report (AGSA, 2019b).

5.3 Recommendations

The findings of the study provided insight into the financial health and audit outcomes of municipalities and the financial condition of the local government sector. The findings of the study elaborated on the root causes of failing municipalities to fulfil their constitutional mandate. Certain failures emanate from the incapacity of the administration, councillors as political principals, various ineffective interventions and the monitoring thereof, the absence of consequence management and poor financial prudence to achieve political expedience (Merlon, 2018).

The recommendations presented by Van Ryneveld (2020) include the need for capable, competent, skilled and motivated people, both as administration and political principals, the implementation of AGSA recommendations and driving compliance to gradually reverse service delivery failures and regressing financial health. This is the increasing outcry for the need for renewal in local government that is highlighted in the media, on public platforms and in parliament and provincial legislatures.

Municipalities that are struggling in functional areas, such as revenue, asset management and AFS preparation, can peer-learn and acquire support from those who are competent in these functions, thus, eliminating the need to pay exorbitant consultancy fees. Gossel and Koelble (2021) recommend a formalised way for civil society and government to collaborate to stave off the messy collapse of local government. This will enable key stakeholders and shareholders who are ratepayers to service the budget and revenue resources of municipalities adequately. As shareholders and taxpayers, communities will then be empowered and entitled to hold the municipal leadership accountable for service delivery through this legal social contract.

In 2014, following the 1994 to 2014 Twenty Year Review of South Africa, the DPME (2014), which falls within the Presidency’s office, recommended the stabilisation of the political-administrative interface. The recommendations call for political deployees’ objectivity wherein they refrain from interfering with administrative and technical appointments, thus, allowing for and resulting in a clear separation of powers and functions between political representatives and officials in a municipality (DPME, 2014). This should be supported by long-term skills development strategies for senior managers and technical professionals so they remain not only accountable but also competent instead of outsourcing their basic and core functions to consultants.

One of the contributing factors to the series of challenges and lapses in any municipality from the results in Chapter 4 and preceding chapters stems from the calibre and type of leaders appointed and/or deployed. Section 39 of the MSA requires that performance agreements be signed and in place which is not always the case. One recommendation would be to include improving financial health, financial performance and audit outcomes as a performance target such that the Municipal Manager or Accounting Officer is now contractually responsible and bound to establish systems and mechanisms to institute desired financial improvements. This is a viable option versus addressing the inability to bring about desirable changes and improvements by supplementing the sphere with additional layers of comprehensive regulations, legislation or legislation overhauls.

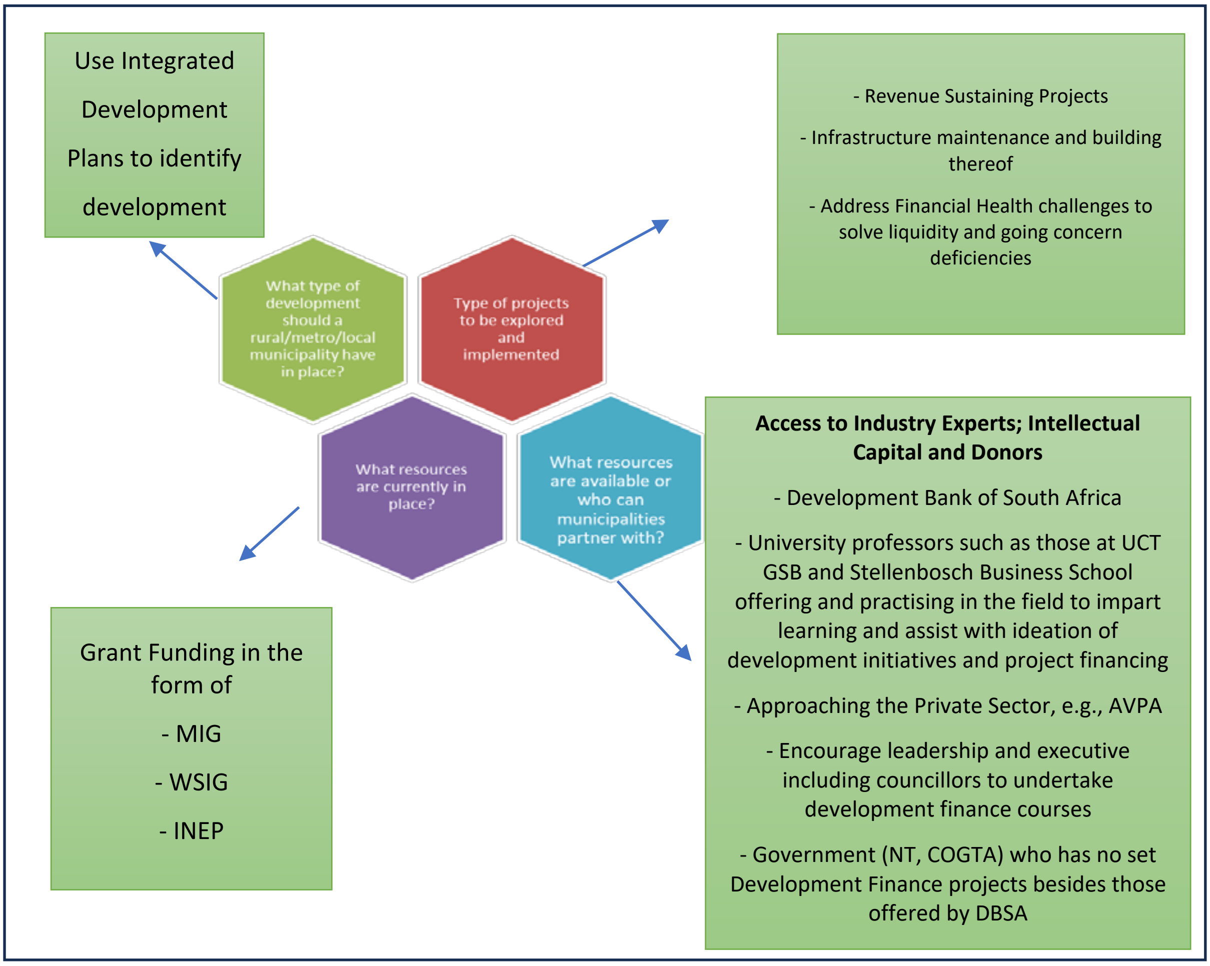
When appointing the leadership and staff in a municipal environment, it is critical that the experience, skills and proven high-performance track record of an individual together with soft and inherent qualities, such as motivation, override their political party affiliation or cadre struggle credentials. This ensures that recruitment and appointment are objective and untainted by external influences of systems and processes surrounding and, by default, enabling cadre deployment.

