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Fiscal Transparency Deficits and Accountability Failures in South African Local Government: A Qualitative Analysis of Disclaimed Audit Opinions

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ABSTRACT

Background: *Persistent disclaimed audit opinions in South African local government represented a severe breakdown in fiscal transparency and accountability between 2016 and 2024.* ***Aim:*** *This qualitative study analysed the Auditor-General's Consolidated Report on Local Government Audit Outcomes 2023-24, examining institutional and governance factors causing seven municipalities across four provinces to receive repeated disclaimed opinions for three to eight consecutive years.* ***Setting:*** *The study was situated in the South African local government context during the 2023-24 municipal financial year.* ***Methods:*** *Using thematic document analysis situated within institutional theory and principal-agent perspectives, the study analysed patterns across 247 municipalities, focusing on the seven with repeated disclaimed opinions.* ***Results:*** *The study revealed three reinforcing pathologies: chronic institutional capability deficits (vacancies, skills gaps, weak controls), institutional integrity failures (non-compliance, irregular expenditure, absent consequences), and political instability (leadership turnover, coalition dynamics) that eroded reform continuity.* ***Conclusion:*** *The study developed a conceptual framework linking these three dimensions to the likelihood of repeated disclaimed opinions.* ***Recommendations:*** *Findings demonstrated that disclaimed opinions represent institutional pathologies requiring coordinated interventions across capability, integrity, and political incentives, rather than narrow technical reforms. The study contributed by integrating institutional and principal-agent lenses to explain persistent subnational audit failure and foregrounding disclaimed opinions as indicators of deep fiscal transparency deficits in emerging economies.*

Keywords: Fiscal transparency; Disclaimed audit opinions; Institutional theory; Local government accountability; Principal-agent theory

1. INTRODUCTION

Audit outcomes signal the health of public financial management systems and governments' willingness to account for public resources. In South Africa, disclaimed audit opinions by the Auditor-General of South Africa (AGSA) at local government level persist despite a decade of reforms, pointing to entrenched failures in fiscal transparency, institutional capability, and accountability (AGSA, 2025). Disclaimed opinions, indicating that auditors were unable to obtain sufficient evidence to express an opinion on financial statements, represent the most severe audit failure, implying that municipal financial reporting could not be relied upon for decision-making or oversight (Mnguni & Subban, 2022). This section sets out the social and scientific significance of the study, before presenting the conceptual framework underpinning the analysis and concluding with the study's aim and objectives.

1.1 Social Significance

Seven South African municipalities across four provinces received repeated disclaimed audit opinions for three to eight consecutive years (2016-2024), collectively managing R3.48 billion in budgets and serving over 180,000 households with minimal transparency about fund usage or performance achievement (AGSA, 2025). Despite multiple provincial interventions, financial recovery plans, and substantial consultant expenditure (R848.85 million in 2023-24 alone), these municipalities remained unable to produce auditable financial statements. This persistent fiscal opacity raised fundamental questions about the institutional and political determinants of extreme transparency failure, particularly given that citizens depend on municipalities for essential services.

Fiscal transparency, defined as government openness regarding fiscal policy intentions, public sector accounts, and projections, enables accountability and informed decision-making (Alt & Lassen, 2006; Heald, 2003). Internationally, fiscal transparency has been analysed through principal-agent lenses, in which citizens and representative institutions seek to monitor governments that possess informational advantages and incentives to obscure poor performance (Benito & Bastida, 2009; Hathaway, Bourdeaux &

Franklin, 2019). South African local government occupies a distinctive position within this global literature: the post-apartheid 'developmental local government' project promised an accountable, responsive sphere capable of driving socio-economic transformation (Ndevu & Muller, 2018; Steytler & De Visser, 2025). However, research has consistently documented persistent weaknesses, including high irregular and wasteful expenditure, widespread procurement non-compliance, skills deficits in key positions, and weak consequence management (Masehela & Mbhalati, 2024; Masuku & Jili, 2019; Mishi, Mbaleki & Mushonga, 2022).

1.2 Scientific Significance

Three key gaps in the existing literature motivated this study. First, limited explicit focus exists on disclaimed opinions as a distinctive failure category. Most work treats audit outcomes in aggregate or focuses on clean versus non-clean distinctions (Masehela & Mbhalati, 2024; Mishi et al., 2022), with less attention paid to municipalities that are repeatedly unable to produce auditable statements. Second, although studies point to political instability undermining governance (Ndevu & Muller, 2018; Thusi & Ndebele, 2024), these are seldom analysed systematically in relation to audit outcomes. The Auditor-General's report implies such links but this connection remains underexplored (AGSA, 2025). Third, international institutional literature tends to focus on central government reforms rather than subnational entities with extreme failures in basic record-keeping (Modell, 2019; Tetteh et al., 2021), whereas municipalities with repeated disclaimed opinions challenge theories that assume a baseline of organisational capacity.

While prior studies have examined local government failures broadly, little research has specifically examined the extreme case of repeated disclaimed opinions through an integrated institutional and principal-agent lens, or systematically linked these outcomes to political instability dynamics. This study addressed that gap by posing two research questions: (a) What were the underlying institutional and governance factors that led municipalities to repeatedly receive disclaimed audit opinions, and how did these factors differ across provincial contexts? (b) What role did political instability and administrative leadership turnover play in sustaining or exacerbating fiscal transparency deficits in municipalities with persistent disclaimed audit outcomes?

1.3 Conceptual Framework

To address the identified gaps, this study developed an integrated conceptual framework drawing on both institutional theory and principal-agent perspectives. The framework organises the analysis around three dimensions that, individually and in combination, explain why certain municipalities persistently receive disclaimed audit opinions.

