

10 Recommendations

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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 service delivery. The recommendations that follow are consistent with our messages over the past years and are grouped according to the drivers of internal control, as well as linked to the plan+do+check+act cycle.

Leadership



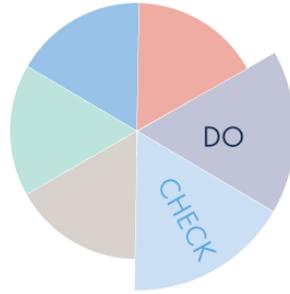
1. In order to improve and sustain audit outcomes, municipalities require **effective leadership** (political and administrative) that is based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the municipality.

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

- Implement the required 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 for interventions made to us 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. Councils and municipal managers, with oversight from the provincial Cogtas, should ensure **stability in key senior management positions** (also after elections) – specifically those of municipal managers, CFOs and heads of SCM units. 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 the municipal leadership to ensure that key municipal officials reach the **minimum competency** levels as prescribed by the municipal regulations. An extension was granted on 3 February 2017, giving municipalities an additional 18 months (starting from the date of appointment or 3 February 2017 with regard to new employees and existing employees, respectively). Officials who had not reached the competency levels by the extended date should be appropriately dealt with in accordance with the regulations.

5. Councils and the management of municipalities responsible for the provision of **water and sanitation services** should focus on the following:
 - Develop customised indicators and targets for the provision of water and sanitation services that will ensure consistent application and monitoring between municipalities and provinces.
 - Properly plan and budget for the provision of water and sanitation in the integrated development plan, municipal budget, and service delivery and budget implementation plan by each municipality responsible for the provision of water and sanitation services.
 - Identify the basics in providing water, such as the establishment of infrastructure and facilities, to ensure the proper planning, budgeting and monitoring of these basics.
 - Establish monitoring processes that will enable the frequent and consistent monitoring of progress and enable proactive corrective action.
 - Develop and implement strict policies to ensure the consistent establishment and maintenance of infrastructure.
 - Develop and implement comprehensive infrastructure and maintenance plans that prioritise needs.
 - Manage water and sanitation infrastructure projects to ensure that they are delivered within the planned completion dates and that payments are made as planned and budgeted for.
6. Councils and the management of municipalities responsible for **road infrastructure** should focus on the following:
 - Develop and implement comprehensive policies to ensure proper planning and decision-making to achieve the desired outcomes for the management of road infrastructure. These policies should be approved and actioned.
 - Assess the condition of infrastructure. The results of this assessment should form the basis of the approved road maintenance plan or priority list to provide for all renewal and routine maintenance. Adequate funds can then be allocated to routine and scheduled maintenance instead of reactive maintenance.
 - Improve the management of road infrastructure; in addition, the maintenance of roads should receive the required attention. Funds should also be used and managed more effectively in this regard.
 - Ensure that projects are completed on time to avoid unnecessary delays, which could increase project costs.
 - Ensure that there is consequence management where corrective actions have not been implemented to address all issues identified.
7. Councils should insist on **credible in-year reporting** on financial and service delivery performance. Internal audit units can be of great assistance in checking the reliability of the information provided to the council.
8. Municipal managers and senior managers should pay attention to the management of **consultants**, ensuring value for money through considered planning and appointment processes, monitoring the performance of consultants, and insisting on the transfer of skills, where appropriate.
9. Cooperative governance departments and treasuries should provide support to municipalities in implementing and capacitating the **performance management and budgeting systems** to strengthen the planning, budgeting, monitoring and reporting of 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. They should also continue with the implementation of, and improve the monitoring and accuracy of data for, the B2B programme as well as lead the coordination of, and enforce good practices by, the different role players in local government. The focus should be on implementing initiatives to achieve results in the different areas of service delivery at the end of the MTSF period. Further recommendations are also included in section 8.

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 therefore 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:

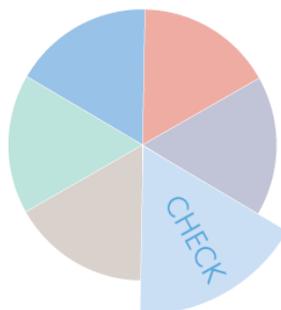
- Daily capturing of financial transactions, supervisory reviews of captured information, and independent monthly reconciliations of key accounts.
 - Collecting performance information at intervals appropriate for monitoring, setting service delivery targets and milestones, and validating recorded information.
 - Confirming that legislative requirements and policies have been complied with before initiating transactions.
3. Municipal managers 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 further 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 the DCoG's B2B strategy, which tasks local government with addressing post-audit action plans; and the National Treasury, provincial treasuries and provincial Cogtas with assessing the capacity of municipalities to develop and implement such plans.

The matters requiring attention by municipal managers and senior managers 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 performance reports 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 that all implementation challenges are resolved by 1 July 2017. The guidance provided by the National Treasury through MFMA SCOA circulars should be followed and municipal staff should use the training opportunities provided.
 7. Municipal management should pay focused attention to improving the **IT control environment**. CIO and IT manager positions should be filled with appropriately qualified and experienced persons. The weaknesses in security management, user access management and IT continuity should also be addressed before the risks created by these weaknesses materialise. Continued efforts should be made towards implementing the IT governance framework. The provincial treasuries, premier's offices and provincial Cogtas should further improve the support provided to municipalities, especially with regard to system changes that could be required as a result of the implementation of mSCOA.
 8. Reducing the cost of services provided is part of the solution for **improved municipal financial health**. 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 SCM reforms introduced by the National Treasury should be fully supported. The considerable financial resources and, therefore, strong negotiation power of 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.
 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



1. Councils, 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.
2. The municipal manager supported by the mayor should focus on the following:
 - Ensure that there is an adequately resourced and functioning internal audit unit overseen by the audit committee that can identify internal control deficiencies and recommend corrective action effectively.
 - Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.
 - Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
3. 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 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.

Conclusion

In order for local government to position itself to achieve the goals as set out in the MTSF, it is vital that the leadership and management diligently execute their responsibilities to enable a professionalised local government that embraces the concepts of transparency and accountability. The enabling role of the accounting officer and the oversight functions of councils will play an important role in creating an environment where effective, efficient and economical service delivery and a clean audit are natural products of performing the correct actions. By implementing these simple practical steps, substantially improved financial management and performance reporting in local government can be brought about. This is a goal within reach and a key ingredient in building trust in the credibility and accountability of local government and its capacity to deliver services to citizens. All municipalities should keep striving to improve accountability, good governance and consequence management to attain or maintain clean administration.

In conclusion, we again draw your attention to the plan+do+check+act cycle that can be used when implementing our recommendations.

Figure 1: Plan+do+check+act cycle – committing to accountability