To preserve and improve financial sustainability, the SALGA 2020 report on trade and investment activities recommends relationships through public-private partnerships between municipalities and the private sector to rebuild their severed reputation and uphold good governance principles while designing and implementing monitoring and evaluation frameworks to assess the efficiency and effectiveness of multiple interventions currently in place (SALGA, 2020). Such partnerships will also address unemployment and inequality by allowing economic participation for a greater number of the population.

Disposable income and income earned means residents service municipal accounts which translates to revenue growth for municipalities. The importance of credible data and research for economic and business partnerships cannot be overlooked in addressing the high unemployment rate.

Given the fiscus constraints and financial regression elaborated on in Chapter 4 and preceding chapters, it is now the requisite time to consciously effect s23 of the MSA which requires that municipal planning be developmentally oriented. Municipalities have a window of opportunity to tap into development finance projects and initiatives (Figure 5.1).

Figure 5.1: Development finance projects and initiatives



Some of these projects and initiatives include development financing schemes and projects in partnership with the private sector and practitioners and institutions of higher learning partnering with municipalities to focus on much-needed infrastructure in the areas of energy, water and road infrastructure in line with the municipality's service delivery objectives. Implementing this type of development through public-private partnerships or with the private sector leaves minimal room for political interference and/or maladministration as the partners in the private sector are required to produce a return on investment for shareholders as they operate in the scheme of profit-making and are required to account for funds and capital employed.

5.4 Recommendations for Future Studies

Further studies can improve existing literature by assessing and extensively examining the relationship between regressing financial performance, audit outcomes in dysfunctional and distressed municipalities and the detrimental impact played by both the political and administrative leadership in the deteriorating financial health of municipalities. This would be essential in identifying mechanisms to alleviate the governance root causes that can only be addressed by the elimination of potentially harmful roles played by both governance and administration leadership.

Preventative controls, including amendments to the Public Audit Act in 2020, were introduced because of nearly 10 years of persistent disregard of laws and regulations. These amendments ultimately see the Municipal Manager or Accounting Officer being held personally accountable or criminally charged by being issued a certificate of debt for material irregularities that are proved to be the result of negligence or deliberate misconduct. Future studies can focus on assessing these preventative controls implemented by the Office of the Auditor-General of South Africa in 2020 as the time frame since implementation was too minimal to date to assess their success in this study.

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APPENDIX A

2018 National Audit Outcomes with Qualified, Adverse and Disclaimer Audit Opinion

These National Audit Outcomes are detailed per province and district in South Africa together with the audit opinion indicated in the respective colour (red representing a disclaimer, the worst possible outcome where financial statements were so materially misstated and unreliable that the audit could not proceed).

