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Recommendations

8. Recommendations

All role players in local government should continue to work together to strengthen the capacity, processes and controls of municipalities and municipal entities, which will enable credible financial and performance reporting, compliance with key legislation, sound financial management and delivery of services. The recommendations that follow are consistent with our messages for the past five years and are grouped according to the drivers of internal control:

Leadership

1. In order to improve and sustain audit outcomes, municipalities require **effective leadership** (political and administrative) that is based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the auditee.

The following are some of the key aspects that should be considered:

- Implement formal codes of conduct and regularly communicate their existence and continued applicability to officials
 - Monitor key officials' performance regarding the maintenance of adequate systems of internal control that ensure credible monthly financial reporting, reliable reporting against predetermined objectives, and compliance with key legislation
 - Establish clear lines of accountability
 - Take corrective or disciplinary action against key officials for misconduct
 - Honour commitments made to the AGSA for interventions in response to audit outcomes.
2. Policies and procedures should be applied fully to enable municipalities to implement **consequence management** for officials who fail to comply with the applicable legislation, while appropriate and timely action must be taken against transgressors. A less tolerant approach should be followed by all parties, including those charged with governance and oversight, which will result in accountability being enforced and consequences instituted against those who intentionally fail to comply with legislation.
 3. Council and municipal managers, with oversight from the provincial DCoGs should ensure **stability in key senior management positions** (also after elections) – specifically those of municipal manager, CFO and heads of SCM unit. The ability to attract and retain competent officials remains a major challenge in local government but is key to consistent performance and a strong control environment.

4. Continue with the programmes (through the National Treasury) and intensify the support provided by municipal leadership to ensure that key municipal officials reach the **minimum competency** levels as prescribed by the municipal regulations. Officials who had not reached the competency levels by 30 September 2015 should be appropriately dealt with in accordance with the regulations.
5. Council and municipal management of municipalities responsible for **roads infrastructure** should:
 - implement strict policies to ensure consistent maintenance and rehabilitation/renewal of existing roads
 - perform regular assessments of the condition of roads to plan and budget effectively
 - develop and implement infrastructure and maintenance plans that prioritise all roads
 - budget for repair and maintenance as per the prioritised need, focusing predominantly on planned rather than reactive maintenance
 - manage rehabilitation/renewal projects to ensure that they are delivered within the planned deadlines for completion.
6. Council should insist on **credible in-year reporting** on financial and service delivery performance. Internal audit can be of great assistance in checking the reliability of the information provided to council.
7. Municipal managers and senior managers should pay attention to the management of **consultants**, ensuring value for money through considered planning and appointment processes, monitoring of the performance of consultants and insisting on the transfer of skills, where appropriate.
8. DCoGs and the treasuries should provide support to municipalities in implementing and capacitating the **performance management and budgeting systems** to strengthen planning, budgeting, monitoring and reporting on service delivery objectives. The development of customised indicators for basic services will contribute greatly towards a uniform and structured approach to planning and reporting on the provision of basic services.

Financial and performance management

1. **Proper and timely record keeping** ensures that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Sound record keeping will also enable senior management to hold staff accountable for their actions. A lack of documentation affected all areas of the audit outcomes, including SCM.

Senior managers should ensure proper record keeping so that records supporting financial and performance information as well as compliance with key legislation can be made available when required for audit purposes. They should also implement policies, procedures and monitoring mechanisms to manage records and make staff members aware of their responsibilities in this regard.

2. Controls should be in place to ensure that **transactions** are processed in an accurate, complete and timely manner, which in turn will reduce errors and omissions in financial and performance reports.