'Institutional capability' refers to the skills, systems, and capacity required to maintain records and produce credible financial reports. Indicators include vacancy rates, consultant reliance, IT quality, and internal audit effectiveness (AGSA, 2025; Tetteh et al., 2021). 'Institutional integrity' refers to ethical leadership, legislative compliance, and consequence management. Indicators include irregular expenditure, procurement compliance, and actions taken against wrongdoing (AGSA, 2025; Masuku & Jili, 2019). 'Political stability and administrative continuity' refers to stability in coalitions, leadership, and the implementation of recovery plans over time (AGSA, 2025; Thusi & Ndebele, 2024).

The framework posits that low capability and weak integrity increase the likelihood of modified audit opinions. When severe and persistent, these conditions lead to disclaimed opinions. Political instability further disrupts reform trajectories and weakens implementation continuity, as illustrated in Figure 1 in Section 5 below. This framework guided the design of the study, the thematic coding of data in Section 3, and the discussion of findings in Section 4.

1.4 Aim and Objectives

The overarching aim of this study was to examine the institutional and governance factors that cause South African municipalities to repeatedly receive disclaimed audit opinions, and to assess the role of political instability in sustaining these outcomes. The study's specific objectives were:

(a) to identify and document the institutional capability deficits, integrity failures, and political instability dynamics associated with repeated disclaimed opinions;

(b) to analyse how these dimensions interact to produce and perpetuate extreme fiscal transparency failures; and

(c) to develop practical recommendations for policymakers and oversight bodies based on the findings.

The remainder of the paper proceeds as follows. Section 2 reviews the literature on fiscal transparency, audit quality, institutional theory, and principal-agent models, identifying gaps and situating the conceptual framework within the existing body of knowledge. Section 3 outlines the qualitative research methodology. Section 4 presents the research findings and discussion, and Section 5 provides the recommendations and conclusions.

2. LITERATURE REVIEW

The literature review synthesises existing scholarship on fiscal transparency, public sector audit outcomes, institutional theory, and the South African local government context. It aligns with the three dimensions of the conceptual framework presented in Section 1 and identifies the gaps that this study seeks to fill.

2.1 Fiscal Transparency and Principal-Agent Theory

Fiscal transparency refers to government openness regarding fiscal policy intentions, public sector accounts, and projections (Heald, 2003; IMF, 2006). Timely, comprehensive fiscal information enables accountability and informed decision-making (Alt & Lassen, 2006; Wehner & de Renzio, 2013). Empirical work shows that higher fiscal transparency is associated with lower public debt and more disciplined fiscal behaviour, especially where strong political institutions and independent audit bodies are in place (Alt & Lassen, 2006).

Principal-agent models frame these relationships. Voters (principals) delegate authority to governments (agents) to manage public resources (Hathaway et al., 2019; Mueller, 2012). Agency problems arise because agents may pursue self-interest and principals lack full information (Benito & Bastida, 2009; Wehner & de Renzio, 2013). Fiscal transparency and strong audit institutions mitigate these problems by reducing information asymmetries (IMF, 2006). External audit plays a crucial role: supreme audit institutions provide assurance that financial statements reliably reflect resource flows (INTOSAI, 2019; De Renzio, 2009). Disclaimed opinions signal a collapse in auditors' ability to form a view due to pervasive evidence limitations (AGSA, 2025). In principal-agent contexts, repeated disclaimed opinions suggest weak transparency enforcement, as principals cannot observe the true state of public finances and agents operate with limited sanction risk.

2.2 Institutional Theory and Public Sector Reform

Institutional theory offers complementary perspectives on public financial management reform. Early accounts emphasised how organisations adopt formal structures to gain legitimacy rather than to improve efficiency, often decoupling these structures from actual operations (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In the public sector, institutional theory explains the diffusion of accounting standards and performance frameworks under the influence of international bodies (Carpenter, Cheng & Feroz, 2008; Tetteh et al., 2021).

Studies in Ghana demonstrate how institutional pressures initiated reforms, but entrenched practices and skills gaps limited their full realisation (Tetteh et al., 2021). Similar dynamics are apparent in Nigerian studies on the adoption of International Public Sector Accounting Standards (IPSAS), which identify political commitment, institutional capacity, and IT infrastructure as key determinants of success (Zibaghafa & Okpolosa, 2024). Brusca and Martinez (2015) argue that modernisation requires an institutional environment that aligns legal, managerial, and organisational components simultaneously.

Recent research emphasises the agency roles and constitutive effects of performance systems (Brignall & Modell, 2000; Leca & Laguecir, 2023; Modell, 2019). Performance indicators and audit ratings reshape organisational priorities and accountability practices (Modell, 2022). Public organisations may symbolically comply with reporting requirements while avoiding deeper operational change (Brignall & Modell, 2000; Silva, Macedo & Thompson, 2024). This concept of symbolic compliance is particularly relevant to understanding why repeated consultant engagement and audit action plans have failed to produce improvement in the municipalities examined in this study.

2.3 South African Local Government Context

South African literature documents wide-ranging governance challenges, including corruption, maladministration, politicised appointments, and weak oversight (Masuku & Jili, 2019; Ndevu & Muller, 2018; Sutcliffe & Bannister, 2020). Masuku and Jili (2019) emphasise how procurement corruption and absent consequences undermine service delivery, while Sutcliffe and Bannister (2020) note that Section 139 interventions are often invoked repeatedly without yielding sustainable improvement.