	Name of Municipality	Province	Municipal District	Audit Opinion Evaluation	Audit Opinion
1	Amathole District	EC	Amatole	Regressed	Disclaimer
2	Chris Hani District	EC	Chris Hani	Regressed	Disclaimer
3	Great Kei	EC	Amatole	Regressed	Disclaimer
4	Makana	EC	Sarah Baartman	Regressed	Disclaimer
5	Ingquza Hill	EC	O.R. Tambo	Regressed	Disclaimer
6	Sundays River Valley	EC	Sarah Baartman	Regressed	Disclaimer
7	Fezile Dabi District	FS	Fezile Dabi	Regressed	Disclaimer
8	Nala	FS	Lejweleputswa	Regressed	Disclaimer
9	Nketoana	FS	Thabo Mofutsanyana	Regressed	Disclaimer
10	Mpofana	KZN	uMgungundlovu	Unchanged	Disclaimer
11	uMzinyathi District	KZN	uMzinyathi	Regressed	Disclaimer
12	Victor Khanye	MP	Nkangala	Regressed	Disclaimer
13	Dipaleseng	MP	Gert Sibande	Regressed	Disclaimer
14	Lekwa	MP	Gert Sibande	Regressed	Disclaimer
15	Dr Pixley Ka Isaka Seme	MP	Gert Sibande	Regressed	Disclaimer
16	Ditsobotla	NW	Ngaka Modiri Molema	Unchanged	Disclaimer
17	Dr Ruth S Mompati District	NW	Dr Ruth S Mompati	Regressed	Disclaimer
18	Kgetlengriver	NW	Bojanala Platinum	Unchanged	Disclaimer
19	Lekwa Teemane	NW	Dr Ruth S Mompati	Unchanged	Disclaimer
20	Madibeng	NW	Bojanala Platinum	Unchanged	Disclaimer
21	Mahikeng	NW	Ngaka Modiri Molema	Unchanged	Disclaimer
22	Maquassi Hills	NW	Dr Kenneth Kaunda	Unchanged	Disclaimer
23	Ramotshere Moiloa	NW	Ngaka Modiri Molema	Unchanged	Disclaimer
24	Ratlou	NW	Ngaka Modiri Molema	Regressed	Disclaimer
25	Dikgatlong	NC	Frances Baard	Unchanged	Disclaimer
26	Joe Morolong	NC	John Taolo Gaetsewe	Unchanged	Disclaimer
27	Kamiesberg	NC	Namakwa	Regressed	Disclaimer
28	Kai! Garib	NC	ZF Mgcawu District	Regressed	Disclaimer
29	Kgatelopele	NC	ZF Mgcawu District	Unchanged	Disclaimer

30	!Kheis	NC	ZF Mgcawu District	Unchanged	Disclaimer
31	Dr Beyers Naudé	EC	Sarah Baartman	Unchanged	Disclaimer
32	Walter Sisulu	EC	Joe Gqabi	Unchanged	Disclaimer
33	Modimolle-Mookgophong	LP	Waterberg	Unchanged	Disclaimer
34	Emakhazeni	MP	Nkangala	Regressed	Adverse
35	Msukaligwa	MP	Gert Sibande	Unchanged	Adverse
36	Amahlati	EC	Amatole	Regressed	Qualified
37	Buffalo City Metro	EC	Buffalo City Metro	Unchanged	Qualified
38	Intsika Yethu	EC	Chris Hani	Regressed	Qualified
39	King Sabata Dalindyebo	EC	O.R. Tambo	Unchanged	Qualified
40	Mhlontlo	EC	O.R. Tambo	Regressed	Qualified
41	Mnquma	EC	Amatole	Improved	Qualified
42	Ndlambe	EC	Sarah Baartman	Unchanged	Qualified
43	Ngqushwa	EC	Amatole	Regressed	Qualified
44	OR Tambo District	EC	O.R. Tambo	Unchanged	Qualified
45	Port St. Johns	EC	O.R. Tambo	Unchanged	Qualified
46	Sakhisizwe	EC	Chris Hani	Regressed	Qualified
47	Umzimvubu	EC	Alfred Nzo	Unchanged	Qualified
48	Letsemeng	FS	Xhariep	Unchanged	Qualified
49	Mohokare	FS	Xhariep	Unchanged	Qualified
50	Mangaung Metro	FS	Mangaung	Improved	Qualified
51	Tswelopele	FS	Lejweleputswa	Unchanged	Qualified
52	Dihlabeng	FS	Thabo Mofutsanyana	Unchanged	Qualified
53	Moqhaka	FS	Fezile Dabi	Regressed	Qualified
54	Metsimaholo	FS	Fezile Dabi	Unchanged	Qualified
55	Ngwathe	FS	Fezile Dabi	Improved	Qualified
56	Setsoto	FS	Thabo Mofutsanyana	Unchanged	Qualified
57	Amajuba District	KZN	Amajuba	Unchanged	Qualified
58	Dannhauser	KZN	Amajuba	Unchanged	Qualified
59	eDumbe	KZN	Zululand	Regressed	Qualified
60	Impendle	KZN	uMgungundlovu	Unchanged	Qualified
61	Jozini	KZN	uMkhanyakude	Regressed	Qualified
62	Msunduzi	KZN	uMgungundlovu	Improved	Qualified
63	Mtubatuba	KZN	uMkhanyakude	Regressed	Qualified
64	Richmond	KZN	uMgungundlovu	Improved	Qualified
65	Ubuhlebezwe	KZN	Harry Gwala	Unchanged	Qualified
66	Ugu District	KZN	Ugu	Improved	Qualified
67	Umgungundlovu District	KZN	uMgungundlovu	Unchanged	Qualified
68	uMkhanyakude District	KZN	uMkhanyakude	Unchanged	Qualified
69	Umngeni	KZN	uMgungundlovu	Regressed	Qualified
70	uMshwathi	KZN	uMgungundlovu	Regressed	Qualified
71	uMzimkhulu	KZN	Harry Gwala	Regressed	Qualified