Some of the matters requiring attention from senior management include the following:

- Daily capturing of financial transactions, supervisory reviews of captured information and independent monthly reconciliation of key accounts.
 - Collect performance information at intervals appropriate for monitoring, set service delivery targets and milestones, and validate recorded information.
 - Confirm that legislative requirements and policies have been complied with before initiating transactions.
3. The municipal manager should ensure that municipalities have mechanisms to **identify applicable legislation** as well as changes to legislation; assess the requirements of legislation; and implement processes to ensure and monitor compliance with legislation. **Compliance checklists** should be implemented as a tool to supplement policies and procedures. These will enable officials, supervisors and monitoring units (e.g. internal audit units) to independently check whether all legislative requirements are met in the daily transactional, management as well as SCM processes.
 4. **Regular reports** to management and governance structures on compliance with key legislation, specifically in the area of SCM, will also promote awareness of legislative requirements and ensure that management deals with compliance in a regular and structured manner.
 5. The MTSF defines the implementation of **audit action plans** and the quarterly monitoring thereof by a coordinating structure in the province as key measures to support financial management and governance at municipalities. This is also echoed in CoGTA's back-to-basics strategy, which tasks local government with addressing post-audit action plans and the National Treasury, provincial treasuries and departments of cooperative governance with assessing the capacity of municipalities to develop and implement such plans.

The matters requiring attention by municipal managers and senior manager include the following:

- Devise action plans to specifically address the external and internal audit findings
 - Assign clear responsibility to specific staff members to carry out action plans and ensure that the responsibilities assigned are executed effectively and consistently through monitoring
 - Develop audit action plans early enough in the financial year to resolve matters by year-end
 - Ensure that audit action plans address all three areas of audit outcomes, namely qualifications, findings on APRs and non-compliance with legislation
 - Focus the actions to be taken on the root causes of findings, thereby ensuring that sustainable solutions are found.
6. Urgent and focused attention should be given to preparing for the **implementation of mSCOA** to ensure all implementation challenges are resolved by 1 July 2017. The guidance provided by National Treasury through MFMA SCOA circulars should be followed and use should be made of the training opportunities provided.
 7. Municipal management should give focused attention to improving the **IT control environment**. The CIO / IT manager positions should be filled with appropriately qualified and experienced persons and the weaknesses in security management, user access management, IT continuity and control over EFTs should be addressed before the risks created by these weaknesses materialise. Continued efforts should be made towards implementing the IT governance framework. The provincial treasuries, OTPs and DCoGs should continue to improve and further improve the support provided to municipalities, especially with system changes that could be required as a result of the mSCOA implementation.
 8. Reducing the cost of services provided is part of the solution for **improved municipal financial health** and we believe that more could be done with less if, among other cost-saving initiatives, a concerted effort is made to curtail the extent and costs of using external providers. The SCM process should be used effectively to procure goods and services from the best-qualified providers at the best price – and only if the need cannot be addressed internally or through other means (e.g. through the support provided by national and provincial government). The considerable financial resources and, therefore, strong negotiation powers possessed by local government as a collective, supported by national and provincial government, should also be considered and explored to reduce the cost of goods and services procured from the private sector, e.g. National Treasury procurement initiative through the OCPO.

9. The capacity and capability of local government **to plan, manage and report on service delivery** need urgent and increased attention from national and provincial government. **Project management** is required for infrastructure projects to succeed and municipalities should be guided and supported in a more focused manner in this regard.
10. Treasuries should intensify financial management and accounting **support** to municipalities and focus on sustainable solutions, such as training, guidance, standard operating procedures and knowledge-sharing forums.

Governance

Council, municipal managers and senior managers should implement the recommendations of internal audit units and audit committees and use the opportunity to interact with these bodies to assist in improving governance and control. Areas where these governance structures can jointly make significant contributions to the audit outcomes include the following:

- Encourage senior management to submit regular financial and performance reports for audit committee review
- Assist with designing the audit action plan and monitor the implementation thereof
- Review financial statements and annual performance reports before submission for auditing to identify material misstatements

Monitor the appropriateness and timeliness of actions taken by management in instances of known transgressions by officials. Our detailed recommendations on strengthening the support of coordinating/monitoring departments are included in section 5.6.