Financial mismanagement has also been analysed through an efficiency lens. Mishi et al. (2022) demonstrate that unauthorised and irregular expenditure is associated with lower municipal efficiency, while talent management studies highlight the inability to attract competent finance professionals as a persistent structural constraint (Masehela & Mbhalati, 2024). Political instability emerged prominently in more recent scholarship. Thusi and Ndebele (2024) demonstrate how coalition politics produce fragile alliances with frequent leadership changes, while Mudzusi (2024) links poor service delivery to corruption and skills deficits within the context of broader institutional weaknesses, a pattern also noted by Tanzi and Davoodi (2000).

The Auditor-General's 2023-24 report reinforces these concerns. Only a minority of municipalities sustained clean audits; most recorded material non-compliance and weak controls (AGSA, 2025). Municipalities with disclaimed opinions lacked proper financial records and exhibited high levels of irregular expenditure. The report links these failures to CFO vacancies, senior management turnover, and ineffective oversight structures (AGSA, 2025).

2.4 Identified Gaps

Three key gaps emerged from this review. First, limited explicit focus exists on disclaimed opinions as a distinctive failure category. Most work treats audit outcomes in aggregate or focuses on clean versus non-clean distinctions (Masehela & Mbhalati, 2024; Mishi et al., 2022), with less attention paid to municipalities that are repeatedly unable to produce auditable statements. Second, although studies point to political instability as undermining governance (Ndevu & Muller, 2018; Thusi & Ndebele, 2024), these dynamics are seldom analysed systematically in relation to audit outcomes. The Auditor-General's report implies such links, but this remains underexplored (AGSA, 2025). Third, international institutional literature tends to focus on central government reforms rather than subnational entities characterised by extreme failures in basic record-keeping (Modell, 2019; Tetteh et al., 2021). Municipalities with repeated disclaimed opinions challenge theories that assume a baseline level of organisational capacity.

These gaps collectively justify the integrated approach of this study: by combining institutional theory with principal-agent perspectives and focusing on the extreme case of repeated disclaimed opinions, this research makes a distinct contribution to the existing body of knowledge.

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Research Philosophy, Approach, and Design

The study adopted an interpretive philosophical orientation, consistent with research that seeks to understand the meanings, norms, and incentives embedded in organisational practices (Brignall & Modell, 2000; Silva et al., 2024). An inductive research approach was employed, in which patterns and themes were drawn from the data in light of an established conceptual framework, rather than testing predetermined hypotheses. The research design was exploratory and explanatory, aiming to identify the institutional and governance factors associated with persistent disclaimed audit opinions and to explain how these factors interact.

3.2 Research Methodology and Strategy

A qualitative methodology was employed, using document analysis as the primary research strategy (Bowen, 2009). Specifically, the study relied on qualitative analysis of the AGSA's Consolidated General Report on Local Government Audit Outcomes for 2023-24 (AGSA, 2025). This approach was appropriate because the report consolidated extensive audit evidence, narrative explanations, and case examples relating to municipal financial management across all provinces. Document analysis is a well-established strategy in public sector research, particularly where access to primary participants is limited and where official reports constitute the authoritative record of the phenomena under investigation (Bowen, 2009). The research time horizon was cross-sectional, focusing on the 2023-24 audit cycle, while drawing on trend data from the preceding three years where available.

3.3 Research Context and Sampling

The research context was the South African local government sphere during the 2023-24 municipal financial year, within which audits had been completed for 247 municipalities, yielding a range of audit opinions (AGSA, 2025). The target population for this study comprised all municipalities that received disclaimed audit opinions in 2023-24. The accessible population, and the focus of the in-depth analysis, was the sub-set of seven municipalities across four provinces that had received repeated disclaimed opinions for three to eight consecutive years. These seven municipalities collectively managed budgets of approximately R3.48 billion and served more than 180,000 households (AGSA, 2025).

These seven municipalities were purposively sampled on the basis of four explicit criteria: (a) severity, in that each had received a disclaimed opinion, the most severe possible audit outcome; (b) persistence, in that each had received disclaimed opinions for at least three consecutive years; (c) contemporaneousness, in that each received a disclaimed opinion in the 2023-24 audit cycle; and (d) data completeness, in that sufficient information was available in the AGSA report for meaningful thematic analysis. Additionally, the study drew selectively on information about municipalities that had moved out of the disclaimed category, regressed into disclaimed opinions, or received other modified audit opinions, where such information provided useful comparative insights (AGSA, 2025).

3.4 Data Sources and Collection

The primary data source was the published Consolidated General Report on Local Government Audit Outcomes for 2023-24, which provided both quantitative and qualitative information on audit outcomes, financial health, performance reporting, compliance with legislation, material irregularities, and institutional conditions at municipal and provincial levels (AGSA, 2025). The report included summary statistics, trend data, narrative sections, and case examples drawn from across the country.

Data collection involved the systematic reading of the entire report, with particular attention paid to sections covering audit outcomes, performance reporting, compliance, disclaimed opinions, material irregularities, service delivery risks, and provincial analyses. Relevant passages were identified, annotated, and extracted into structured qualitative notes organised around the three conceptual framework dimensions: institutional capability, institutional integrity, and political stability. Secondary literature from academic databases in public finance, public administration, and accounting was used to contextualise and interpret the Auditor-General's findings (Alt & Lassen, 2006; Tetteh et al., 2021; Silva et al., 2024).

3.5 Data Analysis

The data analysis followed a thematic qualitative document analysis approach (Bowen, 2009; Ahmed et al., 2025). An initial coding scheme was developed on the basis of the conceptual framework, incorporating codes for institutional capability (vacancies, skills deficits, consultant reliance), institutional integrity (irregular expenditure, non-compliance), and political stability (leadership turnover, coalition dynamics). Additional inductive codes were created to capture emergent themes, such as environmental harm and unfunded budgets.