72	uThukela District	KZN	uThukela	Unchanged	Qualified
73	Zululand District	KZN	Zululand	Unchanged	Qualified
74	Ba-Phalaborwa	LP	Mopani	Unchanged	Qualified
75	Bela-Bela	LP	Waterberg	Unchanged	Qualified
76	Blouberg	LP	Capricorn	Unchanged	Qualified
77	Elias Motsoaledi (Greater Groblersdal)	LP	Sekhukhune	Regressed	Qualified
78	Greater Giyani	LP	Mopani	Unchanged	Qualified
79	Ephraim Mogale	LP	Sekhukhune	Regressed	Qualified
80	Sekhukhune District	LP	Sekhukhune	Regressed	Qualified
81	Greater Tzaneen	LP	Mopani	Unchanged	Qualified
82	Lepelle Nkumpi	LP	Capricorn	Unchanged	Qualified
83	Lephalale	LP	Waterberg	Unchanged	Qualified
84	Makhado	LP	Vhembe	Unchanged	Qualified
85	Mopani District	LP	Mopani	Improved	Qualified
86	Musina	LP	Vhembe	Unchanged	Qualified
87	Vhembe District	LP	Vhembe	Improved	Qualified
88	Emalahleni	MP	Nkangala	Unchanged	Qualified
89	Mkhondo	MP	Gert Sibande	Unchanged	Qualified
90	Thaba Chweu	MP	Ehlanzeni	Unchanged	Qualified
91	Thembisile Hani	MP	Nkangala	Unchanged	Qualified
92	Matlosana	NW	Dr Kenneth Kaunda	Regressed	Qualified
93	Dr Kenneth Kaunda District	NW	Dr Kenneth Kaunda	Unchanged	Qualified
94	Kagisano-Molopo	NW	Dr Ruth S Mompati	Improved	Qualified
95	Moretele	NW	Bojanala Platinum	Unchanged	Qualified
96	Moses Kotane	NW	Bojanala Platinum	Improved	Qualified
97	Rustenburg	NW	Bojanala Platinum	Unchanged	Qualified
98	Tswaing	NW	Ngaka Modiri Molema	Unchanged	Qualified
99	Magareng	NC	Frances Baard	Unchanged	Qualified
100	Sol Plaatje	NC	Frances Baard	Unchanged	Qualified
101	Gamagara	NC	John Taolo Gaetsewe	Improved	Qualified
102	Karoo Hoogland	NC	Namakwa	Regressed	Qualified
103	Khai-Ma	NC	Namakwa	Unchanged	Qualified
104	Nama Khoi	NC	Namakwa	Unchanged	Qualified
105	Richtersveld	NC	Namakwa	Unchanged	Qualified
106	Emthanjeni	NC	Pixley Ka Seme - NC	Regressed	Qualified
107	Siyathemba	NC	Pixley Ka Seme - NC	Unchanged	Qualified
108	Thembelihle	NC	Pixley Ka Seme - NC	Unchanged	Qualified
109	Ubuntu	NC	Pixley Ka Seme - NC	Unchanged	Qualified
110	Umsobomvu	NC	Pixley Ka Seme - NC	Regressed	Qualified
111	Beaufort West	WC	Central Karoo	Unchanged	Qualified
112	Laingsburg	WC	Central Karoo	Unchanged	Qualified
113	Collins Chabane	LP	Vhembe	Improved	Qualified
114	Raymond Mhlaba	EC	Amatole	Regressed	Qualified

115	Big 5 Hlabisa	KZN	uMkhanyakude	Unchanged	Qualified
116	JB Marks	NW	Dr Kenneth Kaunda	Unchanged	Qualified
117	Fetakgomo Tubatse	LP	Sekhukhune	Unchanged	Qualified
118	City of Mbombela	MP	Ehlanzeni	Regressed	Qualified