Extracted passages and case examples relating to municipalities with disclaimed opinions were then coded according to this scheme, with a particular focus on the seven municipalities with repeated disclaimed opinions. The coding process involved line-by-line examination of the extracted text to identify all references corresponding to each code. Frequency analysis was subsequently conducted to identify patterns across themes. Finally, coded data were interpreted in light of international and South African literature on fiscal transparency, institutional theory, and principal-agent models (AGSA, 2025; Mishi et al., 2022; Thusi & Ndebele, 2024).

3.6 Rigour and Trustworthiness

Several strategies were employed to enhance rigour. Regarding credibility, reliance on the Auditor-General's consolidated report ensured that the analysis was grounded in systematically collected and audited information widely recognised as authoritative (AGSA, 2025; INTOSAI, 2019). The report itself triangulated evidence from financial statements, performance reports, compliance testing, and site visits. Theoretical coherence was promoted through the clear conceptual framework derived from institutional theory and principal-agent perspectives (Brignall & Modell, 2000; Silva et al., 2024), while credibility was further strengthened through triangulation between findings and relevant academic literature (Alt & Lassen, 2006; Tetteh et al., 2021; Mishi et al., 2022). Transparency was maintained by clearly acknowledging the study's limitations, including reliance on a single primary data source and the absence of direct stakeholder perspectives. Transferability was addressed by providing sufficient contextual detail about the South African local government system to enable readers to assess the applicability of findings to other contexts (Steytler & De Visser, 2025; De Renzio, 2009).

Having established the methodological approach, Section 4 presents the findings of the thematic analysis and discusses them in relation to the research questions and the existing literature.

4. RESEARCH FINDINGS AND DISCUSSION

This section presents the three themes derived from the thematic analysis of the AGSA's Consolidated General Report on Local Government Audit Outcomes for 2023-24, and discusses these themes in relation to the two research questions (AGSA, 2025; Bowen, 2009; Ahmed et al., 2025). The analysis encompassed patterns across 247 municipalities, with a particular focus on the seven that received repeated disclaimed opinions for three to eight consecutive years. These findings are presented in Table 1 below.

Table 1: Thematic Frequency Table

Theme 1: Institutional Capability Deficits		
Sub-themes	**Frequency**	**Examples of words / phrases included in each sub-theme's code**
1.1 Vacancies and Skills Deficits in Finance Units	147	vacancies; skills deficits; lack of financial management skills; high vacancy rate; chief financial officer vacancies; finance unit capacity; competence gaps; inadequate skills; inexperienced staff; inability to attract competent professionals; vacant positions; acting appointments
1.2 Over-reliance on Consultants	219	consultants; financial reporting consultants; reliance on consultants; ineffective use of consultants; consultant cost; external consultants; appointed consultants year after year; short-term solution becomes permanent; R848.85 million consultant spend; consultants not providing value; lack of skills transfer; dependence on consultants
1.3 Weak Record-Keeping and Information Technology Controls	196	lack of records; poor record-keeping; weak record management; inadequate supporting documentation; IT control weaknesses; information technology deficiencies; weak IT governance; system failures; lack of integration; financial system migration problems; incomplete data; inaccurate records; manual workarounds

1.4 Ineffective Internal Audit Units and Audit Committees	137	internal audit units; audit committees; ineffective internal audit; audit committee not functioning effectively; limited assurance; inadequate risk assessments; lack of capacity in internal audit; recommendations not implemented; weak oversight; limited monitoring by audit committee
1.5 Lack of Action Plans and Monitoring Systems	147	action plans; audit action plans; lack of adequate action plans; action plans not implemented; action plans not addressing root causes; lack of monitoring; failure to implement corrective measures; weak monitoring of action plans
Theme 2: Institutional Integrity Failures		
Sub-themes	**Frequency**	**Examples of words / phrases included in each sub-theme's code**
2.1 Non-Compliance with Procurement and Contract Management Legislation	214	non-compliance with procurement legislation; procurement findings; supply chain management weaknesses; contract management failures; uncompetitive processes; unfair procurement; deviations not justified; quotations not obtained; contractor performance not monitored; competitive bids not invited; material non-compliance; procurement irregularities
2.2 Irregular, Unauthorised and Wasteful Expenditure	201	irregular expenditure; unauthorised expenditure; fruitless and wasteful expenditure; growing irregular expenditure balance; R87.03 billion irregular expenditure; R31.79 billion unauthorised expenditure; financial losses; non-disclosure of irregular expenditure; expenditure not investigated; accumulation of irregular expenditure; overspending
2.3 Weak Consequence Management Culture	132	lack of consequences; consequence management failures; no consequences for transgressions; lack of accountability; poor and slow responses to investigating; officials not held accountable; lacklustre approach to recoveries; limited disciplinary action; failure to investigate misconduct; culture of no consequences
2.4 Poor Financial Management and Unfunded Budgets	113	unfunded budgets; poor financial management; 113 municipalities with unfunded budgets; deficits; financial distress; going concern uncertainty; R11.29 billion deficit; poor budgeting practices; unreliable financial information; weak fiscal discipline; councils adopting unfunded budgets; lack of budget credibility

Theme 3: Political Instability and Administrative Discontinuity		
Sub-themes	**Frequency**	**Examples of words / phrases included in each sub-theme's code**
3.1 Leadership Turnover and Vacancies in Key Positions	57	leadership turnover; instability in key positions; senior management vacancies; municipal manager vacancies; chief financial officer vacancies; 50 municipalities with CFO vacancies; changes in leadership; departure of key officials; suspended officials; acting appointments; high turnover; average tenure 39 months; lack of permanent appointments
3.2 Ineffective Provincial Interventions and Support	42	provincial interventions; provincial support; intergovernmental support; financial recovery plans; provincial treasury support; intervention teams; section 139 interventions; slow implementation of recovery plans; limited impact of interventions; lack of effective monitoring by provinces
3.3 Council Instability and Coalition Dynamics	28	council instability; coalition dynamics; coalition disagreements; political instability; changes in mayor; fragile alliances; council conflicts; coalition party disagreements; marriages of inconvenience; political and administrative challenges; weak oversight by councils

Source: AGSA (2025). Consolidated General Report on Local Government Audit Outcomes 2023-24.

4.1 Theme 1: Institutional Capability Deficits

The first theme encompassed structural and organisational weaknesses that prevented municipalities from maintaining proper records, producing credible financial statements, and implementing basic financial management processes. This theme emerged with exceptionally high frequency, appearing in over 800 distinct references across five sub-themes, reflecting its central role in explaining persistent disclaimed opinions.

Vacancies and skills deficits in finance units constituted the most fundamental sub-theme. The AGSA report documented that 'at the 2023-24 year-end, municipal finance units had an average vacancy rate of 19%, slightly higher than the 18% reported in 2020-21' and that 'the vacancy rate for chief financial officers had worsened, with 50 municipalities (20%) having vacancies in this position compared to 37 (15%) in 2020-21' (AGSA, 2025, p. 39). At municipalities with disclaimed opinions, 'the vacancy rate was even higher, at 18%, and their chief financial officers had held their positions for an average of only 39 months by the 2023-24 year-end' (AGSA, 2025, p. 39). The direct relationship between vacancies and poor audit outcomes was evident in the finding that 'the 107 municipalities (43%) with modified audit opinions had an average vacancy rate of 22% in their finance units and 29% among their senior management' (AGSA, 2025, p. 39). Hantam Local Municipality's regression from a clean audit was attributed to 'the departure of the municipal manager and the chief financial officer, who were instrumental in driving the positive outcomes' (AGSA, 2025, p. 28). These findings align with institutional theory on the relationship between organisational capacity and governance outcomes (Tetteh et al., 2021).

Over-reliance on consultants represented a persistent and paradoxical weakness. Municipalities contracted consultants for finance functions due to vacancies and skills shortages, yet 'using financial reporting consultants has become a permanent solution for many municipalities, most notably in Limpopo and North West' (AGSA, 2025, p. 8). Despite R848.85 million spent on consultants in 2023-24, they 'had little impact at the 101 municipalities (46%) where we identified material misstatements in the areas of the consultants' work' (AGSA, 2025, p. 8). At the seven municipalities with repeated disclaimed opinions, consultant reliance failed to yield benefits due to underlying poor record-keeping (AGSA, 2025, p. 57). This persistent use of consultants without skills transfer is a textbook example of symbolic compliance, in which municipalities signal responsiveness to audit findings without effecting substantive operational change (Meyer & Rowan, 1977; Brignall & Modell, 2000).

Weak record-keeping and information technology (IT) controls were identified as the main proximate causes of financial reporting failures (AGSA, 2025, p. 57). Only 49% of municipalities had effective IT governance processes (AGSA, 2025, p. 40), and municipalities with repeated disclaimed opinions exhibited particular weaknesses in IT systems, including a lack of integration between financial and banking transactions that necessitated manual workarounds (AGSA, 2025, p. 57). Kareeberg Local Municipality, for example, regressed to a disclaimed opinion after a poorly managed financial system migration (AGSA, 2025, p. 56). Complementing these failures, ineffective internal audit units and audit committees failed to provide the necessary oversight, with fewer than half performing their functions effectively (AGSA, 2025, p. 41). Finally, 99% of municipalities with modified opinions lacked adequate action plans or failed to implement those that existed (AGSA, 2025, p. 40), demonstrating a pervasive absence of sustained corrective action.

4.2 Theme 2: Institutional Integrity Failures

The second theme captured failures to comply with legislation, manage expenditure legally, and implement consequences for transgressions. This theme appeared with over 660 references across four sub-themes, reflecting the deeply systemic nature of integrity deficits in the municipalities examined.

Non-compliance with procurement and contract management legislation remained pervasively high: 83% of municipalities were materially non-compliant, and 81% received procurement findings in all three years of the current administration (AGSA, 2025, p. 8). In 2023-24, 87% of municipalities had procurement findings, with these being material at 63% (AGSA, 2025, p. 9). At repeatedly disclaimed municipalities, poor controls and inadequate records were evident in procurement processes, with specific findings including 'contractor performance not monitored monthly' and 'competitive bids not invited; deviations not justified' (AGSA, 2025, p. 58).

The scale of irregular, unauthorised, and wasteful expenditure was substantial. Non-compliance across the sector resulted in R87.03 billion in irregular expenditure over three years (AGSA, 2025, p. 8), while in 2023-24 alone, R31.79 billion in unauthorised expenditure was incurred by 174 municipalities (AGSA, 2025, p. 9). Repeatedly disclaimed municipalities carried cumulative irregular expenditure balances ranging between R144 million and R689 million (AGSA, 2025, p. 59). These figures correspond directly to the principal-agent concern that, without effective monitoring mechanisms, agents face minimal accountability for fiscal misconduct (IMF, 2006; Wehner & de Renzio, 2013).

A weak consequence management culture compounded these failures. The Auditor-General noted a 'lacklustre approach in dealing with recoveries and consequences' (AGSA, 2025, p. 5), with 53% of municipalities failing to comply with consequence management legislation in 2023-24 (AGSA, 2025, p. 9). This lack of consequences was most evident in poor responses to fraud and misconduct allegations (AGSA, 2025, p. 10). Additionally, poor financial management contributed to unfunded budgets in 44% of municipalities (AGSA, 2025, p. 8), creating conditions for unauthorised expenditure and accumulating deficits. Six of the seven repeatedly disclaimed municipalities were classified as financially distressed (AGSA, 2025, p. 58).

4.3 Theme 3: Political Instability and Administrative Discontinuity

The third theme examined how political and administrative instability disrupted reform efforts and sustained audit failures. Although this theme appeared less frequently than the first two (127 references across three sub-themes), it was highly salient in explaining why capability and integrity deficits persisted despite repeated interventions.

Leadership turnover and vacancies in key positions directly undermined institutional capability (AGSA, 2025, p. 11). The case of Hantam Local Municipality, whose regression from a clean audit was linked to the departure of key leaders, illustrated how institutional progress is vulnerable to personnel changes (AGSA, 2025, p. 28). Ditsobotla Local Municipality faced 'significant political and administrative challenges' that slowed its financial recovery (AGSA, 2025, p. 61), while Kannaland Local Municipality's poor outcomes were linked to a lack of leadership oversight arising from vacancies (AGSA, 2025, p. 210).

Ineffective provincial interventions were a recurring finding. While some progress was evident in 2021-22 and 2022-23, this slowed in 2023-24 (AGSA, 2025, p. 7). The desired impact of interventions on financially distressed municipalities had not been realised (AGSA, 2025, p. 9), and at Ditsobotla, political instability specifically hindered the work of the provincial intervention team (AGSA, 2025, p. 61). The monitoring of financial recovery plans remained ineffective across the board (AGSA, 2025, p. 58).

Council instability and coalition dynamics also emerged as factors in a number of cases. While Langeberg Local Municipality maintained clean audits despite council instability by virtue of its strong internal controls (AGSA, 2025, p. 30), in other provinces political challenges negatively affected governance and service delivery (AGSA, 2025, p. 61). This confirmed broader findings in the literature on the impact of political fragmentation on governance continuity (Thusi & Ndebele, 2024).

4.4 Integration of Findings with Research Questions

The three themes were mutually reinforcing, forming a self-perpetuating cycle of fiscal opacity. Institutional capability deficits hindered legislative compliance, which in turn produced integrity failures, while political instability disrupted the capacity-building initiatives that might have broken the cycle (AGSA, 2025, p. 61). The concentrated pattern of repeated disclaimed opinions in the Eastern Cape and North West provinces pointed to the role of provincial context in either enabling or constraining recovery (AGSA, 2025, p. 7).

Addressing the first research question, the analysis demonstrated that repeated disclaimed opinions were driven by mutually reinforcing capability and integrity weaknesses across record-keeping, financial controls, and compliance. Municipalities with repeated disclaimed opinions exhibited systematic weaknesses across all three framework dimensions. Capability deficits were constitutive of the inability to produce auditable financial statements (AGSA, 2025; Masehela & Mbhalati, 2024; Mishi et al., 2022), while integrity failures interacted with these deficits to deepen transparency failures, supporting the view that principal-agent explanations are insufficient without simultaneously considering institutional dynamics (Masuku & Jili, 2019; Khaile, Davids & Khaile, 2021). Provincial variation further suggested that contextual factors matter significantly for recovery prospects (AGSA, 2025; Sutcliffe & Bannister, 2020).

Regarding the second research question, political and administrative instability disrupted reform trajectories, weakened the implementation of recovery plans, and entrenched fiscal transparency deficits. Leadership turnover and vacancies disrupted reform implementation (AGSA, 2025), corroborating Thusi and Ndebele's (2024) findings on the governance consequences of coalition dynamics. Provincial interventions frequently failed in unstable political contexts, suggesting that addressing technical gaps without achieving political stability is insufficient for sustained improvement (AGSA, 2025; Sutcliffe & Bannister, 2020).

From a theoretical standpoint, the findings aligned with institutional theory's account of the symbolic adoption of governance structures (Meyer & Rowan, 1977; Brignall & Modell, 2000). The persistence of consultant use without commensurate capacity building exemplified this decoupling. From a principal-agent perspective, disclaimed opinions represented a collapse of the basic conditions for accountability: principals could not obtain reliable information, agents faced minimal consequences, and political instability undermined any incentive for long-term accountability (AGSA, 2025). The post-apartheid vision of developmental local government remained distant for these municipalities (Steytler & De Visser, 2025).

These findings provide the empirical foundation for the recommendations presented in Section 5.

5. RECOMMENDATIONS AND CONCLUSION

5.1 Summary of Findings

This study examined the institutional and governance factors leading to repeated disclaimed audit opinions in South African municipalities and the role of political instability in sustaining these fiscal transparency deficits. Thematic analysis of the Auditor-General's 2023-24 report revealed three mutually reinforcing themes, the interplay of which is illustrated in the conceptual framework developed in Section 1 (Figure 1) and operationalised through the analysis in Section 4.

Theme 1 (Institutional Capability Deficits) encompassed vacancies and skills deficits in finance units (147 references), over-reliance on consultants (219 references), weak record-keeping and IT controls (196 references), ineffective internal audit units and audit committees (137 references), and the absence of adequate action plans and monitoring systems (147 references). Theme 2 (Institutional Integrity Failures) included non-compliance with procurement legislation (214 references), irregular and wasteful expenditure (201 references), a weak consequence management culture (132 references), and poor financial management with unfunded budgets (113 references). Theme 3 (Political Instability and Administrative Discontinuity) comprised leadership turnover and vacancies in key positions (57 references), ineffective provincial interventions (42 references), and council instability arising from coalition dynamics (28 references).

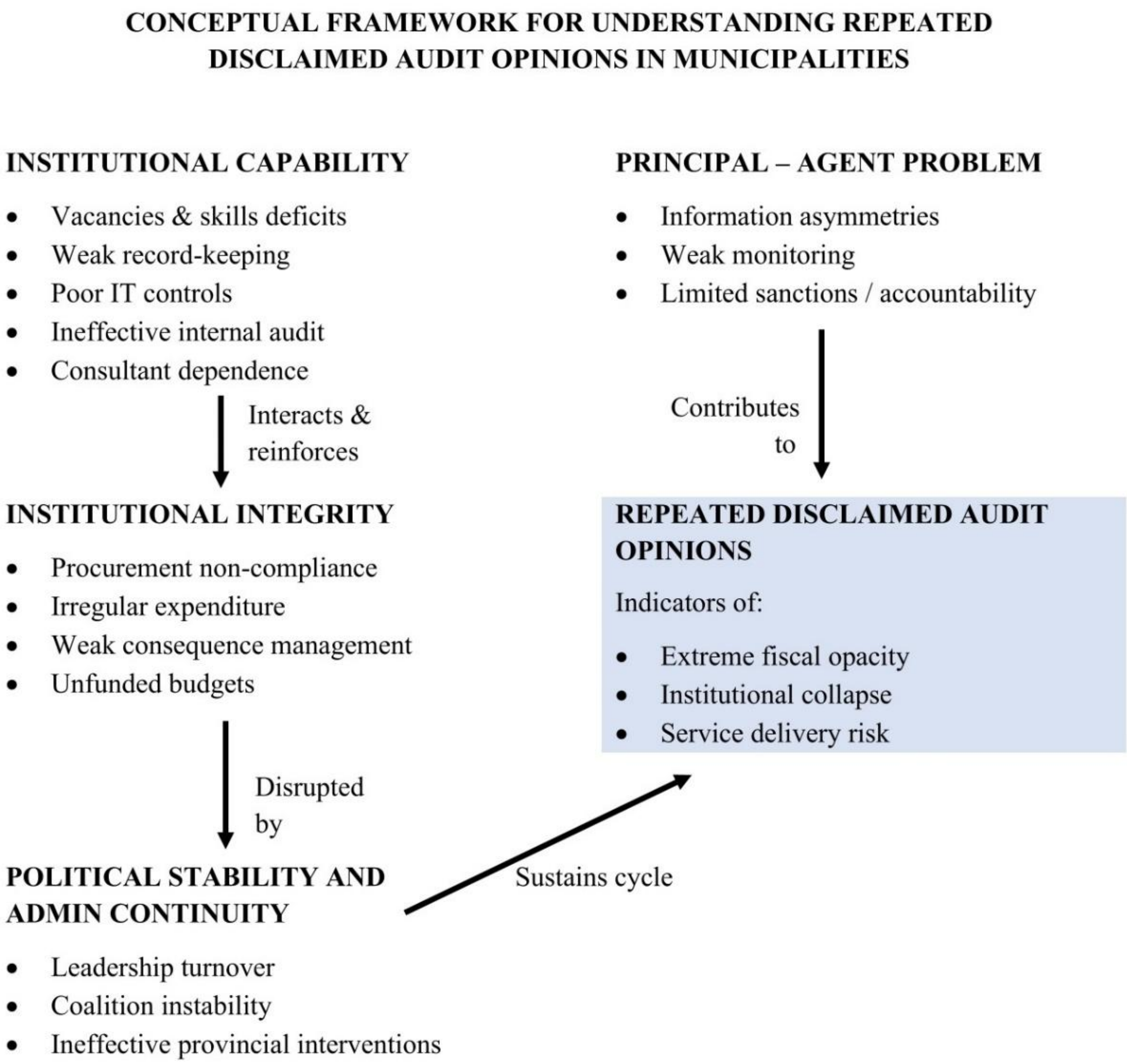
Municipalities with repeated disclaimed opinions exhibited pervasive capability deficits, including high vacancy rates (an average of 18% in finance units, with 20%

CFO vacancies), short tenure in key positions (an average of 39 months), and chronic consultant dependence despite R848.85 million in annual expenditure. These capability deficits interacted with integrity failures, including R87.03 billion in irregular expenditure over three years, 87% procurement non-compliance, and absent consequences in 53% of municipalities. Political instability exacerbated these issues by disrupting reform trajectories and undermining recovery plan continuity, with repeatedly disclaimed municipalities concentrated in the Eastern Cape and North West provinces.

5.2 Framework Integration

The conceptual framework developed in this study, as presented in Figure 1 below and previously described in Section 1.3 above, integrates institutional theory and principal-agent perspectives to explain how the three identified dimensions interact to produce and perpetuate repeated disclaimed opinions. This framework is grounded in the problem of fiscal transparency failure identified in the introduction and is substantiated by the empirical findings of the thematic analysis.

Figure 1: Integrated Framework of Fiscal Transparency Failure



Source: The Authors

Institutional capability deficits create the proximate conditions for disclaimed opinions: without adequate records, trained personnel, and functional IT systems, municipalities cannot produce the auditable financial statements that external audit requires. Institutional integrity failures interact with and reinforce capability deficits: when compliance culture is absent and misconduct goes unchecked, irregular expenditure accumulates, procurement violations multiply, and the financial environment becomes increasingly resistant to audit scrutiny. Political instability and administrative discontinuity serve as cross-cutting disruptors, interrupting the implementation of recovery plans, undermining the institutional memory required for sustained reform, and weakening both provincial oversight and internal accountability.

From a principal-agent perspective, these three dimensions together create conditions in which agents operate with minimal monitoring (because no auditable statements exist), face negligible sanctions (because consequence management is absent), and respond to political incentives that reward short-term positioning over long-term institutional development. From an institutional theory perspective, the persistence of consultant engagement, action plans, and provincial interventions without substantive improvement is explicable as symbolic compliance: municipalities adopt the outward forms of accountability to satisfy external legitimacy requirements, without embedding the organisational changes that genuine accountability demands. The framework's central insight is therefore that repeated disclaimed opinions are not primarily technical failures amenable to narrow interventions, but institutional pathologies requiring coordinated action across all three dimensions simultaneously.

5.3 Theoretical and Policy Implications

This study makes several theoretical contributions. First, by focusing on the extreme case of repeated disclaimed opinions as a distinctive failure category, it extends the institutional and principal-agent literature beyond the clean versus non-clean audit binary that has characterised most prior work. Second, the integrated three-dimensional framework contributes a more comprehensive explanatory architecture than either institutional theory or principal-agent theory provides alone, and demonstrates that theories assuming baseline organisational capacity may not be applicable where extreme fiscal transparency failures persist. Third, the systematic linking of political instability dynamics to audit outcomes fills a significant gap identified in the literature review.

In terms of policy implications, several recommendations emerge for policymakers and oversight bodies. First, provinces should implement differentiated support strategies that recognise the qualitative difference between municipalities with repeated disclaimed opinions and those with qualified opinions. Support must address capability, integrity, and political stability simultaneously rather than sequentially (AGSA, 2025; Sutcliffe & Bannister, 2020). Second, national and provincial oversight bodies should implement stronger consequences for municipalities and officials that demonstrate persistent non-responsiveness to audit findings and material irregularity notifications. Current sanction mechanisms are evidently insufficient (AGSA, 2025). Third, appointment processes for municipal managers and CFOs should prioritise competence and stability. Short tenures (averaging 39 months) disrupt institutional memory and reform continuity; consideration should be given to contractual protections for competent officials in politically unstable environments (Thusi & Ndebele, 2024). Fourth, the R848.85 million annual consultant expenditure that has yielded minimal improvement signals the need for fundamental rethinking. Consultant engagements should incorporate mandatory skills transfer components and performance-based contracts tied to verified and sustained improvement (AGSA, 2025). Fifth, technical interventions alone are insufficient. Addressing political instability, coalition dynamics, and incentive structures is essential for sustainable reform, which may require changes to electoral systems, coalition formation rules, or intergovernmental fiscal arrangements (Thusi & Ndebele, 2024; Sutcliffe & Bannister, 2020).

5.4 Limitations and Future Research

This study's limitations include its reliance on a single national report as the primary data source, the absence of direct stakeholder perspectives, a cross-sectional rather than longitudinal analytical scope, and the interpretive rather than causal nature of the analysis. Despite these limitations, the focus on disclaimed opinions as extreme manifestations of fiscal transparency failure provided insights that aggregate analyses of audit outcomes have not previously yielded.

Future research should: (a) conduct longitudinal studies tracking these municipalities over multiple electoral cycles to determine whether political transitions facilitate or hinder recovery; (b) undertake comparative case studies between municipalities that successfully exited disclaimed status and those that remained in this category; (c) gather stakeholder perspectives through interviews with councillors, officials, residents, and provincial oversight bodies; (d) examine the distributional consequences of fiscal opacity for service delivery and vulnerable populations; and (e) pursue international comparisons with subnational entities in other emerging economies facing similar governance challenges.

5.5 Conclusion

Repeated disclaimed audit opinions in South African municipalities represent a severe breakdown in fiscal transparency that demands coordinated action to build capability, strengthen integrity, and stabilise leadership (AGSA, 2025). The conceptual framework developed in this study demonstrates how institutional capability deficits, institutional integrity failures, and political instability interact to produce and perpetuate extreme fiscal opacity. Seven municipalities managing R3.48 billion in budgets served over 180,000 households with minimal financial transparency for three to eight consecutive years, despite multiple provincial interventions and substantial consultant expenditure. This is not merely a technical failure; it is an institutional pathology characterised by absent records, chronic vacancies, consultant dependence despite massive expenditure, accumulated irregular expenditure exceeding R600 million per municipality, near-total procurement non-compliance, absent consequences, and recurring leadership turnover.

The findings emphasise that narrow technical reforms, such as appointing consultants, developing action plans, or conducting provincial interventions, fail when they are decoupled from substantive institutional change. Without addressing political incentive structures, building genuine administrative capability, and implementing meaningful consequences, recovery remains unlikely and the developmental local government goals envisioned in South Africa's post-apartheid constitutional order will go unfulfilled.

For the 180,000 households served by these municipalities, persistent fiscal opacity means uncertainty about whether revenues are collected, how funds are spent, what services can be sustained, and which officials are accountable. In a country with deep inequalities and substantial unmet basic needs, such governance failures carry profound consequences for democratic legitimacy and social cohesion. The path forward requires acknowledging that repeated disclaimed opinions signal institutional collapse, and that the response must be qualitatively different from routine audit action plans. This demands political will to disrupt entrenched patterns, administrative capability to implement complex reforms, and oversight persistence to sustain pressure across electoral cycles. Without coordinated action across all three framework dimensions, the cycle of fiscal opacity and accountability failure will persist.

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